

AU Section 9328

Auditing Fair Value Measurements and Disclosures: Auditing Interpretations of Section 328

1. Auditing Interests in Trusts Held by a Third-Party Trustee and Reported at Fair Value

.01 Question—Entities may have interests in trusts held by a third-party trustee. For example, a not-for-profit organization (NPO) may have an interest in a trust established by a donor for the benefit of the NPO. Further, that interest may be required to be reported at fair value because it is a beneficial interest pursuant to Financial Accounting Standards Board *Accounting Standards Codification* 958, *Not-for-Profit Entities*. Further, the fair value of that beneficial interest may be estimated, at least in part, because a readily determinable fair value does not exist. For example, the NPO may have an unconditional right to receive all or a portion of the specified cash flows from a charitable trust that has investments in limited partnership interests or other private equity securities for which a readily determinable fair value does not exist. In such circumstances, the auditor typically would satisfy the existence assertion through confirmation, examination of legal documents, or other means. In confirming the existence, the auditor may request the trustee to indicate or to confirm the trust's fair value, including the fair value of investments held in the trust. In some circumstances, the trustee will not provide management or the auditor detailed information about the basis and method for measuring those investments, nor will they provide information about the specific investments held by the trust. For example, in some circumstances the trustee may inform management or the auditor that investments are held by the trust as follows:

- In aggregate, such as "\$XXX of total investments"
- In aggregate, such as "\$XXX of total investments in private equity securities, \$YYY of total investments in interests in limited partnerships, and \$ZZZ of total investments in debt securities"
- On an investment-by-investment basis, such as "AA shares of common stock of private company A, with a fair value of \$AAA; BB shares of preferred stock of private company B, with a fair value of \$BBB; CC units of limited partnership interest CCC, with a fair value of \$CCC; and real estate property DDD, with a fair value of \$DDDD"

In circumstances in which the auditor determines that the nature and extent of auditing procedures should include verifying the existence and testing the measurement of investments held by a trust, does receiving a confirmation from the trustee, either in aggregate or on an investment-by-investment basis, constitute adequate audit evidence with respect to the existence assertion and auditing fair value measurements in accordance with section 328, *Auditing Fair Value Measurements and Disclosures*?

.02 Interpretation—In circumstances in which the auditor determines that the nature and extent of auditing procedures should include verifying the

existence and testing the measurement of investments held by a trust, simply receiving a confirmation from the trustee, either in aggregate or on an investment-by-investment basis, does not in and of itself constitute adequate audit evidence with respect to the requirements for auditing the fair value of the interest in the trust under section 328. In addition, receiving confirmation from the trustee for investments in aggregate (illustrated by the first two bullets in the preceding paragraph) does not constitute adequate audit evidence with respect to the existence assertion. Receiving confirmation from the trustee on an investment-by-investment basis (illustrated by the third bullet in the preceding paragraph), however, typically would constitute adequate audit evidence with respect to the existence assertion. Also, as noted in section 328 paragraph .04, in discussing management's responsibility for making fair value measurements:

Management is responsible for making the fair value measurements and disclosures included in the financial statements. As part of fulfilling its responsibility, management needs to establish an accounting and financial reporting process for determining the fair value measurements and disclosures, select appropriate valuation methods, identify and adequately support any significant assumptions used, prepare the valuation, and ensure that the presentation and disclosure of the fair value measurements are in accordance with GAAP.

.03 In addition, section 328 discusses the auditor's responsibility dealing with:

- Understanding the entity's process for determining fair value measurements and disclosures and the relevant controls, and assessing risk
- Evaluating conformity of fair value measurements and disclosures with GAAP
- Engaging a specialist, where necessary
- Testing the entity's fair value measurements and disclosures
- Disclosures about fair values
- Evaluating the results of audit procedures
- Management representations
- Communication with those charged with governance

.04 In circumstances in which the auditor is unable to audit the existence or measurement of interests in trusts at the financial statement date, the auditor should consider whether that scope limitation requires the auditor to either qualify his or her opinion or to disclaim an opinion, as discussed in section 508, *Reports on Audited Financial Statements*, paragraphs .22–.26.

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