



What's the Difference?

Compilations, Reviews and Audits

Compilations represent the most basic level of service CPAs provide with respect to financial statements. In a compilation, the CPA must comply with certain basic requirements of professional standards, such as having a knowledge of the client's industry and applicable accounting principles, having a clear understanding with the client as to the services to be provided, and reading the financial statements to determine whether there are any obvious departures from generally accepted accounting principles (or, in some cases, another comprehensive basis of accounting used by the entity). In order to complete a compilation, the CPA may need to provide other accounting services before the financial statements can be prepared. Upon completion, the report issued is in accordance with AICPA professional standards, but no assurance is expressed that the statements are in conformity with generally accepted accounting principles.

Reviews require the CPA to perform inquiry and analytical procedures in addition to the procedures described above for a compilation. Upon completion, a report is issued stating that a review has been performed in accordance with AICPA professional standards, that a review is less in scope than an audit, and that the CPA did not become aware of any material modifications that should be made in order for the statements to be in conformity with generally accepted accounting principles, or if applicable, another comprehensive basis of accounting. Reviewed financial statements are often prepared for entities that have bank loans, outside investors, or trade creditors, but those third parties do not require audited statements.

Audits are the product of a CPA's highest level of assurance services. In an audit, the CPA performs all of the steps indicated above regarding compiled or reviewed statements, but also performs verification and substantiation procedures. These verification and substantiation procedures may include direct correspondence with creditors or debtors to verify details of amounts owed, physical inspection of inventories or investment securities, inspection of minutes and contracts, and other similar steps. Also, the CPA gains a knowledge and understanding of the entity's system of internal control. When the audit is completed, the CPA's standard audit report states that an audit was performed in accordance with generally accepted auditing standards, and expresses an opinion that the financial statements present fairly the entity's financial position and results of operations. This is known as the expression of "positive assurance."