



By KNAV Team

Audits and Auditors in the USA - From the Eyes of Indian Companies



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Requirement for audited financial statements in the USA

The simple purpose of a financial statement audit anywhere in the world is **to add credibility to the reported financial position and performance of a business**. In India, all private companies and public companies (Companies listed in stock exchanges) are mandatorily audited by a Chartered Accountant or firm of Chartered Accountants with Certificate of Practice (COP) from Institute of Chartered Accountants of India. In the USA, the Securities and Exchange Commission (SEC) requires that all entities that are publicly held must file annual reports with it that are audited. This also means that the Companies that are not public will not require mandatory audit.

However there are many instances in which audited financial statements are required even for non-public company such as: certain bank financing requirements, vendor, customer requirements, United States Citizenship and Immigration Services (USCIS), Corporate governance requirements or in case of subsidiary of public listed company of India to meet stock exchange requirements, for filing annual performance reports (APR) with Reserve Bank of India or any of regulatory requirements depending on the state business licensing requirements.

Audit services in the USA

In the USA, audit services are provided by Certified Public Accountants (CPAs) or firm of Certified Public Accountants who are licensed by respective state board of accountancy.

Applicable Accounting Standards in the USA

The financial statements are prepared according to the US generally accepted accounting principles (US GAAP). There are differences in accounting standards in the US as against the accounting standards applicable in India. Therefore, the reported financial results and position of the Company could vary under the US GAAP as against the Indian GAAP. These will need to be analyzed on case-to-case basis.

Alternatives other than audits

CPAs can provide review and compilation services, which may be suitable to some financial statement users as an alternative to audited financial statements. A review provides limited assurance, based mainly on analytical procedures and inquiries, that the CPA is not aware of any



material modifications necessary for the financial statements to conform to US GAAP. It does not involve obtaining an understanding of the company's internal controls or any testing of the underlying information. Reviewed financial statements include the identical disclosures as audited financial statements. In a compilation, the CPA assists management only in presenting financial information in financial statement format, without any assurance as to its reliability.

Selection of CPA firm

CPA firm selection for audit should be based on the reputation in the financial society, qualification, staffing and the industry experience. Further matters of consideration could be knowledge of US GAAP and Indian GAAP considering that at your corporate level you need to consolidate the financial statements of your US business. Another matter that may be important is that your records are maintained at your back office in India, in these cases a firm with presence in US and in India could be required.