

# **Toolkit for assessing compliances pertaining to Related Party Transactions-**

## ***Identification of connected parties***

**Foundation for Audit  
Quality**

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# Checklist for compliance with Regulations pertaining to related parties

## Identifying connected parties

Connected parties are not defined under any regulation, and thus, identification of connected parties is a complex and judgemental area. Connected parties would include related parties and potentially other parties that may not be within the definition of related parties as per any of the regulations, i.e. the Companies Act, 2013, the accounting standards or the LODR Regulations. However, these parties would be considered connected with the entity or its related parties. We encourage management, audit committees and other stakeholders to use this checklist (including Annexure A, which is an essential part of this checklist) while identifying connected parties.

### 1 Identifying connected parties of the company

S. No.	Questions	Note	Response
1	<i>Base procedures</i> Has the company identified individuals or entities that would be classified as 'connected parties' for the purpose of identifying transactions the purpose and effect of which is to benefit a related party (indirect transaction)?	1.1	
	Has the list of connected parties been updated on a regular basis and included in the 'related parties' (digital) database maintained by the company?		
2	<i>Management diligence procedures</i> Has the company reviewed all material transactions entered into by the company, and identified related parties or connected parties from that list?		
3	<i>Monitoring procedures</i> – Have the material transactions entered into by the company (say, for example, where the aggregate amount of transactions entered into with an entity or its related entities in the entire year, exceeds INR900 crore or eight per cent of the annual consolidated turnover) been subject to review on a sample basis by an internal or external agency?		



	- Have the results of the validation/review been considered by the company?	
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*Note 1.1*

Identification and tracing of transactions with connected parties maybe essential for ensuring compliance with the requirements relating to indirect transactions. Refer Annexure A to this checklist for details of connected parties.



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### Annexure A to the Toolkit for assessing compliances pertaining to RPT: *Identification of connected parties*

#### Using this checklist

The checklist specifies the relationships that the reporting entity shares with other entities. Reviewers of RPTs are required to list the names of all entities/persons that are covered within this relationship. Once all details are filled, this list may be used, along with other available information as a comprehensive list for reviewing related parties and RPTs.

This list would specifically be useful when assessing whether transactions undertaken by an entity with a third party are for the purpose of benefitting related parties.

Reviewers of RPT should update this list on a regular basis.

#### Checklist for identifying connected parties

Connected parties includes both related parties as per the definition in the Companies Act, 2013 and in Ind AS, and other parties which share certain common parameters with the reporting entity. Please note, the term 'entity' used in this checklist will refer to the 'reporting entity'.

The comprehensive list of connected parties is given hereunder:

Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A	B	C	D	E
<i>See legend below table on last page</i>								
1	Directors of the reporting entity							
2	Relatives <sup>1</sup> of directors of the reporting entity							
3	Key Managerial Personnel (KMP) of the reporting entity <sup>2</sup>							

<sup>1</sup> Section 2(77) of the Companies Act, 2013 defines a relative, with reference to any person, as anyone who is related to another, if—

- (i) they are members of a Hindu Undivided Family;
- (ii) they are husband and wife; or
- (iii) one person is related to the other in such manner as may be prescribed

<sup>2</sup> Key managerial personnel, in relation to a company, means:

- (i) the Chief Executive Officer or the managing director or the manager;
- (ii) the company secretary;
- (iii) the whole-time director;
- (iv) the Chief Financial Officer;
- (v) such other officer, not more than one level below the Directors who is in whole-time employment, designated as key managerial personnel by the Board; and
- (vi) such other officer as may be prescribed;

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Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A	B	C	D	E
	See legend below table on last page							
4	Relatives of KMP of the reporting entity							
5	KMP of the holding company							
6	Relatives of KMP(s) of the holding company							
6	Manager of the reporting entity							
7	<p>A person who is or has, in the past (say past five years) been the:</p> <ul style="list-style-type: none"> <li>(a) Managing director</li> <li>(b) Manager</li> <li>(c) Director</li> <li>(d) KMP of the reporting and/or the holding company</li> <li>(e) Promoter(s) of the reporting entity</li> <li>(f) Had control or joint control over the reporting entity</li> <li>(g) Had significant influence over the entity</li> <li>(h) Invested amounts above a prescribed threshold</li> <li>(i) Partner of a partnership firm which is related to the reporting entity</li> <li>(j) Employees in a senior management role, including senior employees who continue to have certain relation with the company post retirement (for example, as a consultant)</li> </ul> <p>Of the reporting entity</p>							
8	Promoters of the reporting entity							
9	Individuals that have in the past been the promoters of the reporting entity							

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Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A <i>See legend below table on last page</i>	B	C	D	E
10	<p>A person who has control or joint control over the reporting entity</p> <p>Additionally:</p> <ul style="list-style-type: none"> <li>(a) Close family members of such person</li> <li>(b) Entities that are controlled by such a person or by close family members of such a person</li> <li>(c) Entities that are jointly controlled by such a person or by the close family members of such a person</li> <li>(d) Entities over which such a person, or the close family members of such a person has significant influence</li> </ul>							
11	<p>A person who has significant influence over the reporting entity</p> <p>Additionally</p> <ul style="list-style-type: none"> <li>(a) Close family members of such person</li> <li>(b) Entities that are controlled by such a person or by close family members of such a person</li> <li>(c) Entities that are jointly controlled by such a person or by the close family members of such a person</li> <li>(d) Entities over which such a person, or the close family members of such a person has significant influence</li> </ul>							
12	<p>Any person on whose advice, directions or instructions a</p> <ul style="list-style-type: none"> <li>(a) director of the reporting entity, or</li> <li>(b) manager of the reporting entity</li> </ul> <p>is accustomed to act</p>							

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Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A <i>See legend below table on last page</i>	B	C	D	E
13	Individuals that have invested above a specific threshold in: (a) shares (b) debentures, or (c) any other instrument of the reporting entity (Where investment constitutes a specific percentage of total sources of funds of target entities)							
14	Investors holding more than 10 per cent equity or debt in a company, on an individual or beneficial interest basis, including investors which held such investments in the past five years							
15	Entities within the definition of promoter group							
16	Reporting entity's parent company Additionally: Associates and joint ventures of such companies							
17	Entity which was in the past the reporting entity's parent company							
18	Reporting entity's subsidiary Additionally: Associates and joint ventures of such companies							
19	Entity which was in the past the reporting entity's subsidiary							
20	Reporting entity's fellow subsidiaries Additionally: Associates and joint ventures of such entities							
21	Associates of the reporting entity							
22	Joint ventures of the reporting entity							

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Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A	B	C	D	E
See legend below table on last page								
23	Investor for which the reporting entity is an associate Additionally: (a) Parent company (b) Subsidiary (c) Fellow subsidiary (d) Associates and (e) Joint ventures Of such an investor							
24	Investor for which the reporting entity is a joint venture Additionally: (a) Parent company (b) Subsidiary (c) Fellow subsidiary (d) Associates and (e) Joint ventures Of such an investor							
25	Firm in which a director of the reporting entity is a partner Additionally: (a) Other partners of such a firm (b) Investments made by such a firm							
26	Firm in which a relative of a director of the reporting entity is a partner Additionally: (a) Other partners of such a firm (b) Investments made by such a firm							
27	Firm in which a manager of the reporting entity is a partner Additionally: (a) Other partners of such a firm (b) Investments made by such a firm							



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Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A	B	C	D	E
See legend below table on last page								
28	Firm in which a relative of the manager of the reporting entity is a partner Additionally: (a) Other partners of such a firm (b) Investments made by such a firm							
29	Private company in which a director of the reporting entity or his/her relative is: (a) a member, or (b) a director Additionally: (a) Other directors and shareholders of such private companies (b) Investments made by such companies							
30	Private company in which a manager of the reporting entity or his/her relative is: (a) a member, or (b) a director Additionally: (a) Other directors and shareholders of such private companies (b) Investments made by such companies							
31	Public company in which a director of the reporting entity or his/her relative: (a) is a director (b) holds along with his/her relative, more than two per cent of its paid-up share capital Additionally: (a) Other directors and shareholders of such public companies (b) Investments made by such companies							

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Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A <i>See legend below table on last page</i>	B	C	D	E
32	Public company in which a manager of the reporting entity or his/her relative: (a) is a director (b) holds along with his/her relative, more than two per cent of its paid-up share capital Additionally: (a) Other directors and shareholders of such public companies (b) Investments made by such companies							
33	Any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of: (a) a director of the reporting entity (b) a manager of the reporting entity (c) a KMP of the reporting entity (d) relative of such director or manager Additionally: Investments made by such a body corporate							
34	Any body corporate whose Board of Directors comprises nominees of the reporting entity Additionally: Investments made by such a body corporate							
35	Post-employment benefit plan for: (a) the reporting entity (b) entity related to the reporting entity							
36	An entity that provides KMP service to: (a) the reporting entity (b) parent of the reporting entity (c) member of the group of such an entity							

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Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A	B	C	D	E
	See legend below table on last page							
37	Any body corporate who was previously managed by a managing director or manager, who is currently: (a) the managing director of the reporting entity (b) the manager of the reporting entity							
38	Any body corporate at a general meeting of which not less than 25 per cent of the total voting power may be exercised or controlled by any director of the reporting entity, or by two or more such directors, together							
39	Entities previously owned by a company's promoters (a) where company's promoters are directors, partners or have significant influence (b) where relatives of the company's promoters are directors, partners or have significant influence							
40	Entities that have invested above a specific threshold in: (a) shares (b) debentures, or (c) any other instrument (Where investment constitutes a specific percentage of total sources of funds of target entities)							
41	Entities in which the past or current director or partner were or are a: (a) director, or (b) partner							

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Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A <i>See legend below table on last page</i>	B	C	D	E
42	Investors (entities) holding more than 10 per cent equity or debt in a company, on an individual or beneficial interest basis							
43	Promoter related trusts or any other trusts that: <ul style="list-style-type: none"> <li>- Holds shares in the reporting entity or its group companies</li> <li>- Which is established for the benefit of the reporting entity or its subsidiaries</li> <li>- Which is established for the benefit of one or more promoters of the reporting entity</li> <li>- Which is established for the benefit of one or more directors of the reporting entity</li> </ul> Trustees of such trusts							
44	An Association of Persons (AOP), Body of Individuals (BOI) or any other legal entity (which is not specifically mentioned in the list above) that: <ul style="list-style-type: none"> <li>- Holds shares in the reporting entity</li> <li>- Which is established for the benefit of the reporting entity</li> <li>- Which is established for the benefit of one or more promoters of the reporting entity</li> <li>- Which is established for the benefit of one or more directors of the reporting entity</li> </ul> Other members of the AOP, BOI and the other legal entity mentioned in this point							

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Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A	B	C	D	E
<b>Other individuals and entities</b>								
45	<p>Entities that have the following common parameters with the reporting entity or any of its related parties:</p> <ul style="list-style-type: none"> <li>(a) common registered address</li> <li>(b) common e-mail IDs</li> <li>(c) common non-public e-mail domain (e.g. abccompany.com)</li> <li>(d) common investors (equity/debentures) that hold more than a specific percentage in the entities (typically 20 per cent or more)</li> <li>(e) Share common registered address with directors or partners</li> <li>(f) Share common KYC information with director or partners</li> <li>(g) Loans and advances provided to other entities (typically 20 percent or more of total assets)</li> </ul> <p>Additionally, entities which have shared such parameters in the past</p>							
46	<p>Parameters used in combination with (45) are:</p> <ul style="list-style-type: none"> <li>(a) Entities with common witness signing in MOA/AOA and date of incorporation typically</li> <li>(b) Entities with common statutory auditors of the company or entities in which employees of statutory auditors are directors/ KMP.</li> <li>(c) (i) Directors of companies identified in point 45(g) above, and</li> <li>(ii) Companies where such individuals (referred to in point 46(c)(i)) are directors</li> </ul> <p>Additionally, entities which have shared such parameters in the past</p>							

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Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A	B	C	D	E
47	<p>Entities with which significant/one-off transactions have been entered into- these include:</p> <ul style="list-style-type: none"> <li>- Sole distributors</li> <li>- Significant vendors</li> <li>- Significant customers</li> <li>- Entities to which significant advances and loans have been given</li> <li>- Entities with which peculiar transactions have been entered into- including evergreening of loans, etc.</li> </ul> <p>Additionally, entities with whom such transactions were incurred in the past (we may consider transactions incurred in the last 5 years)</p>							

**A:** Is the connected party a related party under the definition of the Companies Act, 2013, the LODR Regulations or the accounting standards?

**B:** Has the reporting entity entered into transactions with the connected party during the reporting period

**C:** Is the entity acting as an intermediary in the transaction, where the benefit of the transaction is flowing to a related party?

**D:** Whether transaction is in the interest of the company and whether it is at arm's length

**E:** Whether management has provided a justification for RPT and adequate approvals have been obtained for the same<sup>3</sup>

<sup>3</sup> As per the Companies Act, 2013 read with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, RPTs require a prior approval of the audit committee, material transactions require prior approval of shareholders, and in certain cases, approval of the board of directors is also required.

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