

Compilations, and Reviews, and Audits! Oh My!

By Tim Nitti, Senior Auditor
August 13, 2014

Last year, Arizona was home to an estimated 9,100 community associations, whose 1.8 million residents paid assessments of approximately \$1.8 billion¹. That’s a formidable sum of money, and it’s a prime target for fraud. So how do you defend against fraud? What can help prevent, detect, or deter fraud from targeting your association? Every year, Butler Hansen, P.C. performs financial reporting and consulting services designed to do just that.



As you enter budget season this year, you may be wondering what level of financial reporting service your association needs. Arizona Revised Statutes require all associations to obtain an audit, review or compilation on an annual basis. However, your organizational documents may specify if a certain level of service, like an audit, is required. If the level of service isn’t specified, then you’re free to choose whichever you feel is most prudent for your association. Here are some of the differences:

Comparative Snapshot			
	Compilation	Review	Audit
Level of Assurance	Accountant <u>does not obtain or provide any assurance</u> that the financial statements are free of material misstatements	Accountant <u>obtains limited assurance</u> that the financial statements are free of material misstatements	Auditor <u>obtains high, but not absolute, assurance</u> that the financial statements are free of material misstatements
Are inquiry and analytical procedures required?	No	Yes – Assessments are recalculated, contracts are reviewed, etc.	Yes – Assessments are recalculated, contracts are reviewed, etc.
Is the accountant required to obtain an understanding of internal controls and assess fraud risk?	No	No	Yes – Accounting department is physically observed, staff is interviewed, fraud risk areas are identified
Is the accountant required to perform verification and substantiation procedures?	No	No	Yes – Asset accounts are verified, invoices are reviewed, selected transactions are tested in detail

So how do you determine which level of service is right for your community? That depends, and it isn’t always going to be the same answer year after year. If your association is relatively small, has very little in the way of common areas, and you’re looking for more of a “bird’s eye view” into your financial information, then a compilation might be all that is required. If your association is a master planned community, has a large network of common areas, offers additional services or amenities, or you’re really just looking for the highest degree of professional assurance a Certified Public Accountant can give, then an audit might be the better choice. If you’re really not sure, that’s fine too, that’s what we’re here for. Butler Hansen, P.C., Certified Public Accountants has been specializing in and providing services to homeowners associations for more than 45 years. We’d be pleased to speak with you and not only help you determine what the most appropriate level of service for your association would be, but to provide it as well. For additional information and resources specific to community associations, please feel free to visit us at www.butlerhansen.com.



¹Estimates obtained from the Foundation for Community Association Research, 2013 Community Association Fact Book for Arizona.



CERTIFIED PUBLIC ACCOUNTANTS

1853 S. Horne | Suite 2 | Mesa, Arizona | 85204 | Phone: (480) 497-1250 | www.butlerhansen.com