

Silver Advantage **Accounting Alert**

Compilations, Reviews and Audits, Oh My!

By John Pouloupoulos, CPA - Audit Manager

As accountants, we often are asked about the difference among the three types of financial statement reports: compilations, reviews and audits. In deciding what type of financial statement report your company should obtain, you'll need to consider the requirements of the company and of the company's creditors and/or investors. Generally, financial statements consist of a balance sheet, a statement of income, a cash flow statement and footnotes. The statements can be presented within the financial reporting framework of Generally Accepted Accounting Principles (GAAP) or Other Comprehensive Basis of Accounting (OCBOA), such as cash basis. Regardless of the financial reporting framework, the financial statements are accompanied by a report, Accountants' Compilation Report, Independent Accountants' Review Report or Independent Auditors' Report, explaining the level of assurance and the procedures applied. Following are brief descriptions explaining the nuances between the three types of reports.

Compiled Financial Statement Report (Compilation)

Compilations represent the most basic level of service we provide with respect to financial statements. We assist management in compiling the company's financial information in the form of financial statements, without providing any assurance that there are no large adjustments that should be made to the financial statements. As noted above, the financial statements should include a balance sheet, a statement of income, a statement of cash flows, and financial statement footnote disclosures. As accountants, we must comply with Statements on Standards for Accounting and Review Services (SSARS) in preparing our compilation report, which requires that we have an understanding of the company and its industry. We also must read the financial statements to determine whether they appear appropriate in form and are free from obvious material errors, including mathematical miscalculations. Management can elect to omit the footnote disclosures and the statement of cash flows, if desired. A compilation involves the least amount of work and, as a result, is far less costly than a review or audit.

Reviewed Financial Statement Report (Review)

Reviews provide "limited assurance" that the financial statements do not need to be modified in order to comply with the financial reporting framework of GAAP or OCBOA. We perform procedures, primarily analytical, on the financial information and make inquiries of the company's management. These review procedures provide a reasonable basis for obtaining the limited assurance necessary that there are no large adjustments that need to be made to the financial statements. Reviewed financial statements must include a balance sheet, a statement of income, a statement of cash flows, and financial statement footnote disclosures. A review does not require the understanding of the company's internal controls, assessing fraud risk, testing accounting records, or other procedures ordinarily performed in an audit. A review is more costly than a compilation, but less expensive than an audit.

Audited Financial Statement Report (Audit)

Audits provide a company and other interested parties with the highest level of assurance. Our auditors' opinion states that the financial statements are presented fairly, in all material respects, and that they are in conformity with the applicable financial reporting framework, GAAP or OCBOA. Audit procedures performed include analytical procedures, which may be similar to those performed in a review, confirmation of certain assets and liabilities, and third-party substantiation of other balances. These confirmation and substantiation procedures may include direct communication with banks and lenders to verify cash accounts and loan agreements, physical observation of inventories, and other procedures. In an audit, the work performed is based on our assessment of audit risks, and allows us to determine significant transactions to vouch or examine, as well as inquiries to make of management and those charged with the governance of the company. Audited financial statements must include a balance sheet, statement of income, statement of cash flows, and the financial statement disclosures. An audit requires the most work. Therefore, the cost is substantially higher than a review or a compilation.

While the difference in cost among the three types of reports is significant, the level of service would not affect the actual financial statements. For example, compiled statements would yield the same recorded amounts and financial statement disclosures that audited statements would. The increase in cost for an audit is the result of the time spent verifying that the amounts are in conformity with GAAP or OCBOA.

Whatever your organization's specific reporting requirements might be, Michael Silver & Company CPAs stands ready to assist. Please contact me for additional information or guidance at 874.213.2081.

John Pouloupoulos, CPA, has over ten years of experience in public accounting, assurance, tax and consulting services. He is responsible for audit engagement management, supervision, reporting, and other operational matters. John's specific experience is across a wide range of companies within the private and middle market sector and within industries including manufacturing, automobile dealerships, real estate, trade associations, leasing companies and professional service providers. He also has experience with employee benefit plan audits.