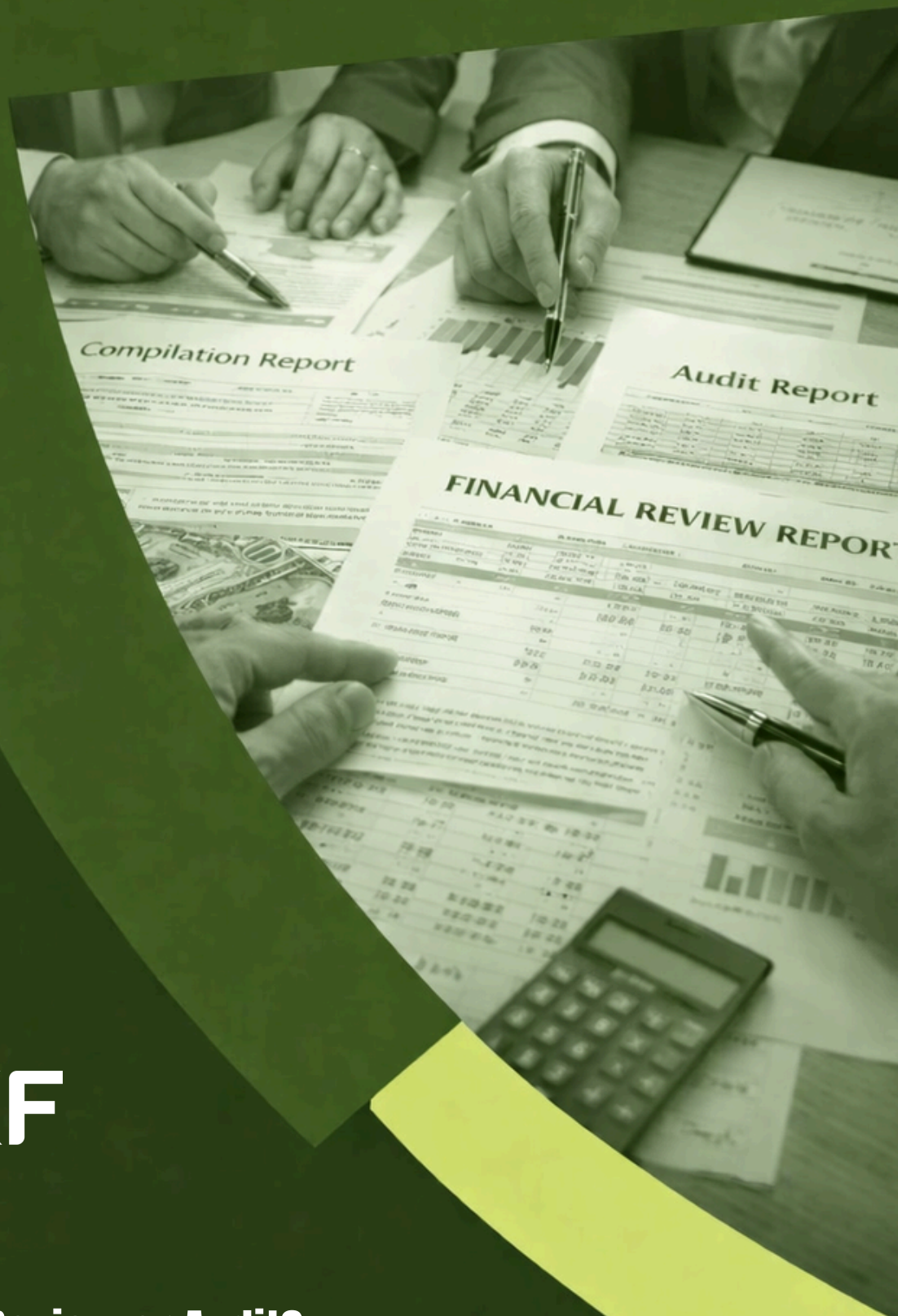




Compilation, Review or Audit? Choosing the Right Engagement for Your Financial Statements

COMPILATION, REVIEW OR AUDIT? CHOOSING THE RIGHT ENGAGEMENT FOR YOUR FINANCIAL STATEMENTS

Reliable financial information is essential for strong decision-making, whether you're running a family business, preparing for financing, or managing a growing enterprise. As clarity builds confidence it is important to select the level of external involvement of an auditor that truly fits an entity's needs: Compilation, Review, or Audit. Each engagement type offers a different level of assurance, effort, and cost. Understanding the differences helps ensure an entity gets the right support at the right time.

Compilation: When You Simply Need the Numbers Prepared

A compilation is the most basic service where the external auditor assists management in preparing financial statements using information provided by the organization, without performing verification or testing. The external auditor provides a compilation report but does not express any opinion or conclusion on the financial statements.

A compilation report may be modified (e.g. in case of material misstatements included in the financial statements) and may also include 'emphasis of matter' (to emphasize specific disclosure notes included in the financial statements) or other matter paragraphs (e.g., to restrict distribution of the compilation report).

A compilation engagement is best for small entities or start-ups, situations where financial statements mainly serve for internal decision-making. It is also ideal for entities without widespread external reporting obligations.

Compilation engagements are providing the following advantages over other types of engagements:

- They are performed quick and are cost-effective.
- They provide a minimal administrative burden.
- They result in clean, professionally formatted financial statements.

A compilation is not designed to give comfort to banks or investors, and errors may remain undetected. If an entity faces material risks, growth, or external financing, it may need a higher level of assurance.

Review: Limited Assurance with a Practical Approach

A review provides limited assurance. This is a step above a compilation and involves a.o. analytical procedures, discussions with management, and plausibility checks. It is a more focused engagement that highlights whether anything appears materially misstated. The conclusion of an unmodified review report expresses: "Nothing has come to our attention that causes us to believe the financial statements are materially misstated."

A review report may be qualified (as a result of material misstatements included in the financial statements or due to limitations in the scope of work imposed by management), be adverse (due to material and pervasive misstatements) or include a disclaimer of conclusion (when the external auditor is not able to obtain sufficient and appropriate evidence and the effect of this lack of evidence is both material and pervasive). A review report further may include 'emphasis of matter' (to emphasize specific disclosure notes included in the financial statements) or other matter paragraphs (e.g., to restrict distribution of the review report).

A review engagement is best for medium-sized entities that are characterized by stable operations with moderate risk. Further, it suits where providers of capital and financing require some assurance but not a full audit.

Review engagements are providing the following advantages over other types of engagements:

- A review provides confidence than a compilation.
- Reviews are less intrusive and more affordable than an audit.
- They help identify inconsistencies or unusual trends.

A review does not involve detailed testing or inspection of internal controls. Entities with complex transactions or significant financing may still require an audit.

Audit: Maximum Assurance for Stakeholders Who Need Confidence

An audit provides the highest level of assurance available. External auditors perform detailed procedures such as substantive testing, risk assessments, confirmations with external parties, and evaluation of internal controls.

The audit opinion gives stakeholders confidence that the financial statements present fairly, in all material respects the financial position, results and cash flows.

An auditor's report may be qualified (as a result of material misstatements included in the financial statements or due to limitations in the scope of work impressed by management), be adverse (due to material and pervasive misstatements) or include a disclaimer of opinion (when the external auditor is not able to obtain sufficient and appropriate evidence and the effect of this lack of evidence is both material and pervasive). An auditor's report may also include 'emphasis of matter' (to emphasize specific disclosure notes included in the financial statements) or other matter paragraphs (e.g., to restrict distribution of the review report).

Audit engagements are suited for the larger or more complex organizations, entities with significant borrowing or investor involvement and entities that operate in regulated industries or high-scrutiny environments

An entity may choose for an audit engagement because it provides the highest level of credibility. Further, it may be as this is required by banks, regulators, and investors. It may also be requested as it supports in the strengthening of governance and internal controls.

Audits take more time, require documentation, and involve detailed collaboration with management, but the assurance gained is invaluable for high-stake environments.

Selecting the Right Engagement: What to Consider

When considering the right engagement, the following aspects need to be taken into account:

- Legal or regulatory requirements.
- Financing arrangements and bank expectations.
- Size, complexity, and risk profile of the business.
- Stakeholder needs and reporting obligations.
- The cost-benefit balance for the organization.

Some entities start with a compilation, later move to a review as they grow, and eventually require an audit as their business becomes more complex. Others stay with the same engagement type for years. The key is selecting what's appropriate today while keeping future needs in mind.

PKF Dutch Caribbean and Suriname: Helping You Make the Right Choice

At PKF Dutch Caribbean and Suriname, we don't just perform engagements we help you understand them. Our role is to provide clarity, transparency, and practical advice so your financial reporting supports your goals.

PKF Dutch Caribbean & Suriname has extensive expertise in internal audit and risk management and supports organizations in strengthening governance, internal control frameworks and risk management practices. If you would like to learn more about how we can support your organization, please feel free to contact **Herbert van Elferen** or **Edsel Lopez** using the contact details provided below.

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