

The background of the cover features a high-angle photograph of a business meeting. In the upper right, a group of people are gathered around a table, looking at documents. In the lower left, three individuals (two men and one woman) are standing and gesturing with their hands as if in a discussion. The floor is made of large, light-colored square tiles. A solid blue rectangular area is overlaid on the right side of the image, containing the title text. A vertical orange bar is on the far left edge.

# Assurance Services:

A WHITE PAPER FOR PROVIDERS AND  
USERS OF BUSINESS INFORMATION

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# EXECUTIVE SUMMARY

**Audience:** Providers and users of business information who rely on the credibility of that information

**Purpose:** The AICPA Assurance Services Executive Committee developed this paper to help educate providers and users of business information on the value and essential qualities of independent, third-party assurance services to increase confidence in reported information. The paper identifies factors that should be considered in choosing a quality assurance provider.

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# RELIABLE INFORMATION

Users of business information **rely on companies** to communicate **relevant financial** and **nonfinancial information**.  
**Credibility is key.**



Users of business information rely on companies to communicate relevant financial and nonfinancial information. While entities regularly provide such information to influence decisions, it is not enough merely to provide information; decision-makers using that information must have confidence that it is reliable. Credibility is key.

This paper discusses how the decision-makers' confidence in the information on which they rely, can be increased through assurance services.

Relevant information might relate to businesses, not-for-profit organizations, governments or individuals. For example:

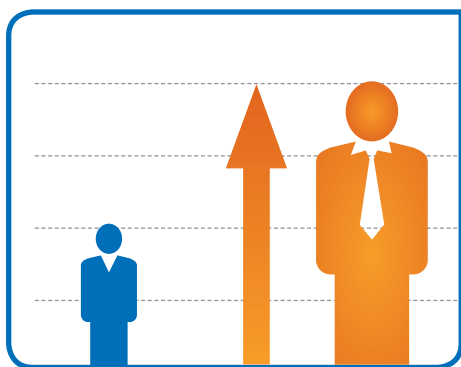
- ▶ Potential investors might require information about past financial results to assess an entity's ability to generate future profits
- ▶ Potential creditors might need to know whether there is sufficient liquidity to service debt
- ▶ Potential trading partners might want information about the effectiveness of an entity's processes and the quality of its goods or services
- ▶ Regulators might be primarily concerned with adherence to laws protecting the public
- ▶ Potential donors to a not-for-profit organization might want information about whether the entity is achieving its stated objectives
- ▶ Other stakeholders might be concerned with the entity's social costs, such as employment practices or sustainability matters

Even for an entity with a solid track record or other demonstrated ability, the cost of establishing a business relationship might be unreasonably high if potential transaction partners harbor doubts about the information presented to them. Decision-makers' uncertainty about the information used in deciding the terms of a relationship, or whether to enter into one at all, often results in inefficient resource allocation — for example, interest rates tend to be higher or donor contributions lower in the face of more uncertainty. Conversely, increasing the credibility of information can reduce uncertainty, foster better decisions and lower the cost of transactions.

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# ASSURANCE SERVICES

To **provide a service that increases confidence** in the information, the **independent professional** providing it has to **engender trust**, not only as a provider of the service but also in the process **the professional uses to deliver it**.



Uncertainty can be reduced by having an independent professional provide a service to enhance the degree of decision-maker confidence in the information, that is, an assurance service. In an assurance service, an outside professional applies procedures designed to probe the credibility of the information and reports on the results.

The entity providing the information might choose to engage the professional voluntarily. For example, it might be financially worthwhile to obtain an independent party's substantiation of its information if an entity trying to raise capital saves more in interest expense than it costs to obtain the assurance service. Or, a not-for-profit might do so if its donations increase more than the assurance service costs. Alternatively, the decision-maker might demand an assurance service as a condition of entering into the transaction or a regulator might call for it to allow the entity access to a market.

To provide a service that increases confidence in the information, the independent professional providing it has to engender trust, not only as a provider of the service but also in the process the professional uses to deliver it. This trust results from a combination of (1) the expertise in the assurance process and knowledge of the subject matter in question, (2) the quality and consistency of service performance and (3) the service provider's reputation. These attributes are important when selecting a professional to provide the service.

# DECIDING ON A SERVICE

CPAs **provide assurance on a broad spectrum of subject matter** other than traditional financial statements, and **the services vary in extent and level of confidence** conferred.



There is a range of assurance services that can be provided to enhance confidence in information. The specific service to be applied is based on the entity's objectives and generally is determined by the engaging party in consultation with the assurance service provider. For example, assurance services provided by CPAs can range from rigorous examinations that result in reports about whether the CPA believes the information to be free of material misstatement to those assurance services employing less rigorous procedures, resulting in lower levels of assurance. Still other services focus instead on advice, information development and recommendations for the engaging party's decision-making.

The portfolio of services provided by CPAs is wide. CPAs provide assurance on a broad spectrum of subject matter other than traditional financial statements, and the services vary in extent and level of confidence conferred. The specific service provided typically is a function of:

- ▶ The importance of the information
- ▶ The risk that the information might be misstated, for example, due to the complexity of the information or the competence level or bias of the entity producing it
- ▶ The level of confidence desired and the cost and the effort required to achieve it

The size or nature of the matter at hand often influences the choice of service. Significant risks to decision-makers might indicate a need for a highly structured engagement that reduces risk to a low level. On the other hand, less decision risk might suggest that a less rigorous level of procedures would be acceptable for the decision in the circumstances. The characteristics of the decision-makers might also influence the selection of a service: Some services are intended for wide use by the general public, while others are designed for a small group of well-informed, involved parties.



Decision-makers, for example, might want information about an entity's compliance with laws, regulations or contractual terms. Assurance related to compliance might be provided in various forms, including:

- ▶ An analysis of compliance for use by the board of directors
- ▶ A separate ancillary report by the financial statement auditor indicating whether, as a result of the audit, any material noncompliance with a specified agreement was identified
- ▶ Tests of compliance with specific contractual or regulatory provisions, resulting in a report communicating test results and conclusions and information about relevant processes
- ▶ An audit of financial information presented on the regulatory basis of accounting or the basis of accounting specified in a contract
- ▶ An examination of a schedule of performance indicators specified in a contract
- ▶ An examination of compliance with specific contractual or regulatory requirements, resulting in a report that includes an explicit expression of an opinion on compliance or controls over compliance

It is not uncommon for services provided to an entity to evolve over time. For example, an entity considering sustainability reporting might engage a CPA to analyze its information systems' ability to provide relevant information and recommend improvements as necessary. Then, in a subsequent period, it might ask for an analysis of the systems' output to identify areas in which the entity is not achieving its goals and, when the systems have sufficiently matured, it might request an examination of and public report regarding whether the sustainability goals have been achieved.



# ASSURANCE SERVICE PROVIDER EXPERTISE

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**Objectivity, integrity, strong analytical skills, experience in measuring various subject matters against criteria, processes for testing the reliability of data and clarity in reporting the results** are critical elements in delivering assurance services.

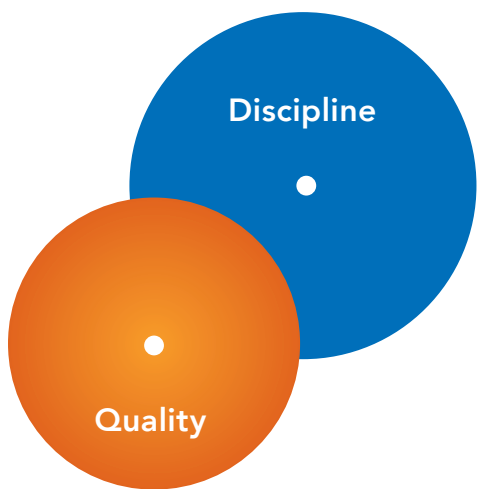
The expertise necessary to provide assurance services involves both (1) the skill to apply appropriate procedures to the information and report on them and (2) adequate knowledge of the subject matter and criteria used to measure or evaluate it.

Historically, a primary function of CPAs has been to perform procedures that influence a user's confidence in information used for decision-making. From the profession's 19th century founding, CPAs have been concerned with developing useful financial information, and testing its reliability. The range of information subject to CPA services has expanded far beyond financial statements over the years, as have the types of services themselves.

Objectivity, integrity, strong analytical skills, experience in measuring various subject matters against criteria, processes for testing the reliability of data, and clarity in reporting the results are critical elements in delivering assurance services. The skills taught to new CPAs and honed in traditional services have been adapted to other subject matter and deployed in other assurance services.

When dealing with subject matter outside of the realm of financial information, CPAs either obtain expertise in the subject matter through training or experience, or they engage specialists with expertise to assist them in delivering the service. A CPA might engage a specialist from outside the firm, but it is not uncommon for CPA firms to have on staff subject matter experts such as actuaries, engineers, economists and information technology experts. Firms with specialized practices might have other types of experts. As examples, a firm providing assurance services on compliance with EPA standards might have chemical engineers on staff, and a firm providing services to the health care industry might have experienced medical personnel.

# DISCIPLINE OVER QUALITY



Often, potential information users are unfamiliar with the specific provider of the assurance service. To reduce their uncertainty, users should be able to rely on the fact that the service is a disciplined process. That is, the service should be performed pursuant to professional standards and with credible oversight.

CPA services, for example, are subject to specific professional requirements. Adherence to these standards is incumbent on CPAs under rules of the American Institute of CPAs and some of those standards have been adopted in individual state laws. When considering obtaining assurance services from providers who are not subject to CPA rules, it is helpful to consider what standards and regulatory oversight will apply to the service.

**State Accountancy Laws** — CPAs are licensed by the states. Because licensure is required in order to provide certain common CPA services, state governments have regulatory authority over a wide range of CPA activities. As a result, some CPA standards are imposed not only by the profession but by force of law. Violation of accountancy laws can lead to substantial fines and license suspension or revocation.

**Ethics Code** — The AICPA Code of Professional Conduct applies to all CPA services. The code establishes behavioral standards and is supplemented by rules specific to individual services. Users of CPA services can assume that, regardless of the service provided or the conclusions reached, the CPA has complied with the requirements in the code.

Depending on the nature of the assurance service, CPAs may be required to be independent of the information provider. Independence typically involves avoidance of relationships with the information provider such that the assurance service provider does not have a financial interest in, advocate for, or assume management responsibilities of the information provider. CPAs providing certain services have to regularly assess, track and maintain independence.

**Quality Control** — Quality control provides a CPA firm with confidence that the firm and its personnel comply with applicable professional and legal and regulatory requirements and that the reports it issues are appropriate in the circumstances. While CPAs are required to apply quality-control policies and procedures over certain services, CPA firms often extend the same quality-control practices to all the services they provide.

CPA firms' quality control practices periodically are examined by independent outside professionals. The examination determines whether quality control is effective and the examination results in a formal report. The report typically is available to the public, allowing potential clients and information users the opportunity to determine a CPA firm's adherence to quality control standards.

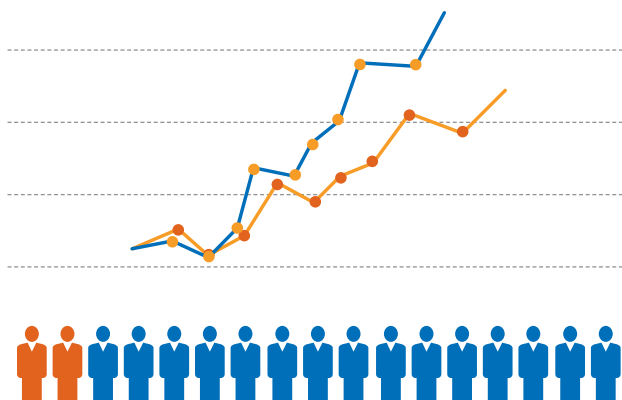
**Service-Specific Standards** — The CPA profession has developed procedural and reporting standards for the various services that CPAs provide. Enforced under the ethics code along with state, and sometimes federal laws, they govern the profession and promote quality and consistency of practice. Part of the external quality review effort discussed above entails consideration of the firm's compliance with these rules for a sample of engagements.

Quality control provides a CPA firm **with confidence** that the firm and its personnel comply with applicable **professional and legal and regulatory** requirements and that the reports it issues are **appropriate** in the circumstances.

# REPUTATION IN THE MARKETPLACE

CPAs have a **solid reputation** built through more than a century of service that **enhances the trust their reports provide.**

Trust flows from reputations built in the marketplace over time. Information providers seeking to raise confidence in their information through assurance services should consider the reputations of prospective assurance services providers. CPAs have a solid reputation built through more than a century of service that enhances the trust their reports provide.



# CONCLUSION

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Increasing decision-makers' confidence in information often is beneficial to both the decision-maker and the information provider. Involvement of an independent professional, such as a CPA trained in providing assurance services and subject to professional and legal standards, can effectively increase that confidence.



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