

PROPOSED REVISED ISA 550: MAPPING DOCUMENT

This material is provided to assist the IAASB in understanding the redrafting of the proposed revised ISA 550 under the proposed Clarity convention.

Exhibit 1 identifies sentences in the present tense in the updated draft in the current format and whether they are now treated as requirements or application material.

Exhibit 2 maps the material of the updated draft in the current format to the proposed ED.

Exhibit 1

Para	Existing Present Tense Statements	Change to "shall"	New Para	Rationale / Comments
3	The auditor ordinarily addresses the risks of material misstatements resulting from related party relationships and transactions within the context of the applicable financial reporting framework...	No	-	Explains the context in which the auditor addresses the risks of material misstatement resulting from related parties.
4	When the applicable financial reporting framework does not establish related party disclosure requirements, the auditor's procedures are limited to obtaining an understanding (through performing the risk assessment procedures set out in paragraphs 9-36) of the nature and extent of the entity's related party relationships and transactions....	Yes	6	
7	If the applicable financial reporting framework provides related party definitions, the auditor refers to those definitions for the purpose of the audit. The Appendix sets out the definitions in International Accounting Standard 24 regarding related parties to assist the auditor in understanding the standards and guidance of this ISA.	No	-	Explanatory in nature
9	The performance of the risk assessment procedures required by ISA 315, "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement," in relation to related parties involves: (a) Inquiring of management ...; (b) Obtaining an understanding of ...; and (c) Performing procedures specifically directed towards the identification of	No	-	This provides a "roadmap" to the risk assessment section.
11	Prior to undertaking any significant work, the auditor requests from management a complete and up-to-date list of the entity's related parties, ...	No	-	Explains the nature of the inquiry the auditor is required to make of management.
12	As part of the discussion among the engagement team required by ISA 315, members of the team discuss the susceptibility of the entity's financial statements to material misstatement resulting from related parties.	No	-	Clarifies what the required discussion among the engagement team

Para	Existing Present Tense Statements	Change to "shall"	New Para	Rationale / Comments
				involves with respect to related parties.
13	This discussion ordinarily addresses matters that include: <ul style="list-style-type: none"> ... 	No	-	Explains the nature of the discussion and provides illustrations of matters that are ordinarily discussed.
15	In obtaining the understanding of the entity and its environment required by ISA 315, the auditor obtains an understanding of (a) the nature and business rationale of the entity's related party relationships and transactions, and (b) the entity's related party controls.	No	-	Provides a "roadmap" to what needs to be done regarding related parties to obtain the understanding of the entity required by ISA 315.
16	Understanding the nature of the entity's related party relationships involves obtaining an understanding of how the entity is controlled or significantly influenced, and how it controls or significantly influences other parties...	Yes	14	
18	Where the entity is controlled by a party that appears to exert dominant influence over the entity, there is a greater risk of that party overriding management to cause the entity to enter into related party transactions in which the party is interested. Such transactions may occur directly with the controlling party or indirectly with third parties related to the controlling party. In such circumstances, the auditor (a) seeks to identify the parties to which the controlling party is related, and (b) for those parties identified as such, understands the nature of the business relationships that they may have established with the entity...	Yes	15	
23	The auditor obtains an understanding of the internal control, including the control environment, that management has established to mitigate the risks of material misstatements resulting from related parties...	Yes	14(a)	
24	The auditor also obtains an understanding of how those charged with governance oversee management's processes for identifying, accounting for, and disclosing related party relationships and transactions...	Yes	14(b)	
25	In obtaining an understanding of the entity's related party controls, the auditor also considers whether related parties in which management is known to have control, significant influence, or financial or other interests, may affect the potential for management to override controls.	Yes	14(c)	
29	These risk assessment procedures are directed primarily at identifying transactions that are both significant and non-routine as they have a greater risk of involving previously	No	-	Explains the rationale for focusing on identifying

Para	Existing Present Tense Statements	Change to "shall"	New Para	Rationale / Comments
	unidentified or undisclosed related parties...			transactions that are both significant and non-routine.
32	Others within the entity of whom the auditor inquires are those the auditor considers likely to have knowledge of the entity's related party relationships and transactions. These include, to the extent that they do not form part of management: (a)	No	-	Explains the types of individuals within the entity of whom the auditor may inquire.
44	Management is responsible for substantiating any assertion that a related party transaction was conducted at arm's length. Such an assertion may explicitly state that the transaction was at arm's length or otherwise imply that the transaction was consummated on terms equivalent or similar to those prevailing in transactions with unrelated parties. The auditor evaluates management's support for the assertion, which may include: •	No	-	Clarifies the requirement to obtain sufficient appropriate audit evidence about the arm's length assertion.
45	Evaluating management's support for the arm's length assertion involves the following: (a) Considering ...; (b) Verifying ...; and (c) When the substantiation rests on significant assumptions, considering	No	-	Provides further explanatory guidance as to how to obtain sufficient appropriate audit evidence about the assertion.
48	In audits of smaller entities, the audit may be carried out entirely by the engagement partner (who may be a sole practitioner). In such a situation, the question of communication within the engagement team does not arise. Nevertheless, the engagement partner considers how information obtained about newly identified related party relationships or transactions affects the results of, and conclusions drawn from, other audit procedures already performed.	No	-	Explanatory guidance in a smaller entity context.
52	When evaluating whether a misstatement resulting from a related party transaction is material, the auditor considers both the quantitative and qualitative aspects of the transaction, because: ...	No	-	Clarifies the considerations to bear in mind when evaluating misstatements resulting from related parties.
54	In evaluating the entity's related party disclosures, the auditor considers whether they adequately and appropriately summarize the facts and circumstances of the entity's related party relationships and transactions so that they are understandable...	No	-	Explains the black letter requirement to evaluate whether the related party disclosures are reasonable.

Mapping Document¹ – Exhibit 2

Original Format – Proposed Revised ISA 550	New Para.	Comment on deleted text
Introduction		
1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the auditor's responsibilities and audit procedures regarding related parties, and transactions with such parties, when performing an audit of financial statements.	1	
2. The auditor should plan and perform the audit to reduce to an acceptably low level the risk of not detecting material misstatements in the financial statements resulting from related party relationships and transactions.	3	
3. The auditor ordinarily addresses the risks of material misstatements resulting from related party relationships and transactions within the context of the applicable financial reporting framework. Although an entity may enter into related party transactions as part of its normal business, such transactions may not be conducted at arm's length. Accordingly, financial reporting frameworks ordinarily require them to be disclosed so that users of the financial statements can understand the nature of the transactions and their financial effects. Financial reporting frameworks may also require disclosure of related party relationships to enable users to understand the nature of the relationships and their potential effects on the financial statements.	6 A1	
4. When the applicable financial reporting framework does not establish related party disclosure requirements, the auditor's procedures are limited to obtaining an understanding (through performing the risk assessment procedures set out in paragraphs 9-36) of the nature and extent of the entity's related party relationships and transactions sufficient to evaluate (a) their significance, and (b) whether their effects could result in the financial statements being misleading ² in the circumstances of the engagement.	6	
5. The risk that the entity may not identify and appropriately account for or disclose related party relationships and transactions may be higher for a number of reasons, including the following:	7	

¹ Highlight indicates material that has been deleted.

² ISA 700, "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements," and Proposed ISA 701, "The Independent Auditor's Report on Other Historical Financial Information," provide further guidance on the circumstances when financial information could be considered misleading. Section 110 of the IFAC Code of Ethics (Revised) requires a professional accountant not to be associated with misleading financial information unless a modified report is provided in respect of the information.

Original Format – Proposed Revised ISA 550	New Para.	Comment on deleted text
<ul style="list-style-type: none"> (a) Related parties may operate through an extensive and complex range of relationships and structures, and may enter into complex transactions; (b) Related party transactions may be informal; for example, in smaller entities, there may be relationships and transactions involving family members of management that are not fully documented or formally approved; (c) Information systems may not be designed to identify or summarize transactions and outstanding balances between an entity and its related parties; (d) Related party transactions may not be conducted in the normal course of business; for example, some related party transactions may be conducted with no exchange of consideration; and (e) Transactions with related parties may be controlled, manipulated, or concealed by management for fraudulent or other purposes. 		
<p>6. For these reasons, there is an inherent limitation regarding the auditor's ability to identify all related party relationships and transactions. Accordingly, there is an unavoidable risk that some material misstatements of the financial statements resulting from related party relationships or transactions may not be detected, even though the audit is properly planned and performed in accordance with ISAs.</p>	8	
Definitions		
<p>7. If the applicable financial reporting framework provides related party definitions, the auditor refers to those definitions for the purpose of the audit. The Appendix sets out the definitions in International Accounting Standard 24 regarding related parties to assist the auditor in understanding the standards and guidance of this ISA.</p>	4	
<p>8. Other terms used in this ISA are:</p> <ul style="list-style-type: none"> (a) "Arm's length transaction" – a transaction conducted on such terms and conditions as between a willing buyer and a willing seller acting as if they were unrelated and pursuing their own best interests; (b) "Conflict of interest" – in relation to management or those charged with governance, a situation that arises from (i) being in a position to advance their own personal interests contrary to their fiduciary responsibilities to the entity, or (ii) having competing responsibilities to two or more entities; and (c) "Material misstatement resulting from related parties" – a material misstatement of the financial statements due to fraud or error arising from the failure to appropriately account for or disclose related party relationships, transactions or balances as required by the applicable financial reporting framework. 	5	

Original Format – Proposed Revised ISA 550	New Para.	Comment on deleted text
Risk Assessment Procedures		
<p>9. The performance of the risk assessment procedures required by ISA 315, “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement,” in relation to related parties involves:</p> <ul style="list-style-type: none"> (a) Inquiring of management regarding the entity’s related parties and the nature of the transactions the entity has entered into with these parties, and discussing and communicating, as appropriate, related party matters among the engagement team during audit planning; (b) Obtaining an understanding of the entity’s related party relationships and transactions, and its controls over them (“related party controls”); and (c) Performing procedures specifically directed towards identifying related party relationships and transactions not identified or disclosed by management, whether intentionally or not. 	9	
Inquiry of Management, Discussion Among the Engagement Team, and Communication to the Engagement Team		
<p>10. The auditor should inquire of management at the beginning of the audit regarding the identity of the entity’s related parties and the nature of the transactions the entity has entered into with these parties.</p>	10	
<p>11. Prior to undertaking any significant work, the auditor requests from management a complete and up-to-date list of the entity’s related parties, and information on the nature of the transactions the entity has entered into with these parties.</p>	A2	
<p>12. As part of the discussion among the engagement team required by ISA 315, members of the team discuss the susceptibility of the entity’s financial statements to material misstatement resulting from related parties.</p>	11	
<p>13. This discussion ordinarily addresses matters that include:</p> <ul style="list-style-type: none"> • The nature and extent of the entity’s related party relationships and transactions. • An emphasis on the importance of maintaining a proper state of mind throughout the audit regarding the potential for material misstatement resulting from related parties, and the need to exercise appropriate professional skepticism. • The circumstances or conditions of the entity that may indicate the existence of unidentified or undisclosed related party relationships or transactions (for example, a complex organizational structure). 	A3	

Original Format – Proposed Revised ISA 550	New Para.	Comment on deleted text
<ul style="list-style-type: none"> The importance that management and those charged with governance attach to the identification, appropriate accounting for, and disclosure of related party relationships and transactions, and the related risk of management override of relevant controls. 		
14. The auditor should communicate to the engagement team the identity of the entity’s related parties and other relevant related party matters arising during audit planning.	12	
Understanding the Entity’s Related Party Relationships and Transactions, and the Entity’s Related Party Controls		
15. In obtaining the understanding of the entity and its environment required by ISA 315, the auditor obtains an understanding of (a) the nature and business rationale of the entity’s related party relationships and transactions, and (b) the entity’s related party controls.	13	
<i>Understanding the Nature and Business Rationale of the Entity’s Related Party Relationships and Transactions</i> 16. Understanding the nature of the entity’s related party relationships involves obtaining an understanding of how the entity is controlled or significantly influenced, ³ and how it controls or significantly influences other parties. Control or significant influence can ordinarily be recognized by considering a party’s ownership interests in, or extent of voting power over, an entity.	14 A4	
17. Some circumstances may make it difficult for the auditor to obtain a full understanding of the nature of the related party relationships, for example: <ul style="list-style-type: none"> A complex shareholding structure. The sharing of control over the related party with external parties. The location of shareholder or other relevant records in a foreign or offshore jurisdiction. Control or significant influence over management or those charged with governance by external parties. These circumstances increase the risk that material misstatements resulting from related parties may not be detected.	A4	
18. Where the entity is controlled by a party that appears to exert dominant influence over the entity, there is a greater risk of that party overriding management to cause the entity to enter into related party transactions in which the party is interested. Such transactions may occur directly with the controlling party or indirectly with third parties related to the	A5	

³ The Appendix provides examples of definitions of control and significant influence.

Original Format – Proposed Revised ISA 550	New Para.	Comment on deleted text
<p>controlling party.</p> <p>In such circumstances, the auditor (a) seeks to identify the parties to which the controlling party is related, and (b) for those parties identified as such, understands the nature of the business relationships that they may have established with the entity.</p> <p>The auditor may obtain information about parties related to the controlling party, as well as transactions they may have entered into with the entity, through procedures that include, for example:</p> <ul style="list-style-type: none"> • Inquiries of, and discussion with, management and those charged with governance. • Inquiries of the controlling party or its auditor. • Appropriate background research, such as through the Internet or specific external business information databases. • Review of the entity's whistle-blowing records, where available. • Procedures performed during the client acceptance or continuance process. 	<p>15</p> <p>A5</p>	
<p>19. The auditor should obtain an understanding of the business rationale of the entity's related party relationships and transactions to assess whether they give rise to risks of material misstatement in the financial statements. In addition, for those related party transactions that are both significant and non-routine, the auditor should determine whether they have received high-level authorization and approval.</p>	<p>16</p>	
<p>20. Understanding the business rationale of the entity's related party relationships and transactions assists the auditor in assessing whether their effects give rise to risks of material misstatement in the financial statements. Risks may arise particularly if the forms of the relationships and transactions do not represent their true economic substance. For example, although a relationship between the entity and a related party based overseas may involve routine transactions, it may also involve an underlying transfer pricing arrangement whose effects could result in material misstatements in the financial statements.</p>	<p>A6</p>	
<p>21. The auditor may also seek to understand the business rationale of the related party transactions from the related parties' perspectives, as this may help the auditor better understand the transactions and why they were carried out. A business rationale from the related parties' perspectives that appears inconsistent with the nature of their businesses may represent a factor indicative of risks of material misstatement.</p>	<p>A7</p>	

Original Format – Proposed Revised ISA 550	New Para.	Comment on deleted text
<p>22. High-level authorization and approval of related party transactions that are both significant and non-routine provide evidence that they have been duly considered by appropriate levels of management, and where applicable, those charged with governance. The existence of transactions that were not subject to such authorization and approval, in the absence of rational explanations based on discussion with management and those charged with governance, may indicate a fraud risk. ISA 240, “The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements,” provides further guidance in responding to fraud risks.</p>	A8	
<p><i>Understanding the Entity’s Related Party Controls</i></p> <p>23. The auditor obtains an understanding of the internal control, including the control environment, that management has established to mitigate the risks of material misstatements resulting from related parties.</p> <p>Relevant features of the control environment may include, for example:</p> <ul style="list-style-type: none"> • Internal ethical codes, appropriately communicated to the entity’s personnel and enforced, governing the circumstances in which the entity may enter into specific types of related party transactions. • Policies and procedures for open and timely disclosure of the interests that management and those charged with governance have in related party transactions. • The assignment of responsibilities within the entity for identifying, recording, summarizing, and disclosing related party transactions. • Timely disclosure and discussion between management and those charged with governance of related party transactions that are both significant and non-routine. • Clear guidelines for the approval of related party transactions involving actual or perceived conflicts of interest. • Proactive action taken by management to resolve related party disclosure issues, such as by seeking advice from the auditor or external legal counsel. • The existence of whistle-blowing policies and procedures. 	<p>17(a)</p> <p>A9</p>	
<p>24. The auditor also obtains an understanding of how those charged with governance oversee management’s processes for identifying, accounting for, and disclosing related party relationships and transactions. This understanding may be obtained through inquiries of those charged with governance, or observing or reading minutes of meetings at which related party transactions are discussed and approved. This provides an insight into the understanding those charged with governance have of the entity’s related party relationships and transactions, the adequacy of their oversight, and</p>	<p>17(b)</p> <p>A12</p>	

Original Format – Proposed Revised ISA 550	New Para.	Comment on deleted text
the susceptibility of the entity to management override of controls.		
<p>25. In obtaining an understanding of the entity's related party controls, the auditor also considers whether related parties in which management is known to have control, significant influence, or financial or other interests, may affect the potential for management to override controls.</p> <p>As discussed in ISA 240, fraudulent financial reporting and misappropriation of assets often arise through management override of controls that otherwise appear to be operating effectively. The risk of management override of controls is greater if there are related party relationships involving management, because these relationships may present management with greater incentives and opportunities to perpetrate fraud. For example, management's financial interests in certain related parties may provide incentives for management to override controls by (a) directing the entity, against its interests, to conclude transactions benefiting the related parties, or (b) colluding with those parties or controlling their actions. Examples of possible fraud include:</p> <ul style="list-style-type: none"> • Creating fictitious terms of transactions with related parties designed to misrepresent the business rationale of these transactions. • Fraudulently organizing the transfer of assets from or to management or others at amounts significantly above or below market value. • Engaging in complex transactions with related parties, such as special-purpose entities,⁴ that are structured to misrepresent the financial position or financial performance of the entity. 	<p>17(c)</p> <p>A13</p>	
<p>26. Related party controls within some entities may be weak, inadequate or non-existent for a number of reasons, such as:</p> <ul style="list-style-type: none"> • The low importance attached by management to identifying and disclosing related party relationships and transactions; • The lack of appropriate oversight by those charged with governance; • An intentional disregard for such controls because related party disclosures may reveal information that management considers sensitive; • An insufficient understanding by management of the disclosure requirements of the applicable financial 	A10	

⁴ Special-purpose entities (sometimes referred to as structured finance entities) are entities that are established for specific limited purposes, such as providing financing, liquidity, hedging or credit support.

Original Format – Proposed Revised ISA 550	New Para.	Comment on deleted text
<p>reporting framework; or</p> <ul style="list-style-type: none"> The absence of disclosure requirements under the applicable financial reporting framework. 		
<p>27. The absence of adequate controls over related party relationships and transactions increases the risks that management will not identify, appropriately account for, or disclose them. This may be particularly the case in a smaller entity environment, where management and those charged with governance are often the same. In such circumstances, the absence of independent oversight and approval of significant related party transactions increases the risk of material misstatement resulting from related parties.</p>	A11	
<p>Procedures Specifically Directed Towards Identifying Related Party Relationships and Transactions not Identified or Disclosed by Management</p>		
<p>28. Material misstatements resulting from related parties often arise from management’s failure (whether intentional or not) to completely identify or disclose the entity’s related party relationships and transactions.</p> <p>Accordingly, the auditor performs risk assessment procedures to identify related party relationships and transactions not identified or disclosed by management, notwithstanding the inherent limitation referred to in paragraph 6 regarding complete identification.</p>	18	Unnecessary duplicative text.
<p>29. These risk assessment procedures are directed primarily at identifying transactions that are both significant and non-routine as they have a greater risk of involving previously unidentified or undisclosed related parties.</p> <p>Such procedures comprise:</p> <p>(a) Inquiries of management and others within the entity; and</p> <p>(b) Review of relevant records or documents.</p>	A14	“Roadmap” not required in the Clarity format.
<p>30. Transactions involving management or those charged with governance, or third parties related to them, are considered both significant and non-routine regardless of the amounts involved. Other transactions that are both significant and non-routine may include, for example:</p> <ul style="list-style-type: none"> Significant equity transactions, such as corporate restructurings or acquisitions. The leasing of premises or the rendering of management services by the entity to another party if no consideration is exchanged. Significant sales transactions with unusually large discounts or returns. 	A14	

Original Format – Proposed Revised ISA 550	New Para.	Comment on deleted text
<ul style="list-style-type: none"> Significant transactions with circular arrangements, for example, sales with a commitment to repurchase. 		
31. To identify previously unidentified or undisclosed related party relationships and transactions, the auditor should inquire of management and others within the entity about the existence of transactions that are both significant and non-routine.	18(a)	Duplicative text.
32. Others within the entity of whom the auditor inquires are those the auditor considers likely to have knowledge of the entity's related party relationships and transactions. These include, to the extent that they do not form part of management: <ul style="list-style-type: none"> (a) Those charged with governance; (b) Personnel in a position to initiate, process, or record transactions that are both significant and non-routine, and those who supervise or monitor such personnel; (c) Internal audit; (d) In-house legal counsel; and (e) The chief ethics officer or equivalent person. 	A15	
33. To identify previously unidentified or undisclosed related party relationships and transactions, the auditor should also review the following records or documents for transactions that are both significant and non-routine: <ul style="list-style-type: none"> (a) Bank, legal and other third party confirmations obtained by the auditor; (b) Minutes of meetings of shareholders and those charged with governance, and other relevant statutory records; (c) Shareholder records, to identify the entity's principal shareholders; and (d) Records of the entity's investments. 	18(b)	Duplicative text.
34. In reviewing the records or documents set out in paragraph 33, the auditor may identify other information that may indicate the existence of previously unidentified or undisclosed related party relationships and transactions. Such other information includes, for example, guarantees and guarantor relationships, and loans or other advances to management, to those charged with governance, or to parties related to either.	A16	

Original Format – Proposed Revised ISA 550	New Para.	Comment on deleted text
<p>35. The auditor may consider it appropriate to also review other types of records or documents such as:</p> <ul style="list-style-type: none"> • Income tax returns and other information supplied to regulatory authorities. • Records of investments of the entity's pension plans. • Specific significant contracts and agreements not in the ordinary course of business, including those involving management and those charged with governance. • Specific invoices and correspondence from law firms. • Internal audit working papers. 	A17	
<p>36. If the auditor identifies transactions that are both significant and non-routine, the auditor should establish whether they involve known related parties. If they do not, the auditor should consider whether the circumstances of the transactions indicate the possible involvement of previously unidentified or undisclosed related parties.</p>	19	
<p>Substantive Procedures Responsive to the Risks of Material Misstatement Resulting from Related Parties</p>		
<p>Substantive Procedures Responsive to Assessed Risks</p> <p>37. ISA 330, "The Auditor's Procedures in Response to Assessed Risks," requires the auditor to design and perform audit procedures whose nature, timing, and extent are responsive to the assessed risks of material misstatement at both the financial statement and assertion levels. This ISA focuses on specific responses at the assertion level only.</p>	20	Duplicative text.
<p>38. The nature, timing and extent of the substantive procedures that the auditor may select to respond to the assessed risks of material misstatement resulting from related parties depend upon the nature of those risks and the circumstances of the entity. ISA 330 provides further guidance on considering the nature, timing and extent of further audit procedures.</p>	A18	
<p>Substantive Procedures Responsive to Significant Risks</p> <p>39. ISA 330 requires the auditor to perform substantive procedures that specifically respond to significant risks. In the context of related parties, the purpose of further substantive procedures is primarily to respond to significant risks that (a) management has not identified or disclosed related party relationships or transactions, or (b) management has not properly accounted for or disclosed specific related party transactions, whether due to fraud or error.</p>	A19	
<p>40. Where there is a significant risk that management has not identified or disclosed related party relationships or</p>	A20	

Original Format – Proposed Revised ISA 550	New Para.	Comment on deleted text
<p>transactions, the auditor may perform further substantive procedures such as:</p> <ul style="list-style-type: none"> - Conducting a detailed review of accounting records for transactions with (a) specific characteristics, such as terms that deviate significantly from known market terms, or (b) unusual patterns or trends, such as regular advances to a third party. Such a review may be facilitated using computer-assisted audit techniques. - Making inquiries, where practicable, of parties outside the entity who are presumed to have significant knowledge of the entity and its business, such as principal agents, major representatives, consultants, guarantors, or other close business partners. - Investigating the entity's relationships with major suppliers and customers, such as inquiring of them as to whether they are related, reading their financial statements or other relevant financial information, or inquiring of relevant information sources regarding their ownership. - Performing substantive analytical procedures on specific classes of transactions, such as lease expense or sales, to identify unusual relationships. - Performing appropriate background searches using, for example, internet resources. 		
<p>41. Where there is a significant risk that management has not properly accounted for or disclosed specific related party transactions, whether due to fraud or error, the auditor may perform further substantive procedures such as:</p> <ul style="list-style-type: none"> - Confirming or discussing specific aspects of the transactions with intermediaries such as banks, law firms, guarantors, or agents. - Confirming the purposes, specific terms or amounts of the transactions with the related parties. - Where applicable, reading the financial statements or other relevant financial information of the related parties for evidence of the accounting of the transactions in the related parties' books. 	A21	
<p><i>Response to a Significant Risk of Material Misstatement Regarding an Arm's Length Assertion</i></p> <p>42. In some unusual circumstances, the entity's disclosures may assert that a related party transaction has been conducted at arm's length. Although management may make such an assertion, it is ordinarily impracticable to substantiate it. Accordingly, a significant risk ordinarily exists that the assertion may be misstated.</p>	21	
<p>43. When disclosure of a related party transaction indicates or implies that the transaction was conducted at arm's length, the auditor should obtain sufficient appropriate audit evidence that the assertion is not misstated.</p>	22	

Original Format – Proposed Revised ISA 550	New Para.	Comment on deleted text
<p>44. Management is responsible for substantiating any assertion that a related party transaction was conducted at arm's length. Such an assertion may explicitly state that the transaction was at arm's length or otherwise imply that the transaction was consummated on terms equivalent or similar to those prevailing in transactions with unrelated parties. The auditor evaluates management's support for the assertion, which may include:</p> <ul style="list-style-type: none"> • Comparing the terms of the related party transaction to those of an identical transaction with one or more unrelated parties; • Engaging an external expert to determine a market value for the transaction; or • Comparing the terms of the transaction to known market terms for broadly similar transactions on an open market. 	A22	
<p>45. Evaluating management's support for the arm's length assertion involves the following:</p> <ol style="list-style-type: none"> (a) Considering the appropriateness of management's methodology for supporting the assertion; (b) Verifying the source of the internal or external data supporting the assertion, and testing the data to determine their accuracy, completeness and relevance; and (c) When the substantiation rests on significant assumptions, considering whether they reasonably support the assertion. 	A23	
<p>46. If the auditor is unable to obtain sufficient appropriate audit evidence that an arm's length assertion is not misstated, the auditor should request management to withdraw the assertion. If management disagrees, the auditor should consider the implications for the auditor's report.</p>	23	
<p>Consequences of Identifying Previously Unidentified or Undisclosed Related Party Relationships or Transactions</p>		
<p>47. If the auditor identifies related party relationships or transactions not previously identified or disclosed by management, the auditor should:</p> <ol style="list-style-type: none"> (a) Promptly communicate this information to the rest of the engagement team to enable them to determine whether it affects the results of, and conclusions drawn from, audit procedures already performed; (b) Request management to identify transactions with the newly identified related parties for the auditor's further evaluation; (c) Investigate why the entity's related party controls failed to enable the identification or disclosure of the 	24	

Original Format – Proposed Revised ISA 550	New Para.	Comment on deleted text
<p>related party relationships or transactions; and</p> <p>(d) If the non-identification or non-disclosure appears intentional, (i) communicate this information to those charged with governance, and (ii) evaluate the implications for other aspects of the audit, including the reliance placed on other responses from management to the auditor's inquiries.</p>		
<p>48. In audits of smaller entities, the audit may be carried out entirely by the engagement partner (who may be a sole practitioner). In such a situation, the question of communication within the engagement team does not arise. Nevertheless, the engagement partner considers how information obtained about newly identified related party relationships or transactions affects the results of, and conclusions drawn from, other audit procedures already performed.</p>	A24	
<p>Written Representations</p>		
<p>49. The auditor should obtain written representations from management and, where appropriate, those charged with governance concerning:</p> <p>(a) The completeness and accuracy of information provided to the auditor regarding related party relationships and transactions;</p> <p>(b) The appropriateness of related party disclosures in the financial statements; and</p> <p>(c) The appropriateness of the accounting for related party relationships and transactions, having particular regard to their business rationale.</p>	25	
<p>50. Written representations include confirmation from management and, where appropriate, those charged with governance that they have disclosed to the auditor all relevant information relating to identified related parties, and that they are not aware of any other related party matters required to be disclosed in the financial statements in accordance with the applicable financial reporting framework. Such representations emphasize to management and, where appropriate, those charged with governance their responsibility to disclose the identity of related parties to the auditor even if there have been no transactions with such parties. The representations may also address, where appropriate, specific related party issues, such as the existence of undisclosed side agreements on significant related party transactions.</p>	A25	
<p>51. Circumstances in which it may be appropriate to obtain written representations from those charged with governance include:</p>	A26	

Original Format – Proposed Revised ISA 550	New Para.	Comment on deleted text
<ul style="list-style-type: none"> When they have approved specific related party transactions that (a) materially affect the financial statements, or (b) involve management. When they have made specific oral representations to the auditor on details of certain related party transactions. When they have financial or other interests in the related party transactions. When they are responsible for the financial statements. 		
Evaluation of Related Party Disclosures		
<p><i>Materiality Considerations in Evaluating Misstatements</i></p> <p>52. When evaluating whether a misstatement resulting from a related party transaction is material, the auditor considers both the quantitative and qualitative aspects of the transaction, because:</p> <ul style="list-style-type: none"> (a) The monetary value of the transaction may not be relevant in evaluating the significance of the transaction; or (b) There may be no objective basis for measuring the transaction. <p>For example, the applicable financial reporting framework may deem transactions between the entity and those charged with governance to be significant regardless of the amounts involved.</p>	A27	
<p><i>Evaluation of the Reasonableness of the Related Party Disclosures</i></p> <p>53. The auditor should evaluate the sufficiency and appropriateness of audit evidence as to whether the related party disclosures in the financial statements are reasonable in the context of the entity's applicable financial reporting framework.</p>	26	
<p>54. In evaluating the entity's related party disclosures, the auditor considers whether they appropriately summarize the facts and circumstances of the entity's related party relationships and transactions so that they are understandable. Disclosures of related party transactions may not be understandable if:</p> <ul style="list-style-type: none"> (a) The business rationale and the effects of the transactions on the financial statements are unclear or misstated; or (b) Key terms, conditions, or other important elements of the transactions necessary for understanding them are not appropriately disclosed. 	A28	
Discussion with Those Charged with Governance		
55. The auditor should discuss with those charged with governance:	27	

Original Format – Proposed Revised ISA 550	New Para.	Comment on deleted text
<p>(a) The nature, extent, business rationale and disclosure of significant related party relationships and transactions, including those involving actual or perceived conflicts of interest; and</p> <p>(b) Significant issues identified during the audit regarding the entity’s related party relationships and transactions.</p>		
<p>56. The discussion enables the auditor to:</p> <p>(a) Confirm that those charged with governance are fully aware of the nature and extent of significant related party relationships and transactions and their effects on the financial statements;</p> <p>(b) Establish a common understanding with those charged with governance of the business rationale and propriety of the related party relationships and transactions, especially those involving actual or perceived conflicts of interest, and corroborate management’s responses to inquiries the auditor has made into related party matters;</p> <p>(c) Alert those charged with governance to specific related party relationships and transactions of which they may not have been aware, to enable them to take appropriate action;</p> <p>(d) Review with those charged with governance the completeness, accuracy and understandability of management’s related party disclosures, and the appropriateness of the accounting for related party relationships and transactions; and</p> <p>(e) Resolve identified related party issues, such as disagreements with management regarding the nature and extent of disclosure, on a timely basis.</p>	A29	
Effective Date		
57. This ISA is effective for audits of financial statements for periods commencing on or after [Date].	2	