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Agenda Item 2

Committee: Ethics
Meeting Location: New York
Meeting Date: February 2-3, 2004

Section 8

New Assurance Standard Conforming Amendments

Objective of Agenda Item

To discuss newly approved IAASB assurance framework and consider its implications for Section 8.

Discussion

At its December meeting the IAASB approved subject to ballot the revised International Framework for Assurance Engagements (Agenda Paper 2-A). The ballot in January confirmed the approval.

The framework provides a new definition of an assurance engagement

“Assurance engagement means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.” Paragraph 7 (emphasis added).

The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria to the subject matter. For example:

- The recognition, measurement, presentation and disclosure represented in the financial statements (outcome) result from applying a financial reporting framework for recognition, measurement, presentation and disclosure, such as International Financial Reporting Standards, (criteria) to an entity’s financial position, financial performance and cash flows (subject matter).
- An assertion about the effectiveness of internal control (outcome) results from applying a framework for evaluating the effectiveness of internal control, such as COSO¹ or CoCo², (criteria) to internal control, a process (subject matter).

¹ “Internal Control – Integrated Framework” The Committee of Sponsoring Organizations of the Treadway Commission.

In the framework the term “subject matter information” is used to mean the outcome of the evaluation or measurement of a subject matter.

The framework is more explicit about splitting out the engaging party from the responsible party. Under the framework there can be up to five parties involved in an assurance engagement:

- The practitioner;
- The intended user
- The party responsible for the subject matter;
- The party responsible for the subject matter information; and
- The engaging party.

This split affects the definitions of audit client and assurance client and paragraph 8.16 in particular.

Material Presented

Agenda Paper 2-A International Framework for Assurance Engagements

Action requested

1. Members are asked to read the Framework and consider the key points noted above, and be prepared to discuss issues associated with making conforming changes to Section 8.
2. At the meeting a presentation will be given to illustrate the impact of the distinction between the party responsible for the subject matter, the party responsible for the subject matter information and the engaging party.

² “Guidance on Assessing Control – The CoCo Principles” Criteria of Control Board, The Canadian Institute of Chartered Accountants.