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Via Email: Ethics-ExposureDraft@aicpa-cima.com

Professional Ethics Division
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707

Proposed Interpretation of the AICPA Code of Professional Conduct – Staff Augmentation Arrangements Interpretation (ET sec. 1.295.157)

Professional Ethics Division:

We appreciate the opportunity to comment on the proposed interpretation referenced above.

By way of background, Baker Tilly Virchow Krause, LLP is a nationally recognized accounting firm operating across the United States and internationally. We have approximately 330 partners and employ more than 3,100 persons. Our practice is diverse, offering accounting and auditing services as well as tax and consulting services across a broad spectrum of industries and geographies.

Our comments will be in the form of responses to the specific questions included in the exposure draft.

Request for Specific Comment 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?

We agree that the engagement should be for a time period that the client understands has a beginning and end; therefore, it seems that one approach would be that the service provided be defined as a discreet project. For example, in situations where a loaned staff replaces a former employee, the understanding with the client should include the expectation that the arrangement would end after a new employee had been hired and sufficiently trained.

We believe the guidance in 1.295.150 related to internal audit may inform some of the guidance that should be used here.

Request for Specific Comment 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.

We agree that this guidance should be provided in ET 1.295.

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Request for Specific Comment 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.

If the services are provided to an entity that is part of a consolidated or combined group for financial reporting purposes, then all of these provisions should apply. If the affiliate is not part of the financial reporting, then the current guidance provided in ET 1.224 should be sufficient for members to consider specific situations.

Request for Specific Comment 4

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

One of the continuing issues in the profession is the problems incurred by members when switching between attest services provided for entities subject only to AICPA independence rules and entities subject to SEC independence rules. We have seen this most recently within the broker-dealer audit practice when these audits became subject to the SEC rule. There were numerous independence violations related to the provision of permitted AICPA nonattest services, which were prohibited SEC non-audit services. Providing this guidance will not help, as the SEC, as noted in the exposure draft, has come out strongly against such services and has liberally interpreted them as "acting as an employee," and therefore prohibited.

PEEC should continue to provide additional tools and guidance to reinforce the significant differences that exist between SEC and AICPA rules in order to try to avoid more violations. In addition, PEEC should consult with the Government Accountability Office to determine whether this guidance will fit within its independence requirements so as to avoid another situation where the auditors have the potential of inadvertently violating a different regulator's rules.

Request for Specific Comment 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.

The considerations provided in paragraph .03 are useful, but it is not clear whether these situations are ones that cannot be managed by applying safeguards. More clarity here would be useful.

Request for Specific Comment 6

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

Situations where the client is directing all of the activities of the loaned staff are risky as the potential for engagement creep is high. Clients are not expected to know or understand all of the rules related to nonattest services; in fact, in many situations with augmented staff, the staff do not understand all of the rules. As such, without some mechanism for the member to monitor what the staff is doing, it is possible that the staff will perform prohibited nonattest services. The longer the duration of the assignment, the more likely it is that this will occur as the line between augmented staff and employee is likely to blur, particularly in situations which require daily work over a longer period of time.

Request for Specific Comment 7

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

See comments in 6 for suggestions as to a need for safeguards. As mentioned above, a mechanism for the member to monitor the activities of the augmented staff, in addition to the length of time of the engagement, are key to reducing threats to an acceptable level.

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We appreciate the opportunity to provide the above comments and are available for further discussion with the Division if that would be useful to the process. Should you wish to discuss any of these comments, please contact David Johnson, Professional Practice Group Partner, at david.johnson@bakertilly.com or 608 240 2422.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

A handwritten signature in black ink that reads "Baker Tilly Virchow Krause, LLP". The signature is written in a cursive, flowing style.