


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 |

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 is also 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**).



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