

AU Section 9342

Auditing Accounting Estimates: Auditing Interpretations of Section 342

1. Performance and Reporting Guidance Related to Fair Value Disclosures

.01 Question—Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 825, *Financial Instruments*, requires all entities to disclose the fair value of certain financial instruments for which it is practicable to estimate fair value. Some entities may disclose the information required by FASB ASC 825 and also disclose voluntarily the fair value of assets and liabilities not encompassed by FASB ASC 825. What are the auditor's responsibilities in situations in which entities are disclosing required or both required and voluntary fair value financial information?

.02 Interpretation—The auditor should determine whether the fair value disclosures represent only those required by FASB ASC 825 or whether additional voluntary fair value information has been disclosed by the entity. When auditing management's estimate of both required and voluntary fair value information, the auditor should obtain sufficient appropriate audit evidence to reasonably assure that

- the valuation principles are acceptable, are being consistently applied, and are supported by the underlying documentation, and
- the method of estimation and significant assumptions used are properly disclosed.

If such assurance cannot be obtained, the auditor should evaluate whether the financial statements are materially affected by the departure from generally accepted accounting principles.

.03 Required Information Presented. When an entity discloses in its basic financial statements only information required by FASB ASC 825, the auditor may issue a standard unqualified opinion (assuming no other report modifications are necessary). The auditor may add an emphasis-of-matter paragraph describing the nature and possible range of such fair value information especially when management's best estimate of value is used in the absence of quoted market values and the range of possible values is significant. If the entity has not disclosed required fair value information, the auditor should evaluate whether the financial statements are materially affected by the departure from generally accepted accounting principles.

.04 Required and Voluntary Information Presented. When voluntary information is presented in addition to required information the auditor may audit the voluntary information only if both the following conditions exist:

- The measurement and disclosure criteria used to prepare the fair value financial information are reasonable.
- Competent persons using the measurement and disclosure criteria would ordinarily obtain materially similar measurements or disclosures.

In applying this guidance to fair value disclosures, the intention is that another auditor would reach similar conclusions regarding the reasonableness of the valuation or estimation techniques and methods used by the entity.

.05 Voluntary disclosures may supplement required disclosures in such a fashion as to constitute either a complete balance sheet (the fair value of all material items in the balance sheet) or a presentation of less than a complete balance sheet.

.06 When the audited disclosures constitute a complete balance sheet presentation, the auditor should add a paragraph to the report, similar to the following:

We have also audited in accordance with auditing standards generally accepted in the United States of America the supplemental fair value balance sheet of ABC Company as of December 31, 20XX. As described in Note X, the supplemental fair value balance sheet has been prepared by management to present relevant financial information that is not provided by the historical-cost balance sheets and is not intended to be a presentation in conformity with generally accepted accounting principles. In addition, the supplemental fair value balance sheet does not purport to present the net realizable, liquidation, or market value of ABC Company as a whole. Furthermore, amounts ultimately realized by ABC Company from the disposal of assets may vary significantly from the fair values presented. In our opinion, the supplemental fair value balance sheet referred to above presents fairly, in all material respects, the information set forth therein as described in Note X.

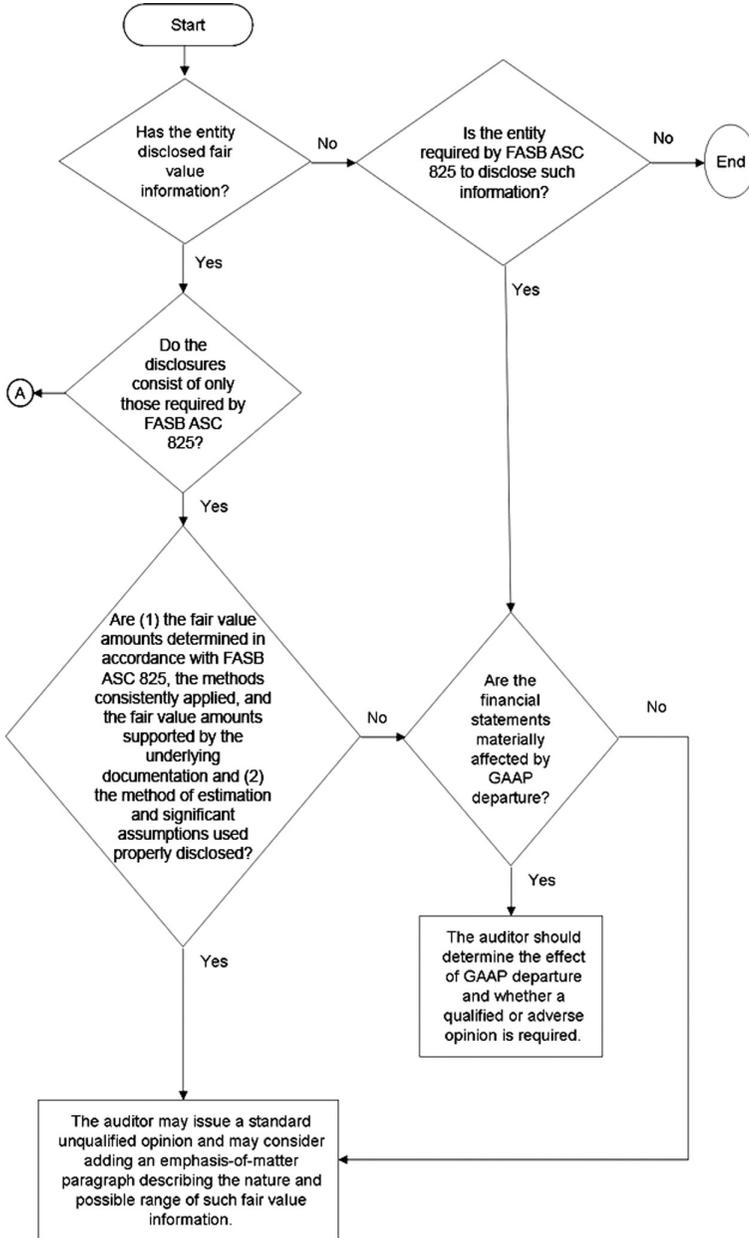
.07 When the audited disclosures do not constitute a complete balance sheet presentation and are located on the face of the financial statements or in the notes, the auditor may issue a standard unqualified opinion and need not mention the disclosures in the report. When the audited disclosures do not constitute a complete balance sheet presentation and are included in a supplemental schedule or exhibit, the auditor should report on the audited disclosures in either (a) an explanatory paragraph following the opinion paragraph in the auditor's report on the financial statements or (b) in a separate report on the audited disclosures as discussed in paragraph .09 of section 551, *Supplementary Information in Relation to the Financial Statements as a Whole*.

.08 In some situations, the auditor may not be engaged to audit the voluntary information or may be unable to audit it because it does not meet both conditions in paragraph .04 of this interpretation. When the unaudited voluntary disclosures are located on the face of the financial statements, the notes, or in a supplemental schedule to the basic financial statements, the auditor is not required to reference the unaudited information in the auditor's report on the financial statements. However, the auditor may include an other matter paragraph disclaiming an opinion on the unaudited information as discussed in paragraph .A1 of section 550.

[.09] [Paragraph deleted, December 2010, to reflect conforming changes necessary due to the issuance of SAS Nos. 118–120.]

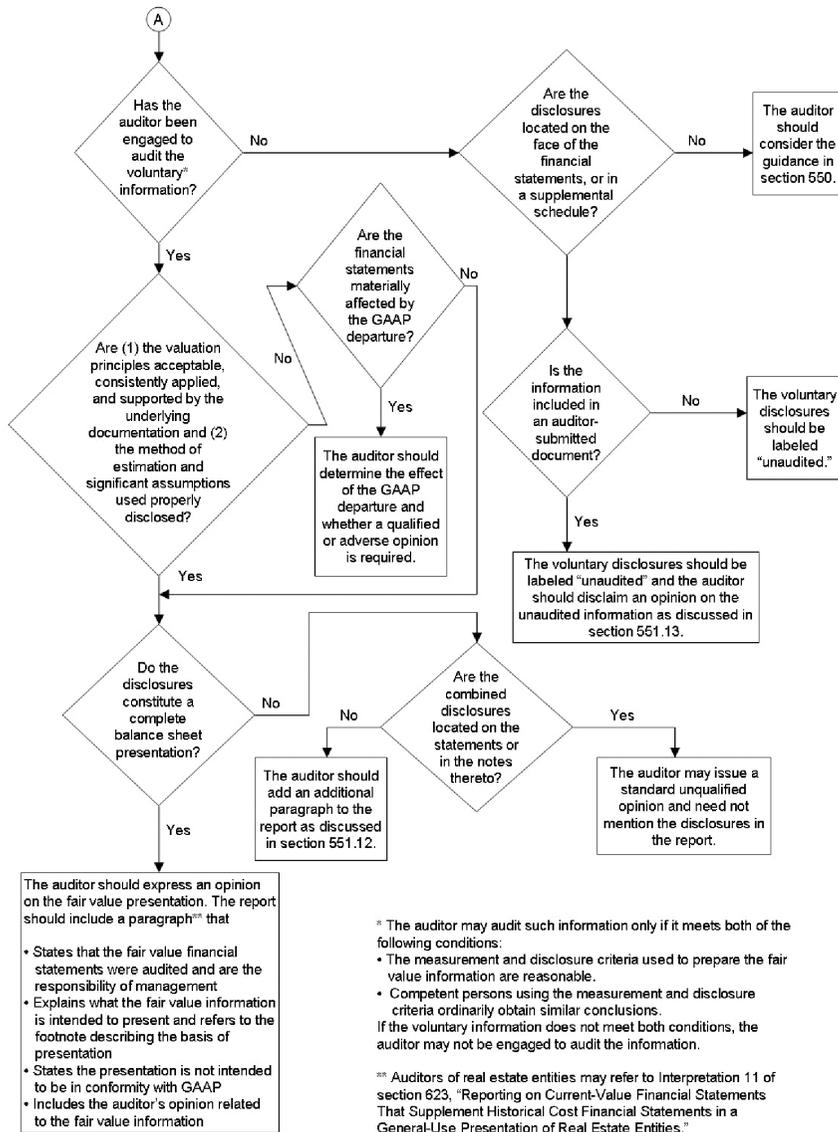
.10 The auditing guidance related to each of these alternatives is presented in the following flowcharts:

AUDITING GUIDANCE FOR FAIR VALUE INFORMATION Required* Information Only



* Required by Financial Accounting Standards Board *Accounting Standards Codification* 825, *Financial Instruments*. [Footnote revised, June 2009, to reflect conforming changes necessary due to the issuance of FASB ASC.]

AUDITING GUIDANCE FOR FAIR VALUE INFORMATION Required and Voluntary Information



[Issue Date: February 1993; Revised: October 2000; Revised: March 2006; Revised: June 2009; Revised: December 2010.]