



**SAA** | ACCOUNTING  
ACADEMY  
Connect. Partner. Succeed.



# Transactions not at Arm's Length: Considerations for Auditors

Presenter: **Lettie Janse van Vuuren CA(SA)**

**26 AUGUST 2020**

***IRBA Staff Audit Practice Alert 5: The Auditor's Considerations  
with respect to Transactions that are not at Arm's Length***

# Presenter

## Lettie Janse van Vuuren CA(SA), RA, CBA(SA)

- Lettie joined SA Accounting Academy in November 2017 as Head of Technical. She is a Chartered Accountant, Registered Auditor and Certified Business Accountant.
- She is a **professional trainer and webinar host**, and with her relaxed and humorous presentation style, she is able to hold the attention of an audience. She has a unique ability to communicate with delegates at their respective levels of knowledge and experience. Over the last 20 years, she has trained thousands of partners, managers, trainee accountants and other professionals.
- She is responsible for our MCLU (Monthly Compliance and Legislation Updates).
- She was the Professional Development Manager at SAICA for 4 years and in charge of accrediting new training offices and monitoring existing ones (including the moderation of training offices and trainee assessments).
- Lettie is passionate about improving the efficiency and standardisation at practices. She has extensive experience on a variety of technical and practical topics which she consults on, including: SAICA re-accreditation assistance and preparation, IRBA inspection assistance and preparation, audit file reviews (post-issuance monitoring and EQCR), Quality control implementation, other office-specific manuals, and FASSET skills development facilitation.



# About SAAA

## **Creating opportunities to connect our partners to succeed**

SAAA offers CPD training for accountants, auditors, bookkeepers and tax practitioners. We give you access to professional and technical content that ensures both your knowledge and skills are maintained so you remain professionally competent.

## **The CPD policy is compliant with IFAC IES7**

All training offered by SAAA is recognised for CPD hours by the relevant professional bodies.

# SAAA Rewards

## **CPD Subscribers gain access to various rewards**

These can be accessed from your profile by logging in and navigating to your **“My Rewards”** > **“Find out more”** to see the reward partner benefits and claim it.

These rewards include discounts, reduced premiums and free stuff.

# Reward Partners



Acts Online provides legislation, including amendments and regulations, in an intuitive, online format.



Draftworx provides automated drafting and working paper financial software.



EdNVest offers an exciting and unique product that leverages Section 10(1)(q) of the Income Tax Act



InfoDocs Company Secretarial Software.

# Reward Partners



Practice Ignition simplifies onboarding - from engagement letter creation to securing client signatures.



QuickBooks Cloud Accounting Platform: The one place to grow and manage your entire practice.



Join the largest accounting and tax franchise in Southern Africa.

# Webinar Housekeeping

The **Webinar Material** and **Source Documents** will be uploaded to your SAAA profile after the webinar – it's usually a good idea to check the next day.

The **webinar recording** and **presentation** will also be available at the end of the webinar within your SAAA profile.

These can be accessed from your profile by logging in and navigating to your **“My Dashboard”** > **“View Events”** and then clicking on **“Links & Resources”** next to the webinar title.

The webinar is available under the **“Recording(s)”** tab and the **Webinar Material, Source Documents and Presentation** under the **“Files”** tab.

# Claiming CPD Hours

You can claim your CPD hours for this webinar at the end of the webinar within your SAAA profile.

This can be accessed from your profile by logging in and navigating to your [“My Dashboard”](#) > [“View Events”](#) and then clicking on [“Links & Resources”](#) next to the webinar title.

***Complete the [Self-Assessment Questions](#) to qualify for an additional 1 bonus hour of CPD***

The [“Claim My CPD”](#) option is available under the [“CPD”](#) tab. Once claimed you will be able to view and download your certificate.

# Disclaimer

## Disclaimer

Whilst every effort has been made to ensure the accuracy of this presentation and handouts, the presenters / authors, the organisers do not accept any responsibility for any opinions expressed by the presenters / author, contributors or correspondents, nor for the accuracy of any information contained in the handouts.

## Copyright

Copyright of this material rests with SA Accounting Academy (SAAA) and the documentation or any part thereof, may not be reproduced either electronically or in any other means whatsoever without the prior written permission of SAAA.

# Ask Questions

To ask questions and interact during the webinar please use the chat sidebar to the right of the video / presentation on the screen.

Feel free to ask your questions during the webinar in the chat, these will be addressed in the formal Q & A at the end of the presentation.

**Where appropriate, a **Q & A Summary** will be uploaded to your profile as soon as all answers have been documented.**

# WHAT'S ON THE AGENDA?

# Table of Contents

**Module 1:** Introduction

**Module 2:** ISA 550 in a Nutshell

**Module 3:** Risk Assessment Procedures

**Module 4:** Specific considerations relating to transactions that are not arm's length

**Module 5:** Illustrative procedures (for risk assessment & further procedures)



# On the lighter side...



Search ID: sat0244

"Your trouble is, you're too short in the arms!"

# MODULE 1

# INTRODUCTION

# Module 1

The following items are dealt with here:

## 1. IRBA Communiqué

- Based on **IRBA Staff Audit Practice Alert 5: The Auditor's Considerations with respect to Transactions that are not at Arm's Length**

## 2. General

- What does arm's length mean?
- Implications of transactions that are not arm's length
- Decision-making process when any transaction not at arm's length has been identified

## **IRBA Staff Audit Practice Alert 5: The Auditor's Considerations with respect to Transactions that are not at Arm's Length**

- ❑ *Published in June 2020*
- ❑ *IRBA Communiqué released on 30 June 2020*

### **The release of this IRBA Staff Audit Practice Alert:**

- **serves to provide auditors with guidance and considerations to be made with respect to transactions that are not at arm's length, and the possible auditor's responses to the resulting audit risks**
- **The focus of this IRBA alert is on identifying transactions that are not at arm's length, and does not focus on parties that are related.**

➤ ***This IRBA Staff Alert is available to you as a Source Document***

## What is fraud? **ISA 240 defines Fraud as:**

- ❑ Fraud is defined as an intentional act, by one or more individuals among management, those charged with governance, employees or **third parties**, involving the use of deception to obtain an unjust or illegal **advantage**

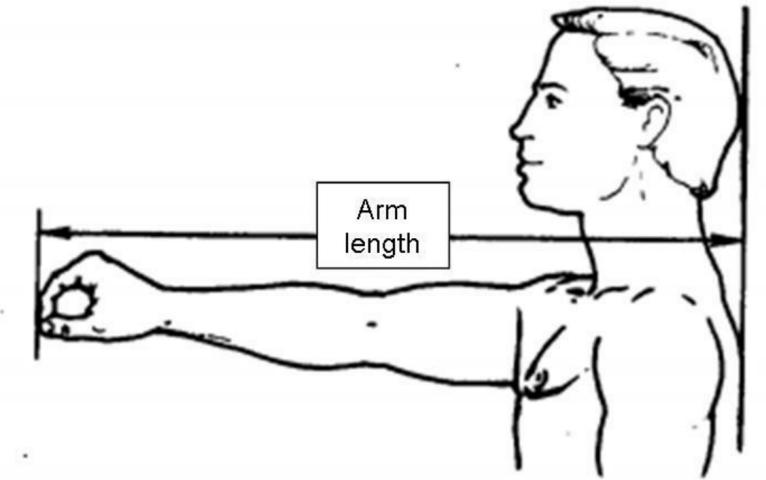
## What must auditors do?

- Registered auditors (RAs) are required to **be alert to the possibility of fraud**, thereby enabling them to respond appropriately
- **NB! = Auditors are NOT required to find fraud – unless they have been engaged to perform a forensic audit!**

# What is arm's length?

An **arm's length transaction** indicates a transaction:

- between two independent parties
- in which both parties are acting in their own self-interest.
- Both buyer and seller are independent,
- Both possess equal bargaining power,
- Both are not under pressure or duress from the opposing party, and
- Both are acting in their own self-interest to attain the most beneficial deal.



➤ ***Refer to Webinar Material for detail***

# Why worry about arm's length?

**Implications of transactions that are not at arm's length:**

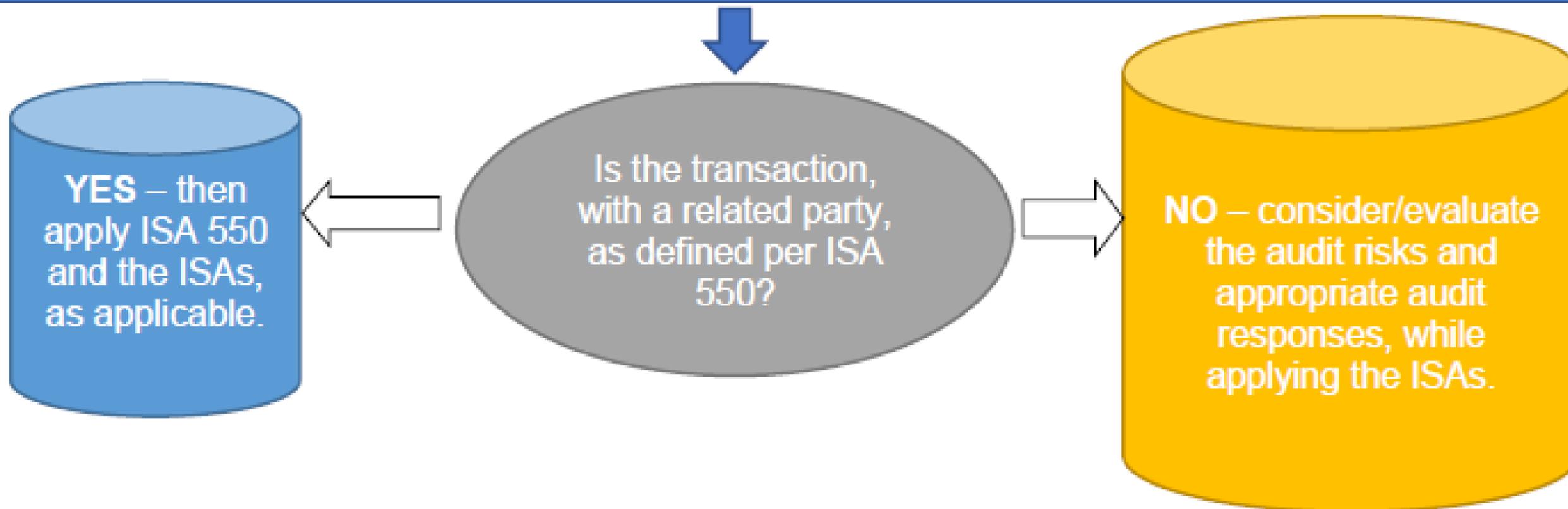
- ❑ **Transactions that are not at arm's length may pose risks in an audit of the financial statements, because if such transactions are not identified by management and/or the auditor it could give rise to risks that are not addressed in the audit, and ultimately in misstatements in the financial statements.**

➤ ***Refer to IRBA Staff Alert page 2***

# Decision flowchart

The following decision making process is useful when any transaction not at arm's length has been identified

For any transaction not at arm's length that is identified when obtaining an understanding of the entity, its control environment or other risk assessment procedures



# MODULE 2

# ISA 550 IN A NUTSHELL

# ISA 550 in a Nutshell

The following items are dealt with here:

1. Summary of Definitions of a Related Party

➤ *Refer to Webinar Material for detail*

ISA 550 expands on how ISA 315 (Revised) and ISA 330 are to be applied in relation to risks of material misstatement due to fraud.

***We will not be dealing with this ISA in detail. Instead, we will focus on the issues that have been highlighted in this alert, and other specific considerations that have been published for the 1st time.***

# Definitions as per...

## Definitions of a Related party as per:

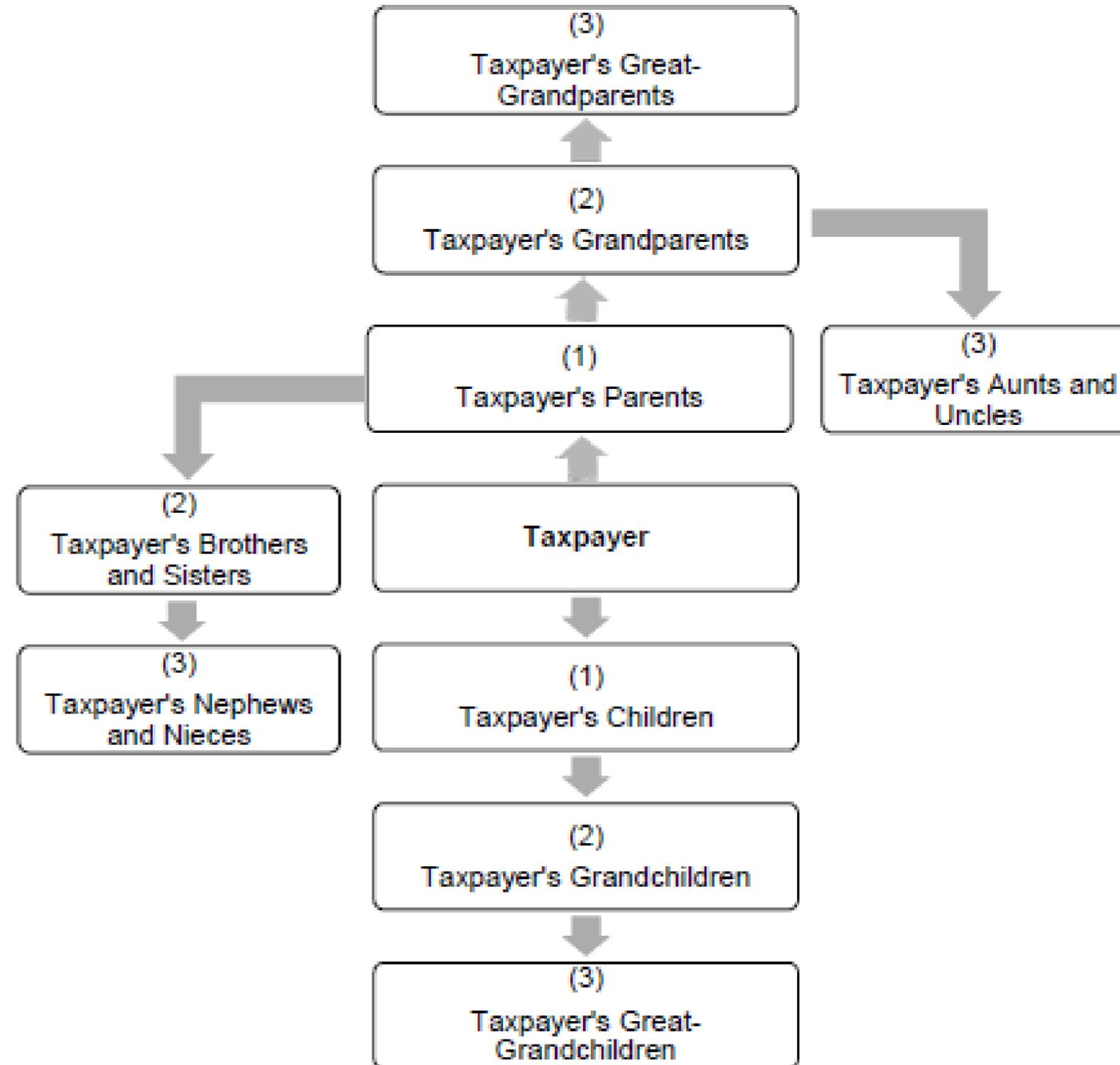
- ISA 550
  - IFRS (IAS 24)
  - the Companies Act
  - JSE Listing Requirements
  - National Treasury's Accounting Manual for Departments
  - King IV Report on Governance for South Africa 2016
  - South African Income Tax Act No. 58 of 1962 (Income Tax Act, 1962) – Definition of “connected person”
  - IRBA Code (Revised November 2018) – Reference to Related Entities
- ***Refer to IRBA Staff Alert Appendix B***

# IN 67 – Connected Persons

## Appendix B

Diagram illustrating the rule for determining persons who are related within the third degree of consanguinity

*This Interpretation Note is available to you as a Source Document*



# MODULE 3

# RISK ASSESSMENT PROCEDURES

The following items are dealt with here:

1. How ISA 550 expands on how ISA 315 (Revised) and ISA 330 are to be applied in relation to risks of material misstatement due to transactions that are not arm's length

➤ ***Refer to Source Document pages 3 to 4***

The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion.

The risk assessment procedures shall include the following:

- Inquiries of management, of appropriate individuals within the internal audit function (if the function exists) and of others within the entity who in the auditor's judgment may have information that is likely to assist in identifying risks of material misstatement due to fraud or error.
- Analytical procedures
- Observation and inspection.

➤ *Refer to Source Document **page 3***

# MODULE 4

# SPECIFIC CONSIDERATIONS

# Specific Considerations

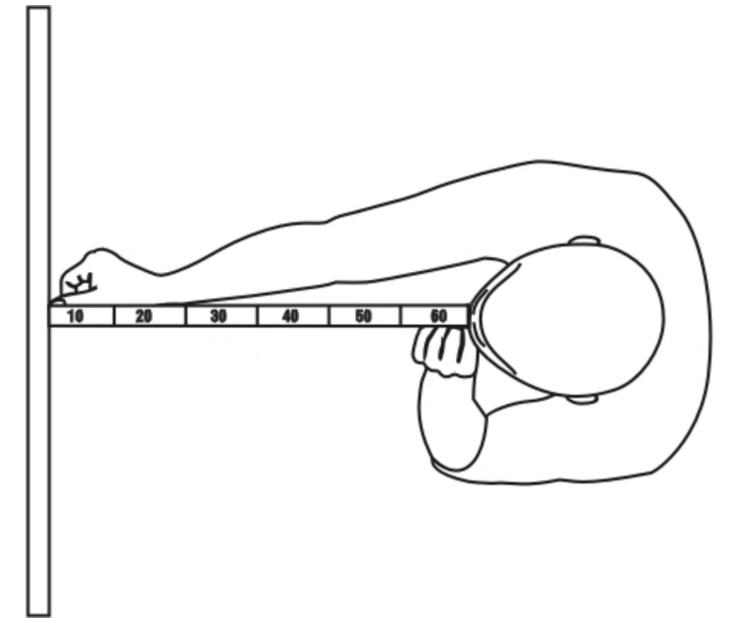
The following items are dealt with here:

1. Possible indicators of Transactions that are not at Arm's Length during the audit (including possible indicators of the existence of Related Parties)
2. Questions to be considered to determine the Audit Implications of Transactions that are not at Arm's Length

# 2 NB steps

## STEP 1

- **Identify** the transactions that are **not** at arm's length



## STEP 2

- Consider the **audit implications** of transactions that are not at arm's length

# STEP 1 = Indicators

## Refer to the table on page 4

- Lists **17 categories** with examples

*This table is not exhaustive, and lists possible indicators of transactions that are not at arm's length during the audit*

➤ **Refer to Source Document *pages 4 to 7***

# STEP 2 = Questions to ask

- The auditor is guided by the requirements and application material contained in the relevant ISAs.
- Per the ISAs, the auditor shall plan and perform an audit with professional scepticism, recognising that circumstances exist that cause the financial statements to be materially misstated.
- Once the transactions that are not at arm's length have been identified as per paragraph 12, the questions to be considered, as set out in the table, can be **used by the auditor when considering the audit implications of transactions that are not at arm's length.**

**Refer to the 16 Questions set out in the Table on pages 7 to 9**

*The above table is not an exhaustive list of considerations and should not detract from the requirements of the audit engagement team to exercise its professional judgement.*

➤ **Refer to Source Document pages 7 to 9**

# MODULE 5

# ILLUSTRATIVE PROCEDURES

# Illustrative Procedures

The following items are dealt with here:

1. Appendix A – Illustrative Procedures which may be used for risk assessment and further procedures for transactions with the entity that might not be at arm's length

**Refer to the table on pages 10 and 11**

- which provides 11 illustrative procedures at the assertion level

*This table is not exhaustive, and lists possible indicators of transactions that are not at arm's length during the audit*

➤ **Refer to Source Document *Appendix A***

# QUESTIONS?



# Formal Q&A Session

We will now take a **quick comfort break** before we discuss some questions received during the webinar.

Remember: A Q&A summary will also be uploaded to your profile

If you would like to e-mail a question please use:

[technicalquestions@accountingacademy.co.za](mailto:technicalquestions@accountingacademy.co.za)

E-mail general comments to [info@accountingacademy.co.za](mailto:info@accountingacademy.co.za)

**Thank you for your  
participation!**

SAA | ACCOUNTING  
ACADEMY

Your source for accounting knowledge