



**Audit, Compilations and Reviews:
What does your business need?**

By Angie McElhaneey, Partner, Assurance and Business Advisory Department
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Small business owners and managers understand that certified public accountants are indispensable when it comes to tax planning and business strategy. However, as these businesses grow and look to expand, many find themselves needing more sophisticated financial statements and reporting to gain bank

financing or capital. The greater the information and transparency of the overall business, the better chances of getting capital.

How do you know what you need for your business? What are the triggers to tell you which one is the best option for your company?

There are three levels of financials - **audits, reviews and compilations** - ranging from the most sophisticated to the least and also in terms of fees. "It's important for a business owner to understand the rationale, from a cost and also business perspective, when deciding which service best suits their needs," says [Angie McElhaneey](#), Partner, [Assurance and Business Advisory Department](#).

What is the difference between audited and unaudited statements?

Financial statements are perhaps the best way to evaluate business performance and debt paying ability. In general, there are two types of financial statements - audited and unaudited. Audits give insight and can reveal symptoms of financial weakness or irregularities.

Audited financial statements are those statements that have been examined by an independent Certified Public Accountant (CPA), who has expressed his/her professional opinion of a business' financial statements. The CPA is bound by generally accepted auditing standards.

Unaudited financial statements contain no such opinions or statements. CPAs provide unaudited statements in the form of reviews or compilations. Audits provide the financial statement users with the highest degree of assurance when evaluating the financial health of a business.

CPAs in the United States follow guidelines that are called "General Accepted Accounting Principles" (GAAP). GAAP derives much of its authority from the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants. Companies may choose from three different levels of service.

Financial Statement Audits

TRIGGER POINT: If your business is looking for outside financing or capital, generally you will need an audit to provide a high level of assurance about your financial statements.

Often a third party (like a bank) will request an audit because it carries

the highest level of assurance that the company's financials are fairly stated. An independent CPA uses various techniques to verify the accuracy of the information in the statement, and then expresses an opinion that the financial statements are free of material misstatements. A few examples of the types of testing involved could be confirming bank account balances, testing the cost of equipment, or confirming customer account balances.

The CPA firm then provides written assurance that financial reports are fairly presented in conformity with GAAP. Because the accountant assumes greater risk for an audit than a review or compilation, and because it requires third party verification through customers, attorneys, insurance agents, etc., they can be expensive both in terms of time and fees.

Financial Statement Reviews

TRIGGER POINT: The bank wants some form of reassurance before lending money but you also cannot incur the cost of a full audit.

Reviews are often an option. They offer a lower degree of assurance than audits. During a review, the CPA firm makes inquiries and performs analytical procedures, which allows the CPA to express limited assurance that it is not aware of any material changes. For example, in a review, a CPA would likely ask management how inventory quantities are determined. In an audit, the CPA would observe the taking of physical inventory, and personally review the obsolete or damaged items. While a review doesn't provide the same degree of assurance as an audit, some financial statement users may find it an acceptable alternative. The fees for financial statement reviews are also lower as compared to the fees for audits.

Financial Statement Compilations

TRIGGER POINT: You need basic financial statements and have limited internal help to generate statements.

Compilations are prepared from information provided by management. A compilation is useful when a business has limited in-house capabilities for preparing financial statements in the proper format. Compilations provide no assurance, and are a far step away from audited statements. Your accountant may assist in preparing the financial statements, but is not obliged to verify the information. Since the information is not verified, the CPA gives no assurance as to whether the financial statements meet any of the professional standards. In a compilation, the CPA only agrees to demonstrate that he/she has a high level of knowledge of accounting principles and practices.

Regardless of the level of service that is selected, working hand-in-hand with your CPA firm provides valuable insight into your business from a historical perspective. This can allow you to expand your strategic plan to forecast potential profits and losses over a certain period of time.

Angie McElhaneey, Partner, is with the [Assurance and Business Services Department](#). She can be reached at 913.498.9000 or amcelhaneey@marksnelsoncpa.com