1999

Auto dealership industry developments - 1999/2000; Audit risk alerts

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Auto Dealership Industry Developments—1999/2000

Notice to Readers

This Audit Risk Alert is intended to provide auditors with an overview of recent economic, technical, and professional developments that may affect the audits they perform. This document has been prepared by the AICPA staff. It has not been approved, disapproved, or otherwise acted on by any senior technical committee of the AICPA.

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Auto Dealership Industry Developments—1999/2000

Introduction

What is the purpose of this Audit Risk Alert?

This Audit Risk Alert is intended to help auditors plan their 1999 year-end audits of dealerships. Although this Alert focuses on the automobile dealership, the topics discussed often can be applied to other types of dealerships, including boats, heavy trucks, farm machinery, and recreational vehicles.

The most prevalent forms of dealerships found today include—

- *Franchised dealerships.* A vehicle manufacturer or factory gives a dealer the right to market its vehicles through a franchise agreement.
- *Manufacturer-owned dealerships.* In response to competition from retail chains and automotive superstores, many manufacturers are selling directly to the public through their own dealerships.
- *Retail chain dealerships (private and publicly held).* Retail chains are formed when dealerships are purchased and consolidated by an entity.

Franchised dealerships are the most common form of dealership; there are more than 19,500 franchised automobile dealers in the United States. They purchase new vehicles from the manufacturer or factory with whom they have the franchise agreement. The individual franchise agreements determine the specific characteristics of the dealership. Auditors of franchised dealerships should become familiar with the franchise agreement so they can identify those matters that may have accounting or disclosure implications for the dealership.

Industry and Economic Developments

What do dealerships look like today? What are the current economic conditions dealerships are facing?

Automobile sales constitute a significant portion of the U.S. economy. In fact, auto dealership sales represent roughly 20 percent of the total U.S. gross domestic product.[1] In 1998, total dollar sales of all franchised new car dealerships rose to a new record of $534 billion, and more than 15.5 million new cars and light trucks were registered in the United States.[2] Even though in the past few years much of the dealership profits came from used vehicle sales and service and parts departments, 1998 saw new vehicle sales increase 7 percent, contributing nearly 30 percent to total profit at the average dealership. Used vehicle sales increased 4 percent in 1998, totaling $19.3 million.[3]

The number of franchised car dealerships has continued to decline at the expense of small-volume dealerships. This trend is expected to continue, especially in the wake of industry consolidation. According to *Automotive Executive Magazine*, in 1979 more than 11,500 dealerships had fewer than 150 new-vehicle sales per year; today there are only 4,256 such dealerships (this is down from 4,600 last year). In contrast, today more than 5,800 dealerships sell more than 750 new vehicles per year, whereas fewer than 4,000 such dealerships existed in 1987.[4]

As the auto industry continues to consolidate, fewer but larger franchised new-vehicle dealerships are being created, mainly to increase operating and market efficiencies. The National Automobile Dealers Association (NADA) reports that larger dealers earn an average $207 per new vehicle, compared with a loss of

[1] *Automotive Executive Magazine* (August 1999): 9.

[2] *Automotive Executive Magazine NADA Data 1999* (August 1999): 29-59.

[3] Statement on Auditing Standards (SAS) No. 56, *Analytical Procedures* (AICPA, *Professional Standards*, vol. 1, AU sec. 329), requires the use of analytical procedures in the planning and overall review stages of all audits. Statistical information of the type shown may be useful to auditors in applying the provisions of SAS No. 56.

[4] *Automotive Executive Magazine NADA Data 1995*: 29; and *NADA Data 1998* and *NADA Data 1999*.

$66 per new vehicle at smaller dealerships. This difference is attributed to economies of scale in such factors as advertising, personnel, and floor planning.

With the U.S. economy's continued growth during 1999 and consumer confidence remaining high, the demand for new vehicles has continued to climb. According to the NADA, "the demand for new vehicles has hit new levels, resulting in record-breaking sales for the nation's franchised new-car and -truck dealers ... NADA expects 1999 light-vehicle sales to surpass the 16 million unit mark, shattering the all-time sales record set in 1986. 1999 is on-track for the best sales year ever."

Given the interrelationship of automobile sales and the economy, auditors of dealerships will benefit from having an understanding of general economic conditions. Vehicle sales have benefited from a strong U.S. economy. The strong historical relationship between consumer confidence and automobile sales continues. With consumer confidence at record highs during 1999, with interest rates remaining near historically moderate levels (although they inched up during the year), and with the continued low inflation and low unemployment, the demand for new vehicles has hit new levels, breaking sales records. The following lists some key statistics[5] relating to the overall performance of the U.S. economy:

- Gross Domestic Product (GDP)—which measures the output of goods and services produced by labor and property located in the U.S.—surged to 6.1 percent in the final quarter of 1998 (the fastest growth rate of the 1990s). GDP then moderated to 4.3 percent in the first quarter of 1999, 2.3 percent in the second, and 4.8 percent in the third. Estimated annualized GDP for 1999 is 3.5 percent.

- Consumer confidence levels were at record highs. For example, consumption of goods and services increased 6.8 percent in the first quarter of 1999.

[5] SAS No. 56 requires the use of analytical procedures in the planning and overall review stages of all audits. Statistical information of the type shown may be useful to auditors in applying the provisions of SAS No. 56.

- Unemployment dropped to 4.2 percent in September, a twenty-nine year low. Inflation remained low at about 2½ percent.
- The Dow Jones Industrial Average (DJIA) broke through the 10,000 threshold, reaching record highs over 11,000 at some points in the year.
- Interest rates inched up during the year but remained near historically moderate levels. The prime rate (the rate many banks charge their top customers, and to which other interest rates are often linked) reached 8.25 percent, and thirty-year fixed mortgage rates remained under 8 percent. The Federal Reserve raised its federal funds rate (the interest rate at which banks lend to each other overnight) during 1999 to 5.25 percent from 4.75 percent.

Generally, observers believe the positive conditions will continue into the year 2000, giving us yet another year of economic expansion.[6]

The publicly held dealership groups, such as AutoNation, Group 1 Automotive, Lithia Motors, and Sonic Automotive, have continued their aggressive acquisition of dealerships and although their earnings are good, their stock has not performed as well. With the DJIA climbing past 10,000, and inching up over 11,000 at some points in the year, the performance of automotive stocks have been mixed. It is questionable how well they will continue to perform. One key factor that Wall Street appears to look for is same-store sales. As such, some dealerships are offering more benefits to their customers to try to lure customers back. For example, one large public dealership group has opened a gas station and is offering discounted gas to customers that have purchased its cars. Also, because of the strong economy over the past six years (generally, the trend toward public ownership of dealerships occurred in that time), automotive stocks have not yet been tested on a downturn, causing investors to shy away from such stocks. Auditors should consider the pressures

[6] For a further discussion of the U.S. economy in general, see *Audit Risk Alert 1999/2000* (product no. 022250kk).

management is under when considering matters relating to an entity's business and industry. Auditors should be aware that Statement on Auditing Standards (SAS) No. 82, *Consideration of Fraud in a Financial Statement Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 316), points out risk factors that may indicate an increased risk of fraudulent financial reporting. Specifically, SAS No. 82 says that an excessive interest by management in maintaining or increasing an entity's stock price or earnings trend through the use of unusually aggressive accounting practices may indicate an increased risk of fraudulent financial reporting. When risk factors are identified, professional judgment should be exercised when assessing their significance and relevance (see SAS No. 82 for a list of additional fraud risk factors). As you assess the risk of material misstatement, keep in mind that the presence of a risk factor should not be considered in isolation, but rather in combination with other risk factors and conditions or mitigating circumstances. Auditors should become familiar with the requirements of SAS No. 82 when considering risk factors in assessing the risk of material misstatement of the financial statements due to fraud. For a further discussion about fraud, see the "COSO's Fraud Research Report" section of this Audit Risk Alert.

In addition to the national economy, auditors should also consider the local economy and the strength of the brand name. Significant local developments may affect dealership performance. Certain regions may be vulnerable to economic downturns in major local industries. Other regions may be susceptible to various natural disasters. For example, the recent floods in North Carolina have destroyed or severely damaged some dealerships. Whenever a dealership operates in an area that is experiencing such economic pressures, new car sales are likely to suffer.

High employee turnover is a continuing problem for dealers. According to *Automotive Executive Magazine*, the average annual turnover rate for franchised dealerships is 43 percent. Auditors should keep this in mind when considering internal control in planning the audit in accordance with SAS No. 55, *Consideration of Internal Control in a Financial Statement*

Audit, as amended by SAS No. 78 (AICPA, *Professional Standards*, vol. 1, AU sec. 319). SAS No. 55 says that risks relevant to financial reporting include external and internal events and circumstances that may occur and adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. New personnel was one example cited.

In light of the discontinuance of the Eagle brand by Chrysler, auditors may also want to look at the number of brands carried at the dealership. If a dealership has only one brand of vehicle, it is dependent upon that factory for its existence. In such circumstances, auditors should be aware of their responsibilities pursuant to SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*, vol. 1, AU sec. 341). In addition, auditors should consider whether management has made appropriate financial statement disclosures of such concentrations in the available source of supply materials pursuant to Statement of Position (SOP) No. 94-6, *Disclosure of Certain Significant Risks and Uncertainties.*

The recent announcement by Ford to sell cars online on Microsoft's CarPoint Web site is another example of the continued changes to the auto dealership industry. This alliance positions Ford to be able to build cars according to orders taken online and reduces the roll of the dealership to one of financing and delivery of vehicles.

Executive Summary—Industry and Economic Developments

- The number of franchised car dealerships continues to decline.
- Total dollar sales of all franchised new car dealerships rose in 1998 to a record $534 billion.
- The auto industry continues to consolidate, increasing operating and market efficiencies.
- The demand for new vehicles has hit record levels as consumer confidence remains high.
- Robust economic growth continued in 1999.
- Key economic statistics clearly show the overall health of the economy.

Competition

What competition do dealerships face today that is relevant to audits of dealerships?

This year has seen continued consolidation of the industry, as more large dealerships are created and competition continues to intensify. Traditional dealerships are facing competition from used-car superstores, Internet shopping, factory-dealer partnerships, and public dealership groups. When planning the audit, auditors should consider SAS No. 22, *Planning and Supervision* (AICPA, *Professional Standards*, vol. 1, AU sec. 311). SAS No. 22 states that, when planning an audit, the auditor should consider other matters, such as accounting practices common to the industry, competitive conditions, and if available, financial trends and ratios. In addition, SAS No. 82 indicates that the presence of a high degree of competition or market saturation, accompanied by declining margins, may indicate an increased risk of fraudulent financial reporting. Keep in mind that when risk factors are identified, professional judgment should be exercised when assessing their significance and relevance (see SAS No. 82 for a list of additional fraud risk factors). See the "COSO's Fraud Research Report" section of the Audit Risk Alert for a further discussion of fraud.

Some Competitive Forces

Used-Car Superstores

The past year has seen many used-car superstores now entering the new-vehicle market and starting to look similar to traditional dealerships. A national study conducted by the Dohring Company, Inc. found that the effect of used-car superstores on competition seems to have leveled out, and consumer willingness to buy from a used-car superstore has dropped significantly. The study also found that new-car dealers with a manufacturer's certified program could effectively compete with the superstores.

Internet Shopping

Dealerships face increasing competition from Internet shopping with no-haggle pricing. One public dealership group has launched the first online new-car buying service. This Web site allows users to browse an inventory of cars and prices, twenty-four hours a day, seven days a week. This service is updated daily and has dedicated online sales consultants. Other Web sites that have grown in popularity for buying and selling new and used cars include www.autobytel.com, www.autoconnect.com, www.Autostop.com, www.autovantage.com, www.autoweb.com, www.cars.com, www.CarSmart.com, and www.DealerNet.com. Many of these Web sites do not sell the cars online (or cannot sell the cars online due to state laws) but help customers find a specific vehicle by forwarding a customer's inquiry to a participating dealership. A dealer from the dealership usually follows up with the customer. Many dealers are finding themselves left behind if they do not have a Web site, and therefore more dealerships are establishing Web sites, even if just to display information on new- and used-vehicle inventories, financing, parts and service specials, and hours of operation.

Auditors whose clients use the Internet should be aware of two areas of potential risk. The first relates to the confidentiality of information that the entity transmits and receives over the Internet. Although this risk often would not relate to audit risk, it could represent a significant business risk to the entity. Electronic mail and data transferred over the Internet may be subject to electronic eavesdropping. Sensitive data may need to be protected using encryption hardware or software facilities that are widely available on the market.

The second area of risk relates to the potential exposure of the entity's computer systems and data to intrusion by other users of the Internet. This is also primarily a client business risk, but it may also affect audit risk if financial systems and data are corrupt or lost. Access controls or other security measures are advisable to protect user systems from viruses and the like. See the "Electronic Commerce" section of this alert for further discussion.

Help Desk—As more dealerships establish Web sites, you may want to become familiar with the assurance service called CPA WebTrust™, as an additional service you can offer to your clients. CPA WebTrust is an electronic commerce assurance service designed to build consumer trust and confidence in conducting electronic commerce over the Internet. See the "Assurance Services" section of this Alert for further discussion of assurance services.

Factory-Dealer Partnerships

The relationship between the dealers and the factory is more important than ever, as factories can exert tremendous pressure on a dealer. Factory-dealer partnerships are a growing concern for dealerships. Dealerships can lose revenue if they cannot meet customer demands because they are unable to obtain a certain type of vehicle. The recent announcement by General Motors to create a subsidiary that will reacquire dealerships may affect competition significantly. What was once just a factory is now becoming a retailer and changing the face of the dealership industry. How can a small dealership compete with the manufacturer and distributor of its product? In such circumstances, auditors should be aware of their responsibilities under SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*, vol. 1, AU sec. 341). SAS No. 59 discusses the auditor's responsibilities when there is substantial doubt about an entity's ability to continue as a going concern. SAS No. 59 says that information that would contradict the going-concern assumption include the inability to meet obligations as they become due without substantial disposition of assets outside the ordinary course of business, restructuring of debt, externally forced revisions of operations, or similar actions. Auditors should also consider whether management has made appropriate financial statement disclosures relating to certain concentrations as noted in paragraphs 20 through 24 of SOP 94-6, *Disclosure of Certain Significant Risks and Uncertainties*. When planning the audit, you may want to consider inquiring about the dealer's relationship with the factory with such questions as—

1. How are the dealership customer satisfaction index[7] (CSI) and service satisfaction index[8] (SSI)?
2. Has the dealership been receiving proper inventory allotments?
3. Has the factory indicated any desire to make leasehold improvements or major renovations to the dealership facilities?
4. Is the factory suggesting any realignment of products to meet factory desires?
5. Has the factory requested that the dealership move locations?

In March 1999, the NADA announced adoption of a policy regarding factory–dealer partnerships. Noting that changing marketing strategies and consolidations have increased interest in factory–dealer partnerships, the NADA is calling for manufacturers participating in factory–dealer partnerships to treat all dealers fairly. In October 1999, the NADA's board of directors unanimously approved a resolution "asserting staunch opposition to vehicle manufacturer ownership or control of dealerships." The NADA said it "will take all appropriate actions, including support for state legislative initiatives, to prevent manufacturers from owning or controlling dealerships other than through bona fide programs."

Public Dealership Groups

Another trend facing the industry is the purchasing of independent dealerships by publicly held retail chains. In fact, one large dealership group acquired more than twenty-eight dealerships in 1999, with agreements to acquire at least thirteen more (involving numerous franchises). Even though there are a large amount of acquisitions occurring, they are being made by a small group of consolidators. There have been very few new

[7] The customer satisfaction index (CSI) evaluates customer service performance of a dealership via a poll performed by the manufacturer.

[8] The service satisfaction index (SSI) is similar to CSI.

entrants into the dealership industry. Because of the large amount of acquisitions occurring, many dealerships are now having audits done to make themselves more appealing to purchasers. See "The Need for an Audit" section of the Audit Risk Alert for further discussion.

Executive Summary—Competition

- The effect of used-car superstores on competition seems to have leveled out, as consumers are less willing to buy from such stores.
- Dealerships will be left behind if they do not establish Web sites.
- Factory–dealer partnerships are a growing concern to dealerships.

COSO's Fraud Research Report

What is the COSO's fraud report? How can you benefit by understanding the report's findings? What are your responsibilities to detect fraud in a financial statement audit? What are some examples of frauds found in dealerships?

Fraudulent Financial Reporting: 1987–1997, An Analysis of U.S. Public Companies, released in March 1999 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), provides an analysis of fraudulent financial reporting investigated by the Securities and Exchange Commission (SEC). COSO's stated intent in issuing this report is to foster a better understanding of the nature and causes of financial statement fraud, thus guiding future efforts to combat the problem.

By examining incidents of fraudulent financial reporting from the SEC Accounting and Auditing Enforcement Releases (AAERs) issued from January 1987 through December 1997, this report provides some valuable insights into financial reporting fraud by identifying who commits the fraud, what kind of fraud is committed, and the implications to auditors. You may find these insights to be useful in helping to better understand, and fulfill, certain requirements of SAS No. 82. For example, armed with an understanding of the environment in which fraud is commonly perpetrated, the methods typically used to carry out fraud, and the financial statement accounts most often affected, you may find that you are better equipped to assess the risk of material misstatement due to fraud on the audit engagements you perform.

> Help Desk—See *Audit Risk Alert 1999/2000* (Product No. 022250kk) for a more in-depth discussion of this report, including some of the report's significant findings. The complete report, *Fraudulent Financial Reporting: 1987–1997, An Analysis of U.S. Public Companies* (Product No. 990036kk), can be obtained by calling the AICPA order department (member satisfaction) at (888) 777-7077. The price is $20 for members.

The COSO fraud report and recent highly publicized instances of fraudulent financial reporting serve as reminders to auditors of the need to remain alert to possible instances of fraudulent activity and to maintain an appropriate attitude of professional skepticism. A number of prominent fraud cases reported have involved either management fraud or deliberate deceit by management in working with their auditors. Some of the more common audit issues identified in recent litigation related to fraudulent financial reporting included the following:

- A willingness by the auditor to accept management's representations without corroboration
- Allowing the client to unduly influence the scope of auditing procedures
- The failure to identify risky situations or ignoring identified audit risks by not applying professional skepticism and revising auditing procedures appropriately

Auditors are not responsible for detecting fraud per se; however, auditors do have a responsibility to plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement, whether caused by error or fraud. The issuance of SAS No. 82 did not change the auditor's responsibility with respect to fraud, but was designed to help auditors to fulfill their responsibility to detect material misstatements of financial statements caused by fraud. Among other things, the standard—

- Describes the characteristics of fraud. The more the auditor knows about the nature of fraud, the better he or she will be equipped to identify risk factors, assess the risk of material misstatement due to fraud, and develop an appropriate audit response.
- Requires the auditor to make an assessment about the risk of material misstatement due to fraud, from the perspective of the broad categories listed in SAS No. 82. The assessment is separate from, but may be performed in conjunction with, other risk assessments made during the audit. The SAS also requires the auditor to reevaluate the assessment if other conditions are identified during the fieldwork.
- Provides examples of fraud risk factors that, when present, might indicate the presence of fraud.[9]
- Requires the auditor to document evidence of the performance of the fraud risk assessment, including risk factors identified as being present and the auditor's response to those risk factors.
- Requires the auditor to communicate to management at the appropriate level and, in certain circumstances, directly with the audit committee.

The presence of a fraud risk factor, or even many fraud risk factors, does not always mean that there has been a fraud. It may, however, indicate the presence of a fraud. The examples of fraud risk factors in SAS No. 82 were developed from research on known frauds and have often been observed in circumstances involving fraud.

Help Desk—For additional guidance on SAS No. 82, you may wish to refer to the AICPA Practice Aid *Considering*

[9] When risk factors are identified, professional judgment should be exercised when assessing their significance and relevance. As you assess the risk of material misstatement, keep in mind that the presence of a risk factor should not be considered in isolation, but rather in combination with other risk factors and conditions or mitigating circumstances.

Fraud in a Financial Statement Audit: Practical Guidance for Applying SAS No. 82 (Product No. 008883kk), which walks the practitioner through the issues likely to be encountered in applying the new SAS to audits and provides valuable tools, such as sample documentation. The self-study course *Consideration of Fraud in a Financial Statement Audit: The Auditor's Responsibilities under SAS No. 82* (Product No. 732045kk) also provides additional guidance. In addition, the AICPA publishes *Audit Issues in Revenue Recognition* (Product No. 022506kk), a valuable look at problematic revenue recognition issues discussed from the auditor's perspective.

Some frauds that have occurred in dealerships are—

- Embezzlement by controller and other employees.
- Unexplained shrinkage in parts and accessories.
- Collusion (generally involving trade-ins and auction purchases when a salesperson, in exchange for payment, appraises a trade-in at a higher value or purchases a vehicle at auction at a higher value).

Some management controls that auditors should look for that would mitigate the chance for such frauds include the following:

- Have owners review checks issued, including a timely review of bank statements.
- Limit check-signing to the dealer, general manager, and controller, and require two signatures on all checks.
- Keep vehicle tags and keys in a secured area.
- Maintain strict records to track inventory.
- Visit locations or perform certain tests on a surprise or unannounced basis—for example, perform surprise vehicle inventory counts in the middle of the month.
- Require vacations of employees at least once a year.
- Clear segregation of duties.
- Have managers review write-offs, not just sign them.

Executive Summary—COSO's Fraud Research Report

- COSO's Fraud Research Report provides valuable insights into fraudulent financial reporting by identifying who commits fraud, what kind of fraud is committed, and the implications to auditors.
- SAS No. 82 provides auditors with guidance regarding their responsibility as it relates to fraud.

Audit Issues and Developments

What are some of the significant accounting and auditing considerations for dealerships?

The Need for an Audit

The audit of dealerships is more important than ever! The need for an audit continues to grow as more dealers want to be acquired to "cash-in" on the consolidation trend.

With publicly held dealerships continuing to aggressively purchase private dealerships, the value of target-size dealerships is being driven up. The value of such dealerships is often estimated based on multiples of earnings on the dealerships (resulting in goodwill on earnings and on earnings capacity). Many dealers believe that having audited financial statements will give potential purchasers greater confidence in the reported results, thereby resulting in payments of higher multiples of earnings. Because of this, more dealerships are having audits done. In addition, dealerships may feel more pressure than usual to report strong results. The potential that the financial statements might be used in acquisition negotiations increases the risk to the auditor.

Analytical procedures include the analysis of significant ratios, trends, or modeling, including the resulting investigation of fluctuations and relationships that deviate from patterns expected by the auditor. SAS No. 56, *Analytical Procedures* (AICPA, *Professional Standards*, vol. 1, AU sec. 329), provides auditors with guidance on the required use of analytical procedures in the planning and overall review stages of all audits.

Especially in this period of increased consolidation in the industry, auditors should ensure that analytical procedures performed during these stages are adequately designed to detect evidence that the results being reported have not been artificially inflated. In addition, auditors may use analytical procedures as substantive procedures during fieldwork. It is important to have audit staff with sufficient industry and auditing expertise to perform such analysis, particularly if the results of such analysis may be used to justify a reduction of the use of other substantive auditing procedures. In performing analytical procedures, the auditor compares amounts or ratios with expected results developed from such sources as the following:

- Prior-period financial information
- Budgets or forecasts
- Relationship among elements of financial information in the same period
- Relationship among financial and nonfinancial data
- Industry data compiled by services (for example, Ward's Dealer Business Magazine Database 2000)
- Manufacturer "composites" by brand of vehicle[10]
- A Group of Twenty (A group of twenty generally comprises, at the most, twenty dealers that sell the same type vehicle (that is, the same franchise) and are approximately the same size but are not from the same market area. Because they are not in competition with one another, financial information from each dealership can be freely exchanged. This information is compiled in a monthly composite so each dealer can compare its performance against the other dealerships' performances and against the group average.)

[10] Many manufacturers maintain "composites" by brand of vehicle. Composites are ratios and statistics that dissect the performance of dealers. Auditors may want to ask their clients to obtain the manufacturer composites so that a comparison can be made with the average.

Help Desk—Twenty Groups are sponsored and monitored by a few organizations. Two such organizations are NADA 20 Group and NCM Associates. Other sources of benchmarking information are industry publications and the Internet. In addition, the AICPA Auditing Practice Release (APR) *Analytical Procedures* provides guidance on the effective use of analytical procedures with an emphasis on analytical procedures as substantive tests. This APR can be ordered through the AICPA order department (member satisfaction) at (888) 777-7077, Product No. 021069kk.

Executive Summary—The Need for an Audit

- The need for an audit of dealerships is more important than ever as publicly held dealerships are continuing to aggressively purchase private dealerships.
- SAS No. 56 provides auditors with guidance on the required use of analytical procedures in the planning and overall review stages of audits.

Electronic Commerce

What is electronic commerce? Is there any guidance to assist auditors in following the "paperless" audit trail?

Although electronic commerce (ecommerce) is still in its infancy, it is growing rapidly. The term *electronic commerce* simply refers to business transactions conducted in an electronic environment. *Electronic commerce* is defined as the following:

> Electronic commerce involves individuals as well as organizations engaging in a variety of electronic business transactions, without paper documents, using computer and telecommunication networks. These networks can be public, private or a combination of the two. Traditionally, the definition of electronic commerce has focused on electronic data interchange (EDI) as the primary means of conducting business electronically between entities having a pre-established contractual relationship. More recently however, the definition of electronic commerce has broadened to encompass business conducted over the Internet (specifically the Web)

> and includes entities not previously known to each other. This is due to the Web's surge in popularity and the acceptance of the Internet as a viable transport mechanism for business information.[11]

Dealerships continue to establish Internet sites and although sales from these sites are still low, their popularity is growing. Before long, more vehicles will be sold over the Internet. Automobile sales are projected to result in online revenues of $1.5 billion in the year 2000. When considering internal controls in accordance with SAS No. 55, as amended by SAS No. 78, auditors should be aware that some dealers may outsource the electronic commerce function (called "netsourcing") and therefore some of the controls related to the processing of sales are by third-party processors. Auditors should be aware of the provisions of SAS No. 70, *Reports on the Processing of Transactions by Service Organizations* (AICPA, *Professional Standards*, vol. 1, AU sec. 324), and related interpretations, in such situations.[12] Even as more vehicles are sold over the Internet, dealers are still an integral part of the process of buying a car. Online buyers still look to their local dealerships for information, delivery, and servicing of their vehicles.

Also, most dealerships are connected with factories via electronic order systems for vehicles, parts, and warranty claims. In fact, many manufacturers are embracing ecommerce and are establishing information systems that are Internet based. These systems allow access to dealer data, dealer–factory communications, and competitive sales data. These systems also allow dealers to order, trade, or locate cars. Ultimately all activities in a dealership will be electronic.

[11] This definition is from the WebTrust Principles and Criteria for Business-to-Consumer Electronic Commerce, version 1.1, as promulgated by the AICPA and Canadian Institute of Chartered Accountants (CICA). The publication can be found at the AICPA Web site, www.aicpa.org.

[12] The AICPA Auditing Practice Release (APR), *Service Organizations: Applying SAS No. 70*, provides guidance to auditors engaged to audit the financial statements of an entity that uses a service organization and may be a useful tool. This APR can be ordered through the AICPA Order Department (1-888-777-7077) product no. 021056kk.

Auditors are increasingly confronted with evaluating evidential matter that may exist only in electronic format. In these situations, traditional source documents, such as purchase orders, invoices, and checks issued, have been replaced by electronic communications between the dealership and its customers or the factory. SAS No. 80, *Amendment to Statement on Auditing Standards No. 31*, Evidential Matter (AICPA, *Professional Standards*, vol. 1, AU sec. 326), provides guidance when you are engaged to audit the financial statements of an entity that transmits, processes, maintains, or accesses significant information electronically.

When audit evidence exits only in electronic form, the SAS provides that—

- Consideration should be given to when electronic information will be available in determining the nature, timing, and extent of substantive audit procedures because electronic evidence that is not maintained or "backed up" may be irretrievable after a certain period of time.
- Sole reliance on substantive procedures to reduce detection risk to an acceptable level may not be possible in certain situations where significant information is transmitted, processed, maintained, or accessed electronically. Accordingly, performing tests of controls to obtain evidence when assessing control risk is appropriate.

A common misconception associated with SAS No. 80 is that it requires you to perform tests of controls for computer systems that handle material transactions. This is not a requirement of the SAS, but rather, a matter left to the auditor's professional judgment. SAS No. 80 does indicate that in certain circumstances, where evidential matter exists in electronic form, the auditor may determine that it would not be practical or possible to reduce detection risk to an acceptable level by performing only substantive tests. SAS No. 80 provides that in such circumstances, the auditor should perform tests of controls to support an assessed level of control risk below the maximum for affected assertions.

The AICPA Auditing Procedure Study (APS) *The Information Technology Age: Evidential Matter in the Electronic Environment* provides auditors with nonauthoritative guidance on implementing SAS No. 80. The APS describes electronic evidence and its implications. Two case studies are presented to illustrate the ways in which an auditor might approach auditing an entity if the electronic environment and the use of information technology significantly affects information and transactions. The audit strategies and related procedures described present how an auditor might address electronic evidence in a particular engagement. Other relevant APSs include *Audit Implications of Electronic Data Interchange and Audit Implications of Electronic Document Management.* See the "Order Information" section of this Audit Risk Alert for how to order these publications.

Executive Summary—Electronic Commerce

- Electronic commerce refers to business transactions conducted in an electronic environment.
- Dealers are continuing to embrace ecommerce and are establishing Web sites. More vehicles are being sold online.
- Dealerships are also using Internet-based information systems that allow them to communicate with the factory and to order, trade, or locate vehicles and parts.
- SAS No. 80 provides auditors with guidance when engaged to audit the financial statements of an entity that transmits, processes, maintains, or accesses significant information electronically.

Subprime Loans

Financing for high-credit-risk customers, or *subprime loans*, are a continuing trend in the finance and insurance (F&I) area. Subprime loans are usually high-risk, high-yield loans offered to customers that would not qualify for traditional loans. Many financial institutions specialize in subprime loans. Because the majority of these loans are sold to the financial institution specializing in subprime loans, the dealership itself may have no exposure to risk of nonpayment. However, the auditor should closely review the terms of the arrangements between the dealer and the financial institution to ensure that such risk is indeed completely transferred. Many dealers are getting out of the subprime lending area; however, others are setting up separate finance companies to try to reap the benefits from this type of lending. Oftentimes, a dealer can repossess and then resell the same car a few times and generate a significant profit. If the dealership were to enter into subprime lending itself or undertake certain obligations in case of customer default, this would then become an area with a high level of audit risk.

The Year 2000 Issue

What is the Year 2000 Issue, and how will it affect your audits?

By now, you are aware of the Year 2000 Issue and its potential to adversely affect dealership operations that rely directly, or indirectly, on information technology. It is of interest to note that recently, one state issued titles to some 2000 model cars with the vehicle identified as a "horseless carriage." The state computer read the year 2000 as 1900 and issued the title designation used for vintage vehicles produced before 1916.

Automobile dealerships face unique Year 2000 Issues that may affect the entire entity. The Year 2000 Issue is not necessarily limited to computers but may extend to other equipment with embedded computer chips that are date sensitive. In addition to the dealership's main computer systems, such as the management system that supports the operations of the dealership, and the communication systems used to share information with manufacturers (such as ordering vehicles or parts and submitting financial statements), dealerships have many small systems, within the various departments, that should be considered when reviewing for year 2000 compliance. Such systems include—

- Vehicle and parts inventory.
- Finance and insurance.
- Customer tracking (including service and new and used car departments).

- Customer credit checking.
- State emission inspection equipment.
- Parts locator and ordering.
- Vehicle service equipment and service systems.

The NADA has issued a guide, *A Dealer Guide to Resolving the Year 2000 Problem* (Guide BM.19), to help dealerships assess the scope of the year 2000 computer problems. If the dealership has not made some contingency plans for the effects of the year 2000 problem, the NADA has issued *A Dealer Guide to Contingency Planning for the Year 2000 Problem.* To order these guides, call NADA Management Education at (800) 252-6232, extension 2.

Auditors of publicly held companies should consider the guidance set forth by the SEC in its Interpretation "Statement of the Commission Regarding Disclosure of Year 2000 Issues and Consequences by Public Companies, and Municipal Securities Issues." See *Audit Risk Alert 1999/2000* (Product No. 022250kk) for a summary of this Interpretation or visit the SEC Web site at www.sec.gov.

As an auditor, what are your responsibilities for the Year 2000 Issue? First, it must be understood that it is the responsibility of an entity's management—not the auditor—to assess and remediate the effects of the Year 2000 Issue on an entity's systems. The Year 2000 Issue does not create additional responsibilities for the auditor. Under generally accepted auditing standards (GAAS), the auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Thus, the auditor's responsibility relates to the detection of material misstatement of the financial statements being audited, whether caused by the Year 2000 Issue or by some other cause.

As part of the audit planning process, auditors may wish to inquire about any changes their client anticipates in such items that might have an effect on the audit (for example, timing of inventory observations), and consider the possible effect such items may have on the nature, timing, and extent of planned audit procedures (for example, historical analytical relationships may be different because of changes in normal business practices). Auditors also should anticipate that changes in normal business practices may also represent additional accounting or disclosure issues. Further, auditors should consider whether any year 2000-related events have occurred subsequent to the balance-sheet date but prior to the issuance of the financial statements and the auditor's report that require adjustment or disclosure in the financial statements. Examples of such events and how companies should account for them are discussed in EITF Issue No. 99-11, *Subsequent Events Caused by Year 2000.*

> Help Desk—As this publication went to press, the FASB's Emerging Issues Task Force (EITF) was discussing but had not reached a consensus on Issue No. 99-11. The issue is when costs or losses associated with year 2000 failures that are detected subsequent to the balance-sheet date but prior to the issuance of financial statements should be recognized. The issue provides several cases to illustrate how various transactions could be affected by year 2000 failures. The types of transactions include warranty, receivables from product sales, loans, inventory, capitalized software costs, long-lived assets, contracts to provide services, litigation for lost profit or loss of business, insurance policies, and sales with the right of return. Auditors may wish to visit the FASB Web site at www.fasb.org to monitor the status of this guidance.

Auditing guidance relating to the Year 2000 Issue has also been developed by the Auditing Issues Task Force (AITF) of the Auditing Standards Board (ASB). The AITF has issued the following Auditing Interpretations:

- Interpretation No. 4, "Audit Considerations for the Year 2000 Issue," of SAS No. 22, *Planning and Supervision* (AICPA, *Professional Standards*, vol. 1, AU sec. 9311.38), discusses the auditor's responsibility for the Year 2000 Issue, how it affects planning for an audit of financial statements conducted in accordance with GAAS, and in what circumstances the Year 2000 Issue may result in a reportable condition under SAS No. 60, *Communication of*

Internal Control Related Matters Noted in an Audit (AICPA, *Professional Standards*, vol. 1, AU sec. 325).

- Interpretation No. 3, "Responsibilities of Service Organizations and Service Auditors With Respect to Information About the Year 2000 Issue in a Service Organization's Description of Controls," of SAS No. 70, *Reports on the Processing of Transactions by Service Organizations* (AICPA, *Professional Standards*, vol. 1, AU sec. 9324.19–.31), clarifies the responsibilities of service organizations and service auditors with respect to information about the Year 2000 Issue in a service organization's description of controls. This Interpretation is being amended to further clarify a service auditor's responsibility with respect to design deficiencies that the service auditor becomes aware of that did not affect processing during the period covered by the service auditor's examination, but did result in incorrect processing during the subsequent events period and could affect user organizations. The amended Interpretation is expected to be available on the AICPA Web site in November 1999.
- Interpretation No. 2, "Effect of the Year 2000 Issue on the Auditor's Consideration of an Entity's Ability to Continue as a Going Concern," of SAS No. 59 (AICPA, *Professional Standards*, vol. 1, AU sec. 9341.03–.27), provides guidance regarding the identification and evaluation of conditions and events of the type identified in SAS No. 59 that relate to the Year 2000 Issue.

In addition, the AITF issued Attestation Interpretation No. 1, "Consideration of the Year 2000 Issue When Examining or Reviewing Management's Discussion and Analysis," of Statement on Standards for Attestation Engagements (SSAE) No. 8, *Management's Discussion and Analysis* (AICPA, *Professional Standards*, vol. 1, AT sec. 9700.01–.17), which provides guidance on the practitioner's responsibility with respect to year 2000 disclosures.

Auditors should be aware of the many auditing and accounting issues that arise from the Year 2000 Issue, including audit planning, going-concern issues, establishing an understanding with the client, impairment, revenue and expense recognition, and disclosure. A more comprehensive discussion of this topic can be found in *Audit Risk Alert 1999/2000* (Product No. 022250kk) and the AICPA Publication, *The Year 2000 Issue—Current Accounting and Auditing Guidance* (available free of charge at the AICPA's Web site at www.aicpa.org/members/y2000/intro.htm.) The AICPA Web site provides a year 2000 resource page with links to many useful sites as well.

Year 2000 Interpretation on SAS No. 70 Being Considered

The Auditing Standards Board is reviewing an Interpretation of SAS No. 70, *Reports on the Processing of Transactions by Service Organizations*, which provides guidance on a service auditor's reporting responsibility when he or she becomes aware that a service organization's computer programs, which correctly processed data during the period covered by the service auditor's examination, did not correctly process data subsequent to the period covered by the service auditor's examination and before the date of the service auditor's report (the subsequent events period) because of the Year 2000 Issue. The proposed Interpretation states that since SAS No. 70 does not apply to design deficiencies that potentially could affect processing in future periods, the service auditor would not be required to report such design deficiencies in his or her report. However, potential processing problems differ from processing problems that have actually occurred and came to the service auditor's attention during the subsequent events period. Therefore, if a service auditor becomes aware of such problems, the service auditor should determine whether management has disclosed that information in section 4 of the service auditor's report, "Other Information Provided by the Service Organization." If management has not disclosed that information, the service auditor should include that information in section 3 of the service auditor's report, "Information Provided by the Service Auditor," and should consider adding a paragraph to his or her report highlighting the disclosure. If management has disclosed that information in section 4 of the service auditor's report, the service auditor should disclaim an opinion on that information because it is not covered by the service auditor's report. Auditors should be alert to the issuance of a final Interpretation.

In addition, Internet Web sites that might provide useful year 2000 information to auditors include the following:

- The National Bulletin Board for the Year 2000—www.year2000.com
- Management Support Technology—www.mstnet.com/year2000
- AICPA, links to other sources—www.aicpa.org/members/y2000/sources.htm

Executive Summary—The Year 2000 Issue

- Unless corrective actions are taken, the year 2000 may cause accounting and financial information systems to produce inaccurate date-related output.
- The AITF has issued Interpretations providing guidance to auditors on the Year 2000 Issue.
- Auditor's should consider guidance on client accounting being developed by the EITF in Issue No. 99-11, *Subsequent Events Caused by Year 2000.*
- Many auditing and accounting issues arise from the Year 2000 Issue, including audit planning, going-concern issues, establishing an understanding with the client, impairment, revenue and expense recognition, and disclosure. A more comprehensive discussion of this topic can be found in *Audit Risk Alert 1998/99.*
- As we went to press, a Year 2000 Interpretation on SAS No. 70 was being considered by the Auditing Standards Board.

Independence

The Independence Standards Board's First Standard

What is the Independence Standards Board? Has it issued any standards that you must follow?

The Independence Standards Board (ISB) was established in May 1997 as part of an agreement between the AICPA and the SEC. Its charge is to establish, maintain, and improve independence standards for external auditors of SEC registrants. Although the SEC retains its statutory authority to define independence, it recognizes the responsibility of the ISB in establishing independence standards and interpretations for auditors of public entities. The SEC also considers principles, standards, interpretations, and practices issued by the ISB as having substantial authoritative support.

ISB pronouncements apply to auditors of publicly held entities only. The functioning of the ISB does not affect the authority of state licensing or disciplinary authorities regarding auditor independence. Also, it does not affect the AICPA rules on independence as they relate to audits of nonpublic entities.

The ISB adopted its first standard this year. ISB Standard No. 1, *Independence Discussions with Audit Committees*, requires auditors of public companies, at least annually, to—

- Disclose to the audit committee of the company (or the board of directors if there is no audit committee), in writing, all relationships between the auditor and its related entities and the company and its related entities that in the auditor's professional judgment may reasonably be thought to bear on independence.
- Confirm in the letter that, in its professional judgment, it is independent of the company within the meaning of the Securities Acts.
- Discuss its independence with the audit committee.

This Standard is effective for audits of companies with fiscal years ending after July 15, 1999, with earlier application encouraged.[13]

The Professional Issues Task Force (PITF) has issued Practice Alert 99-1, *Guidance for Independence Discussions with Audit Committees*, to assist firms in evaluating and enhancing their policies and procedures for identifying and communicating with audit committees those judgmental matters that may

[13] The *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees* includes a recommendation that the listing rules for both the New York Stock Exchange and the National Association of Securities Dealers require audit committees to ensure the receipt of a formal written statement from the outside auditors consistent with ISB Standard No.1, *Independence Discussions with Audit Committees.*

reasonably be thought to bear on the auditor's independence. The Practice Alert provides examples of certain relationships that may be thought to bear on the auditor's independence, safeguards to ensure independence, a sample letter to an audit committee, and other implementation guidance.

Help Desk—Practice Alert 99-1 can be found on the AICPA Web site at www.aicpa.org/pubs/cpaltr/may99/supp/public.htm.

In addition to its first standard, the ISB also issued Interpretation 99-1, *Impact on Auditor Independence of Assisting Clients in the Implementation of FAS 133 (Derivatives).* This Interpretation provides guidance on the auditor independence implications of likely areas of requested assistance, solely with respect to the implementation of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities.*

The Interpretation concludes that the auditor may provide consulting services on the proper application of FASB Statement No. 133, including assisting a client in gaining a general understanding of the methods, models, assumptions, and inputs used in computing a derivative's value. To ensure, however, that the auditor's independence is not threatened, as discussed in paragraph 4 of the Interpretation, the auditor may not prepare accounting entries, compute derivative values, or be responsible for key assumptions or inputs used by the client in computing derivative values. The Interpretation includes illustrative lists of permitted and prohibited services.

Help Desk—The full text of the standard and interpretation, along with information about other activities of the ISB, are posted on the ISB's Web site at www.cpaindependence.org.

Tax Issues

What are some areas of continued concern to the Internal Revenue Service?

In auditing the financial statements of auto dealerships, in particular, when evaluating management's accounting for income taxes in accordance with FASB Statement No. 109, *Accounting for Income Taxes*, auditors can benefit by being familiar with federal, state, and local tax rules. Some areas of continued concern to the Internal Revenue Service (IRS) include: parts inventory, LIFO conformity rules, IRS cash reporting, and the use of demonstrators. The following sections discuss these areas in more depth.

Parts Inventory

To reduce taxable income, dealerships often use the last-in, first-out (LIFO) inventory method in determining ending inventory and cost of goods sold. The most common application of LIFO inventory valuation by auto dealerships is for new-vehicle inventories. Some dealerships also elect to use LIFO for their parts inventory as well. The approach to LIFO calculations for parts inventories is typically the same as that for new vehicles.

The LIFO inventory method treats inventory sold in any period as the most recently acquired. Cost of goods sold for any period consists of costs related to the most recent inventory acquisitions. In an inflationary economy, the effect of LIFO is to price goods sold at their current replacement value and to afford some relief against artificial inventory profits. Inventory valued under LIFO consists of several "layers," each deemed to have been acquired in a different year and valued at the prevailing price level for the year of acquisition. Effective tax planning preserves the lower-priced LIFO layers, thereby deferring income recognition for tax purposes. In years when inventory sold exceeds inventory acquired, the LIFO layers are eroded and deferred income is recognized. This practice is referred to as "taking a dip in the LIFO pool" and can produce artificial profit levels that may mask other cost management problems of the dealership, as well as result in an increased tax liability. The two principal types of LIFO accounting methods with which dealers need to be concerned are as follow:

- *Unit method or specific goods method.* This method is intended for inventories that consist of large numbers of homogeneous items that change infrequently. Each item is treated as a separate inventory pool. As items change, the LIFO pool is liquidated and the deferral of income from that LIFO pool is lost. Under this method, the IRS argument is that whenever a specific vehicle is discontinued, the LIFO reserve for that model must be recaptured as additional income.

- *Dollar value LIFO method.* This method treats inventory in terms of dollars rather than individual items. As a result, dollars are the common denominator for valuing inventory. Under the dollar value method, items are used to calculate the amount of inflation versus quantity fluctuations annually. Therefore, the effect of quantity decreases in one vehicle model may be offset by increases in another model.

Under either LIFO accounting method, the following two principal methods of pricing inventory may be used:

- *Double extension method.* This method requires each item in the ending inventory of a pool to be priced at its current year and its base-year cost. Base-year cost is the first year LIFO was elected by the dealer. The requirement that the inflation index be computed on all items includible in ending inventory is a major drawback to this method for dealers. Because the inflation ratio is determined as a function of the initial base-year cost, computing the inflation index on new items entering the inventory in later years is burdensome and often impossible.

- *Link chain index method.* This method compares current costs with prior-year costs and "links" the current inflation index with a cumulative index to convert inventory to base-year cost. Sampling techniques are allowed under this method, thereby simplifying the computational burden. However, sampling is not permitted under the alternative LIFO method.[14]

[14] The Internal Revenue Service (IRS) issued Revenue Procedure 97-36, which sets forth the alternative LIFO method for valuing new vehicle inventory. This method provides a simplified approach for determining ending inventory and costs of goods sold for new vehicles.

Dealerships using LIFO typically value their parts and accessories inventories at replacement cost. Because this method is a departure from generally accepted accounting standards (GAAP), auditors of dealerships should consider the effect of this misstatement on the financial statements and on their report. SAS No. 58, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 508.35–508.60), describes the circumstances that may require a qualified or adverse opinion when the financial statements contain a departure from GAAP. A qualified opinion is expressed when the auditor believes, on the basis of his or her audit, that the financial statements contain a departure from GAAP, the effect of which is material and he or she has concluded not to express an adverse opinion. An auditor should express an adverse opinion when, in the auditor's judgment, the financial statements taken as a whole are not presented fairly in conformity with GAAP.

Recently, the U.S. Tax Court ruled that the use of replacement cost to value parts is contrary to LIFO regulations, and the IRS added the entire parts LIFO reserve back into the dealer's income. The Tax Court ruled that parts should be valued at actual cost rather than replacement cost.[15] In response to this, the NADA has proposed four alternatives to the IRS for ways dealers using LIFO should value parts inventory. The NADA proposes that dealers may—

- Value inventory based on actual cost of most recent purchases (the method most dealers currently use).
- Adjust year-end value based on number of turns for the year.
- Use automakers' midyear prices to price current inventory.
- Price year-end inventory against pricing at the beginning of the year.

Auditors should be alert for a possible IRS revenue procedure to be released regarding this matter.

[15] *Mountain State Ford Truck Sales, Inc. vs. Comm.* (Docket No. 16350-95) can be obtained from the Tax Court Web site: www.taxcourt.gov.

LIFO Conformity Rules

LIFO continues to be important to the IRS. Franchised automobile dealers are normally required to issue monthly income statements to their franchisor, who is also typically a creditor of the dealership. These monthly statements are often prepared in a format required by the franchisor or on a preprinted form supplied by the franchisor. The twelfth-month statement is normally issued within a few days after the end of the year and presents the dealership's operating results for both the month and the calendar year. It is subsequently amended by another income statement commonly known as the thirteenth-month statement.

For several years, there was uncertainty about whether certain monthly income statements issued to the franchisor or creditor violated the LIFO conformity requirement of Internal Revenue Code (IRC) section 472(c) or (e)(2). In 1997, the IRS issued guidance to assist auto dealers in determining whether they had violated the LIFO conformity requirement (Revenue Ruling 97-42). In addition, the IRS also issued guidance to forgive certain LIFO conformity violations by auto dealers that occurred on or before October 14, 1997 (Rev. Proc. 97-44).

Revenue Ruling 97-42 provides that an auto dealer has violated the LIFO conformity requirement by providing the credit subsidiary of its franchisor with a twelfth-month income statement (in the format required by the franchisor or on preprinted forms supplied by the franchisor) for the tax year, if that statement fails to reflect the LIFO inventory method in the computation of net income. The ruling provides that an auto dealer has not violated the LIFO conformity requirement if the twelfth-month income statement issued to the credit subsidiary of its franchisor uses the LIFO inventory method to determine net income for both the twelfth-month and for the entire year (even if the LIFO adjustment is only a reasonable estimate.) The LIFO adjustment can be made either against cost of goods sold (so that it is reflected in gross profit) or as an adjustment below the line (so that it is reflected in net income). The IRS may feel that the use of a constant LIFO reserve throughout the year is not a reasonable estimate when the dealer is not on a calendar-year basis.

Auto dealers could have received relief under Revenue Procedure 97-44 for prior LIFO conformity violations; however, the relief did not apply to all prior conformity violations. The settlement amount was due by May 31, 1998, as an initial installment of one third of the total, followed by two other equal payments on January 31, 1999, and January 31, 2000. Failure to make any of these installment payments in a timely manner would void the relief protection.

An auto dealer not making a settlement payment should take steps to fully document the fact that it is not required to make such a payment. Copies of all available monthly and annual income statements issued during the look-back period (of six years) should be retained, as well as any other evidence to document when and to whom statements were issued.

In the future, auto dealers should make certain that, for all income statements issued currently and in the future to shareholders and creditors, they comply with the LIFO conformity rules of IRC section 472, as well as Revenue Ruling 97-42.

Auditors should be aware of the issue of conformity violations thus far discussed. If an auto dealership has violations and has failed to use the relief that expired on May 31, 1998, the IRS can terminate the dealership's LIFO election and the income tax owed would become due immediately, plus interest and penalties that, in most cases, will be substantial.

IRS Rulings and Procedures that apply include—

- IRS Revenue Procedure 97-36, which supersedes IRS Revenue Procedure 92-79 and is effective August 18, 1997. Revenue Procedure 92-79 specified the LIFO inventory valuation approach and standardized the LIFO calculation for new vehicles. The alternative method discussed in Revenue Procedure 97-36 is the same as the method in Revenue Procedure 92-79 and therefore may not significantly change what dealerships do.

- IRS Revenue Ruling 97-42, which provides guidance to assist auto dealers in determining whether they have violated the LIFO conformity requirements.
- IRS Revenue Procedure 97-44, which gives special relief for certain LIFO conformity violations as long as the action was taken by May 31, 1998. The NADA also issued guidance in this area in its publication *A Guide to the LIFO Conformity Settlement.*

IRS Cash Reporting

The IRS is looking closely at cash reporting requirements. When a dealership receives more than $10,000 in cash or cash equivalents (as defined) in a single transaction (or a series of related transactions) the dealership must file IRS Form 8300 within fifteen days of receipt of the payment. This requirement is intended to target money laundering and other illegal activities. In addition to filing Form 8300 for reportable cash transactions, the dealer is required to notify the purchaser in writing on or before January 31 of the year following the calendar year in which the cash is received that a report was filed with the IRS. Notification should be on the dealership's letterhead. Penalties for failure to report such information to the IRS can be substantial if there is intentional disregard of the filing requirements. You may consider inquiring about your client's procedures in capturing such cash transactions and reporting them to the IRS, and informing the customer. You may also want to consider reviewing the actual filings.

The Use of Demonstrators

The IRS aggressively reviews dealership's policies and practices regarding demonstrator vehicles. Demonstrator inventory comprises the value of new vehicles placed in demonstrator service. Generally these autos are taken out of the new inventory accounts. Any labor and material costs for dealer-installed equipment and accessories are added to the inventory value; the cost of any such equipment or accessories removed from the vehicle is subtracted from inventory. Many dealerships limit the number of miles that demonstrators may be driven. Demonstrators are generally not written down for wear and tear or depreciation because, even after use, their market values generally exceed inventory cost. If cost exceeds value, however, a write-down may be necessary. When a demonstrator is sold, it is transferred back to new vehicle inventory because the sale is reported as a new-vehicle sale.

If the IRS determines that a dealership violated the special rules that govern qualified automobile demonstration use, the value of the use of employer-provided vehicles is a fringe benefit that must be included in the employee's gross income, and the dealer will need to pay the related employment taxes. IRS Private Letter Ruling 9801002 discusses situations in which the IRS found a dealership to be in violation of the special rules for "certain fringe benefits." The private letter ruling says that qualified automobile demonstration use should be treated as a working condition fringe. (Section 132(a)(3) specifically provides that qualified automobile demonstration use should be treated as a working condition fringe.) "Qualified automobile demonstration use" is defined as any use of an automobile by a full-time automobile salesman in the sales area in which the automobile dealer's sales office is located if—

1. Such use is provided primarily to facilitate the salesman's performance of services for the employer.
2. There are substantial restrictions on the personal use of the automobile by the salesman.

The substantial restrictions on the personal use of the automobile by the salesman exist when all of the following conditions are met:

1. Use by individuals other than the full-time automobile salesman is prohibited.
2. Use for personal vacation trips is prohibited.
3. The storage of personal possessions in the automobile is prohibited.

4. The total use of the automobile, by mileage, by the salesman outside the salesman's normal working hours is limited.

The IRS will typically examine the records of demonstrator vehicles to substantiate that only qualified personnel have been assigned demonstrators and that personal use is accounted for properly. Lists of personnel assigned demonstrator vehicles may be checked against payroll records to detect family members and others who do not qualify for demonstrator vehicles. Individuals not qualifying for demonstrator vehicles would have to report additional income attributable to their personal use of a company vehicle. Depreciation expense accounts are reconciled to verify that depreciation is not taken on demonstrator vehicles.

You may want to familiarize yourself with Private Letter Ruling 9801002 to see where the IRS found the dealership to be in violation and compare that to the practices of your clients.

Other Areas of Concern

Other areas of concern to the IRS include—

- Used car write-downs.
- Service technician tools (when a portion of a technician's salary is tool rental).
- Manufacturer incentives.
- The valuing of a used engine when the dealer will repair and reuse it (cores).

Executive Summary—Tax Issues

- A Tax Court ruling that parts should be valued at actual cost rather than replacement cost raises questions on how dealers should be valuing their parts inventory.
- The LIFO conformity rules continue to be a focus of the IRS.
- The IRS is aggressively reviewing dealership's policies and procedures regarding demonstrator vehicles. Auditors may want to become familiar with Private Letter Ruling 9801002.

New Auditing and Attestation Pronouncements

What new auditing and attestation pronouncements have been issued?

New Auditing Pronouncements

In this section we present either brief summaries or a listing of recently issued auditing pronouncements. The summaries are for informational purposes only and should not be relied on as a substitute for a complete reading of the applicable standard.

- At the time this Alert went to press, no new SASs had been issued during 1999. For proposed SASs that are in the pipeline, see the "ASB Exposure Drafts" section of this Alert.
- Reminder—Don't forget that SAS No. 87, *Restricting the Use of an Auditor's Report* (AICPA, *Professional Standards*, vol. 1, AU sec. 532), became effective for reports issued after December 31, 1998. As detailed in last year's Alert, SAS No. 87 provides guidance to auditors in determining whether an engagement requires a restricted-use report and, if so, what elements to include in that report.
- SOP 99-1, *Guidance to Practitioners in Conducting and Reporting on an Agreed-Upon Procedures Engagement to Assist Management in Evaluating the Effectiveness of its Corporate Compliance Program*, was issued in May 1999.

New Attestation Standards

SSAE No. 9, *Amendments to Statements on Standards for Attestation Engagements Nos. 1, 2, and 3*[16], does the following:

- It enables a practitioner to report directly on specified subject matter, such as an entity's internal control over financial reporting, rather than on management's assertion about the internal control. In either case, the practitioner

[16] SSAE No. 9 has been integrated within AT sections 100, 400, and 500 of AICPA, *Professional Standards*, vol. 1.

is required to obtain management's assertion as condition of engagement performance.

- It eliminates, in certain cases, the requirement for a separate presentation of management's assertion if the assertion is included in the introductory paragraph of the practitioner's report.
- It revises the reporting guidance on the SSAEs so that SSAE reports contain elements that are similar to those included in auditors' reports on historical financial statements, as prescribed in SAS No. 58
- It states that the practitioner ordinarily should express his or her conclusion directly on the subject matter, rather than on management's assertion, when conditions exist that result in one or more deviations from the criteria used to present the subject matter.
- It provides guidance on the relationship between the SSAEs and the Statements on Quality Control Standards.

Executive Summary—New Auditing and Attestation Pronouncements

- At the time this Alert went to press, no new SASs had been issued during 1999. For proposed SASs that are in the pipeline, see the "ASB Exposure Drafts" section of this Alert.
- New Statement on Standards for Attestation Engagements (SSAE): SSAE 9, *Amendments to Statement on Standards for Attestation Engagement Nos. 1, 2, and 3*, was issued in January 1999.

Recent GAAP Pronouncements

What new accounting pronouncements have been issued?

New FASB Pronouncements

In this section we present either brief summaries or a listing of recently issued accounting pronouncements. The summaries are for informational purposes only, and should not be relied on as a substitute for a complete reading of the applicable standard.

FASB Statement No. 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133*

FASB Statement No. 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133*, delays the effective date of FASB Statement No. 133 for one year, to fiscal years beginning after June 15, 2000. The delay applies to quarterly and annual financial statements.

Other FASB Pronouncements

The following lists other FASB Pronouncements issued this year:

- FASB Statement No. 135, *Rescission of FASB Statement No. 75 and Technical Corrections*
- FASB Statement No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*
- FASB Interpretation 43, *Real Estate Sales*

Executive Summary—New FASB Pronouncements

- FASB Statement No. 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133* was issued in 1999.
- For a summary of all the FASB Statements listed here, visit the FASB Web site at www.fasb.org.

New AICPA Statements of Position

For a complete summary of all AICPA SOPs issued this year, see *Audit Risk Alert 1999/2000* (Product No. 022250kk).

SOP 98-9, *Modification of SOP 97-2,* Software Revenue Recognition, *With Respect to Certain Transactions*

SOP 98-9, *Modification of SOP 97-2,* Software Revenue Recognition, *With Respect to Certain Transactions,* was issued in December 1998 and amends paragraphs 11 and 12 of SOP 97-2 to require recognition of revenue using the residual method when (1) there is vendor-specific objective evidence of the fair values of all undelivered elements in a multiple-element arrangement that is not accounted for using long-term contract accounting, (2) vendor-specific objective evidence of fair value does not exist for one or more of the delivered elements in the arrangement, and (3) all revenue-recognition criteria in SOP 97-2, other than the requirement for vendor-specific objective evidence of the fair value of each delivered element of the arrangement are satisfied. Under the residual method, the arrangement fee is recognized as follows: (1) the total fair value of the undelivered elements, as indicated by vendor-specific objective evidence, is deferred and subsequently recognized in accordance with the relevant sections of SOP 97-2 and (2) the difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements.

Effective December 15, 1998, the SOP amends SOP 98-4, *Deferral of the Effective Date of a Provision of SOP 97-2,* Software Revenue Recognition, to extend the deferral of the application of certain passages of SOP 97-2 provided by SOP 98-4 through fiscal years beginning on or before March 15, 1999. All other provisions of the SOP are effective for transactions entered into in fiscal years beginning after March 15, 1999. Earlier adoption is permitted as of the beginning of fiscal years or interim periods for which financial statements or information have not been issued. Retroactive application of the provisions of the SOP is prohibited.

Other AICPA Statements of Position

The following lists other AICPA SOPs issued this year:

- SOP 99-1, *Guidance to Practitioner's in Conducting and Reporting on an Agreed-Upon Procedures Engagement to*

Assist Management in Evaluating the Effectiveness of Its Corporate Compliance Program[17]

- SOP 99-2, *Accounting for and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans*
- SOP 99-3, *Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters*

Reminder—SOP 98-7, *Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Risk*, is effective for financial statements for fiscal years beginning after June 15, 1999, with earlier application encouraged. SOP 98-5, *Reporting on the Costs of Start-Up Activities*, is effective for fiscal years beginning after December 15, 1998.

Executive Summary—New AICPA Statements of Position

- SOP 98-9, *Modification of SOP 97-2,* Software Revenue Recognition, *With Respect to Certain Transactions* was issued in December 1998.

AICPA Professional Ethics Rulings and Interpretations

It is important for you to monitor the activities of the Professional Ethics Executive Committee because they may issue interpretations, ethics rulings, or both, that may be relevant to you. See the *Audit Risk Alert 1999/2000* (product no. 022250kk) for a summary of recent activities.

Help Desk—For full information about the interpretations and rulings, visit the Professional Ethics Team Web page at www.aicpa.org/members/div/ethics/index.htm. You can also call the Professional Ethics Team at 1-888-777-7077, menu option 2, followed by menu option 2.

[17] SOP 99-1 was issued under the authority of the AICPA Auditing Standards Board.

Recent Exposure Drafts

Practitioners should note that the purpose of exposure drafts is to solicit comments from preparers, auditors, users of financial statements, and other interested parties. They are nonauthoritative and cannot be used as a basis for changing GAAS or GAAP. The following is a listing of some of the more significant exposure drafts outstanding at the time we went to press.

ASB Exposure Drafts

Proposed Statement on Auditing Standards: *Auditing Financial Instruments*

Issued June 10, 1999, the proposed SAS, *Auditing Financial Instruments* (to supersede SAS. No. 81, *Auditing Investments*), would provide updated guidance on planning and performing auditing procedures for financial statement assertions about financial instruments (including derivatives). The ASB also is developing a Practice Aid that will provide guidance on how to apply the proposed SAS to assertions about specific types of financial instruments and assertions based on specific accounting requirements. The ASB plans to issue the SAS and the Practice Aid at approximately the same time and to periodically update the Practice Aid to address new accounting and auditing pronouncements and new financial instruments.

Proposed Statement on Auditing Standards: *Audit Adjustments, Reporting on Consistency, and Service Organizations*

Issued April 22, 1999, the proposed SAS *Audit Adjustments, Reporting on Consistency, and Service Organizations* (Omnibus Statement on Auditing Standards—1999) (referred to as omnibus because it addresses several unrelated topics) provides guidance to auditors in the following three areas:

- Audit adjustments
- Reporting on consistency
- Service organizations

At its meeting in September 1999, the ASB voted to issue the amendments related to consistency and service organizations. These amendments will be issued in early 2000, and will be effective upon issuance. The ASB decided to continue its consideration of the proposal on audit adjustments, particularly in light of the issuance of SEC Staff Accounting Bulletin No. 99, *Materiality*. The ASB plans to act on this matter by February 2000. If adopted, this proposal would be effective for audits of financial statements for periods ending on or after December 15, 2000.

Other Exposure Drafts

The following lists other exposure drafts issued this year:

- Proposed Statement on Auditing Standards—*Amendments to Statement on Auditing Standards No. 61,* Communication with Audit Committees, *and Statement on Auditing Standards No. 71,* Interim Financial Information
- Proposed Statements on Quality Control Standards—*System of Quality Control for a CPA Firm's Accounting and Auditing Practice and The Personnel Management Element of a Firm's System of Quality Control—Competencies Required by a Practitioner-in-Charge of an Attest Engagement*

AcSEC Exposure Drafts

The following lists certain AcSEC exposure drafts issued this year:

- Proposed Statement of Position—*Accounting for Discounts Related to Credit Quality* (Issued December 30, 1998)
- Proposed Statement of Position—*Accounting by Producers and Distributors of Films* (Issued October 16, 1998)
- Proposed Audit and Accounting Guide—*Audits of Investment Companies* (Issued September 22, 1998)
- Proposed Audit and Accounting Guide—*Life and Health Insurance Entities* (Issued September 4, 1998)

Professional Ethics Executive Committee Exposure Draft

The following lists certain Ethics Executive Committee exposure drafts issued this year:

- Omnibus Proposal of Professional Ethics Division Interpretations and Rulings (Issued August 2, 1999)

Help Desk—See the AICPA Web site www.aicpa.org for a complete listing of outstanding exposure drafts for other AICPA documents.

FASB Statement Exposure Drafts

The following lists certain FASB exposure drafts issued this year:

- Proposed Statement of Financial Accounting Standards—*Business Combinations and Intangible Assets* (Issued September 7, 1999)
- Proposed Statement of Financial Accounting Standards—*Accounting for Transfers of Financial Assets* (an amendment of FASB Statement no. 125) (Issued June 28, 1999)
- Proposed Statement of Financial Accounting Standards—*Consolidated Financial Statements: Purpose and Policy* (February 23, 1999)

Help Desk—See the FASB Web site www.fasb.org for a complete listing of outstanding exposure drafts for other FASB documents.

Beyond the Audit

What other services can you market to your dealership clients?

Consulting Services

Automobile dealerships create a host of opportunities beyond the traditional audit, compilation, review, and tax services. Examples of other services that can be marketed to auto dealers include—

- Information systems evaluation and implementation.

- Operational consulting to improve internal efficiency and tighten controls.
- Business valuation.
- Merger and acquisition support.
- Lost profit projections related to business interruption.
- Benchmarking.

Certain of these services can be performed as part of an audit engagement, with the results included in the auditor's management comment letter or as a separate consulting engagement. The Statement on Standards for Consulting Services (SSCS) No. 1, *Consulting Services: Definitions and Standards*[18] (AICPA *Professional Standards*, vol. 2, CS sec. 100), incorporates the standards that should be followed when performing consultation engagements. SSCS No. 1 defines consulting services as "professional services that employ the practitioner's technical skills, education, observations, experiences, and knowledge of the consulting process."

According to SSCS No. 1, consulting services may include one or more of the following:

- *Consultations*, in which the practitioner's function is to provide counsel in a short time frame, based mostly, if not entirely, on existing personal knowledge about the client, the circumstances, the technical matters involved, client representations, and the mutual intent of the parties. Examples of consultations are reviewing and commenting on client-prepared business plan and suggesting computer software for further client investigation.
- *Advisory services*, in which the practitioner's function is to develop findings, conclusions, and recommendations for client consideration and decision making. Examples

[18] Statement on Standards for Consulting Services (SSCS) No. 1 is issued by the AICPA Management Consulting Services Executive Committee, the senior technical committee of the Institute designated to issue pronouncements in connection with consulting services. The Council has designated this committee as a body to establish technical standards under Rule 202 of the Institute's Code of Professional Conduct, and members should be prepared to justify departures from this Statement.

of advisory services are an operational review and improvement study, analysis of an accounting system, assistance with strategic planning, and definition of requirements for an information system.

- *Implementation services*, in which the practitioner's function is to put an action plan into effect. Client personnel and resources may be pooled with the practitioner's to accomplish the implementation objectives. The practitioner is responsible to the client for the conduct and management of engagement activities. Examples of implementation services are providing computer system installation and support, executing steps to improve productivity, and assisting with the merger of organizations.
- *Transaction services*, in which the practitioner's function is to provide services related to a specific client transaction, generally with a third party. Examples of transaction services are insolvency services, valuation services, preparation of information for obtaining financing, analysis of a potential merger or acquisition, and litigation services.
- *Staff and other support services*, in which the practitioner's function is to provide appropriate staff and possibly other support to perform tasks specified by the client. The staff provided will be directed by the client as circumstances require. Examples of staff and other support services are data processing facilities management, computer programming, bankruptcy trusteeship, and controllership activities.
- *Product services*, in which the practitioner's function is to provide the client with a product and associated professional services in support of the installation, use, or maintenance of the product. Examples of product services are the sale and delivery of packaged training programs, the sale and implementation of computer software, and the sale and installation of systems development methodologies.

Examples of advisory services specific to auto dealers include—

- Reviewing the dealership's current management practices for potential waste.
- Benchmarking the dealership's current profit and expense structure.
- Reviewing the dealership's compliance with current state and federal regulations to minimize potential future liabilities.

Help Desk—Sources of benchmarking information include—

- Manufacturer "composites" by brand of vehicle.[19]
- A Group of 20. A group of twenty generally comprises, at the most, twenty dealers who sell the same type vehicle (that is, the same franchise) and are approximately the same size but are not from the same market area. Because they are not in competition with one another, financial information from each dealership can be freely exchanged. This information is compiled in a monthly composite so each dealer can compare its performance against the other dealerships' performances and against the group average. Twenty groups are sponsored and monitored by a few organizations. Two such organizations are NADA 20 Group and NCM Associates.
- Industry publications, such as Ward's Dealer Business Magazine's *Database 2000.* This database is a composite of information supplied by a cross-section of NCM Associates' Twenty Group members that achieve 30 percent or more net-to-gross profit. The magazine provides monthly benchmarks in departmental operating components and productivity.
- The Internet.

[19] Many manufacturers maintain "composites" by brand of vehicle. Composites are ratios and statistics that dissect the performance of dealers. Auditors may want to ask their clients to obtain the manufacturer composites so that a comparison can be made with the average.

Assurance Services

What are assurance services?

The AICPA's Special Committee on Assurance Services (SCAS) assessed the economics of auditing and its likely future and concluded that financial statement auditing is no longer a growth industry. In response, the SCAS concluded that there are opportunities for additional work in the audit tradition, suggesting a wider variety of assurance engagements could be offered. The SCAS defines these assurance services as independent professional services that improve the quality of information or its context for decision makers. This information can be financial or nonfinancial, historical or prospective. The Assurance Services Executive Committee (ASEC) was given the charge of carrying on the work of the SCAS in identifying and developing new assurance services for the profession.

The SCAS identified ElderCare Services as one assurance service that CPAs could provide. This service assesses whether various caregivers are meeting specified goals regarding care for the elderly. A second assurance service, CPA WebTrust, was developed through the formation of the SCAS's Electronic Commerce Task Force. CPA WebTrust is an electronic commerce assurance service designed to build customer trust and confidence in conducting electronic commerce over the Internet. These emerging practice areas have generated a significant level of interest. To address this interest, the AICPA's Accounting and Auditing Publications Team has introduced a new series titled Assurance Services Alerts. The Alerts in this series serve both as an introduction to those who are unfamiliar with CPA ElderCare and CPA WebTrust as well as an update of important new developments for those who have expanded their practice to include these engagements. See *Audit Risk Alert 1999/2000* (Product No. 022250kk) for a further discussion of the new Assurance Services Alerts; you can also order them from the AICPA order department (member satisfaction) at 1-888-777-7077.

SysTrust℠

What is SysTrust?

The AICPA and the Canadian Institute of Chartered Accountants (CICA) are introducing a new professional service to provide assurance on the reliability of systems. SysTrust is an assurance service to be provided by public accountants and was developed by the Assurance Services Executive Committee (ASEC) of the AICPA and the Assurance Services Development Board (ASDB) of the CICA. It is designed to increase the comfort of management, customers, and business partners with the systems that support a business or a particular activity. Potential users of this service are shareholders, creditors, bankers, business partners, third-party users who outsource functions to other entities, stakeholders, and anyone who in some way relies on the continued availability, integrity, security and maintainability of a system. The SysTrust service will help differentiate entities from their competitors because entities that undergo the rigors of a SysTrust engagement will presumably be better service providers—attuned to the risks posed by their environment and equipped with the controls that address those risks.

> Help Desk—For more information about this new assurance service, and the availability of additional guidance, call Erin Mackler, AICPA technical manager, Assurance Services, at (212) 596-6149 or email her at emackler@aicpa.org.

AICPA Services

For a complete listing of AICPA services, see *Audit Risk Alert 1999/2000* (Product no. 022250kk)

Continuing Professional Education

The AICPA offers the following self-study course—

- Automobile Dealership Accounting

The AICPA offers the following group study course—

- *Auto Dealerships: Audit, Accounting and Tax Issues* (Visit the AICPA Web site at www.aicpa.org/store/csearch.htm for a current schedule of where this course is offered, or call your state society for complete details. Registration for all group study courses is done through your state CPA society.)

National Auto Dealership Conference

Each fall the AICPA sponsors a National Auto Dealership Conference that is specifically designed to update auditors and dealers on significant accounting, auditing, legal, financial, and tax developments affecting the auto dealership industry. Information on the conference may be obtained by calling the AICPA Conferences Division at (201) 938-3556.

Order Information

Copies of AICPA publications referred to in this document may be obtained by calling the AICPA Order Department (member satisfaction) at (888) 777-7077 or faxing a request to (800) 362-5066. Copies of FASB publications referred to in this document may be obtained directly from the FASB by calling the FASB Order Department at (203) 847-0700, ext. 10.

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Auditors should also be aware of the economic, regulatory, and professional developments that may affect the audits they perform, as described in *Audit Risk Alert—1999/2000.*

The Audit Risk Alert *Auto Dealership Industry Developments* is published annually. As you encounter audit and industry issues that you believe warrant discussion in next year's Alert, please feel free to share them with us. Any other comments that you have about the Alert would also be greatly appreciated. You may email your comments to: ldelahanty@aicpa.org or write to:

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INFORMATION SOURCES

Organization	*General Information*	*Fax Services*	*Electronic Bulletin Board Services*	*Recorded Announcements*
American Institute of Certified Public Accountants	*Order Department (Member Satisfaction)* Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881 (888) 777-7077	*24 Hour Fax Hotline* (201) 938-3787	Internet address— www.aicpa.org	
Financial Accounting Standards Board	*Order Department* P.O. Box 5116, Norwalk, CT 06856-5116 (203) 847-0700, ext. 10		Internet address— www.fasb.org	
National Automobile Dealers Association	8400 Westpark Drive McLean, VA 22102		Internet address— www.nada.org	(703) 821-7000
American International Auto Dealers Association	99 Canal Center Plaza Alexandria, VA 22314-1538			

The National Automobile Dealers Association is a not-for-profit organization promoting the interests of franchised new car and truck dealers in the United States. The NADA publishes economic newsletters, a monthly magazine, used car valuation guides, and other information on various aspects of dealerships.

The American International Auto Dealers Association is an organization promoting the interests of foreign franchises.

State and regional not-for-profit organizations promoting the interests of automobile dealerships can be found in most states. These organizations generally stay abreast of state and local legislative issues and communicate these issues to their membership through newsletters.