

AU-C Section 910

Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country

Source: SAS No. 124.

Effective for audits of financial statements for periods ending on or after December 15, 2012.

Introduction

Scope of This Section

.01 This section addresses circumstances in which an auditor practicing in the United States is engaged to report on financial statements that have been prepared in accordance with a financial reporting framework generally accepted in another country not adopted by a body designated by the Council of the AICPA (Council) to establish generally accepted accounting principles (GAAP) (hereinafter referred to as a financial reporting framework generally accepted in another country) when such audited financial statements are intended for use outside the United States. This section is not intended to preclude the use of such audited financial statements in the United States.

.02 Pursuant to the "Compliance With Standards Rule" (ET sec. 1.310.001) and the "Accounting Principles Rule" (ET sec. 1.320.001), the Council designates the bodies to establish GAAP. This section does not apply to financial statements prepared in accordance with financial reporting frameworks established by the bodies designated by the Council. Section 700, *Forming an Opinion and Reporting on Financial Statements*, applies to engagements to report on such financial statements, including financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). [Revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

.03 This section is applicable to engagements to report on financial statements prepared in accordance with a jurisdictional variation of IFRS such that the entity's financial statements do not contain an explicit and unreserved statement in an appropriate note to the financial statements that its financial statements are in compliance with IFRS as promulgated by the IASB.

.04 This section does not apply to engagements to report on financial statements of a U.S. subsidiary of a foreign registrant parent company that are presented in the parent company's filing with the U.S. Securities and Exchange Commission when the subsidiary's financial statements have been prepared in accordance with a financial reporting framework used by the parent company and audited in accordance with auditing standards generally accepted in the United States of America (GAAS).

Effective Date

.05 This section is effective for audits of financial statements for periods ending on or after December 15, 2012.

Objective

.06 The objective of the auditor, when engaged to report on financial statements prepared in accordance with a financial reporting framework generally accepted in another country, when such audited financial statements are intended for use outside the United States, is to address appropriately the special considerations that are relevant to

- a. the acceptance of the engagement,
- b. the planning and performance of the engagement, and
- c. forming an opinion and reporting on the financial statements.

Requirements

Considerations When Accepting the Engagement (Ref: par. .A1)

.07 Section 210, *Terms of Engagement*, requires the auditor, as part of establishing whether the preconditions for an audit are present prior to accepting the engagement, to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements.¹ In an audit of financial statements prepared in accordance with a financial reporting framework generally accepted in another country, the auditor should obtain an understanding of

- a. The purpose for which the financial statements are prepared and whether the financial reporting framework applied in the preparation of the financial statements is a fair presentation framework.
- b. The intended users of the financial statements.
- c. The steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances.

.08 When the auditor plans to use the form and content of the auditor's report of another country, the auditor should obtain an understanding of the applicable legal responsibilities involved. (Ref: par. .A8)

Performance (Ref: par. .A2-.A3)

.09 When auditing financial statements prepared in accordance with a financial reporting framework generally accepted in another country that are intended for use only outside the United States, the auditor should comply with GAAS, except for requirements related to the form and content of the report in the situation described in paragraph .12. The auditor should determine whether the application of GAAS requires special consideration in the circumstances of the engagement.

.10 Section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatements*, requires the auditor to obtain an

¹ See paragraph .06 of section 210, *Terms of Engagement*.

understanding of the entity's selection and application of accounting policies.² When reporting on financial statements prepared in accordance with a financial reporting framework generally accepted in another country, the auditor should obtain an understanding of such framework.

Application of Auditing Standards of Another Country

.11 If the auditor is engaged to audit financial statements prepared in accordance with a financial reporting framework generally accepted in another country, and the agreed-upon terms of engagement require the auditor to apply either the auditing standards of that country or International Standards on Auditing (ISAs), the auditor should obtain an understanding of and apply those relevant auditing standards, as well as GAAS, except for requirements related to the form and content of the report in the situation described in paragraph .12. (Ref: par. .A4-.A6)

Reporting

Reporting—Use Only Outside the United States

.12 If the auditor is reporting on financial statements prepared in accordance with a financial reporting framework generally accepted in another country that are intended for use only outside the United States, the auditor should report using either

- a. a U.S. form of report that reflects that the financial statements being reported on have been prepared in accordance with a financial reporting framework generally accepted in another country, including (Ref: par. .A7)
 - i. the elements required by section 700 and
 - ii. a statement that refers to the note to the financial statements that describes the basis of presentation of the financial statements on which the auditor is reporting, including identification of the country of origin of the accounting principles, or
- b. the report form and content of the other country (or, if applicable, as set forth in the ISAs), provided that
 - i. such a report would be issued by auditors in the other country in similar circumstances,
 - ii. the auditor understands and has obtained sufficient appropriate audit evidence to support the statements contained in such a report, and
 - iii. the auditor has complied with the reporting standards of that country and identifies the other country in the report. (Ref: par. .A8-.A9)

Reporting—Use in the United States

.13 If financial statements prepared in accordance with a financial reporting framework generally accepted in another country also are intended for use in the United States, the auditor should report using the U.S. form of report.³

² See paragraph .12(c) of section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

³ See section 700, *Forming an Opinion and Reporting on Financial Statements*.

In addition, the auditor should include in the auditor's report an emphasis-of-matter paragraph⁴ that

- a. identifies the financial reporting framework used in the preparation of the financial statements,
- b. refers to the note to the financial statements that describes that framework, and
- c. indicates that such framework differs from accounting principles generally accepted in the United States of America. (Ref: par. .A7 and .A10)

Application and Other Explanatory Material

Considerations When Accepting the Engagement (Ref: par. .07-.08)

.A1 In obtaining an understanding of the purpose for which the financial statements are prepared and of the intended users, the auditor may consider whether the intended users are likely to be familiar with the applicable financial reporting framework. For example, if the financial statements are to be used in the United States in addition to the other country(ies) for which they are intended, the auditor may consider whether intended users within the United States deal directly with the entity and whether the financial statements are to be used in a manner that permits such users to discuss with the entity differences from accounting and reporting practices in the United States and their significance. Accordingly, an auditor may conclude that financial statements prepared in accordance with a financial reporting framework generally accepted in another country are not appropriate for use in a private placement memorandum to be distributed widely in the United States.

Performance (Ref: par. .09-.10)

.A2 The accounting principles used to prepare financial statements in accordance with a financial reporting framework generally accepted in another country may differ from those used to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, and such differences may affect the auditor's risk assessment and design of further audit procedures. For example, the financial reporting framework generally accepted in another country may require that certain assets be revalued to adjust for the effects of inflation—in which case, the auditor may find it necessary to perform procedures to test the revaluation adjustments. As another example, a particular country's financial reporting framework may not require or permit recognition of deferred taxes; consequently, procedures for testing deferred tax balances would not be applicable.

.A3 An understanding of the financial reporting framework generally accepted in another country may be obtained by reading the statutes or professional literature, or codifications thereof, which establish or describe the financial reporting framework generally accepted in the other country. Often, the application of accounting principles to a particular situation requires practical experience, and accordingly, the auditor may consult with persons having expertise in applying the financial reporting framework of the other country.

⁴ See section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*.

Application of Auditing Standards of Another Country (Ref: par. .11)

.A4 Applying either the auditing standards of another country or the ISAs may require the auditor to perform procedures in addition to those procedures required by GAAS.

.A5 An understanding of the auditing standards of another country or the ISAs may be obtained by reading the statutes or professional literature, or codifications thereof, which establish or describe such standards.

.A6 Statutes or professional literature, or codifications thereof, however, may not include a complete description of the auditing practices in another country. The auditor may consult with persons having expertise in, including practical experience in applying, the auditing standards of the other country or the ISAs, as relevant.

Reporting (Ref: par. .08 and .12-.13)

.A7 The exhibit "Illustrations of Auditor's Reports on Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country" contains illustrations of auditor's reports on financial statements incorporating the elements required by paragraphs .12-.13.

Reporting—Use Only Outside the United States (Ref: par. .08 and .12)

.A8 Even when the form and content of the auditor's report used in another country appears similar to that used in the United States, the report may convey a different meaning and entail different legal responsibilities for the auditor due to custom or culture. Issuing a report of another country may require the auditor to report on statutory compliance or otherwise require understanding of local laws and regulations. When issuing the auditor's report of another country, the auditor is required by paragraph .08 to obtain an understanding of applicable legal responsibilities, in addition to the auditing standards and the financial reporting framework generally accepted in the other country, as required by paragraphs .07 and .10-.11. Accordingly, depending on the nature and extent of the auditor's knowledge and experience, the auditor may consult with persons having expertise in the audit reporting practices of the other country and associated legal responsibilities to obtain the understanding needed to issue that country's report.

.A9 An entity that prepares financial statements in accordance with GAAP also may prepare financial statements in accordance with a financial reporting framework generally accepted in another country for use outside the United States (for example, financial statements prepared in accordance with a jurisdictional variation of IFRS such that the entity's financial statements do not contain an explicit and unreserved statement of compliance with IFRS as issued by the IASB). In such circumstances, the auditor may report on the financial statements that are in accordance with a financial reporting framework generally accepted in another country by reporting in accordance with paragraph .12. The auditor may include in one or both of the reports a statement that another report has been issued on the financial statements for the entity that have been prepared in accordance with a financial reporting framework generally accepted in another country. The auditor's statement may also reference any note disclosure in the financial statements that describes significant differences between the accounting principles used and GAAP. An example of such a statement, which may be included in an emphasis-of-matter paragraph, is as follows:

We also have reported separately on the financial statements of ABC Company for the same period presented in accordance with [*specify the financial reporting framework generally accepted*] in [*name of country*]. (The significant differences between the [*specify the financial reporting framework generally accepted*] in [*name of country*] and accounting principles generally accepted in the United States of America are summarized in Note X.)

Reporting—Use in the United States (Ref: par. .13)

.A10 When reporting on financial statements prepared in accordance with a financial reporting framework generally accepted in another country that will be used in the United States and outside the United States, the auditor may issue two reports: one of the reports described in paragraph .12 for use outside the United States and the U.S. form of report with an emphasis-of-matter paragraph, as described in paragraph .13, for use in the United States.

.A11

Exhibit—Illustrations of Auditor’s Reports on Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country (Ref: par. .A7)

Illustration 1—U.S. Form of Independent Auditor's Report to Report on Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country That Are Intended for Use Only Outside the United States

Illustration 2—U.S. Form of Independent Auditor's Report To Report on Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country That Also Are Intended for Use in the United States

Illustration 1 — U.S. Form of Independent Auditor’s Report to Report on Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country That Are Intended for Use Only Outside the United States

Independent Auditor's Report

[Appropriate Addressee]

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements, which, as described in note X to the financial statements, have been prepared on the basis of [specify the financial reporting framework generally accepted] in [name of country].

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with [specify the financial reporting framework generally accepted] in [name of country]; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America (and [in name of country]). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1, and the results of its operations and its cash flows for the year then ended in accordance with [*specify the financial reporting framework generally accepted*] in [*name of country*].

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]

Illustration 2—U.S. Form of Independent Auditor's Report To Report on Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country That Also Are Intended for Use in the United States

Independent Auditor's Report

[Appropriate Addressee]

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements, which, as described in note X to the financial statements, have been prepared on the basis of *[specify the financial reporting framework generally accepted]* in *[name of country]*.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with *[specify the financial reporting framework generally accepted]* in *[name of country]*; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America (and *[in name of country]*). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1, and the results of its operations and its cash flows for the year then ended in accordance with *[specify the financial reporting framework generally accepted]* in *[name of country]*.

Emphasis of Matter

As discussed in Note X to the financial statements, the Company prepares its financial statements in accordance with *[specify the financial reporting*

framework generally accepted] in [*name of country*], which differ(s) from accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]
