



social security date email ad

By Christopher Roy

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what
a cpa
needs
to know
about

Y number birth
address name

**PRIVACY
AUDITS**



PRIVACY

Just saying the word brings to mind images ranging from peeping toms to Social Security numbers being published on the Internet. However, privacy regulations that affect businesses are becoming the norm. So, what should you as a Wisconsin CPA be concerned with when considering how these privacy regulations might impact the information that you collect during the course of an audit?

Wisconsin, along with a majority of states, has privacy regulations and even an office focused on privacy and data protection (<http://privacy.wi.gov>). Beyond Wisconsin, there are many varied privacy regulations including the recently enacted Federal “Red Flag Rule” (CFR 16, Part 681). The Red Flag Rule requires covered entities to have a written identify theft program based upon a risk assessment. The rule’s applicability to CPAs is currently being challenged in court by the AICPA. In general, privacy regulations govern aspects of what you can or cannot do with personal information, or what happens if it is subject to unauthorized access or loss.

Since privacy is a very broad topic and recognizing that the laws are constantly evolving, let’s discuss some of the areas you might think about as you approach financial audits. By now you have most likely encountered the terms Personal Information or Personally Identifiable Information (PII). But what does it mean? The definition of PII varies widely depending on country or jurisdiction involved, the specific focus of the regulation, standard

used or even the industry involved. For this article, as an example, we will use the definition from the AICPA’s Generally Accepted Privacy Principles (GAPP).

“Personal information . . . is information that is about, or can be related to, an identifiable individual. It includes any information that can be linked to an individual or used to directly or indirectly identify an individual. Individuals, for this purpose, include prospective, current and former customers, employees, and others with whom the entity has a relationship. Most information collected by an organization about an individual is likely to be considered personal information if it can be attributed to an identified individual.”

Social Security numbers immediately come to mind when many people think about PII. But what about information like a drivers’ license number or an e-mail address? These, too, are items that can directly identify an individual. PII can also refer to information that indirectly identifies an individual — information where it is reasonably foreseeable that the information will be linked with other information to identify an individual. PII may include

a combination of things like gender, race, birth date, or even a geographic indicator. Particular combinations may be more sensitive than others (e.g., a name in combination with a Social Security number and address).

Do you encounter PII during the course of your financial audits? How about while preparing tax returns or doing estate planning? Did you know that new regulations under Internal Revenue Code Section 7216, Disclosure or Use of Tax Information by Preparers of Returns, became effective Jan. 1, 2009? The statute limits tax return preparers’ use and disclosure of information obtained during the return preparation process to activities directly related to the preparation of the return. According to the IRS, the regulations describe specific and limited exceptions that allow a preparer to use or disclose return information without the consent of taxpayers.

You may be thinking to yourself right now, “But I only do financial statement audits and there is no PII involved.” While the actual financial statements may not contain PII data, audit work papers generated by auditors working on the financial audits may contain PII. Documentation of management activities, financial transactions and other evidence are often attached to work papers as evidence of activity. Auditors also may include data files or subsets of data as attachments (like Excel spreadsheets) to the work papers to act as evidentiary material.

It is often these data files which may contain PII. Depending on the scope and materiality of the systems included in your audit, you might have data files from payroll systems, travel systems, recruiting and talent management systems, or information reported from a data warehouse that may include more data than what you actually need. How often do you review every tab of an Excel workbook and scroll through all of the columns in the worksheet once you have found the information you are looking for? If you receive information with PII do you have an approach to its protection while it is in your possession and an approach for destruction when you are finished with it? Often your responsibility to adequately protect

and destroy it is not just regulatory, but increasingly it is also a contractual obligation as clients become more concerned about the misuse or loss of personal information. Have you reviewed engagement terms in detail to fully understand your obligations?

You may want to consult with an attorney for specific guidance or interpretation of applicable laws as the laws in Wisconsin and nationally are constantly evolving and proper consultation regarding your responsibility is a prudent course of action. There is also a wealth of information available at your fingertips via the Internet, and from other professionals, that can assist you in developing your approach and program.

Having an appropriate strategy and sticking to that strategy will go a long way toward making certain you handle and protect PII appropriately, and knowing how to respond and limit your potential liability should the unfortunate breach or

misuse of PII occur is imperative. Always question whether you need PII — minimizing storage and retention of sensitive PII can also reduce your risk.

Whether you are auditing company financials, reviewing a client's estate plan or preparing a tax return, you may be privy to a variety of PII. It is your duty as a CPA to comply with applicable privacy regulations and use and protect PII appropriately. Defining your "privacy" approach now can save you time and money, and make certain you maintain the trust of your clients.



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is about, or can be
related to, an
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