SA- PM

SL

The auditor while conducting an audit should critically examine the accounting policies adopted by the client and test them for conformity with the accounting standards.

Auditor should examine the acceptability of the accounting policies as there are multiple accounting policies applicable to all situations. The should assess the selection and consistent application of accounting policies.

Thus the auditor should ~~himself~~ determine himself that whether the accounting policy is consistent or not and as per the basic principles of accounting. Therefore it wouldn't be correct to state that the auditor need n't review the accounting policies unless there is a change in basis of accounting.

Q2

⇒ When the auditor draws up his audit plan he should keep in mind the checking of subsequent events.

SA 560 establishes standard on the auditor's responsibility regarding subsequent events. Subsequent events refers to events occuring between the date of the financial statements and date of auditor's report that become known to the auditor after the date of the auditor's report. AS-4 deals with all those significant events both favourable and unfavourable.

As per SA 560 the auditor should consider the effect of subsequent events on the financial statements and on the auditor's report.

The auditor should consider the following :-

i. understanding of procedure adopted by mgmt to identify subsequent events

ii. Inquiry with mgmt/ TCWG to discuss the effect of subsequent events on FS.

iii. Reading minutes of mgmt/ TCWG/ owners meetings held after the date of FS.

iv. Reading entity's latest subsequent interim FS.

Q.
(b)
03

Q.3

(b) Auditor's responsibility regarding comparatives- SA 710 :-

→ The auditor shall determine whether the financial statement include the comparative information required by FRF.

→ For this purpose, the auditor shall evaluate:-

(i) Whether the comparative information agrees with the amounts and other disclosure presented

ii Whether the ~~po~~ accounting policies in the comparative information are consistent with those applied in the current period.
If there have been any changes then whether those changes have been properly accounted or not.

(c) If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor shall perform such additional audit procedures as are necessary to obtain sufficient audit evidence to check whether a material misstatement exists.

Q3.
C.

Sampling Risk (SA S30) :-
Sampling Risk can lead to two types of erroneous conclusions:-

→ (i) In case of test of control- controls are more effective than they actually are
→ in case of test of details → material misstatement doesn't exist though it exist.

(ii) In case of test of control
→ less effective than they are.

In case of test of details:-
→ material misstatement exists when in fact it doesn't.

Q4.

Written representation:-

A written statement by management provided to the auditor to confirm or to support other audit evidence.

=> Auditors ~~liability~~ reliance

If auditor has concern about the competence, integrity, ethical values of management, the auditor should determine the effect of that concern.

Further if written representation is inconsistent with other audit evidence, the auditor shall perform audit procedures to attempt to resolve the matter.

If the matter is not resolved, the auditor shall reconsider the competence, integrity and ethical values of the mgmt. If the auditor concludes that the written representations are not reliable, the auditor shall take appropriate actions and determine the possible effect on the opinion in the auditor's report.

Q.5 SA-600

Using the work of another auditor:-

The following points:-(liaison in the following manner)

(i) The other auditor should have understood the use of their report by the principal auditor. The other auditor should co-ordinate with the principal auditor for the matters that the principal auditor should know.

ii The other auditor should ensure the compliance with the relevant statutory requirements.

(iii) Principal auditor should advise the other auditor of any matter that has come to his attention.

(iv) If required, the principal auditor may require the other auditor to answer a detailed questionnaire. ~~regarding~~
The other auditor should respond to such questionnaire on a timely basis.

Q.6 (i)

S

Q.6 (i) Situation where detection risk can't be reduced to acceptance level:-

SA-315→ SA 315 and 310 require that the auditor should use professional judgement to assess audit risk and to design audit procedures to ensure that it is reduced to acceptably low level.

Detection risk is the risk that auditor will not detect a material misstatement that exist in an account balance or class of transactions.

If the ~~i~~ ~~it~~ inherent and control risks are high, the auditor tries to minimize the risk through substantive procedure but if the substantive ~~procedure~~ procedure can't reduce the audit risk to acceptable level.

as If it can't be reduced to an acceptable level, the auditor should express a qualified opinion or a disclaimer of opinion as may be appropriate.

Q6

b. Auditor's responsibility relating to fraud in an audit of FS. (SA 240)

(Error in inventory valuation) Responsibility in case of Error

Q3 As per SA 240, if circumstance indicate that there is possible error or fraud, the auditor should consider the potential effect of the error/fraud on the financial information.

If the auditor believes the suspected fraud or error could have a material effect on the financial information, he should perform appropriate modified or additional procedures.

The SA requires that when the auditor identifies a misstatement the auditor should check whether such misstatement is indicative of fraud.

If there is indication of fraud, the auditor shall evaluate the implications of the misstatement in reliability of the management representation.

As per SA 320, in case of indicative fraud the auditor should request the mgmt to adjust financial information or extend the audit procedures.

If mgmt fails to adjust the information or the auditor can't conclude the matter he should express qualified or adverse opinion.

The auditor should communicate his findings to mgmt.

Q.8.

Responsibilities of joint auditors :-

☞ The responsibilities of joint auditors are no different from the responsibilities of individual auditors. SA 299 provides the following features:

→ Division of Work :-
Where joint auditors are appointed, they should, by mutual discussion, divide the audit of specific areas.

→ Coordination :-
Where in the course of work, a joint auditor comes across matters which are relevant to the areas of other joint auditors, he should communicate the same to all auditors

☞ Joint auditors are jointly and severally responsible in the following matters

(i) In respect of audit work not divided.
(ii) in respect of decisions taken by all joint auditors
(iii) matters which are brought to the notice of the joint auditors.
iv. For examining that the FS ~~op to~~ comply with the disclosure requirement.
v. Ensuring that the audit report complies with the requirement of relevant statute.

Q:9

a. SA 402:- Audit Consideration Relating to an Entity using a Service Organization:-

B The following factors are to be considered in understanding how entity uses the services of a service organization:

(i) The nature of service provided.

ii The ~~Sign~~ Significance of service to the user entity.

iii The effect of the services on the internal control.

(iv) The nature and materiality of the transactions processed

(v) Degree of interaction between the activities of the service organization and those of user.

(vi) The nature of the relationship between the user and the service organization.

(vii) Contractual terms and conditions.

Q. 9.

b. Auditor's responsibility in case of fraud:-

SA-240 :-

Fraud can be committed by management by overriding controls ~~by~~ using techniques such as.

(i) Recording fictitious journal entry

If the auditor finds misstatement due to fraud, the auditor shall:-

(i) Determine the professional and legal responsibility ~~that whether~~ r

(ii) Consider whether it is appropriate to withdraw from the engagement.

iii If the auditor withdraws,

a. Discuss with management/TCWG the fact and the reasons.

b. Determine whether there is ~~perfoseetral~~ professional or legal requirement to report ~~to~~ to the person who made the audit appointment or regulatory authorities.

Section 143(12) :- Auditor to report the fraud to CG within 60 days of his knowledge.

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Q10.

a.

SRS 4410 ~~Engg~~

management responsibility in case of compilation of financial statements:-

(i) The accuracy and completeness of information.

(ii) maintenance of adequate accounting records and internal controls and selection of accounting policies.

iii Preparation and presentation of FS as per applicable FRF

iv Safeguarding of asset of the entity

v. Establishing appropriate controls to detect fraud and other irregularities.

v. Ensuring that the activities of the entity are carried in accordance with applicable laws

Q.10.b. SA-320

Factors that may affect the identification of an appropriate benchmark :-

(i) The elements of the financial statements.

(ii) Items on which users may give more focus.

iii The nature of entity

(iv) The entity's ownership structure and the way it is financed.

Q. 11. a. SA-330 :-

Factors that may warrant a re-test of controls are :-

(i) A deficient control environment

ii Deficient monitoring of control.

III. manual element of the control.

IV Changes in personnel

(V) ~~Cor~~ ~~changes~~ Changing circumstances that indicate the need for changes in the control

VI Deficient general IT controls.

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Q. 11.b SA-450

The following are the sources of misstatements arising from other than fraud:-

(i) Inaccuracy in gathering or processing data
ii ~~Ommission~~ Omission of an amount
iii. Incorrect accounting estimate
iv. Judgement of management regarding accounting estimate that may be unreasonable.

Q. 11.C. SA-505 → management Requests not to take ~~to~~ external confirmation :-

SA 505 requires the auditor should take external confirmation in consultation with the mgmt.

Management may sometime request auditor not to seek external confirmation.

In such cases, ~~to ber~~ if the auditor agrees not to seek external confirmation, the auditor should consider validity of grounds of request. The auditor should assess management's integrity and obtain evidence to support the same.

The auditor should also ask the management to submit its request in a written form.

The auditor should document the reasons for accepting the management's intention and should apply alternative procedure to obtain sufficient appropriate audit evidence.

Q. 11. d.

SA 210

The following factors may take it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms:-

(i) Any indication that the entity misunderstands the objective and scope of the audit.

ii Any revised or special terms of the audit.

iii A recent change of senior management

iv. A significant change in ownership.

v. A significant change in nature or size of the entity's business.

vi. A change in legal or regulatory requirements.

vii. A change in the FRF.

viii. A change in other reporting requirements.

Q12 - SA-710 - As ~~usual~~. old provisions.

Q.13 b. Child labour → SA-250

Q3 The auditor shall obtain sufficient appropriate evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures.

Further, non-compliance with other laws and regulations may result in fines, litigation or other consequences for the entity.

In the instant case, major portion of the labour employed in the company was child labour. In ~~the~~ case if the auditor concludes that non-compliance has a material effect on the financial statements and has not been adequately reflected in the financial statements, the auditor shall express a qualified or adverse opinion.

Q14.

SA-330 → Substantive procedures :-

(i) Test of details :-

The nature of the risk and assertion is relevant to the design of tests of details. On the other hand, tests of details related to the completeness assertion may involve ~~selecting~~ selecting from items that are expected to be included in the relevant FS.

(ii) Substantive Analytical Procedure :-

Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time.

Q15. b.

SAE 3400-

(i) Things to be considered before accepting the audit engagement:-

- → the intended use of the information
- → Whether the information will be for general or limited distribution.
- → the nature of assumption
- → the elements to be included in the information
- → the period covered by the information.

(ii) The following audit evidences to be ~~collected~~ documented:-

- → the source of information
- → basis of forecasts
- → the assumptions made in arriving the forecasts
- → hypothecial assumptions
- → management representations regarding the intended use and distribution of information
- → management's acceptance of its responsibility
- → Audit plan.

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Q.16 SA-550 Related Parties

Q3 Documents:-

(i) Income tax returns.
ii. Information supplied to regulatory authorities
iii. Shareholders' register
iv. Statement of conflict of interest from mgmt and TCWG
v. Contracts and agreements with key mgmt/TCWG
vi Records of investment.
vii Life insurance policies.
viii. Internal auditor's report.

Q17. a. please read & discuss if not understood.

Q.17.b. SA-610

To determine the adequacy of specific work performed by the internal ~~audi~~ auditor, the external auditor shall evaluate :-

(i) ~~Adequ~~ Technical training and proficiency
ii ~~Supervision, review an~~

(ii) Extent of supervision, review and documentation.

iii. Audit evidences supporting the conclusions

iv. Consistency of report with work performed.

v. Any exceptional / unusual matters disclosed by the internal auditors.

Q. 18. Sources of related party,,

Q19 SA-240

Techniques of ~~fra~~ fraud by mgmt:-

① Recording fictitious journal entries to manipulate operating results or achieve other objectives.

(ii) Inappropriately adjusting assumptions and changing judgements to change account balance

iii. Omitting, advancing or delaying recognition of financial transactions and ~~events~~ events.

iv. Concealing or not disclosing facts.

(v) Altering records

vi. Embezzling receipts.

vii. paying for goods and services that have not been received.

viii. Using entity's asset for personal use.

Q.20. ~~XXXX~~

SA 500 "Using the work of management's expert"

(Gratuity Age - 65 in stead of 60)

⇒ When an auditor wishes to use the work of management's expert as an audit evidence, he shall ~~evaluate~~ :-

(i) Evaluate the competence, capabilities and objectivity of the expert.

ii. obtain an understanding of the work of that expert

iii. Evaluate the appropriateness of the work as an audit evidence

For evaluating the competence, capabilities and objectivity of a management's expert, the auditor can evaluate the education qualification, other works of the expert, professional experience, any book/article published by the expert.

The auditor may also check ~~evaluate the following~~ for evaluating the appropriateness of the audit evidence :-

(i) Relevance and reasonableness of that expert's finding.

(ii) Reasonableness of the assumptions used therein

iii. Relevance, completeness and accuracy of source of data.

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Q.22.a. SA-540

The auditor shall obtain an understanding of the following in order to ~~provide~~ minimize the risks of material ~~mism~~ ~~missm~~ misstatement for accounting estimates:-

1. Requirement of applicable FRF.
2. How management identifies those transactions, events and conditions ~~may that may give rise to the need~~ where accounting estimates are used.

3. The estimation making process including:-
   a. Relevant controls
   b. Whether management has used an expert?
   c. The assumption underlying the accounting estimates.

Q.24

Fraud through supplier ledger:-

1. Making entries for fictitious or duplicate invoices and subsequent payments.

2. Not recording the credit notes issued by the supplier and withdrawing the excess amount.

3. Withdrawing amount which remain unclaimed for a long period of time.

4. Accepting invoices at prices higher than the market price and collecting the excess claim from the suppliers directly.

Q.25 Arrears of ~~salaries and wages~~ :-

AS-4, requires adjustments of assets and liabilities for events occurring ~~of~~ after BS date that provide additional information materially affecting the determination of amounts relating to conditions existing at the B.S. date.

AS-29 requires future events that may affect amount required to settle an obligation should be reflected in the amount of a provision. ~~where there is sufficient objective~~

SA 560 requires auditor to assure that all events occurring subsequent to the date of FS and for which the FRF requires adjustment or disclosure have been adjusted or disclosured.

From above provisions, the provisions of salaries and wages should be provided.

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Q. 26

SA- ~~26~~ 620

An auditor can obtain the following types of reports, options or statements of an expert:-

(1) Valuation of complex financial instruments, land and building, plant & machinery etc.

II. Acturial calculations of liabilities
III. Estimation of oil and gas reserve
IV. Valuation of environmental liabilities.
V. The interpretation of contracts.
Vi The analysis of complex or unusual tax issues.

Q.28

SA-315

IT system risks to an entity's internal controls:-

(i) Reliance on system or programs that are inaccurately processing the data.

(ii) Reliance on system processing inaccurate data

iii. Unauthorized access to data.
iv. Unauthorized changes to data in master files.
v. Unauthorized changes to system or programs.
vi Failure to make necessary changes.
vii manual interventions.

Q. 29. b   SA- 505

Auditor replaced / credit of 5 lakh / creditor not traceable

Ans This is the case of external confirmation covered by SA-505. The identities of trade payables are not traceable to confirm the credit balance as appearing in the financial statement of the company. It is also not a case of pending litigation.

It might be a case that an income of ₹ 5 lakh had been ~~iden~~ hidden in previous year. The statutory auditor should examine the validity of the credit balance as appeared in the company's FS. He should obtain sufficient evidence in support of the balance.

He should apply alternate audit procedures to get documentary proof for the transactions and should not rely entirely on the management representation.

Finally he should include the matter by way of a qualification in his audit to report the matter.

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3L.
Q.31a. SRS-4410

(inventory understated of partnership firm)

Ans If an accountant becomes aware of material misstatement, the accountant should persuade the management to carry out necessary amendments in the FS or other compiled financial information.

If such amendments are not made and the financial statements are still considered to be misleading the accountant should withdraw from the engagement.

Q.31 b SA240 (Cash balance 2.10 crores)

Ans SA-240 requires when the auditor comes across such circumstances that indicate existence of fraud then the auditor should consider the impact of fraud on financial ~~information~~ statement and its disclosure in the audit report.

In the given case, the circumstance indicate possible misstatement in FS is due to fraud and error and the auditor must investigate further to consider effect on FS.

The guidance not on audit of Cash and bank balances requires that if the entity has unduly large cash balance, he should carry out surprise verification of cash more frequently to ascertain the matter. The difference should be reported in his audit report.

Q.33

SA

Q.33 a. Absence during PV.

SA501 :-

If the auditor is unable to be present at the physical inventory count on the date planned due to unforeseen circumstances.

The auditor should take or observe some physical count on an alternative date and perform alternative audit procedures to assess whether the changes in inventory between the date of physical count and the period end date are correctly recorded.

The auditor would also verify the procedure adopted, treatment given for the discrepancies noted during the physical count.

The auditor should take management's written representation on:-

a. the completeness of information provided ~~during~~ regarding the inventory

b. assurance with regard to adherence to laid down procedures for physical inventory control.

Q. 34.

Situations of external confirmations:-

① Bank balance
ii ~~A/c~~ Trade receivables
iii. Inventories held by third parties
iv Property title deeds held by third parties
v Investment purchased but delivery not ~~made~~ taken
vi Loan from lenders
vii Trade payables
viii Long O/S share application.

Q. 36 SA-260

The auditor should communicate the following matters of governance interest to TCWG:-

① The auditor is responsible for forming and expressing an opinion on the financial statements
ii The audit of financial statements doesn't relieve management or TCWG of their responsibilities

iii. The auditor's views about significant quantitative aspect of entity's accounting practices, accounting policies, accounting estimates and financial disclosure
iv. Significant ~~diff~~ difficulties, if any.
v. other matters, if any.

Q.37.

SA-250 :-

Responsibilites of an auditor regarding non-compliance of law and regulation in an audit of financial statement:-

1. Reporting non-compliance to TCWG:-
The auditor shall communicate with TCWG matters involving non-compliance with laws and regulations that come to the auditor's attention during the course of audit.
If the auditor concludes that the non-compliance is ~~be~~ intentional and material, the auditor shall communicate the matter to TCWG as soon as practicable.

2. Reporting non-compliance in Auditor's Report :- If the auditor concludes that non-compliance has a material effect on the FS and has not been adequately reflected in the FS, the auditor shall in express a qualified or adverse opinion.

3. Reporting non-compliance to Regulatory and Enforcement authorities:-
If the auditor has identified or suspects non-compliance with laws or regulations, the auditor shall determine whether the auditor has a responsibility to report the identified non-compliance to parties outside the entity.

Q.39

Precaution to be taken by auditor in case accounting data processed by third party:-

Processing of accounting data may be given to a third party on account of various considerations.

The precautions shall be of SA-402 "

" Considerations while using the service organization "

Refer Q. 9//

Q40

SA-570

(1.3) Indicators of going concern.

Financial indicators:-

1. Net liability ~~or~~ net current liability
2. Fixed term borrowing approaching maturity without realistic prospects of renewal / repayment.
3. Withdrawal of financial support by trade payables.
4. Negative operating cash flow
5. Adverse ~~cash~~ financial ~~ratios.~~ ratios.
6. Arrears of dividend.

Operating Indicators

1. management's intention to liquidate entity.
2. Loss of key management without replacement.
3. Loss of major market, customers
4. Labour difficulties
5. Shortage of important supplies.

Other indicators:-

1. Non-compliance with capital or other statutory requirements.
2. Pending legal or regulatory proceeding
3. Changes in law or regulation

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Q41 Please Read.

Q42. SRS - 4410.

If in course of compilation of financial statement, it is observed that the information supplied is incorrect:- ~~the~~

Responsibilities of ~~auditor~~:- accountant:-

(i) Make enquiries of management to assess the reliability and completeness of the information

(ii) Assess internal controls of the entity, and
(iii) verify any matters or explanations.

The accountant may also request the mgmt to provide additional information i.e. management representation letter.

If the mgmt refuses to provide additional information, the accountant should withdraw from the engagement.

If ~~more~~ one or more AS not complied, the same should be ~~report~~ reported to the mgmt and if the same is not rectified the accountant should include the same in notes to account.

Q43:- Audit Evidence by:-

(i) Inspection
(ii) Observation
iii. External confirmation
iv. Recalculation
v. Reperformance
vi. Inquiry.

2

Q44

~~Sugar mil~~ Sagar Ltd.
Auditor accepts the written ~~writt~~ representation without evaluation.

(i) Write provisions of SA-505 ~~if accept~~ evaluating written representation

Q45 SA 510 → ~~XXXXX~~

a. The following engagements are initial audit engagement:-

(i) The financial statements for the prior period were not audited; or

ii The financial statements for the prior period were ~~not a~~ audited by a predecessor auditor.

Q45.b Auditor's responsibility in case of initial engagement

i) Financial statement audited by another auditor :-

If the prior period's financial statements were audited by a predecessor auditor, the auditor may be able to obtain audit evidence regarding opening ~~balance~~ opening balances by taking the copies of audited financial statements and other schedules.

The current auditor can place reliance on the closing balances contained in the F.S.

ii. Audit of financial statements for the ~~first~~ first time :-

When the audit of financial statements is being conducted for the first time, the auditor ~~may~~ has to perform audit procedures to obtain sufficient audit evidence regarding opening balances.

The auditor need to obtain evidence having regard to nature of opening balance, materiality of opening balance and accounting policies.

The auditor can't perform certain ~~procedu~~ procedures like physical count of inventories. The auditor may obtain confirmations.

The auditor can also obtain management representation with regard to the opening balances.

Q45.c → If the auditor is unable to obtain sufficient audit evidence regarding the opening balances, the auditor ~~may~~ shall express a qualified or disclaimer of opinion.

Q 46

M/s LNK's group ~~grat~~ gratuity scheme's valuation by actuary shows wide variation compared to the preceding year's figures. → Comment.

(2) This question is to be answered as per SA 500" management's expert.

(3) List out the evaluation criteria as previous questions.

Q 47a SA-450

Impact of uncorrected misstatements identified during the audit and auditor's response to the same:-

As per SA 450, the auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. The auditor shall consider the following points:

(1) The size and nature of the misstatement in terms of similar nature of transaction and as a whole FS.

ii. The effect of uncorrected misstatement in prior periods ~~as a~~

iii. The auditor shall communicate the uncorrected misstatements with TCGW if it is not prohibited by law or regulation.

If the managements says that the effect of such uncorrected misstatements is immaterial then the auditor shall request for a written representation from management.

If the management refuses to adjust the financial information and the auditor ~~conl~~ concludes the aggregate of effect of misstatement is material the ~~auditor~~ auditor should report accordingly.

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Q47.b. SA-250

Roles and responsibilities of the ~~stau~~ Statutory auditors in relation to compliance with laws and regulations:-

Ans The auditor shall obtain a general understanding of :-

(i) The legal and regulatory framework applicable to the entity and industry.

(ii) How the entity is complying with that framework.

The auditor shall obtain audit evidence regarding compliance with the provisions of those laws and regulations.

The auditor shall perform the following audit procedures to help identify instances of non-compliance with laws and regulation :-

(i) Inquiry of management / ~~TCGW~~ TCWG regarding whether the entity is complying with such laws and regulations, and

(ii) Inspecting correspondence with licensing or regulatory authorities.

The auditor shall request management / TCWG to provide written representation that all known instances of non-compliance or suspected non-compliance with laws and regulations.

Thus the auditor is responsible for obtaining assurance that the FS are free from material misstatement on account of applicable laws and regulations.

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Q.48 SA 315

QS Considerations of auditor to assess risk of material misstatement :-

(i) Identify risks through the process of obtaining an understanding of the entity and its environment

(ii) Assess the identified risks and evaluate ~~whether they~~ are

iii. Relate the identified risks to what can go wrong.

iv. Consider the likelihood of misstatement

QS SA 330 → Auditor's responses to assessed risk of material misstatement :-

(i) Consider the reasons that why the risk was identified to have material misstatement.

a. The ~~likely~~ possibility of material misstatement

b. whether the ~~opera~~ ~~oper~~ operating effectiveness and design of relevant control was considered.

(ii) Obtain more persuasive audit evidence the higher the auditor's assessment of risks

Q49. a. SA - 705

Q. Professional obligations of auditor who has resigned from the audit before completion of his term due to non-coperation of the mgmt.

A. When the auditor concludes that resignation from the audit is necessary because of scope limitation, there may be professional, regulatory or legal requirement for the auditor to communicate matters of resignation from the ~~enag~~ engagement to regulators or the entity's owner.

SA-705

In case resignation from company, the companies Act, requires the auditor to file a statement with the company and registrar within 30 days of resignation and in case of government companies, the auditor shall file such statement with CAG.

In case of failure, the auditor will be liable for penal provisions.

Q. 49. b. Access to working papers.

Hope you are clear if not please discuss.

Q.50. SA-550

Auditor's liability w.r. to related parties.

☞ The auditor should review information provided by the management of the entity.

management is primarily responsible for identification of related parties.

SA 550 requires the auditor to inspect records or documents that may provide information about related party relationships and transactions.

The auditor shall the following in case of a biased related party transactions:-

(i) The logic of the transaction that whether the transaction was entered for fraudulent financial reporting or to conceal misappropriation of assets.

(ii) Terms of transactions and

iii. The accounting of the transactions.

The auditor shall also obtain audit evidence that the transaction have been authorized and approved.

Finally the auditor should report the relationship of related party and financial effect of the transaction on statements.