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## Recent Events

Our staff attended the National Business Valuation and Forensic Accounting Conference on 12 to 14 September 2016 at the Crown Promenade in Melbourne. Topics included (inter alia):

- **Presentation by eminent USA business valuer, Robert Reilly, on the benefits of professional standards in regard to business valuations.** He discussed:
  - The benefits of valuation standards including conformity of practice.
  - Valuations applying to:
    - transactional valuations (merger and acquisition fairness opinions), financing collateral valuations, IP licence agreements, litigation matters, tax compliance, etc.) and
    - notational valuations (e.g. fair value accounting, buy/sell agreements, executive share accounting) required for compliance reasons.
  - Clients are more willing to pay for transactional valuations (i.e. where money changes hand at the end of the assignment).
  - Valuations being prepared by:
    - chartered accountants
    - chartered accountants who are accredited specialists
    - investment bankers
    - business brokers
    - economistsand the varying standards amongst the above.
  - Valuation standards benefit full-time practitioners and the public.

- **Early stage business valuations – the riskiest work we do.** This presentation was by Richard Stewart of PwC in Sydney. He discussed:
  - the importance of innovation to Australia’s future
  - the venture capital market
  - the funding cycle (idea stage, family and friends, business angel investor, venture capitalists, IPOs)
  - why valuing start-ups is difficult
  - even if the business gets funding, it is still risky
  - the risks include technological, funding, production, management, IP, regulatory, distribution, etc.
  - preferred valuation methods — scenario based and real option based.
- **Lessons from the courtroom by Philip Greenwood QC** who recommended to expert witnesses to:
  - Always assume the case will run.
  - Always get the retainer clear.
  - Get the information you need.
  - Be careful with your expertise.
  - Always give yourself time.
  - Have a great report, it makes a huge difference.
  - Be learned, calm and careful in the witness box.
- **Family law valuations** – panel discussion comprising Trevor Vella of Trevor Vella & Co (Sydney), Suzanne Delbridge of Delbridge Forensic Accounting (Newcastle), Lauren Cusack of Crowe Horwath (Sydney) and Judge Dale Kemp of the Federal Circuit Court of Australia. Topics discussed included types of valuations under APES225 that can be used in the family law courts, value to the owner and fair market value, personal goodwill, the level of forensic work to be undertaken by a single expert valuer when only one party raises allegations.
- **Practical applications of valuations** – a panel comprising Manda Trautwein of William Buck, Adele Thomas of KPMG, Brendan Halligan of Halligan & Co and Iswar Madhyastha of EY that discussed the 2015 KPMG Australian Valuations Practices Survey and issues including marketability discounts, control premiums, minority interest discounts, market risk premium, risk-free rates in a global environment with very low government bond rates and Alpha adjusts to the Capital Asset Pricing Model for factors such as size, key person reliance, customer concentration and other factors.
- **Digital disruption** – presented by Bernard Salt of KPMG.
  - He noted the top 5 companies in USA are Apple (1976), Microsoft (1975), Google (1998), Facebook (2004) and Amazon (1994) and compared this to the top companies listed in Australia which are all much older BHP (1885), CBA (1911), Westpac (1817), NAB (1893), ANZ (1835), Telstra (1901), CSL (1916), Westfarmers (1914), Woolworths (1924) and Macquarie Group (1970). He said Australia must develop a culture of innovation. He mentioned one exception – Ramsay Group.
  - He used the example of Kodak film now replaced by mobile digital cameras.
  - He showed a graph showing the rise of large cities in China since 2000 and how this is shaping business opportunities in Australia such as tourism and education.
  - He showed which capital cities are growing the fastest in Australia with Melbourne and Sydney growing strongly each year. With the number of over 65 year olds growing — 0.7 m (1950), 3.7 m (2016) and 7.9 m (projected 2050) — how the demand for health services in Australia will continue to rise.

- Other sessions and workshops we attended included:
  - Intangible asset valuations approaches, methods and procedures
  - Modelling techniques for valuations in excess
  - Advanced interviewing techniques
  - Expert witness workshop by George Hampel AM QC
  - Digital disruption in the forensic arena
  - Forensic accountants — a view from the Bench
  - Economic loss in personal injury actions
  - Damages for insurance claims
  - Whistle blower legislation

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

## Attributes of a Good Forensic Accountant

Forensic accounting utilises accounting, auditing, investigation and valuation skills.

A forensic accountant looks beyond the numbers and deals with the business reality of a situation.

We are often asked by other accountants and by lawyers what attributes a good forensic accountant should have. In our view these attributes are many and include:

- curiosity and being inquisitive
- good analytical skills
- attention to detail and, at the same time, can see the “big picture”
- ethical — the chartered accountant’s motto is “without fear or favour”, which we constantly focus on
- degree of scepticism and sound judgement
- persistence to get to the truth
- broad understanding of the courts’ expectation of experts (rules relating to experts in each jurisdiction)
- discretion
- confidence and ability to handle pressure, for example when under cross-examination
- good communication skills (written and oral) — to write reports and simply explain matters in court
- expertise — in either valuations, quantifications or investigations.

Individuals are not likely to have all the attributes listed above and therefore it is important that the team used by a forensic accounting firm on a matter has a range of most of the above listed attributes.

A white paper was published by the American Institute for Certified Public Accountants (AICPA) some years ago based on a survey of forensic accountants, academics and solicitors. This provides further thoughts on the attributes of a good forensic accountant. It can be found at: [www.aicpa.org/InterestAreas/ForensicAndValuation/Resources/PractAidsGuidance/DownloadableDocuments/ForensicAccountingResearchWhitePaper.pdf](http://www.aicpa.org/InterestAreas/ForensicAndValuation/Resources/PractAidsGuidance/DownloadableDocuments/ForensicAccountingResearchWhitePaper.pdf)

## Forensic Reviews

A **forensic review** or investigation is unique. It is conducted to confirm or dispel suspicions of wrongdoing. The term “forensic” refers to information or evidence that is suitable for presentation in a court of law. A typical objective of a forensic audit is to obtain evidence to support allegations such as misappropriation, fraud and theft. The reports are usually very lengthy and include a detailed, fully documented and well-supported chronology of the investigation and findings.

Here is a list showing indications that a fraud or other impropriety may have taken place in a business, and therefore may warrant a forensic investigation:

- large unexpected losses
- material accounting adjustments at year-end
- performance based remuneration
- unusually high expense items
- employees apparently living beyond their means
- customers insisting on dealing with only one employee
- staff not taking annual leave or who don't delegate
- inventory shortages remain unexplained and poorly investigated
- copies rather than original invoices are being paid
- missing and/or altered documentation
- high level of journal entries adjusting account balances
- shortages in petty cash
- adjustments to receivables
- access to computers at unusual hours
- old outstanding cheques on bank reconciliations
- address changes followed by requests for payment.

These are red flags that many times are not pursued during annual financial audits, as they are often explained away as isolated incidents by management.

Our approach to a forensic review / investigation to a particular matter would depend on the type of business operated and the issues that the parties are concerned about, but may include (inter alia):

- obtaining the reported financial statements of the entity for the period of review
- summarising the reported trading and asset and liability positions of the entity
- identifying from the summarised accounts areas to focus the forensic review on
- obtaining an audit trail of the identified items from the general ledger
- test checking the above items to supplier invoices, contracts and agreements, bank statements, etc.
- reviewing year-end adjustment general journals
- checking year-end reconciliations of debtors, creditors, bank, etc.
- reviewing related party loan accounts and partner capital accounts
- checking ratios for reasonableness (gross margin, wages to sales, etc.)
- identifying items / transactions requiring further explanation
- issuing a draft report for the parties to provide further feedback on.

A forensic review differs from a statutory audit. It is of lesser scope and is focused on the key areas of concern between the parties.

## Recent Matters

In the past 18 months we have been very busy working in regard to numerous matters including:

- forensic investigation relating to a property development joint venture
- taking of account relating to a farm partnership dispute (going back more than 20 years)
- loss of earnings assessments for people diagnosed with mesothelioma
- Expert Opinion in regard to the accountant of a property manager and real estate business
- investigation regarding an employee in a pharmaceutical packaging business
- analysis of takings
- assessment of loss and damage as a consequence of misrepresentations by the vendor of a franchisor business
- assessment of loss and damage regarding bean growing business
- valuations (for a variety of purposes including shareholder disputes, family law, tax restructuring, sale and acquisitions) of:
  - trade marks
  - patents
  - motor dealerships
  - recruitment agencies
  - advertising businesses
  - civil construction businesses
  - accounting practices
  - financial planners
  - mortgage brokers
  - legal practices
  - serviced apartments
  - franchisee businesses
  - laundry
  - cafes and restaurants
  - nursery
  - beekeeping
  - construction businesses (residential, commercial)
  - architects
  - medical practices
  - earth moving
  - interior design
  - pharmacy
  - real estate businesses
  - air conditioning distribution and service
  - removalists
  - storage
  - childcare
  - tool retailing franchisor
  - upmarket jewellery retailer
  - sundry business valuations and loss assessments in regards to compulsory acquisitions.



## **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.

### **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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