

June 11, 2018

Professional Ethics Executive Committee, Professional Ethics Division
American Institute of Certified Public Accountants (AICPA)

By e-mail to: Ethics-ExposureDraft@aicpa-cima.com.

Re: Proposed ethics interpretation, *Information System Services*

Ladies and Gentlemen:

This is in response to the exposure draft (the ED) prepared by the AICPA's Professional Ethics Division (the Division) of a proposed ethics interpretation entitled *Information System Services* and dated March 15, 2018.

In general, we concur with the overall proposed conclusions presented in the second and third paragraphs of Part II of the Explanation of the Proposed Revisions that begins on p. 6 of the ED. However, we have four concerns and objections, with the fourth being our most serious:

1. We understand that whenever a member judges an independence threat identified to be at an acceptable level, the member takes on a burden under the conceptual framework to create unnecessary, self-serving, "hoop-jumping" documentation of that judgment and the safeguards in place that are claimed to constitute an adequate basis therefor. Accordingly, we believe, on the other hand, that when the acceptability of such a threat is effectively prejudged in a published ethics interpretation or a standard, the member should be relieved of that documentation burden. To accomplish this, we believe that rather than characterizing such circumstances as threats that are acceptable, para. 03 of the final version of the proposed interpretation should state clearly that they should not be deemed threats at all.
2. Customizing a commercial off-the-shelf (COTS) financial information system, as described in para. 11 of the proposed interpretation, can entail matters of widely varying significance in relation to the overall functionality of the system relative to a client's financial processes or to preparing its financial statements as a whole. Accordingly, we believe that para. 12 of the proposed interpretation should provide for a significance evaluation by the member of the nature and extent of a COTS customization service, the results of which could enable a conclusion that any related threat to independence may be judged acceptable given relatively low significance and the applicability of adequate safeguards. . In any event, the interpretation should not preclude such a judgment outright, as it now proposes. (See our response to the Committee's requests for specific comments no. 2b.)
3. We believe that providing for early adoption would unduly expose members who choose not to early adopt to a significant litigation risk for failure to do so. Accordingly, we believe the final version should neither suggest nor prohibit but be silent on the option for early adoption. Although we have no difficulty with the assertion contained in the first sentence of the fourth paragraph of Part II of the Explanation of the Proposed Revisions that the "critical to the interpretation is whether the information system is a financial information system," our most forceful objection is

the other conclusion in the ED that invokes the definition contained in para. 02a of the proposed interpretation of the term, *financial information system*, i.e., that “when the information system aggregates source data underlying the financial statements, or generates information that is significant to the financial statements or financial processes as a whole, the system is considered a financial information system.” We see that definition as overly broad and vague especially when unsupported by useful guidance as to the meaning of “significant.”

As suggested in question 2a of the Request for Specific Comments and discussed further in our response thereto presented in the accompanying attachment, we agree that the determination of what is “significant,” should necessarily be left to the professional judgment of the member. However, such a suggestion as to the need to apply professional judgment is not articulated, as we believe it should be, in the language of the proposed interpretation, itself, nor is any useful application guidance provided.

We believe the example of the application of judgment presented in the last paragraph of part II of the Explanation of the Proposed Revisions (which is likewise is not part of the interpretation, *per se*) is virtually unintelligible and must be rewritten more clearly to serve as useful guidance.

Additionally, without sufficient useful guidance, we find the proposed definition of the term, *financial information system*, to be too broad, far-reaching and imprecise to prevent it from being effectively interpreted as to preclude (inappropriately, in our opinion) independent auditors or accountants from performing procedures that are common to most audit firms (possibly except for the very largest) to assist small clients in the preparation of their financial statements with no opportunity to find any related threat to independence acceptable by complying with the independence-preserving constraints originally set forth in Ethics Interpretation 101-3 (ET sec. 1.295, most specifically 1.295.120.02c-e). We are referring specifically to the common practice of importing a client’s often unadjusted general ledger data from its trial balance (which is typically created by a COTS financial information system maintained by the client) into the member’s electronic practice aids software. Such software generally allows for adjustments and transfer of the adjusted data to a suitable template for creating professional-looking financial statements for the review and acceptance of responsibility by client management pursuant to ET sec. 1.295. Accordingly, we believe the final interpretation should expressly state that such use of a member’s electronic practice aids software to aid in the preparation of a client’s financial statements is permitted, as it has been heretofore pursuant to ET sec. 1.295, and does not constitute a threat to independence.

If the foregoing is not expressly stated in the final interpretation, we believe the potential for interpreting its proposed definition of *financial information system* as precluding a member’s independence when using an electronic information systems platform to provide such assistance services consistent with the extant language in ET sec. 1.295 would disrupt historical engagement arrangements, have an immeasurable adverse consequential effect on the ability of firms to provide audit and other attest services to small clients and constitute a formidable hardship and disservice to those clients. We sincerely hope this effect is not consistent with the Division’s intent.

Certain details of our views are contained in our responses to the few questions presented by the Division in the ED in the accompanying attachment.

We acknowledge our awareness that our comments in response to this proposal will become part of the public record of the AICPA and be made available online. Any questions about our firm’s views may be addressed to the undersigned at hlevy@pbtk.com or 702/279-5389.

Very truly yours,
Piercy Bowler Taylor & Kern
Certified Public Accountants



Howard B. Levy, CPA, Principal
and Director, Technical Services

ATTACHMENT — Responses to the Committee’s Requests for Specific Comments

Following (italicized) are our responses to the Committee’s numbered requests for specific comments:

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?

We believe the terms, as defined in para. 02 of the proposed interpretation are consistent with their usage in today’s industry and would be understood well enough by those who are not practicing within the area. However, we recommend clarification as to whether the term, designing an information system, is intended to relate to both the development of a network and to a computer/server or to only one of those (since they are fairly independent of each other).

In addition, we believe definitions of the terms, interface, application program interface (API) and data translation, not commonly known to CPAs, should be added to para. .02 in the final version, perhaps by relocating them from paras. .13, .15 and .16, respectively. See also our comment about the term, dashboard, in our response below to request no. 3.

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.

As discussed in the main body of this letter, we believe the proposed definition of financial information system should be narrowed considerably so as to make clear that the practice of importing a client’s often unadjusted general ledger data from its trial balance into a member’s electronic practice aids software is not intended to be covered by such definition and that adequate useful (but nonprescriptive) guidance be provide to help members apply the necessary judgment to determine what is intended to be covered.

- 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 do not agree that the proposal, as written, would readily support such a conclusion, but we firmly believe it should because we believe no design or development function of a component of the financial information system that is not significant to the financial statements or financial process as a whole should preclude a judgment that any related threat to independence is acceptable.

- 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?

Although the term financial process is not defined in the proposed interpretation, we believe it is generally understood by members as is the inclusion within its meaning of information technology general controls. However, as set forth elsewhere in this letter, we do not believe the language in the proposed interpretation allows for, or provides sufficient guidance as to, the application of professional judgment as to how to use it to assess the significance of any effect on a financial process of any feature specific functional the ref.

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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 the term dashboard reporting has many meanings in different contexts and is likewise not commonly understood by members. Although used in the ED in a context that in our opinion should be expressly excluded from the definition of financial information system, because it would not be directly involved in the preparation of financial statements to be reported upon by the member, the term dashboard reporting does not appear anywhere in the proposed interpretation. We believe this definitional exclusion should be stated in the final version of the interpretation and that the term should be defined in para. .02 thereof.

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

We believe an extended period of time for implementation would be necessary if a final interpretation were to be adopted that required significant new documentation and internal approvals to support independence conclusions in covered circumstances or to deal with any conclusions as to independence impairments that unfortunately become necessary as a consequence of the final interpretation.