

Exposure Draft

Standard on Auditing (SA) 299 (Revised)

Joint Audits

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Your comments on this Exposure Draft should reach us by **August 11, 2017**. Comments are most helpful if they indicate the specific paragraph(s) to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording. The comments should be sent to:

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Introduction

Scope of this SA

1. The practice of appointing more than one auditor to conduct the audit of large entities is followed for a longtime, sometimes voluntarily by the shareholders or sometimes due to the requirements of laws or regulations. Such auditors, known as joint auditors, conduct the audit jointly and report on the financial statements of the entity. This Standard on joint audits lays down the principles for effective conduct of joint audit to achieve the overall objectives of the auditor as laid down in SA 200 "Overall Objectives of the Independent Auditor and the conduct of an audit in accordance with Standards on Auditing". It deals with the special considerations in carrying out audit by Joint Auditors. Accordingly, in addition to the requirements enunciated in this standard, the joint auditors also need to comply with all the relevant requirements of other applicable Standards on Auditing. **(Ref: Para. A1-A2)**

2. A joint audit is an audit of financial statements of an entity by two or more auditors appointed with the objective of issuing an audit report. Such auditors are described as joint auditors.

3. The Standard does not deal with the relationship between a principal auditor who is appointed to report on the financial statements of an entity and another auditor who is appointed to report on the financial statements of one or more component (divisions, branches, subsidiary, joint venture, associates, other entity) included in the financial statements of the entity. **(Ref: Para. A3)**

Effective Date

4. This Standard on Auditing is effective for audits of financial statements for periods beginning on or after

Objectives

5. To lay down broad principles for the joint auditors in conducting the joint audit.

6. To provide a uniform approach to the process of joint audit.
7. To clearly identify the distinct areas of work and coverage there of by each joint auditor to arrive at a common audit report.
8. To identify individual responsibility and accountability of each of the joint auditors in regard to areas covered by them and to enable identification of situations which would lead to joint responsibility and accountability of all joint auditors.

Requirements

Audit Planning (Ref: Para. A4-A5)

9. The engagement partner and other key members of the engagement team from each of the joint auditors shall be involved in planning the audit.
10. 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.
11. 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:
 - a. Identify division of audit areas among the joint auditors that define the scope of the work of each joint auditor;
 - b. Ascertain the joint reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
 - c. Consider and communicate to all joint auditors the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts;

- d. Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other or similar engagements performed earlier by the respective engagement partner(s) for the entity is relevant.
- e. Ascertain the nature, timing and extent of resources necessary to perform the engagement.

12. At this stage, fraud risks and other risks of material misstatement need to be considered and assessed, if any, by each of the joint auditors and shall be communicated, and documented, whether pertaining to the entity level or to the area of allocation among the other joint auditors.

13. The joint auditors shall discuss and document the nature, timing, and the extent of the audit procedures for common and specific allotted areas of audit to be performed by each of the joint auditors in discussion with those charged with governance considering relevant experience and strengths of joint auditors and rotation of audit areas.

14. After identification and allocation of work among the joint auditors, the work allocation document shall be signed by all the joint auditors and such work distribution shall be communicated to those charged with governance of the entity.

Division of Work, Responsibility and Co-ordination among Joint Auditors (Ref: Para. A6-A13)

15. In respect of audit work divided among the joint auditors, each joint auditor is responsible only for the work allocated to such auditor including proper execution of the audit procedures.

16. All the joint auditors are jointly and severally responsible for:

- a. the audit work which is not divided among the joint auditors and is carried out jointly;

- b. decisions taken by all the joint auditors under audit planning phase concerning the nature, timing and extent of the audit procedures to be performed by each of the joint auditors. It may, however, be clarified that all the joint auditors are responsible only in respect of the appropriateness of the decisions concerning the nature, timing and extent of the audit procedures agreed upon among them, proper execution of these audit procedures is the individual responsibility of the joint auditor concerned;
- c. 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;
- d. examining that the financial statements of the entity comply with the requirements of the relevant statutes;
- e. presentation and disclosure of financial statements as required by the applicable financial reporting framework;
- f. ensuring that the audit report complies with the requirements of the relevant statutes;
- g. documentation of all the issues raised in the meeting of joint auditors, the decisions taken thereon and confirmations given by each joint auditor to the other joint auditors.

17. Where, in the course of his work, a joint auditor comes across matters which are relevant to the areas of responsibility of other joint auditors and which deserve their attention, or which require disclosure or require discussion with, or application of judgment by other joint auditors, he shall communicate the same to all the other joint auditors in writing prior to the completion of the audit.

18. It shall be the responsibility of each joint auditor to determine the nature, timing and extent of audit procedures to be applied in relation to the areas of work allocated to him. It is the individual responsibility of each

joint auditor to study and evaluate the prevailing system of internal control, assessment of risk relating to the areas of work allocated to him.

Audit Conclusion and Reporting

19. The joint auditors shall ideally issue a single audit report giving an unified opinion. However, where the joint auditors are in disagreement with regard to the opinion or any matters to be covered by the report, each one of them shall express his opinion in a separate report. 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 report and shall express his opinion in a separate report in case of a disagreement. In such circumstances, the report issued by the joint auditor shall make a reference to the separate report issued by the other joint auditors. Such reporting would be under the title "*Other matter paragraph*" as per SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report".

20. Each joint auditor is entitled to assume that:

- a. The other joint auditors have carried out their part of the audit work and the work has actually been performed in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India.
- b. The other joint auditors have brought to his notice any departure from applicable financial reporting framework or any material observations that are significant and relevant to their responsibilities noticed in the course of the audit.

21. Where separate financial statements of a division/branch are audited by one of the joint auditors, the other joint auditors are entitled to proceed on the basis that such financial statements comply with all the legal and regulatory requirements and present a true and fair view of the state of affairs and of the working results of the division/branch concerned, subject to observations as may be noticed apparently from the financial

statements in respect of disclosures and presentation or as may be communicated by the joint auditor concerned.

22. Before finalizing their joint audit report, the joint auditors shall discuss and communicate with each other their respective conclusions that would form the content of the audit report.

Communication with Those Charged with Governance

23. When the joint auditors expect to modify the opinion in the auditor's report, the joint auditors shall communicate with those charged with governance the circumstances that led to the expected modification and the proposed wording of the modification to ensure compliance with SA 705. If the joint auditors expect to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the joint auditors shall communicate with those charged with governance regarding this expectation and the proposed wording of this paragraph to ensure compliance with SA 706.

Application and Other Explanatory Material

Initial Steps (Refer: Para. 1)

A1. The success of joint audit process depends to a large extent on communication, trust, lucidity and coordination among the joint auditors. The joint auditors shall share a common goal of conducting the audit in most effective manner possible. The ideal audit plan evolves in an atmosphere of mutual cooperation, trust and synergy that can only be obtained when the joint auditors are committed to straight forward and honest communication.

A2. Regarding the engagement letter to be obtained, it is advisable to accept a common engagement letter. However, if the internal processes of any of the joint audit firms demand any specific clauses that are not required by the others, a separate engagement letter may also be

obtained from the client with the knowledge and a copy to the other joint audit firms.

Scope of this SA (Refer: Para. 3)

A3. This Standard does not deal with the relationship between auditors who are not joint auditors, e.g.

- Relationship between a company auditor appointed under section 139 of the Companies Act, 2013 and branch auditor appointed under section 143(8) of the Companies Act, 2013.
- Relationship between the auditor of branch X and the auditor of branch Y of an entity.
- Relationship between the auditor of subsidiary P and the auditor of subsidiary Q of a company.
- Relationship between the auditor of subsidiary of a company and the auditor of the company.
- Relationship between the external auditor of a company and the internal auditor of the company.

Audit Planning (Refer: Para. 9-14)

A4. Joint audit planning process includes several key elements that impact timeliness and quality of joint audit. These elements which are critical to joint audit planning are:

- General overview of business activities, financials and known significant changes from the previous period. Further, list of significant transactions and information that is new and different from the previous period.
- Division of audit areas keeping in view various factors such as:
 - geographical spread,
 - business segments / business units,

- Balance sheet, profit & loss and other reporting requirements,
 - Function wise etc,
 - Areas which cannot be allocated among the joint auditors,
 - Work allocation in a manner that one audit firm does not share more work than the other,
 - It shall be ensured that no auditable area remains unallocated among the joint auditors.
- Risk Analysis.
 - Materiality.
 - Resolution of various audit queries/ observations and audit conclusion process to achieve the objective of common audit report.
 - After the detailed planning process, audit firms will prepare the necessary documentation for the areas assigned to them under the planning process. The document so prepared shall also adhere to the guiding principles stipulated under various accounting and auditing standards and shall have bearing on the audit planning document.

A5. The documentation of division of work helps in avoiding any dispute or confusion among the joint auditors regarding scope of work to be carried out by them. In case of any dispute/ confusion arising in this regard, reference may be made to the documentation signed by the joint auditors. Further, the communication of division of work to the entity helps in avoiding any dispute or confusion which may arise between the entity and the joint auditors.

Division of Work, Responsibility and Co-ordination among Joint Auditors (Ref: Para 15-18)

A6. Division of work among joint auditors shall be such to ensure:

- Optimum utilization of specialized skills and experience.

- More or less equal division of work or where this is not possible, division in harmony with the allocation of responsibilities

A7. The audit checklist of the respective areas of audit can be developed by respective joint auditors. The issues such as appropriateness of using test checks or sampling shall be decided by each joint auditor in relation to his own area of work.

A8. Each joint auditor shall communicate with other joint auditors the relevant observations that deserve their attention, which he feels may not come to the joint auditor's attention in the course of carrying out his responsibilities as per the mutually agreed scope and coverage and which may have bearing on the audit areas covered by the joint auditor or having bearing on the financial statements as a whole.

A9. In the case of audit of a large entity with several branches, including those required to be audited by branch auditors, the branch audit reports/returns may be required to be scrutinised by different joint auditors in accordance with the allocation of work. In such cases, it is the specific and separate responsibility of each joint auditor to review the audit reports/returns of the divisions/branches allocated to him and to ensure that they are properly incorporated into the accounts of the entity. In respect of the branches which do not fall within any divisions or zones which are separately assigned to the various joint auditors, they may agree among themselves as regards the division of work relating to the review of such branch returns. It is also the separate and specific responsibility of each joint auditor to exercise his judgement with regard to the necessity of visiting such divisions/branches in respect of which the work is allocated to him.

A10. A significant part of the audit work involves obtaining and evaluating information and explanations from the management. This responsibility is shared by all the joint auditors unless they agree upon a specific pattern of distribution of this responsibility. In cases where specific divisions, zones or units are allocated to different joint auditors, it is the

separate and specific responsibility of each joint auditor to obtain appropriate information and explanations from the management in respect of such divisions/zones/units and to evaluate the information and explanations so obtained by him.

A11. Each joint auditor is entitled to assume that the other joint auditors have carried out their part of the audit work in accordance with the generally accepted audit procedures.¹ It is not necessary for a joint auditor to review the work performed by other joint auditors or perform any tests in order to ascertain whether the work has actually been performed in such a manner. Each joint auditor is entitled to rely upon the other joint auditors for bringing to his notice any departure from generally accepted accounting principles or any material error noticed in the course of the audit.

A12. Each joint auditor will, at the conclusion meeting, communicate to all joint auditors confirming the agreed coverage under his respective audit areas.

A13. A common note or points to be presented / discussed at the Audit committee meeting be prepared by the joint auditors. If any of the Joint auditors feels the need for some additional point to be discussed, he may do so, even though other joint auditors may not include this in the common points.

General

A14. Joint Auditors shall ensure rationality in all other matters.

A15. It is expected that the work allocation among the joint auditors is more or less equal in terms of time spent as well. In case where the areas allocated are such where there is a material difference in the time spent by

¹ Reference may be made in this regard to the Standards on Auditing and other mandatory Statements relating to auditing matters issued by the Council of the Institute from time to time.

each joint auditor, it would be divided on the basis of expected time spent on the respective area of allocation under audit.

A16. It is expected that the common management representation letter be obtained by the joint auditors. However, if any of the joint audit firm has specific requirements to satisfy its internal guidelines, separate management representation letter may be obtained with a knowledge and copy to other joint auditors.

A17. Rotation of the areas of audit among the joint auditors shall be encouraged.

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