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RISK ASSESSMENT: A NEW ASSURANCE SERVICE

Some two years ago, the AICPA special committee on assurance services (SCAS) began studying the economics of the audit-assurance function. SCAS found that while audit assurance on financial statements was a mature product, there are tremendous growth opportunities in assurance services on other types of financial and nonfinancial information.

The reason for optimism is the rapidly growing need of decision makers for timely, reliable, and relevant information to determine whether their economic, social and other responsibilities have been met. Assurance services, as defined by SCAS, are independent professional services that improve the quality (that is, the reliability and relevance) of information or its context for decision makers.

SCAS identified over 200 possible assurance services and developed business plans for six services—risk assessment, business performance measurement, information systems reliability, electronic commerce, healthcare performance measures, and elder care—services in which CPAs already have the measurement and reporting skills needed. Risk assessment assurance services build on a CPA's traditional strengths.

Who are the customers for this service? Your traditional services clients are the ideal customers for this assurance service. It can be offered as a distinct engagement or added on to a traditional one. If it is added on, you should take care to identify the additional risk assessment work done. You also need to clearly indicate the value added by this service. Let's see what is involved.

Assurance on risk assessment

Assurance on risk assessment provides useful information to decision makers about an entity's ability to identify and manage its risk. SCAS identified three types of assurance services that CPAs can offer to help clients identify and manage risks.

- Identification and assessment of potential overall risks.
- An independent assessment of the risks which the entity itself has identified.
- Evaluation of the entity's system for identifying and limiting risks.

Risk assessment involves determining the likelihood of an adverse event as well as its potential impact on an entity. Businesses face many types of risk, today, and SCAS chose to classify them in the following manner.

- Environmental risks.** These involve threats to the environment in which the business operates, such as competitive, political, legal or regulatory, financing risks, and the risk of changes in demand.
- Business process and asset risks.** These involve threats to key business processes and loss of physical, financial, or other business assets.
- Information risks.** These involve threats posed

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What's Inside . . .

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Technology for CPAs

In his foreword to Sandi Smith's book, *Top 10 Technologies and Their Impact on CPAs*, AICPA president, Barry C. Melancon, says the impact of technology on the profession will grow during the next five to ten years at a rate exponentially faster than during the past fifteen years. Technology affects how and when information is created, processed, stored, communicated, acquired, refined, and interpreted. Mr. Melancon believes this offers an opportunity for CPAs to become the consultant, navigator, distiller, analyzer, and interpreter of data for clients and others. Following are some more books on technology written specifically for CPAs.

The CPA's Guide to Information Security by John Graves, CPA, and Kim Hill Torrence provides comprehensive coverage on all aspects of maintaining the integrity and security of computer-stored data for small and medium-size entities. The book explains how to recognize primary information security threats and how to protect against them, and describes the CPA's responsibilities in developing a security plan.

Purchasers of *The CPA's Guide to Information Security*, product no. 093003PC09, cost \$29.00 (members), \$39.00 (nonmembers), will receive a limited "free" subscription to the *Kent Information Bulletin for CPAs*.

The CPA's Guide to Web Commerce by John Graves, CPA, and Jacqueline Justice, Ph.D., covers the World Wide Web and electronic data interchange (EDI). The book describes electronic commerce and payments, and explains how a Web site can enhance your marketing efforts. In addition, it provides tools for planning a Web commerce site and incorporating it into an overall marketing plan.

Purchasers of *The CPA's Guide to Web Commerce*, product no. 093004PC09, cost \$29.00 (members), \$39.00 (nonmembers), will receive a limited "free" subscription to the Kent Information Service,

Internet Bulletin for CPAs.

Optional CD-ROM. You may purchase an optional Kentis Web Design Toolkit, which features a CD-ROM with software to construct your own Website along with instructional videos. *CPA's Guide to Web Commerce, W/CD-ROM*, product no. 093007PC09, cost \$39.95 (members), \$47.95 (nonmembers).

The CPA's Guide to Intranets by John Graves, CPA, and Jacqueline Justice, Ph.D., leads CPAs through the implementation of effective Intranet sites allowing the use of existing local area networks (LANs) and the necessary hardware for low-cost communications within an enterprise. The book explores advanced Hypertext Mark-up Language (HTML) options including hyperlinked graphics and Javascript—tools that add dynamic interest to an Intranet site.

The CPA's Guide to Intranets, product no. 093002PC09, cost \$29.00 (members), \$39.00 (nonmembers).

Optional CD-ROM. You may purchase an optional Kentis Web Design Toolkit, which features a CD-ROM with software to construct an Intranet Web site along with instructional videos that show how to complete the task. *CPA's Guide to Intranets W/CD-ROM*, product no. 093006PC09, cost \$39.95 (members), \$47.95 (nonmembers).

A Survival Guide for Road Warriors: Essentials for the Mobile CPA by J. Michael Jimmerson, Esq., and Daniel S. Coolidge, Esq., begins with how to choose the right notebook and necessary accessories, and explains how to install the most useful software. Additional topics cover telecommunication, online services, dealing with problems on the road, and security privacy.

A Survival Guide for Road Warriors: Essentials for the Mobile CPA, product no. 090427PC09, cost \$24.95 (members), \$31.00 (nonmembers).

To purchase these products, call the AICPA order department, (800) TO-AICPA. Ask for operator PC.

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Alternative Officing

A recent article in the *Kansas City Star* caught my eye because it dealt with a topic of interest to an increasing number of local and regional CPA firms. The article explained how some companies are setting up corporate offices that are managed like hotels. Because many of their sales and customer service executives are not in their offices much of the time, the companies schedule the space for use by other people at different times, much as travelers use the same hotel room on different days.

The concept is becoming popular because it results in companies needing less office space and being able to reduce their facilities costs. Employees who need to be with clients more than they need to be in the office like the arrangement because it allows them greater flexibility in balancing their work and private lives.

Mobile or home office communication and computer equipment are key to keeping these employees informed and to allowing them easy access to files and clients. Although the cost of providing the technology can be considerable, companies more than offset this expenditure with savings in rent.

Savings from real estate expenses shouldn't be the driving force for alternative officing, however, according to the article. Rather, it should be how to make the work space more responsive to the work processes of its users.

Configurations usually include small enclosed offices for privacy, larger open spaces where teams can meet, and storage areas for files, personal belongings, and other items. Users can then quickly configure the space to their individual needs. (Users dub these offices "hot desks," after "hot bunks," an expression familiar to sailors. For an insight into how alternative officing has spawned other nomenclature, see the accompanying sidebar.)

Companies frequently ask employees to become involved in the design of alternative office space—a likely reason for the success and acceptance of the concept. And there are usually on-site managers and an administrator (sometimes called a concierge) to supervise operations and resolve any logistical problems.

The large accounting firms have used alternative officing for a number of years. With the increasing emphasis on flexible work arrangements and the trend to hiring non-traditional employees, the concept would also seem to be suitable for many local and regional accounting firms.

If you have experience with a successful adaptation of the idea which you would like to share with your peers, let me know. We might then have mate-

rial for an interesting follow-up article in the *Practicing CPA*.

—by **Charles B. Larson, CPA**, *Larson Consulting*, 3300 Dale, Suite 102, St. Joseph, Missouri 64506, tel. (816) 279-7493, FAX (816) 232-5325

New Arrangements: New Terminology

Activity settings. A variety of work settings are made available to suit specific functions. Employees choose work space based on the work they have to do that day.

Activity zones. These are areas where people can chat, share ideas or visit while engaged in tasks such as printing, photocopying, collating, and so on.

Display thinking. This involves using boards that are hung in hallways or other heavily used areas to show what ideas people are working on. Display thinking is a way of requesting more ideas and building on those already presented.

Guesting. This involves using someone else's facility as a remote work center. The other person may be a customer, client, or fellow employee.

Nonterritorial offices. These involve space allocation programs in which desks and work stations are not assigned to specific individuals.

Shared space. This is a situation in which two or more employees share a single, assigned work space. They may share the space at the same time or separately at a different time of day.

Team suites or teaming space. This is work space that is dedicated to a work team. The team is responsible for designing the space to meet its needs. In some instances, the team is charged rent, to make the cost of the space an additional incentive for getting results.

Telework centers or satellite officing. These are office centers which provide technology and administrative support and are used full-time or part-time by employees living closest to them.

Virtual officing. These involve situations whereby employees utilize computers and communication equipment to work at home or at a client's office, or in hotels, cars, airports, etc., instead of at an employer's office.

Watering hole. These are attractive public zones in office suites that might feature coffee bars, television sets, reading materials, and computer and communication facilities.

Source: Global Communications Services

Five Easy Ways to Energize Your Practice

When was the last time you gave yourself a marketing assignment? Do you know you can energize your personal marketing efforts by creating and following through on just three or four assignments each month? Over time, this can dramatically increase your client base. It doesn't have to be more complicated than that.

Start by evaluating new opportunities that have come your way. These could be marketing ideas—yours or other people's. Perhaps you have received an invitation to speak at a national conference or write an article, or you may have thought of producing a newsletter targeted to an industry niche. Once you've created an assignment based on new opportunities, consider adding a couple more assignments that tie in with the following aspects of your practice.

Client satisfaction and retention

There are several surefire ways to come up with a good client satisfaction assignment for the month ahead. The first is to scan your client list and look for red flags—problems that you know must be solved. If you take a few quiet moments to find red flags, you'll identify not only obvious problems but also more subtle, worrisome signs that your relationship with a client might be in trouble.

For instance, let's say you have a client who plans to eventually hand down the business to his or her children. Even if you provide, say, business and personal financial planning services for this client and the entire family, you may not have established a relationship with the children. When it is the children's turn to call the shots, they might decide it is time to work with a new CPA.

Your assignment could be to ask your client to include the children in future meetings and have them participate in management, accounting, and personal financial planning decisions. You would then be advising and working with your client as well as his or her successors. This could set the stage for a successful transition and at the same time build a solid relationship with the entire group.

Another way to come up with a meaningful client satisfaction assignment is to ask yourself what creative step you could take to strengthen your bond with an important client. You could assess what your competitors are doing that could lure away your clients and take defensive action. Or perhaps you should consider how you could learn more about your clients and their problems.

Keep in mind that client satisfaction is almost always enhanced through increased communication. Who doesn't like attention? So, make that

phone call, set that meeting date, and schedule that game of golf with a client. If you don't know what would please a specific client, make it your assignment to find out.

Networking with referral sources

Perhaps you have been meaning to follow up with a banker you met at a PTA meeting. Your assignment could be to call that potential referral source and set a date for a luncheon meeting to explore mutually beneficial opportunities. Or, let's say you and your partners would like to establish a closer relationship with a local law firm. Why not call the lawyers and suggest a firm-on-firm networking meeting. You could offer to present a ten- to fifteen-minute update on taxes, mergers and acquisitions, or some other topic of interest to the lawyers. The presentation would showcase your expertise and get the discussion rolling.

Even if you have an extensive network of referral sources, it's your responsibility to stay in touch. Referral sources pass business back and forth with several CPAs. By nurturing the relationship, you can motivate them to favor you with the best new-business opportunities.

Industry involvement

Choose an industry group or association that is compatible with your new-business objectives. Attend functions, become involved, serve on committees and the board of directors, and generate creative ideas to increase your value to the membership and grow your practice. Schedule informational meetings with industry leaders to learn more about their business situations. This will enable you to demonstrate your understanding of industry issues when you make sales presentations.

Being an active member of an industry group not only cements friendships that can lead to additional business, it gives you the satisfaction of helping the industry, as a whole.

Marketing to prospects

Roughly 25 percent of your new business should come from contacting prospects (strangers) and turning them into clients. To create a winning campaign, focus on a particular prospect group and learn all you can about that group's needs. Offer solutions in a consistent fashion via newsletters, public speaking, and other venues. By consistently marketing the right services to your target group, you increase your chance of success over those who market once or twice to everyone in general.

Communicate with your prospect group as frequently as your schedule allows. Offer to help those who are struggling with a problem. The same com-

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HELP THE MAP COMMITTEE HELP CPA FIRMS

The MAP Consulting Connection — Your Source for Practice Management Solutions

Who helps you design innovative solutions to your firm management problems?

The AICPA Management of an Accounting Practice Committee (MAP) would like to know.

The MAP Committee is developing a comprehensive database of practice management consultants. The MAP Consulting Connection will enable CPA firms to easily access the specific professional services they need to improve firm performance.

If you know a consultant who has helped CPA firms succeed — or if *you* provide valuable consulting services to other CPA firms — please let us know by faxing the form at the bottom of this page.

The only requirement for inclusion in the MAP Consulting Connection database is that the consultant must provide services to **CPA firm clients** in any of the following fields of expertise: Executive Skills Training, Human Resource Issues, Marketing/Practice Development, Partner Issues, Practice Management, and Technology. There is no fee to join.

Help the MAP Committee make the Connection successful by assisting us in identifying experts for the database. Fax your completed form by September 19.

TO: Anita Meola, AICPA
FAX (800) 329-1112

Your Name _____

Firm _____

Address _____

Telephone _____

Fax _____

Would you like to be included in the MAP Consulting Connection database? YES NO

Recommendations for consultants who should be included in the database:

Name _____ Name _____

Firm _____ Firm _____

Address _____ Address _____

Telephone _____ Telephone _____

Fax _____ Fax _____

HELP THE MAP COMMITTEE HELP CPA FIRMS

Benchmarking: Learning *From the Best* How to *Be the Best*

Benchmarking gives you insight into the innovative processes that organizations — both within and outside the accounting profession — are using to help them be successful. By defining these “Best Practices,” a benchmarking study establishes a baseline for measuring your firm’s performance, and allows you to quickly identify new ways to improve your practice.

The AICPA Management of an Accounting Practice (MAP) Committee is considering the development of a benchmarking project that would target three key areas for study:

- Strategies for growth through new relationships (mergers, acquisitions, alliances, networks).
- Strategies for growth through new service development.
- Staffing policies and practices that improve employee satisfaction and motivation.

As part of the development process, the committee needs participation from CPA firms.

Are You One of the Best?

Phase 1 of the project is a screening survey that uses key success indicators to identify potential “Best Practice” firms in the three targeted study areas. As a participating firm, you may complete any or all of the three sections of the survey. The survey will be mailed in September and will require approximately 45 minutes to complete.

In return for your participation, you will receive the results of the screening survey, as well as a potential opportunity to take part in future phases of the study.

Spotlight Your Successful Clients

One of the objectives of the study is to look beyond CPA firms to discover innovative strategies of other industries and professions which can be adapted to accounting firms. Who is better qualified to identify “best practices” companies than CPAs? If you have clients that have achieved significant and successful growth through strategic relationships or developing new services, or have built a highly motivated and productive staff, consider recommending them for the study. Your clients will receive an opportunity to share their innovative strategies, and possibly be promoted as “best practice partners.”

Help the MAP Committee uncover “Best Practices.” Fax your completed form by September 19.

TO: Anita Meola, AICPA
FAX (800) 329-1112

I would like to participate in the benchmarking screening survey.

Name _____
Firm _____
Address _____
Telephone _____ Fax _____ # Full-time Employees _____

I recommend the following clients (or other CPA firms) for the benchmarking study:

Name _____	Name _____
Company/Firm _____	Company/Firm _____
Address _____	Address _____
Telephone _____	Telephone _____
Fax _____	Fax _____
# Full-time Employees _____	# Full-time Employees _____

Your Voice in Washington

New tax law includes changes advocated by AICPA

The sweeping tax bill President Clinton signed into law on August 5 includes changes advocated by the AICPA.

In addition to a reduction in the capital gains and estate tax rates, the new law restores the home office deduction. The Institute also is pleased that the new law includes increased deductibility of health insurance premiums for the self-employed, even though the law's phase-in is more complex than the 100 percent deduction effective in 1997 that the AICPA supported.

Unfortunately, Congress did not include language in the law to clarify the standards used to determine whether individuals are employees or independent contractors. The AICPA will continue to fight for such clarification.

As the tax bill sped through Congress during the last week of July and on to the White House, the AICPA used its Web site to keep members informed of breaking events such as the lengthening of the holding period to 18 months for long term capital gain treatment of investments sold after July 29, 1997. The Institute's Web site (www.aicpa.org) also included the daily status of the legislation and links to Web sites where the text of the bill and the Joint Tax Committee's summary could be found.

Bills introduced in Congress to implement IRS Restructuring Commission's recommendations

H.R. 2292 and S. 1096 introduced on July 30 would implement recommendations made in the June report of the National Commission on Restructuring the IRS. AICPA recommendations incorporated in the bills include an independent board of directors for the IRS, a fixed term of office for the Commissioner and a system requiring analysis of proposed tax legislation for complexity.

Hearings will be held this fall by the congressional tax writing committees, and an AICPA task force is analyzing the legislation so that the Institute will be prepared to comment during the hearing process. Many individual CPAs and state societies responded to the AICPA's call for comments on the Commission's recommendations. These will all be taken into account when the Institute writes its comments about the implementing legislation.

While the sponsors of H.R. 2292 and S. 1096 are dedicated to speedy passage of the bills, the vehement opposition that the Department of Treasury has expressed to establishing an independent board of directors for the IRS signals stormy conditions ahead. The Treasury Department is at work on its own package of IRS restructuring proposals.

AICPA Conference Calendar

Litigation Services Conference

October 16-17—The Mirage, Las Vegas, NV
Recommended CPE credit: 16 hours

Meeting of Council/Annual Members Meeting/State Society Planning Conference

October 19-23—Loews Ventana Canyon, Tucson, AZ

National Governmental Training Program

October 20-22—The Buttes Resort, Tempe, AZ
Recommended CPE credit: 24 hours

National Federal Tax Conference in conjunction with the Fall Tax Division Meeting

October 27-29—JW Marriott, Washington, DC
Recommended CPE credit: 16 hours

Internet/Intranet Conference

October 27-28—Buttes Resort, Tempe, AZ
Recommended CPE credit: 16 hours

National Auto Dealership Conference

October 27-28—Disney's Contemporary Resort, Orlando, FL

Recommended CPE credit: 16 hours

October 29—Customer Service/Satisfaction post-Auto Dealership Conference Program

Recommended CPE credit: 8 hours

National Conference on Banks and Savings Institutions*

November 6-7—Grand Hyatt, Washington, DC
Recommended CPE credit: up to 24 hours

(*Special Optional One-Day pre-Conference Program on **November 5**.)

Annual Securities Conference

November 11-12—New York Hilton, New York, NY
Recommended CPE credit: 14 hours

National Conference on Credit Unions*

November 13-14—JW Marriott, Washington, DC
Recommended CPE credit: 16 to 18 hours

(*Benchmarking Pre-Credit Union Conference Program on November 12. Recommended CPE credit: 8 hours.)

Business Valuation Conference

November 16-18—Loews Coronado Bay Resort, San Diego, CA

Recommended CPE credit: 16 hours

To register or for more information, contact AICPA Conference Registration, tel. (800) 862-4272.

Firms Benefit from PCPS Membership

PCPS firms recently received the first of ten post-cards describing product and service benefits of membership in PCPS. The first card, highlighting variable life insurance contracts for nonqualified retirement plans, was sent to sole owners and managing partners in July. Additional cards will be mailed throughout the year.

Selected non-PCPS firms will also receive one or more cards to acquaint them with the value of PCPS membership.

For all additional PCPS information, call (800) CPA-FIRM.

Energize Your Practice

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munications can often be shared with referral sources (who will be interested in your marketing efforts) and others to raise your visibility.

Ways to motivate yourself

If you find yourself putting off or ignoring your monthly assignments, start afresh and assign yourself something you believe will really make a difference in your career. If assignments are too large, you may become overwhelmed. So, reduce projects to specific, manageable steps. Consistent, steady progress is preferable to sporadic, grand efforts.

Another way to motivate yourself can be to involve others in your assignments. In fact, it's preferable to include as many people as possible in your marketing programs, because when others are counting on you to perform a specific role in a marketing project, you will find the time and energy to do your part. For example, if you decide to give a speech to your prospect group, why not invite an insurance agent to join you in making the presentation. By doing so, you would nurture two important practice areas with one marketing assignment (marketing to prospects and networking with referral sources).

Prescribing your own monthly assignments may involve calling new, creative skills into play. Once you develop these skills and the discipline to create and follow through on a few monthly assignments, however, you will have the power to direct a customized, personal marketing program for the rest of your professional life.

—by **Lyne P. Manescalchi**, *Boulay, Heutmaker, Zibell & Co., P.L.L.P., 5151 Edina Industrial Boulevard, Suite 500, Minneapolis, Minnesota 55439, tel. (612) 893-3831, FAX (612) 835-7296*

Risk Assessment

(continued from page 1)

by using poor-quality information in the decision-making process and when disseminating information to people outside the business.

New business risks have arisen from changes in corporate structures and information technology. Many traditional controls over information and assets have been compromised or eliminated as a result of reengineering initiatives.

The establishment of objectives

Every entity needs to do a comprehensive risk assessment, whether because of its desire to thrive or because of legal and regulatory requirements. Management is ultimately responsible for the identification, assessment, and management of risk, although the services of CPAs and other professionals might be used to assist in the effort.

Management needs to establish high-level objectives for the entity, see that these are clearly stated, and determine that appropriate strategies have been selected to support them. The managers should then identify what might occur to prevent the entity from accomplishing its objectives, evaluate the likelihood of their occurrence, and determine their potential impact on the organization.

More specific objectives must be developed by an entity's various business units to enable them to support the overall objectives. The objective-setting process helps the organization identify "critical success factors" which provide the basis for the development of performance measures. The objectives can be classified as follows:

Operations objectives. These relate to an entity's main objectives and the activities which *directly* support them. They should include objectives concerning the efficiency and effectiveness of the organization's activities and need to take into consideration the environment in which the entity operates, including competitive and quality considerations, and technological implications. These types of objectives play a key role in an entity's resource allocation.

Financial reporting objectives. These relate to the support of the issuance of external financial statements and information. They include ensuring the reliability of financial statements and the fair presentation of financial information.

Compliance objectives. These communicate an entity's desire to adhere to the laws and regulations to which it is subject. Some regulations, such as employment regulations, however, may affect most entities, while others only affect specific industries or activities.

How to help clients develop objectives

Your assistance may consist of helping management develop steps in the objective-setting process, and helping evaluate strategies for consistency with and support of overall objectives. You can also point out areas where there may be conflict between the objectives of different business units and assist with resolving these discrepancies. In addition, you can make sure the organization's mission statement is communicated clearly and assist in defining its objectives so that their achievement can be more easily measured.

Achievement of objectives

An organization needs to establish systems to track the achievement of objectives. Unlike financial reporting and compliance objectives, there are usually no existing external standards against which to measure operating objectives. The measurement of most operations objectives is based more on internal standards, although the ability to accomplish them is dependent on many external factors.

For example, an operations objective to, say, increase market share by 10 percent would be difficult to measure because the entity would have to estimate the size of the total market and use that estimate to measure its market share. In addition, because the size of the total market is affected by consumer tastes, competitors' activities, economic conditions, and so on, it is difficult to control the achievement of this objective.

How to help clients achieve objectives

You can provide consulting services to help clients design and implement systems to track progress toward the achievement of objectives, and provide assurance services related to the development of appropriate performance measures. You can also assist with making sure systems provide sufficient information for decision makers and, if necessary, provide assurance that systems are operating as intended.

Using the example above, you could help clients develop a system to provide assurance that they are gathering sufficient data on a timely basis from appropriate sources to develop precise estimates. They could then more accurately estimate the total size of the market and their share of it.

Risk identification

An organization needs to be aware of all factors that would have an impact on the achievement of its objectives. This leads to the need for an on-going process of risk identification. Risk can arise from many sources, including technological developments, changes in consumer tastes, competitors' activities, regulatory

and economic changes, "acts of God," and management or ownership changes. Risk identification and assessment should be comprehensive.

How to help clients identify risk

You could review the client's overall objectives to identify risks. This would include reviewing the entity's environment, the strategies selected to support objectives, and a consideration of emerging trends and how they would relate to business risks.

For example, if one of an organization's overall objectives was to produce the most technologically advanced product available, you would have to consider, among other risks, the constantly changing technological landscape and customers' tastes. Aside from the cost of keeping up with technology and the potential losses from product obsolescence, there is often a problem with customers' acceptance of cutting-edge technologies.

Risk analysis

Any acceptable method of risk analysis should include an evaluation of the likelihood of the risk's occurring, an estimate of its potential impact, and identification of any counteracting activities or controls.

If a significant risk seems likely to occur or to have major potential impact, then all controls and activities which could minimize it should be identified. If analysis shows a risk exists, but it is not likely to occur and/or would have only a minor impact, then the only activity assigned may be to monitor it. A cost/benefit analysis should be applied to determine the most effective approach to managing each risk.

After identifying controls to minimize risks, the organization should develop a system to monitor risks and institute controls to limit them, and then measure its progress in achieving its objectives. Many controls can be integrated into the internal control structure. Other controls, and the measures used to monitor risks, can become part of the entity's information system.

How to help clients analyze risk

This service would focus on assessing the likelihood of occurrence and the potential impact of identified risks. In some cases, you would be reviewing the client's own evaluation of the risks.

For example, the client might have adopted a strategy of consolidating suppliers. One identified risk is that the supplier could fail to deliver the ordered product. You could assess the likelihood of this occurring and its potential impact on the client's business, such as the cost of finding a new supplier, paying more for a replacement supply, employee down-time, lost sales, and customer dissatisfaction.



Risk management and monitoring

After risks are identified and analyzed, management must decide how best to manage them. Some risks would only require monitoring. Others would need a more proactive approach. Once control strategies have been identified, management needs to make sure controls operate as intended and that the system designed can effectively monitor risks. Management and decision makers should be able to receive information about potential risks on a timely basis. They need to know that setting objectives may be a periodic activity, but risk management, including monitoring, is an ongoing process.

How to assist clients with risk management

You can provide risk management consulting services to help clients evaluate alternative control strategies so they can select the most appropriate method of managing risks. You can provide assurance about the system's ability to monitor and limit risk, including alerting managers to changes in the risk environment. In addition, you could assess management's handling of risks which arise despite the controls in place.

Assessment of the system should consider both how well it monitors risk and how well it monitors changes in the risk environment. The system could also be evaluated as to how well it provides information (and supporting data) needed for decision making, including timeliness, presentation, and whether the information was communicated to all necessary parties.

—by **Ann Elizabeth Sammon**, AICPA Professional Development, Jersey City, New Jersey, tel. (201) 938-3587, FAX (201) 938-3516

Editor's note: Ms. Sammon is the author of the AICPA CPE course, Assurance Services: Risk Assessment, from which these comments are extracted. The course contains practice aids from Practitioners Publishing Company's Guide to Nontraditional Engagements that cover every step of a risk engagement from proposal to report. There is also a short commentary on each practice aid and how it fits into the engagement. To purchase the course (2 hours of CPE credit), product no. 732024PC09, cost \$49, call the AICPA order department, (800) TO-AICPA. Ask for operator PC.

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