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Mr. Edward Bean
Director of Finance
Auditor's Office
93 Highland Ave
Somerville, MA 02143

Dear Mr. Bean:

You have asked that I provide you with information related to the difference between a review engagement and an audit engagement. I hope this helps.

Review

The review service is one in which the CPA performs analytical procedures, inquiries and other procedures to obtain "limited assurance" on the financial statements and is intended to provide a user with a level of comfort on their accuracy. The review is the base level of CPA assurance services.

In a review engagement, your CPA is required to understand the industry in which you operate — including the accounting principles and practices generally used in the industry. Your CPA is also required to obtain knowledge about you — including your business and the accounting principles and practices that you use — sufficient to identify areas in the financial statements where it is more likely that material misstatements may arise.

A review is narrower in scope than an audit. A review does not contemplate obtaining an understanding of your business's internal control; assessing fraud risk; testing accounting records through inspection, observation, outside confirmation or the examination of source documents or other procedures ordinarily performed in an audit.

In a review engagement, the CPA will issue a formal report that includes a conclusion as to whether, based on the review, he is aware of any material modifications that should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework.

A review typically is appropriate if you are seeking greater confidence in your financial statements for the purpose of evaluating results and making key business decisions.

Audit

The audit is the highest level of assurance service that a CPA performs and is intended to provide a user comfort on the accuracy of the financial statements. The CPA performs procedures in

order to obtain “reasonable assurance” (defined as a high but not absolute level of assurance) about whether the financial statements are free from material misstatement.

In an audit, your CPA is required to obtain an understanding of your business’s internal control and assess fraud risk. Your CPA is also required to corroborate the amounts and disclosures included in your financial statements by obtaining audit evidence through inquiry, physical inspection, observation, third-party confirmations, examination, analytical procedures and other procedures.

The CPA will issue a formal report that expresses an opinion on whether the financial statements are presented fairly, in all material aspects, in accordance with the applicable financial reporting framework. In addition, the CPA is required to report to you any significant or material weaknesses in your system of internal control that are identified during the audit. By becoming aware of internal control weaknesses and discussing these with your CPA, you might be able to improve the way you do business.

As the highest level of assurance, an audit typically is appropriate and often required when you have bonds outstanding. It is also significantly more expensive than a review because the auditor is opining on the financial statements as a whole.

Coordination of City Audit to Work Performed on the Trust

As part of our overall audit of the City the Somerville Affordable Housing Trust (Trust) balance sheet, revenues and expenditures and fund balance were subjected to the same audit procedures that we applied to all the other funds of the City. Additionally, as it relates to cash and loan receivable amounts, performed substantive testing. This means we tested and verified the Trust’s \$6.2 million in cash and \$3.0 million in loans receivable. It also means we tested and tied out ending fund balance of \$6.2 million. In essence we verified the entire balance sheet of Trust.

No specific revenues or expenditures were selected as part of our transaction testing. This is normal and should be expected considering revenues of the Trust totaled \$952,000 compared to total City revenues of \$270 million (0.3%). However, as noted above, we did test revenues and expenditures as part of this report and were satisfied with the results of our testing.

Sincerely,



Richard L. Sullivan CPA MBA
Partner