OECD
OCDE
PARIS

Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development

_____
Or. Eng.

DIRECTORATE FOR FINANCIAL, FISCAL AND ENTERPRISE AFFAIRS
COMMITTEE ON FISCAL AFFAIRS

Forum on Strategic Management
Sub-group on Electronic Commerce

DRAFT PDA TAG MINUTES

(Note by the Secretariat)

This note is submitted to the FSM Sub-Group on Electronic Commerce FOR INFORMATION at its meeting to be held on 29-30 November 1999 at the Château de la Muette.

For further information please contact:
Ms. Grace Perez-Navarro (Tel: 33 1 45 24 18 80 ; Fax: 33 1 44 30 61 36)
Mr. Michael Hardy (Tel: 33 1 45 24 85 23 ; Fax: 33 1 44 30 61 36)

84756

DRAFT SUMMARY RECORD OF THE SECOND MEETING OF THE PDA TAG

November 2-3 1999, Dublin

I.	**WELCOME AND INTRODUCTION**

1.   Mr Dermot Quigley, Chairman of the Revenue Commissioners officially opened the meeting, welcoming the participants to Dublin. Mr Quigley stressed the importance of fiscal systems which promote confidence through their perceived fairness and integrity and which deal with both revenue collection and taxpayer service. He noted that the principles contained in the OECD's Taxation Framework Conditions and welcomed by Ministers in 1998 established the right environment. He felt that the work of the Technical Advisory Groups (TAGs) was very important in putting detail around the principles. Mr Quigley stated that he thought the mix of participants in the Professional Data Assessment (PDA) TAG was very impressive, bringing together computer audit specialists from the public and private sectors with standards setters in the fields of accounting and auditing. He stated how much he appreciated the effort being made by the TAG participants in working constructively on these new and challenging issues.

2.   The co-chairs, Mr Matsuo and Mr Rigney, made brief remarks welcoming the new participants and welcoming back the pre-existing ones before introductions were made around the table.

3.   The Secretariat conveyed the apologies of the absent participants and noted that China (Hong Kong) had written to indicate that they did not feel in a position to contribute to the ongoing work of the PDA TAG.

4.   The meeting then turned to consideration of the agenda.

APPROVAL OF AGENDA

5.   Mr Matsuo introduced the agenda and noted that there would be some additional presentations on net-centric technologies by the participant from the Information Systems Audit and Control Association (ISACA), which would be taken during item IV. The agenda was then approved.

IIIA.	WORKPLAN

6.   The OECD Secretariat outlined the workplan of the TAG, noting that it had been approved by the supervisory body. It was noted that Tasks 1 and 2 were due to be finalised and that Task 3 may need additional participants. It was also noted that, before the meeting concluded, we would need to assign people to work on tasks 4 and 5 as well as some of the ongoing work.

7.   The participant from the Netherlands indicated that he felt that the TAG should articulate more clearly the basis and underlying assumptions of its work in order to proceed in a more focussed manner.

8.   The Secretariat explained that the process of developing the workplan had been to cross reference tasks to the mandate provided by the Committee on Fiscal Affairs (CFA). This mandate was developed from the experience of the CFA and its subsidiary bodies in discussions with the private sector and other interested parties during 1998. The essence of these discussions had been captured in the Taxation Framework Conditions document and the accompanying Discussion Paper released at the time of the Ottawa Ministerial in October 1998.

9.   The workplan ideas had been made available on the EDG for comment for an extended period before being delivered to the TAGs supervisory body for approval.

10.   It was noted that there are some areas where public sector and private sector auditors will have different experiences and will not be able to find areas of mutual knowledge. Public sector auditors, for example, often have limited experience with confirmation letters as they have alternate statutory means of obtaining information. Similarly, it was agreed at the first meeting of the TAG that there would not be a focus on fraud as private sector audits generally are not designed to detect fraud and because fraud is only an issue in a small proportion of taxpayers. Hence, the TAG participants could spend their time more productively in other areas. One example was on the issue of remote access to information. Regardless of whether access to information is obtained voluntarily or through the use of legal powers, the use of technology tools to remotely access information is perhaps one area where there could be mutually beneficial discussion by the participants in the TAG.

11.   It was also recognised, in the first meeting, that there were some semantic and definitional issues that we would need to address. In such cases we may need to discuss these issues at the commencement of each task and provide some clarifying material in any report produced. An example that arose during this meeting was around the word "authentic". In the conventional world, documents are not routinely authenticated so there is no precedent for "authenticating" electronic records. However, the word authenticate is used in the technology literature about encryption and digital signatures, for example. In this situation it may be necessary to indicate that the document itself is not "authenticated" in the electronic environment, but that a mechanism exists, as with the conventional environment, whereby a document could be "authenticated" or its validity assessed by reference to an electronic signature or some other mechanism. The process would be similar to the way a physical signature could be used in the conventional environment.

12.   The participant from Spain indicated that we would need to take into account the particular legal environments prevailing in each country. The participant from Canada recognised that this would be valuable, but we should work, initially on broadly generic approaches potentially applicable in every country and allow each country to apply them subject to their own domestic legal environment.

IIIB.	TASK 1 - STANDARDS

13.   The participant from the American Institute of Certified Public Accountants (AICPA) outlined the progress on this task. She indicated that, after their own research and responses received through inquiries made by other members of the TAG, they had been unable to identify any existing or emerging accounting or auditing standards dealing specifically with Internet electronic commerce.

14.   She was able to report that there were some standards addressing EDI and systems based auditing which may be applicable in part, but noted that the EDI environment was different in that the parties to a transaction had a pre-existing relationship and the technical protocols employed were standardised, making EDI different to Internet electronic commerce.

15.   The participant from the Australian Society of Certified Practising Accountants (ASCPA) indicated that the accounting and auditing profession recognise this as a time of change but that there is too much volatility to establish specific standards as yet, if required. The participant from Deloitte and Touche (DT) indicated that much of the systems based methodology was applicable although the Internet environment exacerbated the challenges associated with this approach. He also suggested that the existing standards may not need change, but the level below the standards, the "practice notes" and similar guidance materials may be where we see new operating practices developed. It was noted that as we are in a transitional phase it is not surprising that standards have not yet emerged, although some bodies, like the International Audit Practices Committee (IAPC) and the International Federation of Accountants (IFAC) had now placed electronic commerce on their agendas.

16.   The participant from the AICPA indicated that it may be possible to extract some concepts from the standards relating to EDI and noted that there is a trend towards greater reliance on auditing of the system. The participant from the IFAC noted, however, that securities regulators are quite concerned about the trend to greater reliance on system based audits and that they feel the need to have the capacity to undertake substantive testing in appropriate circumstances. The public sector participants confirmed that this view was shared by revenue authorities.

17.   The participant from Canada distributed the GST Bulletin that sets out record-keeping requirements.

18.   The government co-chair summed up the discussions noting that this was an area where we would need to monitor developments. In order to bring some finality to the task, at this juncture, it was proposed that the task team prepare a draft report outlining the process used to identify national and international standards and the conclusions reached at this stage. This draft report should be made available to the whole TAG for comments and, once finalised, should be placed on the public discussion site to ensure that no standards have been overlooked. There should be ongoing monitoring of developments in standards bodes.

19.   The Secretariat was also asked to take a more pro-active role in this area by approaching audit and accounting standards bodies to indicate the work undertaken in the OECD, to make the report available to these bodies and to indicate that the OECD would be happy to support, if possible, any of the standards processes which might be undertaken by these bodies.

IIIC.   TASK 2 - AUDIT SURVEY

20.   The participant from the United States outlined the preliminary position on the responses received on the survey of auditors with experience in auditing businesses engaged in Internet electronic commerce. He indicated that there had been relatively few responses although a number of late responses had just arrived and were not covered by his remarks. It appeared that there was a sharp distinction between the experience with large businesses compared to smaller businesses and that access to archived data was a particular challenge in the small to medium sized business sector. Basically, when businesses in this sector change their accounting or computing facilities many do not maintain a "backward compatibility" capacity and are unable to access archived data if required.

21.   The participant from DT suggested that the survey may not have reached down to the auditors of e-businesses and that this should be explored within his and other major accounting firms if possible to get more meaningful responses.

22.   A generally shared view emerged that, over time, there would need to be some extensions to the skill sets of auditors to deal with Internet electronic commerce environment. As an example, the participant from New Zealand mentioned that they are developing a toolkit for auditing small e-commerce businesses and that they would be restricting the number of people involved in this specialised training.

23.   To protect the confidentiality of the respondents, it was agreed that the raw data would not be placed on the public site although a report on the task would be. The task 2 team were asked to prepare the report, noting that we may need to create an addendum for any late responses not included in the original report.

24.   In response to some of the issues raised under Item IIIA, it was agreed that the report should commence with a rationale for the survey to explain the background of the task to readers of the report.

25.   In order to ensure that the complete set of responses is available for consideration, the Secretariat would place all of the responses that it had received onto the TAG EDG.

IIID.   TASK 3 - DESIRABLE DATA ELEMENTS

26.   It was agreed that the focus of the TAG would turn towards Task 3 and subsequent tasks following this meeting and that we may need to bolster the number of persons involved in these tasks. The discussion also benefited from a tele-conference with the participant representing the Internet Open Trading Protocol (IOTP).

27.   Participants agreed that their initial focus should be on the data requirements for consumption taxes as these have more immediate impact and as the group examining Consumption Tax had asked for some advice from the PDA TAG. It was also considered that the data requirements for consumption tax

would substantially, if not completely, meet the requirements for direct taxes, but this would require verification.

28.   It appeared that in the development of business-to-business protocols tax was taken into consideration, whereas this was not the case in many business-to-consumer protocols.

29.   Discussion then considered whether the TAG should focus on identifying the core data which was common to the majority of systems or should identify the extended range of data required to meet the majority of systems. There was substantial debate on this matter. However it was recognised that, in order to obtain the core data it would first be required to identify the extended data, so this is where the focus should commence. There may need to be subsequent consideration as to whether the use of intelligent technology can navigate the extended data set to arrive at the required data for each environment or whether the core data would become acceptable in the Internet environment.

30.   There was substantial discussion that modular technologies, like XML, could easily be configured so that after the collection of some basic core data, that would define the scope and parties to a transaction, a reference to an extended set of information relevant for a transaction between those parties could be triggered. This may be an area where the Technology TAG can provide some advice in due course.

31.   It was noted that the discussion from the joint meeting in Stanford and some subsequent discussion via the EDG had identified that there may be a substantial number of data elements required to meet the expectations of the majority of systems. In order to properly respond to the request from the Chair of the Consumption Tax Group, the leader of the task 3 team, the participant from Australia, will write to the Consumption Tax TAG seeking clarification of what data they require in the conventional environment. The Secretariat and individual TAG participants were also encouraged to see if they could identify similar information in support of this task.

32.   It was noted that this TAG should not stray into the territory of the Technology TAG. The PDA TAG should first identify the desirable data elements and then request the Technology TAG to advise us of where the data can be found, if at all, in the technologies underlying Internet electronic commerce. Alternatively, the Technology TAG may be able to advise where the data requirements could reasonably be introduced into those technologies, consistent with their commercial or technological functions.

33.   An example of this was the discussion on ebXML. This is a proposed use of an open technology for electronic business purposes. The PDA TAG could develop the list of data items that might be usefully included in an ebXML specification, but it would be the Technology TAG, working in conjunction with knowledgeable PDA TAG participants, that might undertake any translation of the data requirements into an XML format. It was agreed that the participant representing the IOTP and attending an ebXML meeting in November, should inform the participants at the ebXML meeting about the existence of, and developments in, the PDA TAG. The participants agreed however, that the TAG would try to make its work known to all potentially interested parties, not just the ebXML group.

34.   The business co-chair also made a brief presentation about some of the neutrality issues to be borne in mind as the TAG continues with its work. The example given was of the banking system and the use of automatic teller machines (ATM). One hypothesis was that, in the case of a deposit via an ATM, no PIN number or identifier was required and so such a requirement should not be built into Internet electronic commerce deposit systems. There was some dispute as to whether a PIN number was required. Some participants felt that, in order to operate any functions via an ATM that a PIN was required whereas others thought that, for a deposit, a PIN number was not necessary. This question was not conclusively resolved due to the inability to test the hypothesis in the meeting.

35.   In discussion around the deposit of cheques in the conventional economy, it was noted that, in Australia, the depositor was required to sign the deposit slip. It was pointed out that this is not the case in the United States. It was noted that it seems to have become a recent requirement in France, that deposit slips are signed, but, in any event, the reverse side of the cheque is signed by the depositor. It was then pointed out that the reverse of a cheque is also signed by the depositor in the United States.

36.   Participants noted the need to keep neutrality in mind in their work but considered that a neutral outcome could be achieved even if the electronic process was not identical to the conventional process.

37.   The participant from New Zealand and the participant from the United Kingdom volunteered to assist in progressing this task.

IIIE.   TASK 4 - INPUT TO STANDARDS BODIES

38.   Participants noted that this item had been effectively covered in discussion of other items. It was noted that electronic commerce is really only just starting on the agendas of many accounting and auditing standard bodies. The participant from IFAC distributed a discussion paper by the IAPC on Electronic Commerce and the Auditor, which suggests that there are unlikely to be major changes in how an audit of e-commerce records is conducted. He noted that a practice paper may be issued but that it was unlikely that a "risk alert" would be issued. The paper is mainly geared to the audit of financial statements and it may become a practice statement. Comments have been requested prior to the March meeting of the IAPC. It was agreed that the paper would be posted to the EDG for comment.

39.   It was agreed that the OECD should contact the accounting and audit standard bodies, inform them of the work in the OECD, especially that of the PDA TAG, and offer to be available to participate or support any standards development process if possible.

40.   In addition, the Secretariat is to prepare an "article" for the participant from IFAC for inclusion in the IFAC newsletter. The participant from IFAC will also generate a list of accounting and auditing standard bodies that may need to be contacted in this process which will be posted to the EDG.

IVA.   DISCLOSURE POLICIES

41.   The Secretariat outlined the disclosure policies being pursued by the various TAGs. The PDA and Technology TAG were regularly transferring their private discussions to the public site whereas the Consumption Tax, Business Profits and Income Characterisation TAG had decided that they would only transfer material to the public site when it was sufficiently well developed for public exposure or when the TAG was in a position to receive public comment.

42.   The participant from Australia noted that this made it difficult to keep informed about developments in the other TAGs as the TAG members were relying on the public site to observe

developments in other TAGs. The Secretariat indicated that the Technology TAG was making more use of the "All User" category to address this difficulty. The participant from the AICPA noted that this was quite undesirable as the "All Users" category was becoming very cluttered and effectively unavailable. She understood that other TAGs also held this view and the Secretariat confirmed that private sector participants in the Business Profits and Income Characterisation TAG had registered complaints about the "All Users" category.

43.   The Secretariat confirmed that the Technology TAG had been informed of this view and was requested to reaffirm it with the Technology TAG.

44.   A number of alternative options were considered to allow each TAG to follow what was happening in the other TAGs. The disclosure policies of the other TAGs were respected and so one prospect was to have a "half-way house", an EDG which only TAG members could access where all communications could be viewed. Participants considered that this was effectively an "All Users" category and would quickly become unmanageable. It was noted that communication between the TAGs was easily facilitated through the Secretariat with co-chairs writing to co-chairs. Participants indicated that this did not seem to be an issue and were not overly concerned with communication per se, but in keeping abreast of developments.

45.   Participants settled on the idea of posting periodic reports to each of the other TAGs. It was suggested that these reports should be bi-annual, unless a particularly significant issue arose requiring an extraordinary posting. The Secretariat was asked to convey this idea to the other TAGs. Reports shared in this was would be held in confidence by all parties.

46.   The Secretariat was also asked to try to "clean up" the All User category by tying related documents together under discussion threads.

IVB.   RESPONSES TO THE CONSUMPTION TAX LETTER

47.   The Secretariat briefly outlined the history of a letter, prepared by the Chair of the Consumption Tax Working Party and addressed to the Technology TAG, which also had implications for the PDA TAG. The Secretariat had made a copy of the letter available to the PDA TAG.

48.   It became obvious, during the discussions, that the PDA TAG was not in a position to effectively respond to the questions raised until some of the questions had been clarified. As the matters relate substantially to task 3, the participant from Australia and leader of task 3, agreed to write to the author of the letter seeking clarification and giving a commitment to respond quickly.

IVC.   PAYMENT SYSTEMS

49.   Due to some rescheduling of agenda items, this agenda item was not addressed.

IVD.   ISACA E-COMMERCE SURVEY AND NET-CENTRIC TECHNOLOGIES

50.   The participant from ISACA with assistance from the business co-chair outlined the ISACA Control Objectives for Net Centric Technology, as well as provided participants with a copy of the substantial 4 volume reference guide.

51.   The key issues covered are that, compared with traditional computer processing which emphasises the location of hardware and its related software and data, net centric technology such as the Internet, means that the network is now the primary concern.

52.   This changes the focus of the control objectives from hardware to the software or data objects.

53.   They also provided some information about a survey, conducted by the Information Systems Audit and Control Foundation (ISACF) and DT. Tax was not a focus of the survey.

54.   The purpose of this survey was to use the results as a basis for defining best practices for electronic commerce security.

55.   This survey is the first part of a four-phase approach. Subsequent phases are:

− a series of technical reference guides will be developed to explore technologies and practices that support eCommerce and

− a series of case studies in eCommerce security will be created.

IVE.   AICPA SYSTRUST AND WEBTRUST

56.   The participant from the AICPA provided an update on the WebTrust product and advised us about developments in a product called SysTrust.

57.   Basically, it was noted that the WebTrust assurance seal is designed to provide consumer and commercial confidence but that, in doing so, it starts to ensure that web sites have some of the auditiable characteristics that are sought by public and private sector external auditors.

V.   NEXT TASKS

58.   The Secretariat outlined that the next tasks to commence, according to the workplan, were tasks 4 and 5. There was some discussion about what was intended by the tasks, including discussion on the issue of "authenticate" as discussed above.

59.   During the discussions there emerged a view that tasks 4, 5 and 7 could be grouped and progressed simultaneously. One immediate source of reference material identified was an ISACA paper on digital signatures which the participant from ISACA said could be provided. While the participant from the IOTP offered to prepare a paper on digital signatures and similar technology to compare their strengths and weaknesses, it was agreed that this could wait until after the ISACA material was made available. If a digital signature paper is prepared, the technology discussion should be prepared in conjunction with the Technology TAG.

60.   The participants from the AICPA, ISACA, DT, ASCPA, IOTP and United Kingdom, Ireland and Spain agreed to take this combined task forward.

61.   On Task 4, and with applicability to the other grouped tasks, it was considered that the most constructive approach would be to determine which technologies give some degree of comparable surety and then to try to indicate that where a particular technique or technology is employed, what degree of validity or reliability can be attributed to the transaction or data.

62.   It was noted that this task will eventually need to be progressed, in part, with the Technology TAG, maybe through the formation of a cross-functional team.

63.   The business co-chair also volunteered to develop a paper on internal audit controls for consideration by the TAG.

64.   During discussions on the next tasks, it was noted that the TAG had the opportunity to invite ad-hoc participation from experts and that we should seek to identify any such potential experts from the responses to the Task 2 survey or through other contacts.