



# Exposure draft

Proposed interpretation

Staff Augmentation Arrangements

**AICPA Professional Ethics  
Division**

**September 8, 2020**

**Comments are requested by December 8,  
2020**

Prepared by the AICPA Professional Ethics Executive Committee for comments from those interested in independence, behavioral, and technical standards. Please address comments to [Ethics-Exposuredraft@aicpa.org](mailto:Ethics-Exposuredraft@aicpa.org)

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September 8, 2020

If you're an AICPA member or someone interested in the ethics of auditing and accounting, we want to hear your thoughts on this ethics exposure draft!

This proposal is part of the AICPA's Professional Ethics Executive Committee (PEEC) project to further its convergence efforts with the standards of the International Ethics Standards Board for Accountants (IESBA), specifically section 525, *Temporary Personnel Assignments*.

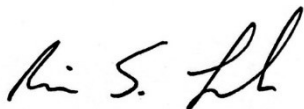
This exposure draft is an explanation of the proposed pronouncement and the full text of the guidance being considered.

After the exposure period concludes and PEEC has evaluated the comments, PEEC may decide to publish the new interpretation.

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 December 8, 2020. All written replies to this exposure draft will become part of the public record of the AICPA and will be available at [www.aicpa.org/peecprojects](http://www.aicpa.org/peecprojects). PEEC will consider comments at its subsequent meetings.

Please email comments to [Ethics-ExposureDraft@aicpa.org](mailto:Ethics-ExposureDraft@aicpa.org).

Sincerely,



Brian S. Lynch, Chair  
Professional Ethics Executive Committee



Toni Lee-Andrews, Director, CPA, PFS,  
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## Explanation of the revised proposal of the interpretation

The Professional Ethics Executive Committee (PEEC) is re-exposing for comment a new interpretation, “Staff Augmentation Arrangements.” If adopted as final, the new interpretation will be in ET sec. 1.275.007 of the AICPA Code of Professional Conduct.<sup>1</sup>

### I. Staff augmentation arrangements

1. A staff augmentation arrangement is when a firm provides human resource capital as a service to clients. These arrangements are sometimes referred to as *loaned staff arrangements*.
2. Typically, when a member or member’s firm (member) provides a nonattest service to an attest client, the member is directly responsible for the direction and supervision of the activities of the staff providing the service. However, in a staff augmentation arrangement, and as required under existing International Ethics Standards Board for Accountants (IESBA) standards, the client is responsible for directing and supervising the activities of the staff being loaned to the client (hereinafter referred to as “augmented staff”).

### II. Background

#### *Original proposed interpretation*

3. As part of its international convergence efforts, on December 7, 2018, PEEC issued an exposure draft proposing a new interpretation, “Staff Augmentation Arrangements,” under the “Nonattest Services” subtopic. We’ll refer to this as the original proposal in this document.
4. In the original proposal, PEEC proposed that if certain safeguards were met to address the threat of the appearance of a prohibited simultaneous employment relationship with the attest client, staff augmentation services would be permitted provided any such threats were reduced to an acceptable level.

#### *Feedback to original exposure draft*

5. PEEC received 11 comment letters on the original proposal. All but 3 commenters were supportive of the proposal. Two of the 3 commenters<sup>2</sup> who did not support the proposal believed the code already addressed this guidance in the “Nonattest Services” subtopic (ET sec. 1.295) and the “Conceptual Framework Approach” subtopic (ET sec. 1.210).
6. The third commenter that was unsupportive of the proposal was [NASBA](#). NASBA’s stated position was that the appearance of prohibited employment cannot be overcome by the

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

<sup>2</sup> [CL 1 and CL 7](#)

application of safeguards; the proposal weakens the code's independence requirements, thereby not serving the public's or profession's interests; and the proposal will be challenging to interpret, apply and enforce. NASBA's letter recommended PEEC not adopt the proposed interpretation because of its view that lending staff to perform staff augmentation services under the client's supervision is inconsistent with the existing and longstanding provision in the code that bars simultaneous employment with an attest client.

### III. Revised proposal

7. In light of the conflicting positions, PEEC held a number of discussions. These discussions resulted in a significant change in direction from the original proposal.
8. Draft revisions to the proposal included stating that staff augmentation arrangements would generally impair independence except under certain circumstances and moving the proposed interpretation from the "Nonattest Services" subtopic to the "Current Employment or Association With an Attest Client" subtopic (ET sec. 1.275) to be more consistent with IESBA's placement in its code. Although some PEEC members were supportive of the draft position, others believed the draft revisions were too proscriptive, were more restrictive than IESBA's position, and did not properly balance the actual and perceived threats created by these arrangements. To address the concerns that the draft revisions did not properly balance the actual and perceived threats and were more restrictive than IESBA's position, additional revisions were discussed, including a possible exception for affiliates other than downstream affiliates (see the "Application of the proposed interpretation to affiliates" section in this document).
9. PEEC is issuing a revised proposal for the "Staff Augmentation Arrangements" interpretation that indicates such arrangements will impair independence except when certain safeguards are in place. These safeguards are as follows:
  - a. The staff augmentation arrangement is being performed due to an unexpected situation that would create a significant hardship for the attest client to make other arrangements.<sup>3</sup>
  - b. The augmented staff arrangement is not expected to reoccur.<sup>3</sup>
  - c. The augmented staff arrangement is performed only for a short period of time. There is a rebuttable presumption that a short period of time would not exceed 30 days.<sup>4</sup>
  - d. The augmented staff neither participates in, nor is in a position to influence, an attest engagement covering any period that includes the staff augmentation arrangement.

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<sup>3</sup> The IESBA code does not include these safeguards, so the proposal is more restrictive than the international standard.

<sup>4</sup> The IESBA code does not define a *short period of time*, so the proposal goes beyond the international standard.

- e. The augmented staff performs only activities that would not be prohibited by the “Nonattest Services” subtopic (ET sec. 1.295) of the “Independence Rule” (ET sec. 1.200.001).
- f. The member is satisfied that client management designates an individual or individuals who possess suitable skill, knowledge, and/or experience, preferably within senior management, to be responsible for
  - i. determining the nature and scope of the activities to be provided by 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.

10. Accordingly, staff augmentation arrangements would generally be prohibited for an attest client except in very limited circumstances in which the client has an “unexpected situation that would create a significant hardship” to make other arrangements, the engagement does not exceed 30 days, and the engagement will not reoccur.

#### ***Application of the proposed interpretation to affiliates***

11. Some members of PEEC believe that it is appropriate to permit an exception that would *potentially* allow staff augmentation arrangements with certain affiliates of a financial statement attest client. This exception would help address the concerns that the proposal does not properly balance the actual and perceived threats and is more restrictive than international requirements. Because not all members of PEEC agreed that the exception should be included in the proposal, PEEC decided to outline the exception in the exposure draft and ask commenters to provide feedback regarding whether this exception would be an appropriate addition to the code.
12. The exception envisioned would be similar to that afforded to nonattest services in [ET sec. 1.224.010 paragraph .02b](#) and would allow a member to perform prohibited nonattest services for certain affiliates of a financial statement attest client when (1) the services provided by the augmented staff would not be subject to financial statement attest procedures and (2) any other threats to independence are at an acceptable level.
13. The exception contemplated for staff augmentation arrangements could be applied only to a financial statement attest client’s affiliates “other than downstream affiliates.”<sup>5</sup> For

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<sup>5</sup> “Other than downstream affiliates” are affiliates (c) through (l) under the affiliate definition in ET sec. 0.400.02.



“downstream affiliates,”<sup>6</sup> staff augmentation arrangements would generally be prohibited. For “other than downstream affiliates,” such as parent or brother-sister affiliates, the member would be required to evaluate the potential staff augmentation arrangement to determine if threats to independence are at an acceptable level and, if not, determine if safeguards could be applied to reduce threats to an acceptable level. It is therefore *not* a blanket exception that would allow staff augmentation services for these affiliates in all circumstances.

14. For example, in the private equity environment, it is not uncommon for a private equity fund to invest in numerous portfolio companies that are under common control by the private equity fund. Often, the portfolio companies are unrelated businesses and under separate management. In such situations, if the member is auditing a portfolio company that has a “brother-sister” portfolio company for which the member provides staff augmentation services, threats to independence of mind or in appearance are significantly reduced, because the services have no effect on the portfolio company being audited and there are no common employees or management. Before agreeing to enter into a staff augmentation arrangement with one of these affiliates, however, PEEC believes the member should apply the “Conceptual Framework for Independence” interpretation (ET sec. 1.210.010) to determine whether safeguards are necessary and, if so, apply them to reduce threats to an acceptable level.

15. If an exception were provided, the following additional sentence would be added to the proposed “Staff Augmentation Arrangements” interpretation:

Refer to paragraph .02*f* of the “[Client Affiliates](#)” interpretation [1.224.010] of the “[Independence Rule](#)” [1.200.001] for additional guidance.

16. Additionally, if an exception were provided, the following provision would be added as item (*f*) to paragraph .03 of the “Client Affiliates” interpretation:

A member or member’s firm may enter into a staff augmentation arrangement with entities described under items (*c*)–(*l*) of the definition of affiliate during the period of the professional engagement or during the period covered by the financial statements. The member should use the “[Conceptual Framework for Independence](#)” to evaluate whether any threats created by the staff augmentation arrangement are at an acceptable level. If the member concludes that threats are not at an acceptable level, the member should apply safeguards to eliminate the threats or reduce them to an acceptable level. If safeguards are not available or cannot be applied to eliminate or reduce the threats to an acceptable level, the member should not enter into the staff augmentation arrangement.

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<sup>6</sup> “Downstream affiliates” are affiliates (*a*) and (*b*) under the affiliate definition in ET sec. 0.400.02 – those entities controlled by the financial statement attest client and entities in which the financial statement attest client can exercise significant influence over the entity and such entity is material to the financial statement attest client.

### ***Application of the proposed interpretation to agreed-upon procedures engagements***

17. The application of the “Independence Rule” in the code is modified with respect to agreed-upon procedures (AUP) engagements performed under the Statements on Standards for Attestation Engagements (SSAEs). One of the modifications relates to the performance of nonattest services for the AUP client. Specifically, the member may perform prohibited nonattest services and is not required to comply with the “[General Requirements for Performing Nonattest Services](#)” interpretation (ET sec. 1.295.040), provided the nonattest services do not relate to the specific subject matter of the AUP engagement.
18. Accordingly, if the nonattest services involve the performance of management responsibilities, the services would be permitted for an AUP client, provided they do not relate to the specific subject matter of the AUP engagement. Because management responsibilities are permitted and the general requirements are not required when the nonattest services do not relate to the specific subject matter of the AUP engagement, PEEC believes it would be appropriate for the proposal to provide a similar exception for staff augmentation arrangements. To achieve this, it is proposed that a new paragraph .04 be added to the “Agreed-Upon Procedure Engagements Performed in Accordance with SSAEs” interpretation (1.297.030) that concludes that threats would be at an acceptable level and independence would not be impaired, provided the underlying services performed by the augmented staff do not relate to the specific subject matter of the AUP engagement.
19. Some members of PEEC believe this exception should also apply to staff augmentation arrangements for SSAE engagements that are not AUPs. This is because the independence rules for SSAE engagements that are not AUPs also allow the member to perform prohibited nonattest services for these clients, provided the nonattest services do not relate to the specific subject matter of the SSAE engagement. Unlike the modification for AUPs, the modification for SSAE engagements that are not AUPs continues to require the member to comply with the general requirements interpretation when providing these nonattest services. Accordingly, management responsibilities are still prohibited when providing any prohibited nonattest services to SSAE clients that are not AUP engagement clients.
20. If this exception were added to the code, a company could enter into an augmented staff arrangement with the firm that performs an SSAE engagement that is not an AUP (for example, a SOC for Cybersecurity engagement), provided the underlying services performed by the augmented staff do not relate to the specific subject matter of the SSAE engagement and the augmented staff does not perform any management responsibilities.
21. PEEC requests commenters provide feedback regarding whether an exception would be an appropriate addition to the code.

22. If an exception were provided, the following provision would be added as paragraph .04 of the “Engagements, Other Than AUPs, Performed in Accordance with SSAEs” interpretation (ET sec. 1.297.030):

When a member or member’s firm enters into a staff augmentation arrangement described in the “Staff Augmentation Arrangements” interpretation [1.275.040], threats would be at an acceptable level and independence would not be impaired, provided the underlying services performed by the augmented staff do not relate to the specific subject matter of the AUP engagement and do not involve management responsibilities.

**Effective date**

23. PEEC recommends that the proposal be effective six months after notice is published in the *Journal of Accountancy*.

**Request for comments**

24. PEEC welcomes comments on all aspects of the proposed revisions. In addition, PEEC is seeking feedback on the following specific aspects of the proposed interpretation:
- a. Should staff augmentation arrangements with attest clients be permitted under any circumstances? Why or why not?
  - b. If you believe staff augmentation arrangements should be permitted, do you agree with the proposed interpretation, including the proposed safeguards, that would allow such arrangements in very limited situations? Why or why not?
  - c. Do you believe that 30 days is an appropriate time period for the attest client to make other arrangements (see par. .02c of the interpretation)? If not, why?
  - d. Should an exception for staff augmentation arrangements with certain affiliates of a financial statement attest client, as described in paragraphs 14–19 of this explanation, be permitted?
    - i. Why or why not?
    - ii. If it should be permitted, should the proposed additions discussed in paragraphs 18–19 of this explanation be added as drafted or do you have suggested revisions?
  - e. Do you believe there should be an exemption for staff augmentation arrangements for all SSAE engagements when the services provided by the augmented staff do not relate to the specific subject matter of the SSAE engagement, or should the exemption be limited to only AUPs under the SSAEs? Why or why not?

- f. Are there specific aspects of the proposal that you believe are too permissive or too restrictive? If so, please explain.
- g. Does a six-month delayed effective date allow firms enough time to implement the necessary policies and procedures and terminate any relationships that would no longer be permitted? Why or why not?

## Text of proposed interpretation “Staff Augmentation Arrangements”

### 1.275.007 Staff Augmentation Arrangements

- .01 In this interpretation, staff augmentation arrangements involve lending *firm* personnel (augmented staff) to an *attest client* whereby the *attest client* is responsible for the direction and supervision of the activities performed by the augmented staff. Under such arrangements, the *firm* bills the *attest client* for the activities performed by the augmented staff but does not direct or supervise the actual performance of the activities.
- .02 If a *partner* or professional employee of the *member’s firm* serves as augmented staff for an *attest client*, familiarity, management participation, advocacy, or self-review *threats* to the *member’s* compliance with the “[Independence Rule](#)” [1.200.001] may exist. *Threats* would *not* be at an acceptable level and *independence* would be *impaired* unless all the following *safeguards* are met:
- a. The staff augmentation arrangement is being performed due to an unexpected situation that would create a significant hardship for the *attest client* to make other arrangements.
  - b. The augmented staff arrangement is not expected to reoccur.
  - c. The augmented staff arrangement is performed for only a short period of time. There is a rebuttable presumption that a short period of time would not exceed 30 days.
  - d. The augmented staff neither participates in, nor is in a position to influence, an *attest engagement* covering any period that includes the staff augmentation arrangement.
  - e. The augmented staff performs only activities that would not be prohibited by the “Nonattest Services” subtopic [1.295] of the “Independence Rule” [1.200.001].
  - f. The *member* is satisfied that management of the *attest client* 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 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.

.03 Refer to the “Agreed-Upon Procedure Engagements Performed in Accordance With SSAEs” interpretation [1. 297.020] of the “[Independence Rule](#)” [1.200.001] for additional guidance.

**Effective Date**

.04 This interpretation is effective six months after announcement is published in the *Journal of Accountancy*.

## Text of proposed revised interpretation “Agreed-Upon Procedures Engagements Performed in Accordance With SSAEs”

(Additions appear in ***boldface italic*** and deletions in ~~strikethrough~~.)

### ***1.297.020 Agreed-Upon Procedures Engagements Performed in Accordance With SSAEs***

- .01 For purposes of this interpretation, subject matter is as defined in the SSAEs.
- .02 When performing agreed-upon procedures (AUP) engagements in accordance with the SSAEs, the application of the “[Independence Rule](#)” [1.200.001] is modified, as described in the “[Application of the Independence Rule to Engagements Performed in Accordance With Statements on Standards for Attestation Engagements](#)” interpretation [1.297.010] of the “Independence Rule” and this interpretation.
- .03 When providing nonattest services that would otherwise *impair independence* under the *interpretations* of the “[Nonattest Services](#)” subtopic [1.295] under the “Independence Rule” [1.200.001], *threats* would be at an *acceptable level* and *independence* would not be *impaired*, provided that the nonattest services do not relate to the specific subject matter of the SSAE engagement. *Threats* would be at an *acceptable level* and *independence* would also not be *impaired* if the “[General Requirements for Performing Nonattest Services](#)” interpretation [1.295.040] of the “Independence Rule” were not applied when providing the nonattest services, provided that the nonattest services do not relate to the specific subject matter of the AUP engagement.
- .04 ***When a member or member’s firm enters into a staff augmentation arrangement described in the “Staff Augmentation Arrangements” interpretation [1.275.040], threats would be at an acceptable level and independence would not be impaired provided the underlying services performed by the augmented staff do not relate to the specific subject matter of the AUP engagement.***
- .05 In addition, when performing an AUP engagement under the SSAEs, *threats* would be at an *acceptable level* and *independence* would not be *impaired*, if the following *covered members* and their *immediate families* are independent of the responsible party(ies):
- a. Individuals participating on the AUP engagement team
  - b. Individuals who directly supervise or manage the AUP engagement *partner* or *partner equivalent*
  - c. Individuals who consult with the *attest engagement team* regarding technical or industry-related issues specific to the AUP engagement
- .06 Furthermore, *threats* to compliance with the “[Independence Rule](#)” [1.200.001] would not be at an *acceptable level* and could not be reduced to an *acceptable level* by the application

of *safeguards*, and *independence* would be *impaired*, if the *firm* had a material financial relationship with the responsible party(ies) that was covered by any of the following interpretations of the “[Independence Rule](#)”:

- a. [Paragraphs .01–.02](#) of “Overview of Financial Interests” [1.240.010]
- b. “[Trustee or Executor](#)” [1.245.010]
- c. “[Joint Closely Held Investments](#)” [1.265.020]
- d. “[Loans](#)” [1.260.010] [Prior reference: paragraph .13 of ET section 101]

***Effective Date***

.07 The addition of *partner equivalents* to paragraph **.05-04** is effective for engagements covering periods beginning on or after December 15, 2014.