

# Case Study

An Audit vs Review Engagement



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## Introduction

What is the difference between an Audit and a Review Engagement and is it worth our club changing to a Review Engagement? As golf clubs look to save money, one of the ways they are doing this is to look at how they report their financials and see if these costs can be reduced. Clubs are looking

to move towards review engagements due to the cheaper cost. There are some subtle differences between the two and it's important to understand these differences before moving from one financial reporting procedure to another. Below are some of the differences between the two.

## An Audit vs Review Engagement

### Levels of Assurance

Audits give the highest level of assurance out of the two. An audit gives a reasonable, or high, level of assurance on whether the financial statements are free from material errors or fraud. An audit does not give an absolute guarantee there is no fraud or the financials lack material errors. A Review Engagement gives limited assurances about the financial statements and this is less than reasonable assurance.

### Reports Provided:

An Independent Auditors Report has the opinion expressed by the auditor in a positive form. An expression of a positive form would be the following statement; "The financial statements are free from material misstatement." An Independent Review Report expresses its opinion in a negative form. This would be written like; "Nothing has come to our attention that causes us to believe that the financial statements are not free from material misstatement." These statements follow on from the differences on the level of assurance. The positive wording of the Audit provides a higher level of confidence in the Audit over a Review Engagement.

### Types of Audit Procedures Required:

There are some differences in the requirement of the procedures between Audits and Review Engagements. Audits will normally have detailed tests of accounting records, these include recalculation and inspection of the financial records. A review will be based on inquiry and analytical review. Audits will go more in-depth into the club's financials as opposed to a Review Engagement. Due the length of time to do a full Audit, an Audit will cost significantly more than a Review Engagement. This is the largest advantage of a Review Engagement, the cost advantage it has over an Audit.

As stated before, cost is the greatest benefit of a Review Engagement. If a club is currently carrying out an audit and wants to change to a review engagement, it is likely that there will need to be a constitutional change before this can occur. Clubs not using a Review Engagement are likely to have it stipulated in their constitution that an Audit is required before the financial reports are accepted. If a change is to occur a vote at an AGM or special AGM will likely be necessary. For smaller golf clubs, without diversified income streams, the Review Engagement is likely to be sufficient in their reporting process. Clubs that have multiple revenue streams and may have complex relationships regarding independent contractors or have golf professionals and catering staff running facilities under the umbrella of the golf club will likely need the Audit. The reason for this is by digging deeper

into the financials, which is the main advantage of the Audit over a Review Engagement, there is more certainty that nothing untoward is happening within the organisation when it comes to fraud or misrepresented financials. As with anything the larger the organisation, with more people, and complex financial relationships offers more opportunities for people to take advantage of the lack of financial oversight. An Audit can help to alleviate, or find, these situations. If a club is likely to be doing any developments in the future that will require lending from a Bank, a history of conducting Audits will help with the application process. Banks are far more likely to lend money to organisations and clubs that have conducted audits as opposed to reviews. Audits are not complete fail safes, but they do go a lot deeper than a Review Engagement and, therefore, are more likely to catch financial abnormal situations.

## Conclusion

As with anything within the club structure, a review of how your financials reporting should be completed to see if it is the most cost effective way to report. The review must also take into consideration if the club is getting the required peace of mind regarding financial certainty from the financial reporting process. By doing this

the club then can decide if an Audit or a Review Engagement will be best for you.

For more information and assistance, contact the Sector Support Team at New Zealand Golf on 09 485-3230.

