

In order to exaggerate the EPS, earnings must be shown to have increased; this can be done in two main ways – by overstating revenue or by understating expenses. This always leads to assets that do not exist or are overvalued, or liabilities that are understated (both of which are examples of aggressive accountancy techniques aimed at increasing profits). This may be done clumsily, at the end of the financial quarter/year, or more stealthily throughout the accounting period; it may also involve transferring money from one part of the company to another and then back again, and every year it becomes harder to maintain the illusion of growth.

There is a particular order to accounts, as specified by Companies House. A financial statement includes the balance sheet, the income statement (profit and loss accounts), the cash flow statement and notes to the financial statement (which describes how figures in the balance sheet have been calculated). These terms are defined more fully here:

Balance sheet – this is everything a company owns balanced against everything it owes. Companies generally go bust because of a bad balance sheet, with debt outweighing credit. This is made up of three parts:

Assets – everything a company owns, in order of tangibility:

- Fixed assets** – includes property, plant and equipment which cannot readily be converted into cash.
- Current assets** – includes cash at the bank and stock that is expected to be sold within the accounting period.
- Intangible assets** – largely based on goodwill (see p.18), this depends on the brand and the extent to which the company is a going concern.

Liabilities – everything a company owes including:

- Current liabilities** – that which is payable within the year, including wages, bank overdraft and debts to creditors.
- Long-term liabilities** – that which cannot reasonably be expected to be liquidated within the financial year, including bonds and pensions.

Net current assets – total assets less current liabilities; if this is a negative figure, the company is in trouble.

Creditors – the amount a company owes to another company, individual or institution, listed according to whether it falls due within or after one financial year.

Debtors – the amount owed to a company by its customers, listed according to whether it falls due within or after one financial year.

Called-up share capital – the amount the shareholders have put in, which appears as cash in the bank.

Profit and loss account

HOW TO CONDUCT INVESTIGATIVE RESEARCH



¹ Taken from <http://www.schillings.co.uk/tools/reynolds-privilege/>

² <http://www.guardian.co.uk/world/triatura-probo-koala>

The first part of this section is based on a presentation by Luuk Sengers: <http://www.luuksenengers.nl>

While the case outlined above illustrates the difficulty of bringing certain stories to light, it hopefully also illustrates the importance of doing so. In today's world, there are thousands of similar stories of corruption, so allow your conscience to guide you and unleash the results of your research.

If an individual or organisation receives advance warning that you are about to publish something which reflects them in a negative light, they may try to take out an injunction to prevent publication. In 2010, the use of super-injunctions came to light, whereby newspapers are not only prevented from publishing but they are also prevented from mentioning that they have been prevented from publishing. In a landmark case, in which a super-injunction had been taken out to prevent *The Guardian* from publishing the details of the oil trader, Trafigura, dumping toxic waste on the Ivory Coast, Paul Farrelly, MP for Newcastle-under-Lyme, used parliamentary privilege to bypass the injunction. Inscrbed in the Bill of Rights of 1689, this is the unqualified right of an MP to speak freely in the House of Commons without fear of interference by any court in the land. In this way, Farrelly was able to broach the subject of Trafigura, having announced his intention in advance on Twitter, which brought the story firmly into the public domain, allowing *The Guardian* to publish its research.²

The first part of this section is based on a presentation by Luuk Sengers: <http://www.luuksenengers.nl>

¹ Taken from <http://www.schillings.co.uk/tools/reynolds-privilege/>

² <http://www.guardian.co.uk/world/triatura-probo-koala>

The first part of this section is based on a presentation by Luuk Sengers: <http://www.luuksenengers.nl>

• The seriousness of the allegation.

• Whether it was on a matter of public concern.

• The source of the allegation.

• The steps taken to verify the information.

• The status of the information.

• The urgency of the matter.

• Whether comment had been sought from the claimant.

• Whether the gist of the claimant's side of the story had been published.

• The tone of the article.

• The circumstances of the publication.¹

If you publish an allegation that is untrue, you may under certain circumstances invoke the Reynolds privilege. Under this privilege, publication of material can be successfully defended if the following clauses are met: (1) the media was under a duty to publish the material in question; (2) the people to whom the material was published had a legitimate interest in reading it; and (3) the media behaved responsibly. In the case of Reynolds v Times Newspapers Ltd (1999), the Court set out ten guiding principles, now known as the 'Reynolds factors', which would be considered in deciding whether a publication had behaved responsibly. The ten factors are:



How to Conduct Investigative Research

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2011-01-19

Published by Rebecca Gordon-Nesbitt

made with bookleteer.com from proboscis

2, 4, 6, 8, 10, 12

<http://bkltr.it/KX9TUv>

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UK Parliament: <http://www.parliament.uk/site-information/foi/request-foi/>
Scottish Parliament: <http://www.scottish.parliament.uk/en/Pages/contactUs.htm#foi>
Welsh Assembly: <http://wales.gov.uk/publications/accessinfo/makearequest/?lang=en>
Northern Ireland Assembly: <http://www.niassembly.gov.uk/foi/freedom.htm>
As someone may previously have requested the information you are seeking, it is good practice to search the documents already released by the body you are investigating before making your request. Once you are satisfied that this information is not readily available in the public domain, you can send in a request (by post or email), stating succinctly what it is you require and giving your name (you may apply under a pseudonym but bear in mind that, if your case goes to appeal, you will need to provide an address. You do not need to mention the Act as your request will automatically be dealt with under its auspices. Be as specific as possible and consider using the dates of specific events you are enquiring about (if known) or date ranges for quantities of information solicited.

Note that the Act may also be used to elicit information about private companies where they intersect with public authorities through provision of goods and services. The Freedom of Information Act (FoI) is the first tool in any investigative researcher's arsenal. It is very easy to make a request under the Act and the majority of public bodies will have a part of their website dedicated to Freedom of Information. Some useful web pages are:

- government departments and local assemblies
- local authorities and councils
- health trusts, hospitals and doctors' surgeries
- schools, colleges and universities
- publicly funded museums
- the police
- many other non-departmental public bodies, committees and advisory bodies²

This applies to:

In his 2010 memoirs, Tony Blair berated himself for introducing the Freedom of Information Act: 'I feel like shaking my head till it drops off my shoulders. You idiot, you naive, foolish, irresponsible nincompoop. I quake at the irresponsibility of it.' 'Nonetheless, the Act still stands, which means that, since 2000, every public sector organisation in the UK has been obliged to respond to requests for information from its citizens.'

How to Use the Freedom of Information Act

The golden rule when researching spin and lobbying is to remember that things are not always as they seem; beneath a seemingly benign, grassroots organisation, with a message which seems to favour the public interest, may lurk more cynical motives.

A useful forum for collating and publishing your research into spin and lobbying, with feedback from editors, is provided by Powerbase.¹ The site focuses on power networks, on how they are organised and on associated issues such as spin and propaganda in politics, the corporate world and elsewhere. It includes significant resources on neoconservative networks, terrorism expertise, policing and intelligence agencies. The project aims to serve as a resource for journalists, activists and academics and as an educational, campaigning or knowledge transfer tool. By laying bare the professed or hidden affiliations of powerful actors, it seeks to highlight conflicts of interest and hidden agendas in order to promote transparency in public life. Powerbase operates as a Wiki which requires you to register in your own name in order to begin editing pages.

In the majority of cases, it will be useful to have a chronology of the events under investigation – when x met with y, decisions were taken, public relations campaigns began, scientific studies published, company accounts filed etc. This does not mean that you have to relay the story chronologically, but a clear grasp of the timeline will help you to move around in time within the re-telling. Many of the most common software packages have the facility to plot a timeline once you have the data, with Excel being a useful vehicle for recording dates and plotting them over time.

How to Write up Research

The two most important considerations when writing up your research are that you convey the facts in the most engaging way and that you avoid being subject to legal action.

Just like any good story-teller, you will need to try and engage your reader. This is best done by considering the same criteria as screen writers would, which includes characterisation – outlining people's motivations, psychological state and obstacles – and setting the scene. You may wish to begin with a hypothesis and examine various causes and effects. Human interest is always a good building block for a story, with the drier details quickly summarised so as to avoid losing your reader. A good story will lead to some kind of struggle, climax, resolution or conclusion. All facts reported must be verifiable but you can recount them in a rich, multi-layered way.

This brings us onto our next point – avoiding legal action. In order to do this, you will need to be meticulous in your research process. Keep copies of every document you rely upon in your argument, take notes from every meeting or conversation you engage in, even if it is 'off the record', and double-check everything when you come to write up. This is especially the case where your story exposes a major political or corporate scandal in which fierce libel lawyers might be involved.

If everything you have written is true and verifiable, you will largely be protected from legal action. Charges of defamation, slander (for transitory statements) and libel (for written, broadcast or otherwise published words) generally rely on published statements being untrue. Take extra care with juxtaposition, using words like 'meanwhile' and 'separately' to distinguish different actions and protagonists; also use 'allegedly' freely.

¹ See <http://www.tcij.org>
We would love to hear about your investigations and any suggestions you might have for how this manual could be improved at: investigative.manual@gmail.com

Recent legal cases, in which councils have tried to renege on their duty to open their accounts to scrutiny, have favoured the public right to view, concluding that councils may not solely provide a summary of the accounts when a request has been made to view the detailed books; councils may not use the Data Protection Act to withhold details and they may not refuse to disclose information on the basis of the motive behind the request or the use to which information might be put.² A recent High Court ruling upheld the right of the public to view the accounts in the face of claims that commercial confidentiality would be compromised. Despite what you may be told, you have a right to inspect the accounts in person without an appointment and without permission from any individuals or companies; similarly, documents identifying members of staff are not exempt.

The Act also permits the copying of all contracts, books, deeds, vouchers, receipts, bills and invoices under audit' by 'persons interested' are defined as 'persons making a direct financial contribution to the authority's account (council tax payer) or local election, or representative of business in the area making indirect contributions to the authority's accounts through uniform, non-domestic business rates'. If you do not live or work in the area in which you are interested, you can always work with someone who does. Precise details of salaries, benefits and pension payments to current/former staff are excluded from this, but the Act has been amended to compel the inclusion of a formal note detailing (by job title) employees earning over £50,000 per year and heads of service earning more than £150,000 per year. The Act prohibits any alteration to the accounts being made within the inspection period and any breach of these regulations is an offence; it also contains the right for the public to object to the accounts.

In England, this is called the Audit Commission Act (1998): in Scotland it is known as the Local Authority Accounts Regulations (1985); in Wales, the Public Audit Wales Act (2004) and, in Northern Ireland, the Accounts and Audit Regulations (2006).¹ In all its variants, the Act assumes the public to be part of the auditing process of local government, which obliges the local authority to open its accounts to inspection for twenty days (fifteen in Scotland) per year. These dates must be advertised in a public notice via a newspaper circulating in the local area that will usually give the name of the officer you should contact – deal with them directly without being sidetracked by the press officer.

This section introduces a little-known companion to the Freedom of Information Act which allows interested members of the public to inspect the accounts of the local authority and the police force.

RESEARCH LOCAL GOVERNMENT FINANCE

HOW TO

You are free to request all the information available on a particular topic, covering a variety of formats, including:

- Minutes of meetings
- Policy documents
- Reports
- Details of communications – emails, letters, faxes and telephone transcripts, video, text messages, PowerPoint presentations
- Details of public money spent
- Personal information held about you (also accessible under the Data Protection Act)

You can ask the material to be sent to you as a hard copy or digitally, depending on your preference. Most requests are free of charge, but this implies an upper limit of £450 (£600 for central government) that will be borne by the public body finding and copying material; if fulfilling your request is likely to exceed this, you will be asked to narrow your request. Note that, in a recent legal case concerning Glasgow City Council and the Scottish Information Commissioner, the judge took the view that the Act covered access to the information, rather than copies of the information itself, which has led to certain authorities (notably Strathclyde Police) providing summaries of information requested rather than original copies.⁴

Every public body has a duty to reply within twenty working days unless they ask you for more time to process your request.⁵ Within the initial twenty-day period, they may also contact you in an attempt to establish precisely what kind of information you need.

Environmental and financial information may be covered under separate legislation. The former may be covered by Environmental Information Regulations;⁶ the latter is dealt with in the next section of this manual.

There are twenty-three exemptions to the Act, but the emphasis is on disclosure and it is the responsibility of the public authority to use exemptions judiciously.⁷ If you are not happy with the decision reached by the authority, you are entitled to launch a review process. In the reply to your original request, you will be given the contact details of someone within the same organisation to whom this request for a review should be made. If the original decision is upheld, totally or partially, and this is still not to your satisfaction, you should contact the information commissioner:

In England, Wales and Northern Ireland: http://www.ico.gov.uk/complaints/freedom_of_information.aspx
In Scotland: <http://www.itspublicknowledge.info/YourRights/HowToAppeal/HowToAppealIntro.asp>

If you are dissatisfied with the Information Commissioner's decision, you may appeal this:
In England, Wales and Northern Ireland: <http://www.informationtribunal.gov.uk/formsguidance.htm>
In Scotland: <http://www.itspublicknowledge.info/YourRights/HowToAppeal/CourtAppeal.asp>

Sometimes, public authorities will invoke copyright legislation when providing material to you. It is important to note that the Freedom of Information Act does not place restrictions on how you use the information you receive under it. An exception to this is where the material released is already covered by copyright, or where information is being used for commercial purposes.

When using FoI, be persistent – some authorities are more forthcoming than others – and be prepared to challenge decisions.

Based on a presentation by Rob Evans: <http://www.guardian.co.uk/profile/robevans>

¹ Tony Blair, *A Journey* (London: Hutchinson, 2010).

² Download the leaflet entitled 'Your Right to Know' about Freedom of Information in Scotland at:

<http://www.itspublicknowledge.info/nmsruntime/savesdialog.asp?IID=1858&sID=321>

³ http://www.direct.gov.uk/en/Governmentcitizensandrights/Yourrightsandresponsibilities/DG_4003239

⁴ <http://www.scotcourts.gov.uk/opinions/2009CS1H73.html>

⁵ Use the Scottish Information Commissioner's Response Calculator to see when you should expect a reply:

<http://www.itspublicknowledge.info/YourRights/responseCalculator.asp>

⁶ <http://www.defra.gov.uk/corporate/policy/opensgov/eir/faq.htm>

⁷ http://www.ico.gov.uk/home/what_we_cover/freedom_of_information/guidance.aspx#exeguidance

As spin and lobbying are largely conducted behind closed doors, detailed investigative methods are required. You will, therefore, need to use any or all of the previously-described methods in clever combinations, looking at both individuals and organisations and the connections between them. This kind of research usually begins with a simple internet search for an individual PR guru or lobbyist or an agency with which they are affiliated. Follow all the links that come up and, if relevant information is available on a website of dubious credibility, you will need to look for an alternative source to verify it. If you suspect that pages from a particular website have been modified or removed, use the Way Back Machine at archive.org to retrieve older versions. If you would like to capture a current web page for posterity, use the Firefox extension, at screengrab.org.

between lobbyists and officials and potential conflicts of interest.

Spin's evil twin is lobbying. The right to lobby government is every citizen's prerogative in a functioning democracy, but in Britain the practice is dominated by a £1.9 billion industry which mainly lobbies on behalf of big business interests. This has doubled in size since the early 1990s and, until the May 2010 proposals by the Conservative-Liberal Democrat government to create a lobbying register, was largely unregulated. People involved in the profession today range from consultant lobbyists – many of whom are employed by large PR firms, law firms or management consultancies – to in-house corporate lobbyists, business associations, trade unions, NGOs and think tanks. The majority of successful lobbyists have political experience and contacts inside government, with many professional lobbyists being former politicians or staffers. Based on US figures, the estimated pay-offs are staggering: for every \$1 spent on lobbying, a business can expect a return of \$100.² Since the success of a particular lobby usually depends on resources and access, which often translates into influence, it becomes imperative for citizens to understand the linkages between lobbyists and officials and potential conflicts of interest.

This chapter examines how to expose the activity of shaping public opinion through the sophisticated use of public relations – otherwise known as spin. Used since before World War One, by politicians and political parties in need of burnishing their image in the public eye, spin has increasingly been associated with government and corporate campaigns. Like political spin, the use of PR by business dates back to the early years of the twentieth century in the UK, burgeoning whenever public acceptance of corporate dominance has dipped.

HOW TO EXPOSE SPIN

If you are researching an individual, you can use published volumes, such as *Who's Who* or *Debrett's Peerage*, to establish the basic family history and affiliations of the great and the good. For a more thorough search, especially on issues of historical relevance, you might use Nexis UK (available digitally through the website of the university library), which will bring up lists of press and publications involving the subject of your research. You will also need to deploy some of the methods outlined in the chapters on How to be a Web Detective and How to Find People Online to track down individuals.

If you are looking at a company, refer to the chapters of this manual dealing with Companies House and corporate accounting; if you are investigating an organisation with charitable status, the various Charity Commissions of the UK keep registers that are available online. In the battle to control public and political opinion, the use of think tanks, front groups and fake grassroots (or astroturf) organisations has become established practice, and information available at Companies House might provide important insight into the powerful funders behind a particular organisation. You may wish to explore the links of company directors and charity trustees in order to establish a pattern of inter-connectedness. You can use social network analysis to visually map out the linkages between various groups and individuals, using graphical software such as Y-ed.³ Some interesting experiments in this area have been conducted, with Exxon Secrets (<http://www.exxonsecrets.org>), showing how Exxon Mobil funds attempts to disrupt the scientific consensus on global warming.⁴

In order to expose junctures at which corporations have used spin to massage the figures, you will often need to compare the message they want you to read with the actual facts, which may involve consulting annual reports and empirical research from the same field. If you are researching lobbying, you may wish to consult Hansard, the daily record of debates in the House of Commons, to determine when a particular issue was brought before parliament and by whom.⁵

If you are investigating a website, look for registration information, as outlined in the Web Detective chapter, while bearing in mind that, in recent years, some actors have taken to using domain-anonymising services to conceal their identities. Similar searches may also be carried out for IP addresses: sometimes all it takes to expose a front group is to put its address into Google and check whether another organisation shares the same address.

Something as mundane as a phone call might also help to establish a link. In 2009, a call to the London offices of Réalité EU – a web-based project with a newsletter that pushes alarmist claims on Iran – was redirected to voicemail in the US. Taking down the number given in the voicemail and typing it into Google showed it to be a number in the offices of The Israel Project, a hard-line Israel lobby group based in Washington DC. Subsequent emails received from Réalité EU revealed that they were sent from a mail server registered to the Washington offices of B'nai B'rith International, a leading national Israel lobby institution, which shared a mail server and office with The Israel Project.

You can also make extensive use of the Freedom of Information Act (see the first chapter of this manual) to obtain information from public bodies which is not generally available. Although private companies are not vulnerable to FoI, their communications with public bodies are and this can be a key resource for investigating corporate lobbying. Be prepared to persist to obtain the information you need. It took Spinwatch⁶ researchers two years to force the House of Commons to release the names of former MPs with pass access to the House of Commons, which showed that at least twenty-five of them were working as lobbyists and were able to use their passes to gain access for their clients. Freedom of Information also operates at a European level, providing access to important documents dictating policy to member states.

One of the first steps in interpreting budgets in the public sector is to determine whether they are going up or down, in real terms, compared to previous years. While increases in overall spending may be trumpeted by politicians, it is the **current expenditure** which reflects the consumption for the current year and excludes other considerations that might account for a boost in spending (such as capital/investment spending). You might also wish to compare the organisation you are studying with an equivalent in the field, which is known as **benchmarking**.

Within central government, current (or resource/revenue) expenditure further breaks down into:

Resource Departmental Expenditure Limits (known as RDEL) – this is set by individual departments, often over several years, and reflects the planned expenditure, therefore is not a guaranteed figure.

Resource Annually Managed Expenditure (known as RAME) – this is set on an annual basis and is volatile as it is 'demand-led' and depends on council tax spending, social security benefits and debt interest repayments.

Compound Annual Growth Rate (CAGR) is the real amount by which budgets are increasing after inflation. This takes account of **debt interest**, which massively reduces current spending levels.

- Set both annual and three-year budgets.
- Make a distinction between revenue and capital spending.
- Separate out cash transactions.

The majority of public sector organisations will:

Public sector spending in the UK is considerably higher than in many other countries. In order to monitor the ways in which this money is spent, it is necessary to know how budgets are constructed and where the main areas of financial jiggery pokery might be found. The ways in which spending is controlled and categorised are key factors in this regard.

How to Read Public Accounts

In advance of the inspection period, you may request a copy of the spreadsheet and you could find out the name of the external auditor. The spreadsheet will provide an overview, enabling you to narrow your search and request a breakdown in particular areas e.g. legal and arbitration, consultancy, public relations. At this time, you can write to or email the responsible officer, requesting areas of the accounts which are of interest to you. The council has the right to redact any personal information from the spreadsheet only with the prior consent of the external auditor, so you may wish to check that this permission has been granted.

The location of documents may present a logistical hurdle to their inspection. Some may be kept in schools, which will be closed if the inspection period falls during holiday time, or they may be outsourced to financial accounting services and stored hundreds of miles away.

It is an offence for an official to interfere with a person's legitimate right to view and copy the accounts. Any attempted obfuscation may be reported to the external auditor as a prelude to making a formal objection to the accounts. You may also inform the local authority that you intend to seek an order from the court for the material to be supplied in accordance with the Act, giving a deadline for the material to be provided. You are entitled to be represented by an agent.

Assuming you manage to surmount any obstacles in your path, on the advertised dates you will then be able to request direct access to all relevant contracts, receipts, invoices etc., by departmental budget code and description. Request particular documents in a bid to ensure that all expenditure has been lawful, bearing in mind that you might be charged for copying.

You can check expenditure against the council's own financial regulations to ensure that it complies with procedure. If you are looking at an elected member's expenses, cross reference data from the accounts with the statutory register of elected members' expenses and with the statutory public register of elected members' financial and non-pecuniary interests. Note that arms' length external organisations and Public Finance Initiative (PFI) contractors seem able to exclude their accounts from scrutiny under the Act, but they intersect with local authorities in places, which means you are entitled to see all relevant contracts and invoices.

Related legislation concerning local authority affairs includes:

Local Authorities (Members Allowances) Regulations 2003 – which requires councils to maintain and make available a public register of all payments to and expenses claimed by councillors.

Local Government Act (2000) – which requires councils to maintain and make available a public register detailing the personal and financial interests of all elected members and co-opted members.

Local Authorities (Model Code of Conduct) Orders (2001) – which requires councillors to disclose employment, business, property, investment, contractual, political sponsorship, charitable, trade union and professional interests.

Based on a presentation by Richard Orange: <http://www.orchardnews.com>
¹ For more details about the legislation, see <http://www.orchardnews.com/accounts.htm>
² <http://www.panopticonblog.com/2009/11/09/accessing-local-authority-information-under-the-audit-commission-act-1998/>

If John's e-mail address is: johnbirdsmith@aol.com
his home page address would be: <http://members.aol.com/johnbirdsmith>
If his e-mail address is: john@birdsmith.freeseerve.co.uk
his home page might be found at: <http://www.birdsmith.freeseerve.co.uk>
The obvious way to find someone's home address is to look in the phone book. <http://www.teldir.com> provides links to many online telephone directories around the world. The United States has more freedom of information than the UK and so, if John lived in the US and all we had was his phone number, we could trace his home address by doing a 'reverse number search' at <http://www.infousa.com>

Finding Homepages
You can trace someone's personal homepage by looking at their e-mail address and familiarising yourself with the ISP's homepage address format.

Sourcing Communities for Information about Individuals
Using what we already know about websites and their provisions, let us see what information we can find out about John Smith, for example, who has access to the internet and is a fanatical birdwatcher.

Hosted by ISP (Independent Service Provider)
ISPs such as AOL and Yahoo offer their clients access to 'space' on a server for the hosting of their website. For example, Yahoo owns Geocities.com and uses it to give members free web space. The website address can give you information about the person, so <http://www.geocities.com/johndoe>. This will appear in his email address as johndoe@yahoo.com – of course, this is generally searchable, but you may be able to find out more information about him by searching for his user profile at <http://www.members.yahoo.com>

Free Webpace
Various companies offer free webpace, the most popular being Geocities, Fortune City, Angel Fire and Tripod. The people behind these sites are often harder to trace than the owners of ISP web space sites. However, some of these sites are owned by the ISP so there is the possibility of tracing an individual from the url address as shown in the next section.

University Servers
You will often find personal web pages hosted on sites owned by universities.

Let's say you have found a site with the address:
<http://www.harvard.edu/~johndoe/snow.html>
If you edit the web address back to <http://www.harvard.edu/~johndoe> you will probably find yourself at John's home page (hopefully with biographical and contact details). If you edit the address back further, to <http://www.harvard.edu> you will find yourself at the home page of the university. You can then go to the staff directory section and see if there are contact details for John Doe. If not, then John Doe might be a student. Either way, you may still find extra details by doing a keyword search for 'John doe' Harvard

Every scrap of personal information is useful when trying to trace people. Don't forget to look in Google Groups. You can also perform a search for information on websites at www.coolwhois.com.

Govanhill Baths Community Trust'. This information will usually allow you to undertake further searches on both the person and the organisation. This search may also reveal the name of the person responsible for the site and its upkeep, their address, phone number and email address.

This service is not available for UK phone numbers, however a search on <http://www.192.com> may give you the full address (see How to Find People Online). This information can help you with further searches for information on the web and in newsgroups.

You could see if John has been involved in criminal activities by checking the online archives of his local paper. You can see if he has been made bankrupt by checking the disqualified directors database on the Companies House website or the register of insolvency via the Accountant in Bankruptcy <http://www.aib.gov.uk>

Finally, having found John's address, we can perhaps gauge his standard of living by profiling his local area. By entering his postcode in <http://www.upmystreet.com> you will be supplied with property prices and crime rates. You could even see if John has a swimming pool by accessing an aerial photograph of his house at <http://www.getmapping.com>

Newsgroups
John Smith may not realise that his every message to a bird watching newsgroup is being stored. He may be mortified to find out that, by simply clicking on his name in Google, anybody could see the messages he has sent to other newsgroups. These might be just as mundane as his birdwatching messages, but, with so many sexually and politically orientated newsgroups in existence, John's contributions could reveal a side to his personality that would normally be hidden. See the section on newsgroups in How to Find People Online for searches in social network sites.

Protecting Your Privacy
The amount of online information that can be dug up on any individual is frightening. If you are concerned about your own privacy or worried about being traced and profiled, there are a number of golden rules to follow:

- If you are considering contributing to online forums, avoid using your home e-mail address.
- Register different free e-mail addresses for different forums. Never give out details about yourself that you don't want to see printed in a national newspaper.
- Exercise your rights under the Data Protection Act to have personal information removed from online databases.

Based on a presentation by Paul Myers: <http://www.researchclinic.co.uk>

There are several ways to be creative with funny money:

point at which they have been consumed so, for example, a gas bill received in April, detailing the gas used in March, will be reported as having been spent in March. In hospitals, look out for pre-payment or partially completed spells.

Accruals or Resource Accounting is where resources are reported as having been spent at the point at which they have been consumed so, for example, a gas bill received in April, detailing the gas used in March, will be reported as having been spent in March. In hospitals, look out for pre-payment or partially completed spells.

different from resource spending.

materialises creates more opportunities for creative accounting. Bear in mind that cash is up by tax revenue. The discrepancy between cash that is promised and that which actually organisation has to claim the cash value from the Treasury, but sometimes this will not be backed up by tax revenue. When government allocates funding to organisations, it is in the form of an I.O.U. and the spending, there is also a lack of clarity around the budget lines 'cash', 'near cash' and 'non-cash'. As in the examples given above, in the fluctuating distinctions between revenue and capital

Cash and Funny Money

Look at the Notes to the Accounts for details of any redefinitions.

By changing the budget from which money is drawn, the whole accounting position is changed.

Organisations will go to great lengths to balance their books. Definitions of spending may be varied to suit accounting purposes, which has seen whole categories of items fluctuating between revenue and capital from one year to the next, according to which account needed bolstering. In the past, there have been attempts to pay staff responsible for capital projects from the capital budget, thereby alleviating revenue spending. Similarly, the definition of equipment as consumables (revenue) or fixed assets (capital) is by no means clear.

4 Capitalisation/decapitalisation

period changing.

intention to sell. As an investigative researcher, you should look for evidence of the valuation be conducted at regular intervals, with a revaluation being undertaken if owners have an during a boom time, in order to transfer profits over to revenue spending. Valuations will normally managers might have their properties valued while prices are plummeting, only to sell them Perhaps inevitably, this has led to the manipulation of valuations. So, for example, hospital

- Only 'profit' above and beyond the book value may be used to fund revenue costs.
- property is determined), involving a district auditor applying a defined methodology.
- There are rules governing property valuations (through which the 'book value' of a
- The proceeds from capital sales are only intended to fund new capital projects.

According to law:

3 Property Valuations

profit is permitted to be transferred over to the revenue account.

main ways in which capital can enter into the revenue account is if an asset is sold, whereby any If the revenue budget has been overspent, attempts may be made to raid the capital budget. One of the

2 Capital to Revenue Transfers

Distinction between Revenue and Capital Spending

One of the main ways of controlling how public money is spent relies on the somewhat malleable distinction between revenue and capital spending.

Revenue spending (also known as resource/current spending) is derived, in theory, from tax revenue hence its name. Revenue spending reflects immediate consumption, for example wages, benefits, heating and food for hospitals and schools.

Capital spending (also known as investment) is officially defined as something that costs more than £5,000 and lasts more than one year, which includes buildings and other long-life equipment. A more pragmatic definition is that, if you can see it from the road, it has probably come from capital spending. Because of their investment potential, capital projects may be financed through borrowing. This means that capital spending is a useful area in which to attract borrowing to meet the deficit between revenue and expenditure. In times of crisis, capital spending is the first area to be cut because it is less immediate and often less evident than cuts to revenue spending. So, for example, buildings can suffer some lack of maintenance more subtly than frontline resources can be lost.

Controlling Capital Spending

In order to understand how creative accounting may be undertaken between revenue and capital accounts, it is necessary to consider the following:

- Capital budgets are ring-fenced, with borrowing limits in place for each public sector organisation.
- Capital is intended to stay as capital and there are rules against funding revenue spending with the proceeds from asset sales (so, for example, a school cannot sell its buildings to pay for its teachers and books).
- Capital charges are payable, as a tax to the Treasury, on any assets sold, which acts as a disincentive to owning/selling property.

Of course, creative accountants have found ways around all of these controls:

Creativity around Capital Spending Limits

Capital budgets may be manipulated in the following ways:

1. Revenue to Capital Transfers

Public Finance Initiatives (PFIs) are rather like public sector hire purchase agreements, allowing payment for an asset to be spread over an extended period. Significantly, for a public sector organisation entering into partnership with a private body, PFI permits capital assets to be paid for with revenue. Invented to keep government debt levels (and hence interest rates) down, this has recently been the main government-endorsed way of conducting spending away from the balance sheet (the statement of financial position for any organisation). Of the 628 PFI deals entered into by February 2010, 532 of them have been conducted away from the balance sheet in deals worth £57bn; by 2060, the *cost* of these deals to the public purse will be £267bn.

The accounting system has recently been reformed to avoid off-balance-sheet transactions, which will have an impact on the public sector.¹

By the same token, 'poverty site:trf.org.uk' will restrict the search to poverty reports from the Joseph Rowntree Foundation (JRF).

universities. Ensure there are no spaces between the search characters.

Scottish government websites while 'tourism site:ac.uk' would restrict the search to UK specified address or domain. For example, 'tourism site:scotland.gov.uk' would limit results to a

Typing 'SITE' before the address or domain name in a search box will ensure the results relate to a

Using OR between words will ensure that either or both words appear on pages in search results. For example, typing 'tourism expenditure OR revenue' will help produce information about money spent by tourists.

Using OR between words will ensure that either or both words appear on pages in search results. For example, typing 'tourism expenditure OR revenue' will help produce information about money spent by tourists.

no space between.

traveller from a search for 'doctor'. The minus symbol needs to be next to the unwanted word, with word are omitted from the results. For example, 'doctor - who' will eliminate the eccentric time

Using a minus sign (-) before a word you wish to eliminate will ensure that pages containing that word are omitted from the results. For example, 'doctor - who' will eliminate the eccentric time

Using a tilde (~) before a word will find pages with related terms such as 'care', 'clinic', 'medical'.

The majority of researchers in the UK use Google for basic searches, but these can be improved by bearing in mind the syntax you use. For example, putting words into inverted commas keeps names together, which means that typing 'John Major' will screen out results such as 'John Travolta's next

Google Syntax Guide

This chapter introduces various methods for undertaking investigative research work on the internet. It will show you how to find information and statistics by using accurate search terms and how to obtain more in-depth information about specific websites.

In cyberspace, it's as if we have a camera on our back following us around, recording our every move – Jeff Rosen

HOW TO BE A WEB DETECTIVE

Typing the term ' filetype' before a data file extension (.doc .rtf .pdf .xls .xlsl .ppt) will ensure that a certain kind of document appears in a search. For example, 'poverty site:scotland.gov.uk filetype:xls' will restrict the search to Excel spreadsheets which mention poverty within the Scottish government website. Ensure there are no spaces between the colon and domain address and filetypes.

Format Selector for Finding Statistics

A similar search term format can be used in any of the search engines (Google, Yahoo, Bing etc.) to find collated lists of information such as statistics, expenses etc. In the search box, state the filetype you wish to find. For example:

Compare:	house prices Greenwich
With:	"house prices" Greenwich 2007 filetype:xls
Compare:	MPs expenses
With:	"MPs expenses" filetype:xls

If you are looking for experts in particular fields, it may be possible to identify them from a PowerPoint presentation they may have made. So, for example, to find experts in the field of terrorism, type the search terms 'terror* filetype:ppt' (use * so that the search will find all words beginning with 'terror', which will include 'terrorist' and 'terrorism').

Detective Work on Sources

When you visit websites, remember to identify and verify the sources and ask questions, such as:

- Who is the author/publisher of the article?
- Are they an authoritative source?
- What are their credentials, qualifications, background and experience?
- What are their motives for publishing the information?
- What is their standpoint?
- Who sponsored or funded the site?
- Click on 'other links' to discover who the website has relations with and investigate for bias or partisanship.

Websites for Investigating

If you have the email address of the person you are investigating, you can search for information about them by typing in the 'Email' category of the search box at <http://www.pipl.com>. Try typing in your own email address to see the kind of information that is brought up.

If you are undertaking political research or investigating your MP, a good place to start is They Work for You <http://www.theyworkforyou.com>

It may also be possible to find people who contribute potentially useful information through the photo-sharing network, Flickr <http://www.flickr.com>. Try a tag-search for 'participation' or for 'pollution' and follow the links to other interesting pages.

Tracing Website Owners

Generally, there are four kinds of websites: owned domain names, university servers, free webspace and sites hosted by ISP.

Owned domain names

The owners of these kinds of sites are usually easy to track as every domain name owner must supply contact details to the authorities. A domain name and its owner can be searched at <http://www.easywhois.com>. For example, if you have someone's email address that belongs to a dedicated domain, such as 'john@govanhillbaths.com', insert the domain 'govanhillbaths.com' into <http://www.easywhois.com>. The search result will show the full name of the domain owner, such as

Each of the documents listed costs £1 to request and, once you have paid for them in the checkout section of the website, you will be able to download them in PDF format. You can also request document packages, for example 'all documents since 2003' for a cost of £4.

- **Incorporation document** (Newinc) – which shows who set the company up and when.
- **Annual Return** (AR01/363) – which gives details of the current directors and the number of shares in the company (if any) which exist and who owns them.
- **Annual Accounts** (AA) – which provides a balance sheet, showing the value of assets held by the company and its creditors and debtors, plus the shareholders' value (see the next section of this manual, which describes how to read company accounts).
- **Appointments** – which includes new appointments (288a), resignations (288b) and any change of details (288c).
- **Mortgages** (495) – which details any specific loans on property or equipment.

This includes different categories of documents, including the company's:

You can then choose to monitor this company or order further information on it (using the menu to the right of the screen). If you choose to monitor a company, you will receive an email every time that company files a document at Companies House; this service costs 50p per year. It may be that you monitor several companies and telephone a news desk if accounts are filed, or it may be that you use the data as part of a longer investigation into a particular company. If you decide to order further information, you will be taken to a menu of the documents the company has filed.

Clicking on the WebCheck function, you will be redirected to a screen which allows you to search for a same company. Clicking on each of the options in turn provides you with basic information about that company by name (or number, if known). Often a company name will bring up several subsidiaries of the company, including its registered address, accounting period and any previous names it may have had.

The benefits of this system to investigative researchers are immediately obvious. To access this information, visit the Companies House website (<http://www.companieshouse.gov.uk>). The entry page offers three main options, two of which – WebCheck and Companies House Direct – are especially useful to researchers.

Since 1844, companies operating in the United Kingdom have been obliged to register their existence. Today, this is undertaken at Companies House, an Executive Agency of the Department for Business, Innovation and Skills (BIS). According to the Companies House website, 'There are more than two million limited companies registered in Great Britain, and more than 300,000 new companies are incorporated each year'. This growing record of registered companies is held digitally and accessible to members of the public. Companies are required not only to register their memoranda and articles of association but also to file an annual return, report and accounts.

How to Use Companies House

1. Depreciation

Whenever a building is bought, its lifespan will be estimated and a charge will be made against capital assets, which represents a fraction of the cost of the building over the course of its useful life. So, for example, if a building costs £300,000 and is estimated to last 30 years, a charge of £10,000 could be made to the capital account every year. This is a non cash charge; spending it creates cash whereby organisations charge themselves depreciation and set this aside to fund future capital. This raises questions about the asset's useful life and its actual value, the latter of which is expected to conform to the Treasury's **Modern Equivalent Asset Value** (MEAV).² The government sets values for depreciation – look for any changes of definition in the Notes to the Accounts. Note that depreciation can only be factored into budgets if the asset appears on the balance sheet, which means that it is generally not chargeable on PFI projects. This will create an issue for those organisations bringing PFI projects onto their balance sheets.

2. Impairments

If the value of an asset, as shown in the balance sheet, exceeds its actual value if it was sold, then the amount shown on the balance sheet needs to be reduced accordingly. A non-cash charge is made to the revaluation reserve and the income and expenditure account, through a process known as impairment. This is subject to manipulation, for example where a loss is recorded after an asset has been re-valued, which again makes it important to look at valuation timings. Impairment is a useful way of 'hiding' money in the accounts, setting aside cash in case it is taken away in the future.

3. Provisions

Provisions account for costs which may be forthcoming but which are by no means certain, for example an employment tribunal, contract litigation or unused staff holidays. This is known as 'strengthening the balance sheet', which is code for hiding money. In its 2009-10 budget, the NHS included £16.6bn of provisions, only £1.5bn of which had actually been spent. If investigating in this area, ask yourself how likely it is that the eventuality being budgeted for will actually happen.

There are many other avenues for exploration when investigating public sector organisations, not least by following where the money is being spent and how it is weighted in different geographical areas, which will almost always be politically motivated. As the coalition government embarks on its radical programme of cuts, the public sector will be dramatically affected. This provides plenty of scope for looking at the strategies public sector organisations deploy to balance their books. You will also be able to engage in some pre-emptive work, for example by comparing the provisions made by particular quangos for mass redundancy to the actual picture it would be facing if it was wound up.

Based on a presentation by Sally Gainsbury and Noel Plumridge: <http://www.hsj.co.uk/sally-gainsbury/2230.bio>
¹ On 30 November 2006, the International Financial Reporting Interpretations Committee (IFRIC) issued an Interpretation, called IFRIC 12 Service Concession Arrangements, which addresses how service concession operators (private bodies contracted to provide a public service) should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements. See <http://www.ifrs.org/Current+Projects/IFRIC+Projects/IFRIC+12+Service+Concession+Arrangements/IFRIC+12+Service+Concession+Arrangements.htm>
² http://www.hm-treasury.gov.uk/d/guidance_on_asset_valuation.pdf

How to Find People Online

This section introduces various advanced and lesser-known search methods for finding people online. It will help you to find the people you are investigating or experts in particular fields by using a number of methods that can both improve accuracy and save time during lengthy investigations. This includes the 'hidden web' and other subscription, free and non-indexed sources (including directories and archives), all of which can help in advanced online searches.

People Finder Sites

A few of the best known people-finder databases operate by subscription:

<http://www.192.com>
<http://www.tracesmart.co.uk>
<http://www.peopletraceonline.co.uk>

For example, 192.com lists people's full names, addresses, cohnabitees, neighbours, age guides, property prices, family records and provides aerial photographs of locations. For company searches, it provides directors' reports (useful for finding business connections between people), annual accounts and court judgements. Through these subscription websites, you can search electoral rolls and birth, marriage and death records.

Prices vary across the people-finder websites. You are entitled to some free searches on 192.com. Thereafter, for one search you normally need three credits. Prices offered by the websites generally start in the region of £6.95 (for 10 credits) to £29.95. University libraries tend not to subscribe to any of these websites, but researchers and postgraduates may well be able to access research funds to pay for the subscription.

Otherwise, there are also some free alternatives, including:

<http://www.123people.com>
<http://www.pipl.com>
<http://www.yasni.co.uk>

For example, 123 People is a real-time people search service. It searches websites and locates images, videos, phone numbers, email addresses, social networking and Wikipedia profiles and more.

Yasni UK seems to be the best for locating vast amounts of useful knowledge. It can identify people and locate studies with which individuals have been involved, which may be downloaded. Search results will also bring up links to 192.com.

Information about Geographical Area

You can also find out about the geographical area in which an individual resides by looking at:

<http://www.neighbourprices.com>. And remember you can use <http://www.maps.google.co.uk> to find the services and facilities available in the area.

Finding Experts through Specialist Directories and Websites

Expert directories offer a good means of finding specialist contributors. They are mainly used by lawyers to help them find expert sources for their case work, but researchers may also find such tools useful. See for example:

<http://www.expertsearch.co.uk> – try searching for 'cycling'.

You can use <http://www.scholar.google.co.uk> to find academics in particular fields. There are also a number of specialist scientific sources which are especially useful for finding (mostly Western) academics and stories, articles, press releases and research in many niche fields. They include:

Alphagalileo: <http://www.alphagalileo.org>

Eurekalert: <http://www.eurekalert.org>

Try entering 'community engagement' in both of these websites before searching for your own research keywords.

Finding Experts through Website Addresses

To find experts based in universities, three factors need to be inserted in the search box:

- Subject term, e.g. environmental law
- A term connecting the subject to his/her profession, e.g. professor
- Site: ac.uk (for UK universities)

For example, to find an expert in environmental law, type in the following terms in google and compare the results:

Compare: environmental law expert
With: oil environmental law professor site:ac.uk

Alternatively, to find an expert in detecting fraud data:

Compare: expert data fraud
With: fraud-data professor site:ac.uk

Finding Individuals/Experts via Social Networking Sites

Facebook is particularly popular across the UK, with many users interested in international, economic, social and political matters, some of whom are experts in their fields. The site groups people according to themes and issues from around the world. If you have a Facebook account, type 'community engagement' in the search box, then try 'sustainable communities'. Both of these searches will produce links for individual and group contacts which can be followed. There are other network spaces such as <http://www.myspace.com> and you could do a search within groups relevant to your area of investigation.

Remember that many other countries also use different kinds of social networking sites. For example, if you are interested in finding contributors/opinion from South America, try <http://www.orkut.com>. It is also very popular in India – you will need to register and create a profile to search, but, once you have a profile, you can search according to keywords in your own research area.

Likewise, <http://www.badoo.com> is more popular in mainland Europe than in the UK.

Russia has one of the largest bases of network users – try using the Russian social network <http://www.vkontakte.ru> for searches (choose English translation).

Another search could be conducted through the online communities which have created their own social networks. Try searching <http://www.ning.com> for 'environment UK'.

If you are looking for professional communities, then, aside from Facebook networks, LinkedIn <http://www.linkedin.com> is a good place to start.

For a short discussion on strengths and weaknesses of using LinkedIn and Facebook see: <http://slewoffootsnoop.wordpress.com/2008/05/07/fight-fight-linked-in-vs-facebook/>

Based on a presentation by Murray Dick: <http://www.brunel.ac.uk/about/acad/sa/artstaff/journalismstaff/mdick>

spot this.

many recent corruption cases,’ which means that investigative researchers need to know how to the company having a high EPS. Artificial attempts to inflate the EPS have been at the basis of contributes to a projected EPS figure; share prices, bonuses and directors’ reputations depend on investors. Public companies are required to predict their profits a year in advance, which earnings in order to elevate their share price and generate increased Earnings per Share (EPS) for and delay the payment of taxes. Public companies, listed on the stock market, tend to enhance their grouping rather than being on the stock market, tend to depress their earnings in order to minimise compiling accounts. Private companies, in which all the shares are held by a family or other private Private and public companies differ markedly in their structure and their motivations when

Larger companies will begin their annual report with a Chairman’s Statement; this can say anything as there is no legal requirement for truthfulness. By contrast, the Director’s Statement will be checked for accuracy. These statements will generally put a positive spin on the previous year’s performance. As a rule, the more pertinent information will be contained towards the back of the report, in inverse proportion to the size of the type. Also look at the environmental statement and check it for consistency and accuracy. Any political donations and statements of corporate social responsibility may offer additional insight into a company. It is also a statutory requirement that larger companies state their directors’ salaries and share options.

The previous section describes how to obtain corporate accounts from Companies House. Alternatively, larger companies will file financial results periodically throughout the year, which are generally available through their websites. On the day the figures are issued to the London Stock Exchange, via the Regulatory News Service, they are also available free online.¹ If the company you are investigating is a charity, you are entitled to access financial data. Which-ever way you obtain annual reports and accounting data, you need to know how to read certain key elements.

How to Read Company Accounts

Compare the basic company information (about accounting cycles etc.) to the list of documents available. If information is outstanding or only partly satisfied (particularly the accounts) this is potentially alarming. You can check with the press office of Companies House to see whether or not a particular company is in danger of defaulting or has paid any penalties for late submissions.

Every company will certify its accounts to be fair and accurate, but sometimes auditors will include a note about any reservations they may have. If a company seems to be in danger of breaching its banking covenants, this is worth reporting. It is often useful to trace the ultimate parent company, which should be cited at the end of the accounts, in order to determine who profits from the company. For further details on how to use the accounting information you have requested, see the next section.

By looking at the articles of association, the movements of directors and the latest annual return, you will be able to tell if you are looking at a shell company that was bought off the shelf and activated. Phoenix companies² – where the assets of one company are moved to another entity – are harder to spot but, as they often have the same directors, following individuals can help (see below). If you suspect a cartel – an explicit agreement between competing companies to artificially fix prices in a non-competitive manner – you should inform the Office of Fair Trading as it is in the public interest.³

Going back to the Companies House home page, you will remember the Companies House Direct option. This is a subscription service which costs £5 per month and £1 for each document requested, which is worth considering if you undertake regular investigations into corporate personnel. Once you have registered (activation takes a few days), you can log in to a range of options.

One of the most useful of these is the Officer Search function. This enables you to search for individuals by name, to bring up a list of companies with which they have been involved. If there is more than one entry for the name you are seeking, look at birth dates to narrow your search. Once you have selected the relevant individual, you can click on their name and, at a cost of £1, be provided with a list of all the companies (past and present) with which they have been associated as directors. This will also tell you what happened to their directorship and to the company, which will give you an idea of the individual’s track record in business. If there is evidence of bankruptcy,⁴ you can contact debtors for a comment; HM Revenue and Customs and the banks will not comment on individual cases but they will always follow the debt. Also note that it is considered bad corporate governance for the same person to act as both chair and chief executive of a company.

In general, this way of working provides protection for researchers who accurately report their findings ‘According to records available at Companies House...’

If you are investigating companies with offshore offices, limited information is offered via the following sites:

Jersey Financial Services Commission: <http://www.jerseyfsc.org>

Guernsey Registry: <http://www.guernseyregistry.com>

Isle of Man Financial Supervision Commission: <http://www.fsc.gov.im>

In the USA, the Electronic Data Gathering, Analysis and Retrieval (EDGAR) system allows free access to the company accounts filing arm of the US Securities and Exchange Commission at <http://www.sec.gov>

When you have gleaned information regarding companies and their directors, some interesting experiments in social network analysis can be undertaken. For example, this information might be used to track the interests of the main players controlling the economy. So, in the US, a project called They Rule (<http://www.theyrule.net>) provides annotated information about major corporate bodies and their directors and allows links to be plotted between companies via their personnel.

There is still plenty of scope for this way of working in the UK. Just remember to follow every lead but to walk away if a quest seems futile.

Based on a presentation by Robert Miller: <http://www.telegraph.co.uk/finance/financevideo/businessbullet/>

¹ <http://www.companieshouse.gov.uk/about/functionsHistory.shtml>

² <http://payontime.co.uk/phoenix-companies-and-insolvent-trading-businesses>

³ <http://www.oft.gov.uk/OFTwork/competition-act-and-cartels/cartels/complain>

⁴ <http://www.insolvency.gov.uk/index.htm>

company.

Ultimate ownership – in the UK, companies are required to disclose the ultimate owner of the

a company ceases to be a going concern.

Goodwill – this is the notional value of a company minus its assets, which immediately disappears if

debts are listed in this section, question how they can be exceptional. fiddle. Researchers are perfectly entitled to ask companies about their exceptional items – if bad exceptional items; Exceptional items tend to come in after operating costs because this is easy to considered exceptional if they do not occur repeatedly. Actual profits come after ‘profit before ignore. As such, these items are segregated from other considerations, but they may only be exceptional items – these are considered to be one-off events that the company would like readers to company in trouble.

Going concern – accounts are produced on the basis that a company will carry on trading for at least one more year. Auditors will occasionally express their concerns in this section, which is a sign of a

will benefit parties related to the company.¹ subsidiaries, which is compulsory in the UK. It is common to most frauds that these transactions Related party transactions – this discloses the relationship between a parent company and its

allowances; the majority of US corporations pay no tax.

Taxation – analyse any tax charges or credits, including income or other company tax (adjusted for previous years), corporation tax and overseas tax. Study the calculation of how much the company was liable to pay and how much they actually paid (in cash flow statements), according to various

company.

Post balance sheet events – this refers to any significant events that have taken place between the date accounts were finalised and the date they were filed. Public companies have six months to file their accounts and private companies have eight months. This item often comes towards the end of the notes to the accounts and relates to events which will have a bearing on the profitability of the

took a pension contributions holiday (despite employees continuing to pay into the fund) in order to figure in brackets, which represents the pension deficit. This has arisen because many companies Pension liabilities – this will have a large note attached, the most interesting of which will be the Directors’ remuneration – look at how much the people running the company are paying themselves.

standard-bearing companies in the same sector. Of particular interest are: These can be a useful indicator of irregularities. Compare notes word for word between two Reading the Notes to the Accounts

the preceding year.

the latter of which (cash and cash equivalents) shows whether or not the company is richer than company is in trouble. The first and last figures in the cash flow statement are the most important, suppliers, calling in debts etc.). If the net increase in cash and cash equivalents is negative, the possible impression, by making the company meet or even exceed expectations (by not paying statement cannot be fiddled. Notwithstanding, the accounting team will seek to give the best is what enables a company to live and, apart from cases where the company is a bank, the cash flow detected when different years are compared and profits are seen to increase but cash does not. Cash corresponds to the adage ‘turnover is vanity, profit is sanity’ but cash is reality’. Irregularities may be go out of business do so not because of profits drying up but because the cash fails to flow. This This is a true indication of how much cash is in the business. The vast majority of companies that Reading the Cash Flow Statement

Contingent liabilities – this evaluates the impact of an event which may happen or is unlikely to happen.

Auditor’s report – the auditor must make a declaration which will normally be an unqualified opinion that this represents a true and fair reflection of the accounts. Occasionally, they may offer a qualified opinion and an explanation of their qualification, which may emphasise a particular matter or express uncertainty about the company’s status as a going concern. This should set alarm bells ringing. In the light of various accounting scandals, sceptical investigators might also ask about the extent to which auditors are independent. They are paid large fees and are generally well conditioned to suit the company’s purposes; it is in their financial interest not to draw attention to irregularities as they may be sued for not having spotted them in previous years. Auditors rarely leave a company but, if they do, they are required to file a letter, citing their reasons, which may be checked.

In summary, if undertaking a financial investigation:

- Look at **political donations** and statements of **corporate social responsibility**.
- Compare the level of **directors’ remuneration** with that of their employees.
- Examine the **previous history** of the management.
- Look at the **pension deficit**.
- Compare **dividends paid out** to shareholders with the amount of **profit** being made.
- Assess the degree to which **profits** have been **overstated** (by over-estimating assets and/or under-estimating liabilities).
- Compare the **turnover** to the **amount owed** to creditors/by debtors and for evidence of **fictitious sales**.
- Look at how much **cash** there is in the company.
- Track both **profits** and **cash flow** over successive years – if profits seem to be increasing but cash does not, the company is in trouble.
- Analyse the **quality of assets** and not just their quantity.
- Compare the amount of **tax** the company **actually paid** with that which it was **due to pay**.
- Look at the **exceptional items** and evaluate how exceptional they really are.
- Check to see whether **auditors** have expressed any **concerns**.
- Ask yourself **how independent** the auditors are.

Based on a series of presentations by Raj Bairoliya: <http://www.fticonsulting.com/professionals/rajib-bairoliya.aspx>

¹ <http://www.investegate.co.uk>

² An overview of the financial performance of charities registered in England and Wales is provided on the Charity Commission website (www.charity-commission.gov.uk). In Scotland, the Office of the Scottish Charity Regulator (www.oscr.org.uk) has no remit to collate accounting data, beyond income, but the public has the right to request from the charity a copy of its latest statement of account under s.23 (1) (a) and (b) of the Charities and Trustee Investment (Scotland) Act 2005. At the time of writing, the new Charity Commission for Northern Ireland (www.dsdni.gov.uk) is preparing to register all charities operational in the province; according to the Charities Act (Northern Ireland) 2008, the public has the right to reasonable access of information that will be held by the charity commission, including accounting data.

³ Interesting case studies include Enron, Worldcom and Satyam.

⁴ The notes to the accounts will specify the period over which depreciation has been calculated; within reason, it is left to the company’s judgement, and the tax office does not have hard and fast rules.

⁵ An interesting case study in this regard is that of MG Rover.