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Fair Value Accounting: Affect on the Auditing Profession


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Fair Value Accounting: Affect On The Auditing Profession

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Abstract: During this period of global markets, multinational corporations are demanding financial accounting standards with enhanced uniformity. In an effort to achieve this objective, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have been working together on the Convergence Project, aiming to develop accounting standards that closely correlate with international financial reporting standards. In September 2006 and February 2007, the FASB issued two key fair value accounting (FVA) standards which focused on providing guidelines for fair value measurement (through a classification hierarchy), expanding disclosure requirements, and also allowing business entities to increase FVA's application. However, the recent financial crisis has placed increased scrutiny on estimates derived under FVA. Consequently, a spotlight has been placed on the auditing profession, as the effectiveness of an auditor's ability to test estimates derived under FVA has been questioned due to numerous firms approaching collapse in the midst of the credit crisis. Thus, the purpose of this paper is to present the challenges auditors face when auditing FV estimates, and to discuss the profession's capability of adapting to FVA in the future.

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Full text: Headnote ABSTRACT During this period of global markets, multinational corporations are demanding financial accounting standards with enhanced uniformity. In an effort to achieve this objective, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have been working together on the Convergence Project, aiming to develop accounting standards that closely correlate with international financial reporting standards. In September 2006 and February 2007, the FASB issued two key fair value accounting (FVA) standards which focused on providing guidelines for fair value measurement (through a classification hierarchy), expanding disclosure requirements, and also allowing business entities to increase FVA's application. However, the recent financial crisis has placed increased scrutiny on estimates derived under FVA. Consequently, a spotlight has been placed on the auditing profession, as the effectiveness of an auditor's ability to test estimates derived under FVA has been questioned due to numerous firms approaching collapse in the midst of the credit crisis. Thus, the purpose of this paper is to present the challenges auditors face when auditing FV estimates, and to discuss the profession's capability of adapting to FVA in the future. Keywords: auditing, fair value accounting, FASB, fair-value option, Convergence Project, financial/subprime crisis, level-three asset/liability, audit risk, earnings management, financial statement audit, financial asset/liability INTRODUCTION The historical cost principle has always been viewed as the foundation of accounting in the United States. However, a combination of efforts by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) to converge US Generally Accepted Accounting Principles (GAAP) with International Financial Reporting Standards (IFRS), in addition to increased demands for more relevant financial data by investors, has created a transition towards valuation based accounting. The first major set of GAAP standards issued that fully reflected the efforts of the Convergence Project was the creation of Statement of Financial Accounting Standards No. 157: Fair Value Measurements (FAS 157) and Statement of Financial Accounting Standards No. 159: The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). Both standards became effective for fiscal years beginning after November 15, 2007. While FAS 157 does not expand the use of fair value (FV), it is rendered as the first

definitive U.S. accounting standard that defines FV accounting, provides a measurement hierarchy to value applicable assets and liabilities, and provides criteria for note disclosures with regard to valuation methods used. Under FAS 157 a hypothetical exit price for an asset or liability should be determined. The "exit price" would be equal to an expected amount that a buyer would be willing to purchase the item from the owner (a business entity). FAS 159 (also referred to as the FV Option), on the other hand, allows companies, including not-for-profit organizations, the option to value certain classes of financial assets and financial liabilities at FV, that previously were not permitted by the FASB. The FASB's main purpose of expanding the use of FV was to increase transparency and the relevance of the data presented within the financial statements for external users. Nonetheless, the recent focus on FV accounting has created an assortment of difficult issues for auditors, which are twofold. First, if the FV option has been elected and/or the FV framework disseminated by the FASB is not properly interpreted, an internal/external auditor's ability to assess the validity of management's asserted estimates may be impaired, and consequently, significantly increase audit risk. Second, the recent global financial crisis has further created complexities for auditors with respect to asserting that estimated prices reflect economic reality, especially for financial assets and liabilities that do not have an active market. Recently, there has been an increased focus on how auditors have conducted their audit during engagements, in both the current and pre-FAS157 era, with regard to testing and evaluating estimates derived under FV. These issues that auditors have faced will be addressed in subsequent sections of this paper.

FAIR VALUE ACCOUNTING: BACKGROUND While the notion that FV accounting is new may exist, this is not the case. The first accounting standard regarding FV, FAS 12: Accounting for Certain Marketable Securities, issued in 1975, allowed for marketable securities with significant declines in value (other than temporary), to be reported at the reduced market value as opposed to the acquisition price.¹ Other examples include FAS 107: Disclosures about FV of Financial Instruments, FAS 119: Disclosure about Derivative Financial Instruments and FV of Financial Instruments, and FAS 133: Accounting for Derivative Instruments & Hedging Activities, issued in December 1991, October 1994, and June 1998, respectively. In addition, under the requirements of FAS141R: Business Combinations (revised in 2007), assets acquired/liabilities assumed in business combinations are required to be written up or down to their respective FVs on the date of acquisition under the purchase method. Nonetheless, accounting for business combinations is not the focus of this article. A summary timeline is displayed below in Table 1.

| | |
|---------------|--|
| December 1975 | FASB issues FAS12: Accounting for Marketable Securities |
| 1990s | FASB issues statement of financial accounting standards pertaining to disclosure of derivative instruments, financial instruments, and hedging activities |
| 2002 | Convergence Project between the FASB and the IASB begins |
| 2007 | FAS141R: Business Combinations released The core of the financial crisis begins Professionals begin to debate the impact that the expanded use of FV accounting could have on the accounting profession and accounting education |
| November 2007 | FAS157: Fair Value Measurement and FAS159 The Fair Value Option become effective |
| December 2007 | The Public Company Accounting Oversight Board (PCAOB) issues Staff Audit Practice Alert No. 2, discussing how auditors should conduct audits of internal controls over financial reporting during financial statement audits with expanded FV estimates |
| Late-2008 | As the economy deteriorates, particularly the financial sector, auditors are being blamed for not effectively auditing internal controls Members of Congress blame FV accounting for causing the financial crisis, and place pressure on the SEC to ban FV Measurement & the FV Option |
| April 2009 | KPMG sued over issuing an adverse opinion for New Century Financial, as a result of not being able to effectively test the provided FV estimates FASB issues FSP FAS 157 to provide reassurance and guidance as to how to apply FV measurement PCAOB issued Staff Audit Practice Alert No. 4, which presents varying methods for auditors to test FV estimates of management during financial statement audits |
| Late-2009 | The FV debate continues, but it appears that the Convergence Project will continue to progress forward |
| 2014* | Full Adoption of IFRS in the United States may become a reality |

FAS157 defines FV and provides guidance as to its measurement, but does not expand its use. The FV hierarchy, consisting of three-levels, provides the profession with a framework to determine or estimate FV for applicable assets and liabilities. When attempting a valuation, level one of the FV hierarchy should be used most frequently. An asset or liability that is categorized at level one must be valued using available market prices for identical items. Items falling under this classification are considered to exist in a liquid market, (i.e., stock traded on the NYSE, U.S. Treasury Notes, futures contracts, etc). Level two indicates that "prices" can only be determined for inactive traded items or when market quotes can only be accessed for similar items² (i.e. lightly traded preferred stock/corporate bonds). Level three, however, refers to an asset/liability without an

active market. In this regard, obtaining a market price is not possible (i.e. real estate, mortgage-backed securities). At this level, it is required that the entity provides adequate disclosures as to how the FV estimates were derived.³ Therefore, auditors have been relying mostly on judgment when evaluating estimates for these assets/liabilities. The FV Option, on the other hand, allows organizations to decouple from the historical cost principle with regard to certain financial assets and financial liabilities such as "stocks, bonds, [available-for sale equity/debt securities, held-to-maturity debt securities], loans, warranty obligations, and interest rate hedges," and use FV accounting on an instrument-by-instrument basis. The Option, if applied, is permanent in nature, and can only be elected at the time when the entity "purchases the [permitted] financial asset or incurs a financial liability."⁵ According to Alfred King, author ?? Fair Value for Financial Reporting (2006), FV can be defined as "the price that would be received for an asset, or paid to transfer a liability, in a current transaction between marketplace participants in the reference market for the asset or liability."⁶ The chief issue that has existed for auditors is how to effectively assess and test "the price" in a hypothetical exchange when a "reference market" does not exist. Nonetheless, prior to the November 2007 adoption of FAS157 and FAS159, auditors were already experiencing an array of difficulties while attempting to assess managements' assertions during financial statement audits, which may have been a prelude to current issues.

DIFFICULTIES FOR AUDITORS WITH INTERPRETING FV ESTIMATES As FV accounting has been slowly uprooting the historical cost principle, the Public Company Accounting Oversight Board (PCAOB), along with other accounting professionals have attempted to offer guidance. The PCAOB is a private sector organization that was created as a result of the financial scandals of the early-2000s with the passage of the Sarbanes-Oxley Act of 2002. One of the PCAOB's major roles in auditing is to enforce auditing standards for auditors. According to Mark Olson, PCAOB chairman cited by CFO Magazine author, Sarah Johnson, "FV accounting could put reliable auditing of financial reporting at risk," since the current market values for assets and liabilities may not be reflective of the true underlying worth of the asset or liability.⁷ King, on the other hand, indicates that while valuation specialists and management must project a FV for a specific asset or liability, testing these estimates is not an easy task for the auditor, especially in an inactive market, since a price can only be established if the asset or liability is sold.⁸ Thus, the potential for an organization's management to be intentionally or unintentionally biased towards creating an over optimistic value for the asset, therefore, exists. In a June 2007, CFO Magazine article, Johnson, cited Rita Piazza, chairman of the SEC committee for the New York State Society of CPAs. Piazza declared, "Auditors will have little evidence for testing" values assigned to level three assets/liabilities where market values are based on managements' assertions,⁹ not factual acquisition prices or market quotes. Subsequently, after the effective dates of FAS 157 & FAS 159, in December 2007, the PCAOB, with the issuance of Staff Audit Practice Alert No. 2, sought to address potential issues with auditing financial instruments where the FV Option has been applied. The Practice Alert indicates that auditors must be watchful that management has not misclassified assets/liabilities under the FV measurement hierarchy, and accordingly, disclosure requirements under GAAP have been met. In addition, estimates provided by pricing analysts and valuation specialists must now be thoroughly scrutinized by an auditor,¹⁰ thus increasing an auditor's responsibilities during an audit of internal controls over financial reporting. Additionally, auditors must be weary of earnings management, and fully understand the influence FV accounting can have on a client's balance sheet and income statement. Earnings management occurs when corporate executives, who are seeking personal gain, intentionally interfere with the "earnings determination process."¹¹ Effectively, an auditor's traditional framework for issuing an opinion or a disclaimer during the financial statement audits has now been modified. According to Johnson, auditors must become aware that the "internal controls surrounding FV may differ for those over typical business transactions,"¹² and base their assertions accordingly. However, material miscalculations on behalf of management and/or the auditor can result. Nevertheless, an error in the valuation of level-three assets and liabilities does not necessarily indicate fraud. "Auditors will need to look beyond the fact that a valuation was wrong to determine whether or not management made an appropriate judgment

call,"¹³ stated Johnson. Nonetheless, auditors must remain vigilant, assessing the degree of audit risk throughout the audit. A summary of the issues that auditors have faced as a result of expanded FV accounting is listed below in Table 2.

| | |
|------|--|
| I | Auditors cannot easily verify that the price assigned to an asset/liability fairly reflects economic reality |
| II | The true fair value of an item can be within a range of +/-10% of the projection (King) |
| III | Level Three of the FV hierarchy is difficult to test, as those estimates are made based on unobservable inputs and judgement |
| IV | Auditors are being blamed for not detecting flawed FVs while conducting audits over internal controls for firms in the financial sector in the midst of the financial crisis |
| V | Opportunity for managers to manipulate earnings exist if auditors can not effectively test FV estimates |
| VI | The expanded use of FV blamed for the cause of financial crisis and auditors are being accused of negligence (Johnson) |
| VII | Auditors are being sued for being "overly" conservative when issuing an adverse opinion when FV measurement approaches can not be determined or disclosures are not sufficient |
| VIII | FV training for auditors is currently inadequate |
| IX | Accounting education will need to adjust as FV accounting will slowly replace historical cost (King) |
| X | FASB Staff Positions & PCAOB Staff Practice Alerts are issued frequently to assist internal/external auditors in evaluating FV. |

CREDIT CRISIS / FV EVALUATION Furthermore, with regard to the subprime/credit-crisis, audit firms have experienced many headwinds when attempting to address material mispricing of level three assets and liabilities. It is no secret that vast arrays of financial institutions have failed due to the economic debacle, (i.e. investment banks, hedge funds, and traditional banks). Though the failures of these firms may have been caused by poor corporate investment decisions, FV accounting has been blamed for amplifying the crisis. While errors or misjudgments related to the calculation of prices for illiquid assets may translate into auditor negligence, criminal allegations will most likely not be initiated against auditors, based on analyst assertions.¹⁴ On the other hand, mortgage lenders and auditing firms will most likely endure a barrage of civil, as opposed to criminal lawsuits. For instance, in April 2009, KPMG was sued for \$1 billion by "the trustee for bankrupt New Century Financial Corporation," for allegedly not issuing an adverse opinion when it should have been clear that the entity's financial position was deteriorating.¹⁵ Shareholders, who are foreseeable third parties, have suffered significant losses due to enormous write-downs of subprime assets and have been inclined to include these failed financial institutions' auditing firms in litigation proceedings.¹⁶ AUDITOR FEEDBACK Beyond the actual cases of alleged ordinary negligence, auditors themselves have expressed their concerns. Auditors have argued that risky credit securities, in the midst of the credit crisis, are underpriced compared to less risky financial instruments. In times of aggressive economic expansion, gains will be recorded on these securities under FVA. Essentially, market values for financial assets and financial liabilities are over optimistic in good economic times and excessively pessimistic during recessionary periods, creating the opportunity to manage earnings.¹⁷ As a result, the illusion is created that the company was more profitable than it was in actuality. The main fear is that managed earnings may create material departures from economic reality, creating highly complicated engagements for the auditor. According to King, earnings mismanagement has been one of the lead reasons for the outbreak of financial scandals throughout the 2000s.¹⁸ Under the historical cost principle, an auditor would be able to validate the actual cost for a particular asset or liability by inspecting a receipt, cancelled check, invoice, contract, or title. Auditors may now need to abandon their experience with historical cost and utilize their own judgment in determining if management's assertions were correct. Yet, this can be very difficult since the FV for an asset or liability may, in reality, be 10% greater or less than management's estimate, according to King.¹⁹ King asserts that if a scandal should occur, regardless of the auditor's belief that he/she rationally judged the projected market value for the asset or liability, the question, "why did you accept this value, this management assertion, this liability estimate?" would be asked to the internal/external auditor in the event of an investigation. Hence, while auditors are attempting to work their very best to authenticate the provided estimates from appraisers and management, it is near impossible to do so.²⁰ Should auditors really be penalized for inaccurately testing the accuracy of an appraised value when no clear active market exists?

ISSUES IN FV EDUCATION Others discuss how to address an auditors' lack of education in the realm of FV accounting, and how this aspect of accounting/auditing will become the new reality in the impending years and decades. According to King, within the not-too-distant future, FV accounting will replace historical cost education entirely. "It is only a matter of time until we have to go to history books to read about historical cost

accounting because it will no longer be taught to students," 21 claimed King. Johnson indicates that a greater focus should now be placed on educating auditors to learn valuation techniques. She asserts that the auditing industry and the PCAOB would be chief leaders in educating the profession. Nonetheless, based on Johnson's reference to Arnold Hanish, the Chief Accounting Officer of Eli Lilly, the suggestion was made that it will take roughly a quarter century for the auditing industry to fully adapt to the changes.²² The potential deficiencies in education are also a concern for entry-level auditors that did not receive adequate FV training in college. According to the chief accountant for auditing and professional practice issues, Zoe-Vonna, members of SAG (The Standing Advisory Group) indicated that young, relatively inexperienced specialists and auditors are unable to "challenge management's assumptions for their FV calculations."²³ The major issue here is that many auditing firms primarily rely on these individuals to conduct audits. Numerous professionals agree that auditors cannot always conduct a proper audit because of certain limitations. According to Wild, Halsey, and Subramanyam, auditors confront many challenges in attempting to value "insurance reserves, percentage of completion for large construction contracts, and the values of problem loans."²⁴ The benefit of evaluating financial data must outweigh the cost, time, and effort an auditor must give to effectively test the reliability of the data, and to subsequently, issue an opinion. Nonetheless, in times of uncertainty, auditors are being forced to venture into uncharted waters. FVS FUTURE During the October 2008 hearings on Capitol Hill, relating to the financial crisis, senators and congressmen argued that FV has unfairly punished companies. Consequently, there has been a backlash from financial executives and political officials from around the globe calling for a modification to or an outright suspension of FAS 157 & FAS 159. While a suspension of FV accounting has not occurred, there have been numerous updates and opinions released. In a November 2008 round-table discussion led by the SEC, FASB, IASB, and other stakeholders, it was argued that modifications/updates must be made to FV accounting, in an effort to preserve the integrity of accounting and the overall financial system. According to Johnson, one major suggestion was to make the FV Option revocable,²⁵ which has yet not come to pass. Nonetheless, it may take years to fully debate and evaluate possible changes to FV accounting's application. Subsequently, in response to an ever deepening economic crisis, the FASB issued a flurry of pronouncements in April 2009 to provide further guidance on fair value in current market conditions. FASB Staff Position (FSP) No. FAS 157, Determining Whether a Market Is Not Active and a Transaction Is Not Distressed, provides guidance to determine Fair Value when a market is inactive and a transaction is not distressed. FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, increases the frequency of fair value disclosures from annually to quarterly. FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (OTTI), provides guidance for recognizing when OTTI is established which portion impacts earnings and the remainder may impact other comprehensive income. Finally, on April 21, 2009, the PCAOB issued Staff Audit Practice Alert No. 4, as reinforcement to the aforementioned FSPs, which concentrates on auditor's approaches to test estimates for level three assets/liabilities. The Alert discusses the fact that there is "a wide range of possible fair value measurements, from relatively simple to complex... [and] the auditors' planned audit procedures can vary significantly in nature, timing, and extent."²⁶ With regard to financial statement audits, the Alert states, "The auditors' substantive tests of the FV measurement may involve (a) testing management's significant assumptions, the valuation model, and the underlying data, (b) developing independent fair value estimates for corroborative purposes, or (c) reviewing subsequent events and transactions." ⁷ Effectively, the Practice Alert provides a guide for an auditor faced with the challenge of auditing a FV estimate, and explains appropriate valuation approaches to take when conducting a financial statement audit. As the expanded use of FV accounting is merely in its infancy, the FASB and PCAOB are bound to continue to issue additional guidance in the future. CONCLUSION Though FV accounting was established to improve the usefulness of information in the financial statements, there is no doubt that a toll has been taken on auditors. Without properly understanding how to value inactively traded mortgage assets, some professionals believe that the auditors helped facilitate the credit crisis. While this accusation may be harsh, it

again draws attention to the plethora of challenges facing the field. In the opinion of the authors, the FASB, the PCAOB, and the IASB did not fully anticipate the ramifications that expanded use of FV accounting could have on the auditing industry. The cases of alleged ordinary negligence prior to the enactment of FAS 157 & FAS 159 should have been a warning sign that it may be too soon to force the expanded use of FV on auditors and accountants alike. While an outright IFRS adoption is not expected to occur in the U.S. until at least 2014, these difficulties have had ripple effects throughout the industry. Although increased transparency is positive in the long-term, adequate time for training should have been allowed. Based on the research results and the authors' opinions, the credit crisis was the financial industry's own doing and not the auditors! Major questions to consider are: Should the auditors have issued an adverse opinion or a disclaimer when there is no market for a particular asset or liability? Is the FV lower or higher than management claims? Was management deceptive? Should the FV of the asset be written to zero? While the concept of FV accounting is by no means new to the accounting field, it may take many years for all to build the appropriate skill set to deal with its complexities. Ideally, the FASB's and PCAOB's guidance issued in April 2009, will lend additional direction and support to the profession. Over the next decade, as accountants and auditors become more familiar with the usability, application, and testing of FV accounting, a thorough set of international auditing standards could conceivably be issued. As time progresses, an auditor's ability to assess the degree of audit risk on a particular engagement will be improved if they first understand how to evaluate the new levels of inherent and control risks that FV presents. While both big and small firms will face many challenges in the years to come, with the proper education and guidance from standard-setters, there are enough skilled auditors to allow for an industry that will work in tandem with fair value, and a convergence between U.S. GAAP and IFRS.

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Johnson, FV Stumps Auditors, PCAOB Told, CFO Magazine, June 21, 2007: <http://www.cfo.com/article.cfm/9388735?f=search> (accessed November 22, 2008). Footnote 23 Ibid. 24 Robert, Halsey, K.R., Subramanyam, and John Wild, Financial Statement Analysis, 8th ed. (McGraw Hill: New York, 2006), 102. 25 Sarah Johnson, Is the Fair-value Fix Stalled? CFO Magazine, November 26, 2008, <http://www.cfo.com/article.cfm/12675450?f=search> (accessed December 1, 2008). 26 Public Company Accounting Oversight Board, Auditor Considerations Regarding Fair Value Measurements, Disclosures, and Other-Than Temporary Impairments, Staff Audit Practice Alert No. 4, April 21, 2009: 4, http://www.pcaobus.org/Standards/Staff_Questions_and_Answers/2009/04-21_APA_4.pdf (accessed October 11, 2009). Footnote 27 Ibid, 4. References REFERENCES 1. Bajaj, Vikas and Julie Creswell. A Lender Failed. Did its Auditor? The New York Times, April 13, 2008: BU1. 2. Cheng, Kang. Fair Value's 'How' Meets When. CPA Journal, 79, no. 8, August 2009: 27 3. Fair Value Accounting Fact Sheet. Center for Audit Quality, 1 . http://www.thecaq.org/newsroom/pdfs/CA_Q_Fair_Value_Accounting_Fact_Sheet.pdf (accessed October 9, 2009). 4. Halsey, Robert, K.R., Subramanyam, and John Wild. Financial Statement Analysis, 8th ed. McGraw Hill: New York, 2006: 95, 102. 5. Johnson, Sarah. FV Stumps Auditors, PCAOB Told. CFO Magazine, June 21, 2007: <http://www.cfo.com/article.cfm/9388735?f=search> (accessed November 22, 2008). 6. Johnson, Sarah. Is the Fair-value Fix Stalled? CFO Magazine, November 26, 2008. <http://www.cfo.com/article.cfm/12675450?f=search> (accessed December 1, 2008). 7. Johnson, Sarah, PCAOB: Can Auditors Handle FV? CFO Magazine, June 7, 2007. <http://www.cfo.com/article.cfm/9319788?f=related> (accessed December 1, 2008). 8. Johnson, Sarah. PCAOB Ponders How to Audit FV. CFO Magazine, June 14, 2007. <http://www.cfo.com/article.cfm/9349986?f=related> (accessed November 17, 2008). 9. Kieso, Donald, Terry Warfield, and Jerry Weygandt, Intermediate Accounting, 13th ed., John Wiley & Sons: New Jersey, 2010: 193, 873. 10. King, Alfred M. Fair Value for Financial Reporting. New Jersey: John Wiley & Sons, 2006: xiii, 47, 6465, 82-84. 11. KPMG Hit with \$ 1B Lawsuit Over NCFB. National Mortgage News, vol 33, no 27, April 6, 2009: 8. 12. Leone, Marie. The FAS159 Mulligan. CFO Magazine, <http://www.cfo.com/article.cfm/9139916?f=related>. (accessed January 5, 2009). 13. McCollum, T. IAASB Revises Accounting Estimates Standard UPDATE. Internal Auditor. April 2008. 14. O'Kelly, Brian. Commercial Banks: How Fair is Fair Value? Accountancy Ireland, vol. 40, no. 3, June 2008: 30. 15. Public Company Accounting Oversight Board. Matters Related to Auditing Fair Value Measurements of Financial Instruments and the Use of Specialists. Staff Audit Practice Alert No. 2, December 10, 2007: 4-8 [http://www.pcaobus.org/standards/staff Questions and Answers/2007/12-10_APA_2.pdf](http://www.pcaobus.org/standards/staff%20Questions%20and%20Answers/2007/12-10_APA_2.pdf) (accessed October 10, 2009). 16. Public Company Accounting Oversight Board. Auditor Considerations Regarding Fair Value Measurements, Disclosures, and Other-Than Temporary Impairments. Staff Audit Practice Alert No. 4, April 21, 2009: 4-8, [http://www.pcaobus.org/Standards/Staff_Questions and Answers/2009/0421_APA_4.pdf](http://www.pcaobus.org/Standards/Staff_Questions_and_Answers/2009/0421_APA_4.pdf) (accessed October 11, 2009). Author Affiliation Danny Pannese, Sacred Heart University, USA Alan DeFavero, Sacred Heart University, USA Author Affiliation AUTHOR INFORMATION Danny Pannese has been an associate professor of Accounting for twenty seven years at the John F. Welch College of Business, Sacred Heart University in Fairfield, Connecticut. He teaches advanced accounting courses in auditing and taxation to undergraduate students. Professor Pannese received a Masters in Taxation from the University of New Haven and is a licensed certified public accountant in the state of Connecticut. Mr. Pannese is a Certified Valuation Analyst and has earned the Accredited in Business Valuation (ABV) and Certified in Financial Forensics (CFF) designations from the American Institute of Certified Public Accountants. He is also a Certified Specialist in Estate Planning (CSEP). Professor Pannese has worked for KPMG Peat, Marwick and the Internal Revenue Service (IRS) as a Field Agent and an Appeals Officer. His professional practice focuses on expert witness and IRS representation work. He is a member of the: National Association of Certified Valuation Analysts, American Institute of Certified Public Accountants, American Institute's Tax Division as well as their Business Valuation and Forensics section, as well as the Connecticut Society of Certified Public Accountants (CSCPA). He is also a member of the CSCPA's Federal Tax and Estate and Gift

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