

*Almost every organization — whether a privately-held business, a publicly-owned corporation or a nonprofit organization — must prepare reports on its financial performance.*

*What level of financial statement service do you need?*

## COMPILATION

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CPA prepares financial statements from information provided by management.

A compilation is useful when there are limited in-house capabilities for preparing financial statements.

## REVIEW

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CPA applies inquiry and analytical procedures to financial statements provided by management to determine whether they are reasonable.

A review provides limited assurance that no material changes need to be made to the financial statements.

## AUDIT

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CPA examines financial statements by conferring with outside parties, completing physical inspections and observations and testing selected transactions by examining supporting documents. The CPA also gains an understanding of the entity's system of internal control.

An audit opinion represents the highest level of assurance that the financial statements fairly represent the entity's financial position and results of operation in accordance with generally accepted accounting principles.

## BERNTSON PORTER & COMPANY, PLLC

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CERTIFIED PUBLIC  
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UNDERSTANDING  
COMPILATION,  
REVIEW & AUDIT



**Berntson Porter**  
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Certified Public Accountants & Consultants

## REPORT COMPARISONS

The chart indicates some of the procedures required to be performed by a certified public accounting firm for each of the levels of reporting:

PROCEDURES PERFORMED	COMPILATION	REVIEW	AUDIT
Determine nature of business	Yes	Yes	Yes
Determine basis of accounting	Yes	Yes	Yes
Evaluate qualifications of client personnel	Yes	Yes	Yes
Make financial statement disclosures	No	Yes	Yes
Obtain management representation letter	No	Yes	Yes
Inquire about client policies	No	Yes	Yes
Inquire about account balances	No	Yes	Yes
Inquire regarding cut-offs and contingencies	No	Yes	Yes
Perform analytical procedures	No	Yes	Yes
Confirm account balances	No	No	Yes
Perform attest procedures	No	No	Yes
Review and evaluate internal control structure	No	No	Yes
Form and state opinion on financial statements	No	No	Yes

## MORE ON AUDITS

In an audit, as in a review, the CPA must be independent of the client and the financial statements must contain all required disclosures.

### HERE IS WHAT AN AUDIT ENTAILS:

To gather evidence on the reliability of the financial statements, the CPA performs “search and verification” procedures. In an audit, the CPA generally confirms balances with banks or creditors, observes inventory counting and tests selected transactions by examining supporting documents. In addition, the CPA contacts sources outside the client organization to gather

information that may be more objective than that obtained from internal sources. For example, the CPA usually obtains written confirmation from a client’s customers about amounts owed to the client at a specific date. By accumulating this type of evidence, the CPA reduces the risk that the financial statements will be materially misstated.

The auditor then issues a report stating that the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles.

An audit is planned and performed with an attitude of professional skepticism; that is, the auditor designs the audit to provide “reasonable assurance” that material errors or fraud are detected. However, fraud concealed through forgery or collusion may not be found because the auditor is not trained to catch forgeries, nor will customary audit procedures detect all conspiracies.

The auditor’s objective is to obtain reasonable assurance that the financial statements are free of material errors and fraud. Although this is a high level of assurance, an audit does not provide a guarantee of accuracy.

