

CHALLENGES AND INTRICACIES OF JOINT AUDITS

MAKING SENSE OF THEM

Of late, joint audit arrangements have started to gain more prominence. This could have been brought about by the proposed mandatory rotation rules, among other proposals, issued by the European Commission (EC) in November 2011 in relation to the role of the auditor, auditor independence and the structure of the audit market in Europe. These proposals require audit firms of Public Interest Entities to rotate out of the audit engagements every six years. However, this may be extended to nine years if two auditing firms were jointly appointed to perform the audit together¹. While not mandating that companies in Europe appoint joint auditors, these proposals do encourage the companies to consider joint audit arrangements. In fact, the EC has stated that one of the key objectives in the push for more joint audit arrangements is to promote greater diversity in an otherwise highly concentrated audit market, where the audits of listed companies are mainly dominated by the Big Four auditing firms.

Currently, France is the only country in the European Union (EU) that mandates joint audits for companies that publish consolidated financial statements. As a result, the country's auditing industry is considerably more diversified and competitive compared to the other nations in the EU. Proponents of joint audits claim that such arrangements can lead to the sharing of audit expertise and knowledge, thereby leading to an overall improvement in audit quality. Joint audit arrangements can also help to bring about the growth of mid-tier auditing firms and prevent the auditing industry from being dominated by a few large players.

In Singapore, joint audit arrangements are not common. This could be due to the absence of regulations

¹ As at 31 October 2012, there were no further updates from the EC on the developments of these proposals.

IF THE JOINT AUDITORS DO NOT BELONG TO THE SAME NETWORK FIRM, THERE WILL BE ADDITIONAL CHALLENGES AS AUDIT METHODOLOGIES AND FIRM PRACTICES WOULD VERY LIKELY BE DIFFERENT, RESULTING IN MORE TIME SPENT IN AGREEING TO THE AUDIT APPROACH AND AUDIT PROCEDURES.

that necessitate such arrangements, but it is set to change moving forward.

AMENDED LISTING RULE 712

In September 2011, in an attempt to strengthen corporate governance and inspire investor confidence, the

Singapore Exchange (SGX) amended its Listing Rule 712 to require all companies listed on SGX to appoint auditing firms that are either registered with the Accounting and Corporate Regulatory Authority (ACRA), or registered with or regulated by any acceptable independent audit oversight body. While this amendment is not expected





to impact listed companies incorporated in Singapore, the amendment can have an impact on the foreign-incorporated companies listed on SGX. Such entities may have appointed auditing firms based in their home countries that are not registered with ACRA. If these auditing firms are also not registered with or regulated by an oversight body deemed acceptable to SGX, then these companies will not have met the requirement in the amended Listing Rule 712.

To comply with the new rule, some foreign companies have started to appoint Singapore auditing firms to act as joint auditors with their existing overseas auditors. Since the new rule was introduced in just over a year ago, more than 20 foreign companies listed on SGX² have appointed joint auditors, and it is believed that this trend will continue.

² Information obtained from SGX as at 22 August 2012.

RESPONSE FROM ICPAS

In response to the increasing focus on joint audits, the Institute of Certified Public Accountants of Singapore (ICPAS) has developed the Audit Guidance Statement (AGS) 10 *Joint Audits*, to provide guidance for practitioners involved in joint audit arrangements.

AGS 10 sets out the key principles of a joint audit, as well as guidance surrounding the roles and responsibilities of joint auditors, the principal audit procedures and quality control considerations in a joint audit arrangement. The AGS also sets out the communication and audit documentation requirements expected of joint auditors involved in such arrangements.

MORE ENGAGEMENT ACCEPTANCE PROCEDURES

Prior to accepting a joint audit engagement, a practitioner has to perform additional engagement acceptance

procedures over and above those he normally performs before accepting any audit engagement. These additional procedures include obtaining an understanding of the other joint auditor involved, his compliance with independence and ethical requirements, as well as his professional competency. For example, the practitioner would need to establish that the other joint auditor understands and will be able to comply with independence and ethical requirements that are relevant to and acceptable for the joint audit arrangement. This may not be an issue if both the practitioner and the joint auditor reside in the same country as the company being audited. However, if the joint auditor is a foreign auditing firm, performing these procedures may become more challenging since independence and ethical requirements can differ across jurisdictions.

JOINTLY AND SEVERALLY RESPONSIBLE

One of the key principles underlying a joint audit arrangement is that the joint auditors are jointly and severally responsible for the audit. They are also jointly responsible for the audit opinion expressed on the financial statements. Arising from these principles, AGS 10 requires the joint auditors to jointly establish and agree on the overall audit strategy and audit plan. In addition, the joint auditors should also agree on the distribution of work to be performed. In performing the audit, the joint auditors must communicate with each other regularly and on a timely basis, so as to update each other on the progress of the work performed as well as the findings and conclusions. Where necessary, joint auditors should also perform cross reviews of each other's work so as to be satisfied that the work performed by the other joint auditor is sufficient and appropriate.

In practice, a joint audit arrangement involving two or more audit firms will require time and effort on communication and coordination among the joint auditors, as the joint auditors have to work with each other to formulate responses to assess risks, evaluate audit evidence collected and finalise audit conclusions. All these will add to the costs of the audit. If the joint auditors do not belong to the same network firm, there will be additional challenges as audit methodologies and firm practices would very likely be different, resulting in more time spent in agreeing to the audit approach and audit procedures.

DIVISION OR DUPLICATION OF WORK?

Ideally, the audit work should be divided between the

joint auditors so as to minimise any duplication of work. However, some duplication is inevitable, especially in key areas of the audit. For example, the joint auditors may choose to perform their respective risk assessment procedures to obtain an understanding of the company and its internal control environment for the purpose of identifying and assessing the risks of material misstatements. Such procedures are also particularly important in helping the joint auditors to form an opinion on the financial statements ultimately, and hence, the joint auditors may decide to perform these procedures separately on their own before coming together to jointly establish and agree on the overall audit strategy and audit plan.

IS THE WORK SUFFICIENT?

There could also be situations where a joint auditor may deem the work performed by the other joint auditor to be insufficient, and if the other joint auditor is not willing to perform additional procedures to make up for the deficiencies, AGS 10 requires the joint auditor to perform these additional procedures himself. This is because in a joint audit arrangement, the joint auditor is jointly and severally responsible for



the audit and audit opinion to be expressed on the financial statements and therefore, the joint auditor has to perform the additional audit work to make up for the deficiencies. This will mean increased costs for the joint auditor and if the audit fees have already been agreed and allocated between the joint auditors such that the joint auditor is unable

AGS 10 SETS OUT THE KEY PRINCIPLES OF A JOINT AUDIT, AS WELL AS GUIDANCE SURROUNDING THE ROLES AND RESPONSIBILITIES OF JOINT AUDITORS, THE PRINCIPAL AUDIT PROCEDURES AND QUALITY CONTROL CONSIDERATIONS IN A JOINT AUDIT ARRANGEMENT.

to recover the increased costs, this may create some unhappiness between the joint auditors. The relationship between the joint auditors may turn sour, and this could potentially jeopardise the ability of the joint auditors to continue to work together effectively.

DIFFERENCES OF OPINION

AGS 10 requires the joint auditors to issue a single joint audit opinion on the financial statements. As the joint auditors are jointly responsible for the audit opinion expressed on the financial statements, any differences of opinion should be resolved prior to the finalisation of the joint auditors' report. However, the reality is that there could be circumstances, albeit rare, where the joint auditors could not reach an agreement. In situations like these, they may need to consider

if it is necessary to withdraw from the engagement. This problem could become acute for the company if the Singapore joint auditor withdraws from the engagement. The company will be left in a limbo without an approved auditor if the other joint auditor is an overseas auditor who does not meet the requirements of Listing Rule 712. Even if the company is able to find replacements, there would be a big challenge in meeting the required deadlines, not to mention additional costs that would be incurred.

CONCLUSION

In conclusion, practitioners entering into joint audit arrangements should be cognizant of the unique and potential challenges present in such arrangements. Apart from having to deal with these challenges, the practitioner should also bear in mind that he continues to assume as much responsibility for the joint audit as if he was engaged as the only auditor of the company; the level of responsibility is not diminished in a joint audit arrangement. Ultimately, it is up to the practitioner to evaluate for himself the viability of entering into joint audit arrangements, and if he does so, there is guidance available in AGS 10 to help him ensure that he carries out his responsibilities as a joint auditor properly. **CPA**

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