



Tel: 732-750-0900
Fax: 732-750-1222
www.bdo.com

90 Woodbridge Center Dr., 4th Floor
Woodbridge, NJ 07095

December 1, 2020

Via e-mail: ethics-exposedraft@aicpa-cima.com

Professional Ethics Executive Committee
Professional Ethics Division
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707

Re: Staff Augmentation Arrangements

Dear Professional Ethics Division and Members of the Professional Ethics Executive Committee:

BDO USA, LLP, appreciates the opportunity to provide comments on the American Institute of Certified Public Accountants (“AICPA”) Professional Ethics Executive Committee’s (“PEEC”) Proposed Interpretation to the Code of Professional Conduct (the “Code”), *Staff Augmentation Arrangements* (proposed interpretation). Our comments on the proposed interpretation follow.

We support the PEEC’s endeavor in setting high-quality and robust independence and ethics standards for the accounting profession in the United States. Overall, BDO believes the originally proposed interpretation (released in the December 7, 2018 exposure draft) addressed staff augmentation arrangements more appropriately. We believe the revised proposal is too proscriptive. Specifically, we believe the various scenarios that may give rise to a client’s need for staff augmentation can involve a broad range of circumstances and in some cases, it is in the client’s interest as well as the public interest for staff augmentation arrangements to be permitted. We believe the current proposal is attempting to address all possible scenarios through a proscriptive and inappropriately restrictive approach that does not allow for consideration of actual or perceived threats to independence. Please see responses to your specific comments below.

Request for Specific Comments

- a. **Should staff augmentation with attest clients be permitted under any circumstances? Why or why not?**

Yes. We believe that staff augmentation should be permitted when threats to the firm’s independence, in fact and appearance, are at an acceptable level. As such, threats to independence, specifically, the management participation and self-review threats must be evaluated prior to entering into any staff augmentation arrangement to determine if threats are at an acceptable level or can be reduced to an acceptable level through the application of safeguards. Further, the firm should ensure that the appearance of independence is maintained in the view of a reasonable and informed third party. Only under these circumstances do we believe that staff augmentation should be permitted.



- 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?**

No. We do not agree with the proposed interpretation that would allow staff augmentation in very limited situations. We believe that staff augmentation arrangements should be permitted so long as the threats to independence can be maintained at an acceptable level. We believe this can be accomplished by providing guidance that is threats and safeguards based. There are a plethora of different factors giving rise to a client's need for staff augmentation arrangements. As such there are a broad range of factors to consider when determining if such services may be provided while safeguarding independence. This makes it impossible to draft a definitive set of requirements to address every possible situation. We further believe there are various scenarios where staff augmentation arrangements benefit the client and its stakeholders and allow independence to be maintained. With proper safeguards, members can assist a client that needs temporary, yet critical, assistance that is crucial to business continuance (see our example in c. below). Through the firm's knowledge of the client, such necessary assistance may be administered effectively and efficiently which would be beneficial to all stakeholders and safeguards can be applied to reduce threats to independence to an acceptable level.

In all circumstances, we agree that the safeguards proposed in paragraph .02d. - f. should be required and while we believe that the augmented staff arrangement should only exist for a short period of time, we disagree that such period of time should (be presumed to) not exceed 30 days as set forth in proposed paragraph .02c. In addition, we do not support the proposed safeguards in paragraph .02a. - b. as we believe they would better serve as factors to be considered in evaluating whether the staff augmentation arrangement would result in significant threats.

- c. Do you believe 30 days is an appropriate time period for the attest client to make other arrangements (see par. .02 of the interpretation)? If not, why?**

No. We do not believe 30 days is an appropriate time period for the attest client to make other arrangements. Specifically, we do not believe the guidance should define a set number of days for an attest client to make other arrangements considering the significant number and various types of factors that could influence the "unexpected situation" and the client's need for staff augmentation services. To determine an appropriate "short period of time," the member should be permitted to consider the specific circumstances of the client and the client's ability to properly "make other arrangements" to remedy the situation that required the staff augmentation without causing the client undue hardship. For example, consider the current situation with the COVID-19 pandemic. There are many businesses, particularly in certain industries or markets, having difficulty maintaining the necessary staffing levels to keep their businesses running. This is a situation best rectified by staff augmentation services as the client's need for assistance is short term and temporary but may require more than a 30-day period. In this situation, the ability to bring in individuals who already have knowledge of the client's business and industry would save invaluable time and expense.



We do believe, however, that an augmented staff arrangement should only exist for a short period of time so as not to present an appearance of a prohibited employment relationship. As such, we believe that the guidance should include a requirement that the staff augmentation arrangement not result in the appearance of a prohibited employment arrangement in the views of a reasonable and informed third party with knowledge of the facts and circumstances giving rise to the staff augmentation arrangement. Further, the guidance could provide a list of factors that must be considered in order to ensure independence in appearance. The duration of the engagement would be one such factor to consider in determining whether the staff augmentation arrangement would appear to be prohibited employment with the attest client. We also believe it would be helpful to issue FAQs that provide guidance on how a member should evaluate the “duration of the staff augmentation arrangement” with one example that could result in the appearance of employment and another that would not.

However, if the PEEC wishes to set a definitive time period, we believe a minimum of 60 days would be more appropriate since the proposed 30 days would likely not be an adequate amount of time if the client’s search for permanent personnel proves to be difficult.

- d. Should an exception for staff augmentation arrangements with 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 ad drafted or do you have suggested revisions?**

Yes, we believe there should be an exception for staff augmentation arrangements with certain affiliates of a financial statement attest client, as described in paragraphs 11 - 16 of the explanation section. We further believe it would be appropriate for the exception to be consistent with that provided for non-attest services in the Code. Specifically, in cases where any prohibited services provided under the staff augmentation arrangement are not subject to the firm’s audit and so long as any other threats are at an acceptable level, independence in fact and in appearance would not be compromised.

As noted in the explanation section, in the private equity environment, often a fund controls many portfolio companies that are not related in any other way except for the common ownership. Thus, the threats to independence when providing non-attest services through a staff augmentation arrangement to a sister portfolio company of an audit client are inherently low as they have no impact on the audit client. Threats to the appearance of independence are also insignificant since the portfolio companies typically each have their own management and employees.

As such, we believe that staff augmentation arrangements should be permissible for all affiliates other than downstream affiliates. However, we believe staff augmentation arrangements should be permissible to said affiliates only after the member applies the



“Conceptual Framework for Independence” (ET sec. 1.210.010) in order to ensure that any threats to independence are at an acceptable level. We also agree with the proposed additional language in paragraphs 15 and 16 of the exposure draft.

- e. **Do you believe there should be an exemption for staff augmentation 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?**

Yes. We believe there should be an exemption for staff augmentation for all SSAE engagements when the services that would otherwise impair independence (emphasis added) provided by the augmented staff do not relate to the specific subject matter of the SSAE engagement. We believe that this would be consistent in theory, reasoning and in application of the current rules for the performance of non-attest services to AUP engagement clients and all other SSAEs clients.

We note, however, that the proposed language in paragraph 22 of the exposure draft would only permit staff augmentation arrangements when the “underlying services performed by the augmented staff do not relate to the specific subject matter” of the engagement even if such services are permissible under the “Non-attest Services” subtopic (1.295). In order to be consistent with the treatment afforded non-attest services under subtopic 1.297, “Independence Standards for Engagements Performed in Accordance With Statements on Standards for Attestation Engagements,” we believe the guidance should refer to “non-attest services that would otherwise impair independence under the interpretations of the “Non-attest services” subtopic.” In other words, if the underlying non-attest services would not impair independence, performing the services under a staff augmentation arrangement for a SSAE client should be permissible as threats to independence would be at an acceptable level even if they relate to the subject matter of the engagement. This treatment would be consistent with the non-attest services provisions under 1.297.020.03 and 1.297.030.03. If the Committee believes it would be appropriate, the guidance could also require that the Conceptual Framework be applied in situations where any permissible services relate to the subject matter of the engagement.

We therefore recommend the Committee consider the following revisions (in red) to the proposed language in paragraph 22 for inclusion in the relevant sections of subtopic 1.297:

*When a member or member’s firm enters into a staff augmentation arrangement described in the “Staff Augmentation Arrangements” interpretation [1.275.040], **to perform services that would otherwise impair independence under the interpretations of the “Non-attest Services” subtopic [1.295]**, 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 **or other SSAE** engagement and do not involve management responsibilities.*

When a member or member’s firm enters into a staff augmentation arrangement where the underlying services performed by the augmented staff would not impair independence under the interpretations of the “Non-attest Services” subtopic [1.295],



but the services relate to the specific subject matter of the AUP or other SSAE engagement, the member should use the “Conceptual Framework for Independence” to evaluate whether any threats created 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.

- f. Are there specific aspects of the proposal that you believe are too permissive or too restrictive? If so, please explain.**

We believe that, overall, the proposal is too proscriptive. Considering the significant number of circumstances that could arise where a client is in need of augmented staff, the guidance does not allow the firm to consider the specific facts and circumstance to determine if safeguards could be applied to reduce any significant threats to an acceptable level. As noted above, we believe it is difficult to place a specific time restriction on an augmented staff arrangement before the appearance of independence is tainted and believe that a 30-day limit could result in a significant hardship to the client and even potentially harm the public. As such, we believe the guidance should be threats and safeguards based (with certain mandated safeguards), as this would allow members to assess the situation and determine if threats to independence are too significant or if safeguards can be put in place to reduce threats to an acceptable level and protect the public interest.

- 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?**

Yes. We believe a six-month delayed effective date will allow firms enough time to implement the necessary policies and procedures and terminate any relationships that would no longer be permitted.

We would be pleased to discuss our letter with you. If you have questions or would like to address a topic within our comments, please contact, Ms. Lisa A. Snyder, CPA, National Assurance Managing Partner - Independence at 732.734.3052 or lsnyder@bdo.com or Mr. Jason Evans, CPA, National Assurance Director - Independence at 919.278.1953 or jmevans@bdo.com.

Respectfully,

/s/ BDO USA, LLP

BDO USA, LLP

cc: Christopher Tower, National Assurance MP
Audit Quality and Professional Practice