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March 7, 2019

Ms. Toni Lee-Andrews
Director of the Professional Ethics Division
AICPA
220 Leigh Farm Road
Durham, NC 27707

RE: AICPA Professional Ethics Executive Committee Proposed Interpretation of the AICPA Code of Professional Conduct on Staff Augmentation Arrangements

Dear Ms. Lee-Andrews,

We appreciate the opportunity to provide comments on the AICPA Professional Ethics Executive Committee's (PEEC) Proposed Interpretation of the AICPA Code of Professional Conduct on Staff Augmentation Arrangements (the proposed interpretation). Overall, we are supportive of the interpretation being proposed. In evaluating the proposed interpretation, we offer some comments for PEEC's consideration as well as provide answers to the questions posed in the exposure draft.

Overall considerations

We suggest that the interpretation define a staff augmentation arrangement including information about how such an arrangement differs from other nonattest services provided to attest clients. We believe that in staff augmentation arrangements, the client is responsible for the supervision of the augmented staff's activities. In other nonattest services, the firm provides supervision over professional staff. Without providing a definition for staff augmentation services, the applicability of the interpretation could be broader than intended.

We believe that delivering an otherwise permissible nonattest service as a staff augmentation engagement may give the appearance of an employment relationship and, thus, create management participation and familiarity threats. While the nature of the underlying services may create self-review threats, we don't believe that the staff augmentation arrangement itself creates self-review threats. Accordingly, we believe the potential threats that may exist when a member or member's firm has a staff augmentation arrangement include management participation and familiarity threats.

Where we propose changes to the interpretation in the comment letter, we used the following legend: 1) Text written in **bold** indicates information we propose adding to the interpretation and 2) ~~Strikethrough~~ indicates text from the exposure draft that we propose deleting.

Based on the commentary above, we propose the following revisions to paragraph .01:

.01 Staff augmentation arrangements are those that consist of the delivery of a permissible service for which the client is responsible for directing and supervising the activities of the augmented staff. *When a member or member's firm has a staff augmentation arrangement with an attest client, ~~self-review and management participation~~ **and familiarity** threats to the member's compliance with the*



"Independence Rule" (ET sec. 1.200.001) may exist.

Continuity and frequency of such arrangements, as well as the degree of exclusivity of personnel, can vary depending upon factors specific to the nature of the activities being performed by the augmented staff. For this reason, we believe that the cumulative effect of these factors should be considered together with the duration of the engagement when evaluating threats to independence. Any one factor may or may not be determinative of a significant threat. In addition, multiple factors could result in significant threats when considering the cumulative effect of threats in the aggregate. We recommend that this be communicated within the interpretation in paragraph .01. We suggest the following language as an example:

Threats should be evaluated both individually and in the aggregate as threats can have a cumulative effect on independence. Threats may become more significant when considering the depth and breadth of the threats in totality.

Response to Specific AICPA Questions

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 believe that duration of the arrangement should be addressed in paragraph .02. As it is not likely that alternative language to the term "short period of time" would provide more clarity, we believe that a frequently asked question would be an effective way of providing additional guidance to encourage consistent application with respect to duration.

We believe that the language in paragraph .02 should be amended to exclude bullet points a - b, which represent requirements in the existing AICPA code, as follows:

.02 Threats to compliance with the "Independence Rule" (ET sec. 1.200.001) would not be at an acceptable level, and independence would be impaired unless, ~~in addition to applying the "General Requirements for Performing Nonattest Services" interpretation (ET sec. 1.295.040),~~ all the following safeguards are met:

- ~~a. The member is satisfied that client management designates an individual or individuals who possess suitable skill, knowledge, and experience, preferably within senior management, to be responsible for~~
 - ~~i. determining the nature and scope of the activities to be provided by the individual performing the augmented staff services (the "augmented staff");~~
 - ~~ii. supervising and overseeing the activities performed by the augmented staff; and~~
 - ~~iii. evaluating the adequacy of the activities performed by the augmented staff and the findings resulting from the activities.~~
- ~~b. The activities do not result in the augmented staff assuming management responsibilities as described in the "Management Responsibilities" interpretation (ET sec. 1.295.030) of the "Independence Rule" (ET sec. 1.200.001).~~
- ~~e.a.~~ *The augmented staff performs only activities that would not otherwise be prohibited by the "Nonattest Services" interpretation (ET sec. 1.295.000) of the "Independence Rule" (ET sec. 1.200.001).*
- ~~e.b.~~ *The duration of the arrangement is for a short period of time.*



We believe that exclusivity, frequency, and recurrence of the staff augmentation arrangement should be considered along with the duration of the engagement in paragraph .02. When evaluating threats to independence, the impact of additional factors may change in relevance as the duration fluctuates. As a result, professional judgment should be used in evaluating these factors to determine an appropriate duration.

We also believe that a partner or partner-equivalent should be prohibited from serving as augmented staff for financial statement attest clients. In such cases, we believe that threats to management participation and familiarity are so significant that safeguards would not be sufficient to eliminate or reduce the threats to an acceptable level. If a partner or partner-equivalent is serving as augmented staff for non-financial statement attest clients, threats to management participation and familiarity must be evaluated to understand if the threats can be reduced to an acceptable level through the application of safeguards.

See our comment in the overall considerations section above about considerations of the cumulative effect on threats related to duration, exclusivity, recurrence, and frequency.

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 support the proposed inclusion of the staff augmentation arrangements in ET 1.295 Nonattest Services. We believe that staff augmentation arrangements constitute a method of providing nonattest services.

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.

We support the application of the proposed interpretation to client affiliates in the same manner as all other nonattest services, including the exception to the client affiliate interpretation at ET 1.224.010.02.b Affiliates.

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

We do not foresee any hardships or regulatory issues that are created by the proposal.

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.

See our comments in the overall considerations section as well as the response to Question 7 below.

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

See our response to Question 7 for additional considerations with respect to the appearance of prohibited employment.



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

We believe that familiarity threats may exist in addition to management participation threats in the performance of nonattest services under staff augmentation arrangements. We recommend a paragraph highlighting such threats along with potential safeguards. Para.05a of the proposed interpretation provides a safeguard against familiarity threats.

We believe that the level and experience of the individual(s) who will participate on the staff augmentation engagement impact the threats associated with management participation and familiarity. If personnel are limited to non-management or staff level personnel, threats may be reduced as a result. Therefore, limiting the level of personnel on a staff augmentation engagement may be an effective safeguard.

Finally, we recommend that language should be added to indicate that some situations may require multiple safeguards be applied to eliminate or reduce the threat(s) to an acceptable level.

We appreciate the PEEC's careful consideration of our comments and observations. If you have any questions regarding our comments included in this letter, please do not hesitate to contact Bill Mckeown at wmckeown@kpmg.com or Nancy Miller at nancymiller@kpmg.com.

Very truly yours,

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