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Joint Audit:
The Bottom Line – The Evidence is Unclear

What is Joint Audit?

In joint audits, two (or more) audit firms are appointed to share responsibility for a single audit engagement and to produce a single audit report. Joint audits typically involve joint planning, fieldwork allocated between the firms, and a cross-review by each firm of the other's work. The firms jointly report to the audit committee and are both party to the audit report.*

* ICAEW provides more information on joint audit and related policy issues.

Where is Joint Audit Used?

Using data obtained by IFAC and ICAEW in a recent survey of Professional Accountancy Organizations from more than 70 countries, in addition to academic research, IFAC estimates there are as many as 55 jurisdictions where joint audits occur.

- The majority (70%), either permit joint audits (in 22 jurisdictions, an audited company voluntarily elects a joint audit engagement) or require its use under OHADA requirements (17 jurisdictions). *
- France is the largest economy to require joint audits for all listed companies (since 1984) that prepare consolidated financial statements.
- Denmark required joint audits for all listed companies from 1930 to 2005.
- Countries that require joint audits for entities in specific industries or sectors include Bulgaria, Dominican Republic, Egypt, India, Liberia, Saudi Arabia and South Africa.

* OHADA is a system of corporate law adopted by 17 African nations in 1993. Most participants are francophone countries and are understood to require joint audit—as is the case in France.

Academic Analysis – Quality, Competition, Cost

There are many arguments for and against joint audits, typically focused on issues of audit quality, the cost of joint (vs. single) audits, and audit market concentration. These arguments may appear theoretically sound, but the empirical evidence from numerous academic studies has been inconclusive.

Since the EU published its Green Paper in 2010, academics have tried to measure the effects of joint audits. Some researchers conclude there is a meaningful increase in audit quality, while others conclude there is no impact or even harm. Nor is the research unanimous with respect to the impact of joint audit on cost or on audit market concentration.

The lack of consensus is evident in academic papers that cite a need for more conclusive research.

> ***"The limited evidence on the impact of joint audit on key areas such as audit quality, audit pricing, and audit market concentration suggests the need for further research to support a policy position at a national level"***
>
> — Are Four Eyes Better than Two?
> An Examination of Recent Empirical Evidence on the Impact of Joint Audit
> **Dr. Javed Siddiqui**, University of Manchester, January 30, 2019

What the Data on Cost Shows: Cost is the most quantifiable of joint audit issues. Given that France is the largest economy requiring joint audit, IFAC examined audit fees (as a percentage of revenue) paid by European companies (2013 – 2018). This data suggests a meaningful premium in the fees associated with joint audits, especially for medium and smaller size companies (i.e., those that are not in the top 25% of revenue earners). *

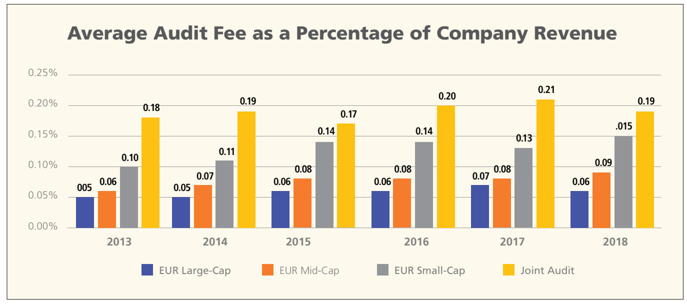
- Within Europe, 95% of all joint audits are conducted by companies headquartered in France and France had the highest average audit fees (approximately twice the level in Germany, Spain, Italy).
- Comparing 110 French SBF 120 companies (headquartered in France and using joint audits) in 2017 with UK FTSE 100 companies (none using joint audits) shows a 10% to 28% higher cost in France for all but the largest of companies.

* See: https://www.ifac.org/publications/audit-fees-survey-analysis-audit-fees-percentage-corporate-revenue
https://blog.auditanalytics.com/implications-of-the-cmas-call-for-a-joint-audit-among-the-ftse-350/

A Closer Look - Experience in France and Denmark

Denmark and France are unique jurisdictions—in terms of the duration of use, breath of application (broad use, not targeted on specific industries or companies), and development of their economies.

- **France** continues to use joint audit today (after over 50 years)—focusing on benefits of a sustainable and less concentrated French audit market—which balances any questions regarding increased cost or debates about audit quality.
- **Denmark** mandated joint audits for 75 years but removed the requirement effective 2005 (considering both audit cost and quality), with the majority of Danish companies quickly adopting single audit.



Case Studies in Joint Audit

FRANCE:

Market Structure – 220,000 audits conducted annually in accordance with French audit standards, based on ISAs.

Joint Audit – Mandated in 1966 to help develop, promote, and preserve a sustainable French audit system. The requirement was expanded in 1984 to include all companies who prepare consolidated financial statements.

Today – French market considered to have six large audit firms (the "Big-4" plus Mazars and Grant Thornton) who audit the majority of French companies comprising the CAC 40 index. Joint audit is generally viewed as accomplishing its goals.

DENMARK:

Market Structure – Approximately 100,000 audits conducted annually (200 companies listed on Copenhagen exchange) in accordance with International Standards on Auditing translated into Danish.

Joint Audit – Mandated in 1930 by the Danish Companies Act for all listed companies. Requirement remained in effect for 75 years until 2005 when the requirement was removed (joint audit still allowed on a voluntary basis). Danish Financial Statement Act of 2001 cited an "unnecessary financial burden on companies."

Today – As of 2015, none of the 100 largest, listed companies use joint audits.

Mandatory Audit Firm Rotation – An Additional Complication

Whenever a company engages a new audit firm or adds an additional auditor, it must carefully examine any potential conflicts of interest that emerge with respect to the firms who provide audit and/or non-audit services. Joint audit and firm rotation policies increase the potential for these conflicts by requiring two audit firms and more frequent changes in the firm(s) engaged. The potential for conflicts is especially challenging for large and complex companies who engage the largest audit network firms.

A long-term, unintended consequence may be that CEOs and CFOs decide to minimize this potential for conflicts by directing non-audit service business *away from potential audit firms*—threatening the viability of the multidisciplinary firm model that *is vital to high-quality audits* of the future.* This is especially important if policies like joint audit or firm rotation do not result in a larger pool of potential audit engagement candidates. For example, in the UK, the net impact of audit firm rotation seems unclear:**

* See Audit Quality in a Multidisciplinary Firm: https://www.ifac.org/knowledge-gateway/supporting-international-standards/publications/audit-quality-multidisciplinary-firm

** See the Financial Reporting Council's Developments in Audit 2019, page 36: https://www.frc.org.uk/getattachment/5d176788-3330-4b62-b18e-276c678d3d2c/Developments-in-Audit-FINAL-05-Nov-2019.pdf

The Bottom Line – Joint audit is not a globally applicable policy for improving audit quality.

The evidence is unclear, characterized by inconsistencies in academic analysis, country-specific variables, and conflicting policy outcomes in France and Denmark.

Joint audit and/or audit firm rotation are two different policies but may impact one another by disrupting the relationships between organizations and their audit and non-audit service providers—with potentially serious unintended consequences.

The introduction of regulations requiring joint audits should be carefully considered, including an evidence-based analysis of likely impacts at the jurisdiction-specific level on quality, cost, and audit market structure.