



**AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
DIVISION OF PROFESSIONAL ETHICS  
PROFESSIONAL ETHICS EXECUTIVE COMMITTEE  
OPEN MEETING MINUTES  
February 13, 2018**

The Professional Ethics Executive Committee (Committee) held a duly called meeting on February 13, 2018. The meeting convened 9:30 a.m. and concluded at 5:00 p.m. on February 13, 2018.

<p><b><u>Attendance:</u></b> Samuel L. Burke, Chair Coalter Baker Carlos Barrera Stanley Berman Michael Brand Chris Cahill Tom Campbell Robert E. Denham Anna Dourdourekas Brian S. Lynch</p>	<p>William Darrol Mann William McKeown *Steven Reed James Smolinski Shelly Van Dyne Lisa Snyder Kelly Hunter Sharon Jensen Martin Levin Stephanie Saunders</p>
<p><b><u>Staff:</u></b> James Brackens, VP - Ethics &amp; Practice Quality Sue Coffey, EVP – Public Practice Toni Lee-Andrews, Director Ellen Gorla, Associate Director Shelley Truman, Ethics Specialist Brandon Mercer, Senior Manager</p>	<p>*April Sherman, Manager *Shannon Ziemba, Manager *James West, Manager *Michele Craig, Manager *Jennifer Kappler, Manager *Jennifer Clayton, Senior Manager *John Wiley, Manager *Melissa Powell, Manager *Henry Grzes, Lead Manager – Tax Practice &amp; Ethics Carl Peterson, VP – Small Firms Kristy Illuzi, Senior Manager - PCPS *Liese Faircloth, Manager – Product Development</p>
<p><b><u>Guests:</u></b> Jeff Lewis, Chair, Independence/Behavioral Standards Subcommittee Ian Benjamin, Chair, Technical Standards Subcommittee Jason Evans, BDO Kelly Hnatt, External Counsel Nancy Miller, KPMG Dan Dustin, VP State Board Relations, NASBA Catherine Allen, Audit Conduct Sonia Araujo, PwC Paula Tookey, Deloitte</p>	

\*George Dietz, PwC  
Vincent DiBlanda, Deloitte  
Barbara Rommer, PwC  
\*Elizabeth Pittelkow  
\*Jennifer Beneke  
Jennifer Kary, Crowe Horwath  
Jim Dalkin

\*Participated via phone

### 1. Welcome and Introductions

Mr. Burke welcomed the Committee and expressed appreciation for their efforts in joining the meeting.

### 2. PEEC Planning Subgroup

Ms. Lee-Andrews reported that the Planning Subgroup had met to review the Committee's three-year project agenda and to discuss input from external and internal stakeholders in developing suggested topics for future consideration regarding where the PEEC should be focusing efforts over the next 12-36 months. The Planning Subgroup's recommendations for future projects were discussed with the Committee. The Committee approved the development of a Request for Information or Discussion Memorandum to solicit further feedback and input from firms and stakeholders.

### 3. Information Technology and Cloud Services

Ms. VanDyne explained that the Task Force recommends defining "financial information system" consistent with the SEC guidance because defining it differently would likely cause confusion and a need to clarify the differences between the two. It was noted that in order for the proposed definition to be consistent with the SEC guidance the definition should stipulate that the system generates information that is significant to a **financial processes** taken as a whole as opposed to an **other financial information system** taken as a whole. It was believed that this change would clarify that general information technology controls would be covered by the definition. The Committee agreed with this revision and requested that the exposure draft seek input on whether commenters believe

- it is necessary for the definition of a financial information system to include specific guidance on what is "significant," or if this determination should be left up to the professional judgment of the member.
- that by including the concept of "significant" in the definition of a financial information system, it could be perceived that the Committee has proposed a less restrictive standard than the current interpretation, which would allow the member to design or develop a component of the financial information system that is not significant to the financial statements or financial process as a whole.
- the phrase "financial process" makes it clear that members should be thinking broadly about processes that may affect a financial process such as information technology general controls.

Ms. VanDyne went on to explain that the Task Force is also recommending the definition provide some factors that may help members decide if nonattest services are *related to* a financial information system. Several suggested edits were made to the proposed factors that the Committee agreed would help streamline and clarify the guidance. In addition, the Committee requested that the exposure draft seek input on whether commenters believe that systems that gather data that assist management in making decisions that directly affect financial reporting would include systems that generate management-level dashboard reporting.

For clarity purposes, the Committee requested that proposed paragraphs .02 and .03 be placed after the terminology section and be preceded by appropriate subheadings. The Committee also believed doing this would allow for proposed paragraph .04 to be eliminated which seemed to reduce the perceived complexity of the proposal.

The Committee discussed the additional examples of maintenance, support and or monitoring services that would impair independence added by the Task Force and made some minor edits. In addition, the Committee revised example c to clarify that this example would cover situations where the member *has the responsibility for monitoring or maintaining* the attest client's network performance. The Committee revised example d to clarify it is intended to cover *an information technology* help desk.

The Committee discussed the additional examples of maintenance, support and or monitoring services that do not impair independence added by the Task Force and clarified that when analyzing a network, the member would likely provide the attest client with its observations or recommendations. The Committee also clarified that a common example of what a member might assess of an attest client's security over information systems is the design or operating effectiveness. The Committee also noted that a member may also conduct an assessment of the attest client's information technology security policies without impairing independence.

It was noted that in order for the examples listed not to impair independence, the services had to be discrete projects. The Committee was asked if there was a need to provide some context around the meaning of discrete. The Committee agreed that this should be left to the professional judgment of the member and so did not add any clarification.

The Committee agreed that the exposure draft should propose a one year delayed effective date but to seek input regarding the length of time members believe would be necessary to implement the guidance and whether the terminology used in the proposal was consistent with industry practice and be readily understood.

It was moved, seconded and passed by a vote of 18 with one abstention to expose the interpretation as revised by the Committee for a 90-day exposure period.

#### **4. Compilation of Proforma and Prospective Financial Information**

Mr. Brand reported that the Task Force's charge was to evaluate the independence rules applicable to AUP and selected procedures engagements. The Task Force had no activity

since the last meeting, and Mr. Brand noted that the Task Force was in need of new members. Mr. Brand solicited volunteers to participate on the Task Force. The Task Force will report on its activities at the May PEEC meeting.

#### **5. Long Association**

Ms. Dourdourekas reviewed with the Committee the non-authoritative FAQs which the Task Force created. One FAQ identifies factors to consider that may increase the familiarity threat when senior personnel serve on the attest engagement team for a long period of time. The other FAQ identifies possible safeguards that can be applied to eliminate or reduce significant familiarity threats exist due to long association of senior personnel.

In response to a question, Ms. Dourdourekas noted that since the FAQ would apply to non-PIE entities, it was more appropriate for the requirements in the FAQs to apply to senior personnel and not the entire firm.

In response to a question, Ms. Dourdourekas noted that in smaller firms managers might make some critical decisions and so the FAQ should not only extend to partner and partner equivalents, rather to all individuals on the attest engagement team who have responsibility for decision making on significant auditing, accounting, and reporting matters that affect the results of the attest engagement and who maintain regular contact with attest client management or those charged with governance.

The Committee agreed with that Task Force that there should be a link to the FAQ in the Nonattest Subtopic and in the Plain English Guidance.

#### **6. State & Local Government**

Ms. Miller explained that twenty-three comment letters were received on the exposure draft, with the majority of the commenters providing recommendations. She noted that the Task Force met and discussed the comments at a high level and began to drill down into the individual comment letters. Overall the Task Force does not believe the project should be tabled as tabling the project would result in the guidance for SLG affiliates to be inconsistent with the commercial affiliate guidance with no basis for the inconsistency. She also noted that Task Force believes there are too many situations where the extant guidance would not be responsive to threats and are concerned that members may not take action until a big issue arises that ends up harming the public. Ms. Miller explained that she believes the complexity of the proposal was driven by the desire to minimize the impact of the proposal and so the Task Force will first try to streamline the guidance while balancing the costs of compliance.

#### **7. Leases**

Mr. Mercer noted that the comment period for the Leases Exposure Draft closed in January 2018 and that the Task Force had not yet met to review the comment letters. Mr. Mercer noted that commenters questioned the application of the materiality safeguard to certain covered members, and requested PEEC's feedback on which covered members should remain subject to the materiality safeguard. After brief discussion, PEEC did not recommend any changes to the materiality safeguard as exposed, as concerns remained regarding leases that are material to individuals in a position to influence the engagement or in the

chain of command. The Task Force will perform its review of the comment letters and report on its activity at the May 2018 PEEC meeting.

#### **8. NOCLAR**

Mr. Denham reported on the Task Force's activities since the November PEEC meeting. The Task Force, including the UAA co-chairs observing, is meeting monthly to discuss comment letters received. The task force agreed to bi-furcate the comments between those that would likely not be considered by the UAA committee and those that will and first address those that don't have UAA implications. Staff is preparing several analyses before the next meeting to include comparisons of the exposure draft to applicable U.S. audit standards and the IESBA standard regarding non-auditor responsibilities and evaluation of non-attest provisions.

#### **9. Staff Augmentation**

Ms. Snyder and Mr. Mercer presented the Task Force's agenda item to PEEC and requested feedback on specific issues that the Task Force discussed in its deliberations.

##### *Staff Augmentation as a Non-attest Service*

PEEC generally agreed that provision of staff to the attest client is a non-attest service in that the member is providing human resources who are being supervised by the attest client. One member noted that a factor to consider with regards to the supervision aspect is whether the member's alliance is to the firm or the attest client. A member also noted that it may be appropriate to treat these individuals similar to members formerly employed by a client.

##### *Application of the General Requirements of 1.295*

Staff asked PEEC if there were any General Requirements of 1.295 that should not apply to staff augmentation services. It was noted that if any do not apply, then a member could not augment staff to the attest client if the activities would constitute the member performing management responsibilities.

##### *Appearance of Simultaneous Employment*

Staff noted that the appearance of simultaneous employment is referenced in other areas of 1.295, including the provisions on internal audit services. One member believed it would be helpful if the guidance addressed the appearance of the augmented staff being employed by the attest client.

##### *Safeguards – Short Term, Temporary, Non-recurring*

Staff asked PEEC if it believed safeguards d. and e. of paragraph .02 (below), regarding the augmentation being temporary and non-recurring, should be included in the guidance. One member recommended removing the "non-recurring" terminology. Other members recommended removing the concept of "short term" and instead add the duration of the contractor relationship as a factor to consider in the appearance discussion. Members also noted that there should not be a different conclusion than if the activities were performed as a non-attest service by the firm rather than through staff augmentation,

One PEEC member noted that if the member is also on the attest engagement team, the attest work should be reviewed by another professional. Ms. Snyder pointed out that this

safeguard may not be workable, as the staff would likely be at the client site performing activities under the client's supervision, so that the client can take responsibility. One other member noted that he could see review as a safeguard, if the work done by the augmented staff is related to the attest service.

The Task Force will report on its progress at the May 2018 PEEC meeting.

#### **10. IESBA Update**

Ms. Gorla reported that at the December 2017 IESBA meeting, the board approved the final text of the restructured code. If the PIOB approves the restructured Code as anticipated the new code will be released in April. With the exception of the revised provisions pertaining to the long association of firm personnel with an audit or assurance client:

- Parts 1, 2 and 3 of the restructured Code will be effective as of June 15, 2019;
- Part 4A relating to independence for audit and review engagements will be effective for audits and reviews of financial statements for periods beginning on or after June 15, 2019; and
- Part 4B relating to independence for assurance engagements with respect to subject matter covering periods of time will be effective for periods beginning on or after June 15, 2019; otherwise, it will be effective as of June 15, 2019.

Ms. Gorla also explained that the Board also received an update on the Professional Skepticism long term initiative to consider whether the concept of professional skepticism should be applied to all professional accountants. The plan is for the Task Force to bring a draft consultation paper to the March meeting.

#### **11. IESBA Fees Questionnaire**

Ms. Gorla explained that instead of responding to the specific questions in the questionnaire PEEC submitted a letter that explains the regulatory environment here and what the challenges would be for us in going any further than we currently have on this topic in our authoritative and non-authoritative guidance. The response also noted that PEEC believes that the IESBA Code establishes sufficient and appropriate provisions to assist professional accountants and firms in addressing threats to compliance with the fundamental principles and independence that might be created by the level of fees charged. The letter also suggested that if the Board concluded that additional illustrative information on this topic would be useful, it may want to consider providing such information in the form of nonauthoritative information and pointed to the nonauthoritative illustrative information provided by Staff starting on page 48 of the [AICPA Plain English Guide to Independence](#).

#### **12. Minutes of the Professional Ethics Executive Committee Open Meeting**

After edits to the November 2017 PEEC meeting attendance list, it was moved, seconded and unanimously agreed to adopt the minutes from the November 2017 open meeting.