



441 G St. N.W.
Washington, DC 20548

December 8, 2020

Ms. Toni Lee-Andrews
Director, Professional Ethics Division
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, North Carolina 27707-8110

GAO’s Response to the AICPA’s Proposed Interpretation of the AICPA Code of Professional Conduct, *Staff Augmentation Arrangements*, September 2020

Dear Ms. Lee-Andrews:

This letter provides GAO’s comments on the re-exposed interpretation entitled *Staff Augmentation Arrangements*, prepared by the American Institute of Certified Public Accountants (AICPA) Professional Ethics Executive Committee (PEEC).¹ The AICPA adopted the *Code of Professional Conduct* (code) to provide guidance and rules to all its members for performing their professional responsibilities. The code consists of principles and rules as well as interpretations and other guidance. If adopted as final, the proposed interpretation will be incorporated as ET section 1.275.007 of the code.

As the supreme audit institution for the United States as well as an auditing standard-setting organization, GAO is committed to supporting the public interest and the interest of the public sector auditing community. To that end, GAO promulgates generally accepted government auditing standards (GAGAS).² GAGAS provides a framework for conducting high-quality audits of government organizations, programs, activities, and functions and of government assistance received by contractors, nonprofit organizations, and other nongovernment organizations with competence, integrity, objectivity, and independence. Auditors and audit organizations follow GAGAS when required by law, regulation, agreement, contract, or policy. Our comments reflect the importance we place on reinforcing the values promoted in both the code and GAGAS especially with regard to auditors’ independence. We anticipate that certain auditors of government entities will be required to comply with both the interpretation and GAGAS.

The proposed interpretation is part of PEEC’s efforts to converge its standards with those of the International Ethics Standards Board for Accountants (IESBA). Specifically, PEEC seeks to converge ET section 1.275.007 of the code with section 525, *Temporary Personnel Assignments*, of the *International Code of Ethics for Professional Accountants*.

For the reasons discussed below, we believe that augmented staff arrangements for attest clients should be prohibited. We also believe that practices in the U.S. environment provide

¹A staff augmentation arrangement involves a firm lending its personnel to clients whereby the client is responsible for the direction and supervision of the activities performed by the augmented staff. These arrangements are sometimes referred to as *loaned staff arrangements*. PEEC issued the original exposure draft entitled, *Staff Augmentation Arrangements*, on December 7, 2018.

²GAO, *Government Auditing Standards: 2018 Revision*, [GAO-18-568G](#) (Washington, D.C.: July 2018).

consideration for the existence of differences between the code and IESBA's *International Code of Ethics for Professional Accountants*.

PEEC requested responses to certain questions. Our responses follow.

Response to Request for Comments

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

We acknowledge PEEC's efforts in revising its proposed interpretation to develop what it believes are safeguards to independence for situations in which members and members' firms lend personnel to clients under staff augmentation arrangements. We are concerned that the proposed safeguards contain elements that are subject to interpretation. As such, we believe that it will be difficult for members and members' firms to implement the proposed safeguards consistently to reduce threats to auditor independence to an acceptable level.

The proposed interpretation states the following:

.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. *Threats* would *not* be at an acceptable level and *independence* would be *impaired* unless **all** the following *safeguards* are met:

- a. The staff augmentation arrangement is being performed due to an *unexpected situation* that would create a significant hardship for the *attest client* to make other arrangements.
- b. The augmented staff arrangement is not expected to reoccur.
- c. The augmented staff arrangement is performed for only a short period of time. There is a rebuttable presumption that a short period of time would not exceed 30 days.
- d. The augmented staff neither participates in, nor is in a position to influence, an *attest engagement* covering any period that includes the staff augmentation arrangement.
- e. The augmented staff performs only activities that would not be prohibited by the "Nonattest Services" subtopic [1.295] of the "Independence Rule" [1.200.001].
- f. The *member* is satisfied that management of the *attest client* 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.

It is our view that some of the proposed safeguards are subjective and thus could be inconsistently interpreted and implemented. For paragraph 02.a, a number of wide-ranging perspectives may exist—within the member and member firm community and with entities that have enforcement authority—as to what represents an "unexpected situation" and a

“significant hardship.” For example, state and local governments may experience unexpected budget cuts that lead to staffing reductions deemed to be significant hardships. These entities may rely on members and members’ firms to augment government staff. In our view, this would give the appearance that the auditor is a government employee, and the public could conclude that the auditor was not independent.

We believe that the proposed safeguard in paragraph 02.b is also subjective as it refers to member and member firms’ expectations concerning the reoccurrence of staff augmentation arrangements. Expectations about something that will or will not happen in the future are subject to change based on the outcome of events. If the need for a subsequent staff augmentation arrangement arises, questions about the auditors’ independence may also arise, as the proposed safeguard does not prohibit additional staff augmentation arrangements in current or future accounting periods.

In addition, in paragraph 02.c, the proposed safeguard requires the augmented staff arrangement to be performed for a short period of time. Implementation of this proposed safeguard may also be subjective. For example, the augmented staff arrangement could extend for a number of months, as the proposed interpretation does not impose parameters on the rebuttable presumption for a short period of time of 30 days—such as, stating that the 30-day period represents consecutive business days within an accounting period. Also, members and members’ firms may infer that it is permissible to exceed 30 days as long as the length of the augmented staff arrangement can be justified. Moreover, the proposed safeguard does not contain limits on the number of staff who could be involved in an augmented staff arrangement (e.g., whether arrangements for 20 staff for up to 30 days per each staff would be permitted).

The proposed interpretation is part of PEEC’s efforts to converge its standards with the standards of IESBA. The objective of IESBA is to serve the public interest by setting high-quality ethics standards for professional accountants. IESBA’s long-term objective is to converge *International Code of Ethics for Professional Accountants* ethical standards, including auditor independence standards, with those that regulators and national standard setters issue. To that end, differences may exist between the proposed interpretation and aspects of the U.S. regulatory environment concerning auditor independence. For example, the Securities and Exchange Act of 1934 Rule 2-01 of Regulation S-X is designed to ensure that auditors are qualified and independent of their audit clients both in fact and in appearance. The rule sets forth the general standard of auditor independence and prohibits an independent auditor from acting as an employee of an audit client.

Given the subjective nature of some of the proposed safeguards, we are concerned that members and members’ firms may incorrectly conclude that threats to independence are at an acceptable level when reasonable, informed third parties would perceive auditor independence as impaired. It is also our view that the proposed interpretation would pose challenges for the appropriate entities to enforce the auditor’s adherence to it uniformly. For the reasons stated above, we believe that augmented staff arrangements for attest clients should be prohibited. We also believe that practices in the U.S. environment provide consideration for the existence of differences between the code and IESBA’s *International Code of Ethics for Professional Accountants*.

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

For the reasons discussed above in our response to question a, we believe that augmented staff arrangements for attest clients should be prohibited.

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

For the reasons discussed above in our response to question a, we believe that augmented staff arrangements for attest clients should be prohibited.

- d. Should an exception for staff augmentation arrangements with certain affiliates of a financial statement attest client, as described in paragraphs 14–19 of this explanation, be permitted?**
- i. Why or why not?**
 - ii. If it should be permitted, should the proposed additions discussed in paragraphs 18–19 of this explanation be added as drafted or do you have suggested revisions?**

For the reasons discussed above in our response to question a, we believe that augmented staff arrangements for attest clients should be prohibited.

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

For the reasons discussed above in our response to question a, we believe that the code should not provide an exemption for staff augmentation arrangements for any Statements on Standards for Attestation Engagements (SSAE) engagements, including agreed-upon procedures (AUP) engagements.³ We believe threats would be at a similar level for any attest engagement regardless of whether the underlying services that augmented staff perform relate to the specific subject matter of the engagement.

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

For the reasons discussed above in our response to question a, we believe that augmented staff arrangements for attest clients should be prohibited.

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

³In an attestation engagement, the subject matter or an assertion by a party other than the auditors is measured or evaluated in accordance with suitable criteria. The work the auditors perform and the level of assurance associated with the auditor's report vary based on the type of attestation engagement. An agreed-upon procedures engagement is a type of attestation engagement for which an auditor performs specific procedures on subject matter or an assertion and reports the findings without providing an opinion or a conclusion. The specified parties to the engagement agree upon and are responsible for the sufficiency of the procedures for their purposes. The specified parties are the intended users to whom use of the report is limited.

We are not providing comments in response to this question.

Thank you for the opportunity to comment on these important issues. If you have questions about this letter or would like to discuss any of the matters it addresses, please contact me at (202) 512-3133 or dalkinj@gao.gov.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is stylized with a large initial "J" and a long horizontal stroke at the end.

James R. Dalkin
Director
Financial Management and Assurance