

CPA Audit Frequently Asked Questions

1 What is the difference between a CPA Audit and Financial Statement Review?

Audits and financial statement reviews are both services performed by CPAs, but they differ significantly in scope, level of assurance provided, procedures performed, and cost.

Here's a breakdown of the key differences:

1. Assurance Level

Audit: Provides the highest level of assurance – reasonable assurance – that the financial statements are free from material misstatement and are presented fairly in accordance with the applicable financial reporting framework, such as GAAP.

Review: Offers limited assurance that the CPA is not aware of any material modifications needed for the financial statements to conform with the applicable financial reporting framework.

2. Scope of Procedures

Audit: Involves a rigorous and in-depth examination of financial records, internal controls, and supporting documentation. Procedures include understanding internal controls, testing accounting records, verifying information with third parties, observing inventory counts, and other necessary procedures.

Review: Focuses primarily on inquiries and analytical procedures to identify unusual items or trends. The CPA will inquire of management and perform analytical procedures, but is not required to evaluate internal controls, test records, or obtain corroborating evidence like in an audit.

3. Cost and Time

Audit: Typically more expensive and time-consuming due to the extensive procedures required.

Review: Generally less costly and quicker to complete compared to an audit.

4. When to choose which

Audit: Often required by investors, lenders, and regulatory bodies to ensure the financial information is a true and fair representation.

Review: May be sufficient for smaller organizations or when a lower level of assurance is acceptable, such as for certain financing or contractual obligations.

In summary, the choice depends on the business's needs, the required level of assurance for stakeholders, and the cost and time constraints.

2 What does a CPA Audit involve?

A CPA audit, or an audit performed by a Certified Public Accountant, is a comprehensive and independent examination of a company's financial statements and underlying records to ensure their accuracy, fairness, and compliance with established accounting standards.

Key aspects and involvement

1. **Purpose:** To provide a high level of assurance to stakeholders (investors, lenders, regulators, etc.) that the financial statements are free from material misstatements, whether due to error or fraud.
2. **Independence:** CPAs conducting audits must be independent of the audited entity to maintain objectivity and credibility in their findings.
3. **Scope:** The audit involves a detailed examination of financial statements, supporting documentation (invoices, bank statements, contracts, payroll records, etc.), and internal controls to assess their effectiveness and identify potential weaknesses.
4. **Methodology:** Auditors gather evidence through various procedures, including testing transactions, confirming balances with third parties, reviewing accounting policies and estimates, and assessing the company's compliance with accounting standards.
5. **Stages:** A typical audit process generally involves four phases:
6. **Planning:** Understanding the business, industry, and internal controls, identifying risk areas, and determining the scope of the audit.
7. **Fieldwork:** Gathering and evaluating evidence by testing financial records, internal controls, and verifying account balances.
8. **Reporting:** Issuing an audit opinion based on the findings, indicating whether the financial statements are presented fairly and comply with the applicable financial reporting framework.
9. **Follow-up:** Addressing any identified weaknesses or recommendations for improvement in financial management and internal controls.
10. **Standards:** CPA audits are conducted in accordance with Generally Accepted Auditing Standards (GAAS), which provide a framework for conducting high-quality audits and ensuring consistency and reliability in auditing practices.
11. **Audit Opinions:** Auditors issue one of four types of opinions based on their findings:
 - a. **Unmodified (or Unqualified):** Indicates that the financial statements are presented fairly in all material respects.
 - b. **Qualified:** Indicates a material misstatement or scope limitation that is not pervasive.
 - c. **Adverse:** Indicates that the financial statements are materially misstated and pervasive.
 - d. **Disclaimer:** Issued when the auditor cannot obtain sufficient appropriate audit evidence to form an opinion.
12. **Benefits:** In addition to providing assurance, audits can also help identify weaknesses in internal controls and operational inefficiencies, offering valuable insights for improving financial management and compliance.

By understanding the involved processes and the role of CPAs, businesses can appreciate the value a CPA audit brings in enhancing financial accuracy, transparency, and stakeholder confidence.

3 What does a Financial Statement Review involve?

A financial statement review involves a certified public accountant (CPA) examining a company's financial statements to provide a limited level of assurance that the statements are plausible and don't require significant changes to comply with the applicable financial reporting framework.

Here's what it typically entails

1. **Analytical Procedures:** The CPA performs analytical procedures to identify unusual items or trends that might indicate potential misstatements. This includes comparing the financial statements to:
2. **Internal records:** Comparing current financial data to past periods' data.
3. **Industry data:** Comparing the company's financial results to those of similar businesses.
4. **Expected results:** Using knowledge of the business to assess the reasonableness of the financial statements.
5. **Inquiries:** The CPA conducts inquiries with management and other personnel to gather information about financial statement items. This includes asking about:
 - a. The appropriateness of accounting policies.
 - b. The consistency of accounting practices.
 - c. Significant transactions near the end of the reporting period.
 - d. Any unusual or complex situations that may affect the financial statements.
 - e. Material events that occurred after the date of the financial statements.
 - f. Significant journal entries.
 - g. Communications from regulatory agencies.
6. **Overall Review:** The CPA assesses the overall presentation of the financial statements to ensure they conform to the applicable financial reporting framework, such as Generally Accepted Accounting Principles (GAAP). This also includes assessing the accounting principles used and significant estimates made by management.

In essence, a review aims to determine if the financial statements "make sense" without undertaking the more extensive procedures of an audit, which provides a higher level of assurance.

4 What is a forensic audit?

A forensic audit is a specialized examination of an organization's or individual's financial records to uncover evidence of fraudulent activity or financial irregularities. It goes beyond the scope of a traditional financial audit, which primarily focuses on ensuring compliance with accounting standards, according to Stevenson University.

Here's a breakdown of what a forensic audit entails

Purpose: To investigate suspected financial misconduct, such as fraud, embezzlement, bribery, or asset misappropriation, and to gather evidence that can be used in legal proceedings or to implement corrective measures.

Scope: Forensic audits are triggered by specific allegations or suspicions of wrongdoing and involve a detailed examination of financial statements, transactions, internal controls, and other relevant documents.

Process: Forensic auditors, often certified public accountants (CPAs) with specialized training in investigative techniques, follow a methodical approach that includes planning, gathering evidence, documenting findings, and potentially providing expert witness testimony in court.

Techniques: They employ various tools and techniques, such as data analysis, document review, interviews, and even undercover work or surveillance in certain situations, according to Auditors Australia.

Outcomes: The findings of a forensic audit can help identify the nature and extent of the fraud, determine the perpetrators, quantify the financial loss incurred, and recommend improvements to internal controls to prevent future incidents.

When might a forensic audit be needed?

- Suspected fraud, embezzlement, or other financial crimes within a company.
- Legal disputes, such as divorce proceedings, bankruptcy cases, or business closure disputes, where there's a need to assess assets or quantify damages.
- Concerns about a company's financial transparency or potential misrepresentations in their financial statements.
- Requests from tax authorities or legal professionals investigating suspected financial irregularities.

In essence, a forensic audit is a specialized investigative tool that helps uncover financial wrongdoing and provides crucial evidence for legal or internal accountability purposes.