



National Association of State Boards of Accountancy

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June 12, 2018

Professional Ethics Executive Committee
c/o Toni Lee-Andrews, Director
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

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

Re: Information System Services

Dear Members and Staff of the AICPA Professional Ethics Executive Committee (PEEC):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the above-referenced Exposure Draft, *Information System Services* (the Exposure Draft). NASBA's mission is to enhance the effectiveness and advance the common interests of State Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories, which includes all audit, attest and other services provided by CPAs. State Boards are charged by law with protecting the public.

NASBA has been encouraging the State Boards to adopt the AICPA *Code of Professional Conduct* (the Code) with the goal of having consistent uniform standards in all jurisdictions. Accordingly, as part of our support of State Boards, we are keenly focused on reviewing proposed changes to the Code to determine whether they are in the public interest.

In furtherance of these objectives, NASBA offers the following comments and responses to the *Request for Specific Comments*.

General Comments

We support the proposal to amend the independence interpretation that guides practitioners performing information system services for an attest client. We appreciate the Committee's efforts to explain technology terms in plain language to facilitate independence reviews by persons who may not be versed in these types of services. Below we offer responses to PEEC's specific questions and provide additional comments for PEEC's consideration.

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 arena?*

NASBA believes the terminology will be readily understood. We do caution PEEC to avoid the use of technology-related terms (for example, “dashboard”) that, given the rapid evolution of technology, may fall out of use in a short period of time.

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.*

The term “significant” is linked to “materiality” in the explanation section of the Exposure Draft (bottom of page 6 as follows):

“Information generated by the system is ‘significant’ if it is probable that it will be material to the financial statements of the attest client.”

To strengthen the guidance, NASBA suggests that PEEC incorporate a similar linkage in the interpretation. Given the prevalence of the term “materiality” in the accounting and auditing literature, this change should enable the practitioner to more confidently apply professional judgment to the independence assessment.

If PEEC is amenable to making such linkage, we further suggest that PEEC carefully consider whether the phrase, “probable that it will be material to the financial statements of the attest client” is the appropriate wording to guide practitioners.

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?*

NASBA believes the exception is appropriate. However, we suggest that PEEC consider incorporating an additional requirement that practitioners also consider the aggregate impact of multiple design or development projects or engagements in determining significance to the financial statements or financial processes as a whole. NASBA believes the concept of “significance” should be tied to the concept of “materiality.” A practitioner may design or develop various components of an attest client’s financial information system that individually are not significant or material to the financial statements or financial processes as a whole. However, when aggregated, such work may in fact meet such threshold and should not be permitted under the exception.

- 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?*

NASBA believes the phrase “financial process” encourages practitioners to think broadly about processes in determining whether their work relates to a financial information system.

- 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?*

NASBA believes that, depending on its design and functionality, management-level dashboard reporting may be relevant in determining whether an information system service is related to a financial information system. The PEEC is encouraged to be careful in how such terms are presented in the interpretation, as today’s technological terms have the tendency to fall quickly out of use. PEEC may want to consider replacing “dashboard” with the phrase “business visual analytic and reporting application tools.”

NASBA suggests that PEEC consider issuing guidance on this point (perhaps in the form of a Frequently Asked Question (FAQ)) using the paragraph on page 7 before *III. Request for Specific Comments*.

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

NASBA agrees that practitioners may require an extended implementation period and that one year from publication of the final standard is the appropriate period. There may be some projects currently being performed by professionals that may need to be completed, transferred or

terminated as a result of the proposal. This one-year time period would allow for an orderly transition.

Additional Comments

NASBA offers the following additional comments on the Exposure Draft:

Scope of the interpretation

The proposal focuses on the impact of information system services on financial reporting attestation engagements, but does not address the impact these services have on other types of attestation engagements. NASBA suggests that PEEC broaden the scope of the interpretation to go beyond financial reporting considerations and address the potential threats to independence that may exist in the context of other attest services. For example, a firm may install a non-financial system for an attest client and then issue a System and Organization Controls (SOC) 2 or 3 report on the same system, which would appear to raise self-review and management participation threats to the firm's independence.

Terminology

We note that in par. 2(a) of the proposal, practitioners "may consider" four (4) factors in determining whether a nonattest service is related to a financial information system. We believe the practitioner *should* consider these factors given the critical distinction between financial and other information systems in the proposal.

Also, for completeness purposes, i.e., since the interpretation defines "design" and "development" of an information system, we suggest that PEEC incorporate as an additional defined term "implementing an information system" in par. 2(d) of the interpretation.

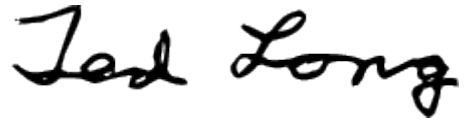
System and Network Maintenance, Support and Monitoring

We believe that PEEC may want to clarify the examples of permissible services described in paragraph .20b and .20c that appear to be part of the precluded services in paragraphs .19f and .19c, respectively.

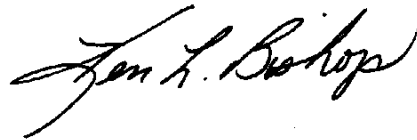
Additionally, we believe there could be misunderstanding as to what is a discrete, nonrecurring project. Some professionals may consider a discrete, nonrecurring project could be performed every other year, or two or three times within a five-year period. We suggest that PEEC consider whether further guidance could better distinguish the examples in pars. .19 and .20.

Again, we appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,

Handwritten signature of Theodore W. Long, Jr. in black ink.

Theodore W. Long, Jr., CPA
NASBA Chair

Handwritten signature of Ken L. Bishop in black ink.

Ken L. Bishop
NASBA President and CEO