

Do You Really Need an Audit?

At some point in the life of your business you may have said, "We need an audit." Or the nonprofit you serve as a board member is lamenting the amount of their budget that goes towards the annual audit. An audit may be needed--or maybe not. A review or agreed-upon procedures engagement may suit your needs, and have a lower fee due to different required procedures.

What Do These Engagements Provide?

Third parties such as creditors, bonding agents, investors regulators, donors and grantors need a degree of comfort that the financial statements they use to make decisions about your organization are reliable, transparent, and a fair representation of your operations, financial condition and cash flows. The Board of Directors also relies on the accuracy of the financials and may have audit requirements.

They may need to feel certain that –

- Your organization will collect the entire amount reported as "accounts receivable" on the balance sheet.
- Reported revenue appropriately reflects transactions during the specified accounting period. The
- notes to the financial statements include all disclosures necessary to keep the financial statements from being misleading.
- Appropriate internal controls are in place and operating effectively.

What Are the Differences Between Services?

An audit of your financial statement provides the highest level of assurance possible. Current auditing standards require auditors to "obtain reasonable assurance about whether the financial statements are free of material misstatement." By performing an audit, we are able to provide financial statement users with a positive statement ("in our opinion") about whether the financial statements are fairly presented.

A review of your financial statements encompasses the entire financial statements and provides financial statement users with some level of assurance about the fairness of these statements. However, a review provides only limited assurance. Where an audit results in an auditor making a positive statement of assurance, the limited scope of a review allows the CPA to express only negative assurance and a statement such as, "...we are not aware of any material modifications that should be made to the financial statements..."

Agreed-upon procedures are much different than both an audit and a review. Agreed-upon procedures are much narrower in scope and usually only focus on an isolated part of your accounting records rather than the full set of financials. For example, agreed-upon procedures can be performed just on accounts receivables or just on inventory balances. Another difference is that an audit or review results in the CPA expressing some level of assurance. An agreed-upon procedures report does not provide any assurance. Instead it is presented as a report of the procedures performed and the CPA's findings. Users of this information must then draw their own conclusions about what the findings mean.

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Situations that may call for Agreed-Upon Procedures include:

- Staff turnover (always a good time to take a “fresh look” at processes and controls)
 - Small office staff (difficult to segregate duties for better internal control)
 - Selling/purchasing a business
 - Cash flow problems

The table below compares audits, reviews and agreed-upon procedures.

	Audit	Review	Agreed-Upon Procedures
Level of Assurance and Reporting			
Level of Assurance	High, Direct	Moderate, Indirect	Limited to procedures performed
Subject matter of report	Financial statements	Financial statements	Specific to engagement
Nature of assurance	Opinion (“the financial statements present fairly...”)	Negative assurance (“Nothing came to our attention to indicate...”)	Report of procedures performed and findings
Distribution of report	No restriction	No restriction	Restricted
Required Procedures			
Understanding of the entity	In-depth understanding of a broad range of matters	General understanding of a narrower range of matters	General understanding of the subject matter of the report
Internal Control	Evaluation of internal control design required	No requirements	No requirements
Nature of procedures	Extensive, highly reliable	Primarily analytical procedures and inquiries	Defined by user—may be extensive or limited
Procedures			
Relative cost	Most expensive	Less expensive than an audit	Varies, but typically much less than an audit

A certified **audit, review, or agreed-upon procedures** can only be performed by an independent Certified Public Accountant. Contact one of our Audit Leadership Team members to help you determine the level of service needed and how we can help.