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STANDARD PRACTICES FOR INVESTIGATIVE AND FORENSIC ACCOUNTING ENGAGEMENTS

November 2006

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November 1, 2006

The Canadian Institute of Chartered Accountants (CICA) established the Alliance for Excellence in Investigative and Forensic Accounting (IFA Alliance) in 1998 to implement a specialist certification program for Chartered Accountants practicing in investigative and forensic accounting. The IFA Alliance operates through a Board of Directors which is supported by several committees, including Marketing and Member Services, Education, Certification, and Standards.

The mandate of the IFA Alliance includes the development of Standard Practices to improve the consistency and comparability of practice amongst Chartered Accountants performing investigative and forensic accounting engagements ("IFA engagements"). These Standard Practices for IFA engagements complement previous significant accomplishments of the IFA Alliance, in particular a post-graduate level education program for IFA practitioners and a certification process for Chartered Accountants practicing in the area. The development of Standard Practices is the culmination of many years of work led by the IFA Alliance's Standards Committee, whose role is to set, maintain and update Standard Practices for conducting IFA engagements.

The primary purpose of these Standard Practices is to protect the public by ensuring consistency with a minimum standard of practice to be met by all Chartered Accountants in the performance of IFA engagements. The Standard Practices also provide a framework for the application of professional judgment in IFA engagements and prohibit offensive practices. These Standard Practices are not pronouncements of the CICA's Auditing and Assurance Standards Board or the Accounting Standards Board which are published in the *CICA Handbook*. They will be upheld through the Rules of Professional Conduct of the Provincial Institutes/Ordre of Chartered Accountants.

These Standard Practices complement, rather than reiterate, the Rules of Professional Conduct established by the Provincial Institutes/Ordre of Chartered Accountants. Because the Rules of Professional Conduct address a number of principles, including integrity, due care, confidentiality, conflict of interest and independence, these Standard Practices for IFA engagements do not address these issues. Instead, they focus solely on those practice issues which are specific to the performance of IFA engagements.

All Chartered Accountants performing IFA engagements commencing on or after March 1, 2007 will be required to follow these Standard Practices. To the extent possible, all Chartered Accountants who have IFA engagements currently in progress on March 1, 2007 are also strongly encouraged to ensure that these engagements follow the Standard Practices.

The IFA Board and the Standards Committee of the Alliance for Excellence in Investigative and Forensic Accounting (IFA Alliance) are grateful to the many individuals and groups who commented on the intermediary documents published during the development of these Standard Practices and to the CICA for its support.

Sincerely,

Gary Moulton, CA•IFA
Chair of the Board of the IFA Alliance

Ivor Gottschalk, CA•IFA
Chair, IFA Standards Committee

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Table of Contents

- 100. INTRODUCTION, DEFINITION & APPLICABILITY OF IFA
STANDARD PRACTICES.....1**
 - INTRODUCTION 1
 - DEFINITION OF IFA ENGAGEMENTS 2
 - APPLICATION OF THE DEFINITION 3
 - APPLICABILITY OF IFA STANDARD PRACTICES 4

- 200. ENGAGEMENT ACCEPTANCE.....5**
 - GENERAL.....5
 - IFA PRACTITIONERS UNABLE TO CONTINUE THE IFA ENGAGEMENT5

- 300. PLANNING & SCOPE OF WORK7**
 - GENERAL.....7
 - SUPERVISION.....8

- 400. INFORMATION COLLECTION & ANALYSIS.....9**
 - GENERAL.....9
 - INFORMATION COLLECTION9
 - REASONABLE ASSUMPTIONS 10
 - CONFLICTING INFORMATION & ALTERNATIVE THEORIES 10
 - RELIANCE ON THE WORK OF OTHERS..... 10

- 500. FILE DOCUMENTATION.....12**
 - GENERAL..... 12

- 600. REPORTING14**
 - GENERAL..... 14
 - CONTENTS OF ALL REPORTS 15
 - SPECIAL REPORTING CIRCUMSTANCES..... 16

- 700. EXPERT TESTIMONY17**
 - ROLE OF IFA EXPERT WITNESSES..... 17
 - CURRICULUM VITAE 17

STANDARD PRACTICES FOR INVESTIGATIVE AND FORENSIC ACCOUNTING ENGAGEMENTS

100. INTRODUCTION, DEFINITION & APPLICABILITY OF IFA STANDARD PRACTICES

INTRODUCTION

- .01 Standard practices for investigative and forensic accounting (IFA) engagements have been prepared by the IFA Standards Committee (Committee) of the Alliance for Excellence in Investigative and Forensic Accounting (IFA Alliance), and have been approved by the Board of the IFA Alliance. The role of the Committee is to set, maintain and update standard practices for conducting IFA engagements.
- .02 These are the minimum standard practices that should be met by all chartered accountants conducting IFA engagements (collectively referred to in this document as “IFA practitioners”).
- .03 IFA practitioners should perform all IFA engagements in accordance with the standards of the chartered accountancy profession, including these IFA standard practices and the chartered accountants’ Rules of Professional Conduct established by the Provincial Institutes/Ordre, and any other regulatory and legal requirements that may be applicable.
- .04 IFA standard practices are needed to protect the public interest by ensuring consistency to a minimum standard of practice.
- .05 IFA standard practices are different from IFA engagement procedures. Standard practices relate to the IFA practitioner’s professional skills, the performance of his or her engagement, and the preparation of his or her report. IFA procedures are the specific acts or steps performed by the practitioner to attain his or her objectives in the particular engagement.
- .06 These IFA standard practices are not intended to codify detailed practical rules that will address all matters that may be associated with an IFA engagement. Rather, they are intended to provide conceptual guidance to assist in the application of professional judgment. Wherever possible, they are intended to be principle-based, rather than rule-based, leaving more room for professional judgment when applying such guiding principles to specific circumstances.
- .07 No standard of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. Due to the unique nature of many IFA engagements, the application of professional accounting skills, investigative skills, and an investigative mindset must be customized to the specific circumstances of each engagement. This tailoring requires the repeated application of professional judgment in the determination of what constitutes good practice in a particular case.

DEFINITION OF IFA ENGAGEMENTS

- .08 “Investigative and forensic accounting engagements” are those that:
- (a) require the application of professional accounting skills, investigative skills, and an investigative mindset; and
 - (b) involve disputes or anticipated disputes, or where there are risks, concerns or allegations of fraud or other illegal or unethical conduct.
- .09 “Professional accounting skills” require the following sub-components:
- (a) an understanding of how business activity is documented, recorded, reported, managed and controlled;
 - (b) the ability to identify, obtain, examine and evaluate relevant information;¹
 - (c) the ability to quantify the financial impact of actual or expected transactions or events;
 - (d) the ability to perform and interpret relevant analyses of information;
 - (e) the ability to document and explain business information and the results of the financial analyses for decision-making purposes; and
 - (f) the ability to render relevant and appropriate opinions and conclusions based on the findings and results of the work performed.
- .10 “Investigative skills” require the following sub-components:
- (a) an understanding of the context within which the engagement is to be conducted (for example, the Tribunal process, laws, regulations, contracts or policies relevant to the engagement);
 - (b) the ability to identify, obtain, examine and assess information relevant to the engagement;
 - (c) the ability to analyze and compare various types and sources of information;
 - (d) an understanding of the types of information that would assist in establishing motivation, intent and bias;

¹ For the purposes of these IFA standard practices, information does not become evidence until admitted by a Tribunal as such. Accordingly, these standard practices do not refer to the determination of what constitutes admissible evidence.

“Tribunal” is defined to include any trier of fact including, without limitation, a judge, arbitrator, umpire, commissioner, justice of the peace or other officer or person having by law or by consent of the parties the authority to hear, receive and examine evidence or to conduct any alternative dispute resolution process.

- (e) an understanding of the ways in which information could be fabricated or concealed;
 - (f) an understanding that information collected and the work performed, including the work and information of others,² may become subject to disclosure and be tendered as evidence; and
 - (g) the ability to document and present investigative findings and conclusions for decision-making purposes.
- .11 An “investigative mindset” requires a sceptical attitude in the identification, pursuit, analysis and evaluation of information relevant to each engagement, contemplating that it may be biased, false and/or incomplete. This is applicable in identifying and assessing relevant issues, assessing the plausibility of the underlying assumptions, assessing substance over form, and developing hypotheses for the purpose of addressing the issues under investigation.

APPLICATION OF THE DEFINITION

- .12 Professional accounting skills, investigative skills, and an investigative mindset should each be applied to every IFA engagement; however, not all of their sub-components will be applied in every IFA engagement.
- .13 The IFA Alliance believes that investigative skills are not restricted to investigative engagements, but are also applied in loss quantification and other IFA engagements, although the extent to which investigative skills are applied varies according to the nature of the engagements.
- .14 An investigative mindset is also necessary for all IFA engagements. In dealing with dispute-related engagements, the investigative mindset is employed to assist in determining and evaluating procedures, findings and conclusions. In consulting engagements, the investigative mindset is applied to determine and evaluate the procedures that need to be performed. For example, in an engagement to develop fraud prevention policies, an investigative mindset is applied to establish the process for determining ways in which policies could be violated.
- .15 At its boundaries, a skills-based definition for IFA engagements will likely overlap with definitions for other disciplines, such as assurance, information technology, business valuation, corporate finance, tax, private investigation, and insolvency and restructuring.³ To the extent that such engagements include components that meet the definition of IFA engagements, such components would become IFA engagements and the individuals performing such components must follow these IFA standard practices as well as any professional standards that may apply.

² As defined in 400.14.

³ See also 400.14 – 400.16.

- .16 The IFA Alliance believes the definition will be useful in helping practitioners in other disciplines recognize when they need the skills of IFA practitioners.

APPLICABILITY OF IFA STANDARD PRACTICES

- .17 These IFA standard practices should be applied to all IFA engagements, and to work performed by all individuals on such engagements.
- .18 In the context of this document, “work” means the work of IFA practitioners, including that performed by other individuals, within the domain of the IFA engagement.
- .19 Some professional engagements will include one or more parts that meet the definition of an IFA engagement. In these circumstances, these IFA standard practices should be applied to those parts of the professional engagement that meet the definition.
- .20 These IFA standard practices are not intended to supersede any standards, rules or legislation relevant to the field of expertise pertaining to a specific IFA engagement, and IFA practitioners should refer to these standards, rules or legislation to support their work.
- .21 IFA practitioners accepting IFA engagements in a jurisdiction other than Canada should have adequate knowledge of, and meet the relevant standards and regulatory and legal requirements applicable to, that jurisdiction.

200. ENGAGEMENT ACCEPTANCE

GENERAL

- .01 IFA practitioners should establish the parameters of the engagement with their client⁴ and document these parameters, including their role, the purpose(s) and general scope of the work to be performed, the nature of any report, and, where applicable, the terms and conditions for the IFA engagement. These parameters should be established as part of the initial engagement acceptance.
- .02 Where possible, IFA practitioners should prepare or obtain an engagement letter⁵ for each engagement where the engagement parameters described in 200.01 are documented.
- .03 IFA practitioners should discuss material changes to the parameters of the engagement with the client and document the changes accordingly in a supplementary engagement letter.⁵
- .04 IFA practitioners should have reasonable assurance that the IFA engagement team collectively has the necessary expertise, competencies, resources and time to perform the engagement.
- .05 Where IFA practitioners are aware of circumstances where their independence may reasonably be questioned, they should disclose these circumstances to their client.
- .06 IFA practitioners should not accept an IFA engagement if they expect to be unable to complete the engagement for any reason or if there are any known constraints that would prevent the completion of the engagement in accordance with professional standards and regulatory and legal requirements.

IFA PRACTITIONERS UNABLE TO CONTINUE THE IFA ENGAGEMENT

- .07 If IFA practitioners encounter exceptional circumstances that bring into question their ability to continue performing an IFA engagement, they should:
 - (a) consider their professional responsibilities;
 - (b) consider obtaining legal advice;
 - (c) consider the possibility of withdrawing from the IFA engagement; and

⁴ In the context of these IFA standard practices, “client” means an external third party or the appropriate internal authority.

⁵ For internal or legislative engagements, the engagement letter may be replaced by a “memo to file” which should include the items described in 200.01.

- (d) if they withdraw, deliver to the client all information including all papers and property originally provided by the client and any other information reasonably required by the client in respect of the subject matter of the engagement, promptly render an account for outstanding fees and disbursements, and reasonably co-operate with any successor IFA practitioner(s).

300. PLANNING & SCOPE OF WORK

GENERAL

- .01 The IFA engagement work should be adequately planned.
- .02 Each IFA engagement is unique; accordingly, the planning for each engagement should be customized and evolve as the engagement progresses, requiring the repeated application of professional judgment:
 - (a) identifying the objectives of the engagement;
 - (b) obtaining sufficient understanding of the circumstances of the engagement and the events giving rise to the engagement;
 - (c) obtaining sufficient understanding of the context within which the engagement is to be conducted (for example, any Tribunal process, laws, regulations, contracts or policies relevant to the engagement);
 - (d) identifying any limitation of scope where access has been denied or information cannot be obtained or provided; and
 - (e) evaluating the resources necessary to complete the work, and identifying a suitable engagement team.
- .03 When planning the extent of the scope of work for a particular IFA engagement, IFA practitioners should consider:
 - (a) developing hypotheses, as applicable, for the purpose of addressing the circumstances and context of the engagement;
 - (b) identifying the approach(es), procedures and techniques that will allow the practitioners to meet the engagement objectives within the constraints of time, cost and availability of information;
 - (c) identifying financial and other information relevant to the engagement, and developing a strategy to acquire such information; and
 - (d) determining the impact of the nature and timing of any reporting requirements.
- .04 IFA practitioners performing IFA engagements that require expertise beyond their own should inform the client's counsel and/or the client at the earliest opportunity of the need to retain such expertise.

- .05 IFA practitioners should assess the need to obtain independent legal advice on specific matters pertaining to an IFA engagement, including the current state of the law and any relevant contractual or legal requirements/precedents specific to the jurisdictions in which they are working.

SUPERVISION

- .06 IFA practitioners may delegate portions of IFA engagements to appropriately qualified assistants, agents or subcontractors.
- .07 IFA practitioners should properly supervise and be responsible for the work of their assistants, agents or subcontractors. The nature, timing and extent of such supervision will vary with the complexity of the engagement and the experience of the persons assigned.

400. INFORMATION COLLECTION & ANALYSIS

GENERAL

- .01 IFA practitioners should use an investigative mindset⁶ in the identification, pursuit, analysis and evaluation of information relevant to each IFA engagement, contemplating that it may be biased, false, unreliable and/or incomplete.
- .02 Throughout an IFA engagement, IFA practitioners should use an investigative mindset to assess the timing, nature and extent of the approach(es), procedures and techniques to be used.
- .03 The type of information obtained may relate to the facts pertaining to the underlying issues of the IFA engagement as well as factors relating to motivation, intent and bias.
- .04 IFA practitioners should consider the relevance of all information that arises during the course of an IFA engagement.
- .05 IFA practitioners should identify, analyze, assess and compare all relevant information, assess substance over form, and develop and test, as needed, hypotheses for the purpose of evaluating the issues in the IFA engagement.

INFORMATION COLLECTION

- .06 IFA practitioners should be cognizant of and, where appropriate, maintain the chain of custody, including origin, possession and disposition of all documents and other material,⁷ particularly originals, relevant to an IFA engagement.
- .07 IFA practitioners should establish appropriate control and management procedures to safeguard the confidentiality, integrity and preservation of all documents and other material that come into their possession or are created during the course of an IFA engagement.
- .08 Where practical, IFA practitioners should maintain copies of all documents and other materials relevant to their findings and conclusions.
- .09 IFA practitioners should maintain an appropriate record of all relevant information received orally.

⁶ "Investigative mindset" is defined in 100.11.

⁷ Including, where applicable, electronic documents, meta-data and computer hardware, storage devices and media as required under any applicable statute, rules of civil procedure, guidelines and practice directions governing the discovery and preservation of electronic documents.

REASONABLE ASSUMPTIONS

- .10 IFA practitioners should evaluate the reasonableness and consistency of all estimates and assumptions having regard to the IFA practitioners' competence, expertise and other available relevant information.
- .11 Where IFA practitioners receive estimates and assumptions that are outside of their competence and expertise, and IFA practitioners intend to rely on such estimates and assumptions, they should consider the reasonableness of those estimates and assumptions.

CONFLICTING INFORMATION & ALTERNATIVE THEORIES

- .12 IFA practitioners should review all information received during an IFA engagement, and consider its relevance, reliability, reasonableness, completeness and consistency with other known engagement information.
- .13 IFA practitioners should consider and address reasonable alternative theories, approaches and methodologies that may be relevant to their work.

RELIANCE ON THE WORK OF OTHERS

- .14 During an IFA engagement, IFA practitioners may rely on persons or firms possessing expertise relevant to the IFA engagement (collectively referred to in these IFA standard practices as "others").
- .15 IFA practitioners should evaluate the nature and level of intended reliance on the work and/or information of others. The results of this evaluation will impact the extent to which the following factors need to be assessed:
 - (a) their knowledge, expertise and competence relevant to the IFA engagement;
 - (b) their business and professional reputation;
 - (c) their objectivity and independence in relation to the IFA practitioners' requirements;
 - (d) the source of their information;
 - (e) the overall reasonableness of their assumptions, methodologies, findings and conclusions; and
 - (f) the relevance of their work and information to the engagement objectives.

If this evaluation identifies inadequacies or a high level of risk, IFA practitioners should perform additional procedures to address or resolve such factors. If IFA practitioners are not satisfied with regard to these factors, they should either not rely on the work of the individual(s) concerned or disclose their concerns.

- .16 There should be an appropriate understanding between IFA practitioners and others on whom they are relying concerning their respective roles and responsibilities relating to the IFA engagement. IFA practitioners and these others should communicate sufficiently to minimize misunderstandings that could cause practitioners to misinterpret the work and/or information of others.

500. FILE DOCUMENTATION

GENERAL

- .01 IFA practitioners' working papers should contain or have a reference to all information used and relied upon in carrying out an IFA engagement, including the following documents⁸ or summaries thereof which would usually be retained on file:⁹
- (a) research;
 - (b) accounting, banking and other business records, and agreements;
 - (c) pleadings, criminal or regulatory charges, and other legal claims;
 - (d) affidavits and discovery transcripts;
 - (e) engagement letters and other correspondence;
 - (f) reports¹⁰ issued;
 - (g) schedules and calculations, including all necessary explanations;
 - (h) notes and other recordings of interviews, meetings and discussions;
 - (i) documentation of key issues considered and key assumptions made;
 - (j) the approach(es) taken and specific techniques used;
 - (k) a record of the nature, extent and timing of procedures performed and the results of such procedures;
 - (l) a record of the identities of the individual(s) performing the IFA engagement and a record that the work performed by assistants was supervised and reviewed; and
 - (m) where the work of others is relied upon, their findings and conclusions.
- .02 The form and content of individual working papers are affected by matters such as the terms of the IFA engagement, including the nature of the report required, the nature and complexity of the subject business, and the needs in the particular circumstances for supervision and review of the work performed by any assistants.

⁸ Including documents that may ultimately be privileged.

⁹ Such retention may be in any format, including electronic format, or in the report itself.

¹⁰ Due to evolving case law, the issue relating to the retention of draft reports (as defined in footnote 11) has not been addressed at this time.

- .03 While it is neither necessary nor practical for IFA practitioners to document in their working papers every observation, consideration or conclusion, practitioners need to document matters that, in their professional opinion, are important to support their work and/or were relevant in reaching their findings, opinions and/or conclusions.
- .04 Working papers should be maintained in an organized manner.
- .05 IFA practitioners should adopt reasonable procedures for safe custody of working papers and retain them for a period of time sufficient to meet the requirements of the IFA engagement and to satisfy any pertinent legal requirements of records retention.

600. REPORTING

GENERAL

- .01 IFA practitioners may communicate their findings and conclusions in a number of different forms:
- (a) written, oral or visual;
 - (b) draft,¹¹ interim or final;
 - (c) point-form or narrative; and
 - (d) formal, affidavit or letter form.
- To the extent that such communication may be construed by the recipient to be a report based on the terms of the engagement, these are collectively referred to in these IFA standard practices as “reports”. All such reports should be governed by the IFA standard practices set out below.
- .02 When assessing the nature of the report to be provided, IFA practitioners should consider the:
- (a) purpose and use contemplated for the report;
 - (b) standard practices applicable for the IFA engagement including, where appropriate, Tribunal proceedings; and
 - (c) quality, quantity and reliability of available information.
- .03 Prior to the issuance of the report, IFA practitioners should be satisfied that there is sufficient support for the content of the report, including any findings and conclusions reached.
- .04 IFA practitioners should present their findings and conclusions in an objective and unbiased manner.
- .05 IFA practitioners should confine their findings and conclusions to subject matter, principles and methodologies within their competence, including their knowledge, skill, experience, training and education.
- .06 IFA practitioners should consider all relevant information that could impact their findings and conclusions.

¹¹ For the purpose of these standard practices, a draft report is one that has been issued to the client or to the client’s representative.

- .07 If IFA practitioners become aware of their names being associated with false or misleading information:
- (a) before the distribution of the information, they should request that such information be corrected; and
 - (b) after the distribution of the information, they should request that appropriate action be taken to correct the misinformation.

If appropriate action is not taken, practitioners should consider taking alternative action, including obtaining legal advice.

CONTENTS OF ALL REPORTS

- .08 All reports should include the following information:
- (a) the name(s) and professional designation(s) of the IFA practitioners and/or the firm responsible for the report;
 - (b) who retained the IFA practitioner(s) and to whom the report is directed;
 - (c) the date of the report;¹²
 - (d) the effective date for the findings and conclusions, if different from the date of the report;
 - (e) the objectives and circumstances of the IFA engagement and the purpose for which the report is being prepared;
 - (f) identification of the documents and sources of information relied upon to prepare the report;¹³
 - (g) the extent of reliance on the work of others;
 - (h) the techniques and procedures performed when preparing the report, including a description of the approach(es) and rationale for selecting such approach(es);
 - (i) any underlying assumptions and the reasons for relying on such assumptions;
 - (j) the definition(s) of any technical terms and interpretations used in the report;
 - (k) the findings and conclusions reached and any supporting analyses and charts;

¹² The date used should be the last date when conclusions were reached concerning the report.

¹³ This type of information is generally reported in the Scope of Review section of the report.

- (l) sufficient information to enable the user to relate the findings and conclusions to the supporting analyses, information and documents;
- (m) any restrictions on the use of the report; and
- (n) any scope or other limitations affecting the findings and conclusions.

SPECIAL REPORTING CIRCUMSTANCES

- .09 Where the independence of the IFA practitioner may reasonably be questioned, the following should be disclosed:
 - (a) the role of the practitioner;
 - (b) the relationship of the practitioner to any of the involved parties; and
 - (c) the IFA practitioners' conclusion regarding whether they are independent.
- .10 Where different approaches adopted yield different results, the report should include the range of such results and, where possible, provide information to facilitate a conclusion.
- .11 When relevant information is unavailable or relevant analyses are unable to be performed, the limitation(s) on the scope of the work, the reasons for the limitation(s), and the potential impact on the findings and conclusions, and any other qualifications, should be disclosed in the report.

700. EXPERT TESTIMONY

ROLE OF IFA EXPERT WITNESSES

- .01 “IFA expert witnesses” are IFA practitioners who provide expert testimony to a Tribunal.¹⁴ Tribunals generally allow expert testimony to provide impartial and objective assistance in understanding matters beyond the expertise of the trier of fact. Given the significance of such reliance, Tribunals have consistently required of expert witnesses a level of transparency in their decision-making and impartiality in their testimony that satisfies the requirement that they not be seen as advocating for one side, i.e., that their primary duty is to the Tribunal.
- .02 IFA practitioners should comply with the following IFA standard practices when intending to serve as IFA expert witnesses:
- (a) Expert witnesses have a duty to provide independent assistance to the Tribunal by way of objective unbiased testimony in relation to matters within their expertise.
 - (b) Expert witnesses should make it clear when a particular question or issue falls outside their expertise.
 - (c) Expert witnesses should never assume the role of an advocate.
 - (d) Expert witnesses should take reasonable steps to provide the Tribunal with the information, assumptions on which their testimony is based, and any limitations that impact their testimony.
- .03 IFA practitioners should follow all IFA standard practices when giving their oral testimony or provide suitable caveats regarding any limitations in their ability to do so.

CURRICULUM VITAE

- .04 Curricula vitae used by IFA expert witnesses should accurately represent their qualifications, including their education, career history and professional experience relevant to the matters at hand.

¹⁴ For the purposes of these IFA standard practices on the role of IFA expert witnesses, “Tribunal” has the same meaning as in footnote 1 and the IFA standard practices in this section refer to proceedings in which an IFA practitioner is giving evidence under oath or by affirmation.

