How to Design
A CREDIBLE VERIFICATION
PROGRAM
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EXECUTIVE SUMMARY

The Assurance Services Executive Committee of the American Institute of CPAs (AICPA) recently published a white paper that discussed the value of third-party verification services and the factors to be considered in selecting quality third-party verification services providers. This document complements that white paper and is intended to assist organizations that are considering establishing and designing a third-party verification program.

Organizations that may consider establishing and designing a third-party verification program include government agencies and legislative bodies (federal, state, tribal and local), business organizations, not-for-profit organizations, and associations. The organization that designs the third-party verification program also often has administrative responsibility for operating it. This white paper uses the term program administrator when referring to the organization that administers the overall verification program.

This white paper identifies the essential elements of an effective verification program and the factors that should be considered when designing such a program. It also describes the advantages of including CPAs as assessors in a third-party verification program and incorporating the standards they follow into the program.

1 Assurance Services: A White Paper for Providers and Users of Business Information aicpa.org/InterestAreas/FRC/AssuranceAdvisoryServices
OBJECTIVE OF THIRD-PARTY VERIFICATION PROGRAMS

The objective of a third-party verification program is to increase users’ confidence that information (including data) or services provided by others is reliable.

This is accomplished by having an objective third party assess and report on the information or services against established criteria. Third-party verification services include audits of financial statements as well as attest engagements (examinations, reviews and agreed-upon procedures) and other assessments (for example, performance audits, evaluations, and inspections) related to other subject matter. Examples of verification services on other subject matter include the following:

- Examining controls for an internal, vendor, or service organization IT system
- Evaluating a government program, activity, or function in a performance audit under Government Auditing Standards
- Examining internal control over compliance with specified laws, regulations, rules, contracts or grants
- Independent private sector audits of conflict minerals reports
- Examining and reviewing sustainability and greenhouse gas emissions reports
- Examining compliance with specified laws, regulations, rules, contracts or grants (for example, Health Insurance Portability and Accountability Act of 1996 [HIPAA] and security compliance)
- Applying agreed-upon procedures to license and royalty fees
ROLES AND RESPONSIBILITIES

Third-party verification services involve three main parties: the responsible party, users and assessors.

- The responsible party (provider) is the provider of the information or services and is responsible for the subject matter covered by the information or service.

- Users are the primary recipients or beneficiaries of the information or services provided by the provider. However, there also may be other users. For example, a government agency that receives information or services from a provider may be the primary user, but the information may also be made available to other users, including other government agencies, Congress or the public.

- The assessor is an independent party that assesses the reliability of the information or services provided to the users.²

² When the assessor is a firm or other organization, the term assessor refers to the firm collectively, rather than an individual assessor within the firm.
WHO ENGAGES THE ASSESSOR?

One consideration when designing a third-party verification program is deciding who will be responsible for selecting and engaging the assessor to perform the third-party verification.

Generally, either the provider(s) or the program administrator will select and engage the assessor. When making a decision about who will engage the assessor, the organization that designs or administers the program may weigh factors such as the administrative burden associated with engaging assessors and whether the program administrator is capable of and wants to exercise oversight over each of the provider’s verification engagements. The decision about who engages the assessor is often a function of the nature and size of the program. For example, if the program has a relatively small number of providers participating in the program, the organization designing or administering the program may determine that the ability to select the assessor(s) and oversee the verification engagements is worth the associated administrative burden and costs. Conversely, if a large number of providers participate in the program, the organization designing or administering the program may determine that it would not be administratively feasible for it to engage the assessors and, therefore, may structure the program so that each individual provider is responsible for engaging its own assessor.

Although it is common for the party that selects the assessor to pay for the service, that is not necessarily the case. For example, the provider might be required to engage the assessor, while the program administrator pays the assessor directly or reimburses the provider for the cost of the engagement. Alternatively, the provider may be required to pay the assessor even when the assessor is selected by the program administrator.
Examples of subject matter include financial information, nonfinancial information, information about the adequacy of the provider’s processes and controls, and information about the provider’s compliance with specified requirements. Verification services may cover the subject matter for a period of time or as of a specified date. The organization establishing the program usually starts with a general idea about the subject matter that requires verification. Factors that should be considered when determining the exact subject matter and its manner of presentation include the needs of users; the degree to which the subject matter is conducive to verification, including the existence of, or the ability to, establish suitable criteria against which to assess the subject matter; and the degree to which underlying evidence exists to support the subject matter.

Users’ Needs

With respect to the subject matter, the users’ needs are key factors in determining the exact focus of the verification program. Questions to consider include the following:

- What information or service is being provided to the users?
- What are the users doing with that information or service?

For example, if the users are having their information processed or stored using the provider’s IT systems, the users may need assurance regarding the reliability of the provider’s systems, processes, and the controls used to process the information accurately or store the information securely. Alternatively, if the provider is providing financial or nonfinancial information to the users, the users may be more interested in obtaining assurance regarding the information itself, rather than assurance regarding the provider’s processes, systems and controls.
Conduciveness of the Subject Matter to Verification

In order for a third-party verification program to be successful, it is important that the subject matter be capable of being consistently evaluated against suitable criteria. This is necessary so that different assessors generally are able to obtain similar results and reach similar conclusions when assessing the same subject matter. The subject matter, its manner of presentation, and underlying documentation requirements should all be designed with this goal in mind.

Suitable criteria against which the assessor can evaluate the subject matter must exist or be created. Attributes of suitable criteria include relevance, objectivity, completeness, and the capability to allow reasonably consistent quantitative or qualitative measurement (that is, measurability). Various bodies have developed criteria for certain subject matter.

For example, the National Institute of Standards and Technology (NIST) has created standards related to computer security. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) has created a framework against which to assess a system of internal control, and the Government Accountability Office has issued internal control standards based on the COSO framework specific to governmental entities in its Standards for Internal Control in the Federal Government (also known as the Green Book). The AICPA has developed measurement criteria for assessing controls relevant to the security, availability, and processing integrity of an IT system and the confidentiality and privacy of the information processed by the system. Organizations establishing verification programs should consider whether a set of suitable criteria has already been established relating to the subject matter and, if not, should develop a set of criteria that have the preceding attributes.
The provider needs to clearly understand the criteria and requirements associated with the preparation of the information or the performance of the service that constitutes the subject matter. This includes requirements that must be met when developing the information or carrying out the service; requirements for reporting on the information or service that constitutes the subject matter; and requirements concerning records and documentation that must be kept and made available to the assessor.

As indicated previously, a third-party verification program should be designed to allow for consistent evaluations by different assessors of the same subject matter. Designing and communicating appropriate reporting requirements for the provider is very important in reaching this goal. The presentation of the subject matter can take many forms. If the subject matter to be verified is financial data or quantitative nonfinancial information, presenting the information in a manner that permits it to be traced back to supporting records is essential to the verification engagement. However, if the information to be reported on is, for example, the adequacy of the provider’s performance, processes, systems, or compliance, the description of the subject matter or assertion about the subject matter should be structured in a way that allows consistent evaluation. Similarly, if the provider is required to provide a rating or grade regarding its performance, processes, systems, or compliance in accordance with an established rating or grade structure, each rating or grade level should be defined with suitable criteria.
WHAT LEVEL OF ASSURANCE IS NEEDED?

A key factor in designing a third-party verification program is deciding on the appropriate level of assurance. A range of assurance levels can be provided to enhance confidence in the subject matter. Do users need the assessor to perform a rigorous assessment of the subject matter and provide a report with a conclusion on its reliability, or can the assessor meet the users’ needs by performing less rigorous procedures, resulting in a lower level of assurance? The needed level of assurance typically is a function of:

- The importance of the subject matter and the potential consequences if users place inappropriate reliance on it.
- The risk that the subject matter 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 effort required to achieve it.

The more important the subject matter is to users and the greater the consequences if users rely on misstated subject matter, the greater the degree of confidence users need in its reliability. This likely would require a third-party verification engagement that provides a higher level of assurance. The greater the risk that the subject matter is misstated would also indicate that a third-party verification engagement that provides a higher level of assurance is appropriate. Cost may be another factor in deciding on the level of assurance. Generally, the higher the level of assurance required, the higher the cost will be. When deciding on the type of verification service to incorporate into a third-party verification program, it is important to understand the level of assurance each type of service provides and incorporate into the program the type of service that provides the desired level of assurance.
An effective verification program should provide clear, comprehensive qualification requirements for assessors. At a minimum, such requirements should cover competence and objectivity. Designers of third-party verification programs may also want to consider whether it is necessary or desirable to use assessors from a recognized profession whose members hold a professional license or credential.

**Competence**

Assessors must have expertise in both the subject matter that requires verification as well as the verification process. The personnel assigned to the verification engagement should collectively possess the professional knowledge and skills to perform the work required to satisfy the objectives of the engagement in accordance with applicable standards and requirements. In addition to knowledge and expertise in the subject matter of the verification engagement, the assessor should be familiar with the standards, requirements, methodologies, and procedures for performing and reporting the results of the verification engagement. Competence is derived from a combination of education, training, and experience. Engaging assessors that are required by their professional standards to obtain relevant continuing professional education on an ongoing basis will help ensure that they maintain a current level of knowledge in the areas needed to perform the verification engagements.

**Objectivity and Independence**

The objectivity of the assessors is the foundation of any credible verification program. Without it, the underlying objective of enhancing the credibility of, and the user’s confidence in, the subject matter cannot be achieved. Assessors should be free of conflicts of interest with providers and the subject matter. Requiring assessors to be independent of the providers they assess is one means of achieving objectivity. Independence comprises both independence...
of mind and independence in appearance. Independence of mind allows the assessor to exercise professional judgment and perform and report the results of the verification engagement objectively, with integrity and an appropriate degree of professional skepticism. The users’ perception that the assessor is independent (that is, the appearance of independence) is also important, so that users and others view the results and conclusions of the assessor as impartial.

Threats to independence can arise from personal and professional relationships between the assessor and the provider. For example, performing certain other professional services for the provider may create a threat to the assessor’s independence with regard to performing the verification service. This may occur when the assessor performs consulting services that are directly related to the subject matter of the verification program, which would result in the assessor assessing his or her own work (that is, self-review threat). When establishing requirements for assessors, program designers should consider adopting rules or incorporating standards to eliminate or reduce potential threats to the assessors’ independence. In addition, program designers should ensure that any required verification procedures do not result in the assessor performing functions that are actually the role of the provider’s management, such as making decisions about the subject matter or designing or implementing processes related to the subject matter.

Professional Licensure or Credentials

Using assessors from a recognized profession in which members are licensed or hold a professional certification issued by a government body or professional organization or some sort of specialty credential may enhance users’ confidence in the verification process. Examples of such licenses and certificates include CPA licenses issued by state boards of accountancy and certified information systems auditor (CISA) designations issued by ISACA. The advantage of using assessors from recognized professions that require professional licenses or certifications is that such licensing or certification programs usually require that individuals demonstrate knowledge and expertise in their specified area through a testing program, required experience, or both. Such licensing or certifying bodies also often establish standards to which licensees or certificate holders are required to adhere, including independence, performance, and reporting standards and continuing professional education requirements. State licensing bodies and some professional organizations also have an enforcement mechanism to investigate alleged violations of those standards by their licensees or certificate holders.

3 ISACA was originally known as the Information Systems Audit and Control Association but now goes by the acronym only.
Organizations designing third-party verification programs should also specify the requirements for verification engagements, including related performance and reporting standards, to help ensure that high quality third-party verification engagements that meet the objectives of the verification program are consistently performed by all assessors. Standards that address the following will help ensure consistent engagement performance among assessors:

- Planning the engagement
- The sufficiency and appropriateness of evidence to be obtained
- Materiality levels to be used in evaluating the results and drawing conclusions
- The documentation that assessors are expected to maintain

Reporting standards will help ensure that the results of the third-party verification engagements are reported clearly and consistently and users can easily understand the findings and conclusions of the assessor.

When specifying performance and reporting standards, program designers should be mindful of the professional performance and reporting standards that certain types of assessors (for example, CPAs and CISAs) are required to follow. Program designers should consider whether those performance and reporting standards will meet the needs of the program and, if so, incorporate them by reference in the program requirements. Doing so not only frees the program designer from having to create such standards and requirements but also avoids the effort and cost of keeping them updated.
Program designers should also take care to avoid creating requirements that would contradict such professional standards, thereby precluding qualified professionals from participating as assessors in the program. For example, specifying reporting language for the assessor’s report that violates the professional standards that certain assessors (such as CPAs) are required to follow would preclude them from participating in the program as assessors.
Another component of an effective third-party verification program is assessor quality control. Requiring assessors to establish and maintain a system of quality control that is designed to provide reasonable assurance that the assessor and its personnel comply with applicable professional standards and the requirements of the program helps ensure that high-quality verifications are performed. An effective quality control program includes controls that apply to individual engagements and at an organization level. Examples of engagement-specific controls include controls to help ensure that the work performed is appropriately supervised and that there is a second-level review of the engagement report before it is issued. Organizational-level quality controls include controls to ensure that the assessor has (1) competent personnel and assigns staff that have appropriate knowledge and experience to perform the engagements and (2) an ongoing system for assessing whether the organization’s quality control system is appropriately designed and operating effectively across all engagements.

Participation in an external peer review program can also enhance confidence that assessors are performing their work in accordance with applicable professional standards and the requirements of the verification program. Such participation would demonstrate to the assessor, providers, users, and, if different, the program administrator that a periodic independent assessment of the assessor’s systems of quality control has been performed.

If the program administrator has the resources and the necessary technical expertise, it may want to establish a process to review assessors’ reports to evaluate whether they meet the reporting standards and requirements. The program administrator may also consider establishing a process for performing its own quality control reviews of the underlying documentation and supporting verification engagement reports to assess whether the work performed supports the assessors’ reports and meets performance standards and requirements.
CPAs have valuable experience and expertise in providing independent third-party verification services.

CPAs have been providing assurance services on financial information for over a century. Because the public holds the CPA profession in high regard, CPAs have been called upon to broaden their assurance services beyond audits of financial statements to other subject matter. As a result, CPAs now perform attestation engagements on other subject matter under the AICPA attestation standards. The AICPA standards are well-established and widely accepted. For example, the standards for financial audits and attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States, incorporate and are based on the AICPA standards. As described in the following list, the rules and standards that CPAs follow address all the desired elements of an effective verification program discussed previously:

- CPAs are required to follow an extensive set of independence, performance, and reporting standards, which are developed by bodies of experts in auditing and attestation engagements and subject to an extensive public due process before being finalized. These standards require CPAs to maintain expertise in the practice of auditing and assurance services and the subject matter on which they provide these services. The CPA profession continuously maintains these standards.

- CPAs are also required to follow quality control standards to help ensure that they meet professional standards when performing audit and attestation engagements. These standards require that CPAs establish a quality control system and participate in a peer review program in which their work products are reviewed every three years by an independent outside party.
The CPA profession is regulated by state boards of accountancy. State boards of accountancy establish the basic qualification requirements to obtain and maintain a CPA license and regulate the activities of CPAs. To become a CPA, an individual must undergo extensive training in auditing and the attest function. CPA candidates must pass a rigorous uniform national examination that includes extensive coverage of general auditing and attestation matters. Most states now require individuals to have 150 semester hours of college education, and almost all states require a minimum level of experience to obtain a CPA license. Most states also require 80 hours of continuing professional education every 2 years to maintain an active CPA license.

AICPA members, of which there are more than 400,000, are required to follow the AICPA Code of Professional Conduct. Among other things, the code requires CPAs to be objective, act with integrity, have no conflicts of interest, not subordinate their judgment to others, be competent, and comply with applicable standards and requirements.

The CPA profession, through the state boards of accountancy and the AICPA, has enforcement mechanisms to enforce the standards and requirements that CPAs are required to follow.

Organizations establishing a third-party verification program can easily incorporate the AICPA standards into their programs by reference. Doing so helps ensure that the program incorporates the elements of an effective program in an efficient manner (that is, without having to create and maintain those elements themselves). Including CPAs in a third-party verification program helps ensure that verification engagements are performed by highly qualified and experienced assessors.
When establishing a new third-party verification program in legislation or regulation, legislators, legislative staff and regulators should avoid being overly prescriptive, which could lead to creating unintended barriers to an effective program. Legislation or regulation establishing a third-party verification program should provide the objectives of the program, identify the providers and users to which it applies, authorize funding for the program, and designate the responsible government official or agency responsible for administering the program. It may also establish the basic framework of the program.

To avoid creating barriers to program effectiveness, a best practice would be to delegate the authority to design as many of the program details as possible to the designated government agency that is responsible for the program. This is because revising legislation can be challenging and takes a relatively longer period of time to accomplish than revising regulations or non-regulatory guidance. For example, specifying the due date for third-party verification reports in legislation may unintentionally create a barrier to program effectiveness if, after gaining experience with the program, the intended users determine that they need the reports sooner than the statutory due date to make effective use of the verification reports. If legislators are reluctant to delegate some program details, an alternative would be to establish the initial requirements in legislation and provide the designated government official or agency with authority to periodically change them. For example, the legislation could establish a specific due date for the third-party verification reports but provide the designated government official or agency the authority to establish an earlier due date based on a review of how the program is operating.
As noted previously, certain professionals, such as CPAs or CISAs, are required to follow applicable professional standards when providing third-party verification services. It is important to be mindful of such professional standards when designing qualification, performance and reporting requirements for assessors to avoid creating other requirements that would contradict such standards, thereby precluding knowledgeable and experienced professionals from providing third-party verification services under the program. Consulting with representatives of professional associations of recognized assessors, such as the AICPA, during all stages of establishing and designing a third-party verification program (establishing legislation and regulations and implementing guidance or guides) would help ensure that qualified professional assessors are not precluded from participating in the program.
Users of information and services provided by others need to be confident that the information and services are reliable. Establishing a third-party verification program can increase users’ confidence in the credibility of the information and services they receive. Elements of an effective third-party verification program include the following:

- Subject matter that is relevant to users and capable of consistent evaluation against suitable criteria that are relevant, objective and complete
- Clear performance and reporting requirements for providers with respect to the subject matter
- Third-party verification reports that provide the appropriate level of assurance
- Appropriate standards and requirements concerning the competence, objectivity and qualifications of assessors
- Appropriate performance, reporting and quality control standards and requirements for assessors
When designing third-party verification programs, organizations should determine which party should engage the assessor and take care not to establish requirements for assessors that would preclude qualified assessors from providing verification services. Basing a verification program on the AICPA standards can be an efficient and effective way of ensuring that the program incorporates the elements needed to be effective. Because of their training, expertise and professional standards and requirements under which they operate, CPAs are highly qualified to provide third-party verification services.

We stand ready to provide advice and assistance to organizations that wish to establish third-party verification programs and encourage such organizations to contact us early in the process.

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