

Le Président

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Subject: ED to the Proposed Guide for Registered Auditors: *Joint Audit Engagements*

Dear Sir,

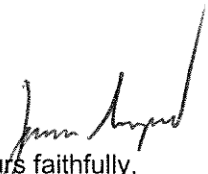
The Compagnie Nationale des Commissaires aux Comptes (CNCC) is pleased to provide you with its comments on the proposed Guide for registered Auditors: *Joint Audit Engagements* ("the proposed Guide").

France is the largest economy in the world to require joint audits. The practice of joint audit in France is very well established, as it has been a legal requirement for over 50 years (the joint audit was introduced in France by law of 24 July 1966). It has gone through a number of phases of evolution to reach its level of maturity. It is defined by the French laws and regulations, professional standard (NEP 100) and has been the subject of the issuance of a position of the French Audit Oversight Authority, the Haut Conseil du Commissariat aux Comptes (the H3C) and professional guidance of the CNCC. In this context, we believe it is helpful to share our experience gained through the daily practice of joint audit over the many years it has been in place in France.

We found the proposed Guide very interesting and useful. However, we have a concern with its scope that also addresses the issue of group audit. We consider that joint audits and group audits are two different issues that have to be tackled separately. Joint audit is about how to be able for two (or more) auditors who are independent from one another to jointly issue an audit opinion on the financial statements of an entity or a group. Group audit is about how to be able to instruct and rely on the work of other auditors to ultimately issue an audit opinion on the financial statements of a group. Any attempt to deal with joint audit in the group audit standard risks bringing confusion.

Responses to the specific questions raised in the exposure draft are set out below.

If you have any further questions about our views on these matters, please do not hesitate to contact us.



Yours faithfully,

Jean Bouquot
President of CNCC

Questions

Question 1:

Are there any aspects of this proposed Guide with which respondents disagree? Please provide details and suggestions for correction and/or improvements.

1. Aspects of this proposed Guide with which we disagree

These aspects are detailed here below.

– Independence and other relevant ethical requirements

Paragraph 23 of the proposed Guide states that a joint auditor has to “evaluate, before and throughout the joint audit engagement”, the compliance of the other joint auditor with the ethical and independence requirements necessary for carrying out the audit. Paragraph 24 mentions that “a letter by each of the joint auditors to each other, explaining their processes in this regard, may form part of the audit documentation”.

NEP 100 does not include any requirements relating to the evaluation of the independence and other relevant ethical requirements of the other joint auditor, since the French statutory auditors have to comply by law with the French ethical and independence requirements set forth by the French Code of Ethics (*Code de déontologie de la profession de commissaire aux comptes*).

Our concerns with paragraphs 23 and 24 of the proposed Guide bears particularly on the specific following points:

- the joint auditor has to **evaluate, before and throughout** the joint audit engagement, the compliance of the other joint auditor with the independence and other relevant ethical requirements;
- the confirmation letter of the other joint auditor has to include **an explanation of the process retained to identify** non-compliance cases with relevant ethical requirements by members of the engagement team and to determine the appropriate action if necessary.

In our view based on 50 years of practice, these requirements go too far. We consider that obtaining, before and at the end of the engagement, a written confirmation that the other joint auditor will comply and has complied with the relevant ethical requirements would be more appropriate and more efficient. Moreover, we consider that the aim of such a confirmation letter is not to describe the process retained by the other joint auditor to ensure compliance with relevant ethical requirements. In practice, however, this is one of the points we check as part of the cross-review, i.e. what procedures have been planned by the joint auditors' firms and what work has been performed by the other joint auditor to ensure that he is independent and complies with other relevant ethical requirements. But the burden of the proof must not be on the joint auditor to collect evidence of the independence of the other joint auditor.

We of course agree that, as mentioned in paragraph 24, “The joint audit engagement partners shall **remain alert** for evidence of non-compliance with relevant ethical requirements by members of the engagement team and determine the appropriate action, if such non-compliance is identified. »

– New joint audit engagement

We have a concern with the paragraph 51 of the proposed Guide. It states that “the remaining/continuing joint auditor(s) from the previous joint audit engagement, jointly with the new auditor(s), forming the new joint audit engagement, shall document the work performed on the opening balances, as this would be a new joint audit engagement”.

One of the advantages of joint audit is that the two joint auditors do not have to rotate at the same time, thereby leaving in place one of them with a deep understanding and knowledge of the client while a new one is entering the engagement.

In France, there are no specific requirements in the standard regarding the incoming joint auditor. However, the professional guidance of the CNCC applicable to initial audit engagements, states that the newly appointed joint auditor obtains an understanding of the work performed by the other joint auditor. To do so, he has access to the audit files of the other joint auditor and can exchange with him on the following topics, e.g. allocation of work, assessment of risks of material misstatements, audit approach, planning, estimated volume of hours to perform the audit, composition of the engagement team, audit reports issued, ... It should be kept in mind that one of the many benefits of the joint audit is the continuity in the audit.

For this reason, we disagree with the position expressed in paragraph 51 of the proposed guide.

– Appendix 1 – Joint auditors' Considerations in audits of Group Financial Statements

Irrespectively of our general comment regarding the scope of the proposed Guide and the fact that it should not confuse joint-audit and group audit, we consider that point 1 of the appendix, and especially the second bullet point, is misleading and could imply that all significant components must be jointly audited. We disagree with such a position. We consider that significant components can be allocated between the two joint auditors. Our experience of 50 years in joint audit shows that such an allocation combined with the cross-review can be perfectly efficient.

2. Other comments

There are aspects of the proposed Guide that we consider difficult to implement in practice. We wish to explain why. Other aspects of the proposed Guide are applied differently in France. We detail here below our practice.

– Joint audits' agreement

Paragraph 31 of the proposed Guide states that, "in addition to the engagement letter, the joint auditors may decide to put in place a joint auditors' agreement that is meant to document the policies and procedures to be followed by the joint auditors in conducting the joint audit engagement".

In France, such an agreement is not relevant since the "policies and procedures" between the joint auditors are defined by laws and regulations, framed into a professional standard and guided by a position of the French Audit Oversight Authority (the H3C) and by professional guidance of the CNCC, i.e.

- Article L. 823-2 of the French Commercial Code states that the persons and entities required to publish consolidated accounts shall appoint at least two auditors;
- Article R. 823-8 of the French Commercial Code states that in case of several auditors, they may perform separately their investigations, verifications, and controls but issue a joint report. When the auditors have divergent audit opinions, they have to mention it in **the** report;
- Article A. 823-3 of the French Commercial Code refers in the law the professional standard used where the audit of accounts is carried out by several auditors, i.e. the NEP 100 on joint audit.
- The standard itself, though it is principles base, is sufficiently precise as to which part of the audit is to be carried out by each auditor, which work can be allocated between the two auditors and what is the purpose of the cross review;
- A position of the H3C that clarify the joint audit practice, especially in terms of allocation of work between joint auditors.

Because we have all these legal texts, professional standard and guidance framing the conduct of joint-audits, we do not need joint audits' agreements in France. In the case of a country that would not have all these texts, we can understand that joint audit agreements may be useful.

However, we consider that such joint audits' agreements should, whenever possible, be established between firms and not signed by client. It is important to limit administrative barriers and waste of time. Moreover, we believe that these agreements should be restricted to specific issues regarding procedures between joint auditors (e.g. confirmation of professional indemnity insurance cover by each joint auditor, right of access to the working papers of a joint auditor, ...). More specific topics on which client agreement is needed, such as audit fees, filling arrangements, allocation of work between each joint auditor, ..., should be transferred into the engagement letter.

– Joint engagement letter

Paragraph 30 of the proposed Guide requires a single engagement letter between the audit client and the joint auditors.

In France, NEP 210, relating to engagement letter, is less prescriptive. The standard states that the joint auditors may prepare a single engagement letter or two separate ones. In France, the practice is ordinarily to issue one common engagement letter for the joint auditors. As a matter of fact, a joint letter is a good way to formalize the concertation between the joint auditors, especially in terms of allocation of work and fees. However, we consider that the door should be left open to have, in exceptional circumstances, the possibility to have two different engagement letters. The practice of having two engagement letters is generally limited to very specific cases, e.g. different dates of appointment. This is why we consider that a certain flexibility is necessary.

– Rotation of work allocated between joint auditors from one financial period to another

We believe that the proposed Guide could provide more guidance in terms of rotation of work from one financial period to another.

Paragraph 47 states that “the joint auditors may allocate the work among themselves”. It also states that “the joint auditors may also consider the rotation of work allocated from one financial period to another, as there are benefits to be gained from such a decision. Further, those charged with governance and regulators may request or prescribe that work be rotated among the joint auditors”. Paragraph 48 states that “in some cases, certain areas of work, owing to their importance or the nature of the work involved, would not be divided but be performed by all the joint auditors”.

For your information, the NEP 100 requires the following:

- an allocation of work between the joint auditors has to be regularly adjusted for all or part in a coordinated manner between the auditors (paragraph 8 of NEP 100);
- a split of the audit work between the joint auditors on a balanced basis reflecting criteria which may be quantitative or qualitative in nature (paragraph 7 of NEP 100).

If a quantitative basis is used, the split may be referenced to the estimated number of hours of work required for performance of the audit. If a qualitative basis is adopted then the analysis may be the levels of competence and experience of the members of the audit teams. Although the standard never says that the overall balance is reflected in the split of the audit fees, according to the position of the H3C, the objective will normally be for each joint auditor to receive between 40% and 60% of the total fees. A split of up to 70% / 30% may be accepted. A split which leads to less than 30% of the total fees for one of the joint auditors, and more than 70% for the other, may be tolerated, but has to be monitored with a view to progressively rebalancing it.

– Differences of opinions

We understand from paragraphs 71 to 73 of the proposed Guide that joint auditors have to resolve all differences of opinion before issuing their report. Where the differences of opinion may affect the joint audit opinion, “the joint auditors have to consider whether the joint audit engagement continues”.

In France, in case of disagreement between the joint auditors in the formulation of the audit opinion, the law (article R. 823-8 of the French Commercial Code) and NEP 100 require the inclusion of the two different opinions in a single report. Paragraph 20 of NEP 100 states that when the auditors have diverging opinions, they shall be mentioned in the report. The choice retained in France to formulate two different audit opinions in the same audit report, guarantees the auditor's independence, transparency to the users and therefore market security. As a matter of fact, joint audit encourages healthy dialogue

between the two auditors which brings a critical eye on the respective work of each other (i.e. application of the “two pair of eyes” principle to audits), and in cases of unresolved disagreement (very rare cases in practice), the situation is clearly expressed in the audit report.

Question 2: Are there any aspects of this proposed Guide that are unclear and require further guidance? If so, please list those aspects and the guidance required.

Concerning the cross-review of the work performed and since cross-reviews are crucial to the proper conduct of joint audits, we consider important to add in paragraph 58 that such a review has to be performed by an experienced auditor.

Question 3: Given the abovementioned scope, are there further aspects that should be included in this proposed Guide? If so, please list those aspects and the guidance required.

We do not have any other comments.

Question 4: Effective date: Recognising that this proposed Guide is new and substantive, the CFAS believes that an appropriate effective date for the standard would be for financial reporting periods beginning on or after 31 December 2020. However, earlier application would be permitted and encouraged. To this end, the CFAS welcomes comments on whether this would provide a sufficient period to support the effective implementation of the Guide.

We do not have any other comments.