

TITLE: To Market, To Market We Go

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SOURCE: Journal of Accountancy v184 p81-4+ September '97

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The success of CPAs in offering the new assurance services will depend not only on their own efforts but also on the backing and assistance they receive from the American Institute of CPAs. This article focuses on how the AICPA helps members expand their assurance services. It explains the work of the assurance services executive committee (ASEC), the body charged with identifying and developing new services, its priority on speed to market and the status of the measurement criteria it can develop.

"The AICPA will continue to identify and develop new assurance services. We're in the game permanently," says Ronald S. Cohen, the ASEC chairman and former chairman of the AICPA board of directors. The ASEC's immediate task is to follow up on the work begun by the special committee on assurance services (SCAS, also known as the Elliott committee), which had set in motion two interrelated processes: identification of new services by firms and by the AICPA. Earlier articles in this series described techniques that firms can apply to determine customer needs and devise responsive assurance services. The ASEC will use similar techniques in identifying services to share with the profession through its Web site--
www.aicpa.org/assurance/ongoing/index.htm.

A CLOSER LOOK AT THE ASEC

Six task forces are at work on the new assurance services the special committee highlighted in its report: electronic commerce, ElderCare-Plus, health care effectiveness, systems reliability, risk assessment and performance measurement. (These services were described in prior articles in this series.)

The liaison between the ASEC and the AICPA auditing standards board is long-time ASB member Deborah D. Lambert, who also serves on the ASEC. Also, the AICPA assurance services development group headed by K. Casey Bennett provides AICPA staff support for the ASEC. AICPA General Counsel Richard I. Miller monitors the ASEC's work. Miller was a member of the special committee's assurance liability subcommittee, which analyzed how to minimize liability when developing new assurance services and produced a set of recommendations (see www.aicpa.org/assurance/scas/comstud/asl/index.htm).

The ASEC works with other Institute groups to achieve its goals. For example, ASEC task forces helped in determining course content for training programs for the new assurance services: There are introductory courses (each worth two continuing professional education credits) for risk assessment, business performance measurement and ElderCare-Plus. Two eight-hour courses are planned for electronic commerce and ElderCare-Plus assurance services.

ASEC is committed to reach out to CPAs to explain the need for the new assurance services and how to make use of the work that has already been done developing them. ASEC has made over 30 presentations to practitioner audiences so far, and an Assurance Services Symposium is planned for June 1998. Its primary purpose is to have attendees learn from practitioners who have hands-on experience providing assurance services. CPAs who have provided assurance services will report on them and conduct interactive workshops.

In addition, practitioners can go to The Forum on AICPA Online at www.aicpa.org/forums/index.htm to discuss their experiences with the new services and to test ideas against their peers' knowledge of the marketplace. "The online forum is about growing the pie," says Bennett. "Sure, a shared idea might lead to head-to-head competition on occasion, but most of the time it will lead to services for new markets, service-delivery refinements, new variations of services and new services themselves. It can help build the profession's service portfolio and market presence. You can't create without input about the marketplace, and knowledge of what clients want is some of the best input available. That's why the forum is a great place for practitioners to get ideas on how to build their practices."

BUILDING ACCEPTANCE

The committee's work is the centerpiece of the AICPA's strategy to expand assurance services, but it will not be the AICPA's only contribution. In a number of ways the AICPA's efforts improve CPAs' "market permission"--that is, it helps convince the marketplace that CPAs can provide services they hadn't in the past.

Any business that expands into a nontraditional area must face the hurdle of developing market permission. The more that new offerings are related to traditional competencies, the lower the hurdle. It's not as difficult as being a totally new player in a competitive field, without any track record at all, but it has risks. For example, Black & Decker's addition of home appliances to its shop-tool line was less successful than Hewlett Packard's foray into faxes and printers. CPAs have irrefutable market permission to do accounting, audit and tax work, but the market's reaction to CPAs' offering ElderCare-Plus services or health care performance measurements is less certain.

The public's acceptance of the CPA as the provider of such nontraditional services will depend on a number of factors: trust in what the CPA designation stands for, buttressed by the Institute's CPA image campaign, training requirements and specific credentials that "label" the CPA as having expertise in these new assurance areas.

Accreditation of specialties can help build such brand identification and therefore can be much more than a response to the growing need for specialization. The AICPA special committee on accreditation of specializations, which met first in February, is taking a fresh look at accreditations and will establish an overall strategy.

MEASUREMENT CRITERIA

The AICPA can also help obtain market permission by creating measurement criteria used in the new assurance services. The expertise demonstrated by developing measurement criteria will help gain market acceptance. Measurement criteria developed by the profession also can contribute to consistent engagement quality. The task forces are already developing such criteria for electronic commerce and business performance assurance services.

The market-permission problem for assurance services should not be exaggerated. Sellers of newly developed assurance services enter the market on a relatively equal footing with their potential competitors. No party can claim more experience with the service because it is new. It is much more challenging when a service provider enters a market already served by others. The competitors then have a track record that gives them an advantage. Fortunately, CPAs never start from ground zero in market positioning; they start with a set of advantages. They are known for certain competencies (for example, verifying information and financial controls) and certain traits (such as integrity and objectivity). As CPAs successfully diversify their assurance services, they will position the profession, as a whole, to expand its market permissions by demonstrating

broader expertise and helping clients achieve their goals. All CPAs will benefit from this process.

SPEED TO MARKET

Bringing a product to market before the competition can enhance a seller's image as the preferred provider, thereby enabling that provider to gain market share while its competitors are at an earlier stage of acceptance in the market. This process of penetrating the market builds the credentials for serving it. Providers can publicize their performance to leverage the initial advantage of getting to market first.

The ASEC recognizes the need for speed to market. Indeed, a criterion for membership in ASEC task forces is a desire to provide the specific assurance service. In addition, two structural approaches help bring about speed to market.

The first is cooperation with the Canadian Institute task force on assurance services (TFAS). Four of the six ASEC service development task forces are joint efforts (electronic commerce, systems reliability, risk assessment and performance measures). The ASEC's general policy is to cooperate whenever synergy can be obtained and redundant efforts can be avoided. Either Casey Bennett or Ron Cohen attends every meeting of the TFAS, and a TFAS representative, often chairman Axel Thesberg, attends every ASEC meeting.

The second is the ASEC's approach to standards and measurement criteria. The ASEC does not encroach on the authority of other executive committees, and it is not a standard setter. If performance standards are needed, they will be provided, but that is expected to be rare. Instead, ASEC concerns itself with creating nonenforceable performance guidance that is geared to enabling CPAs to perform the services. Speed to market will be taken into account when developing the measurement criteria that need to be created for some services, and feedback on the use of the criteria will be acted on to continuously improve them. This approach is analogous to the process that software makers follow with their successive releases.

ELECTRONIC COMMERCE ASSURANCE SERVICES

The ASEC task force on electronic commerce illustrates well how the new infrastructure can bring new services to market speedily. Individual firms have provided various electronic commerce assurance services, but the task force has been focusing on a class of services for the profession as a whole--those involving business sales to consumers.

The service is built on (1) an attest report adapted to the needs of the users of electronic commerce and (2) engagement arrangements suiting the circumstances under which electronic commerce takes place. Consumers who buy goods and information over the World Wide Web need assurance that the information they supply in a transaction is not misused, that the seller will deliver the goods or services as they were ordered and that the seller's practices regarding delivery, claims and complaints have been disclosed and are followed.

These assurances would be delivered by a trade-marked symbol displayed by the seller for the benefit of the buyer. "Web Assure" is tentatively selected for this purpose. Underlying the seal would be an examination-level attest report on the seller's statement of compliance with WebAssure principles. Only CPA firms professionally licensed to deliver the seal could issue it. The licensing agreement would require the CPA to use the most recent version of the WebAssure measurement criteria in the engagement, to maintain the seal's validity while it is displayed, to use a designated service organization to administer the seal, to provide appropriate training for engagement professionals and to maintain quality assurance.

The task force is developing measurement criteria to evaluate the integrity and security of

electronic networks. The structure for these services has been worked out, and an exposure draft has already been issued (see The Forum on AICPA Online: www.aicpa.org/forums/index.htm).

The service structure and measurement criteria are only two elements of what is necessary to bring the service to market. The task force's plan includes identifying practice opportunities and special competencies needed to deliver the service, developing practice guidance and practitioners' workshops, obtaining feedback from pilot engagements to improve the engagement model and communicating its work products to practitioners.

THE LINES ARE CONVERGING

The infrastructure for ongoing development of new assurance services is in place and working. ASEC is coordinating with Canada's TFAS; task forces are developing services and coordinating with the AICPA's professional development group; ASEC has begun identifying new assurance services, in a transition from its initial role following up on services identified by SCAS; the online forum for sharing experiences and profitable ideas on new assurance services is in place; and ASEC members are spreading the word to practitioners. Much hard work lies ahead, but there is good reason for optimism.

Added material

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WEB SITES IN THIS ARTICLE

The ASEC's general Web site:

www.aicpa.org/assurance/ongoing/index.htm

The SCAS's recommendations to minimize liability when developing new assurance services:

www.aicpa.org/assurance/scas/comstud/asl/index.htm

The Forum on AICPA Online:

www.aicpa.org/forums/index.htm

The SCAS's survey of 21 firms' services:

www.aicpa.org/assurance/scas/news/sv/addlposs/index.htm

NEW ASSURANCE SERVICES PRODUCTS

The American Institute of CPAs has several new products related to assurance services:

* Overview of Assurance Services

1. Continuing professional education package with videotape of the Elliott committee presentation at the fall council meeting and a manual. \$59. Product no. 182021JA; 4 hours recommended CPE.

2. The videotape only of the Elliott committee presentation. (1 hour, 55 minutes) \$19.95; product no. 182025JA.

3. Additional copies of the manual when purchased with the CPE package; \$29; product no. 352021JA.

* Assurance Services: Elder Care; \$49; product no. 732022JA; 2 hours recommended CPE.

* Assurance Services: Performance Measurement; \$49; product no. 732023JA; 2 hours recommended CPE.

* Assurance Services: Risk Assessment; \$49; product no. 732024JA; 2 hours recommended

CPE.

These products are available from the AICPA order department by calling 800-862-4272. Group study presentations for all four courses are also available. Contact your state CPA society for additional information.

EXECUTIVE SUMMARY

* **THE ASSURANCE SERVICES EXECUTIVE** committee's immediate task is to follow up on the work begun by the special committee on assurance services (SCAS, also known as the Elliott committee), which had set in motion two interrelated processes: identification of new services by firms and by the AICPA.

* **THE COMMITTEE'S WORK** is the centerpiece of the AICPA's strategy to expand assurance services, but it will not be the AICPA's only contribution. In a number of ways the AICPA's efforts improve CPAs' "market permission"--that is, they help convince the marketplace that CPAs can provide services they hadn't in the past.

* **THE PUBLIC'S ACCEPTANCE** of the CPA as the provider of such nontraditional services will depend on a number of factors--trust in what the CPA designation stands for, buttressed by the Institute's CPA image campaign, training requirements and, sometimes, unique credentials that "label" the CPA as having expertise in specific assurance areas.

* **THE PROFESSION'S EXPERTISE** demonstrated by developing measurement criteria helps gain market acceptance.

* **SPEED TO MARKET** will be taken into account when developing the measurement criteria that need to be created for some services. Accordingly, although the process is fast and responsive, the measurement criteria feedback will be acted on to continuously improve the criteria.

ELECTRONIC COMMERCE ASSURANCE SERVICE--ONE FIRM'S APPROACH

Selling software over the Internet has obvious advantages: There's no physical store, no physical inventory of boxed software, no shipping costs and no travel chores. But the software maker needs assurance the software is not going to be pirated and also must be confident that the product is kept intact during its journey to the customer, a trip that includes stops at a distributor and a reseller.

Microsoft faced this problem and worked out a solution with KPMG Peat Marwick LLP that led to attest engagements for sales of Microsoft products over the Internet. They jointly devised a set of policies and procedures that provides the needed protections. For Internet sales, the distribution channel includes a "clearinghouse," which receives the product from Microsoft. For a fee, the clearinghouse passes the product to the distributor, is responsible for the software's integrity and maintains end-user licensing agreements. An encryption "wrapper" protects the software until the purchaser receives it, agrees to abide by the ownership rules and opens the software. The clearinghouse must follow Microsoft's policies and procedures to avoid piracy and maintain the software's integrity.

KPMG reports to Microsoft and to clearinghouse management on compliance with these policies and procedures. It's an agreed-upon procedures engagement. The clearinghouse pays the fee. The first engagement was performed about a year ago.

These engagements call for attest skills, a deep knowledge of the electronic software distribution business, a high level of expertise in encryption and familiarity with other controls desirable for networked systems. For example, engagement team members need to understand

and be comfortable with server architectures, firewall strategies, control environments, software licenses and user interfaces.

EXPANDING THE ATTEST FUNCTION IS NOT NEW!

The AICPA's efforts to broaden CPAs' assurance services and adapt to the changing marketplace can be traced back at least to the early years of the 1980s.

"We need a sense of urgency and a full-speed-ahead effort at new service development or the profession is in for difficult times. That's certain," says Robert K. Elliott, who was chairman of the AICPA special committee on assurance services. "And we've tried hard to explain that to our fellow practitioners. But it's totally untrue that the profession has been standing still."

"If you look back at it the way a historian would," he goes on, "you would identify two elements in the AICPA's response to the marketplace. The first is modernizing the audit. That in itself had two facets--the auditing standards board side, with sampling, the audit risk model and so forth, and the accounting side. When we improve financial statements, we improve the audit, because in the end the audit is only as useful as the financial statements reported on. The AICPA special committee on financial reporting (the Jenkins committee) was the latest and most important effort to modernize the audit from the accounting side, and it was customer-driven from the outset. The committee did a fine job, though too little has come of it so far."

The second component, he explained, was the expansion of the audit function beyond historical financial statements. The landmarks here were standards for reporting on forecasts and projections and the attestation standards. Both came to fruition in the early 1980s. But work on forecast reporting was active in the 1970s, and the origin of the attest model was the audit risk model, which also can be traced to work in the 1970s.

There is little hard data on the results of these efforts. The role of the attestation standards is shown by the number of currently performed attest services identified in the special committee's survey of 21 firms (see www.aicpa.org/assurance/scas/news_vs/addlposs/index.htm), but we have no good measure of the breadth of attest services professionwide.

A two-day 1993 Audit/Assurance Conference held in Santa Fe, New Mexico, addressed the problem of flat demand for audits and dissatisfaction among users of the service. It analyzed why the audit/assurance function had come to this juncture and considered how future services might be given additional value. It concluded that there should be a renewed emphasis on meeting users' needs (the same customer-oriented focus later taken by the special committee on assurance services) and that assurers should focus on a wider array of information and information processes, including the development of relevance-enhancement services. The AICPA answered the conference's call for more work on the issues it defined by creating the special committee on assurance services.

Don M. Pallais