

1 PROLOGUE

The world is witnessing revolutionary change in information technology. First due to the creation of electronic computers in the sixties and their introduction in the corporation we observed the automation of repetitive processes bringing impressive corporate productivity gains. Second by the development of personal computers in the eighties and their application in the enhancement of personal productivity we are observing the democratization of information processing and substantive gain of productivity in the service industries. Third the widespread dissemination of the Internet that brings interconnectivity to levels not formerly experienced and is enabling new methods of work, virtual organizations, and the advent of electronic commerce.

The advent of ubiquitous internetworking, and the development of tools and methods to create electronic processes, businesses, and activities is bringing about a much larger phenomenon than e-commerce, the advent of the e-business that ensues from the electronization of business processes. Corporations are proceeding at a faster and faster pace in the electronization of specific processes such as advertising, marketing, billing, supply change management, customer relationship management, human resources, accounting, auditing, finance etc. These processes are being impounded of Web tools, methods, intercommunication between processes, leading to a very different organization, higher productivity, and less humans interaction.

The editor of this volume Prof. Enrique Bonson has been in the leadership of the accounting profession's path towards technology and improved analytic methods. He has organized five symposia on the applications of Artificial Intelligence and Expert Systems to Accounting and Finance over the last seven years, more recently also joint sponsored by the American Accounting Association, the association of North American College Professors. These symposia have provided a forum to lead international accounting thought towards new tools and approaches.

Prof. Enrique Bonson's current volume entitled "Financial Reports on the Internet," comes at a very appropriate time when the accounting profession is anguishing over the electronization of the measurement function. Its financial reporting product having become obsolete. Traditional financial statements have lost much of their informational value. Stock trading has been democratized with many investors performing intra-day trading. Product is being turned over many times over the year at Internet pace. Substantial portion of product is bitable in nature will no inventory, strange cost structures, no auditors trace, often with many of its basic processes outsourced. The traditional production cycle as changed in a manner that traditional measure does not apply. An airline ticket being sold by Priceline.com never belonged to the company to be sold, yet gets booked as a sale full value. A computer sold by Dell is only composed of 15% Dell owned parts and its screen meets the computer at a UPS loading dock close to the customers house. Yet its sale value is also booked at face value. The traditional measurement method was designed in an age of different processes and does not apply well in the modern world of the virtual organization.

The electronization of the corporate measurement (accounting), corporate assurance and corporate financial management processes is of our particular interest in the current context. Corporate measurement processes are evolving to be not only restricted to the financial area, to present continuous flows of information and to be mainly paperless. Corporate assurance processes (auditing) are evolving towards the continuous monitoring of corporate processes and assurance on demand. Corporate financial management processes utilize the above sets of information to increase the efficiency of the use of corporate resources.

The area of digital reporting comprises the electronization of the reporting processes and progressively a series of emerging practices, technologies and Internet based tools. Corporate business processes are supported by software, and in recent years integrated Enterprise Resource Planning Systems where multiple processes share relational databases and serve as the corporate measurement processes. These measures will eventually be part of a continuous measurement and monitoring system that will serve to manage businesses, redirect their strategic and tactical actions, and call attention to anomalies. Anomaly evaluation and monitoring will serve both to provide operational supervision as well as to support assurance services of different types. Assurances on data quality, system availability, and ultimately on the reliability of financial statements.

This book covers many of these emerging issues looking at evolving principles of measurement and assurance (Bonson; Escobar; Deller, Stubenrath y Weber; Canay), reporting practices in Europe (Sevillano

y Molero; Lymer; Montanez y Sanchez Barrios), some interesting disclosures in the United States (Bracho), the XBRL language (Coffin) and some of the shortcomings of the traditional reporting model (Martin). Their articles should be considered under a set of issues and environmental contingencies that are evolving in the United States and Internationally in the world of corporate measurement (accounting) and assurance (auditing) mentioned earlier in this preface.

The large professional service firms, one time called CPA firms, are evolving with time. Once the 'Big Eight' are now consolidated to the 'Big Five.' Auditing turned to be a low growth and low profit area. The litigation crisis also reduced the appeal of auditing but more than all made audit firms hesitant to engage in high risk clients. Consulting has turned to be the area of high growth and profit for the firms. The SEC has started pressuring the issue of independence of a firm when they audit a corporation while providing consulting services. At the same time world markets have exploded in value and made the valuation of the consulting arms of the professional services increase substantially. In consequence these firms are divesting from their consulting arms or separating these in an attempt to going public. Many of these highly valued consulting services are computer related such as systems integration, ERPS implementation, and system development. New digital technology changing the structure of the professional services industry.

In the area of corporate measurement we are witnessing progressive disclosure of financial statements on the Web. These statements are the same as traditional financial statements or a subset of these statements. US corporations are reluctant to disclose additional information, relevant to all corporate stakeholders, due to fears of litigation and traditional thinking. This is the usage of new technology without taking advantage of its features to improve investor information. Modern enterprises carry many items such as cash, receivables, payables, and inventory on an online real time basis. Many other items such as customer complaints, sales returns, personnel data, environmental compliance, etc are also kept current. These items are not part of traditional statements but could be of great value to be provided to corporate stakeholders, however this would require statements of different nature, different disclosure rules, and less concern for litigation. While technology changes rapidly standards and requirements tend to hold the process back.

The accounting profession has been confronted with the specter of an aging set of products (the financial statement and the audit), new technology, and a changing environment. In consequence they created the Elliott Committee on assurance services (discussed by Escobar in this volume) which proposed over 140 new potential products of which seven were selected for immediate task forces. A Web seal (WebTrust) and a system reliability assurance (Systrust) products were issued. They rejuvenate the audit product and recognize the advent of new information technologies. They also avoid the limitations posed by the lack of timely disclosure of financial data, by assuring different information. With technological change the traditional audit product must audit and adopt new clients, error thresholds, monitoring technologies, and evolving standards.

Concluding, Prof. Bonson's volume brings together a very important set of readings dealing with the most important current evolving issues that affect the statutes of the accounting profession, the rules that govern corporate measurement, the emergence of the electronization of the measurement and assurance process, and the adoption of new technologies. It is a volume that is a must reading for concerned students, practitioners and standard setters of the evolving digital economy.