



**Agenda Item 2A**

**Comparison of PCAOB AS 18, *Related Parties*, to the Requirements of GAAS**

The following shows Release 2014-002, *AS No. 18-Related Parties* (AS2410); comparable GAAS paragraphs marked for proposed conforming amendments to eliminate unnecessary differences with the PCAOB standards; analysis of whether a difference exists and if that difference is unnecessary, and explanations and rationales for proposing, or not proposing, amendments to GAAS. The proposed amendments are shown in ***bold italics*** in shaded cells in the second column.

<b>PCAOB AS 18, Related Parties</b>	<b>AU-C 550 (unless otherwise indicated)</b>	<b>Analysis – unnecessary difference?</b>	<b>Recommend change to GAAS?</b>
<p>1. This standard establishes requirements regarding the auditor’s evaluation of a company's identification of, accounting for, and disclosure of relationships and transactions between the company and its related parties.1/</p>	<p>1. This section addresses the auditor’s responsibilities relating to related party relationships and transactions in an audit of financial statements. Specifically, it expands on how <i>section 315</i> Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, section 330, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained and section 240, Consideration of Fraud in a Financial Statement Audit are to be applied regarding risks of material misstatement associated with related party relationships and transactions.</p>	<p>The requirements are equivalent.</p>	<p>No</p>

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<p>1/ The auditor should look to the requirements of the U.S. Securities and Exchange Commission for the company under audit with respect to the accounting principles applicable to that company, including the definition of the term "related parties" and the financial statement disclosure requirements with respect to related parties.</p>	<p>10. For purposes of GAAS, the following terms have the meanings attributed as follows:          arm's length transaction. A transaction conducted on such terms and conditions as between a willing buyer and a willing seller who are unrelated and are acting independently of each other and pursuing their own best interests.          related party. A party defined as a related party in GAAP. (Ref: par. A1)          .A1 GAAP frameworks include or refer to specific disclosure requirements for related party relationships and transactions. If the applicable financial reporting framework does not have specific disclosure requirements, the auditor, nonetheless, evaluates whether related party information is disclosed in a manner comparable to GAAP in order for the financial statements to achieve fair presentation.</p>	<p>No incremental requirements.</p>	<p>No</p>
<p>2. The objective of the auditor is to obtain sufficient appropriate audit evidence to determine whether related parties and relationships and transactions with related parties have been properly identified, accounted for, and disclosed in the financial statements. 2/          2/ See, e.g., paragraphs 30-31 of Auditing Standard No. 14,</p>	<p>9. The objectives of the auditor are:          (a) to obtain an understanding of related party relationships and transactions sufficient to be able to          (i) 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.</p>	<p>AU-C 550 objective is more detailed.</p>	<p>No</p>

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<p><i>Evaluating Audit Results. See also paragraph .04 of AU sec. 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.</i></p>	<p>(ii) conclude, based on the audit evidence obtained, whether the financial statements, insofar as they are affected by those relationships and transactions achieve fair presentation ; and (b) obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately identified, accounted for, and disclosed in the financial statements .</p>		
<p>3. The auditor should perform procedures to obtain an understanding of the company's relationships and transactions with its related parties that might reasonably be expected to affect the risks of material misstatement of the financial statements in conjunction with performing risk assessment procedures in accordance with Auditing Standard No. 12, <i>Identifying and Assessing Risks of Material Misstatement</i>. The procedures performed to obtain an understanding of the company's relationships and transactions with its related parties include:</p> <ul style="list-style-type: none"> <li>o Obtaining an understanding of the company's process (paragraph 4);</li> <li>b. Performing inquiries (paragraphs 5-7); and</li> </ul>	<p>12. As part of the risk assessment procedures and related activities that section 240 and section 315 require the auditor to perform during the audit, the auditor should perform the audit procedures and related activities set out in paragraphs 13-18 to obtain information relevant to identifying the risks of material misstatement associated with related party relationships and transactions.</p>	<p>PCAOB similar to ISA and Clarified SAS. (Note: ISA 550.23 and AUC 550.24 require the auditor to obtain an understanding of the business rationale (similar to nature of related party relationships/transactions)).</p>	<p>No</p>

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<p>c. Communicating with the audit engagement team and other auditors (paragraphs 8-9).</p>			
<p>Note: Obtaining an understanding of the company's relationships and transactions with its related parties includes obtaining an understanding of the nature of the relationships between the company and its related parties and of the terms and business purposes (or the lack thereof) of the transactions involving related parties.</p>	<p>AU-C 550.14 requires the auditor to inquire of management regarding the nature of the relationships between the entity and related parties.</p> <p>c.. Whether the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions</p>	<p>AU-C 550 uses the words “type and purpose” instead of “terms and business purpose”. Not a performance difference.</p>	<p>No</p>
<p>Note: Performing the risk assessment procedures described in paragraphs 4-9 of this standard in conjunction with the risk assessment procedures required by Auditing Standard No. 12 is intended to provide the auditor with a reasonable basis for identifying and assessing risks of material misstatement associated with related parties and relationships and transactions with related parties.</p>	<p>.12 As part of the risk assessment procedures and related activities that section 240 and section 315 require the auditor to perform during the audit, the auditor should perform the audit procedures and related activities set out in paragraphs .13–.18 to obtain information relevant to identifying the risks of material misstatement associated with related party relationships and transactions. fn 7 fn 8</p>	<p>This PCAOB “Note” does not add any requirements but simply indicates the intent of the paragraph.</p>	<p>No</p>

<sup>fn 7</sup> Paragraph .16 of section 240.

<sup>fn 8</sup> Paragraph .05 of section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

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<p>4. In conjunction with obtaining an understanding of internal control over financial reporting, the auditor should obtain an understanding of the company's process for:<sup>3/</sup></p> <ol style="list-style-type: none"> <li>a. Identifying related parties and relationships and transactions with related parties;</li> <li>b. Authorizing and approving transactions with related parties; and</li> <li>c. Accounting for and disclosing relationships and transactions with related parties in the financial statements.</li> </ol> <p><sup>3/</sup> See, e.g., paragraph 18 of Auditing Standard No. 12 which requires the auditor to obtain a sufficient understanding of each component of internal control over financial reporting to (a) identify the types of potential misstatements, (b) assess the factors that affect the risks of material misstatement, and (c) design further audit procedures. See also paragraph 20 of Auditing Standard No. 12, which states that obtaining an understanding of internal control includes evaluating the design of controls that are relevant to the audit and</p>	<p>15. The auditor should inquire of management and others within the entity and perform other risk assessment procedures considered appropriate to obtain an understanding of the controls, if any, that management has established to (Ref: Para. A15-A20)</p> <ol style="list-style-type: none"> <li>a. identify, account for, and disclose related party relationships and transactions.</li> <li>b. authorize and approve significant transactions and arrangements with related parties. (Ref: Para. A21)</li> <li>c. authorize and approve significant transactions and arrangements outside the normal course of business.</li> </ol>	<p>There are subtle differences between the two standards.</p> <ol style="list-style-type: none"> <li>1. In terms of authorization and approval of related party transactions, AU-C 500 inserts the term “significant” versus the PCAOB standard that requires an understanding of the controls over both significant and nonsignificant related party transactions.</li> <li>2. AS 18 requires the auditor to “obtain an understanding”, whereas AU-C 550 requires the auditor to “inquire...to obtain an understanding””? Some firms do different procedures – they think PCAOB requires a walkthrough and GAAS just requires inquiries, despite the fact that AU-C 500.15 states “perform other risk assessment procedures considered appropriate”..</li> </ol>	<p>No</p> <ol style="list-style-type: none"> <li>1. Note that materiality is considered in the application of the AS 18 requirement, so there is no performance difference in the application of these requirements.</li> <li>2. Not an unnecessary difference that warrants amending GAAS, because the emphasis placed on controls is a fundamental difference between issuers and non-issuers.</li> </ol>
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<p>determining whether the controls have been implemented.</p>			
<p>5. The auditor should inquire of management regarding:<sup>4/</sup>  a. The names of the company’s related parties during the period under audit, including changes from the prior period;  b. Background information concerning the related parties (for example, physical location, industry, size, and extent of operations);  c. The nature of any relationships, including ownership structure, between the company and its related parties;  d. The transactions entered into, modified, or terminated, with its related parties during the period under audit and the terms and business purposes (or the lack thereof) of such transactions;  e. The business purpose for entering into a transaction with a related party versus an unrelated party;  f. Any related party transactions that have not been authorized and approved in accordance with the company’s established policies or procedures regarding the</p>	<p>14. The auditor should inquire of management <b>and others within the entity</b> regarding the following:  (a) The identity of the entity’s related parties, including changes from the prior period (Ref: Para. A9-A14)  (b) The nature of the relationships between the entity and these related parties <b>and the business purpose of entering into a transaction with a related party versus an unrelated party</b>  (c) Whether the entity entered into, <b>modified, or terminated</b> any transactions with these related parties during the period and, if so, the type and <b>business</b> purpose of the transactions.</p> <p><i>.A13X The inquiry about the identity of the entity’s related parties may include background information concerning the related parties, for example, physical location, industry, size, and extent of operations.</i></p> <p><b>.15</b> The auditor should inquire of management and others within the entity and perform other risk assessment</p>	<ul style="list-style-type: none"> <li>• Paragraph 5a of AS No. 18 and 14a of AU-C 550 are equivalent.</li> <li>• Paragraph 5c of AS No. 18 and 14b of AU-C 550 are similar, but PCAOB standards explicitly require inquiry regarding the ownership structure.</li> <li>• Paragraph 5d of AS No. 18 and paragraph 14c of AU-C 550 are similar, but the PCAOB standard does not limit to new transactions, but also modifications and terminations of related party transactions.</li> <li>• While the ASB standard requires inquiry regarding the type and purpose of the related party transactions, the PCAOB standard explicitly requires inquiry regarding the business purpose of such transactions.</li> <li>• Paragraphs b, e, f, and g of AS No. 18 are incremental to the</li> </ul>	<p>Yes. Requiring an understanding of the business purpose of the RPT and whether the entity modified or terminated any transactions would lead to a higher quality audit (understanding the business purpose may detect fraudulent transactions, and knowing whether transactions were modified or terminated may detect material misstatements). The amendments to the application material are helpful guidance that would be overly prescriptive as requirements.</p> <ul style="list-style-type: none"> <li>• Amend par. 14 to incorporate AS18.5d and AS18.5e.</li> </ul>

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<p>authorization and approval of transactions with related parties; and g. Any related party transactions for which exceptions to the company's established policies or procedures were granted and the reasons for granting those exceptions.</p> <p>4/ <i>See also</i> AU sec. 333, <i>Management Representations</i>. Obtaining such representations from management complements the performance of procedures in paragraph 5 and is not a substitution for those inquiries.</p>	<p>procedures<sup>fn 11</sup> considered appropriate to obtain an understanding of the controls, if any, that management has established to (Ref: <a href="#">par. .A15-.A20</a>)</p> <ol style="list-style-type: none"> <li>a. identify, account for, and disclose related party relationships and transactions.</li> <li>b. authorize and approve significant transactions and arrangements with related parties. (Ref: <a href="#">par. .A21</a>)</li> <li>c. authorize and approve significant transactions and arrangements outside the normal course of business</li> </ol> <p><i>Inquiries should include asking about any related party transactions</i></p> <ul style="list-style-type: none"> <li>• <i>that have not been authorized and approved in accordance with the company's established policies or procedures regarding the authorization and approval of transactions with related parties.</i></li> <li>• <i>for which exceptions to the company's established policies or procedures were granted and the reasons for granting those exceptions.</i></li> </ul>	<p>requirements of AU-C 550.</p>	<ul style="list-style-type: none"> <li>• Add new par. A13X to address AS 18 paragraph 5b</li> <li>• Amend par. 15 to incorporate AS 18 paragraph 5f and 5g</li> </ul>
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<sup>fn 11</sup> Paragraph .06 of section 315.

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<p>6. The auditor should inquire of others within the company regarding their knowledge of the matters in paragraph 5 of this standard. The auditor should identify others within the company<sup>5/</sup> to whom inquiries should be directed, and determine the extent of such inquires, by considering whether such individuals are likely to have knowledge regarding:</p> <p>a. The company’s related parties or relationships or transactions with related parties;</p> <p>b. The company’s controls over relationships or transactions with related parties; and</p> <p>c. The existence of related parties or relationships or transactions with related parties previously undisclosed to the auditor. 6/</p> <p>5/ Examples of "others" within the company who may have such knowledge include: personnel in a position to initiate, process, or record transactions with related parties and those who supervise or monitor such personnel; internal auditors; in-house legal counsel;</p>	<p>A15. Others within the entity are those considered likely to have knowledge of the entity’s related party relationships and transactions and the entity’s controls over such relationships and transactions, <b><i>as well as the existence of related parties or relationships or transactions with related parties previously undisclosed to the auditor.</i></b> These may include, to the extent that they do not form part of management, the following:</p> <ul style="list-style-type: none"> <li>• Those charged with governance</li> <li>• Personnel in a position to initiate, authorize, process, or record transactions that are both significant and outside the entity’s normal course of business and those who supervise or monitor such personnel</li> <li>• Internal auditors</li> <li>• In-house legal counsel</li> <li>• The chief ethics officer or equivalent person</li> <li>• Chief compliance officer</li> </ul> <p>A16. The audit is conducted on the premise that management and, when appropriate, those charged with governance have acknowledged and understand that they have responsibility for the preparation and fair presentation of the financial statements</p>	<ul style="list-style-type: none"> <li>• AU-C 550.15 requires the auditor to inquire of others within the entity to obtain an understanding of the controls over related party relationships and transactions.</li> <li>• AS No. 18 includes incremental requirements to inquire of others within the company regarding related party relationships and transactions and is not limited to inquiry regarding controls over such relationships and transactions.</li> <li>• Paragraph 6 of AS No. 18 provides guidance as to the identification of individuals to whom such inquiries should be directed. Similarly, paragraph .A15 of AU-C 550 provides a list of others who are likely to have knowledge of related party relationships and Significant incremental <u>required</u> inquiries (see bold italic text) of others are the</li> </ul>	<p>See AS 18 par. 5</p>
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<p>the chief compliance/ethics officer or person in equivalent position; and the human resources director or person in equivalent position.</p> <p>6/ For purposes of this standard, the phrase "related parties or relationships or transactions with related parties previously undisclosed to the auditor" includes, to the extent not disclosed to the auditor by management: (1) related parties; (2) relationships or transactions with known related parties; and (3) relationships or transactions with previously unknown related parties.</p>	<p>in accordance with the applicable financial reporting framework and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.<sup>5</sup> Accordingly the preparation of the financial statements requires management, with oversight from those charged with governance, to design, implement and maintain adequate controls over related party relationships and transactions so that these are identified and appropriately accounted for and disclosed . In their oversight role, those charged with governance monitor how management is discharging its responsibility for such controls. Those charged with governance may, in their oversight role, obtain information from management to enable them to understand the nature and business rationale of the entity’s related party relationships and transactions.</p>	<p>same as those identified above in PCAOB standard paragraph 5.</p>	
<p>7. The auditor should inquire of the audit committee,<sup>7/</sup> or its chair, regarding: a. The audit committee's understanding of the company's relationships and transactions with related parties that are significant to the company; and</p>	<p><b>15A <i>The auditor should inquire of those charged with governance regarding:</i></b> <b><i>a. Their understanding of the company's relationships and transactions with related parties that are significant to the company; and</i></b></p>	<p>There is no requirement in AU-C 550 for the auditor to make inquiries of the audit committee regarding related party relationships and transactions or concerns that individual audit committee members have regarding such.</p>	<p>Yes. The lack of this requirement in GAAS creates a performance difference between GAAS and PCAOB standards regarding a</p>

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<p>b. Whether any member of the audit committee has concerns regarding relationships or transactions with related parties and, if so, the substance of those concerns.</p> <p>7/ The term "audit committee" has the same meaning as the term used in Auditing Standard No. 16, <i>Communications with Audit Committees</i>.</p>	<p><b><i>b. Whether any of those charged with governance have concerns regarding relationships or transactions with related parties and, if so, the substance of those concerns.</i></b></p>		<p>matter that is not rare for non-issuers.</p>
<p>8. The auditor should communicate to engagement team members relevant information about related parties, including the names of the related parties and the nature of the company's relationships and transactions with those related parties. 8/</p> <p>8/ This communication, which can be more effective when it occurs at an early stage of the audit, complements the discussion among engagement team members regarding risks of material misstatement in accordance with paragraph 49 of Auditing Standard No. 12. <i>See also</i>, paragraph 5 of Auditing Standard No. 10, <i>Supervision of the</i></p>	<p>18. The auditor should share with the other members of the engagement team the identity of the entity's related parties and other relevant information obtained about the related parties. (Ref: Para. A29-A30) .13 In connection with the engagement team discussion(s) that section 240 and section 315 require, the auditor should include specific consideration of the susceptibility of the financial statements to material misstatement due to fraud or error that could result from the entity's related party relationships and transactions.</p>	<p>The requirements are equivalent.</p>	<p>No</p>

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<p><i>Audit Engagement</i>, which establishes requirements regarding supervision of the engagement team members, including directing engagement team members to bring significant accounting and auditing issues arising during the audit to the attention of the engagement partner or other engagement team members performing supervisory activities.</p>			
<p>9. If the auditor is using the work of another auditor, the auditor should communicate to the other auditor relevant information about related parties, including the names of the company's related parties and the nature of the company's relationships and transactions with those related parties.<sup>9/</sup> The auditor also should inquire of the other auditor regarding the other auditor's knowledge of any related parties or relationships or transactions with related parties that were not included in the auditor's communications.</p> <p><sup>9/</sup> See AU sec. 543, <i>Part of Audit Performed by Other Independent Auditors</i>, which describes the auditor's responsibilities regarding using the work and reports of other</p>	<p><i>AI1.</i> In the context of a group audit, <i>section 600</i>, Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors) requires the group engagement team to provide each component auditor with a <del>list of</del> <b>information about</b> related parties prepared by group management and any other related parties of which the group engagement team is aware. Where the entity is a component within a group, this information provides a useful basis for the auditor's inquiries of management regarding the identity of the entity's related parties.</p> <p><b>AU-C 600.41</b> The group engagement team should communicate its requirements to a component auditor on a timely basis. This communication should include the following:</p>	<p>The requirements are similar, but the PCAOB standards require not only a list of related parties, but also the nature of the company's relationships and transactions with those related parties.</p>	<p>Yes, the lack of this requirement in GAAS creates a performance difference between GAAS and PCAOB standards regarding a matter that is not rare for non-issuers.</p>

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<p>independent auditors who audit the financial statements of one or more subsidiaries, divisions, branches, components, or investments included in the financial statements.</p>	<p>...</p> <p>c. A list of related parties prepared by group management and any other related parties of which the group engagement team is aware, <b><i>including the nature of the company's relationships and transactions with those related parties</i></b>. The group engagement team should request the component auditor to communicate on a timely basis related parties not previously identified by group management or the group engagement team. The group engagement team should identify such additional related parties to other component auditors.</p>		
<p>10. The auditor should identify and assess the risks of material misstatement at the financial statement level and the assertion level.10/ This includes identifying and assessing the risks of material misstatement associated with related parties and relationships and transactions with related parties, including whether the company has properly identified, accounted for, and disclosed its related parties and</p>	<p>19. In meeting the requirement of section 315 to identify and assess the risks of material misstatement, the auditor should identify and assess the risks of material misstatement associated with related party relationships and transactions and determine whether any of those risks are significant risks. In making this determination, the auditor should treat identified significant related party transactions outside the entity's normal</p>	<ul style="list-style-type: none"> <li>• AS 18 requires the risk assessment to consider risks both at the financial statement level and the assertion level. Since AU-C 550.12 refers to AU-C 315, the same requirement exists in GAAS (e.g., see AU-C 315.05).</li> <li>• AU-C 550 explicitly requires the auditor to</li> </ul>	<p>No</p>

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relationships and transactions with related parties.	course of business as giving rise to significant risks.	<p>determine whether the assessed risks are significant risks. Paragraph 59f of AS No. 12 similarly requires the auditor to make this determination.</p> <ul style="list-style-type: none"> <li>Overall, GAAS and PCAOB standards are equivalent</li> </ul>	
<p>Note: In identifying and assessing the risks of material misstatement associated with related parties and relationships and transactions with related parties, the auditor should take into account the information obtained from performing the procedures in paragraphs 4-9 of this standard and from performing the risk assessment procedures required by Auditing Standard No. 12.</p> <p>10/ See paragraph 59 of Auditing Standard No. 12.</p>	N/A	This PCAOB “Note” does not add any requirements but simply emphasizes that the risk assessment should be based on the information obtained through performance of risk assessment procedures.	No
	20. If the auditor identifies fraud risk factors (including circumstances relating to the existence of a related party with dominant influence) when performing the risk assessment procedures and related activities in connection with related parties, the auditor <i>should</i> consider such information when identifying and assessing	Although the requirement to consider identified related party fraud risk factors when identifying and assessing the risks of material misstatement due to fraud is explicit in AU-C 550, believe it is an implicit	No

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	the risks of material misstatement due to fraud in accordance with <i>section 240</i> . (Ref: Para. <i>A31-A33</i> )	requirement with PCAOB standards as well.	
<p>11. The auditor must design and implement audit responses that address the identified and assessed risks of material misstatement.<sup>11/</sup> This includes designing and performing audit procedures in a manner that addresses the risks of material misstatement associated with related parties and relationships and transactions with related parties.<sup>12/</sup></p> <p>11/ See paragraph 3 of Auditing Standard No. 13, <i>The Auditor's Responses to the Risks of Material Misstatement</i>.</p> <p>12/ See generally, Auditing Standard No. 13 and paragraph 17 of Auditing Standard No. 15, <i>Audit Evidence</i>, which provides that inquiry of company personnel, by itself, does not provide sufficient audit evidence to reduce audit risk to an appropriately low level for a relevant assertion or to support a conclusion about the effectiveness of a control.</p>	<p>21. As part of the requirement <i>in section 330</i> that the auditor respond to assessed risks, the auditor <i>should</i> design and perform further audit procedures to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement associated with related party relationships and transactions. (Ref: Para. <i>A34-A37</i>)</p>	<p>Similar guidance. However, the PCAOB standard uses the term 'must' in explaining the auditor's responsibility whereas the ISA uses the term 'should.'</p> <p>(AUC 240.32 discusses significant transactions outside the normal course of business.)</p>	<p>No</p>

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<p>Note: The auditor also should look to the requirements in paragraphs .66-.67A of AU sec. 316, <i>Consideration of Fraud in a Financial Statement Audit</i>, for related party transactions that are also significant unusual transactions (for example, significant related party transactions outside the normal course of business). For such related party transactions, AU sec. 316.67 requires that the auditor evaluate whether the business purpose (or the lack thereof) of the transactions indicates that the transactions may have been entered into to engage in fraudulent financial reporting or conceal misappropriation of assets.</p>	<p>17. If the auditor identifies significant transactions outside the entity's normal course of business when performing the audit procedures required by paragraph 16 or through other audit procedures, the auditor should inquire of management about the following: (Ref: Para. A25-A26)</p> <p>a. The nature of these transactions (Ref: Para. A27)</p> <p>b. Whether related parties could be involved. (Ref: Para. A28)</p> <p>.A27 Inquiring into the nature of the significant transactions outside the entity's normal course of business involves obtaining an understanding of the business rationale of the transactions and the terms and conditions under which these have been entered into.</p> <p>AU-C 240.32c</p>	<p>The requirements are slightly different: AU-C 550 requires inquiry of management regarding whether transactions outside the normal course of business involved related parties. This is not a requirement in the PCAOB standards.</p> <p>AS No. 18 requires the auditor to evaluate the business purpose of significant unusual transactions and whether there are indications that the purpose of the transactions was to perpetrate or conceal fraud. This requirement is in GAAS in AU-C 240.32c.</p>	<p>No</p>
<p>12. For each related party transaction that is either required to be disclosed in the financial statements or determined to be a significant risk, the auditor should:</p> <p>a. Read the underlying documentation and evaluate whether the terms and other information about the transaction are consistent with explanations from inquiries and other audit</p>	<p>24. For identified significant related party transactions outside the entity's normal course of business, the auditor should</p> <p>a. inspect the underlying contracts or agreements, if any, and evaluate whether</p> <p>i. the business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.</p>	<p>AS18 requirement applies to those RPT that are (a) required to be disclosed in the financial statements and (b) determined to be a significant risk. AU-C 550 requirement applies to significant related party transactions outside the entity's normal course of business.</p>	<p>No; although wording differs, comparable RPTs would be subject to the requirements elsewhere in GAAS addressing disclosures and significant risks.</p>

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<p>evidence about the business purpose (or the lack thereof) of the transaction;  b. Determine whether the transaction has been authorized and approved in accordance with the company's established policies and procedures regarding the authorization and approval of transactions with related parties;  c. Determine whether any exceptions to the company's established policies or procedures were granted;<sup>13/</sup>  d. Evaluate the financial capability of the related parties with respect to significant uncollected balances, loan commitments, supply arrangements, guarantees, and other obligations, if any;<sup>14/</sup> and  e. Perform other procedures as necessary to address the identified and assessed risks of material misstatement.</p> <p><sup>13/</sup> Information gathered while obtaining an understanding of the company also might assist the auditor in identifying agreements</p>	<p>ii. the terms of the transactions are consistent with management's explanations.  iii. the transactions have been appropriately accounted for and disclosed.  b. obtain audit evidence that the transactions have been appropriately authorized and approved.</p> <p>A22. During the audit, the auditor may inspect records or documents that indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor. For example:</p> <ul style="list-style-type: none"> <li>• third party confirmations obtained by the auditor (in addition to bank and legal confirmations).</li> <li>• entity income tax returns.</li> <li>• information supplied by the entity to regulatory authorities.</li> <li>• shareholder registers to identify the entity's principal shareholders.</li> <li>• statements of conflicts of interest from management and those charged with governance.</li> <li>• records of the entity's investments and those of its benefit plans.</li> <li>• contracts and agreements with key management or those charged with governance.</li> </ul>	<p>The specific procedures vary as well. AS 18 incrementally requires the auditor to</p> <ul style="list-style-type: none"> <li>• determine whether any exceptions to established policies and procedures were granted.</li> <li>• evaluate the financial capability of the related parties; this is addressed in AU-C 550 application material for when the auditor has assessed a significant risk that the transaction is not appropriately accounted for or disclosed. However, requirements in AU-C 330, referenced in AU-C 550.21, to assess and respond to significant risks, would result in this procedure being performed.</li> </ul> <p>AS 18 requires the auditor to "read" underlying documentation whereas AU-C</p>	<p>The incremental explicit requirements in AS 18 are either in application material in AU-C 550 or would be performed as a result of requirements elsewhere in GAAS.</p>
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<p>prohibiting or restricting related party transactions (for example, loans or advances to related parties).</p> <p>14/ Examples of information that might be relevant to the auditor's evaluation of a related party's financial capability include, among other things, the audited financial statements of the related party, reports issued by regulatory agencies, financial publications, and income tax returns of the related party, to the extent available.</p>	<ul style="list-style-type: none"> <li>• significant contracts and agreements not in the entity's ordinary course of business.</li> <li>• specific invoices and correspondence from the entity's professional advisors.</li> <li>• life insurance policies acquired by the entity.</li> <li>• significant contracts renegotiated by the entity during the period.</li> <li>• internal auditors' reports.</li> <li>• capital financing arrangements with entities other than financial institutions (for example, construction of a government entity facility associated with the issuance of debt by a related not-for-profit entity).</li> <li>• economic development arrangements for capital additions (for example, a governmental entity's use and eventual ownership of properties and facilities financed and operated by a company or another governmental entity).</li> </ul> <p>A33. In the presence of other risk factors, the existence of a related party with dominant influence may indicate significant risks of material misstatement due to fraud. For example:</p>	<p>550 requires the auditor to "inspect"; this does not result in a performance difference.</p>	
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	<ul style="list-style-type: none"> <li>• an unusually high turnover of senior management or professional advisors may suggest unethical or fraudulent business practices that serve the related party’s purposes.</li> <li>• the use of business intermediaries for significant transactions for which there appears to be no clear business justification may suggest that the related party could have an interest in such transactions through control of such intermediaries for fraudulent purposes.</li> </ul> <p>Evidence of the related party’s excessive participation in, or preoccupation with, the selection of accounting policies or the determination of significant estimates may suggest the possibility of fraudulent financial reporting.</p> <p>A34. The nature, timing and extent of the further audit procedures that the auditor may select to respond to the assessed risks of material misstatement associated with related party relationships and transactions depend upon the nature of those risks and the circumstances of the entity</p>		
	<p>A35. Examples of substantive audit procedures that the auditor may perform when the auditor has assessed a significant risk that management has not appropriately</p>		<p>Yes, changed “purposes” to “business purposes” for consistency.</p>

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	<p>accounted for or disclosed specific related party transactions (whether due to fraud or error) include the following:</p> <ul style="list-style-type: none"> <li>• Confirming the <i>business</i> purposes, specific terms, or amounts of the transactions with the related parties (this audit procedure may be less effective where the auditor judges that the entity is likely to influence the related parties in their responses to the auditor).</li> <li>• Inspecting evidence in possession of the other party or parties to the transaction.</li> <li>• Confirming or discussing significant information with intermediaries, such as banks, guarantors, agents, or attorneys, to obtain a better understanding of the transaction.</li> <li>• Referring to financial publications, trade journals, credit agencies, and other information sources when there is reason to believe that unfamiliar customers, suppliers, or other business enterprises with which material amounts of business have been transacted may lack substance.</li> </ul> <p>With respect to material uncollected balances, guarantees, and other obligations,</p>		
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	obtaining information about the financial capability of the other party or parties to the transaction. Such information may be obtained from audited financial statements, unaudited financial statements, income tax returns, and reports issued by regulatory agencies, taxing authorities, financial publications, or credit agencies.		
Note: The applicable financial reporting framework may allow the aggregation of similar related party transactions for disclosure purposes. If the company has aggregated related party transactions for disclosure purposes in accordance with the applicable financial reporting framework, the auditor may perform the procedures in paragraph 12 for only a selection of transactions from each aggregation of related party transactions (versus all transactions in the aggregation), commensurate with the risks of material misstatement.		This note is clarification of the required sample size for procedures in paragraph 12 of AS No. 18.	Incremental guidance not in AU-C 550.
13. The auditor should perform procedures on intercompany account balances as of concurrent dates, even if fiscal years of the respective companies differ.	<b>.15B The auditor should perform procedures on account balances with affiliated entities as of concurrent dates, even if fiscal years of the respective entities differ. The procedures performed should address the risks of material misstatement</b>	There is not a similar requirement in AU-C 550.  While it may seem obvious to perform the procedures as of concurrent dates, a company can hide or cause an error	Yes, the lack of this requirement in GAAS creates a performance difference between GAAS and PCAOB standards regarding a

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<p>Note: The procedures performed should address the risks of material misstatement associated with the company's intercompany accounts.</p>	<p><i>associated with the entity's accounts with affiliates.</i></p>	<p>through not consolidating entities at the same time (e.g., when they consolidate 2 months in arrears) or in instances where intercompany transactions do not eliminate in their entirety due to accounting rules (e.g., transfer pricing, deferred tax implications of products not sold).</p>	<p>matter that is not rare for non-issuers.</p>
<p>14. The auditor should evaluate whether the company has properly identified its related parties and relationships and transactions with related parties. Evaluating whether a company has properly identified its related parties and relationships and transactions with related parties involves more than assessing the process used by the company. This evaluation requires the auditor to perform procedures to test the accuracy and completeness of the related parties and relationships and transactions with related parties identified by the company, taking into account the information gathered during the audit.<sup>15/</sup> As part of this evaluation, the auditor should read minutes of the meetings of stockholders, directors,</p>	<p><del>remain alert</del> <i>evaluate whether the entity has properly identified its related parties and relationships and transactions with related parties by performing procedures to test the accuracy and completeness of the related parties and relationships and transactions with related parties identified by the company, taking into account the information gathered during the audit.</i> <del>when inspecting records or documents for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor.</del> In particular, the auditor should inspect the following for indications of related party relationships or transactions that management has not previously identified or disclosed to the auditor:</p>	<p>PCOAB standard contains incremental guidance that requires the auditor to:</p> <p><i>to read summaries of actions of recent meetings for which minutes have not yet been prepared.</i> AU-C 560 requires <i>inquiry</i> of matters discussed at length for meetings for which minutes are not yet available.</p> <p>The procedures required to be performed are equivalent; however, the requirement to 'evaluate' has the potential to result in a more proactive approach.</p>	<p>Yes. Amend the requirement to include evaluation concept, and add application material to address that concept.</p> <p>The lack of this requirement in GAAS creates a performance difference between GAAS and PCAOB standards regarding a matter that is not rare for non-issuers. The amendments to the application material are helpful guidance that would be overly</p>

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<p>and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.</p> <p>15/ Information obtained from identifying and evaluating a company's significant unusual transactions and obtaining an understanding of a company's financial relationships and transactions with its executive officers could indicate that related parties or relationships or transactions with related parties previously undisclosed to the auditor might exist.</p>	<ul style="list-style-type: none"> <li>a. Bank and legal confirmations obtained as part of the auditor's procedures</li> <li><b>b. Minutes of meetings of shareholders and of those charged with governance <i>and summaries of actions of recent meetings for which minutes have not yet been prepared</i></b></li> <li>c. Such other records or documents as the auditor considers necessary in the circumstances of the entity.</li> </ul> <p><b>.17</b> If the auditor identifies significant <b>unusual</b> transactions <del>outside the entity's normal course of business</del> when performing the audit procedures required by <a href="#">paragraph .17</a> or through other audit procedures, the auditor should inquire of management about the following:...</p> <p><b>.21</b> As part of the requirement in section 330 that the auditor respond to assessed risks, the <b>auditor should evaluate whether the company has properly identified its related parties and relationships and transactions with related parties. The</b> auditor should design and perform further audit procedures to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement associated with related party relationships and transactions, <b>including procedures to test</b></p>		<p>prescriptive as requirements.</p>
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	<p><i>the accuracy and completeness of the related parties and relationships and transactions with related parties identified by the company, taking into account the information gathered during the audit</i>.<sup>fn 14</sup> (Ref: <a href="#">par. .A34-.A37</a>)</p> <p><del><b>Maintaining Alertness for</b></del> Evaluating Accuracy and Completeness of <b>Related Party Information When Reviewing Records or Documents</b></p> <p><i>Records or Documents That the Auditor May Inspect</i> (Ref: <a href="#">par. .16</a>)</p> <p><b>.A22</b> <i>Evaluating whether a company has properly identified its related parties and relationships and transactions with related parties involves more than assessing the process used by the company.</i> During the audit, the auditor may inspect records or documents that indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor. Examples of those records or documents include the following:</p> <p>...</p>		
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<sup>fn 14</sup> Paragraphs .05-.06 of section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*.

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<p>Note: Appendix A contains examples of information and sources of information that may be gathered during the audit that could indicate that related parties or relationships or transactions with related parties previously undisclosed to the auditor might exist.</p>		<p>This PCAOB “Note” does not add any requirements but simply provides a reference to additional guidance.</p>	<p>No</p>
<p>15. If the auditor identifies information that indicates that related parties or relationships or transactions with related parties previously undisclosed to the auditor might exist, the auditor should perform the procedures necessary to determine whether previously undisclosed relationships or transactions with related parties, in fact, exist.<sup>16/</sup> These procedures should extend beyond inquiry of management.</p> <p><sup>16/</sup> See paragraph 29 of Auditing Standard No. 15, which states that if audit evidence obtained from one source is inconsistent with that obtained from another, or if the auditor has doubts about the reliability of information to be used as audit evidence, the auditor</p>	<p>22. If the auditor identifies arrangements or information that suggests the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor, the auditor <i>should</i> determine whether the underlying circumstances confirm the existence of those relationships or transactions.</p>	<p>The requirements are equivalent.</p> <p>The PCAOB standard emphasizes that the procedures the auditor performs <i>should extend beyond inquiry of management</i>. AU-C 550 par. 23 requires procedures that extend beyond inquiry,</p>	<p>No</p>

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<p>should perform the audit procedures necessary to resolve the matter and should determine the effect, if any, on other aspects of the audit.</p>			
<p>16. If the auditor determines that a related party or relationship or transaction with a related party previously undisclosed to the auditor exists, the auditor should:</p> <p>17/ See AU sec. 333.04, which states that if a representation made by management is contradicted by other audit evidence, the auditor should investigate the circumstances and consider the reliability of the representation made. Based on the circumstances, the auditor should consider whether his or her reliance on management's representations relating to other aspects of the financial statements is appropriate and justified.</p> <p>18/ See paragraph 74 of Auditing Standard No. 12, which states that when the auditor obtains audit evidence during the course of the audit that contradicts the audit</p>	<p>23. If the auditor identifies related parties or significant related party transactions that management has not previously identified or disclosed to the auditor, the auditor <i>should</i></p>	<p>When referring to related party transactions, AU-C 550 focuses on those that are deemed significant whereas PCAOB standards require the auditor to evaluate any transaction, regardless of significance or materiality.</p>	<p>No</p> <p>A “presumption of fraud” exists in an issuer when an RPT is undisclosed that is not necessarily the case in a non-issuer.</p>

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<p>evidence on which the auditor originally based his or her risk assessment, the auditor should revise the risk assessment and modify planned audit procedures or perform additional procedures in response to the revised risk assessments.</p>			
<p>a. Inquire of management regarding the existence of the related party or relationship or transaction with a related party previously undisclosed to the auditor and the possible existence of other transactions with the related party previously undisclosed to the auditor;</p>	<p>b. <i>request</i> management to identify all transactions with the newly identified related parties for the auditor’s further evaluation.</p>	<p>The requirements are equivalent.</p>	
<p>b. Evaluate why the related party or relationship or transaction with a related party was previously undisclosed to the auditor;17/</p>	<p>c. <i>inquire</i> why the entity’s controls over related party relationships and transactions failed to enable the identification or disclosure of the related party relationships or transactions.</p>	<p>These requirements are similar but not identical. The PCAOB focus is on specifically evaluating why management did not disclose the related party relationships and/or transactions to the auditor. The ASB approach is an inquiry of management regarding the failure of internal controls to identify the related party relationships and/or transactions.</p>	<p>Not a performance difference.</p>

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<p>c. Promptly communicate to appropriate members of the engagement team and other auditors participating in the audit engagement relevant information about the related party or relationship or transaction with the related party;</p>	<p>a. <i>promptly</i> communicate the relevant information to the other members of the engagement team. (Ref: Para. A29 and A38)</p>	<p>The requirements are equivalent.</p>	
<p>d. Assess the need to perform additional procedures to identify other relationships or transactions with the related party previously undisclosed to the auditor;</p>	<p>e. <i>reconsider</i> the risk that other related parties or significant related party transactions may exist that management has not previously identified or disclosed to the auditor, and perform additional audit procedures as necessary.</p>	<p>The requirements are equivalent.</p>	
<p>e. Perform the procedures required by paragraph 12 of this standard for each related party transaction previously undisclosed to the auditor that is required to be disclosed in the financial statements or determined to be a significant risk;</p>	<p>d. <i>perform</i> appropriate substantive audit procedures relating to such newly identified related parties or significant related party transactions. (Ref: Para. A39)</p>	<p>Both standards require the auditor to perform substantive procedures to test the previously undisclosed transactions – the PCAOB is more prescriptive as to the specific procedures to be performed.</p>	
<p>f. Perform the following procedures, taking into account the information gathered from performing the procedures a. through e. above: i. Evaluate the implications on the auditor's assessment of internal</p>	<p>e. reconsider the risk that other related parties or significant related party transactions may exist that management has not previously identified or disclosed to the auditor, and perform additional audit procedures as necessary</p>	<p>Both standards require the auditor to evaluate whether the nondisclosure was intentional and evaluate the implications for the audit. The PCAOB standards more explicitly identify</p>	

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<p>control over financial reporting, if applicable;</p> <p>ii. Reassess the risk of material misstatement and perform additional procedures as necessary if such reassessment results in a higher risk; 18/ and</p> <p>iii. Evaluate the implications for the audit if management's nondisclosure to the auditor of a related party or relationship or transaction with a related party indicates that fraud or an illegal act may have occurred. If the auditor becomes aware of information indicating that fraud or another illegal act has occurred or might have occurred, the auditor must determine his or her responsibilities under AU secs. 316.79- .82, AU sec. 317, <i>Illegal Acts by Clients</i>, and Section 10A of the Securities Exchange Act of 1934, 15 U.S.C. §78j-1(b).</p>	<p>f. evaluate the implications for the audit <i>if the nondisclosure by management appears intentional (and therefore, indicative of a risk of material misstatement due to fraud)</i>. (Ref: Para. A40)</p> <p>A40. The requirements and guidance in section 240 regarding the auditor's responsibilities relating to fraud in an audit of financial statements are relevant when management appears to have intentionally failed to disclose related parties or significant related party transactions to the auditor.</p>	<p>considerations (e.g., reassess control risk, reassess risk of material misstatement).</p>	
<p>17. The auditor must evaluate whether related party transactions have been properly accounted for</p>	<p>26. In forming an opinion on the financial statements in accordance with <i>section 700</i>,</p>	<p>The requirements are equivalent.</p>	

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<p>and disclosed in the financial statements. This includes evaluating whether the financial statements contain the information regarding relationships and transactions with related parties essential for a fair presentation in conformity with the applicable financial reporting framework.<sup>19/</sup></p> <p><sup>19/</sup> See paragraphs 30-31 of Auditing Standard No. 14.</p>	<p>the auditor <i>should</i> evaluate <i>the following</i>: (Ref: Para. A50)</p> <p>a. Whether the identified related party relationships and transactions have been appropriately accounted for and disclosed (Ref: Para. A51)</p> <p>b. Whether the effects of the related party relationships and transactions <i>prevent</i> the financial statements from achieving fair presentation (Ref: par. A3)</p>		
<p>18. If the financial statements include a statement by management that transactions with related parties were conducted on terms equivalent to those prevailing in an arm's length transaction, the auditor should determine whether the evidence obtained supports or contradicts management's assertion. If the auditor is unable to obtain sufficient appropriate audit evidence to substantiate management's assertion, and if management does not agree to modify the disclosure, the auditor should express a qualified or adverse opinion.<sup>20/</sup></p>	<p>25. If management has made an assertion in the financial statements to the effect that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction, the auditor <i>should</i> obtain sufficient appropriate audit evidence about the assertion. (Ref: Para. A45-A49)</p>	<p>The requirements are equivalent.</p>	

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<p>20/ See paragraph .06.I. of AU sec. 333, which requires the auditor to obtain written representations from management if the financial statements include such an assertion. Representations from management alone are not sufficient appropriate audit evidence. See also paragraphs .35-.36 of AU sec. 508, <i>Reports on Audited Financial Statements</i>.</p>			
<p>Note: Transactions with related parties might not be conducted on terms equivalent to those prevailing in arm's-length transactions (e.g., a company may receive services from a related party without cost). Except for routine transactions, it may not be possible for management to determine whether a particular transaction would have taken place, or what the terms and manner of settlement would have been, if the parties had not been related. Accordingly, it may be difficult for the auditor to obtain sufficient appropriate audit evidence to substantiate management's assertion that a transaction was consummated on terms equivalent to those that</p>	<p>A45. It will generally not be possible to determine whether a particular transaction would have taken place if the parties had not been related, or assuming it would have taken place, what the terms and manner of settlement would have been. Accordingly, it is difficult to substantiate representations that a transaction was consummated on terms equivalent to those that prevail in arm's-length transactions.</p> <p>A46. Although audit evidence may be readily available regarding how the price of a related party transaction compares to that of a similar arm's length transaction, practical difficulties ordinarily limit the auditor's ability to obtain audit evidence that all other aspects of the transaction are equivalent to those of the arm's length transaction. For example, although the auditor may be able to confirm that a</p>	<p>The guidance is equivalent.</p>	

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<p>prevail in arm's-length transactions. A preface to a statement such as "management believes that" or "it is the company's belief that" does not change the auditor's responsibilities.</p>	<p>related party transaction has been conducted at a market price, it may be impracticable to confirm whether other terms and conditions of the transaction (such as credit terms, contingencies and specific charges) are equivalent to those that would ordinarily be agreed between independent parties. Accordingly, there may be a risk that management's assertion that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction may be materially misstated.</p> <p>A49. If the auditor believes that management's assertion is unsubstantiated or the auditor cannot obtain sufficient appropriate audit evidence to support the assertion, the auditor, in accordance with section 705, considers the implications for the audit, including the opinion in the auditor's report.</p>		
<p>19. The auditor should communicate to the audit committee the auditor's evaluation of the company's identification of, accounting for, and disclosure of its relationships and transactions with related parties.<sup>21</sup> The auditor also should communicate other significant matters arising from the audit regarding the company's</p>	<p>27. Unless all of those charged with governance are involved in managing the entity, the auditor <i>should</i> communicate with those charged with governance significant <i>findings and issues</i> arising during the audit in connection with the entity's related parties. (Ref: Para. A52)</p> <p>A52. Communicating significant <i>findings and issues</i> arising during the audit in</p>	<p>The requirements are equivalent.</p>	<p>No change</p>

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relationships and transactions with related parties including, but not limited to:	connection with the entity's related parties helps the auditor establish a common understanding with those charged with governance of the nature and resolution of these matters. Examples of significant related party matters include <i>the following</i> :		
a. The identification of related parties or relationships or transactions with related parties that were previously undisclosed to the auditor; committee.	<ul style="list-style-type: none"> <li>• Nondisclosure (whether <i>or not</i> intentional) by management to the auditor of related parties or significant related party transactions, which may alert those charged with governance to significant related party relationships and transactions of which they may not have been previously aware.</li> </ul>	The requirements are equivalent.	
b. The identification of significant related party transactions that have not been authorized or approved in accordance with the company's established policies or procedures;	<ul style="list-style-type: none"> <li>• The identification of significant related party transactions that have not been appropriately authorized or approved, which may give rise to suspected fraud.</li> </ul>	The requirements are equivalent.	
c. The identification of significant related party transactions for which exceptions to the company's established policies or procedures were granted;	<ul style="list-style-type: none"> <li>• The identification of significant related party transactions that have not been appropriately authorized and approved, which may give rise to suspected fraud.</li> </ul>	The requirements are equivalent.	
	<ul style="list-style-type: none"> <li>• Disagreement with management regarding the accounting for, and</li> </ul>		

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	<p>disclosure of, significant related party transactions .</p> <ul style="list-style-type: none"> <li>• Noncompliance with applicable laws or regulations prohibiting or restricting specific types of related party transactions.</li> <li>• Difficulties in identifying the party that ultimately controls the entity</li> </ul>		
d. The inclusion of a statement in the financial statements that a transaction with a related party was conducted on terms equivalent to those prevailing in an arm’s-length transaction and the evidence obtained by the auditor to support or contradict such an assertion; and	<ul style="list-style-type: none"> <li>• <b><i>If applicable, the inclusion of a statement in the financial statements that a transaction with a related party was conducted on terms equivalent to those prevailing in an arm’s-length transaction and the evidence obtained by the auditor to support or contradict such an assertion.</i></b></li> </ul>	Not in AU-C 550; however, not common in practice among non-issuers	No change recommended
e. The identification of significant related party transactions that appear to the auditor to lack a business purpose.	<ul style="list-style-type: none"> <li>• <b><i>The identification of significant related party transactions that appear to the auditor to lack a business purpose.</i></b></li> </ul>	Not in AU-C 550	See also AS 18 par. 5e
	28. The auditor <i>should</i> include in the audit documentation the names of the identified related parties and the nature of the related party relationships.		