

June 15, 2018

American Institute of Certified Public Accountants  
220 Leigh Farm Road  
Durham, North Carolina 27707

Attention: Toni Lee-Andrews, Director of Professional Ethics Division

We appreciate the opportunity to comment on the proposed **PEEC Exposure Draft (ED), Proposed Interpretation to the AICPA Code of Professional Conduct: Information Systems Services (ET sec 1.295.145)** and we support the general improvement of clarity on potential independence issues, but we feel that proposing such rules-based interpretive guidance could lead to more confusion and additional questions, especially in an area of professional services that is continually changing as new technologies and business practices are developed.

In regards to this exposure draft, we have the following thoughts for your consideration.

### **Responses to Questions in Exposure Draft**

**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?*

Generally, the exposure draft uses terminology that is consistent with industry practice. However, we would recommend that certain areas be clarified. For example, Section .02.c refers to developing an “information system” and there is an important distinction between an *information system* and *financial information system* (and, in this instance, we believe that a financial information system is more appropriate).

**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.*

- 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 that leaving “significant” vague is probably necessary, as the world of financial information systems is becoming more complicated between ERP, FPA, BI and other tools. The spirit of what is considered in the exposure draft may be better conveyed using “heavy influence” to indicate what’s most important (that is, independence should be considered for impairment if the member has heavy influence on the manner in which financial transactions are processed and recorded in the books and records of the entity).

**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 do not believe this should impair independence because this represents assisting the entity with a third-party tool to aggregate and present data that the entity's systems are already processing in the routine course of transaction management. We expect this support of FP&A or BI tools is where the profession will be going and it should not impair independence because it's simply helping technically aggregate information for management to make decisions.

Furthermore, we are not sure this should impair independence if the "designing" is objectively similar to functionality that already exists in software applications in the broad marketplace. However, if the design is new or unique, then maybe that could be seen as impairing independence (but this may be overcome as long as management has instructed, and is in a position to approve/evaluate/accept the results of their requested design).

### **Additional Considerations**

#### *Commercial Off-The-Shelf (COTS) financial information systems*

This concept is used throughout the exposure draft and it seems to ignore what is happening more and more in practice. COTS ignores the member will be in a position to advise clients on the kinds of metrics, key performance indicators, and dashboard views that might be of value to the entity and its management (based on the member's familiarity with the entity).

#### *Designs or Develops a Financial Information System*

The exposure draft states the following in paragraph .04, "When a member designs or develops an attest client's financial information system, threats to compliance with the "Independence Rule" would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards and independence would be impaired." We disagree with this statement because only some types design work would impair independence (that is, not all types of design work would impair independence).

#### *Install a COTS Financial Information System Software Solution*

The exposure draft states the following in paragraph .07, "To install a COTS financial information system software solution means the initial loading of software on a computer, normally onto a customer's server." We have significant concerns that this sentence does not contemplate current business practices. Almost all software (ERP and Accounting) is cloud-based and not installed on a customer's server. This statement should be revised to incorporate modern technology systems.

*Configure a COTS Financial Information System Software Solution*

The exposure draft states the following in paragraph .09, “*To configure a COTS financial information system software solution means selecting the software features, functionality options, and settings provided by the vendor that will determine how the software will perform certain transactions and process data. Configuration options may also include selecting the predefined format of certain data attributes and the inclusion or exclusion of such attributes*” This statement may be too broad because, for example, it seems to allow the member to configure revenue recognition rules and/or options in a revenue/receivable module of a system for a client. Assuming the client management has final approval, per some of the guidance in this exposure draft, this may be permissible. But this gives the member control over the method of revenue recognition that is incorporated into the financial statements. We use this example because it's an example of normal configuration work in an implementation project, but PEEC may not have considered the impact of this as opposed to choosing less impactful configuration settings in standard modules.

*Data Translation Services Related to a COTS Financial Information System Software Solution*

The exposure draft states the following in paragraph .18, “*If a member uses an API developed by a third party to perform data translation services for a COTS financial information system software solution, threats to independence would be at an acceptable level, provided the member will not be designing or developing code for the API to work and all the requirements of the ‘Nonattest Services’ subtopic of the ‘Independence Rule’ are met.*” We believe that API may not be used correctly in this paragraph. A member could use a third party tool that performs data translation services (that is, it's not usually an API connector but rather a program for data translation purposes).

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If you have any questions about our response, or wish to discuss our comments, then please contact Bob Green at [BGGreen@SingerLewak.com](mailto:BGGreen@SingerLewak.com).

Sincerely,

*Singer Lewak LLP*

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