

(April 2006)

**Explanatory Statement**  
***ASA 545 Auditing Fair  
Value Measurements and  
Disclosures***

Issued by the **Auditing and Assurance Standards Board**



**Australian Government**

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**Auditing and Assurance Standards Board**

## **Explanatory Statement**

### **Reasons for Issuing ASA 545 *Auditing Fair Value Measurements and Disclosures***

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 545 *Auditing Fair Value Measurements and Disclosures* due to the requirements of the legislative provisions explained below.

The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001*, as from 1 July 2004. Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

### **Process of making Auditing Standards**

Section 1455 of the *Corporations Act 2001* and *Corporations Regulation 10.5.01* gave interim legal endorsement from 1 July 2004 to the majority of Auditing Standards made by the former Auditing & Assurance Standards Board of the Australian Accounting Research Foundation. The AUASB has reviewed the Auditing Standards and has proceeded to make them as legally enforceable Auditing Standards under the *Corporations Act 2001*.

The Auditing Standards have been made also in accordance with the Financial Reporting Council's Strategic Direction to the AUASB dated 6 April 2005, pursuant to section 225 of the *ASIC Act*.

The Strategic Direction, *inter alia*, provides that the AUASB develops Auditing Standards that:

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- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as a base;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the Strategic Direction, the AUASB has undertaken a process of thorough review and revision that has:

- addressed the enforceability of mandatory requirements;
- clarified auditors' obligations under the Auditing Standards;
- provided for sector neutrality in the Auditing Standards; and
- included other amendments as necessary.

## **Purpose of Auditing Standard ASA 545 *Auditing Fair Value Measurements and Disclosures***

The purpose of Auditing Standard ASA 545 is to establish mandatory requirements and to provide explanatory guidance on auditing fair value measurements and disclosures contained in a financial report.

Auditing Standard ASA 545 is to be read in conjunction with the *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the Auditing Standards are to be understood, interpreted and applied.

## **Operative Date**

This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.

**Main changes from Auditing Standard AUS 526  
(September 2002) *Auditing Fair Value  
Measurements and Disclosures***

The main differences between ASA 545 and AUS 526 are that in ASA 545:

1. The word 'shall', in the **bold-type** paragraphs, is the terminology used to describe an auditor's mandatory requirements, whereas an auditor's degree of responsibility is described in AUS 526 by the word 'should'.
2. The explanatory guidance paragraphs provide guidance and illustrative examples to assist the auditor in fulfilling the mandatory requirements, whereas in AUS 526 some obligations are implied within certain explanatory paragraphs. Accordingly, such paragraphs have been re-drafted to clarify that the matter forms part of explanatory guidance.
3. The following implied obligations in AUS 526, have been elevated and re-stated as specific mandatory requirements:
  - (a) the auditor is required to assess the adequacy of disclosures of fair value information made by the entity when disclosures required under the applicable financial reporting framework have not been appropriately made or omitted, due to impracticability of obtaining reliable fair values (paragraph 68); and
  - (b) where the auditor assesses that the entity has not appropriately disclosed fair value information required by the applicable financial reporting framework, the auditor shall determine whether such departure causes the financial report to be materially misstated (paragraph 69).

## **Consultation prior to issuing this Auditing Standard**

The AUASB has consulted publicly as part of its due process in developing this Auditing Standard. Exposure Draft ED 20/05 *Proposed Auditing Standard: Auditing Fair Value Measurements and Disclosures (Re-issuance of AUS 526)* was issued on 28 October 2005 with a 45 day comment period. Submissions were received by the AUASB and it has considered these submissions as part of the development and finalisation of this Auditing Standard.