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June 20, 2018

Via e-mail: [ethics-exposedraft@aicpa-cima.com](mailto:ethics-exposedraft@aicpa-cima.com)

Professional Ethics Executive Committee  
Professional Ethics Division  
American Institute of Certified Public Accountants  
220 Leigh Farm Road  
Durham, NC 27707

**Re: Information System Services (formerly Information Systems Design, Implementation, or Integration)**

Dear Professional Ethics Division and Members of the Professional Ethics Executive Committee:

BDO USA, LLP, appreciates the opportunity to provide comments on the American Institute of Certified Public Accountants ("AICPA") Professional Ethics Executive Committee's ("PEEC") Proposed Revised Interpretation to the Code of Professional Conduct (the "Code"), *Information Systems Services* (formerly *Information Systems Design, Implementation, or Integration*) (proposed revised interpretation). Our comments on the proposed revised interpretation follow.

We support the PEEC's endeavor in setting high-quality and robust independence and ethics standards for the accounting profession in the United States. Overall, BDO supports the proposed revised interpretation, however, we have provided specific commentary below.

**General Comments**

Overall, we support the proposed revised interpretation, which contains intended enhancements to the extant guidance in consideration of current technology service offerings of members and proposes certain clarifications that will allow for a better understanding of where significant threats may exist concerning such services.

We support and appreciate the proposed enhancements clarifying and describing certain categories of services included within the broad scope of information systems services. We believe such guidance will provide more certainty to members without being too prescriptive. Also, we believe enhanced guidance will promote consistency in application of the Code.

While we appreciate the opportunity to comment on the proposed revised interpretation, the PEEC should note that it would be beneficial to all respondents if a "marked" version of the proposed revisions were included in the exposure draft document, or, at the very least, the extant guidance "unmarked" for comparison purposes. This would allow a respondent to clearly view the revisions to the extant interpretation and better understand how the proposal will impact current practice. A "marked" version has been included in previous exposure drafts and we would appreciate if this practice were continued in the future.



### Request 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 area?

*We do 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 area.*

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 does not include specific guidance on what is “significant,” leaving the determination to the professional judgement 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 would be appropriate to provide some guidance as to what would constitute information that is significant to the financial statements or financial processes taken as a whole, as, the term “significant” is very broad and could create varied and inconsistent application across the profession. The exposure draft notes on page six that “Information generated by the system is ‘significant’ if it is probable that it will be material to the financial statements of the attest client.” Thus, PEEC has concluded on the criteria that would designate “significant” information and, as such, it should be included in the interpretation to prevent misapplication. We also note that in this context, the Securities and Exchange Commission (SEC) believes that information would be “significant” if it is reasonably likely to be material to the financial statements of the audit client.<sup>1</sup> We suggest the following wording be included in the interpretation, consistent with the SEC language: “Information is significant to the financial statements if it is reasonably likely that it will be material to the financial statements of the attest client.”*

*Further, it would be beneficial to users of the Code to include guidance within the interpretation noting that the member may not know if the information generated by a system will be material to the financial statements until the financial statements are finalized, and thus, before deciding to perform certain services, the member should consider the nature of the information and the likelihood that it could be material or become material in the future to the financial statements. Such guidance might influence members to be proactive in preventing non-compliance with the Independence Rule, thus, benefitting the public interest.*

*Finally, Staff should consider publishing non-authoritative guidance concerning the topic in the form of a “frequently asked question,” (FAQ) as, we believe examples of systems that may generate significant financial information would be beneficial in order to mitigate confusion. Considering the pace of change within the information technology*

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<sup>1</sup> See SEC Release, *Strengthening the Commission's Requirements Regarding Auditor Independence* (May 2003).



*industry, such examples may be more properly located outside of the confines of the Code.*

- b. By including the concept of “significant” in the definition of a financial 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 inclusion of the concept of “significance” is appropriate, as, a reasonable and informed third party would most likely conclude that the threats to independence would be at an acceptable level if a member were to design or develop a component of a financial information system that generates financial information that is insignificant to the financial statements or financial process as a whole.*

*Also, the proposal is consistent with the rules established by the SEC, as Rule 2-01(c)(4)(ii)(B) prohibits (unless the results of the services will not be subject to audit procedures): “Designing or implementing a hardware or software system that aggregates source data underlying the financial statements or generates information that is **significant** (emphasis added) to the audit client’s financial statements or other financial systems taken as a whole.”*

*Finally, the proposal appears to be consistent with the Code of Ethics of the International Ethics Standards Board for Accountants (IESBA) which also considers the significance of the information, as, paragraph 290.198 states that, “Providing services to an audit client that is not a public interest entity involving design or implementation of IT systems that...generate information that is significant to the client’s accounting records or financial statements...creates a self-review threat.”*

- 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 believe the phrase “financial process” is broad, in that, it connotes any system, series of steps or operations that affect the financial statements or financial related management decisions affecting the financial statements. However, we believe it would be beneficial to include an example, such as information technology controls, within the interpretation itself so that the PEEC’s intent is clear. If the Committee does not believe such an example should be added, we would recommend that a FAQ be issued by Staff to clarify the intent*

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 assume “management-level dashboard reporting” to mean data aggregated to present key performance indicators in order to assist the client’s management to make decisions. We agree that dashboard reporting would be considered information that assists management in making decisions. Accordingly, if the information presented on the dashboard is used for financial reporting related decision-making, the member would need to determine whether the dashboard reports would have a significant impact on management’s decision making. While it might be challenging to determine how significant the dashboard reports are to management’s decision process, we would agree that if significant, this service should be considered customizing a COTS “financial information system” and thus, impair independence. We believe the PEEC should provide additional guidance concerning this issue in order to promote consistency in application of the Code, as, threats to independence created by customizing a client’s COTS system for dashboard reporting purposes could be viewed differently within the profession and among various stakeholders. For example, we do not believe it is intuitive that dashboard reporting services would be linked to a system that “generates information that impacts a financial process as a whole” (because the system gathers data that assists management in making decisions). Providing an example of this linkage in the final standard or through a FAQ would be beneficial. In addition, including dashboard reporting as an example in par. 11 under “Customize a COTS Financial Information System Software Solution” would be helpful.*

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

*We believe the extended period of one year after publication would be needed to implement the guidance, as, updates to policies and tracking systems for some firms may be a time consuming process.*

**Other Comments**

Paragraph .03 of the proposed interpretation addresses design, development or implementation services not related to a financial information system. While we appreciate non-authoritative guidance, we believe the PEEC should consider whether AICPA Staff FAQ no. 7 should be incorporated into the interpretation for clarification as to what would be considered unrelated to a financial information system or deleted from the Staff FAQs. FAQ no. 7 can be noted below:

*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 are considered to be unrelated to the financial statements and accounting records. [Added Prior To June 2005]*



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Further, we request that the PEEC consider including some examples of systems that would not be considered “financial information systems.” This would be valuable, as, many systems within an attest client may be integrated.

We would be pleased to discuss our letter with you. If you have questions or would like to address a topic within our comments, please contact, Ms. Lisa A. Snyder, CPA, National Assurance Managing Partner - Independence at 732.734.3052 or [lsnyder@bdo.com](mailto:lsnyder@bdo.com) or Mr. Jason Evans, CPA, National Assurance Director - Independence at 919.278.1953 or [jmevans@bdo.com](mailto:jmevans@bdo.com).

Respectfully,

/s/ BDO USA, LLP

BDO USA, LLP