



December 3, 2020

Via electronic mail – Ethics-ExposureDraft@aicpa.org

Re: Professional Ethics Executive Committee Proposed Interpretation “Staff Augmentation Arrangements”

The members of the New Jersey Society of Certified Public Accountants (NJCPA) Accounting and Auditing Standards Interest Group (the Group) appreciate the opportunity to comment on the proposed interpretation noted above. The NJCPA has a membership of over 14,000 CPAs and prospective CPAs from public practice and private industry. The Group was formed to address technical topics affecting a wide range of reporting entities. The members have reviewed the proposed interpretation and worked together to prepare this comment letter to the Professional Ethics Executive Committee (PEEC). The following comments are based on the views of the Group and may not reflect the opinions of all NJCPA members.

#### Overall

The Group believes the revised interpretation addresses the concerns expressed in the original proposal by various respondents, including NASBA, regarding staff augmentation arrangements and its implications on independence. The original proposal provided that staff augmentation services would be permitted on attest clients provided perceived threats to independence were reduced to an acceptable level. The revised interpretation is much more restrictive providing that staff augmentation arrangements would generally impair independence except under very specific limited circumstances.

The Group took considerable time in preparing these responses and has the following comments on the fundamental aspects of the proposed interpretation.

#### Request for Comment 24a

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

#### RESPONSE

The Group believes staff augmentation services for attest clients does impair independence and should only be permitted under very limited circumstances and only when certain specific safeguards are in place. Section .02 of the revised interpretation stipulates specific safeguards all of which must be met in order to provide an attest client with staff augmentation services. One of the safeguards requires that “the augmented staff performs only activities that would not be prohibited by the “Nonattest Services” subtopic (ET sec. 1.295) of the “Independence Rule” (ET sec. 1.200.001). The requirement prohibiting services not permitted by the Nonattest Services rule would



prevent any perceived independence concerns since the augmented staff would not be performing any management functions or making any management decisions.

#### Request for Comment 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?

#### RESPONSE

The Group agrees with the proposed interpretation that only allows such arrangements in very limited situations and requires that specific safeguards be met. The Group agrees that the safeguards outlined in Section .02 are appropriate and sufficient.

#### Request for Comment 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?

#### RESPONSE

Some members of the Group do not believe that 30 days is an appropriate time period as it is too restrictive. Although there is a rebuttable presumption that 30 days is sufficient, each client situation is unique and may require more time to make other arrangements. The proposed interpretation should stipulate “a time period that is short in duration and not to exceed three months”.

Other members of the Group believe that 30 days is an appropriate time period given these arrangements will be rare and should be temporary to avoid impairing independence.

#### Request for Comment 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?

#### RESPONSE

The members of the Group believe that staff augmentation arrangements with certain affiliates of a financial statement attest client, as described in paragraphs 11-16 should be permitted in limited circumstances. The Group agrees that staff augmentation arrangements with downstream affiliates should be prohibited as noted in the proposed interpretation since those affiliates would be subject to audit procedures in the audit of the financial statement attest client. The Group agrees with the example used in the proposed interpretation, whereby staff augmentation services provided to a private equity “brother-sister” portfolio company of an attest client with no common employees or management would not create significant threats to independence, assuming all other



factors have been carefully analyzed. Each client situation is unique and will require the practitioner to evaluate the potential staff augmentation arrangement to determine if threats to independence are at an acceptable level and, if not, what safeguards could be applied to reduce threats to an acceptable level. If safeguards are not available or cannot be applied to eliminate or reduce the threats to an acceptable level, the member should not enter into the staff augmentation arrangement. The Group agrees that the proposed exception is consistent with the exception already included in ET 1.224.010 paragraph .02b that allows a member to provide prohibited nonattest services to certain affiliates of a financial statement attest client. The proposed additional language in paragraphs 15 and 16 of the proposed interpretation should be included in the final interpretation and we have no suggested revisions to that language.

#### Request for Comment 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?

#### RESPONSE

The Group believes 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 and should not be limited to only AUPs. This is consistent with ET 1.297.030 paragraph .03 which allows the member to perform prohibited nonattest services when performing an SSAE engagement that is not an AUP, provided the nonattest services do not relate to the specific matter of the SSAE engagement and the general requirements for performing nonattest services are met. The proposed additional language in paragraph 22 of the proposed interpretation should be included in the final interpretation, however, we believe the reference to “AUP engagement” at the end of proposed paragraph .04 should instead reference “SSAE engagement”.

#### Request for Comment 24f

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

#### RESPONSE

The Group believes the proposed rules are more restrictive than what was included in the original proposal after addressing the concerns raised by various respondents, including NASBA, as it relates to staff augmentation services provided to audit clients. However, it is more permissive than the SEC’s interpretation of staff augmentation arrangements with issuer clients since they do not allow any exceptions. Due to the nature of private company clients and their available resources, we believe that allowing staff augmentation arrangements with an attest client in the limited circumstances provided for in the proposal when the specific safeguards have been put in place will serve the needs of those clients without creating significant threats or weakening independence.

As noted in our reply to comment 24c above some members of the Group believe that 30 days is not an appropriate time period for the attest client to make other arrangements.



Although there is a rebuttable presumption that 30 days is sufficient, each client situation is unique and may require more time to make other arrangements. The proposed interpretation should stipulate “a time period that is short in duration and not to exceed three months”.

#### Request for Comment 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?

#### RESPONSE

The Group believes that a six-month delayed effective date does not allow firms sufficient time to implement the necessary policies and procedures. Due to challenges firms are currently facing with COVID-19 which caused the deferral of several accounting and audit standards (FASB and AICPA), a one year effective date or longer is necessary.

The Group appreciates the AICPA for requesting our professional views on this Proposed interpretation. The Group would like to thank the PEEC for taking the time to read this comment letter submitted on behalf of the members of the New Jersey Society of Certified Public Accountants Accounting and Auditing Standards Interest Group.

Respectfully submitted,

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Accounting and Auditing Standards Interest Group  
New Jersey Society of Certified Public Accountants

Principal Drafters: Robert Valas, CPA, Paula Young, CPA, Laura Crowley, CPA, Carol Donatiello locca, CPA

cc: Alan Sobel, CPA, President - NJCPA  
Ralph Albert Thomas, CPA (DC), CGMA, CEO & Executive Director - NJCPA  
James Hardenberg, CPA, CGMA, CAE, Chief Learning Officer - NJCPA