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Professional Ethics Executive Committee  
American Institute of Certified Public Accountants (AICPA)  
220 Leith Farm Road  
Durham, NC 27707

By email to: [Ethics-ExposureDraft@aicpa.org](mailto:Ethics-ExposureDraft@aicpa.org)

**Re: Comments on Exposure Draft, Proposed Interpretation, “Staff Augmentation Arrangements,” AICPA Professional Ethics Division, September 8, 2020**

Dear Committee Members:

CliftonLarsonAllen LLP (CLA) appreciates the opportunity to comment on the September 8, 2020, AICPA Professional Ethics Executive Committee (PEEC) Exposure Draft (ED), which proposes Ethics Interpretation (ET), *Staff Augmentation Arrangements* (ET sec. 1.275.007). We recognize that the ED’s purpose is to significantly revise the AICPA’s proposal regarding a new interpretation for adoption by the PEEC.

In our view, as stated in our original comment letter dated March 4, 2019, staff augmentation services are already covered under ET sec. 1.295, “Nonattest Services” and ET sec. 1.210, “Conceptual Framework Approach.” If the PEEC proceeds with issuance of this proposed interpretation, CLA believes the ED would benefit from the PEEC adding guidance clarifying the difference between the type of engagement structure that would constitute a staff augmentation arrangement and the type of engagement structure that would be a typical nonattest service. (See our response to Request for Comment *b* below.) Without adding this clarity, we believe there would be confusion in the application of this proposed interpretation.

**General Comments**

As an alternative to the issuance of this proposed interpretation, CLA continues to recommend that the PEEC consider adding the example threats and safeguards noted in the original proposal to the existing AICPA [Frequently Asked Questions: Nonattest Services](#) document to assist members in evaluating the threat of the appearance of simultaneous employment with the attest client.

If the PEEC proceeds with issuance of this proposed interpretation, CLA recommends that the PEEC clarify the terms listed in our response to Request for Comment *b* below. In our specific comments below, we assumed that a staff augmentation arrangement is an arrangement where there is no level of member supervision of the nonattest service being performed.

Also, because members will likely review the ET sec. 1.295, “Nonattest Services” subtopic when the client is requesting assistance, we recommend adding language cross-referencing from ET sec. 1.295.040.01c, “General Requirements for Performing Nonattest Services,” to the “Staff Augmentation Arrangements” interpretation as noted in bold below:

- c. Before performing nonattest services the member establishes and documents in writing his or her understanding with the *attest client* (board of directors, audit committee, or management, as appropriate in the circumstances) regarding
- i. objectives of the engagement,
  - ii. services to be performed,
  - iii. *attest client's* acceptance of its responsibilities,
  - iv. member's responsibilities, and
  - v. any limitations of the engagement.

**If the engagement will involve no direction or supervision by the member firm, then the engagement is a staff augmentation arrangement rather than a nonattest service and should comply with the "Staff Augmentation Arrangements" interpretation [ET 1.275.007] of the "Independence Rule" [1.200.001].**

#### **Request for Specific Comments**

If the PEEC proceeds with the proposed interpretation, we offer the following responses to the request for specific comments requested in the ED:

##### **Request for Comment a**

Should staff augmentation arrangements with attest clients be permitted under any circumstances? Why or why not?

**Response:** CLA believes that staff augmentation arrangements should be permitted with safeguards. Such arrangements allow clients to receive timely and seamless temporary assistance from firms who already understand their businesses.

##### **Request for Comment 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?

**Response:** CLA believes that the code as currently written already addresses staff augmentation arrangements in ET 1.295, "Nonattest Services." We believe the proposed interpretation and proposed safeguards create ambiguity:

- The meaning of "unexpected situation" is unclear and can be subjective without a definition or examples.

- “Significant hardship” may also be subjective without examples.
- The phrase “not expected to reoccur” needs clarity regarding the time frame to which this evaluation applies (i.e., period of financial statements, period of engagement, application for continuing clients, etc.)
- The meaning of “direction and supervision” can be misconstrued. All members are required to comply with the “Planning and Supervision” requirement of the “General Standards Rule” (ET 1.300.001), which requires that members adequately plan and supervise the performance of professional services. Therefore, we assume that the *intent* of the discussion of staff augmentation arrangements in the proposed interpretation is different in that the discussion is intended to scope in engagements where the member provides little to no direction and/or supervision (i.e., direction and supervision by the member firm ends when the member’s staff begins performing the service for the client). Without clarification, it is unclear how staff augmentation arrangements differ from permitted nonattest services, especially when both services require client oversight (per the “General Requirements for Performing Nonattest Services” interpretation [ET 1.295.040]). We recommend that the PEEC provide examples of staff augmentation arrangements versus nonattest services and clarify the difference between the client oversight required by ET 1.295.040 and the direction and supervision described by the ED.
  - By way of example, a client is behind in reconciling their bank accounts. If a firm is requested to prepare these bank reconciliations consistent with the provisions of ET 1.295.120.02i, “Bookkeeping, Payroll, and Other Disbursements,” would this be allowed or would it now be considered a staff augmentation arrangement? What steps would members need to take for these to remain allowable nonattest services? How much member supervision of the activities being performed by the staff is required for it to remain an allowable nonattest service?

**Request for Comment c**

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

**Response:** If the client is tasked with directing, supervising, and evaluating the work of a member’s staff and simultaneously attempting to hire its own staff, 30 days seems somewhat unreasonable. Use of the Conceptual Framework, as CLA recommended, would allow members to determine what time period is reasonable based upon the specific hardship. In addition, similar to our response in Request for Comment b, “not exceed 30 days” needs clarity regarding the time frame to which this evaluation applies (i.e., period of financial statements, period of engagement, application for continuing clients, etc.) As drafted, one could conclude that performing the long-standing permissible nonattest service of providing a client with financial preparation assistance (i.e., bank reconciliations) a few days a month under the direction of the client would be prohibited.

**Request for Comment d**

Should an exception for staff augmentation arrangement with certain 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 as drafted or do you have suggested revisions?

**Response:** CLA agrees that there should be an exception for staff augmentation arrangements with certain affiliates of a financial statement client as described in paragraphs 15-16 of the ED explanation. This exception would reflect that the significance of threats to independence (through a staff augmentation service) is slightly lower when performing the service for certain client affiliates (consistent with the nonattest services exception in the “Client Affiliates” interpretation [ET sec. 1.224.010]). The wording proposed in paragraphs 15-16 of the explanation may be added as drafted.

**Request for Comment e**

Do you believe there should be an exemption for staff augmentation arrangements 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?

**Response:** CLA believes there should be exemptions for staff augmentation arrangements for all SSAE engagements, similar to the treatment of nonattest services for AUP engagements in the code. The exemptions should be as described in paragraphs 18 and 22 of the ED explanation.

**Request for Comment f**

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

**Response:** CLA believes the interpretation should not be more restrictive than the standards of the International Ethics Standards Board for Accountants (IESBA). As such, we believe that some aspects of the proposal are too restrictive:

- Regarding the expectation that the augmented staff arrangement not reoccur, for clients where firms already assist on an annual basis, asking those clients to employ another firm for temporary, yet recurring services (e.g., year-end audit preparation assistance) leads to a significant increase in client cost and decreased efficiency.
- Regarding the 30-day limitation, please refer to our comment on Request for Comment c.

**Request for Comment 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?

**Response:** CLA believes that a six-month delayed effective date allows firms sufficient time to comply with the proposed interpretation. Six months is a sufficient amount of time for a client to either hire the staff it requires or engage a different firm to perform whichever service the member will cease performing.

\* \* \*

CLA appreciates the opportunity to review and offer our comments on the proposed interpretation. We would be pleased to discuss any questions that you or your staff may have regarding our comments.

Respectfully submitted,

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**