

DEFINITION of TRANSNATIONAL AUDIT

This guidance statement, issued by the Transnational Auditors Committee (TAC), is designed to provide guidance to assist (provisional) members of the Forum of Firms (FoF) in meeting their membership obligations.

**Per the
Constitution:**

Transnational audit means an audit of financial statements which are or may be relied upon outside the audited entity's home jurisdiction for purposes of significant lending, investment or regulatory decisions; this will include audits of all financial statements of companies with listed equity or debt and other public interest entities which attract particular public attention because of their size, products or services provided.

TAC Guidance:

Other public interest entities shall include those entities in either the public or the private sectors which *have significant transactions across national borders*, whether or not having either listed equity or debt. These would include, for example, large charitable organizations or trusts, major monopolies or duopolies, providers of financial or other borrowing facilities to commercial or private customers, deposit-taking organizations and those holding funds belonging to third parties in connection with investment or savings activities.

Significant transactions across national borders — shall include transactions such that there is a reasonable expectation that the financial statements of the entity may be relied upon by a user outside the entity's home jurisdiction for purposes of significant lending, investment or regulatory decisions. Significant in this context does not include use of financial statements to establish normal trade terms with vendors or to open accounts with financial institutions (i.e., accounts for purposes of collecting customer receipts or making vendor payments). For the avoidance of doubt, an office required solely for the purpose of legal formation and continuing legal existence in a particular jurisdiction does not constitute a significant transaction across national borders.

In principle, the definition of transnational audit should be applied to the consolidated entity as a whole including the individual entities comprising the consolidated entity.

Examples:

1. Private company in U.S. raising debt finance in Canada

This would qualify as a transnational audit as it is reasonable to expect that the financial statements of the company would be used across national borders in obtaining the debt financing.

2. A private Venezuela-based brokerage that makes investments in the U.S. on behalf of its Venezuelan clients

The brokerage can be considered a provider of financial facilities to commercial or private customers and therefore would be considered a public interest entity. To determine whether the financial statements are being used outside of Venezuela, one would consider whether there were any U.S. regulatory (e.g., NASD) requirements as well as consider the location of any investors in and lenders to the brokerage. If financial statements are filed with a U.S. regulator or there are investors or lenders outside of Venezuela, this would qualify as a transnational audit.

3. Private Savings and Loans operating entirely in the U.S. (i.e., only U.S. depositors and U.S. investments)

Although it could be considered a public interest entity, this would not qualify as a transnational audit assuming it can be demonstrated that there are no transnational users.

In applying the definition of transnational audit, there should be a rebuttable presumption that all banks and financial institutions are included, unless it can be clearly demonstrated that there is no transnational element from the perspective of a financial statement user and that there are no operations across national borders. Potential transnational users would include investors, lenders, governments, customers, regulators, etc.

4. National charity taking donations in the country where it is domiciled and making grants around the world

Although this could be considered a public interest entity, it is not immediately clear as to whether there is any reliance on the financial statements by users outside of the country where the charity is based. One would then consider whether the financial statements are being used outside of the country where the charity is based for purposes of significant lending, investment or regulatory decisions.

5. International charity taking donations through various national branches and making grants around the world

This entity can clearly be considered a public interest entity and operating across borders. Further, the international structure would create a reasonable expectation that the financial statements could be used across national borders by donors in other countries if not by others for purposes of significant lending, investment or regulatory decisions.

6. Private Internet betting company registered in BVI, which operates from Costa Rica and takes wagers by credit card on a worldwide basis via internet

Assuming there is no restriction on gamblers then it would be public interest and operate across borders and therefore classified as a transnational audit.

7. Internet stockbroker restricted by local securities laws to trading with local residents and on local exchanges

Although it could be classified as a public interest entity (i.e., a financial institution), it does not trade across national borders and if it can be demonstrated that there are no transnational users, the entity would not be classified as a transnational audit.

8. Project financial statements for the construction of an electrical generation facility in Nigeria using funds loaned by the World Bank

As it can be clearly demonstrated that the financial statements are being used outside of the country where the facility is based for purposes of significant lending, investment or regulatory decisions, the entity would be considered a transnational audit.

FOF Contact:

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