

How to write credible reports

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After many long hours, you are ready to sign your appraisal report. As you step back and go over your conclusion, you wonder, did I get it right? Here is a simple approach to keep you on the right track. Ask yourself if your report lives up to the “Three Rs:”

- 1) **Relevancy**
- 2) **Reliability** – Your opinion must be the product of reliable principles and methods
- 3) **Reliable application of methodologies utilized**

Relevancy

Merriam Webster defines relevance as: *relation to the matter at hand*

For report writing purposes, I would suggest that the conclusions of your analytical work, that is your economic and industry analyses, financial analysis of the subject, and the application of your methodology, need to be supportive of the opinion given.

Thus, the concept of relevancy is grounded on the simple logic that your conclusion should have an unequivocal nexus to the purpose of whatever objectives you set out to accomplish, i.e., your analyses need to be ***probative*** of the opined conclusion.

Furthermore, to be relevant, your analyses need to clearly identify the applicable fact patterns and walk the reader of your report from your analytical work to the opined conclusion.

Well written reports are those that build upon the conclusions reached at each step of the report writing process; thereby, creating a “pyramid of credibility” leading up to the opinion offered. For example, a growth rate applied to a defined future benefit stream needs to be supported by the conclusions reached in the economic, industry and in the subject’s financial analyses, so that a reader can readily make an assessment of the risks factors facing your subject as it moves forward towards the realization of the defined benefit stream.

In other words, to be relevant, a growth rate needs to be related to the calculated benefit stream, in this case, the matter at hand. Yet in many reports, one will find either no relation to the calculated benefit stream at all, or a growth rate that is not explained by whatever preceding analysis was presented. This condition is sometimes referred to as an analytical gap between the data and the opinion proffered ^(*)

^(*) See General Electric Company v. Joiner, 522 U.S. 136 (1997)

Also look to the Federal Rules of Evidence (“Rules”) for guidance, the Rules define “relevant evidence” as that which has:

Any tendency to make the existence of any fact that is of consequence to the determination of the action more probable or less probable than it would be without the evidence (*)

For example, if your objective is to value a minority interest, reaching conclusions that cannot be attributed to a minority interest will cause your opinion to lack relevance and therefore stand on a flawed foundation; since, such analysis would not aid in the determination of the conclusion of value, as no connection was established between the analysis made and the minority interest to be valued. Similarly, applying a discount rate derived from net cash flows to a net income defined benefit stream would also be irrelevant.

A simple approach to relevancy is to remember the old apples and oranges argument, apples to apples, oranges to oranges, don’t mix them! and don’t leave any gaps in between them.

Reliability

Back to Merriam-Webster defines Reliability as:

The extent to which an experiment, test, or measuring procedure yields the same results on repeated trials

Your analysis must rely on the same “tools of the trade” relied upon by other experts in your field, when forming opinions or inferences under similar facts and circumstances. The rationale is that applying the same generally accepted methodologies to the same fact patterns should allow for replication of the original results. Consequently, the concept of “Reliability” is of great interest to a user of your work product.

Stakeholders in the valuation process must be able to reasonably assume that reliance on your work is justified, since your peers would have used similar methodologies under similar facts and circumstances, and thus reach conclusions similar to yours.

So, as you review your report, ask yourself are there any departure(s) from generally accepted methodologies employed in your analysis. If you had no choice but to depart from generally accepted methodology, then you must follow the applicable professional standards dealing with such departures.

Remember that a user’s ability to duplicate your results is directly related to the sufficiency of the data, assumptions and explanations that you presented in your report.

(*) Litigation Services Handbook The Role of the Financial Expert Chapter 2 Page 2.1 Weil et al, editors, 3rd Ed Wiley & Sons 2001 New York

Reliable Application of Methodologies Utilized

Application of a reliable methodology needs to be supported by the proper application of the methodology. Namely, the methodology must be applied following the generally acceptable valuation norms and conventions utilized by other experts under similar facts and circumstances.

| For example, suppose that you present a statistical analysis of a particular data set. Your selected statistical technique is generally accepted, and used by other valuation practitioners under similar fact patterns, however, your data points are selected using judgmental sampling rather than random sampling, your sample size may have no statistical foundation.

Consequently, while your primary methodology was generally accepted, a departure was made when the sample was selected without a proper sampling technique, thus lacking statistical foundation.

Some final thoughts

Make sure that your analysis does not leave a gap that a user of your report must leap over to comprehend your process and resulting conclusion(s).

If you fail to build a “bridge” between your analysis and your conclusions, your report will again be lacking in relevance.

Don’t get caught picking and choosing among purported facts in order to justify your opined conclusion.

Don’t forget to reconcile the differences between the methodologies that you utilized.

Be sure that your analysis aids a reader in understanding your methodology, underlying assumptions and ultimately the conclusion of your report. Your analysis must have probative value to a user. Stay away from the temptation to present large quantities of information that do not add further probative value to your opined findings.

Strive to use data that can be authenticated. List all of your sources of information, and always take the high road, and disclose, disclose and disclose.

A useful criteria to follow in deciding what and how much to disclose lies in the following question:

Would a user’s conclusions change as result of a proposed disclosure, or its omission?

Good luck!

