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Per email: standards@irba.co.za

Proposed Guide for Registered Auditors: Joint Audit Engagements

Dear Mr. Vanker

Thank you for the opportunity to provide comment on the Proposed Guide for Registered Auditors: Joint Audit Engagements. Our comments are structured in two parts; Part A addresses our general comments and Part B, comments on specific sections. These are also informed by the further understanding we obtained after attending the IRBA workshop hosted on the 26th of February.

If you wish to discuss these comments further, please contact Sara Keene (sara.keene@za.ey.com) or Michael Schafer (michael.schafer@za.ey.com)

Yours sincerely,



Michael Schafer
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Introduction

The request from the CFAS has asked that we comment specially on the following questions in respect of the Proposed Guide for Registered Auditors: Joint Audit Engagements (hereafter 'the Guide'); (1) whether there are aspects of this guide with which we disagree; (2) whether there are aspects which may require clarification; (3) whether there are aspects that should be included in the proposed guide. Part A of this letter addresses some general comments; our comments on the specific paragraphs and topics of the Guide are included in Part B.

We were also requested to comment on the implementation date – we have nothing to comment in this regard.

Part A: General comments

When read in isolation the objective of the Guide is not clear. After attending the IRBA Workshop on the Guide on 26 February 2020, the objective is understood to be as follows: Without imposing additional requirements over and above the ISA's and without being prescriptive:

- ▶ To provide guidance to joint auditors about how to interact with one another ; and –
- ▶ To demonstrate that each joint auditor is responsible for the entire audit (and not only their allocated sections) in compliance with the International Standards on Auditing ('ISA's').

We would recommend that the objective be included in the Guide to provide context to readers. .

Whilst we acknowledge that the Guide is not intended to be prescriptive, there are instances where it makes use of words such as "prescribe", "need to", "shall", "must" – for example paragraphs; 26, 47, 49, and 53 – although this list is not exhaustive. This would be appropriate in situations where the Guide repeats the ISA requirements.. However, given the intention of the Guide it would not be appropriate to use these words outside of this context as the authoritative nature of the Guide will impose additional requirements. We recommend that the use of such words be made only where the sentence is extracted from / referenced to the relevant ISA's. We also suggest that when repeating requirements from the ISAs the word 'auditor' should be replaced with 'joint auditor' to reinforce that both firms are collectively the 'auditor' or 'engagement partner' in the context of the ISA's

Further, we are concerned that the authoritative nature of a Guide issued by the IRBA will nonetheless create the requirement for each element or recommendation to be followed or its absence / deviation explained and documented. We question whether an 'FAQ' document / communique (which is not authoritative / prescriptive) dealing with some of the more practical challenges faced in a joint audit, including some 'best practice advice', would not be more appropriate – we have indicated in our specific comments in Part B where we believe this might apply.

Whilst the Guide provides a definition of a joint audit engagement as one in which both joint auditors issue a joint opinion and take responsibility for the audit and the audit opinion, there is no explicit guidance on what the balance of work between joint auditors might look like. Based on feedback / queries at the workshop, we recommend that some guidance on this topic (in the form of an FAQ) be provided. The CFAS may also consider providing more explicit clarification / explanation that even in situations where work is not equally balanced, it does not detract from the joint auditors' responsibilities. Even where one joint auditor receives a smaller allocation of the audit work relative to the other, they remain equally responsible and to this end, firms should establish a minimum percentage they would be willing to accept. In providing this guidance there should also be some distinction when talking about "work allocation" between planning and concluding activities where activities are often collaborative / duplicated and execution of audit procedures where work is more commonly split.

Part B: Specific Comments

Scope of the Guide

Paragraph 11 notes that the Guide does not apply to shared audits and, in a footnote, refers to such an audit as one in which a portion of the audit is outsourced to another firm / firms. The term might also be used where, in a group situation, material components are audited by other firms. We believe that that term 'shared' in the context of an audit may imply a shared responsibility. As such, we recommend that the term 'sub-contracted audit' and / or 'group audit with other component auditors' be used instead. Alternatively, the definition of a 'shared audit' should be made more explicitly in the Guide (outside of a footnote) to clarify the difference between a joint audit and a shared audit.

Circumstances for a joint audit engagement

Paragraph 20 includes examples of why an entity may appoint joint auditors for the audit of their financial statements, we note that this list should be expanded to include that a joint audit may be requested by a regulator – for instance the Prudential Authority of the South African Reserve Bank.

Quality control systems

Paragraph 26 requires that the joint auditors each satisfy themselves as to the adequacy of the others quality control systems (and compliance with *ISQC 1: Quality Control for Firms and Perform Audits and reviews of Financial Statements, and Other Assurance and Related Services Engagements*). We believe that the Guide may be creating a requirement over and above those in the ISA's in requiring an assessment of the other firm's compliance with ISQC 1 / ISA 220 and that this requirement will be fairly onerous. For instance, *ISA 600: Special Considerations – Audits of Group financial Statements (Including the work of the Component Auditors)* does not impose this requirement on a Group auditor in a Group audit.

The guide suggests that the firms may need to agree on access to each other's records, resources or information in order to be satisfied as to the others compliance. We understand that by this, the Guide is suggesting that the firms perform an 'internal audit' (or an inspection) of each other's records in order to satisfy themselves as to the adequacy of the others internal quality control systems. If this was not the intention, we believe further guidance on what 'access to sufficient records, resources and information' means – alternatively the Guide should remain silent on this point so as not to create an expectation that this would be considered to be 'best practice'.

While an 'internal audit' / inspection of the other firms records, resources and information. may provide better evidence for each joint auditor, as they can directly ascertain if the quality control processes of the joint auditor are adequate, we believe it is not practical, primarily for two reasons:

- Given the risks posed to confidentiality (relating to client information, the firm's methodology, processes, and other intellectual property) neither firm is likely to agree to such access
- It would be impracticable for a joint audit firm to conduct this firm level quality control inspection within a reasonable time period prior to acceptance of the engagement.

Further, the use of the words 'may need' might imply that this is the only way in which a joint auditor could satisfy themselves as to the quality controls at the other firm – therefore negating paragraph 27 which implies that a letter from each firm in this regard would be adequate.

Linking this to our comment above we also believe this might create an expectation that where access is not given the joint auditor will be found to not have adequately satisfied themselves as to the other joint auditor's quality control processes.

Joint auditors' agreements

Paragraph 33 includes suggestions for items that the joint auditors might consider including in their joint auditors' agreement. Although we acknowledge that the list is not exhaustive, we would nonetheless suggest the adding the following:

- ▶ Agreeing the requirements for the involvement of experts – both internal and external
- ▶ Agreeing the audit methodology to be applied by both joint auditors (for instance, agreeing that the most conservative methodology be applied or that a combination of both firms' methodology be used subject to any required firm approvals)
- ▶ Agreeing the policies to be applied in respect of independence and /or compliance with ethical requirements where one joint auditors' policies are more stringent than IESBA / IRBA codes
- ▶ Agreeing on the communication / protocols for rotation of work amongst the joint auditors.

Further paragraph 31 should clarify that the joint auditors' agreement is between the respective firms and not the client.

Audit plan and strategy

Paragraph 42 requires that the joint auditors agree on the overall audit strategy, the materiality levels, and the risks of material misstatement at the financial statement level. Clarification is required on the following:

- ▶ Whether, in addition to agreeing on the risks at the overall financial statement level (per paragraph 42), the risks of material misstatement at the assertion level is agreed to by the joint auditors
- ▶ Whether the term 'materiality level(s)' (which are agreed to by the joint auditors) is intended to encompass; materiality for the financial statements as whole, performance materiality, and the threshold for posting audit differences.

Paragraph 45 states that the nature, timing and extent of work to be performed in a joint audit is the same as those under a single audit engagement. We are requesting clarity on this paragraph as we believe that in a joint audit engagement the extent of work performed is expected to be higher. This is due to both the extensive cross-review of working papers as well as the need to align two different audit methodologies in order to satisfy the requirements of each firm. Consider for instance, where firm A's methodology requires larger samples sizes for control testing and firm B's methodology larger samples for substantive audit procedures. To satisfy both firms as to compliance with their own audit methodology and quality requirements, the joint auditors may be required to default to the most onerous requirement which will result in more audit work being performed. Further, there is likely to be some duplication of audit planning and conclusion procedures and of the related documentation.

Paragraph 47 notes that those charged with governance or regulators may prescribe the rotation of work amongst the joint auditors. In the context of other rules addressing rotation, such as MAFR and Section 92 of the Companies Act, 71 of 2008 (which refer to firm and audit partner rotation respectively) we question whether it is necessary to suggest that regulators / those charged with governance prescribe (in addition to 'request') the rotation of work.

New joint audit engagement

The Guide suggests that a new joint audit engagement is initiated when either one or both of the joint auditors are removed / replaced. In this context our understanding is that even where one of the joint auditors remains, this may be considered as an 'initial audit' and both joint auditors will be required to

comply with the requirements of *ISA 510: Initial Audit Engagements – Opening Balances*. Paragraph 51 also uses 'can' in the context of when an initial audit is brought about.

For instance, where the joint audit engagement performed by 'auditor AB' (consisting of firm A and firm B as the joint auditors) changes to being performed by 'auditor AC' (consisting of firm A and firm C), we understand paragraph 51 to mean that 'AB' would be considered a 'predecessor auditor' in terms of ISA 510. We believe that this should be clarified because practically this is not the case for the one joint auditor who remains. Firm A who, in the prior year, performed the audit (including the cross-review) and who jointly issued, and is responsible for, the audit opinion has remained in place. From firm A's perspective there is no predecessor auditor as defined in ISA 510.

Is the expectation that all the requirements of ISA 510 apply and that both joint auditors are required to carry out and document their execution of the procedures in ISA 510 par 5 – 9. While we believe that this would be required for the incoming joint auditor it would not be so for the joint auditor remaining. Further clarification / guidance should be given as we believe that the extent of work performed on the opening balances by the remaining joint auditor and the incoming joint auditor would usually differ.

Linking this to our general comment in Part A, we recommend that this interpretation of the ISA 510 definition of 'predecessor auditor' and, application of the standard, in the context of a joint audit would be good practical guidance to include in an FAQ.

Cross-review of the work performed by the other joint auditor and documentation of the cross review

As both joint auditors are responsible for the audit opinion, we acknowledge that the cross review of working papers is an integral part of the joint audit and the joint auditor's compliance with *ISA 230: Audit Documentation*. Each joint auditors' documentation must support how they determined that the audit work and conclusions reached by the other joint auditor are appropriate.

The extent of documentation of the cross-review is likely to vary between different audit firms as the adequacy of the documentation is based on the auditor's professional judgement about whether an experienced auditor would be able to understand how the joint auditor concluded that the work performed by the other was sufficient and appropriate to support the conclusions reached.

Linking this to our general comment in Part A, above, we recommend some additional specific / practical guidance or recommendations should be given in the form of an FAQ. For instance, we believe there are two extremes to which the joint auditor may lean when documenting the cross-review:

- ▶ **Summary** of the joint auditor's cross-review of the working papers, discussions with the other joint auditor regarding any judgements applied (including the names and positions of the person with whom this was discussed), and the joint auditor's conclusion that that the work performed, and conclusions reached were appropriate
- ▶ **Details** of the working papers included in the cross-review including (per assertion), the risks identified, the identifying characteristics of transactions tested, the procedures performed, the findings, the details of judgements applied (including other joint auditors' rationale), the conclusions reached, and minutes of meetings / review queries raised with the joint auditor (including the names and positions of the person with whom these matters were discussed).

Does the joint auditor document; (a) only a **summary** of their cross-review, or (b) the **details** of the other joint auditors working papers, or is it in fact (c) a combination of the two / a point between these two extremes (and if so what would guide the joint auditor in making this determination)

Practically, consistent and adequate documentation of the cross-review might be achieved through using pre-agreed deliverables between the joint auditors - such as those used in a group audit. For instance, in preparation for the cross-review, each joint auditor completes a pre-agreed template summarising their work. A template of this nature would not replace the need for a cross-review of the underlying working papers, but only enable each joint auditors' documentation of the cross-review.

The following specific clarifications / amendments are recommended:

- Clarifying if all detailed documentation on risk assessment, overall strategy and materiality (i.e. per par 41 – 43) should be maintained by each joint auditor.
- Paragraph 56 which states the objectives of the cross-review should be amended to include that;
 - At the planning stage, the objective is also to ensure that the risk assessment has been completed and that all identified risks are addressed, and
 - At the execution stage, the objective is to ensure that all risks of material misstatement have been addressed sufficiently through the execution of procedures.
- Paragraph 59 should read 'A cross-review consists of consideration of whether'. It should also include as an objective 'to determine whether the risks of material misstatement identified have been appropriately addressed'.
- Paragraph 60 should clarify:
 - That documentation of the cross-review does not require each joint auditor to keep copies of the other joint auditor's working papers
 - What is meant by 'identifying characteristics of specific items tested' in the context of a cross-review in a joint audit. In terms of *ISA 230: Audit Documentation* paragraph A12, this refers to specific attributes of each transaction tested when documenting the nature, timing and extent of the work performed. Is the intention that the joint auditors document the identifying characteristics of transactions and matters tested by the other joint auditor? This will likely cause replication of the other joint auditors working papers.

Documentation

Paragraph 78 re-iterates the requirements of the ISA 230 and does not provide any additional guidance on the extent of documentation in a joint audit. Because the Guide is not intended to create requirements over and above those in the ISA's, we agree with the approach adopted, however, we consider whether an FAQ on suggestions for documentation might also be beneficial to joint auditors.