



September 14, 2017

Ms. Toni Lee-Andrews
Ethics Team
AICPA
220 Leigh Farm Road
Durham, NC 27707

Re: July 14, 2017 PEEC Exposure Draft (ED), *Proposed Interpretation: Long Association of Senior Personnel with an Attest Client*

Dear Ms. Lee-Andrews:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC believes that for a threat to independence to exist where there is a long association there has to be a failure of integrity and/or objectivity. Since the Principles of Professional Conduct (ET Section 0.300) already address these ethical principles, this interpretation should not be necessary.

In addition, TIC believes that there is a potential for negative unintended consequences if this interpretation is issued. Examples of those negative consequences are:

- A. The proposed interpretation puts an unfair taint on the over-whelming majority of long associations by members with attest clients that represent no risk to independence because the member conducts themselves and the engagement with integrity, objectivity, and professionalism.
- B. Although TIC strongly agrees that a partner rotation requirement is not appropriate, the inclusion of rotation in the interpretation could unintentionally create a "best practice" to address a perceived risk created by the interpretation when an actual risk does not exist. This could result in clients believing rotation is required, or is a best practice. We believe this perceived risk may negatively affect small practitioners who may not have

other partners in their firm with whom to rotate engagements while a larger firm with multiple partners could do so more easily.

- C. Likewise, the inclusion of an Engagement Quality Control Review (EQCR) in the interpretation as a possible safeguard could result in a best practice when a familiarity threat does not exist and the nature and complexity of the engagement does not warrant an EQCR.
- D. The interpretation could lead to additional documentation requirements surrounding the length of the association with the client which would not add to the quality of the engagement.

If PEEC decides that this specific issue related to long standing senior personnel needs to be addressed in the standards, it simply should be added as an additional consideration under the existing ethics sections on integrity and objectivity as not to introduce any additional unintended documentation requirements.

As an example that these concerns are real, TIC noted that in January 2017, a new item was added to the peer review checklist that appears to relate to this same item addressed in the ED. Question 19 on Form 4650 of the Peer Review Checklist indicates the following:

Select a sample of engagements for which the firm has had a long relationship with the client. If the same senior personnel were used on an engagement, confirm that appropriate action was taken to address the familiarity threat. Appropriate actions include rotating partners, rotating senior staff, conducting an EQCR, or withdrawing from the engagement.

This question on the checklist references QC sec. 10.24, which indicates the following:

The firm should establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements and to enable it to take appropriate actions to resolve such situations. The policies and procedures should include requirements for

- a. personnel to promptly notify the firm of independence breaches of which they become aware;
- b. the firm to promptly communicate identified breaches of these policies and procedures to
 - i. the engagement partner who, with the firm, needs to address the breach and
 - ii. other relevant personnel in the firm and, when appropriate, the network and those subject to the independence requirements who need to take appropriate action; and
- c. prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph (b)(ii) of the actions taken to

resolve the matter so that the firm can determine whether it should take further action.

TIC's concern is that this item was added to the Peer Review Checklist without a proper reference to a standard that even mentions client relationships with long standing senior personnel. This could have unintended consequences, similar to the misinterpretation of disclosure of open audit years related to uncertain tax positions that was recently rescinded in a Technical Practice Aid Question and Answer as well as on the Peer Review Checklist. TIC will contact the Peer Review Board and urge them to look at this question and consider removal as it does not appear it can be linked to a specific requirement in the current QC or ET standards.

In addition, TIC believes that PEEC should consider that significant additional costs likely will be incurred as a result of this proposed interpretation and seriously reconsider whether this interpretation is necessary. Further, TIC believes that paragraph 12d of Section 1.000.010 of the Code of Conduct already adequately addresses this issue.

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?*

TIC understands that, since members are generally paid for their services, some may believe that a self-interest threat could exist. However, this threat would be present regardless of whether a member is included in senior personnel of an attest engagement team over a long period. TIC also believes that the Code of Professional Conduct already addresses this threat by requiring members to conduct themselves with integrity and objectivity. TIC does have some serious concerns about the unintended consequences of creating a new interpretation as noted earlier in this letter as well as in our response to question 2 below. TIC believes that if guidance needs to be added to address this specific circumstance, it should be added to the existing considerations related to integrity and objectivity already in the ethics standards rather than creating a new interpretation.

The proposed interpretation uses the term 'long period of time,' but doesn't address what this is. This term may have significantly different interpretations between members. Is this a threat after a year, 5 years, or some longer period of time?

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.*

As noted earlier, TIC believes that this ED could impose additional performance and documentation requirements and have unintended consequences, particularly on smaller firms and clients. Therefore, we do not believe this ED should be issued as drafted. If this ED does pass as drafted, TIC believes that it should have a delayed effective date as it will take time for firms to update their internal policies and procedures and understand the consequences of this interpretation, which would most likely impose additional documentation requirements.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive, slightly slanted style.

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees