

Summary of Main Changes from First ED to Second ED to Proposed Final Wording

The following summarizes the main changes between the two EDs and the proposed final wording. A detailed comparison of the objectives, key definitions, and the requirements is set out in Exhibit II.

1. OBJECTIVES

The most common concern expressed by respondents regarding the wording of the objective proposed in the first ED was that it seemed to inappropriately represent a summary of the requirements or procedures set out in the proposed ISA, resulting in an objective that seemed unduly focused on process.

The objectives in the proposed final wording are now more outcome-based. They articulate more clearly the specific responsibilities the auditor has to fulfill in connection with related parties, i.e.:

- Regardless of whether the applicable financial reporting framework establishes related party requirements, to obtain an understanding of the entity's related party relationships and transactions sufficient to:
 - Recognize fraud risk factors that are relevant to the identification and assessment of the risks of material misstatement due to fraud; and
 - Conclude whether the financial statements (insofar as they are affected by those relationships and transactions) achieve fair presentation (for fair presentation frameworks) or are not misleading (for compliance frameworks); and
- Where the framework establishes related party requirements, to obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately identified, accounted for, and disclosed in accordance with those requirements.

The link to fraud risk factors in these revised objectives helps the ISA to achieve a tighter integration with ISA 240 (Redrafted), as several respondents had suggested was necessary.

2. DEFINITION OF RELATED PARTY

Among the most significant concerns expressed on this issue, respondents commented that the definition proposed in the first ED would result in the proposed ISA mandating the use of more extensive related party definitions (based on the definition in International Accounting Standard 24, "Related Party Disclosures") in some jurisdictions than in others. Respondents also felt that without minimum definitions for audit purposes that would be applicable in all circumstances, auditors would apply the ISA inconsistently, with some interpreting the requirements broadly and others narrowly, depending on the definitions in the applicable framework.

The proposed final wording addresses this issue by establishing a baseline principles-based related party definition to which the framework may add but from which it may not subtract. This ensures that all auditors will undertake a minimum, consistent level of work effort when auditing related parties and related party transactions. (See Agenda Item 2, Issue B, for a further

discussion of the proposed change of the definition from the second ED to the proposed final wording in relation to the issue of common control.)

3. INQUIRIES OF MANAGEMENT WHERE THE FRAMEWORK ESTABLISHES MINIMAL OR NO RELATED PARTY REQUIREMENTS

The second ED proposed the following requirement regarding inquiry of management where the framework establishes minimal or no related party requirements:

15. If the applicable financial reporting framework establishes minimal or no related party requirements, the auditor shall inquire of management regarding:

(a) The identity of the parties:

- (i) That control or significantly influence the entity;
- (ii) That the entity controls or significantly influences; or
- (iii) That are under common control with the entity; and

(b) The nature of any business undertaken between the entity and these parties.

The IAASB's original intention behind this proposal was to enable the auditor to identify the parties that are "pulling the strings" (based on who is actively controlling or significantly influencing the entity), rather than to require the auditor to achieve completeness in the identification of parties related to the entity. Respondents, however, commented that this was very subtle and that auditors would have practical difficulties in interpreting it. Respondents also noted that differentiating the basic requirement to make inquiries of management based on whether the framework deals with related parties was unhelpful and unnecessary given the intention to require the auditor to perform the same type of work based on the auditor's definition of a related party.

The IAASB has therefore agreed that there should be one principles-based requirement addressing inquiries of management regarding the identity of the entity's related parties.

In the specific case where the framework has not established any related party requirements, however, the proposed final wording explains that such inquiries are likely to form part of the auditor's risk assessment procedures and related activities that the auditor is required to perform under ISA 315 to obtain information regarding:

- The entity's ownership and governance structures;
- The types of investments that the entity is making and plans to make; and
- The way the entity is structured and how it is financed. (See paragraph A13).

4. INQUIRIES REGARDING SIGNIFICANT NON-ROUTINE TRANSACTIONS

Among the most significant concerns expressed by respondents to the first ED in relation to the requirement to inquire of management and others within the entity regarding transactions that are both significant and non-routine (setting an expectation that the auditor must act in some way to all of them), several commented that this proposal cast a very wide net in the search for unidentified or undisclosed related party relationships and transactions, which may not be cost-

effective in the absence of an identified risk of unidentified or undisclosed related party relationships or transactions.

The proposed final wording establishes a more practicable approach as follows:

- a) As part of the risk assessment procedures, require the auditor to obtain a thorough understanding of the entity's controls over the authorization and approval of significant transactions and arrangements with related parties, and significant transactions and arrangements that are outside the normal course of business, and respond to the assessed risks accordingly:

14. The auditor shall inquire of management and others within the entity, and perform other risk assessment procedures considered appropriate, to obtain an understanding of the controls, if any, that management has established to:

...

- (b) Authorize and approve significant transactions and arrangements with related parties; and
- (c) Authorize and approve significant transactions and arrangements outside the normal course of business.

- b) Require the auditor, when performing the procedures required by this and other ISAs, to maintain a heightened state of alert for information that may indicate the existence of previously unidentified or undisclosed related party relationships or transactions:

16. During the audit, the auditor shall be alert for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor.

- c) Require the auditor to investigate identified significant transactions outside the normal course of business, or other information that suggests the existence of previously unidentified or undisclosed related party relationships or transactions:

17. If the auditor identifies significant transactions outside the entity's normal course of business when performing the audit procedures required by paragraph 15 or through other audit procedures, the auditor shall inquire of management about:

- (a) The nature of these transactions; and
- (b) Whether related parties could be involved.

In addition, adopting a risk-based approach, the final wording introduces robust required responses when the auditor identifies arrangements or information that suggests the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor. If evidence is obtained to confirm that this is the case, there are a number of required responses, including reconsidering the auditor's original risk assessment that there are unidentified or undisclosed related parties or significant related party transactions:

22. If the auditor identifies arrangements or information that suggests the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor, the auditor shall determine whether the underlying circumstances confirm the existence of those relationships or transactions.

23. If the auditor identifies related parties or significant related party transactions that management

has not previously identified or disclosed to the auditor, the auditor shall:

- (a) Promptly communicate the relevant information to the other members of the engagement team;
- (b) Where the applicable financial reporting framework establishes related party requirements:
 - (i) Request management to identify all transactions with the newly identified related parties for the auditor's further evaluation; and
 - (ii) Inquire as to why the entity's controls over related party relationships and transactions failed to enable the identification or disclosure of the related party relationships or transactions;
- (c) Perform appropriate substantive audit procedures relating to such newly identified related parties or significant related party transactions;
- (d) Reconsider the risk that related parties or significant related party transactions may exist that management has not previously identified or disclosed to the auditor, and perform additional audit procedures as necessary; and
- (e) If the non-disclosure by management appears intentional, evaluate the implications for the audit.

5. PROCEDURES TO IDENTIFY THE PARTIES TO WHICH A DOMINANT PARTY IS RELATED

The first ED proposed a requirement that the auditor perform procedures intended to identify the parties to which a dominant party is related, and understand the nature of the business relationships that these parties may have established with the entity. Several respondents commented that there was ambiguity in this proposal regarding the "parties" to which the dominant party is related. Others noted that the proposal would not be workable or cost-effective because it was too open-ended. These respondents were of the view that it would set unrealistic expectations to require the auditor to perform unspecified procedures to identify such parties.

In response to these comments and as reflected in the proposed final wording, the IAASB has agreed to a revised, more practicable approach based on developing a robust response to assessed risks associated with a party with dominant influence:

- 20. If the auditor identifies fraud risk factors (including circumstances relating to the existence of a party with dominant influence) when performing the risk assessment procedures and related activities in connection with related parties, the auditor shall consider such information when identifying and assessing the risks of material misstatement due to fraud in accordance with ISA 240 (Redrafted).
- A32. Domination of management by a single person or small group of persons without compensating controls is a fraud risk factor. In the presence of other risk factors, the existence of a related party with dominant influence may indicate significant risks of material misstatement due to fraud. For example:
 - An unusually high turnover of senior management or professional advisors may suggest unethical or fraudulent business practices that serve the related party's purposes.
 - The use of business intermediaries for significant transactions for which there appears to be no clear business justification may suggest that the related party could have an interest

in such transactions through control of such intermediaries for fraudulent purposes.

- Evidence of the related party's excessive participation in or preoccupation with the selection of accounting policies or the determination of significant estimates may suggest the possibility of fraudulent financial reporting.

A35. If the auditor has assessed a significant risk of material misstatement due to fraud as a result of the presence of a related party with dominant influence, the auditor may, in addition to the general requirements of ISA 240 (Redrafted), perform audit procedures such as the following to obtain an understanding of the business relationships that such a related party may have established directly or indirectly with the entity and to determine the need for further appropriate substantive audit procedures:

- Inquiries of, and discussion with, management and those charged with governance.
- Inquiries of the related party.
- Inspection of significant contracts with the related party.
- Appropriate background research, such as through the Internet or specific external business information databases.
- Review of employee "whistle-blowing" reports where these are retained.

In addition, guidance has been included in the application material on the related party definition to highlight the fact that a person who is a related party may be in a position to exert dominant influence over the entity or its management. This avoids the confusion respondents raised about whether a person who can exert dominant influence is a related party, but ensures that the issue of dominant influence is given visibility early in the application material, in the same way that the discussions of the concept of control and significant influence are addressed:

A7. A person who is a related party may be in a position to exert dominant influence over the entity or its management. This type of influence may be evidenced in such ways as the following:

- The related party has vetoed significant business decisions taken by management or those charged with governance.
- Significant transactions are referred to the related party for final approval.
- There is little or no debate among management and those charged with governance regarding business proposals initiated by the related party.
- Transactions involving the related party (or a close family member of the related party) are rarely independently reviewed and approved.

The related party's influence may be greater in some cases if it has played a leading role in founding the entity and continues to play a leading role in managing the entity.

6. ARM'S LENGTH ASSERTIONS AS SIGNIFICANT RISKS

The second ED treated arm's length assertions as giving rise to significant risks. Many respondents argued that this should not always be the case.

In response, the IAASB has agreed that there should not be a presumption that all arm's length assertions give rise to significant risks. The IAASB has agreed, instead, to give visibility, upfront in the Requirements section, to the practical difficulties that the auditor may face in obtaining audit evidence regarding such assertions:

26. Although audit evidence may be readily available regarding how the price of a related party transaction compares to that of a similar arm's length transaction, there may be practical difficulties that limit the auditor's ability to obtain audit evidence that all other aspects of the transaction are equivalent to those of the arm's length transaction. ...

Guidance in the application further reinforces the message:

A45. Although the auditor may be able to confirm that a related party transaction has been conducted at a market price, it may be impracticable to confirm whether other terms and conditions of the transaction (such as credit terms, contingencies and specific charges) are equivalent to those that would ordinarily be agreed between independent parties. Accordingly, there may be a risk that management's assertion that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction may be materially misstated.

7. INTENTIONAL NON-IDENTIFICATION OR NON-DISCLOSURE BY MANAGEMENT

The first and second EDs proposed a requirement that the auditor communicate to those charged with governance the non-identification or non-disclosure by management of related parties or significant related party transactions if the auditor deems such non-identification or non-disclosure to be intentional. The IAASB has agreed that this proposal was effectively already covered by the requirement to communicate significant matters identified during the audit with those charged with governance (see paragraph 29 of the proposed final wording). Accordingly, the IAASB has agreed to deal with the point in the guidance pertaining to this requirement:

A53. Communicating significant related party matters identified during the audit with those charged with governance helps the auditor to establish a common understanding with them of the nature and resolution of these matters. This may also provide an opportunity for the auditor to alert those charged with governance to significant related party relationships and transactions of which they may not have been previously aware. Examples of significant related party matters include:

- *Non-disclosure (whether intentional or not) by management to the auditor of related parties or significant related party transactions.*
- ...

8. COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

The first ED proposed a requirement that the auditor communicate with those charged with governance the nature, extent, business rationale and disclosure of significant related party relationships and transactions, including those involving actual or perceived conflicts of interest.

Respondents to that ED argued that this proposal would impose an obligation on the auditor that in fact should be management's responsibility. The IAASB has accepted this. Accordingly, the requirement has not been carried forward to the proposed final wording.

EXHIBIT II**Comparison of Objectives, Key Definitions, and Requirements Among the First and Second EDs and the Proposed Final Wording**

First ED	Second ED	Proposed Final	Comments
Objectives			
<p>6. In relation to this ISA, the objective of the auditor is to obtain sufficient appropriate audit evidence about the accounting for, and disclosure of, related party relationships and transactions in the financial statements, through:</p> <p>(a) Obtaining an understanding of these relationships and transactions; and</p> <p>(b) In the context of the applicable financial reporting framework:</p> <p>(i) Identifying and assessing the risks of material misstatements in the financial statements resulting from the related party relationships and transactions; and</p> <p>(ii) Responding to those assessed risks by designing and performing further audit procedures.</p>	<p>10. The objectives of the auditor are:</p> <p>(a) To obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and</p> <p>(b) Irrespective of whether the applicable financial reporting framework establishes related party requirements:</p> <p>(i) To obtain an understanding of related party relationships and transactions sufficient to be able to conclude whether the financial statements, insofar as they are affected by those relationships and transactions:</p> <p>a. Achieve fair presentation (for fair presentation frameworks); or</p> <p>b. Are not misleading (for compliance frameworks); and</p> <p>(ii) To identify fraud risk factors</p>	<p>9. The objectives of the auditor are:</p> <p>(a) Irrespective of whether the applicable financial reporting framework establishes related party requirements, to obtain an understanding of related party relationships and transactions sufficient to be able:</p> <p>(i) To recognize fraud risk factors, if any, arising from related party relationships and transactions that are relevant to the identification and assessment of the risks of material misstatement due to fraud; and</p> <p>(ii) To conclude whether the financial statements, insofar as they are affected by those relationships and transactions:</p> <p>a. Achieve fair presentation (for fair presentation frameworks); or</p> <p>b. Are not misleading (for compliance frameworks); and</p>	<p>See Exhibit I, Item 1.</p>

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	arising from related party relationships and transactions that are relevant to the identification and assessment of the risks of material misstatement due to fraud.	(b) In addition, where the applicable financial reporting framework establishes related party requirements, to obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately identified, accounted for and disclosed in accordance with the framework.	
Definitions			
7. Where the applicable financial reporting framework establishes related party requirements, the related party definitions set out in the framework apply for the purpose of the audit. Where the applicable financial reporting framework does not establish related party requirements, the definitions set out in the Appendix apply for the purpose of this ISA.	11(c) Related Party – A party that: (i) Controls or significantly influences, directly or indirectly through one or more intermediaries, the entity; (ii) The entity controls or significantly influences, directly or indirectly through one or more intermediaries; or (iii) Is under common control with the entity (such as through having common management or a common controlling shareholder).	10(b) “Related Party” – (i) A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the entity; (ii) Another entity over which the entity has control or significant influence, directly or indirectly through one or more intermediaries; or (iii) Another entity that is under common control with the entity through having: a. Common controlling ownership; b. Owners who are close family members; or c. Common key management,	See Exhibit I, Item 2.

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		and the entities have engaged in significant transactions or shared resources to a significant degree with one another.	
	When the applicable financial reporting framework provides additional criteria or more specificity in defining related parties, the definition in the framework is used in addition to (i) to (iii) above.	When the applicable financial reporting framework provides additional criteria or more specificity in defining related parties, the definition in the framework is used in addition to (i) to (iii) above.	No substantive change.
	11(b) Dominant influence – Domination of the entity by a single individual or small group of individuals allowing them to impose their will on the significant decisions affecting the entity's business. Such an individual or group of individuals may form part of management or those charged with governance, or may have no official role within the entity; and		See Agenda Item 2, Issue C.
Risk Assessment Procedures			
	12. As part of the risk assessment procedures and related activities required by ISA 315 (Redrafted), the auditor performs the procedures and related activities set out in paragraphs 13 to 19 in order to obtain information relevant to identifying the risks of material misstatement associated with related party relationships and transactions.	11. As part of the risk assessment procedures and related activities that ISA 315 (Redrafted) requires the auditor to perform during the audit, the auditor shall perform the audit procedures and related activities set out in paragraphs 12 to 18 to obtain information relevant to identifying the risks of material misstatement associated with related party relationships and transactions.	No substantive change from 2 nd ED.
9. The auditor shall inquire of management at the beginning of the audit regarding	14. If the applicable financial reporting framework establishes related party	13. The auditor shall inquire of management regarding:	No substantive

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the identity of the entity's related parties and ...	requirements, the auditor shall: (a) Obtain from management the names of the related parties that management has identified in accordance with the framework; and	(a) The identity of the entity's related parties;	change.
9. ... the nature of its related party relationships and 10. In inquiring about the entity's related party relationships, the auditor shall obtain an understanding of how the entity is controlled or significantly influenced, and how it controls or significantly influences the related parties.	(b) Inquire of management regarding: (i) The nature of the relationships between the entity and these related parties; and	(b) The nature of the relationships between the entity and these related parties; and	No substantive change. The definition of a 'related party' clearly includes relationships involving control and significant influence. Discussions of the concepts of control and significant influence have also been added in the application material for the definition of a related party (see paras A5 and A6).
9. The auditor shall inquire of management at the beginning of the audit regarding ... the nature of its	(ii) Whether the entity entered into any transactions with these related parties during the period, and if	(c) Whether the entity entered into any transactions with these related parties during the period, and if so, the type	No substantive change.

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related party ... transactions.	so, the general nature of the transactions.	and purpose of the transactions.	
	<p>15. If the applicable financial reporting framework establishes minimal or no related party requirements, the auditor shall inquire of management regarding:</p> <p>(a) The identity of the parties:</p> <p>(i) That control or significantly influence the entity;</p> <p>(ii) That the entity controls or significantly influences; or</p> <p>(iii) That are under common control with the entity; and</p> <p>(b) The nature of any business undertaken between the entity and these parties.</p>		See Exhibit I, Item 3.
<p>11. 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, in addition, perform the following risk assessment procedures specifically directed towards identifying related party relationships and transactions not identified or disclosed by management:</p> <p>(a) Inquire of management and others within the entity about the existence of transactions that are both significant and non-routine;</p>			See Exhibit I, Item 4.

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(b) Where a party appears to actively exert dominant influence over the entity, perform procedures intended to identify the parties to which the dominant party is related, and understand the nature of the business relationships that these parties may have established with the entity; and			See Exhibit I, Item 5.
(c) Review appropriate records or documents for transactions that are both significant and non-routine, and for other information that may indicate the existence of previously unidentified or undisclosed related party relationships or transactions.		15. The auditor shall inspect for information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor: ... (c) Such other documents as the auditor considers are likely to contain such information in the circumstances of the entity.	See Agenda Item 2, Issue D.
Appropriate records or documents that the auditor reviews shall include: (i) Bank and legal confirmations obtained by the auditor; and (ii) Minutes of meetings of shareholders and those charged with governance, and other relevant statutory records.	19. ... In addition, the auditor shall inspect the following documents for information that may indicate the existence of such relationships or transactions: (a) Bank and legal confirmations obtained as part of the auditor's procedures; and (b) Minutes of meetings of shareholders and of those charged with governance.	(a) Bank and legal confirmations obtained as part of the auditor's procedures; (b) Minutes of meetings of shareholders and of those charged with governance; ...	No substantive change.
12. If the auditor identifies transactions that are both significant and non-routine, the	18. If, during the audit, the auditor identifies significant transactions outside the normal	17. If the auditor identifies significant transactions outside the entity's normal	No substantive

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auditor shall consider whether the transactions or their circumstances indicate the possible involvement of previously unidentified or undisclosed related parties.	course of business, the auditor shall inquire of management to understand the nature of these transactions and whether they involve related parties.	course of business when performing the audit procedures required by paragraph 15 or through other audit procedures, the auditor shall inquire of management about: (a) The nature of these transactions; and (b) Whether related parties could be involved.	change.
13. The discussion among members of the engagement team required by [proposed] ISA 315 (Redrafted), "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement," shall place particular emphasis on the susceptibility of the entity's financial statements to material misstatement resulting from related parties.	13. The discussion among members of the engagement team required by ISAs 315 (Redrafted) and 240 (Redrafted) shall include specific consideration of the susceptibility of the financial statements to material misstatements due to fraud or error that could result from the entity's related party relationships and transactions.	12. The team discussion that ISAs 315 (Redrafted) and 240 (Redrafted) require key members of the engagement team to hold shall include specific consideration of the susceptibility of the financial statements to material misstatements due to fraud or error that could result from the entity's related party relationships and transactions.	No substantive change.
14. 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.	17. The auditor shall share relevant information obtained about the entity's related parties with the other members of the engagement team.	18. The auditor shall share relevant information obtained about the entity's related parties with the other members of the engagement team.	No substantive change.
15. 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 misstatements in the financial statements. ...	24. For identified significant related party transactions outside the normal course of business, the auditor shall: (a) When evaluating the business rationale of the transactions as required by ISA 240 (Redrafted), evaluate whether their terms and the way they have been accounted for are consistent with	24. For identified significant related party transactions outside the entity's normal course of business, the auditor shall: (a) In meeting the ISA 240 (Redrafted) requirement to evaluate the business rationale of the transactions, inspect the underlying contracts or	No substantive change.

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	management's explanations; and	agreements, if any, and evaluate: (i) Whether the terms of the transactions are consistent with management's explanations; and (ii) Whether the transactions have been appropriately accounted for; and	
... In addition, for those related party transactions that are both significant and non-routine, the auditor shall determine whether they have been appropriately authorized and approved.	(b) Obtain evidence that they have been authorized and approved.	(b) Obtain audit evidence that the transactions have been appropriately authorized and approved.	No substantive change.
16. The auditor shall obtain an understanding of:	16. Through inquiries of management and others within the entity, and by performing other procedures considered appropriate, the auditor shall obtain an understanding of the controls that management has established to:	14. The auditor shall inquire of management and others within the entity, and perform other risk assessment procedures considered appropriate, to obtain an understanding of the controls, if any, that management has established to:	No substantive change.
(a) The internal control, including the control environment, that management has established to mitigate the risks of material misstatements resulting from related parties; (b) How those charged with governance oversee management's processes for identifying, accounting for, and disclosing related party relationships and transactions; and	(a) Identify, account for, and disclose related party relationships and transactions in accordance with the applicable financial reporting framework; (b) Authorize and approve significant transactions and arrangements with related parties; and (c) Authorize and approve significant transactions and arrangements outside	(a) Identify, account for, and disclose related party relationships and transactions in accordance with the applicable financial reporting framework; (b) Authorize and approve significant transactions and arrangements with related parties; and (c) Authorize and approve significant transactions and arrangements outside	No substantive change.

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(c) The specific controls that those charged with governance have implemented to mitigate the risk of management override of controls where related parties exist over which management is known to have control or significant influence, or in which management is known to have financial or other interests.	the normal course of business.	the normal course of business.	
	19. During the audit, the auditor shall also be alert for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor.	16. During the audit, the auditor shall be alert for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor.	No substantive change from 2 nd ED.
	19. ... If the auditor identifies arrangements or information that suggests the existence of related party relationships or transactions, the auditor shall perform appropriate procedures to determine whether the underlying circumstances reveal the existence of related parties that management has not previously identified or disclosed to the auditor.	22. If the auditor identifies arrangements or information that suggests the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor, the auditor shall determine whether the underlying circumstances confirm the existence of those relationships or transactions.	No substantive change from 2 nd ED.
	20. If, in carrying out the risk assessment procedures and related activities in relation to related parties, the auditor identifies fraud risk factors (including circumstances relating to the existence of a dominant party), the auditor shall consider such information when identifying and assessing	20. If the auditor identifies fraud risk factors (including circumstances relating to the existence of a party with dominant influence) when performing the risk assessment procedures and related activities in connection with related parties, the auditor shall consider such information when identifying and	No substantive change from 2 nd ED.

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	the risks of material misstatement due to fraud in accordance with ISA 240 (Redrafted).	assessing the risks of material misstatement due to fraud in accordance with ISA 240 (Redrafted).	
Identification and Assessment of the Risks of Material Misstatement Associated with Related Party Relationships and Transactions			
		19. In meeting the ISA 315 (Redrafted) requirement to identify and assess the risks of material misstatement, the auditor shall identify and assess the risks of material misstatement associated with related party relationships and transactions and determine whether any of those risks are significant risks. ...	No new principle. The basic principle is already established in ISA 315 (Redrafted).
	21. In identifying and assessing the risks of material misstatement as required by ISA 315 (Redrafted), the auditor shall treat at least the following as circumstances giving rise to significant risks:	... In making this determination, the auditor shall treat ...	No substantive change from 2 nd ED.
	<ul style="list-style-type: none"> Identified significant related party transactions outside the normal course of business. 	...identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks.	No substantive change from 2 nd ED.
18. The entity's disclosures may assert that a related party transaction has been conducted at arm's length. Management may find it difficult to substantiate such an assertion. Where this is the case, a significant risk exists that the assertion may be misstated.	<ul style="list-style-type: none"> Management has made an assertion in the financial statements stating that a related party transaction was conducted on terms equivalent or similar to those prevailing in an arm's length or market transaction. 		See Exhibit I, Item 6.

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Substantive Procedures Responsive to the Risks of Material Misstatements Resulting from Related Parties			
17. In responding to assessed risks as required by [proposed] ISA 330 (Redrafted), "The Auditor's Procedures in Response to Assessed Risks," the auditor shall design and perform further audit procedures that are responsive to the assessed risks of material misstatements resulting from related parties.	22. As part of the responses to assessed risks required by ISA 330 (Redrafted), the auditor designs and performs further audit procedures that are responsive to the assessed risks of material misstatement associated with related party relationships and transactions. These procedures include those required by paragraphs 23-25.	21. As part of the ISA 330 (Redrafted) requirement that the auditor respond to assessed risks, the auditor designs and performs further audit procedures that are responsive to the assessed risks of material misstatement associated with related party relationships and transactions. These audit procedures shall include those required by paragraphs 21-26.	No substantive change.
19. 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 about the assertion.	25. When management has made an assertion in the financial statements stating that a related party transaction was conducted on terms equivalent or similar to those prevailing in an arm's length transaction or transaction under normal market conditions, the auditor shall obtain sufficient appropriate audit evidence about the assertion. ...	25. When management has made an assertion in the financial statements to the effect that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction, the auditor shall obtain sufficient appropriate audit evidence about the assertion.	No substantive change.
20. If the auditor is unable to obtain sufficient appropriate audit evidence about an arm's length assertion, the auditor shall request management to withdraw the assertion. If the auditor is unable to obtain sufficient appropriate audit evidence about the assertion, the auditor shall request management to delete or correct the assertion as appropriate.	26.... Accordingly, if the auditor is unable to obtain sufficient appropriate audit evidence about management's assertion, the auditor shall request management to delete or modify the assertion as appropriate.	No substantive change.
... If management disagrees, the auditor shall consider the implications for the auditor's report.	... If management disagrees, the auditor shall consider the implications on the audit, including on the auditor's report.	... If management disagrees, the auditor shall consider the implications on the audit, including on the auditor's report.	No substantive change.
21. If the auditor identifies related party	23. If, when the applicable financial reporting	23. If the auditor identifies related parties or	No substantive

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relationships or transactions not previously identified or disclosed by management, the auditor shall:	framework establishes related party requirements, the auditor identifies related parties or significant related party transactions that management has not previously identified or disclosed to the auditor, the auditor shall:	significant related party transactions that management has not previously identified or disclosed to the auditor, the auditor shall:	change.
(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;	(a) Promptly communicate any newly identified related parties to the other members of the engagement team to enable them to determine whether this information affects the results of, and conclusions drawn from, audit procedures already performed, including whether the risks of material misstatement need to be reassessed;	(a) Promptly communicate the relevant information to the other members of the engagement team;	No substantive change.
(b) Request management to identify transactions with the newly identified related parties for the auditor's further evaluation;	(b) Request management to identify all transactions with the newly identified related parties for the auditor's further evaluation;	(b) Where the applicable financial reporting framework establishes related party requirements: (i) Request management to identify all transactions with the newly identified related parties for the auditor's further evaluation; and	No substantive change.
(c) Investigate why the entity's controls over related party relationships and transactions failed to enable the identification or disclosure of the related party relationships or transactions; and	(c) Inquire as to why the entity's controls over related party relationships and transactions failed to enable the identification or disclosure of the related party relationships or transactions;	(ii) Inquire as to why the entity's controls over related party relationships and transactions failed to enable the identification or disclosure of the related party relationships or transactions;	No substantive change.

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	(d) Perform appropriate substantive procedures to respond to risks relating to such newly identified related parties or significant related party transactions; and	(c) Perform appropriate substantive audit procedures relating to such newly identified related parties or significant related party transactions;	No substantive change from 2 nd ED.
		d) Reconsider the risk that related parties or significant related party transactions may exist that management has not previously identified or disclosed to the auditor, and perform additional audit procedures as necessary; and	See Agenda Item 2, Issue G.
(d) If the non-identification or non-disclosure appears intentional,	(e) If the non-identification or non-disclosure appears intentional,	(e) If the non-disclosure by management appears intentional, ...	No substantive change.
(i) communicate this information to those charged with governance, and	(i) communicate this information to those charged with governance (unless all of them are part of management and are aware of the information already communicated by the auditor), and		See Exhibit I, Item 7.
(ii) evaluate the implications for other aspects of the audit, including the reliance placed on other responses from management to the auditor's inquiries.	(ii) evaluate the implications on the audit.	... evaluate the implications for the audit.	No substantive change.
Written Representations			

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22. The auditor shall obtain written representations from management and, where appropriate, those charged with governance concerning:	27. In addition to any specific written representations the auditor believes are necessary in relation to related parties, the auditor shall, where the applicable financial reporting framework establishes related party requirements, obtain written representations from management and, where appropriate, those charged with governance that:	28. Where the applicable financial reporting framework establishes related party requirements, the auditor shall obtain written representations from management and, where appropriate, those charged with governance that:	No substantive change.
(a) The completeness and accuracy of information provided to the auditor regarding related party relationships and transactions;	(a) They have disclosed to the auditor the identity of the entity’s related parties and all the related party relationships and transactions of which they are aware; and	(a) They have disclosed to the auditor the identity of the entity’s related parties and all the related party relationships and transactions of which they are aware; and	No substantive change.
(b) The appropriateness of related party disclosures in the financial statements; and	(b) They have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.	(b) They have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.	No substantive change.
(c) The appropriateness of the accounting for related party relationships and transactions, having particular regard to their business rationale.			
Evaluation of Related Party Relationships, Transactions and Disclosures			
23. The auditor shall evaluate:	26. In forming the opinion on the financial statements, the auditor shall evaluate:	27. In forming the opinion on the financial statements, the auditor shall evaluate:	No substantive change.
(a) Whether the entity’s related party transactions have been properly accounted for and disclosed in	(a) Whether the identified related party relationships and transactions have been appropriately accounted for and	(a) Whether the identified related party relationships and transactions have been appropriately accounted for and	No substantive change.

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<p>accordance with the applicable financial reporting framework;</p> <p>(b) Whether any other required related party disclosures have been presented in accordance with the applicable financial reporting framework; and</p>	<p>disclosed in accordance with the applicable financial reporting framework; and</p>	<p>disclosed in accordance with the applicable financial reporting framework; and</p>	
<p>(c) Irrespective of the applicable financial reporting framework, whether the effects of the related party relationships and transactions could result in the financial statements being misleading in the circumstances of the engagement.</p>	<p>(b) Whether the related party relationships and transactions could cause the financial statements to:</p> <p>(i) Fail to achieve fair presentation (for fair presentation frameworks); or</p> <p>(ii) Be misleading (for compliance frameworks).</p>	<p>(b) Whether the effects of the related party relationships and transactions:</p> <p>(i) Prevent the financial statements from achieving fair presentation (for fair presentation frameworks); or</p> <p>(ii) Cause the financial statements to be misleading (for compliance frameworks).</p>	No substantive change.
Communication with Those Charged with Governance			
<p>24. Unless all of those charged with governance are involved in managing the entity, the auditor shall, in order to establish a common understanding with them and to alert them to significant related party relationships and transactions of which they may not have been aware, communicate with them:</p>	<p>28. Unless all of those charged with governance are involved in managing the entity and are aware of the matters already communicated by the auditor, the auditor shall communicate with those charged with governance ...</p>	<p>29. Unless all of those charged with governance are involved in managing the entity, the auditor shall communicate with those charged with governance ...</p>	No substantive change.
<p>(a) The nature, extent, business rationale and disclosure of significant related party relationships and transactions, including those involving actual or</p>			See Exhibit I, Item 8.

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perceived conflicts of interest; and			
(b) Significant issues identified during the audit regarding the entity's related party relationships and transactions.	... significant matters identified during the audit regarding the entity's related party relationships and transactions.	... significant matters identified during the audit regarding the entity's related party relationships and transactions.	No substantive change.
Documentation			
25. In addition to the documentation requirements of [proposed] ISA 315 (Redrafted) and [proposed] ISA 330 (Redrafted), and, where relevant, [proposed] ISA 240 (Redrafted), "The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements," the auditor shall document:	29. The auditor shall include in the audit documentation ...	30. In meeting the documentation requirements of ISA 230 (Redrafted) and other ISAs, ...	No substantive change.
(a) The identity of the entity's related parties and the nature of the related party relationships; and	... the names of the identified related parties and, unless otherwise clear, the nature of the related party relationships.	... the auditor shall include in the audit documentation the names of the identified related parties and the nature of the related party relationships.	No substantive change.
(b) The procedures performed to comply with the requirement in paragraph 11(b) and, where applicable, any identified parties related to the dominant party referred to in that paragraph.			As para 11(b) of the 1 st ED has been deleted, the IAASB has agreed that this documentation requirement would no longer apply.