

AU Section 9625

Reports on the Application of Accounting Principles: Auditing Interpretations of Section 625

1. Requirement to Consult With the Continuing Accountant

.01 Question—Section 625, *Reports on the Application of Accounting Principles*, provides guidance to a reporting accountant when asked to provide a written report or oral advice on (a) the application of accounting principles to specified transactions, either completed or proposed, involving facts and circumstances of a specific entity or (b) the type of opinion that may be rendered on a specific entity's financial statements.

.02 Section 625 paragraph .02 refers to a reporting accountant as an accountant in public practice. Footnote 3 to that paragraph states: "See ET section 92.29 of the AICPA Code of Professional Conduct for a definition of 'practice of public accounting.'"

.03 Section 625 paragraph .09 states in part:

When evaluating accounting principles that relate to a specific transaction or determining the type of opinion that may be rendered on a specific entity's financial statements, the reporting accountant should consult with the continuing accountant of the entity to ascertain all the available facts relevant to forming a professional judgment. The continuing accountant may provide information not otherwise available to the reporting accountant regarding, for example, the following: the form and substance of the transaction; how management has applied accounting principles to similar transactions; whether the method of accounting recommended by the continuing accountant is disputed by management; or whether the continuing accountant has reached a different conclusion on the application of accounting principles or the type of opinion that may be rendered on the entity's financial statements.

.04 In today's environment, primarily driven by independence concerns, a nonissuer may engage an accountant in public practice (or his or her firm), other than the entity's independent auditor, as an advisory accountant¹ to assist management in certain recurring accounting or reporting functions (for example, bookkeeping or assistance in preparing financial statements or notes, performing fair value impairment tests, or assistance in preparing regulatory filings). In this capacity, an advisory accountant may be frequently asked to provide advice on the application of accounting principles or to assist management to formulate its accounting positions prior to discussing such positions with its auditor. In these situations, an advisory accountant is not engaged to provide a second opinion and would generally be in a position to have full access to management and have full knowledge of the form and substance of the transaction, how management has applied similar transactions in the past, and whether this method of accounting has been discussed with the continuing auditor.

¹ The term *advisory accountant* is used in this interpretation rather than the term "reporting accountant" to distinguish the fact that an accountant in this capacity is not engaged to provide a second opinion and is typically engaged to provide accounting and reporting advice on a recurring basis.

.05 When an accountant in public practice, acting in the capacity of an advisory accountant, has been engaged by a nonissuer to assist management with recurring accounting matters and is asked to provide advice (not a second opinion) on the application of accounting principles to specified transactions, either completed or proposed, based on the specific facts and circumstances of the client, and the advisory accountant has full access to management and full knowledge of the form and substance of the transaction, is he or she still required to consult with the continuing accountant?

.06 *Answer*—Section 625 was issued to provide guidance to a reporting accountant when engaged to provide a "second opinion" on the application of accounting principles to a specific transaction or transactions. In those cases, the reporting accountant may not have been provided all the relevant facts by management or he or she may not have full knowledge of the form and substance of the transaction in order to form a "second opinion." To help eliminate this issue, section 625 states that the reporting accountant should consult with the continuing accountant so the continuing accountant has an opportunity to convey relevant facts and circumstances that the reporting accountant may not have.

.07 An advisory accountant may be able to overcome the presumptive requirement² of section 625 paragraph .09 to consult with the continuing accountant when he or she believes, due to the facts and circumstances of the engagement, that he or she is not being asked to provide a second opinion and that he or she has obtained all relevant information from management to provide written or oral guidance regarding the application of accounting principles to that client's specified transactions.

.08 An important distinction to consider in overcoming the presumptive requirement to consult with the continuing accountant is the nature of the engagement and whether the services are recurring as contrasted to periodic. A recurring engagement may constitute the effective outsourcing of certain controllership or other financial reporting functions that would typically not be indicative of opinion shopping and would typically allow the advisory accountant to have complete access to management. A member in public practice engaged in the capacity of an advisory accountant nonetheless should be alert to any instances in which the nonissuer attempts to use the advisory accountant to "opinion shop." The advisory accountant should establish an understanding with the client that includes the substance of section 625 paragraph .10(d)³ and that the client, along with the advisory accountant will notify the continuing accountant and members of any governance body (such as audit committee) of the arrangement.

.09 The advisory accountant should document his or her conclusion that consultation with the continuing accountant was not considered necessary under the circumstances. Additionally, the advisory accountant should comply with the other requirements of section 625, including section 625 paragraph .08, which requires the accountant to (a) obtain an understanding of the form and substance of the transaction(s); (b) review applicable generally accepted

² The ability to overcome this presumption would apply only to the application of accounting principles. If the advisory accountant was asked to provide oral advice or a written report on the type of opinion that may be rendered by the continuing accountant, the advisory accountant would not have the ability to obtain all relevant information and, therefore, the requirements of section 625 paragraph .09 to consult with the continuing accountant would apply.

³ The advisory accountant's understanding would include a statement that the responsibility for the proper accounting treatment rests with management, who should consult with their continuing accountant.

accounting principles; (c) if appropriate, consult with other professionals or experts; and (d) if appropriate, perform research or other procedures to ascertain and consider the existence of creditable precedents or analogies.

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