



6 March 2020

Mr Imran Vanker  
Director: Standards  
Independent Regulatory Board for Auditors  
Building 2, Greenstone Hill Office Park,  
Emerald Boulevard,  
Modderfontein

Sent by email to [ivanker@irba.co.za](mailto:ivanker@irba.co.za) and [standards@irba.co.za](mailto:standards@irba.co.za)

Dear Mr Vanker

**Comment on the Proposed Guide for Registered Auditors: Joint Audit Engagements**

We appreciate the opportunity to comment on the Committee for Auditing Standards' (CFAS) Proposed Guide for Registered Auditors - Joint Audit Engagements. This response summarises the views of PricewaterhouseCoopers Incorporated in South Africa.

We have provided our views on the matters on which comments were specifically requested. In addition, we have attached a marked up version of the guide, which contains some editorial changes, and further detail on comments within this letter.

If you would like to discuss our comments further, please do not hesitate to contact Natalie Terblanche on (011) 797 5723 or Zainab Salloo on (011) 797 5822 .

Yours sincerely,

A handwritten signature in black ink, appearing to read 'NT', followed by a long horizontal flourish.

Natalie Terblanche

Director

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## Request for specific comments

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

- Paragraph 3 (and overall comment on the framing of the guidance):  
There is not a single model for what constitutes "collective responsibility" and, therefore, the guidance being developed will shape the expectations of the roles and responsibilities of the respective joint auditors as the concept is applied in South Africa. There are choices being made within the guide on how the joint responsibility is operationalised, which may not be driven by International Standards on Auditing ("ISAs") and the concepts underlying them.

The key concept in a joint audit engagement is that there is joint responsibility for the audit opinion. There is a choice to be made whether this is achieved through a single audit report signed by both auditors, or two separate reports in some or all cases. Separate reports could be limited to the rare circumstances when there is an unresolved disagreement between the auditors.

In either case, as the joint auditors are jointly responsible for the audit opinion, the only "given", or principle, would be that each of the joint auditors is satisfied that sufficient appropriate audit evidence has been obtained on the financial statements as a whole, and that the engagement has been conducted in accordance with the ISAs, before signing the audit opinion. That is an outcome-oriented principle. There are different ways that the engagement itself could be conducted and still have both joint auditors able to take responsibility for the audit opinion expressed.

One way would be joint involvement throughout the audit, in the sense that both joint auditors fulfill each ISA requirement jointly. Another would be that there is agreement between the joint auditors on the key planning decisions, agreement on the respective work each auditor will perform in the audit engagement, review of each other's working papers and shared ownership of the significant judgments made throughout the audit.

The proposals within the guide seem to lean towards the first interpretation, which may not be what was intended. Some of the proposed requirements may not be practicable as they are currently worded, as expanded below:

- There is a presumption in para 3 that because "joint auditors collectively constitute the engagement partner and the engagement team, as appropriate", it follows that in a joint audit engagement all requirements in the ISAs where there is a reference to an "auditor" also apply to joint auditors, jointly. As explained above, that is a decision, not an inevitable interpretation

of the ISAs. In some cases, it may be impracticable that both auditors are jointly responsible for each requirement that applies to the "engagement partner" and the "engagement team". Both auditors need to be sufficiently satisfied that the ISA requirements have been complied with in the engagement, but that doesn't necessarily mean they are responsible for jointly performing each requirement. The guidance could explain explicitly that they need to either execute on the requirements jointly, or explain how each joint auditor obtains the necessary comfort to be jointly responsible for the audit opinion.

- Paragraphs 42 - 44 are not practicable for the same reason (and in part, they seem contradictory to para 47 and 49). The important principle is that both auditors agree on the overall approach and key planning decisions. The guidance should expand on achievement of outcomes rather than the process to follow. This could be achieved by the requirements focussing on both auditors needing to obtain an understanding of the entity and agreeing on the overall audit approach, the risks identified and proposed further audit procedures that will be performed; but the underlying risk assessment procedures, risk assessment and design of the audit plan could be performed by one or other auditor for different aspects of the audit, and subsequently reviewed, discussed and agreed. Paragraph 47 notes that the joint auditors may allocate the work among themselves in terms of business units, branches...or specific items on the financial statements. Realistically, that will apply to risk assessment procedures as well as responses to risks.
- In paragraph 52, again, it would seem more pragmatic that this focus is on the outcome rather than the process. Both auditors need to be satisfied with the decisions made on significant matters. Each joint auditor might, however, follow their own internal consultation processes on technical, independence and ethical or other matters first and then share and discuss with the other auditor. It may be that the title to this paragraph is what is leading to this reaction - the requirement is more about having to agree on the resolution of significant matters rather than the consultation process followed.
- Paragraph 33:
  - While we agree with the proposed guidance encouraging the joint auditors to put in place a joint auditors' agreement (in addition to the engagement letter), we do not agree with the potential list of matters that should be included in such an agreement, as many of the items may not be suited to formalise in a joint auditors' agreement.
  - We suggest establishing the principle of reaching agreement on certain important aspects early in the joint audit engagement. The matters that may need to be agreed upon may then be achieved through a combination of a (formal) joint auditors' agreement and other means, such as planning and scoping meetings. A distinction should therefore be made between matters in



the list that are suited for a formal legal agreement, and matters that are practical in nature and suited to a more informally documented understanding. For example, confirmation of professional insurance cover, independence or access to working papers may be more suited to a formal or legal agreement, while allocation of work and timing of cross review may be more informal, as these matters are subject to change as the audit progresses.

- Paragraph 61: The examples in the second bullet point of paragraph should be refined or amended. For example, referring to agreed-upon procedures may imply an interaction with ISRS 4400. Additionally, referring to sample sizes may create an impression that sample sizes need to be agreed between the joint auditors. Given the differences between different firm methodologies, this may not be a practical expectation in all scenarios. Suggested wording to clarify that bullet point could be:
  - Documentation of how the joint auditor ensured compliance with the joint audit strategy, for example, how the procedures performed address the risks identified, at a precision commensurate with the risks' significance in accordance with the ISAs (rather than any firm's individual methodology requirements).
- Paragraph 73: The outcomes offered when there is a difference of view between the joint auditors leave out the possibility of each of the auditors issuing their own separate report, which has been done (albeit on very rare occasions) in practice globally. It may be more in the public interest to issue separate reports, than to resign from the engagement.

**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.**

- Paragraph 26: The guide proposes that each joint auditor needs to determine whether their counterparty joint auditor is independent and has an appropriate system of quality control in place. However, the only remedies contemplated in situations where such determination is unsatisfactory is for the dissatisfied joint auditor to do more work to fill the gaps, or to decline or resign from the engagement. However, there is further guidance needed on the following:
  1. How much reliance can be placed on joint auditor's assertion that their independence and quality processes are sufficient?
  2. In the event that there are doubts over the independence or quality control systems, how is this communicated to the client without breaching confidentiality/the IRBA Code?
- Paragraph 32: Clarity may be needed within the guide on the following points:
  1. What if a joint auditor refuses to sign the joint auditor agreement?

2. To what extent does a joint auditor's agreement ring fence the respective joint auditors' responsibility? For example, if an engagement inspection finds that independence was breached by one of the joint auditors, to what extent can the other joint auditor rely on joint auditors' agreement as defense that the inspection finding does not extend further than the joint auditor who breached independence? Would the same consideration apply to commitments about quality management systems and related failures?

- Paragraph 58: The guide needs to clarify or expand on what is meant by review of working papers. A review of working papers can differ in extent, for example, reviewing a memorandum detailing work performed, which is performed at a high level, versus reviewing every working paper supporting a specific audit area, which is much more detailed. We expect that the nature, timing and extent of review is a matter of judgement, based on the joint auditor's risk assessment. This point should be made explicitly. It may also be of benefit to refer to ISA 600, analogising how the group auditor ensures sufficiency and appropriateness of the component auditor's work, with the joint auditor's similar responsibility. The examples provided in ISA 600 paragraphs 30, 31, 42 and A55 may be a useful reference for a joint auditor in determining what extent of review is appropriate.

We also note that even with this expanded guidance, there may still be inconsistency in how different joint audit teams perform and document their cross-review. There will also be a difference in extent when the joint audit is an operating entity, versus when the joint audit is conducted at a group or consolidated level. Whilst this level of inconsistency is expected due to the judgement involved in determining the extent of cross review, it may be worth making this point explicitly in the guide.

**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.**

- Paragraph 31: We are in favour of the proposal to introduce a more formal joint auditors' agreement. We do note that this will present a change to current practice, as most joint auditors engagements performed currently do not include the terms of their agreement such a formal joint auditors' agreement. This may be something that will take firms time to operationalise, which should be considered in determining the effective date. It may also be worthwhile having a follow up task group to create a standard joint auditor agreement with appropriate legal consultation.
- Paragraph 37: We agree with the proposals relating to the role of the engagement quality control reviewer, with one suggestion: The following text should be added to paragraph 37:

- In instances where one of the joint auditors appoints an engagement quality control reviewer, it may be appropriate for the other joint auditor(s) to appoint an equivalent engagement quality control reviewer.

The reason for this inclusion is to ensure that the audit file as a whole is subject to similar levels of review and scrutiny.

- Paragraph 53: This states that the joint auditors' agreement stipulates the right of access to the working papers of a joint auditor. This wording implies that, in the absence of a joint auditors' agreement, access may be disputed. We recommend that the guide explicitly states that open access to working papers is expected, at a minimum relating to those working papers that constitute the audit evidence obtained. The agreement may stipulate the specifics on how such access is managed. It may also be useful for the guide to provide examples of challenges relating to access to working papers, for example, the agreement should cover procedures for obtaining access after the audit is concluded, if either firm closes or merges with another firm, or if there are risk management restrictions on sharing some types of information.

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 believe that the proposed effective date provides firms with an appropriate time period to implement the proposed guidance.