CASE FOR JOINT AUDIT

Preamble

The Institute of Chartered Accountants of Nigeria (ICAN) was established by the Act of Parliament No. 15 of 1965, to regulate the practice of Accountancy in Nigeria. As part of initiatives for carrying out its public interest mandate through constructive advocacy for the improvement of professional practice, the Institute is making a case for the promotion of joint audit of Public Listed Companies in Nigeria.

The public practice of Accountancy is globally dominated by the Big 4 firms: Deloitte, PwC, EY and KPMG with global revenues for 2013 ranging from US$23,420.0m earned by KPMG to US$32,400.0m earned by Deloitte. According to the latest survey of global accounting firms conducted by *International Accounting Bulletin (IAB),* the 50 top international networks and associations earned a combined US$169.7b in fees in 2013.

The Nigerian environment is not insulated from this dominance. In fact, besides the Big 4, the next 6 firms in terms of size and revenues are now making in-roads into and are increasing their shares of the Nigerian audit market. The practicing firms of BDO, Grant Thornton International, RSM International, Baker Tilly, Crowe Horwath International and Nexia International are, today, key players in the Nigerian audit market. At the receiving end are the small and medium practices (SMPs). They deserve to be supported and encouraged to play by the rules as well as comply with best practices in the assurance business because what they do or fail to do will ultimately impact on our ability to deliver on our public interest mandate and here lies the need for joint audit.

What is Joint Audit?

This generally involves the appointment of a lead audit firm and a support audit firm by a client with the mandate to jointly carry out the audit of a given entity within a defined time period usually a year. A joint audit is an audit on a legal entity (the auditee) by two or more auditors to produce a single audit report, thereby sharing responsibility for the audit. A typical joint audit has audit planning performed jointly and fieldwork allocated to the auditors. In other words, both auditing firms will jointly plan, execute the engagement, sign the auditors' report and share rewards in line with agreed proportion.

Global Practice
Joint audits are used internationally, including in India, Denmark, Germany, Switzerland and the UK. In France, joint audit became a legal requirement in 1966. In South Africa, among other countries in Africa, a joint audit is mandatory for firms operating in the financial services sector. Although it is not mandatory in Nigeria, joint audit is not alien to our jurisdiction. Indeed, joint audit was an intrinsic part of the Nigerian economic landscape in the 70s and 80s.

BENEFITS

Quality of Financial Reporting
One compelling advantage of carrying out a joint audit is to increase the accuracy of assurance services. With two different entities doing the audit, the data gathered must be verified by each entity. In a sense, the two auditors are able to compliment each other's work with positive impact on the quality of financial reporting.

Capacity Building
The introduction of joint audit will assist small and medium practices to enhance the quality of their personnel through practical joint work with colleagues from the big firms. Best practices in methodology will be shared with positive impact on the quality of financial reporting in the public interest. Joint audit addresses two underlying principles of audit quality: auditors' competence and independence. With joint audit, audit committees and investors have additional assurance that the audit opinion presented to them is complete, credible and reliable.

Employment/Empowerment
Joint audit will lead to the creation of economic space for more chartered accountants. The capacity building embedded in the initiative would enable chartered accountants contribute more to the prosperity of businesses.

CHALLENGES OF JOINT AUDIT

Conflict between Firms
Some critics believe that it is difficult for two firms, who outside the joint audit are competitors, to easily co-operate with each other during the audit. The degree of co-operation, and its effectiveness, is essentially dependent on the spirit with which the two audit firms approach the joint audit. If they approach the audit with a willingness to work together to provide a company's shareholders with

what they truly value – namely confidence in the financial position of the company in which they are investing – communication will not be a problem.

Risk Management

It is common knowledge that practising firms of chartered accountants adopt different risk management strategies based on their risk appetite and profile of clients. The appointment of joint auditors may impact these strategies as the quality of work of SMPs may not be trusted or relied upon by the Big firms. One way of mitigating against this risk is through strict adherence to global best practices in auditing. Through this, the concerns of the big audit firms will be addressed.

Costs

Increased cost of audit is the most commonly cited objection to joint audits. Hiring two auditors necessarily mean higher costs. Joint audit, according to research, adds approximately 10% to audit time, mostly at the highest levels of the audit team (managers and partners). In the longer term, however, it could bring about a reduction in audit costs as a result of (1) increased market competition, and (2) benchmarking of prices and efficiencies between the two joint auditors by the Audit Committee of the audited organization. Joint audit increases time spent by the senior staff on the audit team, and the senior management of the group or organization. However, the issue of additional cost to client can be addressed through the sharing of professional fees in agreed ratio (e.g., 70/30, 80/20, etc) to reflect the quantum of work done and risk borne by the joint auditors.

CONCLUSION

Given the nature of the Nigerian audit market and its dominance by the Big firms, mandatory joint audit will be a strategy to promote compliance with the Local Content Act, build capacity of small and medium-sized practitioners, raise the quality of financial reporting and the confidence of investors and the general public.

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