

BASIS FOR CONCLUSIONS CANADIAN AUDITING STANDARD (CAS) 550, Related Parties

September 2009

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, Canadian Auditing Standard 550, *Related Parties*.

Background

In December 2005, the International Auditing and Assurance Standards Board (IAASB) issued its first Exposure Draft of International Auditing Standard (ISA) 550 (Revised and Redrafted), *Related Parties*. As the AASB had not yet committed to adopting the ISAs at that time, no corresponding Exposure Draft was issued in Canada. The IAASB made significant and substantive changes to the proposed ISA as a result of the comments received from respondents to that Exposure Draft. Accordingly, the IAASB determined that re-exposure of the revised draft was necessary.

In February 2007, the IAASB issued its Re-exposure Draft of ISA 550 (Revised and Redrafted), *Related Parties* (Re-ED-ISA 550). The IAASB approved final ISA 550 in March 2008 subject to confirmation by the Public Interest Oversight Board (PIOB) that due process was followed. This confirmation was received in July 2008.

In March 2007, the AASB issued its Exposure Draft to adopt proposed ISA 550 as CAS 550 (ED-CAS 550) to replace Section 6010, AUDIT OF RELATED PARTY TRANSACTIONS. There were 8 respondents to ED-CAS 550 (identified below).

The AASB approved CAS 550 in September 2008. The Auditing and Assurance Standards Oversight Council reviewed due process followed by the AASB in the development of this CAS prior to its issuance in the CICA Handbook – Assurance.

Purpose of this Basis for Conclusions

This Basis for Conclusions has been prepared to make Canadian stakeholders aware of the following.

- (a) A Basis for Conclusions prepared by IAASB staff for ISA 550 is available on the IAASB web site, and provides information on how the IAASB dealt with comments received on significant matters in response to the Re-ED-ISA 550.
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its ED-CAS 550 is also available. This information is set out below.

Significant Matters

AASB's Consideration of Amendments to ISA Wording

1. CAS 550 contains no amendment to the ISA wording. This is consistent with the position taken by the AASB in its ED-CAS 550.
Retaining Guidance Dealing with Measurement of Related Party Transactions
2. A number of respondents commented that Canadian generally accepted accounting principles (GAAP) deal with measurement and disclosure of related party transactions. These respondents requested that a Canadian amendment be made to retain the guidance in paragraphs 6010.23-.25 and the related Appendix dealing with measurement of related party transactions.
3. The AASB considered this issue before ED-CAS 550 was issued. In the view of the AASB, no amendment to the wording of ISA 550 is necessary for the following reasons:
 - (a) CAS 550 requires auditors to obtain sufficient appropriate evidence about whether related party relationships and transactions have been appropriately identified, accounted for and disclosed in the financial statements in accordance with the financial reporting framework. Accordingly, if an auditor is auditing financial statements prepared in accordance with Canadian GAAP, the auditor will have to assess whether Canadian GAAP measurement requirements have been met.
 - (b) The CASs are meant to be applied in auditing financial statements prepared under various acceptable financial reporting frameworks. It would be inappropriate to include matters unique to each individual financial reporting framework in the auditing standards.

Other Matters

Definitions of Types of Financial Reporting Frameworks

4. One respondent noted that CAS 550 contains references to both fair presentation financial reporting frameworks and compliance financial reporting frameworks. The respondent expressed the view that Canadian auditors will not

understand the differences between these types of frameworks and that they should be defined in CAS 550, or cross-referenced to where they are defined. These types of frameworks are defined in CAS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards*. These definitions will also appear in the Glossary. References are made to these types of financial reporting frameworks throughout the CASs and there is no need to define them in CAS 550.

Guideline to Supplement the CAS

5. A respondent expressed the view that a number of detailed points in the Appendix to Section 6010 are not included in CAS 550 and that the AASB should consider including these matters in a Guideline. The AASB concluded that a Guideline would not be warranted. CAS 550 is comprehensive and, in the AASB's view, addresses all significant matters included in Section 6010. Further, there is no circumstance unique to the Canadian environment that would warrant a Guideline.

List of Respondents to ED-CAS 550

Auditor General of Alberta

BDO Dunwoody LLP

Canadian Public Accountability Board

Chi Ho Ng, CA Deloitte & Touche LLP

Institute of Chartered Accountants of British Columbia

Ordre des comptables agréés du Québec

The CAAA Assurance Exposure Draft Comment Committee

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