NYS SOCIETY OF CPAs
NYSSCPA

September 15, 2017

Mr. Samuel L. Burke
Chair, AICPA Professional Ethics Executive Committee
AICPA
220 Leigh Farm Road
Durham, NC 27707

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

Re: AICPA Exposure Draft, Proposed Interpretation – Long Association of Senior Personnel With an Attest Client

Dear Mr. Burke:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 26,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

The NYSSCPA's Professional Ethics Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact Elliot L. Hendler, Chair of the Professional Ethics Committee, at (212) 719-8300, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Harold L. Deiters III
President

Attachment

NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

AICPA EXPOSURE DRAFT, PROPOSED INTERPRETATION – LONG ASSOCIATION OF SENIOR PERSONNEL WITH AN ATTEST CLIENT

September 15, 2017

<u>Principal Drafters</u>

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Steven J. Leifer
Brian K. Pearson
Victoria L. Pitkin

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New York State Society of Certified Public Accountants

Comments on

AICPA Exposure Draft, Proposed Interpretation – Long Association of Senior Personnel With an Attest Client

The New York State Society of Certified Public Accountants (NYSSCPA) appreciates the opportunity to provide comments on the AICPA's Professional Ethics Executive Committee (PEEC) exposure draft: Proposed Interpretation, *Long Association of Senior Personnel with an Attest Client.*

We strongly support PEEC's efforts to provide specific guidance regarding the implementation of appropriate safeguards to reduce the threat to independence that may result from senior personnel having a long-term relationship with an attest client.

General Comments

In addition to our responses to the Request for the Specific Comments presented below, we have the following general observations on the proposed interpretation.

For purposes of this interpretation, senior personnel have been defined in Paragraph .01 as "partner, partner equivalents, and any other individuals on the attest engagement team who have responsibility for decision making on significant auditing, accounting, and reporting matters that affect the results of the attest engagement and who maintain regular contact with the attest client or those charged with governance." We believe that almost any level of staff from the in-charge accountant upwards could meet that definition. As the PEEC states in the explanatory section of the exposure draft, the intent is for this interpretation to apply primarily to partners and partner equivalents because only the partner has ultimate responsibility for the significant decisions made on an engagement.

We disagree with this position as there are a variety of decisions that are made in the field by the in-charge accountant (often a senior or manager) and others below the partner-level that can have a significant impact on the attest engagement, especially if that individual's independence is impaired due to their own long-term association with the attest client. Such decisions may include the sufficiency or appropriateness of evidence obtained, the extent of further testing required to address an issue, etc. While the partner takes ultimate responsibility for the engagement, he or she may be unaware of these commonplace decisions that could profoundly affect the outcome of the engagement. We recognize that, especially in smaller firms where the path to partner can be significantly longer than in large firms, a senior, supervisor or manager may have a long association with a client, because it may take many years to advance through the firm's ranks.

Therefore, we believe that the interpretation should be expanded to emphasize the long association with the client rather than the level of the professional who has the long association. In this respect, we are in agreement with the approach taken by the International Ethics Standards Board for Accountants (IESBA) to consider the length of the association as the risk.

Most clients view a long association with their accounting professional as an advantage, and most accounting firms actively market themselves as trusted advisors to their clients. Accordingly, we think it would be helpful for the interpretation to provide specific illustrations regarding what constitutes a long association with a client that would trigger an independence threat.

One of the proposed safeguards to the familiarity threat involves rotation off the client (Paragraph .06e). We suggest more guidance from PEEC regarding the appropriate length of the rotation period, the ability of the partner or other senior personnel to rotate back on to the engagement, etc. We believe that the only effective rotation would be permanent rotation off the client. Any familiarity threat would only be fully relieved with permanent removal from the client as the threat would be raised anew if the partner rotated back to the engagement.

Another of the proposed safeguards was to change the role of the member on the attest engagement team (Paragraph .06a). With senior personnel fairly limited to the engagement partner, we do not believe that this would be an effective safeguard to reduce the threat to an acceptable level. The only role a partner or partner equivalent could take on the team would be that of a relationship partner with no actual engagement responsibilities. Relationship partners are, generally, not considered part of the engagement team by most firms as their role is primarily intended to maintain client rapport, rather than to be actively involved in the attest engagement itself. Therefore, we offer that PEEC may want to reconsider the effectiveness of this safeguard in reducing the threat to an acceptable level.

Finally, we propose that the final interpretation include a requirement to document any identified threats resulting from a long association of senior personnel with an attest client and the safeguards implemented to reduce the identified threat to an acceptable level.

Specific Comments
We have the following responses to the exposure draft's Request for Specific Comments.

Question 1: The self-interest threat to independence exists when "…a member could benefit, financially or otherwise, from an interest in or relationship with an attest client or persons associated with the attest client" (ET sec. 1.210.010.16). Do you believe this threat may exist when a member is included in senior personnel of an attest engagement team over a long period and should therefore be included as a potential threat to independence in paragraph .02?

Response: Many public accounting firms determine partners' compensation or bonuses based, in part, on fees generated by clients for whom the partner is directly responsible. We believe, as a result, that a self-interest threat to the partner's independence could exist that might not be appropriately addressed through the conceptual framework threats and safeguards approach alone. We realize that this issue may affect senior personnel on the engagement at the partner level only. As the partner is the member of the engagement team most able to influence the conduct and outcome of the attest engagement, we believe that having a specific interpretation of the Independence Rule to address the potential self-interest threat in addition to the familiarity threat resulting from the long association with the client would best serve the public interest. Therefore, we agree with the position that the IESBA maintained when they addressed this issue, and would strongly recommend that PEEC revisit this during their re-deliberation process.

Question 2: Are there significant challenges that would require the need for a delayed effective date? If so, please identify the challenges and provide a recommendation regarding an effective date.

Response: We believe that an extended effective date would be warranted for this interpretation for the reasons discussed below. The length of the deferral should not be less than three months from the last day of the month in which the interpretation appears in the *Journal of Accountancy*. Alternatively, we believe that this interpretation might lend itself to an implementation date more consistent with what might be included in an engagement standard in that the implementation date would be pegged to the attest engagement's fiscal year (i.e., for years beginning on or after a specified date, for years ending on or after a specified date, etc.).

We believe that a delayed effective date would be appropriate for this interpretation because smaller firms and sole practitioners may need to hire someone or engage external resources to perform quality control reviews in order to establish safeguards to reduce the threats to an acceptable level. In the case of a small firm or sole practitioner, there probably is not anyone at the firm to whom a long-term client can be rotated. With respect to medium-sized firms, these firms tend to market their intimate knowledge of the client and its business, and therefore, it may be difficult for them to reverse course and convince the client that another partner, with no experience with the client would be best to assume responsibility for the engagement, even temporarily. In addition, in a market with severe fee constraints, it may be difficult to get a client to agree to increased fees necessitated by an additional layer of engagement review that an engagement quality review or an engagement quality control review would necessitate.