



June 15, 2018

Professional Ethics Executive Committee
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Via e-mail: Ethics-ExposureDraft@aicpa-cima.com

Re: Comments on Exposure Draft, Proposed Interpretation *Information System Services (formerly Information Systems Design, Implementation, or Integration)*, AICPA Professional Ethics Division dated March 15, 2018

Dear Committee Members:

Grant Thornton LLP (“Grant Thornton”) appreciates the opportunity to comment on the American Institute of Certified Public Accountants (“AICPA”) Professional Ethics Executive Committee’s (“PEEC”) March 2018 Exposure Draft (“Exposure Draft”), which proposes interpretation “Information System Services” (formerly “Information Systems Design, Implementation, or Integration.”) (ET sec. 1.295.145).

Grant Thornton agrees with PEEC’s proposal to introduce defined terms, such as “financial information system”, and descriptions of the various types of service offerings related to financial information systems, such as implementation services related to commercial (pre-packaged) off-the-shelf financial information system software. Grant Thornton believes these proposed revisions provide valuable clarifications and explanations of the guidance to support consistent application of the interpretation while considering the growth of current information technology and information systems service offerings in the profession.

While Grant Thornton supports the revisions set forth in the Exposure Draft, we have provided the following comments for PEEC’s consideration.

General Comments

Grant Thornton suggests that PEEC consider providing illustrative example scenarios and frequently asked questions to assist in the application of the new interpretation.

Request for Specific Comments

Below are Grant Thornton's specific comments – as requested in the Exposure Draft.

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?*

Grant Thornton believes the terminology used in the proposal is, in general, consistent with industry practice. While many in public practice refer to systems as “packaged” or “off-the-shelf,” “COTS” is likely understandable by members who do and do not practice in this arena. Therefore, we recommend that PEEC consider further clarifying the term “COTS” in the interpretation or in a frequently asked question.

2. *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.*
 - 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.*

Grant Thornton believes it is appropriate for the guidance to leave the determination of what is “significant” to the professional judgment of the member. Grant Thornton noted that explanation of the proposed interpretation states that information generated by a financial information system is considered “significant” if it is probable that the financial information system will be material to the financial statements of the attest client. However, specific details on how to apply the guidance were not provided within the proposed interpretation. While Grant Thornton does not believe specific guidance within the interpretation is needed, it may be helpful for PEEC to consider providing specific general application guidance or provide such details in an illustrative example scenario to assist with consistent application across the profession in nonauthoritative guidance. For example, Grant Thornton believes specific general application guidance such as how integral is the financial related system being considered for implementation to the audit client's operations, management's expected involvement in the implementation, including their expertise and knowledge, evaluation of the expected nonaudit fees to the audit fees and past experience (or involvement) with the audit client's financial information systems should be considered by PEEC. This additional guidance will assist members in determining what is “significant”, and will also guide the member's in further evaluating their independence in appearance, including their integrity and objectivity when considering such implementation services. In

addition, PEEC should consider incorporating the following scenarios in the nonauthoritative guidance addressing “significant”:

- “If proposing on a full COTS general ledger package implementation for an audit client, would this be considered material to the financial statements of the audit client or financial processes taken as a whole?”
- “If the general ledger COTS package implementation is for a division or branch of the audit client would the conclusion be different and why?”
- “If proposing on COTS tax provision software or fixed assets software package implementation for an audit client, would this be considered material to the financial statements of the audit client or financial processes taken as a whole?”

Grant Thornton believes the proposed interpretation should include documentation requirements with respect to evaluating the facts and circumstances of the proposed services, including the member’s evaluation on whether the system generates information that is “significant” to the financial statements or financial processes taken as a whole, and any potential threats to the member’s independence and the safeguards applied to eliminate or reduce the threats to an acceptable level, including documentation of discussions with, and agreement by, the lead audit or attest partner.

- 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?*

Grant Thornton agrees with the exception allowing 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 as such exception is consistent with the concept of applying a threats and safeguard approach to evaluating the self-review and management participation threats to the member’s independence. Further, Grant Thornton believes it would be reasonable to determine that the provision of services relating to a financial information system that is not significant to the financial statements or financial process as a whole would not create a significant self-review and/or management participation threat to the auditor’s independence such that the threat(s) would not be at an acceptable level. Furthermore, PEEC should consider providing examples in nonauthoritative guidance (e.g., frequently asked questions) of

examples of what may constitute nonsignificant, including significant, design or development of a component of a financial information system.

- 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?*

Grant Thornton agrees that use of the phrase “financial process” in the proposed interpretation makes it clear that members should be thinking broadly about processes that may affect a financial process such as information technology general controls or other operational processes or functions that may have a financial statement impact. While we believe such objective is clear in the context of the proposed interpretation, it may be appropriate if such objective was explicitly stated within the interpretation. Providing such clarification and examples will assist members with a consistent application of the interpretation. Additionally it may be helpful to use the phrase “financial consolidation and reporting process” to provide further clarification.

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?*

Grant Thornton believes that the factor “a system that gathers data that assist management in making decisions that directly impact financial reporting” is broad and should be clarified. We believe practitioners are generally focused on systems that generate reports and trial balances used to support management’s financial statement assertions. While we understand that specifying that the system “directly impacts financial reporting” may be intended to limit the scope of the systems considered; however, providing clarified guidance and illustrative examples that differentiates systems which “directly” vs. “indirectly” impact financial reporting will assist with evaluating the criteria and applying the proposed interpretation.

Further, Grant Thornton believes that inclusion of management-level dashboard reporting when considering a system that gathers data to assist management in making decisions that directly affect financial reporting as a financial system is subject to interpretation and evaluation of various factors such as the type of organization, how the dashboard reporting is used, etc. In general, Grant Thornton believes that management-level dashboard reporting which directly relates to financial reporting should be considered in the evaluation of whether the system gathers data that assists management in making decisions that directly affect financial reporting. Therefore, the system would meet the definition of a financial information system and require evaluation under a threats and safeguard approach. Conversely, management-level dashboard reporting used for operational purposes that is not directly related to financial reporting would generally be excluded from such evaluation. In public practice, many reports are, in fact, custom built on an “off-the-shelf” system showing different points of view, periods, etc. for management and analytical purposes, all of which may not directly support financial reporting. Providing illustrative examples that analyze different scenarios involving

management-level dashboard reporting as part of frequently asked questions would assist in applying the proposed interpretation.

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

Grant Thornton agrees with the proposed effective date one year after adoption is appropriate and it provides adequate time for members to evaluate and comply with the proposed revisions, including development of their policies. While we believe many of the concepts and guidance provided in the proposed revisions are commonly used in current public practice, we believe the additional time along with any transitional guidance provided for engagements in process will be used to evaluate what constitutes a financial information system and whether such systems are significant to financial reporting or a financial process.

Other Specific Comments

Grant Thornton has the following other specific comments for PEEC's consideration when discussing the service offerings described in paragraphs .05 through .20.

- **“Implementation of a COTS Financial Information System Software Solution”** – Consider using the term “data conversion” instead of “data translation”, defining or clarifying “maintenance” and “support”, and providing example scenarios which include discussion of maintenance and support-type services.
- **“Customize a COTS Financial Information System Software Solution”** – Under the extant interpretation, customization services involving insignificant modifications to source code underlying an attest client's existing financial information system would be permitted. Consider updating paragraph .12 of the proposed interpretation to be consistent with the extant interpretation which specifies the services as prohibited if they involve “other than insignificant modifications or enhancements”.
- **“Interface a COTS Financial Information System Software Solution”** – Consider also referring to “interface” services as “integrations”.
- **“Data Translation Services Related to a COTS Financial Information System Software Solution”** – Consider also referring to “data translation” services as “data conversion” services.
- **“System and Network Maintenance, Support, and Monitoring”** – Consider defining “maintenance”, “support” and “monitoring”. We recognize examples were provided in paragraph .19 of maintenance, supporting and monitoring services which are not permissible and those which may be permitted if performed as discrete, non-recurring project where all the requirements of the “Nonattest Services” subtopic of the “Independence Rule” are met were provided in paragraph .20. However, we believe it would be helpful to provide additional clarification and example scenarios in which

permissible services are being provided over multiple periods as separate and distinct projects that would not be considered outsourcing an ongoing management responsibility.

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We would be pleased to discuss our letter with you. If you have any questions, please contact Anna Dourdourekas, National Partner in Charge, Ethical Standards, at Anna.Dourdourekas@us.gt.com or (630) 873-2633.

Very truly yours,

Grant Thornton LLP