

Differences between Audits, Reviews and Compilations

by Joshua Jumper, CPA, CGFM, Audit Manager

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Accounting firms can provide a host of different services to organizations. Three types of services that often get confused with each other are compilations, reviews and audits. This quick refresher will provide the core differences between the three services, as well as important points to keep in mind when deciding which service is needed for your organization.

A compilation is the simplest level of service that can be performed on an organization's financial statements. A compilation only involves presenting information, consistent with management's representation, in the form of financial statements. This is done without expressing any assurance on those financial statements. During a compilation engagement, the accounting firm is not required to verify or corroborate the amounts included in the financial statement that is presented by the client.

Another common type of service provided is a review of financial statements. A review requires the accountant to make inquiries of the client and perform analytical procedures related to the amounts and disclosures in the financial statements. By performing inquiry and analytics, the accountant is able to provide limited assurance that they are not aware of any material modifications that should be made to the financial statement. A review typically does not require tests of accounting records or the need to obtain corroborating evidential matter.

An audit provides the highest level of assurance and will therefore require more work by the accounting firm than the other two services. The most significant difference between an audit engagement and other services are that the accountants (now considered auditors) are required to corroborate the amounts and disclosures included in the financial statements through tests of accounting documents, physical inspection, third party confirmations, or other procedures as

deemed appropriate. Another major difference that requires additional work by the auditor is that an audit includes understanding an organization's internal control structure and evaluating its effectiveness. Moreover, an audit concludes a separate report that provides an opinion that the financial statements present fairly in all material respects, the financial position of the organization and the results of operations in conformity with generally accepted accounting principles. An audit provides reasonable assurance that the financial statements are free from material misstatement, which is greater than the limited assurance that a review provides.

As you can see by the above descriptions, each higher level of assurance will increase in the amount of time and effort required from both the accounting firm and your organization. Before deciding upon a level of service, your organizations must review all relevant factors, including which services require more planning and effort.

So, which service is best for you? First of all, your organization should consider who the users of the financial statements will be and what type of assurances they will require. Do oversight agencies, creditors, or grantors require an audit or will a review be sufficient? Another important issue should be what the organization's management and governing body want as assurance on its own financial statements. Finally, do not forget to make sure that your organization has a discussion with your potential accounting firm early in the process. This will go a long way to ensure the proper engagement is completed timely and efficiently while meeting your organization's needs.

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