AICPA ISSUES EXPOSURE DRAFT ADDRESSING STAFF AUGMENTATION ARRANGEMENTS

By Don Carpenter, MSAcc/CPA

The Professional Ethics Executive Committee of the American Institute of CPAs (AICPA) re-issued an exposure draft for comment titled *Staff Augmentation Arrangement* in September 2020 that updates a draft originally released in December 2018.

Staff augmentation is commonly referred to as loan staff arrangements. Such arrangements are not uncommon in today's environment of lean staffing and are certainly not limited to accounting and tax functions. The reliance on contract (non-employee) services occurs most commonly in accounting or tax functions when non-routine projects such as the implementation of new accounting pronouncements require additional manpower to gather and analyze information.

The need for specific expertise such as during impairment testing or acquisition accounting might also require supplemental temporary staff. To address these gaps in staffing, it is not unusual for companies to turn to their audit firm given the long-term relationship and the efficiencies that naturally result from familiarity with permanent staff and existing systems.

However, use of attest firm personnel raises significant issues with regard to auditor independence. Without these safeguards, the attest firm could find itself effectively auditing the work of its own staff. To avoid this obvious conflict, the exposure draft delineates a list of safeguards that must be observed to preserve auditor independence. Please see Figure 1 for a list of the safeguards.

In addition, the services performed cannot include any activities prohibited by the Independence Rule (ET sec. 1.200.001). Specific areas are highlighted in the guidance that closely follow the non-audit services listed in the Sarbannes-Oxley Act of 2002 (SOX). These non-audit services include:

- Management responsibilities, such as policy, strategic direction, direction of employees or implementation of internal control;
- Advisory services;
- Appraisal, valuation and actuarial services;
- Benefit plan administration;
- Bookkeeping, payroll and other disbursements;
- Business risk consulting;
- Corporate finance consulting;
- Executive or employee recruiting;
- Forensic accounting;
- Systems design or implementation;
- Internal audit;
- Investment management;
- Tax services.

Within these categories, attest firms can provide services to clients if threats to independence are reduced to an acceptable level, which requires that appropriate safeguards are put in place by clients to avoid impairment to independence. To safeguard independence, client management must:

- Assume management responsibilities;
- Oversee the services with a qualified designated individual;
- Evaluate the adequacy of the services performed; and
- Accept responsibility for the results.

The threat to independence is accretive, meaning that it increases as the firm provides more non-attest services to a client. Therefore, the sum of the work provided rather than each assignment must be considered.

The gravity of using audit firm personnel is reinforced further by the SOX requirements surrounding filling permanent positions by clients with individuals formerly employed by the attest firm. Generally, a one-year cooling off period is required if the role involves financial oversight. Furthermore, the client's audit committee should consider the impact on auditor independence of any hires from the audit firm.

Once the audit firm has cleared the independence hurdle for non-attest services, specific requirements then apply for staff who provide the augmentation staffing. The firm personnel on loan must be under the direction of a member of the client's staff (preferably senior management) who has appropriate skill, knowledge and/or experience to determine the nature and scope of the activities provided by the loan staff. In addition, this individual must oversee the activities and evaluate the adequacy of the services and the results provided.

It is very tempting for audit firms to eye the opportunities provided, but gaps may exist in expertise and staffing of their clients to generate lucrative billings and enhance the training and development of promising professionals within the firm. It is also no surprise that companies turn first to their audit firm when in need of additional manpower or expertise. The relationship that develops in a well-managed audit engagement generates trust and a confidence in the professional skills of the firm. The firm's familiarity with the client's processes, procedures and systems also results in an efficiency that cannot be easily matched by loan staff from other sources.

Because it is in the mutual interest of both the client and audit firm to maintain independence, both parties should assume that staff augmentation from the attest firm is a last resort and should only be considered in the most extreme circumstances. Companies are well advised to maintain relationships with other professional service firms from which to source assistance when the need arises. And the unique position of the audit team allows them to offer advice and assistance in their role of auditor without compromising their independence, which is so critical to the integrity of their audit opinion.

Figure 1.

Safeguards for Auditor Independence

The arrangement is being performed due to an expected situation that would create a significant hardship for the client to make other arrangements.

The arrangement is not expected to reoccur.

The arrangement is performed for only a short period (presumably not to exceed 30 days).

The audit firm personnel on loan do not participate in, or influence, an audit engagement covering any period that includes the arrangement.

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