

# AxiomForum

## Financial models: Design with third-party empathy

### Abstract

Creating a financial model is a fundamental skill of a forensic accountant and expert witness, yet a common problem with financial models is that they are not created with the end user in mind.

At Axiom we recognise that the financial models we create are often prepared in the context of litigation, meaning that they are likely to be reviewed by other forensic accountants, lawyers and potentially a judge.

We consider each of these parties to be potential end users of our financial models and, in light of this, endeavour to design and structure financial models so the workings, assumptions and results can be easily understood as a standalone document.

In this edition of the Axiom newsletter we address simple rules you can apply to ensure your end users are not lost in the labyrinth of yet another spreadsheet.

*If a financial model  
can't be understood,  
why should an end  
user trust it?*

As well as causing frustration and errors, a poorly designed financial model may be put aside by the end user.

When creating a model, it's easy to fall into the trap of poor design as new worksheets are added, multiple scenarios built and links are made to multiple sources.

When a financial model can't be easily understood, why should an end user trust it?

This is why the design of a financial model is of paramount importance.

In preparing a financial model there are two questions you should ask first:

- Who is the end user?
- What is the purpose of the financial model?

You'll find that the answer to one of these questions often leads to the answer to the other. For example, the most likely end users of the financial models prepared by forensic accountants are our instructing solicitors, barristers, judges and other forensic accountants. In our experience these end users won't simply be interested in the 'output' page but will want to understand and challenge all aspects of the calculation, including the inputs and assumptions and the methodology applied.

A poorly designed model can frustrate and overwhelm the most experienced end user. To help the reader understand, try to address the following criteria in each worksheet:

- Its purpose;
- Any assumptions made;
- The workings undertaken;
- The source documents relied on and where to find them; and
- The results and how they are presented.

Applying the suggestions above to your financial model should leave the end user in no doubt as to what is being analysed and why the analysis is being undertaken.

*This is why the design of a financial model is of paramount importance*

Once you have done that, you can complete the required calculations. It is equally important to approach these in a logical, step-by-step manner.

Working out calculations step-by-step doesn't always come naturally when faced with a spreadsheet. The impulse seems to be to cram a number of calculations, or even scenarios, into one cell.

The problem with this approach, particularly when preparing a report for court, is that the model is often provided in hard copy during the trial. This means not only that the end users cannot see the inputs, formulae applied or any implied assumptions but that it is difficult to explain to the court how calculations have been undertaken.

If the financial model is going to be printed, it's also a good idea to include gridlines, and row and column headings. Simple steps like this can help prevent a lot of confusion, and save a lot of time, when trying to explain a spreadsheet. Remember that if the only difference between two models is the formatting, such as illegible print size or missing row or column headings, the court can be left with a simple choice.

By providing detailed assumptions, step-by-step calculations and a clear layout, you can cut down the time the reader needs to spend to understand a financial model, and alleviate much of the difficulty and frustration involved in deciphering complex calculations.

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