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Recent Events

Russell Munday and Bruce Wilkinson attended the National Business Valuation and Forensic Accounting Conference on 27 to 29 October 2014 at the Hilton Hotel in Sydney. Topics included (inter alia):

- **Family Law valuations – What the court is looking for**

Hon. Stephen O’Ryan QC, Judge, Family Court NSW

In this session Justice O’Ryan emphasised importance of understanding the rules of the court, understanding that the expert’s duty is to the court and understanding why Australian courts have introduced expert witness regimes.

- **Valuing SMEs**

Andy Gilmour FCA, Director – Corporate Finance, RSM Bird Cameron (WA)

Key issues noted related to the quality of financial information, reliance on owner, value of stock and work in progress, unreported cash sales, commercial remuneration of owner, meshing of business / non-business expenditure, limited external evidence of earnings multiples, etc.

- **Dealing with cross-examination: How to love being in the witness box**

*Hon. George Hampel AM QC, Professor of Trial Practice & Advocacy, Monash University
Paul Vincent FCA Partner, Vincent Chartered Accountants (Qld)*

Key points raised included: do the work, prepare a good report, consider your weaknesses, confer with barrister, trust your barrister regarding re-examination, prepare, listen to the questions asked, answer questions, do not argue with the cross-examiner, you are not an advocate (make concessions if applicable), educate yourself (read judgements, expert witness courses, etc.).

- **Quantification of loss and damages in commercial disputes**

Janine Thompson ACA (ICAEW) Director, Forensic Practice, McGrathNicol Australia & NZ
Luke Howman-Giles Director, Forensic Practice KPMG

Presenters discussed the general principle that the plaintiff should receive a monetary sum which represents fair and adequate compensation for the loss or injury sustained as a result of the defendant’s wrongful act. They gave an overview of assessing loss including:

- Conceptual framework – which loss of profit, when was the breach of contract or tort, what was loss as a consequence of the wrongful conduct / event, why – to put plaintiff back in the position that they would have been in if the wrongful conduct / event not occurred.
- Structure of the loss – historical and future (to when).
- Knowledge of the business to explain the basis of approach.
- Quantify the loss – generally requires an assessment of the actual and but for performance of the business and an assessment of appropriate discount rate.
- Other, including tax considerations.

During the conference Russell and Bruce attended a dinner held for the inaugural CA BV Specialists.

In March we held a cocktail function at our new premises in Balwyn for numerous lawyers and accountants who have referred work to us. The evening was attended by around 45 people and an enjoyable evening was had by all.

New Staff

Joanne Traynor

Joanne started with us in March after recently working in the UK as a forensic accountant. Joanne has around 7 years of forensic accounting experience. Prior to this, she worked for several insolvency firms. We are pleased to have such an experienced forensic accountant join us.

APES GN 20 Scope and Extent of Work for Valuation Services

The Accounting Professional & Ethical Standards Board has released APES GN 20 Scope and Extent of Work for Valuation Services to provide guidance for business valuers on the application of APES 225 Valuation Services. It will assist in determining the scope and extent of work that, depending on particular circumstances, may be appropriate for the three types of valuation services below:

Type of Valuation Service	Extent of Work	Extent of Evidence Obtained
Valuation engagement	Limited to extensive use of valuation approaches, methods, and procedures.	Evidence obtained for significant matters.
Limited scope valuation engagement	Minimal to limited use of valuation approaches, methods, and procedures.	Limited evidence obtained for significant matters.
Calculation engagement	No to minimal use of valuation approaches, methods, and procedures.	Little or no evidence obtained for significant matters.

Dealing with Fraud

Psychology of Fraud

Fraud is obtaining something of value or avoiding an obligation by means of deceit, generally by people in a position of trust. This relates to varied forms of conduct.

Fraud requires motivation by an offender, suitable targets and absence of controls (opportunity).

Financial strain is a common circumstance amongst perpetrators of fraud.

Compulsive gambling or drug addictions are common causes of financial strain.

Relationship breakdowns can also cause emotional and financial strain.

Ego is another, by making fools of the victim of the fraud, some perpetrators take pleasure in the act itself rather than its outcome.

Frauds against government departments or large corporations can be rationalised as “they can afford it”.

Employee fraud can be based on the employee feeling they are being unfairly treated by their employer.

Individuals will vary in their propensity to commit a fraud.

It is important therefore to implement procedures that reduce opportunities for fraud.

Types of Fraud

Examples of types of fraud include:

- Financial statement fraud, when CEO is performance remunerated.
- Falsifying timesheets.
- Theft of inventory, cash.
- Cheque kiting.
- Fictitious employees.
- Inflating supplier invoices through collusion.
- Fictitious supplier invoices.
- Forging cheques / transferring monies to fictitious suppliers.
- Fictitious accounting transactions to cover up theft.
- False reimbursement for expense claims.
- Accountant at insurance broker paying himself rather than underwriter (clients therefore not insured).

Signs of Fraud

Examples of indicators of potential fraud include:

- Lifestyle of employee (cars, jewellery, clothes, homes) appears excessive to his / her remuneration.
- Employee rarely takes holidays.

- Accountant works without proper supervision on every aspect of the business's financial operations, e.g. payroll, receivables, deposits, payments etc.
- Starting and finishing time of employee changes.
- High claimers of expense reimbursement.
- Bank accounts not reconciled for long periods.
- Deposits are frequently lower than what was expected.
- High level of discounts being given.
- Cash flow problems when sales are good.
- Strange adjusting journal entries at end of accounting period.
- Late or erratic production of management reports.
- Unexpected financial result.
- High levels of overtime being recorded.
- Supplier address same as an employee's address.
- Slow stock turnover.
- Stock shrinkage.
- Lost records of prior periods.
- Other staff's concerns not being followed up.
- Concern by non-executive independent directors.

Fraud Investigation

The purpose of a fraud investigation is to gather evidence relating to specific allegations or concerns of fraud to determine the facts and to assist in deciding what action should be taken in relation to the matter.

The engagement of a forensic accountant with experience in investigating fraud brings independence to the investigation.

Legal representation must play an important role in the process, often determining the direction of the investigation.

A senior member of management or a director should be involved in the investigation as well.

A computer forensic expert may also be required.

Document management (both paper and digital) will be important if the investigation is document intensive. Organising documents chronologically is usually best.

Each investigation is unique as each fraud investigation has its own set of facts and details.

The heart of the investigation is to obtain paper and digital evidence.

Documents to look at include (inter alia): bank statements, bank transfer details, supplier invoices, accounting system reports, internal and external emails, personal records of the alleged perpetrator, security logs, computer access records.

The investigation should be kept as quiet as possible from other staff.

Companies should bring in competent professionals who can effectively complete the investigation.

Recent Matters

In the past six months we have been involved in numerous matters including:

- Loss of earnings assessments for people diagnosed with mesothelioma.
- Expert opinion on errors in valuation prepared by other accountant.
- Investigation regarding employee in a property development business.
- Analysis of takings.
- Assessment of loss and damage as a consequence of the termination of a Referral Agreement.
- Valuations (for a variety of purposes including shareholder disputes, family law, tax restructuring, sale and acquisitions) of:
 - Motor dealership
 - Recruitment
 - Advertising business
 - Shoe retailer
 - Veterinary practices
 - Civil construction
 - Insurance broker
 - Plastic moulding
 - Precision gearing manufacturer
 - Supermarket
 - Car wash business
 - Accounting practices
 - Numerous business valuations and loss assessments for the Valuer General Victoria in respect of businesses affected by both the Regional Rail Link and Linking Melbourne Authorities.



Munday Wilkinson Chartered & Forensic Accountants



Russell Munday



Bruce Wilkinson

Our Aim

Munday Wilkinson is a boutique business valuation and forensic accounting firm established in June 2000.

We offer the legal profession, and others, a quality, personalised, time efficient and cost-effective service.

All our professional staff are subscribed members of the Business Valuation and Forensic Accounting Special Interest Groups of the Institute of Chartered Accountants in Australia.

Our Services

We are well experienced in:

- Business, share and other equity valuations
- Quantification of economic loss
- Loss of earnings assessments /reviews
- Family Law – Single Expert Reports, review of Single Expert Reports, investigations, advising on tax and refinancing issues for proposed settlements
- Fraud Reviews and Financial Investigations
- Due Diligence Reviews
- Professional Negligence matters concerning accountants and directors
- Compulsory Acquisitions – claims assistance
- Due Diligence services
- Expert Determinations
- Expert Witness

We can provide forensic accounting services for a wide variety of dispute related matters from the small to the large.

Further Information

If you would like further information regarding this newsletter or our services, please contact us:

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