

**EXPOSURE DRAFT**

**ED 26/05**  
(November 2005)

# **Proposed Auditing Standard: Related Parties (Re-issuance of AUS 518)**

Prepared and Issued by the **Auditing and Assurance Standards Board**



**Australian Government**

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**Auditing and Assurance Standards Board**

### **Commenting on this Exposure Draft**

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## PREFACE

### **Reasons for Issuing ED 26/05**

The Auditing and Assurance Standards Board (AUASB) is proposing to re-issue Auditing Standard (AUS 518) *Related Parties* due to the requirements of the legislative provisions explained below.

The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (the CLERP 9 Act) established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001*, as from 1 July 2004. Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards will be legislative instruments under the *Legislative Instruments Act 2003*.

### **Main Proposals**

This proposed Auditing Standard:

- (a) establishes mandatory requirements and provides explanatory guidance for auditors on the risk of material misstatements in the financial report resulting from the existence of related parties and related party transactions, when planning and performing audit procedures and when evaluating and reporting the results of such procedures;
- (b) requires that auditors assess the risk that related parties and related party transactions will not be identified, or appropriately disclosed and/or measured;
- (c) requires that auditors be alert for unusual transactions which may indicate the existence of previously unidentified related parties or related party transactions;
- (d) identifies audit reporting considerations in relation to related parties and related party transactions; and
- (e) requires auditors to communicate with those charged with governance on significant related party relationships and related party transactions.

## **Proposed Operative Date**

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after 1 July 2006.

## **Main changes from existing AUS 518 (July 2002)**

The main differences between this proposed Auditing Standard and the Auditing Standard issued by the former Auditing & Assurance Standards Board of the Australian Accounting Research Foundation that it supersedes, AUS 518 (July 2002), is that in this proposed Auditing Standard:

1. The word 'shall', in the **bold-type** paragraphs, is the terminology used to describe an auditor's mandatory requirements, whereas an auditor's degree of responsibility was previously described by the word 'should'.
2. The explanatory paragraphs provide guidance and illustrative examples to assist the auditor in fulfilling the mandatory requirements, whereas previously some obligations were implied within certain explanatory paragraphs. Accordingly, such paragraphs have been redrafted to clarify that the matter forms part of the explanatory guidance.
3. The terminology and overall concepts have been aligned to the Audit Risk Standards. The issue and re-issue of the Audit Risk Standards in February 2004, comprising:
  - AUS 402 "Understanding the Entity and Its Environment and Assessing the Risks of Misstatement";
  - AUS 406 "The Auditor's Procedures in Response to Assessed Risks"; and
  - AUS 502 "Audit Evidence"gave rise to necessary conforming amendments to certain existing AUSs, including AUS 518.
4. The following implied obligations, previously in AUS 518, have been elevated and re-stated as specific mandatory requirements:
  - (a) Based on the auditor's understanding of the entity and its environment including its internal control, the auditor shall make an assessment of the risk of material misstatement as it relates to the identification of related parties and the

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authorisation and recording of related party transactions (paragraph 14).

- (b) The auditor shall review information provided by those charged with governance and management identifying the names of all known related parties and shall perform the following audit procedures to reduce the risk of related parties remaining undetected to an acceptably low level:
- (i) Review prior year working papers for names of known related parties.
  - (ii) Review the entity's procedures for identification of related parties.
  - (iii) Inquire as to the affiliation of those charged with governance and officers with other entities.
  - (iv) Review shareholder records to determine the names of principal shareholders or, if appropriate, obtain a listing of principal shareholders from the share register.
  - (v) Review minutes of the meetings of shareholders and those charged with governance and other relevant statutory records such as the register of directors' interests.
  - (vi) Inquire of other auditors currently involved in the audit, or predecessor auditors, as to their knowledge of additional related parties.
  - (vii) Review the entity's income tax returns and other information supplied to regulatory agencies.

If, in the auditor's judgment, there is a lower risk of significant related parties remaining undetected, these procedures may be modified as appropriate (paragraph 19).

- (c) The auditor shall endeavour to obtain a written representation from management concerning:
- (i) the completeness of information provided regarding the identification of related parties; and
  - (ii) the adequacy of related party disclosures in the financial report (paragraph 34).

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5. The following requirements, not previously in AUS 518, have been included as specific mandatory requirements:
  - (a) Where there is any indication that there are limitations that may affect the persuasiveness of audit evidence, the auditor shall design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement at the assertion level (paragraph 8).
  - (b) Where the applicable financial reporting framework requires disclosure of related party relationships, the auditor shall be satisfied that the disclosure is adequate (paragraph 24).
  - (c) The auditor shall discuss with those charged with governance the nature, extent and business rationale of significant related party relationships and transactions, including those involving actual conflicts of interest (paragraph 32).
6. Guidance on communication with those charged with governance has been included at paragraph 33.
7. The following requirement and associated guidance paragraphs has been replaced with guidance at paragraph 18:
  - (a) The auditor shall consider the risk of material misstatement at the assertion level in determining the nature, timing and extent of substantive audit procedures.

A Table of Proposed Changes, excluding conforming amendments mentioned at point 3 above, is provided as an attachment to the Exposure Draft.

## **Request for Comments**

Comments are invited on this Exposure Draft of the proposed re-issuance of Auditing Standard (AUS 518) *Related Parties* by 30 December 2005. The AUASB would prefer that respondents express a clear overall opinion on whether the proposed Auditing Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on any matter. The AUASB regards both critical and supportive comments as essential to a balanced review of the proposed Auditing Standard.

### **AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes Auditing Standard << >> *Related Parties* as set out in paragraphs 1 to 40, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with the *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the Auditing Standards are to be understood, interpreted and applied.

The mandatory requirements of this Auditing Standard set out in **bold-type** paragraphs.



# AUDITING STANDARD

## *Related Parties*

### Application

- 1 **This Auditing Standard applies to:**
  - (a) **an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with Part 2M.3 of the *Corporations Act 2001*; and**
  - (b) **an audit of a financial report for any other purpose.**
- 2 This Auditing Standard also applies, as appropriate, to an audit of other financial information.

### Operative Date

- 3 **This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.**

### Introduction

- 4 The purpose of this Auditing Standard is to establish mandatory requirements and to provide explanatory guidance on the auditor's responsibilities and audit procedures regarding related parties and transactions with such parties regardless of whether Accounting Standard AASB 124 "Related Party Disclosures," or similar requirement, is part of the applicable financial reporting framework.
- 5 **The auditor shall perform audit procedures designed to:**
  - (a) **obtain sufficient appropriate audit evidence regarding the identification and disclosure by management of related parties and the effect of related party transactions that are material to the financial report; and**
  - (b) **reduce to an acceptably low level the risks of material misstatements in the financial report resulting from the existence of related parties and related party transactions.**

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- 6 However, an audit cannot be expected to detect all related party transactions.
- 7 As indicated in AUS 202 “Objective and General Principles Governing an Audit of Financial Report”, in certain circumstances there are limitations that may affect the persuasiveness of audit evidence available to draw conclusions on particular assertions. Because of the degree of uncertainty associated with the assertions regarding the completeness of related parties, the audit procedures identified in this Auditing Standard will provide sufficient appropriate audit evidence regarding those assertions in the absence of any circumstance identified by the auditor that:
- (a) increases the risk of material misstatement beyond that which would ordinarily be expected; or
  - (b) indicates that a material misstatement regarding related parties has occurred.
- 8 **Where there is any indication that there are limitations that may affect the persuasiveness of audit evidence, the auditor shall design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement at the assertion level.**
- 9 Definitions regarding related parties are given in AASB 124 and are adopted for the purposes of this Auditing Standard are as follows
- (a) Related party — A party is related to an entity if:
    - (i) directly, or indirectly through one or more intermediaries, the party:
      - controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
      - has an interest in the entity that gives it significant influence over the entity; or
      - has joint control over the entity;

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- (ii) the party is an associate (as defined in AASB 128 “Investments in Associates”) of the entity;
  - (iii) the party is a joint venture in which the entity is a venturer (see AASB 131 “Interests in Joint Ventures”);
  - (iv) the party is a member of the key management personnel of the entity or its parent;
  - (v) the party is a close member of the family of any individual referred to in (a) or (d);
  - (vi) 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
  - (vii) 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.
- (b) Related party transactions — A transfer of resources, services or obligations between related parties, regardless of whether a price is charged.
- 10 Management is responsible for the identification and disclosure of related parties and transactions with such parties. This responsibility requires management to implement adequate internal control to ensure that transactions with related parties are appropriately identified in the information system and disclosed in the financial report.
- 11 Pursuant to AUS 402 “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement”, the auditor is required to have a sufficient understanding of the entity and its environment to enable identification of the events, transactions and practices that may result in a risk of material misstatement regarding related parties and transactions with such parties. While the existence of related parties and transactions between such parties are considered ordinary features of business, the auditor ordinarily maintains an awareness of them because:
- The applicable financial reporting framework may require disclosure in the financial report of certain related party relationships and transactions, such as those required by

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AASB 124 and Accounting Standard AASB 101  
“Presentation of Financial Statements”.

- The existence of related parties or related party transactions may affect the financial reports. For example, provisions relating to financial benefits to related parties under the *Corporations Act 2001*, or where the entity’s tax liability and expense may be affected by the tax laws in various jurisdictions which require special consideration when related parties exist.
- The source of audit evidence affects the auditor’s assessment of its reliability. Generally a greater degree of reliance may be placed on audit evidence that is obtained from or created by unrelated third parties.
- A related party transaction may be motivated by other than ordinary business considerations, for example, profit sharing or even fraud.
- The potential for error may increase because documentation regarding related party transactions may receive less scrutiny than documentation regarding other transactions.

**Risk Assessment Procedures**

- 12 **Based on the auditor’s knowledge of the business and enquiries of management, the auditor shall assess the risk that related parties and related party transactions will not be identified, or that related party transactions will not be disclosed or measured in accordance with the applicable financial reporting framework.**
- 13 To assess the risk of material misstatement at the assertion level, the auditor uses professional judgement to evaluate the impact of the following relevant factors:
- A complex organisational or ownership structure may make the identification of related parties more difficult, a situation which may be further complicated when the auditor does not audit all entities within an economic entity.
  - The number of related parties and the volume of related party transactions.
  - The extent to which the entity operates in foreign jurisdictions.

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- Goods or services are provided at no charge.
- Indications of changes in the terms of transactions with related parties, particularly if they no longer reflect normal commercial terms.
- The entity is experiencing difficulty meeting the terms of debt agreements or has going concern problems.
- The entity has aggressive incentive programmes or is experiencing rapid growth in profitability when compared with other entities in the same industry.
- The nature of transactions with related parties, such as those involving intangibles.

**14     Based on the auditor’s understanding of the entity and its environment including its internal control, the auditor shall make an assessment of the risk of material misstatement as it relates to the identification of related parties and the authorisation and recording of related party transactions.**

15     Ordinarily, this assessment involves consideration of policies and procedures relating to matters such as:

- (a)     ensuring that declarations of interests in other entities are current and communicated by and to those charged with governance and management within the entity;
- (b)     identifying related party transactions within information systems, including those policies and procedures which ensure the recording of transactions for which no consideration has been received or paid; and
- (c)     authorising and approving prices for transactions with related parties, including those not in the normal course of operations.

16     In some circumstances, the entity’s control procedures may not be effective in providing relevant and reliable information about related parties and related party transactions, particularly those that are not in the normal course of operations. In this case the risk of material misstatement is ordinarily assessed as high.

17     In other circumstances, however, the auditor may assess the risk of material misstatement at less than high and perform tests of controls to support that assessment.

## **Responses to Assessed Risks**

- 18      AUS 406 “The Auditor’s Procedures in Response to Assessed Risks”, provides guidance on the nature, timing and extent of substantive procedures that the auditor may design to respond to the assessed risks of material misstatement resulting from related parties. Appendix 3 of AUS 210 “The Auditor’s Responsibility to consider Fraud in an Audit of a Financial Report”, list possible procedures to respond to assessed risks of material misstatement due to fraud, some of which may also be relevant in addressing the assessed risks of material misstatement resulting from related parties.

## **Existence and Disclosure of Related Parties**

- 19      **The auditor shall review information provided by those charged with governance and management identifying the names of all known related parties and shall perform the following audit procedures to reduce the risk of related parties remaining undetected to an acceptably low level:**
- (a)      **Review prior year working papers for names of known related parties.**
  - (b)      **Review the entity’s procedures for identification of related parties.**
  - (c)      **Inquire as to the affiliation of those charged with governance and officers with other entities.**
  - (d)      **Review shareholder records to determine the names of principal shareholders or, if appropriate, obtain a listing of principal shareholders from the share register**
  - (e)      **Review minutes of the meetings of shareholders and those charged with governance and other relevant statutory records such as the register of directors’ interests.**
  - (f)      **Inquire of other auditors currently involved in the audit, or predecessor auditors, as to their knowledge of additional related parties.**
  - (g)      **Review the entity’s income tax returns and other information supplied to regulatory agencies.**

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**If, in the auditor's judgment, there is a lower risk of significant related parties remaining undetected, these procedures may be modified as appropriate.**

- 20 In addition the auditor may consider:
- (a) Inquiring as to the names of all superannuation and other trusts established for the benefit of employees, and the names of their management and trustees.
  - (b) Reviewing invoices and correspondence from lawyers for indications of the existence of related parties.
  - (c) Reviewing contracts and agreements, for example management agreements and trust agreements.
- 21 Related parties and related party transactions can be difficult to identify and measure because:
- Related parties may operate through an extensive and complex range of relationships and structures.
  - Related party transactions may not always involve an exchange of consideration.
  - Transactions with related parties may not be at arm's length and may be controlled, manipulated and/or concealed by management.
- 22 **When performing audit procedures which may identify related parties and related party transactions, the auditor shall consider the substance of the relationship and/or transaction being tested and not merely the legal form.**
- 23 In considering substance over legal form, the auditor considers the guidance in Accounting Standard AASB 101 "Presentation of Financial Statements".
- 24 **Where the applicable financial reporting framework requires disclosure of related party relationships, the auditor shall be satisfied that the disclosure is adequate.**

**Transactions with Related Parties**

- 25 **The auditor shall review information provided by those charged with governance and management identifying related party**

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**transactions and shall be alert for other material related party transactions.**

- 26 During the course of the audit, in accordance with paragraph 25 of this Auditing Standard, the auditor is required to be alert for transactions which appear unusual in the circumstances and may indicate the existence of previously unidentified related parties. Examples of transactions which may indicate the existence of unidentified related parties include the following:
- Transactions which have abnormal terms of trade, such as unusual prices, interest rates, guarantees, and repayment terms.
  - Transactions which lack an apparent logical business reason for their occurrence.
  - Transactions in which substance differs from form.
  - Transactions processed in an unusual manner.
  - High volume or significant transactions with certain customers or suppliers as compared with others.
  - Unrecorded transactions such as the receipt or provision of management services at no charge.
- 27 During the course of the audit, the auditor ordinarily carries out other audit procedures which may identify the existence of transactions with related parties. Examples include the following:
- Performing detailed tests of transactions and balances.
  - Reviewing minutes of meetings of shareholders and those charged with governance.
  - Reviewing accounting records for large or unusual transactions or balances, paying particular attention to transactions recognized at or near the end of the reporting period.
  - Reviewing confirmations of loans receivable and payable and confirmations from banks. Such a review may indicate guarantor relationship and other related party transactions.
  - Reviewing investment transactions, for example, purchase or sale of an equity interest in a joint venture or other entity.



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- 28 If, the auditor has reason to suspect the existence of previously unidentified related party transactions, then pursuant to the paragraph 8 of this Auditing Standard, the auditor is required to perform further audit procedures which are specifically designed to determine whether related party transactions have occurred.
- 29 Where during the audit, the auditor identifies related parties or related party transactions not previously identified, pursuant to the paragraph 8 of this Auditing Standard, the auditor is required to consider:
- (a) the reason for this, and the need to reassess risk of material misstatement concerning the identification of related parties and related party transactions; and
  - (b) the impact on other aspects of the audit when there is a reassessment of these risks.

**Examining Identified Related Party Transactions**

- 30 **In examining the identified related party transactions, the auditor shall obtain sufficient appropriate audit evidence as to whether these transactions have been properly recorded and disclosed.**
- 31 Given the nature of related party relationships, audit evidence of a related party transaction may be limited, for example, regarding the existence of inventory held by a related party on consignment or an instruction from a parent company to a subsidiary to record a royalty expense. Because of the limited availability of appropriate audit evidence about such transactions, the auditor ordinarily considers performing audit procedures such as:
- Discussing the purpose of the transaction with those charged with governance and management.
  - Confirming the terms and amount of the transaction with the related party.
  - Inspecting information in possession of the related party.
  - Confirming or discussing information with persons associated with the transaction, such as banks, lawyers, guarantors and agents.

## **Communication with Those Charged with Governance**

- 32 The auditor shall discuss with those charged with governance the nature, extent and business rationale of significant related party relationships and transactions, including those involving actual conflicts of interest.**
- 33 Ordinarily the discussion 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 report;
  - (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 responses from management 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 where necessary;
  - (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 regarding the nature and extent of disclosure, on a timely basis.

## **Management Representations**

- 34 The auditor shall endeavour to obtain a written representation from management concerning:**
- (a) **the completeness of information provided regarding the identification of related party relationships and transactions; and**

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- (b) **the adequacy of related party disclosures in the financial report.**

**Materiality**

35 When determining materiality regarding related parties, the auditor ordinarily considers the nature and circumstances of related party transactions, as it may often be difficult to extend materiality levels used in other aspects of the audit to those involving related parties because, for example:

- there is no objective value or basis of measurement for some related party transactions;
- the requirement to measure qualitative aspects such as the extent and impact of control or significant influence, or the impact of transactions on the users of the financial report; and
- director related disclosures are deemed material regardless of the quantum of the amounts involved.

36 The auditor may consider it appropriate to request management to estimate or place an imputed value on transactions in order to determine the impact on the financial report, for example transactions that have occurred but which have no recorded value.

**Audit Conclusions and Reporting**

37 **If the auditor is unable to:**

- (a) **obtain sufficient appropriate audit evidence regarding related parties and related party transactions; or**
- (b) **form a conclusion as to the completeness of the disclosure of related party relationships and transactions,**

**the auditor shall, in accordance with AUS 702 “Modifications to the Independent Auditor’s Report”<sup>1</sup>, express an “except for”**

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<sup>1</sup> The proposed Auditing Standard, AUS 702 is being reissued as two separate standards: Part A – “The Independent Auditor’s Report on a Complete General Purpose Financial Report” and Part B – “Modifications to the Independent Auditor’s Report”.

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**opinion or an inability to form an opinion on the basis of a limitation on the scope of the audit.**

**38 If the auditor concludes that the related party disclosures in the financial report:**

- (a) do not satisfy the requirements of the relevant accounting standard; or**
- (b) are otherwise inadequate,**

**the auditor shall, in accordance with AUS 702, express an “except for” opinion or an adverse opinion.**

39 Pursuant to paragraph’s 37 and 38 of this Auditing Standard, the audit report is required to include the information that would have been included in the financial report had the relevant Accounting Standard been followed.

**Conformity with International Standards on Auditing**

40 Except as noted below, this Auditing Standard conforms with International Standard on Auditing ISA 550 “Related Parties”, issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The main differences between this Auditing Standard and ISA 550 are as follows:

- ISA 550 includes a Public Sector Perspective section this Auditing Standard does not include a separate section on the public sector as it is sector neutral.
- This Auditing Standard includes the following specific mandatory requirements, some of which are included as guidance in the explanatory paragraphs of ISA 550:
  - ◆ The auditor shall plan and perform audit procedures designed to reduce to an acceptably low level the risks of material misstatements in the financial report resulting from the existence of related parties and related party transactions (paragraph 5(b)).
  - ◆ Based on the auditor’s knowledge of the business and enquiries of management, the auditor shall assess the risk that related parties and related party transactions will not be identified, or that related party transactions will not be disclosed or

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measured in accordance with the relevant financial reporting framework (paragraph 12).

- ◆ When performing audit procedures which may identify related parties and related party transactions, the auditor shall consider the substance of the relationship and/or transaction being tested and not merely the legal form (paragraph 22).
  - ◆ The auditor shall discuss with those charged with governance the nature, extent and business rationale of significant related party relationships and transactions, including those involving actual conflicts of interest (paragraph 32).
  - ◆ If the auditor concludes that the related party disclosures in the financial report do not satisfy the requirements of the relevant accounting standard; or are otherwise inadequate, the auditor shall, in accordance with AUS 702 “The Audit Report on a General Purpose Financial Report”, express an “except for” opinion or an adverse opinion (paragraph 38).
- This Auditing Standard provides the following guidance paragraphs on the additional specific mandatory requirements which are not included in ISA 550:
    - ◆ Risk assessment procedures at paragraphs 13, 15, 16 and 17.
    - ◆ Responses to assessed risks at paragraphs 18.
    - ◆ Substance over legal form at paragraph 23.

Compliance with this Auditing Standard enables compliance with ISA 550.

<b>Table of Proposed Changes from AUS 518 <i>Related Parties</i></b>
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**Base Standards**

ISA 550, "Related Parties," was used as the base standard when re-drafting this proposed Auditing Standard.

**Main differences between the Base Standard and the existing AUS 518**

The main differences between ISA 550 and the existing AUS 518 are:

1. the terminology and overall concepts have been aligned to the Audit Risk Standards. The issue and re-issue of the Audit Risk Standards in February 2004, comprising:
  2. AUS 402 "Understanding the Entity and Its Environment and Assessing the Risks of Misstatement";
  3. AUS 406 "The Auditor's Procedures in Response to Assessed Risks"; and
  4. AUS 502 "Audit Evidence"
- gave rise to necessary conforming amendments to certain existing AUSs, including AUS 518.

**Table of proposed changes from the Base Standard**

The table below details the proposed changes from the base standard, ISA 550 (excluding changes to reflect Australian terminology and references to Australian Auditing Standards).

Paragraph No. in Proposed Exposure Draft	Status (Requirement, Footnote or Guidance)	Description of Proposed Change(s)
1&2	Requirement / Guidance	New Application paragraphs.
3	Requirement	Re-position Operative Date paragraph.
5, 8, 12, 14, 19, 22, 24, 25, 30, 32, 34, 37, 38	Requirement	Replace "should" with "shall".
11, 15, 16, 27, 31, 33, 35	Guidance	Insert "ordinarily," to remove implied obligations.
11	Guidance	Insert: "pursuant to paragraph X of this Auditing Standard the auditor is required to" or  "pursuant to AUS X the auditor is required to"

Paragraph No. in Proposed Exposure Draft	Status (Requirement, Footnote or Guidance)	Description of Proposed Change(s)
26	Guidance	Insert: “in accordance with paragraph X of this Auditing Standard the auditor is required to”.
5	Requirement	<p>Amend requirement in ISA 550 (para. 2) is as follows:</p> <p>Include (b) from AUS 518 (paragraph .02) – ISA + requirements after inserting “reduce to an acceptably low level the risks of “ to maintain consistency with terminology in revised AUS 302, AUS 406 and 506.</p> <p><b>The auditor shall perform audit procedures designed to:</b></p> <p><b>a) obtain sufficient appropriate audit evidence regarding the identification and disclosure by management of related parties and the effect of related party transactions that are material to the financial report; and</b></p> <p><b>b) <u>reduce to an acceptably low level the risks of material misstatements in the financial report resulting from the existence of related parties and related party transactions.</u></b></p>
8	Requirement	<p>Amend requirement in ISA 550 (para. 3) as follows:</p> <p>i) insert “design” at part (a) to maintain consistency with terminology used in other standards relating to requirements at the assertion level.</p> <p>ii) Replace “<b>modified, extended or additional audit procedures as are appropriate in the circumstances.</b>” with “<b>further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement at the assertion level.</b>” to maintain consistency with terminology in revised AUS 406 and 506.</p> <p>Revise paragraph to read as follows:</p> <p><b>“Where there is any indication that such circumstances exist, the auditor shall <u>design and perform modified, extended or additional audit procedures as are appropriate in the circumstances further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement at the assertion level.</u>”</b></p>

Paragraph No. in Proposed Exposure Draft	Status (Requirement, Footnote or Guidance)	Description of Proposed Change(s)
11(b)	Guidance	Insert the following example relevant to the Australian regulatory environment: “provisions relating to financial benefits to related parties under the <i>Corporations Act 2001</i> , or where “.
11(a)	Guidance	Insert “and Accounting Standard AASB 101 “Presentation of Financial Statements”.
11(e), 13, 15, 16, 17, 20, 21, 26, 28, 29, 31, 35, 36, 39	Guidance	Include ISA plus guidance from AUS 518 relevant to risk assessment procedures.
12	Requirement	Insert mandatory paragraph from AUS 518 as it specifically addresses risk assessment. There are no specific paragraphs in ISA 550 that assess risk at the assertion level.
12	Requirement	Modify mandatory requirement in AUS 518 as follows: <b>“Based on the auditor’s knowledge of the business and <u>enquiries</u> <u>inquiries</u> of management, the auditor <del>should</del> <u>shall</u> assess the risk that related parties and related party transactions will not be identified, or that related party transactions will not be disclosed or measured in accordance with the <del>relevant</del> <u>applicable</u> financial reporting framework”.</b>
14, 19, 34	Requirement	Elevate guidance in AUS 518 which was essentially the same as a requirement in the ISA to ensure conformity with ISA 550.
37, 38	Requirement	Replace ISA requirement with more explicit AUS 518 requirement.
13	Guidance	Modify guidance in AUS 518 as follows: “To assess the risk of material misstatement at the assertion level, the auditor uses professional judgement to evaluate <u>the impact of</u> the following relevant factors”.
9	Guidance	Place definitions of “related party” and “related party transactions” at paragraph 9 instead of footnote.



Paragraph No. in Proposed Exposure Draft	Status (Requirement, Footnote or Guidance)	Description of Proposed Change(s)
32, 33	Requirement / Guidance	Insert mandatory requirement and explanatory guidance on “Communication with Those Charged with Governance”.
34	Requirement	Insert “endeavour to” consistent with wording in other AUSs where the auditor is required to obtain management representation.
34	Requirement	Expand “related parties” to “related party relationships and transactions” consistent with other mandatory requirements in the standard.
18	Guidance	<p>In “reducing the audit risk to an acceptably low level” as required by proposed paragraph 5 and AUS 302 (paragraph 18), the auditor is required to</p> <p>a) assess the risk of material misstatement; and</p> <p>b) design and perform testing as determined under AUS 406 (controls and substantive procedures).</p> <p>Insert ISA plus guidance on substantive procedures along wording proposed in revised ISA 550: “AUS 406, “The Auditor’s Procedures in Response to Assessed Risks”, provides guidance on the nature, timing and extent of substantive procedures that the auditor may design to respond to the assessed risks of material misstatement resulting from related parties. Appendix 3 of AUS 210, “The Auditor’s Responsibility to consider Fraud in an Audit of a Financial Report” list possible procedures to respond to assessed risks of material misstatement due to fraud, some of which may also be relevant in addressing the assessed risks of material misstatement resulting from related parties.”</p>
22, 23	Requirement / Guidance	Include mandatory requirement and guidance from AUS 518 (ISA +) on substance over form considerations.