



What Is the Difference Between a Compilation, a Review and an Audit?

Comparative Overview

The level of service is determined by your needs as the client, and what your creditors and/or investors require. The higher the level of service required, the more time the CPA needs to complete the engagement and therefore the more costly the engagement. While privately held companies opt for compiled or reviewed statements, credit agreements with lenders often require audited statements.



Compilation

- Compiled financial statements represent the **most basic level of service** CPAs provide with respect to financial statements.
- In a compilation engagement, the accountant assists management in presenting financial information in the form of financial statements **without undertaking to obtain or provide any assurance** that there are no material modifications that should be made to the financial statements.
- In a compilation, the CPA **must comply with Statements on Standards for Accounting and Review Services (SSARs)**, which require the accountant to have an understanding of the industry in which the client operates, obtain knowledge about the client, and read the financial statements and consider whether such financial statements appear appropriate in form and free from obvious material errors.
- A compilation **does not contemplate performing inquiry, analytical procedures, or other procedures ordinarily performed in a review**; or obtaining an understanding of the entity's internal control; assessing fraud risk; or testing of accounting records; or other procedures ordinarily performed in an audit.

- The CPA issues a report stating the compilation was performed in accordance with Statements on Standards for Accounting and Review Services; and that **the accountant has not audited or reviewed the financial statements** and accordingly does not express an opinion or provide any assurance about whether the financial statements are in accordance with the applicable financial reporting framework.

Review

- Reviewed financial statements provide the user with comfort that, based on the accountant's review, **the accountant is not aware of any material modifications** that should be made to the financial statements for the statements to be in conformity with the applicable financial reporting framework.
- A review engagement involves the CPA performing procedures (primarily analytical procedures and inquiries) that will provide a **reasonable basis for obtaining limited assurance** that there are no material modifications that should be made to the financial statements for them to be in conformity with the applicable financial reporting framework.
- In a review, the CPA designs and performs analytical procedures, inquiries and other procedures,

as appropriate, based on the accountant's understanding of the industry, knowledge of the client, and awareness of the risk that he or she may unknowingly fail to modify the accountant's review report on financial statements that are materially misstated. **A review does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records; or other procedures ordinarily performed in an audit.**

- The CPA issues a report stating the review was performed in accordance with Statements on Standards for Accounting and Review Services; that management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework and for designing, implementing and maintaining internal control relevant to the preparation

Contact: Curt A. Reppuhn, CPA

Echelbarger, Himebaugh, Tamm & Co

5136 Cascade Rd SE Ste 2A

Grand Rapids, MI 49546

616-575-3482 / CurtR@ehtc.com

www.ehtc.com

Compilation vs. Review vs. Audit

Comparative Snapshot			
	Compilation	Review	Audit
Level of Assurance Obtained by the Accountant/Auditor that the Financial Statements Are Not Materially Misstated	Accountant does not obtain or provide any assurance that there are no material modifications that should be made to the financial statements	Accountant obtains limited assurance that there are no material modifications that should be made to the financial statements	The auditor obtains a high, but not absolute, level of assurance about whether the financial statements are free of material misstatement
Objective	To assist management in presenting financial information in the form of financial statements without undertaking to provide any assurance that there are no material modifications that should be made to the financial statements	To obtain limited assurance that there are no material modifications that should be made to the financial statements	To obtain a high level of assurance about whether the financial statements as a whole are free of material misstatement thereby enabling the auditor to express an opinion on whether the financial statements are presented fairly, in all material respects
Assurance Provided to the User of the Financial Statements	None – the report states that no assurance is provided	None – the report provides a statement that the accountant is not aware of any material modifications that should be made to the financial statements	None – the auditor provides an opinion as to whether the financial statements present fairly, in all material respects, the company's financial position, results of operations and cash flows
The accountant is required to obtain an understanding of the entity's internal control and assess fraud risk			✓
The accountant is required to perform inquiry and analytical procedures		✓	✓
The accountant is required to perform verification and substantiation procedures			✓
Situations requiring different levels of service	Generally appropriate for privately held companies and are often prepared for simple situations (e.g., a lender needs GAAP financial statements instead of the statements the internal accounting system produces or the lender needs the comfort provided by knowing that an accountant read the financial statements)	Often prepared for privately held companies because of requirements of outside third parties (such as banks, creditors and potential purchasers) that are looking for comfort that the financial statements are not materially misstated	Often prepared for companies because outside third parties (such as banks, creditors, potential purchasers and outside investors) require an auditor's opinion on the financial statements
Differences in costs for each level of service	Involves the lowest amount of work and as a result is far less costly than a review or audit	More costly than a compilation but substantially lower in cost than an audit	Involves the most work and therefore the cost is substantially higher than a review or compilation

and fair presentation of the financial statements; that a review includes primarily applying analytical procedures to management's financial data and making inquiries of management; that a review is **substantially less in scope than an audit** and that the CPA is not aware of any material modifications that should be made to the financial


statements for them to be in conformity with the applicable financial reporting framework.

Audit

- Audited financial statements **provide the user with the auditor's opinion** that the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.
- In an audit, **the auditor is required** by auditing standards generally accepted in the United States of America (GAAS) **to obtain an understanding of the entity's internal control and assess fraud risk**. The auditor also is required to corroborate the amounts and disclosures included in the financial statements by obtaining audit

evidence through inquiry, physical inspection, observation, third-party confirmations, examination, analytical procedures and other procedures.

- The auditor issues a report that states the audit was conducted in accordance with GAAS, the financial statements are the responsibility of management, provides an opinion that the financial statements present fairly in all material respects the financial position of the company and the results of operations are in conformity with the applicable financial reporting framework (or issues a qualified opinion if the financial statements are not in conformity with the applicable financial reporting framework. **The auditor may also issue a disclaimer of opinion or an adverse opinion if appropriate**).



America Counts on CPAs®

PCPS
Private Companies
Practice Section

aicpa.org/pcps

©2010 American Institute of CPAs