

Sample response

Memo

To: Lisa Jonas
From: Kelly Wright, Corporate Accountant
Re: Review engagement vs. Audit

A major price difference exists between the two forms of engagement an audit will cost close to \$10,000 and a review engagement will cost close to \$3,500. But if we use BRD CPA firm they will be familiar with the system, so it should be a lot cheaper.

Each engagement has its benefits and drawbacks. I will explain both. It is important to keep in mind that neither assurance engagement conducted would provide information regarding the effectiveness, or efficiency of the company. It is also important to keep in mind that neither assurance engagement will provide absolute certainty that there is no material misstatement within your company's financial statements. The difference is in the level of assurance provided with the engagement. Review engagements are less in scope and therefore the level of assurance provided. Review engagements are conducted based on the information being plausible. If the information provided to the accountant, is checked on and seems plausible then it will pass the review engagement. Every page on a review engagement will have unaudited written on it. Audits are conducted by providing reasonable assurance that the statements are free of material misstatement. This will provide a higher level of confidence with the accuracy of your financial statements.

Occasionally, a company may be required by a third party to have an audit to provide reasonable assurance that the financial statements have not been misstated; therefore, if your company is looking at further financing it would be beneficial to look at the cost to benefit of audits vs. review engagements. An audit would provide more confidence to the third party financier; however, for many financiers a review engagement will suffice. It is also important to remember that if you are taking your company public, it will be necessary to have an audit.

Both methods are suitable for the company. It may be more beneficial for the company to have an audit if: you suspect fraud within your internal controls, you are unsure of your internal accounting, you are seeking new financing for expansion, or you are contemplating a public offering. If you are not expecting any of the above scenarios it would be preferable to choose a review engagement to save the extra cost.