



# Official release

New interpretation and related revisions

Staff Augmentation Arrangements

**AICPA Professional Ethics Division**

**Adopted February 9, 2021**

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March 10, 2021

Ethics interpretations are promulgated by the executive committee of the Professional Ethics Division to provide guidelines about the scope and application of the rules but are not intended to limit such scope or application. Publication in the *Journal of Accountancy* constitutes notice to members.

At its February 2021 meeting, the Professional Ethics Executive Committee (PEEC) adopted a new interpretation under the “Independence Rule” (ET sec. 1.200.001): “Staff Augmentation Arrangements” (ET sec. 1.275.007).

PEEC also adopted these revised independence interpretations:

- “Client Affiliates” (ET sec. 1.224.010)
- “Agreed-Upon Procedure Engagements Performed in Accordance With SSAEs” (ET sec. 1.297.020)
- “Scope and Applicability of Nonattest Services (ET sec. 1.295.010)

The new and revised interpretations will be added to the [AICPA Code of Professional Conduct](#) with the March update. Notice of the interpretations will appear in the May print version of the *Journal of Accountancy*.

The interpretation and revisions to existing interpretations will be effective November 30, 2021.

## Text of Interpretation “Staff Augmentation Arrangements”

### 1.275 Current Employment or Association With an Attest Client

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

***Effective Date***

.04 This interpretation is effective November 30, 2021.

## Text of Revised Interpretation “Client Affiliates”

(Additions appear in ***bold italic*** and deletions in ~~strikethrough~~. Defined terms appear in **bold roman**)

### 1.224 Affiliates, Including State and Local Government Affiliates

#### 1.224.010 Client Affiliates

- .01 Financial interests in, and other relationships with, *affiliates* of a *financial statement attest client* may create *threats* to a *member’s* compliance with the “Independence Rule” [1.200.001].
- .02 When a *client* is a *financial statement attest client*, *members* should apply the “[Independence Rule](#)” [1.200.001] and related interpretations applicable to the *financial statement attest client* to their *affiliates*, except in the following situations:
- a. A covered *member* may have a *loan* to or from an individual who is an officer, a director, or a 10 percent or more owner of an *affiliate* of a *financial statement attest client* during the *period of the professional engagement* unless the *covered member* knows or has reason to believe that the individual is in such a position with the *affiliate*. If the *covered member* knows or has reason to believe that the individual is an officer, a director, or a 10 percent or more owner of the *affiliate*, the *covered member* should evaluate the effect that the relationship would have on the *covered member’s independence* by applying the “[Conceptual Framework for Independence](#)” [1.210.010].
  - b. A *member* or the *member’s firm* may provide prohibited nonattest services to 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*, provided that it is reasonable to conclude that the services do not create a self-review *threat* with respect to the *financial statement attest client* because the results of the nonattest services will not be subject to *financial statement attest* procedures. For any other *threats* that are created by the provision of the nonattest services that are not at an *acceptable level* (in particular, those relating to management participation), the *member* should apply *safeguards* to eliminate or reduce the *threats* to an *acceptable level*.
  - c. A *firm* will only have to apply the “[Subsequent Employment or Association With an Attest Client](#)” interpretation [1.279.020] of the “Independence Rule” if the former employee, by virtue of his or her employment at an entity described under items (c)–(l) of the definition of *affiliate*, is in a *key position* with respect to the *financial statement attest client*. *Individuals in a position to influence the attest engagement* and on the *attest engagement team* who are considering employment with an *affiliate* of a *financial statement attest client* will still need to report consideration of employment to an appropriate person in the *firm* and

remove themselves from the *financial statement attest engagement*, even if the position with the *affiliate* is not a *key position*.

- d. A covered member's immediate family members and close relatives may be employed in a *key position* at an entity 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*, provided they are not in a *key position* with respect to the *financial statement attest client*.
  - e. A covered member who is an individual on the *attest engagement team*, an individual in a position to influence the *attest engagement*, or the *firm* may have a lease that does not meet the requirements of the "[Leases](#)" interpretation [1.260.040] under the "[Independence Rule](#)" with an entity described under items (c)–(l) of the definition of *affiliate* during the period of the professional engagement. The covered member should use the "[Conceptual Framework for Independence](#)" to evaluate whether any *threats* created by the lease are at an *acceptable level*. If the covered member concludes that *threats* are not at an *acceptable level*, the covered member should apply *safeguards* to eliminate the *threats* or reduce them to an *acceptable level*.
  - f. **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.**
- .03 A member must expend best efforts to obtain the information necessary to identify the *affiliates* of a *financial statement attest client*. If, after expending best efforts, a *member* is unable to obtain the information to determine which entities are *affiliates* of a *financial statement attest client*, *threats* would be at an *acceptable level* and *independence* would not be *impaired* if the *member* (a) discusses the matter, including the potential impact on *independence*, with *those charged with governance*; (b) documents the results of that discussion and the efforts taken to obtain the information; and (c) obtains written assurance from the *financial statement attest client* that it is unable to provide the *member* with the information necessary to identify the *affiliates* of the *financial statement attest client*.
- .04 This interpretation does not apply to a *financial statement attest client* that is covered by the "[Entities Included in State and Local Government Financial Statements](#)" interpretation [1.224.020] of the "[Independence Rule](#)" [1.200.001]. [Prior reference:

paragraph .20 of ET section 101]

***Acquisitions and Other Business Combinations That Involve a Financial Statement Attest Client***

- .05 The exception in [paragraph .06](#) would apply when (1) a *financial statement attest client* is acquired during the *period of the professional engagement* by either a nonclient or a nonattest client (acquirer), (2) the *attest engagement* covers only periods prior to the acquisition, and (3) the *member* or *member's firm* will not continue to provide *financial statement* attest services to the acquirer.
- .06 *Independence* will not be considered *impaired* with respect to the *financial statement attest client* because a *member* or *member's firm* has an interest in or relationship with the acquirer that may otherwise *impair independence* as a result of the requirements of this interpretation or the definition of "*attest client*" (as it relates to the entity or person that engages the member or member's firm to perform the *attest engagement*).
- .07 Notwithstanding [paragraph .06](#), a *member* should give consideration to the requirements of the "[Conflicts of Interest](#)" subtopic [1.110] under the "Integrity and Objectivity Rule" [1.100.001], with regard to any relationships that the *member* knows or has reason to believe exist with the acquirer, the *financial statement attest client*, or the *firm*.
- .08 A member should refer to [paragraph .03](#) of "Application of the AICPA Code" [0.200.020] for guidance on circumstances involving foreign network firms.



## Text of Revised Interpretation “Agreed-Upon Procedure Engagements Performed in Accordance With SSAEs”

(Additions appear in ***bold italic*** and deletions in ~~strikethrough~~. Defined terms appear in **bold roman**)

### 1.297 Independence Standards for Engagements Performed in Accordance With Statements on Standards for Attestation Engagements

#### 1.297.020 Agreed-Upon Procedure 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 as described in paragraph .01 of the “Staff Augmentation Arrangements” interpretation [1.275.007], threats would be at an acceptable level and independence would not be impaired provided that the services performed by the augmented staff are unrelated to the specific subject matter of the AUP engagement.***
- ~~.05~~ .04 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~~ .05 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]

## **Text of Revised Interpretation “Scope and Applicability of Nonattest Services”**

(Additions appear in ***bold italic*** and deletions in ~~strikethrough~~. Defined terms appear in **bold roman**)

### **1.295 Nonattest Services**

#### **1.295.010 Scope and Applicability of Nonattest Services [excerpt]**

[No changes to par. .01–.07]

***.08 Refer to the “Staff Augmentation Arrangements” interpretation [1.275.007] when the engagement involves 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.***