

# King Valuation Services, LLP

11102 Fawn Lake Parkway  
Spotsylvania, VA 22551-4667  
(540) 972-4704

[alfredmking@verizon.net](mailto:alfredmking@verizon.net)

Comments on: "Auditing Accounting Estimates and Fair Value Measurements"

While I have had many years' experience in Fair Value Measurements, even my best friend would not think of me as an expert on Auditing of Accounting Estimates. Therefore my comments are strictly limited to Fair Value ("FV").

In my judgment the auditing of Fair Value information differs significantly from auditing of other types of accounting estimates. As an example there is obvious professional judgment involved in development, and then review of, bad debt reserves. But accountants, whether auditors or in management, can use their basic business judgment; it does not require special training or experience to understand accounts receivables, collection efforts, bad debt experience or anticipated bad debt losses. There are no courses, standards, or professional designation required for bad debt analyses. The same lack of need for specialized knowledge applies, in my opinion, to the auditing of most accounting estimates - other than FV.

On the contrary, the study of valuation is a separate curriculum in many academic and professional programs; there are a number of professional valuation organizations with their own standards and designations; likewise several professional journals are devoted solely to valuation.

I agree totally with the paper's statements and assumptions about the importance, and difficulty, in auditing or reviewing FV information. Over the past 12 years, since the issuance of SFAS 141 & 142, I have personally been involved in hundreds of FV issues in financial accounting and reporting. Most of those have been reviewed by my clients' auditors.

The real problem with both development of FV information, and its subsequent auditing, is that by definition most FV estimates deal with anticipated future events. Nobody can foretell the future, neither valuation specialists nor auditors. Further, past events may not provide any real insight into judgments about the future.

Virtually all disagreements between clients and their valuation experts on one side, and auditors (this includes SEC and PCAOB) on the other is that reasonable people can differ in how they view future events.

This is most clearly delineated in litigation involving valuation issues: as just one example take a typical divorce situation where the husband runs the company, and the wife wants half of the firm's 'value' in a divorce settlement. Almost always the husband's valuation expert views the company as just one step short of Chapter XI, while the wife's valuation expert believes the company will be the next Twitter or AliBaba. Who is correct? How can you 'audit' these judgments? The ultimate solution is NOT 'auditing' but rather an independent judgment by a court, judge and/or jury.

I firmly believe that valuation judgments cannot be audited in the same way that auditors review payroll, or capital expenditures or depreciation expense. In effect auditing or review of FV information is comparable to review or auditing of actuarial assumptions for pensions, etc. Auditors untrained in actuarial science would shrink from auditing the reserves of a life insurance company.

I feel that auditing or review of Fair Value information is directly comparable.

PCAOB should separate Fair Value, and develop a separate standard or standards dealing specifically with Fair Value. The knowledge base required to perform FV analyses, whether originally or as a reviewer, requires background and experience which most auditors simply do not possess – and are not likely to possess in the future.

Trying to write a Standard for 'auditors', lumping in standard accounting estimates with Fair Value estimates, is only going to confuse things more. As written, the proposal is not really going to help valuation specialists who have to prepare FV information for their clients. Even more so, it will not alleviate the problems which PCAOB has uncovered in its examinations of FV information.

Respectfully submitted,

/s/ *Alfred M. King*

ALFRED M. KING