



Sri Lanka Auditing Standard 550 Related Parties

Sanath Fernando

Partner, Ernst & Young

04 October 2012

Content

1. Definition of Related Parties- LKAS 24
2. Auditor's responsibility
3. Management's responsibility
4. Audit procedures
5. Practical considerations

1. Related Party Definition

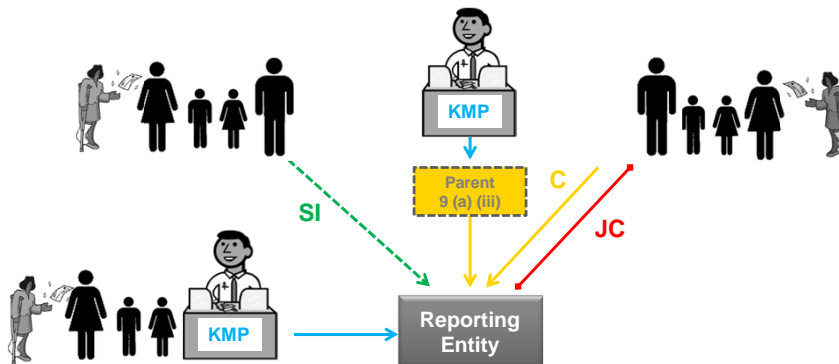
- In summary RP definition includes:
 - Persons
 - Entities
 - That controls, influences or joint controls a Reporting Entity
 - That is controlled, influenced or joint controlled by a Reporting Entity
 - Entities connected with persons

2

Persons

1. Related Party Definition

- ▶ A person or a close member of that person's family is related to a reporting entity if that person:
 - ▶ (i) has Control or Joint Control over the reporting entity;
 - ▶ (ii) has Significant Influence over the reporting entity; or
 - ▶ (iii) is a member of the Key Management Personnel of the reporting entity or of a parent of the reporting entity.

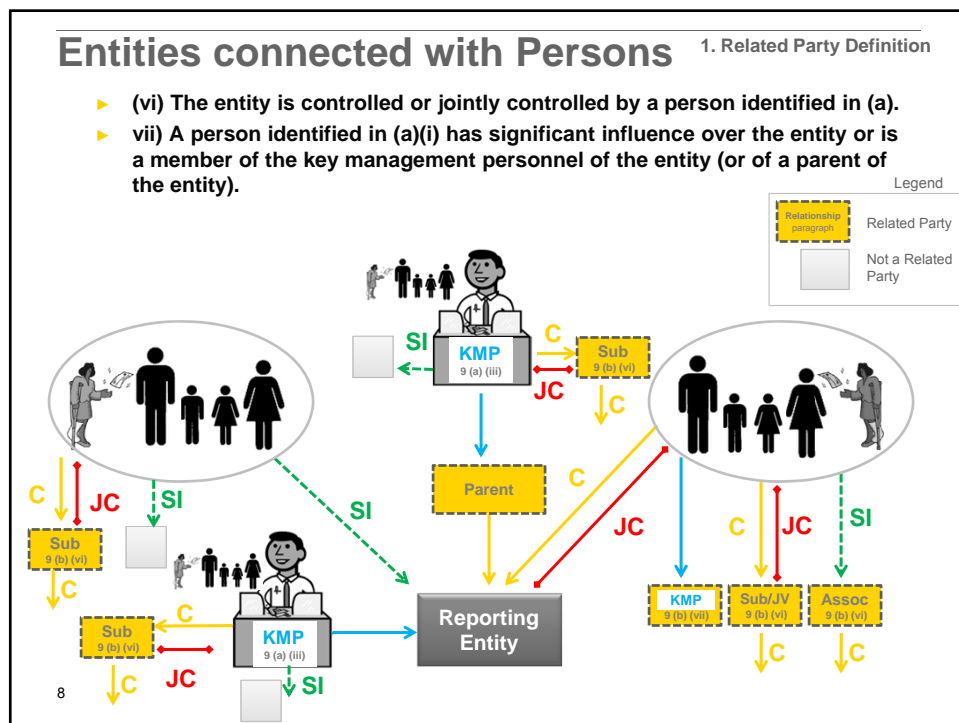
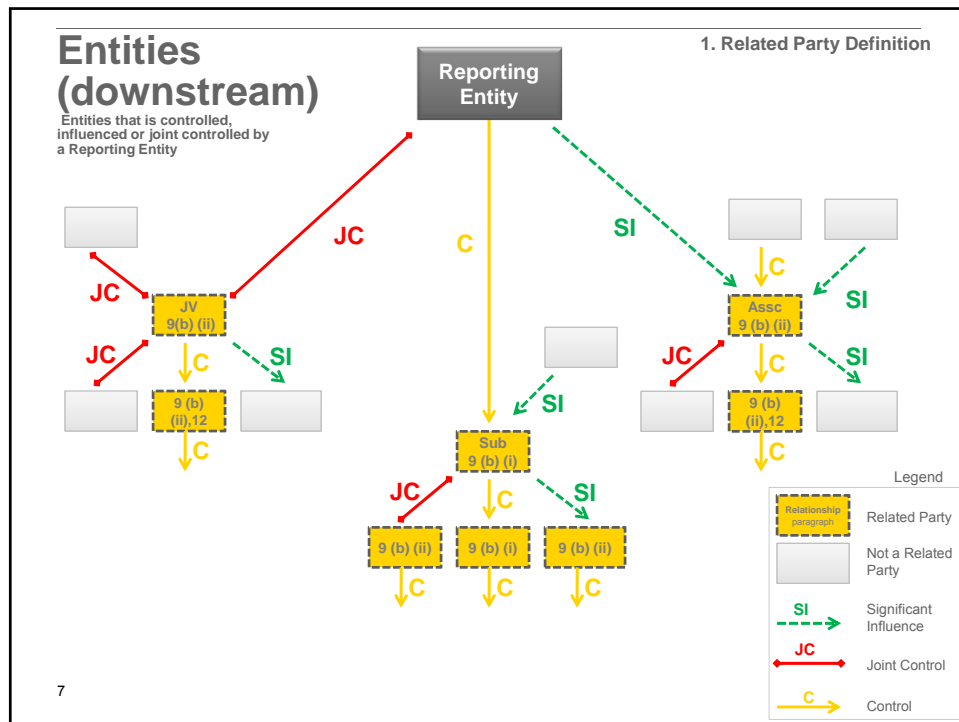


4

1. Related Party Definition

- 5







2. Auditors responsibility

- Auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence regarding the:
 - identification of related parties
 - 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.

4



2. Auditors responsibility

- Degree of uncertainty is inherent in RPT: affects completeness assertion
- SLAuS 550 provides audit procedures that will provide sufficient appropriate audit evidence over completeness assertion, unless the auditor identified circumstance 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.
- If so perform modified, extended or additional audit procedures as are appropriate in the circumstances

5

3. Management's responsibility

- 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

3. Audit procedures

- A. Existence and disclosure of RP
- B. Transactions with Related Parties
- C. Examining Identified Related Party Transactions
- D. Management Representations



7



A. Existence and disclosure of RP

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;

8



A. Existence and disclosure of RP

- 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.

9

B. Transactions with RP

- 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
- 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.
- Focus on the
 - Process
 - Internal controls over completeness of recording

10

B. Transactions with RP

Keep your eyes open for:

- 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



11



C. Examining Identified Related Party Transactions

- 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.



12



D. Management Representations



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

13



E. Audit Conclusions and Reporting

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 auditor's report appropriately



14



Practical Considerations

- Open and timely communication on RP matters within engagement team is vital
 - RPs can have pervasive effects throughout the entity
 - Share knowledge and insights about entity's RPs
 - Agree on approach to inspecting records and documents
 - Share relevant RP information obtained from risk assessment process
 - Promptly communicate newly identified RPs to team

15



Practical Considerations

- Given potential for unidentified/undisclosed RPs/RPTs
 - Maintain attitude of professional skepticism
 - Be alert to significant transactions outside normal business
- RP disclosures may require special attention
 - Disclosures may be complex and are often a source of material misstatement
 - Complexity and excessive detail may obscure substance of RPTs
 - Evaluate disclosures for adequacy and understandability

16



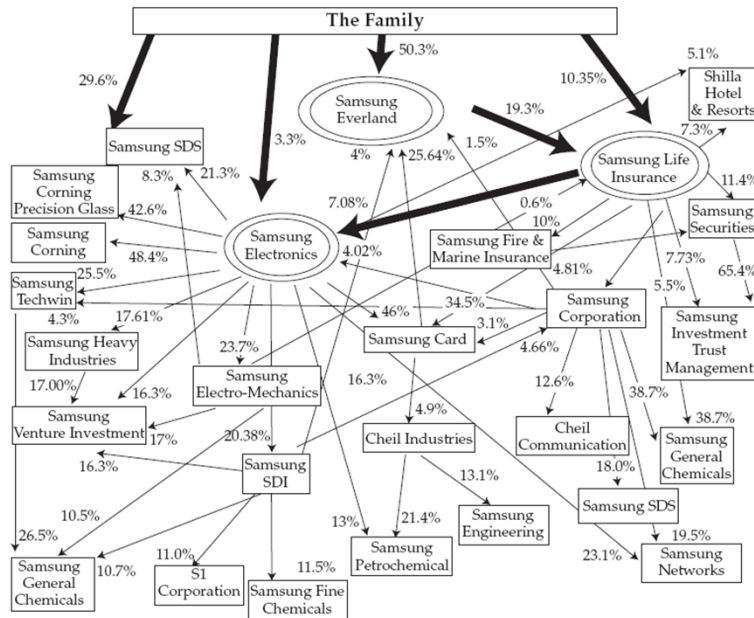
Practical Considerations

- Include relevant RP considerations in early communications with TCWG
 - Input from TCWG feeds into risk assessment process
 - Early dialogue helps avoid later surprises
- Discuss significant RP matters arising during audit with TCWG
 - Reach common understanding of facts and circumstances
 - Helps to address RP issues on a timely basis

17



This is it !!!-The Lee Family's Samsung Dynasty



Questions

The presentation is written in the author's personal capacity and does not reflect the views of Ernst & Young.