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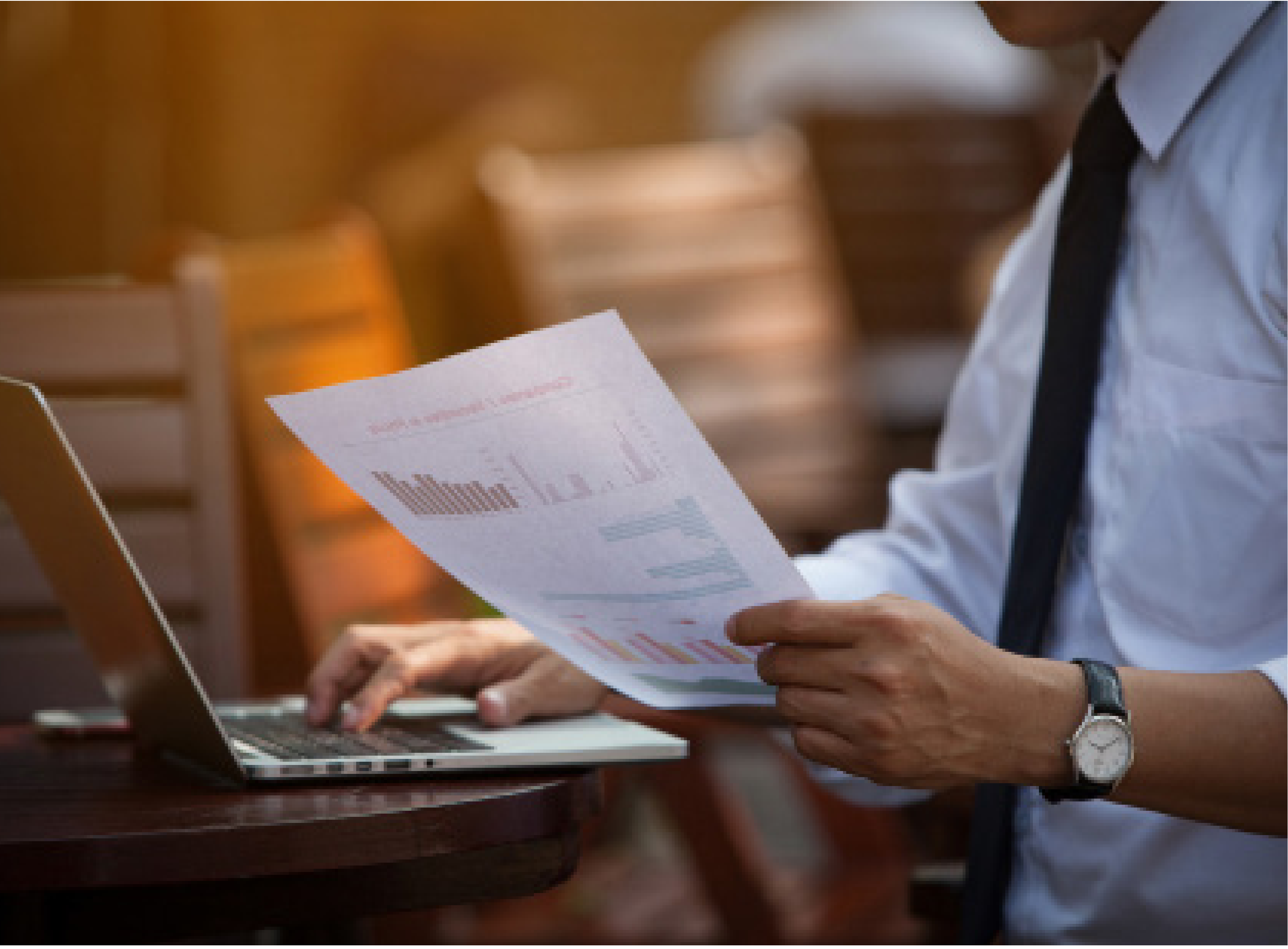
CPAS AND ADVISORS

Does Your Company Need an Audit?



For many people, the term "audit" has a negative connotation. But for business owners, an audit can actually have a positive impact. In many situations, an audit is somewhat of a necessity, or even a requirement.

However, audits are time-consuming, and they can be expensive. If your company doesn't need an audit, there are alternatives that may be less costly. Here, we'll outline the differences between audits, reviews, and compilations. We will also explain the benefits of an audit, as well as the situations that may warrant an audit.

The Benefits of an Audit

An audit offers many benefits for business owners and CEOs. Some of these benefits are outlined below.

1. Evaluate Performance and Accountability

Each member of your organization has specific duties, and many of those duties involve the company's finances. An audit can help you evaluate the performance of each employee, ensuring they are following the processes you've put in place. In simple terms, an audit holds each employee responsible for their own impact on the company's financial records.

2. Provide assurance of reliability

No financial statement service offers 100 percent assurance, but an audit offers the highest level of assurance. For executives, investors, or shareholders who want peace of mind in regards to the accuracy and reliability of the financial statements, an audit is the best form of assurance.

3. Find weak points

Through an audit, many owners find that their company's accounting processes have one or more weak points. These may increase your risk of fraud or misstatement within your financial records. Obviously, it's best to identify and address these situations, and an audit helps accomplish this task.

Audits, Reviews, and Compilations: What's the Difference?

There are three primary methods of financial statement review. These are audits, reviews, and compilations. There are many differences among the three, which are outlined below.

Audits

An audit is the highest form of financial statement review. The term is defined as "a formal examination of an organization's or individual's accounts or financial situation." Because audits are incredibly detailed, they offer the most assurance of the accuracy of a company's financial records (though no financial review offers 100% assurance). During an audit, the CPA typically looks over all of the financial statements, evaluates the company's internal controls, then obtains evidence to ensure that the records are accurate. This evidence may include physical inspections, confirmation with a third party, inquiry, examination of source documentation, or other verifiable methods.

When the audit is complete, the CPA provides a written report with his or her opinion of whether the financial statements meet Generally Accepted Accounting Principles (or whichever financial reporting framework the company uses) and whether the statements are presented fairly and accurately. They will also assess your fraud risk and state any material weaknesses they found throughout the process.

The CPA must be considered independent of the company, meaning that he or she has no financial interest in the business.

Though an audit is considered the most informative and detailed financial examination process, you should note that it only measures the accuracy of the financial statements and the risk-level of the company's internal controls. Audits are not meant to evaluate the financial decisions a company makes with regards to its cash flow. The auditor's report also cannot guarantee that a company will succeed financially in the future. However, if there is substantial doubt that the company will continue as a going concern, that will be notated in the auditor's report.

Reviews

A review of the financial statements is similar to an audit but with many substantial differences. The CPA will make efforts to understand your industry and the accounting principles that are used for that industry. He or she will also need to understand your company and the practices you use.

However, the CPA will not make efforts to understand your internal controls or make any assessments on your risk for fraud. He or she will evaluate and test your accounting records, but the methods used are generally stringent than those used during an audit. Therefore, reviews offer some assurance of the accuracy of the financial statements, but it's not as high as the assurance provided by an audit.

The CPA who conducts your review must be independent of your company. At the end of the review, he or she will issue a report which states whether any modifications should be made to your financial records to meet GAAP (or whichever reporting framework you use).

Compilations

Unlike an audit or review, a compilation offers no level of assurance. However, it can often be a helpful process. For a compilation, the CPA simply ensures that the financial statements are formatted properly. The CPA then issues a report, which is usually included with the financial statements if they are presented to a lender or other third party. The report states whether the CPA was independent of the company and explains that the included financial statements are in compliance with the applicable financial reporting framework.

Which financial statement service should you use?

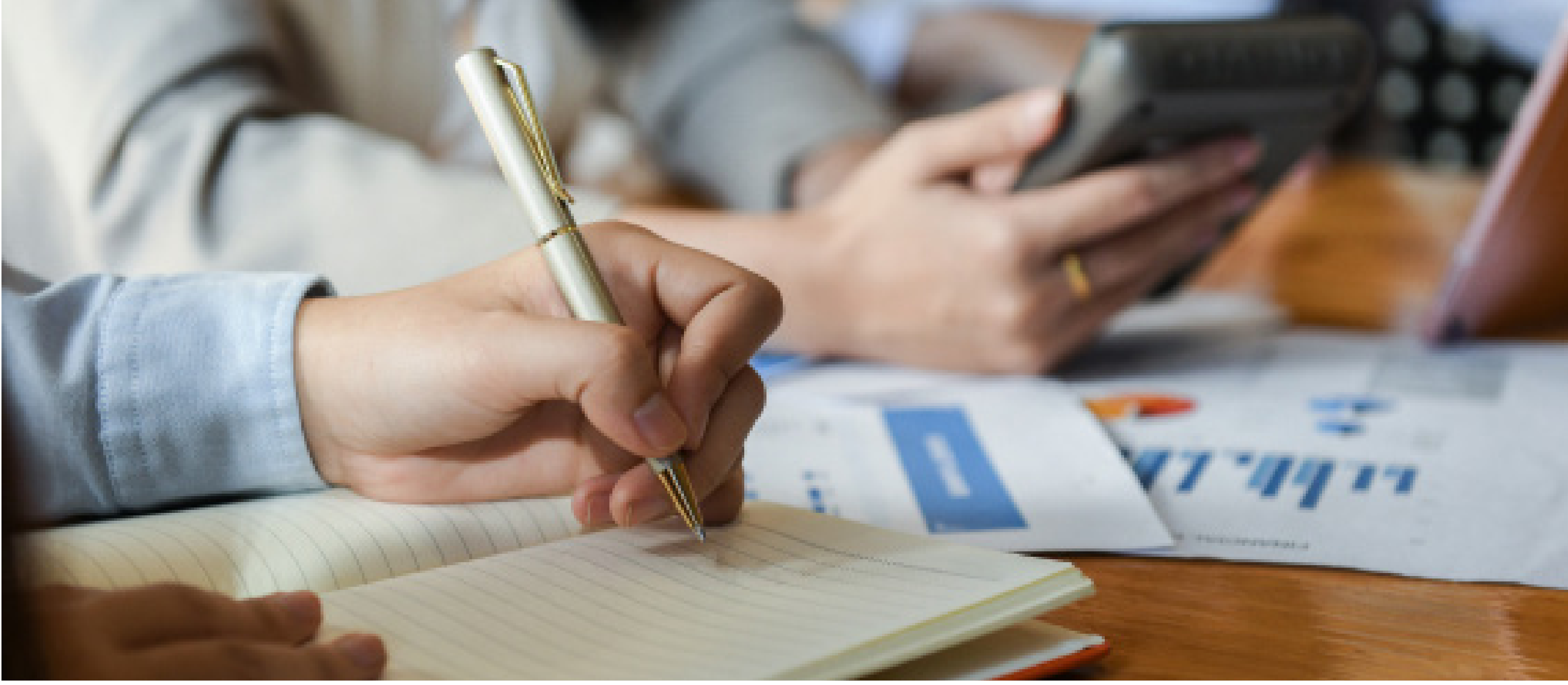
So, which should you choose: an audit, a review, or a compilation? Like many things in the accounting world, it depends on the circumstances.
An audit is best in many situations, such as:

1. If your lender requires one. Oftentimes, a bank or other lender will require an audit, particularly if the requested loan is substantial or the collateral is limited.
2. If your investors require one. Many investors today require regular financial audits. It may even be listed in your agreement.
3. If your buyer requires one. If you are selling your company, buyers may request an audit. Sometimes, the buyer doesn't formally request an audit, but may offer a higher price if you have one. An audit may also help you sell your company more quickly.
4. If it's part of your standard business practices. Even without requests from third parties, many business owners require audits for their own accounting practices. They appreciate the level of assurance and reliability that an audit provides, and they base many of their business decisions on their financial statements. This may also be helpful in the future. Most lenders, investors, and buyers appreciate a strong track record of audited financial statements. It shows that you value accuracy in your financial reporting.

If none of these situations currently fit your business, you may opt for a compilation or review instead. Moreover, if a third party is requesting an audit that you would like to avoid, you can ask if they have specific concerns. Oftentimes, these concerns can be alleviated with a compilation or review. Many CPAs also offer audits of specific aspects of your accounting, such as an accounts receivable audit or inventory audit, for example.

Conclusion

At some point, your business will likely require an audit, review, or compilation – or, most likely, all three. If you need more information or guidance deciding which financial statement service is best for your situation, contact our office. One of our CPAs will be happy to assist.



About Olsen Thielen

Olsen Thielen is a full service accounting and consulting firm, and a "Top 25" firm in Minneapolis and St. Paul, Minnesota. We focus on providing top quality solutions for our clients through our traditional accounting and tax services, as well as non-traditional services like valuations, business succession planning, employee benefits and human resources consulting, back-office cloud accounting solutions, estate, gift and financial planning, and fraud and forensic accounting.

Olsen Thielen was founded on the belief that personal attention, trust, and quality service were the key elements to helping our clients succeed. Over 95 years later, that commitment remains. Our longevity and growth can be attributed to building strong relationships with our clients and continuing to earn their trust.

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