

CPA Way- Scenario #3

Lisa: Waller and Co., a small CPA firm, has performed a review engagement on our financial statements for the past five years. Because of health issues, Marvin Waller has had to retire. He gave me the names of CPAs and firms that he thought might be a “good fit” for us. Before choosing a replacement accounting firm, however, I’m wondering whether we should switch from a review of our annual financial statements to an audit. We currently use a small local CPA firm called Bruce, Reed and Dixon LLP (BRD) for the implementation of the new accounting system. Maybe they can do the year end work too?

At a lunch meeting the other day, my friend told me that, because they are planning to expand and will need new financing, his company switched to an audit this year. He said that an audit makes it easier, faster and less expensive to obtain new financing. I was surprised. He also said that, because of the audit, the bank reduced the interest rate on his loan by one-half of a percent. Why would the bank do this? One-half of a percent is not very significant. My friend also said that the auditors made some excellent and comprehensive recommendations for improving internal controls. However, I don't see how that would benefit us.

There are a couple of expansion opportunities I have been keeping an eye on. If a business opportunity presents itself, I would like to be confident that we could acquire the financing. However, I don't want to have to change our accounting policies due to us having an audit.

Mark: The review of our financial statements cost about \$3,500 last year. Based on some preliminary research I have done, I estimate an audit would cost around \$10,000. However, there are many factors to consider with both engagement types, in addition to cost. I will have Kelly prepare a memo for you that considers both options.

Lisa: That would be great.