

Canadian Matrimonial Litigation Requires Reliability Testing for Unaudited Financial  
Statements

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by:

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Approval Page

Canadian Matrimonial Litigation Requires Reliability Testing for Unaudited Financial

Statements

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## Abstract

Accountants are not taking responsibility for Unaudited Financial Statements (UFSs) that are often used in matrimonial litigation for income valuation of self-employed individuals. There is a gap in the expectation between what Canadian CPAs believe their responsibility is for validation testing of UFSs and the litigation users perceive was done. Without verification testing, the potentially errant financial statements can be used to impute income for spousal and child support calculations. The purpose of this exploratory quantitative study was to investigate how matrimonial litigation users evaluate the reliability and potential usefulness of UFSs when created by CPAs and non-CPAs. The study incorporates observational, survey based and cross-sectional approaches to sampling the matrimonial lawyer population in Ontario, Canada. Litigation users in matrimonial disputes have the perception that validation testing was done that in fact was not. It was found CPA created UFS were on average 1.52 units more reliable when compared to non-CPA created UFS with a 95% confidence interval of 0.91 to 2.13. The litigation users perceived a difference in the level of reliability of UFSs for use within matrimonial disputes. Yet, the mean reliability between CPA and non-CPA created UFSs were 5.96 and 4.44 respectively. The findings from the survey revealed there is an expectation gap between perceptions of matrimonial litigation lawyers and CPAs as to the level of verification testing performed on UFSs for reliability. A future study into what CPAs currently perceive the uses of UFSs are in litigation may be beneficial. The survey findings also revealed there is a belief that non-CPA created UFSs may be used in matrimonial litigation. This study contributes to a better understanding of user's belief about validity and belief and perception of reliability of UFSs because a CPA created them within the matrimonial litigation process that relies upon these statements.



## Acknowledgements

My academic success is made possible by the support and encouragement of my family, friends and colleagues, this was definitely a team effort! I especially want to thank my committee members for all their dedication and support to my academic success. Thank you to all!!

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## Chapter 1: Introduction

There is little in the body of academic accounting literature, or practice by accountants, that correlates the process of creating unaudited financial statements (UFSs) and the legal process that relies upon UFSs income declarations for matrimonial litigation support in Canada. In general, accountants are not taking responsibility for UFS credibility to the extent that users may perceive, yet users may perceive creditability in the statements as they are created by a Chartered Professional Accountants (CPA)s in Canada (Gregory, 1978; Love & Manisero, 2017). There is an ethical and professional responsibility outlined in the CPA Canada Handbook for any licensed public accountant performing UFSs engagements, both in the compilation also known as Notice to Reader and Review engagements (Chartered Professional Accountants Canada, 2016). Compilation engagement is where management of the business unit (entrepreneurial business owners) provides the financial information to the CPA that places it in the appropriate template (Chartered Professional Accountants Canada, 2016). A review engagement is when management of the business unit (entrepreneurial business owners) provides financial information and the CPA performs some basic testing prior to being entered in the template (Chartered Professional Accountants Canada, 2016). Management creates the information contained in the UFSs (Seidler & Benjes, 1967; CPA Quebec, 2017); therefore, accountants cannot take responsibility. Notionally, the accounting profession may believe that as no opinion is expressed (Dippoid, 1976, CPA Quebec, 2017), no responsibility to audit information for accuracy exists, and they have no liability associated with UFSs (Chazen & Solomon, 1972; Chartered Professional Accountants Canada, 2016).

When individuals rely on a financial statement they become the *users* of the statements. The view of creditability of the information contained in financial statements unaudited or

audited are based on what a user perceives the value of the information to be and is based on a variety of factors, including the fact a CPA created the statement (Esplin, Jamal, & Sunder, 2014). The perception of reliability based on tests for accuracy and compliance with Generally Accepted Accounting Principles (GAAP) verses actual or verified reliability may create issues when the statements contain errors, intentional or nonintentional. This is of particular importance when UFSs are relied upon in situations such as in matrimonial litigation (Foulidis v. Foulidis, 2016).

### **Statement of the Problem**

There was a problem or a gap in the expectation between Canadian CPA responsibilities in the creation of UFSs and user perceptions or valuation of validity (Bedard et al., 2012). Humpherys et al. (2011) found CPAs were not taking responsibility for the accuracy of provided UFSs (Landes & Michael, 2017). Despite the legal need, the industry expectations for accuracy, and legal value of UFSs there existed very little in the body of academic accounting literature that correlated the accounting process for the creation of UFSs and the matrimonial litigation process that relied upon these financial statements. These potentially errant financial statements are used to impute income for spousal and child support purposes resulting in a negative legal and financial impact in litigation. The specific problem was that the triers of fact, those responsible for making the legal decisions in matrimonial disputes, relied on UFSs' that may contain errors, deliberate misrepresentations, or aggressive tax minimization strategies manipulated to lower the amount owed in spousal and child support payable by the entrepreneur spouse. A possible cause of this problem is there is no regulatory requirement for private firms to audit information and they often do not see the cost or benefit of having their statements audited (Cassar, 2011). Additionally, the Canadian Family Law Act does not require the business

financial statements produced by the entrepreneur spouse to be audited and verified (Government of Canada, 2016). The researcher in this study sought to explore user perceptions of CPAs and their role in the implied accuracy of UFSs needed to clarify earnings in matrimonial litigation.

### **Purpose of the Study**

The purpose of this exploratory quantitative study was to investigate how matrimonial litigation users evaluated the reliability and potential usefulness of UFSs created by CPAs in comparison to those created by non-CPAs. The purpose was to conduct a descriptive analysis of matrimonial litigation in Ontario, Canada related to user perceptions of reliability in UFSs when a CPA is involved. This researcher, in this study sought to assess whether users perceive accuracies of UFSs and whether they should be used in matrimonial litigation if created by CPAs.

The specific research objectives of this research were to first, determine if users of CPA created UFSs perceive UFSs to have a greater level of reliability than non-CPA created statements. Second, to determine what users of UFSs perceived the level of reliability to be when created by a CPA. Third, to determine if users of UFSs perceived that accuracy tests were performed by the CPA. The final objective of this research was to examine user perceptions of a UFSs for matrimonial support disputes.

There existed some dated research in the field of accounting for the area of user's perceptions of audited financial statements (Gray, Turner, Coram, & Mock, 2011), yet limited research existed concerning user's perceptions of UFSs. The existing body of research, also dated, is mainly centered and focused on the expectation gap involving audited financial statements (Gray et al., 2011). The researcher in this study sought to contribute to a better understanding of

user's belief about validity and perception of reliability of UFSs because a CPA created them within the matrimonial litigation process that relies upon these statements.

### **Theoretical Framework**

There is a limitation for relevant and applicable theory, relational to this specific research topic, yet this study fell within two main disciplines, specifically, behavioral economics and social psychology. As this research sought to address and explore user perceptions about CPA produced UFSs the following theoretical frameworks apply: information manipulation, social learning and exchange; self-regulation and laissez-faire; and principal agency theories. There was little in the existing body of research that joined litigation and accounting within combined or comparative contextual roles, therefore the theoretical frameworks being linked are relatively new concepts.

**Information Manipulation Theory.** McCornack (2014) posited Information Manipulation theory as a propositional method of addressing interpersonal communication and relational deception through communication methods. Company management are the creator of the information used within the financial statements that are unaudited and unverified; and have the power to portray organizational financial health in the manner that best suits their needs and objectives (Ehrlich & Williams, 2011). When organization's management wants to portray financial information that is not accurate, deceptive, or seek to distort information, Grice's Conversational Implication theory frames this condition (Humpherys, Moffitt, Burns, Burgoon, & Felix, 2011). CPAs who do not audit UFSs for validity become complicit in furthering disinformation. Grice's Conversational Implication theory posits purposeful falsification may distort any of four maxims that are expected to occur in any successful information transfer (Humpherys et al., 2011). McCormack (1992) built on Grice's (1975) work of the four maxims,

which are: quantity, quality, relevance, and manner of communication (Hubbell, et al., 2005). The quantity maxim is violated when relevant information, is withheld in part or whole with the intent to deceive (Hubbell et al., 2005). Hubbell et al. (2005) noted for Grice's quality maxim distortion occurs when, the information relayed is false or when the information is significantly distorted. The relevance maxim is violated when only selective information about a situation is disclosed (Hubbell et al., 2005). The manner maxim is violated when the communication is not provided in a brief or orderly fashion or ambiguity/vague multiple message meanings seek to deceive (Hubbell et al., 2005).

Self-employed entrepreneurs are often the organizations management (Engstrom & Holmlund, 2009). Management provide the information the CPA will use to create the financial statements (CPA Quebec, 2017). Entrepreneurs being risk takers may be more willing to take the chance in violating the maximus because the cost verses benefit appears to be in their favor (Barber, 2016). They may benefit for showing lower financial income and feel there is a low risk of being caught (Barber, 2016). When a CPA is not taking responsibility for the financial numbers and only the "formatting" (Chartered Professional Accountants Canada, 2016), they become the conduit that the entrepreneur spouse may use to give their financial earnings statement creditability (Humpherys et al., 2011). Information Manipulation theory alone however is not enough to get the UFSs accepted in the matrimonial litigation process. The addition of social learning theory helps CPAs to accept information that they may, under other circumstances not accept.

**Social Learning and Exchange Theories.** Social learning of ethical behavior requires that the *giver of information* be and act with creditable moral behavior (Brown & Mitchell, 2010). Social Information Processing theory conjectures followers learn to accept unethical behavior because it comes from a role model or someone in a place of implied authority (Brown & Mitchell, 2010). Despite knowing that user's perceptions of reliability are existent a CPA relies on their regulations and guiding principles for creation of UFSs not seeing the need to be responsible for verification of the information that the entrepreneur provides (Chartered Professional Accountants Canada, 2016; Seidler & Benjes, 1967). The acceptance by the CPA of the data to create the UFSs does not necessarily mean the litigation process will accept the UFSs, another aspect is needed, and that is social exchange theory. Social exchange theory has a follower viewing the unethical behaviors of the leader as the, *quid pro quo*, and their perception of the relationship to be imbalanced which in turn affects the follower's commitment to and work attitudes (Brown & Mitchell, 2010).

Psychological Contract theory developed from social exchange theory assists in motivating individuals to misconduct, where an individual will work for reciprocal expectations (Ermongkonchai, 2010). These types of follower behaviors exist in users of UFSs and are created by CPAs who would be viewed in the leader role, for example, in the courts when the court blindly accepts financial information in CPA created UFSs because of perceived accuracy testing. By the litigation process accepting UFSs' formatted in a professional manner the courts rely on social exchange theory to believe UFSs have some amount of accuracy testing executed.



**Self-regulation Theory.** Social exchange theory can be compiled with self-regulation theory to increase a CPAs distancing from responsibility with the accuracy of the UFSs they create. Social exchange theory describes when a leader has removed themselves from the consciousness of the morality of the act to rationalize about what they are doing (Brown & Mitchell, 2010). This theory applies when the CPA has removed themselves for responsibility of the information contained in the UFS they created because regulations let them (Chartered Professional Accountants Canada, 2016). Self-regulation theory coupled with laissez-faire approaches when the CPA sees no responsibility in the accuracy therefore result in CPA simply formatting the numbers as a bookkeeper would (Gregory, 1978).

### **Nature of the Study**

The researcher in this study sought to investigate how Canadian matrimonial litigation users rely on UFSs statements and their perception of accuracy when they are created by a CPA. The approach used to answer the study questions was a quantitative survey. The study was primarily quantitative in nature and incorporated an observational survey based on a cross-sectional approach. Participants were lawyers practicing in matrimonial law in Ontario, Canada. The participants were a representative sample of the lawyer population practicing family law in Ontario, Canada. It is anticipated other researchers may replicate the study and methodology in other geographical regions using civil law. The researcher electronically administered the survey to the participants. The data analysis portion of the research consisted of two approaches through both: descriptive and inferential statistics. The survey contained multiple questions, with key metrics testing the perceived reliability of UFSs (Appendix A).

## Research Questions

**RQ1.** Do users of UFSs created by Canadian CPAs used in matrimonial disputes perceive them reliable (reliability level above 5) and at what level of reliability?

**RQ2.** Do users of UFSs created by non-CPAs used in matrimonial disputes perceive them reliable (reliability level above 5) and at what level of reliability?

**RQ3.** What do users of UFSs perceive as the level of reliability of UFSs, when created by a Canadian CPA versus a non-CPA for use within matrimonial disputes?

## Hypotheses

**H1<sub>0</sub>.** Users of Canadian CPA created UFSs do not perceive UFSs reliable for use within matrimonial disputes.

**H1<sub>a</sub>.** Users of Canadian CPA created UFSs perceive UFSs reliable for use within matrimonial disputes.

**H2<sub>0</sub>.** Users of non-CPA created UFSs do not perceive UFSs reliable for use within matrimonial disputes.

**H2<sub>a</sub>.** Users of non-CPA created UFSs perceive UFSs reliable for use within matrimonial disputes.

**H3<sub>0</sub>.** Users of Canadian CPA and non-CPA created UFSs perceive no difference in level of reliability of UFSs for use within matrimonial disputes.

**H3<sub>a</sub>.** Users of Canadian CPA and non-CPA created UFSs perceive the difference in level of reliability of UFSs for use within matrimonial disputes.

## Significance of the Study

The researcher sought to add to the body of knowledge in this area which is sparse. It is believed that this research is the first that empirically evaluated the perceptions of reliability for

UFSs by matrimonial litigation users and the UFS's actual reliability. The researcher sought to bring awareness to matrimonial litigation users and the accounting profession that create UFSs of the expectation gap that currently exists.

There is a heavy reliance on production of business financial statements for entrepreneurs involved in matrimonial disputes in Canada (Government of Canada, 2016). This reliance does not specify the level of verification needed for the production. When the divorcing entrepreneur presents UFSs their accuracy is not tested (Chartered Professional Accountants Canada, 2016) unless they are challenged. A tier of fact will use the produced UFSs to impute spousal and child support (Government of Canada, 2016) that could ultimately be biased for the receiving spouse. Both lawyers and tiers of fact will find it useful if there is some mandatory testing done to financial statements prior to acceptance into the litigation process. This will assist in a fair and equitable settlement of the financial matter minimizing the need for forensic accounting which can become cumbersome, costly and create additional stress on the litigating parties.

It is hoped the findings of this study will provide awareness that may influence future matrimonial litigations relying on UFSs. The researcher in this study sought to provide CPAs with a better understanding of how their professional persona is relied on for financial statements with impressions of accuracy testing despite there not being any done. The awareness provided by this research ideally bridges existing research in the accounting and litigation areas.

### **Definition of Key Terms**

**Compilation/Notice to Reader Engagement.** The financial statements are considered unaudited and can be created by a CPA and non-CPA (Moroney et al., 2012; Landes & Michael, 2017). When a CPA has a compilation engagement, there is neither expectation nor responsibility to audit the information or test it for accuracy and/or compliance with Generally

Accepted Accounting Principles (Moroney, Campbell, Hamilton, & Warren, 2012). The financial information is provided by management and formatted to a standard template by the creator (Moroney et al., 2012).

**Expectation Gap.** A user's perception of assurances provided verses a creator's (Bedard et al., 2012). In this study, expectation gap is related to assurances of reliability that users perceive verses what the CPA created UFSs have.

**Financial Statement.** A financial statement is a set of documents that provide insight into a company's financial position (Hughes & Fisher, 2017). Normally they contain information about the income earned for a period of time, the assets, liabilities and equity values at a specific date (Hughes & Fisher, 2017). The financial statements contain information that is suppose to be precise, such as, balance of cash, yet also contains estimates such as depreciation value of a building (Hughes & Fisher, 2017).

**Materiality.** An amount or issue is considered material if it would affect the economic decision a user of the financial statement would make (Hughes & Fisher, 2017). For example, if the income was shown at a loss and profit yet the business earns more and less income, the omission for this study is considered material as it would affect the amount of support that a self-employed individual would pay.

**Review Engagements.** The CPA creates UFSs with a rudimentary level of assurance that on the balance of probabilities there is no material misstatement presents (Moroney et al., 2012). Unlike an audited financial statement, the balance of probabilities is dependent on the CPA communicating with management inquiring about compliance with GAAP, balances, estimates used and comparing to industry benchmarks (Moroney et al., 2012).

**Unaudited Financial Statement (UFSs).** UFSs are created in template format, normally based on management provided trial balance, yet not necessarily tested for accuracy (Chartered Professional Accountants Canada, 2016). There are two types of engagements for UFSs: Compliance (issuing a Notice to Reader statement) and Review (Chartered Professional Accountants Canada, 2016).

**User.** For the context of this study a user is a family law practitioner or trier of fact in Ontario, Canada.

### **Summary**

Canadian entrepreneurs involved in matrimonial litigation have a responsibility to provide their businesses' financial statements for the calculation of support they will have a duty to pay (Government of Canada, 2016). The divorce act does not specify the type of financial statements to be provided. Often entrepreneurs will create UFSs as they are cheaper to produce (Tedds, 2010). The problem that exists is there is an expectation gap between the Canadian CPA's responsibilities in the creation of UFSs and the litigation user's perceptions of validity testing performed (Bedard et al., 2012; Landes & Michael, 2017).

## Chapter 2: Literature Review

This quantitative study was designed to investigate the perceptions of matrimonial litigators on the reliability of UFSs used in Canadian matrimonial litigation proceedings. There was no foundational peer reviewed research located that comparatively analyzed accounting and litigation. Despite the legal need, the industry expectations for accuracy, and legal value of UFSs, there exists very little in the body of academic accounting literature that correlates the accounting process for the creation of UFSs and the matrimonial litigation process that relies upon these financial statements. This study sought to contribute to the sparse existing literature by seminally testing user perception verses reality of reliability for UFSs and their use in matrimonial litigation.

There is a problem or a gap in the expectation between CPA responsibilities in the creation of UFSs and user perceptions or valuation of validity (Bedard et al., 2012). Humpherys et al. (2011) found CPAs are not taking responsibility for the accuracy of provided UFSs due to accountants believe that the preparation and presentation of financial information are the responsibility of the business unit's owners. These potentially erred financial statements can be used to impute income for spousal and child support purposes resulting in a potentially negative legal and financial impact in for the party seeking support (Wakeley v. Wakeley, 2015).

The specific problem is that the triers of fact, those responsible for making the legal decisions in matrimonial disputes, rely on CPA created UFSs' accuracy, yet that may contain errors, deliberate misrepresentations, or aggressive tax minimization strategies manipulated to lower the amount owed in spousal and child support payable by the entrepreneur spouse (Prevost v. Prevost, 2017). A possible cause of this problem is there is no regulatory requirement for private firms to audit information and they often do not see the cost or benefit of having their

statements audited (Cassar, 2011). Additionally, the Canadian Family Law Act does not require the business financial statements produced by the entrepreneur spouse to be audited and verified (Government of Canada, 2016). This study sought to explore user perceptions of CPAs and their role in the implied accuracy of UFSs needed to clarify earnings in matrimonial litigation.

The literature review begins with a brief explanation and history of matrimonial disputes involving self-employed individuals known also as entrepreneurs using UFSs for income valuation. The review then describes the expected disclosure a self-employed individual would use for income validation. Next, the examination of existing literature pronounces who are considered users of financial statements, what are the accounting associations' requirement for accountants to produce UFSs, the relationship between the accountant and their client, and the characteristics of UFSs produced by CPAs. The literature review concludes with a discussion on self-employed individuals being deceptive with financial declaration.

**Documentation.** Northcentral University's access to online databases Proquest, LexisNexis, EBSCO and Science Direct were the primary sources for the literature included in this review. Additional data sources included search engines such as: Google and Google scholar to identify verifiable sources. Search parameters included the following keywords and combinations, for Canada and the United States: self-employed and matrimonial litigation, entrepreneur's financial statements, unaudited financial statements, financial statements, declaration of income matrimonial disputes, and income valuation for self-employed individuals in matrimonial disputes. The search for key words generated a sparse list of dated articles. Several articles were seminal and peer reviewed. Additionally, information was sought from professional sites, such as: American Institute of Chartered Public Accountants, Certified Professional Accounts of Canada, Ontario Bar Association, and Government of Canada. Finally,

Ontario, Canada applicable current case law was reviewed on the Superior Court of Justice, CanLII website.

### **Theoretical Framework**

There is a limitation for relevant and applicable theory, in relation to this specific research topic. Yet this study falls within two main disciplines, specifically, behavioral economics and social psychology. As this research sought to address and explore user perceptions about CPA produced UFSs the following theoretical frameworks apply: information manipulation, social learning and exchange; self-regulation and laissez-faire; and principal agency theories. There is little in the existing body of research that combines litigation and accounting within collective or comparative contextual roles, therefore the theoretical frameworks being linked in this study are relatively new concepts.

**Information Manipulation Theory.** McCormack (2014) posited Information Manipulation theory as a propositional method of addressing interpersonal communication and relational deception through communication methods. Company management are the creator of the information used within the financial statements that are unaudited and unverified; and have the power to portray organizational financial health in the manner that best suits their needs and objectives (Ehrlich & Williams, 2011).

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2010). Social Information Processing theory conjectures followers learn to accept unethical behavior because it comes from a role model or someone in a place of implied authority (Brown & Mitchell, 2010). Despite knowing that user's perceptions of reliability are existent a CPA relies on their regulations and guiding principles for creation of UFSs not seeing the need to be responsible for verification of the information that the entrepreneur provides (Chartered Professional Accountants Canada, 2016; Seidler & Benjes, 1967). The acceptance by the CPA of the data to create the UFSs does not necessarily mean the litigation process will accept the UFSs, another aspect is needed, and that is social exchange theory. Social exchange theory has a follower viewing the unethical behaviors of the leader as the, quid pro quo, and their perception of the relationship to be imbalanced which in turn affects the follower's commitment to and work attitudes (Brown & Mitchell, 2010).

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the information contained in the UFS they created because regulations let them (Chartered Professional Accountants Canada, 2016). Self-regulation theory coupled with laissez-faire approaches when the CPA sees no responsibility in the accuracy therefore result in CPA simply formatting the numbers as a bookkeeper would (Gregory, 1978).

### **Entrepreneurial Business in Canada**

Canadian entrepreneurs take the risk with their innovative ideas and drive to grasp an opportunity that will hopefully grow their financial stability and ultimately the Canadian Economy (Industry Canada, 2010). Entrepreneurs may explore business opportunities by creating new products, processes, or offering services for financial gain (Industry Canada, 2010). There is incentive for Canadians to take the entrepreneurial risk as it provides them employment and tax saving opportunities (CBC News, 2015). There are two common types of entrepreneurs that use UFSs: sole proprietors and privately held corporations (Ferede, 2013). Sole proprietors are individuals who solely own a business taking on full responsibility for the obligations and debts of the business (Canada Business Network, 2017). A privately held corporation is a business structured as a legal entity with separate responsibilities and obligations from its owners (Canada Business Network, 2017).

### **Matrimonial Litigation and the Self-Employed Litigant's Financials**

In Canada, the matrimonial litigation process determines the spousal and child support calculation based on the paying spouses' income (Governor General in Council, 2011). When referring to self-employed spouses, the main questions being asked are; a) what is the self-employed spouses' net worth, and b) what is the self-employed spouses' income for support purposes (Governor General in Council, Section 15, 2011)? Standard practice for income

calculation is to use Line 150 (total income from all sources) found on an individual's tax return (Government of Canada, 2016).

When self-employed individuals are part of the litigation process the income calculation for the entrepreneur becomes complicated to calculate compared to an individual who receives a T4 income from an employer. Line 150 (net income) from the self-employed persons tax return is often not a realistic representation of the available income from all sources (Government of Canada, 2016). Under the *self-employment income* section, the net income is represented based on what the individual declared on their *Statement of Business Activity* (T2125) worksheet (Government of Canada, 2016). If the individual owns a privately held corporation, no income may be present on their personal tax return (Government of Canada, 2016), yet income for support purposes is available.

The amount on Line 150 (net income) can be challenged by the opposing spouse if it is believed to be inaccurate based on life style and other circumstances (Government of Canada, 2016). Yet the burden of proof is on the challenging spouse to provide proof of inaccuracies or possible issues with the financial statements. When actual income is deemed to not be accurately reflected in Line 150 a trier of fact can *impute* income based on what is believed to be the fair and close to *real* income (Government of Canada, 2016).

Extra effort is required when self-employed individuals are involved in matrimonial disputes; often forensic accountants are needed to calculate income for support. The standard disclosure practice is for the business owner spouse to provide three years of the businesses' financial statements, financial institution statements for majority held businesses, tax filings, as well as notices of assessments for those filings (Governor General in Council, Section 15, 2011). When the matrimonial litigation process relies on the financial statements presented it become

the *users*. From that, financial disclosure the Income Statement (Statement of Financial Position) with some adjustments for *non-cash* expenses is used for imputing income (Governor General in Council, Section 15, 2011).

The self-employed spouse has a duty to provide the business' financial statements; it is not specified by the courts what level of assurance in the statements are required to have (Governor General in Council, Section 15, 2011). The business owner spouse can compile UFSs, which provide no level of assurance for accuracy, or audited financial statements with minimal materiality providing the highest form of assurance (Landes & Michael, 2017; Lemon, Arens, & Loebbecke, 1993). The audited statements are much more expensive to produce and when given the choice most would provide the cheaper option. The cheaper option of providing UFSs can conflict with an entrepreneur's disclosure requirements for production of financial earnings in the litigation process (Foulidis v. Foulidis, 2016; Galea v. Galea, 2017; Prevost v. Prevost, 2017). This conflict can cost the spouses tens of thousands of dollars in expert fees and legal fees to get to the true income number.

### **Self-Employed Individual's Production of Financial Earnings**

With there being no regulatory requirement for private firms to have their information audited, they often do not see the benefit based on the cost of having an audit performed (Cassar, 2011; Landes & Michael, 2017). UFSs are typically prepared for small private businesses (Ehrlich & Williams, 2011). UFSs make it easier for management to, *income manage* (regulating what is numbers are declared), as there is no one to *regulate* or *instruct accuracy* to management (Seidler & Benjes, 1967). If the self-employed individual perceives that it is a low risk of being caught they are more likely to take the risk of underreporting income (Barber, 2016). Barber (2016) reasoned that individuals choose self-employment for the ease of minimizing their

declared taxable income. The Canadian Revenue Agency does not verify accuracy unless an individual is under audit, therefore the Notices of Assessments do not provide tested assurance in all cases.

A review of studies by Astebro and Chen (2014) found that entrepreneurs declare lower income and work longer hours compared to employed individuals. Engstrom & Holmlund (2009) agreed researchers with empirical studies reported self-employed individuals often under report earnings compared to wage earners. Increasing deductions and possibility falsifying income are two ways to reduce tax payable for self-employed individuals, additionally for cash dominated businesses cash payments are difficult to trace making falsifying the numbers easier (Barber, 2016). Methods for deceptive placement are: cut-off for sales and cost of goods sold affecting profit margins; inventory calculation; treatment of taxable benefits and income taxes; and on tax return – loss carry backs and forward (Seidler & Benjes, 1967).

Barber (2016) noted an argument exist that individuals choose self-employment to avoid paying taxes. Ferede (2013) found a negative relationship between self-employment and progressive income tax regulations in Canada. Entrepreneurs are hesitant about declaring higher income when face increased income tax payable (Ferede, 2013). Researchers showed that systematically self-employed individuals declare lower income to tax departments (Hurst, Li, & Pugsley, 2014).

Canadians have been working to increase entrepreneur engagement as their contribution would be a positive for the self-employed individual and the Canadian economy (Ferede, 2013). The risk-taking entrepreneur may want to entertain a tax evasion opportunity to avoid paying increased taxes (Barber, 2016). Historic studies declared the progressive system of tax penalizes

entrepreneurs as they get to successful they pay more tax and with losses the savings on tax was minimal (Ferede, 2013).

At times UFSs may come with some assurances such as with a *review engagement* verses *compile engagement*. A review engagement is where standardized tests have been performed and some best practices tests could be applied (Landes & Michael, 2017; Lemon, Arens, & Loebbecke, 1993). Yet even a review engagement may still not provide the correct income for matrimonial litigation purposes. UFSs can contain errors or misstatements which if not verified for accuracy may be relied on in matrimonial court proceedings (Hopwood, Leiner, & Young, 2011). The financial information provided in UFSs are created for a specific purpose and user, normally not with the intended use in matrimonial proceeding (Wakeley v. Wakeley, 2015).

### **Users of Financial Information**

Users of financial statements expect externally published statements to be creditable and transparent (Humpherys et al., 2011). Additionally, the novice user of financial statements has less knowledge about the various types of assurances that are available for financial statements (Bedard, Sutton, Arnold, & Phillips, 2012). When the term *unaudited* is used on a financial statement it does not clearly tell the user what has or has not been done for assurance (Gregory, 1978).

Many investors assume that information on financial statements is audited when in fact they are not audited (Bedard et al., 2012). At times users, perhaps unjustly so, have the belief that because a CPA's name is on the financial statements due diligence tests were conducted (Gregory, 1978). This perception of verification of accuracy on financial statements that has not been verified may lead to stakeholders having reliability problems with the financial information disclosed.

Users in Canadian matrimonial litigation are making decisions to impute income on the entrepreneur spouse for payment of child or spousal support (Government of Canada, 2016). The governing law is the Family Law Act, specific section 21.1(d)(i) mandating self-employed individuals must produce financial statements, yet is silent on the type (Government of Canada, 2016). No regulation requirement exists for testing of accuracy of the production by the self-employed spouse and the burden is placed on the other spouse to challenge the accuracy (Government of Canada, 2016).

When the entrepreneur spouse's income is in dispute, a forensic accountant is often called in to calculate income for support purposes (Lakshmi & Menon, 2016). The forensic accountant bridges what was declared in the financial statements to what the true earnings are (Oyedokun, 2015). Even audited financial statements can contain misguided financial information (Lakshmi & Menon, 2016). Audited financial statements verify that information is fairly presented in accordance with declared criteria and GAAP (Oyedokun, 2015). When financial statements have a forensic audit performed it is a line by line verification of the numbers presented (Oyedokun, 2015). As noted previously, self-employed individuals can easily evade income taxes by falsifying expenses and income from their business operations (Barber, 2016). When a challenge is made on the self-employed individuals income a consumption calculation also known as a net worth analysis is normally used to calculate true income (Engstrom & Hagen, 2017). The consumption model estimates of consumption of household (lifestyle) compared to declared earnings (Engstrom & Hagen, 2017). UFSs are often used by sole proprietors and privately held corporations (Canada Business Network, 2017).



## **Types of Unaudited Financial Statements (UFSs)**

Review engagements are negative assurance engagements, meaning with the absence of contrary information it is assumed accurate (Hughes & Fisher, 2017). The CPA performs some procedures to test the information that management provided, such as verifying the cash balance in the bank account to what management declared (Gregory, 1978). CPAs are not required to perform external evidence and in-depth source document analysis on a review engagement (Fritzemeyer & Carmichael, 1972) yet typically they will ask for documents of management such as Harmonized Sales Tax “HST” remittance, bank statements, and clarification of how depreciation and interest were calculated (Chartered Professional Accountants Canada, 2016). A review or audit engagement provides the user with a level of assurance and confirmation of fairness in the financial information (Ehrlich & Williams, 2011). Review engagements limit inquires that the professional accountant makes as there is no need to provide positive assurance of the financial statements (Haw, Qi, & Wu, 2008). A review engagement is not as comprehensive as an audit engagement, as it does not include valuation of internal controls, gathering of collaborative evidence, or test of transactions and balances (Haw, Qi, & Wu, 2008). With the limitations of review, it may be unclear to users of UFSs what the actual reliability of the statements are and the level of accuracy analysis performed (Ehrlich & Williams, 2011).

The offering of compilation services can be viewed as putting the CPA in the same category as a bookkeeper (Waddell, 1978). A compilation engagement has no verification procedures performed by the accountant and thus the UFS may not conform to GAAP (Gregory, 1978). Notice to Reader UFSs have the accountant gathering from the client the business financial data and displaying it in standard reporting format, no tests are performed and, no assurances are given as to the merits of the financial numbers contained in the statements

(Ehrlich & Williams, 2011; Landes & Michael, 2017). Most CPAs that perform a compilation engagement for UFSs that note a misleading or incorrect component will request management correct the *error* (Seidler & Benjes, 1967). If the error is material in nature the CPA Handbook requires correction of the inaccuracies be made (Chartered Professional Accountants Canada, 2016). CPAs have a perception of what they are required to do to verify UFSs that may contradict what users believe is completed.

### **Accounting Association's Perception for Need to Verify UFSs**

Using an accountant to create UFSs provides competence in the formatting of the statements, efficiency, and the use of their name for credibility purposes (Chazen & Solomon, 1972). Financial bankers in the United States stated they believe that when a CPA created the UFSs, whether compilation or review engagements, the statements were reliable (Ehrlich & Williams, 2011; Landes & Michael, 2017). The same view is seen in Canada where financial institutions want degree of assurance from an independent professional on the financial information, hence the Canadian Institute of Chartered Accountants created *review engagements* which are a step up from compilation engagements (Chartered Professional Accountants Canada, 2016).

In Canada, the Canadian Institute of Chartered Accountants has requirements for the different types of engagements (Fritzemeyer & Carmichael, 1972). The rules in Canada that applies varies depending on the type of engagement. The Canadian Institute of Chartered Accountants Handbook Section 5100.13 dictates that if there is a perception that the accountant is associated with the financial statements and believes them to have misleading information the accountant must attempt verification and correction (Fritzemeyer & Carmichael, 1972).

Additionally, remedial action must be taken if the accountant believes there is non-conformity

with Canadian Institute of Chartered Accountants' GAAP 5100.27 (Fritzemeyer & Carmichael, 1972).

The UFSs created on compilation engagements provides a *notice to reader* statement that declares there are no assurances that the information is accurate (Chartered Professional Accountants Canada, 2016). The users of review engagement statements have a heightened assurance that there are no material misstatements than those of a compilation engagement (Chartered Professional Accountants Canada, 2016). The review engagement provides a conclusion of limited assurances for the users (Chartered Professional Accountants Canada, 2016). The highest level, an audit engagement provides an opinion about the reasonable assurance of accuracy and absences of material misstatements (Chartered Professional Accountants Canada, 2016).

Between a review engagement and audit individual users can be confused by the word *review* believing that it holds the same level of assurances as an audit yet it does not as it relies on the CPA *inquiring* of management and others in the organization and performing *analytics* as the inquiry leads them. The CPAs have no responsibility to seek out detailed review and can miss a material error or deception because it was not part of their inquiry (Chartered Professional Accountants Canada, 2016).

### **Accountant Client Relationship**

At times engaging clients of the CPA believe they are getting a level of creditability with UFSs that they are not getting (CPA Quebec, 2017; Chazen & Solomon, 1972). Even with an unaudited review engagement the accountant accepts the assertions made by management, makes inquiries are as basic as: accounting procedures and principles and bookkeeping procedures (CPA Quebec, 2017; Gregory, 1978). The accountant should convey to the client in writing what

is going to be provided as part of their engagement, emphasis is on the client understanding the extent of service that will be provided and its nature, the information to the client should be clear, including that no audit opinion will be offered in the preparation of unaudited statements (Fritzemeyer & Carmichael, 1972). The report prepared by the accountant which was not audited must clearly state it is "unaudited" (Fritzemeyer & Carmichael, 1972). The unaudited statement involves *inquiry* into accuracy whereby the audited statement *reasonable assurance* of accuracy (CPA Quebec, 2017).

In Canada, it is required that the accountant puts an addressee on the statements for their *use and information only* (CPA Quebec, 2017; Fritzemeyer & Carmichael, 1972). Yet once management has the statements they may provide them to any user they wish despite the intended addressees being different.

### **Professional Judgement of Accountants**

In Canada, a CPA is required to be independent in appearance and mind (Chartered Professional Accountants Canada, 2016). They must use professional skepticism to be objective, ethical, and maintain their integrity (Chartered Professional Accountants Canada, 2016). CPAs use their experience with the business they are creating financial statements for to determine how skeptical they are about the information being provided to them (Nelson, 2009). Professional judgment will be continuously used by a CPA in a review engagement where they use their knowledge, experience and training, and couple it with their professional skepticism (Chartered Professional Accountants Canada, 2016). Professional judgment is similar to the AICPA suspicious-inquiry rule implies the CPA must be of a questioning mindset to ensure openness to finding misstatements (Chartered Professional Accountants Canada, 2016). The CPA does not assume dishonesty or questionable behavior on the part of the business owners yet they design

their procedures for confirming the financial information based on their professional skepticism (Nelson, 2009).

### **Deception in Financial Statements**

As mentioned previously, management often provide the information that will be compiled into a template format by Canadian CPAs for disclosure in UFSs to users. When the entrepreneur spouse wants to avoid or minimize tax liabilities or even spousal support payments they may take deceptive actions in their financial disclosure. Deception is communicating intentionally wrong or altered information with the intent to spurs false conclusion in the receiver, fraud is a deceptive act perpetrated for undeserved, unfair, or illegal financial gain (Humpherys, Moffitt, Burns, Burgoon, & Felix, 2011). The use of computers makes it much easier and faster for management to create, update, and change financial statements (Seidler & Benjes, 1967).

Analysis of numerical data is the most common approach used to detect deceptive financial statements; researchers have created checklists to assist auditors in detecting irregularities and red flags within financial statements (Humpherys et al., 2011). It is not required for verification to performed in Complication engagements and limited in Review engagements (Bedard et al., 2012). When the challenge is made on the financial statements presented in matrimonial litigation an expert may be used to verify the information provided. Experts normally involve costly engagements but assist the courts with making decisions on support (Foulidis v. Foulidis, 2016; Galea v. Galea, 2017; Prevost v. Prevost, 2017). Additionally, these costly investigations into the declared financials of the self-employed spouses help to change perceptions of legal users in the reliability of UFSs for matrimonial disputes (Foulidis v. Foulidis, 2016).

## Current Case Law in Ontario Matrimonial Court

There are few recent cases that the presiding justices made excellent reference to historical case law which they used to formulate the foundation of their rulings. The first noticeable ruling is that the courts place the onus on the challenging spouse to prove that there may be something wrong with the disclosed financial information (*Galea v. Galea*, 2017). Once the court has ordered the full disclosure it needs to be analyzed. The court is looking to make rulings on the following general issues: a) what is the self-employed spouse's income for calculation of spousal or child support; b) based on calculated income, what is the proportionate amount to be paid for extraordinary and special expenses; and c) based on calculated income what is the amount of equalization to be paid (*Foulidis v. Foulidis*, 2016; *Galea v. Galea*, 2017; *Prevost v. Prevost*, 2017)?

At times the income being reported by the self-employed spouse does not accurately reflect true earnings and income needs to be imputed (*Galea v. Galea*). The evaluating expert and presiding court justice will use governing legislation to guide their rulings. The *Divorce Act* and *The Family Law Act* provide the guide for spousal and child support (*Galea v. Galea*). The two guidelines are the: *Federal Child Support Guidelines* and *The Spousal Support Advisory Guidelines* (*Foulidis v. Foulidis*, 2016; *Galea v. Galea*, 2017; *Prevost v. Prevost*, 2017). The Federal Child Support Guidelines Section 19 allows the courts to impute income when the court believes the spouse maybe diverting income, not generating possible income, failing to provide information when obligated to do so, and deductions for unreasonable expenses have been found (*Galea v. Galea*, 2017).

## Summary

There is little in the body of academic accounting literature, or practice by accountants, that correlates the process of creating UFSs and the legal process that relies upon them for income declarations for matrimonial litigation support. In general, accountants are not taking responsibility for UFS's credibility to the extent that users may perceive, yet users may perceive creditability in the statements as they are created by a CPAs in Canada (Gregory, 1978; Love & Manisero, 2017). There is an ethical and professional responsibility outlined in the CPA Canada Handbook for any licensed public accountant performing UFSs engagements, both in the compilation and review (Chartered Professional Accountants Canada, 2016).

Compilation is where management of the business unit (entrepreneurial business owners) provides the information the CPA puts that information into the appropriate Notice to Reader template. Review is where management provides information that has some basic testing prior to being entered in the template (Chartered Professional Accountants Canada, 2016). Management creates the information contained in the UFSs (Seidler & Benjes, 1967; CPA Quebec, 2017). Notionally, the accounting profession may believe that as no opinion is expressed (Dippoid, 1976, CPA Quebec, 2017), and no responsibility to audit information for accuracy exists, they have no liability associated with UFSs (Chazen & Solomon, 1972; Chartered Professional Accountants Canada, 2016).

When individuals rely on a financial statement they become the *users* of the statements. The view of creditability of the information contained in financial statements unaudited or audited are based on what a user perceives the value of the information to be and is based on a variety of factors, including the fact a CPA created the statement (Esplin, Jamal, & Sunder, 2014). The perception of reliability based on tests for accuracy and compliance with GAAP

verses actual or verified reliability may create issues when the statements contain errors, intentional or nonintentional. This is of particular importance when UFSs are relied upon in situations such as in matrimonial litigation (Foulidis v. Foulidis, 2016; Galea v. Galea, 2017).



### Chapter 3: Research Method

There was little in the body of academic accounting literature, or practice by accountants, that correlated the process of creating UFSs and the legal process that relies upon UFSs declarations for calculating support in matrimonial litigation. In general, accountants are not taking responsibility for UFSs credibility to the extent that users may perceive, yet users may perceive creditability in the statements as they are created by a CPAs in Canada (Gregory, 1978; Love & Manisero, 2017). There is an ethical and professional responsibility outlined in the CPA Canada Handbook for any licensed public accountant performing UFSs engagements, both in the compilation and review engagements (Chartered Professional Accountants Canada, 2016). Compilation is where management of the business unit (entrepreneurial business owners) provides information the CPA puts into the appropriate Notice to Reader financial statement template. Review engagement is where management provides the financial information and the CPA performs some basic inquires and testing prior to creating the template (Chartered Professional Accountants Canada, 2016). Management creates the information contained in the UFSs (Seidler & Benjes, 1967; CPA Quebec, 2017). Notionally, the accounting profession may believe that as no opinion is expressed (Dippoid, 1976, CPA Quebec, 2017), and no responsibility to audit information for accuracy exists, they have no liability associated with UFSs (Chazen & Solomon, 1972; Chartered Professional Accountants Canada, 2016).

When individuals rely on a financial statement they become the *users* of the statements. The view of creditability of the information contained in financial statements unaudited or audited are based on what a user perceives the value of the information to be and is based on a variety of factors, including the fact a CPA created the statement (Esplin, Jamal, & Sunder, 2014). The perception of reliability based on tests for accuracy and compliance with GAAP

verses actual or verified reliability may create issues when the statements contain errors, intentional or nonintentional. This is of particular importance when UFSs are relied upon in situations such as in matrimonial litigation (Foulidis v. Foulidis, 2016).

The purpose of this exploratory quantitative study was to investigate how matrimonial litigation users evaluated the reliability and potential usefulness of UFSs created by CPAs in comparison to those created by non-CPAs. The research thus conducted descriptive analysis of matrimonial litigation in Ontario, Canada related to user perceptions of reliability in UFSs when a CPA was involved. The researcher, in this study sought to assess whether users perceive accuracies of UFSs and whether they should be used in matrimonial litigation if created by CPAs.

The specific research objectives of this research were to first, determine if users of CPA created UFSs perceived UFS to have a greater level of reliability than non CPA created statements. Second, to determine what users of UFSs perceived the level of reliability to be when created by a CPA. Third, to determine if users of UFSs perceived that accuracy tests were performed by the CPA. The final objective of this research was to examine user perceptions of a UFSs for matrimonial support disputes. There are three main research questions being tested.

### **Research Methods and Design**

This study was quantitative in nature and incorporated an observational, survey based, and cross-sectional approach. The study participants were lawyers practicing in matrimonial law in Ontario, Canada. The participants were a representative sample of population of lawyers practicing family law in Toronto, Ontario, Canada. Other researchers may replicate the study in other geographical regions using civil law. The researcher electronically administered the survey to the participants using email invites and Survey Monkey.

This researcher paper was concerned with three research questions. RQ1 investigated whether Canadian CPA created UFSs were perceived reliable for use in matrimonial disputes. RQ2 examined whether non-CPA created UFSs were perceived reliable for use in matrimonial disputes. Finally, RQ3 compared the perceived reliability of Canadian CPA and non-CPA created UFSs. The researcher primarily focused on perceived reliability from the perspective of lawyers practicing matrimonial litigation. The research questions are restated here for convenience.

**RQ1.** Do users of UFSs created by Canadian CPAs used in matrimonial disputes perceive them reliable (reliability level above 5) and at what level of reliability?

**RQ2.** Do users of UFSs created by non- CPAs used in matrimonial disputes perceive them reliable (reliability level above 5) and at what level of reliability?

**RQ3.** What do users of UFSs perceive as the level of reliability of UFSs, when created by a Canadian CPA versus a non-CPA for use within matrimonial disputes?

The data analysis for this study consisted of two parts: descriptive and inferential statistics. With descriptive statistics the frequencies and percentages are reported for the categorical variables; as well as mean and standard deviation for the numerical variables. With inferential statistics the hypothesis tests were performed and 95% confidence intervals constructed. For inferential analysis level of significance 0.05 was used as the appropriate standard for social research. All statistical analysis was conducted using SPSS software (IBM Corp. Released 2016. IBM SPSS Statistics for Windows, Version 24.0. Armonk, NY: IBM Corp.).

The instrument of this research was a survey that contained fifteen questions (Appendix A). One of the key metrics was testing the perceived reliability of UFSs. The perception was

self-reported by participants using a 10-point Likert-type scale, yes and no questioning, and percentage weighting. The Likert-type scale consisted of 1 corresponding to very unreliable to 10 being very reliable, thus larger score indicates higher reliability.

RQ1 was answered by calculating 95% confidence interval for the mean level of reliability of UFSs created by Canadian CPA. In addition, one-sample t-test was performed to test the hypothesis regarding mean reliability for Canadian CPA created UFSs being above 5 ( $H_0: \mu \leq 5$  vs  $H_a: \mu > 5$ ). Reliability was measured on 10-point Likert type scale (value 1-10) and was expected to have a standard deviation to be 2 units. The researcher believed the sufficient level of accuracy (width of the confidence interval) should be 1 unit. The sample size sufficient for this analysis could have been 16, determined using the following equation:  $n \geq \left[ \frac{z_{95\%} \times \sigma}{MOE} \right]^2 = \left[ \frac{1.96 \times 2}{1} \right]^2 = 15.37 \approx 16$ . The researcher expected the mean reliability level to be 6, with 0.05 level of significance and 80% statistical power, G\*Power calculation required the sample size for hypothesis test be 27.

Similar to RQ1, RQ2 was also answered by calculating 95% confidence interval for the mean level of reliability of UFSs created by non-CPA. Similar to RQ1, a one-sample t-test was also performed to test the hypothesis regarding mean reliability for non-CPA created UFSs being above 5 ( $H_0: \mu \leq 5$  vs  $H_a: \mu > 5$ ). The researcher assumed the same standard deviation (2 units) and accuracy (1 unit). The sample size sufficient for this analysis was the same as RQ1,  $n \geq \left[ \frac{z_{95\%} \times \sigma}{MOE} \right]^2 = \left[ \frac{1.96 \times 2}{1} \right]^2 = 15.37 \approx 16$ . Since the exception is that mean reliability would be 4, there was no need to run hypothesis test.

RQ3 deals with comparison of reliability of UFSs created by CPA and non-CPA. This hypothesis was tested using paired-samples t-test expecting one mean to be higher than another

( $H_0: \mu_{CPA} \leq \mu_{non-CPA}$  vs  $H_a: \mu_{CPA} > \mu_{non-CPA}$ ). The researcher expected CPA-created UFSs to have 2 units higher reliability on average compared to non-CPA created (the difference between 6 and 4 units). Using G\*Power with 5% level of significance, 80% power, with one-sided paired-samples t-test, 8 participants were needed for the sample.

### **Population**

Users of UFSs are any stakeholder of that company (Moroney et al., 2012). The population of interest for this study are stakeholders impacted by UFSs used in matrimonial disputes for financial decisions such as the imputing of income. There is a heavy reliance on production of financial statements for entrepreneurs involved in matrimonial disputes in Canada (Government of Canada, 2016). The population chosen for its diversity was matrimonial lawyers in Toronto, Ontario, Canada (Law Society of Upper Canada, 2017). Those involved in matrimonial disputes are often reliant on lawyers to accept or challenge the reliability of the UFSs that are being present to the trier of fact for decision making.

The study participants were lawyers practicing in matrimonial law in Toronto, Ontario, Canada. The participants were representative sample of lawyer's population practicing family law in Toronto, Ontario, Canada. The population was considered the 426 practicing family law lawyers in Toronto (Law Society of Upper Canada, 2017).

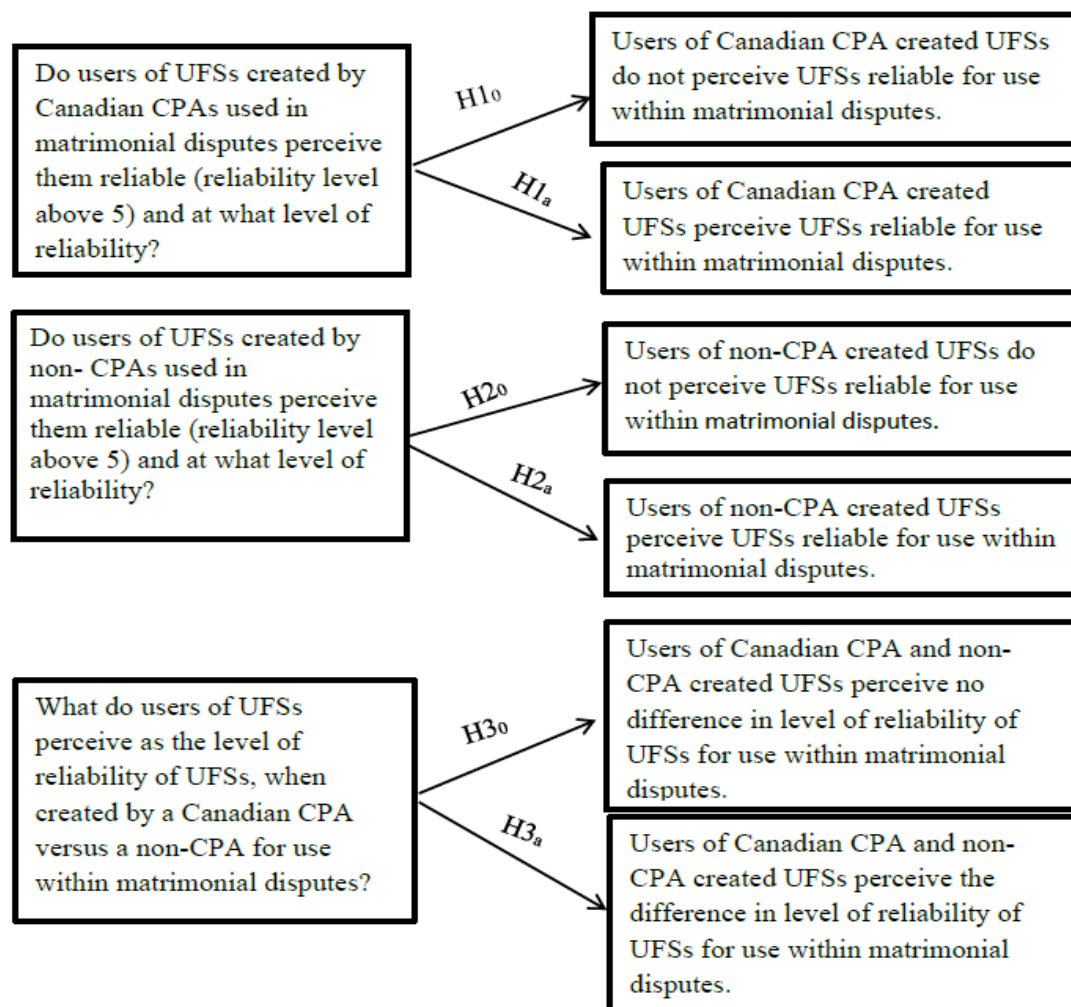
### **Sample**

The study participants were lawyers practicing matrimonial law in Toronto, Ontario, Canada. The participants were a representative sample of the lawyer's population practicing family law in Toronto, Ontario, Canada. Through the use of G\*Power the researcher determined the ideal sample sizes was between 8 to 27 participants. The larger number of 27 was chosen to be the low end target sample size. A response rate of 27 would be about a 6% response rate of 27

would be about 6% response rate and was considered an acceptable sample rate for this limited population. However, the researcher was seeking a 10% response rate for approximately 43 respondents.

The method of communicating with the participants was via an email invitation to participate in the anonymous survey instrument hosted on Survey Monkey. An email was sent out to all 426 practicing lawyers and the researcher sought a 10% response rate (approximately 43 participants). A total of no more than three emails were sent to each potential participant. The initial email, a follow up email at one week, and a final email at two weeks from the initial email if the minimum of 27 responses was not achieved.

## Instruments



**Figure 1:** Research Model

### Operational Definition of Variables

All variables are from the survey questions and self-reported by participants.

**Variable 1.** The perceived reliability of UFSs. The perception score was self-reported by participants using a 10-point scale, where 1 corresponds to very unreliable and 10 to very reliable. The question for reliability was asked for three different types of creators (CPAs and management) and two types of CPA-created statements (notice to reader, review engagement).

**Variable 2.** Perception of Accuracy Testing Performed on UFSs. This is a categorical (nominal) level of measurement. The participants were to either check or not check the box. This was asked for two types of statements (notice to reader, review engagement) with 12 different items. For example, validation of cash balances, validation of income, etc. Additionally, there was an option for the belief that no tests were performed.

**Variable 3.** Usage of UFSs in Matrimonial Disputes. This was a nominal scale with three options: yes, no and no opinion. The question was asked three times for CPA, management, and bookkeeper created UFSs.

**Variable 4.** Age Group. Ordinal categorical variable with five levels: 20 – 29; 30 – 39; 40 – 49; 50-59; and 60 +.

**Variable 5.** Gender. Nominal categorical variable with four levels: male, female, other, and prefer not to answer.

**Variable 6.** Education Level. Ordinal categorical variable has three levels: undergraduate degree; graduate university; and post graduate. Participants choose their highest level of education achieved.

**Variable 7.** Designations. There are four options listed plus other, for each one the participants would check if they have the designation or not, and for other they wrote what they have. The four designations are: LLB (Bachelor of Law); JD (Juris Doctor); CPA (Canada) (Chartered Professional Accountant); and CPA (US) (Chartered Public Accountant).

**Variable 8.** Firm Size. Ordinal categorical variable with five options with an additional one (other) to cover individuals such as unemployed or in an area not covered. The five options were: independent; small firm; medium firm; large firm; government.



**Variable 9.** Employment Status. Nominal categorical variable with three options: sole practitioner, employee, and partner. The other category was created for those that do not fit in the three options provided.

**Variable 10.** Experience in law. Ordinal categorical variable with four options: less than 1 year; 1-5 years; 6-10 years; and 11+ years.

**Variable 11.** Experience in family law. Ordinal categorical variable with four options: less than 1 year; 1-5 years; 6-10 years; and 11+ years.

**Variable 12.** Family law Percentage of practice. The participants provided a percentage (between 0 and 100%) representing their family law case load.

**Variable 13.** Percentages of Family law cases involving self-employed individuals. The participants provided a percentage (between 0 and 100%) representing their family law case load where self-employed individuals are involved.

**Variable 14.** Percentage of UFSs. The participants provided a percentage (between 0 and 100%) representing the portion of UFSs among all the cases involving self-employed individuals presenting financials statements.

**Variable 15.** Percentage of UFSs. The participants provided a percentage (between 0 and 100%) representing the portion of UFSs among all the cases involving self-employed individuals presenting financials statements that were found to contain misstatements.

### **Aspects of Research Validity**

**Construct Validity.** The study consisted of a quantitative analysis based on perceptions of users of UFSs created by CPAs and perceived uses of those UFSs. The construct validity relates to the strength of the data being acquired and how it was analyzed (Cozby & Bates, 2012). This score was self-reported by participants and was somewhat subjective. In the research

construct validity relates to the degree to which users perceived reliability score measures the actual reliability of UFSs.

**Threat on Construct Validity.** When making assumptions caution is required with inferences of relationships of the data (Bryman, Bell, Mills, & Yue, 2011). The study survey could have had a consequential validity issue where the participant could misinterpret the definition of reliability. To mitigate the risk of definition misinterpretation a specific definition was provided to ensure reliability. To minimize hypothesis guessing bias, minimal information about the research was provided and the survey included generic questions to dissipate core questions being asked. To minimize the potential for the researcher unintentionally revealing expectations the survey questions were vetted to ensure there were none that were leading and neutral. To ensure the predicator was not too narrow a 10-point Likert-type scale was used for the reliability questions and an “opt out” opinion will be made available for the key survey questions. Controls were in place to minimize confounding variables such as asking for user experiences.

**Internal Validity.** There was a potential issue regarding internal validity with the variable of the user’s opinion being based on a variety of experiences with UFSs (Cozby & Bates, 2012). With internal validity a need existed to minimize external explanations for deviations from what user’s true opinion is and what is to be believed as the correct answer, to minimize questions are phrased in a way that encourages frank replies and identification of participants is not required (Cozby & Bates, 2012). In addition, internal validity in this study would refer to ability to make causal conclusion linking type of UFSs (CPA or non-CPA prepared, independent variable) and perceived reliability (dependent variable). Study design was

expected to minimize conceivable alternative explanations, systematic error (bias), and eliminate (or control for) covariates.

**Threat to Internal Validity.** There should have been a strong causal inference between the overall opinion of reliability based on a CPA creating the UFSs and the various types of experiences the user has had with CPAs and UFSs (Cozby & Bates, 2012). Confounding factors were discussed in construct validity and risk was mitigated by adding generic questions to the survey. There is some selection bias present because participants choose to fill out the survey or not, however, I believe the individuals who would respond to the email request and engage in the survey would be engaged. The history was mitigated by conducting the research in a short time frame where there was a small chance of any outside events influences their opinions.

**External Validity.** The external validity comes from the ability to generalize the findings to population, another province in Canada or state in the United States (Cozby & Bates, 2012). In other words, if reliability scores (CPA vs non-CPA) are different in the sample, would it be reasonable to conclude that such difference exists in the population (for all family law lawyers in Ontario)? Once the analysis was completed there should be a pattern of vulnerability where regulations for CPAs creating UFSs, require improvement to enhance reliable for the litigation process or clearer disclaimer statements to avoid the expectation gap (Cozby & Bates, 2012). The questionnaire and methodology are generic enough for future researchers to replicate the study.

**Threat to External Validity.** Caution was taken to ensure the results could be generalized and used in future years or other provinces or states (Cozby & Bates, 2012). To minimize reactivity, effect the survey was anonymous and there was no feedback about the

participant's individual responses. A general representation of population of Ontario lawyers was sought out.

### **Data Collection, Processing, and Analysis**

The instrument used was not standard as there is no current instrument for testing perception of reliability for UFSs. Although, a standard instrument was not used the instrument questions was validated through the use of a pilot study using academically qualified and practicing lawyers and CPAs for reliability. The members of the field study were selected for expertise and education in their respective fields holding doctorates in accounting, law, or business. The 5 participants in the pilot study come from a purposeful sampling by the researcher for validation of the instrument. The pilot participants were known by the researcher and did not act in anonymity. However, their responses were only used in aggregate to validate the instrument. Communication with the pilot study participants was via email communication for data collection of their feedback. The pilot consisted of up to 3 phases. The pilot participants provided their feedback which was utilized for properly wording of the survey instrument questions. During Pilot Phase 1 the researcher sent the survey instrument questions asking the pilot group to rephrase any questions that was not clear. Once collected the researcher consolidate the answers and rephrase the instrument questions based on a majority centered recommendations for Pilot Phase 2 the researcher sent the modified questions to the pilot group asking them to rephrase any questions that was not clear. The researcher then took any recommended changes and rephrase the questions if needed. No further refinement of the survey instrument questions was needed, thus the researcher proceeded to actual data collection following NCU IRB approval with the validated instrument.

The final validated survey instrument was distributed to the sample population of practicing matrimonial law lawyers in Toronto area via email. The email contained an electronic consent form and acknowledgement and a link to the survey instrument on Survey Monkey. The consent form included the conditions of participation and an explanation of the nature of the study and all anonymity precautions taken. A response of a minimum of 27 participants was considered sufficient for data analysis yet a total of 43 participants was still being sought.

Once data collection closed, the dataset was exported from Survey Monkey and loaded into SPSS. To prepare the data for analysis the necessary clean-up and re-coding of variables was performed in SPSS. At that point outliers were sought, and identified for correction, or removed, as well as missing values were identified. Once the data was ready, the processing for descriptive and inferential analysis was conducted. Interpretation of results was focused on answering research questions. The resulting analysis was reported using summary tables as well as graphs and charts.

### **Assumptions**

Since the participants self-report their opinions there are several basic assumptions made. First, it was assumed that all participants hold the mental capacity to participate in the survey. Secondly, was assumed that the participants would be truthful and not hold back their perceptions pertinent to the survey. Thirdly, was assumed that all survey participants have family law practice experience.

### **Limitations**

There was a potential limitation that participants may not completely answer the survey questions. An additional limitation was that the Toronto survey group may not be representative of the traditional family law practitioner. The researcher recognized and acknowledged that

selection bias may exist and study participants may have existing strong opinions about the study topic.

### **Delimitations**

The survey was designed with ease of flow for the respondent to not overwhelm or consume too much time. The research only targeted family law lawyers in Toronto to cast a wide net of possible experience and demographics for the study participants. The survey instrument was sent out to the entire population with the expectation of achieving the desired representative sample. A delimitation of this study was that while there may be other individuals affected by the validity of UFSs only the sample population participated in this study.

### **Ethical Assurances**

The research subjects were human; as such NCU IRB policies were closely adhered. An NCU IRB application to conduct the research was submitted. Anonymity was protected for all survey participants by the use of a generic link to Survey Monkey provided to all 426 potential participants. To ensure voluntary informed consent the welcome email and survey page informed participants of their rights to not participate. The researcher has password access the raw electronic data. To ensure integrity and quality control of the study the survey instrument was vetted by the pilot group of participants and the survey participants held practicing expertise in matrimonial law.

### **Summary**

With CPAs not taking responsibility for accuracy of UFSs to the level perceived in matrimonial litigation; self-employed individuals having UFSs created for cost saving measures; and matrimonial litigation allowing their use for support calculations a potential expectation gap can occur. The problem of the expectation gap occurs when the users, matrimonial litigation,

accept UFSs as reliable because a CPA created them, yet in fact reliability testing may not have been performed or performed to the perceived level of the users.

The participants were voluntary adults whose identity will be protected. The survey was online and designed to flow quickly to aid to completion. This quantitative descriptive analysis of matrimonial litigation users in Toronto, Ontario provides valuable insight into what their perceptions are to the reliability of UFSs when a CPA is involved. It will add to the body of knowledge in accounting as to user's perceptions of work performed when a CPA is involved, and will add to the body of knowledge in the legal community as to what CPAs perceive their responsibilities to be. Chapter 4, which follows includes the findings from this study.

## Chapter 4: Findings

The purpose of this exploratory quantitative study was to investigate how matrimonial litigation lawyers evaluate the reliability and potential usefulness of UFSs both created by CPAs and by non-CPAs. The analysis is descriptive of matrimonial litigation in Toronto, Ontario, Canada related to user perceptions of reliability in UFSs when a CPA is involved. The study pilot had 10 potential participants and had 5 participate. The main study was 427 potential participants and had 27 participate and their responses were analyzed to answer the following questions:

**RQ1.** Do users of UFSs created by Canadian CPAs used in matrimonial disputes perceive them reliable (reliability level above 5) and at what level of reliability?

**RQ2.** Do users of UFSs created by non-CPAs used in matrimonial disputes perceive them reliable (reliability level above 5) and at what level of reliability?

**RQ3.** What do users of UFSs perceive as the level of reliability of UFSs, when created by a Canadian CPA versus a non-CPA for use within matrimonial disputes?

The results of the quantitative analysis are presented herein.

### Results

A survey pilot was set up on Survey Monkey to validate the instrument questions and layout. The researcher sent by email invitations individually to ten potential participants in hopes that five replies would be received. The emails were sent out in the same time frame to ensure anonymity of replies received based on timing of receipt. The opinions of the participants were considered and the final survey amended as needed.

A benchmark was set up of specific questions that had to have responses to determine if a specific response survey in the dataset should be removed. Those questions used for the



benchmark were deemed necessary for results to be accurate. The questions that had to be responded to were: 1) *What is your perceived level of reliability of Unaudited Financial Statements (UFSs) for use in matrimonial disputes. Created by Certified Professional Accountant (CPA)? Created by Management?* 2) *What is your perceived level of reliability for a CPA created Unaudited Financial Statements (UFSs) for use in matrimonial disputes. Stated - "Notice to Reader"? Stated – "Review Engagement"?* 3) *If a UFS was created by a CPA, what testing do you believe was performed for each "notice to reader" and "review engagement" type statements (check all that apply): Validation of: cash balance, income, assets, liabilities, shareholder/owner equity, accounts receivables, expenses, prepaid expenses, accounts payables, bank indebtedness, related party indebtedness, shareholder/owner investment, and* 4) *How long have you been practicing family law? Less than 1 year, 1-5 years, 6-10 years, 11 years or more or Do not practice family law.* The results collected from Survey-Monkey were imported into SPSS software, (IBM Corp. Released 2016. IBM SPSS Statistics for Windows, Version 24.0. Armonk, NY: IBM Corp.), for analysis. After a review of the above criteria, no participant surveys were removed from the dataset.

The sample demographics included a diverse cross-section of the population in regards to gender, age and experience in family law. The majority of participants were males (70%), mostly in the 60 plus age category (52%) and the vast majority have been practicing in family law for more than 11 years or more (78%).

**RQ1.** Do users of UFSs created by Canadian CPAs used in matrimonial disputes perceive them reliable (reliability level above 5) and at what level of reliability? The average perceived level of reliability was 5.96 for UFSs created by Canadian CPA with a standard deviation of 1.37. The 95% confidence interval was between 5.42 and 6.51. The one sample t-test showed a

statically significant result and reliability level found to be significantly at 5,  $t(26)=3.65$ ,  $p=.001$ . The finding was that CPA created UFSs were perceived reliable with a mean reliability level of 5.96.

In regard to UFSs Notice to Reader, the mean reliability was found at 6.0, with a standard deviation of 1.27, and a 95% confidence interval between 5.0 and 6.50. The perceived reliability of UFSs Notice to Reader with one sample t-test was found to be significantly above 5, indicating an acceptable reliability level,  $t(26)=4.09$ ,  $p<.001$ . Additionally, with the UFSs Review Engagement the mean reliability was found at 6.33, with a standard deviation of 1.36, and a 95% confidence interval between 5.80 and 6.87. The perceived reliability of UFSs Review Engagement with one sample t-test was found to be significantly above 5, indicating an acceptable reliability level,  $t(26)=5.10$ ,  $p<.001$ , therefore, reject the null hypothesis.

The survey participants were asked to attest to the level of validation testing they believed occurred for both UFSs Notice to Reader and Review Engagement. Twelve common valuation tests were presented to the participants which included: cash balances, income balance, shareholder equity balances, and others. The analysis involved counting the number of checked validation items by each of the participants. The average number of checked items for Notice to Reader was 3.07, with a standard deviation of 3.65, and 95% confidence interval between 1.63 and 4.52. Participants believed Notice to Reader was more likely to have a validation testing of: cash balances, liabilities, and bank indebtedness. The average number of checked items for Review Engagement was a higher number of validation items checked with a mean of 5.59, a standard deviation of 4.60, and 95% confidence interval between 3.77 and 7.41. Participants believed Review Engagement was more likely to have a validation of: income, liabilities, and bank indebtedness to be performance.

Table 1

*Perceived Validation Testing for UFSs “Notice to Reader” and “Review Engagement”*

Perceived validation testing items	“notice to reader”	“review engagement”
Cash Balance	37%	41%
Income	30%	63%
Assets	33%	56%
Liabilities	37%	59%
Shareholder/Owner Equity	33%	33%
Accounts Receivables	15%	52%
Expenses	15%	37%
Prepaid Expenses	11%	41%
Accounts Payables	26%	48%
Bank Indebtedness	37%	59%
Related Party Indebtedness	22%	33%
Shareholder/Owner Investment	11%	37%

*Note.* Percentages represent proportion of checked items by participants.

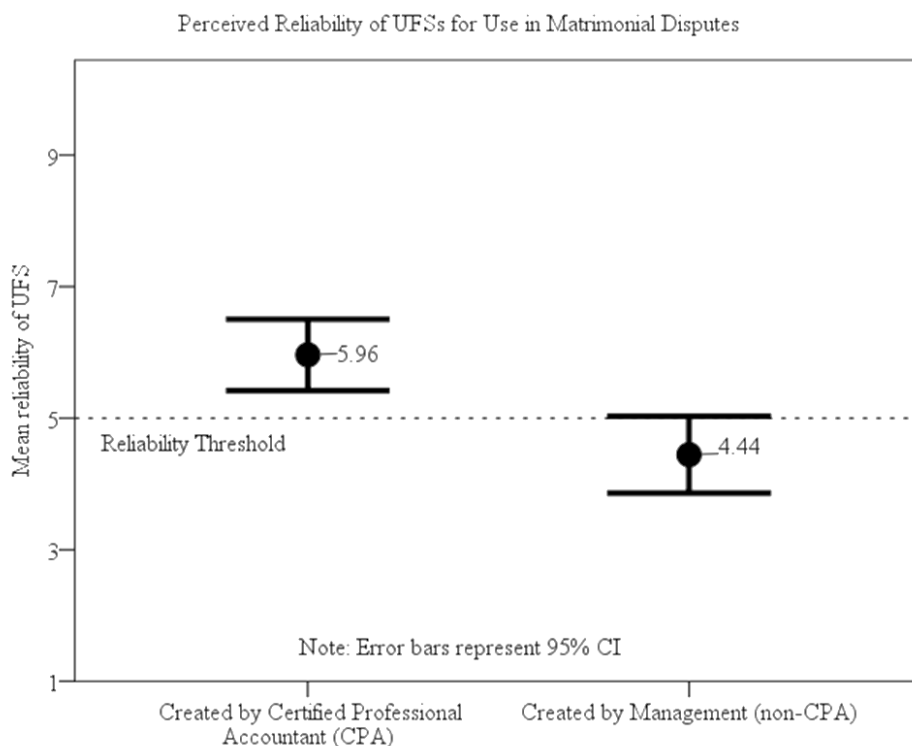
Correlation analysis was used to explore an association between perceived level of reliability in UFS created by CPAs both Notice to Reader and Review Engagement, and the amount of validation perceived to have been performed. For UFSs Notice to Reader a weak positive correlation was found but it was not statistically significant,  $r(n=27)=.32, p=.11$ . For UFSs Review Engagement the correlation co-efficient was found to be strong positive and statistically significant,  $r(n=27)=.45, p=.02$ , thus a rejection of the null hypothesis.

**RQ2.** Do users of UFSs created by non-CPAs used in matrimonial disputes perceive them reliable (reliability level above 5) and at what level of reliability? UFSs created by management and or a bookkeeper are considered UFSs non-CPA. The average perceived level of reliability was 4.44 for UFSs created by non-CPAs with a standard deviation of 1.48. The 95% confidence interval was between 3.86 and 5.03. The one sample t-test showed no statically significant result and the reliability level was found not to be about 5,  $t(26)=-1.96, p=.06$ . The findings for this question was that non-CPA created UFSs were perceived unreliable with a mean level of 4.44, therefore accepting the null hypothesis.

**RQ3.** What do users of UFSs perceive as the level of reliability of UFSs, when created by a CPA versus a non-CPA for use within matrimonial disputes? A paired-samples t-test was run to compare the perceived level of UFSs created by CPA and non-CPA. Statistically significant differences were found with CPA created UFSs being perceived as more reliable ( $M=5.96$ ,  $SD=1.37$ ) compared to non-CPA created UFSs ( $M=4.44$ ,  $SD=1.48$ ),  $t(26)=5.16$ ,  $p<.001$ . It was found CPA created UFS were on average 1.52 units more reliable when compared to non-CPA created UFS with a 95% confidence interval of 0.91 to 2.13.

Of the participants, 96% perceived CPA created UFSs may be used in matrimonial disputes. Only one participant believed that CPA created UFSs cannot be used in matrimonial disputes ( $M = 5.00$ ), while the rest (26 participants) believed they can be used ( $M=6.00$ ,  $SD=1.39$ ). No statistically significant difference was found between those two sub-groups (CPA UFSs can be used verses cannot be used,  $t(25)=-.71$ ,  $p=.49$ ).

Non-CPA created UFSs were divided into management and certified bookkeeper created. Of the participants, 67% perceived management created UFSs and 72% for certified bookkeeper could be used in matrimonial disputes. Of the participants, 16 believed management created UFSs can be used in matrimonial disputes and 8 perceived they cannot be used. Those that believed it can be used reported a significantly higher perceived reliability for non-CPA created UFS ( $M=5.00$ ,  $SD=1.03$ ), compared to those that perceived it cannot be used ( $M=3.40$ ,  $SD=1.41$ ),  $t(22)=-2.97$ ,  $p=.01$ , therefore reject the null hypothesis.



*Figure 2.* Perceived Reliability of UFS for Use in Matrimonial Disputes

### Evaluation of Findings

A primary reason for this study was there is limited body of research on this topic. It is hoped this study will form part of the foundation in research on the perceived reliability by the litigation community for UFSs for matrimonial disputes. In providing this foundation, the findings from this researcher noted participants perceived that UFSs created by Canadian CPAs are reliable, while UFSs created by non-CPAs were found to be less reliable. The perceived validation testing was higher for UFSs created by CPAs than non-CPAs. Yet the existing finding in the literature stated for UFSs Review Engagement the CPA performs some procedures to test the information that management provided, such as verifying the cash balance in the bank accounts but not, to the extent that participants perceived (Gregory, 1978). Ehrlich and Williams (2011) stated the limitations of review, make it unclear to users of UFSs what the actual

reliability of the statements are and the level of accuracy analysis performed, this appears to be supported by the results. The users of review engagement statements have a heightened assurance that there are no material misstatements than those of a notice to reader, yet the assurance is limited (Chartered Professional Accountants Canada, 2016).

Participants were able to make open-ended comments at the end of the survey. The comments do affected the validity of the findings are worth noteworthy within the foundational nature and approach of your study. The key comments provided by participating lawyers summarized to be:

- Often, the CPA is formatting financial information provided by the owner/operator and not vetting it;

- In my experience personal expenses have been hidden in business expenses;

- The error is in the CPA accepting the materials provided for compilation. An element in reliability comes from the size of the business, the smaller; heighten likelihood that the information is manipulated and not valid;

- Most family law litigators (Judges) would have difficulty understanding UFSs as they do not have business backgrounds;

- Independent experts are retained when UFSs need analysis and verification of accuracy;

and

- There is too much technical jargon in the survey, we are lawyers not accountants.

## Summary

This study sought out to explore matrimonial litigation lawyers (*users*) perceptions of CPAs and their role in the implied accuracy of UFSs potentially used to clarify a spouses earnings in matrimonial litigation. The specific problem is that the triers of fact, those

responsible for making the legal decisions in matrimonial disputes (once lawyers themselves), rely on UFSs' that may contain errors, deliberate misrepresentations, or aggressive tax minimization strategies manipulated to lower the amount owed in spousal and child support payable by the entrepreneur spouse. The participants in the survey perceived that UFSs' had verification testing that CPAs did not perform. This perceived validity to UFSs leads to the requirement for clarification between litigation users of UFSs and their creators. Additionally the lack of financial understanding of litigation users about UFSs can open the door for deception to flounder in matrimonial litigation where self-employed individuals are involved.

## Chapter 5: Implications, Recommendations, and Conclusions

There is little in the body of academic accounting literature, or practice by accountants, that correlates the process of creating UFSs and the legal process that relies upon UFSs income declarations for matrimonial litigation support in Canada. In general, accountants are not taking responsibility for UFSs credibility to the extent that users may perceive, yet users may perceive creditability in the statements as they are created by a CPAs in Canada (Gregory, 1978; Love & Manisero, 2017). The view of creditability of the information contained in financial statements unaudited or audited are based on what a user perceives the value of the information to be and is based on a variety of factors, including the fact a CPA created the statement (Esplin, Jamal, & Sunder, 2014). The perception of reliability based on tests for accuracy and compliance with GAAP verses actual or verified reliability may create issues when the statements contain errors, intentional or nonintentional. This is of particular importance when UFSs are relied upon in situations such as in matrimonial litigation (Foulidis v. Foulidis, 2016). There is a problem or a gap in the expectation between Canadian CPA responsibilities in the creation of UFSs and user perceptions or valuation of validity (Bedard et al., 2012).

The purpose of this exploratory quantitative study was to investigate how matrimonial litigation users evaluated the reliability and potential usefulness of UFSs created by CPAs in comparison to those created by non-CPAs. The specific research objectives of this research were to first, determine if users of CPA created UFSs perceived UFSs to have a greater level of reliability than non-CPA created statements. Second, to determine what users of UFSs perceived the level of reliability to be when created by a CPA. Third, to determine if users of UFSs perceived that accuracy tests were performed by the CPA. The final objective of this research was to examine user perceptions of a UFSs for matrimonial support disputes.



The research added to the body of knowledge in this area which is sparse. It was believed that this research was the first that empirically evaluated the perceptions of reliability for UFSs by matrimonial litigation users and the UFS's actual reliability. The research sought to bring awareness to matrimonial litigation users and the accounting profession that create UFSs of the expectation gap that exists. It is hoped the findings will provide awareness that may influence future matrimonial litigations relying on UFSs. Additionally, the researcher sought to provide CPAs with a better understanding of how their professional persona is relied on for financial statements with impressions of accuracy testing despite there not being any done. The awareness provided by this research will ideally bridge existing research in the accounting and litigation areas.

The potential limitations for this study were from the survey yielding results that are only representative of Toronto, Ontario, Canada matrimonial lawyers and not the larger population. Northcentral University IRB compliance was adhered to for human subjects, all surveys were collected electronically, and identities of those that participated were kept anonymous. Each of the research questions and their hypothesis are reviewed below along with recommendations for future research.

### **Implications**

The sample demographics included a diverse cross-section of the population in regards to gender, age, and experience in family law. The majority of participants were males (70%), mostly in the 60 plus age category (52%) and the vast majority have been practicing in family law for more than 11 years or more (78%). The first research question RQ1 asked, *Do users of UFSs created by Canadian CPAs used in matrimonial disputes perceive them reliable (reliability level above 5) and at what level of reliability?* The result was that the matrimonial litigation

lawyers surveyed perceived that CPA created UFSs reliable with a mean reliability level of 5.96. Esplin et al. (2014) noted the view of creditability of the information contained in financial statements unaudited or audited was based on what a user perceived the value of the information to be and was based on a variety of factors, including the fact a CPA created the statement. The results of this study seem to support the theory that the designation of CPA created a false sense of verification testing on UFSs. This supposition is supported by the correlation analysis performed to explore the association between perceived level of reliability in UFS created by CPAs both *Notice to Reader* and *Review Engagement*, and the amount of validation testing perceived to have been performed. For UFSs *Notice to Reader* a weak positive correlation was found but it was not statistically significant,  $r(n=27)=.32, p=.11$ . For UFSs *Review Engagement* the correlation coefficient was found to be strong positive and statistically significant,  $r(n=27)=.45, p=.02$ .

The second research question RQ2 asked, *Do users of UFSs created by non-CPAs used in matrimonial disputes perceive them reliable (reliability level above 5) and at what level of reliability?* The finding was that the matrimonial litigators surveyed perceived that non-CPA created UFSs were perceived unreliable with a mean level of 4.44. The level of perceived liability was not there for non-CPAs however when the question was posed, *Do you believe that UFSs can be used in matrimonial disputes when created by management or certified bookkeeper?*; litigator participants did believe that UFSs created by management and certified bookkeepers could be used in matrimonial litigation. UFSs created by management were perceived usable in matrimonial litigation by 67% of litigator participants and 72% believed bookkeeper created UFSs could be used in matrimonial disputes. The two sets of responses

appear contradictory in that participants perceived non-CPA UFSs unreliable yet stated they could be used in matrimonial disputes.

The final research question RQ3 asked, *What do users of UFSs perceive as the level of reliability of UFSs, when created by a CPA versus a non-CPA for use within matrimonial disputes?* It was found CPA created UFS were on average 1.52 units more reliable when compared to non-CPA created UFS with a 95% confidence interval of 0.91 to 2.13. The litigation users perceived a difference in the level of reliability of UFSs for use within matrimonial disputes. Yet, the mean reliability between CPA and non-CPA created UFSs were 5.96 and 4.44 respectively. That spread was not as high as the researcher expected.

### **Recommendations**

The findings from the survey revealed there is an expectation gap between perceptions of matrimonial litigation lawyers and CPAs as to the level of verification testing performed on UFSs for reliability. Increased awareness for litigation users should be done to limit the expectation gap. Humpherys et al (2011) found CPAs are not taking the responsibility for accuracy of UFSs. A future study into what CPAs currently perceive the uses of UFSs are in litigation may be beneficial. The survey findings also revealed there is a belief that non-CPA created UFSs may be used in matrimonial litigation. This belief could be studied further as to what accuracy testing is believed to have been performed by certified bookkeepers' verses what is mandated by their association.

### **Conclusions**

The purpose of this exploratory quantitative study was to investigate how matrimonial litigation users evaluated the reliability and potential usefulness of UFSs created by CPAs in comparison to those created by non-CPAs. The descriptive analysis of matrimonial litigation

lawyers in Ontario, Canada related to their (user) perception of reliability in UFSs when a CPA was involved. This researcher, in this study assessed whether users perceived accuracies of UFSs and whether they should be used in matrimonial litigation if created by CPAs. The specific research objectives determined that users of CPA created UFSs perceive UFSs to have a greater level of reliability than non-CPA created statements. Users of UFSs perceived that accuracy tests were performed by the CPA which CPAs do not have a mandate to perform. This study contributes to a better understanding of user's belief about validity and belief and perception of reliability of UFSs because a CPA created them within the matrimonial litigation process that relies upon these statements.

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## Appendices

## Appendix A: Questionnaire

### Questionnaire

1. What is your perceived level of reliability of UFSs for use in matrimonial disputes:
  - a. Created by Certified Professional Accountant (CPA)?  
(Very unreliable) 1 2 3 4 5 6 7 8 9 10 (Very reliable)
  - b. Created by Management?  
(Very unreliable) 1 2 3 4 5 6 7 8 9 10 (Very reliable)
  
2. What is your perceived level of reliability for a CPA created UFS for use in matrimonial disputes:
  - a. “notice to reader”?  
(Very unreliable) 1 2 3 4 5 6 7 8 9 10 (Very reliable)
  - b. “review engagement”?  
(Very unreliable) 1 2 3 4 5 6 7 8 9 10 (Very reliable)
  
3. If a UFS “notice to reader” or “review engagement” is created by a CPA, what testing do you believe was performed:

	“notice to reader”	“review engagement”
Validation of Cash Balance	<input type="checkbox"/>	<input type="checkbox"/>
Validation of Income	<input type="checkbox"/>	<input type="checkbox"/>
Validation of Assets	<input type="checkbox"/>	<input type="checkbox"/>
Validation of Liabilities	<input type="checkbox"/>	<input type="checkbox"/>
Validation of Shareholder/Owner Equity	<input type="checkbox"/>	<input type="checkbox"/>
Validation of Accounts Receivables	<input type="checkbox"/>	<input type="checkbox"/>
Validation of Expenses	<input type="checkbox"/>	<input type="checkbox"/>
Validation of Prepaid Expenses	<input type="checkbox"/>	<input type="checkbox"/>
Validation of Accounts Payables	<input type="checkbox"/>	<input type="checkbox"/>
Validation of Bank Indebtedness	<input type="checkbox"/>	<input type="checkbox"/>
Validation of Related Party Indebtedness	<input type="checkbox"/>	<input type="checkbox"/>
Validation of Shareholder/Owner Investment	<input type="checkbox"/>	<input type="checkbox"/>
No Validation Testing Was Performed	<input type="checkbox"/>	<input type="checkbox"/>

4. Do you believe that UFSs can be used in matrimonial disputes?
  - When CPA created?
 

Yes     No     No opinion
  - When Management created?
 

Yes     No     No opinion
  - When Certified Bookkeeper created?

Yes  No  No opinion

### General Questions

#### What is your age?

20 – 29  30 – 39  40 – 49  50-59  60 +

#### What is your gender?

Male  Female  Other  Prefer Not to Answer

#### What is your highest education level?

Undergraduate Degree  Graduate University  Post Graduate

#### What designations do you have (check all that applies)?

LLB  JD  CPA (Canada)  CPA (US)  Other (please specify) \_\_\_\_\_

#### What size of the firm you work for?

Independent  Small firm (1-5 Lawyers)  Medium firm (6-15 Lawyers)  
 Large firm (16 + Lawyers)  Government  
 Other (please specify) \_\_\_\_\_

#### What is your employment status?

Sole Practitioner  Employee  Partner  Other (please specify) \_\_\_\_\_

#### How long have you been practicing law?

Less than 1 year  1-5 years  6-10 years  11 years or more

#### How long have you been practicing family law?

Less than 1 year  1-5 years  6-10 years  11 years or more

Do not practice family law

#### In the past 2 years in your practice:

What percentage of cases are family law? \_\_\_\_\_%

What percentage of matrimonial disputes involves self-employed individuals? \_\_\_\_\_%

What percentage of matrimonial disputes involving self-employed individuals present financial statements that are UFS? \_\_\_\_\_%

What percentage of matrimonial disputes involving self-employed individuals did the UFSs contain uncovered misrepresented financial information? \_\_\_\_\_%

## Appendix B: G\*Power Results for RQ1 and RQ3

### G\*Power Results for RQ1 and RQ3

#### G\*Power sample size calculation for RQ1

**t tests** - Means: Difference from constant (one sample case)

**Analysis:** A priori: Compute required sample size

**Input:** Tail(s) = One  
 Effect size d = 0.5000000  
 $\alpha$  err prob = 0.05  
 Power (1- $\beta$  err prob) = 0.80

**Output:** Noncentrality parameter  $\delta$  = 2.5980762  
 Critical t = 1.7056179  
 Df = 26  
 Total sample size = 27  
 Actual power = 0.8118316

#### G\*Power sample size calculation for RQ3

**t tests** - Means: Difference between two dependent means (matched pairs)

**Analysis:** A priori: Compute required sample size

**Input:** Tail(s) = One  
 Effect size dz = 1.0000000  
 $\alpha$  err prob = 0.05  
 Power (1- $\beta$  err prob) = 0.80

**Output:** Noncentrality parameter  $\delta$  = 2.8284271  
 Critical t = 1.8945786  
 Df = 7  
 Total sample size = 8  
 Actual power = 0.8150194