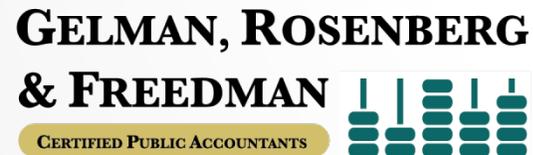


Audit Not Required?

Understand Your Reporting Options and Best Practices for Being Prepared

GRF Webinar, August 29, 2017



Steven Lyons, CPA

*Manager, Outsourced Accounting
and Advisory Services*

John R. Pace, CPA

*Partner, Outsourced Accounting
and Advisory Services*

Housekeeping

Technical Difficulties?

-  Contact Webex at 1-866-229-3239
Event #625-849-593 / Event Password: GRF2017
-  The webinar will be recorded and made available after the event
-  Please use the “Chat” function for any technical questions

Housekeeping

CPE Credit Information

- Attendees seeking CPE for this presentation must complete and submit a short evaluation survey that will pop up on their screens after the webinar ends
- Three words will be shared during the webinar; the survey will ask you for those words
- Attendees cannot claim CPE unless we receive a completed evaluation with the correct words
- Technical questions about the survey can be addressed to Alina Stone at astone@grfcpa.com, or at 301-664-9357
- Turn off your pop-up blocker
- This presentation is available to download at www.grfcpa.com/media/829.pdf

Housekeeping

Webinar Objectives

<p>Learning Objective <i>To provide attendees with a better understanding of reviews & compilations vs. audits</i></p>	<p>Instructional Delivery Methods <i>Group Internet-based</i></p>
<p>Recommended CPE <i>1.0 CPE</i></p>	<p>Recommended Fields of Study <i>Audit</i></p>
<p>Prerequisites <i>None required</i></p>	<p>Advance Preparation <i>None</i></p>
<p>Program Level <i>Basic</i></p>	<p>Course Registration Requirements <i>None</i></p>
<p>Refund Policy <i>No fee is required to participate in this session.</i></p>	<p>Cancellation Policy <i>In the event that the presentation is cancelled or rescheduled, participants will be contacted immediately with details.</i></p>
<p>Complaint Resolution Policy <i>Gelman, Rosenberg & Freedman is committed to our seminar participants' 100% satisfaction and will make every reasonable effort to resolve complaints as quickly as possible. Please contact kdavis@grfcpa.com with any concerns.</i></p>	

Presenters



John R. Pace, CPA, CVA
*Partner, Outsourced Accounting
and Advisory Services*



Steven Lyons, CPA
*Manager, Outsourced Accounting
and Advisory Services*

Today's Agenda

1 | The Importance of Financial Information

2 | Alternatives to Audits

- Financial Statement Preparation
- Compilations
- Reviews
- Compilations & Reviews: Similarities and Differences
- What Value Does This Add?

Importance of Financial Information

- Organizations need timely and accurate financial statements to gauge performance and to help plan for the future (for example: strategic planning, budgeting and forecasting, hiring decisions, etc.)
- Cash flow management
- Helps with tax planning
- Optimize your A/R and A/P cycles- Collect cash faster, better manage payments to vendors (i.e. take advantage of discounts, etc.)
- Having solid financial statements at the ready is an important proactive step for any organization, but especially those that may be seeking financing or those that compete for federal or state grants, contracts, etc.
- Dashboard reporting has become extremely popular. Financials at a glance for busy professionals.

Why not have an audit?

So why not an audit?: In many cases, audits are not required for organizations without loans or for organizations who have revenue at levels that do not require audits.

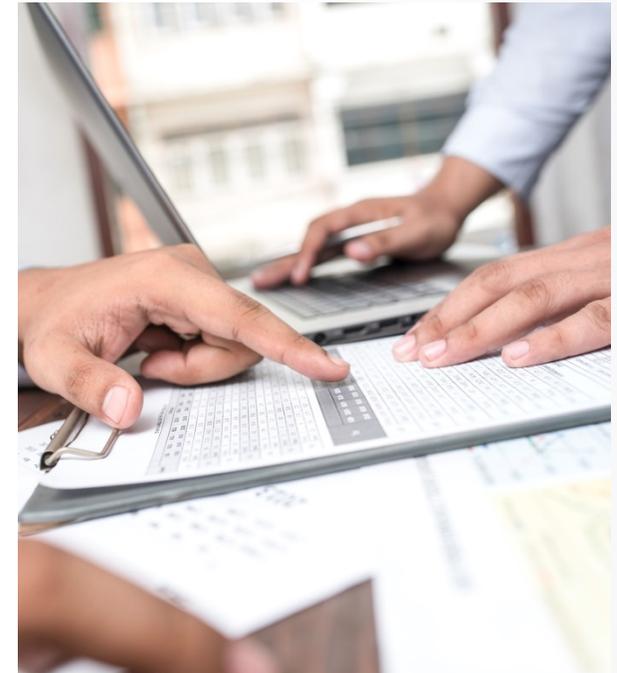
Additionally, an audit is the most expensive type of financial statement service provided by CPAs so companies often resist an audit until one is required.

Some reasons why your organization may not need an audit:

- You are a nonprofit organization and your revenue level is under your state's threshold for an audit
- You're a government contractor and have small business administration contracts and your revenue is below the threshold that requires an audit (thresholds are by NAICS code)
- You are a privately held, for-profit businesses without loans and/or government contracts, or other obligations that require an audit.

GELMAN, ROSENBERG

& FREEDMAN *Certified Public Accountants*



Polling Question #1

Is your organization currently required to have a compilation or review?

- a. Yes*
- b. No*
- c. Not yet*
- d. I don't know*

Alternatives to Audits

Which is better for your organization and why you need to know the differences

Internally generated financial statements from your accounting system



Financial statement preparation by your CPA



A compilation or review by your CPA



Alternatives to Audits

Financial Statement Preparation

- Fairly new option that provides no verification on the underlying financial data– typically used while outsourcing your accounting
- Intended primarily for internal use
- No formal report on CPA letterhead
- Statements usually generated from your software, but with the footer added stating “no assurance provided”
- In our experience, this option provides limited value and isn’t often used among our client base



Alternatives to Audits

Financial Statement Compilation



- CPA provides no assurance on the accuracy of the underlying information, but is required to read the financial statements and consider whether the statements appear appropriate
- Report is issued on CPA letterhead
- Disclosures (footnotes) may be omitted (which usually lowers the cost)
- Will often suffice for small organizations
- CPA usually drafts the financials in their format based on client data (as opposed to a preparation, which usually comes from client accounting software)

Alternatives to Audits

Financial Statement Review

- Considered an assurance service and offers a basic level of accuracy on the financial statements
- Report is issued on CPA letterhead
- CPA usually drafts the financials in their format based on client data (as opposed to a preparation, which usually comes from client accounting software)
- Disclosures (Footnotes) are required
- CPA is required to understand your industry and its typical accounting practices
- CPA is required to understand your organization and your typical accounting practices in order to help identify areas in the financial statements where material misstatements may arise
- Review procedures mainly consist of inquiry and analytical procedures (discussed in more detail later)

Polling Question #2

Do you understand why your CPA asks you for the various items on the PBC list?

- a. Yes, I understand completely*
- b. Yes, but I could use some more help*
- c. No, I don't understand*

Compilations & Reviews

Similarities

- Both compilations and reviews have generally accepted accounting principles as the default reporting basis, just like an audit
- The same footnote disclosures are required for a compilation, review or an audit
 - Compilations have the option not to show footnotes, but this typically decreases the value of the information
- The end product looks nearly identical except for the accountants report
 - No assurance - compilations
 - No material modifications need to be made - review



Compilations vs. Reviews

Differences

- **The main purpose of a compilation** is to apply accounting and financial reporting expertise to assist management in the presentation of the financial statements
 - The CPA is not required to verify the underlying information
- **The main purpose of a review** is to obtain limited assurance that there are no material modifications that should be made to the financial statements
 - Provides a greater value to the client and end users of the financial statements



Compilations & Reviews

Helping you through the process

- Every CPA firm has its process, but many will request a fair amount of supporting documentation
- If the CPA is also preparing your corporate tax returns, there will be additional information required
- Be sure to ask your CPA if you have any questions about the document request list
- Let your CPA know about any deadlines that you may have



Compilations & Reviews

Steps to a Smooth Process

- Make sure your year is closed and all adjustments that you know about are recorded before you send your information to your CPA
- Most CPAs will want schedules that support financial statement areas:
 - Cash
 - Accounts receivable
 - Fixed assets
 - Inventory
 - Investments
 - Accounts and credit cards payable
 - Loans
 - Roll forward of net assets (nonprofit organizations)
 - Other as dictated by the specifics of your organization



Compilations & Reviews

Major Areas of Focus

- Revenue recognition
- Office lease expense
- Most CPAs will request a reconciliation of payroll recorded to IRS payroll tax submissions
 - Payroll is usually the biggest expense
- Reconciliation of cash and investment accounts
- Other as dictated by your type of organization



Polling Question #3

Do you expect the CPA performing the compilation or review to help you close the year?

- a. Yes*
- b. No*

How to be Ready

What does your CPA do with the information? Why Certain Data?

- Uses the trial balance to draft the financial statements and related disclosures
 - Tip: be sure to inform your CPA if you make a change to your financials after you've sent the trial balance
- Agrees supporting documentation to the trial balance
- Performs analytical procedures on the financial information (**review only**)
 - Develop expectations for year-end results and compare to actual
 - A budget is often useful
 - Compare current year to preceding years
- Compare current year to budget
- Financial statement ratio analysis
- Inquire about any significant variations
- Inquire about any significant increases or decreases to any critical financial statement area
 - Revenue
 - Payroll
 - Cash
 - Accounts receivable
 - Other as needed
- Proposes adjusting journal entries (corrections) if necessary

Alternatives to Audits

How a Compilation or Review can Add Value

- Greater accuracy and clarity of your financial information
- Can help identify areas in need of improvement
- Good financial reporting is a proactive step and helps the organization be ready for the future
- Tax preparation is much easier with good financial reporting
- CPA gains better understanding of your organization which leads to better service and a more productive partnership



Key Takeaways

Alternatives to Audits – Compilations & Reviews



Recognize that many
people overuse the term
“audit”



Don't hesitate to ask for
help



Have your books closed
before you begin

Profit and Loss Statement

Stated in 000s

<Company Name>
For the <Month or Year> ending <Month-Day-Year>

Gross margin [L/J]
Return on sales [T/J]

Sales Revenue
Product/Service 1
Product/Service 2
Product/Service 3
Product/Service 4
Total Sales Revenue [J]

Cost of Sales
Product/Service 1
Product/Service 2
Product/Service 3

Prior Period

Budget

Current Period

Current Period as % of Sales

% Change from Prior Period

% Change from Budget

Q&A

Get In Touch



4550 Montgomery Avenue,
Suite 650N, Bethesda, MD 20814
(301) 951-9090

-  www.grfcpa.com
-  twitter.com/grfcpas
-  facebook.com/grfcpas
-  linkedin.com/company/gelman-rosenberg-&-freedman-cpas
-  instagram.com/grfcpas/

John R. Pace, CPA, CVA
jp pace@grfcpa.com
(301) 951-9090

Steven Lyons, CPA
slyons@grfcpa.com
(301) 951-9090

Join Us Again

at the next webinar in our 2017 series

***“Handling Functional Expenses and Developing Indirect Rates:
Best Practices for Effective Nonprofit Financial Operations”***

September 19, 2017, 11:00 a.m. to 12:00 p.m.