

SA 299 – Joint Audit of FS

Joint Audit

- Joint Audit Definition – Appointment of multiple firms/individuals as Statutory Auditors to combine expertise and resources for the audit.
- SA 299 "Joint Audit of Financial Statements" – Outlines professional responsibilities and guidelines for auditors in a joint audit scenario.

Advantages

In specific terms the advantages that flow may be the following:

- Sharing** of **expertise**.
- Advantage of **mutual consultation**.
- Lower workload**.
- Better **quality** of performance.
- Improved** service to the client.
- In respect of multinational companies, the work can be spread using the expertise of the local firms which are in a better position to deal with detailed work and the local laws and regulations.
- Lower staff** development **costs**.
- Lower costs** to carry out the work.
- A sense of **healthy competition** towards a better performance.

Disadvantages

The general disadvantages may be the following:

- The **fees** being **shared**.
- Psychological problem** where firms of different standing are associated in the joint audit.
- General **superiority complex** of some auditors.
- Problems** of **co-ordination** of the work.
- Areas of work of **common concern** being **neglected**.
- Uncertainty** about the liability for the work done.

Audit Planning, Risk Assessment and Allocation of Work Involvement of EP and Key Engagement Team Members

The engagement **partner** and other **key members** of the engagement team from **each** of the **joint auditors** shall be involved in planning the audit.

Establishment of Audit Strategy

The joint auditors shall **jointly establish** an **overall audit strategy** that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.

Development of Audit Plan

Prior to the **commencement** of the audit, the joint auditors shall **discuss** and **develop** a **joint audit plan**. In developing the joint audit plan, the joint auditors shall

- Identify **audit area division** and **common areas** among joint auditors to define each joint auditor's scope.

- Ascertain engagement's reporting **objectives** to plan audit **timing** and required **communications**.
- Consider and communicate **significant factors** among joint auditors that guide the engagement team's efforts.
- Consider results of **preliminary engagement activities** and relevance of knowledge gained on previous similar engagements by respective engagement partner(s).
- Ascertain the nature, timing and extent of **resources** necessary to perform the engagement.

Assessment of ROMM

Each joint auditor should consider, assess, and communicate **risks of material misstatement** to others; **document** whether risks **pertain to** overall FSs or specific audit areas.

Audit Procedures

Joint auditors should discuss, document, and communicate the nature, timing, and extent of **audit procedures** for common and specific audit areas to TCWG.

Engagement and MGMT Representation Letter

Joint auditors should obtain a common engagement letter and a common **management representation letter**.

Allocation of Work

Post work identification and allocation among joint auditors, the **work allocation document** should be signed by all joint auditors and communicated to TCWG.

Responsibility and Co-ordination among Joint Auditors

In respect of audit work divided among the joint auditors, each joint auditor shall be responsible only for the work allocated to such joint auditor including proper execution of the audit procedures. All the joint auditors shall be **jointly** and **severally** responsible for

- the audit work which is not divided among the joint auditors and is carried out by all joint auditors; *(Example: If the assessment of going concern status isn't divided among auditors A, B, and C, all three must review it together and all three are fully responsible for any errors in this assessment.)*
- decisions taken by all the joint auditors under audit planning in respect of common audit areas concerning the nature, timing and extent of the audit procedures to be performed by each of the joint auditors. *(If auditors A, B, and C jointly decide to use a 5% materiality threshold for the entire audit, all three are responsible for any consequences of this decision, even in areas individually assigned to just one auditor.)*
- matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors; *(Auditor A raises a concern about related party transactions; if all agree on treatment, all are responsible for it.)*
- examining that the FSs of the entity comply with the requirements of the relevant statutes; *(If the Companies Act*

requires disclosure of CSR spending, all auditors must ensure it is correctly disclosed.

- Presentation and disclosure of the FSs as required by the applicable financial reporting framework; *(If required related party disclosures are missing from financial statements approved by joint auditors A, B, and C, all three share responsibility for this omission.)*
- Ensuring that the audit report complies with the requirements of the relevant statutes, the applicable Standards on Auditing and the other relevant pronouncements issued by ICAI. *(Opinion paragraph wording as per SA 700 – all must ensure correct language is used.)*
- If a joint auditor encounters matters relevant to others' responsibilities, requiring their attention, disclosure, discussion, or judgment application, they should communicate these in writing to all other joint auditors before the audit completion. *(If auditor A finds inventory valuation issues that affect tax liabilities (auditor B's area) and cash flow projections (auditor C's area), auditor A must inform both B and C in writing before finalizing the audit.)*
- Each joint auditor determines audit procedures for their allocated areas. They are individually responsible for internal control and risk assessment in their allocated areas.

Audit Conclusion and Reporting Reporting

- Joint auditors are expected to issue a **common audit report**.
- In case of **disagreement**, auditors **can issue separate audit reports**.
- A joint auditor is **not bound** by the **views** of the **majority** of the **joint auditors** regarding the opinion or matters to be covered in the audit report and shall express opinion formed by the said joint auditor in a separate audit report in case of disagreement.
- Audit reports by joint auditors shall make **reference separate report(s)** issued by other joint auditor(s).
- Separate audit report(s) shall also **reference** to those issued by joint auditors.
- Such **reference** shall be made under the heading "**Other Matter Paragraph**" as per Revised SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report".

SA 600 – Using the Work of Another Auditor

Definitions

Principal auditor – The auditor with responsibility for reporting on the financial information of an entity when that financial information includes the financial information of one or more components audited by another auditor. *(Jiski responsibility hai to report on FI of the entity, when that FI includes FI of Component(s))*

Other auditor – An auditor, other than the principal auditor, with responsibility for reporting on the financial information of a component which is included in the financial information audited by the principal auditor. *(Responsibility to report on FI of Comp, Which is included in FI audited by PA)*

Component

Means a division, branch, subsidiary, joint venture, associated enterprises or other entity **whose financial information is included in the financial information audited by the principal auditor**.

The Principal Auditor's Procedures– Consideration by the Principal Auditor before and while using the work of Another Auditor.

1. Principal auditor can review component accounts by visiting if needed and allowed by Law, but usually relies on other auditors unless special circumstances necessitate direct review (visit/examine books)
2. When using another auditor's work (non-ICAI member), the principal auditor should consider their professional competence for the specific assignment
3. The principal auditor should **perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor's purposes**. The principal auditor should ordinarily perform the following procedures
 - a. **Advise** the other auditor of the use that is to be made of the other auditor's work and report and
 - b. Make sufficient **arrangements for co-ordination** of their efforts at the planning stage of the audit.
 - c. The principal auditor would **inform** the other auditor of matters such as
 - **areas** requiring special consideration,
 - **procedures** for the identification of **inter-component transactions** that may require disclosure and
 - the **time-table** for completion of audit; and
 - d. **advise** the other auditor
 - of the **significant** accounting, auditing and reporting **requirements** and obtain **representation** as to **compliance** with them.
4. The principal auditor might
 - a. **discuss** with the other auditor the audit procedures applied or *Principal auditor holds a virtual meeting with component auditor to discuss their approach to testing IT controls and revenue recognition.*
 - b. **review** a written summary of the other auditor's procedure and findings which may be in the form of a completed questionnaire or checklist. *Principal auditor reviews component auditor's completed checklist showing sampling approaches, materiality calculations, and risk assessments for key accounts.*

The nature, timing and extent of procedures will depend on the circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other auditor. This knowledge may have been enhanced from the review of the previous audit work of the other auditor.