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YEAR 2000 ISSUE - PART I

What is the year 2000 ("Y2K") issue ?

When the year 2000 arrives, many computers will recognize the year as "00" instead of "2000". This is because many programs only read the last two digits of the year instead of all four digits.

This will create massive problems with many programs that are being used. Examples are, miscalculations of interest, age, costs, forecasts and other date/time-dependent functions.

In the Technical Highlights - Year 2000 Issue written by Simon Riley, he quoted from the American Institute of Certified Public Accountant, "The Year 2000 Issue - Current Accounting and Auditing Guidance", that the Y2K issue consists of two shortcomings of many electronic data processing systems that make them unable to process year-date data accurately (in or) beyond the year 1999.

The first shortcoming is that, in the past, computer programmers have consistently abbreviated dates by eliminating the first two digits of the year under the assumption that these two digits would always be "19". Thus, 1 January 1965 became "01/01/65". Unless corrected, this shortcut is expected to create widespread problems mere moments after 11:59:59 p.m. on 31 December 1999. Depending on the computer system and programming in place, computers may recognise the date as being 1 January 1900 and process data inaccurately or stop processing altogether.

The second shortcoming is that the algorithm used in some computers for calculating leap years is unable to detect that the year 2000 is a leap year (the year 1900, by contrast, was not a leap year). Therefore, systems that are not year 2000 compliant may not register the additional day, 29 February 2000, and date calculations may be incorrect.

The Y2K issue also may affect computer applications before 1 January 2000 when :

(a) systems attempt to perform calculations that extend into the Y2K or beyond; and /or

(b) the programming relies on "99" in the year field as indicating a default or something other than the year. For those businesses that have computer systems that use "99" in the year field to refer to something other than the year, the Y2K problem will occur one year earlier - that is, at the end of this year.

What are the significant risks entities face ?

Statement of Auditing Practice ("SAP") 20 lists some of the business risk implications of the Y2K issue as follows : -

(a) the substantial cost of updating or replacing computer systems and other date sensitive systems and equipment;

(b) insurers' exclusions for losses/damages attributable to the Y2K issue;

(c) operating losses or business failure, if there is extensive disruption to an entity's ability to conduct business because of a Y2K problem;

(d) reliance on third party systems;

(e) the ability of suppliers, customers and service providers to meet their obligations to the entity;

(f) the potential for litigation and regulatory intervention;

(g) the increased risk of error and/or fraud introduced by major system changes and malfunctioning systems, especially when systems are implemented quickly to meet tight deadlines (for example, when computerised systems fail, processes will be undertaken manually and thus in-built controls will no longer apply and compensating controls may be bypassed); and

(h) completeness of data problems for those systems that use "99" to identify special transactions such as test data or permanent data and such systems cannot process "99" dates.

What are the general responsibilities of the management?

SAP 20 indicates that the management's responsibility for running its business implicitly requires management to take reasonable steps to ensure that the entity is prepared for the Y2K date change and the business will not be materially affected. The management is responsible for :

(a) assessing the effects on the entity's computer systems;
(b) developing plans to address these effects;
(c) assessing the impact of the Y2K issue on the financial statements;
(d) considering the disclosure of Y2K issue in the financial statements especially those required by regulatory bodies, applicable accounting standards and other professional reporting requirements;
(e) assessing the applicability of the going concern basis; and
(f) assessing risks of errors and opportunities for fraud.

How should Y2K cost be accounted for ?

The Institute of Certified Public Accountants of Singapore has approved for publication an Exposure Draft Interpretation, ED/INT 4, Costs of Modifying Existing Software for comments.

The Exposure Draft proposes that costs incurred in order to maintain the future economic benefits that an enterprise can expect from the originally assessed standard of performance of existing software systems should be recognised as an expense when the restoration or maintenance work is carried out.

In respect of costs expected to be incurred in order to restore or maintain the future economic benefits that an enterprise can expect from the originally assessed standard of performance of existing software systems, the Exposure Draft proposes that it be permitted, but not necessarily required, to recognise a provision prior to those costs being incurred but such that :

(a) the amount of the provision recognised should constitute a reasonable estimate of, and be specific to, the restoration or maintenance work yet to be carried out;
(b) the provision should be used only for the expenditures for which the provision was originally recognised and any subsequent revision in the provision should be accounted for as a change in accounting estimate in accordance with the Statement of Accounting Standard No. 8 (revised); and
(c) once the restoration or maintenance work has been carried out, the provision, or that part of the provision representative of the restoration or maintenance work carried out, should be extinguished and should not be deferred and amortised.

What can be done about Y2K?

General help can be obtained from the National Computer Board's website on the Internet at <http://www.ncb.gov.sg/ncb/yr2000/y2k/index.html> which contains information, articles, advice and details on seminars in relation to Y2K issues.

Conclusion

The effects of the Y2K issue to entities should not be ignored but to be considered carefully. The extent to which the effects may disrupt or affect businesses varies among entities. Management should start planning for the identification and correction of Y2K problems if they had not done so.

Sources : SAP 20 : Implications For Management and Auditors of the Year 2000 Issue
Singapore Accountant - July/August 1998 (Technical Highlights by Simon Riley)
ED/INT 4 : Costs of Modifying Existing Software