



Deloitte & Touche LLP
30 Rockefeller Plaza
New York, NY 10112-0015
USA

Tel: +1 212 492 4000
Fax: +1 212 489 1687
www.deloitte.com

June 14, 2018

Ms. Toni Lee-Andrews, CPA, PFS, CGMA
Director, AICPA Professional Ethics Division
AICPA Professional Ethics Executive Committee
1211 Avenue of the Americas
New York, NY 10036-8775

Mail to: Ethics-ExposureDraft@aicpa-cima.com

Re: Proposed Revisions to AICPA *Code of Professional Conduct*—Information System Services (formerly Information Systems Design, Implementation, or Integration) Interpretation (ET Section 1.295.145) Exposure Draft

Dear Ms. Lee-Andrews:

Deloitte & Touche LLP is pleased to respond to the exposure draft, prepared by the Professional Ethics Executive Committee (PEEC) of the American Institute of Certified Public Accountants (AICPA), of Proposed Revisions to the AICPA Information System Services Interpretation (ET Section 1.295.145) of the AICPA *Code of Professional Conduct* issued on March 15, 2018 (the "Proposed Interpretation").

We appreciate the opportunity to comment on the Proposed Interpretation and commend the AICPA for its continued efforts to re-examine and improve professional standards and guidance.

We have included comments and recommendations on specific requested matters as well as on other matters we believe warrant consideration by the PEEC.

Request for Specific Comments

The exposure draft requested specific feedback related to a number of topics. We ask the PEEC to consider the following with respect to certain of those matters:

- 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?**

In our view, the terminology used in the proposal is consistent with industry practice. However, in an effort to provide additional guidance to members, the PEEC should consider clarifying whether there is an instance where a software package or solution designed or developed by a third party (i.e. not the member) would not be considered a commercial off-the-shelf software solution.

- 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.

In our view, use of the term "significant" in the context of determining whether the nonattest services to be performed relate to a financial information system is appropriate. We believe it would be difficult for the PEEC to be prescriptive in defining significance given the variation in factors to be considered when evaluating potential threats to independence (size and scale of clients involved, nature of the nonattest services, scope of audit procedures to be performed with respect to the clients, etc.). The factors included in .02 (a) of the Proposed Interpretation serve as useful considerations in determining significance and provide the member with the ability to use professional judgment when assessing such threats. To provide additional guidance, the PEEC may want to consider including in the Text to the Proposed Interpretation an additional consideration in .02 (a) related to materiality. Such concept was included within the Explanation of the Proposed Revision and states, "...Information generated by the system is "significant" if it is probable that it will be material to the financial statements of the attest client..."

- 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?**

In our view, including the concept of "significant" in the definition is appropriate. Consistent with our comments in 2.a. above, .02(a) of the Proposed Interpretation provides useful guidance to members in identifying a financial information system and factors to consider when determining whether a nonattest service relates to such systems. We believe including "significant" in the definition provides the member with an ability to apply professional judgment when evaluating potential threats to independence.

- 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?**

In our view, the PEEC should consider including clearer guidance of the PEEC's intent and expectation of members for evaluating independence threats when providing information system services that may affect a financial process; specifically, information technology general controls. We believe the PEEC's guidance should consider the scope of the member's audit when assessing the threats created by such services. A member may not be engaged to issue an opinion on an attest client's internal controls, which may result in the member not considering information technology general controls when evaluating threats to independence because the self-review threat may not be apparent or significant.

- 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?**

In our view, we believe there may be situations where the design and implementation of a management-level dashboard reporting system may not be viewed as (1) related to a financial system and/or (2) assisting management in making decisions that directly affect financial reporting. In these circumstances, we believe these services would not pose significant threats to independence. Examples may include dashboard reports that serve only to display certain historical information and provide alternative views or trends of existing data from an attest client's financial systems or are operational in nature. In this case, the management-level dashboard reporting system designed by a member would use the client's existing financial systems as an input and would not be management's primary source for internal controls over financial reporting decision making.

However, consistent with the Proposed Interpretation, the design and implementation of a system that provides management-level dashboard reporting may be indicative of providing a nonattest service related to a financial system when that system (a) gathers data and provides such data in a dashboard report format that management uses to make decisions that directly affect financial reporting or (b) allows management to perform ongoing evaluations of the attest client's internal control as part of its monitoring activities.

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

Our view is the extended period of time is reasonable in order to provide members adequate time to evaluate and operationalize any changes that may be necessary to comply with the Proposed Interpretation.

Additional Comments and Feedback

In addition to the specific requested feedback provided above, we are including the following additional comments for the PEEC's consideration:

- A. Clarification of "Maintenance, Support, and Monitoring"

We note paragraphs .19, specifically item e., and .20 from the "*System and Network Maintenance, Support, and Monitoring*" section of the Proposed Interpretation and paragraph .04, specifically item f., from the Hosting Services interpretation (ET Section 1.295.143—Effective September 1, 2018) (the "Hosting Interpretation") (refer to Appendix for excerpts). We are seeking confirmation from the PEEC with regard to situations whereby a member licenses permissible software, as provided for under the Hosting Interpretation and permitted under the Proposed Interpretation (if not related to a financial system), and the permissible software requires certain bug fixes or other routine patches. In this case, all licensees of such software receive the bug fixes or other patches in accordance with the terms of the existing license. In our view, this

Ms. Toni Lee-Andrews
June 14, 2018
Page 4

would not constitute the outsourcing of an ongoing function, process, or activity to the member that in effect results in the member assuming a management responsibility and would not be indicative of a member's independence being impaired.

B. Clarification with respect to "Monitoring" activities

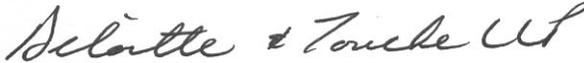
We note Section 1.295.030 *Management Responsibilities* of the extant AICPA Code of Professional Conduct ("Code") paragraphs .01 and .02(l) and paragraph .20 of the Proposed Interpretation (refer to Appendix for excerpts).

In our view, there appears to be a potential inconsistency between the extant Code and the Proposed Interpretation with respect to "monitoring activities." Specifically, Section 1.295.030 of the extant Code considers monitoring activities a management responsibility, and the performance of such would impair independence. However, paragraph .20 of the Proposed Interpretation includes reference to the permissibility of "monitoring services that are discrete nonrecurring engagements."

We request the PEEC to clarify and perhaps include specific examples within the Proposed Interpretation of those circumstances whereby performance of monitoring services in a discrete nonrecurring manner, as provided for in the Proposed Interpretation, would not be considered a management responsibility and therefore not impair the member's independence.

Again, we appreciate the opportunity to comment on the Proposed Interpretation. If you have any questions concerning our comments, please contact Chris Cahill at +1 212 436 4841 or ccahill@deloitte.com or Paula Tookey at +1 202 378 5098 or ptookey@deloitte.com.

Sincerely,



Deloitte & Touche LLP

Proposed Interpretation Excerpts:

.19

"...Examples of such services that involve an ongoing function, process, or activity that in effect would result in the *member* assuming a management responsibility would include a service whereby the *member* directly or indirectly does any of the following: ...

...e. Has responsibility to perform ongoing network maintenance, such as updating virus protection solutions, applying routine updates and patches, or configuring user settings..."

.20

"*Independence* will not be *impaired*, provided all the requirements of the "Nonattest Services" subtopic of the "Independence Rule" are met, and the maintenance, support, and monitoring services are discrete nonrecurring engagements for which the *attest client* has not outsourced a function, process, or activity to the *member* that in effect would result in the member assuming a management responsibility. Examples of such services that do not impair independence may include being engaged for a discrete project to do any of the following:

- a. Analyze a network and provide observations or recommendations
- b. Apply virus protection solutions or updates that the *member* did not design or develop
- c. Apply certain updates and patches that the *member* did not design or develop
- d. Provide training or instruction on a new software solution
- e. Assess the design or operating effectiveness of an *attest client's* security over information technology systems
- f. Assess the *attest client's* information technology security policies or practices"

Hosting Interpretation Excerpts (ET Section 1.295.143—Effective September 1, 2018):

.04

"Examples of activities that are not considered to be hosting services, and as such will not impair independence provided members comply with the requirements of the other interpretations of the "Nonattest Services" subtopic include these: ...

...f. Licensing software to an attest client that the attest client uses to input its data and receive an output that the attest client is responsible for maintaining, provided the software does not perform an activity that, if performed directly by the member, would impair independence..."

Extant AICPA Code of Professional Conduct Excerpts—Section 1.295.030 Management Responsibilities:

.01

“If a member were to assume a management responsibility for an attest client, the management participation threat would be so significant that no safeguards could reduce the threat to an acceptable level and independence would be impaired...”

.02

“Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would be considered management responsibilities and, as such, impair independence if performed for an attest client, include...

...l. performing ongoing evaluations of the attest client’s internal control as part of its monitoring activities.”