PacificCPE

COURSE

20459A

Ethics and Independence in SSARS Engagements

Ethics and independence aren't just abstract concepts—they have specific, practical implications for accountants performing compilation and review services. This course examines the ethics and independence rules that apply to SSARS engagements, with particular attention to non-attest services and how they affect independence considerations. Whether you're navigating a new client relationship or reviewing your firm's existing practices, this course helps ensure your engagements stay on the right side of professional and regulatory requirements.

CREDIT HOURS 2 | FIELD OF STUDY ACCOUNTING | EXAM QUESTIONS 10

Start Course ↓

Final Exam Copy ↓

LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recognize the general rules to maintain independence when an accountant performs nonattest services for an attest client.
- Identify when independence is impaired in certain situations in which an accountant performs nonattest services for an attest client.

Copyright Notice

© 2026 Pacific CPE, LP. All rights reserved.

The materials in this course — including the text, illustrations, exhibits, examples, exam questions, and review questions — are the copyrighted property of Pacific CPE, LP. No portion of this course may be reproduced, stored in a retrieval system, distributed, or transmitted in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise) without the prior written permission of Pacific CPE, LP, except for the personal, non-commercial use of the registered learner.

Pacific CPE, LP grants the registered learner a single-seat, non-transferable license to access this course for the purpose of completing the associated continuing professional education credit. Account credentials may not be shared. Group access requires a separate enterprise license.

This course is provided "as is" for educational purposes. While Pacific CPE, LP makes a reasonable effort to ensure the content is current and accurate, the materials should not be relied upon as a substitute for professional advice. Pacific CPE, LP disclaims all liability for any error, omission, or loss arising from the use of, or reliance on, the course content.

Questions about reproduction, licensing, or use of these materials should be directed to support@pacificcpe.com.

Publication Date: April 2026

TABLE OF CONTENTS

CHAPTER
01

Section 1 5

1.01 XI. Ethics And Independence Rules- Ssars Engagements 5

1.02 A. Overview Of The Independence Rules In Et 1.295 5

1.03 C. Performing Bookkeeping Services For An Attest Client 33

1.04 E. Investment Functions Performed For The Client 53

1.05 H. Forensic Accounting Services 63

1.06 J. Other Management Functions 68

1.07 L. Miscellaneous Independence Issues 73

Test Your Knowledge 75

Final Exam Copy 85

Glossary 81

Index .....

Section 1

Chapter Objective

After completing this chapter, you should be able to:

- Recognize the general rules to maintain independence when an accountant performs nonattest services for an attest client.
- Identify when independence is impaired in certain situations in which an accountant performs nonattest services for an attest client.

XI. ETHICS AND INDEPENDENCE RULES- SSARS ENGAGEMENTS

A. OVERVIEW OF THE INDEPENDENCE RULES IN ET 1.295

For years, there has been confusion as to whether an accountant who has management responsibilities taints his or her independence with respect to an attest client.

This issue has become more important as CPA firms have expanded consulting services directed at existing compilation, review and audit clients.

It is common for a CPA who performs a compilation, review or audit engagement for a client, to also perform nonattest services in the capacity as a consulting service.

In a nonpublic environment, those nonattest services might include:

- Write-up and bookkeeping services
- Preparing tax returns
- Preparing financial statements
- Performing payroll tax services
- PPP loan assistance services
- Employee Retention Credit (ERC) assistance services, and
- Assisting clients with implementing accounting standards.

Moreover, when referring to an "attest engagement," the author refers to the following types of engagements:

- Audit of financial statements
- Review of financial statements
- *Compilation* with no lack of independence, and

• Attestation engagement under the SSAEs, such as an agreed-upon procedures engagement.

The rules for independence are found in ET sec. 1.200, Independence, in the AICPA Code of Professional Conduct. ET sec. 1.295 is also important because it addresses the specific issue of an accountant who performs nonattest services for an attest client.

In the following sections, wherever there is reference to the term "member," it refers to a member of the AICPA. The author uses the terms "CPA," "accountant" and "member" interchangeably within the remainder of this section even though, in limited cases, a member can be a non-CPA.

General Rules for Independence

If an accountant wishes to perform a compilation, review or audit engagement for the same client for whom he or she performs a nonattest service, does the performance of a nonattest service taint the accountant's independence?

The general rule is that:

1. An accountant is precluded from issuing a review or audit report on the financial statements of any entity to which he or she is not independent.
2. SSARS No. 21 carves out a special exception for an accountant who performs a compilation engagement. That accountant may compile financial statements if he or she is not independent, provided he or she discloses the lack of independence within the compilation report with the following language added to that report:

   "We are (I am) not independent with respect to ABC Company."

Note
In a compilation engagement, SSARS No. 21 permits an accountant to disclose the reason(s) for the lack of independence if all reasons are disclosed.

3. If an accountant performs a nonattest service for an attest client, the accountant's independence is impaired unless the accountant satisfies three safeguards found in Ethics Ruling 1.295, which is discussed further on in this section.

Timing of Performing Nonattest Services

The independence rules state that a member's (CPA's) independence would not be impaired if the member (CPA) performed nonattest services that would have impaired independence during the period covered by the financial statements, provided that all of the following conditions exist:

1. The nonattest services were provided prior to the period of the professional engagement

2. The nonattest services related to periods prior to the period covered by the financial statements, and
3. The financial statements for the period to which the nonattest services relate were audited by another firm (or in the case of a review engagement, reviewed or audited by another firm).

Example 1: Joe CPA is hired to review the financial statements of Company X for the year ended December 31, 2025.

- Joe performed nonattest services for Company X in 2023 and part of 2024. The nonattest services consisted of part-time controllership, including Joe being a signatory on X's bank accounts and having authorization to hire and fire certain employees of X.
- Joe stopped his controllership services on or about October 2024 and started the December 31, 2025 year-end review engagement in January 2026. After terminating his controllership services, Joe's only nonattest services performed for X was the preparation of X's 2024 corporate tax returns.
- The financial statements for 2023 and 2024 were reviewed by another CPA *firm.*

Conclusion: Joe's independence is not impaired for 2025. Therefore, Joe is permitted to perform his review engagement on X's 2025 financial statements.

The analysis is based on the revised independence rules, using the following facts:

1. The nonattest services (controllership) were provided prior to the period of the professional engagement: Joe performed nonattest services through October 2024, prior to January 1, 2025, the beginning of the year of the review engagement.
2. The nonattest services related to periods prior to the period covered by the financial statements: Joe's controllership related to 2023 and part of 2024, periods prior to 2025.
3. The financial statements for the period to which the nonattest services relate were audited or reviewed by another firm: According to the facts, another firm reviewed the financial statements for 2023 and 2024, the periods during which Joe performed his nonattest services.

Therefore, Joe is permitted to perform a review of the 2025 financial statements even though Joe performed nonattest services in 2023 and 2024 that, if they had been performed in 2025, would have impaired his independence because Joe had made management decisions during his controllership tenure.

What about the fact that Joe is performing a nonattest service in 2025 by preparing X's tax return?

The fact that Joe performs a nonattest service for an attest client in 2025, does not, in and of itself, mean that Joe's independence is impaired.

Performing nonattest services for an attest client, such as preparation of a tax return, bookkeeping services, payroll services, or preparation of financial statements, where the accountant does not

have management responsibilities, does not impair an accountant's independence, as long as Joe complies with the requirements of the independence rules. Those requirements include: 1) Joe cannot make management decisions or assume management responsibility, 2) The client, rather than Joe, must agree to assume all management responsibilities for the nonattest service, and 3) The understanding must be in writing (e.g., engagement letter). These three (safeguard) requirements are discussed further on in this section.

Special Safeguards That Allow an Accountant to Remain Independent by Performing Nonattest Services

ET sec. 1.295 provides a means by which an accountant is permitted to maintain his or her independence while performing nonattest services for an attest client.

To maintain independence while performing an attest service for an attest client, the accountant must satisfy three requirements, referred to as **"Three Safeguards," as follows:**

SAFEGUARD 1: Client must agree to perform certain functions:

Before performing nonattest services, the member should determine that the client has agreed to:

- Assume all management responsibilities,
- Oversee the service, by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, and/or experience,
- Evaluate the adequacy and results of the nonattest services performed, and
- Accept responsibility for the results of the nonattest services.

SAFEGUARD 2: Member (CPA) does not assume management responsibilities for the nonattest service:

1. The member (accountant) does not assume management responsibilities for the nonattest service, and
2. The member is satisfied that the client and its management will:
    - Be able to meet the criteria in Safeguard 1
    - Make an informed judgment on the results of the nonattest services, and
    - Accept responsibility for making the significant judgments and decisions that are the proper responsibility of management

SAFEGUARD 3: Written establishment and documentation with client:

Before performing the nonattest services, the member should establish and document in writing his or her understanding with the client (execute an engagement letter) regarding:

- Objectives of the nonattest engagement
- (Nonattest) services to be performed

- Client's acceptance of its responsibilities
- Member's responsibilities, and
- Any limitations of the engagement.

If an accountant satisfies the three safeguards, the accountant's independence is not impaired by performing a nonattest service for an attest client.

B. DISCUSSION OF THE THREE SAFEGUARDS

ET 1.295 of the Code of Professional Conduct requires an accountant to satisfy three safeguards (requirements) in order to perform a non-attest service for an attest client.

SAFEGUARD 1: Client must agree to perform certain functions:

The first safeguard (requirement) in order for a CPA to perform nonattest services for an attest client is that the client must agree to perform certain functions.

More specifically, before performing nonattest services, the member should determine that the client has agreed to:

a. Assume all management responsibilities,
b. Oversee the service, by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, and/or experience,
c. Evaluate the adequacy and results of the nonattest services performed, and
d. Accept responsibility for the results of the nonattest services.

Note

The member (CPA) should assess and be satisfied that such individual understands the services to be performed sufficiently to oversee them. However, the individual is not required to possess the expertise to perform or reperform the service.

What does "suitable skill, knowledge and/or experience" mean in the context of ET 1.295?

ET 1.295 requires that the client agree to perform certain functions in connection with the engagement to perform nonattest services. One of those requirements is that the client designate an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management, to oversee the services.

Suitable skill, knowledge, and/or experience means that the designated individual has the ability to understand the nature, objective and scope of the nonattest service.

In accepting responsibility for the nonattest service, to oversee the services, the employee is not required to supervise the member in the day-to-day rendering of the services. Instead, the employee should:

- Agree on the nature, objectives and scope of the services
- Receive periodic progress reports where appropriate
- Make all significant judgments
- Evaluate the adequacy and results of the service
- Accept responsibility for the service results, and
- Ensure that the resulting work product meets the agreed-upon specifications.

The skill, knowledge, and/or experience needed will vary depending on the nature of the nonattest service performed.

What if the client does not have an individual with the necessary skill, knowledge, and/or experience to oversee the nonattest services?

The CPA should assess and be satisfied that such individual understands the services to be performed sufficiently to oversee them. Moreover, the individual is not required to possess the expertise to perform or re-perform the service. That means that if the nonattest service performed by the CPA is the preparation of the corporate tax return of the entity for whom the CPA is performing a review engagement, the designated individual does not have to possess sufficient skill to prepare the tax return.

Instead, the designated employee should have a sufficient level of understanding of the results of the services rendered so that he or she could effectively oversee them, including making any necessary management decisions related to the nonattest service. In all cases, the skill, knowledge, and/or experience level should be sufficient to allow the employee to understand the nonattest service to be rendered and allow him or her to make all management decisions and perform all management functions associated with that service, and to evaluate the adequacy and results of the service, accept responsibility for those results, including monitoring activities, over the subject matter of the service. Note further that the individual is not required to have any expertise regarding the services being performed.

Example: A member is hired by an attest client to perform bookkeeping services. The client designates an employee with suitable skill, knowledge, and experience to oversee the bookkeeping services.

Conclusion: The designated employee should be able to understand the bookkeeping service to be rendered and to perform all management functions related to that bookkeeping service, including understanding the adequacy of the member's services performed. In doing so, for example, the