



International Auditing and Assurance Standards  
Board  
Att: Technical Director  
545 Fifth Avenue, 14th Floor  
New York, New York 10017 USA  
E-mail: EDcomments@ifac.org

16 July 2007

Dear Sirs,

Re: Exposure Draft - Proposed ISA 550 (Revised and Redrafted), Related Parties

BUSINESSEUROPE is pleased to comment on the above exposure draft. BUSINESSEUROPE is the voice of European Business, representing more than 20 million small and large companies. Our members are central industrial and employers' federations from 33 countries.

First of all, BUSINESSEUROPE would like to reiterate the overall considerations raised in our comment letter dated 10 April 2006 regarding the revised ISA 550, where BUSINESSEUROPE questioned the need for a separate standard. It is still BUSINESSEUROPE's firm belief that single area ISAs generate a more complicated framework. We acknowledge that there might be a need to communicate the work performed on some of these single issue ISAs such as ISA 240 on Fraud and ISA 550 on Related Parties, but instead of adding standards to the framework, IFAC could issue a compilation of requirements etc. which are already a part of the standards. This would enhance the framework and the clarity, as the procedures in the above standards are an integrated part of the audit process. This view is supported by the wording of paragraph 1: "Specifically, it expands on how ISA 315 ... and ISA 240 ... are to be applied in relation to risks of material misstatement".

BUSINESSEUROPE would also like to lend their support to the changed wording of paragraph 27 with a clear reference to related party relationships and transactions **of which they are aware**. However, BUSINESSEUROPE would once again like to question the need for a specific requirement for obtaining specific written representations, especially since the wording is clearly of a general nature and should thus be covered by ISA 580.

### **The introduction**

In the course of the clarity project, the introduction is becoming longer and longer. Even though we acknowledge the efforts put into the clarification of especially the inherent limitations in order to achieve a more balanced message, the introduction should in our view be kept to a minimum:

- Paragraphs 4 and 5 are in our view requirements, not introductory remarks.
- Paragraph 6 is application guidance, if retained at all.
- Paragraphs 2, 3 and 7 should either be compressed, be moved to the application material or deleted.
- Finally paragraph 8 should be a requirement or be part of the application material.

### **Objective**

BUSINESSEUROPE still finds the objective too detailed. In essence, the purpose of the audit standard is to highlight the special considerations that related party transactions trigger. Thus the objective should be worded to reflect this purpose, for instance by the following wording:

*The objective of the auditor is to ensure that the special considerations due to related party transactions have been properly addressed in the audit process.*

The present objective could be kept as special requirements.

### **Q1: Respondents are asked for their views on whether the proposed definition of a related party is appropriate.**

There are two global definitions - the one in IAS 24 and the other in the OECD Model Tax Conventions. The latter should be the relevant one in most compliance based frameworks, such as tax accounts. The standards should state that the use of either should be sufficient as an alternative (not an addition) to the minimum baseline in paragraph 11(c). This would support the overarching objective as stated in the present ISA 200:

"The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework".

However, we acknowledge that IAASB has chosen a principles-based definition based on the concepts of control and significant influence. We also acknowledge that the definition in paragraph 8c might be broader due to the risk of fraud. Having said this, it is important that the definition does not generate a burden on the companies in the context of broadening the scope of the audit beyond the overarching objective, preparing the necessary documentation and the possible added work to honour a specific request for a written representation, which in our view is not needed.

We note that some of our practical concerns have been addressed in paragraph 18. We support the new wording and the changed approach.



**Q2: Respondents are asked for their views on whether the proposed ISA should address the auditing implications of implicit arm's length assertions that management has made for related party transactions. If respondents support the provision of specific guidance, respondents are asked for their views on an appropriate approach, bearing in mind that there would be a need to distinguish between explicit and implicit arm's length assertions.**

It is our understanding that no special guidance is needed. The majority of the related party transactions should be conducted on arm's length. However, paragraph 19 should be clarified incorporating both a materiality level and a special reference to transactions not conducted on arm's length. We propose the following amendment (in italics and bold):

During the audit, the auditor shall also be alert for arrangements or other information that may indicate the existence of ***material/significant*** related party relationships or transactions that management has not previously identified or disclosed to the auditor, ***especially if these are not conducted on arm's length.*** ...

We do not concur with the second bullet of paragraph 21. Whether management has made an assertion stating that a related party transaction was conducted on terms equivalent or similar to those prevailing in an arm's length or market transaction or not should not be treated as a significant risk in itself. It could, however, be stated that an explicit assertion in the financial statements might have an impact on the materiality level and thus give rise to special concern. Therefore this is to be considered. This is also in accordance with paragraph 25.

**Special considerations in the Audit of Small Entities.**

No specific comments

**Special considerations in the Audit of Public Sector Entities.**

No specific comments

If you have any questions to the above, please do not hesitate to contact me (j.chauvin@businessseurope.eu) or my colleague Kristian Koktvedgaard from the Confederation of Danish Industries (kko@di.dk)

Yours sincerely,

  
Jérôme P. Chauvin  
Director, Legal Affairs Department