

February 28, 2020

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

Re: PEEC Strategy and Work Plan: Consultation Paper

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 appreciates PEEC soliciting feedback from constituents regarding planned and proposed projects. Most often, TIC believes issuing targeted Q&As as issues arise is preferable to issuing authoritative guidance in the standards or related interpretations. TIC also has some ideas related to member enrichment projects that could benefit smaller firms as outlined in the last section of this letter.

Over the years, virtually every service performed by CPA firms has evolved to use technology in some way. As the approach firms use to provide services continues to evolve, the underlying independence standards and related interpretations continue to be applied to those services. The way the member performs the service generally is not as significant to the issue of independence as the nature of the service itself. For example, if a member provided permitted payroll services, it generally should not matter whether those services are performed manually or using a software product, the same independence rules and safeguards apply.

Now that firms are using more sophisticated technologies, TIC would encourage PEEC to view the new technologies within the existing conceptual framework and standards. The focus should generally be on what services are delivered, not how they are delivered.

For example, did the implementation of new technology only change how the service was performed, or did it result in management decisions being made by the firm (or by the firm's software) where, previously, decisions were made by management? In the latter case, it would be the addition of a new aspect to the services delivered that creates an independence issue, not the change to new technologies.

TIC recognizes that creating independence rules when complex technology is involved results in complex independence rules, which are hard to understand and apply, especially for smaller firms. However, by recognizing that technology is a means to provide services, TIC believes that focusing the independence rules on the services provided will make them easier to understand, apply, and comply with for CPA firms.

TIC believes it is critical that PEEC consider smaller firm issues in all aspects related to the issuance of, and subsequent adoption and implementation of, the ethics standards. To put this into perspective, as of November 30, 2019, only 8 percent of the total registered PCPS firms have more than 21 CPAs on staff (out of a total population of 6,416 registered firms), and 84 percent of PCPS firms have 10 or less CPAs on staff. Most of these firms do not have the same resources as larger firms related to technology, tools, and resources to adopt these increasingly complex standards. In addition, most often, these firms do not have the resources to respond to requests to comment from the standards-setters. Therefore, we believe that TIC input is critical related to understanding the views and challenges of smaller firms. The following are areas of the strategy and work plan where TIC would like to provide feedback.

Business Relationships

Regulation S-X 201 (17 § CFR 201.2-01) defines a business relationship as follows:

“Business relationships. An accountant is not independent if, at any point during the audit and professional engagement period, the accounting firm or any covered person in the firm has any direct or material indirect business relationship with an audit client, or with persons associated with the audit client in a decision-making capacity, such as an audit client's officers, directors, or substantial stockholders. The relationships described in this paragraph do not include a relationship in which the accounting firm or covered person in the firm provides professional services to an audit client or is a consumer in the ordinary course of business. “

TIC prefers how the SEC specifically carves out relationships in which a firm or covered person is a consumer in the ordinary course of business and would prefer if the Code of Professional Conduct used similar terminology.

Definition of “Office”

TIC would not suggest making any changes to the Code of Professional Conduct on this issue.

However, TIC is curious whether a flowchart or some Q&As could be developed to address telecommuter or virtual employee arrangements to assist firms in understanding how these should be considered.

Client Affiliates

TIC believes that the recently issued Interpretation related to state and local government affiliates has caused some confusion in practice, specifically regarding common control entities and how they fit into the definition of an affiliate. Because hosting is now specifically noted as a prohibited nonattest service, hosting services provided to certain affiliates are prohibited.

Identifying all of the affiliates of private entities that have complex organizational structures can be very challenging. TIC would recommend providing examples of how more complicated organizational structures would impact application of the hosting interpretation and independence. TIC recommends providing templates similar to those proposed for the recent SLG Affiliates Interpretation as TIC has found those to be helpful in adopting the Interpretation. In addition, TIC supports clarification of owners that are individuals rather than entities are not affiliates as that was a common question received during implementation of the hosting standard.

TIC also would suggest PEEC consider linking to the FASB guidance on common control since they already have developed some extensive guidance on what to consider when determining whether entities are under common control since any member well versed in U.S. GAAP already is familiar with that guidance.

Artificial Intelligence

TIC believes that use of this technology is constantly evolving and, therefore, PEEC should not address in the Code of Professional Conduct but, rather, consider issuing targeted Q&As or other non-authoritative guidance as specific issues arise.

Simultaneous Employment or Association with an Attest Client

TIC believes that PEEC should consider providing exceptions to this rule as it relates to professors, military personnel (including the Army reserves as a more common example) and others using a principles-based approach.

Digital Assets/Cryptocurrency

This is another area where practice is evolving, and trading of these currencies is growing. However, at this time, TIC does not see a need to address any specific practice issues related to cryptocurrency. TIC could foresee situations where members are paid by their clients in cryptocurrency so, perhaps, some Q&As could be issued to address specific situations as they arise. The AICPA has an existing task force that has been addressing accounting and audit issues related to digital assets and perhaps PEEC can leverage some of those resources if they would like to embark on a similar project related to ethics implications.

TIC does believe that firm's use of Blockchain could pose issues with regard to the hosting Interpretation. Some firms are starting to incorporate the use of Blockchain when performing services for their clients as a more secure way of storing and accessing information. TIC believes that these situations could result in a violation of independence under either the Hosting or IT Services Interpretations and, perhaps, PEEC should consider revisiting that guidance in light of this issue.

529 College Savings Plans

TIC believes tying any guidance related to college savings plans back to the existing mutual fund guidance already in the Code of Professional Conduct would be a good approach.

Reporting of an Independence Breach to an Affiliate that is also an Attest Client

TIC believes that the existing guidance on how to handle these transactions is already clear in the existing guidance and there is no need to issue any new guidance unless there are specific scenarios that PEEC decides to address in targeted Q&As.

De Minimis Fees

TIC believes the existing guidance is adequate and, unless there are specific issues coming up in practice, TIC does not believe that additional guidance needs to be developed in this area. In addition, if PEEC attempts to further refine this guidance, it could get into tricky definition of what defines de minimis and as a result make the guidance more complex than it is today.

Staff Augmentation

From the last PEEC meeting, it is TIC's understanding that the planned approach with regard to staff augmentation has changed, whereby this could become a prohibited service, regardless of the duration or type of engagement. TIC believes that, if PEEC follows an approach whereby there are no exceptions to staff augmentation, this could negatively impact smaller firms that, on occasion, provide these services to their clients in special (or "emergency") situations.

TIC preferred the original direction of the project in that there could be situations where providing these services would not result in an independence violation. That included engagements that were very short in duration or where the client lost a resource very suddenly and quickly needed someone to step in and assist. While we acknowledge that these situations may not often occur at larger firms dealing with clients that have adequate accounting departments, the smaller firms work quite often with companies that may only have a few staff people in those roles and, therefore, losing even one staff person due to something like a sudden illness presents a real challenge.

TIC would ask PEEC to strongly consider the views of smaller firms on this issue and, if major changes are made from the original proposal, that this guidance be re-exposed for public comment to ensure there are no unintended consequences.

IESBA Projects

TIC members were recently asked to fill out a survey related to the recent proposal titled “Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers.” TIC appreciates the opportunity to provide feedback, especially as it relates to the smaller firm perspective. Since TIC does not respond directly to IESBA proposals, we would ask that feedback from TIC be solicited in a more informal manner, such as the recent survey that was sent related to this proposal related to quality reviewers.

TIC would also be happy to have a member serve on PEEC Task Forces, similar to how we work with the Auditing Standards Board (ASB). This ensures that TIC views are heard and understood early on, many times when a project is still being contemplated by IESBA.

Additional Proposed New Member Enrichment Projects

As it relates to improving navigation and access to the Ethics Codification (the Code), TIC believes that better linkages between Q&As and practice aids to the interpretations and standards would be helpful. A recent good example is it took TIC members quite a bit of time to find some old Q&As that were referenced related to a new project. Most practitioners can use all the help they can get when navigating the Code because, typically, smaller firm members are not looking in the Code everyday like many of the PEEC members or Ethics staff. Perhaps even providing an online tutorial walking members through how to find certain guidance online would be helpful.

PEEC should consider including links to Journal of Accountancy articles, podcasts, or ethical issues when they apply to specific areas. Practical, everyday information to assist and conserve the time of CPA’s in locating articles or Q&A’s would be very well received in the smaller firm arena.

When narrow scope issues arise (for example, specific questions that come through the ethics hotline), TIC believes issuing Q&As rather than issuing an interpretation is a more efficient approach. Hosting is a prime example of how issuing an overall interpretation creates confusion and then results in the issuance of Q&As to address very targeted and specific questions that come from the language used in the interpretations.

TIC also notes that there seems to be more of a root issue with some members not understanding some of “the basics” on independence and being able to apply the conceptual framework appropriately. This has recently arisen with regard to bookkeeping services and tax records and “making the client whole” as it relates to the hosting interpretation. Perhaps the ethics team can focus on doing more to get the word out by means of podcasts like the new ethically speaking podcast, sessions at various conferences, and by using the Center for Plain English Accounting (CPEA) as a means of distributing information to the members.

TIC believes that the PEEC project being undertaken with regard to the state and local government interpretation and developing tools to help work through the issues is a good example of this in action. TIC would suggest using this same model for future projects.

Perhaps PEEC could consider working with PCPS on member surveys related to their understanding and application of the Code of Professional Conduct to further the development of additional tools and guidance in areas where there is confusion and diversity in practice.

The topics that are addressed on the ethics Hotline are great topics for PEEC to follow and try to address in some manner. However, there are a large group of practitioners that do not even realize that there is an ethical dilemma based on the conceptual framework, because there has not been a “grassroots effort” to reach the CPAs in the small towns across America that make up most of the AICPA membership. Perhaps PEEC should explore new ways of communicating with members to ensure that as many members as possible are receiving pertinent information as it relates to appropriately implementing the Code of Professional Conduct.

TIC would like to see more smaller firm representation on PEEC. Over the past year, we have seen that PEEC’s primary voice is the larger firms, lawyers, and NASBA representatives and not many smaller firm representatives. From TIC’s perspective, it would be positive to see some more TIC member-sized firms on PEEC.

Similar to a recent comment letter that TIC submitted to the Auditing Standards Board (ASB) related to their proposed strategy and work plan, TIC believes that PEEC should exercise caution when converging with international standards under IESBA. TIC believes that even more so than convergence of auditing standards, ethics is something where litigation and the environment in the U.S. would create issues they do not have in other jurisdictions. The recent NOCLAR project is a good example of how certain standards would not work well in the United States. TIC also believes there are times where PEEC should take the lead on projects rather than waiting for IESBA to add a project to their agenda. The use of new and emerging technologies and the impact on independence is one area where TIC believes that PEEC should take the lead and begin outreach sooner rather than later.

With increased traffic to the Ethics Hotline, PEEC very closely should monitor the ethics hotline usage and ensure there is adequate staff coverage to answer questions in a timely manner as the volume of inquiries grows.

As PEEC continues to develop new guidance, the volume of inquiries likely will increase. The ethics hotline is written in many of the quality control documents of firms as the primary source of consultation on independence and ethics issues. The ethics hotline is how many smaller firms satisfy the answers they need within their practices to ensure they are in compliance with the Code of Professional Conduct for peer review purposes. Therefore, responses to these inquiries is integral to a firm’s system of quality control.

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, appearing to read 'Danielle Supkis-Cheek', with a long, sweeping flourish extending to the right.

Danielle Supkis-Cheek, Chair
On Behalf of the PCPS Technical Issues Committee