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The joint audit approach between support and opposition from the perspective of some international experiences

مدخل التدقيق المشترك بين التأييد والمعارضة من منظور بعض التجارب الدولية

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Abstract

This study aimed to identify the problem of the status of applying the joint audit approach in various foreign and Arab countries in light of the controversy between support and opposition. The descriptive analytical approach was adopted for this study, by analyzing the opinions that support or oppose this approach, and presenting experiences of foreign and Arab countries that applied it first. The study concluded that the controversy about applying this approach is still ongoing because of the divergence and difference of opinions regarding its impacts and complications from one country to another, as some believe it should be applied mandatorily due to its contribution to enhancing the quality of the auditing process. However, there are other opinions that strongly oppose it, and some countries have even stopped applying it or made it optional due to its effect of increasing the auditing fees instead of enhancing auditing quality.

Keywords: Joint Audit, Audit Quality, Audit Costs.

JEL Classification: M40, M42.

ملخص: هدفت هذه الدراسة إلى معالجة الإشكالية التي تتمحور حول واقع تطبيق مدخل التدقيق المشترك في مختلف الدول الأجنبية والعربية في ظل الجدل القائم ما بين مؤيد ومعارض، وقد تم استخدام المنهج الوصفي التحليلي في الدراسة، وذلك بتحليل وجهات النظر المؤيدة والمعارضة لهذا المدخل، مع عرض تجارب مختلف الدول الأجنبية والعربية التي كان لها السبق في تطبيقه، وتوصلت الدراسة إلى أن الجدل القائم حول تطبيق مدخل التدقيق المشترك ما يزال مستمرا، وذلك لاختلاف وتفاوت وجهات النظر حول آثاره وانعكاساته من بلد لآخر، فهناك من يؤيد ضرورة تطبيقه بشكل إلزامي لمساهمته في تحسين جودة التدقيق، إلا أن هناك آراء أخرى معارضة له وبشدة، وحتى أن هناك من الدول من تخلت عن تطبيقه أو أبقت عليه بشكل اختياري، وهذا نظرا لتسببه في ارتفاع تكاليف التدقيق بدلا من تحسينه للجودة.

كلمات مفتاحية: تدقيق مشترك، جودة التدقيق، تكاليف التدقيق.

تصنيف JEL: M40، M42.

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Introduction

The joint audit approach is an external auditing approach that has been applied since the thirties of the last century in many countries of the world, and its use gradually expanded later in other countries, including the countries of the Arab world. However, the interest in this approach increased after the European Commission issued its Green Paper in 2010, which included several proposals that would enhance and improve the quality of legal auditing in the European Union countries and strengthen confidence in the auditing profession, especially in the aftermath of the global financial crisis that occurred in 2008. These proposals and regulatory measures included: mandatory rotation of auditing offices, activating the role of auditing committees, placing restrictions on services other than auditing, and adopting the joint audit approach.

The proposal of the European Commission for the joint audit approach sparked a fierce controversy about the feasibility of applying it as a means to support and enhance confidence in the auditing profession and improve the quality of the auditing process, as well as the lack of conclusive results on the advantages or benefits of applying it, especially in the Arab countries, although the joint audit approach appeared as a response to the increased concern related to the quality of auditing, whereas it has been applied in several countries, whether it was mandatory or optional, however, there are conflicting results between studies regarding its impact, as opinions were divided between support and opposition, despite its positive effects on the quality of auditing, some assume that there is a weak relationship or sometimes an inverse relationship between the joint audit approach and audit quality.

Study problem

In this context, and due to the lack of an integrated approach for the mechanisms of applying the joint audit approach in many environments and the unclear opinions about it, several professional organizations and researchers called for discussing the implications of this approach, hence, the problem of our study about determining the status of applying the joint audit approach in several countries between supporters and opponents is clearly presented, which can be phrased through the following main question:

What is the status of applying the joint audit approach in various foreign and Arab countries in light of the controversy between supporters and opponents?

Study hypotheses

- There is a divergence of opinions and arguments in favor of the joint audit approach in various foreign and Arab countries.
- There are several obstacles that support the opinions opposing applying the joint audit approach in various foreign and Arab countries.

Objectives of the Study

- Highlighting the various concepts related to the joint audit approach.
- Determining the preference factors between the joint audit approach and individual audit approach.
- Reviewing opinions and arguments supporting or opposing the joint audit approach.
- Presenting and analyzing the experiences of some foreign and Arab countries regarding the application of the joint audit approach.
- Reviewing the status of applying the joint audit approach in the Algerian environment.

Methodology of the Study

The descriptive analytical methodology was adopted in our study in order to identify the various concepts related to the joint audit approach, and the status of its application in various foreign and Arab countries in light of the increasing controversy about it between its supporters and opponents, this was achieved by presenting and analyzing the experiences of some countries about the status of applying this approach, with reference to the Algerian experience.

Former Studies

- **(Lesage & al, 2016) Study, Consequences of the Abandonment of Mandatory Joint Audit-An Empirical Study of Audit Costs and Audit Quality Effects:** This study discussed the empirical examination of the effects of mandatory joint audit on audit costs and audit quality, in Danish listed companies between 2002-2010. The study concluded that joint audit implies higher audit costs, however, the correlation between joint audit and abnormal accruals is insignificant, indicating that higher audit costs cannot be interpreted by higher audit quality. It has also been noticed that the concentration of the Big 4 Auditing Offices in the study sample has increased since the shift from mandatory to voluntary joint audit approach occurred. This supports the European Commission's initiative to enhance the joint audit approach with the aim of reducing audit market concentration.
- **(Biehl, Bleibtreu, & Stefani, 2021) Study, The effects of joint audit on audit quality and audit costs-a game-theoretical explanation for contradictory empirical results:** This study aimed to analyze how joint audit affects audit quality and audit costs. The study concluded that audit quality is high and audit costs are low if both auditors have similar high experience. Assigning more audit work to a highly experienced auditor

increases audit quality and reduces costs. Also, an unbalanced assignment of audit work has a negative effect if both auditors have similar expertise. Joint audit leads to higher audit quality and lower audit costs compared to individual audits when the effects of collaboration are sufficiently high.

- **(Al Nuaimi, 2020) Study, Joint audit between application difficulties and improving audit performance-an exploratory study of the opinions of banks managements and auditors in the Kurdistan Region/Iraq:** This study aimed to identify the most important difficulties arising from applying the joint audit approach, in addition to its role in improving audit performance, this was done by reviewing the experiences of some countries in the field of applying it and presenting the most prominent opinions that support or oppose it, in addition to studying the experience of applying it in Iraqi private sector banks in the region of Kurdistan/Iraq, and this was done through designing a questionnaire that targeted both the managements of Iraqi private banks and the auditors. The study concluded that compared to the individual audit approach, the joint audit approach has caused banks managements to endure some additional burdens, and the auditors faced some difficulties. However, in return, this approach has led to improving the performance of external audit in various fields.

By reviewing some former studies, we find that our current study is similar to former studies, as it focuses on identifying the status of applying the joint audit approach in various countries in light of the ongoing controversy between supporters and opponents, as it examines the same study variables.

On the other hand, our study differs from the abovementioned studies in terms of the different objectives it seeks to achieve and the different environments in which it was conducted. It also differs from them in terms of research methodology and tools, whereas our study relied on presenting the experiences of various foreign and Arab countries on the status of applying the joint audit approach by reviewing its supporting and opposing opinions, while other studies were conducted by adopting empirical examination of the effects of the joint audit approach on audit quality or audit costs; while focusing on a specific environment individually.

1. The nature of the joint audit approach

The joint audit approach is one of the procedures proposed by the European Commission to address the deficiencies that affected the auditing profession. Countries have varied in terms of adopting it mandatorily or optionally, as well as in terms of mixing auditing firms to work jointly, and below, we will attempt to address the various concepts related to the joint audit approach and its characteristics and forms.

1.1 Definition of the joint audit approach

"Joint audit occurs when two audit firms audit a client simultaneously and separately, and eventually signing a joint audit report. (Deng & al, 2014, p. 2)

Accordingly, the term "**joint audit approach**" means that the auditing process is carried out jointly by two auditors (two auditing offices or two auditing firms) or more.

The joint audit approach can be defined as the auditing of the financial statements by two or more independent auditors, in a manner that includes audit coordination and planning, joint audit efforts, comprehensive review and mutual quality controls, and issuing one audit report signed by the jointly responsible auditors. (Ratzinger-sakel & al, 2013, p. 4)

According to Article (L823-2) of the French Commercial Code, the joint audit is defined as the assigning of two legal auditors who jointly sign the audit report, and they shall be jointly responsible for the submitted audit opinion. (André & al, 2016, pp. 6, 7)

While according to (Haak & al, 2018, p. 1), a joint audit means the collaboration of at least two independent auditing firms to conduct the annual audit, where they share tasks to provide opinions and sign the auditing report, and both them shall bear liability resulting from it.

The joint audit approach is also defined as the process of auditing the accounts of the same institution by two or more auditors, so that they issue a joint audit report that they both sign and bear joint liability for, and they often jointly plan the audit process with the distribution of fieldwork tasks for both of them. (Al-Jabr & Al-Saadoun, 2014, p. 285)

Based on the aforementioned definitions, we can derive a set of characteristics that apply to the joint audit approach, which are as follows:

- The audit process is carried out jointly by two or more independent audit offices or audit firms.
- It is necessary to have coordination and cooperation between the two joint audit offices.
- Auditing tasks Shall be shared between the two joint audit firms, with each firm having mutual monitoring over the work of the other.
- The two joint audit offices are jointly liable for the audit process and for the joint audit report.
- The two audit firms share their fees at agreed rates;
- Issuing a joint audit report bearing one point of view and signed by both joint audit offices.

1.2 Forms and Types of the joint audit approach

The joint audit approach can be classified into two categories according to the degree of a legal obligation, namely;

- **Mandatory joint audit:** it is one of the forms of joint audit approach that the law requires conducting (Hind & Abdel Hadi, 2020, p. 40), as the countries that adopt the mandatory joint audit approach pass a law obliging the institutions to appoint two or more auditing offices to carry out the auditing process jointly. (Ahmed, 2018, p. 874)

- **Optional joint audit:** According to this approach, the joint audit approach is conducted as a result of a voluntary and optional decision according to the will of the institution under audit, with no legal obligation to apply it, as institutions are given the freedom to decide their need to apply the joint audit approach or to suffice with assigning only one auditor, which is known as an individual audit. (Hind & Abdel Hadi, 2020, p. 40)

There are also many forms of applying the joint audit approach, whether it is mandatory or optional, as there are three different forms of joint audit, namely: (Al Wakil, 2020, p. 16)

- **Big 4 – Big 4**: where joint audit work is performed by two or more of the Big 4 audit firms.

- **Big 4 – Non-Big 4**: Where joint audit work is performed by one of the Big 4 audit firms and the other is a Non-Big 4 audit firm.

- **Non-Big 4 - Non-Big 4**: Where joint audit work is performed by two audit firms that are not among the Big 4 audit firms (Non-Big 4).

It should be noted that the countries which apply the joint audit approach, in its mandatory or optional form, were not obliged with a specific combination. However, the European Commission suggested that the standard joint audit approach shall include appointing two auditing firms, one of which shall be one of the Big 4 auditing firms, and the other is not among the Big 4 auditing firms, in order to achieve the planned joint audit objectives.

2. Joint audit approach between support and opposition

Several studies were conducted in the professional practice of the joint audit approach about the feasibility of applying it between support and opposition to this approach, and accordingly, there are two tendencies regarding the implications of applying the joint audit approach, the first of which includes the positive impact of applying it according to the arguments that support it, while the other is related to its negative effects according to the arguments that oppose it.

2.1 Opinions and arguments supporting applying the joint audit approach

Many advocates and supporters of the joint audit approach argue that it has many positive effects, because it seeks to achieve many advantages, which are:

- ❖ **Improving audit quality:** The joint audit approach contributes to improving audit quality through the joint participation of more than one audit office, whereas they exchange experiences with each other, in addition to enhancing professional doubt in the audit process, as each office is being monitored by the other. (Asaad, 2021, p. 177)
- ❖ **Reducing the concentration of the auditing market:** In its Green Paper the European Commission suggested the joint auditing approach as one of the effective solutions for reducing the concentration of the auditing services market, and the consequent negative repercussions in the event of the failure of one of the Big 4 auditing firms that dominate the market, as the joint auditing approach seeks to reduce the concentration of the audit market by involving small and medium audit offices in the joint audit process, and allowing them to do so in order to become effective in the audit market, by gaining more experience that enables them to compete with large audit offices in future. (Arafat, 2019, p. 164)

- **Supporting the independence of auditors:** The joint audit approach is an important method to reduce the threats that the auditor may be exposed to, as the presence of two or more audit offices contributes to increasing their ability to resist client pressures, and also allows to reduce the risk of collusion between the auditor and the client compared to the individual audit approach. (Saleh, 2015, p. 84)

- **Supporting the professional competence and attention of the auditors:** The joint audit approach is supposed to contribute to strengthening the competence and professional attention of the auditors, through its contribution to preserving the experience that has been gained in the field of the client's activity in the event of mandatory rotation of one of the audit offices, as the two joint auditing offices are not supposed to be changed at the same time while applying the joint auditing approach, and the mutual monitoring between the two joint auditing offices provides strong motives for each of them to provide the required professional attention during the auditing process. It should be noted that in case one of the major auditing offices is participating with one of the small auditing offices, it is then supposed that the latter will acquire the necessary professional competence, experience, and knowledge, which contributes to improving the audit quality. (Saleh, 2015, pp. 84, 85)

- **Increasing the reliability and accuracy of the audit report:** The accuracy and reliability of the audit reports is one of the possible results of the commitment to apply the joint audit approach, given that two or more joint audit offices sign the audit report that was prepared jointly by both of them, in addition to the fact that they both bear joint liability for all of its contents, which contributes to increasing confidence in the joint audit report compared to the individual audit report (Morcos, 2022, p. 140)

- **Improving the level of companies' governance:** the institution whose business is being audited by two audit offices is more committed to systems and controls, and the institution's decision to apply the joint audit approach voluntarily provides an impression of the level of their confidence in financial statements and reports it provides. (Al Wakil, 2020, p. 19)

Although the joint audit approach can contribute to improving audit quality through the various advantages it contributes to achieving, however, it has also received many criticism opinions, and a great controversy has been raised about the feasibility of applying it as an approach to improve audit quality.

2.2 Opinions and Arguments Opposing the joint audit approach

Some oppose the joint audit approach because of the problems and obstacles that result from applying it, as those opponents establish their opinions on many arguments, the most important of which are listed below:

- **High joint audit fees:** The most prominent problem associated with applying the joint audit approach is its high fees, as it is expected that the joint audit costs will exceed the costs of the individual audit due to the existence of additional costs that joint audit approach implies, such as the costs of coordination between the two joint audit offices, or additional fees that cover the high risks resulting from the joint liability for the audit work. (Arafat, 2019, pp. 166, 167)
- **Difficulty in coordination and cooperation between the two joint audit offices:** Competition between the two joint audit offices makes coordination and cooperation between them difficult, especially because each of them seeks to obtain a larger share in the future, which hinders the exchange of opinions and information between them. (Saleh, 2015, p. 85)

- **The problem of balanced division of work:** the division and allocation of audit tasks is one of the most important practical challenges and problems facing applying the joint audit approach in practice, whereas the absence of a balanced distribution of audit tasks between the two joint audit offices causes one of them to dominate the audit process, which results in having fake agreements between both of them, which in turn causes the joint audit process to lose its desired advantages and benefits in supporting and improving audit quality and makes it considered as ineffective (Abdel-Qawi & al, 2018, p. 23), and due to the absence of a balanced distribution of work between the two audit offices in the first years of applying the joint audit approach in France, the French Government issued a professional law to cancel the fictitious joint audit work, and to demand that the tasks of the audit operations be distributed in a balanced between the two offices. (Metwally, 2013, p. 415)

- **The problem of free-riding:** One of the two joint audit offices might rely on the other office, which would then alone carry out the necessary checks and collect appropriate proving evidence in order to discover potential errors and substantial misrepresentations in the financial statements of the client under audit, which negatively affects the quality of the audit in general. (Morcos, 2022, p. 141)

- **The difference in capabilities between the joint audit offices:** In its Green Paper, the European Commission proposed assigning one of the major auditing firms with a small auditing firm, in order to limit the concentration of the market in the hands of a limited group of auditing firms. However, this would create a problem by placing the burden of the auditing process on the major auditing firm, because the small auditing firm does not have sufficient capabilities and is not qualified to audit the client. (Metwally, 2013, p. 416)

- **Mandatory rotation of audit offices:** It is known that the quality of the audit requires the auditor to have deep knowledge of the nature of the activity of the client subject to the audit process. However, the long period of engagement with the client makes the auditor more aware of the client's activity and the various variables affecting it, which leads to the consolidation of the personal relationship between the auditor and the management of the institution under audit, which may cause the auditor to overlook some matters, which affects the quality of the audit, therefore, the European Commission listed the mandatory rotation of audit offices in its Green Paper as one of the proposals that improve the quality of the audit. (Abdel-Qawi & al, 2018, p. 24)
- **The problem of opinion marketing:** The joint audit approach may result in the opinion marketing phenomenon as a result of competition between the joint auditors, which may create an incentive for each of them to satisfy the client under audit, which gives an opportunity to buy their opinions, which affects the independence of the auditors and negatively affects the quality of the audit. (Abdel Rahim, 2019, p. 13)
- **Difference of opinions in the audit report:** When preparing the final joint audit report, a difference and conflict of opinions may occur between the two audit offices participating in the audit process, which makes the client under audit resort to a third auditor to adjudicate the issue and reach a correct opinion, which may negatively affect the reputation of the auditors participating in the audit process and weakens the confidence of the institution's management in them. (Morcos, 2022, p. 141)

In light of the abovementioned arguments, it turns out that the issue of adopting the joint audit approach is highly controversial, for example in the response letters to the Green Paper, each of the Big4 audit firms opposed the mandatory application of the joint audit approach, while the small audit firms supported such a proposal (Mikko & al, 2012, p. 2). As for institutions subject to the audit process, some of them prefer the joint audit approach in order to show that they have a high level of audit quality, as some institutions adopt the slogan "***In order to ensure a high degree of independence of auditors and to achieve the quality of the audit process, the annual report of the institution will be audited by two accredited auditors***", On the contrary, there are other institutions that do not support the joint audit approach for fear of incurring higher costs. Also, the attitudes of other stakeholders have also varied for fear of the increase in audit costs, as well as the lack of clarity of the desired benefits. Therefore, it is clear that the existing controversy in the attitudes of the stakeholders will continue regarding the proposal to apply the joint audit approach between supporters and opponents. (Abdel-Qawi & al, 2018, p. 26)

3. Presenting international experiences on adopting the joint audit approach

Applying the joint audit approach has spread in many countries of the world, some of which adopted this approach mandatorily, while others kept it optional, while some countries adopt both approaches, so that it is mandatory in some sectors and optional in other sectors, and we review below the experiences of some foreign and Arab countries regarding the application of this approach.

3.1 Presenting the experiences of some foreign countries on the application of the joint audit approach

The joint audit approach appeared in many foreign countries, especially European ones a long time ago, but the interest in it increased significantly after the European Commission issued its Green Paper in 2010, and below are the experiences of some foreign countries with adopting this approach.

❖ Canada

In 1923, after the failure of Home Bank in Canada, the Banking Act was revised, which resulted in the implementation of the mandatory joint audit approach for banks with a two-year rotation period (Al Nuaimi, 2020, p. 521). This Act has also imposed new rules that prevent auditing firms from providing services other than auditing services, as small auditing companies were suffering because of these legal regulations, therefore, some of them, such as Clarkson, decided to completely withdraw from joint auditing of banks, which caused concentrating bank auditing market in the hands of major auditing firms, and as a result of that, the number of small auditing firms in Canada decreased dramatically in the late twentieth century. Joint audit requirements with a mandatory rotation that were in force for more than sixty (60) years were a major guarantee for Canadian banks. However, in 1985, the joint audit system failed to prevent the bankruptcy of the Canadian Commercial Bank, and due to the high cost of this type of auditing, which outweighs its benefit, the requirements for applying the joint audit approach to banks were canceled in 1991, and it is now allowed to use one auditor without the need for special rotation. (Abdollahiebli, 2018, p. 8)

❖ Denmark

In Denmark, the joint audit approach was required for both listed and state-owned companies from 1930 to 2004, and Danish law did not specify how audit work or audit fees should be shared between the two joint audit offices (Ratzinger-sakel & al, 2013, p. 5), unlike France, where a balanced assignment of audit work is required, and as a result, one of the audit firms often received more than 80% of the audit fees, and the aim of the joint audit approach was originally to alleviate concerns about the competence of auditors, as the audit firms were relatively small and were not considered sufficiently qualified to be solely responsible for auditing large companies. In 2001, The Danish Parliament adopted the Danish Financial Statements Act, which abolished the mandatory joint audit approach starting in 2005, for the following reasons: (Lesage & al, 2016, p. 4)

- Unnecessary high audit costs resulting from joint audit.

- Initial concerns about auditor competence are no longer valid due to the growth of networks of auditing firms.

- Ability to conduct individual audits based on a more comprehensive approach.

Consequently, Danish companies are no longer required to have their financial statements audited by joint auditors, however, joint audit is still only voluntarily permitted. (lassaad & habib, 2019, p. 561)

- **France**

is the only European Union country that still applies the joint audit approach mandatorily at the present time (Saleh, 2015, p. 81), as the roots of applying this approach go back To 1966, and it started with listed companies and unlisted companies whose capital value exceeds a certain threshold, however, in 1970 the accounting profession and financial market authorities increasingly criticized the joint audit approach for its inability to guarantee collegiality, which is a defect that is attributed to difficulties in allocating audit tasks and in agreement on joint audit programs, however, since 1984, joint audit has become mandatory for all companies that prepare consolidated financial statements, and professional practice standards require a balanced allocation of audit work between both auditors to ensure an effective dual control mechanism. (Ratzinger-sakel & al, 2013, p. 6)

Based on the French experience, the European Commission in its Green Paper proposed joint audits as a policy to improve audit quality (Garcia-Blandon & al, 2021, p. 1379). The Commission has also indicated in its report issued in 2011 that the French legislator, by imposing the joint audit approach, has sought to limit excessive concentration in the auditing market in favor of the Big 4 auditing firms, as small auditing firms are allowed to access the auditing market to limit the dominance of the Big 4 auditing firms. The French experience has also showed that the joint audit approach can contribute to facilitating the growth of small audit offices, therefore, the French market is considered less concentrated than other European markets. According to a study conducted by the French Securities Regulatory Authority (AMF), about (50%) of audit processes for companies listed on the French stock exchange are carried out by an audit firm of the Big 4 audit firms jointly with another firm other than the Big 4. (Abdel-Qawi & al, 2018, p. 22)

❖ **Sweden**

Sweden is one of the countries that applied the joint audit approach in both its optional and mandatory forms. After exclusively applying the approach in its mandatory form to the banking sector until 2006, the Swedish Financial Supervisory Authority no longer considers it mandatory, but it still has the right to assign two or more auditors to audit insurance companies and banks, however, the Authority rarely enforces its right to appoint a second auditor, which is only exercised when necessary. (Velte & Azibi, 2015, p. 533)

In its annual report for the year 2011, (Swedbank) website stated that the Swedish Financial Supervisory Authority has the right to appoint an auditor for the bank, however, it did not activate it in 2011, and it has not exercised this right for several years (Ratzinger-Sakel & al, 2012, p. 15), and one of the studies concluded that about (10%) of companies listed on the Stock Exchange in Sweden use the joint audit approach although they are not obliged to do so. (Saleh, 2015, p. 82)

❖ **Austria**

Applying the joint audit approach is not mandatory in Austria. According to the only empirical study of the Austrian audit market conducted by

Severus in 2007 by interviewing (35) Austrian auditors, the auditors essentially argued that supervising audit and communication processes in conducting a joint audit will result in higher quality, and it has been denoted that there is a fundamental difference in the audit judgment compared to the individual audit process. (Velte & Azibi, 2015, p. 534)

- **Singapore**

The joint audit approach was not known in Singapore until September 2011, as interest in it began through the amendment of Article No. (712) of the Singaporean Companies Law, which stipulated the necessity of appointing independent auditing firms to conduct the joint auditing process in all companies listed on the Stock Exchange in Singapore. As a result of the growing interest in the procedures for implementing this approach, in 2012, the Institute of Certified Public Accountants in Singapore issued a joint audit standard (AGS 10) named "Joint Audit", which is concerned with providing principles and procedures related to applying the joint audit approach, as this standard included a set of basic principles for this approach, in addition to defining the duties and responsibilities of the auditors and procedures and considerations related to quality in light of the application of this approach. (Hussain & al, 2018, pp. 109, 110)

3.2 Presenting the experiences of some Arab countries of applying the joint audit approach

Many Arab countries implemented joint audit either in its mandatory or optional forms, with a desire to generalize the French experience and improve the quality of auditing. Therefore, we review below some experiences of applying the joint audit approach in various Arab countries.

- **Kingdom of Saudi Arabia**

The regulations in the Kingdom of Saudi Arabia oblige both banks and insurance companies to be audited jointly, as Article No. (14) of the Banking

Control Law issued by Royal Decree No. (M/5) of 1966 stipulates that it is required to appoint two auditors, and Article No. (10) of the Cooperative Insurance Companies Control Law issued by Royal Decree No. (M/32) of 2003 stipulates that it is required to appoint two auditors for each of the insurance and reinsurance companies. The Companies Law issued by Royal Decree No. (M/6) of 1965 allows appointing more than one auditor for the same company, as stipulated in Article No. (130) of this Law. Therefore, companies from other industries in the Kingdom other than banks and insurance companies appoint two auditors to audit their accounts. (Al-Jabr & Al-Saadoun, 2014, pp. 287, 288)

❖ **Egypt**

Egypt is considered one of the countries that apply the joint audit approach voluntarily and mandatorily, as before the European Commission issued its report in 2010, Egypt began to show interest in issuing laws and regulations related to activating the joint audit approach voluntarily, which first happened in 1981 for Egyptian joint stock companies. Also, they showed interest in issuing Egyptian laws and regulations related to applying the joint audit approach mandatorily for the first time in 1988 for money investing companies (Abu El-Ela, 2019, p. 176), then the application of this approach in its optional and mandatory forms spread in many Egyptian companies and institutions, which are listed below: (Hussain & al, 2018, pp. 110 - 112)

- **Institutions that apply the joint audit approach voluntarily:** These institutions include joint stock companies (1981) and factoring companies (2013).

- **Institutions that apply the joint audit approach mandatorily:** These include money investment companies (1988), investment funds (2014), central depository and registry companies (2000), real estate finance companies (2001), banks (2003), and investor protection funds (2006).

A study showed that the developments witnessed by the Egyptian environment in the nineties of the last century contributed to improving the levels of accounting disclosure and increasing interest in account auditors' reports, and the entry of some global offices into the Egyptian market through partnership contracts with Egyptian offices, which led to the creation of a kind of conglomerates in the audit services market. (Saleh, 2015, p. 83)

❖ Kuwait

Kuwait has applied the joint audit approach mandatorily since 1995, as Law No. (51) of 1994 -according to which some provisions of the Commercial Companies Law No. (15) of 1960 were amended- requires companies registered in the stock market to have no less than two auditors who are chartered accountants, provided that they are from different auditing offices, and in 2012, the Companies Law No. (25) was issued, which abolished Commercial Companies Law No. (15) of 1960, as Article (258) of the law stipulated that it is possible to appoint one or more auditors for public shareholding companies (Saleh, 2015, p. 83), which means that it has stopped applying the joint audit approach mandatorily and kept it only optional.

❖ Tunisia

According to the Tunisian Commercial Code amended in 2005, joint audit approach in Tunisia is only required for listed banks, insurance companies and companies that prepare consolidated accounts, as well as companies whose liabilities exceed a certain limit, and the regulations related to joint audit in Tunisia seem to be inspired by the French regulations, however, unlike France, Tunisia does not have laws regulating how work is divided between joint auditors. (lassaad & habib, 2019, p. 562)

4. The status of applying the joint audit approach in the Algerian environment

Like other countries, Algeria tended to apply the joint audit approach in both off its forms, mandatory and optional, and this is due to being directly affected by the French experience, given that it was a French colony, and accordingly, we review below the status of applying the joint audit approach in the Algerian environment.

4.1 Mandatory joint audit in Algeria

The joint audit approach is mandatorily applied in Algeria for banks and financial institutions starting in 1990, specifically with the issuance of Monetary and Loan Law No. 90-10, which obliged both banks and financial institutions and their branches abroad to apply the joint audit approach, by appointing two or more audit firms to carry out the audit jointly. (Law No. 90-10, 1990, p. 593)

The Algerian legislator also obliged holding companies to appoint two or more auditors, pursuant to Order No. 96-27 of the Commercial Code. (Order No. 96-27, 1996, p. 7)

4.2 Voluntary joint audit in Algeria

The joint audit approach is applied voluntarily in Algeria for joint stock companies according to the stipulations of Article No. 678 of Order No. 75-59, which includes the Commercial Law (Order No. 75-59, 1975, p. 1369), and the Algerian legislator kept it optional to apply joint audit approach or individual audit approach for limited liability companies and sole companies, and this is done according to necessity, as stipulated in Article 12 of Order No. 05-05 containing the Supplementary Finance Law of 2005. (Order No. 05-05, 2005, p. 5)

Executive Decree No. 11-73, which includes the modalities for exercising the corporate mission of holding accounts has specified two basic conditions for appointing more than one account holders, which are size and importance of the activity. (Executive Decree No. 11-73, 2011, p. 6)

Based on the foregoing, it is clearly noticed that Algeria is one of the countries that showed interest in applying the joint audit approach as one of the most important legal external auditing approaches in both of its forms; mandatory and optional, and this is due to its interest in increasing the quality of auditing and improving the services of audit offices by adopting this approach, as it was concerned with organizing professional practice of it in accordance with regulations and legal texts that require applying mandatorily it in certain sectors, which are considered to be more sensitive such as banks, financial institutions and holding companies, and optionally in other institutions and bodies according to their size and the importance of their activities such as joint stock companies and limited liability companies.

Conclusion

The joint audit approach is considered one of the most important mechanisms proposed to improve audit quality in several countries of the world, however, the effects resulting from applying it are still not decisively clear yet, as opinions about it vary between supporters and opponents from one country to another. Some countries have decided to apply it mandatorily or optionally due to its positive role, and the opponents argue that the defect of this approach is the presence of many obstacles which make many countries refrain from applying it or stop applying it after a long period of applying it. Accordingly, our study concluded a set of findings, recommendations, and several suggestions for future studies, which we present below:

Findings of the Study

- The joint audit approach is one of the mechanisms adopted to improve audit quality, despite the fact that it receives some criticism.
- The joint audit approach is applied in many foreign and Arab countries, whether mandatorily or optionally.

- Although the joint audit approach is still optional in most of countries of the world, however, many institutions in various business environments have adopted and relied on this approach in order to benefit from its advantages and gain its expected benefits.
- There is a discrepancy in regulating the joint audit approach from one country to another, as there are many countries who showed interest in regulating the professional practice of it by setting standards or enacting laws and legislations so that they can benefit from its advantages.
- Divergence and discrepancy of points of view in the opinions and arguments in favor of the joint audit approach in various foreign and Arab countries on the one hand, and on the other hand, many obstacles that support opinions opposing the application of the joint audit approach have emerged in other countries as set forth below:
  - The joint audit approach contributes to improving the audit quality through many advantages that it seeks to achieve, such as supporting the independence of the two joint auditors, exchanging experiences between them, reducing the concentration of the audit market, in addition to increasing the reliability of the financial statements and reports that are fundamental for decision-making. Accordingly, it can be said that the first hypothesis stating that "***There is a divergence of opinions and arguments that support the joint audit approach in various foreign and Arab countries***" is a verified hypothesis.
  - The joint audit approach faces some obstacles that make it difficult to apply in various countries, and they negatively affect the audit quality, such as high audit costs, difficulty in coordination and cooperation between joint audit offices, in addition to the emergence of the problem of free-riding reliance and the transformation of the joint audit approach into mere fictitious agreements, and accordingly, it can be said that the second hypothesis is correct: "***There are many obstacles that support the opinions opposing applying the joint audit approach in various foreign and Arab countries***."

Study Proposals

- Raising awareness of the importance of the joint audit approach among auditors and encouraging the expansion of its application due to its positive outcomes on auditing firms and on the auditing profession as a whole.
- Local and international professional organizations shall work on training joint auditors to cooperate with each other, or work on training them with the Big 4 auditing firms in order to reduce the disparity in expertise between the Big 4 auditing firms when they cooperate with the smaller auditing firms.
- It is necessary to set international and local auditing standards for regulating the joint audit approach, and to set guidelines that ensure an acceptable level of cooperation between auditors to improve audit quality.
- Activating the role of professional institutes and organizations to develop methods of professional practice of the joint audit approach, and searching for new methods to address the obstacles that prevent its application in order to keep abreast of recent developments and directions of the auditing profession.
- Supervising the joint audit process by the relevant supervisory authorities, so that the joint audit approach is carried out correctly and in a way that ensures that the desired benefits are achieved.
- It is necessary that the competent authorities in Algeria pay attention to the joint audit approach by issuing adequate regulations to regulate its professional practice, and benefit from the experiences of countries that worked to regulate this approach such as France, India and Singapore, for example.

Study prospects

- Conducting more applied and empirical studies to assess the effectiveness of the joint audit approach as one of the mechanisms for improving the quality of external auditing.

- The impact of the obligation to apply the joint audit approach on the quality of the services of audit offices –a comparative study between the mandatory joint audit approach and the optional joint audit approach.
- The role of the audit committees in supervision and control over the regulating of the joint audit approach.
- Mechanisms for activating the joint audit approach to reduce financial and administrative corruption.
- Implications of the Fourth Industrial Revolution on improving joint audit procedures.
- Analyzing the relationship between the joint audit approach and the quality of companies' financial reports and its impact on the value of the institution.

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