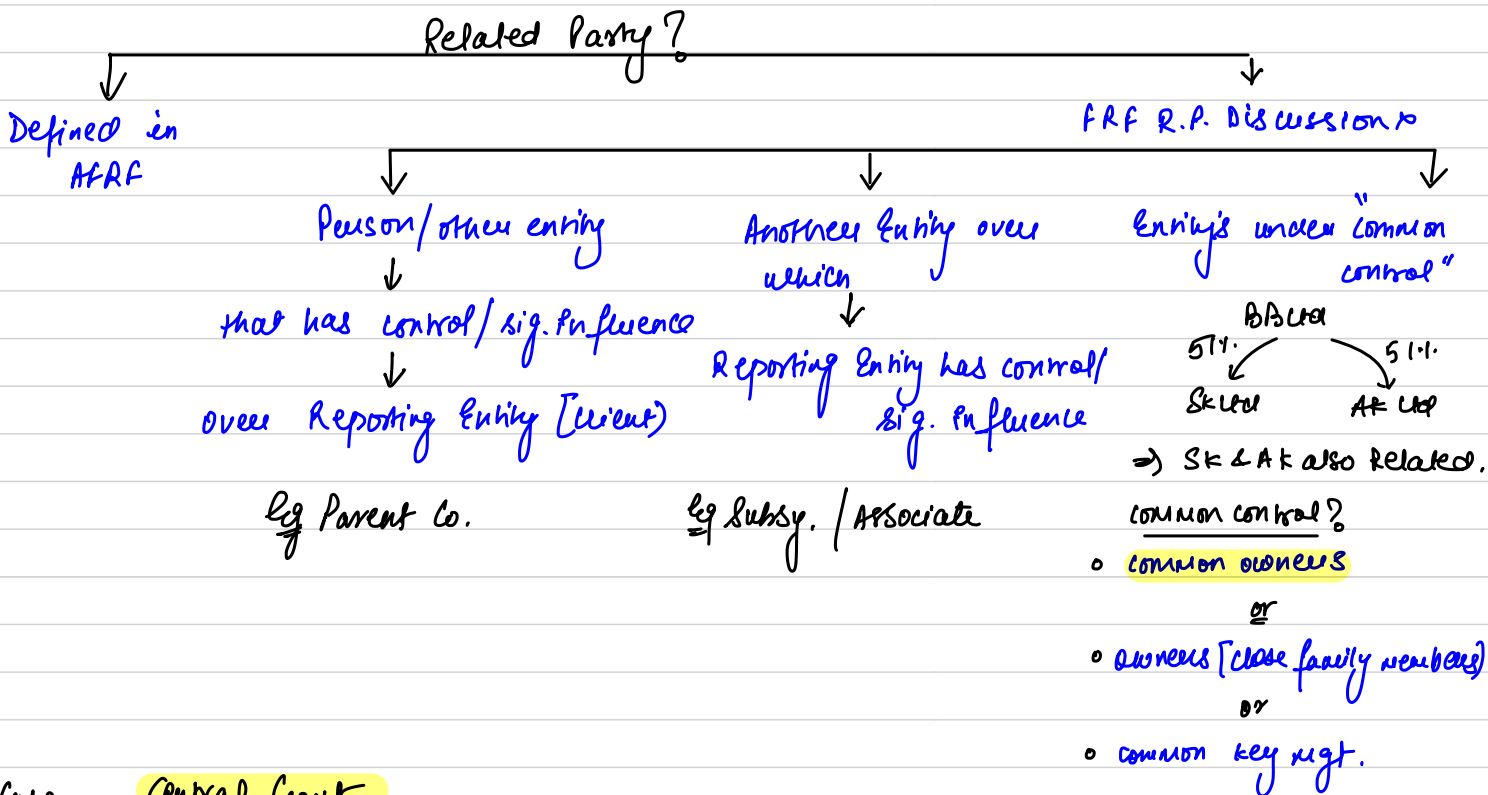
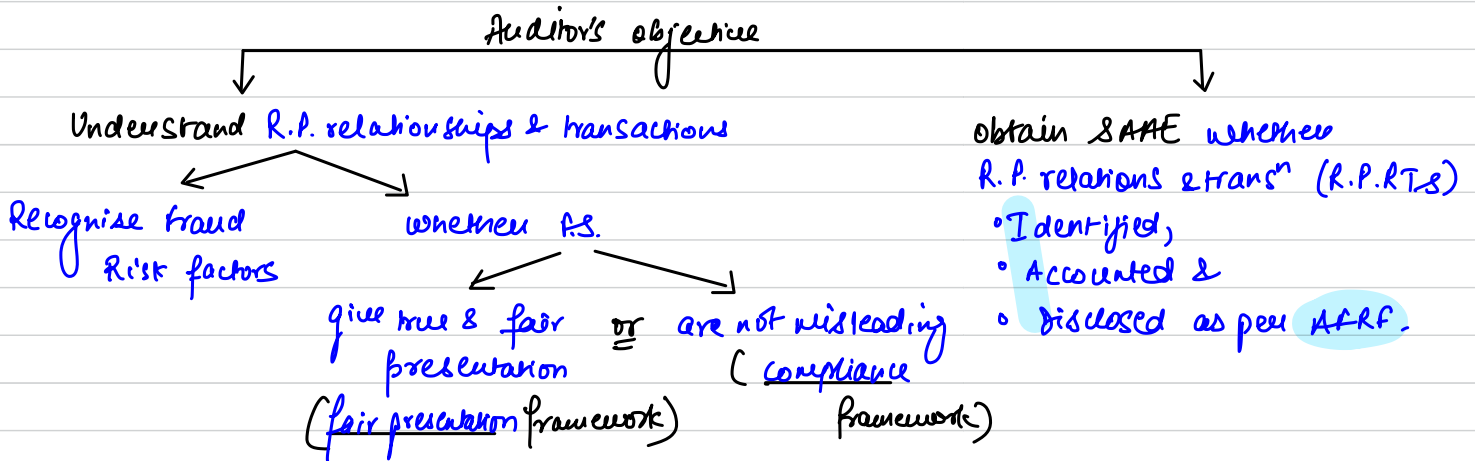


SA 550: Related Parties (R.P.)

F.R [Ind AS 24 / AS 18] ⇒ F.S. Disclosure → R.P.
 Relationship
 Transactions
 Balances



Case **Central Govt**
 51% → Ambani Ltd
 51% → Adani Ltd
 Moditel & Adani Ltd ⇒ R.P.? ~~Yes~~ **Not considered related**
 unless you engaged in sig. transactions **or** share sig. resources with each other.

eg • Ambani Ltd purchases goods from Adani Ltd [share in total purchases 60%]
 ↳ Disclosure ✓

• Ambani Ltd grant loan to Adani Ltd. ₹75 cr (i.e. 40% of Total Borrowings)

↳ disclose ✓

NOTE: Entities under common control by state (National/State/Local govt.)
not considered related unless they engage in sig. transⁿ or share sig. resources.

Ind AS 24: Disclose?

① Name of Govt + Relationship with Reporting Entity [control/jointly control/sig. influence]

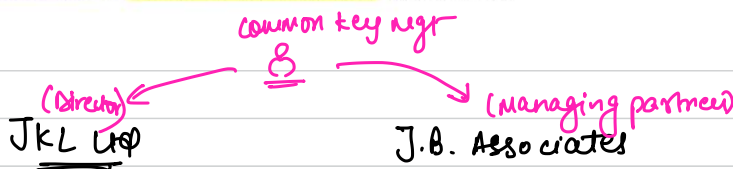
2. Nature & Amt. of sig. transⁿ [individually/collectively.] Q6

Engg. Team Discussion [R.P.R.T → R.P. Relationships & Transⁿ]

- ① Nature & Extent of R.P.R.Ts → ② Records & Docs that may indicate R.P.R.Ts
↓ (Alert!)
- ③ Maintain Professional Skepticism throughout audit
↓ ?
- ④ Circumstances indicating R.P.R.Ts not disclosed to auditor
↙ ?
- ⑤ Importance that mgt. attaches to maintain I.Cs for
- I identification
 - A counting.
 - D disclosure of R.P.R.Ts.

Question 1

JKL Limited is engaged in the business of Construction and real estate having various projects across states. M/s YT & Co, Chartered Accountants have been appointed as Statutory Auditors. Audit Team from M/s YT & Co for audit of JKL Limited comprises of CA Z — Engagement Partner, CA Q, a paid assistant and 3 Articled Assistants. During preliminary verification, CA Z observed that huge amount of sub-contract payments were made to M/s JB Associates, a partnership firm in which Director of JKL Limited is a managing partner. The engagement team discussed that SA 315 and SA 240 shall include specific consideration of the susceptibility of the financial statements to material misstatement due to fraud or error that could result from the JKL Limited's related party relationships and transaction. Highlight the matters that are to be addressed in the discussion by CA Z with engagement team members with reference to the relevant standard on Auditing. [May'22]



◦ Records & Docs. [Read from book → 6 points learn]

Audit Procedures

Risk Assessment Procedure
(Book) ✓

Responses to ROMM (R.P.R.Ts)

Other.

- W.R.
- Communication with TCWG
- Documentation.

Spl. cases:

① Identify (New) unidentified / undisclosed R.P. R.Ts.

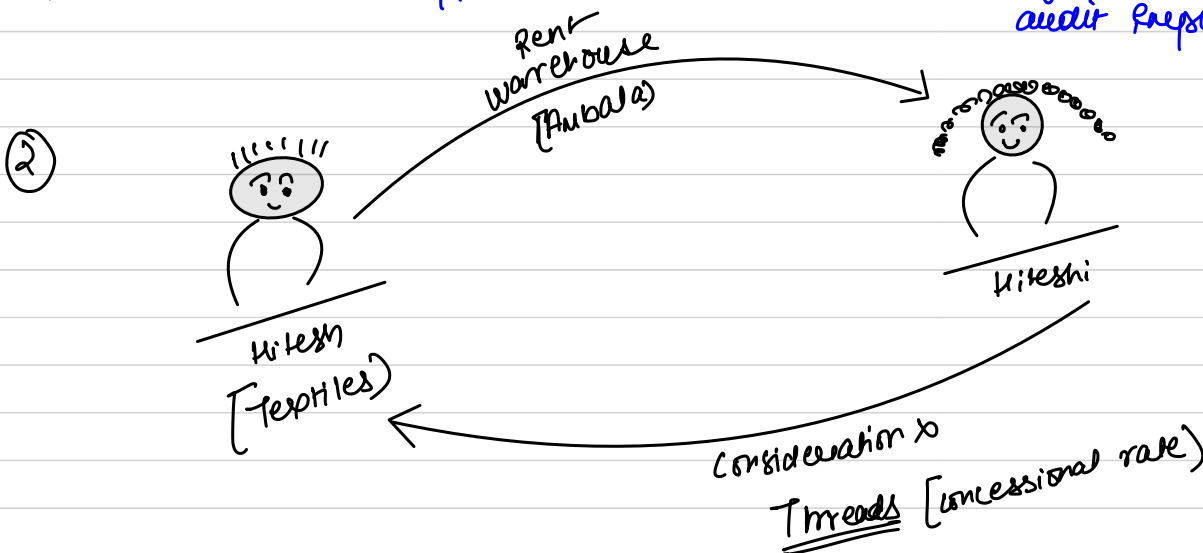
② R.P. Transⁿ vs N.C.O.B.

Spl. Cases ① Identification of unidentified / undisclosed R.P. transaction

- a) Promptly communicate to other E.T. Members → b) where FRF requires R.P. disclosures
- Request mgt to identify all transactions with newly identified R.P.Ts
 - Inquire, why J.C. failed to identify / disclose R.P. R.T(s)

- d) Reconsider Risk that other R.P(s) or R.P.Ts may exist that mgt has not identified / disclosed.
- c) Perform Substantive Audit Procedures on newly identified R.P. R.T(s)

e) If non-disclosure appears intentional (i.e. ROMM due to fraud), evaluate audit implications.



Sig. transⁿ vs N.C.O.B. (Normal course of Business)

What to do? a) Inspect contract & evaluate:

Business Rationale of the transaction (logic)

Terms of transⁿ are consistent with mgt explanation.

b) Transⁿ (Basic)

(ATC) (Law)

Transⁿ accounted & disclosed as per AFRF

obtain A.Evidence that transⁿ is authorized & approved.

Note. If no business rationale, sig. transⁿ o/s N.C.O.B

(Ind AS → Fair value)

↓
Fraud Risk factor (SARUO)

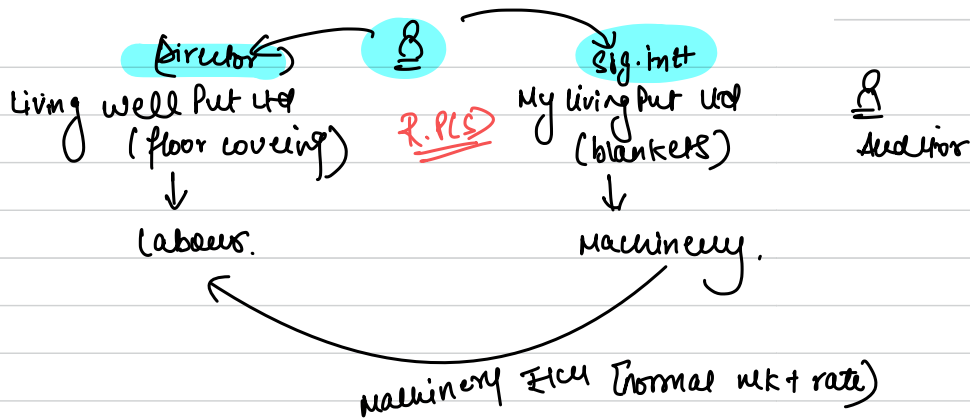
Question 4

carpets

"Living Well Private Limited" is engaged in the manufacturing and export of floor coverings. Such products are labour-intensive and do not require much of capital investment in machinery. The company has no plans to diversify in other product lines. Its directors are also holding significant interest in another company "My Living Private Limited" engaged in manufacturing of blankets using capital intensive machinery.

During the course of the audit of "My Living Private Limited", it was noticed by you that the company has sold machinery of ₹ 1 crore to "Living Well Private Limited" during the year. The transaction has been done at normal market rates applicable to such used machinery.

How do you view the above transaction as auditor of "My Living Private Limited"? [5M]



O/S NCOB
↳ Business Rationale
↓
"fraud risk factor"

SA 550 (1 Pg. Revision)

1. Objectives • Understand R.P. R.Ts
 $\left\{ \begin{array}{l} \text{fraud risk factor by R.P. with dominant influence} \\ \text{FS - True \& fair view? (APF)} \\ \text{misleading? (compliance framework)} \end{array} \right.$

2. R.P. Definition • (upar) Entity \rightarrow Reporting Entity [control / sig. influence]
• (niche) Reporting Entity \rightarrow Entity (" / ")
• (both) common control.
[Exception] By State (CY / SC)

Ind AS 24 Disclose — name of Govt + Relationship
 $\left\{ \begin{array}{l} \text{sig. trans}^n \text{ with common control Entity} \\ \text{(individual / collective)} \end{array} \right.$

3. ET Discussion • Nature & Extent R.P. R.Ts. \rightarrow Records & Docs. \rightarrow Prof. skepticism
• Importance mgt gives to \leftarrow Circumstances
GC (G/A/D of R.P.R.Ts) (R.P.R.Ts x Disclosed to Auditor)

4. Audit Procedures
• R.A.P [Understand] — Inquiry (R.P. \leftarrow Relation
 \leftarrow Transⁿ (Type + Purpose)
Inquiry JCs. — Atc & Disclose R.P. R.Ts
Authorise — R.P.Ts
 \leftarrow o/s NCOB.

Spl. cases 1) Identify unidentified / undisclosed R.P. / RPT

• Prompt communicate ET members \rightarrow Inquire mgt — other R.P.Ts
 \downarrow IC \rightarrow fail to identify?
Reconsider risks \leftarrow Substantive Audit procedures (new RPTs)
 \downarrow
Intentional (Audit implications)

2) Sig. transⁿ o/s N.C.OB • Contract — Business Rationale
 $\left\{ \begin{array}{l} \text{Terms consistent} \rightarrow \text{mgt expl}^n \end{array} \right.$
• (Basic) — Atc & Disclose \rightarrow AFRF
— Authorised & approved.

• Sig. matters (R.P) \rightarrow communicate to TCWG • W.R.: R.P. Disclosed $\left\{ \begin{array}{l} \text{FS} \\ \text{Auditor} \end{array} \right.$
• Document: Name & Transⁿ with RPs