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HKSA 330 (Clarified)

RESPONSES TO ASSESSED RISKS

Responses to Assessed Risks

HKSA 330 (Clarified) *The Auditor's Responses to Assessed Risks*

The auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with HKSA 315 (Revised) in an audit of financial statements.

Objective

The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks.

Responses at the Financial Statement Level

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The auditor shall design and implement overall responses to address the assessed risks of material misstatement at the financial statement level.

Overall Responses

Emphasizing to the audit team the need to maintain professional skepticism.

Assigning more experienced staff or those with special skills or using experts.

Providing more supervision.

Incorporating additional elements of unpredictability in the selection of further audit procedures to be performed.

Making general changes to the nature, timing or extent of audit procedures.

Responses at the Assertion Level

The auditor shall design and perform the further audit procedures whose, nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.

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Further Audit Procedures

Consider reasons for the assessment given to the risk of material misstatement at the assertion level:

- Likelihood of material misstatement due to particular characteristics (inherent risk).
- Whether the risk of material misstatement takes account of relevant controls.

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Further Audit Procedures

Obtain more persuasive audit evidence the higher the auditor's assessment of risk:

- Increase the quantity of the evidence
- Obtain evidence that is more relevant or reliable
  - Placing more emphasis on obtaining third party evidence
  - Obtaining corroborative evidence from a number of independent sources

Nature

Purpose
- Test of controls
- Substantive procedure

Type
- Inspection
- Observation
- Inquiry
- Confirmation
- Recalculation
- Reperformance
- Analytical procedure

Timing

When to perform?

The period or date to which the audit evidence applies.

Extent

Quantity to be performed

Sample size

Number of observations for a control activity

Audit Approach

The auditor's assessment of the identified risks at the assertion level provides a basis for considering the appropriate audit approach for designing and performing further audit procedures.

Types of audit approach:

- Control approach
- Substantive approach
- Combined approach

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Control Approach

Only by performing tests of controls may the auditor achieve an effective response to the assessed risk of material misstatement for a particular assertion.

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Substantive Approach

Performing only substantive procedures is appropriate for particular assertions and, therefore, the auditor excludes the effect of controls from the relevant risk assessment.

Reasons:

- Auditor’s risk assessment procedures have not identified any effective controls relevant to the assertion.
- Testing controls would be inefficient and therefore the auditor does not intend to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures.

Combined Approach

Using both tests of controls and substantive procedures is an effective approach.

Audit Procedures

The auditor designs and performs substantive procedures for each material class of transactions, account balance, and disclosure.

The auditor shall consider whether external confirmation procedures (HKSA 505 (Clarified)) are to be performed as substantive audit procedures.

Audit Procedures

Substantive procedures:

- audit procedures designed to detect material misstatements at the assertion level.
- comprise test of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures (SAP).

Nature and Extent of Substantive Procedures

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Depending on circumstances, the auditor may determine that:

- Performing only SAP (HKSA 520 (Clarified)) will be sufficient to reduce audit risk to an acceptably low level.
- Only tests of details (HKSA 500 (Clarified) / HKSA 530 (Clarified)) are appropriate.
- A combination of SAP and tests of details are most responsive to the assessed risks.

Substantive Procedures Responsive to Significant Risks

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Tests of details

External confirmations

Supplemented by inquiry of non-financial personnel

Timing of Substantive Procedures

If performed at interim date, the auditor shall cover the remaining period by performing:

- Substantive procedures, combined with tests of controls for the intervening period.
- If the auditor determines that it is sufficient, further audit procedures only.

If unexpected misstatement -> risk assessment & NET.

Audit Procedures

Tests of controls – audit procedures designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

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Tests of Controls

The auditor’s assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively.

Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.

In designing and performing tests of controls, the auditor shall obtain more persuasive audit evidence the greater the reliance the auditor places on the effectiveness of a control.

Nature and Extent of Tests of Controls

Inquiry + other procedures -> audit evidence about the operating effectiveness of the controls:

- How the controls were applied at relevant times during the period under audit?
- The consistency with which they are applied.
- By whom or by what means they were applied?

Nature and Extent of Tests of Controls

Determine:

- whether the controls to be tested depend upon other controls (indirect controls)?
- whether it is necessary to obtain audit evidence supporting the effective operation of those indirect controls?

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Extent of Tests of Controls

Matters to consider:

- Frequency of the performance of the control by the entity during the period.
- Length of time during the audit period that the auditor is relying on the operating effectiveness of the control.
- Expected rate of deviation from a control.
- Relevance and reliability of the audit evidence to be obtained regarding the of the operating effectiveness of the control at the assertion level.
- Extent to which audit evidence is obtained from tests of other controls related to the assertion.

Extent of Tests of Controls

Automated controls – may not be necessary to increase the extent due to the inherent consistency of IT processing.

If an automated control is functioning as intended, the auditor may consider performing tests to determine:

- Changes to the program are not made without being subject to the appropriate program change controls.
- The authorized version of the program is used for processing transaction.
- Other relevant general controls are effective.

Timing of Tests of Controls

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At particular time

Throughout the period

Using Audit Evidence Obtained during an Interim Period

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Obtain audit evidence about significant changes to those controls subsequent to the interim period.

Determine the additional audit evidence to be obtained for the remaining period.

Relevant factors for what additional audit evidence to obtain:

- Significance of the assessed risks of material misstatement at the assertion level.
- The specific controls that were tested during the interim period, and significant changes to them since they are tested.

Using Audit Evidence Obtained during the Interim Period

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Relevant factors for what additional audit evidence to obtain:

- The degree to which audit evidence about OE of those controls was obtained.
- The length of the remaining period.
- The extent to which the auditor intends to reduce further substantive procedures based on the reliance of controls.
- The control environment.

Using Audit Evidence Obtained in Previous Audits

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Additional audit work done:

- Extending tests of controls over the remaining period.
- Testing the entity's monitoring of controls.

Using Audit Evidence Obtained in Previous Audits

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Matters to consider:

- The effectiveness of other elements of internal controls.
- The risks arising from the characteristics of controls (manual / automated).
- The effectiveness of general IT controls.
- The effectiveness of the control and its application by the entity.
- Whether the lack of a change in a particular control poses a risk due to changing circumstances.
- The risks of material misstatement and the extent of reliance on the controls.

Using Audit Evidence Obtained in Previous Audits

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Establish the continuing relevance of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit.

Perform inquiry combined with observation or inspection, to confirm the understanding of those specific controls.

Changes -> test the controls in the current audit.

No change -> test the controls at least once in every third audit & test some controls every year.

Evaluating the Operating Effectiveness of Controls

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The auditor shall evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively.

Misstatements -> strong indicator of the existence of a significant deficiency in internal control.

Evaluating the Operating Effectiveness of Controls

Deviations from controls:

- Make specific inquiries to understand these matters and their potential consequences.
- Determine whether:
  - Tests of controls provide an appropriate basis for reliance on the controls.
  - Additional tests of controls are necessary.
  - The potential risks of material misstatement need to be addressed using substantive procedures.

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Financial Statement Closing Process

Agree or reconcile the financial statements with the underlying accounting records.

Examine material journal entries and other adjustments made during the course of preparing the financial statements.

Adequacy of Presentation and Disclosure

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The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, is in accordance with the applicable financial framework.

Evaluating the Sufficiency and Appropriateness of Audit Evidence

Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate before the conclusion of the audit whether the assessments of the risks of material misstatement at the assertion level remain appropriate.

The auditor shall conclude whether sufficient appropriate audit evidence has been obtained.

In forming an opinion, the auditor shall consider all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements.

Evaluating the Sufficiency and Appropriateness of Audit Evidence

If the auditor has not obtained sufficient appropriate audit evidence as to a material financial statement assertion, the auditor shall attempt to obtain further audit evidence.

If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements.

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HKSA 315 (Revised)

IT GENERAL CONTROLS

Use of Information Technology (IT)

The use of IT affects the way that control activities are implemented.

Controls over IT systems are effective when they maintain the integrity of information and security of the data such systems process, and include effective general IT controls and application controls.

General IT Controls

Policies and procedures that relate to many applications and support the effective functioning of application controls.

General IT controls that maintain the integrity of information and security of data commonly include controls over the following:

- Data center and network operations.
- System software acquisition, change and maintenance.
- Program change.
- Access security.
- Application system acquisition, development, and maintenance.

Specific Risks of IT to an Entity's Internal Control

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Reliance on systems or programs that are inaccurately processing data, processing inaccurate data, or both.

Unauthorized access to data that may result in destruction of data or improper changes to data, including the recording of unauthorized or non-existent transactions, or inaccurate recording of transactions. Particular risks may arise where multiple users access a common database.

The possibility of IT personnel gaining access privileges beyond those necessary to perform their assigned duties thereby breaking down segregation of duties.

Specific Risks of IT to an Entity's Internal Control

Unauthorized changes to data in master file.

Unauthorized changes to systems or programs.

Failure to make necessary changes to systems or programs.

Inappropriate manual intervention.

Potential loss of data or inability to access data as required.

Examples of General IT Controls

Program change controls

Controls that restrict access to programs or data

Controls over the implementation of new releases of packaged software applications

Controls over system software that restrict access to or monitor the use of system utilities that could change the financial data or records without leaving an audit trail

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HKSA 550 (Clarified)

RELATED PARTIES

Scope

To deal with the auditor's responsibilities relating to related party relationships and transactions in an audit of financial statements.

To assist the auditor in identifying and assessing the risks of material misstatement associated with related party relationships and transactions, and in designing audit procedures to respond to the assessed risks.

Definition of a Related Party

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A party that is either:

- A related party as defined in the applicable financial reporting framework; or
- Where the applicable financial reporting framework establishes minimal or no related party requirements:
  - A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity;
  - Another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries, or
  - Another entity that is under common control with the reporting entity through having: common controlling ownership; owners who are close family members; or common key management.

Definition of a Related Party

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Control is the power to govern the financial or operating policies of an entity so as to obtain benefits from its activities.

Significant influence (which may be gained by share ownership, statue or agreement) is the power to participate in the financial or operating policy decisions of an entity, but is not control over those policies.

Definition of a Related Party

May indicate presence of control or significant influence:

- Direct or indirect equity holdings or other financial interests in the entity.
- The entity's holdings of direct or indirect equity or other financial interests in other entities.
- Being part of those charged with governance or key management.
- Being a close family member of any person who are part of those charged with governance or key management.
- Have a significant business relationship with any person who are part of those charged with governance or key management.

Examples of High Risks of Material Misstatements

Related parties may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of related party transactions.

Information systems may be ineffective at identifying or summarizing transactions and outstanding balances between an entity and its related parties.

Related party transactions may not be conducted under normal market terms and conditions.

Examples of High Risks of Material Misstatements

Management may be unaware of the existence of all related party relationships and transactions, particularly if the applicable financial reporting framework does not establish related party requirements.

Related party relationships may present a greater opportunity for collusion, concealment or manipulation by management.

Responsibilities of the Auditor

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To perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

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Responsibilities of the Auditor

To obtain an understanding of the entity's related party relationships and transactions sufficient to be able to conclude whether the financial statements, insofar as they are affected by those relationships and transactions.

- Achieve fair presentation (for fair presentation framework)
- Are not misleading (for compliance framework)

To obtain an understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by HKSA 240.

Risk Assessment Procedures and Related Activities

Understanding the entity's related party relationships and transactions:

- Discussion among the engagement team
- Inquiry of management regarding:
  - The identity of the entity's related parties, including changes from the prior period;
  - The nature of the relationships between the entity and these related parties; and
  - Whether the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions.

Engagement Team Discussion

The engagement team discussion on 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.

Matters to consider:

- The nature and extent of the entity's relationships and transactions with related parties.
- An emphasis on the importance of maintaining professional skepticism throughout the audit regarding the potential for material misstatement associated with related party relationships and transactions.

Engagement Team Discussion

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Matters to consider:

- 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.
- The records or documents that may indicate the existence of related party relationships or transactions.
- The importance that management and those charged with governance attach to the identification, appropriate accounting for, and disclosure of related party relationships and transactions, and the related risk of management override of management override of relevant controls.

Engagement Team Discussion

Consideration for fraud:

- How special purpose entities controlled by management might be used to facilitate earnings management.
- 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.

Engagement Team Discussion

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The auditor shall share relevant information obtained about the entity's related parties with the other members of the engagement team.

- The identity of the entity's related parties.
- The nature of the related party relationships and transactions.
- Significant or complex related party relationships or transactions that may require special audit consideration, in particular transactions in which management or those charged with governance are financially involved.

Risk Assessment Procedures and Related Activities

- Inquiry 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:
  - Identify, account for, and disclose related party relationships and transactions in accordance with the applicable financial reporting framework;
  - Authorize and approve significant transactions and arrangements with related parties; and
  - Authorize and approve significant transactions and arrangements outside the normal course of business.

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Consideration of Control Environment

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.

Policies and procedures for open and timely disclosure of the interests that management and those charged with governance have in related party transactions.

The assignment of responsibilities within the entity for identifying, recording and summarizing, disclosing related party transactions.

Consideration of Control Environment

Timely disclosure and discussion between management and those charged with governance of significant related party transactions outside the entity's normal course of business.

Clear guidelines for the approval of related party transactions involving actual and perceived conflicts of interests.

Periodic reviews by the internal audit function, where applicable.

Proactive action taken by the management to resolve related party disclosure issues.

The existence of whistle-blowing policies and procedures, where applicable.

Reasons for Deficient or Non-existent Controls

The low importance attached by management to identifying and disclosing related party relationships and transactions.

The lack of appropriate oversight by those charged with governance.

An intentional disregard for such controls because related party disclosures may reveal information that management considers sensitive.

An insufficient understanding by management of the related party requirements of the applicable financial reporting framework.

The absence of disclosure requirements under the applicable financial reporting framework.

Possible Fraud Arising from Management Override of Controls

Creating fictitious terms of transactions with related parties designed to misrepresent the business rationale of these transactions.

Fraudulently organizing the transfer of assets from or to management or others at amounts significantly above or below market value.

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.

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Indicators of Dominant Influence

The related party has vetoed significant business decisions taken by management or those charged with governance.

Significant transactions are referred to the related party for final approval.

There is little or no debate among management and those charged with governance regarding business proposals initiated by the related party.

Transactions involving the related party (or a close family member of the related party) are rarely independently reviewed and approved.

Indication of Significant Risks for Existence of Dominant Influence

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An unusually high turnover of senior management or professional advisors may suggest unethical or fraudulent business practices that serve the related party's purposes.

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.

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.

Risk Assessment Procedures and Related Activities

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Maintaining alertness for related party information when reviewing records or documents:

- Bank and legal confirmations obtained as part of the auditor's procedures
- Minutes of meetings of shareholders and of those charged with governance
- Such other records or documents as the auditor considers necessary in the circumstances of the entity
- Third-party confirmations obtained by the auditor
- Entity's income tax returns

Risk Assessment Procedures and Related Activities

- Information supplied by the entity to regulatory authorities
- Shareholder registers to identify the entity’s principal shareholders
- Statements of conflicts of interest from management and those charged with governance
- Records of the entity’s investments and those of its pension plans
- Contracts and agreements with key management or those charged with governance
- Significant contracts and agreements not in the entity’s ordinary course of business
- Specific invoices and correspondence from the entity’s professional advisors

Risk Assessment Procedures and Related Activities

- Life insurance policies acquired by the entity
- Significant contracts re-negotiated by the entity during the period
- Reports of the internal audit function
- Documents associated with the entity’s filings with a securities regulator

Risk Assessment Procedures and Related Activities

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Identification of Significant Transactions outside the Normal Course of Business

- Obtaining further information on these transactions to evaluate whether fraud risk factors, if any, are present and, where the applicable financial reporting framework establishes related party requirements, to identify the risks of material misstatement.
- Inquiry of management of the nature (business rationale, terms and conditions) of these transactions; and whether related parties (directly or indirectly) could be involved.

Examples of Transactions outside the Entity’s Normal Course of Business

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Complex entity’s transactions.

Transactions with offshore entities in jurisdictions with weak corporate laws.

The leasing of premises or the rendering of management services by the entity to another party if no consideration is exchanged.

Sales transactions with unusually large discounts or returns.

Transactions with circular arrangement.

Transactions under contracts whose terms are changed before expiry.

Risk Assessment Procedures and Related Activities

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Group audit consideration (HKSA 600) – requires the group engagement team to provide each component auditor with a list of related parties prepared by group management and any other related parties of which the group engagement team is aware.

Responses to the Risks of Material Misstatement

The auditor designs and performs further audit procedures to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement associated with related party relationships and transactions.

Tests of Controls

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To obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls, the auditor is required to test the entity's controls over the completeness and accuracy of the recording of the related party relationships and transactions.

Substantive Audit Procedures

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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.

Confirming the purposes, specific terms or amounts of the transactions with the related parties.

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.

Audit Procedures for Risk of Material Misstatement Due to Fraud

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To obtain an understanding of the business relationships that such a related party with dominant influence may have established directly or indirectly with the entity:

- Inquires of, and discussion with, management and those charged with governance.
- Inquires of the related party.
- Inspection of significant contracts with the related party.
- Appropriate background search, such as through the Internet or specific external business information databases.
- Review of employee whistle-blowing reports where these are retained.

Responses to the Risks of Material Misstatement

Identification of previously unidentified or undisclosed related parties or significant related party transactions, the auditor shall:

- Promptly communicate the relevant information to the other member of the engagement team, assists them in determining whether this information affects the results of, and conclusions drawn from, risk assessment procedures already performed, including whether the risks of material misstatement need to be reassessed.

Responses to the Risks of Material Misstatement

- Where the applicable financial reporting framework establishes related party requirements:
  - Request management to identify all transactions with the newly identified related parties for the auditor's further evaluation; and
  - Inquire as to 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.

Responses to the Risks of Material Misstatement

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- Perform appropriate substantive audit procedures relating to such newly identified related parties or significant related party transactions:
  - Making inquires regarding the nature of the entity's relationships with the newly identified related parties, including 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.
  - Conducting an analysis of accounting records for transactions with the newly identified related parties. Such an analysis may be facilitated using computer-assisted audit techniques (CAAT).
  - 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.

Responses to the Risks of Material Misstatement

- 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.
- If the non-disclosure by management appears intentional (and therefore indicative of a risk of material misstatement due to the fraud), evaluate the implications for the audit. The auditor may also consider whether it is necessary to re-evaluate the reliability of management's responses to the auditor's inquiries and management's representations to the auditor.

Responses to the Risks of Material Misstatement

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Identified significant related party transactions outside the entity's normal course of business, the auditor shall:

- 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 explanation.
  - The transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework
- Obtain audit evidence that the transactions have been properly authorized and approved.

Consideration of Business Rationale

Whether the transaction:

- Is overly complex.
- 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.

Whether the management has discussed the nature of, and accounting for, such a transaction with those charged with governance.

Consideration of Business Rationale

Whether management is placing more emphasis on a particular accounting treatment rather than giving due regard to the underlying economics of the transaction.

Responses to the Risks of Material Misstatement

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Assertions that related party transactions were conducted on terms equivalent to those prevailing in an arm's length transaction.

Management support for the assertion may include:

- Comparing the terms of the related party transaction to those of an identical or similar transaction with one or more unrelated parties.
- Engaging an external expert to determine a market value and to confirm market terms and conditions for the transaction.
- Comparing the terms of the transaction to known market terms for broadly similar transactions on an open market.

Responses to the Risks of Material Misstatement

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Auditor's evaluation of management's support for this assertion:

- Considering the appropriateness of management's process for supporting the assertion.
- Verifying the source of the internal or external data supporting the assertion, and testing the data to determine their accuracy, completeness and relevance.
- Evaluating the reasonableness of any significant assumptions on which the assertion is based.

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Evaluation for Forming an Opinion

Whether the identified related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework.

Whether the effects of the related party relationships and transactions:

- Prevent the financial statements from achieving fair presentation (for fair presentation frameworks); or
- Cause the financial statements to be misleading (for compliance frameworks).

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Obtaining Written Representation

Management has disclosed to the auditor the identity of the entity’s related parties and all the related party relationships and transactions of which they aware.

Management has appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the frameworks.

Obtaining Written Representation

For example:

"Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Hong Kong Financial Reporting Standards."

"We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware."

Obtaining Written Representation

From those charged with governance:

- When they have approved specific related party transactions that (a) materially affect the financial statements, or (b) involve management.
- When they have made specific oral representations to the auditor on details of certain related party transactions.
- When they have financial or other interests in the related parties or the related party transactions.

Specific related party transactions do not involve undisclosed side agreements.

Communication with Those Charged with Governance

Examples of significant related party matters:

- 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 previously aware.
- The identification of significant related party transactions that they have not been appropriately authorized and approved, which may give rise to suspected fraud.

Communication with Those Charged with Governance

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- Disagreement with management regarding the accounting for and disclosure of significant related party transactions in accordance with the applicable financial reporting framework.
- Non-compliance with applicable law or regulations prohibiting or restricting specific types of related party transactions.
- Difficulties in identifying the party that ultimately controls the entity.

References

HKSA 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

HKSA 330 (Clarified) *The Auditor's Responses to Assessed Risks*

HKSA 550 (Clarified) *Related Parties*

HKSA 580 (Clarified) *Written Representations*