e-Business and Trust

From Management Assurance to Web Assurance?

Mark de Haas

Management increasingly use the Internet for communication with stakeholders. In general, the Internet is seen as an unreliable environment with a great number of anonymous users. A certain degree of mutual trust must therefore be established between stakeholders and website owners before a transaction can be completed or information is exchanged. Trust plays a crucial role in communication through the Internet. This article addresses the online trust issues that should be addressed explicitly, and the services an auditor (financial auditor or ICT auditor) may provide.

Introduction

Managing a modern organisation is far from easy. The issues that management must address are many: Are we complying with environmental regulations? What is the status of information security? What requirements does the new law on 'protection of personal information' impose? Moreover, do we meet these requirements? These are only a few of the numerous questions that management must regularly ask itself. However, it is not only management asking these questions; (external) parties in just about every area are keeping an eye on things, looking closely over the management's shoulder. These are the stakeholders: investors, employees and, to an increasing extent, customers and suppliers. As a result, management is constantly involved in communicating with these groups. If management fails to do this, these stakeholders may very well rethink their loyalty to the company and their investment in it.

Luckily, there is a relatively inexpensive communication channel available, which allows management to address almost every one of a company's stakeholders: the Internet. All an organisation has to do is set up an attractive website with various pages of information available at the click of a mouse. Sounds simple, doesn't it? But, in practice, communication via the Internet is accompanied by a few problems of its own.

This article addresses this issue by responding to the following question: If a company wants to communicate with its stakeholders via the Internet, what aspects should explicitly be addressed, and what role can an auditor (Financial auditor or ICT auditor) play in this?

Communication via the Internet

'On the Internet, nobody knows you are a dog.'[1] These are the words of a dog communicating anonymously online, from a famous cartoon in the New Yorker magazine of June 1993. In general, the Internet is thought to be an unreliable environment with a great number of anonymous users. This belief is not completely unfounded: there is no personal contact, websites are difficult to protect, and serious problems arise on a regular basis (for example, the misuse of personal data, etc.). Another issue is the rapid rise (and often unfortunate descent) of young e-Business companies. They are often launched with major investments, and feature a dazzling website. However, establishing a proper management control system is no key priority. As a consequence, many of these companies have gone bankrupt. This unfortunate situation has given a bad name to the Internet as a reliable channel of communication.

This means that a certain degree of mutual trust must be established between stakeholders and a website owner before a transaction can be completed or information deemed reliable. Trust plays a crucial role in communication via the Internet.

Trust

When two parties are unable to meet in person, and still want some kind of interaction (share information, place orders, etc.), a certain level of trust is essential. But what exactly is trust, and how can it be established?

The definitions of trust are wide and varied. It is often defined from a psychological perspective (for example, trust in relation to friendship). With regard to the Internet, trust is often described as follows:

Trust is the willingness of one party to adopt a vulnerable position in relation to systems or another party, based on the assumption that the other party will perform a certain action or comply with an obligation, and without there being a simple way to monitor this action.

1) Peter Steiner, *The New Yorker*, 1993.

Figure 1 shows a basic model of trust. According to this model (based partly on Nöteberg[2]), a trust relationship is built up of a number of components:
* *Risk:* risk is a variable and is different in each transaction. Little influence can be exerted on this.
* *Competence and image:* which competencies does the organisation possess, and how are these perceived by the other party?
* *Transparency:* what information is supplied?
* *Attitude and intentions:* how is the other party approached?

The risk perception or tolerance increases as the importance of the organisation's online performance increases. This can be illustrated as follows: The threshold for buying a CD or a book via the Internet is generally quite low. However, if the order is never received, the customer loses money and frustration is the result. When these activities concern arranging bank matters or buying shares and bonds via the Internet, the losses involved can be much more serious (loss of property, misuse of personal information, etc.). A higher risk leads to greater hesitance about entering into such a business relationship, and therefore also to an increased need for trust.

This feeling of reservation is even stronger in the Business-to-Business (B2B) market, where the value of most transactions and information flows is higher than average. If actual interests are at stake, and two parties adopt a vulnerable position in relation to one another, an independent third party can provide an additional element of trust. In this situation, risk and trust are closely related: the higher the risk, the greater the need for trust, and vice versa. This is the point where the auditor enters the arena.
Another proven method of resolving trust issues should not be unmentioned: offering free or low-priced goods and services. This serves to significantly diminish the potential risk as perceived by the customer. The problem, however, is that this method is not successful in the long term (recent developments show that profit must be generated, even in the new economy).

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The auditor's role

Financial auditors are well known as trusted professionals in society, and have been filling this position in the traditional economy for more than a century. Financial auditors are viewed as experts in the certification of financial information (such as financial statements and other financial accounting). However, as the role of information provision changes, so does the role of the financial auditor. Instead of the traditional bookkeeper duties (certifying figures and financial statements), the modern financial auditor focuses more on the certification of specific processes, projects, and the like.

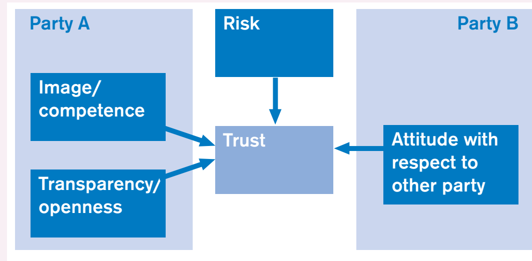
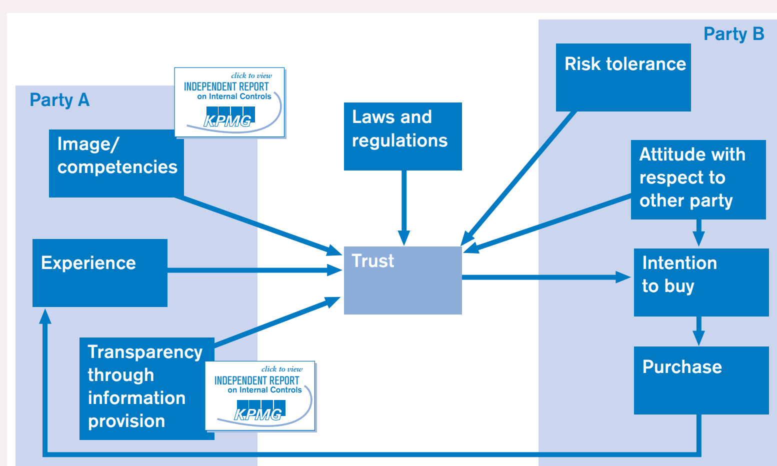


Figure 1. Basic trust model.

The model in figure 2 shows further elaboration of the previous trust model. This diagram illustrates that a significant amount of trust can be added to the outcome of a transaction or a initial response. For example, Party B orders products via the Internet, and receives these articles within four working days as promised. As a result, party B will put a great deal of trust in Party A. However, such a situation can also result in a vicious circle: if no trust has been established, Party A will not have the opportunity to show its potential for being trustworthy. In particular, to gain this initial trust, an organisation can decide to have certain aspects of its business model be certified by an auditor. The company can also benefit from the image of the auditor. Various studies have shown that, when dealing with an unfamiliar third party, potential clients place a high degree of trust in a well-known image or logo.

This has led to companies publishing statements of certification on their website with the explicit purpose of providing added value to the information supplied to external stakeholders. In this case, a certificate would be viewed as a 'seal of approval' from an independent third party about certain statements and activities of the management. If this statement is made public in the broadest sense of the word (published on the Internet), it is referred to as 'web assurance'. Objects eligible for certification are examined in the 'Trust issues' section later in this article.

Figure 2. Adding trust by means of an independent third party.



2) A. Nöteberg, *Trusting the Web? Web Assurance Seals for an improved Electronic Commerce Environment*, unpublished MA thesis, International School for the Humanities and Social Sciences (ISHSS), University of Amsterdam, 2000. http://imwwww.fee.uva.nl/~anna/research.htm

Management assurance

The management of an organisation wants to control the company's business processes properly (administrative organisation and internal control) and thus minimise the business risks. The control of processes provides information that management can use to support the decisions it makes. But if processes are poorly controlled, there will be limited support in the form of process information. Consequently, management may also have difficulty taking decisions due to the lack of clarity. This problem can be disposed of by engaging an auditor. It is the auditor's role to provide additional assurance concerning the control of specific processes and business risks.

For example, an ICT auditor can offer assurance on issues related to ICT (such as information security), while a forensic Auditor can assist if there is suspicion of fraud, and a Financial Auditor can provide assurance on financial matters. Of course, a company would not be particularly inclined to communicate the possibility of fraud to the outside world. However, if an organisation masters its logistical process and is capable, for example, to deliver all goods within 24 hours, why should the outcome of such a supply chain process audit not be shared with its customers?

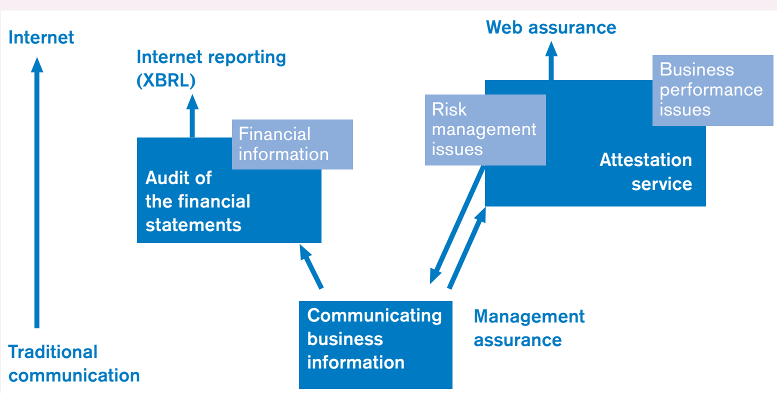
In any case, the effect of an audit is twofold. On the one hand, the audit provides the management with assurance concerning the proper set-up of the administrative organisation (management assurance). On the other, the audit can generate trust to external stakeholders (web assurance).

Web assurance

Although, at present, the Internet offers many examples of web assurance[3], currently there is no generally accepted definition. In the author's opinion, web assurance consists of the following three elements:
* Web assurance is an attestation service. This term is frequently used in the US to refer to the added trust provided by an independent third party certifying a particular object.
* The outcome is published in a prominent area on the website (such as the homepage). A symbol, logo or seal can represent this certification process.

3) See the list of examples of web assurance from accountancy firms at the end of this article.

Figure 3. Web assurance services.



* Objects that can be certified, concern risk management issues or business performance issues (see the 'Trust issues' section later in this article).

An organisation needs to focus attention on a large number of issues and factors in order to ensure successful communication via the Internet. The majority of these factors are of cosmetic nature: the domain name, website design, navigation, presentation of content, etc. Similarly, there are just as many aspects that must be organised within the organisation. The management should properly address these issues, but potential customers may be unsure whether this has actually been done. Consider the importance of the above in the following situation: a new Internet stockbroker's office must deal with confidential customer data. The management has included a privacy statement on its website. In this context, the following aspects must be taken into account:
* The name of the organisation is not familiar to the general public; trust is therefore not automatic.
* Dealing with privacy is a crucial component of the business model.

For this organisation, privacy is a trust issue. The management could therefore have its privacy statement certified by an independent third party. Of course, there are many other trust issues, although dealing with privacy is a particularly relevant example.

Trust issues

At present, many organisations on the Internet offer the certification of particular objects by auditing firms. The list below offers a general overview of a number of frequently encountered trust issues. Keep in mind, however, that this list is far from complete. As the number of new business models grows, so does the number of trust issues for which an auditor can provide an opinion to the public.

Examples of trust issues:
* The effective operation of controls in general, or concerning specific management controls or systems (necessary controls related to security, the careful handling of transactions, ensuring payment takes place as agreed).
* Completeness and accuracy of specific information (financial ratios, creditworthiness, ownership ratios, pay-out ratios (for an online casino, for example)).
* An entity's compliance with respect to certain published policies and practices or commitments (reliability of the information received, handling information in a confidential manner, guarantee periods, confidential data).
* Neutrality of a marketplace (fees and functionality, fair competition, governance).
* Legal compliance (laws and regulations, copyrights, intellectual property).
* The authenticity of users or of the organisation itself.
* The availability of the website and the supporting information systems.

These trust issues show that these are all crucial aspects of a business case. It is obvious that attention must be paid to these aspects, the question is, however, in what way. An organisation confronted with this choice will have to look at the costs in relation to the potential benefits: do the costs of an audit weigh up against the expected extra benefits? And are there alternatives?

Complete transparency concerning trust issues is clearly the absolute minimum requirement. The question is whether this addresses the trust issue properly. Above, we mentioned the possibility of reducing this risk by offering products at a very low price (or even under the cost price). Another alternative is to use an existing brand name. A good example is the Free Record Shop, a music retail chain in the Netherlands. When the Free Record Shop opened its Internet store, few doubted the competencies of the organisation and the integrity of the management. Almost everyone in the country is familiar with this record shop off-line, most likely from personal experience. Therefore, the Free Record Shop could use the Internet as a additional sales, without having to invest in additional assurance in the form of third party verification.

Web assurance engagements

An auditor that is asked to issue an opinion about a particular audit object has two options with regard to distributing the resulting information: in a management report (limited distribution), or by giving permission to let the audit report be made public. The difference between these two options is greater than it may seem at first sight. With respect to the option of issuing a management report, the management is familiar with the issue and the background of the engagement. The auditor, therefore, can be invited to provide additional explanations with the report. Of course, this is not possible when dealing with the general public. Consequently, an auditor can't certify everything. In this context, international accountancy firms are developing their web assurance services based on the Statements on Standards for Attestation Engagements (SSAE) published by the American Institute of Certified Public Accountants (AICPA).

Not all issues are unequivocally eligible for auditor certification. One of the SSAE principles is that the selected audit objects must meet the following four criteria: completeness, measurability, objective verifiability, and relevancy (table 1).

It is important to bear in mind that a statement on a website suggests something about the present, while the audit always contains information about a situation in the past. Another important requirement involves the date of the statement: is it recent? These statements will consequently have to be renewed from time to time, which also means that additional audit activities will have to be performed. The status of a trust issue is far from static, and drastic changes can take place in just a short time. For this reason, a statement of certification will have to include a 'valid from/to' date. In addition, the engagement must also include agreements that audit activities are (partially) repeated regularly, or that the certification is removed once its expiration date has been exceeded.

Criteria	Objective	Example
Completeness	A complete set of objects means that a single object cannot be examined independently, if it and another object are logically interdependent.	Take privacy, for example. A good privacy statement means nothing if the server on which the information is stored is not secure. Therefore, policy and the actual measures taken are logically interdependent.
Measurability	It must be reasonably possible to assess the object.	It is reasonably possible to assess the extent of security (such as with respect to best practice). However, the integrity and independence of the management cannot be unequivocally assessed. These aspects are not (easily) measurable.
Object verifiability	All professional auditors would reach the same conclusion in approximately the same way.	There must be a proper control programme for the selected criteria.
Relevance	Is the certified object relevant to a third party?	Having an auditor certify irrelevant information may divert attention from truly relevant information.

Table 1. Criteria for web assurance services

WebTrust

WebTrust is an attestation service based specifically on the Statement on Standards for Attestation Engagements. In the context of WebTrust[4], Financial and ICT auditors work together and provide services as trusted professionals in the new economy, particularly as web-assurance providers. Objects included in the domain of WebTrust include: privacy regulations and privacy control procedures, the security of Internet communication, the reliability of an Internet retailer, compliance with the general terms and conditions. The audit can result in a seal of certification and auditor's report on the website, and must be reviewed regularly. WebTrust is part of a range of web assurance services, initiated by the AICPA. These services include; WebTrust for Certification Authorities (CA Trust), WebTrust for application and Internet services providers (ASP/ISP Trust).

4) See the article bij M. de Haas, *Vertrouwen in Internet, een rol voor de Financial Auditor?* (Trust in the Internet, a role for the Financial Auditor?), de Accountant, October 1999.

Although the Internet offers many examples of web assurance, there is no generally accepted definition available at present.

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Conclusion

On the Internet, in general, a significant amount of trust can be established as the result of a performance of the company ('trust, but verify!'). However, the question remains: How can Party A entice Party B to enter into a trust-based relationship? In practice, experience has shown that trust issues can easily be resolved if Party A has well-established (off-line) brand. However, there are many companies are not in such a privileged position. Furthermore, not all organisations that have a proven image, a familiar name and a business concept, operate on the Internet.

Needless to say, many organisations will have to put extra effort into convincing an unknown party of the company's integrity and its proper internal control system. Web assurance services and statements on the website can be seen as a form of voluntary openness and currently primarily serve a marketing objective. However, there are many signs in the market that this situation will soon change. A way of distinguishing oneself is crucial, in view of rapid changes in traditional and e-markets. Having the essential aspects of the business case certified provides additional assurance to the management and generates additional trust for external stakeholders.

And yet, fundamentally, digital reporting is not just about financial reporting, but about communicating meaningful content. To today's savvy *investor, creditor and analyst, this means viewing leading indicators from* a balanced scorecard: i.e., benchmarking and other metrics that indicate an *organisation's true performance. Such measurements, often called 'Critical* Success Factors' (CSFs) might include: how much time, on average, it takes *to acquire a customer, how long that customer stays loyal to the company's* product, what kind of inventory ratios a company may have, and so forth. *This really is business reporting.*[5]

5) Zachary Coffin, *Digital reporting: Why every company is a digital media company*, White paper, October 2000.

Hyperlinks for examples of web assurance services from accountancy firms:

- E-LOAN – Privacy Assurance: http://www.e-loan.com/
- MrFinch – Customised disclosures: http://www.mrfinch.nl/
- Well o Well – Customised disclosures: http://www.wellowell.nl
- Expedia.com – Customised disclosures: http://www.expedia.com
- //Hot-Orange – WebTrust: http://www.hot-orange.com/
- MetalSite.com – Report: http://www.metalsite.com/
- DoubleClick – Revenue assurance: http://www.doubleclick.com
- Riverbelle Casino – Pay-out ratio assurance: http://www.riverbelle.com/
- FREELOTTO – Pay-out assurance: http://www.freelotto.com/
- Pharaoh's Casino – Pay-out assurance: http://www.pharaohscasino.com/

Financial Auditors profit from Internet consumers' mistrust

Almost every web retailer understands that protecting its customers' privacy should be a top priority. They also realise it is necessary to convince potential customers that they can safely type in their personal details, without fearing that this information will made publicly available the next day, or sold on to someone else. Nevertheless, how do you convince potential customers of this? By engaging the services of an Financial Auditor. Hundreds of sites have recently had their systems and back offices screened by teams of Financial Auditors to determine if business is being conducted according to the site's published privacy conditions. Only a few of these companies actually show off their stamp of approval. One such company is e-loan, a website offering personal finance products, which also provides an extensive explanation of its Financial Auditor's opinion of its privacy policy. Expedia.com, one of the largest sites in the field of travel, is today starting to publicise that it has had the site's processes audited by the accountancy firm PricewaterhouseCoopers. The company's hope is that the public will assume that their credit card numbers, addresses and other personal information are secure. Observant consumers will probably bring still more doubts to light. In any case, it's a strange situation: an Financial Auditor can never be completely objective and interest free – he or she is, of course, being paid by the company – but the stamp of approval certainly gives the impression that an objective investigation has been conducted. The issue of privacy certificates is not new: there are various 'seals' circulating on the internet, stamps of approval that have been awarded to websites that operate meticulously according to their conditions. TRUSTe is probably the most well known of these. Financial Auditors rightly point out that receiving one of these seals does not actually involve the performance of an investigation by professional auditors. Financial Auditors, however, do perform such activities, and see new and greener pastures emerging for their audit business. Now let's just hope they aren't too flexible in their assessment and don't allow their commercial interests to prevail above a sound professional audit.

Nart Wielaard
in *Fem de Dag*, September 19, 2000.