Sharing of Responsibility, Knowledge and Skills through Joint Auditing

Janak Raj Gautam, Office of the Auditor General, Kathmandu, Nepal and Andy Wynne, Idilmat, Ghana janakmi_123@hotmail.com

Introduction

Joint auditing generally refers to the case where two or more audit teams undertake the audit of a large entity for the same fiscal year. In France and Denmark all listed companies are required to have an annual joint audit by two audit firms (Francis, Richard, and Vanstraelen 2006) and these arrangements may be introduced in other European countries (Accountancy Age 2010). Similarly in India public sector companies and banks are required to have joint audits.

However, there are a variety of other approaches to joint, shared or co-operative audit.

If a public sector entity that extends over a large geographical area, has a lot of branches or has a myriad of financial transactions it may also require the work of joint auditors to undertake its annual audit on time.

Taxation is another area where joint audits may be beneficial (OECD 2010). Several countries may have an interest in taxpayers that operate in or travel between different countries. Supreme Audit Institutions have also used joint audits as part of their capacity building programmes (PASAI 2011).

Although, a joint audit may initially require higher costs, it may have the benefit of cooperation, collaboration, mutual discussion and professional harmony between the joint audit teams.

Joint audits should not be seen in a competitive sense. Statutory audit, internal audit and other types of special audit can be performed through the simultaneous joint efforts of two or more audit teams. The joint audit of a large entity can similarly be undertaken if the work is shared between the respective audit teams on a specified basis.

Types of joint audit

The terms joint audit, concurrent audit, coordinated audit, cooperative audit and parallel audit are emerging concepts in government auditing. They may collectively be termed cooperative audits (PASAI 2011):

> *Cooperative audits involve multiple institutions working together on a single audit with the guidance of international experts to not only raise the capacity of [Supreme Audit Institutions] SAIs but also produce high quality joint audit reports and individual national reports. SAI Heads will authorize individual reports.*

Cooperative audits can be divided into three types: joint, concurrent (or parallel), and coordinated audits. They are defined by the INTOSAI Working Group on Environmental Audit (2007: 1) as follows:

- Joint audit: An audit conducted by one audit team composed of auditors from two or more SAIs, who prepare a single, joint audit report for publication in all participating countries. In practice, joint audits are rare.

- Concurrent (or parallel) audit: An audit conducted more or less simultaneously by two or more SAIs, but with a separate audit team from each SAI reporting only to its own legislature or government, and only on the observations and/or conclusions pertaining to its own country. This implies that the participating SAIs may each adopt a different audit approach (scope, questions, methods) suited to national needs and preferences. Information exchange is the most important aspect of this form of cooperation.

- Coordinated audit: Any form of cooperation between joint and concurrent audits. In a coordinated audit, participating SAIs at least coordinate or harmonize their audit approaches in some way, but differences between countries are possible. It can be a joint audit with separate reports; more commonly it is a concurrent audit with a joint audit report in addition to separate national reports.

The same publication (WGEA 2007: 2) went on to provide the following details:

Characteristics of the types of cooperative audits

	Type of audit		
	Joint audit	**Coordinated audit**	**Concurrent (or parallel) audit**
Team	Joint audit team	National audit team per SAI with some coordination structure	National audit team per SAI
Audit approach (scope, questions, methods)	Identical for all participating SAIs	Coordinated/ harmonized to some degree, but differences between SAIs are possible	Chosen independently by each SAI
Report	Joint audit report only	National reports and/or joint audit report	National reports only

The Asian Organisation of Supreme Audit Institutions (ASOSAI) Strategic Plan (2011-2015) states that cooperative audits will facilitate knowledge sharing and joint research activities. Such audits make a good relationship among the auditors coming together to the key points like planning, implementation, use of common techniques and reporting professionally.

The OECD has also supported the use of joint audits between the Supreme Audit Institutions of different countries. Joint tax audits can be an effective means of increasing taxation income of each government by reducing the level of tax avoidance. This is especially useful when tax payers operate in or travel between several taxation jurisdictions (OECD 2010). According to the OECD, a joint tax audit should be considered:

- when there is an added value compared to the procedures of exchange of information;
- when the countries have a common or complementary interest in the fiscal affairs of one or more related taxpayers, and
- in order to obtain a complete picture of a taxpayer's tax liability in reference to some portion of its operations or to a specific transaction, where a domestic audit is not sufficient.

Joint audits in Nepal

The reports of the Auditor General of Nepal for 2004 – 2006 indicated the following principles about joint auditing:

1. All foreign financial support whether loans, grant in cash or kind or technical assistance, should be audited jointly by the Supreme Audit Institution of the relevant donor countries and the Office of the Auditor General of Nepal (OAG/N).

2. If the above not possible, the auditors appointed by the donors and staff of the OAG/N may conduct the assignment jointly.

3. If this is again not possible, the donors' auditors and the OAG/N may separately conduct and report the audit findings.

The OAG/N has had more than five years experience in undertaking joint audits with professional accounting firms. These audits have been undertaken on nationally implemented programs supported by the United Nations Development Program (UNDP) in Nepal.

The OAG/N and some accounting firms were appointed by UNDP as joint auditors. The audit assignments were undertaken professionally using a system and substantive based approach and were completed in a timely manner. Finalization of the audits and reporting were the responsibility of the professional accounting firms. One of the key areas for these audits is whether the operational guidelines were properly followed or not. In addition, donors' requirements and other compliance, legal, and other criteria were given substantial attention.

In 2008, five projects were audited by the OAG/N and five others by the professional accounting firm. It is anticipated that each year the OAG/N will audit a number of nationally implemented -projects funded by the United Nations Children's Fund (UNICEF). The projects are chosen after considering the size of their budgets, their areas of activity and the level of fieldwork that would be necessary.

Similarly, in 2009, the OAG/N and private audit firms jointly conducted the statutory audit of several UNICEF funded projects. These included projects in the areas of health, local development, drinking water and sanitation where the audits were led by the OAG/N.

In 2010, fourteen UNICEF and United Nations Population Fund (UNFPA) projects were audited jointly by the OAG/N and professional accounting firms. These audits were led by the OAG/N.

The private audit firms were selected by UN agencies in accordance with the terms set out in the Country Program Action Plan, 2008-2010. An orientation program was held to provide a deeper understanding of the operating modalities before the start of each audit.

The terms of references were agreed to by the OAG\N and the professional audit firm. The terms of reference cover the audit scope, working procedures, verification systems, division of assignment into teams, supervision, preparation of a combined report and communication with the entity to be audited.

The *Nepal Peace and Development Strategy 2010-2015*, developed by the major donors makes mention of joint audits and suggests the OAG/N should especially focus its development on **"tax collection and budget management, with public disclosure of financial information and audit reports" (page 61)**.

The road ahead

Joint audits imply the pooling of resources, knowledge, skills and expertise of more than one audit institution. They aim to render professional performance in a time bound manner. In Nepal, as in other countries, the accounting and auditing regulatory body is promoting the gradual extension of joint audits for all large public sector entities in the years ahead.

Sharing of expert knowledge, better quality performance, timely services to the client and sharing of risks are some of the benefits of joint audits. These arise because of mutual consultation rather than a single audit decision. However, such an approach usually results in increased costs, although several countries are now seeing the benefits of joint audits and the approach is expected to expand in future in both the public and private sectors.

References

Accountancy Age (2010) ICAEW wants to explore joint-audit option, http://www.accountancyage.com/aa/news/1931631/icaew-joint-audit-option-explored (21 March 2011)

ASOSAI (2011) ASOSAI Strategic Plan for 2011-2015, Islamabad: ASOSAI http://www.asosai.org/news/whats_new_detail.jsp?idx=360 (21 March 2011)

Francis, Jere R.; Richard, Chrystelle; and Vanstraelen, Ann (2006) Assessing France's Joint Audit Requirement: Are Two Heads Better than One? http://aaahq.org/audit/midyear/07midyear/papers/Francis_AssessingFrancesJoint.pdf (21 March 2011)

OECD (2010) Joint Audit Participants Guide, Paris: OECD
www.oecd.org/dataoecd/10/11/45988962.pdf (21 March 2011)

Pacific Association of Supreme Audit Institutions (PASAI) website:
http://www.pasai.org/Programmes/Conduct+cooperative+financial+and+performance+audits.html (21 March 2011)

UN (2011) Nepal Peace and Development Strategy 2010-2015
http://www.un.org.np/report/nepal-peace-and-development-strategy-2010-2015 (21 March 2011)

Working Group on Environmental Audit (2007) Cooperation Between Supreme Audit Institutions: tips and examples for cooperative audits, Vienna: INTOSAI
www.nik.gov.pl/plik/id,2334,vp,2948.pdf (21 March 2011)