THE Witness Chair

Leading-edge Ideas for CPAs Providing Litigation and Dispute Resolution Services

SUMMER 2014 California Society of Certified Public Accountants ISSUE 62

Audit Workpapers as a Source of Information

by Tim Sherman, CPA

Financial and accounting experts frequently rely on audited financial statements in the course of preparing for testimony. While the accuracy of the figures is typically not subject to debate, the statements are frequently used only as a starting point of an analysis.

While statements are useful, experts often do not consider a potentially more valuable source of information—audit workpapers.

Audit workpapers can provide helpful information related to a company's structure, internal controls, significant transactions, customers and risk factors. Public Company Accounting Oversight Board Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatements*, which does not apply to audits of private companies, lists several factors an auditor should understand about a client and its environment:

- Relevant industry, regulatory and other external factors;
- The nature of the company;
- The company's selection and application of accounting principles, including related disclosures;
- The company's objectives and strategies and related business risks that might reasonably be expected to result in risks of material misstatement; and
- The company's measurement and analysis of its financial performance.

For similar guidance for private companies, see AICPA AU Section 150, Generally Accepted Auditing Standards.

Audit workpapers should document the basis for these understandings. These are topics expert witnesses and consultants may need to understand.

While it is not easy to gain access to the workpapers, there are situations in which it may be worth the time and expense for an expert to review workpapers, including:

- Acquisition-related disputes (working capital adjustments, earn-out targets, etc.);
- Royalty disputes;
- Litigation related to specific transactions;
- Small company litigation where recordkeeping is an issue; and
- Obtaining documents from a time period further back in time than the company can provide records; depending on requirements, audit workpapers should be retained a minimum of five to seven years from report release date.

When drafting discovery requests or subpoenas, clients may ask the expert for assistance. The auditing standards contain useful language describing what an auditor's workpapers should contain. For publicly traded companies, refer to PCAOB Auditing Standard No. 3, *Audit Documentation*, (AS 3). For private companies, refer to AICPA Auditing Section 339, *Audit Documentation,* (AU 339).

The specific language between the two standards differs, but they describe the recordkeeping needed to allow an independent, experienced auditor to reach the same audit conclusions as the auditor.

Audit workpapers typically contain the items listed below. The PCAOB and AICPA audit guidance lists many of these as examples of what could be found in workpapers, but the guidance does not explicitly require them:

- Transactions tested and the population of transactions sampled;
- Third-party confirmations of receivables, payables, pending litigation, account balances;
- Listing of bank accounts;
- Going concern evaluation;
- Management representations;
- Copies or abstracts of significant contracts and agreements;
- Board of director meeting minutes; and
- Permanent file, which should contain an organizational chart, company rules (partnership agreement, corporate bylaws) and insurance information.

Receiving Workpapers

Auditors do not need to be party to litigation for the workpapers to be useful. However, obtaining and reviewing the workpapers can be difficult and expensive. Auditors own their audit workpapers. It would be surprising if an accounting firm did not fight a subpoena. During discovery, clients may ask experts to help draft explanations as to why the workpapers are important and, potentially, focus a subpoena on a subset of the workpapers.

Auditor ownership of workpapers varies by state. In California, a company's right to access the workpapers associated with its audit is limited to workpapers that "include records that would ordinarily constitute part of the client's records and are not

continued on page 6

In this issue

Section Action

Business Valuation

by Ted Israel, CPA

I am frequently asked at conferences and other professional gatherings the same or similar series of questions by those starting out in business valuation. It seemed like a good idea to share these frequently asked questions. If you are a seasoned valuation analyst, you have probably worked these issues out on your own over the years. A review can be helpful.

Q: Which valuation credential is the best?
A: There are a number of credible business valuation credentials to choose from. The three most common include: Accredited in Business Valuation (ABV), Certified Valuation Analyst (CVA) and Accredited Senior Appraiser (ASA). No one credential is better than the other. I have had positive and negative experiences with all of them.

What seems to matter more than anything is the individual's commitment to practice in a thorough and professional manner. Without that, the credential does not matter. I have observed no preference from the bench. The credential that judges do appear to have immense respect for is CPA. So, do get a credential; then practice in a manner that judges and the public have learned to expect from CPAs.

Q: What do I need to get my library started?
"Started" is a key word because once you start, you must regularly update, replace and expand. That said, I would start with a reputable textbook. *Valuing a Business* by Pratt, Reilly & Shweihs was the standard for years. However, both Gary Trugman and James Hitchner have written outstanding textbooks as well. I also recommend PPC's three volume *Guide to Business Valuation*. It is updated annually and includes discussions on nearly every possible business valuation issue you can encounter. If the discussion is not detailed enough, the authors include detailed footnote references to enable further research. You should also subscribe to at least one business valuation journal and any you might receive from your credentialing organization. Select one that regularly causes you to question your own knowledge and motivates you to seek more information on the subject.

Q: I am the only valuation person in my firm. How can I vet ideas with peers?
Attend CalCPA's Forensic Services Section Business Valuation Section meetings. In addition to affordable CPE, these meetings promote frank, member-driven discussions. I have been attending regularly since 1996 and intend to continue.

We look forward to seeing you at our next meeting.

Ted Israel, CPA, ABV, CFF, CVA *is director of the Forensic and Valuation Services Division of Eckhoff Accountancy Corporation in San Rafael.*

Economic Damages

by Craig M. Enos, CPA

Demonstrative evidence was a discussion topic at a recent section meeting. I recently read an article that stated psychological studies suggest that after 72 hours, most people retain only about 20 percent of what they see and 10 percent of what they hear. But their retention rate rises to 65 percent when they simultaneously hear and see the facts presented. As an expert witness, you should find this information to be interesting and something to consider when preparing to testify at arbitration or trial.

Research indicates that in addition to presenting oral testimony, it would be advantageous to present demonstrative evidence—exhibits in the form of charts, schedules, summary of opinions, etc. Demonstrative evidence is admissible for the purpose of illustrating and clarifying a witness's testimony, is used to illustrate testimony and is generally authenticated by the witness whose testimony is being illustrated. The judge or arbitrator has discretion on whether to allow exhibits into evidence. Demonstrative evidence may be displayed and referred to at trial without being formally admitted into evidence.

How can we increase the likelihood that our exhibits will be allowed to be presented at trial and taken into deliberations with the jury? In addition to making sure they are relevant and illustrate your opinions, consider providing sample exhibits at the time of deposition. Giving opposing counsel the opportunity to cross examine you at the deposition should eliminate any objections by the other side claiming they were not provided adequate time to review and cross examine you. If the exhibits you plan to present at trial end up being different than what were presented at deposition, consult with counsel and discuss providing opposing counsel with updated exhibits.

Testifying with the use of exhibits allows you to engage the jury and increase their retention rate. In addition to using exhibits to explain my analysis and opinions, I have found that judges are open to a one- or two-page schedule listing only your opinions (no assumptions) to be formally marked into evidence and allowed into deliberations with the jury. Consider making the last schedule of your exhibits a summary page with the total loss only, with detail by category if necessary. In addition to being an exhibit that may go into deliberations, as the last schedule, it usually gets to stay up on the screen a little longer during the transfer to cross examination allowing the jury to review and take notes.

It has been a pleasure to serve as your chair for the past four years. I look forward to seeing you at a future meeting

Craig M. Enos, CPA, ABV, CFF, CFE *is former Economic Damages Section chair and owner of Enos Forensics in Folsom.*

Family Law

by Dan Close, CPA

In re Marriage *of Finby* (2014) 222 CA4th 977, 166 CR3d 305 brings attention to important issues, including characterization of a "book of business" as a divisible community asset, and apportionment of post Date of Separation (DOS) future contingent benefits between separate and community property.

Wife was a financial adviser who was offered a transitional bonus of $2.8 million to transfer her book of business to another investment firm in 2009. The trial court ruled that there was no community interest in her book of business, and all future bonuses, except for one, were wife's separate property.

The Appellate Court found the characterization of a book of business (note the word "business") a divisible community

asset, and that it did indeed have value and should be divided. Recognizing that California case law does not provide guidance on whether a licensed professional's list of clients is an asset subject to division in a marital dissolution, the Appellate Court instead cited other similar cases in New York, Maryland, Florida and Arizona where customer lists of licensed professionals are divisible marital property.

The Appellate Court also analyzed the trial court's reliance on *In re McTiernan & Dubrow*, 133 CA4th 1090, stating unlike *McTiernan*, where husband's high standing as a motion picture director is entirely personal to him—a "reputation" and not a business—wife in Finby was not paid the $2.8 million merely for her high standing in the securities industry, but for her ability to induce clients with significant assets and potential for producing future commissions and fees (a "business") to follow her when moving to a new firm.

Regarding the future contingent benefits, the Appellate Court remanded back to the trial court, saying that wife may have earned some of the bonuses during marriage and they should be reviewed and apportioned.

So, does *Finby* offer guidance for future cases or are we back to the drawing board, waiting for a compelling Appellate Court matter that clearly differentiates goodwill as a "divisible" or "indivisible" marital asset? The picture is unclear. Here, the Appellate Court attempts to distinguish between a "business" and a "reputation" as the key element in whether the development of the ability to earn money during the marriage is a divisible marital asset. Yet another example of what makes our profession so interesting. Stay tuned.

M. Daniel Close, CPA, ABV, CFF, CVA *is former Family Law Section chair and a shareholder of EDR Valuations, Inc. in Solana Beach.*

Fraud

by Peter W. Brown, CPA

The Committee of Sponsoring Organizations of the Treadway Commission's Internal Control—Integrated Framework (COSO Framework), is used by most public companies in the United States as a framework for structuring internal control systems to be compliant with Section 404 of the Sarbanes Oxley Act. This year, audit committees and company management teams will begin implementing new procedures and controls based upon an updated 2013 COSO Framework issued May 14, 2013.

The updated version is designed to address the reporting, compliance and operational objectives facing today's large and complex businesses. As businesses evolve, companies need to revise their internal control systems to meet a host of new challenges. The updated framework makes it easier for a company's internal controls to evolve as the business grows and becomes more complex.

The most significant changes to the framework include:

- The adoption of 17 principles that fit within the existing five components of the internal control structure;
- The reinforcement of the importance of compliance and operations objectives;
- The acknowledgment of the importance and pervasiveness of IT by adding a specific principle related to IT control;
- The addition of a specific fraud risk assessment principle;
- The recognition that operations, compliance, reporting and internal controls often cross boundaries of organizations and countries; and
- The provision of more detailed guidance of alternative ways an organization might implement a component of internal control to be more effective.

So what opportunities do these changes provide for forensic accountants? To start, we can assist companies with:

- Educating audit committees, C-suite executives, operating units and functional management on the updated COSO Framework;
- Assisting clients in designing processes for identifying, assessing and implementing necessary changes in controls and related documentation based upon the updated framework; and
- Assisting clients in developing and implementing a transition plan to timely meet the framework's key objectives.

The deadline for transitioning to the updated framework is Dec. 15, 2014, so this year should provide plenty of new opportunities for accountants who specialize in assisting clients with internal controls and SOX compliance.

Peter W. Brown, CPA *is former Fraud Section chair and managing director with PricewaterhouseCoopers LLP in Los Angeles.*

MessageFromtheChair

by Peter Salomon, CPA

I have recognized over the past two years serving as chair that the more effort you put into something, the more you get back in return. The time and effort I have made to plan, organize, promote and chair the Forensic Services Section, including the joint meetings and the Steering Committee meetings, have been very rewarding. I have met a lot of new people who have told me that they have enjoyed the benefits of attending these meetings. We have had great turnouts at the all-sections joint meetings, with increasing attendance at each meeting. The networking among the forensic CPA practitioners has been fantastic and the educational topics and speakers have been first-rate.

I highly encourage all forensic CPAs to attend the individual section and the all-sections joint meetings, as well as participate in those meetings and apply for an officer position in one of the sections: Economic Damages, Family Law, Fraud and Business Valuation. Being part of the team of section officers within the Forensic Services Section leads to new contacts and broadens your experience as a forensic CPA. Leadership roles are an excellent way to differentiate yourself as a forensic CPA.

Finally, I want to thank all of the Section and individual section officers, and CalCPA's Maria Nazario and Emily Ku, for their hard work over the past two years in making the Forensic Services Section a great benefit for those who have attended our meetings.

— **Peter A. Salomon, CPA, CFF** *is a principal with Hemming Morse LLP in Los Angeles.*

Mitigation of Damages: Recent Developments in Employment Cases

by Martin I. Aarons, Esq.

In preparing for trial or a settlement conference in a wrongful termination/employment case, one of the most important things to know is the client's damages. While non-economic damages are always tough to quantify, calculating the economic damages—lost wages, pension and other benefits–should be an easier calculation. And it just got easier. Or did it? Two recent California Court of Appeal cases have been published that provide additional guidance on calculating a wrongfully terminated employee's economic damages.

Mize-Kurzman v. Marin Community College District (2012) 202 Cal.App.4th 832

In this case, the Court of Appeal addressed the question of whether or not a public employee's retirement pension can be used or considered as mitigation of lost earnings and other economic damages.

The plaintiff alleged she was unlawfully removed as dean of enrollment, and subsequently took a position as a counselor, earning about $20,000 a year less than in her job as dean.

At trial, the defendant put on evidence that as a possible mitigation of her damages, plaintiff could have taken early retirement and, if she did, coupled with her Social Security benefits, she would have no economic damages. (*Id.* at 869-870).

The plaintiff testified that no other dean jobs were available at other colleges since her reassignment, and, if she transferred to another district, she would lose 30 years of tenure; she also did not want to take early retirement with a lesser pension benefit because she was supporting her seriously ill son. (*Id.*)

The Appellate Court reviewed this issue as being affected by the collateral source rule. Simply stated, the collateral source rule provides that "if an injured party receives some compensation for his or her injuries from a source wholly independent of the tortfeasor, such payment should not be deducted from the damages which the plaintiff would otherwise collect from the tortfeasor." (*Mize-Kurzman*, supra 202 Cal. App.4th at 872.)

The court observed that collateral source evidence may not be used to reduce recoverable damages and any evidence from a collateral source is inadmissible to reduce damages. (*Id.*)

The court reviewed case law regarding the collateral source doctrine in employment matters dealing with pension benefits. Citing *McQuillan v. Southern Pacific Co.* (1974) 40 Cal.App.3d 802, the *Mize-Kurzman* court confirmed that a state employee's retirement benefits are still an independent collateral source even when the state is the tortfeasor (*Mize-Kurzman*, supra 202 Cal.App.4th at 874-875.)

The *Mize-Kurzman* Appellate Court also discussed *Monroe v. Oakland Unified School Dist.* (1981) 114 Cal.App.3d 804, 810–812, which provided that "the law of this state does not require the mitigation of damages by everything of value received during a period of wrongful unemployment. Rather, the rule of mitigation requires only the duty to seek other employment." (*Id.* at p. 811.)

The court then concluded that the trial court erred in allowing evidence of plaintiff's possible pension amounts because they were subject to the collateral source rule. "Had plaintiff actually retired and taken her retirement pension, we are convinced the trial court would have been required to exclude evidence of plaintiff's retirement benefits as a collateral source" (*Mize-Kurzman*, supra 202 Cal.App.4th at 877.)

"It seems to us to make little sense to allow introduction into evidence of retirement benefits that plaintiff never received on the issue of mitigation where such evidence would have been precluded under the collateral source rule had she actually received the benefits." (*Id.*)

Accountants should know this case when they are retained to do calculations for wrongful termination cases. If they are working for the defense, then the expert should not be including the pension benefits being received—or likely to be received—as a reduction for plaintiff's damages. This is because that portion of their report will likely be excluded at trial. On the flip side, someone doing calculations for the plaintiff should know not to include these numbers; otherwise, the plaintiff would be shortchanged from recovering damages to which they are otherwise entitled, should a verdict be received in the plaintiff's favor.

Villacorta v. Cemex Cement, Inc. (2013) 221 Cal.App.4th 1425

Many experts and attorneys simply assume that any money earned from a subsequent job automatically reduces the damages to which a wrongfully terminated plaintiff would otherwise be entitled. However, this is not always the case.

Recently, in *Villacorta*, the Court of Appeal held that where a new job is inferior and not "comparable or substantially similar" for purposes of mitigating lost wages in a wrongful discharge claim, the jury can award the plaintiff the full amount of wages lost with no offset of the earnings received from the subsequent employment.

In *Villacorta*, the plaintiff worked as a maintenance planner at Cemex's plant in Victorville, Calif. (*Villacorta*, supra 221 Cal. App.4th at 1427). At Cemex, Villacorta earned an annual salary of approximately $65,000. (*Id*). In February 2008, he was laid off and unable to find new employment for eight months. (*Id*). He did find work with another company that was located two to three hours (one way) away from where he was living with his family. (*Id.* at 1427-1428.)

Rather than commute four to six hours per day, he rented a room in Lancaster, which reduced his commute significantly. (*Id*). However, this new job resulted in him having to be away from his family for at least five days a week and renting a place to live close to his new job. (*Id.*)

The jury was instructed regarding the law on mitigation of damages with CACI No. 2407. The jury returned a verdict in favor of

continued on page 5

AICPA Alert

by Tim L. Bryan, CPA

The AICPA Forensic and Valuation (FVS) committees and task forces have been busy preparing new resources and updating existing ones. The new FVS Online Professional Library is the top spot for technical and forensic practice management guidance. There is also an assortment of resources for forensic and valuation specialists. Visit *www.aicpa.org/FVS* and click on "FVS Online Professional Library."

Introduction to Civil Litigation, 2nd Edition
The most recent resource available is the Special Report *Introduction to Civil Litigation*, 2nd Edition. The report serves as a reference guide for practitioners who provide or are considering providing civil litigation services in accordance with the AICPA's Statement on Standards for *Consulting Services No. 1, Consulting Services: Definitions and Standards* (AICPA, Professional Standards, CS sec. 100). Visit *www.aicpa.org/FVS* and select "Resources."

Private Investigation Licensing Task Force
The AICPA FVS Executive Committee recently created the Private Investigation Licensing Task Force. The requirement by some states that anyone doing investigations must have a private investigator license is nothing new. Former FSS Chair Ron Durkin has worked with the AICPA on this for years to resolve any California issues. The task force will maintain the PI Matrix, provide education to members and assist states facing PI licensing issues through grassroots efforts. I am excited to represent CalCPA on the FLS Committee and this task force. The PI Matrix may be found at *www.aicpa.org/interestareas/forensicandvaluation/resources*.

CFF Mentor Program
The CFF Credential Committee kicked off its mentor program in March. The program is designed to help young professionals acquire guidance on growing their forensic practices and address some of the unique challenges they face as a forensic accountant. CalCPA's own Jolene Fraser is on the CFF Credential Committee and has secured many CalCPA FSS members to serve as mentors.

2014 AICPA FVS Conference
It's not too early to start planning for the Nov. 9-11 Forensic & Valuation Services Conference in New Orleans. This year's conference will feature a hands-on track for young professionals, a track on cutting-edge topics and a track that is industry focused. The hands-on track will engage young professionals in case scenarios that will be comprised of facts and documents for a scenario to simulate an actual case. Greg Regan and Annette Stalker are CalCPA's representatives on the planning committee. Additionally, Annette is the AICPA Forensic and Litigation Services Committee chair and Greg serves on the Forensic and Valuation Executive Committee. For more information about the conference, go to *www.aicpa.org/fvs* and select "CPE & Events".

Tim L. Bryan, CPA, CFE, CITP, CISA, EnCE *is a senior manager at Crowe Horwath LLP in Sacramento.*

---

continued from page 4

Villacorta for $198,000 for lost wages on his wrongful termination cause of action. This sum represented three years of lost wages. (*Id.*)

The defendant appealed, claiming that the award of three years of lost wages was erroneous; he should have only been awarded eight months of lost wages—the time he was off of work until he found his new job. (*Villacorta*, supra 221 Cal.App.4th at 1430.)

In reviewing defendant's appeal, the *Villacorta* court identified that, in wrongful termination cases, the Supreme Court set the general rule for mitigation of damages: "The general rule is that the measure of recovery by a wrongfully discharged employee is the amount of salary agreed upon for the period of service, less the amount which the employer affirmatively proves the employee has earned or with reasonable effort might have earned from other employment." (*Parker v. Twentieth Century–Fox Film Corp*. (1970) 3 Cal.3d 176, 181–182.)

"However, in order for the employee's earnings to be applied in mitigation, 'the employer must show that the other employment was comparable, or substantially similar, to that of which the employee has been deprived.'" (*Villacorta*, supra 221 Cal.App.4th at 1432 citing to *Parker*.)

The *Villacorta* court observed that case law provides if the new job is different or inferior, then the wages from that job may not be used to mitigate damages. (*Villacorta*, supra 221 Cal.App.4th at 1432 citing to *Parker* and *Mize–Kurzman*.)

The Appellate Court rejected Cemex's appeal and observed that, based on the evidence that the job was far away, he had to rent a room and be away from his family for five days a week, a jury could conclude that the new job was inferior to the job at Cemex. (*Id*. at 1432-1433). Therefore, it was reasonable for the jury to not use the new employment wages to mitigate the loss. (*Id*.)

Finally, Cemex also argued that even if the job was inferior, it still must be used to offset the damages. (*Villacorta*, supra 221 Cal.App.4th at 1433). This too was rejected.

The court observed that wages earned from an inferior job may not be used to mitigate damages because if they were used then it would result "in senselessly penalizing an employee who, either because of an honest desire to work or a lack of financial resources, is willing to take whatever employment he can find." (*Villacorta*, supra 221 Cal.App.4th at 1432-1433 citing to *Rabago–Alvarez v. Dart Industries, Inc*. (1976) 55 Cal.App.3d 91, 99.)

This case will force experts retained to do damage calculations to pay close attention to the factors listed in *Parker*. Too often, experts assume that any subsequent earnings automatically reduce the damages, or fail to properly analyze other jobs when doing a "mitigation" report. This can, and has, resulted in experts' opinions on mitigation of damages being excluded from trial.

Martin I. Aarons, Esq. *practices labor and employment law and is based in Sherman Oaks.*

HAPPENINGS

FORENSIC SERVICES SECTION 2014-15 MEETING DATES

All Sections Joint Meeting	Wednesday, Oct. 29	OAK
Business Valuation	Thursday, Aug. 14	OAK
	Thursday, Feb.19	LAX
Economic Damages	Thursday, Aug. 28	OAK
	Wednesday, Feb. 25	LAX
Family Law	Friday, Aug. 15	OAK
	Friday, Feb. 20	LAX
Fraud	Wednesday, Aug. 27	OAK
	Thursday, Feb. 26	LAX

An individual meeting notice will be sent and you may register online at *www.calcpa.org*. For more information, call (818) 546-3502.

Family Law Conference	Thursday, Nov. 6	LAX
	Friday, Nov. 7	SF

CalCPA Education Foundation Conference and Course Offerings (800) 922-5272 or *www.calcpa.org*.

continued from page 1

otherwise available to the client" [California Business and Professions Code Section 5037(b)(1)] and records which were removed from the client's premises or received for the client's account.

Once obtained, begin by locating the audit plan and audit program to gain an understanding of what the auditors performed and where in the workpapers to find documentation of the relevant testing.

In addition to reviewing the testing behind specific financial statement line items, other audit documentation could be useful, such as the summary of adjustments memos, the management letter, management representations letter, materiality assessments and audit summary.

Educating Triers of Fact

Before explaining what is in the audit workpapers, an expert may need to educate triers of fact as to the relationship between auditors and management and what auditors do during an audit.

A PCAOB interim standard, AU 110, *Responsibilities and Functions of the Independent Auditor*, describes the distinction between management and auditor responsibilities: "The financial statements are management's responsibility. The auditor's responsibility is to express an opinion on the financial statements."

The management representation letter and the engagement letter also contain language to this effect, and both can be useful exhibits because company management signs them.

If the information in the workpapers suggests a possible misstatement or actual error in the financial statements, non-accounting professionals may find it hard to accept that an error survived audit. Non-accounting professionals may assume audited financial statements are more precise than they are. AU 110 can be helpful in describing the limitations of the audit opinion:

"The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, the auditor is able to obtain reasonable, but not absolute, assurance that material misstatements are detected. The auditor has no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by errors or fraud, that are not material to the financial statements, are detected."

It may also be important to educate triers of fact that auditors do not test every transaction and that a clean audit opinion allows for immaterial mistakes going undetected or uncorrected. Experts can use the summary of unadjusted audit differences, management letter and management representations letter as demonstratives to address this point.

Conclusion

In the right situation, audit workpapers can provide valuable information that can lead toward a resolution and help prepare an expert for trial. To effectively use audit workpapers, an expert should be able to communicate what he or she expects to find in the workpapers, as well as the relationship between auditors and management.

Tim Sherman, CPA, ABV *is a principal at LitiNomics in Los Angeles.*

PCAOB and AICPA Standards

The PCAOB and the AICPA both create auditing standards. PCAOB standards apply to audits of publicly traded companies and AICPA standards apply to the audits of non-filers. The PCAOB also oversees the audits of brokers and dealers. In 2003 the PCAOB adopted the pre-existing AICPA standards as interim standards. Over time, some of the standards have been superseded by new PCAOB guidance. As of April 2014, there are 16 active PCAOB auditing standards.

The AICPA continues to adopt new standards, which can lead to confusion when a new Statement on Auditing Standards (SAS) modifies an accounting standard that was effective in 2003. The SAS does not affect the PCAOB interim standard but does affect the AICPA standard.

Therefore, the AICPA and PCAOB have different versions of the same standard. For example, in 2003, the PCAOB adopted AU 230 as an interim standard. SAS 99 is the last SAS to modify AU 230 prior to 2003. The AICPA issued SAS 104 for audits of fiscal years beginning December 15, 2006 and onward. SAS 104 modified AU 230. Therefore, there are currently two authoritative versions of AU 230: the PCAOB version, last modified by SAS 99, and the AICPA version, last modified by SAS 104.

The Witness Chair is published three times a year by the Forensic Services Section of the California Society of Certified Public Accountants.

Editor
Susan Bleecker

Associate Editors
Leslie O. Dawson
Maria N. Nazario

Section Chair
Martin G. Laffer

Individual Section Chairs

Business Valuation	Daniel M. Ross
Economic Damages	Haley J. Eckhart
Family Law	Mike Radakovich
Fraud	Coral Hansen

Nonmember subscription rate is $75 for one year. To subscribe, call CalCPA at (818) 546-3502 or (800) 922-5272.

We welcome your letters, articles, comments and suggestions, which may be sent to the editors at *bleeck@pacbell.net*.

The Witness Chair does not provide legal advice. The material published, unless otherwise specified, represents the views of the authors and the individuals quoted and not those of CalCPA or the AICPA.

www.calcpa.org/FSS