

**INTERNATIONAL STANDARD ON AUDITING 550 (REVISED AND REDRAFTED)****RELATED PARTIES**

(Effective for audits of financial statements for periods commencing on or after [Date])

**CONTENTS**

	Paragraph
<b>Introduction</b>	
Scope of this ISA .....	1
Effective Date .....	2
<b>Objective to be Achieved</b> .....	3
<b>Definitions</b> .....	4-5
<b>Requirements</b>	
Absence of Disclosure Requirements in the Applicable Financial Reporting Framework .....	6
Risk Assessment Procedures .....	7-19
Substantive Procedures Responsive to the Risks of Material Misstatement Resulting from Related Parties .....	20-23
Consequences of Identifying Previously Unidentified or Undisclosed Related Party Relationships or Transactions .....	24
Written Representations.....	25
Evaluation of Related Party Disclosures .....	26
Discussion with Those Charged with Governance .....	27
<b>Application Material</b>	
Absence of Disclosure Requirements in the Applicable Financial Reporting Framework .....	A1
Risk Assessment Procedures .....	A2-A17
Substantive Procedures Responsive to the Risks of Material Misstatement Resulting from Related Parties .....	A18-A23
Consequences of Identifying Previously Unidentified or Undisclosed Related Party Relationships or Transactions .....	A24
Written Representations.....	A25-A26
Evaluation of Related Party Disclosures .....	A27-A28
Discussion with Those Charged with Governance .....	A29
Appendix: Definitions in IAS 24 (Revised)	

## **Introduction**

### **Scope of this ISA**

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities regarding related party relationships and transactions when performing an audit of financial statements.

### **Effective Date**

2. This ISA is effective for audits of financial statements for periods beginning on or after [Date].

### **Objective to be Achieved**

3. In relation to this ISA, the objective of the auditor is to 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.

### **Definitions**

4. Where the applicable financial reporting framework provides related party definitions, these are referred to for the purpose of the audit. The Appendix sets out the definitions in International Accounting Standard 24<sup>1</sup> regarding related parties to assist the auditor in understanding the requirements and application material of this ISA.
5. The following other terms are introduced in this ISA:
  - (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.

## **Requirements**

### **Absence of Disclosure Requirements in the Applicable Financial Reporting Framework**

6. The risks of material misstatements resulting from related parties are ordinarily addressed within the context of the disclosure requirements of the applicable financial reporting framework. When the applicable financial reporting framework does not include these requirements, the auditor shall perform the risk assessment procedures set out in paragraphs 7-19 to obtain an understanding 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

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<sup>1</sup> See the Appendix.

result in the financial statements being misleading<sup>2</sup> in the circumstances of the engagement.  
(Ref: Para. A1)

### **Risk Assessment Procedures**

7. 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:
  - (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.
8. 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.
9. With regard to related parties, performing the risk assessment procedures required by ISA 315 (Redrafted), "Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement," involves:
  - (a) Ascertaining from management the identity of the entity's related parties and the nature of the transactions entered with them, and sharing relevant information 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.

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<sup>2</sup> 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.

*Ascertaining the Identity of the Entity's Related Parties and the Nature of the Related Party Transactions, and Sharing Relevant Information Among the Engagement Team*

10. The auditor shall 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. (Ref: Para. A2)
11. The discussion among members of the engagement team required by ISA 315 (Redrafted) involves placing particular emphasis on the susceptibility of the entity's financial statements to material misstatement resulting from related parties. (Ref: Para. A3)
12. The auditor shall communicate to the engagement team the identity of the entity's related parties and other relevant related party matters arising during audit planning.

*Understanding the Entity's Related Party Relationships and Transactions, and the Entity's Related Party Controls*

13. With regard to related parties, obtaining an understanding of the entity and its environment as required by ISA 315 (Redrafted) involves obtaining 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.

*Understanding the Nature and Business Rationale of the Entity's Related Party Relationships and Transactions*

14. To understand the nature of the entity's related party relationships, the auditor shall obtain an understanding of how the entity is controlled or significantly influenced,<sup>3</sup> and how it controls or significantly influences other parties. (Ref: Para. A4)
15. Where the entity is controlled by a party that appears to exert dominant influence over the entity, the auditor shall:
  - (a) Seek to identify the parties to which the controlling party is related; and
  - (b) For those parties identified as such, understand the nature of the business relationships that they may have established with the entity. (Ref: Para. A5)
16. The auditor shall 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 shall determine whether they have received high-level authorization and approval. (Ref: Para. A6-A8)

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<sup>3</sup> The Appendix provides examples of definitions of control and significant influence.

## Understanding the Entity's Related Party Controls

### 17. The auditor shall:

- (a) Obtain 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; (Ref: Para. A9-A11)
- (b) Obtain an understanding of how those charged with governance oversee management's processes for identifying, accounting for, and disclosing related party relationships and transactions; and (Ref: Para. A12)
- (c) Consider whether the existence of 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. (Ref: Para. A13)

### *Procedures Specifically Directed Towards Identifying Related Party Relationships and Transactions not Identified or Disclosed by Management*

### 18. 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. Accordingly, the auditor shall perform the following procedures to identify related party relationships and transactions not identified or disclosed by management:

- (a) Inquire of management and others within the entity about the existence of transactions that are both significant and non-routine; and (Ref: Para. A14-A15)
- (b) Review the following records or documents for transactions that are both significant and non-routine:
  - (i) Bank, legal and other third party confirmations obtained by the auditor;
  - (ii) Minutes of meetings of shareholders and those charged with governance, and other relevant statutory records;
  - (iii) Shareholder records, to identify the entity's principal shareholders; and
  - (iv) Records of the entity's investments. (Ref: Para. A14, A16-A17)

### 19. If the auditor identifies transactions that are both significant and non-routine, the auditor shall establish whether they involve known related parties. If they do not, the auditor shall consider whether the circumstances of the transactions indicate the possible involvement of previously unidentified or undisclosed related parties.

## **Substantive Procedures Responsive to the Risks of Material Misstatement Resulting from Related Parties**

### 20. Responding to assessed risks as required by ISA 330 (Redrafted) involves designing and performing further audit procedures that are responsive to the assessed risks of material misstatement resulting from related parties. (Ref: Para. A18-A21)

*Response to a Significant Risk of Material Misstatement Regarding an Arm's Length Assertion*

21. 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.
22. When disclosure of a related party transaction indicates or implies that the transaction was conducted at arm's length, the auditor shall obtain sufficient appropriate audit evidence that the assertion is not misstated. (Ref: Para. A22-A23)
23. If the auditor is unable to obtain sufficient appropriate audit evidence that an arm's length assertion is not misstated, the auditor shall request management to withdraw the assertion. If management disagrees, the auditor shall consider the implications for the auditor's report.

**Consequences of Identifying Previously Unidentified or Undisclosed Related Party Relationships or Transactions**

24. If the auditor identifies related party relationships or transactions not previously identified or disclosed by management, the auditor shall:
  - (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; (Ref: Para. A24)
  - (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 related party relationships or transactions; and
  - (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.

**Written Representations**

25. The auditor shall obtain written representations from management and, where appropriate, those charged with governance concerning:
  - (a) The completeness and accuracy of information provided to the auditor regarding related party relationships and transactions;
  - (b) The appropriateness of related party disclosures in the financial statements; and
  - (c) The appropriateness of the accounting for related party relationships and transactions, having particular regard to their business rationale. (Ref: Para. A25-A26)

**Evaluation of Related Party Disclosures**

26. The auditor shall 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. (Ref: Para. A27-A28)

## **Discussion with Those Charged with Governance**

27. The auditor shall discuss with those charged with governance:
- (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
  - (b) Significant issues identified during the audit regarding the entity's related party relationships and transactions.

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## **Application Material**

### **Absence of Disclosure Requirements in the Applicable Financial Reporting Framework** (Ref: Para. 6)

- A1. 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. When the applicable financial reporting framework has no such disclosure requirements, it is necessary for the auditor to perform, at a minimum, the risk assessment procedures set out in paragraphs 7-19 to obtain sufficient information about the entity's related party relationships and transactions to evaluate (a) their significance to the entity, and (b) whether their effects could result in misleading financial statements in the context of the engagement.

### **Risk Assessment Procedures**

#### *Ascertaining the Identity of the Entity's Related Parties and the Nature of the Related Party Transactions, and Sharing Relevant Information Among the Engagement Team* (Ref: Para. 10-11)

- A2. The auditor's inquiry of management involves gathering, prior to undertaking any significant work, 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.
- A3. The discussion among the engagement team ordinarily addresses matters that include:
- 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).

- 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.

*Understanding the Entity's Related Party Relationships and Transactions, and the Entity's Related Party Controls*

Understanding the Nature and Business Rationale of the Entity's Related Party Relationships and Transactions (Ref: Para. 14-16)

A4. Control or significant influence can ordinarily be recognized by considering a party's ownership interests in, or extent of voting power over, an entity. Some circumstances may make it difficult for the auditor to obtain a full understanding of the nature of the related party relationships, for example:

- 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.

A5. 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. The auditor may obtain information about these third parties, as well as transactions they may have entered into with the entity, through procedures that include, for example:

- 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.

A6. 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.



- A7. 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.
- A8. 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.

Understanding the Entity's Related Party Controls (Ref: Para. 17)

- A9. Relevant features of the control environment may include, for example:
- 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.
- A10. Related party controls within some entities may be weak, inadequate or non-existent for a number of reasons, such as:
- 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 reporting framework; or

- The absence of disclosure requirements under the applicable financial reporting framework.

A11. 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.

A12. The auditor may obtain an understanding of the oversight exercised by those charged with governance through inquiries of those charged with governance, or observing or reading minutes of meetings at which related party transactions are discussed and approved. This enables the auditor to gain 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 the susceptibility of the entity to management override of controls.

A13. As discussed in ISA 240 (Redrafted), 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:

- 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,<sup>4</sup> that are structured to misrepresent the financial position or financial performance of the entity.

*Procedures Specifically Directed Towards Identifying Related Party Relationships and Transactions not Identified or Disclosed by Management* (Ref: Para. 18)

A14. Risk assessment procedures to identify previously unidentified or undisclosed related party relationships and transactions are directed primarily at identifying transactions that are both significant and non-routine, as these have a greater risk of involving unidentified or undisclosed related parties. Transactions involving management or those charged with governance, or third parties related to them, are considered both significant and non-routine regardless of the

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<sup>4</sup> 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.

amounts involved. Other transactions that are both significant and non-routine may include, for example:

- 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.
- Significant transactions with circular arrangements, for example, sales with a commitment to repurchase.

*Inquiries of Management and Others Within the Entity* (Ref: Para. 18(a))

A15. Others within the entity of whom inquiries are made are those considered 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) 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.

*Review of Specific Records or Documents* (Ref: Para. 18(b))

A16. In reviewing the records or documents set out in paragraph 15(b), 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.

A17. The auditor may consider it appropriate to also review other types of records or documents such as:

- 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.

**Substantive Procedures Responsive to the Risks of Material Misstatement Resulting from Related Parties** (Ref: Para. 20)

A18. 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 (Redrafted) provides further guidance on considering the nature, timing and extent of further audit procedures.

- A19. 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.
- A20. Where there is a significant risk that management has not identified or disclosed related party relationships or transactions, the auditor may perform further substantive procedures such as:
- 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.
- A21. 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:
- 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.

*Response to a Significant Risk of Material Misstatement Regarding an Arm's Length Assertion* (Ref: Para. 22)

- A22. 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. Management's support for the assertion may include:

- 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.

A23. Evaluating management's support for the arm's length assertion involves the following:

- (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.

### **Consequences of Identifying Previously Unidentified or Undisclosed Related Party Relationships or Transactions**

Considerations Specific to Smaller Entities (Ref: Para. 24(a))

A24. 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.

### **Written Representations** (Ref: Para. 25)

A25. 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.

A26. Circumstances in which it may be appropriate to obtain written representations from those charged with governance include:

- 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** (Ref: Para. 26)

*Materiality Considerations in Evaluating Misstatements*

A27. Evaluating whether a misstatement resulting from a related party transaction is material involves considering both the quantitative and qualitative aspects of the transaction, because:

- (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.

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.

*Evaluation of the Reasonableness of the Related Party Disclosures*

A28. Evaluating the reasonableness of the entity's related party disclosures involves considering 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:

- (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.

**Discussion with Those Charged with Governance** (Ref: Para. 24)

A29. The discussion with those charged with governance enables the auditor to:

- (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;
- (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;
- (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;
- (d) Review with those charged with governance the completeness, accuracy and transparency of management's related party disclosures, and the appropriateness of the accounting for related party relationships and transactions; and
- (e) Resolve identified related party issues, such as disagreements with management regarding the nature and extent of disclosure, on a timely basis.

## Appendix

### Definitions in IAS 24 (Revised)

Related party – A party is related to an entity if:

- (a) directly, or indirectly through one or more intermediaries, the party:
  - (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
  - (ii) has an interest in the entity that gives it significant influence over the entity; or
  - (iii) has joint control over the entity;
- (b) the party is an associate (as defined in IAS 28, “Investments in Associates”) of the entity;
- (c) the party is a joint venture in which the entity is a venturer (see IAS 31, “Interests in Joint Ventures”);
- (d) the party is a member of the key management personnel of the entity or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include:

- (a) the individual's domestic partner and children;
- (b) children of the individual's domestic partner; and
- (c) dependants of the individual or the individual's domestic partner.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the contractually agreed sharing of control over an economic activity.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.