

February 25, 2019

Mr. Samuel L. Burke  
Chair, AICPA Professional Ethics Executive Committee  
AICPA  
220 Leigh Farm Road  
Durham, NC 27707

Via email: [Ethics-ExposureDraft@aicpa-cima.com](mailto:Ethics-ExposureDraft@aicpa-cima.com)

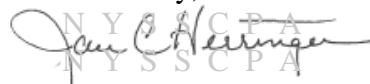
**Re: AICPA Professional Ethics Division Exposure Draft, Proposed Interpretation of the AICPA Code of Professional Conduct—*Staff Augmentation Arrangements Interpretation* (ET sec. 1.295.157)**

Dear Mr. Burke:

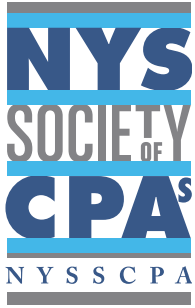
The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 25,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

The NYSSCPA's Professional Ethics Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact Elliot L. Hendler, Chair of the Professional Ethics Committee, at (212) 719-8300, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

  
NYSSCPA  
Jan C. Herringer  
President

Attachment



**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON**

**AICPA PROFESSIONAL ETHICS DIVISION EXPOSURE DRAFT, PROPOSED  
INTERPRETATION OF THE AICPA CODE OF PROFESSIONAL CONDUCT—*STAFF  
AUGMENTATION ARRANGEMENTS INTERPRETATION* (ET sec. 1.295.157)**

**February 25, 2019**

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Steven J. Leifer  
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## New York State Society of Certified Public Accountants

### Comments on

#### **AICPA Professional Ethics Division Exposure Draft, Proposed Interpretation of the AICPA Code of Professional Conduct—*Staff Augmentation Arrangements Interpretation* (ET sec. 1.295.157)**

The New York State Society of Certified Public Accountants (NYSSCPA or the Society) appreciates the opportunity to provide comments on the AICPA's Professional Ethics Executive Committee (PEEC) exposure draft, Proposed Interpretation of the AICPA Code of Professional Conduct—*Staff Augmentation Arrangements Interpretation* (ET sec. 1.295.157).

We support PEEC's efforts to provide specific guidance regarding situations in which a member or a member's firm provides human resource capital as a service to clients under a staff augmentation arrangement.

#### **Specific Questions**

We offer the following responses to the specific questions posed in the exposure draft.

**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?

**Response:** The Society believes that the duration of the engagement is an important consideration when assessing whether the threat to independence created by the arrangement is reduced to an acceptable level. However, we find the phrase *short period of time* to be too vague to serve as an adequate safeguard to the threat created by the arrangement, even when considered in relation to the other proposed safeguards. Having said that, we have been unable to determine a more acceptable term to address the issue of duration of the arrangement. We suggest that the PEEC consider issuing, contemporaneous with the release of the Interpretation, an FAQ that addresses this issue and how the issue of duration might be addressed in the engagement letter.

**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.

**Response:** We concurs with PEEC's position that staff augmentation arrangements are a nonattest service and, therefore, should be added to ET section 1.295. We would suggest, as discussed above, that an FAQ be developed and released contemporaneously with the

issuance of this Interpretation reminding members that as a nonattest service, these arrangements should be considered together with other nonattest services to determine if a threat from the performance of multiple nonattest services exists.

**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.

**Response:** Where the attest client's combined or consolidated financial statements include those of sister entities or subsidiaries, the proposed interpretation should apply to those entities. We believe that, in situations where the attest client's financial statements do not include affiliates, the proposed interpretation should also be applied to avoid the appearance of prohibited employment. Furthermore, the nonattest services applied to all affiliates of the attest client should be aggregated to determine if a threat to independence of the member or member's firm exists. Failing to do so might allow a member or member's firm to consciously circumvent the letter of the interpretation.

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

**Response:** The Society recognizes that a hardship might exist if the issuance of the proposed interpretation results in the loss of the staff augmentation or attest service to a member or member's firm. However, we also believe that providing staff augmentation services created self-review threats long before the proposed interpretation was issued and, as such, firms should have already made some of the determinations required by the interpretation. Accordingly, we believe that the loss of one or the other services will be minimal and should not be a determining factor in PEEC's decision to finalize this proposed interpretation.

**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.

**Response:** The approach to address the appearance of prohibited employment set forth in paragraph .03 through .05 is appropriate.

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

**Response:** Other factors that might be addressed in evaluating the appearance of prohibited employment include:

- The existence of a permanent, dedicated workspace (office, cubicle, etc.) on the client's premises; or
- The member's staff participation in company events or activities reserved for the client's employees only.

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

**Response:** The Society suggests PEEC consider adding a specific prohibition against the staff being paid directly by the client, either in the form of general compensation or a bonus. All fees for the staff augmentation arrangement should be billed by the member's firm or the member, if a sole proprietor.

**Additional Comments**

The Society notes that the term "staff augmentation arrangement" is not defined in the proposed interpretation. For members who do not currently participate in such arrangements, we recognize that the term "staff augmentation arrangement" might be confusing. Because not all members or member's firms participate in such arrangements, we believe that including a clear and concise definition of these types of arrangements would be useful. By adding such a definition, members who do not routinely provide this type of service would better recognize such an arrangement should they be asked to provide human resource capital to a client.

We also suggest that either the interpretation, or, as discussed above, an FAQ released contemporaneously with the issuance of this interpretation, reiterate that all nonattest services provided by the member or member's firm to an attest client needs to be considered in the aggregate to determine if a threat to independence from the performance of multiple nonattest services is at an acceptable level. We know that this is an area of concern to the AICPA Peer Review Program and suggest that with the addition of each new interpretation to ET section 1.295, the PEEC should take the opportunity to remind practitioners of the requirement to consider whether a threat from the performance of multiple nonattest services exists and the requirement to document such consideration.