



**Forensic & Valuation Services
Practice Aid**

**Forensic and Valuation
Services Practice Management
Toolkit**

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Foreword

Over the last few years, specifically since the demise of Arthur Andersen, LLP and the enactment of the Sarbanes-Oxley Act of 2002, the forensic and valuation services (FVS) industry has grown much more rapidly when compared to other services in public accounting. With so much growth in demand, the number of firms and practitioners offering these non-attest or tax services to clients has created an ever-increasing need for guidance in dealing with the unique attributes of FVS engagements. With competition growing, you need to be skillful at marketing yourself, your skill sets, and your firm to make meaningful headway as a stand-alone business or as a specialized discipline within a firm. Additionally, you will need to have sufficient processes in place to ensure the quality of your work product.

FVS combines an art and a science. If you are an FVS practitioner today, this has already become apparent to you. The same holds true for the marketing of FVS services because no precise or absolute way to promote your capabilities and services exists. Various channels exist giving professionals the opportunity to showcase their services, depending on the focus of their specialties and the scope of services offered. The art, however, lies in the effectiveness of professionals utilizing these available channels to market their services.

This toolkit provides general guidance on the many issues to be considered in operating a successful practice. The Forensic and Valuation Services section of the AICPA is committed to the success of its members. [VS section 100](#), *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset* (AICPA, *Professional Standards*), and [CS section 100](#), *Consulting Services: Definitions and Standards* (AICPA, *Professional Standards*), provide authoritative guidance to the FVS practitioner. Information on these important standards is provided in [chapter 4](#), “Quality Control for FVS Engagements,” of this toolkit but is not a substitute for reading the standards. References to additional resources are also provided in the following chapters.

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In addition, some or many parts of this toolkit may not be applicable to all forensic or valuation engagements, and due professional care is required to apply this resource to the specific facts and circumstances of each engagement.

Chapter 1

Introduction to a Forensic and Valuation Services Engagement

Introduction

Forensic and valuation services (FVS) engagements involve such tasks as verifying information, performing business valuations, investigating fraud, and verifying compliance with government regulations or contracts. While accounting and auditing services are often performed for third parties (such as a bank), FVS engagements may be performed for third parties but are often performed for business owners. Practitioners involved in the provision of FVS engagements should be familiar with two authoritative professional standards:

- [CS section 100](#), *Consulting Services: Definitions and Standards* (AICPA, *Professional Standards*)—applicable to consulting services—which include most valuation services, forensic accounting services, litigation services, expert witness services, litigation consulting services, investigation services, and other services.
- [VS section 100](#), *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset* (AICPA, *Professional Standards*)—applicable when the engagement involves estimating the value of a subject interest (for example, a business; a business ownership interest; a security; an intangible asset).

In addition, practitioners are expected to adhere to the AICPA [Code of Professional Conduct](#) and local jurisdiction regulations when accepting, planning, and executing a forensic or valuation engagement.

Professional Competence

The "General Standards Rule" (AICPA, *Professional Standards*, [ET sec. 1.300.001](#) and [2.300.001](#)) of the Code of Professional Conduct states a member shall "undertake only those professional services that the member or the member's firm can reasonably expect to be completed with professional competence." This includes having an understanding not only of the underlying valuation, accounting, or investigative skills needed to perform the work but also an understanding of the context within which the engagement is to be conducted (for example, the court process, laws, regulations, contracts, or policies relevant to the engagement). Practitioners who have questions about their abilities to complete an engagement are encouraged to consult their peer group or the AICPA to determine if there are additional resources available at www.aicpa.org/RESEARCH/STANDARDS/Pages/default.aspx.

When a practitioner relies on the work of another party, the nature and level of the intended reliance or information of others (or both) should be evaluated to consider various factors including knowledge, expertise and competence, business and professional reputation, objectivity and independence, source of the information, overall reasonableness of assumptions, methodologies, findings and conclusions, and relevance of the work and information to the engagement objectives.

Planning and Supervision

The "General Standards Rule" of the AICPA [Code of Professional Conduct](#) requires the CPA "to adequately plan and supervise the performance of professional services," including FVS engagements. A

simple spreadsheet or checklist^{fn 1} is highly recommended to plan the procedures to be followed in each engagement and to estimate the amount of time allowed for completing each procedure. Such a tool is invaluable from an overall project management point of view. It also provides for

- the delegation of tasks to less experienced professionals,
- time budgeting,
- follow-up upon completion of the project,
- client billing, and
- working within the prescribed budget.

When planning how work is to be performed, practitioners should consider developing hypotheses to address the context of the situation; identifying approaches or procedures that will allow the practitioner to meet the engagement objectives within the constraints of time, cost, and availability of information; identifying financial and other information that may be helpful and determining how best to obtain it; and determining the impact of the nature and timing of reporting requirements.

Building in time for review and for the iterative process of gathering, updating, and analyzing the information is common to such engagements. Although the review time can vary, 10 percent of the active engagement time is not unreasonable as a baseline.

Engagement Letters

The use of engagement letters, although not required, is recommended to protect the practitioner and reduce the potential for misunderstandings with the client, which can lead to malpractice issues. Managing client expectations about what, when, and how services will be provided is not always an easy task. A clearly written engagement letter communicates the expectations of all parties concerned and minimizes the risk of misunderstandings.

It is important to recognize from the outset that an engagement letter is a contract. As such, practitioners should seek the advice of an independent attorney or risk management adviser when drafting such a document and, of course, before executing such a document. Many malpractice insurance carriers will provide sample engagement letters and review policyholders' engagement letters. A review by these third parties need not be performed on every assignment but should be updated on a regular basis.

The primary purpose of the engagement letter is to document the understanding of the parties with respect to engagement-related matters, such as (but not limited to) the following:

- The parties to the agreement, both in terms of who is the client and who is responsible for fees
- Purpose of the assignment

^{fn 1} See the Development and Reporting Compliance Checklists in the [VS Section 100 Toolkit](#).

- Standard(s) expected to be applied, such as [VS section 100](#) and [CS section 100](#)
- Time period covered in a forensic engagement or valuation date
- Description of the services to be provided (for example, preparation of a business valuation; review of questionable transactions; or investigation of allegations)
- Identification of the asset or liability to be valued (for example, business; business ownership interest; security; or intangible asset) or the subject of the forensic engagement
- Known due dates
- When work will commence (for example, receipt of the signed engagement and receipt of retain-er)
- Services the practitioner will and will not be performing (for example, "We will not audit or re-view...")
- Work product expected to be produced^{fn 2}
- Firm expectations from the client
- Fee responsibility, billing, dispute resolution, and collection terms. Forensic accounting and liti-gated work is commonly billed on an hourly basis. The engagement letter should outline the bill-ing rates, either by individual or based on each staff level. Refer to the following examples:
 - Partner (applicable range)
 - Manager (applicable range)
 - Senior Accountant (applicable range)
 - Travel Costs
- Responsibility for direct costs. Professional standards require the practitioner to visit the subject company and interview management. Travel costs associated with a routine site visit are normal-ly billed to the client.
- Lack of independence, if it exists. See *AICPA Plain English Guide to Independence* (March 1, 2015) for additional information on independence.
- Assumptions and limiting conditions similar to those included in a valuation report or forensic services report.

^{fn 2} At times, the work product ultimately produced is affected by changes in circumstances, particularly when the project is in con-nection with a litigation matter. The practitioner should consider contingencies that may prevent the performance of his or her obliga-tions and establish alternatives if such conditions occur. Sample engagement letters can be found in [Forensic & Valuation Services: Engagement Letters](#).

Indemnities reflected in the engagement letter should comply with the practitioner's insurance coverage.

If the engagement is to be used for litigation purposes, the practitioner should be aware he or she could be examined on the engagement letter as well as on his or her report.

If the scope, terms, or any other component of the engagement changes, either a new engagement letter should be issued or an addendum should be made. Lastly, in forensic engagements, it may also be prudent to consider the client's business liability insurance policies to determine what kind of coverage the client has related to losses or costs (or both) the client has incurred (employee honesty riders, bonding, costs of the investigation, other coverage). These may be referred to or included in the engagement letter and should be considered.

The Use of Privilege

When a practitioner is retained by an attorney on behalf of a client, the work product, supporting working papers, and communications may be subject to privilege if prepared in reasonable contemplation of litigation. The practitioner should consider the concept of privilege when preparing an engagement letter or being retained by a client (or both). In some cases, it may be more prudent to have the client engage the practitioner through an attorney rather than directly.

Working Papers and Documentation

Regardless of the purpose of your FVS engagement and the form of your final report, professional standards require the analyst to follow certain procedures. The working paper file is your record of having followed appropriate procedures and standards. A consistent, structured, and orderly working paper file provides numerous benefits, such as the following:

- Documents can be located quickly.
- Working paper file facilitates delegating and reviewing the work given to other professionals.
- Documents are readily available for review or update.
- The integrity of the record of the FVS engagement is supported and enhanced.
- Working paper file enhances professional credibility in case of a subpoena.

If your conclusion is communicated as an oral report, the orderliness and completeness of your working paper files become even more critical because no other record of your analytical and evidentiary processes exists.

Working papers should be prepared in compliance with the AICPA Code of Professional Conduct ([ET sections 1.310.001](#) and [2.310.001](#)) as well as documentation standards for valuation engagements set forth in [paragraphs .44–.45](#) of VS section 100. When collecting information for forensic engagements, the practitioner should be cognizant that a chain of custody log may be required. This log should detail the origin, possession, and disposition of all documents and other material—particularly originals—relevant to the engagement. The practitioner should have in place sufficient control and management procedures to safeguard the confidentiality, integrity, and preservation of such documents.

It is not unusual for an engagement file to lay dormant for months, sometimes years, before the case becomes active again. Having a reference system within the file that provides an easily accessed summary of the procedures that were completed, the underlying reasoning, and the sources of data input will assist in re-familiarizing one's self with the case.

An organized working paper file or system provides for cross-referencing the completed report to the inputs used with the conclusions reached during the course of the forensic or valuation analysis.

The practitioner should discuss with the client's attorney the protocols to be followed and potential implications of the [*Federal Rules of Civil Procedure*](#) for drafts and attorney communications to avoid accusations of spoliation.

The Work Product

Completion of a valuation engagement generally involves the following two primary undertakings:

1. *The development of the valuation analysis.* [Paragraph .21](#) of VS section 100 describes the two types of engagements that an analyst can undertake: a valuation engagement or a calculation engagement.
2. *The written communication (whether it is submitted to the client or included in the working paper file).* [Paragraphs .47–.79](#) of VS section 100 describe the types of written reports permitted under the standards—detailed report, summary report, and a calculation report.

Completion of a forensic services engagement usually involves the preparation of a report outlining the approach taken and any observations made. These reports may potentially be delivered in either written or oral form.

In the FVS arena, practitioners' work product is often used in litigation matters and may include testifying as an expert or a consultant. In forensic investigations, practitioners may also be called as a fact witness regarding interview responses, as well as testifying on the practitioners' opinions and findings.

Financial and Economic Analysis Tools

Financial and economic analysis is often used in valuation and litigation engagements. In a forensic engagement, financial analysis may arise in the quantification of a loss or misappropriation of funds. Spreadsheets as well as purchased software may be useful to assist practitioners in this analysis and in performing valuation computations.

If used properly, purchased valuation software and report writing packages may be good options for beginning practitioners. More seasoned practitioners may choose to create their own valuation models. Internally developed tools may be useful for practitioners who find themselves repeatedly making calculations that are not built into an older or off-the-shelf software package. The tools also allow the practitioners to experiment with advances in financial analysis techniques, build in new sources of data, take advantage of developed expertise, and customize spreadsheets.

Using a tool from another source—whether a purchased package or a template provided by another practitioner—has the potential to generate substantial, incremental work or result in errors in the final valuation product if the work product is not reviewed. In your time budget, allow for a thorough math check of your computations by a suitably experienced colleague or peer.

Forensic engagements may involve the use of technology permitting understanding of a series of transactions by mapping them visually, or may involve the use of statistical programs to analytically review transactions or data sources.

In forensic engagements, using a program such as Excel may assist the practitioner search through large amounts of data.

The practitioner should ensure (regardless of whether a model is created or sourced from a pre-existing tool) that the technology used and the format followed fit the specifics of the underlying engagement.

Whether the financial analysis tools are purchased or internally developed, the practitioner should consider the following:

- Do you understand how the underlying computations work?
- Can the tool be modified to account for new data sources or techniques?
- Can the toolkit be used to train and develop less experienced staff or to teach valuation theory?
- Does the toolkit allow you to control the quality of your work product?
- Does the toolkit comply with [VS section 100](#)?

Let the buyer beware, software is not a substitute for expertise!

Report Writing

Prepackaged software exists for report writing as well as financial and economic analysis. Creating a report that is easy to read, theoretically sound, and efficiently generated is a challenge. As noted previously, using a tool from another source may be a good option for a beginner practitioner.

No universally prescribed format for a forensic or valuation report exists because each case has specific facts and circumstances. The AICPA standards address topics to be considered and required components depending on the type of report being prepared. The details of what should be included in valuation reports can be found in [paragraphs .47-.79](#) of VS section 100.

When writing a report for a forensic services engagement, the practitioner should use unbiased language and observations should be made based on statements of fact. Stating fraud occurred is not appropriate as only a judge or jury can make that determination. Practitioners may state for purposes of the report that they made certain assumptions and identify those assumptions in the report.

It may be helpful to the users of the report if the following items are included:

- The name of the practitioner who prepared the report
- The name(s) of the individual(s) who retained the practitioner
- The date of the report, which should be the last date when conclusions or opinions, if any, were reached concerning the report
- The objectives and circumstances of the engagement

- The purpose for which the report is being prepared
- Sufficient information to enable the user to relate the findings and conclusions to the supporting analyses, information, and documents
- Sources of information relied on, including the work of others
- Techniques and procedures performed, including supporting rationale for their selection
- Underlying assumptions with reasons for reliance thereon
- Definitions and interpretations
- Restrictions on the use of the report
- Description of scope or other limitations affecting the findings and conclusions, including independence issues, if any exist

Tools

If you use purchased report writer software, consider how often the tool is upgraded and what the changes are. Is it upgraded each time a change is made to professional standards? Is it upgraded to encompass changes in the forensic or business valuation body of knowledge? If modifications are made by your firm to the software template, will these changes be overwritten when a software upgrade is provided? The answers to these and similar questions are important to ensure the best quality product is produced.

Once answered, the practitioner may conclude his or her template can be better managed through different means. Practitioners should be aware no shortcut exists to generating a theoretically sound forensic or valuation report, but tools do exist or can be created to aid in streamlining the process.

The tool should have multifaceted benefits, including the following:

- Compliance with reporting standards under [VS section 100](#)
- Ease of quality control
- Efficient production
- Uniformity

Reviewing the Work Product

Before the final valuation conclusion or forensic engagement findings are communicated to your client, it is helpful to have your work reviewed. It is important to the quality of the work to obtain a thorough technical and editorial review.

Technical Review

A technical review involves confirming that sufficient procedures have been completed with respect to preparing the report. A technical review is helpful regardless of whether you have used purchased software or an internally developed model. A technical review involves confirming the following:

- The underlying theory is appropriate to the circumstances of the engagement.
- The assumptions that are used are appropriate or reasonable.
- Each assertion can be linked to the evidence upon which it is based.
- The arithmetic is accurate throughout the report and cross-referenced calculations and totals are internally consistent.

If your firm does not have another FVS practitioner on staff, consider requesting a technical review from a colleague in another firm (where permissible based on confidentiality or independence issues [or both] associated with the engagement or specific undertakings agreed with the client). If a third party specialist is utilized, be sure to follow all ethics rules with regard to informing the client and maintaining confidential information. Additional resources are available at www.aicpa.org/RESEARCH/STANDARDS/Pages/default.aspx.

Editorial Review

In an editorial review, the reviewer is focused on whether a non-technical person can easily read, follow, and understand the report. This review can often be performed by non-technical staff. Having someone unfamiliar with the engagement perform the review to get a "blind" opinion may be helpful.

An editorial review involves confirming the following:

- The conclusion has been presented in a logical and sequential manner so the reader can clearly understand the procedures completed and why.
- The language is appropriate for the audience.
- The language in the report is objective and unbiased.
- Grammar and spelling are correct.
- Nothing is superfluous, irrelevant, or inaccurate.

This procedure is especially important when using purchased report writer software or when "rolling over" a report from a previous engagement to use for the current matter.

When in doubt, the best tool to use for these reviews is another experienced practitioner.

Summary

As previously noted, engagement letters are the foundation for documenting (1) the relationship between the practitioner and the client and (2) the roles to be fulfilled during an engagement. Also, many tools exist that can be used to better ensure an efficient process and a quality work product. Whether you

choose to buy tools or build your own is a decision that should be made based on the practitioner's (or firm's) preferences and level of experience and expertise. Regardless of the alternatives chosen, tools do not eliminate the need for a thorough review of the working papers, the level of analysis, and the final report.