



# EXPOSURE DRAFT

## Proposed Revised Interpretation

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

**AICPA Professional Ethics Division**  
**March 15, 2018**

**Comments are requested by June 15, 2018**

Prepared by the AICPA Professional Ethics Executive Committee for comments from those interested in independence, behavioral, and technical standards. Comments should be addressed to the Professional Ethics Division, [Ethics-ExposureDraft@aicpa-cima.com](mailto:Ethics-ExposureDraft@aicpa-cima.com)

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March 15, 2018

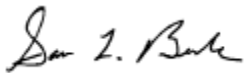
This exposure draft contains an important proposal for review and comment by the AICPA's membership and other interested parties regarding a pronouncement for possible adoption by the Professional Ethics Executive Committee (PEEC). The text and an explanation of the proposed pronouncement are included in this exposure draft.

After the exposure period is concluded and PEEC has evaluated the comments, PEEC may decide to publish the proposed pronouncement. Once published, the pronouncement will become effective on the last day of the month in which it is published in the *Journal of Accountancy*, unless otherwise stated in the pronouncement.

Your comments are an important part of the standard-setting process; please take this opportunity to comment. Responses must be received at the AICPA by June 15, 2018. All written replies to this exposure draft will become part of the public record of the AICPA and will be available at <https://www.aicpa.org/interestareas/professionalethics/community/exposuredrafts.html>. PEEC will consider comments at its subsequent meetings.

Please email comments to the Professional Ethics Division (Ethics-ExposureDraft@aicpa-cima.com).

Sincerely,



Samuel L. Burke, Chair  
AICPA Professional Ethics Executive Committee



Toni Lee-Andrews, Director, CPA, PFS, CGMA  
Professional Ethics Division

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# Explanation of the Proposed Revision

The Professional Ethics Executive Committee (PEEC) is exposing for comment a revision to the ["Information Systems Design, Implementation, or Integration"](#) interpretation (ET sec. 1.295.145).<sup>1</sup>

## I. Background

In May 2015, PEEC began a project to determine what changes were necessary to the ["Nonattest Services"](#) subtopic (ET sec. 1.295) of the ["Independence Rule"](#) (ET sec. 1.200.001) considering the current information technology service offerings of members. With the assistance of current information technology experts, PEEC reviewed its "Information Systems Design, Implementation, or Integration" interpretation and is proposing certain clarifications that will allow for a better understanding of where significant threats to independence exist.

## II. Proposal

PEEC continues to believe that when a member provides nonattest services related to an attest client's information systems, management participation and self-review threats exist.

The proposal concludes that threats are not at an acceptable level and independence would be impaired when a member does any of the following:

- Designs or develops an attest client's financial information system<sup>2</sup>
- Customizes an attest client's commercial off-the-shelf (COTS) financial information system software solution
- Provides interface services for a COTS financial information system software solution
- Performs data translation services for a COTS financial information system software solution
- Performs maintenance, support and monitoring services for a financial or nonfinancial system or network that involves the attest client outsourcing an ongoing function, process or activity to the member which in effect would result in the member assuming a management responsibility

Alternatively, the proposal concludes that when the nonattest services does not involve the member assuming a management responsibly or the attest client outsourcing an ongoing function, process or activity to the member and the requirements of the ["Nonattest Services"](#) subtopic (ET sec. 1.295) are met, threats will be at an acceptable level and independence would not be impaired when a member does the following:

- Designs or develops an information system that is not a financial information system
- Installs or configures a COTS financial information system
- Uses an application program interface (API) that is developed by a third party to interface one or more legacy or third-party COTS financial information system software solutions or perform data translation services for a COTS financial information system software solution
- Performs discrete nonrecurring maintenance, support, and monitoring service engagements for a financial or nonfinancial system or network

### *Financial Information System*

Critical to the interpretation is whether the information system is a financial information system. Accordingly, the interpretation concludes 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. A "financial process" is intended to include broad processes that affect financial reporting, such as information technology general controls. Information generated by the system is "significant" if it is probable that it will be material to the financial statements of the attest client.

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<sup>1</sup> All ET sections can be found in AICPA *Professional Standards*.

<sup>2</sup> The proposal does clarify that creating a template that performs a discrete calculation, such as a depreciation calculation or tax provision, would not be considered designing or developing a financial information system.

### *Nonfinancial Information System*

An information system is not a financial information system for purposes of this interpretation when both of the following are true:

- The system doesn't aggregate source data underlying the financial statements.
- The data generated by the system is not significant to the financial statements or to a financial process taken as a whole.

### *Determination of Whether Information System Is Financial or Nonfinancial*

To determine whether a nonattest service is related to a financial information system, members may consider factors such as whether the nonattest service will affect the following:

- System controls or system output that will be subject to attest procedures
- A system that generates data that are used as an input to the financial statements
- A system that gathers data that assist management in making decisions that directly affect financial reporting
- A system that is part of the attest client's internal controls over financial reporting

For example, if an attest client requests the member customize a COTS<sup>3</sup> software solution that provides management with dashboard level reporting, the member would need to determine if the COTS software solution would meet the definition of *financial information system*. If the member determines that the system will not aggregate source data underlying the financial statements but will generate information that affects a financial process (because the system gathers data that assist management in making decisions that directly affect financial reporting), the member will need to determine whether the information generated by the system is significant to the financial process as a whole. If the impact is significant, then the system is considered a financial information system for purposes of this interpretation. However, if the impact is not significant, then the system is not considered a financial information system for purposes of this interpretation and the member could provide the nonattest services without impairing independence, provided the service does *not* result in the member assuming a management responsibility, and the other requirements of the "[Nonattest Services](#)" subtopic (ET sec. 1.295) are met.

### **III. Request for Specific Comments**

Although PEEC welcomes comments on all aspects of this proposed revised interpretation, we are specifically requesting feedback on the following:

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?
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.
  - 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?
  - 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?
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

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<sup>3</sup> As defined in item *d.* of paragraph .02 of the proposed interpretation.

decisions that directly affect financial reporting. Do you believe this would include management-level dashboard reporting? Why or why not?

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

### ***Effective Date***

PEEC recommends that the interpretation be effective one year after it appears in the *Journal of Accountancy* and allow for early implementation.



## Text of Proposed Interpretation “Information Systems Services”

(Formerly “Information Systems Design, Implementation, or Integration.”)

### 1.295.145 Information Systems Services ~~Design, Implementation, or Integration~~

#### Introduction

.01 Self-review and management participation threats to the member’s compliance with the “Independence Rule” [1.200.001] may exist when a *member* provides services related to an attest client’s information systems.

#### Terminology

.02 The following terms are defined solely for the purpose of applying this interpretation:

- a. *Financial information system* is a system that aggregates source data underlying the financial statements or generates information that is significant to the *financial statements* or financial processes as a whole. To determine whether a nonattest service is related to a financial information system, members may consider factors such as whether the nonattest service will affect the following:
  - i. System controls or system output that will be subject to attest procedures
  - ii. A system that generates data that are used as an input to the *financial statements*
  - iii. A system that gathers data that assist management in making decisions that directly impact financial reporting
  - iv. A system that is part of the attest client’s internal controls over financial reporting
- b. Designing an information system means determining how a system or transaction will function, process data, and produce results (for example, reports, journal vouchers, and documents such as sales and purchase orders) to provide a blueprint or schematic for the development of software code (programs) and data structures.
- c. Developing an information system entails creating software code, for individual or multiple modules, and testing such code to confirm it is functioning as designed.
- d. *Commercial off-the-shelf* (COTS) refers to a software package developed, distributed, maintained and supported by a third-party vendor, sometimes simply referred to as an “off the shelf” package or solution. COTS solutions have generally referred to traditional on-premise software that runs on a customer’s own computers or on a vendor’s “cloud” infrastructure. COTS solutions range from software packages that require only installation on a computer and are ready to run to large scale, complex enterprise applications.

#### ***Design, Development, or Implementation Services Not Related to a Financial Information System***

.03 When performing design, development, or implementation services described in this interpretation for an attest client that are not related to a financial information system, threats to compliance with the “Independence Rule” [1.200.001] would be at an acceptable level provided all the requirements of the “Nonattest Services” subtopic [1.295] of the “Independence Rule” are met, including that the *attest client* has not outsourced a function, process, or activity to the member, which in effect would result in the *member* assuming a management responsibility.

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

.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. Designing and developing a template that performs a discrete calculation such as a tax provision or depreciation calculation does not

constitute designing or developing a financial information system and will not *impair independence*, provided the template does not perform an activity that, if performed directly by the *member*, would *impair independence* and the *member* complies with all the requirements of the "[Nonattest Services](#)" subtopic [1.295] of the "[Independence Rule](#)".

### **Implementation of a COTS Financial Information System Software Solution**

- .05 Implementation services involve activities related to an [attest client's](#) information systems after the design and development of the system. Implementation ceases when the system is available on a regular basis to the client for its intended use. For example, implementation services can include activities such as installing, configuring, interfacing, customizing, and data translation. Services that are performed post-implementation, such as the maintenance, support, and monitoring of the system, are not considered to be implementation services.
- .06 [Threats](#) created by certain COTS implementation services related to the [attest client's](#) financial information system may be reduced to an [acceptable level](#) by the application of [safeguards](#); however, in other situations *threats* to compliance with the "Independence Rule" would be significant and could not be reduced to an *acceptable level* by the application of *safeguards*.

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

- .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. Software configuration, integration, and conversion activities may follow installation.
- .08 When a [member](#) installs a COTS financial information system software solution, [threats](#) to compliance with the "Independence Rule" would be at an [acceptable level](#), provided all the requirements of the "[Nonattest Services](#)" subtopic of the "[Independence Rule](#)" are met.

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

- .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. For purposes of this interpretation, configuring a COTS financial information system software solution does not involve developing new software code or features to modify or alter the functionality of the COTS software solution in ways not pre-defined by the vendor.
- .10 When a [member](#) configures a COTS financial information system software solution, [threats](#) to compliance with the "Independence Rule" would be at an [acceptable level](#), provided all the requirements of the "[Nonattest Services](#)" subtopic of the "[Independence Rule](#)" are met.

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

- .11 To customize a COTS financial information system software solution means altering or adding to the features and functions provided for by the vendor, that go beyond all options available when configuring the COTS software solution. For purposes of this interpretation, customizing can involve both modification and enhancements:
  - a. Modification involves altering the COTS software solution code to change or add to the functionality provided by the vendor.
  - b. Enhancements involve developing new code, external to the COTS software solution, that works in concert with the COTS software solution to provide altered or additional functionality.
- .12 If a [member](#) customizes an [attest client's](#) COTS financial information system software solution, [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*.

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

- .13 Providing interface services for a COTS financial information system software solution means connecting two or more systems by designing and developing software code that passes data from one system to another. Interfaces may flow in one direction or be bidirectional. Interfaces may involve the performance of an end-to-end transaction or they may pass data from one system to another.
- .14 If a [member](#) provides interface services for a COTS financial information system software solution, [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; independence](#) would be [impaired](#) except as provided for in paragraph .15.
- .15 If a [member](#) uses an application program interface (API) that is developed by a third party to interface legacy or third-party COTS financial information system software solutions, [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.

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

- .16 Performing data translation services for a COTS financial information system software solution involves designing and developing the rules or logic necessary to convert legacy system data to a format that is compatible with that of the new system.
- .17 If a [member](#) performs data translation services for a COTS financial information system software solution, [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](#) except as provided for in paragraph .18.
- .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.

## **System and Network Maintenance, Support, and Monitoring**

- .19 Maintenance, support, and monitoring services are activities that are provided after a financial or nonfinancial system or network is implemented. If post-implementation services involve the [attest client](#) outsourcing an ongoing function, process, or activity to the [member](#) that in effect would result in the [member](#) assuming a management responsibility, 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](#). 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:
  - a. Operates the [attest client's](#) network, such as managing the [attest client's](#) systems or software applications
  - b. Supervises client personnel involved in the operation of the [attest client's](#) information systems
  - c. Has responsibility for monitoring or maintaining the [attest client's](#) network performance
  - d. Operates or manages the [attest client's](#) information technology help desk
  - e. Has responsibility to perform ongoing network maintenance, such as updating virus protection solutions, applying routine updates and patches, or configuring user settings
  - f. Has responsibility for maintaining the security of the [attest client's](#) networks and systems
- .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

**Effective Date**

.21 This interpretation will be effective one year after it appears in the *Journal of Accountancy*. Early implementation is allowed.

Nonauthoritative questions and answers regarding information systems design, implementation, and integration services are available at [www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.pdf](http://www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.pdf).