



February 5, 2019

Ms. Toni Lee-Andrews  
Ethics Team  
AICPA  
220 Leigh Farm Road  
Durham, NC 27707

**Re: December 7, 2018 PEEC Exposure Draft (ED), *Proposed Interpretation to the AICPA Code of Professional Conduct: Staff Augmentation Arrangements Interpretation (ET sec 1.295.157)***

Dear Ms. Lee-Andrews:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective.

TIC has reviewed the ED and is providing the following comments for your consideration.

#### **GENERAL COMMENTS**

TIC appreciates the work of PEEC to attempt to add specific guidance to the Professional Ethics Code (the "Code") related to staff augmentation arrangements. However, TIC does not believe that adding an additional interpretation is necessary as the current Code already has adequate guidance and safeguards that could be applied in many of these situations. Currently, AICPA members already are referencing sections 1.210 and 1.295 of the Code regarding nonattest services when providing bookkeeping and other related services. TIC would suggest that, if the ethics team is receiving significant questions related to staff augmentation arrangements that are not already covered in ET sections 1.210 and 1.295, perhaps the issuance of specific questions and answers might be a better way to address these issues. TIC believes that providing specific situations and fact patterns might be a more effective way to address potential independence issues when firms are providing staff augmentation services.

There was confusion as to whether certain arrangements would fall under the scope of this interpretation, so TIC suggests adding some examples for clarity. TIC believes that if PEEC defined the term staff augmentation similar to how it is described in the international standards, that might result in less confusion in practice. For example, IESBA section 290.140 notes that this section applies to loaned staff where the client "is responsible for directing and supervising the activities of the loaned staff". TIC believes that if PEEC changed the definition of staff

augmentation to the IESBA definition INCLUDING the limitation that it pertains only to services where the loaned staff are directed and supervised by the client, then a lot of TICs concerns would be alleviated because the non-attest services that already are addressed in ET Section 1.295 are firm-directed services. If that change were made, augmentation clearly would not apply to the firm supervised array of non-attest services that currently are allowed with the appropriate safeguards that already are addressed in ET section 1.295.

In addition, TIC believes that PEEC might also consider adding some of the commentary from the background section of this ED into ET Section 1.295 which may result in less confusion.

### **SPECIFIC COMMENTS**

**Question 1:** *Do you agree that the duration of the arrangement should be addressed in paragraph .02, and do you agree with the term short period of time? Are there other terms that you recommend PEEC consider that would be more appropriate and better understood?*

TIC believes that using the term “short period” is ambiguous and subject to interpretation. Also, it sounds as though recurring short periods may be allowed as that is a consideration in paragraph .03d of the ED. TIC would suggest some clarification or perhaps examples in order to better demonstrate what is meant by the term “short period” if it is not defined in the ED. TIC also believes that PEEC may want to consider clarifying recurring engagements versus non-recurring engagements for purposes of this ED. TIC has additional comments related to this issue in our response to question 6.

**Question 2:** *Do you agree that staff augmentation is a nonattest service and that the proposed interpretation should be placed in ET section 1.295? If not, please explain where you believe it would be better placed.*

TIC believes that ET section 1.295, which covers nonattest services, is already sufficient to cover this issue as discussed earlier in this letter. TIC believes that adding additional guidance to existing standards could result in confusion and may be missed by practitioners. TIC believes that, if there are some specific safeguards related to staff augmentation in addition to those already in ET sections 1.210 and 1.295, simply adding those specific safeguards to the existing guidance would be much easier for members to follow.

**Question 3:** *Do you have any concerns regarding application of the proposed interpretation to client affiliates? If so, please specify the type of affiliate (that is, parent, subsidiary, or sister entity), and describe the concerns and related threats and potential safeguards.*

TIC does not have specific identifiable concerns related to the application of the proposed interpretation to client affiliates.

**Question 4:** *Do you foresee any hardships or regulatory issues that are created by the proposal? If so, please explain.*

TIC does have some questions related to employment law that we address in our response to question 5 below. TIC was not aware of any additional hardships or regulatory issues related to private companies that would be created by this proposal.

**Question 5:** *Do you agree with PEEC's approach to address the appearance of prohibited employment set forth in paragraphs .03–.05? If not, please explain what you believe would be a better approach.*

TIC has questions as to whether this ED could create additional co-employment risk in employment law. TIC would suggest ensuring that an employment attorney review this ED as written to ensure there are no unintended legal consequences. TIC has discussed this issue with the ethics staff in advance of this letter and is happy to discuss further.

TIC also is concerned that this ED requires additional safeguards, where the safeguards that already are in place in ET sections 1.210 and 1.295 are adequate to address issues related to staff augmentation.

**Question 6:** *Do you suggest any additional factors for evaluation of the appearance of prohibited employment that PEEC should consider?*

TIC believes that the use of the term “frequency” in paragraph .03c of the ED will result in similar concerns and consequences as using the term “short period.” For example, paragraph .02d of the ED indicates that “the duration of the arrangement is for a short period of time” is a required safeguard. Paragraph .03 of the ED indicates the factors that should be considered are “the duration” (paragraph .03a) and the frequency (paragraph .03c). TIC believes that this language implies that the duration and frequency have to be considered together. Following this logic, providing augmented staffing services five days a week for one week might be acceptable, but, providing those services two days a week for two years might not be acceptable. If duration and frequency are individually considered (as they would be in Paragraph .02), the result may be different than if considering them together.

Therefore, TIC would suggest that paragraph .02d be eliminated from the ED and the concepts in paragraphs .03a and .03d be combined. This approach probably would narrow the range of possible outcomes even though, individually, the terms are still vague.

**Question 7:** *Do you suggest any other safeguards that PEEC should consider to reduce threats to an acceptable level?*

No. TIC could not think of any additional safeguards that PEEC should consider to reduce threats to an acceptable level.

TIC appreciates the opportunity to present these comments on behalf of PCPS Member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive, slightly slanted style.

Michael A. Westervelt, Chair  
PCPS Technical Issues Committee  
cc: PCPS Executive and Technical Issues Committees