

Demand up for forensic accountants: survey

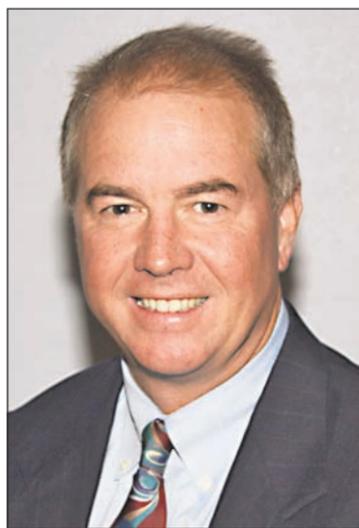
By JEFF BUCKSTEIN

An increasingly complex business landscape has fueled a growing demand for accountants who specialize in providing forensic and valuation services, according to the American Institute of Certified Public Accountants.

The AICPA's 2014 survey of 443 North American accounting professionals on international trends in forensic and valuation services notes that the terrain is so fluid, certain issues that barely registered in their previous, inaugural survey three years ago have since moved front and centre. However, the experiences of professionals are by no means universal, with Canada-based practitioners reporting sharply varied opinions.

Topping the list of issues that forensic and valuation professionals expect to face over the next two to five years is electronic data analysis, also known as "big data." It was considered a mere "speck on the horizon" in 2011 but has since exploded in popularity, said Eddy Parker, the institute's associate director of forensic and valuation services in Durham, N.C.

"CPAs and their clients have to deal in an incredibly digital world now, and the amount of data has just grown tremendously," Parker



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told *The Bottom Line*.

"It used to [be] you would ask for communications from a client related to a forensic engagement, and they may give you a stack of letters. Now you have to go through the e-mails and the text messages, social media — there's just so much communication that if you ask the wrong question, you can either be drowned in information or not get enough. So it's really important to hire CPAs with forensic experience who can help you to ask these questions."

But Wayne Rudson, president of Rudson Valuation Group in

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Toronto, said electronic data analysis hasn't significantly risen in prominence over the past three years for his firm. "In fact, it might have been more challenging five years ago than it is today. There's better technology available [now] to help with that type of challenge," he said.

"There was a time where we would be faced with very significant numbers of transactions that would have to be summarized and analyzed. Sometimes those transactions were presented in non-electronic format [that] had to be manually summarized, studied, sampled, and reviewed. Now the data that we are able to obtain usually comes to us electronically in a manner that can be utilized efficiently in our work and our analysis," Rudson said.

Andrew Freedman, managing director of dispute consulting at business valuation and litigation accounting firm Duff & Phelps Canada in Toronto, said electronic discovery is becoming more preva-

place as a result of *The Dodd-Frank Wall Street Reform and Consumer Protection Act*, the U.S. Securities and Exchange Commission's focus on fair-value measurements in financial statements, and the U.S. Department of Justice's close monitoring for investment fraud, Parker said.

Freedman doesn't find that his firm's cases are necessarily more complex today than in the past. The financial dispute work they're involved with has always by nature been esoteric and complex, he said.

Rudson had a different viewpoint. "I completely agree with respect to the scrutiny and engagements issue to the extent that it refers to the evolution of the rules that govern the practice of forensic accounting and business valuation in Canada," he said.

As an example, Rudson cited evolving rules in Ontario with respect to civil procedure. Experts now need to sign a form acknowledging their independence and

increase in entrepreneurial-related retirements over the next several years.

Competition and fee pressure was listed as the third most pressing issue, and regulatory changes fourth by AICPA study participants.

Attracting and retaining qualified staff was relegated to the No. 5 issue in 2014 after topping the survey's concerns list in 2011, but Parker noted that shouldn't be interpreted as a decline in importance for hiring issues. Rather, other new and pressing issues have risen to the forefront this year, he said.

"It is definitely an ongoing and important challenge for firms like mine to attract and retain qualified staff," said Rudson.

Many AICPA survey respondents said they expected to see an increase in financial-statement misrepresentation and outright fraud over the next two to five years. Twenty-nine per cent said they thought valuation of assets carried at fair value would be the most prevalent form of misrepresenta-

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lent because of the natural progression of the use of electronic storage of documents, and the complexity and size of those documents.

Furthermore, the risk of information security data breaches and ensuing personal information loss is a major concern. It is therefore important to be able to ascertain that electronic sources have not been tampered with, said Freedman, who noted that the production, sorting, cataloguing and preservation of electronic documents, as well as managing electronic evidence, factor significantly into the efficiency of the work carried out by his firm.

Second on the AICPA 2014 survey's list is the increased complexity and scrutiny of engagements, including from regulatory sources such as rules being put in

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neutrality, and confirming that their role is to assist the court as a neutral and unbiased party, he said.

Respondents also reported a strong growth in the demand for many different types of valuation services over the past year. For example, 49 per cent of those who took part in the survey said shareholder or partner dispute cases had increased for them. An increase in contractual disputes was cited by 44 per cent of those surveyed. Litigated valuations were up for 40 per cent. Gift and estate matters increased for 36 per cent, and family law/marital dissolution cases increased for 35 per cent.

Family law, shareholder dispute, and valuation work are recession-proof areas. Larger, more complex commercial cases involving factors such as calculating damages and handling contractual disputes are also consistent growth-oriented activities, noted Freedman.

Another area of growth involves class action lawsuits, he added.

Parker said fair-value measurements are increasingly becoming part of personal and business activities involving actions such as divorce and partnership dissolution, and he also pointed to an expected

twice that number, or 58 per cent, feared financial-statement fraud would go up.

While Rudson doesn't share the latter viewpoint — "I just don't see any evidence of that trend in our practice," he said — Freedman said systemic changes in accounting rules, including the adoption of international financial reporting standards, could result in errors and omissions and financial statements that don't comply, with resulting damages, losses and lawsuits.

"Certainly the complexity of worldwide international corporations, international transactions, and foreign currency fluctuations [in] the borderless world that we're living in, which allows corporations to have so broad of a reach, leads to more complex transactions that need to be recorded properly. That could give rise to a problem," said Freedman.

Fair-value measurements involving judgment are becoming a bigger part of the balance sheet, said Parker. He also noted that "businesses are seeing increasing pressure from the stock exchanges who are expecting them to meet their earnings estimates, and meet all of the expectations."