

Audit vs Review

An audit or review is to provide an independent opinion on the truth and fairness of the financial statements, and whether they have been prepared in accordance with the reporting rules and regulations. An audit or review will give a level of assurance to the reader of the financial statements that they are correct and free from material errors and fraud.

Difference between an Audit and a Review

The table below identifies the main differences between the two. The key difference being an audit is a more comprehensive and thorough review of the financial statements than solely a review.

	Audit	Review
Level of assurance	A reasonable or high level of assurance about whether the financial statements as a whole are free from material errors or fraud. Reasonable or high assurance is not absolute assurance.	Limited assurance about whether the financial statements as a whole are free from material errors or fraud. Limited assurance is less than reasonable assurance.
Report provided	Independent Auditor's Report Opinion is expressed in a positive form, e.g. "The financial statements are free from material misstatement".	Independent Review Report Conclusion is expressed in a negative form, e.g. "Nothing has come to our attention that causes us to believe that the financial statements are not free from material misstatement".
Nature of procedures	Procedures normally involve detailed tests of accounting records using techniques such as inspection, observation, confirmation, recalculation and re-performance, as well as inquiry and analytical review.	Procedures are primarily based on inquiry and analytical review.
Assurance standards	<u>Auditing Standards</u> – All 36 ISAs (NZ)	<u>Review Standards</u> – ISRE (NZ) 2400: Review of Historical Financial Statements Performed by an Assurance Practitioner

Is your Brigade required to have its financial statements audited or reviewed?

If your Brigade is a Registered Charity:

The Charities Act 2005 has statutory audit and review requirements for medium and large registered charities, if your total operating expenditure for each of the previous two accounting periods was:

- **over \$500,000 (medium)** – your financial statements must be either **audited or reviewed** by a qualified auditor; or
- **over \$1 million (large)** – your financial statements must be **audited** by a qualified auditor.

All other Charities and Incorporated Societies

There is no statutory requirement for these Brigades to have an audit or review conducted unless:

- It is written into the rules or constitution of the Charity or Society. The rules of all FENZ brigades have a requirement that all brigades must undertake an audit or review at minimum.

If you have the choice of an audit or review?

Considerations to make include:

1. **The level of assurance** – an audit provides a higher level of assurance than a review that the financial statements are free from material misstatement and fraud.
2. **Who will be the users of the financial statements?** If any funder/bank requires the financial statements, they will usually demand an audit.
3. **Work performed and price** – An audit requires significantly more hours to complete than a review. Therefore, an audit is more expensive than a review.

If you're not sure, speak to your local accountant regarding this. Unless you meet the statutory requirements for an audit or review under the Charities Act 2005, you are not required to have your audit or review completed by a qualified auditor.