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# Feature Article

Volume III  
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# Pathfinder Profile

Welcome to the Millennium...Hold  
On Tight

**Due Diligence:** Moving Up the  
Knowledge Value Chain

**Assurance Services:** A changing  
marketplace means constantly  
reexamining your service mix.  
Discover where to focus your  
offerings, and what the future  
holds for these services.

Words to Set a Course for the Future

*Change is the law of life. And those who look only to the past or present are  
certain to miss the future.*

— John F. Kennedy

Alan Friedman



Name That Tune

## **Welcome to the Millennium...Hold on Tight For insight into the latest industry trends and tips on how to position yourself for the future, read the most recent article by the CPA Vision Team.**

Online trading...Internet banking...Smart  
Cards...XML...

This much is clear: technology is redefining the way we work. And while the digital society is making transactions easier, it compels the financial professional to provide a higher level of service to stay relevant.

The fact is, the role of CPAs has and will continue to change dramatically over the next 10 years. And playing by the old rules will not be enough to survive in the customer-driven new economy.

### **Say Good-Bye to the Finance Department**

Dutifully reviewing balance sheets and accurately reporting historical information was the key to rising to the top of the accounting profession. Not any more. With pressure rising to own customer relationships and prove sustained growth to shareholders, companies are realizing that real-time financial information is key. There's no time to wait for the finance department to close its books. In fact, Microsoft closes its books in one day following month's end and it's still not fast enough.

Non-financial measures are becoming even more important to those in the executive suite. Historical facts and figures alone are meaningless. They have to be linked to the strategic plan taking competitive positioning, customer relationships, and shareholder value into account.

How will finance departments be able to develop these strategic plans while working on day-to-day transaction processing? According to KPMG, they won't. Finance Of The Future, a new study by the firm's U.K. Consulting Group, predicts the elimination of the finance department by 2010. Accounts payable and payroll will be outsourced. E-commerce will replace transaction processing. And financial professionals who are able to relate raw numbers to business results will be asked to partner with line managers, move into line positions, and educate non-finance people.

**Say Hello to the All-Encompassing CFO**  
Just as the role of the finance department is

changing, so are the expectations for today's Chief Financial Officer. They too, are being asked to take on a host of new responsibilities and have a broad business background with operational experience. According to a July 1999 CFO Magazine study, CEOs are not looking for candidates with top-notch financial skills. Those are a given. Today's CEOs are looking for CFOs with the know-how to lead their businesses into the future. High on their wish list are the skills that CFOs generally lack: leadership ability, strategic vision, and communication and interpersonal skills.

Character and communication skills are critical in order to present a strong image of the company to customers, stakeholders, employees and analysts. Pressure from the SEC and from stakeholders and corporate-governance advocates are prompting companies to keep their financials in only the most trustworthy hands.

#### **What happens to the CPA?**

The AICPA's Vision Project identified five core competencies that are essential in order for CPAs to survive in the next decade. They are Communications and Leadership Skills; Strategic and Critical Thinking Skills; Focus on the Customer, Client and Market; Interpretation of Converging Information; and being Technologically Adept. Sound familiar? These are exactly the same skills that KPMG defined for finance professionals and that CEOs are looking for in their CFOs.

The message is clear. CPAs have to be able to analyze traditional historical data and be able to provide forward-looking insights that create value for their company, and ultimately for shareholders. Companies are in dire need of financial professionals to assume leadership roles and provide guidance and support. CPAs need to move out of the accounting functional area and into the strategic and operational areas of the business.

#### **Getting started**

It's a great time to position yourself for the future. Taking small steps now will start you on the right path and help you avoid playing catch-up later. Chances are it will help you reenergize your career and bring more value to your employer. Here are a few things you can do to get started:

1. Be a solution provider rather than a brick wall. Present positive solutions to every

- business issue. Not just yes or no.
2. Dedicate time each week to keeping yourself up-to-date on current business issues. Read FastCompany, CFO, Harvard Business Review and Wired magazine. Understand the challenges that other companies are facing. How are they solving them? What are best practices they are using? How can you apply those to your company? Your department? Your position?
  3. Talk to a shareholder.
  4. Develop cross-functional relationships-have lunch with a different colleague, from a different department, every week. Understand their issues and concerns and collaborate on a solution.
  5. Develop technology skills. Become familiar with software besides word-processing and spreadsheet programs.
  6. Become familiar with Activity Based Management methods and thinking.
  7. Select professional development opportunities that will teach you new skills that are in demand in the marketplace.
  8. Visit the CEFM Web site at [www.aicpa.org](http://www.aicpa.org)
  9. Install the CPA Vision CD-ROM on your computer. Use the self-assessment tools and models to gauge your current professional expertise, read pathfinder profiles to see what other CPAs are doing, and link to other online sites and resources. Visit [www.cpavision.org](http://www.cpavision.org)

For further reading consult the following links:  
Special KPMG Report "Finance of the Future"  
CFO Magazine - "What CEO's want from CFO's"

If not you — who? If not now — when?

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Horizon Cover

**Due Diligence: Moving Up the Knowledge Value Chain**  
**A changing marketplace means constantly reexamining your service mix. For clues on where to focus your offerings, read Assurance Services: Finding Opportunities in a Changing Marketplace. The article addresses key business segments that the AICPA's Committee on Assurance Services recommends pursuing.**

*by James R. Florin, CPA, Lucent Technologies*

Competitive forces have led many companies to transform themselves via acquisitions, mergers, and divestitures. If your employer is involved in any of these initiatives, or if you work for a closely-held company considering an Initial Public Offering, there may be an opportunity - not to be missed - to participate in due diligence activities.

**Importance of Due Diligence**

And why, you ask, is due diligence so important? Well, with respect to acquisitions, the "caveat emptor" (let the buyer beware) axiom is paramount. Since the Seller is packaging the entity to its maximum advantage, due diligence will confirm your company's (the Buyer's) understanding and expectations of what it is buying and help clarify opportunities inherent in the acquisition. Due diligence will also help to control risk by obtaining detailed knowledge prior to closing the deal.

In many cases, outside experts are retained to handle most of what constitutes due diligence activities. Companies, however, increasingly are using internal staff to satisfy the financial aspects of due diligence requirements. After all, who knows more about your company and your business than you do? Who is in a better position to provide leadership and prognostic responses to questions from executive management?

Findings from the exercise of due diligence can often be quantified and translated into value, and may lead to a purchase price adjustment or modifications to the terms and conditions of the agreement that are beneficial to your company. Knowledge and insight of the "big picture," as it pertains to your company, can be critical to the bottom line.

**Creating New Opportunities**

Involvement in due diligence activities would be a classic example of realizing the CPA Vision Project's Vision Statement, which asserts, in part, that:

*CPAs deliver value by:*

- *communicating the total picture with clarity and objectivity,*
- *translating complex information into critical knowledge,*
- *anticipating and creating opportunities, and*
- *designing pathways that transform vision into reality.*

As you become immersed in due diligence activities, you will be amazed by your growing insight into how financial processes work, as well as your understanding of the degree to which those processes reflect the financial effects of business operations. You will see various types of businesses, technologies and products and services that do not currently exist within your company. You'll also encounter concepts and environments that may be vastly different from what you have experienced. Some examples are different corporate cultures, accounting policies and practices, business approaches and trends, start-up strategies, venture capital funding and accounting systems and general ledger packages.

*You will learn, or learn a lot more, about:*

- *deal structuring,*
- *compensation packages & stock option plans (a real eye-opener),*
- *risk management (derivatives, insurance),*
- *international accounting techniques, and*
- *intellectual property issues.*

**Possible Challenges**

Be aware that you will confront hurdles. There may be problems obtaining access to target company information and auditors' work papers, and you may face issues with the indemnification language within the standard work paper access letter. Additionally, you may be required to travel on very short notice, encounter language barriers with international acquisitions and need to work with target company people who are not enthusiastic about the potential acquisition or who do not fully understand the process..

You may be surprised by some rather aggressive accounting treatment by the target company. It's

important to keep in mind that while Generally Accepted Accounting Principles (GAAP) provide a solid framework, there are a number of acceptable treatments under GAAP that can have a material effect on both price and value. Identifying these areas could lead to some interesting discussions between the Buyer and Seller. There could also be roadblocks to obtaining and sharing proprietary information, and, most importantly, everything you do will need to be strictly confidential. But not to worry! Chalk it up to a great learning experience and a triple A investment in your career.

### **Becoming Involved**

So, how do you become involved? Use your internal network to determine if due diligence opportunities exist and volunteer to participate, even if only on a part-time basis. As CPAs, we enjoy a competitive advantage in that we are known for our integrity and competence, and we are widely regarded as trustworthy advisors to our employers. We should leverage that status and move up the knowledge value chain by seizing opportunities and cultivating an entrepreneurial mindset. Due diligence activities will move us in that direction and our professional reputation will be enhanced.

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## **Assurance Services**

**A changing marketplace means constantly reexamining your service mix. Discover where to focus your offerings, and what the future holds for these services.**

### **Finding New Opportunities in a Changing Marketplace**

Are assurance services the way of the future for CPAs? For the past seven years, accounting and auditing revenue, adjusted for inflation, has remained flat. The marketplace is evolving, and to maintain a competitive advantage some CPAs are finding they need to rethink traditional methods for doing business and to develop new approaches for performing services for their clients.

Assurance services present an enormous market potential for the profession. Assurance services are defined as independent professional services that improve the quality of information, or its context, for decision makers. Context, in this case, refers to the decision making process and the format in which information is presented. This broad concept includes audit and attestation services and is different from consulting because it focuses primarily on improving information rather than merely providing advice or installing systems. Assurance services are intended to increase the confidence of decision makers, and who better to ensure confidence than a CPA?

Recognizing an exciting new arena in which CPAs can expand their services, the American Institute of CPAs (AICPA) created a Special Committee on Assurance Services in April 1994. The Committee's goal was to find out what other information needs can be met by CPAs and how CPAs can add value to information other than historical financial statements. The committee came up with six business segments that provide enormous opportunities for CPAs. They are: Risk Assessment, Business Performance Measures, System Reliability, ElderCare, Performance Measures for Health-Care Providers, and Electronic Commerce.

### **Risk Assessment**

Risk assessment services are vital for evaluating overall performance of management, including performance in monitoring the environment for possible future developments. Services in this area include identification and assessment of primary potential risks faced by a business or

entity, independent assessment of risks identified by an entity, and evaluation of an entity's systems for identifying and limiting risks.

These services provide consulting opportunities for CPAs interested in helping companies to mitigate the effects of identified risks, especially for smaller entities that do not have risk management expertise. CPAs can assist management in developing objectives and strategies (including operations, financing, taxation and financial and compliance reporting systems) for meaningful risk assessments. The CPA may also add value by providing advice about possible threats to achieving broad business objectives and information about potential risks, including the continuing need to monitor risks and maintain the responsiveness of the client's organization.

The primary users of risk assessment services are likely to be the owners of small businesses or senior management and the board of directors of larger businesses. Owners and senior management can be more effective if they know the potential risks and understand the possible impact on their businesses. Owner/managers can also benefit through periodic consultations with the CPA to follow up on identified risks.

**Business Performance Measures** Business performance measures focus on providing assurance regarding an organization's use of both financial and non-financial measures to evaluate the effectiveness and efficiency of its activities. Performance measures can also evaluate how the organization is performing in relation to the competition. There is a wide range of business performance services that CPAs can provide. Each service could be performed as a separate engagement or several could be combined into one engagement. The potential services are:

*Evaluation of existing performance measurement systems:*

- Assessing the reliability of information being reported from the organization's performance measurement systems.
- Assessing the relevance of the performance measures (and how well they inform management about achievement of the performance objectives that have been set).

*Establishment of new performance measurement systems:*

- Identifying relevant performance measures.
- Helping to design and implement performance measurement systems.

The primary users of business performance measures are senior management who want to evaluate employees, measure actual performance against objectives, identify those activities or functions that provide the best opportunities for improved performance, or assess whether their systems are properly measuring activities relevant to their strategic objectives. Secondary users of these services are investors and creditors, who can use such information to determine if management is effectively utilizing available resources and positioning their companies as sound investment choices.

### **Systems Reliability**

Systems reliability assurance guarantees that a system is designed to operate in a way that produces accurate data. This involves testing the integrity of information technology systems. The CPA studies the systems and analyzes the possible causes of defects in data to determine if the systems avoid them. While effective systems, where timing of reliability is not an issue, can rely on error detection and correction, real-time information systems must implement a before-the-fact prevention strategy to make their output useful. For information systems to provide decision makers with continuously reliable information, CPAs must abandon the historical error-detection-and-correction model and move to a reliability-by-design model. This involves rigorous review and testing by the CPA.

Systems reliability consists of two general services: management service and external service. Management service is about assuring the quality of systems that produce data for use by boards and management. It is a broader data set than that used for financial reporting. External service is about the quality of systems that produce financial reporting data used both internally and externally.

System reliability services are beneficial because they integrate both systems and business operations. Financial systems often are designed to accommodate financial reporting but fail to deliver additional data to managers. Ultimately, the CPA could provide users with real-time assurance about systems quality.

**ElderCare**

The U.S. Bureau of the Census estimates that by the year 2000, approximately 4.3 million people in the United States will be 85 years of age or older. Increasingly, people are living to ages where assistance is needed to remain in their homes or in arranging for institutional care. The purpose of ElderCare services is to provide assurance in a professional, independent and objective manner to children, family members or other concerned parties that the needs of the elderly person are being met.

Such services rely on the expertise of other professionals, with the CPA serving as the coordinator and assurer of the quality of the services. ElderCare services include performing procedures to measure how effectively care providers meet goals established by the client. These procedures might include:

- Accounting for routine financial transactions and reviewing them for adherence to established criteria.
- Supervising investment and accounting for the estate.
- Investigating and providing information for handling unexpected situations, such as home maintenance and repair and medical emergencies.
- Inspecting logs, diaries or other evidence to determine whether care providers are meeting the performance criteria agreed upon with the client.
- Reporting to children or other family members on activities such as financial transactions and the degree to which care providers are meeting the established criteria.

In summary, ElderCare services enable potential customers to assist elderly people in maintaining a quality of life and degree of independence and dignity that might not otherwise be possible.

**Health-Care Performance Measures**

Performance measures provide a meaningful method for evaluating an entity's operations. Both internal and external users need them. Internal users need information on enterprise effectiveness to make efficiency and quality improvements, such as the adoption of best practices (see Business Performance Measures). External users need information on whether the entity has effectively used available resources to determine if it is

deserving of further investment. Health-care performance measures services fall into this category. The health-care industry accounts for one-seventh of the U.S. economy with a total annual volume of over \$1 trillion. The aging of the population over the next several decades also will result in increasing demands for, and concerns about, health care.

CPAs could structure their health-care services in a number of ways. For example, the CPA could report on the accuracy of statistical reports or report directly on the quality of care. If a CPA chooses to report on the quality of care delivered by a health-care provider, such information would be of high interest to consumers. Such information might include length of stay, patient satisfaction and mortality. Similar services also could be provided for hospitals, HMOs, managed care firms, physician groups and individual practitioners.

### **Electronic Commerce**

CPAs can provide a valuable service by addressing the risks and promoting the integrity and security of electronic transactions, electronic documents and supporting systems. For example, CPAs could provide assurance to electronic commerce participants that the electronic commerce providers and the tools and systems in use are functioning in accordance with accepted criteria for electronic commerce integrity and security.

Integrity services would provide assurance that the elements of a transaction are as agreed upon by the concerned parties, and that the systems that process and store transactions and documents do not alter those elements. Similarly, security services would provide assurance that the parties to transactions and documents are authentic, that the transactions and documents are protected from unauthorized disclosure, and that the systems supporting the transaction processing and storage provide appropriate authentication and protection.

Electronic commerce assurance services could be provided to any person or persons entering into an electronic transaction. There are several possible payers for electronic commerce assurance services, including companies that may specify an electronic commerce system for use by their vendors or customers as a condition of their business relationships. The party imposing a system on other business entities may wish to

provide assurance that the specified system contains inherent controls to avoid potential liabilities. Businesses also may wish to provide independent assurance regarding system integrity and reliability to alleviate concern among current or potential vendors and customers. Vendors of electronic commerce systems and services also may require independent assurances from CPAs to give credibility to their marketing efforts.

### **Legal Risks Associated With Assurance Services**

While it is impossible to eliminate litigation risks entirely, the AICPA Committee identified several techniques to lessen it. The Committee's summarized conclusions were:

- Firm-level risk management can be significantly improved by enhancing the yield from existing risk-avoidance techniques.
- Cautionary language in information that is the subject of assurance services and in assurers' work products may help protect assurers from unwarranted liability. Cautionary language should therefore be considered in developing services, bearing in mind that at some levels cautionary language runs the risk of reducing the perceived value of the services.
- There are advantages from bringing assurance-service liability more within contract, as opposed to tort, law than is currently the case.
- Loss-limited clauses in assurance-service contracts are advantageous. Assurers should therefore consider their availability and potential benefits when arriving at engagement terms.
- Alternative dispute resolution, primarily a contractual avenue, can be advantageous. Assurers should therefore evaluate its suitability to their engagement circumstances.
- When determining the portfolio of services to be offered, assurers may wish to factor in the litigation risks of specific performance obligations.
- Information that is the subject of an assurance engagement and is disseminated through a public computer network, such as the Internet, does not appear more of a litigation threat under current law than information disseminated by other means, although the relevant legal reasoning has yet to be applied to accountants.

**Conclusion**

To meet the needs of customers in today's changing marketplace, CPAs should consider offering customized, niche services directed at individual decision makers. The key to providing new assurance services is a strong knowledge of the needs and capabilities of clients and potential clients. New services should build upon and enhance the strengths that the CPA profession already has mastered. For additional information about assurance services, visit the AICPA website at [www.aicpa.org](http://www.aicpa.org) or contact Jim Hardenberg, CPA, NJSCPA Director of Education, at 973-226-4494, ext. 215 or [jhardenberg@njscpa.org](mailto:jhardenberg@njscpa.org)

Practitioners Publishing Company (PPC) has developed practice aides that CPAs can use to deliver assurance services. Some of them can be downloaded from PPC's website at [www.ppcinfo.com](http://www.ppcinfo.com). These aides appear in PPC's Guide to Nontraditional Engagements. The aides include:

**Risk Assessment**

- Proposal letter
- Procedures (work) program
- Engagement letter
- Risk identification questionnaire
- Transmittal letters/reports

**Business Performance Measures**

- Proposal letter
- Procedures program
- Engagement letter
- Goals and action plan practice aides
- Performance measurements progress report
- Sources of industry information
- Performance measurement identification practice aides
- Illustrative reports

**ElderCare**

- Procedures (work) program
- Services questionnaire
- Engagement letter
- Community resources
- Guidance on communicating with older persons
- Reports
- Practice aides on domestic workers, social security, Medicare/Medicaid, long-term care,

planning for contingencies

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