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## Description of content of ISSAI 1550

### *Related Parties*

Reading this description is not a substitute for reading the ISA or ISSAI itself.

ISSAI 1550 is comprised of International Standard on Auditing (ISA) 550 – Related Parties, and a corresponding Practice Note. The ISA and the Practice Note are read together.

### *Authority*

Public Sector auditors using the ISAs or ISSAIs as the authoritative standard shall comply with all ISAs or ISSAIs relevant to the audit. An ISA or ISSAI is relevant to the audit when the ISA or ISSAI is in effect and the circumstances addressed by the ISA or ISSAI exist. The auditor shall not represent compliance with ISAs or ISSAIs in the auditor's report unless the auditor has complied with the requirements of all ISAs or ISSAIs relevant to the audit.

### *Description of the ISA*

ISA 550 deals with the auditor's responsibilities relating to related party relationships and transactions in an audit of financial statements. Specifically, it expands on how ISA 315<sup>1</sup>, ISA 330<sup>2</sup>, and ISA 240<sup>3</sup> are to be applied in relation to risks of material misstatement associated with related party relationships and transactions.

### *Objective of the auditor in terms of the ISA*

The objectives of the auditor are:

- 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:

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<sup>1</sup> ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment.

<sup>2</sup> ISA 330, The Auditor's Responses to Assessed Risks.

<sup>3</sup> ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.

- 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
  - ii. To conclude, based on the audit evidence obtained, whether the financial statements, insofar as they are affected by those relationships and transactions:
    - (a) Achieve fair presentation (for fair presentation frameworks); or
    - (b) Are not misleading (for compliance frameworks); and
- 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 the financial statements in accordance with the framework.

Among other matters, the requirements in this ISA deal with:

- a. Audit procedures and related activities necessary to obtain information relevant to identifying the risks of material misstatement associated with related party relationships and transactions.
- b. The need to consider fraud risk factors in connection with related parties when identifying and assessing the risks of material misstatement due to fraud in accordance with ISA 240.
- c. Audit procedures necessary to respond to assessed risks of material misstatement associated with related party relationships and transactions.
- d. Evaluation of the accounting for and disclosure of identified related party relationships and transactions.
- e. The need to obtain written representations concerning related parties from those charged with governance.
- f. Documentation.

#### *Description of the Practice Note*

The Practice Notes provides supplementary guidance for auditors applying ISA 550 when conducting financial audits of public sector entities.

#### *Content of the Practice Note*

The Practice Note provides additional guidance for public sector auditors related to:

- a. Overall Considerations relating to specific restrictions on the nature and scope of transactions with related parties in the public sector.
- b. Definition of related party.
- c. Risk assessment procedures and related activities.

- d. Identification and assessment of the risks of material misstatement associated with related party relationships and transactions.
- e. Responses to the risks of material misstatement associated with related party relationships and transactions.