



RSM US LLP

December 8, 2020

Professional Ethics Executive Committee
Professional Ethics Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas, 19th Floor
New York, NY 10036

Via email to Ethics-ExposureDraft@aicpa.org

Re: Exposure Draft, *Proposed Interpretation: Staff Augmentation Arrangements*, AICPA Professional Ethics Division – September 8, 2020

RSM US LLP (RSM) appreciates the opportunity to comment on the American Institute of Certified Public Accountants (AICPA) Professional Ethics Executive Committee's (PEEC) September 8, 2020 Exposure Draft (the Exposure Draft), *Staff Augmentation Arrangements*. RSM is a leading provider of audit, tax and consulting services focused on the middle market. We have 13,000 people in 86 offices in the United States and Canada.

Auditor independence is often referred to as the cornerstone of our profession because it is the foundation for the public's trust in assurance services. It is what sets the audit profession apart from other professions. High-quality independent audits and other attest services performed by our profession are critical to our clients' ability to obtain the equity capital and debt financing necessary to fund their operations. We generally believe the proposed interpretation would strengthen the AICPA Code of Professional Conduct by limiting the circumstances under which staff augmentation services could be provided to attest clients.

In this letter, RSM offers comments on matters related to the Exposure Draft that we believe should be addressed, including those for which feedback was specifically requested in the Exposure Draft.

Proposed Interpretation 1.275.007, "Staff Augmentation Arrangements"

RSM believes the "Staff Augmentation Arrangements" interpretation would be better positioned within subtopic 1.295, "Nonattest Services," of the Code of Professional Conduct. However, we do not object to positioning the interpretation in subtopic 1.275, "Current Employment or Association With an Attest Client," as long as the exceptions provided for nonattest services in sections 1.224.010, 1.297.020 and 1.297.030 also apply to this interpretation. We believe the interpretation would be better positioned in subtopic 1.295 because, in the circumstances where the exceptions would apply, we believe safeguards generally could be applied to reduce the threats to independence to an acceptable level. In addition, we believe most practitioners would first look in subtopic 1.295 for guidance on staff augmentation arrangements, and the proposed and potential exceptions are consistent with those provided for nonattest services.

RSM generally supports PEEC's proposal to allow staff augmentation arrangements with attest clients in certain situations for a short period of time. However, we believe the description of *staff augmentation arrangements* set forth in paragraph .01 of the interpretation should be added to the definitions in

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subtopic 0.400 of the Code of Professional Conduct. We also suggest the definition be revised to read as follows (proposed additions are shown in **bold italic text**, and deletions are struck through):

Staff augmentation arrangements involve lending *firm* personnel (augmented staff) to an *attest client* whereby the *attest client* is responsible for the direction and supervision of the activities performed by the augmented staff. Under such arrangements, the *firm* bills the *attest client* for the activities performed by the augmented staff but does not direct, ~~or supervise~~ **or otherwise assume responsibility for** the ~~actual~~ performance of the activities.

We have the following suggestion with respect to paragraph .02 of the proposed interpretation:

1. If PEEC determines to allow exceptions for all types of engagements performed in accordance with the Statements on Standards for Attest Engagements, we suggest replacing “*attest client*” with “*financial statement attest client*.”
2. As proposed, only individuals in *Covered Members* categories a. and b. are restricted from providing augmented staff services to attest clients [1.275.007.02(d)]. We believe Covered Members in categories d. and e. also should be restricted from providing augmented staff services to attest clients.

Proposed Revised Interpretation 1.297.020, “Agreed-Upon Procedures Engagements Performed in Accordance With SSAEs”

RSM supports allowing staff augmentation arrangements with agreed-upon procedures (AUP) clients, provided the underlying services performed by the augmented staff do not relate to the subject matter of the AUP engagement. However, as drafted, proposed paragraph .04 would permit staff augmentation arrangements **as described in the “Staff Augmentation Arrangements” interpretation [1.275.040]** (emphasis added) with AUP clients, provided the underlying services performed by the augmented staff do not relate to the specific subject matter of the AUP engagement. We believe the reference to the “Staff Augmentation Arrangements” interpretation should be limited to paragraph .01 of that interpretation (and that the reference would be entirely unnecessary if the description of *staff augmentation arrangements* was added to the definitions in subtopic 0.400).

As currently drafted, the reference could be interpreted to imply that the staff augmentation arrangements must meet all the requirements of paragraph .02 of the “Staff Augmentation Arrangements” interpretation, and we do not believe that was PEEC’s intent. We also note that the current reference to [1.275.040] should be to [1.275.007]. If the description of *staff augmentation arrangements* is added to the definitions in subtopic 0.400, we suggest paragraph .04 of proposed revised interpretation 1.297.020 be revised to read as follows (proposed deletions are struck through):

- .04 When a member or member’s firm enters into a staff augmentation arrangement ~~described in the “Staff Augmentation Arrangements” interpretation [1.275.040]~~, 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 engagement.

Finally, we support the application of a similar subject matter exception to staff augmentation arrangements for SSAE engagements that are not AUP engagements.

Potential Revision of Section 1.224.010, “Client Affiliates”

RSM supports the potential revision of section 1.224.010, as described in paragraphs 15 and 16 of the Exposure Draft, which would permit staff augmentation arrangements with entities described in items (c)-(l) of paragraph .02 of that section. However, we believe the caveats included in the first sentence of

paragraph .02b of section 1.224.010 (the “not subject to audit” requirement) also should be included in paragraph .02f if the potential revision is adopted.

Request for Comments

Below are RSM’s comments in response to the issued for which feedback specifically was requested in the Exposure Draft.

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

RSM believes that staff augmentation arrangements should be permitted in the circumstances described in the proposed interpretation. If appropriate safeguards are in place to mitigate threats, such staff augmentation arrangements would not impact the integrity or objectivity of a firm also providing attest services.

- 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?*

RSM agrees that the proposed safeguards would be effective. They also create clear guidelines as to how members could serve their clients in a time of hardship and reduce disruption to clients as they seek alternative arrangements.

- 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?*

Yes, RSM agrees with the rebuttable presumption that a short period of time would not exceed 30 days.

- d. *Should an exception for staff augmentation arrangements 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?*

Yes. RSM believes that a reasonable person with all the facts would not see an impact on the member’s integrity or objectivity when a member has a staff augmentation arrangement with an “other than downstream affiliate” of an attest client. In many ownership structures today, organizations have a distinct disconnect between operations of affiliated entities. As discussed in paragraph 14 of the Exposure Draft, this situation is incredibly common for portfolio companies that are under common control by a private equity fund. We believe permitting staff augmentation arrangements for entities described in items c-I of the definition of *affiliate* is appropriate, given the disconnected operations and the required application of the “Conceptual Framework for Independence.”

- 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?*

As previously indicated, RSM generally supports the proposed revisions to the Staff Augmentation Arrangements” and “Client Affiliates” interpretations as set forth in paragraphs 15 and 16 of the Exposure Draft.

- 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?

RSM believes that the current exception for nonattest services in section 1.297.030, "Engagements, Other Than AUPs, Performed in Accordance With SSAEs," also should apply to staff augmentation arrangements. This would be more consistent with the current guidance of the AICPA and the International Ethics Standards Board for Accountants. Further, given the nature of the SSAE services and staff augmentation arrangements, the threats to the integrity and objectivity of the members providing the attest services generally would be at an acceptable level with the safeguards required by section 1.297.030.

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

Please see our prior comments with respect to permitting exceptions for all SSAE clients and certain client affiliates.

- 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?*

In light of the COVID-19 pandemic we believe an effective date prior to January 1, 2022 likely would present a hardship to members and their attest clients. Further, because certain system and network maintenance, support and monitoring services frequently are performed through staff augmentation arrangements, we believe PEEC should consider making this interpretation and related revisions effective at the same time as the revised "Information System Services" interpretation [1.295.145].

We appreciate this opportunity to provide feedback on the Exposure Draft and would be pleased to respond to any questions you may have about our comments. Please direct any questions regarding this letter to Kirk Cloniger, Senior Director – National Office of Risk Management, at 314.835.4473 or Claire Blanton, National Director of Independence, Compliance and Ethics, at 704.206.7271.

Sincerely,

RSM US LLP

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