



PROFESSIONAL ETHICS EXECUTIVE COMMITTEE

Open Meeting Agenda

November 6, 2019
Durham, NC



**AICPA Professional Ethics Executive Committee
Open Agenda
November 6-7, 2019**

Open meeting: Phone access: +1 669 900 6833 (US Toll) or +1 646 876 9923 (US Toll)
Meeting ID: Web access: <https://aicpa.zoom.us/j/682253790>
International numbers available: <https://zoom.us/u/aVZsUQ9Xt>

<i>November 6th</i>	<i>Open meeting begins</i>	
9:00 a.m. – 9:05 a.m.	Welcome Mr. Lynch will welcome the committee members and discuss administrative matters.	
9:05 a.m. – 10:20 a.m.	Staff augmentation Ms. Snyder and Mr. Wiley will seek approval to re-expose the proposal.	Agenda Item 1A Agenda Item 1B Agenda Item 1C
10:20 a.m. – 11:05 a.m.	Inducements Ms. Dourdourekas and Ms. Craig will provide an overview of the draft practice aid for the committee’s feedback.	Agenda Item 2A Agenda Item 2B
11:05 a.m. – 11:20 a.m.	<i>A.M. Break</i>	
11:20 a.m. – 11:45 a.m.	IESBA update Mr. Mintzer and Ms. Gorla will update the committee on the activities from the September meeting.	
11:45 a.m. – 12:05 p.m.	Record requests - Fees for copying/retrieval Ms. Sherman will seek clarification from the committee regarding a portion of the extant “Records Requests” interpretation.	Agenda Item 3A Agenda Item 3B
12:05 p.m. – 12:35 p.m.	Strategy and work plan consultation paper Mr. Lynch and Ms. Klepcha will seek the committee’s approval to issue the consultation paper.	Agenda Item 4A Agenda Item 4B
12:35 p.m. – 1:35 p.m.	<i>Lunch</i>	
1:35 p.m. – 1:45 p.m.	Statements on standards for tax services Ms. Saunders and Mr. Wiley will provide the committee with a status report on this project.	
1:45 p.m. – 2:15 p.m.	Tone of voice Ms. Chun will present Association Tone of Voice, which is part of the commitment to providing the best possible experience across all communications for our members. ❖ External link - Guide to writing in our brand voice	
2:15 p.m. – 2:30 p.m.	State and local government Ms. Kappler and Ms. Powell will seek PEEC’s fatal flaw input on the updated implementation tools (Implementation Guide, Interactive SLG Affiliate Matrix and SLG Affiliate Evaluator) that are scheduled to be released by the end of the year. Ms. Kappler will provide an overview of the upcoming quarter’s planned communication efforts.	Agenda Item 5

	<ul style="list-style-type: none"> ❖ External link — SLG Entity Affiliate Evaluator ❖ External link — SLG Investment Affiliate Evaluator 	
2:30 p.m. – 3:15 p.m.	<p>Information technology and cloud services Ms. Gorla will seek input on the direction staff is proposing to take to address some additional FAQs.</p>	Agenda Item 6
3:15 p.m. – 3:25 p.m.	<p>NOCLAR Mr. Denham and Ms. Lee-Andrews will provide the committee with a status report on this project.</p>	
3:25 p.m. – 3:30 p.m.	<p>Minutes of the PEEC open meeting The committee is asked to approve the minutes from the May 2019 open meeting.</p>	Agenda Item 7
3:30 p.m. – 5:15 p.m.	Task force meetings as needed	
	<i>Open meeting concludes</i>	
	<p>Future meeting dates</p> <ul style="list-style-type: none"> • February 11 - 12, 2020; Durham, NC • May 5 - 6, 2020; Durham, NC* • August 11 - 12, 2020; Durham, NC* • November 17 - 18, 2020; Durham, NC* <p>* In person versus call in format not yet determined.</p>	

Staff Augmentation Task Force**Task Force Members**

Lisa Snyder (Chair), Coalter Baker, Jeff Lewis, Brian Lynch, Bill Mann; AICPA Staff: John Wiley and Ellen Gorla

Task Force Charge

The Staff Augmentation task force's initial charge is to study the issue of staff augmentation and independence and determine whether additional guidance for members is warranted.

Reason for Agenda Item

The task force seeks the committee's approval to expose the proposed revised "Staff Augmentation Arrangements" interpretation (ET Section 1.275.040) found in **Agenda Item 1B**.

Summary of Issues***Background***

At the August PEEC meeting, feedback was shared from NASBA regarding its continued opposition to the initial staff augmentation interpretation as proposed. However, it was discussed that NASBA may be open to allowing such arrangements if the "short period of time" was limited to a few weeks rather than months, and only permitted in an emergency situation or a non-recurring hardship.

Counsel indicated that if the committee decided to prohibit staff augmentation services, the proposed interpretation should be re-exposed regardless of whether it is authoritative or non-authoritative guidance due to the significant change in position. The general consensus of the task force was that if additional guidance were to be issued, it should be authoritative so it is easily identified and clarity is achieved. PEEC members were polled if their firms were providing such services; most said such arrangements were not provided to their attest clients, but some were providing such services and were watching PEEC's deliberations and proposal very closely. PEEC also recommended that the task force should not lose sight of the IESBA code, which allows for such services in limited circumstances.

The task force concluded that it would further deliberate, and if the task force decided to significantly change its interpretation of "short period of time," the task force would reach out again to NASBA for their input.

Proposed Revised Position

The task force met in September 2019 and decided a change in position was appropriate because of continued concerns expressed by NASBA that these arrangements appear to impair independence (i.e., the augmented staff appear to be simultaneously employed by the firm and the attest client). Accordingly, the task force is proposing that staff augmentation arrangements would impair independence except in certain situations where required safeguards are met. While agreement was reached regarding what safeguards must be applied, agreement was not reached regarding how to describe the situations where staff augmentation arrangements would be permissible.

The required safeguards recommended by the task force include that the arrangement not be expected to reoccur; would usually be completed in less than 30 days; would be for services that are not prohibited (e.g., not constitute management functions); and the member be satisfied that

the individual designated by client management to oversee the services possesses the requisite skills, knowledge and experience.

The task force discussed several ways to describe the situations where staff augmentation arrangements should be permissible. The first two options discussed were in “unusual” or “unexpected” situations where making other arrangements would create a significant hardship for the attest client. The “significant hardship” qualifier was included in these options to provide some clarity to the terms “unusual” or “unexpected”. Another option discussed was to permit these arrangements in “emergency” situations since this term could imply that the attest client was already in significant hardship situation. The final option discussed was a combination of the aforementioned options. In this option staff augmentation arrangements would be permitted in emergency or other unexpected situations where making other arrangements would create a significant hardship for the client. The committee’s direction on which option should be incorporated into paragraph .02 of **Agenda Item 1B** is appreciated:

.02 If a partner or professional employee of the member’s firm serves as augmented staff for an attest client, familiarity, management participation, advocacy, or self-review threats to the member’s compliance with the [“Independence Rule”](#) [1.200.001] may exist. However, threats would be at an acceptable level and independence would not be impaired in...

- Option 1.** unusual situations where it would create a significant hardship for the attest client to make other arrangements, provided all of the following safeguards are met:
- Option 2.** unexpected situations where it would create a significant hardship for the attest client to make other arrangements, provided all of the following safeguards are met:
- Option 3.** emergency situations provided all the following safeguards are met:
- Option 4.** emergency or other unexpected situations where it would create a significant hardship for the attest client to make other arrangements, provided all of the following safeguards are met:

Since the scope of potentially permitted staff augmentation arrangements would be significantly limited from the initial proposal, some of the safeguards and additional application guidance included in the initial proposal were not considered necessary and could even cause challenges for smaller firms if they were included. For example, the safeguard in the initial proposal to not use the augmented staff on the attest engagement team, or not use the augmented staff to perform attest procedures on any areas for which the staff performed activities during the augmented staff arrangement, is no longer included as a requirement. Instead, the revised interpretation proposes that the firm consider this as a possible safeguard.

Given the change in position, the task force is recommending that the revised interpretation appear as a stand-alone interpretation in the *Current Employment* subtopic (1.275) rather than in the *Nonattest Services* subtopic (1.295). Although some believe these arrangements result in firm personnel appearing to be employed by the attest client, the task force is *not* recommending the guidance be included as an exception to the *Simultaneous Employment or Association With an Attest Client* interpretation (1.275.005) since the personnel are not actually employed by the client. Rather, the task force recommends the stand-alone interpretation be located at the end of the *Current Employment* subtopic and that its assigned citation number be 10 digits after the last

interpretation in the event that additional situations are addressed that result in an actual employment relationship. The committee should note that by placing the interpretation under subtopic 1.275 rather than in the *Nonattest Services* subtopic, there would be no exception for staff augmentation arrangements performed for certain affiliates of the audit client.

Questions for PEEC

1. In what situations should staff augmentation arrangements be permitted (e.g., unusual, unexpected, emergency) and which of the 4 options do you believe best conveys this perspective?
2. Should the duration of the arrangements usually be limited to less than 30 days?
3. Do you believe there could be situations where it may be appropriate for arrangements to extend beyond 30 days and if so, are there certain criteria, such as significant hardship to the client, that must be met in order for the extension to be considered reasonable in the circumstances?
4. Do you agree that the application of the proposed interpretation should extend to all client affiliates or should an exception be made for certain affiliates and if so, under what circumstances?
5. Are there any other safeguards that should be required in order to reduce threats to an acceptable level?
6. Do you agree with the proposed location of the interpretation?

Effective Date

The task force recommends that the effective date of the proposed interpretation be three months after being published in *The Journal of Accountancy*. The task force believes three months would be a reasonable amount of time for any firms currently providing these services to wind down existing engagements without undue hardship to its clients.

Action Needed

The committee is asked to approve **Agenda Item 1B** for exposure along with the following questions to be asked in the Exposure Draft:

1. Do you agree that a short period of time should be for less than 30 days, but allow for this to be rebutted by the member when they believe the significant hardship to the client would extend for a longer period of time? Are there other durations of time that you recommend PEEC consider and if so, please describe why?
2. Do you agree that the application of the proposed interpretation should extend to client affiliates? If not, please specify the type of affiliate(s) (that is, parent, subsidiary, or sister entity) that you believe PEEC should allow for staff augmentation arrangements and under what circumstances.

Communication Plan

Staff will work with Ms. Mullins to ensure proper communication efforts are taken.

Materials Presented

- | | |
|-----------------------|---------------------------------|
| Agenda Item 1B | Revised draft interpretation |
| Agenda Item 1C | Initial proposed interpretation |

1.275.040 Staff Augmentation Arrangements

- .01 In this interpretation, 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 nonattest services performed by the augmented staff. Under such arrangements, the *firm* bills the *attest client* for the nonattest services rendered by the augmented staff but does not direct or supervise the actual performance of the nonattest services.
- .02 If a *partner* or professional employee of the *member’s firm* serves as augmented staff for an *attest client*, familiarity, management participation, advocacy, or self-review *threats* to the *member’s* compliance with the “[Independence Rule](#)” [1.200.001] may exist. However, *threats* would be at an acceptable level and *independence* would not be *impaired* in [TBD] situations provided all of the following *safeguards* are met:
- a. The augmented staff arrangement is not expected to reoccur and is performed only for a short period of time. There is a rebuttable presumption that a short period of time would not exceed 30 days.
 - b. The augmented staff performs only activities that would not otherwise be prohibited by the “Nonattest Services” subtopic (ET sec. 1.295) of the “Independence Rule” (ET sec. 1.200.001).
 - c. The *member* is satisfied that client management designates an individual or individuals who possess suitable skill, knowledge, and experience, preferably within senior management, to be responsible for
 - i. determining the nature and scope of the activities to be provided by the augmented staff;
 - ii. supervising and overseeing the activities performed by the augmented staff; and
 - iii. evaluating the adequacy of the activities performed by the augmented staff and the findings resulting from the activities.
- .03 Where practicable, the *firm* should consider not using the augmented staff on the *attest engagement team*, or not using the augmented staff to perform attest procedures on any areas for which the staff performed activities during the augmented staff arrangement.

Effective Date

- .04 Effective [three months after announcement is published in The Journal of Accountancy].

1.295.157 Staff Augmentation Arrangements

- .01** When a member or member's firm has a staff augmentation arrangement with an attest client, self-review and management participation threats to the member's compliance with the "Independence Rule" (ET sec. 1.200.001) may exist.
- .02** Threats to compliance with the "Independence Rule" (ET sec. 1.200.001) would not be at an acceptable level, and independence would be impaired unless, in addition to applying the "General Requirements for Performing Nonattest Services" interpretation (ET sec. 1.295.040), all of the following safeguards are met:
 - a. The member is satisfied that client management designates an individual or individuals who possess suitable skill, knowledge, and experience, preferably within senior management, to be responsible for
 - i. determining the nature and scope of the activities to be provided by the individual performing the augmented staff services (the "augmented staff");
 - ii. supervising and overseeing the activities performed by the augmented staff; and
 - iii. evaluating the adequacy of the activities performed by the augmented staff and the findings resulting from the activities.
 - b. The activities do not result in the augmented staff assuming management responsibilities as described in the "Management Responsibilities" interpretation (ET sec. 1.295.030) of the "Independence Rule" (ET sec. 1.200.001).
 - c. The augmented staff performs only activities that would not otherwise be prohibited by the "Nonattest Services" interpretation (ET sec. 1.295.000) of the "Independence Rule" (ET sec. 1.200.001).
 - d. The duration of the arrangement is for a short period of time.
- .03** In all circumstances, the member should consider whether the staff augmentation arrangement creates the appearance of prohibited employment with the attest client. (See the "Simultaneous Employment or Association With an Attest Client" interpretation [ET sec. 1.275.005] of the "Independence Rule" [ET sec. 1.200.001]). When evaluating the appearance of prohibited employment with the attest client, the member should consider factors such as the following:
 - a. The duration of the staff augmentation arrangement
 - b. Whether the augmented staff will provide services to other clients during the period of the arrangement
 - c. The frequency in which the augmented staff will perform activities at the attest client's location (for example, daily)
 - d. Whether the arrangement is discrete or recurring in nature, and if recurring, the frequency of such recurrence
- .04** However, threats to compliance with the "Independence Rule" (ET sec. 1.200.001) would not be at an acceptable level and independence would be impaired if the augmented staff is held out or treated as an employee of the attest client, such as being any of the following:
 - a. Listed as an employee in the attest client's directories or other attest client publications
 - b. Referred to by title or description as supervising or being in charge of any business function of the attest client
 - c. Identified as an employee of the attest client in correspondence such as email, letterhead, or internal communications

Agenda Item 1C

- d. Able to participate in compensation or benefit plans (including health or retirement plans) of the attest client
- .05** The significance of any threats should be evaluated, and safeguards applied, when necessary, to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:
 - a. Not using the augmented staff on the attest engagement team, or not using the augmented staff to perform attest procedures on any areas for which the staff performed activities during the augmented staff arrangement
 - b. Discussion of the threats and any safeguards applied with those charged with governance
 - c. Rotation of individuals performing the staff augmentation activities
 - d. Monitoring the scope of activities performed by augmented staff
- .06** This interpretation is effective three months after notice of adoption is published in the *Journal of Accountancy*. Early implementation is allowed.

Inducements Task Force**Task Force Members**

Anna Dourdourekas (Chair), Tom Campbell, Sharon Jensen, Jennifer Kary, and Peggy Ullmann
AICPA Staff: Michele Craig and Ellen Gorla

Task Force Objective

Consider the revisions made by the International Federation of Accountants' (IFAC) International Ethics Standards Board for Accountants (IESBA) to the IESBA Code of Ethics for Professional Accountants (the IESBA Code) pertaining to the offering and accepting of inducements and recommend to the committee the appropriate actions for convergence purposes.

Reason for Agenda

To requests the committee's feedback regarding the nonauthoritative guidance drafted for convergence with IESBA's Code.

Nonauthoritative guidance (Practice Aid)

At the May 2019 PEEC meeting, the committee agreed with the task force's recommendation regarding the frequently asked questions (FAQ) approach to capture the differences identified under the AICPA and IESBA "Integrity and Objectivity Rule" being sufficient for AICPA's convergence with IESBA.

Additionally, at the August 2019 PEEC meeting, the committee agreed with the task force's recommendation of developing a practice aid to serve as an educational tool to assist members with situations not currently addressed in the Code (other inducements) using an overall threats and safeguard approach. In addition to FAQs, the practice aid to be developed would include an overview of the related guidance, best practices, case studies and a decision tree.

Accordingly, the task force developed nonauthoritative guidance (**Agenda Item 2B**) to include the following:

- An overview of the gifts and entertainment guidance and an acknowledgement that situations may arise that would not fall into the category of gifts or entertainment and that for these situations the conceptual framework should be used;
- An overview of the conceptual framework;
- Examples of "reasonable in the circumstances";
- Examples of best practices to consider for:
 - Minimizing the existence of a threat; and
 - Safeguards once a threat has been identified
- FAQs that address:
 - Contributions and Donations;
 - Hospitality; and
 - Members in Business, gifts from vendors; and
- Case studies that present a situation and assist members with an analysis from beginning to end with a final solution.

When developing the practice aid the Task Force decided to:

- Not include any references to “inducements” as gifts and entertainment do not always constitute an inducement that would persuade someone’s behavior. Instead, the task force used the term “other activities and offerings”;
- Not include a decision tree in the practice aid as situations not addressed by the gifts and entertainment interpretations would need to be evaluated using the Conceptual Framework. Additionally, the practice aid includes references to the Members in Public Practice and Members in Business Conceptual Framework Toolkits. These toolkits include flowcharts and steps that assist members with the implementation of the conceptual framework approach.
- Include FAQs that focus on contributions in addition to the extant FAQ published in the General Ethics Questions FAQ document that provides clarification on political and charitable contributions that are acceptable. The FAQ in the General Ethics Questions document will be incorporated in the practice aid.

Questions for the Committee

1. Are the categories included in the draft practice aid sufficient? If not, are there any other topics that the task force would like to include in the practice aid?
2. Are the scenarios used for the FAQs and case studies sufficient or are there additional examples that the committee believes staff should include in the nonauthoritative document?
3. Does the committee agree that the term “other activities and offerings” should be used instead of the term “inducement(s)”?

Action Needed

The committee is asked to provide its feedback on the draft nonauthoritative document.

Materials Presented

Agenda Item 2B - Draft Nonauthoritative Guidance for Inducements

Practice aid:

Understanding gifts, entertainment, contributions, and other activities and offerings

As of XXX, 2019

The practice aid: What's it all about?

Members call our hotline daily with many different questions, including ones on the “Gifts and Entertainment” interpretation (ET sec. 1.120.010 and ET sec. 2.120.010) of the “Integrity and Objectivity rule” (ET sec. 1.100.001 and ET sec. 2.100.001) of the AICPA Code of Professional Conduct (code).¹

Many of the questions relate to when gifts, entertainment, and other activities and offerings cross the line. The case studies and FAQs in this practice aid cover some of these questions from the hotline as well as the answers the AICPA Professional Ethics Division staff have provided.

The examples are not rules, regulations, or statements issued by the Professional Ethics Executive Committee and are not considered authoritative guidance.

The examples also do not address the requirements of other standard-setters or regulatory bodies, such as the state boards of accountancy, the SEC, and the U.S. GAO, whose positions may differ from the AICPA.

Terms that are defined in the code are italicized. The first instance of a defined term or code citation links to the code.

¹ The interpretation and the rule apply to members in public practice and members in business; this is why they appear in both Part 1 and Part 2 of the AICPA Code of Professional Conduct.

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When is a gift or entertainment an inducement?

When can you give or accept a gift or entertainment without compromising your professional integrity? That's the question at the heart of the "Offering or Accepting Gifts or Entertainment" interpretation (ET sec. 1.120.010 and ET sec. 2.120.010) of the "Integrity and Objectivity Rule" (ET sec. 1.100.001 and ET sec. 2.100.001) in the AICPA Code of Professional Conduct (code).

The interpretation says that a member who offers to or accepts from a client gifts or entertainment is presumed to lack integrity unless the gift or entertainment is "reasonable in the circumstances." In addition to clients, this includes any individual who is in a key position with the client or who owns 10 percent or more of the client's outstanding equity, securities, or other ownership interests or a customer or vendor of the member's employer, including their representatives.

Who determines what's "reasonable in the circumstances"?

Simply put, you do. Like many things in our profession, there aren't bright lines here and you need to use your judgment.

You're not completely on your own, though. Here are some relevant factors to assist with your assessment of what's reasonable in the circumstances. Keep in mind that these are suggestions of some factors among many to consider and no one of them on its own determines what's reasonable:

- Nature of the gift or entertainment
- Occasion or reason giving rise to the gift or entertainment
- Cost or value of the gift or entertainment
- Frequency
- Whether entertainment was associated with the conduct of business
- Other clients' participation in the entertainment
- Individuals from the client and member's firm that participated in the entertainment

Entertainment is different from a gift because it usually involves the joint participation of the member and the client, customer, or vendor. For example, tickets to a sporting event from a client are a gift; attendance at that same sporting event as the client's guest is entertainment.

The interpretation does not include contributions to a charitable organization in the definition of "gift"; you should evaluate these contributions separately.²

What about other activities and offerings?

The AICPA Code of Professional Conduct specifically addresses receiving and giving gifts or entertainment and how this might impair integrity. But there are other things you should be

² See [AICPA's Basis for Conclusion Document-Gifts and Entertainment](#)

aware of that might be intended to influence an outcome or behavior. These can also be threats to your compliance with the “Integrity and Objectivity Rule” (ET sec. 1.100.001 and ET sec. 2.100.001).

Here are some examples (not all inclusive) of other activities and offerings that could cross a line:

- Preferential treatment, rights, or privileges
- Political or charitable contributions
- Hospitality
- Employment or other commercial opportunities
- Mutual recommendation or promotion of business interest, product, or service

These are not specifically addressed by the AICPA Code of Professional Conduct, so you should apply the threats and safeguards approach to assess your compliance with the rules.

Using the conceptual framework to identify threats to integrity and objectivity

Accepting a gift or form of entertainment or other activity or offering from a client could result in a few types of threats to your compliance with the “Integrity and Objectivity Rule”: self-interest, undue influence, and familiarity.

The conceptual framework applicable to you and your practice will help you evaluate the significance of threats and figure out any appropriate safeguards to reduce those threats to compliance to an acceptable level:

- If you’re in public practice, use “Conceptual Framework for Members in Public Practice” (ET sec. 1.000.010).
- If you’re in business, use “Conceptual Framework for Members in Business” (ET sec. 2.000.010).³

³ For additional guidance on the application of the conceptual framework see the [Members in Public Practice](#) and [Members in Business](#) Conceptual Framework Toolkits.

Examples of reasonable in the circumstances

Generally considered reasonable in the circumstances	Generally not considered reasonable in the circumstances
<p>Golf or dinner (or both) involving a partner or professional employee and someone associated with a client, customer, or vendor at a resort or country club</p> <p>Tickets to a local college or professional football, basketball, or sporting event in which the partner or professional employee jointly participates with someone associated with a client, customer, or vendor</p> <p>Attendance at an open house or reception at the firm or a new location of the client, customer, or vendor where token gifts are <i>offered</i></p> <p>Purchasing a gift for a client or receiving a gift from a client in connection with a life event, such as birth of a new child or marriage</p> <p>Sending a gift to a client during the holiday season if the value of the gift is not excessive</p>	<p>Tickets offered by the firm or the client, customer, or vendor to the Masters Golf Tournament</p> <p>An all-expenses paid out-of-town trip offered by the firm or the client, customer, or vendor, for example, to the Super Bowl, Stanley Cup, Daytona 500, NBA Finals, bowl game, or the Final Four</p> <p>An all-expenses paid client, vendor, or customer appreciation week-long cruise sponsored by the firm or the client, customer, or vendor or the use of the client's vacation house or condo at a resort without a fair value rental being paid</p> <p>Tickets offered by the firm or the client to an exclusive event, for example, sold out concert, Oscars, Grammys, or Emmys</p> <p>Tickets to a deluxe sky box suite at a sporting event offered by the firm or the client</p>

Members in public practice

What do you need to consider when making political or charitable contributions?

As we mentioned earlier, the gifts and entertainment interpretation does not include charitable contributions in the category of gifts. This applies whether the contribution is to a political campaign or other charitable organization.

However, appearance can be everything. How will such contributions be regarded? Will they affect your integrity or objectivity? Can they reasonably be perceived to affect your integrity or objectivity?

Minimize threats

Here are some best practices you may want to use for contributions to *minimize the existence of threats* to compliance with the code:

- Create a review structure within your firm to approve proposed contributions from the firm. Use the amount requested to trigger the review.
- Create a similar structure to review proposed contributions by members of the firm, with various levels of donations triggering different levels of review.
- Adopt a policy of participating only at or below a certain level of donorship (for example, avoid being the platinum sponsor of an event).
- Adopt a policy of rotating support for charitable causes from year to year.
- Use the firm's expense policy to formalize approval of contributions and sponsorships or similar expense related expenses.
- Provide guidance to your team for evaluating what is reasonable in the circumstances. Have them consider things like nature, occasion, frequency, value.
- Monitor the client relationship on a regular basis if you are regularly sponsoring or making contributions.
- Limit the contribution amounts, including frequency, to on-going clients or have a rotational schedule for clients who request charitable contributions.

Apply safeguards

Sometimes threats to integrity and objectivity can't be completely avoided; however, safeguards may reduce threats to an acceptable level.

If you find yourself in a position that contributing to a charitable organization would create threats to compliance, consider the following safeguards:

- Have a member of the firm who is not on the engagement team review the proposed contribution.
- Lower the amount of the contribution to a level consistent with other donors.
- Lower the amount of the contribution to a level that is reasonable in the circumstances to either the firm (donor) or the client (recipient).
- Remove from the engagement team any member who is volunteering in a political campaign of a client.
- Add a reviewer to any engagements your firm is currently working on for the client receiving the contribution.

Frequently asked questions and answers

Members in public practice

Contributions and donations

Political campaign contributions

Question. A political candidate is associated with an attest client in a key position or holds a financial interest in an attest client that is material or enables the candidate to exercise significant influence over the attest client (or both). May a member contribute to that campaign without impairing independence or violating any other rule of conduct?

Answer. Yes. A member may make this contribution without impairing independence or violating any other rule of conduct as long as the contribution is not intended to procure professional services and as long as it complies with federal and state laws or regulations.

Charitable donations

Question. A not-for-profit consulting client is requesting that a member join the client's running team for a marathon benefiting a different not-for-profit entity. To join the team, the member needs to pledge an amount to raise for the not-for-profit. May the member participate in this event with the client and raise funds?

Answer. Yes. However, when volunteering or assisting a client's fundraising efforts, the member needs to be careful when asking for charitable donations from any of the firm's clients. In addition, the member should take care to avoid being or even appearing to be under obligation to any client.

Sponsorship

Basic sponsorship of a charitable event

Question: A charitable organization is having a fundraising gala event. An officer of one of the firm's clients is on the organization's governing board and will be honored at the fundraising gala. The lead partner on the engagement has requested that his firm sponsor a table at the gala and make a contribution to the charity.

Can the firm sponsor a table at the fundraising event for the firm's partners and professionals with their spouses or dates attending or make a contribution to the client's charitable organization?

Answer. Yes. The firm may sponsor a table or contribute to the client's charitable organization if the contribution is not intended to influence the client's behavior. However, members should take care in evaluating charitable contributions that are reasonable in the circumstances. The level of sponsorship is an important consideration as well as how it aligns with other sponsors' contributions

Premier or sole sponsorship of a charitable event

Question: A not-for-profit client is holding a golf outing to raise funds. The client asks the partner on the engagement if the firm will be one of the premier sponsors of the golf outing and whether the firm will also sponsor the “hole in one” prize.

Are there ethical considerations for being a premier sponsor of a client’s charitable event?

Answer: Yes. Being a premier sponsor of a client’s charitable event may create threats to compliance with the “Integrity and Objectivity Rule” (ET sec. 1.100.001). Reconsider the level of sponsorship and donation to the not-for-profit client and participate at a lower level than premier or sole sponsor.

Hospitality

Question: The CEO of a consulting client enjoys frequent lunches with the corporate consulting engagement team, including the engagement partner. The CEO pays for all meals.

Does participating in these lunches create an ethical issue for a member?

Answer: In this case the familiarity threat may be present because the client’s hospitality throughout the engagement may lead the member to become too trusting of the client. Safeguards such as limiting the frequency of lunches with the CEO and not allowing the CEO to pay can reduce this threat to compliance with the “Integrity and Objectivity Rule” (ET. sec. 1.100.001).

Gifts or entertainment to family members

Question: The daughter of the engagement team’s lead partner is getting married and the company’s CEO gives a gift card to her favorite store as a wedding present.

Would the daughter’s acceptance of this gift have any ethical implications?

Answer: It depends. Is the client trying to improperly influence the lead partner’s behavior? If so, threats to compliance with the “Integrity and Objectivity Rule” (ET. sec. 1.100.001) may exist at a higher than acceptable level. The client’s intent is key, even if the gift is clearly insignificant and given to someone outside of the member’s firm, such as a member’s immediate family member or close relative.

Members in business

Customer appreciation, scenario 1

Question: An accounting software vendor would like to offer the CFO an all-expenses paid week-long cruise as part of customer appreciation. The CFO has been vetting other accounting software vendors because the contract with this current vendor is up for renewal.

What are the ethical implications if the CFO accepts the cruise?

Answer: The CFO could be viewed as accepting a gift that crosses the line. That is, if the CFO chooses to stay with this vendor, the perception could easily be that the trip persuaded the CFO's behavior to use that vendor rather than fully vet all vendors and select the best one for the company.

Customer appreciation, scenario 2

Question: The accounting software vendor in scenario 1 gives tickets to an all-expenses paid week-long cruise to the CFO's company and the company raffles off the cruise to its employees at its holiday party. The CFO wins the raffle.

Does the CFO's winning the raffle and accepting the cruise have ethical implications?

Answer: The CFO is less likely to be viewed as accepting a gift that may persuade the CFO's behavior because the gift is not direct from the vendor.

Case studies

Case study 1: Financial contribution and volunteer services to a political campaign

The situation

You are part of an engagement team in a firm that provides consulting services to a law firm. The managing partner of the law firm tells you that he will be running in a local election if he gets enough support.

Your firm has a significant portion of its business in the city where the election will take place, so the candidate asks you to volunteer as his campaign treasurer. He also asks your firm to make a financial contribution to his campaign and allow firm staff to volunteer to campaign for him.

Your firm already provides consulting services, so it is clear to you that the contribution is not intended to secure a contract and you know a contribution would not be acceptable if that were the intent.⁴

The applicable guidance

Which part of the Code of Professional Conduct should you consult to determine what, if any, ethical responsibilities you may need to consider?

Because donations to a charitable organization are not considered gifts⁵ you wouldn't use the "Offering or Accepting Gifts or Entertainment" interpretation (ET sec. [1.120.010](#)) to evaluate any effects on your or your firm's integrity or objectivity.

Rather, you would apply the conceptual framework approach outlined in paragraph.07 of the "Conceptual Framework for Members in Public Practice" (ET sec. [1.000.010](#)) to determine whether there will be any effects on your integrity or objectivity.

Analysis

What threats does this situation present?

Using the conceptual framework, you identify the following possible threats in this situation.

The **adverse interest threat** may be present if the players have differing political beliefs. What if staff on the consulting engagement also volunteer on the campaign and have strong political beliefs that differ from the candidate? Can those staff members provide consulting services with objectivity given that their interests are opposed to the candidate's or managing partner's interests?

The **familiarity threat** may be present if you or other firm staff who volunteer for the campaign also participate on the consulting engagement.

⁴ Page 4 of the [General Frequently Asked Questions Document](#) notes that contributions are acceptable if intent is not to influence the procurement of professional services

⁵ Paragraph 10 of the [Gifts and Entertainment Basis for Conclusion Document](#) notes that donations to a charitable organization are not considered gifts.

What if staff become too sympathetic to the candidate's interest because of their strong close business relationship and volunteer work on the campaign?

What if staff have strong political beliefs that are in line with the candidate and they promote the candidate's interests or position to the point that their objectivity is compromised?

Additionally, the **undue influence and self-interest** threats may be present. What if the client requires you and your firm contribute to his campaign in exchange for continuing the consulting engagement?

How significant are these threats?

Now that you've identified the threats that may exist, it's time to evaluate their significance. In doing so, consider the following:

- Is it widely known that the firm has financially contributed to the campaign and that firm staff are actively participating in the campaign in their free time?
- Has your client requested similar participation and contributions from other vendors and service providers?
- What is the materiality of the donation amount to your firm and to the client?

What safeguards can you apply?

If you conclude that the threats to compliance with the code are significant, you can consider the following safeguards:

- Have the work reviewed by someone who is not associated with the consulting engagement. This person can be either inside or outside your firm.
- If you do volunteer as campaign treasurer, stop participating on the consulting engagement.
- Ensure that no firm partners participate in the campaign.
- Ensure firm staff volunteer on their own time and in their own names instead of volunteering through your firm.
- Lower the amount of the contribution so that it is consistent with other donors' contributions.
- Lower the amount of the contribution so that it is not material to either the firm (donor) or the client (recipient).

What does it all come down to?

As with most ethical questions, safeguards are key to compliance. If you already have sufficient safeguards in place or apply the safeguards you identify, such as those above, then threats to compliance with the "Integrity and Objectivity Rule" (ET sec. 1.100.001) may be at an acceptable level and your firm may continue with the engagement.

In some situations, threats to compliance with the rule may be so significant that no safeguards can reduce or eliminate a threat to an acceptable level. In this case you and your firm may need to terminate the relationship or decline the opportunity to help with the campaign. An example of a threat this significant would be if you or your firm contribute to the political campaign with the intent to influence your client's behavior once your client is elected.

[xxx, 2019]

Case Study 2: Annual contribution to a political party

The situation

Clark Kent routinely makes an annual contribution to a political party to support its activities. The owner of Mr. Kent's tax client is a candidate in that same political party for the upcoming election. The owner is popular and has an extensive network, so there's the potential for her to recommend new clients to Mr. Kent's firm. Mr. Kent anticipates that the client's company will grow, creating new opportunities for his firm to provide additional professional services to the client.

After months of campaigning, the client wins the election. Partners at the firm subsequently learn that Mr. Kent's contribution to the political party increased significantly after the election.

The applicable guidance

You are the quality control (QC) partner at Mr. Kent's firm and you decide to investigate this matter further to determine if there are any ethical issues.

You consult the AICPA Code of Professional Conduct knowing that donations to a charitable organization are not considered gifts.⁶ You know this because when you first learned Mr. Kent had started making contributions to the political party, you analyzed the matter using the "Conceptual Framework for Members in Public Practice" (ET sec. [1.000.010](#)).

At the time, you determined the contributions did not affect Mr. Kent's integrity or objectivity in providing tax services to the firm's clients. However, the fact pattern has changed, and you believe it may appear that the Mr. Kent could be viewed as improperly attempting to influence the client's behavior.

Although the "Offering or Accepting Gifts or Entertainment" interpretation (ET sec. [1.120.010](#)) does not apply in this matter, you use the examples in the interpretation for help with assessing the reasonableness of the contribution and applying the appropriate safeguards.

Analysis

What threats does this situation present?

Using the examples in the "Offering or Accepting Gifts or Entertainment" interpretation to analyze the new fact pattern, you identify the following threats.

The **self-interest threat** may be present because Mr. Kent's increased financial contribution to the client's political party could influence the client to refer more clients to Mr. Kent and your firm.

⁶ Paragraph 10 of the [Gifts and Entertainment Basis for Conclusion Document](#) notes that donations to a charitable organization are not considered gifts.

How significant is the threat?

Now that you have identified the threat in this situation, gauge its significance with the following considerations:

- How transparent was Mr. Kent in his contribution?
- Was Mr. Kent's contribution completely voluntary or did the client require or request it?
- What has Mr. Kent's previous behavior been? Has he ever offered contributions or gifts to other clients to secure services?
- Is it widely known that someone in the firm financially contributed to the campaign?

What safeguards can you apply?

As the firm's QC partner, you may consider ensuring the firm applies the following safeguards:

- Remove Mr. Kent from this specific tax engagement.
- Lower the contribution amount (at least going forward) so that it is reasonable in the circumstances to the firm or to the political party receiving the contribution.
- Have the work reviewed by someone who is not associated with the tax engagement. This person can be either inside or outside the firm.

What does it all come down to?

If the firm has the appropriate safeguards in place or applies additional safeguards you've identified, such as those above, then threats to compliance with the "Integrity and Objectivity Rule" may be at an acceptable level and the firm may continue with the engagement.

In some situations, threats to compliance with the rule may be so significant that no safeguards will reduce or eliminate the threat to an acceptable level.

An example is if Mr. Kent contributed to the political party intending to influence the client's behavior. In this case your firm may need to terminate the tax engagement because no safeguards will reduce the threat to an acceptable level.

Case Study 3: Preferential treatment of immediate family member or close relative

The situation

Company B is suing Company A for patent infringement and Company A engages you to provide litigation support. The deadline for you to submit your final analysis of the matter to Company A's CEO and legal counsel is Friday.

The CEO's son and your son play on the same little league team. The CEO is the coach of the team and he decides on the positions and amount of time each child plays during a game. Your son really wants to play 3rd base, but until now the CEO has refused to play your son in this position and instead has played him in the catcher's position for every game.

You share an initial draft of your analysis with the CEO on the Monday before your Friday deadline. The CEO tells you that he expected a different analysis and doesn't believe your analysis is accurate, nor will it be strong enough to win the case.

Based on the facts and prior conversations with the CEO, you believe the information in the initial draft to be accurate. In addition, you and Company A's legal counsel warned Company A's board of directors and the CEO that it would be difficult to win this case based on the facts and complexity of the matter.

The next day, Tuesday, the CEO provides you with new facts and tells you he expects a new analysis based on these facts. The CEO stresses that if Company A doesn't win this case, they may need to file bankruptcy.

You review the new information and still believe that the initial analysis was accurate. Furthermore, you cannot verify the accuracy or completeness of the new details.

Before rushing to leave for a business dinner on Wednesday, the CEO tells you that your son will be playing 3rd base during the next little league game.

The applicable guidance

You decide to analyze this situation using the conceptual framework, since the "Offering or Accepting Gifts or Entertainment" interpretation (ET sec. 1.120.010) does not seem applicable to the CEO's last-minute decision to change the position your son will be playing in the next game.

Analysis

What threats does this situation present?

Application of the conceptual framework helps you identify the following threats.

If you don't change your analysis and Company A loses their case, Company A may not allow your firm to continue with the litigation engagement or other potential engagements. Additionally, the CEO may not permit your son to play his favorite position during the little league games. This could mean one or both of the **undue influence** and **self-interest** threats may be present.

Because your son and the CEO's son play on the same team, it's possible you may approach the CEO's new facts with less skepticism and more leniency. This indicates the **familiarity threat** may also be present.

How significant are these threats?

Now that you have identified the threats, it's time to consider their significance. Here are some things to think about:

- What do you believe the CEO's intent is in offering your son the 3rd base position?
- Is the CEO known for offering inducements to influence others' behavior?
- What is your relationship with the CEO outside of the engagement?

What safeguards can you apply?

If you conclude that threats to compliance with the code are significant, here are some examples of safeguards you may consider:

- Have Company A's legal counsel and board of directors verify the new facts.
- Get representation from Company A's management (other than the CEO) on all information for the case.
- Have the work reviewed by someone who is not associated with the litigation engagement. This could be someone inside or outside of your firm.

What does it all come down to?

If you have the appropriate safeguards in place and apply additional safeguards you identify, such as those above, then threats to compliance with the "Integrity and Objectivity Rule" (ET sec. 1.100.001) may be at an acceptable level and you may continue with the engagement.

In some situations, when it's fairly clear the intent of preferential treatment is to influence your behavior, threats to compliance with the "Integrity and Objectivity Rule" (ET sec. 1.100.001) may not be at an acceptable level and there may be no safeguards that can eliminate the threats or reduce them to an acceptable level. This is true even if the preferential treatment is not for you but is for an immediate family member or close relative and even if the inducement is clearly insignificant.

Records Requests: Fees for Copying/Retrieval

Staff: April Sherman
Aradhana Aggarwal

Reason for Agenda Item

The committee is being asked for feedback on the “Records Requests” interpretation (1.400.200), specifically paragraph .11a.

Summary of Issue

Paragraph .11a of the extant interpretation states, “In fulfilling a request for client-provided records, member-prepared records, or a member’s work products, the member may charge the client a reasonable fee for the time and expense incurred to retrieve and copy such records and require that the client pay the fee before the member provides the records to the client”.

Allowing a member to require that copy and retrieval fees are paid prior to the provision of the records is essentially equivalent to allowing a member to withhold a client’s records (including client-provided records) pursuant to payment of such fees. Staff notes that paragraph .11 is the only area of the interpretation that essentially allows a member to withhold client-provided records. The committee added the wording in paragraph .11 back in April 2006 because the committee believed that it “was always the intent of” the interpretation to allow for the fees and require the payment in advance.

Question 1: Does the committee continue to believe that member can require the payment of retrieval and copy fees prior to providing client records (i.e. para. .11a should remain the same)?

The Ethics Division recently investigated a case where a client requested that a member mail boxes of the client’s records to the client’s new address after the client opted to move to a different part of the country and leave the records with the member. The client refused to pay the shipping charges requested by the member, so the member refused to provide the records.

Question 2: If the committee believes that paragraph .11a should remain the same, should shipping costs (i.e. another cost of providing the client’s records) be included with retrieval and copy costs?

Action Needed

Staff seeks feedback from the committee as to the intent and continued applicability of paragraph .11 of the “Records Requests” interpretation.

Materials Presented

Agenda Item 3B – Extant Records Request interpretation

Records Requests Interpretation

1.400.200 Records Requests

Terminology

.01 The following terms are defined here solely for use with this interpretation:

- a. A client includes current and former *clients*.
- b. A member means the *member* or the *member's firm*.
- c. Client-provided records are accounting or other records, including hardcopy and electronic reproductions of such records, belonging to the client that were provided to the member by, or on behalf of, the client.
- d. Member-prepared records are accounting or other records that the member was not specifically engaged to prepare and that are not in the client's books and records or are otherwise not available to the client, thus rendering the client's financial information incomplete. Examples include adjusting, closing, combining, or consolidating journal entries (including computations supporting such entries) and supporting schedules and documents that the member proposed or prepared as part of an engagement (for example, an audit).
- e. Member's work products are deliverables set forth in the terms of the engagement, such as tax returns.
- f. Working papers are all other items prepared solely for purposes of the engagement and include items prepared by the
 - i. member, such as audit programs, analytical review schedules, and statistical sampling results and analyses.
 - ii. client at the request of the member and reflecting testing or other work done by the member.

Applicability

- .02 When a person or entity engages a *member* to perform *professional services* (engaging entity) with respect to or for the benefit of another person or entity, the *member* will be considered in compliance with the requirements of this interpretation related to client-provided records if the *member* returns these records to the person or entity that gave the records to the member.
- .03 When an engaging entity engages a *member* to perform *professional services* for the benefit of another person or entity (beneficiary), the *member* will be considered in compliance with the requirements of this interpretation related to a *member's* work products if the *member* provides such work products to the beneficiary. For example, if a company engages a *member* to perform personal tax services for the benefit of its executives, the *member* would be in compliance with the interpretation if the *member* provided the tax returns to the executives (see the "[Confidential Client Information Rule](#)" [1.700.001]).
- .04 When an engaging entity engages a *member* to perform *professional services* with respect to another entity that is not the beneficiary of the *professional services*, absent an agreement stating otherwise, the *member* would be in compliance with the requirements of this interpretation related to a *member's* work products if the *member* provided such work products to the engaging entity. For example, if a company engaged a *member* to value the assets of another company for a possible acquisition, absent an agreement stating otherwise, the *member* would be in compliance with this interpretation if the *member* provided the valuation report only to the engaging entity.

Interpretation

- .05 Members must comply with the rules and regulations of authoritative regulatory bodies, such as the member's state board(s) of accountancy, when the member performs services for a client and is subject to the rules and regulations of such regulatory body. For example, a member's state board(s) of accountancy may not permit a member to withhold certain records, even though fees are due to the member for the work performed. Failure to comply with the more restrictive provisions of the applicable regulatory body's rules and regulations concerning the return of certain records would constitute a violation of this interpretation.
- .06 The member should return client-provided records in the member's custody or control to the client at the client's request.
- .07 Unless a member and the client have agreed to the contrary, when a client makes a request for member-prepared records or a member's work products that are in the member's custody or control and that have not previously been provided to the client, the member should respond to the client's request as follows:
 - a. The member should provide member-prepared records relating to a completed and issued work product to the client, except that such records may be withheld if fees are due to the member for that specific work product.
 - b. Member's work products should be provided to the client, except that such work products may be withheld
 - i. if fees are due to the member for the specific work product;
 - ii. if the work product is incomplete;
 - iii. if for purposes of complying with professional standards (for example, withholding an audit report due to outstanding audit issues); or
 - iv. if threatened or outstanding litigation exists concerning the engagement or member's work.
- .08 Once a member has complied with these requirements, he or she is under no ethical obligation to
 - a. comply with any subsequent requests to again provide records or copies of records described in [paragraphs .03–.04](#). However, if subsequent to complying with a request, a client experiences a loss of records due to a natural disaster or an act of war, the member should comply with an additional request to provide such records.
 - b. retain records for periods that exceed applicable professional standards, state and federal statutes and regulations, and contractual agreements relating to the service performed. [Prior reference: paragraph .02 of ET section 501]
- .09 A member who has provided records to an individual designated or held out as the client's representative, such as the general partner, majority shareholder, or spouse, is not obligated to provide such records to other individuals associated with the client. [Prior reference: paragraphs .377–.378 of ET section 591]
- .10 Working papers are the member's property, and the member is not required to provide such information to the client. However, state and federal statutes and regulations and contractual agreements may impose additional requirements on the member.
- .11 In fulfilling a request for client-provided records, member-prepared records, or a member's work products, the member may
 - a. charge the client a reasonable fee for the time and expense incurred to retrieve and copy such records and require that the client pay the fee before the member provides the records to the client.

- b. provide the requested records in any format usable by the client. However, the member is not required to convert records that are not in electronic format to electronic format. If the client requests records in a specific format and the records are available in such format within the member's custody and control, the client's request should be honored. In addition, the member is not required to provide the client with formulas, unless the formulas support the client's underlying accounting or other records or the member was engaged to provide such formulas as part of a completed work product.
- c. make and retain copies of any records that the member returned or provided to the client.

.12 A member who is required to return or provide records to the client should comply with the client's request as soon as practicable but, absent extenuating circumstances, no later than 45 days after the request is made.

.13 The fact that the statutes of the state in which the member practices grant the member a lien on certain records in his or her custody or control does not relieve the member of his or her obligation to comply with this interpretation. [Prior reference: paragraph .02 of ET section 501]

.14 A member would be considered in violation of the "[Acts Discreditable Rule](#)" [1.400.001] if the member does not comply with the requirements of this interpretation.

Strategy and Work Plan**Task Force Members**

Brian Lynch (Chair), Samuel Burke, Stephanie Saunders, Robert Denham, Lisa Snyder. Staff: Iryna Klepcha, Ellen Gorla, and Toni Lee-Andrews.

Task Force Charge

The PEEC Planning Task Force is to develop a consultation paper, *Strategy and Work Plan*, for review and comment by AICPA members and other interested parties.

Reason for Agenda Item

In the August 2019 meeting, PEEC discussed the recommendations of the task force in relation to the potential projects to be included in PEEC's *Strategy and Work Plan*. The task force considered the feedback received from PEEC and seeks the Committee's approval to issue the consultation paper, *Strategy and Work Plan*, found in **Agenda Item 4B**.

Action Needed

The task force seeks the Committee's approval to issue the *Strategy and Work Plan* found in **Agenda Item 4B**.

Materials Presented

Agenda Item 4B Consultation paper, *Strategy and Work Plan*.



Strategy and Work Plan

Consultation paper

AICPA Professional Ethics Division
November 6, 2019

Please send comments by February 28, 2020

Prepared by the AICPA Professional Ethics Executive Committee for comments from those interested in independence, behavioral, and technical standards matters. Please address comments to the Professional Ethics Division, Ethics-exposedraft@aicpa.org

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November 6, 2019

We are actively seeking your input to the Professional Ethics Executive Committee's (PEEC's) strategy for the next three years. Please take this opportunity to engage with us in developing PEEC's upcoming Strategy and Work Plan.

PEEC developed this consultation paper, Strategy and Work Plan, so that AICPA members and other interested parties could review and comment.

After the comment period has concluded and PEEC has evaluated your comments, we will prioritize the most significant items of public interest and publish future projects in the Professional Ethics Division's project agenda, which you can find at www.aicpa.org/PEEC and in the Exhibit B to the consultation paper.

We must receive your responses by February 28, 2020. We'll be sure all written replies to this consultation paper become part of the AICPA's public record. Each response will be available on the PEEC Project Activity page at www.aicpa.org/peecprojects. PEEC will consider comments at meetings subsequent to February 2020.

Please email comments to Ethics-exposedraft@aicpa.org.

Sincerely,

Brian S. Lynch, Chair
AICPA Professional Ethics Executive Committee

Toni Lee-Andrews, Director
AICPA Professional Ethics Division

Professional Ethics Executive Committee (2019–2020)

Brian S. Lynch, Chair	Martin Levin
Coalter Baker	Jeff Lewis
Samuel L. Burke	William McKeown
Chris Cahill	James J. Newhard
Tom Campbell	Stephanie Saunders
Robert E. Denham	Lisa Snyder
Anna Dourdourekas	Peggy Ullmann
Jennifer Kary	Douglas E. Warren
Kelly J. Hunter	Lawrence A. Wojcik
Sharon Jensen	

PEEC Planning Task Force

B. Lynch, Chair

S. Burke

R. Denham

S. Saunders

L. Snyder

Ethics Division Task Force Staff

Toni Lee-Andrews

Director, AICPA Professional Ethics Division

Ellen T. Gorla

Associate Director, AICPA Professional Ethics Division

Iryna Klepcha

Manager, AICPA Professional Ethics Division

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About the Association of International Certified Professional Accountants

The Association of International Certified Professional Accountants (the Association) is the most influential body of professional accountants, combining the strengths of the American Institute of CPAs (AICPA) and The Chartered Institute of Management Accountants (CIMA) to power opportunity, trust, and prosperity for people, businesses, and economies worldwide. It represents 657,000 members and students across 179 countries and territories in public and management accounting and advocates for the public interest and business sustainability on current and emerging issues. With broad reach, rigor, and resources, the Association advances the reputation, employability and quality of CPAs, Chartered Global Management Accountants (CGMAs), and other accounting and finance professionals globally.

The AICPA is the world's largest member association representing the CPA profession, with more than 429,000 members in the United States and worldwide, and a history of serving the public interest since 1887. The AICPA members represent many areas of practice, including business and industry, public practice, government, education and consulting.

The AICPA sets ethical standards for its members and U.S. auditing standards for private companies, nonprofit organizations and federal, state, and local governments; provides educational materials to its members; develops and grades the Uniform CPA Examination; monitors and enforces compliance with the profession's technical and ethical standards; offers specialized credentials; builds the pipeline of future talent; and drives professional competency development to advance the vitality, relevance and quality of the profession.

The AICPA's founding established accountancy as a profession distinguished by rigorous educational requirements, high professional standards, a strict code of professional ethics, a licensing status and a commitment to serving the public interest.

Membership in the International Federation of Accountants (IFAC) obliges the Association to fulfill Statements of Membership Obligations (SMOs) in the United States through the AICPA and in the United Kingdom through CIMA. The SMOs form the basis of the IFAC Member Compliance Program. They serve as a framework for credible and high-quality professional accountancy organizations focused on serving the public interest by adopting or otherwise incorporating and supporting implementation of international standards and maintaining adequate enforcement mechanisms to ensure the professional behavior of their individual members.

The mission of the AICPA is to power the success of global business, CPAs, CGMAs, and specialty credentials by providing the most relevant knowledge, resources, and advocacy and protecting the evolving public interest.

Professional Ethics Executive Committee

PEEC and its objectives

PEEC is a senior committee of the AICPA charged with interpreting and enforcing the AICPA Code of Professional Conduct (the code). The AICPA bylaws provide that PEEC shall (1) investigate potential disciplinary matters involving members, (2) arrange for presentation of a

case before the joint trial board where PEEC finds prima facie evidence of infraction of the bylaws or the code, and (3) interpret the code and propose amendments to it.

Accordingly, PEEC helps the AICPA carry out key parts of its mission, namely to

- promote public awareness and confidence in the integrity, objectivity, competence and professionalism of its members;
- establish and enforce professional ethics standards for the profession; and
- assist members in continually improving their professional conduct and performance.

PEEC's standard-setting activities

The AICPA membership adopted the AICPA Code of Professional Conduct to provide rules to all members — those in public practice, in industry, government, and education — to be applied in the performance of their professional responsibilities. As practice has evolved, so has the code. PEEC promulgates new ethics interpretations and monitors changes in practice and the needs of the public, making revisions to the standards as needed.

The Joint Ethics Enforcement Program

The AICPA promotes public awareness of and confidence in the integrity, objectivity, competence, and professionalism of CPAs by investigating potential disciplinary matters involving members of the AICPA and state CPA societies participating in the Joint Ethics Enforcement Program (JEEP). The program's objectives are to provide (1) a single investigation and action with respect to a person who is a member of both the AICPA and the society; (2) uniformity in the codes of conduct of the AICPA and CPA societies; and (3) uniformity in the enforcement and implementation of the codes of conduct of the AICPA and state CPA societies.

PEEC oversees the Enforcement Subcommittee. This subcommittee is responsible for investigating allegations of violations of the code and other professional standards, including accounting, auditing, tax and other related standards. Investigations range from independence and behavioral issues to technical performance of professional services.

The Professional Ethics Division

The staff of the AICPA Professional Ethics Division coordinates PEEC's standard-setting, enforcement, and member enrichment activities. The staff assists members in continually improving their professional conduct, performance, and expertise and monitors performance to ensure adherence to current standards and requirements. The staff also educates members and promotes the understanding of ethical standards in the code by responding to member inquiries on the application of the code to specific areas of practice.

The Strategy and Work Plan development process

The PEEC Planning Task Force identified potential standard-setting, enforcement, and member enrichment projects for PEEC's Strategy and Work Plan via member enrichment activities (e.g., ethics hotline) and outreach to PEEC members and other stakeholders. PEEC submitted feedback to the task force regarding potential issues to include in this consultation paper. After

discussing the feedback, the task force developed recommendations and classified the identified matters into three categories: proposed new projects, proposed current projects, and proposed projects not to pursue.

In this consultation paper, we are seeking input from the AICPA's membership and other interested parties on the topics listed under proposed new projects. Proposed current projects are included in exhibit A and represent projects that PEEC has already committed to undertake. Proposed projects not to pursue are those potential projects that PEEC decided not to pursue and these matters are included in exhibit C.

PEEC considered the following when determining which projects should be added to the Strategy and Work Plan:

- Prevalent issues in the profession
- Benefit to the public interest
- Technological change
- Changes in auditing and accounting standards
- Education and tools to assist members
- Degree of urgency in addressing matters

For Discussion Purposes Only

Proposed new standard-setting projects

Business relationships

Recommendation of actions

Business relationships have changed since the “Cooperative Arrangements With Attest Clients” interpretation (1.265.010) under the “Independence Rule” (1.200.001) was first adopted in 1993 (e.g., subcontracting or teaming arrangements, alliances). In addition, firms are engaging in business relationships with nonattest clients (e.g., finance and accounting outsourcing) that may create threats to compliance with the “Integrity and Objectivity Rule” (1.100.001). Accordingly, PEEC is considering whether the code should be updated to better reflect the types of business relationships in which members are currently involved and how such relationships impact independence.

Request for input

Please answer the following questions to assist PEEC in understanding whether this project should be pursued and, if so, how to appropriately scope the project:

- What business relationships do firms have with either nonattest or attest clients?
- What additional guidance related to business relationships, if any, would be helpful to address in the code?
- Is this matter increasingly affecting professional practice and how valuable would you find additional guidance?

Definition of “office”

Recommendation of actions

The definition of “office” identifies which individuals need to remain independent of attest clients. This definition was revised during PEEC’s independence modernization project in 2001. Since then, there have been many changes to how accounting firms practice which may require changes in how offices are viewed. Accordingly, PEEC is considering whether the code should be updated to better reflect these changes in practice.

Request for input

Please answer the following questions to assist PEEC in understanding whether this project should be pursued and, if so, how to appropriately scope the project:

- What challenges do firms encounter with the current definition of office?
- What additional guidance related to the definition of office, if any, would be helpful to address in the code?
- Is this matter increasingly affecting professional practice and how valuable would you find additional guidance?

Client affiliates

Recommendation of actions

The definition of “affiliate” currently extends to common ownership by entities and not common ownership by individuals. Due to frequent inquiries regarding whether entities that are owned by

the same individual should be considered affiliates, PEEC is considering whether the code should be updated to include guidance that addresses common ownership by individuals.

Request for input

Please answer the following questions to assist PEEC in understanding whether this project should be pursued and, if so, how to appropriately scope the project:

- How do firms currently apply guidance related to the affiliate definition in a situation when entities are owned by the same individual?
- What additional guidance related to client affiliates, if any, would be helpful to address in the code?
- Is this matter increasingly affecting professional practice and how valuable would you find additional guidance?

Artificial intelligence

Recommendation of actions

Artificial intelligence (AI) is technology that enables computers to perform decision-based tasks previously performed by humans. AI presents a huge opportunity for CPAs, but reliance on new technology could create threats to compliance with the code. PEEC is considering forming a task force to include subject matter experts to understand ethics issues unique to the use of artificial intelligence while providing professional services.

Request for input

Please answer the following questions to assist PEEC in understanding whether this project should be pursued and, if so, how to appropriately scope the project:

- What unique ethical challenges does the use of artificial intelligence present to members beyond what is already covered by the “Integrity and Objectivity Rule”, “General Standards Rule” (1.100.001), and related interpretations?
- If there are unique challenges, how do they differ for members in business and members in public practice?
- Is this matter increasingly affecting professional practice and how valuable would you find additional guidance?

Simultaneous employment or association with an attest client

Recommendation of actions

The “Simultaneous Employment or Association with an Attest Client” interpretation (1.275.005) currently scopes in any professional employee of the firm, except an adjunct faculty member of an educational institution and a member in a government audit organization. PEEC is considering a project to determine whether there are any other exceptions to this interpretation and to update the code to address any exceptions determined to be appropriate. For example, if a CPA firm audits the U.S. Army, then a partner or any professional employee of the CPA firm cannot be simultaneously employed or associated with the U.S. Army; otherwise, independence would be impaired under the interpretation.

Request for input

Please answer the following questions to assist PEEC in understanding whether this project should be pursued and, if so, how to appropriately scope the project:

- What challenges are members encountering when complying with the “Simultaneous Employment or Association With an Attest Client” interpretation (1.275.005)?
- What relief or exceptions should PEEC explore and why?

Digital assets

Recommendation of actions

The code does not provide any guidance specific to independence threats or other ethics issues when members own or mine digital assets such as cryptocurrencies. PEEC is considering forming a task force to include subject matter experts to understand independence and ethics issues unique to the digital asset ecosystem.

Request for input

Please answer the following questions to assist PEEC in understanding whether this project should be pursued and, if so, how to appropriately scope the project:

- What threats are encountered with digital assets and how are they addressed?
- What issues related to digital assets would be helpful to address in the code?
- Is this matter increasingly affecting professional practice and how valuable would you find additional guidance?

529 college savings plans

Recommendation of actions

In 2005, PEEC developed guidance for 529 savings plans. This guidance concludes that a covered member who is an account owner has a direct financial interest in the plan as well as in the underlying investments held by the plan because the account owner elects which sponsor’s 529 savings plan to invest in, and prior to making the investment decision, the covered member has access to information about the plan’s investment options or funds. PEEC was informed that currently the underlying securities are not always known by account owners when they invest. Accordingly, PEEC is considering whether the code needs to be updated.

Request for input

Please answer the following questions to assist PEEC in understanding whether this project should be pursued and, if so, how to appropriately scope the project:

- What challenges do those who invest in 529 savings plans encounter in monitoring the underlying investments held by these plans?
- What guidance related to 529 savings plans would be helpful to include in the code?
- Is this matter increasingly affecting professional practice and how valuable would you find additional guidance?

Reporting of an independence breach to an affiliate that is also an attest client

Recommendation of actions

There are situations when a breach occurs at the client level and the member communicates with those charged with governance and obtains agreement to continue. PEEC has discussed whether members can use judgement about when or if they need to communicate this breach to sister and downstream affiliates. PEEC is considering whether the “Breach of an Independence Interpretation” subsection of the code should be updated to specifically address what procedures members should follow when multiple audit clients are affected by the same breach.

Request for input

Please answer the following question to assist PEEC in understanding whether this project should be pursued and, if so, how to appropriately scope the project:

- Is this matter increasingly affecting professional practice and how valuable would you find additional guidance?

De minimis fees

Recommendation of actions

The materiality concept is used in subtopic 1.240 Financial Interests but the “Unpaid Fees” interpretation (1.230.010) does not refer to materiality. PEEC has discussed whether the existence of any de minimis amount of unpaid fees from an attest client for any previously rendered professional service provided more than one year prior to the date of the current-year report automatically impairs independence. PEEC is considering whether the Code should be updated to better reflect how de minimis amounts of unpaid fees affect independence.

Request for input

Please answer the following question to assist PEEC in understanding whether this project should be pursued and, if so, how to appropriately scope the project:

- Is this matter increasingly affecting professional practice and how valuable would you find additional guidance regarding this matter?

Proposed new member enrichment projects

Data security and breaches

Recommendation of actions

The primary focus of information security is the balanced protection of the confidentiality, integrity, and availability of data while maintaining efficient policy implementation and without disrupting organizational productivity. PEEC believes that member enrichment materials might be helpful to assist members with understanding their ethical responsibilities in this area.

Request for input

Please answer the following question to assist PEEC in understanding whether this project should be pursued and, if so, how to appropriately scope the project:

- What additional guidance, if any, would be helpful to assist members with data security or responding to data breaches?

Conflicts of interest

Recommendation of actions

Due to an increased number of inquiries regarding conflicts of interest, PEEC believes that providing member enrichment materials related to the “Conflicts of interest” subtopic (1.110) might be helpful to members.

Request for input

Please answer the following question to assist PEEC in understanding whether this project should be pursued and, if so, how to appropriately scope the project:

- What additional guidance, if any, would be helpful to assist members with better understanding and applying the conflicts of interest interpretations?

Operational enhancements to the code

Recommendation of actions

PEEC plans to address matters related to the general maintenance of the code. The need for these matters may be identified via member enrichment initiatives (e.g., ethics hotline) or by other means. For example, staff is working on adding the frequently asked questions (FAQs) to the Online Professional Library (OPL) subscription service. Members who have subscriptions to OPL will be able to access the FAQs as part of the publication, Technical Questions and Answers (that is, they would not have to leave the subscription platform to access the FAQs). The FAQs will also be available in the cost-free online interface where the code is housed.

Request for input

Please answer the following question to assist PEEC in understanding whether this project should be pursued and, if so, how to appropriately scope the project:

- What operational enhancements should be made to the code to make it more user friendly?

Additional matters

Please provide input on any additional matters you believe we should include in the Strategy and Work Plan.

Exhibit A — Current projects

Standard setting project

Restricted use reports and independence provisions with a financial audit centric perspective.

This project has two components. The first is for a task force to determine if revisions are necessary to paragraphs .03 and .04 of the “Agreed-Upon Procedure Engagements Performed in Accordance With SSAEs” interpretation (1.297.020) now that AT-C section 215, *Agreed Upon Procedures Engagements*,¹ will allow for the issuance of general use reports. This is because the requirement to issue a restricted use report was a factor PEEC considered when developing the modifications to independence as outlined in the above referenced ethics interpretation. The task force will consider IESBA’s standard.

The second component of this project is for the task force to identify any financial statement centric provisions in the code and recommend revisions for how these provisions should be handled if the attest engagement is not financial statement related.

Member enrichment projects

IESBA comparison. Given the restructure of the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA code), staff will compare the AICPA code to the IESBA code and identify where the AICPA code is less restrictive than the IESBA code. Staff will consider including a convergence matrix within this document to assist members in understanding where the AICPA addresses IESBA topics more robustly in non-authoritative guidance.

GAO independence comparison. Staff will update the GAO independence comparison for the latest yellow book changes.

Data analytics to identify member enrichment opportunities. Staff will explore what tools the Association may have that can assist with analyzing data sets obtained from cases and hotline inquiries to generate useful insights, with the goal of developing member enrichment materials.

Records request. Staff will draft an FAQ to clarify whether the intention of the “Records Requests” interpretation (1.400.200) was to allow a member to withhold a client’s records for costs pertaining to copying, storage, and shipping.

Assisting client with implementing accounting standards. Staff is working with the Enhancing Audit Quality (EAQ), Center for Plain English Accounting (CPEA), and Accounting Standards teams to develop a webcast discussing potential independence issues that exist when assisting clients with implementing new accounting standards such as the revenue and leasing standards.

Enhanced visibility of non-authoritative guidance. Staff will identify ways to enhance visibility of the division’s non-authoritative guidance. To date, staff has identified two opportunities. First, staff is working with the content management team to add the division’s FAQs and as many as practicable of the division’s practice aids, implementation guides, toolkits, and other guidance to the online interface where the code currently resides (depending on technology constraints, this

¹ You can find all AT-C sections in *AICPA Professional Standards*.

interface may not be the best place to house interactive materials). Additionally, staff is working on adding the FAQs to the Online Professional Library (OPL) subscription service. Members who have subscriptions to OPL will be able to access the FAQs as part of the publication *Technical Questions and Answers* (that is, not leave the subscription platform to access the FAQs).

Enforcement projects

Collaboration with peer review division for effective and efficient member/firm remediation. An enforcement project is underway wherein the peer review staff and ethics division staff are collaborating on potential ways to expedite certain referrals. In several of these scenarios the ethics division may need to decide on whether to rely on the results of actions taken by peer review and forgo further investigation. Any proposals will be vetted by the Peer Review Board and the PEEC.

Effect on automatic sanctioning with changes in Office of Professional Responsibility (OPR) Enforcement. Staff will consult with internal legal counsel to determine if changes to OPR's internal operations have any effect on OPR being an approved body for automatic sanctioning.

Reviewing the automatic sanctioning guidelines for consistency. The Automatic Sanctioning Subgroup will undertake a project to evaluate the challenges faced with mapping an appropriate sanction using the established guidelines and develop recommendations for addressing these challenges.

For Discussion Purposes Only

Exhibit B — PEEC Three-Year Project Agenda, August 2019

Task force name and charge

Information technology and cloud services. Recommend to PEEC any updates necessary to the “Nonattest Services” subtopic (1.295), including the “Information Systems Design, Implementation, or Integration” interpretation (1.295.145), in light of current information technology (including cloud) service offerings by members.

Independence in state and local government environment. Recommend to PEEC the final versions of the implementation guide and tools for the “State and Local Government Client Affiliates” interpretation (1.224.020) that PEEC adopted in May 2019. Recommend to PEEC frequently asked questions for this interpretation or other member enrichment information and tools as needed. Consider whether and how affiliate relationships and independence guidance should be extended to organizations in a single audit environment.

Responding to non-compliance with laws and regulations. Review IESBA’s standard *Responding to Non-Compliance with Laws and Regulations* and recommend to PEEC revisions to the code for purposes of convergence.

Inducements. Review the revisions IESBA made to the inducements topics and determine what, if any, revisions should be made to the AICPA code and CGMA code for convergence purposes.

Compilation of pro-forma and prospective financial information and selected procedures engagements task force. Determine if the independence modifications currently allowed for engagements performed under the SSAEs can be extended to compilation engagements for either pro-form financial information or prospective financial information since these engagements are performed under the SSARS and not the SSAEs. Also, provide preliminary feedback to the Audit and Attest Standards staff on whether the new service under development referred to currently as “Selected Procedures Engagements” would likely qualify for modified independence.

Staff augmentation. Determine whether the code should address loaned staff arrangements.

Standing Groups or Task Forces and Charge

IFAC convergence and monitoring. Standing task force charged with identifying the projects that need to be undertaken as a result of convergence inconsistencies between the AICPA and IFAC codes and responding to IFAC’s ethical exposure drafts. Current projects being monitored:

- Structure of the code
- Safeguards
- Strategy and Work Plan
- Professional skepticism
- Non-assurance services

Nonattest services. Standing task force to assist staff with implementation issues on the revised standard.

Enhanced discipline; Automatic sanctioning subgroup and enhanced enforcement. Standing subgroup to determine automatic sanctions for purposes of ethics bylaws using PEEC/board-approved sanctioning guidelines; monitor sanctions of subcommittees to ensure consistency. Also, the subgroup will be involved with enhancing the efficiencies and effectiveness of enforcement process.

Planning Subgroup. Annually solicit feedback from key stakeholders concerning emerging ethical issues and recommend which issues should be studied by PEEC along with the priority of the projects. In addition, the subgroup will recommend revisions to the project agenda as needed.

For Discussion Purposes Only

Exhibit C — Projects not to pursue

Comparisons to other standard setter's rules. PEEC has decided not to pursue projects at this time to compare the AICPA code to standard setter's rules (e.g., SEC, PCAOB, treasury, HHS, and state boards) aside from the IESBA and GAO and DOL.

Ethical guidance related to client approval for sending work outside the U.S. It was suggested that PEEC consider a project to determine if there is adequate guidance requiring members receive clients' approval before sending client records outside the U.S. especially when the governments of those foreign countries are empowered to obtain those records more freely than U.S. jurisdictions. PEEC has decided not to pursue a project at this time to explore what additional ethical requirements aside from the "Use of a Third-Party Service Provider" interpretations (1.300.040, 1.150.040), the "Disclosing Information to a Third-Party Service Provider" interpretation (1.700.040), and the "Disclosure of Client Information to Third Party" interpretation (1.700.060) may be necessary.

Removal of the government auditor without approval. PEEC has decided not to pursue a project at this time to revisit "Simultaneous Employment or Association with an Attest Client" interpretation (1.275.005) where the government auditor can be "appointed by someone other than the legislative body, as long as the appointment is confirmed by the legislative body and removal is subject to oversight or approval by the legislative body." PEEC noted that they approved the phrase "oversight or" in 2014 in the government exception so that many government entities can be audited.

Contingent fees. PEEC has decided not to pursue a project at this time to revisit "Contingent Fee Rule" (1.510.001).

Gifts and entertainment. PEEC has decided not to pursue a project at this time to revisit the "Gift and Entertainment" subsection (1.120). The Inducements Task Force is working on member enrichment materials that may assist with providing additional guidance in relation to this topic.

Using a third-party provider for internal purposes or administrative support. PEEC has decided not to pursue a project at this time to provide additional guidance regarding the use of a third-party provider for internal purposes or administrative support that may involve client data. PEEC noted that the examples provided in the "Use of a Third-Party Service Provider" interpretation (1.150.040) are clear that a third-party provider is not expected to look at the client data while providing a firm with administrative support.

Peer review for tax practice. PEEC has decided not to pursue a project at this time to undertake a study to consider whether there should be a quality/peer review for tax practice.

Scared straight litigation. PEEC has decided not to pursue a project at this time to monitor and report on court cases and litigious actions involving CPAs.

Client access to information in cloud. It was suggested that PEEC consider the balance between the client's convenience and the member's risk of independence as it relates to keeping the records in the cloud for the client. PEEC has decided not to pursue this project because as noted in the "Hosting Services" interpretation (1.295.143), it has been concluded that independence would be impaired if a member is taking custody of or storing an attest

client's data or records whereby, that data or records are available only to the attest client from the member, such that the attest client's data or records are otherwise incomplete.

Confidentiality from the government. It was suggested that PEEC consider a project to update the "Disclosure of Client Information to Third Party" interpretation (1.700.060) to address contrasting ethical duties between the legal and the accounting profession. One such contrasting duty involves situations in which an accountant will provide information to a government agency without informing the client. PEEC has decided not to pursue a project at this time to explore what additional ethical requirements aside from "Disclosure of Client Information to Third Party" interpretation (1.700.060) and "Disclosing Confidential Client Information as a Result of a Subpoena or Summons" interpretation (1.700.100) may be necessary.

For Discussion Purposes Only

Implementation guide

State and local government client affiliates

TBD 2019

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New York, NY 10036-8775

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The implementation guide: What's it all about?

The “State and Local Government Client Affiliates” interpretation (ET sec. 1.224.020,¹ referred to in this guide as “the interpretation”) under the “[Independence Rule](#)” (ET sec. 1.200.001) provides that [members](#) should be [independent](#) of certain entities that a state or local government (SLG) [financial statement attest client](#) is required to include in its [financial statements](#). The interpretation defines the entities requiring [independence](#) as affiliates, including those that the applicable financial reporting framework requires to be included in the client’s *financial statements* but that are, nevertheless, excluded. For simplicity, in this implementation guide we’ll refer to an SLG *financial statement attest client* as just “client.”

How can this guide help you?

This implementation guide will help you understand which entities are affiliates and which *independence* requirements are extended to these affiliates. This guide is not authoritative and should be used in conjunction with the interpretation.

What’s included in the guide?

- ▶ [Decision trees](#) that give you an overview of the pathways to identify affiliates
- ▶ [Descriptions of the pathways](#) in which an entity or investment would be considered an affiliate
- ▶ [Exhibits](#) that illustrate the decision points along these pathways
- ▶ [Description of the nonattest services exception](#) within the interpretation
- ▶ [Examples of how these pathways could be applied](#) to XYZ State
- ▶ [Examples of circumstances or relationships](#) where you might need to consult the “[Conceptual Framework for Independence](#)”
- ▶ [Tools](#) to help you implement the guidance

Terms defined in the [AICPA Code of Professional Conduct](#) (code) are italicized. The first time you see a defined term in this implementation guide it will link to the code.

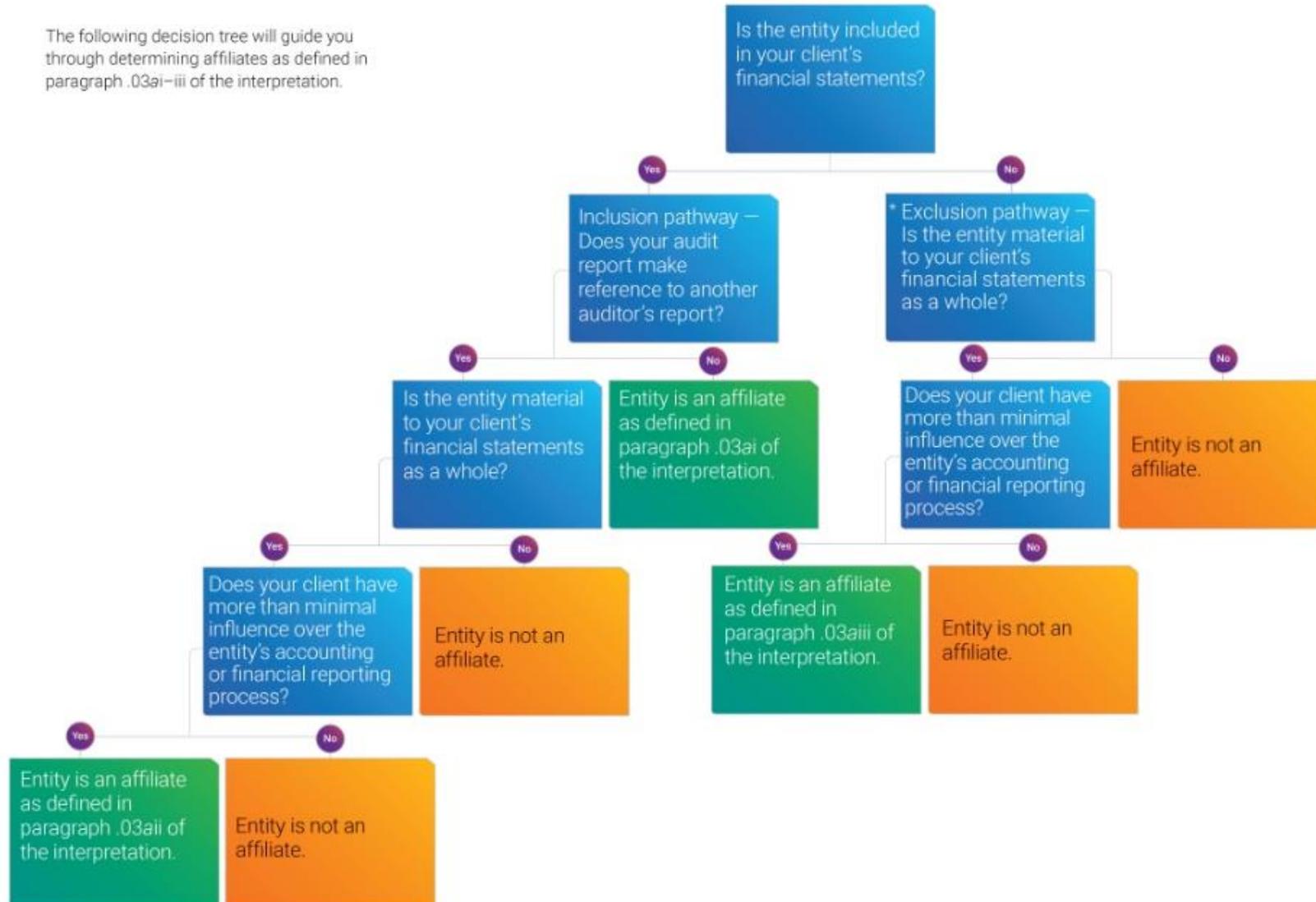
Affiliate decision trees (So you won’t be barking up the wrong tree)

Paragraph .03 of the interpretation includes a detailed definition of an affiliate. To help you translate that definition into actionable decisions, we’ve created two decision trees — one related to entities the client is required to include in its financial statements and one related to investments.

¹ You can find all ET sections in the [AICPA Code of Professional Conduct](#).

I. Entities that the applicable financial reporting framework requires to be included in the client's financial statements

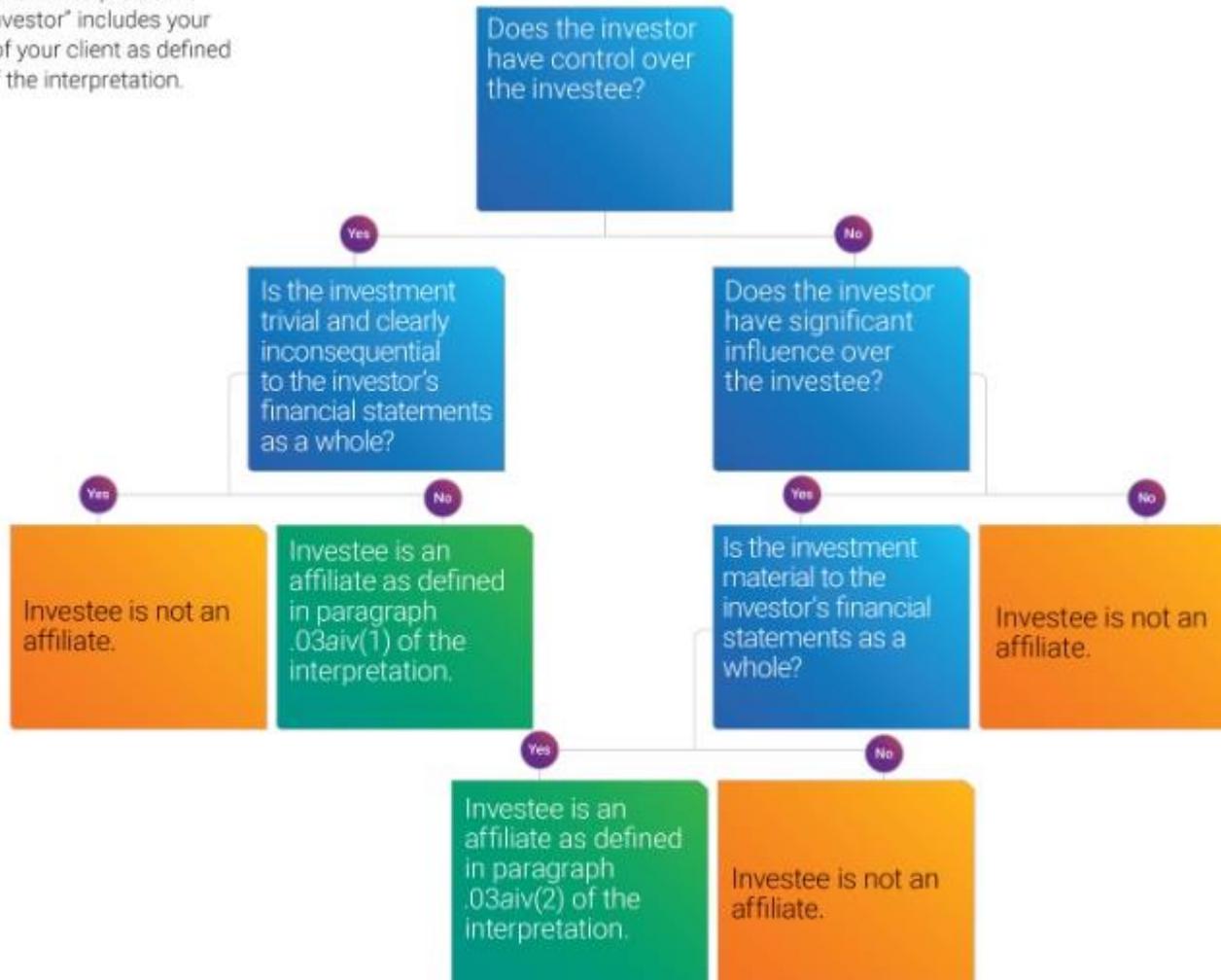
The following decision tree will guide you through determining affiliates as defined in paragraph .03ai–iii of the interpretation.



*The exclusion pathway relates to entities that the applicable financial reporting framework requires to be included in the client's financial statements but that are, nevertheless, excluded.

II. Investments held by an investor

The following decision tree will guide you through determining affiliates as defined in paragraph .03aiv of the interpretation. In this context, an "investor" includes your client or an affiliate of your client as defined in paragraph .03ai of the interpretation.



Pathways (To keep you on the right track)

There are three pathways where an affiliate relationship may exist when you are applying the interpretation. In this implementation guide, we will refer to these pathways as follows:



Inclusion pathway

The first pathway relates to included entities, which are entities that the client includes in its *financial statements*.²

There are **two** scenarios you might face in which an included entity would be considered an affiliate of your client and, as a result, you would need to be *independent* of the included entity in addition to being *independent* of your client.

1. Your audit report **does not** reference another auditor.

If you report on the included entity as part of your client and do not reference another auditor's report on the included entity, the included entity is considered an affiliate as defined in paragraph .03ai of the interpretation. If that's the case, you would need to apply the "[Independence Rule](#)" and related interpretations to the included entity.

2. Your audit report **does** reference another auditor.

An entity will be considered an affiliate as defined in paragraph .03aⁱⁱ of the interpretation if you refer to another auditor's report on the included entity and

- the included entity is material to your client's *financial statements* as a whole, and
- your client has more than minimal influence over the accounting or financial reporting process of the included entity. (We'll get into more details about this in the next section.)

If this is the case, you would need to apply the "[Independence Rule](#)" and related interpretations to the included entity. However, there is one exception related to the provision of certain nonattest services (which we'll discuss later in the section "[Nonattest services exception](#)").

Does my client have more than minimal influence?

There is a rebuttable presumption that when the included entity is a fund or blended component unit, the client has more than minimal influence over its accounting or financial reporting process. How would you go about rebutting that presumption? And what if it doesn't apply because the entity is a discretely presented component unit?

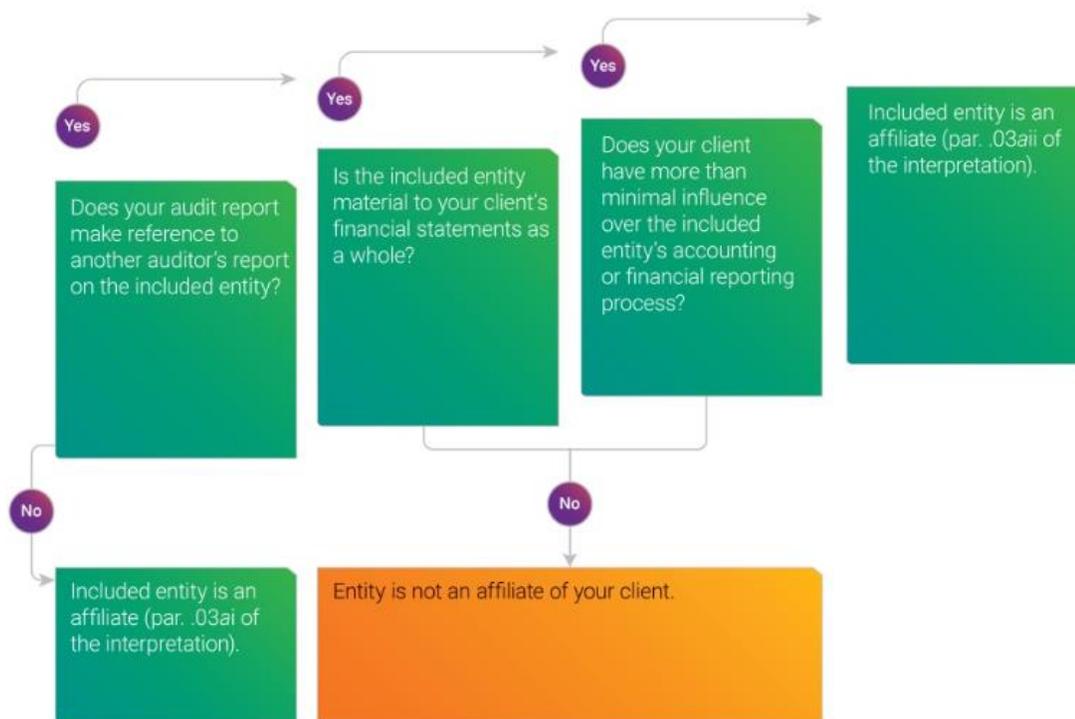
² Refer to the [exclusion pathway](#) for entities that the applicable financial reporting framework requires to be included in the client's financial statements but are, nevertheless, excluded.

The factors in paragraph .09 of the interpretation will help you assess the actual level of influence your client has on the included entity's accounting and financial reporting process. You'll need to evaluate each factor based on the facts and circumstances in your client's situation. Certain factors might be more, or less important depending on how they could potentially *impair independence*. Ultimately you will need to rely on your professional judgment to support your conclusion as to whether your client has more than minimal influence over the included entity's accounting or financial reporting process.

Illustration — The inclusion pathway in action

Let's see what a trip along the inclusion pathway might look like. To facilitate this, we've broken the pathway down into easy-to-follow steps for determining whether an included entity would be considered an affiliate as defined in paragraph .03ai or paragraph .03aai of the interpretation.

Exhibit A: Inclusion pathway



Don't stop now...

Keep using the pathway to evaluate entities until, in your professional judgment, you have identified all affiliates. For example, if you've followed the pathway and concluded a component unit is an affiliate, you may need to evaluate that affiliate's component units as well.

Exclusion pathway

The exclusion pathway relates to entities that the applicable financial reporting framework requires to be included in the client's *financial statements* but that are, nevertheless, excluded. This exclusion results in a departure from the applicable financial reporting framework.

Even if an entity is excluded from your client's *financial statements* it still might be considered an affiliate as defined in paragraph .03aiii of the interpretation. This will be the case when

- the excluded entity is material to your client's *financial statements* as a whole and

- your client has more than minimal influence over the accounting or financial reporting process of the excluded entity.

If this is the case, you will need to apply the [“Independence Rule”](#) and related interpretations to the excluded entity. However, there is one exception related to the provision of certain nonattest services (which we’ll discuss later in the section [“Nonattest services exception”](#)).

Does my client have more than minimal influence?

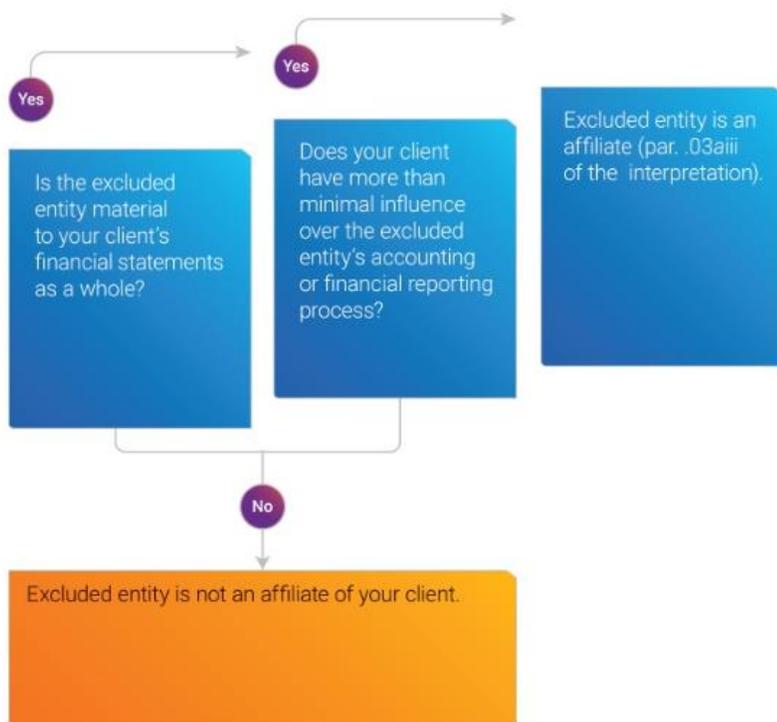
As we discussed in the inclusion pathway, you may have relationships where more than minimal influence is hard to figure out. What do you do? There is a rebuttable presumption that when the excluded entity is a fund or blended component unit, the client has more than minimal influence over its accounting or financial reporting process. How would you go about rebutting that presumption? And what if it doesn’t apply because the entity is a discretely presented component unit?

The factors in paragraph .09 of the interpretation will help you assess the actual level of influence your client has on the excluded entity’s accounting and financial reporting process. You’ll need to evaluate each factor based on the facts and circumstances in your client’s situation. Certain factors might be more, or less important depending on how they could potentially *impair independence*. Ultimately you will need to rely on your professional judgment to support your conclusion as to whether your client has more than minimal influence over the excluded entity’s accounting or financial reporting process.

Illustration — The exclusion pathway in action

Now it’s time to explore the exclusion pathway. Follow the steps outlined in the exhibit to determine whether the excluded entity would be considered an affiliate of your client as defined in paragraph .03aⁱⁱⁱ of the interpretation.

Exhibit B: Exclusion pathway



Don't stop now...

Keep using the pathway to evaluate entities until, in your professional judgment, you have identified all affiliates. For example, if you determine a component unit is an affiliate, you may need to evaluate the affiliate's component units as well.

Investment pathways

As the name suggests, these pathways are all about investments. The good news is that you only have to evaluate investments of your client or an affiliate of your client as defined under paragraph .03ai of the interpretation. You don't need to worry about other investments unless you come across a circumstance or relationship where you might need to consider applying the [conceptual framework](#). And just in case you do, we have an example for you [here](#) in this guide.

Let's take a closer look at an investment in an investee. An investee will be considered an affiliate under paragraph .03aiv of the interpretation if it meets the criteria in either of these pathways:

- **Control investment pathway.** The investor³ has [control](#) over the investee, unless the investment in the investee is trivial and clearly inconsequential to the client's *financial statements* as a whole.
- **Significant influence investment pathway.** The investor has [significant influence](#) over the investee and the investment in the investee is material to the client's *financial statements* as a whole.

When the criteria of either pathway are met, you will need to apply the ["Independence Rule"](#) and related interpretations to the investee.

Illustrations — The investment pathways in action

What might it look like to apply these criteria? The following exhibits illustrate the step-by-step process of determining whether an investee is an affiliate under paragraph .03aiv of the interpretation.

Exhibit C.1: Control investment pathway



³ For purposes of the interpretation, an investor includes only the client or an affiliate of the client as defined in paragraph .03ai of the interpretation

Exhibit C.2: Significant influence investment pathway



*Use the control investment pathway (exhibit C.1) before starting here.

Nonattest services exception

As discussed earlier, when an entity is an affiliate, the interpretation requires you to apply the [“Independence Rule”](#) and related interpretations applicable to the client to the affiliate. Pretty straightforward, right? Right. But now we’re going to throw one small wrench into the mix — the nonattest services exception.

What is the nonattest services exception?

Paragraph .07 of the interpretation provides an exception for prohibited nonattest services. In this context, “prohibited nonattest services” are services that would *impair independence* under the [“Nonattest Services”](#) subtopic (ET sec. 1.295) of the [“Independence Rule”](#).

What does this actually mean? Under the nonattest services exception, you would not be prohibited from providing these services to affiliates of the client when the following apply:

- You can reasonably conclude that the prohibited nonattest service does not create a self-review [threat](#) because the results of the nonattest service will not be subject to financial statement attest procedures.
- Any other *threats* created by providing the nonattest service can be eliminated or reduced to an [acceptable level](#) by the application of [safeguards](#).

Warning! You may only apply this exception to affiliates defined in paragraph .03aⁱⁱ and .03aⁱⁱⁱ of the interpretation. This exception does not apply if you’re evaluating nonattest services related to an affiliate defined in .03aⁱ or .03a^{iv} of the interpretation.

Nonattest services exception scenarios

The following scenarios, though hypothetical, will give you an idea of some situations in which the nonattest services exception might come into play. Keep these points in mind as you read through the scenarios:

- Firm Z audits ABC County.
- Firm Z determines that County Housing Authority meets the definition of an affiliate under paragraph .03aⁱⁱ of the interpretation.
- Firm Z determines that NFP Company meets the definition of an affiliate under paragraph .03aⁱⁱⁱ of the interpretation.

Scenario 1: Included entity

The situation

County Housing Authority asks Firm Z to provide backup services for its data and records. Under the “[Hosting Services](#)” interpretation (ET sec. 1.295.143) of the “[Independence Rule](#),” Firm Z concludes the services are prohibited hosting services.

The question

Do the otherwise prohibited backup services meet the requirements of the nonattest services exception?

The conclusion

It depends. If Firm Z concludes that the backup services will not be subject to financial statement attest procedures and all other *threats* are at an *acceptable level*, then Firm Z can provide the backup services to County Housing Authority without *impairing independence*.

Scenario 2: Excluded entity

The situation

NFP Company asks Firm Z to perform financial information system design services for it. Under the “[Information Systems Design, Implementation, or Integration](#)” interpretation (ET sec. 1.295.145) of the “[Independence Rule](#),” Firm Z concludes that financial information system design services are prohibited services.

The question

Do the otherwise prohibited financial information system design services meet the requirements of the nonattest services exception?

The conclusion

Again, it depends. If Firm Z concludes that the financial information system design services will not be subject to financial statement attest procedures and all other *threats* are at an *acceptable level*, then Firm Z can provide the design services to NFP Company without *impairing independence*.

Putting it all together: Do I have any affiliates?

Now that we’ve covered the components relevant to affiliates within the interpretation — the inclusion, exclusion, and investment pathways — let’s put it all together.

As you read through the examples keep this information in mind:

Firm A audits XYZ State, which prepares its financial statements in accordance with generally accepted accounting principles (GAAP). XYZ State has numerous funds and component units. Firm A is determining which entities meet the affiliate definition and, as such, require application of the [“Independence Rule”](#) and related interpretations. To determine whether they are affiliates, Firm A is evaluating

- Highway Fund, a fund included in XYZ State’s *financial statements*.
- Public University, a discretely presented component unit XYZ State includes in its *financial statements*.
- University Foundation, a blended component unit Public University includes in its *financial statements*.
- Utility Fund, a fund GAAP requires XYZ State to include in its *financial statements* but that is excluded (GAAP departure).
- Investments of Public Pension Trust Fund, which XYZ State includes in its *financial statements*.

Affiliate under paragraph .03ai — Highway Fund

The situation

XYZ State includes Highway Fund in its *financial statements*. Firm B audits Highway Fund. Firm A does not make reference to Firm B’s audit of Highway Fund.

The conclusion

Highway Fund is an affiliate of XYZ State as defined in paragraph .03ai of the interpretation because Firm A does not reference Firm B’s audit of the fund.

Firm A will apply the [“Independence Rule”](#) and related interpretations to Highway Fund.

In addition, Firm A

- should evaluate investments, if any are held by Highway Fund, to determine if there are any investments that are also affiliates as defined in paragraph .03aiv of the interpretation.
- may not use the [nonattest services exception](#).

The same conclusion would be reached if Firm A audited Highway Fund.

What about Firm B?

Because Firm B’s client is Highway Fund, Firm B will determine the affiliates of Highway Fund by evaluating

- entities that the applicable financial reporting framework requires Highway Fund to include in its *financial statements*.
- investments held by Highway Fund and affiliates of Highway Fund, that meet the definition under paragraph .03ai of the interpretation.

Affiliate under paragraph .03aii — Public University

The situation

XYZ State includes Public University in its *financial statements* as a material discretely presented component unit. Firm C audits Public University. Firm A references Firm C’s audit report in Firm A’s audit report on XYZ State’s *financial statements*. XYZ State has more than minimal influence over Public University’s accounting and financial reporting process.

The conclusion

Public University is an affiliate of XYZ State as defined in paragraph .03a(ii) of the interpretation because

- Public University is material to XYZ State's *financial statements* as a whole and
- XYZ State has more than minimal influence over Public University's accounting and financial reporting process.

Firm A will apply the "[Independence Rule](#)" and related interpretations to Public University.

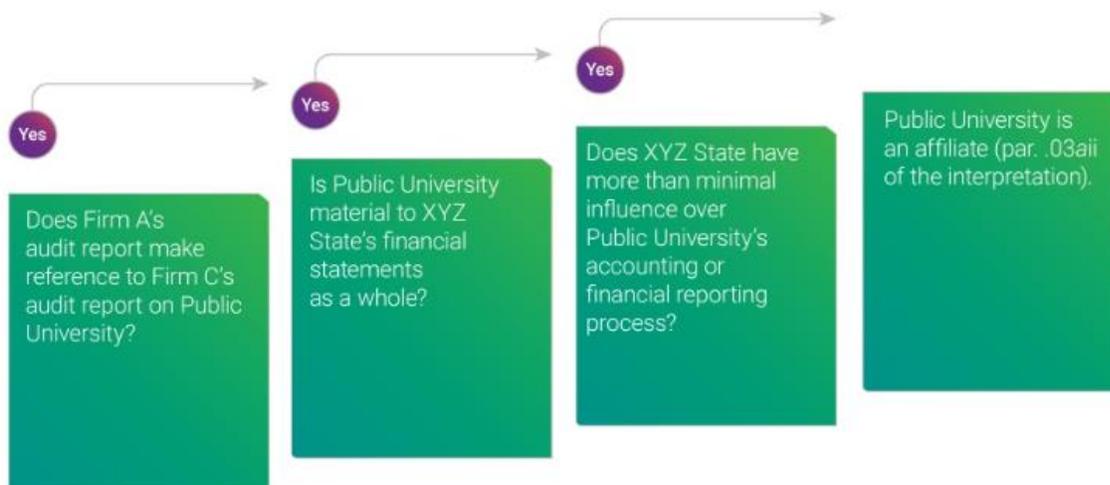
In addition, Firm A

- does not need to evaluate investments held by Public University for *independence* purposes.
- may use the [nonattest services exception](#).

If Public University was not material to XYZ's *financial statements* as a whole, then Public University would not be considered an affiliate of XYZ State as defined in paragraph .03a(ii) of the interpretation. Similarly, if XYZ State did not have more than minimal influence over Public University's accounting or financial reporting process, Public University would not be considered an affiliate of XYZ State.

Exhibit D.1 provides a visual of the conclusion that Public University is an affiliate of XYZ State under paragraph .03a(ii) of the interpretation.

Exhibit D.1: par. .03a(ii) example



What about Firm C?

Because Firm C's client is Public University, Firm C will determine the affiliates of Public University by evaluating

- entities that the applicable financial reporting framework requires Public University to include in its the *financial statements*.
- investments held by Public University and affiliates of Public University, as defined in paragraph .03a(i) of the interpretation.

Affiliate under paragraph .03a(ii) — University Foundation

The situation

University Foundation is a blended component unit that Public University includes in its *financial statements*. Public University is a discretely presented component of XYZ State. University Foundation is also included in XYZ State's *financial statements* and is material to XYZ State. Firm C audits University Foundation. Firm A references Firm C's audit report in the auditor's report on XYZ State's *financial statements*. XYZ State has more than minimal influence over University Foundation's accounting and financial reporting process.

The conclusion

University Foundation is an affiliate of XYZ State as defined in paragraph .03a(ii) of the interpretation because

- University Foundation is material to XYZ State's *financial statements* as a whole and
- XYZ State has more than minimal influence over University Foundation's accounting and financial reporting process.

Firm A will apply the ["Independence Rule"](#) and related interpretations to University Foundation.

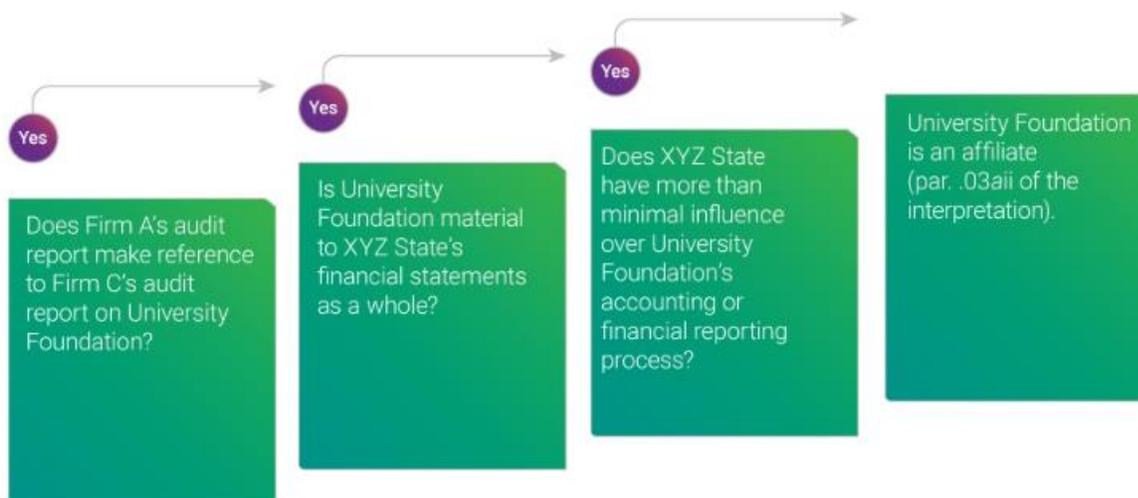
In addition, Firm A

- does not need to evaluate investments held by University Foundation for *independence* purposes.
- may use the [nonattest services exception](#).

If University Foundation was not material to XYZ's *financial statements* as a whole, then University Foundation would not be an affiliate of XYZ State as defined in paragraph .03a(ii) of the interpretation. Similarly, if XYZ State did not have more than minimal influence over University Foundation's accounting or financial reporting process, University Foundation would not be an affiliate of XYZ State.

Exhibit D.2 provides a visual of the conclusion that University Foundation is an affiliate of XYZ State under paragraph .03a(ii) of the interpretation.

Exhibit D.2: par. .03a(ii) example



Affiliate under paragraph .03aiii — Utility Fund

The situation

Utility Fund is material to XYZ State and should be presented as a discretely presented component unit under the applicable financial reporting framework (in this case GAAP). Although GAAP requires XYZ State to include Utility Fund in its *financial statements*, XYZ State departs from GAAP and excludes Utility Fund because Utility Fund does not have current audited *financial statements* available. XYZ State has more than minimal influence over Utility Fund's accounting and financial reporting process.

The conclusion

Utility Fund is an affiliate of XYZ State as defined in paragraph .03aiii of the interpretation because

- Utility Fund is material to XYZ State's *financial statements* as a whole and
- XYZ State has more than minimal influence over Utility Fund's accounting and financial reporting process.

Firm A will apply the ["Independence Rule"](#) and related interpretations to Utility Fund.

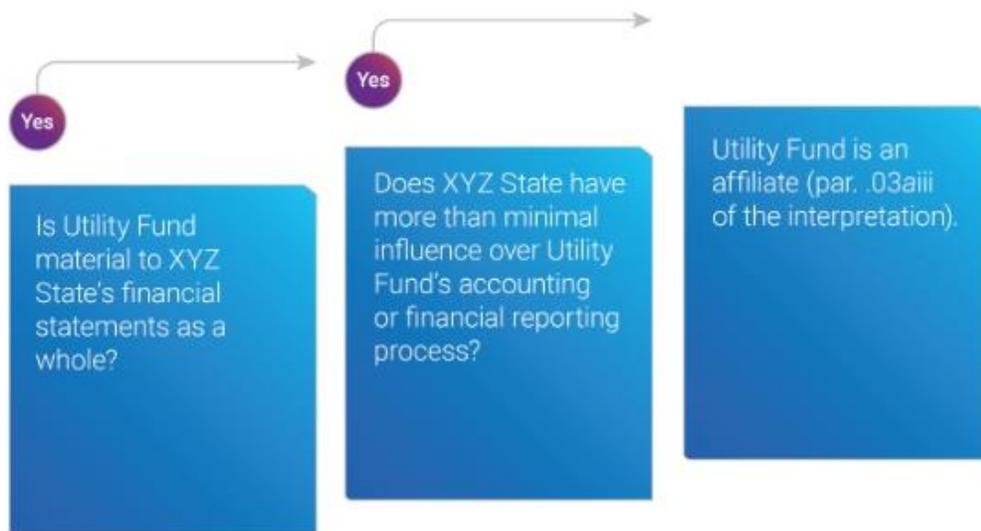
In addition, Firm A

- does not need to evaluate investments held by Utility Fund for *independence* purposes.
- may use the [nonattest services exception](#).

If Utility Fund was not material to XYZ's *financial statements* as a whole, then Utility Fund would not be an affiliate of XYZ State as defined in paragraph .03aiii of the interpretation. Similarly, if XYZ State did not have more than minimal influence over Utility Fund's accounting or financial reporting process, Utility Fund would not be an affiliate of XYZ State.

Exhibit D.3 provides a visual of the conclusion that Utility Fund is an affiliate of XYZ State under paragraph .03aiii of the interpretation.

Exhibit D.3: par. .03aiii example



Affiliate under paragraph .03aiv — Investments of Public Pension Trust Fund

The situation

XYZ State includes Public Pension Trust Fund, which it reports as a fiduciary fund, in its *financial statements*. Firm A determines that Public Pension Trust Fund is an affiliate of XYZ State as defined in paragraph .03ai of the interpretation. As a result, Firm A will need to evaluate Public Pension Trust Fund's investments to determine if there are any investees that are also affiliates as defined in paragraph .03aiv of the interpretation.

The conclusions

The following examples illustrate Firm A's evaluation of two investments of Public Pension Trust Fund to determine if either investment would be an affiliate of XYZ State.

Investment in DEF Company

Public Pension Trust Fund is considered an investor as defined in the interpretation because Public Pension Trust Fund is an affiliate of XYZ State under paragraph .03ai of the interpretation. Public Pension Trust Fund has a controlling interest in DEF Company, and the trust fund's investment in DEF Company is more than trivial and is clearly consequential to XYZ State's *financial statements* as a whole.

DEF Company is an affiliate of XYZ State as defined in paragraph .03aiv(1) of the interpretation because

- Public Pension Trust Fund's ownership interest in DEF Company gives it *control* over DEF Company and
- Public Pension Trust Fund's investment in DEF Company is more than trivial and is clearly consequential to XYZ State's *financial statements* as a whole.

Firm A will apply the ["Independence Rule"](#) and related interpretations to DEF Company.

If DEF Company has an investment in TUV Company, Firm A would not need to evaluate the investment in TUV Company because DEF Company is not considered an investor as defined in the interpretation. The evaluation ceases with the original investment as indicated in paragraph .03c of the interpretation.

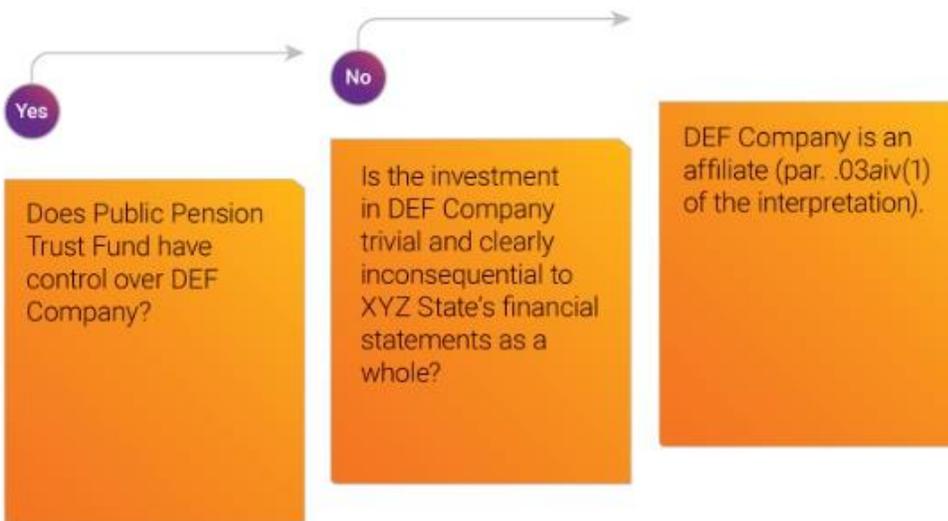
In addition, Firm A may not use the [nonattest services exception](#).

If Public Pension Trust Fund's investment in DEF Company was trivial and clearly inconsequential to XYZ State's *financial statements* as a whole, DEF Company would not be an affiliate of XYZ State.

If, however, Public Pension Trust Fund's investment in DEF Company was more than trivial and was clearly consequential to XYZ State's *financial statements* as a whole, but Public Pension Trust Fund did not have *control* over DEF Company, Firm A would need to continue its evaluation and determine whether DEF Company is an affiliate using the significant influence investment pathway. (The next part of this example demonstrates the significant influence investment pathway using the investment in RST Company.)

Exhibit D.4.1 provides a visual of the conclusion that DEF Company is an affiliate of XYZ State under paragraph .03aiv(1) of the interpretation.

Exhibit D.4.1: par. .03aiv(1) example



Investment in RST Company

Public Pension Trust Fund is considered an investor as defined in the interpretation. Public Pension Trust Fund also has an interest in RST Company that gives the trust fund *significant influence* over RST Company. The investment in RST Company is material to XYZ State's *financial statements* as a whole.

RST Company is an affiliate of XYZ State as defined in paragraph .03aiv(2) of the interpretation because

- Public Pension Trust Fund's ownership interest in RST Company gives it *significant influence* over RST Company and
- Public Pension Trust Fund's investment in RST Company is material to XYZ State's *financial statements* as a whole.

Firm A will apply the "[Independence Rule](#)" and related interpretations to RST Company.

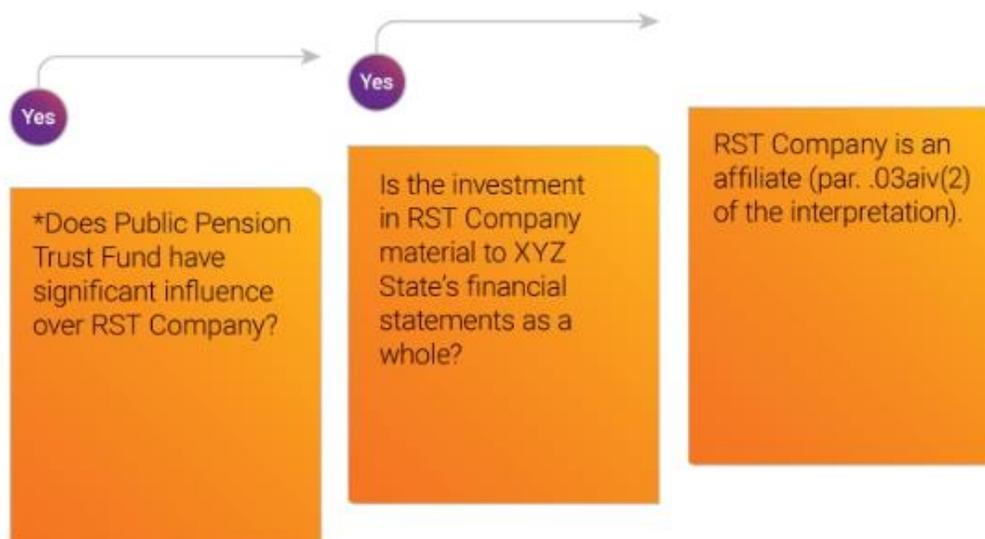
If RST Company has an investment in NOP Company, Firm A would not need to evaluate the investment in NOP Company because RST Company is not considered an investor as defined in the interpretation. As paragraph .03c of the interpretation indicates, the evaluation ceases with the original investment.

In addition, Firm A may not use the [nonattest services exception](#).

If Public Pension Trust Fund's investment in RST Company did not give Public Pension Trust Fund at least *significant influence* over RST Company, or if Public Pension Trust Fund's investment in RST Company was not material to XYZ State's *financial statements* as a whole, RST Company would not be an affiliate of XYZ State.

Exhibit D.4.2 provides a visual of the conclusion that RST Company is an affiliate of XYZ State under paragraph .03aiv(2) of the interpretation.

Exhibit D.4.2: par. .03aiv(2) example



*Before starting here, Firm A used the control investment pathway (exhibit C.1).

Conceptual Framework for Independence

We have been focusing on identifying affiliates, but it is important to note that you may also encounter circumstances or relationships that create *threats* to *independence*. Such situations could necessitate consulting the “[Conceptual Framework for Independence](#)” for guidance. Paragraph .06 of the interpretation includes examples of such circumstances or relationships; however, we don’t intend the examples to be all inclusive. This section of the implementation guide will walk you through additional examples to help you understand when you might need to consult the conceptual framework and how it can assist you.

When might you consult the “Conceptual Framework for Independence”?

The conceptual framework can guide you through murky territory when it comes to determining whether *threats* to *independence* exist — and what to do when you find them. The following scenarios, though hypothetical, will give you an idea of how you can apply the conceptual framework in the SLG environment.

Here are some factors to keep in mind as you read through the scenarios:

- Utility District, a blended component unit of JKL City, asks Firm A to perform its audit.
- Partner 1 and Partner 2 are [partners](#) in Firm A.
- Partner 2 will be the audit *partner* on Utility District.
- Firm A does not audit JKL City.

In each scenario, Firm A should consider *threats* to *independence*. If *threats* are not at an *acceptable level*, Firm A will need to apply *safeguards* sufficient to eliminate *threats* or reduce them to an *acceptable level*. If Firm A cannot sufficiently mitigate any significant *threats* and chooses to perform the engagement anyway, Firm A’s *independence* will be *impaired*.

Scenario 1: Employment relationships

The situation

Partner 1's wife is the financial reporting manager for JKL City. Among other things, she is in charge of preparing the city's comprehensive annual financial report (CAFR) and overseeing members of her team who perform the accounting functions for Utility District.

The question

Does Partner 1's wife's position create *threats* to Firm A's *independence* in Utility District's audit?

The key points

Here are two important factors to consider in this situation:

1. Partner 1's wife is a covered member's immediate family member in Utility District's audit.
2. Her responsibilities include oversight of accounting functions at Utility District.

The conclusion

Firm A consults the conceptual framework and determines that Partner 1's wife's role creates management participation, familiarity, and self-interest *threats* to Partner 1's compliance with the "Independence Rule" in Utility District's audit. However, after reviewing Partner 1's wife's role further, Firm A discovers that she does not prepare Utility District's *financial statements*. The accounting manager in Partner 1's wife's department prepares the *financial statements* and then Utility District's executive director reviews them. Partner 1's wife reviews the *financial statements* only in preparing the city's CAFR. Firm A also assigns a *partner* from another office to perform the concurring review on the audit. After considering the *safeguards* at Utility District and at the firm, Firm A determines that *threats* are reduced to an *acceptable level* and performs the audit for Utility District.

Scenario 2: Nonattest services

The situation

Utility District engaged Firm A to perform an audit of fiscal year 20XX. The following year, JKL City asks whether Firm A can provide financial reporting design services for JKL City's new enterprise resource planning system. Utility District will also use the financial reporting module of that system.

The question

Does the proposed nonattest service create *threats* to Firm A's *independence* in Utility District's audit?

The key points

Here are two important factors to consider in this situation

1. The nonattest service may be a prohibited service if performed directly for an audit client.
2. The nonattest service will be subject to the audit of Utility District.

The conclusion

Firm A consults the conceptual framework and determines that

- self-review and management participation *threats* would exist if it performed the design services during the period of the professional engagement and
- the threats would not be at an *acceptable level*.

Even though Utility District does not directly engage Firm A to perform the design services, Utility District would be using the financial reporting module that Firm A designed. Firm A determines that *independence* would be *impaired* because there are no *safeguards* it could implement that would reduce the *threats* to an *acceptable level*. Accordingly, Firm A does not pursue the design services engagement with JKL City.

Scenario 3: Financial interests

It's not just relationships and service types that can cause *threats* to *independence*. Firm A might also need to consult the conceptual framework to assess *threats* if Partner 1 owns any of the following types of bonds or debt securities:

- Municipal bonds issued by JKL City
- Municipal bonds issued by Delight County, who participates in a joint venture with Utility District
- Utility bonds issued by JKL City, for which Utility District is responsible for the debt service payments
- Conduit revenue bonds issued by Utility District for purposes of funding the construction of a pollution control facility for a private entity

The situation

Assume Partner 1 owns municipal bonds issued by JKL City. Let's see how the conceptual framework can help Firm A navigate this situation.

The question

Do the municipal bonds owned by Partner 1 create *threats* to Firm A's *independence* in Utility District's audit?

The key points

Here are four important factors to consider in this situation:

1. Partner 1 will not be on the Utility District [attest engagement team](#) but is a *covered member* because he is a *partner* in the *office*. As such, the self-interest *threats* are not as significant as they would be for a *partner* serving on the *attest engagement team*.
2. Partner 1 will not provide any [professional services](#) to Utility District or to JKL City.
3. Partner 1's [financial interests](#) are not in the proposed audit client or in its affiliates.
4. Because Firm A has 30 *partners* and 300 professional employees Partner 1 has virtually no influence over the proposed audit.

The conclusion

Firm A consults the conceptual framework and concludes that the self-interest *threat* related to Partner 1 having a *financial interest* in JKL City is at an *acceptable level*. However, if any or all the factors mentioned earlier were to change, Firm A might conclude that *threats* are not at an *acceptable level* and would need to apply *safeguards* to eliminate the *threat* or reduce it to an *acceptable level*.

Are there any resources to help me?

Of course! We wouldn't leave you hanging!

We have four practice aids that will help you in different ways: the SLG entity affiliate evaluator, the SLG investment affiliate evaluator, the interactive SLG affiliate matrix and the conceptual framework toolkit for independence.



SLG entity affiliate evaluator

This tool will walk you through a step-by-step analysis of whether an entity is an affiliate of your client under paragraph .03ai-iii of the interpretation. Simply launch the tool and answer yes or no to each question. After you've answered all the questions, you'll get a summary page with your result. You'll need to fill in the name of the entity you're evaluating as well as any discussion points you want to document. Don't forget to save or print the page for your records.

But what about investments?



SLG investment affiliate evaluator

Using a similar approach to the entity evaluator, the investment evaluator will give you a result based upon the yes and no answers you enter in response to a series of questions. This tool will help you decide if an investee is an affiliate under paragraph .03aiv(1)-.03aiv(2) of the interpretation. You'll need to fill in the name of the investee you're evaluating and there is a spot for notes as well. Again, don't forget to save or print the page for your documentation.

The purpose of these two tools is to make the decision-making process as clear as possible. What if you're more comfortable with assessing your client's affiliates and need one place where you can evaluate all entities and investments at one time? Let's take a look at the MS Excel based tool.



Interactive SLG affiliate matrix

This tool will give you a place to capture all potential affiliates and consider the individual criteria required to make your affiliate determination. Based on your choices from the drop-downs, the tool indicates whether the entity or investment is an affiliate; if it is, the tool provides you with the appropriate reference to the interpretation.

And lastly, to help you evaluate potential threats to independence that may come from relationships or circumstances that might not be directly addressed in the interpretation...



The conceptual framework toolkit for independence

Information Technology and Cloud Services

Task Force Members: Cathy Allen, Danielle Cheek, Anna Dourdourekas, John Ford, Katie Jaeb, Nancy Miller, Dan O'Daly. Staff: Ellen Gorla

Task Force Charge

Recommend to the committee any changes necessary to the nonattest services subtopic considering current information technology (including cloud) service offerings by members.

Reason for Agenda Item

Staff is soliciting feedback on the frequently asked questions related to inquires received on the *Hosting Services* interpretation.

Summary of Issues

Staff continues to receive inquires related to the new *Hosting Services* interpretation. Many of the inquires received fall into one of the following three topics:

- How to avoid hosting when providing permitted nonattest services.
- How to address the perceived conflict between the Records Requests interpretation and the *Hosting Services* interpretation; and
- The implications to independence when a member sub-licenses a third-party vendor's software to an attest client.

Avoiding hosting when providing permitted nonattest services

At the August 2019 meeting staff reported that several FAQs were drafted to address how members could avoid providing hosting services when providing other permitted nonattest services. Several FAQs were considered by the task force so that different permitted nonattest services could be highlighted. Staff explained that all of these FAQs incorporated the notion that the client should be given sufficient information so that the client's data and records are complete. One idea of how to describe what "sufficient information" would include, is to connect it with the information that an individual with suitable skill, knowledge and/or experience (SKE) would need to accept responsibility for the permissible nonattest service. Staff reported that some task force members were concerned that this connection could imply that the member had to physically provide the individual with SKE the information and not just give them access to the information. A further concern expressed by some task force members was that it also could be interpreted to mean that the member would need to physically provide *all* work papers, calculations and other member-prepared records to avoid hosting when providing permitted nonattest services.

General ledger software questions

One such line of questioning in the avoiding hosting services relates to having general ledger software on the member's server and whether various unique sets of circumstances would result in a member providing hosting services. While hosting services FAQ 5 was issued by staff in February of this year to address one such fact pattern, given the variety of situations, staff is recommending FAQ 5 be revised to present the guidance in a more general fashion. The text in yellow represents additions to FAQ 5 while strikethrough represents deletions.

5. When a member provides recurring bookkeeping services, could having a third party's general ledger software on the member's server (or server leased by the member) result in the member providing hosting services to the bookkeeping client?

It depends upon the specific facts and circumstances. The member will need to evaluate the specific facts and circumstances using the three criteria in paragraph .01 of the Hosting Services interpretation to reach a conclusion. For example, if the situation was such that the firm included a clear statement in its engagement letter with the bookkeeping client that it will not be providing hosting services and the member concluded that there were adequate controls in place so that the member would not inadvertently provide hosting services, then the conclusion may be that hosting services were not provided. Examples of possible controls to prevent the member from providing hosting services would include:

- The bookkeeping client also has the general ledger software on its server or otherwise has access to the software apart from the software hosted by the member.
- The bookkeeping client would be able to gain access to the third party's general ledger software through other means than the member, such as contracting with another firm or with the third-party vendor itself.

~~Yes, having a third party's general ledger software on the member's server or a server leased by the member would result in the provision of hosting services if the client's books and records are not complete without the client having to contact the member or having access to the member's server. For example, the member would be performing a hosting activity if the bookkeeping client did not have financial records in its possession in sufficient detail in order for a third party to perform a financial statement attest engagement without having to contact the member or having access to the member's server. [Added February 2019. Revised X 2019]~~

Questions for PEEC

1. Does PEEC believe drafting this FAQ in a general manner will allow for boarder application?
2. Does the statement "that the firm included a clear statement in its engagement letter with the bookkeeping client that it will not be providing hosting services and the member concluded that there were adequate controls in place so that the member would not inadvertently provide hosting services" make more clear that the intent is to convey that the member has contractually agreed that it is **not** responsible for hosting the attest client's general ledger system? If not, how might this be revised to make it clearer?
3. Does PEEC have any clarification suggestions (e.g., phrase "three criteria" and the term "control")?
4. Does PEEC believe it would be helpful to list examples of controls that alone would not be enough for the member to conclude that adequate controls are in place, but combined with other controls may be enough? Examples of such may include:
 - a. The member sends the bookkeeping client a complete data file each month so that its data and records are complete.
 - b. The bookkeeping client uses a third-party as its disaster recovery provider.
5. What other possible controls could be added to the list? Should any of the suggested controls be deleted?

Other permissible nonattest services

While initially multiple FAQs were drafted to provide guidance on how various nonattest services (e.g., depreciation schedule and tax services) might interact with the hosting services interpretation, staff believes using a similar approach to the one outlined in FAQ 5 above would provide general guidance that could be used more broadly by members. Accordingly, staff suggests a FAQ along the following lines.

- 8. The Hosting Services interpretation indicates that if a member is in possession of a depreciation schedule that the member prepared, the member would not be hosting provided the member gives the depreciation schedule and related calculations to the attest client, so the client's books and records are complete (Paragraph .04 g). Could the facts described in this question be applied to other permissible nonattest services the member provides to the client?**

It depends upon the specific facts and circumstances. To determine if the other permissible nonattest service would result in hosting services, members should evaluate the specific facts and circumstances using the three criteria in paragraph .01 of the Hosting Services interpretation to reach a conclusion. For example, if the situation was such that the firm included a clear statement in its tax compliance engagement letter with the attest client that it will not be providing hosting services and the member concluded that there were adequate controls in place so that the member would not inadvertently provide hosting services, then the conclusion may be that hosting services were not provided. Examples of possible controls that might be in place:

- The member uses a third-party tax compliance software to prepare the return and the attest client would be able to gain access to the third party's software through other means than the member, such as contracting with another firm or with the third-party vendor itself.
- The member sends the attest client a usable complete data file so that its data and records are complete.
- The member provides the attest client with its tax return and supplemental schedules so that its data and records are complete.
- The attest client has sufficient information so that its data and records are complete without having to contact the member.
- The attest client has sufficient information so that it could respond to a taxing authority's inquiry without obtaining additional records from the member.

Questions for PEEC

6. Does PEEC believe this FAQ could be used broadly by members as a guide for how they could evaluate other permissible nonattest services so that multiple FAQs do not need to be drafted?
7. Does PEEC have any clarification suggestions?
8. What other possible controls could be added to the list? Should any of the suggested controls be deleted?

Perceived conflict

The second topic where FAQ guidance would be helpful is addressing the perceived conflict between the Records Requests interpretation and the Hosting Services interpretation. While on the surface the two interpretations are addressing two very different matters, the issue that some

believe is in conflict is the timing element in the two interpretations. That is, to not be in violation of the Records Request interpretation, members are required to provide certain information to the client upon the client's request. Alternatively, to not impair the member's independence, some of this same information may need to be provided to the client prior to being requested under Records Request interpretation. To address this perceived issue, staff proposes the following two FAQs.

Nonattest client only

9. Would a member be in violation of the Code if the member provided hosting services to a client for which no services requiring independence were performed?

No, the member would not be in violation of the Code since the Hosting Services interpretation only applies when a member provides services requiring independence. However, the member would still need to comply with all applicable interpretations of the Code, including the Records Requests interpretation (1.400.200).

Records requests and hosting services

10. If a member complies with the Records Request interpretation (1.400.200) would the member also be in compliance with the Hosting Services interpretation?

It depends upon the specific facts and circumstances. To comply with the Records Request interpretation, the member is required to provide sufficiently detailed information (developed by the member when completing the work product) such that the client's financial records are complete *only upon the client's request* (emphasis added). To avoid hosting, the member should provide sufficient information to the client to ensure the client's data and records are complete without the client having to contact the member after accepting responsibility for the service provided. The level of detail is generally sufficient if it allows the client to evaluate the adequacy and results of the nonattest services and accept responsibility for the services as required in the General Requirements for Performing Nonattest Services interpretation (1.295.040) and respond to relevant inquires without obtaining additional records from the member. In some situations, the work product alone may provide sufficient detail. In other situations, depending on the particular facts and circumstances, the member may conclude that additional schedules or other information is necessary for the client's records to be complete.

Questions for PEEC

9. Does PEEC believe it would be helpful to add FAQ 9 which concludes that it is not a discreditable act to provide hosting services to a nonattest only client?
10. Does PEEC have any other suggestions regarding clarification of this perceived conflict?

Sub-licenses

Another topic that staff receives questions on are member sub-licenses. During the August 2019 meeting two main situations were discussed related to sub-licenses. One situation involved the member having a billing arrangement with the third-party provider who licensed its software to the member's clients at a discounted rate (e.g. QuickBooks). In this situation, the sense was that since the member would not actually be sub-licensing the third-party's software, there would be no hosting services concerns. The other situation was whether a member would be hosting an

attest client's information system, data or records if the member sub-licensed a third-party provider's system to an attest client. During the August 2019 PEEC meeting several members of PEEC noted that they believed a contractual arrangement would be an adequate control in such circumstances. That is, having a contractual agreement with the third-party vendor that allows the client access to the software or to its data or records should be an adequate safeguard (to the appearance that the member is hosting the client's system, data or records because of the sub-license agreement). To address this concern, staff suggests the following FAQ.

11. A member has a license to use a system from a third-party provider (provider) where the primary source data or records is hosted by the provider. Would a member be providing hosting services if the member sub-licenses the system to an attest client since the provider hosts the attest client's primary source data or records?

No, provided the terms of the agreement include a safeguard that prevents the member restricting the client from accessing its primary source data or records. For example, if the client can contract directly with the provider to access its data or records without the member being able to prevent or restrict the client from doing so, then the member would not be providing hosting services. [Added x 2019]

Questions for PEEC

11. Does PEEC believe the answer should be drafted more generally like the first two FAQs above or does PEEC believe that the example of how to avoid hosting is likely the only realistic example?
12. If PEEC believes the answer should be drafted more generally, what other examples could be added to the answer?

Action Needed

The committee is asked to share its feedback on the proposed FAQs.

Communication Plan

Staff will work with Ms. Mullins to ensure proper communication efforts are taken.



**AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
PROFESSIONAL ETHICS DIVISION
PROFESSIONAL ETHICS EXECUTIVE COMMITTEE
OPEN MEETING MINUTES
August 14, 2019**

The Professional Ethics Executive Committee (committee) held a duly called meeting on August 14, 2019 at the Association offices in Durham, NC. The virtual meeting convened at 10:00 a.m. and adjourned at 3:35 p.m. on August 14, 2019.

<p><u>Attendance:</u> Brian Lynch, Chair Coalter Baker Samuel L. Burke Chris Cahill Tom Campbell Robert E. Denham Anna Dourdourekas Kelly Hunter Sharon Jensen Jennifer Kary Martin Levin</p>	<p>Jeff Lewis William McKeown James J. Newhard Lisa Snyder Stephanie Saunders Peggy Ullmann Douglas E. Warren Lawrence A. Wojcik</p>
<p><u>Staff:</u> Sue Coffey, SVP – Public Practice & Global Alliances James Brackens, VP - Ethics & Practice Quality Toni Lee-Andrews, Director Ellen Gorla, Associate Director Jennifer Clayton, Senior Manager Michele Craig, Lead Manager Summer Young, Lead Manager Aradhana Aggarwal, Manager Sarah Brack, Manager Liese Faircloth, Manager Iryna Klepcha, Manager Jennifer Kappler, Manager Melissa Powell, Manager Michael Schertzinger, Manager April Sherman, Manager</p>	<p>John Wiley, Manager Shannon Ziemba, Manager Henry Grzes, Lead Manager – Tax Practice & Ethics Kristy Illuzzi, TIC Staff Liaison Pamela Lauchengco, Manager – Content Development & Management – MA Megan Kueck Lead Manager - State Regulation & Legislation Kelly Mullins, Manager – Support Services and Communications Elaine Bagley, Specialist Sarah Shannonhouse, Manager - Tax Practice & Ethics</p>
<p><u>Guests:</u> Ian Benjamin, Chair, Enforcement Subcommittee Kelly Hnatt, External Counsel Catherine Allen, Audit Conduct Sonia Araujo, PwC</p>	<p>Elizatbeth McKneely, Deloitte James West, BDO Karen Moncrieff, EY Jenny Norris, Indiana CPA Society Pamela Ives Hill</p>

Lisa Brown, Ohio Society of CPAs Karen Cookson, US Department of Housing and Urban Development George Dietz, PwC Zach Donah, Massachusetts Society of CPAs Anna Durst, Nevada Society of CPAs Dan Dustin, NASBA Jo Ann Golden, New York State Society of CPAs Anika Heard, PwC David Holets, TPRC Nigel James, SEC Terry Ann Kruse, Oregon Society of CPAs Kimberly Kuhl, KPMG Elliot Lesser, Enforcement Subcommittee Lynette Linder, Connecticut Society of CPAs Holly Love, Deloitte	Myriam Madden Santa Marletta Nancy Miller, KPMG Andy Mintzer, Hemming Morse, LLP Victoria Pitkin Chris Rasmussen Arizona Board of Accountancy Jacqueline M. Reardon, TPRC Roby Sawyers, TPRC Kevin Sell Rachel Sinks, Enforcement Subcommittee Susan Speirs, Utah Association of CPAs Joan Sterling, BDO John Szczomak, New Jersey Society of CPAs Paula Tookey, Deloitte Michael Westervelt, CLA Patty Wyatt, Texas Society of CPAs
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1. Welcome and introductions

Mr. Lynch welcomed the committee and discussed administrative matters.

2. Information technology and cloud services

Ms. Goria reported that the “Information Systems Services” interpretation (1.295.145) adopted by the committee at the May 2019 meeting is now available in the online code. Ms. Goria also reported that the task force continues to work on drafting additional FAQs related to hosting and these centered around three topics.

One topic is how to avoid hosting when providing permitted nonattest services. Ms. Goria noted that the draft FAQs related to this topic all incorporate the notion that the client should be given sufficient information so that the client’s data and records are complete. One idea of how to describe what “sufficient information” would include, is to connect it with the information that an individual with suitable skill, knowledge and/or experience (SKE) would need to accept responsibility for the permissible nonattest service. Others were concerned that this connection could imply that the member had to physically provide the individual with SKE the information and not just give them access to the information. A further concern expressed by some task force members was that it also could be interpreted to mean that the member would need to physically provide *all* work papers, calculations and other member-prepared records to avoid hosting when providing permitted nonattest services.

Another topic relates to concern that the code seems to have conflicting standards. This is because the “Records Requests” interpretation (1.400.200) concludes that to be in compliance with the Acts Discreditable Rule” (1.400.001) the member would need to provide certain information in their possession that would render the client’s financial information incomplete upon request, yet to avoid hosting, this information might need to be provided sooner.

The final topic that the task force is working on relates to sub-licensing a third-party vendor’s software to an attest client. The situation presented to staff involved third-party vendors that

market their products only through CPAs who in turn would sub-license the product to the client. The issue is when the client's data or records are maintained on the third-party vendor's server would the member be hosting this information since the license is through the member. Two members of the committee noted that they believed contractual provisions could be used to address this concern.

3. IESBA update

Mr. Mintzer reported that the June 15, 2019 effective date of the revised and restructured IESBA code had just passed and accordingly there are many outreach efforts underway. He also noted the E-code was published in June and while enhancements will be made, it has many functionalities that users will find very helpful.

For the September meeting, he reported the Nonassurance Services (NAS) project is expected to come before the IESBA for a final read with a goal of it being voted out for exposure and the fees project is listed as a second read with a goal of voting it out for exposure at the December meeting. He noted that at the September meeting the IESBA will also meet with the IAASB.

Mr. Mintzer explained that the direction of travel of the NAS project is to retain the differences for NAS provided to PIEs and non-PIEs and to prohibit any NAS to a PIE when the self-review threat exists. Ms. Gorla noted that one observation raised at the IESBA meetings related to this direction of travel is regarding the timing of the project since the separate project to re-define PIE is scheduled to begin after the NAS project is completed or well underway. Mr. Mintzer explained that to address this concern the goal is that the effective dates of these two projects, as well as the fees project, would be aligned. As such, it would seem like conclusions reached in all three of the projects will likely be considered a bit "tentative" until all three projects are completed.

Mr. Mintzer reported that the landscape of the fees project has moved around a lot. While it started out with a position that low fees would be an indication that the public accountant is not doing enough work, given the significant pushback the board received (i.e., work such as pro bono work, discount work, off season work would be negatively impacted), the IESBA is now considering a concept that the firm should be satisfied that the level of fees will not prevent it from performing its services in compliance with standards. This concept has also received pushback since some struggle to see why this should be covered as an independence issue (as opposed to a broad issue). Accordingly, this discussion continues to evolve. Mr. Mintzer also noted that there are other components of the fees project, including transparency of fees with PIEs and strengthening standards on firm dependency.

Mr. Mintzer explained that the tax working group that he is a member of had its first meeting to come up with a work plan that will be discussed with the IESBA at the September meeting. This plan includes three phases, an information gathering phase where robust outreach and desktop research will take place, as well as evaluation and reporting recommendations phases.

Ms. Gorla reported that the technology working group will be presenting a preliminary report at the September meeting based upon the outreach and desktop research it conducted. Given the broad landscape of technology, the working group focused on artificial intelligence (AI)

and data. One recommendation already made by the working group is that the Role and Mindset task force include as a potential bias in its exposure draft, the automation bias. In addition to this recommendation, the preliminary report will likely recommend (1) some nonauthoritative guidance be developed to highlight how the fundamental principles interact with these services and (2) a new threat category, known as the “Complexity threat” be added to the code. One observation the working group plans to highlight in its preliminary report is that the working group sees a lot of overlap between the fundamental principles in the code and the ethical principles used by AI developers. Accordingly, the report may include a recommendation that consideration be given as to whether the fundamental principles could possibly be revised to include messaging found in the ethical principles that would be considered helpful.

It was agreed that staff should use the IFAC Convergence Task Force to develop comment letters on IESBA exposure drafts.

4. Strategy and work plan consultation paper

Ms. Klepcha provided the committee with a status update on the project, and the structure of the agenda item, which included the recommendations of the PEEC Planning Task Force.

The committee agreed that the consultation paper should solicit feedback about the format members find most useful for member enrichment materials. Ms. Snyder asked if the paper will solicit input from the public regarding prioritization of projects. Ms. Klepcha explained that the Planning Task Force will recommend timing (Year 1, 2, 3) after feedback is received. Ms. Snyder suggested the consultation paper explain what the “significance of the topics” means.

Mr. Campbell clarified his feedback regarding “Client Access to Information in the Cloud” and “Confidentiality from the Government” and Mr. McKeown clarified his feedback regarding “Reporting of an Independence Breach to an Affiliate That Is Also an Attest Client”, which were topics listed under Proposed Projects with No Subgroup Recommendation. The committee recommended that “Reporting of an Independence Breach to an Affiliate that is also an Attest Client” be classified as a member enrichment project under Proposed New Projects.

Mr. McKeown recommended that “De Minimis Fees” be in Proposed New Projects. After discussion, the committee agreed to move the project to that category. Mr. Newhard recommended “Peer Review for Tax Practice” be included in “Proposed New Projects.” Mr. Henry Grzes, Lead Manager with the Tax Practice & Ethics Division, explained peer review for tax practice on a voluntarily basis. Mr. Lynch explained why the Planning Task Force did not recommend projects be pursued to compare the code to standard setter’s rules (e.g., SEC, PCAOB, the Department of the Treasury, HHS and state boards) aside from the IESBA, GAO, and DOL.

5. NOCLAR

Mr. Denham reported on task force activity since the May PEEC meeting. As mentioned in May, a joint PEEC/UAA task force has been formed, consisting of equal representation of both PEEC and UAA members as well as AICPA and NASBA representatives. The joint task force met on July 30th and 31st and agreed on several items. The first is a recommendation

that the Auditing Standards Board (ASB) revise standards to require a CPA to disclose NOCLAR to the successor auditor, follow current auditing standards (report up chain of command, then resign), but add a requirement to respond to potential successors request for NOCLAR information, and require potential successor to request NOCLAR information from predecessor and evaluate prior to accepting the engagement. If the decision is to accept the engagement regardless of NOCLAR, require documentation of the evaluation and conclusion as to why the decision was appropriate. Secondly, PEEC should, with respect to members in public practice for attest/assurance (exact engagements to be determined) clients, explicitly indicate members should follow “recommended” ASB standard as well as applicable laws and require NOCLAR discovered when performing non-attest engagements to be reported to attest/assurance engagement partner. With respect to members in business, make explicit that NOCLAR, if not handled properly internally, is to be reported to the external auditor and allow member to report to appropriate authority, if deemed in the public interest.

The joint task force did not conclude as to whether disclosure of NOCLAR, either discovered during attest/assurance or non-attest engagements, should be limited to potential successor auditors or should be reported out to the appropriate authority. Next steps include a meeting of the joint task force on September 10th as well as the PEEC NOCLAR task force developing a recommendation to present to the committee in November.

6. Statements on standards for tax services

Mr. Wiley presented a quick overview of how the task force was created, and that its charge is to review and revise existing standards as well as consider the adoption of new standards. He also described the makeup of the formal task force membership as well as other advisors to the task force.

Ms. Saunders discussed that the existing standards were first developed in the 1960s and 1970s and the current version of the standards was last revised in early 2010. She noted that the aspirational timeline for completion of this project is to have the revised standards ready to be exposed to the AICPA membership by the end of 2020.

Ms. Saunders explained that the task force has three working subgroups: 1) the review and refreshing of existing standards subgroup, 2) data security subgroup, and 3) potential new standards subgroup. New standards are being discussed in many areas, including quality control, reliance on tools, and representation before the IRS.

Mr. Wiley discussed the various AICPA communication channels that are being used to promote this project and Ms. Saunders welcomed PEEC’s input on any suggested revisions to the standards as well as ideas regarding how to promote this revision project to the membership.

Ms. Saunders discussed that revised standards and any new standards would be reformatted and reordered for ease of use. She noted that the entire task force will be meeting on August 16th to discuss comments on individual drafts of existing and new standards from the working subgroups, and will meet again in person in Washington, DC on November 14th.

Mr. Brackens inquired if the task force was looking to adopt new requirements regarding data security. Ms. Saunders replied that data security is a major issue for tax practitioners, and

they are working on how to provide information to members through the standards regarding what they need to be aware of and what they should do to protect data, as well as what to do in the event of a data breach. Mr. Brackens stated that it sounded like the standards are going to tell the members where to go for information and be more educational, rather than establishing any hard requirements, and was supportive of that approach.

Mr. Grzes elaborated that they did not want to be duplicative with existing standards, or worse, in conflict with existing standards or standards being contemplated by PEEC. Mr. Holets commented that the task force is being mindful not to put in “you must do this” types of standards, but rather “these are steps you should consider” language.

7. State and local government

Ms. Powell and Ms. Kappler presented an update on the status of the practice aids that support the interpretation that was adopted in May. Ms. Powell discussed the implementation guide and requested feedback on the content included.

PEEC had the following comments:

- A question was raised on whether the guide encourages a member to and leads to a member believing that it’s acceptable to choose to exclude an entity that is required to be included in the reporting entity’s financial statements. PEEC also questioned if the nonattest services exception that applies to such circumstances would contribute to a client choosing to exclude an entity that is required to be included. Ms. Miller pointed out that this is how the interpretation is written and believes that the nonattest services exception is appropriate based on the significance of the threats that exist when a firm does not audit an entity. Upon further discussion, PEEC decided that the words “chooses to” should be removed to remedy the concerns expressed. Also related to excluded entities, PEEC asked if the entity tree could show that the excluded side (right side) of the tree would be considered a departure from the applicable financial reporting framework.
- Suggested that the introduction to the guide clarify that the interpretation is for entities required to be included in the financial statements, whether they are excluded or not.
- Suggested that the guide refer to the next section in the DEF Company example where it mentions RST Company.
- Suggested that the terms “more than trivial and clearly inconsequential” be revised to say, “more than trivial **or** clearly consequential.”

PEEC inquired about the timeline for finalizing and releasing the guide. Ms. Kappler indicated that we would like the guide to be finalized before the November meeting. Ms. Miller also emphasized the importance of getting the guide out to members as soon as possible and indicated that final fatal flaw reviews would be requested after editorial changes are finalized.

Ms. Kappler updated PEEC on the status of editorial’s review of the guide and explained the “tone of voice” edits that the guide will undergo. She then introduced and demonstrated the affiliate evaluator tools created using Survey Monkey and requested feedback. No comments were received.

Ms. Kappler gave an update on communications that have occurred since the May PEEC meeting and the planned communications going forward.

8. Inducements

Ms. Dourdourekas provided a brief recap of the May 2019 PEEC meeting to the committee. Specifically, the committee agreed that the Frequently Asked Questions (FAQ) approach would be enough for AICPA's convergence with IESBA, since the AICPA was substantially converged with IESBA.

Ms. Dourdourekas reported that since the last meeting the task force decided and recommends developing a practice aid using an overall threats and safeguard approach that will serve as an educational tool to members. In addition to FAQs, the practice aid will include an overview of the related guidance, best practices, case studies and a decision tree. The committee agreed with the recommended approach.

Ms. Dourdourekas reported that the task force is in the process of developing the practice aid and that a draft version will be provided at the November meeting.

9. Staff augmentation

Ms. Snyder reminded PEEC that it had decided to table its discussion of the revised interpretation at the May 2019 meeting for the task force to obtain feedback regarding concerns of potential co-employment issues and to solicit additional feedback from NASBA.

Regarding the co-employment issue, Ms. Snyder noted that Ms. Hnatt had discussions with employment counsel whose advice was that this should not in itself keep the proposal from moving forward since the co-employment issue would be more of a workplace liability issue that could be addressed through an engagement letter with the client.

Ms. Snyder explained that NASBA submitted a second comment letter to PEEC noting that after additional consultation (feedback obtained from state boards during its June meetings, the NASBA Board, as well as state board representatives that were audit practitioners) they were still opposed to the interpretation and felt PEEC should not continue with the project. Ms. Snyder reported that given this feedback, the task force was concerned with proceeding, and in fact she would be concerned if adopting the proposed interpretation would result in multiple standards for the profession or be the cause for why state boards choose not to adopt the AICPA code.

Mr. Baker reinforced that NASBA went through a robust consultation in arriving at its initial and updated recommendations and that its primary concern is protection of the public interest. He noted that those participating in the additional consultation referred to above were in unanimous agreement that the project should not be pursued. Mr. Baker noted that when discussing NASBA's second comment letter, the task force asked him to consult with NASBA to see if it would be more accepting of the proposal if the short period of time meant weeks as opposed to months, or at least a very short period based on an emergency or a non-recurring hardship. While he would report back on NASBA's feedback, personally he thought such an approach would be more palatable.

Ms. Snyder then asked practicing committee members whether their firms were performing staff augmentation services for attest clients, and if so, what limitations their firms placed on these arrangements. Most of the members that responded indicated their firms only provide these services to nonattest clients, not to attest clients. One firm noted that they had one such engagement in the tax compliance arena that they are monitoring closely. When asked why these firms did not provide these services to their attest clients, most noted concerns over appearance and some cited that since the code was so vague, they used the conceptual framework. One representative noted that an FAQ regarding controllership services led their firm to believe that under certain circumstances such services would be permissible.

Ms. Snyder explained that if the committee decided to go the route of prohibiting staff augmentation services, Ms. Hnatt believes that the proposal should be re-exposed since there would be a significant change in position. This would be true even if the committee decided that the guidance should be non-authoritative. Ms. Snyder also noted that the consensus of the task force was that if guidance was issued, it should be authoritative so that it is clear what the committee's position is on this topic.

Ms. Snyder asked the committee for feedback on how the task force should move forward. Ms. Saunders noted that she felt appearance was a primary concern, and that it was ironic that in its discussion of hosting services and tools used by the profession, such services could jeopardize independence but providing staff to an attest client could not. She emphasized that weeks was more reasonable in appearance than months or even a year. Mr. Cahill thought that the task force should not lose sight of the IESBA code when making its deliberations. Ms. Illuzzi stated that she would be happy to reach out again to TIC members, but most of the firms she discussed this with do not provide such services due to appearance concerns.

Ms. Snyder stated that the task force would go back and deliberate, and if the task force decided to significantly change its interpretation of short period of time, the task force would reach out again to NASBA for their input.

10. Minutes of the May 2019 PEEC open meeting

It was moved, seconded and unanimously agreed to adopt the minutes from the May 2019 open meeting.