



HANDOUT 3

RAFFA, P.C. Levels of Service

Auditing

Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users.

Financial Audits In a financial audit, the assertions about which the auditor seeks objective evidence relate to the reliability and integrity of financial and, occasionally, operating information. The examination of the objective evidence underlying the financial data as reported is called an audit.

Analytics, inquiries of management and the verification of information through evidential matter (support) external to the company (i.e., “other audit procedures”) are required.

Review Service

Although a review is less extensive than an audit, review procedures do provide a basis for expressing limited assurance that the accountant did not become aware of any material changes that should be made to the financial statements. Essentially, a review is designed to enable an accountant, without applying comprehensive audit procedures, to assess management’s representations and to consider whether the financial statements appear to be in conformity with generally accepted accounting principles (GAAP). To perform a review, the accountant must be familiar with the company’s business and the accounting practices of its industry. Based on this knowledge, the accountant inquires about the company’s accounting practices and procedures, financial statements and other matters, and performs analytical procedures to identify unusual items or trends.

Performing such inquiry and analytical procedures provide the accountant with a reasonable basis for expressing limited assurance that there are no material modifications that should be made to the statement in order for them to be in conformity with GAAP.

The objective of a review differs significantly from the objective of an audit of financial statements in accordance with generally accepted auditing standards (GAAS). The objective of an audit is to provide a reasonable basis for expressing an opinion regarding the financial statements taken as a whole. A review does not provide a basis for the expression of such an opinion because a review does not contemplate obtaining an understanding of the internal control structure or assessing control risk; tests of accounting records and of responses to inquiries by obtaining corroborating evidential matter through inspection, observation or confirmation and certain other procedures ordinarily performed during an audit. A review may bring to the accountant’s attention significant matters affecting the financial statements, but it does not provide assurance that the accountant will become aware of all significant matters that could be disclosed in an audit.

Embracing Your Vision



RAFFA, P.C. Levels of Service

Analytical procedures and inquiries of management are required. The verification of information through evidential matter (support) external to the company is not required unless information appears questionable.

Compilation Service

The scope of a compilation does not give the accountant a basis to express any assurance, since neither audit nor review procedures are performed. Instead, relying on familiarity with industry accounting practices and with the company's business, the accountant helps prepare financial statements using data provided by the company. This allows the accountant the opportunity to consider whether the financial statements are appropriate in form and are free from obvious material errors; however, the accountant does not probe beneath the surface unless it is apparent that the data provided are incomplete or in error. The accountant's report that accompanies compiled financial statements indicates that a compilation service was performed, but, because neither an audit nor a review was performed, it expresses no assurance.

A compilation is the CPA merely putting information supplied by the client into proper financial statement form without expressing any assurances. Required procedures are minimal. Our professional pronouncements (SSARA No. 1) state that the accountant "...is not required to make inquiries or perform other procedures to verify, corroborate, or review information supplied by the entity." Likewise, accountants have no obligation to obtain an understanding of or communicate deficiencies in internal control or to assess control risk when performing a compilation. This, of course, does not reduce the accountants' obligation to obtain additional or revised information if they become aware that information supplied to them is inaccurate, incomplete, or misleading. Nor does it reduce the accountants' responsibilities when departures from GAAP are known to them. Also, if the accountant becomes aware of significant weaknesses in the client's internal control, it is only prudent that he or she communicate those findings to the client.

Companies find a compilation service useful mainly for internal needs or as a by-product of other services, such as the preparation of income tax returns. It may also be appropriate when management engages the accountant to prepare monthly financial statements.

The objective of a compilation differs significantly from the objective of a review. The inquiry and analytical procedures performed in a review should provide the accountant with a reasonable basis for expressing limited assurance that there are no material modifications that should be made to the financial statements. No expression of assurance is contemplated in a compilation.

Analytical procedures and the verification of information through evidential matter (support) external to the company are not required. Inquiries of management are not required unless information supplied by the client is questionable.