What is joint audit?

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EU law and international standards

The existing Audit Regulation (EU 537/2014) recognises joint audit as a system with real merits in terms of audit quality.

Recital 20:

*"The appointment of more than one statutory auditor or audit firm by PIEs would **reinforce the professional skepticism and help to increase audit quality.***

*Also, this measure, combined with the presence of smaller audit firms in the audit market would facilitate the **development of the capacity** of such firms, thus broadening the choice of statutory auditors and audit firms for PIEs. Therefore, the **latter should be encouraged and incentivised** to appoint more than one statutory auditor or audit firm to carry out the statutory audit."*

The Audit Regulation was introduced to favour sufficient and wider choice of audit firms.

Recital 30 and 34:

*"Sustainable audit capacity and a competitive market for statutory audit services in which there is a **sufficient choice** of statutory auditors and audit firms capable of carrying out statutory audits of public-interest entities are required in order to ensure a **smooth functioning of capital markets** (Regulation 537/2014, recital 30)".*

"One of the objectives of the Regulation is to broaden the choice of statutory auditors and audit firms for public-interest entities (Regulation 537/201, recital 34)".

The Audit Regulation incentivises joint audit through an extended rotation period.

Member States may allow the maximum duration of the audit engagement to be extended to the maximum duration of **24 years**, when, after the expiry of the maximum durations, more than one statutory auditor or audit firm is simultaneously engaged *(Audit Regulation Art. 17)*.

Without joint audit, the maximum duration is 20 years, where a public tendering process for the statutory audit is conducted.

Member States can set the minimum number of auditors for PIEs.

"Member States may decide that a minimum number of statutory auditors or audit firms are to be appointed by public-interest entities in certain circumstances and establish the conditions governing the relations between the statutory auditors or audit firms appointed.

If a Member State establishes any such requirement, it shall inform the Commission and the relevant European Supervisory Authority thereof" (Audit Regulation Art. 16 § 7.).

The Audit Directive (Directive 2014/56) specifies how the audit report shall be presented in the case of joint audits.

Where the audit is carried out by more than one statutory auditor or audit firm, the statutory auditors or audit firms must agree on the results of the statutory audit and submit a **joint report and opinion** *(Art. 28)*.

In the case of disagreement, each statutory auditor or audit firm must submit their opinion in a separate paragraph of the audit report and are required to state the reason for the disagreement *(Art. 28)*.

Where more than one statutory auditor or audit firm has been simultaneously engaged, the audit report must be **signed by** all statutory auditors or at least by the statutory auditors carrying out the statutory audit on behalf of each audit firm *(Art. 28)*.

In the case of a joint audit, and where any disagreement has arisen on auditing procedures, accounting rules or any other issue regarding the conduct of the audit, the reasons for such **disagreement shall be explained in the additional report to the Audit Committee** *(Audit Regulation Art. 11)*.

Few international standards provide guidance on how to conduct joint audits.

There is no specific ISA standard on joint audit.

In the current ISAs, a reference to joint audit can be found in ISA 600: "Audits of Group financial statements (including the work of component auditors)", in the section containing the definition:

ISA 600.9.h: *"Group engagement partner – The partner or other person in the firm who is responsible for the group audit engagement and its performance, and for the auditor's report on the group financial statements that is issued on behalf of the firm. 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 team. This ISA does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor."*

International Auditing and Assurance Standards Board (IAASB) – survey consultation: IAASB identifies joint audit as a new topic for the work plan for 2022-2023.

"As joint audits are becoming more prevalent globally, there is an increasing need for guidance about how joint audit engagements should be undertaken; clarifying practice in this area will contribute to consistency in auditor procedures. Initially, we could explore whether it is feasible to develop a pronouncement or non-authoritative materials that would have global relevance due to the differing nature of such engagements in those jurisdictions where joint audits are mandated or permitted, to determine an appropriate way forward."

Main national standards and guidance:

- **France:** professional auditing standard on joint audit (NEP 100: Audit des comptes réalisé par deux commissaires aux comptes) / Professional guidance issued by the French institute CNCC ('Compagnie nationale des commissaires aux comptes') NI ("Note d'information") XI related to the consolidated financial statements / Supervisory authority's position on allocation of works for joint audit.
- **Germany:** Audit standard IDW PS 208 (Zur Durchführung von Gemeinschaftsprüfungen (joint audit).
- **South Africa:** IRBA Guidance (joint audit engagements – August 2020) : Final_Guide_Joint Audit Engagements _ August 2020 (irba.co.za).

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Political objectives and stakeholder goals

Main goals:

- Enhance audit quality and auditor's independence, and consequently strengthen the quality of the financial information;
- Reduce concentration in the audit market, and improve market supply and its diversity[1].

Joint audit implementation in the EU

Joint audits are **mandatory in three Member States**:

- **France:** for companies that are required to prepare and establish consolidated financial statements;
- **Bulgaria:** for banks, insurers and pension funds;
- **Croatia:** for PIEs that fulfil one of the following conditions: employ an average of 5,000 workers during the fiscal year, have an asset greater than HRK 5,000 million on the last day of the fiscal year.

Seven Member States promote joint audits via an extension of the MFR period: Belgium, Cyprus, Denmark, Finland, Slovakia, Spain and Sweden.

Joint audits are performed in at least three other Member States with no MFR incentive, Austria, Greece and the Netherlands.

- In s.36 of its own initiative report about the Capital Markets Union[2], the European Parliament, *"Calls on the Commission to look into ways of improving the functioning of the accounting sector, including through joint audits."*
- In s.77 to 79 of its report on Wirecard, the ESMA Securities Markets Stakeholders Group[3], *"Recommends assessing the relevance of requiring joint audits for large and listed companies in the EU."*
- Several national audit supervisors are open to analysing the quality benefits of joint audits.

Joint audit in the EU (2021)

Voluntary (10)[4]	Mandatory JA (3)
Austria	Bulgaria (2016)*
Belgium	Croatia**
Cyprus	France (1966) ***
Denmark	
Finland	
Germany	
Greece	
The Netherlands	
Slovakia	
Spain	
Sweden	

* For banks, insurance & pension funds
**For PIEs (5000 workers or asset greater than HRK 5000 million)
***For companies required to establish consolidated financial statements

[1] Report from the Commission on developments in the EU market for statutory audit services to PIE – January 2021. This report concludes that there is a persistent high concentration, as the Big 4 still dominate the PIE statutory audit market in most Member States.
[2] Report on further development of the Capital Markets Union (CMU): improving access to capital market finance, in particular by SMEs, and further enabling retail investor participation (2020/2036(INI)) / A9-0155/2020 - 16.9.2020
[3] ESMA Securities Markets Stakeholders Group - Advice to ESMA / Own initiative overview report on the Wirecard case. ESMA22-106-3194 - 15 February 2021
[4] In blue, EU Member States with joint audit incentives

How does joint audit work?

Key components of a joint audit

- Audit planning is performed jointly with a common audit approach and assessment of risks.
- Performance of audit procedures in accordance with the audit plan is allocated on a concerted basis between the joint auditors and must respect a 'balanced' split of work (40%/60% or 30%/70% in exceptional circumstances).
- The work performed by each auditor is subject to a cross review by the other auditor.
- The auditors jointly review critical issues.
- The auditors jointly report to the company's management, its audit committee and its shareholders.

How does joint audit work in practice?

In France, there is a professional auditing standard on joint audit (NEP 100: Audit des comptes réalisé par deux commissaires aux comptes) and a professional guidance issued by the French institute, CNCC ('Compagnie nationale des commissaires aux comptes') NI ('Note d'information;) XI related to the consolidated financial statements, even though joint audit is not only applicable for consolidated financial statements, but also for statutory or component audits.

The table below is a basic example of work allocation based on the translation of a table from the French guidance of the CNCC, NI XI' related to the audit of consolidated financial statements (Group audit ISA 600). This table is oriented on a group audit (when applying joint audit to single entities, some lines of the table become irrelevant).

<table>
<tr><th>Work required</th><th>How to allocate the work between the joint auditors</th></tr>
<tr><td colspan="2">Audit planning</td></tr>
<tr><td>Obtaining an understanding of the entity, the consolidated group and its environment.
Identification of significant components.
Assessment of the risk of material error or misstatement at the level of the consolidated financial statements taken as a whole.
Determination of materiality at the level of the group and of individual components of the group.</td><td>Each joint auditor, for the purpose of defining and documenting, in conjunction with the other joint auditor:
The audit approach;
The audit plan; and
The audit work programme.</td></tr>
<tr><td>Based on the aforementioned procedures:
Definition of the audit procedures required at the level of each entity in response to the audit risks identified.
Assessment of whether the relevant audit evidence susceptible of being collected on the basis of those procedures is expected to be adequate.
Documentation and organisation of the communication between the joint auditors of the group and the auditors of individual components, notably via the issuance of audit instructions.</td><td>The joint auditors working together.</td></tr>
<tr><td>Obtaining an understanding of the component auditors.</td><td>Allocation on a concerted basis.</td></tr>
<tr><td colspan="2">Performance of audit procedures in accordance with the audit plan and as defined in the audit work programme</td></tr>
<tr><td>Group-wide internal controls.
Consolidation process.
Performance of analytical procedures for non-material entities.
Audit procedures applied to the accounting information of consolidated entities.</td><td>Allocation on a concerted basis between the joint auditors.</td></tr>
</table>

Throughout the period of the engagement	

Based on the audit evidence collected from performance of the audit procedures:
• Assessment, throughout the period of the engagement, of whether the initial evaluation of the risk of material error or misstatement remains appropriate.
• Modification, if necessary:
  ○ Of the nature;
  ○ Of the timing; or
  ○ Of the extent of the planned audit procedures.
	The joint auditors working together.

Cross-review	
• Review of the audit procedures performed by the joint auditors. • Evaluation of the adequacy and appropriateness of the audit evidence collected. • Documentation, in each joint auditor's working papers, of the review findings supporting the assessment of the audit procedures performed by the joint auditors.	Each joint auditor working independently.
Finalisation of the audit	
• Analytical review procedures designed to assess the overall consistency of the consolidated financial statements. • Verification of fair presentation and consistency with the consolidated financial statements of the other information provided on the occasion of approval of the consolidating entity's accounts.	Each joint auditor working independently.
• Communication with corporate governance bodies.	The joint auditors working together.

About Mazars

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of more than 44,000 professionals – 28,000+ in Mazars' integrated partnership and 16,000+ via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*Where permitted under applicable country laws

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