



July 2010

AUDIT, REVIEW OR COMPILATION - WHICH SERVICE IS RIGHT FOR YOUR BUSINESS?

By Shanon Adams, CPA, CFE

You know that your financial statements are fairly accurate, but those that rely on them want another opinion. Banks, shareholders, vendors and potential investors want assurance that your financial statements appropriately reflect the results of your operations. Businesses are typically faced with the question of what level of assurance is necessary from their CPA firm at least once a year. The level of service you choose depends on what the information will be used for and who is actually requiring it to be performed. Audited, reviewed and compiled financial statements are the three levels of financial statement attest services that are available.

COMPILED FINANCIAL STATEMENTS

A compilation is the lowest level of service and consequently the least in cost to perform as compared to a review and audit.

- The objective of a compilation is to present in the form of financial statements, information that is the representation of management.
- A compilation does not contemplate performing inquiry, analytical procedures (ratio application) or other procedures performed in a review.
- A compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; tests of accounting records by obtaining sufficient appropriate evidence through inspection, observation, confirmation, the examination of source documents or other procedures ordinarily performed in an audit.
- A compilation does NOT provide a basis for expressing ANY level of assurance on the financial statements being compiled.

REVIEWED FINANCIAL STATEMENTS

A review is more detailed than a compilation but less than an audit.

- The objective of a review is to express LIMITED ASSURANCE that there are no material modifications that should be made to the financial statements in order for the statements to be in accordance with generally accepted accounting principles.
- As in a compilation a review does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; tests of accounting records by obtaining sufficient appropriate evidence through inspection, observation, confirmation, the examination of source documents or other procedures ordinarily performed in an audit.
- A review does not provide assurance that all significant matters that would be disclosed in an audit will be identified.

AUDITED FINANCIAL STATEMENTS

An audit is the highest level of the three services to be performed.

- The objective of audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.
- The auditing procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of certain assets and liabilities by correspondence with selected customers, creditors, and financial institutions.
- An audit is designed to provide reasonable, but not absolute, assurance and therefore will not include a detailed examination of ALL transactions. As a result, there is a risk that material misstatements may exist and not be detected.
- An audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, any material errors or any fraudulent financial reporting or misappropriation of assets will be communicated.
- An audit will include obtaining an understanding of the entity and its environment, including internal control however an audit is not designed to provide assurance on internal control or to identify deficiencies in internal control.

NOTE: A compilation and review engagement cannot be relied upon to disclose errors, fraud or illegal acts that may exist. However, if any evidence of the above is discovered it will be communicated to management. An audit is planned to obtain reasonable assurance about whether the financial statements are free of material misstatements as a result of errors, fraudulent financial reporting, misappropriation of assets or violations of laws or governmental regulations. This is a reasonable assurance but NOT absolute.

The above information is not all inclusive in regard to what each engagement does and doesn't do, but provides an overview. It is important for management to be informed of what service they are asking for, what will actually be performed and what is expected of the firm conducting the engagement. If your business is asked to provide financial statements at any level please obtain a full understanding of what you need, why you need it and what the service will accomplish.

Shanon Adams, CPA and Certified Fraud Examiner, is an audit manager with Bertke & Sparks CPAs. She can be reached at 859-344-6400 ext.108 or sma@bertkesparks.com.