

Related Parties

The Singapore Standard on Auditing SSA 17 “Related Parties” was approved by the Council of the Institute of Certified Public Accountants of Singapore in September 1996.

Auditors are required to comply with the auditing standards contained in this SSA in respect of audits of financial statements for periods beginning on or after 1 January 1997.

SSA 550 supersedes SSA 18 of the same title in June 2004. No substantive changes have been made to the original approved text and all cross references have been updated, as appropriate.

This revised SSA 550 supersedes the SSA of the same title in June 2005.

The Audit Risk Standards, comprising SSA 315 “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement”, SSA 330 “The Auditor’s Procedures in Response to Assessed Risks” and SSA 500 (Revised) “Audit Evidence” gave rise to conforming amendments in this SSA. These amendments are effective for audits of financial statements for periods beginning on or after 15 December 2004.

Singapore Standards on Auditing (SSAs) are to be applied in the audit of financial statements. SSAs are also to be applied, adapted as necessary, to the audit of other information and to related services.

SSAs contain the basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material. The basic principles and essential procedures are to be interpreted in the context of the explanatory and other material that provide guidance for their application.

To understand and apply the basic principles and essential procedures together with the related guidance, it is necessary to consider the whole text of the SSA including explanatory and other material contained in the SSA not just that text which is black lettered.

In exceptional circumstances, an auditor may judge it necessary to depart from an SSA in order to more effectively achieve the objective of an audit. When such a situation arises, the auditor should be prepared to justify the departure.

SSAs need only be applied to material matters.

The Public Sector Perspective (PSP) issued is set out at the end of an SSA. Where no PSP is added, the SSA is applicable in all material respects to the public sector.

Contents

paragraphs

Foreword	i - ii
Introduction	1 – 6
Existence and Disclosure of Related Parties	7 - 8
Transactions with Related Parties	9 - 12
Examining Identified Related Party Transactions	13 - 14
Management Representations	15
Audit Conclusions and Reporting	16

SINGAPORE STANDARD ON AUDITING

SSA 550

Related Parties

Foreword

- i This Standard is based on International Standard on Auditing 550, with such amendments as were considered appropriate for local adoption.
- ii The amendments are as follows:

Paragraph 1

The phrase at the end of the paragraph, ... regardless of whether International Accounting Standard (IAS 24), Related Parties, or similar requirement is part of the financial reporting framework.'

is deleted.

Paragraph 4

'Financial Reporting Standard FRS 24, Related Party Disclosures' is inserted in place of IAS 24.

Paragraph 6(a)

'the financial reporting framework may require disclosure in the financial statement of certain related party relationships and transactions, such as those required by IAS 24'

is replaced by:

'the disclosure in the financial statements of certain related party relationships and transactions is required by FRS 24'

Paragraph 6(b)

The phrase 'in various jurisdictions' after 'by the tax laws' has been deleted.

Introduction

- 1 The purpose of this Singapore Standard on Auditing (SSA) is to establish standards and provide guidance on the auditor's responsibilities and audit procedures regarding related parties and transactions with such parties.
2. **The auditor should perform audit procedures designed to 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 statements.** However, an audit cannot be expected to detect all related party transactions.
3. As indicated in SSA 200 "Objective and General Principles Governing an Audit of Financial Statements," 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 SSA 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.

Where there is any indication that such circumstances exist, the auditor should perform modified, extended or additional audit procedures as are appropriate in the circumstances.

- 4. Definitions regarding related parties are given in Financial Reporting Standard FRS 24 and are adopted for the purposes of this SSA¹.
- 5. 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 statements.
- 6. The auditor needs 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 needs to be aware of them because:
 - a) The applicable financial reporting framework may require disclosure in the financial statements of certain related party relationships and transactions is required by FRS 24;
 - b) The existence of related parties or related party transactions may affect the financial statements. For example, 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;
 - c) 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; and
 - d) A related party transaction may be motivated by other than ordinary business considerations, for example, profit sharing or even fraud.

Existence and Disclosure of Related Parties

- 7. **The auditor should review information provided by those charged with governance and management identifying the names of all known related parties and should perform the following audit procedures in respect of the completeness of this information:**
 - 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; and**
 - g) **Review the entity's income tax returns and other information supplied to regulatory agencies.**

¹ Definitions of related parties and related party transactions from FRS 24 "Related Party Disclosures," are:

Related parties – parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial and operating decisions.

Related party transactions – a transfer of resources or obligations between related parties, regardless of whether a price is charged.

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

8. **Where the applicable financial reporting framework requires disclosure of related party relationships, the auditor should be satisfied that the disclosure is adequate.**

Transactions with Related Parties

9. **The auditor should review information provided by those charged with governance and management identifying related party transactions and should be alert for other material related party transactions.**
10. **When obtaining an understanding of the entity's internal control, the auditor should consider the adequacy of control activities over the authorization and recording of related party transactions.**
11. During the course of the audit, the auditor needs to be alert for transactions which appear unusual in the circumstances and may indicate the existence of previously unidentified related parties. Examples include:
 - 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.
12. During the course of the audit, the auditor carries out audit procedures which may identify the existence of transactions with related parties. Examples include:
 - 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.

Examining Identified Related Party Transactions

13. **In examining the identified related party transactions, the auditor should obtain sufficient appropriate audit evidence as to whether these transactions have been properly recorded and disclosed.**
14. 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 considers performing audit procedures such as:
 - 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.

Management Representations

15. **The auditor should obtain a written representation from management concerning:**
 - a) **The completeness of information provided regarding the identification of related parties; and**
 - b) **The adequacy of related party disclosures in the financial statements.**

Audit Conclusions and Reporting

16. **If the auditor is unable to obtain sufficient appropriate audit evidence concerning related parties and transactions with such parties or concludes that their disclosure in the financial statements is not adequate, the auditor should modify the audit report appropriately.**

Public Sector Perspective

1. *In applying the audit principles in this SSA, auditors have to make reference to legislative requirements which are applicable to public sector entities and employees in respect of related party transactions. Such legislation may prohibit entities and employees from entering into transactions with related parties. There may also be a requirement for public sector employees to declare their interests in entities with which they transact on a professional and/or commercial basis. Where such legislative requirements exist, the audit procedures would need to be expanded to detect instances of noncompliance with these requirements.*
2. *While International Public Sector Guideline 1 “Financial Reporting by Government Business Enterprises,” indicates that all Financial Reporting Standards (FRSs) apply to business enterprises in the public sector, FRS 24, Related Party Disclosures does not require that transactions between state controlled enterprises be disclosed. Definitions of related parties included in FRS 24 and this SSA do not address all circumstances relevant to public sector entities. For example, the status, for purposes of application of this SSA, of the relationship between ministers and departments of state, and departments of state and statutory authorities or government agencies is not discussed.*