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December 8, 2020

Ms. Toni Lee-Andrews
Director of the Professional Ethics Division
AICPA
220 Leigh Farm Road
Durham, NC 27707

RE: AICPA Professional Ethics Executive Committee Proposed Interpretation of the AICPA Code of Professional Conduct on Staff Augmentation Arrangements

Dear Ms. Lee-Andrews:

We appreciate the opportunity to provide comments on the AICPA Professional Ethics Executive Committee's (PEEC) Proposed Interpretation of the AICPA Code of Professional Conduct (the Code or ET) on Staff Augmentation Arrangements (the proposed interpretation). In evaluating the proposed interpretation, we offer comments for PEEC's consideration, as well as provide answers to the questions posed in the exposure draft.

Overall considerations

Overall, we support the proposed interpretation. However, we do not believe staff augmentation arrangements should always be prohibited for (a) certain affiliates of a financial statement attest clients, or (b) certain agreed-upon-procedures (AUP) engagements. Generally, such arrangements would not create threats to a member's independence that are not at an acceptable level with respect to the attest client, as described below.

Client affiliates

We agree with the proposal that PEEC create an exception for affiliates of the attest client as defined in ET 0.400.02 c through I ((c) through (I) affiliates) when there is:

- an absence of a self-review threat at the attest client;
- an absence of a management participation threat at the attest client; or
- an absence of familiarity threat at the attest client.

For example, a member provides augmented staff to a sister affiliate of an attest client. Because the sister affiliate's operations are not included in the attest client's results, it is unlikely that significant self-review threats exist with respect to the attest client. In addition, when there is separate management at the sister affiliate, it is unlikely that significant management participation threats exist with respect to the attest client. Finally, familiarity threats are unlikely to be created when the sister affiliate has separate management and systems, as is typically the case.

AUP engagements

ET 1.297.020.03 provides that impermissible services, including services that include performance of management responsibilities, that would otherwise impair independence do not impair independence as long as the services do not relate to the subject matter of an AUP engagement. We believe that threats to independence from most staff augmentation arrangements would typically be less significant than service



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arrangements under which a member assumes management responsibilities for the client. Therefore, we propose that the interpretation for staff augmentation engagements include a similar exception when the only attest service performed for the client is an AUP engagement.

Response to Specific AICPA Questions

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

We believe that staff augmentation arrangements with attest clients where the member is providing permissible services, in circumstances, as proposed in the exposure draft, where a client hardship exists, and where safeguards have been applied to limit the duration of the engagement do not generally present threats to independence. Similarly, as described in the overall considerations section above, we believe staff augmentation arrangements should be permitted for (c) through (l) affiliates of the attest client, and for AUP engagement when there are no other attest services provided to the client and the augmented staff arrangements are not related to the subject matter of the AUP engagement.

(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?*

We support the proposed interpretation, including the proposed safeguards. We believe the safeguards included in paragraph .02 of the proposed interpretation eliminate or reduce threats to an acceptable level when providing permissible nonattest services to an audit client as a result of limiting the circumstances to hardship situations, limiting the time period under which such services can be provided, and prohibiting augmented staff from participating or influencing the attest engagement.

(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?*

We do not object to the proposed 30 day time period limitation.

(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?

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?

We support the exception to permit staff augmentation arrangements to client affiliates as described in paragraphs 14-19¹ of the explanation. As noted above, we do not believe staff augmentation arrangements create significant threats to independence for (c) through (l) affiliates of a financial statement attest client due to the absence of (1) self-review threats, (2) familiarity threats, and (3) management participation threats at the attest client.

¹ Question d refers to paragraphs 14-19 of the explanation; however, our response refers to the actual paragraphs in the proposed interpretation.



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(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?

We support the exception 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 for the reasons described in paragraphs 19-20 of the explanation of the revised proposal of the interpretation.

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

As previously noted, we believe the proposed interpretation is too restrictive with respect to staff augmentation arrangements with (c) through (l) affiliates of a financial statement attest client and AUP engagement only clients.

We support adding the language proposed in paragraph 16 of this explanation to paragraph .03(f) of the "Client Affiliates" interpretation. In addition, we support the AUP exception as exposed in the interpretation in ET 1.275.007.03 and ET 1.297.020.04.

(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?

We believe six-months provides sufficient time to allow a member to exit any prohibited relationships.

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We appreciate the PEEC's careful consideration of our comments and observations. If you have any questions regarding our comments included in this letter, please do not hesitate to contact Bill Mckeown at wmckeown@kpmg.com or Nancy Miller at nancymiller@kpmg.com.

Very truly yours,

KPMG LLP