

AICPA Professional Ethics Executive Committee (PEEC)

Open Meeting Highlights – May 2019

State and Local Government Affiliates

Task force chair Nancy Miller informed the PEEC that the comment letters received on the revised proposal were generally positive. The approach the task force took in crafting the proposed standard was to balance independence concerns with the cost of compliance. For example, upstream entities are no longer considered affiliates although in certain instances members should evaluate an upstream relationship using the conceptual framework. The task force also sharpened the language so that it's more precise and generally avoided references to GASB. Ms. Miller walked through the task force's revised interpretation, asking for and addressing PEEC members' questions and concerns. The PEEC made some editorial changes to the interpretation. Other discussion items were the implementation tools being developed and a communication plan.

Outcome/Next Steps: The PEEC agreed to adopt the proposed interpretation with an effective date of years beginning after December 15, 2020.

Staff Augmentation Services

Task force chair Lisa Snyder informed PEEC that a concern was raised about whether client supervision of a member firm's staff would result in "co-employment" issues with legal consequences for members and clients. Noting that the task force incorporated a definition of staff augmentation services in the introduction to the interpretation, she asked whether the issue would be alleviated if client supervision of the member's staff is not a required safeguard. The PEEC discussed whether a legal issue, which varies from state to state and at the federal

level, should impact PEEC's ability to issue an independence interpretation. AICPA legal counsel advised it may be best to table the discussion until the co-employment issue, which has not been fully vetted, is resolved.

One member was concerned about the different way the International Ethics Standards Board for Accountants (IESBA) addressed staff augmentation, that is, not as a service (as in the Exposure Draft (ED)), but as an element of employment, and whether AICPA would be considered fully converged with IESBA. Ms. Snyder responded that PEEC discussed the issue and included a question in the ED and there were no significant comments raised on that point.

NASBA representatives on PEEC reminded members of their concerns, which are much broader than co-employment, since NASBA believes the interpretation presents enforcement, regulatory and other problems and should not be adopted. One member asked if the task force considered developing FAQs in place of the interpretation. Ms. Snyder indicated this was considered but they believed formal guidance would be preferable, since the code currently bars simultaneous employment. Ms. Snyder said she was concerned about recommending the proposed interpretation if it would negatively impact state board adoption of the AICPA Code. NASBA representatives agreed to poll the state accountancy boards about the proposed interpretation and how it might be interpreted in their states.

Outcome/Next Steps: The PEEC agreed to table discussion of this proposed interpretation pending (i) additional information about possible co-employment legal ramifications, and (ii) feedback from state accountancy boards via NASBA.

Information System Services

Task Force chair Shelly Van Dyne reviewed edits the task force made to the proposal since the last PEEC meeting. First, she said to clarify the interpretation's applicability when a firm provides non-financial statement attestation services, the task force added a paragraph to that effect. One member asked about the strategy and work plan the PEEC is developing and whether the issue should be addressed more broadly via a new PEEC project. AICPA staff Ellen Gorla stated that the work plan will take some time to establish and implement and, in the meantime, the task force believes the interpretation should explain how to apply the interpretation to attest engagements on subject matter other than financial statements.

Ms. Van Dyne also described changes made to the "discrete exception" (par. .05) in which a member may design or develop a template that performs a discrete calculation. The task force struggled with this "blanket" exception because it could allow a member to design a template that is significant to the client's financial statements. The task force recommends that the sentence on discrete calculations in par. .05 be removed. Instead, the group recommends revising par. .03(a) to exclude from the definition of "financial information system" ("FIS") a tool that meets 3 conditions: (i) the tool is noncomplex and discrete, (ii) the client is able to re-perform the calculation (i.e., it's not a "black box," thus the client able to take responsibility for it) and, (iii) the client evaluates and accepts responsibility for the assumptions and inputs. One member raised a concern about the "noncomplex" requirement (condition (i)) and whether it's consistent with the general requirements in [1.295.040](#). Ms. Van Dyne explained that the intent is not to *require* that the client reperform the calculation but be able to accept responsibility for the results of the calculation. To address the concern, PEEC removed the term

“noncomplex” and added other language to clarify its intent that the client be able to understand the calculation and the output.

In par. .22, the task force clarified that discrete meant “separate, distinct and nonrecurring”. A concern about using the term “non-recurring” was discussed, since technology consultants may need to return to an engagement to address a client issue. Another member noted that PEEC should remove par. .22(b) *apply virus solutions or updates*, and (c) *apply certain updates and patches*, from the list of permissible services because those activities could be construed as recurring maintenance, i.e., ongoing responsibility. The notion of a service being “on-call” vs. ongoing was also discussed. The PEEC agreed that an “ongoing” service is the real concern and changed the requirement that the services not be “recurring” to “not ongoing”. That is, an ongoing service denotes a continuous responsibility that impairs independence whereas occasional recurrence of a service would not necessarily be problematic.

Ms. Van Dyne stated that the task force reviewed the existing FAQs for information technology services and recommends they be deleted as the subjects addressed in those FAQs are included in the revised interpretation. One member noted that FAQ #7 does not appear to be addressed in the interpretation and the PEEC agreed to keep that FAQ (text below).

7. What criteria should a member use to determine whether an attest client’s information system is unrelated to its financial statements or accounting records? Information systems that produce information that is reflected in the amounts and disclosures in the attest client’s financial statements, used in determining such amounts and disclosures, or used in effecting internal control over financial

reporting are considered to be related to the financial statements and accounting records. However, information systems that are used only in connection with controlling the efficiency and effectiveness of operations and will have no significant impact on the financial statements, accounting records or internal controls over financial reporting are considered to be unrelated to the financial statements and accounting records. [Added prior to June 2005]

The proposed effective date of the interpretation would be for periods beginning 1/1/21, which gives members 18 months to implement. Ms. Van Dyne noted that the task force believes that most of the revised guidance is consistent with the interpretation it would replace [1.295.145](#) (*Information Systems Design, Implementation, or Integration*). However, for managed services, some members may be providing services that would be considered to impair independence under the revised, clarified guidance, hence a lengthy implementation period is recommended. Ms. Van Dyne also described the task force's plans for informing and educating the membership about the revised interpretation.

Outcome/Next Steps: The PEEC agreed to adopt the new standard with the effective date noted above.

AICPA PCPS Technical Issues Committee Concerns about the Hosting Services Interpretation/FAQs

Technical Issues Committee (TIC) staff liaison Kristy Illuzzi informed the PEEC of several concerns regarding the hosting services interpretation and FAQs. She noted that the TIC did not comment on these issues when the interpretation was proposed because they did not realize its application to them as practitioners. She noted that the PCPS firms have grave concerns about the upcoming July 1 effective

date, specifically, that some software applications are not yet able to do things needed for members to comply with the new rule. For example, they are concerned about the requirement to terminate a client's access to information in a member's portal within a reasonable period.

Ms. Illuzzi asked whether the PEEC would be willing to re-open the interpretation and adjust the language that concerns members. She also asked for an additional delay in the effective date.

PEEC chair Sam Burke noted the due process PEEC followed in adopting the hosting services interpretation, i.e., ED issued August 2017, adopted later with an initial effective date of September 2018, which was extended to July 2019. He asked PEEC whether there was any interest in extending the effective date again.

Outcome/Next Steps: PEEC members indicated (by comment and straw poll) that they were not in favor of supporting an additional delay in the effective date of the hosting interpretation. They did, however, agree to continue to work on the FAQs to clarify any areas of confusion.

Inducements

Task force chair Anna Dourdourekas explained that her group reviewed the IESBA provision on inducements and compared it to the AICPA Code. They believe the AICPA Code is converged although there may be a slight gap regarding independence, which they recommend addressing with an FAQ.

Outcome/Next Steps: PEEC agreed with the task force’s recommendation to develop an FAQ to converge the AICPA Code to the new IESBA provision on inducements.

Transfer of Files / Return of Client Records in Sale of Accounting Practice by Nonmember

AICPA staff April Sherman said that questions were raised at the last PEEC meeting about a member's obligations under [1.400.205](#) when purchasing a nonmember’s accounting practice when the nonmember retains no ownership in the firm. Ms. Sherman believes that the PEEC intended the member to be satisfied that the seller notified clients of the change in ownership even when the seller is not an AICPA member. Two PEEC members agreed with her assessment.

Outcome/Next Steps: The PEEC reviewed a draft FAQ, which states that the member should be satisfied that the seller has appropriately communicated with clients, as required under 1.400.205, whether or not the seller is also an member.

Noncompliance with Laws and Regulations (NOCLAR)

Task Force chair Bob Denham stated that a Uniform Accountancy Act (UAA) / PEEC task force (comprised of an equal number of AICPA and NASBA members) has been formed, with the objective of reaching agreement on major issues related to NOCLAR and determine a “blueprint” for addressing those issues. The group met April 23 by teleconference to discuss the history of the NOCLAR standard-setting and subsequent developments. The task force believes it should focus initially on responsibilities of members providing attest services.

Once the task force reaches agreement on the issues, the UAA committee and PEEC NOCLAR task force will take their respective actions forward (i.e., drafting, etc.). In the meantime, the PEEC NOCLAR task force will suspend its activities except to report to PEEC on developments.

Outcome/Next Steps – The UAA/PEEC task force will meet in Washington, DC on July 30-31.

Next Meeting: The next open meeting of the PEEC will be held via teleconference on a soon-to-be-determined date in August 2019.