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Attestation Services: An Introductory Guide



Trust and transparency matter in the business environment. Stakeholders, investors, and regulatory bodies need to know that a company's financial information is accurate and reliable.

This is where attestation services come into play.

They serve as a professional validation process involving an independent examination of a company's financial data or processes by a CPA. The goal is to provide assurance of the accuracy and reliability of the information presented.

This guide will break down what attestation services are and how they can benefit your company.

What is attestation?

Attestation is a service where a CPA reviews and verifies information provided by a company, such as financial statements, internal controls, or compliance with regulations, and issues a report on the reliability of that information. This process ensures that the data is trustworthy and meets established standards.

Attestation services are governed by standards developed by the American Institute of Certified Public Accountants (AICPA). These standards provide guidance, define quality measures, and set the objectives for performing attestation engagements.

What's the difference between assurance, attestation, and auditing?

While assurance, attestation, and auditing services are related, they have distinct scopes and objectives. Understanding these differences can help you determine which service best aligns with your company's needs.



Assurance

Assurance services are the broadest category, encompassing any professional services that improve the quality or context of information for decision-makers. The primary goal is to enhance the reliability and relevance of both financial and non-financial information, thereby increasing stakeholders' confidence in that information. For example, an assurance service might involve evaluating a company's sustainability practices and providing recommendations to enhance environmental compliance. Here, the CPA not only assesses the information but may also suggest ways to improve processes, thereby actively contributing to the reliability of the information provided.

Attestation

Attestation services are a subset of assurance services. In an attestation engagement, a CPA examines and reports on subject matter or an assertion about subject matter that is the responsibility of another party (typically management). The CPA provides a report on the reliability of the information without necessarily offering recommendations for improvement. For instance, a company might request a CPA to attest to its compliance with specific regulatory requirements. The CPA would evaluate the company's adherence to these regulations and issue a report expressing a conclusion about the compliance status, thereby assuring stakeholders of the information's reliability.

Auditing

Auditing is a specific type of attestation service typically focused on the examination of a company's financial statements. The primary objective is to provide an independent opinion on whether the financial statements are presented fairly and in accordance with Generally Accepted Accounting Principles (GAAP). Auditing involves extensive evidence gathering and testing of financial records and internal controls. For example, during an audit, a CPA will verify account balances, assess the effectiveness of internal controls, and evaluate the overall financial reporting process to ensure the financial statements are free of material misstatements.



Understanding these differences can help you determine which service best aligns with your company's needs. If you seek to enhance overall information quality and receive suggestions for improvement, assurance services may be appropriate. If you require a formal opinion on the reliability of specific information, attestation services are suitable. If you need a comprehensive evaluation of your financial statements for regulatory compliance or to instill confidence in investors and lenders, an audit is the right choice.

Common areas for attestation

Attestation services are versatile and can be applied to various aspects of a company's operations. Some common areas include:

- **Financial information:** verifying the accuracy of financial statements or reports to ensure they reflect the company's true financial position. CPAs may also examine financial forecasts or projections to provide assurance on the reasonableness of underlying assumptions.
- **Compliance matters:** ensuring adherence to laws, regulations, or contractual agreements, which is crucial for avoiding legal issues and penalties.
- **Systems and processes:** evaluating the effectiveness of internal controls or IT systems to safeguard assets and maintain data integrity.
- **Sustainability reporting:** confirming the reliability of environmental or social responsibility reports, which is increasingly important for stakeholders concerned with corporate social responsibility.

These services are particularly valuable for businesses seeking funding, publicly traded companies, and organizations in regulated industries like banking or healthcare with strict compliance requirements.



What is the purpose of attestation?

Attestation services serve multiple critical purposes for businesses. If you were considering supporting, investing in, acquiring, or merging with another company, wouldn't you feel more confident if that company's financials and processes were verified by an independent CPA? This is exactly what attestation services offer - assurance that the information you rely on is accurate and trustworthy.

Here are some common reasons why companies engage in attestation services:

- Build trust and credibility,
- Enhance decision-making,
- Facilitate access to capital,
- Regulatory compliance, and
- Improve internal controls.

Types of attestation services

Attestation services come in various forms, each offering different levels of assurance.

Audits

As we discussed, an audit is a rigorous form of attestation. It involves the CPA thoroughly testing and verifying the client's financial information and compliance with GAAP. The CPA then provides an opinion on the credibility and reliability of financial statement presentation.

Reviews

A review offers limited assurance and is less comprehensive than an audit. The CPA conducts analytical procedures and inquiries without extensive testing of records. While not as in-depth as an audit, a review can still identify any material modifications needed for the financial statements to be in accordance with GAAP.



Agreed-upon procedures

Agreed-upon procedures are tailored to specific concerns or areas identified by the company. The CPA performs procedures agreed upon with the client, such as verifying a particular account balance, testing compliance with a specific contract term, or evaluating a particular internal control. This type of engagement does not result in an opinion but provides factual findings that the company can use for specific purposes.

For instance, a company may engage a CPA to verify the accuracy of its inventory levels before a major sale or merger. The CPA would perform specific tests on inventory records and report the findings, which can help the company make timely adjustments if necessary.

Attestation reports and assertions

The outcome of an attestation service is a report issued by the CPA on the accuracy and reliability of the information based on the evidence gathered. Attestation reports typically fall into the following categories:

Unqualified opinion

An unqualified opinion indicates that the CPA found no material misstatements in the financial statements. This provides the highest level of assurance that the financial information is accurate and reliable.

Qualified opinion

A qualified opinion signifies that while the financial statements are generally reliable, there are specific exceptions or material misstatements that need to be addressed. This opinion highlights areas of concern without undermining the overall integrity of the financial statements.



Adverse opinion

An adverse opinion indicates significant material misstatements or discrepancies that render the financial statements unreliable. This opinion raises serious concerns about the company's financial reporting and requires immediate attention from management.

Disclaimer of opinion

In some cases, a CPA may issue a disclaimer of opinion if they are unable to obtain sufficient appropriate evidence to form an opinion, often due to limitations imposed by the client or other circumstances.

Moving forward

Attestation services are more than just a regulatory requirement - they are a strategic tool for enhancing trust, managing risks, and driving business success. By leveraging attestation services, businesses demonstrate their commitment to transparency and excellence - qualities that resonate with investors, clients, and stakeholders alike.



Next Step

This document is merely a brief overview of attestation services. If you'd like more detailed information or are interested in engaging us for attestation services, please contact our office. Our team of expert advisors is ready to assist you in achieving financial clarity and building trust in your company.



About Harding, Shymanski & Co.

Harding, Shymanski & Company, P.S.C. is a public accounting firm with offices in Evansville, Indiana, and Louisville, Kentucky. We are one of the largest accounting firms in Southern Indiana and Kentucky, providing experienced professionals who look beyond the numbers to the heart of complex issues.

Our clients range in size from small proprietorships to billion-dollar corporations, from closely-held and family-owned businesses to publicly traded firms. They span nearly every industry: finance, communications, construction, mining, manufacturing, non-profit, wholesale, retail, transportation, government, healthcare, and service. They all have one thing in common: they count on our expertise to capitalize on their opportunities and make the best of their challenges.



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