

Is Your CPA Firm Truly Independent? New AICPA Interpretation on “Hosting Services”

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Effective July 1, 2019, a CPA firm’s possession of a CAA’s data or records could, under certain circumstances, impair the CPA’s independence. This is the result of a new ethics interpretation from the American Institute of Certified Public Accountants (AICPA).

The new “hosting services” interpretation, [ET § 1.295.143 of the AICPA Code of Professional Conduct](#), addresses the growing prevalence of CPA firms using cloud-based software and virtual platforms to store, access, and use a client’s data. In light of rapid technological advances, it has become more common for CPA firms to offer hosting services that result in the CPA firm retaining custody over a client’s financial and non-financial records. A basic principle underlying the AICPA’s independence rules is that CPA firms should not perform activities that are the client’s management’s responsibility. Maintaining internal control over information that a client uses to run its business is considered a management responsibility.

Under this new interpretation, hosting services impair a CPA’s independence when the firm has accepted responsibility for maintaining internal control over a client’s data or records, whether financial or nonfinancial. A CPA firm provides hosting services to a CAA client when it:

1. Acts as the sole host of the CAA’s financial or non-financial information system;
2. Takes custody of or stores the CAA’s data or records, whereby the CAA’s data or records would be incomplete and it would need to come to the CPA firm to get that information; or
3. Provides the CAA with electronic security or backup services for its data or records.

Examples of hosting services include:

- ✓ Housing the CAA’s website on servers leased by the CPA firm;
- ✓ Keeping the CAA’s general ledger, legal documents, and financial statements on the CPA firm’s servers or on servers leased by the CPA firm;
- ✓ Serving as the CAA’s disaster recovery provider; and
- ✓ Maintaining original hard copies of the CAA’s lease agreements in the CPA firm’s storage facility.

However, not all custody or control of a client’s records results in providing hosting services. The following activities are not considered to be hosting services:

- X Retaining a copy of the CAA’s data or records as documentation to support a service or work product that the CPA firm provided;
- X Retaining, for the CPA firm’s records, a copy of work product prepared by the firm, so long as the documents are also given to the CAA so that the CAA’s books and records are complete;
- X Using general ledger software to provide bookkeeping services to the CAA, so long as either (1) the CPA firm and the CAA keep separate copies of the software on their own servers or (2) the CAA contracts with a third-party provider to maintain the software in the cloud and gives the CPA firm access to the software to perform the bookkeeping services; and
- X Electronically exchanging (including through a portal) data, records, or the CPA firm’s work product with the CAA, or on behalf of the CAA at the CAA’s request, so long as the CAA’s access to the information in the portal is terminated within a reasonable period of time after the CPA’s work is complete.

To ensure that your auditor’s independence is maintained:

1. **Once an engagement is complete, the CPA firm should return all original records to your CAA.** The CPA may retain copies of completed work product and supporting documentation. If the engagement is ongoing, the CPA firm should return records to the CAA at least annually.
2. **Don’t rely solely on the CPA’s server for software the CPA needs to prepare work product for your CAA.** If your CAA uses a CPA for bookkeeping services, you should either maintain separate copies of the bookkeeping software on the CAA’s and CPA firm’s respective servers, or your CAA should contract with a third-party vendor for the software and merely give the CPA firm access to the software.
3. **Ensure the CPA firm terminates your CAA’s access to web-based portals used to exchange your CAA’s data, records, and the CPA’s completed work product.** If the CPA firm sets up an electronic portal to allow you to upload the CAA’s data and records that the firm needs to perform a service, and/or the CPA firm shares completed work product with your CAA or sends it to a third party via the portal, the firm should terminate your access to the information in the portal after a reasonable period following the end of the engagement.
4. **Ensure that your CAA receives copies of all records prepared by the CPA firm.** If a CPA firm prepares depreciation schedules for your CAA using the firm’s accounting software, the CPA firm must give your CAA a copy of the schedules and calculations to ensure that your CAA’s books and records are complete (such that your CAA doesn’t need to go back to the CPA firm to get that information).

For more information about the new AICPA hosting services interpretation:

- See the AICPA’s [Plain English Guide to Independence](#) (under “May My Firm Provide Hosting Services to an Attest Client?”);

- View the AICPA’s [Frequently Asked Questions](#) about CPA firms providing nonattest services (under “Hosting services”);
- Listen to the AICPA’s *Ethically Speaking* podcast, [“Hosting services – What you need to know now”](#); and
- Read the Journal of Accountancy article, [“How data-hosting services affect independence”](#).

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