



# CONTRYMAN ASSOCIATES, P.C.

Certified Public Accountants

*Providing Solutions for Your Success*

## Reporting on Financial Performance

Almost every organization, whether it's a privately held business, a publicly owned corporation, a nonprofit organization, or a government, must prepare reports on its financial performance. Such reports help owners and managers make operating decisions, enable creditors to evaluate loan applications, and provide individuals with information to make investment decisions.

**Contryman Associates**, Certified Public Accountants, may provide you with three distinct services involving financial statements. Each is designed to meet a different need.

## Compilation

*Preparing financial statements of private entities based on information provided by the entity's management.*

Through compilation services, a **Contryman Associates** professional prepares monthly, quarterly, or annual financial statements. However, he or she offers no assurance as to whether material, or significant, changes are necessary for the statements to be in conformity with generally accepted accounting principles, the cash basis, or the income tax basis of accounting. During a compilation, the data is simply arranged into conventional financial statement form. No probing

is conducted beneath the surface unless the CPA becomes aware that the data provided is in error or is incomplete.

The CPA becomes familiar with the accounting principles and practices common to the client's industry, and acquires a general understanding of the client's transactions and how they are recorded.



After compiling the financial statements, the Contryman Associates professional is obliged to read them and consider whether they are appropriate in form and free from obvious material errors. The CPA then issues a standard report that says, in effect, that the financial statements were compiled, but because they were not audited or reviewed, no opinion is expressed.

A compilation is sufficient for many private or small organizations. It is useful when limited in-house capabilities for preparing financial statements exist. However, if an organization needs to provide some degree of assurance that its financial statements are reliable, it may be necessary to engage a CPA to perform a review or an audit.

## Review

*Inquiry and analytical procedures applied to financial statements of private entities.*

A private or small entity may engage a CPA to perform a review of its financial statements and issue a report that provides limited assurance that material changes to the financial statements are not necessary. With respect to reliability and assurance, a review falls closer to a compilation, which provides no assurance, than the more extensive assurance of an audit.

The financial statements used are management's statements, not the CPA's. Management must have

a sufficient understanding of the financial statements to assume responsibility for them.

Two factors differentiate a review from a compilation - the CPA must remain independent of the client during a review, and all appropriate footnote disclosures must be included in the reviewed statements.

The **Contryman Associates CPA** obtains a working knowledge of the industry in which the entity operates and acquires information on key aspects of the organization, including operating methods, products and services, and material transactions with related parties.

The CPA will then make inquiries concerning financial statement-related matters. Then, the CPA will apply analytical procedures to see whether the statements make sense without applying audit procedures.



Keep in mind that during a review, a CPA does **not** confirm balances with banks or creditors, observe inventory counting, or test selected transactions by examining supporting documents. A review provides limited assurance that no material changes need to be made to the financial statements. In many instances, a review - with its limited assurance - may be adequate for an organization or its creditors. If more assurance is necessary, the organization may need to engage a CPA to perform an audit.

## Audit

*Audit procedures based on a CPA's understanding of management, operating, and industry characteristics and analysis of financial statement risk.*

Any business or organization may engage a **Contryman Associates CPA** to audit its financial

statements and to issue a report that provides the highest level of assurance that the financial statements are presented fairly in conformity with the accounting basis used.

In an audit, as in a review, the CPA must be independent of the client and the financial statements must contain all required disclosures.

The CPA obtains an understanding of the client's organization and its internal control, along with operating and industry characteristics. Based on the CPA's analysis of financial statement risk, the CPA designs and performs search and verification procedures, including contact with sources outside of the client. By accumulating evidence, the CPA tries to reduce the risk that the financial statements will be materially misstated. Each audit will be different.

The auditor then issues a report stating that the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles.

An auditor is required to exercise due professional care in planning and performing the audit. That means that the auditor exercises professional skepticism, which can be defined as an attitude which includes a questioning mind and working practices that encompass a critical assessment of audit evidence throughout the audit. The auditor neither assumes that management is honest nor dishonest.



An audit provides a reasonable level of assurance that the financial statements are free of material errors and fraud. However, because of the concept of reasonable assurance and because the CPA does not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts, may exist and not be detected by an audit.

# Comparison: Compilation, Review, and Audit

Compilation

Review

Audit

Purpose	Type of Entity	Source of Information	Level of Assurance
Financial statements arranged in conventional financial statement form	Small privately held entities	Information provided by management	CPA offers no assurance
A report that provides limited assurance from the CPA on financial statements prepared by management.	Private entities	Information provided by management with CPA making inquiries and performing analytical procedures on financial statement related matters	Level of assurance between that of a compilation and an audit, but closer to a compilation. The CPA, who must be independent of the client, will apply analytical procedures designed to see whether the financial statements make sense. Explanatory footnotes are required.
A report that provides the highest level of assurance that the financial statements prepared by management are presented fairly in conformity with generally accepted accounting principles.	Any public or private entity, including businesses, nonprofit organizations, and governments.	In addition to information supplied by management, the CPA conducts search and verification procedures, i.e. observing inventory counting, testing selected transactions, examining supporting documents, gathering information from outside sources, etc., trying to reduce the risk that financial statements will be materially misstated	Offers the highest level of assurance, providing a reasonable level of assurance that the financial statements are free of material errors or fraud. Does not, however, provide a guarantee of absolute assurance.



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**Financial Reporting  
 Compilation  
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