



Spring 2003

Forensic Experts, Valuation Professionals Can Both Help Fraud Victims

Many valuation professionals also perform forensic accounting engagements to help identify fraud. It's not surprising when you consider that the skill sets are closely related.

Both valuation and forensic engagements often use the same or similar methodologies, such as common size analyses. Where a valuation professional often takes management at its word, however, the fraud examiner checks everything.

On occasion, the work of the valuation professional and the fraud examiner intersect. Let's consider a few examples.

Valuation professionals are often engaged in the course of divorce proceedings, especially when one of the spouses owns a business. After all, the business is frequently a major, even the major, marital asset.

Suppose only the husband is involved in the business and will retain the company. The wife will seek cash as compensation for her share in that asset. The wife, therefore, seeks to maximize the value of the business.

Suppose further that this couple has run a majority of their personal expenses through the business to minimize taxes — everything from little items like dry cleaning and meals to major expenses like cars and a second home. If the wife can prove those abuses and have those expenses taken off the business's books, the business's cash flow — and its value — will go up.

The wife, therefore, will hire a fraud examiner to ferret out the inappropriate expenses, and a valuation professional to determine how those expenses have affected the company's value.

Damage More than Dollars

When people think of fraud, they often think of embezzlement. Many small businesses lose substantial funds by placing too much trust in their key employees

and not enough emphasis on segregation of duties and other internal controls. When these frauds are uncovered, a valuation professional may be able to help again.

First, if the employee involved is bonded, a valuation professional can work with a fraud examiner to help the company secure the appropriate settlement from the insurer.

The fraud examiner's job would be to determine exactly how much was stolen, and how. The valuation professional can help demonstrate that the company's loss includes more than the stolen funds.

For example, if the employee was stealing from customers or clients, the company may have lost accounts. If the case generated significant publicity, the company's reputation may have suffered.

If the amount involved is significant, the company may also want to determine how that drain on its cash flow affected its value. By restating its value at the appropriate higher level, the company may be able to realize more at sale, or increase its borrowing power.

Valuation and forensic accounting professionals not only share skill sets, in certain circumstances, they can work together to help companies or individuals realize the most effective solution to fraudulent acts.



[Back To Index](#)
[Home](#)

The articles in this newsletter are general in nature and are not a substitute for accounting, legal, or other professional services. We assume no liability for the reader's reliance on this information. Before implementing any of the ideas contained in this publication, consult a professional advisor to determine whether they apply to your unique circumstances.

© 2003