

Ongoing Survey Reveals Need to Improve Report Writing

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Over the past four years, I have discovered a declining trend in the quality of valuation reports—and not just in the style of writing, but in the framework (i.e., professional standards) and content as well. As a long-time provider of a valuation report review service,¹ I have asked my report review clients about this. They tell me that when they actually get to writing the report, they are running out of time or budget or both—so the report gets short shrift.

You can argue that my judgment is based purely on subjective, anecdotal evidence, and I would have to agree with you. Therefore, this article not only discusses what I see as the current state of report writing, but it also presents objective evidence as to why the subject needs more attention.

Objective evidence. Between May 2013 and May 2017, I presented 16 report writing webinar series for the National Association of Certified Valuators and Analysts (NACVA). Each series was well attended and ran for six hours over three days. Day 1 covered The Report Road Map, Day 2 is devoted to professional standards, and Day 3 tackles errors and omissions.

On each day, we were required to have six poll questions for NASBA/CPE purposes, and I have

tracked the results over four years for all 16 webinars. Out of the 18 poll questions I administer, I want to discuss—in three categories—13 of them, as I think they reveal some of the heights and plights of our collective report writing process and product.

I. The Demographics

1. How many years of BVFLS experience do you have?

- (a) 0-3 years—19%
- (b) 3-5 years—19%
- (c) 5+ years—62%

As you can see, most of my webinar attendees have a fair amount of experience; almost two-thirds of them have five years of BVFLS experience or more, so report writing shouldn't be something they are struggling with at this stage of their career.

2. What is your practice/experience geared toward?

- (a) Business valuation—83%
- (b) Litigation support—17%

Most people are writing reports for the BV wheelhouse and can be expected to be writing detailed/comprehensive reports regularly.

3. Generally, who do you write your reports for:

- (a) An informed user/reader—56%
- (b) An uninformed user/reader—44%

¹ Others who provide this service include Jim Hitchner (Financial Valuation Advisors Inc.) and Michael Gregory (Michael Gregory Consulting LLC).

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I define an informed user/reader as someone such as an IRS examiner and an uninformed user/reader as someone such as a family law judge who has only seen a few business valuation cases in his or her courtroom. This is important because I believe whom we write for affects how we write, what we write, and how long the report needs to be.

II. The Process

4. Does your firm use report writing software?

- (a) Yes—45%
- (b) No—55%

I have nothing against report writing software if you invest the time to know how it works and customize it to your practice. (But I don't see that happening vis-à-vis my report review service.) My good colleague, Darrell Dorrell (FinancialForensics), wrote an excellent piece about report writing software in *Financial Valuation & Litigation Expert* (included in Resources).

5. Does your firm have a standard template to start each new report with?

- (a) Yes—80%
- (b) No—20%

This is good to see. A template allows every report to begin on common ground and reduces the errors that can occur when you start with the last report you prepared. Just a note of caution, however, that the more templates you have, the more you must update when changes need to be made. I have one template that I use to start every one of my valuation engagements regardless of the type of report, company, industry, or purpose.

6. Even if your firm does not have to comply with USPAP, does it voluntarily do so?

- (a) Yes—48%
- (b) No—48%
- (c) I must comply with USPAP—4%

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Resources You Can Use: Valuation Report Writing

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Appraisers who do or must prepare reports in compliance with USPAP have a slight numerical edge. And even though ABVs and CVAs are not required to do so, I think there is a higher standard of care perception when a report is prepared in compliance with USPAP. And the burden to comply with USPAP is not that difficult, so I don't understand why more people don't do so.

7. Do you prominently disclose all major valuation assumptions in one section of your report?

- (a) Yes—82%
- (b) No—18%

I don't think there is anything that can focus the attention of an appraiser more than seeing all of the major valuation assumptions he or she relied on in one place and make sure they are appropriately buttressed.

8. How does your firm deliver a final report?

- (a) Print copy only—28%
- (b) PDF copy only—11%
- (c) Both print and PDF copies—61%

I have not delivered a print copy of a final report since Jan. 1, 2004. And, if you are not going to sit down with the client and use the report as a springboard to cross-sell consulting services, I don't see the point. A lot of time goes into a print copy, e.g., signatures, page counting, binding, etc., and I am uncertain what value it brings in today's digital workplace.

III. The Report

9. What areas of the report do you struggle to write the most?

- (a) Company background—10%
- (b) Economic overview/industry outlook—24%
- (c) Valuation approaches—14%
- (d) Discounts and premiums—42%
- (e) Synthesis and conclusion—10%

On one hand, the large discounts and premiums percentage is not surprising. On the other hand,

given all of the articles, books, and CPE sessions discussing this topic, people aren't getting it.

What this poll question does not capture is how often the appraiser makes the effort to relate sections such as the company background, economic overview, and industry outlook back to the subject company being valued. I see very little of this in the reports I review.

10. What term do you use when you express a conclusion of value (in noncalculation/nonlitigation reports)?

- (a) Estimate—52%
- (b) Opinion—48%

Our industry struggles when our professional standards cannot unify what we call our end result. And, of course, the nuance of the term "opinion" is not lost on me or other CPA/ABVers. But what about our clients or the attorneys representing our clients? They don't care as much about what term the standards say we must use as they do about using a term that sounds stronger and more confident about the end result.

11. Have you ever had one of your reports reviewed by a professional editor/proofreader?

- (a) Yes—30%
- (b) No—70%

If you paid five figures for a valuation report, wouldn't you expect it to be free of spelling errors, typos, and grammatical mistakes? And if you did catch some of these blemishes while reading the report, wouldn't you wonder about what you didn't find? As value pricing expert Ron Baker would say, people don't care about the labor pains—they want to see the baby. Our report is the baby, and all of our labor pains to birth it will be judged (fairly or not) on how the report reads. That 70% of us let something go out the door without proofreading is unprofessional. Here's a goal: start with your template report. At least then you know your starting document is the best it can be, spelling-, typo-, and grammarwise.

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12. Is there someone in your firm qualified to review your reports?

- (a) Yes—65%
- (b) No—35%

While a proofreader will catch the writing errors, only someone with knowledge of valuation can grasp the actual content and gauge that there were no misapplications of valuation approaches, methods, procedures, or data. Again, if you paid five figures for a report, wouldn't you be dismayed to find out there was no quality control step?

13. After taking today's webinar, do you feel confident that your reports are in compliance with industry standards?

- (a) Yes—87%
- (b) No—13%

Given how much standards are beaten into us and how many checklists are floating around to help us, making sure we comply with standards would seem to be the easiest way to stay out of trouble. I think the possible 13% error rate is too high, but, when combined with Question 12, we can't wonder why one or more government agencies want to wade into our profession.

Back to the anecdotal side of things. In an interview with *BVWire News*, here is what former IRS territory manager and now valuation sole practitioner Michael Gregory said about reviewing reports and finding enough errors to typically generate a *four- to six-page paper* of significant comments: "What does this tell me?" he writes in his book, *Business Appraisals and the IRS*. "It tells me that you should have a third party conduct a real review of your work. It should be made a formal part of

the work flow. The review should cover readability as well as technical competency, including math in spreadsheets."²

Final thoughts. Report writing is where our rubber meets the client's road—it's usually the last impression we leave. I also consider report writing to be the final frontier of BV productivity. My experience says we need to do more and do better to: (1) increase our effectiveness so that we are more confident in our conclusions of value; and (2) improve our efficiency so that we are more profitable on every engagement.

I believe most of us have a pretty good idea how our reports stack up in terms of where we're strong, where we're weak—and that can change from one report to the next. But, in general, we know. Which means we know what we have to work on. Still, people ask me how to improve the quality of their reports. The best ways to improve quality is to: (1) learn how to be a better writer; (2) have a proofreader review your report template for grammar, etc.; and (3) have a respected peer review your reports for content. ♦

Rod Burkert, CPA/ABV, CVA is the founder of *Burkert Valuation Advisors* and a long-time instructor for NACVA's *Consultants' Training Institute*. Rod has built a mobile consulting practice by leveraging his professional network and social media, and, since March 2010, he has been traveling full-time throughout the United States and Canada in an RV with his wife and their dogs. See rodburkert.com/consulting to learn more about his report review service.

² "Former IRS Manager Gives Valuation Report Tip," *BVWire News*, Jan. 14, 2014 (www.bvresources.com).