

## Agenda Item 3



# Reference to the Work of Other Accountants in an Accountant's Review Report and International Reporting Issues

## Objective of Agenda Item

To consider issues related to referencing the work of other accountants in an accountant's review report and international reporting issues.

## Background

The following practice issues have been identified that accountants may encounter with respect to using the work of other accountants as well as international compilation and review standards or international accounting standards:

- other accountant's review or audit report on the financial statements of a significant component is restricted as to use
- other accountants review or audit the financial statements of a significant component which are prepared using a different financial reporting framework from that used for the financial statements of the reporting entity
- the financial statements of a significant component are reviewed or audited by other accountants in accordance with standards other than SSARs or GAAS
- the accountant performs the review in accordance with both SSARs and another set of review standards
- financial statements are prepared in accordance with a financial reporting framework generally accepted in another country

## Issue: Other accountant's review or audit report on the financial statements of a significant component is restricted as to use

It is proposed that, consistent with paragraph .25b of AU-C section 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, the accountant be precluded from referencing, in the accountant's review report, the review or audit report of other accountants if such other accountant's report is restricted as to use (see proposed paragraph .83 in Agenda item 3A).

**Action Requested of the ARSC**

The ARSC is asked to consider whether it agrees with the proposed prohibition from referencing, in the accountant's review report, the review or audit report of other accountants if such other accountant's report is restricted as to use.

**Issue: Other accountants review or audit the financial statements of a significant component which are prepared using a different financial reporting framework from that used for the financial statements of the reporting entity**

Paragraph .79 of AR-C section 90 reads as follows:

- .79** Regardless of whether the accountant of the reporting entity decides to make reference to the review or audit of other accountants, the accountant of the reporting entity should communicate with the other accountants and ascertain
- a. that the other accountants are aware that the financial statements of the component that the other accountants have audited or reviewed are to be included in the financial statements on which the accountant of the reporting entity will report and that the other accountants' report thereon will be relied upon (and, where applicable, referred to) by the accountant of the reporting entity.
  - b. that the other accountants are familiar with the applicable financial reporting framework and with SSARSs or auditing standards generally accepted in the United States of America, as applicable, and will conduct the review or audit in accordance therewith.
  - c. that a review will be made of matters affecting elimination of intercompany transactions and accounts and, if appropriate in the circumstances, the uniformity of accounting practices among the components included in the financial statements.

If an accountant performing a review of consolidated financial statements has a situation where the financial statements of a significant component are audited or reviewed by other accountants and are prepared in accordance with a different financial reporting framework from that used for the financial statements of the reporting entity, it is proposed that reference to the review or audit of the other accountants be prohibited unless:

- the measurement, recognition, presentation, and disclosure criteria that are applicable to all material items in the component's financial statements in accordance with the financial reporting framework used by the component are similar to the criteria that are applicable to all material items in the reporting entity's financial statements in accordance with the financial reporting framework used by the reporting entity, and

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- the accountant of the reporting entity has obtained sufficient appropriate review evidence for purposes of evaluating the appropriateness of the adjustments to convert the component's financial statements to the financial reporting framework used by the reporting entity without the need to assume responsibility for, and thus, be involved in, the work of the other accountants.

The preceding is proposed to result in a new paragraph in the "Reference to the Work of Other Accountants in an Accountant's Review Report" (see paragraph .85 in Agenda Item 3A).

It is further proposed that application guidance be added that provides guidance in determining whether the financial reporting framework used by the component is similar to the financial reporting framework used by the reporting entity (see paragraph .A133 in Agenda item 3A).

The proposed revisions are consistent with the corresponding requirements and guidance in paragraphs .26 and .A55 of AU-C section 600.

To further illustrate, it is proposed that an illustrative accountant's review report be added to the AICPA Guide, *Preparation, Compilation, and Review Engagements* (the "SSARSs Guide") to show how an accountant may report when consolidated financial statements are prepared in accordance with GAAP and the accountant makes reference to the work of other accountants who were engaged to review the financial statements of a significant component prepared in accordance with IFRS. The proposed illustrative report is included as Exhibit A to this discussion memorandum.

**Action Requested of the ARSC**

The ARSC is asked to consider whether it agrees with the proposed requirements and application material when other accountants review or audit the financial statements of a significant component which are prepared using a different financial reporting framework from that used for the financial statements of the reporting entity.

The ARSC is also asked for its feedback on the proposed illustrative accountant's review report included as Exhibit A to this discussion memorandum and whether such illustration should be included in the SSARSs Guide.

**Issue: Financial statements of a significant component are reviewed or audited in accordance with standards other than SSARSs or GAAS**

An accountant performing a review of consolidated financial statements of an American parent company may have a situation where the review or audit of a significant subsidiary is performed in accordance with standards other than SSARSs or GAAS.

It is proposed that application guidance be added to the requirement that the accountant ascertain whether the other accountants are familiar with SSARSs or GAAS and will

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conduct the review or audit in accordance therewith. Such application paragraph would state that the accountant may evaluate, exercising professional judgment, whether a review or an audit performed by other accountants in accordance with standards other than SSARs, GAAS, or auditing standards promulgated by the PCAOB meet the relevant requirements of SSARs or GAAS, as applicable (see paragraph .A132 in Agenda item 3A).

The proposed application paragraph is consistent with paragraph .A53 of AU-C section 600.

**Action Requested of the ARSC**

The ARSC is asked whether it agrees with the proposed application paragraph when financial statements of a significant component are reviewed or audited in accordance with standards other than SSARs or GAAS.

**Issue: Review performed in accordance with both SSARs and another set of review standards**

In February 2016, the ARSC issued Interpretation 1 to AR-C section 90. That Interpretation, entitled “Considerations Related to Reviews Performed in Accordance With International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*” is included as agenda item 3B.

It is proposed that the guidance from that Interpretation be expanded and included in AR-C section 90 (see paragraphs .47-.48 and .A86 in Agenda item 3A).

Proposed paragraph .A86 references a proposed appendix to AR-C section 90 that summarizes incremental planning and performance procedures that an accountant engaged to perform a review in accordance with ISRE 2400 (Revised) would be required to perform. That appendix will be separately presented to the ARSC

In addition, it is proposed that the illustrative report included in Interpretation 1 be included as an additional illustration in the AICPA Guide, *Preparation, Compilation and Review Engagements*.

**Action Requested of the ARSC**

The ARSC is asked to consider the proposed requirements and application material when a review is performed in accordance with SSARs and another set of review standards. The ARSC is also asked to consider whether the illustrative report from Illustration 1 to AR-C section 90 should be included in the Guide.

**Issue: Financial statements prepared in accordance with a financial reporting framework generally accepted in another country**

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An accountant practicing in the United States of America may be engaged to review financial statements prepared in accordance with a financial reporting framework generally accepted in another country and intended to be used only outside of the United States of America. By definition, such financial statements are not GAAP.

AU-C section 910, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country* provides requirements and guidance with respect to engagements to audit such financial statements. It is proposed that AR-C section 90 be revised to include the following requirements and guidance (see paragraphs .45-.46 and .A83-.A85 in Agenda item 3A). Such requirements and guidance are consistent with the corresponding requirements and guidance in AU-C section 910.

Please note that paragraphs 1.188 – 1.191 of the SSARSs Guide provides the following guidance:

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

**1.188** An accountant may be engaged to review financial statements that have been prepared in accordance with a financial reporting framework generally accepted in another country (including financial statements prepared in accordance with a jurisdictional variation of IFRSs such that the entity's financial statements do not contain an explicit and unreserved statement of compliance with IFRSs as issued by the International Accounting Standards Board [IASB]). In such instances, the accountant should report in accordance with SSARSs modified as appropriate to identify the applicable financial reporting framework. The accountant may report using the standard review report form and content of the other country if all of the required reporting elements of SSARSs are present.

**1.189** The standard review report used in another country, even when it appears similar to that used in the United States of America, may convey a different meaning and entail a different responsibility on the part of the accountant due to custom or culture. Issuing a standard review report of another country may require an understanding of local laws. When issuing the accountant's standard review report of another country, the accountant would obtain an understanding of applicable legal responsibilities, in addition to the review standards and accounting principles generally accepted in the other country. Therefore, depending on the nature and extent of the accountant's knowledge and experience, the accountant may wish to consult with persons having expertise in the reporting practices of the other country and associated legal responsibilities to obtain the understanding needed to issue that country's standard review report.

**1.190** A need for restriction on the use of the report may result from a number of circumstances, including, but not limited to, the purpose of the report and the potential for the report to be misunderstood when taken out of context in which it was intended to be used. Because of the nature of the basis of presentation of the financial statements,

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there is a presumption that the report would be misunderstood or taken out of context in which it was intended to be used. An example review report for this situation is included in this chapter as [illustration 9](#), "An Accountant's Review Report on Comparative Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country."

**1.191** Nothing precludes the accountant from issuing two reports—a report to be used only outside of the United States of America and another report to be used in the United States of America—as long as both reports include all of the reporting elements required by SSARSs.

Illustration 9 referenced in paragraph 1.190 above is included as Exhibit B to this discussion memorandum.

**Action Requested of the ARSC**

The ARSC is asked to consider the proposed requirements and application material when financial statements are prepared in accordance with a financial reporting framework generally accepted in another country.

**Agenda Items Presented:**

- Agenda item 3A      Proposed draft SSARS, *Reference to the Work of Other Accountants in an Accountant's Review Report and International Reporting Issues*
- Agenda item 3B      Interpretation 1, "Considerations Related to Reviews Performed in Accordance With International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*" to AR-C section 90

## **Exhibit A**

### **Proposed Accountant's Review Report on Comparative Consolidated Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America in Which the Accountant Makes Reference to the Work of Other Accountants Who Were Engaged to Review the Financial Statements of a Significant Component Prepared in Accordance With International Financial Reporting Standards as Issued by the International Accounting Standards Board**

Circumstances include the following:

- Review of a complete set of comparative consolidated financial statements.
- The accountant makes reference to the review of the financial statements of B Company, a wholly-owned subsidiary, whose financial statements reflect total assets constituting 20 percent and 22 percent, respectively, of consolidated total assets at December 31, 20X2 and 20X1, and total revenues constituting 18 percent and 20 percent, respectively, of consolidated total revenues for the years then ended. The financial statements of B Company were prepared in accordance with International Financial Reporting Standards.
- The financial statements of B Company were reviewed by other accountants in accordance with SSARs.

#### **Independent Accountant's Review Report**

*[Appropriate Addressee]*

I (We) have reviewed the accompanying consolidated financial statements of XYZ Company and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X2 and 20X1, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.

#### ***Management's Responsibility for the Financial Statements***

Management (Owners) is (are) responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

#### ***Accountant's Responsibility***

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My (Our) responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the AICPA. We did not review the financial statements of B Company, a wholly-owned subsidiary, whose financial statements reflect total assets constituting 20 percent and 22 percent, respectively, of consolidated total assets at December 31, 20X2 and 20X1, and total revenues constituting 18 percent and 20 percent, respectively, of consolidated total revenues for the years then ended. Those statements, which were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, were reviewed by other accountants, whose report has been furnished to me (us). I (We) have applied review procedures on the conversion adjustments to the financial statements of B Company, which conform those financial statements to accounting principles generally accepted in the United States of America. My (our) conclusion, insofar as it relates to the amounts included for B Company prior to these conversion adjustments, is based solely on the report of the other accountants.

SSARSs require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I (We) believe that the results of my (our) procedures provide a reasonable basis for our conclusion.

***Accountant's Conclusion***

Based on my (our) reviews, and the report of other accountants, I am (we are) not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

*[Signature of accounting firm or accountant, as appropriate]*

*[Accountant's city and state]*

*[Date of the accountant's review report]*

## **Exhibit B**

### **An Accountant's Review Report on Comparative Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country**

Circumstances include the following:

- Review of a complete set of comparative financial statements.
- The financial statements are prepared in accordance with a financial reporting framework generally accepted in another country.

#### **Independent Accountant's Review Report**

*[Appropriate Addressee]*

I (We) have reviewed the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 20X2 and 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.

#### ***Management's Responsibility for the Financial Statements***

Management (Owners) is (are) responsible for the preparation and fair presentation of these financial statements in accordance with [*the financial reporting framework generally accepted in another country, including identification of the nationality of the framework*] and for determining that [*the financial reporting framework generally accepted in another country, including identification of the nationality of the framework*] is an acceptable financial reporting framework in the circumstances. Management (Owners) is (are) also responsible for 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.

#### ***Accountant's Responsibility***

My (Our) responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the financial statements for them to be in accordance with [*the financial reporting framework generally accepted in another country, including identification of the nationality of the framework*].

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I (We) believe that the results of my (our) procedures provide a reasonable basis for my (our) conclusion.

***Accountant's Conclusion***

Based on my (our) reviews, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with [*the financial reporting framework generally accepted in another country, including identification of the nationality of the framework*].

***Restriction on Use***

Our report is intended solely for the information and use of [*specified parties*] and is not intended to be and should not be used by anyone other than these specified parties.

[*Signature of accounting firm or accountant, as appropriate*]

[*Accountant's city and state*]

[*Date of the accountant's review report*]