



# EXPOSURE DRAFT

Proposed Interpretation of the AICPA Code  
of Professional Conduct

Staff Augmentation Arrangements  
Interpretation (ET sec. 1.295.157)

**AICPA Professional Ethics Division**  
**December 7, 2018**

**Comments are requested by March 7, 2019**

Prepared by the AICPA Professional Ethics Executive Committee for comments from those interested in independence, behavioral, and technical standards matters. Comments should be addressed to the Professional Ethics Division, Ethics-ExposureDraft@aicpa-cima.com.

*Copyright © 2018 by  
American Institute of Certified Public Accountants, Inc.  
New York, NY 10036-8775*

Permission is granted to make copies of this work provided that such copies are for personal, intra-organizational, or educational use only and are not sold or disseminated and provided further that each copy bears the following credit line: "Copyright © 2018 by the American Institute of Certified Public Accountants, Inc. Used with permission."

December 7, 2018

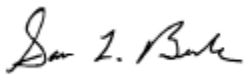
This exposure draft contains an important proposal for review and comment by the AICPA's membership and other interested parties regarding a new proposed interpretation for possible adoption by the Professional Ethics Executive Committee (PEEC). The text and an explanation of the proposed new interpretation are included in this exposure draft.

After the exposure period has concluded and PEEC has evaluated the comments, PEEC may decide to publish the proposed revisions in a final release. Once published, the revisions will become effective on the last day of the month in which notice is published in the *Journal of Accountancy*, unless otherwise stated in the exposure draft.

Your comments are an important part of the standard-setting process; please take this opportunity to comment. Responses must be received at the AICPA by March 7, 2019. All written replies to this exposure draft will become part of the public record of the AICPA and will be available at the following link: [www.aicpa.org/InterestAreas/ProfessionalEthics/Community/ExposureDrafts/Pages/ExposureDrafts.aspx](http://www.aicpa.org/InterestAreas/ProfessionalEthics/Community/ExposureDrafts/Pages/ExposureDrafts.aspx). PEEC will consider comments at its subsequent meetings.

Please email comments to the Professional Ethics Division (Ethics-ExposureDraft@aicpa.com).

Sincerely,



Samuel L. Burke, Chair  
AICPA Professional Ethics Executive Committee



Toni Lee-Andrews, Director  
AICPA Professional Ethics Division

## Professional Ethics Executive Committee (2017–2018)

Samuel L. Burke, <i>Chair</i>	Sharon Jensen
Coalter Baker	Martin Levin
Carlos Barrera	Brian S. Lynch
Stanley Berman	Bill Mann
Chris Cahill	William McKeown
Tom Campbell	Steven Reed
Robert E. Denham	Stephanie Saunders
Anna Dourdourekas	Lisa Snyder
Gregory Guin	James Smolinski
Kelly J. Hunter	Shelly Van Dyne

## Staff Augmentation Task Force

Lisa Snyder, *Chair*

Bill Mann

Shelly Van Dyne

Brian S. Lynch

Jeff Lewis

Coalter Baker

## Ethics Division Task Force Staff

Brandon Mercer, CPA, CGMA

Senior Manager, AICPA Professional Ethics Division

# Contents

---

	<b>Page</b>
<b>Explanation of the Proposed New Interpretation .....</b>	<b>6</b>
<b>Request for Specific Comments .....</b>	<b>11</b>
<b>Final Text of Proposed “Staff Augmentation Arrangements” Interpretation....</b>	<b>12</b>

## Explanation of the Proposed Interpretation

The Professional Ethics Executive Committee (PEEC) is exposing for comment a new interpretation, “Staff Augmentation Arrangements” (ET sec. 1.295.157).<sup>1</sup>

### ***I. Background***

#### ***Staff Augmentation Arrangements***

Members and members’ firms typically provide professional services directly to clients under two- or three-party arrangements for the member to provide professional services (that is, engagement letters). Under the typical arrangements, the firm bills the client directly for the services provided at the appropriate rates. However, some members and members’ firms also provide human resource capital as a service to clients under staff augmentation arrangements (also referred to as *loaned staff*), which are generally characterized by the following, for example:

- Firm staff are augmented to the client to perform services under the client’s supervision.
- The scope of the services may be established by the details of the staff augmentation arrangement.
- The client is responsible for the supervision and evaluation of the augmented staff’s activities and the results of the activities performed by the augmented staff.

In addition, the services may be discrete projects or recurring but infrequent in nature. The duration, continuity, and frequency of such arrangements can vary widely in practice depending upon many factors specific to the firm, client, and nature of the activities being performed by augmented staff. For example, assistance with annual tax-related services may be infrequent in nature but recurring on an ongoing basis for a number of years. Alternatively, assistance with bookkeeping due to client staff shortages for a short period of time under a staff augmentation arrangement may be considered an infrequent and discrete service. Assuming that the services being performed by the augmented staff are not prohibited nonattest services, a primary issue affecting independence is the method of delivery of the services and whether it creates an appearance of prohibited employment, as the SEC notes in [Release No. 71390 dated January 4, 2014](#), clarifying its related independence provisions (discussed as follows).

As part of its deliberations on this matter, PEEC reviewed the related independence requirements of other standard setters and regulators, including the SEC, Government Accountability Office, Department of Labor, and the International Ethics Standards Board for Accountants (IESBA). In its review, PEEC noted that IESBA provisions specifically address such arrangements, but others do not explicitly address staff augmentation arrangements.

#### ***SEC Independence Provisions — Release No. 71390***

The SEC noted in [Release No. 71390](#) that certain factors are considered significant in evaluating whether such augmentation arrangements with the audit client are prohibited by the “*Acting as an Employee*” provisions of SEC Rule 2-01 and, thus, impair independence. In some situations, such arrangements may be tantamount to performing a management function, and thus providing a prohibited nonaudit service under the SEC provisions. Even if the nonaudit services themselves are not otherwise prohibited services, the SEC believes the auditor is not necessarily independent if the nonaudit services are delivered in a manner that creates the appearance of prohibited employment.

---

<sup>1</sup> All ET sections can be found in AICPA *Professional Standards*.

The AICPA “Independence Rule” (ET sec. 1.200.001) also prohibits simultaneous employment at an attest client and the performance of management responsibilities; however, the AICPA Code of Professional Conduct does not address staff augmentation arrangements and whether such arrangements would be considered prohibited simultaneous employment with an attest client under the “Simultaneous Employment or Association with an Attest Client” interpretation (ET sec. 1.275.005) of the “Independence Rule.” This interpretation explicitly prohibits partners or professional employees from being simultaneously employed by the attest client during the period covered by the financial statements or the period of the professional engagement. Management responsibilities and related safeguards are addressed in the “Nonattest Services” interpretation (ET sec. 1.295).

## ***IESBA***

PEEC considered the existing provisions of the IESBA Code, which addresses staff augmentation arrangements under “Temporary Staff Assignments” (Section 290.140). Under the IESBA provisions, such arrangements are permitted provided that the activities performed under the arrangement would not be otherwise prohibited nonattest services and would not result in performing management responsibilities, both of which are consistent with the PEEC proposal. The IESBA provisions also require that the arrangement be “for a short period of time.”

PEEC generally agreed that the activities or services should not be otherwise prohibited nonattest services and should not result in performing management functions. Regarding arrangements being for a “short period of time,” although PEEC agreed that duration of an arrangement should be an aspect of the required safeguards, some members of PEEC noted that the IESBA language (“short period of time”) may be easily misunderstood to be a bright line threshold with widely ranging results that are based upon the member’s own interpretation. As discussed in the following section, PEEC considered alternative terminology to describe the safeguard involving duration, and has included a specific request for comment in that regard. In practice, it could be argued, for example, that an arrangement could be for a short period of time but is also frequent and recurring to the point that it is, in reality, for an extended period of time. PEEC requests suggestions for the appropriate terminology to address the duration, potentially combined with notions of frequency, recurrence, continuity, and exclusivity. PEEC believes that as proposed, the interpretation is substantively consistent with the provisions of the IESBA Code and, therefore, would facilitate convergence with international standards.

## ***II. Staff Augmentation Arrangements Interpretation***

### ***Prohibited Employment Versus Nonattest Service***

PEEC considered whether staff augmentation arrangements should be addressed as an exception to the “Employment or Association with an Attest Client” interpretation or should be considered a nonattest service addressed under ET section 1.295. PEEC agreed that staff augmentation arrangements are the provision of a nonattest service in the form of human capital and, therefore, has included the guidance under the “Nonattest Services” interpretation. However, the interpretation addresses both the management participation threat and the threat of the appearance of simultaneous employment that may be created when providing such nonattest services.

### ***Paragraph .02: Required Safeguards***

Paragraph .02 of the proposed interpretation requires that members performing activities under staff augmentation arrangements apply the “General Requirements for Performing Nonattest Services”

interpretation (ET sec. 1.295.040). In addition, the paragraph provides safeguards that must be met in order for threats to be at an acceptable level:

- 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).
- c. The augmented staff only performs 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).
- d. The duration of the arrangement is for a short period of time.

#### *Suitable Skill, Knowledge, and Experience*

PEEC agreed that it was reasonable to require that the member be satisfied that the client designates an individual with the appropriate skill, knowledge, and experience (SKE) to supervise the activities performed by the augmented staff. Absent such a requirement, the threats of management participation and self-review would not be at an acceptable level. Similar to other permitted nonattest services, the member should be satisfied that there is an appropriate individual to oversee and take responsibility for the results of the activities performed under a staff augmentation arrangement.

#### *Management Responsibilities and Unprohibited Nonattest Services*

PEEC determined that the activities being provided by augmented staff should not be otherwise prohibited services, and that the activities should not result in the augmented staff performing management responsibilities as described in the “Management Responsibilities” interpretation (ET sec. 1.295.030). Such provisions are consistent with the requirements of the IESBA provisions.

#### *Duration of the Arrangement*

PEEC deliberated the concept of duration, as it is an aspect of the IESBA provisions (previously discussed) and was noted in the SEC release as a factor in evaluating whether there is an appearance of prohibited employment. PEEC considered various alternatives to describe the duration of the arrangement, including but not limited to

- temporary;
- short-term (short period of time);
- limited period of time;
- not for an extended period of time; and
- discrete and non-recurring (not exclusive and continuous for an extended period of time).

During deliberations of the various possible terms, concerns were raised that the meaning of terms such as “temporary” or “short” may vary widely in practice. In addition, there may be different interpretations by the public and those in practice, leading to gaps in perception of the meaning of such terms. PEEC has included a specific request for comment in this exposure draft related to the duration factor and the appropriate terminology to describe the safeguard in a manner that is clear and consistently interpreted by the public and



practitioners. Although the final text of the proposal in this exposure draft utilizes the IESBA language of “short period of time,” PEEC requests comment on whether this is appropriate terminology and would be easily understood.

### ***Paragraphs .03–.05: Appearance of Simultaneous Employment at the Attest Client***

#### *Evaluating the Appearance of Simultaneous Employment*

Paragraphs .03 and .04 of the proposed interpretation provide guidance in evaluating and safeguarding against the threat of the appearance of prohibited employment. In formulating the provisions in this paragraph, PEEC noted that several factors and safeguards are referenced elsewhere in the “Internal Audit Services” interpretation (ET sec. 1.295.150) that are intended to safeguard against the threat of the appearance of simultaneous employment with the attest client. After reviewing the extant AICPA provisions related to internal audit services and simultaneous employment and the SEC and IESBA provisions, PEEC agreed that the factors referenced in the proposal should address the duration, exclusivity, frequency, and recurring nature of the services being performed:

- a. The duration of the staff augmentation arrangement
- b. Whether the augmented staff will provide services to other clients during the period of the arrangement
- c. The frequency with which the augmented staff will perform activities at the attest client’s location (for example, daily)
- d. Whether the arrangement is discrete or recurring in nature, and if recurring, the frequency of such recurrence

Notwithstanding these factors recommended as considerations, PEEC agreed that certain situations would carry the appearance of prohibited employment to the point that threats would not be at an acceptable level and no safeguards would reduce the threat to an acceptable level. Thus, the proposal notes that independence would be impaired if the augmented staff is

- a. listed as an employee in the attest client’s directories or other attest client publications;
- b. referred to by title or description as supervising or being in charge of any business function of the attest client;
- c. identified as an employee of the attest client in correspondence such as email, letterhead, or internal communications; or
- d. able to participate in compensation or benefit plans (including health or retirement plans) of the attest client.

#### *Examples of Safeguards*

Paragraph .05 provides examples of safeguards that members may consider applying to reduce the threat of the appearance of simultaneous employment to an acceptable level. The list is not intended to be all inclusive. PEEC has included a specific request for comment soliciting additional suggestions for appropriate safeguards and feedback on those included in the proposal. Examples of safeguards include the following, which are consistent with similar provisions of IESBA:

- a. Not using the augmented staff on the attest engagement team, or not using the augmented staff to perform attest procedures on any areas for which the staff performed activities during the augmented staff arrangement
- b. Discussion of the threats and any safeguards applied with those charged with governance
- c. Rotation of individuals performing the staff augmentation activities
- d. Monitoring the scope of activities performed by augmented staff

***Effective Date***

PEEC believes that members may need additional time to implement the proposed interpretation. As such, PEEC recommends that the interpretation be effective six months after the last day of the month in which notice of adoption of the proposed interpretation is published in the print edition of the *Journal of Accountancy*.

### ***Request for Specific Comments***

Although PEEC welcomes comments on all aspects of the proposed interpretation, it specifically requests feedback on the following:

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?
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.
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.
4. Do you foresee any hardships or regulatory issues that are created by the proposal? If so, please explain.
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.
6. Do you suggest any additional factors for evaluation of the appearance of prohibited employment that PEEC should consider?
7. Do you suggest any other safeguards that PEEC should consider to reduce threats to an acceptable level?

## Final Text of Proposed “Staff Augmentation Arrangements” Interpretation

### 1.295.157 Staff Augmentation Arrangements

**.01** When a member or member’s firm has a staff augmentation arrangement with an attest client, self-review and management participation threats to the member’s compliance with the “Independence Rule” (ET sec. 1.200.001) may exist.

**.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).
- c. 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).
- d. The duration of the arrangement is for a short period of time.

**.03** In all circumstances, the member should consider whether the staff augmentation arrangement creates the appearance of prohibited employment with the attest client. (See the “Simultaneous Employment or Association With an Attest Client” interpretation [ET sec. 1.275.005] of the “Independence Rule” [ET sec. 1.200.001]). When evaluating the appearance of prohibited employment with the attest client, the member should consider factors such as the following:

- a. The duration of the staff augmentation arrangement
- b. Whether the augmented staff will provide services to other clients during the period of the arrangement
- c. The frequency with which the augmented staff will perform activities at the attest client’s location (for example, daily)
- d. Whether the arrangement is discrete or recurring in nature, and if recurring, the frequency of such recurrence

**.04** However, threats to compliance with the “Independence Rule” (ET sec. 1.200.001) would not be at an acceptable level and independence would be impaired if the augmented staff is held out or treated as an employee of the attest client, such as being any of the following:

- a. Listed as an employee in the attest client's directories or other attest client publications
- b. Referred to by title or description as supervising or being in charge of any business function of the attest client
- c. Identified as an employee of the attest client in correspondence such as email, letterhead, or internal communications
- d. Able to participate in compensation or benefit plans (including health or retirement plans) of the attest client

**.05** The significance of any threats should be evaluated, and safeguards applied, when necessary, to eliminate the threats or reduce them to an acceptable level. These are some examples of such safeguards:

- a. Not using the augmented staff on the attest engagement team, or not using the augmented staff to perform attest procedures on any areas for which the staff performed activities during the augmented staff arrangement
- b. Discussion of the threats and any safeguards applied with those charged with governance
- c. Rotation of individuals performing the staff augmentation activities
- d. Monitoring the scope of activities performed by augmented staff

**.06** This interpretation is effective six months after notice of adoption is published in the *Journal of Accountancy*. Early implementation is allowed.