June 15, 2018

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

RE: AICPA Professional Ethics Executive Committee Proposed Interpretation Revision – Information System Services (*formerly* Information Systems Design, Implementation, or Integration)

Dear Ms. Lee-Andrews:

We appreciate the opportunity to provide comments on the AICPA Professional Ethics Executive Committee's (PEEC) Proposed Interpretation *Information System Services (formerly Information Systems Design, Implementation, or Integration)* (the "proposed interpretation"). Overall, we are supportive of the efforts to bring clarifications to the extant interpretation. In evaluating the proposed interpretation, we offer some recommendations and comments for PEEC's consideration, as well as provide answers to the questions posed in the exposure draft.

Designs or Develops a Financial Information System (ET 1.295.145.04)

We believe it is a matter of professional judgment as to whether the creation of a template is akin to designing a financial information system. It is possible that the concept of a "template" is subject to interpretation that could go beyond the AICPA's intent, but ultimately a member should evaluate whether they believe their template is more analogous, due to its complexity and sophistication, to designing a financial information system, in which case the design prohibition around such a template would apply.

The proposed interpretation provides the example of a tax provision or depreciation calculation as a template that performs a discrete calculation that would not constitute design or development of a financial information system and will not impair independence. However, we believe these two examples may result in inherently different applications in terms of the inputs, number of calculations, subjectivity, and complexity and judgment involved, so to include these two examples together potentially misleads practitioners as to what constitutes a "discrete calculation" and the intention behind the template exception.

We ask that PEEC consider the following edits to clarify the exception regarding templates:

> *1.295.145.04 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~~ A template, such as a spreadsheet, that performs ~~a~~ simple, discrete calculation~~s such as a tax provision or depreciation calculation does not constitute designing or developing~~ does not constitute a financial information system. Designing and developing a template ~~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". The determination of whether the template is a financial information system is a matter of professional judgment.*

Installation and Configuration (ET 1.295.145.05-.10)

The proposal uses the word "selecting" when describing configuration of a COTS financial information system software solution. We do not believe it is clear that management must determine the features and options for the system, and the member may only input management's selection by physically selecting those client-determined settings. As noted above, we believe it should be permissible to configure a COTS information system, but only under the direction of management.

We recommend the PEEC consider the following edit to clarify the member's limitation around configuration of a COTS financial information system software:

> *1.295.145.09 To configure a COTS financial information system software solution means ~~selecting~~ the member selects the software features, functionality options, and settings provided by the vendor, as determined by the client, which will determine how the software will perform certain transactions and process data…*

Interface a COTS Financial Information System Software Solution (ET 1.295.145.13-.15)

We believe that the subtitle "interface a COTS financial information system software solution" could imply an ongoing relationship whereby the member runs or maintains a piece of the client's system, and would generally not be permissible.

As we believe the intent of the interpretation is to prohibit design of a financial information system, including any applications that allows financial systems to connect to one-another (i.e. an application programing interface), we suggest that PEEC remove the subsection on "Interface a COTS Financial Information System Software Solution" in paragraphs .13-.15, and incorporate paragraph .15 behind paragraph .04, as part of "Designs or Develops a Financial Information System" section, so that it would read as follows:

> *1.295.145.04 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."*

> *1.295.145. ~~.15~~ 05 If a member uses an application programming interface (API) that is developed by a third party to ~~interface~~ transfer information between 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 [1.295] of the "Independence Rule" are met.*

KPMG

Responses to 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?

    - *We believe that the terminology used in the proposal is helpful. We also are providing specific comments elsewhere within this comment letter that might enhance or further clarify the terminology.*

    - *The proposed interpretation defines "API" as "application program interface," but we understand the "P" is generally understood by practitioners to mean "programming" rather than "program."*

    - *The proposed interpretation provides an exception to designing an information system that would not include creation of a "template" that performs a discrete calculation. We believe a "template" is intended to mean an electronic document, for example an Excel spreadsheet, which can perform simple and routine calculations. We suggest adding language that indicates that a spreadsheet is an example of a template to assist members in consistent application.*

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 explanation material to the proposed revision indicates that significant means material. However, that is not defined within the interpretation. We believe the PEEC should replace "significant" with "material," as material is a known and understood concept by members, and is a consistent term used throughout the rest of the Code.

    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?

        We believe the concept of prohibiting the design of a material system is consistent with extant guidance. We also believe the exception to allowing design or devlopment of a component of a financial information system that is not material to the financial statements or financial processes as a whole is appropriate.

    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 support the proposed interpretation's use of the phrase "financial process" and believe it is clear that members should think broadly about processes that may affect a financial process.

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?

Yes, we believe it is clear that if information gathered from management-level dashboard reporting is used to impact the financial statements, then it is considered a financial system.

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 believe the proposed one-year implementation, with early implementation allowed, is appropriate.

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We appreciate the PEEC's careful consideration of our comments and observations. If you have any questions regarding our comments included in this letter, please do not hesitate to contact Bill Mckeown at 484-802-2009 or wmckeown@kpmg.com.

Very truly yours,

KPMG LLP

Lawrence C. Bello
Partner in Charge - Independence