



**AUDITED, REVIEWED, OR COMPILED FINANCIAL STATEMENTS –
WHICH DO YOU NEED?**

Many times, we are approached by our clients to help define the differences in what ‘makes up’ an audit, a review or a compilation. The discussion typically starts out with two main questions – what is required by the bank, the shareholders or the Board of Directors and how much is it going to cost.

Audit

The objective of an audit is to express an opinion about whether the financial statements are fairly presented in conformity with generally accepted accounting principles (GAAP). The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.

An audit is the highest level of service to be performed on the financial statements of a Company. You may have had experiences with your own external auditors the need to confirm receivable and payable balances with your customers and vendors, respectively. The auditor may also confirm the balances of your bank accounts and investment accounts with the financial institutions. For you, the Company, these are very time consuming yet necessary events to take place as part of the audit procedures. You may also have noticed a lot more time spent with your auditors in the planning of the audit – initial meetings and questionnaires which take place even before they begin to start looking at any numbers. These additional ‘front end’ discussions were part of new audit requirements for years ending after December 15, 2007.

It is important that the Company evaluate the need for an audit before entering into an engagement. For example, one of our clients, whom we have issued annual audited financial statements for many years, was reviewing the cost of an audit and what could be done to reduce the fees and the leveraging of his internal accounting staff. The owner did not want to lose the auditing procedures performed on inventory, as it is a significant asset to the overall financial statements. We recommended stepping the engagement down to a review (from an audit) and

performing special procedures on the inventory accounts. This saved our client over \$15,000 in fees and still provided the owner with the level of confidence in the procedures performed at year end. Again, the focus should be on what can be done to provide the necessary external assurances and mitigate the costs, especially during these ever-changing times.

Review

The objective of a review is to express limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with GAAP. A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit.

The analytical procedures include the review of historical trends of the Company, computations of financial ratios and the comparisons of the data to the industry in which the Company operates. The outside accountant focuses more on the relationships of accounting information rather than the verification of the numbers presented. The investment of time by both the external accountant and the Company's internal staff in performing a review is significantly less than performing an audit.

In order to meet the financial reporting requirements of an outside lender, a Company may consider a reviewed financial statement coupled with additional procedures performed by the lender (interim bank audit procedures).

Compilation

The objective of a compilation is to present in the form of compiled financial statements, information that is the representation of management (owners) without undertaking to express any assurance on the statements. A compilation consists of gathering unaudited financial information from the client and compiling it into financial statements. This is the lowest level of financial assurance services to be performed by an outside accountant but may be all that is required of the owners and/or outside lending agency.

You should review your internal and external needs on an annual basis to determine the best (and most cost effective) financial statement services to be performed by your outside accounting firm. There are likely considerations to be made when looking to change the level of service from one year to the next. Get all of the parties together and have this conversation – you don't want to miss out on a great planning opportunity!

If you have additional questions about the types of services we can provide, please contact Deanna Salo or Roger Reitz. We are here to assist the FBC in any way we can.

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We are a full-service accounting and business advisory service with three offices in the Chicagoland area. With over 25 professionals on staff serving clients across the Midwest, we have the size to meet your needs and the personal service to exceed your expectations.

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