

ACCREDITATION

Audit vs. Financial Review

When schools engage outside accountants to examine their financials, they typically choose between a **financial review** or a **full financial audit**. Both provide value, but they differ in scope, rigor, and cost. While some schools choose to conduct a full financial audit each year, the minimum requirement for SAIS accreditation is an audit in the year prior to the accreditation visit. A financial review is acceptable in the intervening years.

Financial Review

- **Purpose:** Provides *limited assurance* that the financial statements are free of material misstatement.
- **Scope of Work:**
 - Accountants perform analytical procedures (e.g., ratio comparisons, trend analysis).
 - They inquire with management but do not test underlying transactions.
 - No opinion on internal controls.
- **Output:** A report stating that the accountant is not aware of any material modifications needed.
- **Level of Assurance:** Limited assurance (lower than an audit).
- **Approximate Cost:** Typically **\$5,000–\$15,000**, depending on school size/complexity.
- **When Appropriate:** Smaller schools, or those seeking a cost-effective option for external validation of financial statements.

Financial Audit

- **Purpose:** Provides *reasonable assurance* that the financial statements present a true and fair picture in accordance with accounting standards.
- **Scope of Work:**
 - Accountants test transactions, verify balances, and confirm with third parties (e.g., banks, donors).
 - They evaluate internal controls and compliance with certain laws/regulations.
 - More time-intensive and rigorous.
- **Output:** An audit opinion, stating whether the financial statements are fairly presented.
- **Level of Assurance:** Reasonable assurance (highest level).
- **Approximate Cost:** Typically **\$15,000–\$40,000+**, depending on size/complexity of the school.
- **When Appropriate:** Larger schools, schools with complex operations, or when required by boards, lenders, or state regulations.

Key Takeaways for Schools & Visiting Teams

- Both reviews and audits are conducted by licensed CPAs, but **audits are more in-depth and more costly**.
- A **review may be sufficient** for smaller schools to demonstrate financial responsibility, while **audits provide the highest assurance** and may be expected by larger institutions or stakeholders.

Note: Portions of this document were developed with the assistance of AI tools (ChatGPT)