SA 500 – AUDIT EVIDENCE

1 Define the term Accounting Records.

The **records of initial accounting entries and supporting records** (ex., records of electronic fund transfers, invoices, contracts, the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in journal entries) and **subsidiary records** (ex., work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures).

2 Who is a Management Expert? Bring out the duties of an Auditor in relation to Management Expert.

1. **Management's Expert:** An individual or organisation possessing expertise in a field other than Accounting or Auditing, whose work in that field is used by the Entity to assist the Entity in preparing the Financial Statements.
2. **Ascertaining the Objectivity:** Information regarding the competence, capabilities and objectivity of a Management's Expert may come from a variety of sources, such as:
   (a) Personal experience with previous work of that Expert.
   (b) Discussions with that Expert.
   (c) Discussions with others who are familiar with that Expert's work.
   (d) Knowledge of that Expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
   (e) Published papers or books written by that Expert.
   (f) An Auditor's expert, if any, who assists the Auditor in obtaining sufficient appropriate audit evidence with respect to information produced by the Management's Expert.
3. **Understanding the work of Expert:** In the case of a Management's Expert engaged by the Entity, there will ordinarily be an Engagement Letter or other written form of agreement between the Entity and that Expert. Evaluating that agreement when obtaining an understanding of the work of the Management's Expert may assist the Auditor in determining the appropriateness of the following for the Auditor's purposes:
   (a) The Nature, Scope and Objectives of that Expert's work;
   (b) The respective roles and responsibilities of Management and that Expert; and
   (c) The Nature, Timing and Extent of communication between Management and that Expert, including the form of any report to be provided by that Expert.

   In the case of a Management's Expert employed by the Entity, it is less likely there will be a written agreement of this kind. Inquiry of the Expert and other members of Management may be the most appropriate way for the Auditor to obtain the necessary understanding.
4. **Evaluating the Appropriateness of the Management's Expert's Work:** The Auditor must consider the following:
   (a) The relevance and reasonableness of that **Expert's findings or conclusions**, their consistency with other audit evidence, and whether they have been appropriately reflected in the Financial Statements;
   (b) If that Expert's work involves use of significant **assumptions and methods**, the relevance and reasonableness of those assumptions and methods; and
   (c) If that expert's work involves significant use of **source data**, the relevance, completeness, and accuracy of that source data.

3 Bring out the ways of selecting items for the purpose of audit.

1. In selecting items for testing, the Auditor is required to determine the relevance, reliability and sufficiency of information to be used as audit evidence. The means available to the Auditor for selecting items for testing are:
   (a) Selecting all items (100% examination);
   (b) Selecting specific items; and
   (c) Audit sampling.
2. The application of any one or combination of these means may be appropriate depending on the particular circumstances, for example, practicality, efficiency of adopting different means, the risks of material misstatement related to the assertion being tested, etc.

   (a) **Selecting All Items:** The Auditor may decide that it will be most appropriate to examine the entire population of items that make up a class of transactions or account balance (or a stratum within that population). 100% examination is unlikely in the case of tests of controls; however, it is more common for tests of details. 100% examination may be appropriate when:
   - The population constitutes a small number of large value items;
   - There is a significant risk and other means do not provide sufficient appropriate audit evidence; or

- The repetitive nature of a calculation or other process performed automatically by an information system makes a 100% examination cost effective.

(b) **Selecting Specific Items:** The Auditor may decide to select specific items from a population. In making this decision, factors that may be relevant include the Auditor's understanding of the Entity, the assessed risks of material misstatement, and the characteristics of the population being tested. The judgmental selection of specific items is subject to non-sampling risk. Specific items selected may include:

- High value or key items. The Auditor may decide to select specific items within a population because they are of high value, or exhibit some other characteristic, for example, items that are suspicious, unusual, particularly risk-prone or that have a history of error.
- All items over a certain amount. The Auditor may decide to examine items whose recorded values exceed a certain amount so as to verify a large proportion of the total amount of a class of transactions or account balance.
- Items to obtain information. The Auditor may examine items to obtain information about matters such as the nature of the Entity or the nature of transactions.

(c) **Audit Sampling:** Audit sampling is designed to enable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it.

(d) It is to be noted that Selecting Specific Items of verification doesn't amounts to Sampling. In a "Specific Selection", the results of the audit procedures applied to items selected cannot be projected to the entire population. Accordingly selective examination of specific items does not provide audit evidence concerning the remainder of the population.

SA 530 Audit Sampling

1 Define Non Sampling Risk, Anomaly, Sampling Unit, Statistical Sampling, Stratification, Tolerable Misstatement, Tolerable Rate of Deviation.

Non Sampling Risk	The risk that the Auditor reaches an erroneous conclusion for any reason not related to Sampling Risk. Examples of non-sampling risk include use of inappropriate audit procedures, or misinterpretation of audit evidence and failure to recognise a misstatement or deviation.
Anomaly	A Misstatement or Deviation that is not representative of Misstatements or Deviations in a Population.
Sampling unit	The individual items constituting a Population. The Sampling Units might be physical items (for example, cheques listed on deposit slips, credit entries on bank statements, sales invoices or debtors' balances) or monetary units.
Statistical sampling	An approach to Sampling that has the following characteristics: (i) Random selection of the sample items; and (ii)The use of Probability theory to evaluate sample results, including measurement of Sampling Risk. A sampling approach that does not have the above characteristics is considered Non-Statistical Sampling.
Stratification	The process of dividing a Population into sub-populations, each of which is a group of Sampling Units which have similar characteristics (often monetary value).
Tolerable misstatement	A Monetary Amount set by the Auditor in respect of which the Auditor seeks to obtain an assurance that the **Actual Misstatement** in the population **does not exceeds** such **Monetary Amount**.
Tolerable rate of deviation	A rate of deviation from prescribed Internal Control procedures set by the Auditor in respect of which the Auditor seeks to obtain an appropriate level of assurance that the rate of deviation set by the Auditor is not exceeded by the actual rate of deviation in the population.

2 Bring out the methods of selecting samples.

The principal method of selecting samples are as follows:

1. **Random selection**: It is applied through random number generators (ex. random number tables).
2. **Systematic selection**: It is done in the following manner:
   (a) The population is first ascertained (for example 1500 invoices)
   (b) A sampling interval is then selected (for example 50)
   (c) A starting point is then randomly selected (for example 12th invoice). This may be done using a random number table or any other random method.
   (d) Every 50th invoice from the starting point is taken for evaluation (for example, 12th invoice, 62nd invoice, 112th invoice, 162nd invoice, etc)

When using systematic selection, the Auditor would need to determine that sampling units within the population are not structured in such a way that the sampling interval corresponds with a particular pattern in the population.

3. **Monetary Unit Sampling**: It is a type of value-weighted selection (i.e., samples are selected based on their value and materiality) in which sample size, selection and evaluation results in, a conclusion in monetary amounts. For ex., Verifying high value debtors, classifying stocks into ABC categories and verifying based on their values, etc.
4. **Haphazard selection**: In this type of selection, the Auditor selects the sample without following a structured technique. Although no structured technique is used, the Auditor would nonetheless avoid any conscious bias or predictability (for example, avoiding difficult to locate items, or always choosing or avoiding the first or last entries on a page) and thus attempt to ensure that all items in the population have a chance of selection. Haphazard selection is not appropriate when using statistical sampling.
5. **Block selection**: It involves selection of a block(s) of contiguous items from within the population. Block selection cannot ordinarily be used in audit sampling because most populations are structured such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in the population. Although in some circumstances it may be an appropriate audit procedure to examine a block of items, it would rarely be an appropriate sample selection technique when the Auditor intends to draw valid inferences about the entire population based on the sample.

SA 560 Subsequent Events

1 Bring out the Miscellaneous Duties of an Auditor in relation to Subsequent Events.

1. Subsequent events are the events occurring between the date of the Financial Statements and the date of the Auditor's report, **and facts that become known to the Auditor after the date of the Auditor's report**.
2. Subsequent events are of the following types:
   (a) those events which requires an amendment in the Financial Statements
   (b) those events that do not require an amendment in the Financial Statements
3. **Auditor's Duties to seek prevent reliance on Auditor's report:** When the Financial Statements are not corrected for subsequent events, the Auditor must notify the Management not to issue the Financial Statements. When the Management agrees to the Auditor, but still it issues the Financial Statements to third parties despite the Auditor's notification, the Auditor may consider it appropriate to seek **legal advice**.
4. **Duties in case of Governmental Organisations:** In some circumstances, the entities, such as, Central/State Governments and related Government Entities (for example, agencies, boards, commissions) may be prevented from issuing amended Financial Statements by law or regulation. In such circumstances, the appropriate course of action for the Auditor may be to **report to the appropriate statutory body**.
5. **Legal exemption from adjusting Subsequent Events:** In special circumstances, where the Law, Regulation or the Financial Reporting Framework permits the Management from not carrying out amendment to the Financial Statements, in respect of Subsequent Events, the Auditor is not required to perform audit procedures on such Subsequent Events, as the same is not effected in the Financial Statements. In such cases, the Auditor shall either:
   (a) Amend the Auditor's report
   (b) Provide a new Auditor's report
6. In case of amended audit report the Auditor shall include an additional date pertaining to that amendment thereby indicating that the Auditor's procedures on Subsequent Events are restricted solely to the amendments made in the Financial Statements described in the relevant Notes to the Financial Statements

   Illustration: Mr. X audits the Financial Statements of ABC Ltd for the Financial Year ending 31.03.09. The date of Audit Report is 31.05.09. However one of the material event happened on 15.05.09 is excluded by the Auditor in his audit report. In this case while mentioning the date of Audit Report, the date shall read as follows – "Date of Audit Report: 31.05.09 (except for the subsequent event dated 15.05.09 which is explained in Note Y of Financial Statements)
7. In case of new Auditor's report the Auditor shall include a statement in an Emphasis of Matter paragraph or Other Matter(s) paragraph that conveys that Auditor's procedures on Subsequent Events are restricted solely to the amendment of the Financial Statements as described in the relevant note to the financial statements.
8. **Dual Dating:** When the Auditor amends the Auditor's report to include an additional date restricted to that amendment, the date of the Auditor's report on the Financial Statements prior to their subsequent amendment by Management remains unchanged because this date informs the reader as to when the audit work on those Financial Statements was completed. However, an additional date is included in the Auditor's Report to inform users that the Auditor's procedures subsequent to that date were restricted to the subsequent amendment of the Financial Statements.

SA 320 – Audit Materiality

1 Explain the concept of Benchmarking as laid out in SA 320 (Revised) on Audit Materiality

1. Determining Materiality involves the exercise of professional judgment. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the Financial Statements as a whole. For example, the Auditor may consider 5% of **Profit Before Tax** to be appropriate for a profit oriented Entity in a manufacturing industry, while the Auditor may consider 1% of **Total Revenue or Total Expenses** to be appropriate for a not-for-profit Entity. Higher or lower percentages, however, may be deemed appropriate in different circumstances.
2. Factors that may affect the identification of an appropriate Benchmark include the following:
   (a) The elements of the Financial Statements (for example, Assets, Liabilities, Equity, Revenue, Expenses)
   (b) Items on the Financial Statements in which the users focus (for example, for the purpose of evaluating financial performance users may tend to focus on Profit, Revenue or Net Assets)
   (c) The Nature of the Entity, where the Entity is at in its life cycle, and the industry and economic environment in which the Entity operates;
   (d) The Entity's ownership structure and the way it is financed (for example, if an Entity is financed solely by Debt rather than Equity, users may put more emphasis on Assets, and claims on them, than on the Entity's earnings); and
   (e) The relative volatility of the Benchmark.

SA 510 - INITIAL AUDIT ENGAGEMENTS (OPENING BALANCES)

1 Are Contingencies and Commitments, which are mere disclosures, forms part of Opening Balances.

True. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.

2 Bring out the forms of Audit Evidence for opening balance verifications

1. For Current Assets and Liabilities, some audit evidence about Opening Balances may be **obtained as part of the Current period's Audit procedures**. For example, the collection (payment) of opening accounts receivable (accounts payable) during the current period will provide some audit evidence of their existence, rights and obligations, completeness and valuation at the beginning of the period. In the case of Inventories, however, the current period's audit procedures on the closing inventory balance provide little audit evidence regarding inventory on hand at the beginning of the period. Therefore, additional audit procedures may be necessary, and one or more of the following may provide sufficient appropriate audit evidence:
   (a) Observing a current physical inventory count and reconciling it to the opening inventory quantities.
   (b) Performing audit procedures on the valuation of the opening inventory items.
   (c) Performing audit procedures on gross profit and cut-off.
2. For Non-Current Assets and Liabilities, such as Property Plant and Equipment, Investments and Long-Term Debt, some audit evidence may be obtained by examining the **accounting records** and other information underlying the opening balances. In certain cases, the Auditor may be able to obtain some audit evidence regarding opening balances through **confirmation with third parties**, for example, for Long-Term Debt and Investments. In other cases, the Auditor may need to carry out additional audit procedures.

3 The Auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient appropriate audit evidence regarding the Opening Balances of Inventory. The possible effects of the inability to obtain sufficient appropriate audit evidence regarding Opening Balances of Inventory are deemed to be material but not pervasive to the Entity's results of operations and cash flows. The State of Affairs at year end gives a true and fair view. In this particular jurisdiction, law and regulation prohibit the Auditor from giving an opinion which is qualified regarding the results of operations and cash flows and unmodified regarding State of Affairs. In this situation, draft a sample report with qualification in relation to opening balances. Make suitable assumptions.

Type 1 Report: Qualifying the Entire Financial Statement

< Title, Addressee, Preamble paragraph, Management's Responsibility for Financial Statements, Auditor's Responsibility> - *For the above Refer the chapter on Audit Reports.*

Basis for Qualified Opinion
We were appointed as Auditors of the Company on June 30, 2009 and thus did not observe the counting of the physical inventories at the beginning of the year. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at March 31, 2009. Since opening inventories enter into the determination of the results of operations and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the Profit for the year reported in the Statement of Profit and Loss and the net Cash Flows from operating activities reported in the Cash Flow Statement.

Qualified Opinion
In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion" paragraph, the Financial Statements give a True and Fair view of the State of Affairs of ABC Company as of March 31, 2010, and of its Results of Operations and its Cash Flows for the year then ended in accordance with applicable Accounting Standards.

Other Matters
The Financial Statements of the Company for the year ended March 31, 2009, were audited by another Auditor whose report dated June 15, 2009 expressed an unmodified opinion on those statements.

<Name, Membership No., signature of the Auditor>

Type 2 Report: Qualified report on Profit & Loss A/c and Unqualified report on Balance Sheet.

< Title, Addressee, Preamble paragraph, Management's Responsibility for Financial Statements, Auditor's responsibility> - *For the above Refer the chapter on Audit Reports.*

Basis for Qualified Opinion on the results of operations and Cash Flows:
We were appointed as Auditors of the company on June 30, 2009 and thus did not observe the counting of the physical inventories at the beginning of the year. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at March 31, 2009. Since opening inventories enter into the determination of the results of operations and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the profit for the year reported in the Statement of Profit and Loss and the Net Cash Flows from operating activities reported in the Cash Flow Statement.

Qualified Opinion on the results of operations and Cash Flows:
In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Statement of Profit and Loss and Cash Flow Statement give a true and fair view of the results of operations and cash flows of ABC Company for the year ended March 31, 2010 in accordance with applicable Accounting Standards.

Opinion on the State of Affairs:
In our opinion, the Balance Sheet gives a true and fair view of the State of Affairs of ABC Company as of March 31, 2010 in accordance with applicable Accounting Standards.

Other Matters:
The Financial Statements of the Company for the year ended March 31, 2009, were audited by another Auditor whose report dated June 15, 2009 expressed an unmodified opinion on those statements.

<Name, Membership No., signature of the Auditor>

SA 550 - RELATED PARTIES

1 Define Related Party relationships.

1. Many Financial Reporting Frameworks discuss the concepts of control and significant influence. Although they may discuss these concepts using different terms, they generally explain that:
   (a) **Control** is the **power to govern** the financial and operating policies of an Entity so as to obtain benefits from its activities; and
   (b) **Significant influence** (which may be gained by share ownership, statute or agreement) is the **power to participate** in the financial and operating policy decisions of an Entity, but is not control over those policies.
2. The existence of the following relationships may indicate the presence of control or significant influence:
   (a) Direct or indirect equity holdings or other financial interests in the Entity.
   (b) The Entity's holdings of direct or indirect equity or other financial interests in other entities.
   (c) Being part of those charged with Governance or key Management (i.e., those members of Management who have the authority and responsibility for planning, directing and controlling the activities of the Entity).
   (d) Being a close family member of any person referred to in subparagraph (c).
   (e) Having a significant business relationship with any person referred to in subparagraph (c).

2 Mention a brief list of documents, which an Auditor examines for identifying existence of Related Party relationships.

The Auditor shall inspect the following for indications of the existence of Related Party relationships or transactions that Management has not previously identified or disclosed to the Auditor:

1. Bank, legal and third party confirmations obtained as part of the Auditor's procedures;
2. Minutes of meetings of Shareholders and of those charged with Governance; and
3. Such other records or documents as the Auditor considers necessary in the circumstances of the Entity.

3 Bring out the Auditor's duties on discussion with the Engagement Team Members in relation to the related parties transactions.

1. Matters that may be addressed in the discussion among the Engagement Team include:
   (a) The **nature and extent of the Entity's relationships** and transactions with related parties (using, for example, the Auditor's record of identified related parties updated after each audit).
   (b) The **circumstances or conditions** of the Entity that may indicate the existence of related party relationships or transactions that Management has not identified or disclosed to the Auditor (e.g., a complex organisational structure, use of special-purpose entities for off-balance sheet transactions, or an inadequate information system).
   (c) The **records or documents** that may indicate the existence of related party relationships or transactions.
   (d) The importance that Management and those charged with governance attach to the identification, appropriate accounting for, and disclosure of related party relationships and transactions (if the applicable financial reporting framework establishes related party requirements), and the related risk of Management override of relevant controls
   (e) An emphasis on the importance of maintaining an attitude of professional skepticism throughout the audit regarding the potential for material misstatement associated with related party relationships and transactions.
2. In addition, the discussion in the context of fraud may include specific consideration of how Related Parties may be involved in fraud. For example:
   (a) How special-purpose entities controlled by Management might be used to facilitate earnings management.
   (b) How transactions between the Entity and a known business partner of a key member of Management could be arranged to facilitate misappropriation of the Entity's assets

4 Bring out the duties of an Auditor in relation to identification of significant transactions outside the normal course of business.

1. If the Auditor identifies significant transactions outside the Entity's normal course of business when performing the audit procedures, the Auditor shall inquire of Management about:
   (a) The nature of these transactions; and
   (b) Whether Related Parties could be involved.
2. For identified significant Related Party transactions outside the Entity's normal course of business, the Auditor shall:
   (a) Inspect the underlying contracts or agreements, if any, and evaluate whether:
   - 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;
   - The terms of the transactions are consistent with Management's explanations; and
   - The transactions have been appropriately accounted for and disclosed in accordance with the applicable Financial Reporting Framework; and

   (b) Obtain audit evidence that the transactions have been appropriately authorised and approved.

5. Transactions with related parties could result in the Misstatement in the Financials. Is there any Mitigating Factor on such risks?

The following factors ensures fair trading with Related Parties:

1. **Internal ethical codes**, appropriately communicated to the Entity's personnel and enforced, governing the circumstances in which the Entity may enter into specific types of related party transactions.
2. **Policies and procedures** for open and timely **disclosure** of the interests that Management and those charged with governance have in related party transactions.
3. The **assignment of responsibilities** within the Entity for identifying, recording, summarising, and disclosing related party transactions.
4. **Timely disclosure and discussion** between Management and those charged with governance of significant related party transactions outside the Entity's normal course of business, including whether those charged with governance have appropriately challenged the business rationale of such transactions (for example, by seeking advice from external professional advisors).
5. **Clear guidelines for the approval** of related party transactions involving actual or perceived conflicts of interest, such as approval by a subcommittee of those charged with Governance comprising individuals independent of Management.
6. **Periodic reviews** by internal Auditors, where applicable.

7. **Proactive action taken by Management** to resolve related party disclosure issues, such as by seeking advice from the Auditor or external legal counsel.
8. The existence of **whistle-blowing policies** and procedures, where applicable.

6 Bring out the reasons why the controls over Related Party Relationships and transactions within some entities are weak, ineffective, deficient or non-existent.

The following could be the main reasons, due to which there is a weak control on transaction with Related Parties:
1. The low importance attached by Management to identifying and disclosing Related Party Relationships and transactions.
2. The lack of appropriate oversight by those charged with Governance.
3. An intentional disregard for such controls because related party disclosures may reveal information that Management considers sensitive, for example, the existence of transactions involving family members of Management.
4. An insufficient understanding by Management of the related party requirements of the applicable Financial Reporting Framework.
5. The absence of disclosure requirements under the applicable Financial Reporting Framework.

Bring out the possible frauds that could be committed by the Management in relation to related parties.

Management's financial interests in certain Related Parties may provide incentives for Management to override controls by (a) directing the Entity, against its interests, to conclude transactions for the benefit of these parties, or (b) colluding with such parties or controlling their actions. Examples of possible fraud include:
1. Creating fictitious terms of transactions with Related Parties designed to misrepresent the business rationale of these transactions.
2. Fraudulently organizing the transfer of assets from or to Management or others at amounts significantly above or below market value.
3. Engaging in complex transactions with Related Parties, such as Special Purpose Entities, that are structured to misrepresent the Financial Position or Financial Performance of the Entity.

What is an Arrangement? Bring out some examples of Arrangements.

1. An Arrangement involves a formal or informal agreement between the Entity and one or more other parties for such purposes as:
   (a) The provision of designated Services or Financial Support.
   (b) The conduct of certain types of transactions under specific Terms and Conditions.
   (c) The Establishment of a business relationship through appropriate Vehicles or Structures.
2. Examples of Arrangements that may indicate the existence of Related Party relationships or transactions that Management has not previously identified or disclosed to the Auditor include:
   (a) Participation in unincorporated partnerships with other parties.
   (b) Agreements for the provision of services to certain parties under terms and conditions that are outside the Entity's normal course of business.
   (c) Guarantees and guarantor relationships.
3. Examples of transactions outside the Entity's normal course of business may include:
   (a) Complex Equity transactions, such as Corporate Restructurings or Acquisitions.
   (b) Transactions with offshore entities in jurisdictions with weak corporate laws.
   (c) The leasing of premises or the rendering of Management services by the Entity to another party if no Consideration is exchanged.
   (d) Sales transactions with unusually large discounts or returns.
   (e) Transactions with circular arrangements, for example, sales with a commitment to repurchase.
   (f) Transactions under contracts whose terms are changed before expiry.

Bring out the Auditor's duties in relation to Related Parties Transactions.

1. **Inspection of Records:** During the audit, the Auditor may inspect records or documents that may provide information about Related Party relationships and transactions, for example:
   (a) Entity income tax returns.
   (b) Information supplied by the Entity to regulatory authorities.
   (c) Shareholder registers to identify the Entity's principal shareholders.
   (d) Statements of conflicts of interest from Management and those charged with governance.
   (e) Records of the Entity's investments and those of its pension plans.
   (f) Contracts and agreements with key Management or those charged with governance.
   (g) Significant contracts and agreements not in the Entity's ordinary course of business.
   (h) Specific invoices and correspondence from the Entity's professional advisors.

(i) Life insurance policies acquired by the Entity.
(j) Significant contracts re-negotiated by the Entity during the period.
(k) Internal Auditors' reports.
(l) Documents associated with the Entity's filings with a securities regulator

2. **Substantive Procedures:** The Auditor shall perform the following Substantive Procedures:
   (a) Confirming or discussing specific aspects of the transactions with intermediaries such as banks, law firms, guarantors, or agents, where practicable and not prohibited by law, regulation or ethical rules.
   (b) Confirming the 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).
   (c) Where applicable, reading the Financial Statements or other relevant financial information, if available, of the Related Parties for evidence of the accounting of the transactions in the Related Parties' accounting records

3. **Understanding the Business Relationship:** The Auditor shall first understand the business relationships that such a Related Party may have established directly or indirectly with the Entity. This is done through the following:
   (a) Inquiries of, and discussion with, Management and those charged with Governance.
   (b) Inquiries of the Related Party.
   (c) Inspection of significant contracts with the Related Party.
   (d) Appropriate background research, such as through the Internet or specific external business information databases.

4. **Procedures in relation to newly identified Related Parties:** Examples of Substantive Audit Procedures that the Auditor may perform relating to newly identified Related Parties or significant Related Party transactions include:
   (a) Making inquiries regarding the nature of the Entity's relationships with the newly identified Related Parties, including (where appropriate and not prohibited by Law, Regulation or Ethical rules) inquiring of parties outside the Entity who are presumed to have significant knowledge of the Entity and its business, such as legal counsel, principal agents, major representatives, consultants, guarantors, or other close business partners.
   (b) Analysing the accounting records for transactions with the newly identified Related Parties. Such an analysis may be facilitated using Computer-Assisted Audit Techniques.
   (c) Verifying the terms and conditions of the newly identified Related Party transactions, and evaluating whether the transactions have been appropriately accounted for and disclosed in accordance with the applicable Financial Reporting Framework

5. **Reviewal of Business Rationale:** In evaluating the Business Rationale of a significant Related Party transaction outside the Entity's normal course of business, the Auditor may consider the following:
   (a) Whether the transaction:
      - Is overly complex (e.g., it may involve multiple related parties within a consolidated group).
      - Has unusual terms of trade, such as unusual prices, interest rates, guarantees and repayment terms.
      - Lacks an apparent logical business reason for its occurrence.
      - Involves previously unidentified related parties.
      - Is processed in an unusual manner.
   (b) Whether Management has discussed the nature of, and accounting for, such a transaction with those charged with Governance.
   (c) Whether Management is placing more emphasis on a particular accounting treatment rather than giving due regard to the underlying economics of the transaction.

6. **Communication with those Charged with Governance:** Communicating significant matters arising during the Audit in connection with the Entity's Related Parties helps the Auditor to establish a common understanding with those charged with Governance of the nature and resolution of these matters. Matters to be communicated in this regard include:
   (a) Non-disclosure (whether intentional or not) 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.
   (b) The identification of significant Related Party transactions that have not been appropriately authorised and approved, which may give rise to suspected fraud.
   (c) Disagreement with Management regarding the accounting for and disclosure of significant Related Party transactions in accordance with the applicable Financial Reporting Framework.
   (d) Non-compliance with applicable law or regulations prohibiting specific types of Related Party Transactions.
   (e) Difficulties in identifying the Party that ultimately controls the Entity.