



National Association of State Boards of Accountancy

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November 2, 2020

Professional Ethics Executive Committee
c/o Toni Lee-Andrews, Director
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Via e-mail: Ethics-ExposureDraft@aicpa-cima.com

Re: **Proposed Interpretation – Staff Augmentation Arrangements**

Dear Members and Staff of the AICPA Professional Ethics Executive Committee (PEEC):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the above-referenced Exposure Draft, *Proposed Interpretation – Staff Augmentation Arrangements* (the ED). NASBA's mission is to enhance the effectiveness and advance the common interests of State Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories, which includes all audit, attest and other services provided by CPAs. State Boards are charged by law with protecting the public.

NASBA is aware that many State Boards have adopted, or make reference to with some exceptions, the AICPA *Code of Professional Conduct* (the Code). Accordingly, with the goal of having consistent standards in all jurisdictions, we are keenly focused on proposed changes to the Code that might be unacceptable to the State Boards because such changes are not considered to be in the public interest.

Overall and subject to our comments below, we support the proposed interpretation, as an appropriate position, neither allowing staff augmentation arrangements with safeguards, as proposed in the Exposure Draft (ED) dated December 7, 2018 (2018 ED), nor imposing a complete ban on such arrangements. NASBA commends the PEEC for the substantial change in the interpretation's direction from that earlier version, in recognition of the significant concerns NASBA raised in our comment letter and subsequent deliberations.

Our responses to the questions posed in this ED appear below:

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

NASBA believes that the proposed interpretation, as amended per our responses to questions 24(b) and (c), should permit staff augmentation arrangements under prescribed conditions with attest clients.

24b. If you believe staff augmentation arrangements should be permitted, do you agree with the proposed interpretation, including the proposed safeguards, that would allow such arrangements in very limited situations? Why or why not?

The simplest solution would be to prohibit all such arrangements with attest clients due to concerns we raised in our comment letter to the 2018 ED. However, we recognize that there may be urgent situations where it is in the public interest to allow an audit firm to assist the attest client on an emergency, short-term basis (30 days or less) to allow the client time to engage other resources (if needed longer term). We urge PEEC to amend certain proposed safeguards as described in our responses below to minimize ambiguities for practitioners and enhance the ability of state regulators to interpret and enforce the proposed interpretation.

In par. .02(a), replace the term, “unexpected situation” with “emergency situation”.

NASBA believes a firm could have a staff augmentation arrangement with an attest client only in the narrowest of circumstances and for the briefest period possible. We are concerned that “unexpected situation” does not relay a sense of unusual urgency and suggest the term, “emergency situation” (which does) be used instead. We also believe the term “emergency” is more easily understood as nonrecurring than “unexpected” and, therefore, may be less prone to over-application and abuse.

To illustrate, we offer the following example: A client's tax department is suddenly decimated by COVID-related sickness at a time when the federal return is a month away from the extension deadline. The company does not have enough time to vet unknown external resources and turns to the audit firm for temporary “emergency” assistance. The audit firm has tax department staff familiar with the client from having performed various non-audit tax services for the client in the past. The tax staff assigned are not involved with the audit of the client's tax provision, and will work under the client's direction. The arrangement will cease when the return is filed (within 30 days or possibly sooner if the client's personnel are able to return to work before the deadline).

24c. Do you believe that 30 days is an appropriate time period for the attest client to make other arrangements (see par. .02c of the interpretation)? If not, why?

NASBA agrees that thirty (30) days is an appropriate timeframe for the attest client to make other arrangements. However, we suggest two (2) changes to this safeguard, which we believe are critical.

First, an important element is missing from the safeguard, i.e., that the auditor should provide augmentation services only long enough to allow the client to make other arrangements. Clearly, this was PEEC's intent and should be added.

Second, we urge PEEC to eliminate the terms "short period of time" and "rebuttable presumption" in par. .02(c) as both add ambiguity to the safeguard. NASBA believes that staff augmentation arrangements with attest clients should be performed for only a brief and finite timeframe not to exceed thirty (30) days. Inclusion of this legal term, which may not be well understood outside of the legal profession, is unnecessary and greatly weakens the proposed interpretation by enabling CPAs to conclude that a "short period of time" could exceed thirty (30) days.

We suggest par. .02(c) read as follows:

The augmented staff arrangement is performed for only as brief a period as possible for the client to make other arrangements, if needed, and cannot exceed thirty (30) days.

24d. Should an exception for staff augmentation arrangements with certain affiliates of a financial statement attest client, as described in paragraphs 14–19 of this explanation, be permitted?

i. Why or why not?

ii. If it should be permitted, should the proposed additions discussed in paragraphs 18–19 of this explanation be added as drafted or do you have suggested revisions?

We agree that an exception that would potentially allow staff augmentation arrangements with certain affiliates of a financial statement attest client could be appropriate; However, we believe the interpretation needs to be as explicit as possible in terms of defining the CPA's obligations to apply the *Conceptual Framework for Independence*, including documenting the rationale for accepting a staff augmentation arrangement.

24e. Do you believe there should be an exemption for staff augmentation arrangements for all SSAE engagements when the services provided by the augmented staff do not relate to the specific subject matter of the SSAE engagement, or should the exemption be limited to only AUPs under the SSAEs? Why or why not?

NASBA agrees that an exemption that would allow staff augmentation arrangements with clients receiving only SSAE, including AUP, services could be appropriate, but we believe the exemption needs to be as explicit as possible in terms of defining the CPA's obligations to apply the *Conceptual Framework for Independence*, including documenting the rationale for accepting a staff augmentation arrangement.

The current "open-ended" nature of the exemption would allow these arrangements without reference to their duration, recurrence, or other elements the PEEC has deemed to be important

considerations when evaluating staff augmentation arrangements with attest clients. We recommend the PEEC deliberate further on whether additional guidelines may be appropriate.

24f. Are there specific aspects of the proposal that you believe are too permissive or too restrictive? If so, please explain.

Please see our earlier comments regarding the nature of events that may permit staff augmentation arrangements and the length of such arrangements.

24g. Does a six-month delayed effective date allow firms enough time to implement the necessary policies and procedures and terminate any relationships that would no longer be permitted? Why or why not?

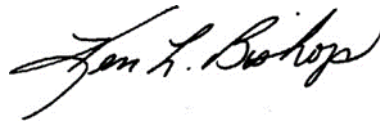
Yes, NASBA agrees with the six-month delayed effective date.

Again, we appreciate the opportunity to comment on the exposure draft.

Very truly yours,



Laurie J. Tish, CPA
NASBA Chair



Ken L. Bishop
NASBA President and CEO