

RELATED PARTIES: CAS 550

Risk Assessment Procedures and Related Activities

- As part of the risk assessment procedures **discuss with the engagement team** the susceptibility of the F/S to material misstatement due to fraud or error that could result from the entity's **related party relationships and transactions**
- **Inquire of management** regarding:
 - The identity of the entity's **related parties**, including changes from the prior period
 - The nature of the **relationships** between the entity and these related parties; and
 - Whether the entity entered into any **transactions** with these related parties during the period and the type/purpose of the transactions
- **Inquire of management** and others within the entity to obtain an understanding of the **controls** that management has established to:
 - **Identify, account for, and disclose related party relationships** and transactions in accordance with GAAP
 - Authorize and approve significant **transactions with related parties**; and
 - Authorize and approve significant **transactions outside the normal course of business**
- During the audit, **remain alert, when inspecting documents**, for info that may indicate the existence of related party relationships/transactions that management has not previously identified/disclosed to the auditor
 - In particular, inspect the following:
 - Bank and legal confirmations
 - Minutes of meetings of shareholders and of those charged with governance
 - Other records or documents as the auditor considers necessary
- If the **auditor identifies significant transactions outside the entity's normal course of business**, the auditor shall **inquire of management** about:
 - The **nature** of these transactions; and
 - Whether **related parties** could be involved

Identification and Assessment of the Risks of Material Misstatement Associated with Related Party Relationships and Transactions

- 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**
 - Treat identified **significant related party transactions outside the entity's normal course of business** as giving rise to **significant risks**

Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions

- Perform the following audit procedures to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement associated with related party relationships/transactions:
 - 1) If the **auditor identifies** related parties or significant related party transactions that **management has not previously identified or disclosed to the auditor**:
 - **Communicate** the relevant info to the **other members of the engagement team**
 - **Request mng't to identify all transactions** with the newly identified related parties
 - Inquire **why the entity's controls failed** to identify related party transactions
 - Perform **substantive audit procedures** relating to the newly identified related parties or significant related party transactions (i.e. inquiring mng't/others, analysis of

accounting records for transactions with the identified related parties, Verifying the terms and conditions of the newly identified related party transactions)

- **Reconsider the risk** that other related parties or significant related party transactions may exist that management has not previously identified
 - If the non-disclosure by management appears **intentional** (i.e. an indicator of fraud), evaluate the implications for the audit
- 2) For **identified significant related party transactions outside the entity's normal course of business**:
- **Inspect** the underlying contracts or agreements and evaluate whether:
 - The business rationale of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to hide misappropriation of assets
 - The terms of the transactions are consistent with management's explanations;
 - The transactions are accounted for in accordance with GAAP
 - Obtain audit evidence that the transactions have been appropriately **authorized and approved**

Evaluation of the Accounting for and Disclosure of Identified Related Party Relationships and Transactions

- In forming an opinion on the F/S, evaluate:
 - Whether the identified related party relationships and transactions have been appropriately accounted for and disclosed per GAAP
 - Whether the effects of the related party relationships and transactions prevent the F/S from achieving fair presentation or cause the financial statements to be misleading

Written Representations

- Obtain written representations from management and those charged with governance that:
 - They have disclosed to the auditor the related parties and all the related party relationships and transactions of which they are aware; and
 - They have appropriately accounted for and disclosed such relationships and transactions in accordance with GAAP

Documentation

- Document the names of the identified related parties and the nature of the related party relationships