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24 March 2020

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Independent Regulatory Board for Auditors
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Dear Imran

SAICA COMMENT LETTER ON THE PROPOSED GUIDE FOR REGISTERED AUDITORS: JOINT AUDIT ENGAGEMENTS

In response to the Exposure Draft: *Proposed Guide for Registered Auditors: Joint Audit Engagements* (the Proposed Guide), please find included the comments prepared by the South African Institute of Chartered Accountants (SAICA).

We thank you for the opportunity to provide comments on the Proposed Guide.

Our approach to obtain comments was as follows:

- i. The SAICA Assurance Team studied the Proposed Guide in preparing initial thoughts pertaining to the construct, usefulness and clarity of the guidance as presented in the Proposed Guide.
- ii. A Working Group of SAICA's Assurance Guidance Committee (the Working Group) met to provide their views and comments in finalising the SAICA comment letter. SAICA also consulted with the Legal Compliance Committee (LCC) in relation to legal matters of relevance.
- iii. Included in this comment letter are the details of the discussions held by the Working Group and comments noted from the consultation with the LCC. The purpose of including such detail is not to provide a definitive conclusion on the matters noted but rather to point out areas of concern for further consideration by the IRBA's Committee for Auditing Standards (CFAS) Task Group.

Our comment letter is presented in the following sections:

- A. Introduction
- B. Response to specific questions
- C. Other general comments

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Ciara Reintjes (ciarar@saica.co.za) or Hayley Barker Hoogwerf (hayleyb@saica.co.za).

Yours sincerely

Signed electronically

Hayley Barker Hoogwerf
Project Director: Assurance

A. INTRODUCTION

1. SAICA recognises the objective of the Proposed Guide in providing guidance on the application of the International Standards on Auditing (ISAs) and the Independent Regulatory Board for Auditors' (the IRBA) pronouncements in a joint audit engagement. Such guidance will aid in aligning the application of the ISAs and IRBA pronouncements in the performance of joint audits in South Africa, thereby ensuring a more consistent approach to such engagements. The Proposed Guide will be particularly useful in providing a reference point for auditors in terms of justifying requests for access to the information of other joint auditors.
2. SAICA members consulted with during the comment period are also supportive of the initiative of the IRBA to issue guidance on joint audit engagements. Members indicated that the Proposed Guide clarifies the responsibilities of each individual auditor party to a joint audit engagement and will assist in levelling the playing field between auditors involved in joint audit engagements, resulting in a more consistent approach.
3. Having said that, SAICA would like to caution the IRBA about any unintended legal consequences that the Proposed Guide may create. To this end, SAICA urges the IRBA to pay close attention to and carefully consider the legal implications of the Proposed Guide. We recommend that the IRBA obtain legal advice on, among other matters:
 - a) how a joint audit engagement is established, including the legal implications of the engagement letter and whether a formal agreement is required to be entered into between joint auditors;
 - b) legal liability of each auditor party to the joint audit engagement, including whether the auditor can limit their liability to other joint auditors party to the same engagement;
 - c) whether a joint auditor is in fact responsible for ensuring the other joint auditors' compliance with ethical requirements and performing the engagement in accordance with the ISAs; and
 - d) the process around the identification and reporting of a Reportable Irregularity and whether this can be done unilaterally by one party to the joint engagement, including the impact that this has on the auditors' report.
4. SAICA would further like to caution the IRBA against other unintended consequences that the issue of this Proposed Guide may have. Based on our initial impressions, which were somewhat confirmed during our outreach activities undertaken to inform this comment letter, there is a strong and urgent need to educate the market about the difference between a joint audit engagement and a shared audit engagement. The lack of clarity on this exposes auditors to additional risk, particularly in the case of a joint audit engagement when the nature of the engagement, including the roles and responsibilities of each party are not clearly understood. SAICA is concerned that the issue of the Proposed Guide creates the impression that the IRBA is encouraging the performance of joint audits and with the lack of understanding, this may result in aggravating, rather than aiding the current state of the auditing profession. It is therefore imperative that if such guidance is issued, that the required attention be given to educating the market on the difference between a joint and a shared audit.

B. RESPONSE TO SPECIFIC QUESTIONS

Question 1

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

1. SAICA supports the majority of the content of the Proposed Guide but has identified areas of the Proposed Guide where clarity is required, as noted below.
2. The contents of paragraph 20 of the Proposed Guide came under scrutiny. The initial question raised at the Working Group was around why joint audits are performed, with the common misunderstanding being that this was due to regulatory requirements that were imposed.
3. The concept of a joint audit is referred to in legislation, such as in section 92 of the Companies Act, 2008 and in the IRBA Rule regarding Mandatory Audit Firm Rotation but remains undefined and ungoverned.
4. A joint audit in South Africa is not, *per se*, regulated in terms of legislation but appears to have become practice during the approval process of auditors for certain financial institutions, such as banks.
5. Once the common misunderstanding relating to why joint audits are performed was clarified, the Working Group debated the actual reasons for joint audits being performed and whether this is accurately reflected in the Proposed Guide. It is questionable whether the purpose of a joint audit engagement can be the development of a resource pool or skills transfer because each individual auditor party to the joint audit engagement must have the necessary skills, competences and experience required to accept the engagement in the first place¹.
6. The Working Group was, however in support of the positive impact that joint audits are likely to have on enhancing audit quality.
7. The Working Group held the view that further research is required in terms of identifying the true reasons for joint audit engagements and paragraph 20 of the Proposed Guide be updated to align with the findings of the additional research performed.
8. With the current state of the profession, the uncertainty regarding the performance of joint audits and the additional risks that such engagements pose, the SAICA cautions the IRBA in encouraging joint audits where there is currently no legal requirement for such engagements. In linking the suggestion for additional research on the true reasons for joint audit engagements to the reason for the IRBA project on joint audits, SAICA encourages the IRBA to be clear in terms of the objectives relating to the issue of the Proposed Guide and considerations of whether there are not perhaps other ways that these objectives can be effectively achieved, with less risk to the profession.
9. Since the appointment of the auditor and payment of audit fees rest with the auditee and are sometimes subject to approval of another Regulator, joint audits become a broader consultative and regulatory issue that requires the input from a wider stakeholder group and other regulators, such as the South African Reserve Bank.
10. Paragraph 21 of the Proposed Guide states that *the joint responsibility emanates from the engagement letter (i.e. contract)*. However, the engagement letter is a contract between the audit client and the auditor and not between the auditors party to the joint audit engagement.

¹ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* (ISQC 1), paragraph 26(a).

11. Paragraph 21 continues to state that the joint auditors and their respective firms are jointly and severally liable for the joint audit engagement. The Legal Compliance Committee (LCC) suggested that guidance is required on the proposed contracting regime of the joint audit, as follows:
- a) The auditee engages with two auditors separately and two engagement letters are signed, each with its own different clauses and interpretation of the law. The alternative is for the auditors to join efforts, at the instance of the auditee, in compiling one engagement letter, incorporating the separate clauses of each auditor in an attempt to save the auditee from the inconvenience of working through two different contracts.
 - b) In limited instances, an agreement is entered into between the two auditors setting out the various responsibilities between the auditors.
 - c) If it were possible for the auditors to operate in isolation without any co-operation or collaboration, the contractual regime and legal nature of the joint audit would have been less problematic.
 - d) It should be considered if a joint audit engagement should be regarded as a contractual joint venture (CJV).
 - e) There appears to be no distinction in South African law between a CJV and a partnership. However, the CJV agreement can state that the arrangement does not constitute a partnership. The unintended consequences are that the tax laws may become applicable, the joint audit is regarded as a *universitas* and liable as a unit.
 - f) However, ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* (ISA 600) determines that where joint auditors conduct the group audit, the joint engagement partners and their engagement teams collectively constitute the group engagement partner and the group engagement team². Whether the laws of South Africa can accommodate this statement, without the competitor auditors becoming members in a *universitas* must be considered. Legal advice is needed to clarify the position for auditors in South Africa.
 - g) In a CJV, the members are jointly and severally liable in relation to third parties. The members can agree to protect each other through cross-indemnity agreements, but will generally remain jointly and severally liable to third parties. This indemnity must be considered in the context of the Auditing Profession Act, 2005 to not fall foul of the limitation of liability prohibitions. Similarly, the indemnities can be subject to apportionment. The joint audit is considered to be a *universitas*, with joint and several liability.
12. The contractual regime between the auditors therefore needs urgent attention. SAICA suggests that an illustrative contract between the two auditors be provided, but that this will require circumspection.
13. The illustrative contract should be considered carefully so that the auditors are not classified as a partnership between two competitors or fall foul of the Competition Act, 1998.
14. SAICA proposes that legal advice should be obtained on a potential illustrative joint audit contract on issues such as:
- a) Apportionment
 - b) Limitation of liability
 - c) Non-competitive clauses
 - d) Partnership exclusions
 - e) Potential tax implications

² ISA 600, paragraph 10(h).

15. Paragraph 25 of the Proposed Guide implies that the compliant auditor is required to resign from the engagement, which raised concern. SAICA suggests that this be clarified. It is our suggestion that a step be added to state that the compliant joint auditor must bring this ethical breach to the attention of the audit client and only if the audit client does nothing about such breach should the compliant joint auditor resign. We also refer you to the comment raised in paragraph 8 under the *Editorial comments* section of this comment letter, in relation to a proposed restructuring.
16. Concern was raised around the content of paragraph 38 of the Proposed Guide, specifically regarding the statement that the EQC (engagement quality control) reviewer *may also request access to the working papers of the other joint auditor(s)*. ISQC 1 indicates that the purpose of an EQC review is an objective evaluation of the significant judgements made by the engagement team and the conclusions reached in formulating the report³. ISQC 1 continues to state that the firm shall establish policies and procedures to require the EQC review to include review of selected engagement documentation relating to significant judgements the engagement team made and the conclusions it reached⁴. The nature of a joint engagement is such that one joint auditor is not going to focus on all areas involving significant judgement, as the case may be in a shared audit engagement. In order for the EQC review to be carried out in accordance in compliance with ISQC 1, the access of the EQC reviewer cannot be restricted. SAICA recommends that the wording contained in the Proposed Guide be amended to state that the EQC reviewer should have unrestricted access to the engagement team and the workings papers of all other joint auditors as this is considered necessary for the proper performance of the EQC review.
17. The Proposed Guide makes it clear that all joint auditors need to be satisfied that the financial statements, as a whole fairly present, based on the work performed by all joint auditors. The joint auditor, in his or her individual capacity therefore needs to be satisfied with the closing balances, which in turn become the opening balances. It is SAICA's view that any remaining/continuing party(ies) to the joint audit engagement do not need to perform work on opening balances, as is required by paragraph 51 of the Proposed Guide. Rather, only the auditors entering into a new joint audit engagement are required to comply with the requirements of ISA 510⁵.
18. Paragraph 56 of the Proposed Guide implies that the joint auditors should review the planning section of the other auditor's audit file. The question raised around this was whether the joint auditors are required to perform cross-review at the planning stage when they can review the work performed, at a later stage, to ensure that the agreed audit strategy and plan were implemented.
19. With respect to paragraph 62 of the Proposed Guide, it is not clear what additional procedures could be required if the joint auditor has carried out the audit in accordance with the audit plan. SAICA does not agree that the joint auditor can request other joint auditors to perform additional procedures without first determining whether the initial audit plan was in fact executed or not, as the Proposed Guide currently suggests. Furthermore, a second scenario may arise which has not been addressed: In agreeing on the approach to address concerns regarding the audit plan not resulting in sufficient and/or appropriate audit evidence, a process of consultation should take place between the joint auditors. SAICA believes that the intention of paragraph 62 of the Proposed Guide will be clarified if this is separated into the different scenarios that could occur:
- a) If a joint auditor, after carrying out the cross-review, evaluates and concludes that the procedures performed by the other joint auditor are not in accordance with the audit plan as agreed between the joint auditors, the joint auditor can request additional procedures be performed by the other joint auditor.
 - b) If, after carrying out the audit plan as agreed between the joint auditors, a joint auditor concludes that there is insufficient and/or inappropriate audit evidence to support the conclusion reached,

³ ISQC 1, paragraph 35.

⁴ ISQC 1, paragraph 37(c).

⁵ ISA 510, *Initial Audit Engagements - Opening Balances*.

the joint auditor should consult with the other joint auditor and agree on the approach to address the concerns noted.

20. Paragraph 6.2.1 of the *IRBA Revised Guide for Registered Auditors: Reportable Irregularities in terms of the Auditing Profession Act* states that each individual auditor that is accountable and responsible for the audit may send a separate report. A question was raised around whether the joint auditors have to first agree that there is a Reportable Irregularity before this is reported and only once there is agreement, the responsibility of each individual auditor to send a report arises. This impacts the auditor's report and if not all the joint auditors agree with the Reportable Irregularity, they are not in a position to sign off on the joint report. How is this then resolved?

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.

1. In terms of the Scope paragraph, SAICA is concerned that the upfront reference to ISA 600 creates the impression that joint audits are unique to group audit engagements, which is not the case. Furthermore, the principle of ISA 600, where an individual auditor is solely responsible for the audit is different to that of a joint audit engagement, where each party to the engagement takes full responsibility for the audit as a whole.
2. It is our understanding that the intention of this paragraph is to indicate that there are no requirements contained in the ISAs specific to joint auditors and to highlight that the absence of such guidance does not exempt the joint auditors from complying with the requirements of the ISAs in these engagements.
3. To this end, SAICA suggests that paragraph 2 of the Proposed Guide be rephrased as follows:

2. There is no particular ISA that specifically scopes in joint audits. The ISAs refer to joint auditors only in the definition of group engagement partner, as included in the Handbook's Glossary of Terms and repeated in the definitions section of ISA 600, Special Considerations – Audit of Group Financial Statements (Including the Work of Component Auditors). Although the body of the ISAs do not contain specific reference to joint auditors, the joint auditors are individually responsible for considering all ISAs in performing a joint audit and ensuring that the joint audit engagement is carried out in compliance with the ISAs. Despite the fact that the ISAs only make reference to joint audits in the context of the group engagement partner, joint audit engagements are not unique to group audits.
4. In continuing with the Scope paragraph, SAICA suggests that paragraph 5 be extended to make reference to the fact that Section 44(3)(a) of the Auditing Profession Act applies equally to a joint audit engagement, as has been done in paragraph 4.
5. Paragraph 11 of the Proposed Guide indicates that the scope does not extend to shared audits. It is SAICA's recommendation that the Proposed Guide clarify that if any joint auditor enters into a shared audit arrangement, it does not reduce the responsibilities of that said joint auditor.
6. In terms of the definitions,
 - a) SAICA questions whether reference to *issue a joint auditors' opinion* in paragraph 13 of the Proposed Guide is correct. It is our understanding that the auditor *forms or expresses an opinion* and *issues the auditor's report*. To this end, we suggest that the definition be changed to either refer to *express a joint auditors' opinion* or *issue a joint auditors' report*. Although correct as it currently stands, we would like to highlight that the definition in paragraph 17 relating to a *single auditor engagement* may also need to be amended as reference is made to *issues an auditor's report*.

- b) The definition of joint audit engagement makes reference to *jointly audit the entity's financial statements*. During our outreach activities, a comment was raised that the definition be expanded to make reference to *entity and/or group financial statements*. SAICA is not in agreement with this comment because an auditor is engaged with an entity in its legal form, while the concept of a group audit arises as a result of the International Financial Reporting Standards (IFRS) requirement to prepare consolidated financial statements⁶. Furthermore, by including reference to a group in a *joint audit engagement* will inappropriately create confusion in terms of when and how ISA 600 applies.
- c) SAICA suggests that the definition of a new joint audit engagement can be clarified by stating that a new joint audit engagement is when two or more firms come together to form a joint audit engagement or where there is a change to an existing joint audit engagement.
7. Paragraph 24 of the Proposed Guide makes reference to *a letter by each of the joint auditors to each other, explaining their processes*. This is creating confusion as follows: A letter is similar to an independence confirmation that is received by the auditor, yet the sentence implies that the letter should explain a process. A further concern noted on this point is whether the Proposed Guide is imposing additional requirements that are not contained in the ISAs by stating that the letter may form part of the audit documentation. SAICA recommends that this paragraph therefore be revisited to address the concerns, as suggested below.
8. The use of the term *letter* appears to be creating the confusion. SAICA's understanding is that the joint auditors need to understand the policies and procedures of the other joint auditors to ensure that there is compliance with the independence and ethical requirements. Suggested wording to replace the second sentence of paragraph 24 to clarify the matter is as follows:
- The joint auditors should obtain an understanding of the other firm's process for ensuring compliance by the firm and members of the engagement team with independence and other ethical requirements. Minutes of meetings held in this regard may form part of the audit documentation.*
9. In continuing with paragraph 24 of the Proposed Guide, the extent of the understanding of the other firm's policies and procedures with respect to non-compliance is not clear. The question raised was whether the joint auditor is required to review the entire manual of policies and procedures, assess bonus structures or even review the accounting records of the firms. The general response to this by the Working Group was that the Proposed Guide seems to allow for this yet this seems to be going a step too far. SAICA suggests that the Proposed Guide clarify the expected extent of the understanding required. One of the objectives of the Proposed Guide is to achieve consistency in the performance of joint audits. In order to achieve this, it is SAICA's view that the Proposed Guide needs to more specific in terms of what is required.
10. Paragraph 26 of the Proposed Guide is not clear in terms of the extent of work required before the joint auditor can conclude on the adequacy of the other joint auditor's system of quality control. Questions debated included whether the joint auditor is required to review the entire quality control manual in arriving at this conclusion and how transparency reporting fits into this requirement. A suggestion noted was that the joint auditor should request the latest IRBA firm inspections report as this is seen as the most efficient way to achieve the objective. There was still, however uncertainty around whether this would be sufficient in complying with the requirements.
11. With respect to the section of the Proposed Guide dealing with *Joint Auditors' Agreements*, as presented in paragraphs 31 to 35, concerns were noted regarding the information included in paragraph 32 being inconsistent with other parts of the Proposed Guide. Here, the Proposed Guide makes reference to the fact that a joint auditors' agreement can be a formal agreement, which

⁶ IFRS 10, *Consolidated Financial Statements*, paragraph 1.

implies that this agreement may also be informal. SAICA does not agree that such an agreement can be informal. Please refer to the discussion in paragraph 11 in the response to Question 1.

12. Inconsistencies in the form of the joint auditors' agreements were also noted in the Proposed Guide. Paragraph 53 states that the joint auditors' agreement stipulates the right of access, which cannot be done in an informal agreement. Paragraph 80 states that the assembly period may be included in the joint auditors' agreement.
13. With respect to the items that the Proposed Guide suggests be included in the joint audit agreement, the following are additional items to consider adding:
 - a) Agreement in terms of whether joint auditors party to the joint audit engagement may enter into shared audit engagements and if so, the process to be followed.
 - b) Recourse of the compliant auditor against the non-compliant joint auditor.
14. The performance of an EQC review is a fundamental step in the auditing process because the engagement partner cannot date the engagement until the completion of the EQC review⁷. It is SAICA's view that the section of the Proposed Guide dealing with *The Role of an Engagement Quality Control Reviewer in a Joint Audit Engagement* is light in terms of providing practical guidance to firms in performing EQC reviews in joint audit engagements. Questions that were identified as not being addressed include:
 - a) Can only one joint auditor appoint an EQC reviewer?
 - b) What is the interaction between the EQC reviewers appointed by firms who are party to a joint audit engagement?
 - c) Who decides on the scope of the EQC review?
 - d) What access rights do the EQC reviewers have to the engagement teams and working papers of other joint auditors party to the joint audit arrangement?
 - e) Does an EQC review performed by only certain parties to the joint audit engagement serve a purpose?
 - f) How do joint auditors resolve differences around whether an EQC review is required or not? The concern raised here is that one firm is investing resources regarding audit quality by performing EQC reviews, while the other firm is not, and whether this is equitable and acceptable.
 - g) Can the firms party to the joint audit engagement agree on appointing one person to perform the EQC review on behalf of all firms party to the joint engagement?
15. In the instance of more than one joint audit firm requiring an EQC review on the joint engagement, SAICA suggests that the Proposed Guide include a suggestion that the EQC reviewer may consider performing a cross-review of the other EQC reviewer's documentation in carrying out their review, to clarify that each EQC reviewer is not required to perform all procedures and may rely on the work performed by other EQC reviewer.
16. Under the section *Audit Plan and Strategy*, mention is made of assessing the risks of material misstatement at the financial statement level (paragraphs 42 and 43). However, no reference is made upfront to assessing the risks of material misstatement at assertion level. Paragraph 50 of the Proposed Guide then states that *based on audit evidence obtained during the performance of audit procedures, the joint auditors shall assess jointly, throughout the joint audit engagement, if their initial assessment of the risks of material misstatements at the financial statement level and assertion level remains appropriate*. It is not clear whether the joint auditors only need to agree on the assessment of risks of material misstatements at financial statement level and at assertion level,

⁷ ISQC 1, paragraph 36.

that this is left up to the joint auditor that has been allocated that section or whether the joint auditors need to agree on the risk assessment at both financial statement and assertion level. It is SAICA's view that the joint auditors will have to agree on the risk assessment at both financial statement and assertion level as this informs the audit response. It is recommended that the Proposed Guide clarify this.

17. Paragraph 48 of the Proposed Guide creates confusion, specifically the reference to certain areas of work not being divided but performed by all the joint auditors. The debate held at the Working Group centred around the following scenarios:

- a) Scenario A: The technical divisions of the firms party to the joint audit engagement debate and agree on the way forward at a senior level but the execution of the audit work is assigned to one firm.
- b) Scenario B: All firms individually audit an account balance, class of transaction or disclosure by applying their methodology.

It is SAICA's view that the intention of this paragraph relates to Scenario B. To clarify the intention of this paragraph, SAICA suggests that an example be provided. SAICA further suggests that the Proposed Guide makes it clear that this consideration is particularly prevalent when there are significant management estimation and judgement involved.

18. Paragraph 61 of the Proposed Guide indicates that evidence of a cross-review may include documentation of how the joint auditor ensured compliance with the joint audit strategy including the agreed-upon procedures. The use of the term agreed-upon procedures creates the impression that this is an engagement within the scope of ISRS 4400⁸. Furthermore, there is no specific requirement for the joint auditors to agree on the actual procedures to be performed. SAICA suggests that the phrase *agreed-upon procedures* be replaced with *the audit plan*.
19. Paragraph 71 of the Proposed Guide suggests that the joint auditors discuss and establish a process for dealing with and resolving differences of opinion and indicates that this should be done during the planning stage. A concern was noted that the planning stage is too late for such agreement to be made, with the suggestion that this rather be done even before the commencement of the planning.
20. The reference to considerations of audit client acceptance in paragraph 73 of the Proposed Guide seems out of place. This section deals with differences of opinion that may only arise once the joint engagement is entered into and if there are disagreements in terms of client acceptance, it is unlikely that the joint audit engagement would come into existence. SAICA suggests that this be removed.
21. Under the section relating to *Concluding in a Joint Audit Engagement*, the points included in paragraph 75 of the Proposed Guide stem from paragraph 11 of ISA 700 (Revised)⁹. SAICA suggests that the last bullet point be reworded as follows:
- The evaluations as contained in paragraphs 12-15 of ISA 700 (Revised) as to whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework.*
22. An area that poses practical challenges to auditors relates to documentation. SAICA welcomes the guidance contained in paragraphs 77 to 79 of the Proposed Guide. To ensure common understanding of the documentation requirements, a question was posed to the Working Group as to what auditors believe should be documented. The common understanding is that there should be separate files prepared by each joint auditor due to challenges regarding firm methodologies but

⁸ International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*.

⁹ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*.

there is no requirement to include the detailed working papers relating to the section of work performed by the other joint auditors in each file; but rather documentation of cross-review performed on the work done by the other joint auditors.

23. To this end, SAICA proposes that the Proposed Guide would be clearer in terms of what is required if the following sentence is removed from paragraph 77:

The audit file, in the context of a joint audit engagement, consists of each joint auditor's documentation relating to their agreed allocated audit work, and the documented evidence of the cross-review. ~~Each joint auditor maintains the documentation, relating to their agreed allocated audit work.~~ Collectively, the joint auditors' documentation forms the audit file.

24. Paragraph 79 proposes that the joint auditors establish policies and procedures for the accessibility and retrieval of the final audit file. It is SAICA's understanding that firms establish policies and procedures, in accordance with the requirements of ISQC 1 and we therefore question how joint auditors can create such policies and procedures. SAICA recommends that the Proposed Guide rather suggest that this be included in the joint audit agreement, and that this paragraph therefore be moved to the section of the Proposed Guide dealing with *Joint Auditors' Agreements*.

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.

1. During our engagement with members as part of the comment process, it become apparent that there is a general lack of understanding among auditors as to the difference between shared audits and joint audits. This poses a risk to auditors who do not fully understand the nature of the engagement being entered into and the related risks that they are exposed to.
2. SAICA recognises that shared audits are not within the scope of the Proposed Guide and are cognisant of that fact that guidance on shared audits would be a project within itself. SAICA also recognises that the development of this Proposed Guide provides much needed clarity on the responsibilities of the auditors party to a joint audit engagement and makes it clear that each individual auditor is jointly responsibility for the audit opinion being expressed.
3. It is, however SAICA's view that the Proposed Guide is not sufficiently detailed in terms of explaining the difference between a shared audit and a joint audit. This poses a particular risk to smaller firms entering into joint audit engagements with larger firms, where the work load is not equally shared but the responsibility for the audit as a whole is. This is a fundamental point for the Proposed Guide to address. SAICA suggests that the Proposed Guide be expanded at the onset to clarify the difference between a shared audit and a joint audit to assist auditors in clearly distinguishing the engagement that they enter into and the related risks that they may be exposed to.
4. The LCC provided the following input to this comment letter: A joint audit must be distinguished from the shared audit, where one auditor takes the responsibility for the audit and "subcontracts" a second auditor to do a portion of the work. The concept of a joint audit and its legal nature is uncertain. There are potentially two possibilities:
 - a) A joint audit and its legal boundaries very closely relate to the structure of a CJV. A CJV is not a special relationship recognised by law. This distinguishes a CJV from a partnership or a trust. A CJV is not a legal entity separate from its participants; it is not a body corporate. This distinguishes a CJV from a company, partnership or other body. In legal terms, a CJV is simply a contractual relationship. Like other contractual relationships, however, other sources of law will affect the conduct of the parties. The relationship is between two or more parties who share the same objective in carrying out a certain task or tasks: in this instance the joint audit.

- b) The two firms form a corporate body or *universitas* with legal personality under the common law. Although a *universitas* is not incorporated by statute or registration, it is nevertheless a corporate body recognised as such under common law. An unincorporated association is not a legal entity distinct from its members, while separate legal personality is one of the most important characteristics of a *universitas* or legal person. There are, however, occasions when an unincorporated association is endowed with certain of the attributes which stem from legal persona. In the Interpretation Act, 1957, the definition of a “person” includes, amongst others, “any body of persons corporate or unincorporate”. This definition has been relied on to support the finding that an unincorporated association is subject to the provisions of the Income Tax Act. Furthermore, rule 14(2) of the Uniform Rules of Court states that an association, which is defined in the rules as any unincorporated body of persons not being a partnership, may sue or be sued in its own name (rendering the assumption in the draft guide of automatic joint and several liability legally problematic).
5. SAICA proposes that:
- a) Additional stakeholder consultation and input from, for example, other regulators such as the Financial Services Conduct Authority and the Johannesburg Stock Exchange. Joint audits will affect their auditor approval processes in the financial institutions environment; and
- b) Legal advice be obtained on the issue of the Proposed Guide and the governing law under which a joint audit resorts.
6. Given the general lack of understanding among auditors of a joint audit and a shared audit, SAICA recommends that the Proposed Guide be expanded to cover additional risks that auditors may be exposed to when entering into joint audit engagements.
7. Common practical difficulties that auditors encounter that SAICA suggests be covered in the Proposed Guide include:
- a) How do auditors overcome issues regarding different sample sizes and different materiality figures that arise as a result of different methodologies?
- b) How do auditors know that there will be different sample sizes unless each firm inputs these into the sample/materiality calculation?
8. The Proposed Guide states that the joint auditors’ documentation collectively forms the audit file. To this end, guidance on what the procedure should be in terms of retrieving an audit file in the case of a firm being liquidated or when a sole practitioner dies was identified as an area where additional guidance would be particularly useful.

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, CFAS welcomes comments on whether this would provide a sufficient period to support effective implementation of the Guide.

1. Since the Proposed Guide does not establish new requirements but rather provides guidance on the application of the ISAs to the particular circumstances of a joint audit engagement, SAICA supports the recommended effective date of the Proposed Guide to be effective for financial reporting periods beginning on or after 31 December 2020.
2. A practical challenge that the Proposed Guide should perhaps address is whether one auditor subject to a joint audit engagement is allowed to early adopt the Proposed Guide or whether all joint auditors are required to either early adopt or not.

C. OTHER GENERAL COMMENTS

Competition Act, 1998 considerations

1. The LCC suggested that the unintentional consequence of the current regime is that the joint audit inadvertently forces the auditors into the realm of anti-competitive behaviour. The Competition Act prohibits any agreement between parties in a CJV that substantially prevents or lessens competition, unless the agreement can be justified based on technology, efficiency or other pro-competitive gains. If the CJV has a substantial negative effect on a particular industry or sector, the parties must show that the agreement is for the benefit of the consumer and the economy in general.
2. The Competition Act further prohibits any agreement or practice between competitors that results in inter alia allocation of markets between competitors.
3. SAICA proposed that the IRBA obtain legal advice on:
 - a) The competition considerations in a joint audit;
 - b) Whether a joint audit engagement should be regarded as a CJV and the resulting implications thereof;
 - c) The viability of the concept of an agreement between competitor auditors and whether it is practically and legally possible to include non-competition clauses; and
 - d) Guidance on the conduct of the auditor during a joint audit engagement.

Editorial comments

4. Reference is made to both the auditors' opinion as well as the audit opinion. It is suggested that this terminology be consistently used throughout the Proposed Guide.
5. It is questionable whether reference to public sector audits is needed in paragraph 9 of the Proposed Guide. This may create the impression that multi-lateral organisations are only prevalent in the public sector, which is not the case. SAICA therefore suggests that the reference to public sector be removed from paragraph 9 of the Proposed Guide.
6. Paragraph 10 of the Proposed Guide seems to be creating some confusion in the manner in which it is currently worded. We suggest that this be amended as follows:

Furthermore, joint audit engagements are permitted in an instance where if the Auditor-General of South Africa opts in terms of Section 4(3) of the Public Audit Act not to perform an audit, in terms of Section 4(3) of the Public Audit Act, and therefore takes no accountability for the audit, joint audit engagements are allowed in that instance in the public sector. In this instance, this Guide applies to the joint audit engagement.

7. There seems to be a typing error contained in paragraph 35 of the Proposed Guide in that it refers to *other assurance-related services*, where this should be *other **non**-assurance related services*.
8. The Proposed Guide contains a section dedicated to *Independence and Other Relevant Ethical Requirements* in paragraphs 23 to 25. SAICA proposes that paragraph 52 of the Proposed Guide deal only with *Consultations on Technical and Other Matters*, with paragraph 25 being expanded on to consultations relating to independence and other ethical matters.
9. SAICA further recommends that paragraph 74 of the Proposed Guide also be moved to the section dedicated to *Independence and Other Relevant Ethical Requirements* as contained in paragraphs 23 to 25 of the Proposed Guide.