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June 15, 2018

Ms. Toni Lee-Andrews
Ethics Team
AICPA
220 Leigh Farm Road
Durham, NC 27707

Re: March 15, 2018 PEEC Exposure Draft (ED), *Proposed Interpretation to the AICPA Code of Professional Conduct: Information Systems Services (ET sec 1.295.145)*

Dear Ms. Lee-Andrews:

Thank you for the opportunity to comment on *the Proposed Interpretation to the AICPA Code of Professional Conduct: Information Systems Services (ET sec 1.295.145).*

Pannell Kerr Forster of Texas, P.C. (PKF Texas) is the largest single-office independent CPA firm based out of Houston. We have reviewed the exposure draft and have several holistic as well as specific concerns regarding the exposure draft.

RESPONSES TO REQUEST FOR COMMENT

Question 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?*

No, due to the following reasons:

> **No scope limitation for assurance services**: PKF Texas is first and foremost concerned that this interpretation will prevent technological innovation of the audit and other assurance services. The interpretation does not specifically scope-out services performed in conjunction or otherwise for the benefit of the audit or other assurance services. Currently, the preparation of financial statements is considered a non-attest service for which threats to independence must be considered. Without a specific scope limitation, we are concerned that this interpretation will specifically prohibit our Firm from innovating in the assurance space and derail the audit of the future. Based on our interactions with the AICPA and other alliances of which we are members, the future of our profession will be based on technological innovation. We are actively growing our service offerings and working on various was to improve audit efficiency and effectiveness through innovation and technology. This standard will most certainly limit our and the profession's ability to innovate.

Technological obsolescence: We are further concerned that this standard cites various technologies and terms that are only current (or even past) technology. It fails to consider future technology that may not yet be identified. For example, APIs are specifically scoped out in areas such as paragraph .15, but there is newer technology that could meet the same intent of the standard such as bot-to-bot or other technology yet to be identified.

Further, paragraphs .07 and .08 reference installations on a client's "computer" or "server." The theory of installation on a server is a bit dated as there are virtual environments, various configurations on cloud systems, and decentralized networks (blockchain).

We recommend that this interpretation be moved to a FAQ or put all technology examples in an FAQ leaving only a principles-based interpretation. The integration could provide a framework to assess how to consider if there are threats to independence and if there are proper safeguards in place.

Role of the CPA and what is code: We are of the understanding that a theoretical underpinning of this standard is that the Committee is trying to consider CPA's code a threat to independence that cannot be overcome. However, we are concerned that this theory is conceptually flawed, especially if IT services in conjunction with assurance services are not specifically scoped out.

We are concerned that the interpretation does not take into consideration other sources and uses of code that could be then attributed to the CPA as they are not specifically addressed in the current rules-based interpretation. If the interpretation were more tailored to a decision framework, there would be more clarity on how to handle code that is outsourced, from open source, or code within a COTS that is copied and pasted from one COTS to another COTS (such as the Visual Basic of a macro).

In addition, paragraph .02 a.iii. appears to confuse the CPA's role in providing information (in the most general sense of the term, *information*, such as assurance is a type of information) with management decisions made from various sources of information. We believe the definition would meet the intent of the interpretation while retaining only i., ii, and iv.

Penalty for the use of technology: Similar to the hosting interpretation issued, we believe this interpretation penalizes the use of technology. We can think of several examples which if the CPA were to perform a service on paper it would not be a threat to independence for which there are no safeguards. Yet when we leverage technology for the same outcome, we have a threat to independence for which there are no safeguards.

For example, data translation services are cited as a threat that cannot be overcome. It is very common for a client to have an accounting system that allows for exports to comma-separated values (CSV). In this case the client could have taken full responsibility for all financial data, yet the CPA needs to re-order columns to fit a prescribed import format for purposes of reperformance and retesting. We do not believe this situation should result in an automatic threat to independence that cannot be overcome. In these situations, the spreadsheet is not an API, and the ability to export data is usually a reporting/exporting feature or maybe even just a query of the underlying data.

In this example, we believe we could put in various safeguards such as completeness checks, hash totals, etc. to overcome the threat to independence. Further, we may be required to perform such procedures if we are not allowed to install audit software of the future on a clients' network. We may need to leverage proprietary technology as part of the audit of the future and inputting client's raw data in a certain format would be a required procedure in the audit.

This concern extends to interface services (paragraph .14) as we believe there could be proper safeguards that could be put into place for some interface services, as the CPA is not creating any data in these services and there may be proper safeguards other than the APIs (as referenced in paragraph .15). See comment above regarding technology obsolescence and the example of bot-to-bot.

Question 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?*

Similar to our response to Question 1, we believe paragraph .02 a.iii may be conceptually flawed. As such, we are concerned that this interpretation would overly limit dashboards. Even more concerning, should we develop audit software that has an audit dashboard, we would likely violate independence by having such a dashboard for the use during the audit if such assurance services are not specifically scoped out. Please note that the today and the future of engagement technology is having the client within the same platform in order to increase engagement efficiency and data security. For example, the AICPA's own PCR (preparation, compilation, review) software already allows the client to have access to certain areas in order to receive documents for signature, respond to requests for responses to analytical procedures, and upload supporting documents for the CPA's review.

Question 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 do not believe the proposal provides adequate time to adopt these changes, and an extended adoption period would be needed. In addition, there is no mention of contracts in progress as many software matters take more than one year to fully adopt. Further, the interpretation does not have any grandfathering provisions for contracts or systems already in place as the effective date of this guidance.

Thank you again for the opportunity to comment on this exposure draft.

Sincerely,

Pannell Kerr Forster of Texas, P.C.