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Members in Large Public Accounting Firms

November 1997

AICPA

AICPA Launches CPA WebTrust Electronic Commerce Seal

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Important Member Services Contacts

Here are some useful member service numbers to keep handy.

AICPA Library:

Call 800/862-4272 or send a fax request to 201/938-3955.

Technical

Information Hotline:

Call 800/862-4272.

AICPA Online:

www.aicpa.org

In a bold effort to keep CPAs on the cutting edge of new business developments, the AICPA and the Canadian Institute of Chartered Accountants have created CPA WebTrust™, a unique seal of assurance to break down barriers to electronic commerce by assuring online customers that businesses carrying the seal adhere to proper controls.

The CPA WebTrust seal tells potential customers that a CPA has evaluated a Web site's business practices and controls and that the Web site meets all the CPA WebTrust criteria. The CPA WebTrust assurance service is designed to build consumer trust and confidence in electronic commerce by monitoring and evaluating Web business practices.

Underlying Principles

CPA WebTrust principles address three broad categories:

- *Business practice disclosures.*

The Web site operator discloses its business practices for electronic commerce transactions and executes them in accordance with its disclosed business practices.

- *Transaction integrity.* The Web

site operator maintains effective controls to ensure that customers' orders placed using electronic commerce are completed and billed as agreed.

- *Information protection.* The Web site operator maintains effective controls to ensure that private customer information is protected from users not related to the business.

"We are creating a consistent framework to set the bar on how Web transactions *should* be done and a standard methodology for analyzing and evaluating the key factors in proper business practices and controls," said Barry

Melancon, President and CEO of the AICPA. "For more than 65 years, CPAs have been the guardians of fiscal responsibility, bringing added measures of trust and confidence to business. We continue that fine tradition with CPA WebTrust."

A Needed Service

According to *PC Magazine*, Americans spent more than \$300 million online last year, and that figure is expected to jump to \$6.5 billion by the year 2000. However, AICPA research shows that millions of current and would-be electronic customers worry about the security of information provided during Web transactions.

news update

CPAs Are Important to CPA WebTrust's Appeal

Proportion who say CPA involvement in CPA WebTrust makes them more likely to feel the seal is:



Source: Yankelovich Partners

According to a national Yankelovich Partners study, more than half of online users have shopped for a product or service online, but only 24% have purchased online. The study found consumers are very concerned about the privacy and protection of their personal information, such as credit card numbers, Social Security numbers and buying pattern history, when shopping online. A large majority said they would not provide information about their incomes (91%) or reveal their credit card numbers (85%) when shopping

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online. A total of 74% would hesitate to provide their phone numbers, while 67% would not want to give out their addresses online.

But the same study found they would be more willing to shop online if there were CPA assurance of a site. According to AICPA research, the existence of credible assurance about the security of online transactions would greatly increase online purchasing of products and services, especially hotel or airline reservations; computer hardware or software; subscriptions of online information; records, tapes, CDs and videos; and gifts for others.

“Although electronic commerce is growing at an exponential rate, we believe security and other consumer concerns will continue to inhibit its widespread proliferation and acceptance. With CPA WebTrust, those concerns about privacy and security are minimized,” said Everett C. Johnson, Partner and International Director of Deloitte & Touche Enterprise Risk Services and Chairman of the AICPA Electronic Commerce Task Force.

Upcoming Web Assurance Symposiums

Here are the dates and locations of future Web Assurance Symposiums:

- Nov. 10 in Anaheim, Calif.
- Nov. 11 in Dallas, Tex.
- Dec. 2 in Boston, Mass.
- Dec. 8 in Atlanta, Ga.
- Dec. 17 in Chicago, Ill.
- Dec. 18 in New York, N.Y.

The symposiums cover all aspects of offering the new service to clients, including the principles, required competencies and independence, engagement planning and execution and reporting considerations.

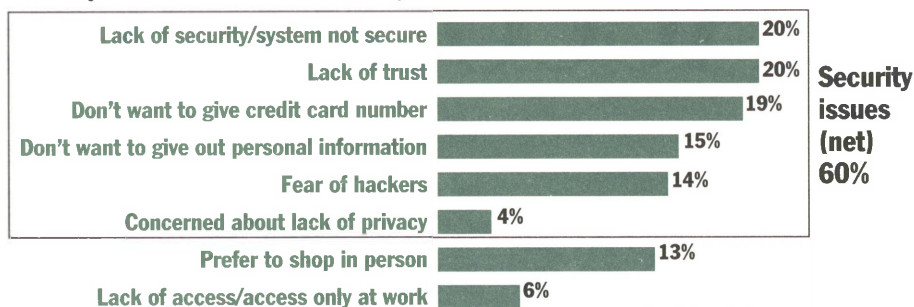
Registration fees are \$295 for AICPA members and \$350 for non-members. For more information or to register, call 800/862-4272 or fax 201/938-3169.

Seminars may also be available from state CPA societies. Contact your state society for more information.

Security Concerns Scare Non-Purchasers Away

Why haven't you made a financial transaction online?

Asked of those who have not made a financial transaction online



Source: Yankelovich Partners

Other CPAs agree that the time is right for this new client service. “We believe CPAs are in a very good position to provide Web assurance services because the public trusts us,” said CPA Doug Ellis of Kreischer, Miller and Company in Horsham, PA, who has undergone Web assurance-service training. “There is a great demand for electronic commerce. We see that it is a need that we can fill for our clients. We have many clients who are reluctant to do business on the Net because no standards exist.”

Ellis says CPA WebTrust can help solve this problem. “The AICPA has really done its homework here. They have implemented the necessary standards to take electronic commerce to the next level.”

Monitoring Controls

With CPA WebTrust, specially trained CPAs will examine a company's Web site to evaluate whether it meets the prescribed practices and control criteria. When this process is successfully completed, a report indicating the site's compliance is issued and the site is granted the CPA WebTrust seal. To keep the assurance current, the CPA must revisit the site and the seal must be refreshed at least every quarter—and perhaps more often for more dynamic Web sites. Each CPA WebTrust site will be linked to a directory of all sites bearing the seal.

The CPA WebTrust seal itself was developed by the AICPA and VeriSign, a world-renowned provider of digital authentication services.

VeriSign encryption and authentication technology and practices help it assure the consumer that the seal on a Web site is authentic and that the site is entitled to display it. Consumers may click on the seal and access a report issued by the CPA as well as the CPA WebTrust Principles and related criteria.

Qualifications Needed

To ensure the highest quality and professionalism for this new assurance service, only CPAs who have completed training and have been licensed by the AICPA in accordance with performance standards are qualified to issue the CPA WebTrust seal. Training and licensing ensure consistent application of CPA WebTrust principles and related criteria.

This training has already begun in the form of Web Assurance Symposiums taking place around the country (see sidebar at left for more information). The one-day symposiums are designed to help practitioners “attest” to the integrity, privacy and security of electronic transactions by performing an examination to ensure a Web site meets the proper principles and criteria and to provide a new, billable service to clients.

In addition, the AICPA is launching a \$1.5 million advertising campaign to promote CPA WebTrust to Web page owners as well as to the millions of potential Internet shoppers who will come to rely on the CPA WebTrust seal when purchasing goods and services online.

Published for AICPA members in large firms. Opinions expressed in this supplement do not necessarily reflect policy of the AICPA.

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Launching a Year 2000 Project

By Sandi Smith

Many people are becoming aware of the Year 2000 Issue, also referred to as the millennium bug and the century date change dilemma. It has been the subject of a few stories in the general press and of a lot more in the computer press. It's easy to understand: Some computers will simply stop working at the beginning of the year 2000.

A few executives have proactively begun projects to make all of their systems compliant before it's too late. Many more haven't. These people may be unwittingly betting their business on the hope the problem will go away.

In a recent survey, 65% of the 1,000 respondents said the Year 2000 Issue poses a large risk to their businesses or complete business failure if systems are not fixed.¹ One CPA firm partner I recently talked with was extremely motivated to keep his business running, but he estimated that a large majority of his clients were not doing anything about the year 2000 challenge.

That estimate is in line with a recent survey by Cap Gemini, which found that only 18% of Fortune 500 companies had a detailed plan in place as of early 1997, and only 40% had completed an impact assessment.² The Gartner Group predicts that half of all businesses will not be ready for the year 2000 and one-third of all mission-critical systems will not be converted in time.

The Most Vulnerable

Midsize and small businesses face the most risk. Small businesses often have no backup procedures in case systems fail. Medium-sized businesses have often accumulated a lot of software over the years. Businesses of both sizes lack in-house staff who are knowledgeable in information technology. And both rarely have the large budgets required to make significant change. But the consequences are daunting: Capers Jones estimates that 5% to 7% of medium-sized businesses will go bank-

rupt as a result of year 2000 issues.³

Are some executives in denial? Some may not understand the pervasive scope of the problem. Hardware and software applications are certainly affected, but the scope is much broader. Anything that is computerized must be analyzed, including embedded systems that are commonly used in building systems, manufacturing process control, medical equipment, and the like.

And even if you get your own house in order, another company can bring you down. Let's say you are dependent on a major customer and are an electronic data interchange trading partner. If the customer does not get its EDI systems into compliance, orders will stop. All systems that interface externally with your business must be included in the scope of your year 2000 project.

Some executives may be waiting for the silver bullet, but none is coming. How could one silver bullet fix a problem that will simultaneously affect automatic teller machines, fighter jets, accounting systems and assembly line software? There are too many details involved for any quick fix to work. Most of the tools that have been developed work only in IBM COBOL environments, which account for only 50% of the problem.

Some company leaders may think the Year 2000 Issue is a "computer issue." As you can see, it's much more than that. It affects the entire business, and it affects just about every business.

Take Action Now

If you are motivated to keep your business running, your year 2000 project should start today. CPAs whose firms have not started their projects must become aware of these issues, or alert their managers to them. Practitioners can also help clients in many ways: with training programs, consulting projects, technology planning, and disaster

recovery, to name a few services.

What can you do if your firm or your clients are not yet facing the issue?

1. Educate firm members and clients about the scope and complexity of the problem.
2. Gather research about the problem and circulate it to clients or partners.
3. Hire a consultant to assess firm or client needs.
4. Offer preliminary budget estimates.
5. Prepare a list of necessary purchases so that the scope of the project is clear.
6. Find out how much money competitors are spending on the issue.
7. Find a system within the firm—or client company—that will fail, and graphically demonstrate all the consequences of that failure.
8. Quantify the impact on the bottom line profits and sales if nothing is done to correct noncompliant systems.
9. Consider the legal issues and potential lawsuits for firms—or for clients—when systems fail.
10. Enlist partners or executives at client companies to be executive sponsors of the project.
11. Prepare a staffing plan that discusses the use of internal staff or hiring of outside resources.

800 And Counting

So what are you doing still reading? There's no time to waste: There are less than 800 days until 1/1/00.

Sandi Smith has completed several year 2000 projects for businesses, including CPA firms. She wrote Solving the Year 2000 Dilemma (No. 093008CLB11; available Nov. 15), and Top Ten Technologies and Their Impact on CPAs (No. 043009CLB11), both available through the AICPA (call 800/862-4272), and was the author of a chapter of Year 2000 Problem: Strategies and Solutions from the Fortune 100. A frequent speaker and trainer on the Year 2000 Issue, she is available via email at sandi@cyberramp.net or by old-fashioned telephone at 972/248-8378.

¹ "Summary of Results, Year 2000 Survey," <http://www.year2000.com/archive/y2ksurvey.html>, May 9, 1997.

² Robert L. Scheier, "Many Year 2000 Projects Still at Starting Gate," *Computerworld*, Apr. 14, 1997, page 24.

³ Capers Jones, "The Global Economic Impact of the Year 2000 Software Problem," *Software Productivity Research, Inc.*, Jan. 23, 1997, page 42.

Timely Alerts for Practitioners

The AICPA's risk alerts are valuable, nonauthoritative practice aids designed to be used as engagement planning tools. The risk alert series consists of the *Audit Risk Alert—1997/98, Compilation and Review Alert—1997/98* and 15 industry-specific risk alerts.

Audit Risks

Here's an overview of the key topics discussed in the *Audit Risk Alert—1997/98* (No. 022202CLB11; \$11 for members, \$13.75 for non-members):

- Auditing accounting estimates in the current economic environment, with highlights from relevant guidance from the auditing standards.
- The auditor's responsibility to detect fraud, focusing on the guidance of SAS No. 82, *Consideration of Fraud in a Financial Statement Audit*.
- The arrival of the year 2000 and its impact on your audit clients' accounting and financial information systems, along with the ramifications of computer systems whose flawed design will, unless remedied, wreak havoc on Jan. 1, 2000.
- Indemnification clauses being used in engagement letters to reduce litigation losses, and their implications.
- Guidance to assist auditors in following the "paperless" audit trail (and to work with electronic evidence) in relation to SAS No. 80, *Amendment to SAS No. 31, Evidential Matter*.
- Highlights of SAS No. 81, *Auditing Investments*.
- The SEC's Illegal Acts Reporting Rule, which outlines the auditor's regulatory responsibilities to report illegal acts.
- Given the low growth of audit revenues, how to add value to the client services, identify additional services and use time after busy season more efficiently.
- Interesting insights from a Stanford University study on the impact of the Private Securities Litigation Reform Act and whether it has provided relief to the profession.
- Which Web sites provide some of the most valuable information for auditors.
- Common audit and attest Q&As from the AICPA Technical Information Hotline.
- An introduction to the Independence Standards Board, a new self-regulatory body created by the AICPA and the SEC to develop and maintain independence standards for auditors of SEC registrants.
- New auditing and attestation pronouncements.
- Recent GAAP pronouncements.

Compilation and Review

The *Compilation and Review Alert—1997/98* (No. 060681CLB11) is packed with practical insights, tips on pitfalls that frequently occur in compilation and review engagements and useful summaries of new pronouncements (\$11 for members, \$13.75 for non-members).

Some of the topics discussed in the new alert are:

- An update on the status of the assembly/plain paper exposure draft debate.

- An overview of practice issues surrounding how to report when CPAs have engagements to provide part-time or full-time controllership services.
- A comparison of requirements to consider fraud and internal control in audits vs. compilations and reviews.
- The need for updated and tailored client representation letters in review engagements.
- Summaries of all of the existing Statements on Standards for Accounting and Review Services interpretations and Technical Practice Aids pertaining to compilations and reviews.
- Year 2000 issues in SSARS engagements: What are the best practices in dealing with client expectations?
- An update of relevant "must know" GAAP required in compiled and reviewed financial statements.

Industry Alerts

The AICPA also publishes alerts related to certain industries (\$9.95 each for members, \$12.50 for non-members). Here are the 1997/98 industry-specific risk alerts that will be available before year end:

- Banks and savings institutions (No. 022200CLB11).
- Construction contractors (No. 022199CLB11).
- Common interest realty associations (No. 022189CLB11).
- Employee benefit plans (No. 022193CLB11).
- Health care (No. 022203CLB11).
- High technology (No. 022204CLB11).
- Insurance (No. 022205CLB11).
- Investment companies (No. 022206CLB11).
- Not-for-profit organizations (No. 022192CLB11).
- Real estate (No. 022212CLB11).
- Retail enterprises (No. 022210CLB11).
- Securities industry (No. 022211CLB11).
- State and local governments (No. 022191CLB11).

These publications will be published between Nov. 1 and the end of the year. To order any of them, call the AICPA Order Department.



800/862-4272

A New Practice Alert

Enclosed with this month's supplement is a Practice Alert that deals primarily with the communications (including working paper access) that are required between predecessor and successor auditors. This subject is the topic of SAS No. 84, *Communications Between Predecessor and Successor Auditors*, which will supersede SAS No. 7, which had the same title. Additionally, the alert will discuss issues surrounding requests for an auditor to reissue his or her report on previously audited financial statements and the use of indemnification clauses when such a request is received. The practice alert also includes references to SAS No. 85, *Management Representations*, which supersedes SAS No. 19, *Client Representations*.