



Tel: 732-750-0900  
Fax: 732-750-1222  
www.bdo.com

90 Woodbridge Center Dr., 4th Floor  
Woodbridge, NJ 07095

March 6, 2019

Via e-mail: [ethics-exposedraft@aicpa-cima.com](mailto:ethics-exposedraft@aicpa-cima.com)

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

## Re: Staff Augmentation Arrangements

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

BDO USA, LLP, appreciates the opportunity to provide comments on the American Institute of Certified Public Accountants (“AICPA”) Professional Ethics Executive Committee’s (“PEEC”) Proposed Interpretation to the Code of Professional Conduct (the “Code”), *Staff Augmentation Arrangements* (proposed interpretation). Our comments on the proposed interpretation follow.

We support the PEEC’s endeavor in setting high-quality and robust independence and ethics standards for the accounting profession in the United States. Overall, BDO supports the proposed interpretation, however, we have provided specific commentary below.

### General Comments

Overall, we support the proposed interpretation, which contains guidance concerning independence when a member or a member’s firm has a staff augmentation arrangement with an attest client.

We agree that additional guidance is needed as to when staff augmentation arrangements could compromise independence and also agree that threats to independence are created under such arrangements due to the appearance of employment with an attest.

While we appreciate the opportunity to comment on the proposed interpretation, we believe the proposed standard, as currently written, may not promote consistency in application of the Code, and may be difficult to interpret due to the lack of clarity in the proposed required safeguard: “*The duration of the arrangement is for a short period of time.*” Please see further commentary below.

### Request for Specific Comments

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 believe that the duration of the arrangement should have limits, however, we do not believe that a “short period of time” will be interpreted and applied uniformly by members. In addition, it may be difficult to enforce and more factors should be provided in paragraph .03 to clarify the intent of this safeguard.*

*As noted in the explanatory language of the exposure draft, this particular safeguard is required to address the appearance of prohibited employment with an attest client. The appearance of prohibited employment may be affected by other factors besides the duration as described in paragraph .03 of the proposed standard. We believe it might be more appropriate if the safeguard in paragraph .02 d. would be replaced with the requirement that, “The arrangement does not result in the appearance of a prohibited employment arrangement.” Paragraph .03 would then address the required factors to consider concerning the appearance of prohibited employment and provide guidance to members in determining whether the arrangement would result in the appearance of prohibited employment. As already noted in paragraph .03, the duration of the engagement would be one such factor to consider in determining whether the staff augmentation arrangement would appear to be prohibited employment with the attest client.*

*We also believe it would be helpful to issue FAQs that provide guidance on how a member should evaluate the “duration of the staff augmentation arrangement” with one example that could result in the appearance of employment and another that would not.*

- 2. Do you agree that staff augmentation is a non-attest 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 believe that staff augmentation is a non-attest service and that the proposed interpretation should be placed in ET section 1.295.*

- 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 application of the proposed interpretation to client affiliates and believe the exceptions afforded in Interpretation 1.224.010.02.b, Client Affiliates are appropriate for staff augmentation services.*

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

*No. We do not foresee any such hardships or regulatory issues.*

- 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.**



Professional Ethics Executive Committee  
American Institute of Certified Public Accountants  
Page 3 of 3

*We believe more examples as to the factors that may affect the appearance of prohibited employment should be included as noted in our response to question six.*

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

*We recommend additional factors should be included along with examples as noted below.*

*The Reason for the Augmentation Arrangement*

*The reason for the augmentation arrangement may affect the appearance of independence. For example, an audit client's employee responsible for monthly closings may be absent for a month due to emergency medical leave. In this case a reasonable and informed third party may find it acceptable for the firm to augment staff to the attest client. However, if the augmentation is for the same period (one month), yet the staff augmentation was due a less urgent matter, such as a pending retirement of the respective employee of the attest client, it may have the appearance that the augmented staff is acting as an employee.*

*Size and Complexity of The Client's Operations*

*The size of the attest client and/or complexity of operations or financial reporting requirements may affect how the duration of the staff augmentation arrangement impacts the appearance of prohibited employment. For example, if the attest client requires a significant amount of time from the firm due to the large size and highly complex nature of the organization's operations and/or reporting requirements, a staff augmentation arrangement for six months may appear acceptable to a reasonable and informed third party. However, an augmentation engagement of the same length of time may not appear to be as appropriate if the client is smaller with less complex accounting and/or operational and financial reporting needs.*

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

*No. We are not aware of any other safeguards.*

We would be pleased to discuss our letter with you. If you have questions or would like to address a topic within our comments, please contact, Ms. Lisa A. Snyder, CPA, National Assurance Managing Partner - Independence at 732.734.3052 or [lsnyder@bdo.com](mailto:lsnyder@bdo.com) or Mr. Jason Evans, CPA, National Assurance Director - Independence at 919.278.1953 or [jmevans@bdo.com](mailto:jmevans@bdo.com).

Respectfully,

/s/ BDO USA, LLP

BDO USA, LLP