



CA
PAKISTAN

Exposure Draft **JOINT AUDIT GUIDELINES**

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Technical Services Department

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Introduction

It is permissible to appoint a single auditor or joint auditor to audit the financial statements for the purpose of expressing an opinion thereon. The auditors conduct the audit for the purpose of expressing an opinion according to the International Standards on Auditing (ISAs) as applicable in Pakistan.

The auditing standards as applicable in Pakistan provide for the conduct of audits by an auditor and there are no expressive provisions in these standards to deal with situations or considerations where audit opinion is to be issued on the same set of financial statements by more than one auditor's jointly.

Joint Audit, for the purpose of this guide, is defined as an audit in which financial statements are audited by two or more independent auditors or firms with shared audit effort, one single audit report signed by both auditors and joint liability for both auditors. The auditors issuing the opinion are collectively called Joint Auditors.

Objective of the Guide

For the benefit of members and other stakeholders, the Auditing Standards & Ethics Committee of the Institute of Chartered Accountants of Pakistan (the Institute) has developed this Guide titled "Joint Audit Guidelines" (the Guide).

The overall objective of the Guide is to provide guidance to the joint auditors to plan and conduct the audit according to the ISAs as applicable in Pakistan so as to be able to jointly express an audit opinion according to the terms of the engagement.

This Guide deals with the key principles of joint audits, including the roles and responsibilities of joint auditors, the principal audit procedures and quality control considerations under joint audit arrangements, communication and audit documentation requirements of joint audits. It also deals with situations and considerations that arise in the conduct of audits by joint auditors and helps the auditors in the conduct of the same enabling them to issue an audit opinion on the financial statements jointly.

Disclaimer

This Guide is designed to assist auditors in carrying out the joint audits effectively; however, it is not intended to be a substitute for reading the auditing standards applicable in Pakistan and IAASB's other pronouncements. Furthermore, an auditor should utilize his/her professional judgment and the facts and circumstances involved in each particular audit engagement. While all reasonable care has been taken in the preparation of this Guide, however, the Institute does not make any express or implied representations or warranties as to the completeness, reliability or accuracy of any material in this publication. The Institute does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this guide or arising from any omission from it.

1. Role and Responsibility

- 1.1. Joint auditor is jointly responsible for the audit with the other joint auditor/s and to express an audit opinion on the financial statements. Therefore, the audit should be planned and conducted to achieve the same.
- 1.2. The joint auditor should ensure that the audit has been conducted in accordance with the auditing standards applicable in Pakistan and that sufficient appropriate audit evidence (including work performed by the other Joint Auditor) has been obtained, based on the evaluation of which overall audit opinion on the financial statements is to be expressed.
- 1.3. The overall objective of a joint audit is to issue a single joint audit opinion on the financial statements of the entity. Consequently, the joint auditor is responsible for the work of the other joint auditor and cannot claim ignorance of the work performed by the other joint auditor.
- 1.4. If the joint audit is an initial audit engagement for the joint auditor(s), the joint auditor(s) should perform work on opening balances also.

2. Independence & Ethical Compliance and Quality Control System

- 2.1. The joint auditor should ensure that the other joint auditor meets the ethical and independence requirements necessary for carrying out the audit in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code).

Prior to the acceptance or continuance of an audit engagement, the joint auditors should obtain the necessary documentation or information from the other joint auditor to satisfy that there is adequate quality control system in place in the firm(s) of the other joint auditor which meets the requirements given in the auditing standards applicable in Pakistan. A letter to each other by the joint auditors explaining their processes in this regard should form part of the audit documentation file. In case any of the joint auditors is not satisfied about the independence or quality control system of the other joint auditor, then the joint auditor should either carry out all significant work necessary to express an opinion on the financial statements or should consider declining the engagement.

3. Joint auditors' agreement

There should be a joint auditors agreement in a written form that includes the respective division of work, if any, communication protocols in respect of independence and quality control system, review mechanism of each other working papers, dispute resolution and other matters as may be agreed between the joint auditors.

4. Acceptance and Continuance of Client Relationships and Engagements

- 4.1. The joint auditors should draw the guidance from the auditing standards applicable in Pakistan, in determining the acceptance and continuance of client relationships and audit engagements.
- 4.2. The engagement letter in accordance with the requirements of ISA 220, *Agreeing the terms of engagement* and according to the joint auditors firms' requirements should preferably be a single engagement letter agreed with the client. However, circumstances may require for the joint auditors to have standalone engagement letters according to their firm's procedures and policies.

5. Audit Plan and Procedures

- 5.1. The nature, timing and extent of work to be performed in an audit of financial statements under a joint audit arrangement is the same as that under a single auditor arrangement.
- 5.2. The joint auditors are jointly responsible for the audit, and the audit work should be planned accordingly. The nature, timing and extent of procedures to be performed and the evidence collected should be sufficient to enable the joint auditors to express a uniform opinion according to the terms of the engagement; in an audit of financial statements under a joint audit arrangement.
- 5.3. The joint auditors are required to jointly assess, with the other joint auditor, the risks and determine the appropriate audit procedures to be carried out, in accordance with the principles and requirements contained in the auditing standards applicable in Pakistan.
- 5.4. The joint auditors should among themselves establish the overall audit strategy and the risk assessment for the engagement, to be able to develop the audit plan jointly. The joint auditors can also develop the audit plan on a standalone basis according to the overall policy of the firm, however, in this case, the joint auditors should agree with each other the audit strategy and risk assessment enabling them to draw uniform conclusions on evaluation of the appropriate audit evidence gathered.
- 5.5. The joint auditors must agree among themselves on areas of work to be shared and performed on which reliance is to be placed for efficient conduct of the audit and should agree in writing with the other joint auditor on the allocation of work to be performed and preferably communicated to the entity. The joint auditors should ensure that the respective work allocation covers all significant components of the entity's financial statements.
- 5.6. The joint auditors may allocate the work between themselves in terms of business units, branches, subsidiaries, geographical locations, or items of assets and liabilities or income and expenditure or any other mutually agreed basis, ensuring full coverage of significant components of the financial statements. In some cases, certain areas of work, owing to their importance or owing to the nature of the work involved, would often not be divided and would be covered by all the joint auditors.

- 5.7. Where one of the Joint Auditors decides not to place reliance on the work of the other joint auditor, the other joint auditor, after documenting the reasons for not placing such reliance, should perform the work according to the agreed audit strategy.

6. Consultations on Technical, Independence/ Ethical or Other Matters

As the joint auditor is jointly responsible for the audit with the other joint auditor/s, significant matters including technical issues arising from the audit should be discussed amongst the joint auditors, together with management and/or those charged with governance, as appropriate.

7. Review of the Work

- 7.1. The joint auditor should at the planning stage agree with the other joint auditor(s), procedures for carrying out review of the work of the other joint auditor(s) to ensure that it has been carried out according to the agreed audit strategy before finalization of the audit opinion. The review may include evaluating whether:

7.1.1. audit procedures have been executed according to the agreed audit strategy and plan;

7.1.2. sufficient and appropriate audit evidence has been obtained and properly documented from the audit procedures performed, on which audit opinion is based; and

7.1.3. the conclusions of the other joint auditor are generally appropriate and consistent with the audit evidence.

- 7.2. If the joint auditor after carrying out the review evaluates and concludes that the work of the other joint auditor is insufficient, the joint auditor should highlight the observations to the other joint auditor, requesting to make arrangements for performing additional work as appropriate. If the other joint auditor disagrees that these additional procedures were necessary, the other joint auditor should perform these additional procedures to obtain sufficient appropriate audit evidence required to form an opinion on the financial statements.

- 7.3. Reviews should be completed and properly documented on or before the date of the joint auditors' report.

8. Communication

- 8.1. The joint auditor should communicate with the other joint auditor(s) on a timely basis. This communication should include, but not limited to, the following:

- The ethical requirements that are relevant to the audit and, in particular, the independence requirements;
- Proper documentation of the review of other joint auditor's working papers;
- Identified significant risks of material misstatement of the financial statements, due to fraud or error, that may be relevant to the work of the other joint auditor;

- Information on instances of non-compliance with laws and regulations that could give rise to a material misstatement of the financial statements;
 - Indicators of possible management bias;
 - Description of any identified significant deficiencies in internal control;
 - Other significant matters that the joint auditor expects to communicate to those charged with governance, including fraud or suspected fraud;
 - Any other matters that may be relevant to the audit that the other joint auditor should be aware of and/or relevant to the work of the other joint auditor; and
 - The joint auditor's findings and conclusions which may lead to a modified opinion.
- 8.2. The joint auditor is to follow the requirements in the auditing framework applicable in Pakistan that refers to communications with management and those charged with governance. The joint auditor should ensure that an effective communication plan with the other joint auditor is in place such that all joint auditors are aware of the issues being discussed and communicated with management and those charged with governance.
- 8.3. Under joint audit arrangements, written communication relating to the audit client, management and/or those charged with governance such as management letter, Board letter, report/ presentation to the Audit Committee etc. should be jointly made by the joint auditors.

All important or critical meetings including planning meetings or meetings to discuss key risks and significant issues between the joint auditors and meetings with management and/or those charged with governance should be attended by representatives from the joint auditors.

9. Audit Report and resolution of differences of opinion between Joint Auditors

- 9.1. The joint auditor during the planning stage should discuss and establish policies and procedures for dealing with and resolving differences of opinion with the other joint auditor(s). Effective procedures encourage identification of differences of opinion at an early stage, provide clear guidelines as to the successive steps to be taken thereafter, and require documentation regarding the resolution of the differences and the implementation of the conclusions reached.
- 9.2. The joint auditors may nominate partners from within their respective firms to be the referring partners for resolution of any difference of opinion that may arise during the course of the engagement.
- 9.3. The difference of opinion if any that may arise between the joint auditors should first be discussed among the joint engagement partners for resolution of the matter and where the same cannot be resolved it should be referred to the nominated person as per agreed procedure.
- 9.4. Where the differences of opinion between the joint auditors cannot be resolved, the joint auditor should inform management and/or those charged with governance as soon as possible.

- 9.5. The joint auditor should, as far as possible, resolve the differences before finalization of the auditors' report with the other joint auditor.
- 9.6. Under the joint audit arrangement, entered into between the joint auditors and the entity, it is expected that an audit report containing the audit opinion is issued by the joint auditors. However, in extremely rare circumstances where this is not possible, each joint auditor should issue separate auditor's report and include under the heading 'other matters' reference to the other joint auditor report and explain reason for issuing separate audit report. Both these reports will be taken jointly as auditor report on the financial statements and attached accordingly.

10. Documentation

- 10.1. The Joint Auditor for the purpose of documenting the work in the audit file should give consideration to the following in relation to the joint audit:
 - The other Joint Auditor(s) confirmation relating to compliance with ethical and independence matters for the purpose of the engagement;
 - Documentation of the audit planning and materiality and fraud risk assessment;
 - Documentation of the discussion and of consultation between Joint Auditors and the conclusions arising from those consultations;
 - Documentation relating to the agreed allocation of work and performance by the other Joint Auditor and relied upon by the Joint Auditor;
 - Analysis of the significant risk areas or components of the financial statements and the scope and extent of the review performed on the work of the other joint auditor;
 - Documentation of joint consultations including relating to any additional audit procedures that have been performed;
 - Documentation of the meetings and/or discussions with management and/or those charged with governance on significant risk areas and components;
 - Assessment of the adequacy of the audit work performed by the other joint auditor and the reliance placed on the work performed by the other joint auditor;
 - Overall evaluation of uncorrected misstatements;
 - Involvement of the engagement quality control reviewer, where applicable, in assessing the quality of the reviews performed and satisfactory resolution of all issues identified by the joint auditors;
 - Resolution of disagreements on significant audit areas or judgmental areas between Joint Auditors;
- 10.2. Audit working papers supporting the joint audit engagement should be retained and this should include documentation of the work performed for review on the work of the other joint auditor. The documentation in the audit file should be sufficient to satisfy any independent reviewer that an audit has been carried out in accordance with the auditing standards as applicable in Pakistan and applicable independence and ethical requirements.

- 10.3. The joint auditors should obtain and document the joint representation letter. However, circumstances may require for the joint auditors to have separate representation letter according to their firm's procedures and policies. Separate representation letters may be obtained to comply with the firm's procedures and policies after ensuring that it contains the representations common to the other joint auditor.
- 10.4. The joint auditor should conclude the file with the audit opinion signed jointly by the auditors or in accordance with paragraph 9.6 above.
- 10.5. The joint auditors should communicate to each other that final audit file has been archived/ closed in accordance with the applicable auditing standards.