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Professional Ethics Division
AICPA Professional Ethics Executive Committee

Sikich LLP would like to thank the Professional Ethics Executive Committee for the opportunity to respond to Proposed Revised Interpretation on Information System Services (*formerly* Information Systems Design, Implementation, or Integration) dated March 15, 2018. We believe the due process followed in the implementation of revised ethics interpretations is essential for ensuring guidelines responsive to our professional responsibility and adaptive to our changing environment.

Our responses to the questions posed in the Exposure Draft are as follows:

Question 1 – Do you believe the terminology used in the proposal is consistent with industry practice and will be readily understood by members who do and do not practice in this arena?

Section 1.295.145.02 of the proposed interpretation includes several definitions that we believe could be modified to improve understanding and to ensure consistent application by members:

- *a.iii* states “A system that gathers data that assist management in making decisions that directly impact financial reporting” may be considered when evaluating whether the nonattest service is related to a financial information. We believe this nonattest service should not be considered part of a financial information system, as noted in our response to Question 3 below. This definition is overly broad as most, if not all, decisions made by management ultimately have an impact on financial reporting but few would result in a straight-line “direct” impact on financial reporting. Furthermore, without more specific guidance this lack of clarity could lead to inconsistent evaluation of the nonattest service among practitioners and an unnecessary limitation on the types of services clients value from members.

- *b.* utilizes the terms “blueprint” and “schematic” in the definition of the design of an information system. These terms are not common in attest services and, as a result, we believe this definition creates uncertainty to attest practitioners. We understand the objective is to differentiate that the design (establishing the framework for the process flow) of an information system is a necessary step to be performed prior to the development (primarily creating code) of an information system, but the terminology noted above is more prevalent to other professions and could create unintended diversity in application of the guidance.

The definition of a financial information system proposes in part to include a system that generates information that is significant to the financial statements or financial processes taken as a whole.

Question 2.a – The proposal currently does not include specific guidance on what is “significant,” leaving the determination to the professional judgment of the member. Do you believe this is appropriate? If you believe specific guidance should be included, please explain how you believe “significant” should be defined.

We believe it is appropriate to have the determination of “significant” subject to the professional judgment of the member as this is consistent with the Conceptual Framework Approach. Page 6 of the Explanation of the Proposed Revision includes a definition of “significant” that still incorporates the professional judgment of the member as it relates “significance” to financial statement materiality, which is clearly subjective. Also, as noted in ET Section 1.210.010.07, “*Threats* are at an *acceptable level* either because of the types of *threats* and their potential effect or because *safeguards* have eliminated or reduced the *threat*, so that a reasonable and informed third party who is aware of the relevant information work perceive that the *member’s* professional judgment is not compromised.” Inherent in the Framework is the determination, based on the member’s judgment, that certain threats are more significant than others or that application of one or more safeguards can mitigate a threat. Incorporating the definition set forth in the Explanation would improve the guidance. In addition, we also believe it would be appropriate to require the member to document the rationale and reasoning justifying the determination that the system is not “significant”.

Question 2.b – By including the concept of “significant” in the definition of a financial information system, it could be perceived that PEEC has proposed a less restrictive standard than the current interpretation, which would allow the member to design or develop a component of the financial information system that is not significant to the financial statements or financial process as a whole. Do you believe this exception is appropriate? Why or why not?

We believe the exception to allow a member to design or develop a component of the financial information system that is not significant to the financial statements or the financial process as a whole is appropriate. While some may argue this concept results in a less restrictive standard than the current interpretation, we believe, for the reasons articulated in our response to question 2.a, that the concept is appropriate.

Question 2.c – Do you think the phrase “financial process” makes it clear that members should be thinking broadly about processes that may affect a financial process such as information technology general controls?

We do not believe the phrase “financial process” makes it clear that members should be thinking about information technology general controls or similar matters. The question itself demonstrates the lack of clarity when it asks if members should be thinking broadly about processes that may affect a financial process. We recommend the definition be changed to read “*Financial information system* is a system that aggregates source data underlying the *financial statements* or generates information that is significant to the *financial statements* or financial processes and/or controls, including but not limited to information technology general application controls, taken as a whole.” This incorporates the discussion on page 6 in the Explanation of the Proposed Revision.

Question 3 – One of the factors proposed that may assist members in determining whether a nonattest service is related to a financial system is whether the system gathers data that assists management in making decisions that directly affect financial reporting. Do you believe this would include management-level dashboard reporting? Why or why not?

We believe that, as this interpretation is written, management level dashboard reporting would be included as a nonattest service related to a financial information system but we do not believe such inclusion is warranted. Decisions that directly impact financial reporting could be interpreted to cover virtually all management decisions that ultimately impact financial transactions – deciding to increase the number of workers assigned to the assembly line directly impacts the reporting of components of cost of goods sold, etc. As such, we believe the language “ a system that gathers information” in the proposed factor above is overly broad and should be removed from the interpretation. Dashboard level reporting that does not alter the underlying recording or aggregation of data specifically utilized in financial reporting is essentially an enhanced tool or add-on that does not impact the functionality of the financial information system and therefore should be permissible with the application of the appropriate safeguards. Dashboard reporting facilitates management assumption of management responsibilities and does not involve the delegation of such to the member either in the creation of the dashboard to facilitate accumulation of information management deems important to the operation of the business or in the ultimate decisions made by management.

Question 4 – If adopted as proposed, do you believe the extended period of time would be needed to implement the guidance? Why or why not?

If this interpretation is adopted as proposed, or without major substantive changes to the guidance set forth, we believe the extended period of time for implementation, combined with an early implementation option is appropriate. Some members likely will need to make more fundamental changes to the way services are provided to clients and the additional time should allow for less disruption to the members' practices and allow clients to seek other alternatives should independence issues exist based on the revised interpretation.

Additional Comments/Questions Submitted

1. Section 1.295.145.04 of the proposed interpretation stipulates the **design** of an attest client's financial information system creates a threat to independence that could not be reduced to an acceptable level by the application of safeguards. There are many consulting and other nonattest services that result in specific recommendations for process improvements or modifications to the control environment that do not result in an impairment of independence provided all the requirements of the "Nonattest Services" subtopic of the "Independence Rule" are met. These other services could appear similar in nature to the concept of the design of a financial information system. The interpretation, as written, presumes the member will perform both design and development/implementation services which collectively pose a threat considerably greater than design services alone. We believe members should be able to design (create the blueprint) for a financial information system without impairing independence as long as management reviews and approves the design and performs all management responsibilities with respect to development and installation. These elements of the overall system implementation may well be performed by other members or vendors.
2. Sections 1.295.145.19 and .20 of the proposed interpretation address maintenance, support and monitoring services. Specifically, paragraph 19 *d* provides that independence would be impaired if the member "Has responsibility to perform ongoing network maintenance, such as updating virus protection solutions, applying routine updates and patches, or configuring user settings" while paragraph 20 establishes an exception if such services are "discrete nonrecurring engagements". As a practical matter, many members may enter into engagements covering an extended period of time for which they could be compensated on a retainer basis to provide such services on an as-needed basis. Such agreements reduce the need to create multiple engagement letters covering general services and, in effect, provide an understanding for the performance of multiple "discrete" services throughout the year. We believe forcing members to establish each instance of providing these services as "discrete" engagements places an

unnecessary burden on the practitioner. We further believe all the requirements of the “Nonattest Services” subtopic of the “Independence Rule” can be met by having management provide specific and continuous direction to the member throughout the term of the services and, as such it should be acceptable for members to structure the arrangements with clients in a manner that facilitates effective utilization of members’ services.

Very truly yours,

Sikich LLP