

February 27, 2019

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

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

RE: December 7, 2018 Proposed Interpretation of the AICPA Code of Professional Conduct, Staff Augmentation Arrangements Interpretation (ET Sec. 1.295.157)

Dear Professional Ethics Division and Members of the Professional Ethics Executive Committee:

We appreciate the opportunity to comment on the proposed revisions to the AICPA Code of Professional Conduct proposed by the AICPA Professional Ethics Executive Committee (PEEC) as outlined above.

We have reviewed the December 7, 2018 *Exposure Draft – Interpretation of the AICPA Code of Professional Conduct, Staff Augmentation Arrangements Interpretation (ET Sec. 1.295.157)* and understand the objectives that the Committee is attempting to achieve by addressing staff augmentation services separately from other nonattest service arrangements. However, as described below, we believe additional guidance would make the standard more understandable and easier to implement.

SPECIFIC RESPONSES REQUESTED BY 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?

We do not agree with the duration of the engagement being included as a required safeguard in paragraph .02. The term “short period of time” is ambiguous and could be subject to wide interpretation and inconsistent application. We believe that including the “duration of the engagement” in paragraph .03 as a factor to consider when evaluating whether the appearance of prohibited employment is created is sufficient to address concerns about the length of time the staff augmentation services are provided.

If the Board retains “a short period of time” as a required safeguard, we would suggest that the term “short period” be well-defined in the interpretation and examples of situations that would clearly meet and not meet the definition be included. For example, the inclusion of specific examples in ET 1.295.143 Hosting Services as to what types of arrangements constitute “hosting services” is helpful in applying that standard. We suggest a similar approach be applied to this interpretation.

It is unclear how the term “short period of time” would be interpreted when services are being provided on a “short term” but recurring basis. Would staff augmentation services provided for a short period of time, but repeated on a recurring basis, say monthly, quarterly or annually, meet the “short period of time” safeguard? Additional guidance or examples about how to evaluate reoccurring staff augmentation services should be added to the interpretation, particularly those that reoccur on an infrequent basis (like annually, for example).

As proposed, the “short period of time” safeguard is **only** required when the nonattest services are provided through staff augmentation contracts. If that safeguard is only applicable to staff augmentation services, then the standard needs to clearly define what constitutes “staff augmentation services”. We also recommend including examples of situations and fact patterns that would meet that definition in the interpretation. Without a clear definition and examples, members may be confused as to which nonattest service contracts are subject to the “short period of time” safeguard. We suggest that the interpretation incorporate the definition included in international standards. IESBA section 290.140 states that staff augmentation services relate to “loaned staff where the client is responsible for directing and supervising the activities of the loaned staff”. This definition is clearly evident in the introductory material to the exposure draft. We believe that including the definition in the final standard would assist members in applying the interpretation.

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.

Yes, we agree that staff augmentation is a nonattest service and the proposed interpretation should be placed in ET Section 1.295.

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.

No, we do not have any concerns regarding the application of this 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.

No, we did not identify any additional hardships or regulatory issues, other than those discussed elsewhere in our response 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.

Paragraph .04a-d of the proposed interpretation details specific situations which would automatically impair independence as the accounting firm staff would appear to be an employee of the client, conflicting with ET-1.275.005 *Simultaneous Employment or Association with the Attest Client*. As the interpretation is worded, these situations are only prohibited when “staff augmentation” services are provided and would not automatically impair independence in other nonattest service arrangements. We agree that the unique aspects of staff augmentation services

warrant the additional safeguards. Therefore, as previously communicated in our response to question two, "staff augmentation services" needs to be clearly defined in the interpretation. Otherwise members will need to apply professional judgement as to when these additional prohibitions will or will not be applicable, resulting in inconsistent application of the proposed standard.

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

No, we do not have any additional suggestions for evaluation of the appearance of prohibited employment services.

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

No, we do not have any other suggested safeguards that should be considered to reduce independence threats to an acceptable level.

We appreciate the opportunity to provide these comments to you and would be happy to discuss them with a PEEC representative.

Please contact Brian Ross at brian.ross@plantemoran.com with any questions.

Very truly yours,



Plante Moran, PLLC