

# Module Syllabus: Forensic Accounting for Lawyers

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**Module Code:** NALT-804

**Part of:** Postgraduate Seminar Series: Non-Arm's Length Transactions & Financial Stability

**Instructor:** B. Cuthbert John, PMP

**Duration:** 4 Weeks (Intensive)

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## Module Overview

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This intensive module is designed specifically for legal professionals who must navigate complex financial evidence in corporate disputes, insolvency proceedings, and regulatory investigations. It bridges the critical gap between legal theory and financial reality, equipping lawyers with the ability to “follow the money.”

Students will move beyond basic financial literacy to master the specific forensic techniques used to detect Non-Arm's Length Transactions (NALTs). The curriculum focuses on identifying valuation anomalies, unraveling circular transaction structures, and challenging expert financial testimony.

## Learning Objectives

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By the end of this module, participants will be able to:

1. **Deconstruct** financial statements to identify “red flags” of earnings management and asset stripping.
2. **Calculate** and interpret key forensic ratios (e.g., Beneish M-Score components) to predict financial distress.
3. **Critique** valuation methodologies used in related-party transactions, specifically identifying manipulation in Discounted Cash Flow (DCF) models.

4. **Trace** funds through complex inter-company loan structures to establish beneficial ownership.
  5. **Cross-examine** financial experts effectively by identifying weaknesses in their underlying assumptions.
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## Weekly Schedule

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### Week 1: The Language of Financial Manipulation

**Focus:** Financial Statement Fraud & The “Earnings Management” Spectrum

We begin by de-mystifying the three core financial statements—Balance Sheet, Income Statement, and Cash Flow Statement—through a forensic lens. We explore how aggressive accounting policies can be used to conceal NALTs.

- **Topics:**
  - Revenue recognition schemes (e.g., “Bill and Hold”).
  - Expense capitalization vs. expensing.
  - The “Big Bath” restructuring charges.
  - Off-balance-sheet financing vehicles (SPVs).
- **Required Reading:**
  - *Schilit, H. (2010). “Financial Shenanigans: How to Detect Accounting Gimmicks & Fraud in Financial Reports” (Chapters 1-3).*
  - *CLICO Judicial Manager’s Report (2012):* Section 3.1 - “The Statutory Fund Deficit.”
- **Workshop:** “Spot the Anomaly” – Analyzing the pre-collapse financial statements of Enron and CLICO side-by-side.

### Week 2: Valuation Anomalies in Related-Party Transactions

**Focus:** Asset Valuation & The “Fair Market Value” Myth

This week focuses on the specific mechanics of value extraction. We examine how assets are systematically undervalued when sold to insiders (as in the Douglas Estate case) or overvalued when purchased from them.

- **Topics:**
  - The hierarchy of valuation inputs (Level 1, 2, and 3 assets).
  - Manipulating the Weighted Average Cost of Capital (WACC) in DCF models.
  - Comparable Company Analysis (CCA) selection bias.
  - The “Illiquidity Discount” abuse.
- **Required Reading:**
  - *Damodaran, A. (2012). “Investment Valuation”* (Chapter on Private Company Valuation).
  - *PhD Thesis Case Study: “The Douglas Estate Transaction: A Forensic Reconstruction.”*
- **Case Study:** Re-calculating the “fair value” of the Douglas Estate using corrected discount rates (48% vs. market standard).

### **Week 3: Unraveling the Web: Inter-Company Loans & Circularity**

**Focus:** Group Structures & Cash Flow Tracing

We tackle the complexity of conglomerate structures. Students learn to trace cash flows across multiple entities to identify “circular transactions” designed to artificially inflate capital or hide losses.

- **Topics:**
  - The “Round-Tripping” of funds.
  - Identifying “sham” loans with no repayment intent.
  - The use of “Shadow Directors” to authorize inter-company transfers.
  - Piercing the corporate veil through forensic evidence.
- **Required Reading:**
  - *OECD Transfer Pricing Guidelines (2022):* Chapter I - The Arm’s Length Principle.
  - *Standard Chartered Bank v Antico:* Judgment analysis on shadow directorship and financial control.
- **Simulation:** “Follow the Money” – Using a mock bank statement dataset to trace a \$10M diversion through four shell companies.

## Week 4: The Lawyer as Forensic Skeptic

### Focus: Expert Testimony & Litigation Strategy

The final week focuses on the practical application of forensic skills in litigation. We discuss how to instruct forensic accountants, how to interpret their reports, and how to destroy a flawed valuation in cross-examination.

- **Topics:**

- Drafting the “Letter of Instruction” to a forensic expert.
- The “Confirmation Bias” in expert reports.
- Cross-examining on the “Key Assumptions” page.
- Presenting complex financial data to a judge or jury.

- **Required Reading:**

- *Expert Witness Practice Note: “Duties of Experts in Civil Litigation.”*
- *Sample Cross-Examination Transcript: Questioning a valuation expert on discount rates.*

- **Capstone Exercise:** Mock Cross-Examination. Students are paired up to examine and cross-examine a “financial expert” on the valuation of the CLICO Head Office building.
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## Assessment

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- **Forensic Report Critique (40%):** Students must write a 2,000-word critique of a provided (flawed) expert valuation report, identifying at least five methodological errors.
- **Valuation Model Audit (30%):** A practical exercise correcting a manipulated Excel DCF model to arrive at a defensible valuation range.
- **Cross-Examination Strategy (30%):** A written plan outlining the line of questioning to be used against an opposing financial expert.

## Recommended Resources

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- **Software:** Basic proficiency in Microsoft Excel is required. Access to a forensic data analytics tool (e.g., IDEA or Tableau) will be provided for the Week 3 simulation.
- **Reference Text:** *Crain, M. A., et al. (2019). "Essentials of Forensic Accounting."*