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Technical Director

International Auditing and Assurance Standards Board

International Federation of Accountants

545 5th Avenue, 14th Floor

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**Proposed International Standard on Auditing 550 (Revised) *Related Parties***

The Japanese Institute of Certified Public Accountants (“we”, “our”, “us” or “JICPA”) are pleased to provide you with our comments on the above Proposed International Standard on Auditing 550 *Related Parties*. Based on our review, we have the following comments:

Paragraph 7

ISA is neutral in terms of accounting standards, and therefore, the reference to IAS is treated as an example in paragraph 7 as follows:

“Where applicable financial reporting framework does not establish related party requirements, the definitions set out in other applicable financial reporting framework such as the Appendix apply for the purpose of this ISA.”

Paragraph 11 (b)

We propose the following change to clarify that the procedure in paragraph 11 (b) is performed when the auditor recognizes the existence of a party that appears to actively exert dominant influence over the entity. We also propose to move this paragraph (b) after (c).

“Determine whether information obtained indicates the existence of a party that appears to actively exert dominant influence over the entity, and if so, perform procedures intended to identify the parties to which the dominant party is related, and understand the nature of the

business relationships that these parties may have established with the entity.”

#### Paragraph 14

In relation to paragraph 19 of ISA 315, we propose to change paragraph 14 as follows:

“The auditor shall communicate to the engagement team the identity of the entity’s related parties and other relevant related party matters arising throughout the ~~during~~ audit.”

#### Paragraph 17

The title of paragraph 17 is not consistent with the Audit Risk ISAs. We propose to change the title to “Further Audit Substantive Procedures Responsive to the Risks of Material Misstatements Resulting from Related Parties.”

#### Paragraph 19

When the entity asserts that a related party transaction has been conducted at arm’s length and management finds it difficult to substantiate such an assertion, significant risk exists that the assertion may be misstated. (paragraph 18) Based on understanding of paragraph 18, we do not believe that disclosure in which a related party transaction was conducted at arm’s length is always a significant risk. We propose the following change.

“If the auditor recognizes significant risks because the entity’s disclosure of a related party transaction indicates or implies that the transaction was conducted at arm’s length, the auditor shall obtain sufficient appropriate evidence about the assertion.”

#### Paragraph 21

The requirement in paragraph 21 is limited to significant related party relationships or transactions because the audit procedure responds to the risks of material misstatement resulting from related parties. We propose the following change.

“If the auditor identifies significant related party relationships or transactions not previously identified or disclosed by management, ....”

In closing, we would like to express our appreciation for this opportunity to comment on this

Proposed International Standard on Auditing and hope you will consider our comments.

Sincerely yours

Atsushi KATO

Executive Board Member - Auditing Standards

The Japanese Institute of Certified Public Accountants