Types of Reports Prepared by Auditors

There are three types of annual reports prepared by auditors:

1. Audit
2. Review
3. Compilation

Audit

The objective of an audit is to provide a reasonable basis for expressing an opinion regarding the financial statements taken as a whole. An audit consists of examining and testing supporting documentation and understanding and testing the internal control structure of an organization. **Much of the work focuses on verifying assets and liability balances and testing classifications of revenue and expense line item categories.**

The audit includes:

- Engagement Letter – Outlines the auditor's & management's duties and responsibilities.
- Audit Report – Includes auditor's opinion, financial statements prepared in accordance with GAAP and notes to the financial statements.
- **Management Letter Comments – Reports any significant items or issues encountered during the audit.**
- Meeting with the Audit Committee - Auditors report their results and any issues encountered during the audit.

Key items to look for:

- **Review the opinion page – looking for an unqualified opinion.**
- **If the opinion is qualified, find out why it was qualified.**
- **Ask for a copy of Management Letter if one was issued. This will address any issues that arose during the audit that the auditors felt should be brought to the attention of the audit committee and management.**

Review

A review consists of examining supporting documentation and understanding the internal control structure of an organization. **During a review there is no confirmation of balances**. **A review is performed through inquiry and analytical procedures** that provide the accountant with a reasonable basis for expressing limited assurance that there are no material modifications that should be made to the statements in order for them to be in conformity with Generally Accepted Accounting Principles (GAAP).

Compilation

The accounting firm presents financial statement information in a form that is the representation of management, without expressing any assurance on the accuracy of the numbers in the statements. **Many times a compilation involves taking management's numbers and putting them in a financial statement format that complies with GAAP**. **There is no verification of balances, revenue or expenditure classifications and typically no analytical review.**

CPA Services	Compilation	Review	Audit
CPA Report or Opinion			
No assurance	**X**		
Limited assurance		**X**	
Audit opinion			**X**
Financial Statements in Report			
Balance Sheet	**X**	**X**	**X**
Statement of Activities	**X**	**X**	**X**
Statement of Cash Flows	**X**	**X**	**X**
Footnotes	**X**	**X**	**X**
Audit Procedures			
Inquiry and Analytical Procedures		**X**	**X**
Test of Internal Controls			**X**
Test of Detailed Transactions			**X**
Confirmations			**X**

What governs whether an audit, review or compilation is required?

- If the non-profit has a loan or mortgage, the agreement may require an annual audit.
- Board of trustees may require an annual audit.
- Funders may require an audit.
- Michigan License to Solicit may require an audit if the annual support is above a certain level.

Total support	$XXX
Less restricted grants from foundations	XXX
Less government grants	XXX
Net support	$XXX

i. If net support is greater than $250,000 an audit is required
ii. If net support is greater than $100,000 but less than $250,000 at least a review is required.

- For community foundations the "Application for Michigan Community Foundation Recertification" tax credit form states that foundations with endowment funds of $1,000,000 or more require an annual audit report; if less than $1,000,000 an audit must be submitted every three years.