



So You Want to Fight Fraud

Becoming a forensic accountant

By William C. Barrett III, CPA/ABV, CVA, CTP, CCFM

In the July/August 2007 issue of *Disclosures*, I wrote an article, "My Life in Crime," detailing my chronicles as a forensic accountant. It turns out many of you are interested in pursuing this exciting CPA career option!

I received many e-mails and queries in response — some from as far away as Australia, Canada, Denmark, England

and India. I was humbly taken aback by the feedback and questions.

The single most-requested question I received was, "How do I become a forensic accountant?"

Fortunately, I have an easy answer. "You already are a forensic accountant." (Don't worry, though; I won't stop there.)

The “Zen” of forensic accounting

Being a forensic accountant is not a destination. It is a path.

You don’t come home after work one day and say: “Honey, I’m home. Hey, something weird happened at work today and I became a forensic accountant.” It is more of an individual decision you make, no matter where you work, to avow: “When something disturbs my ‘Accounting Zen,’ I’m going to find out why.” Now, that’s a forensic accountant.

I know it sounds simple. You can just avow to be a forensic accountant and, poof, you are one. But “avow” is not the operative word. The operative word is “why.” And “why” is a lifelong path — a way of being aware and curious, to boot — not a destination or even a designation.

Don’t get me wrong. Designations are valid training tools and provide insight to issues, disciplines and techniques one can only get in hindsight; I fully advise taking courses to see if you want to be a career forensic accountant and hold out as one, or to bank it as an additional asset assisting you along your career path (more to come on that later).

So what do I mean by your “Accounting Zen?” It’s how you look at what you come across in your accounting duties, be it tax, audit, bookkeeping or consulting. Here is an example.

When I do out-of-town forensic investigations, I will engage a local accounting firm for staff. On one case, I had a senior audit manager reviewing five years of credit card statements for fraud indicia. When I returned about two hours later, he was still examining the second year of statements because he had “written up” each month in a detailed financial audit reporting manner. I had to explain that we were “only looking for charges that *shouldn’t* be there.”

He couldn’t understand what charges *shouldn’t* be there until we went back over the first year of statements and found charges for family airline tickets and hotel rooms, spa facials, gourmet restaurants and a computer not located at the business.

Once he saw what he should be looking for (charges that *shouldn’t* be on the statements, but were), he became the best forensic accountant I had on the case.

You, too, can develop this sense of finding what should not be there.

CPAs have an innate ability to sniff out fraud. Through years of hands-on client service, recent accounting and authoritative rulemaking, and outcries in the national and business press, we have realized the need for every accountant to gain knowledge and skills in understanding and detecting fraud.

Forensic versus traditional accounting

There is a significant difference between financial or traditional accounting and forensic accounting. Financial accounting is based upon consistent application of rules and procedures and is governed by materiality.

Financial and forensic accountants approach projects differently. The financial accountant reviews all available data and documents as they relate to a particular timeframe (such as year-end or fiscal year), with the goal of providing an overall financial picture of the entity as it relates to accepted accounting principles.

Forensic accounting is the opposite. Fraud, and the ensuing cover-up, breaks rules and procedures. In many incidences, fraudulent transactions start slow and are not material in their individual nature.

The forensic accountant normally makes an intense analysis of one particular incident or series of events to dissect the transactions. The forensic accountant attempts to gain a full and complete understanding of the activity, to determine if it can be supported by generally accepted accounting principles, and to defend or refute this procedure in a hearing or trial.

Understandably, traditional accountants are not trained in the forensic accounting skills and mindset, so they look at transactions and irregularities differently than forensic accountants.

Forensic accounting engagements

Forensic accountants can be engaged in public practice or employed by insurance companies, banks, police forces, government agencies or other organizations.

Under Statements of Accounting Standards (SAS) 99 rules, as well as rules for public company accounting (under the Public Company Accounting Oversight Board and Securities and Exchange Commission), auditors are charged with acquiring sufficient knowledge to conduct reasonable investigations to assess fraud risk and give reasonable assurance to the public that an organization’s financial position represents fairly and is free of fraud.

A forensic accountant is often involved in the following:

- Investigation and analysis of financial evidence
- Development of computerized applications to assist in the analysis and presentation of financial evidence
- Communication of findings in reports, exhibits and collections of documents
- Assistance in legal proceedings, including testifying in court as an expert witness and preparing visual aids to support trial evidence

Forensic accounting involves a wide range of investigations spanning many different industries. The practical and in-depth analysis that a forensic accountant will bring to a case helps to uncover trends that bring to light the relevant issues. Areas in which a forensic accountant will often become involved include:

- **Employee fraud investigations:**
Can involve funds tracing, asset identification, reconstruction and recovery, forensic intelligence gathering and due diligence reviews
- **Criminal investigations:**
Often relate to criminal investigations on behalf of police forces ▷

1 — Forensic specialists: Get certified!

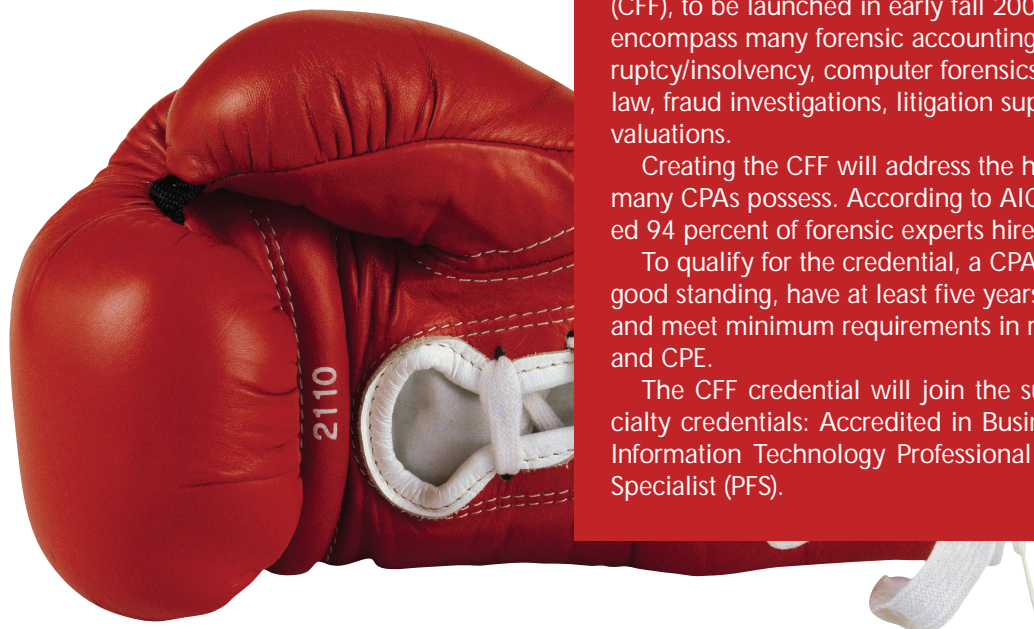
Are you a CPA with experience in fraud investigations, e-discovery, bankruptcy and other areas of forensic accounting?

At its May 19, 2008, meeting, the American Institute of CPAs (AICPA) Council approved the creation of a new forensic accounting specialty credential, Certified in Financial Forensics (CFF), to be launched in early fall 2008. The CFF credential will encompass many forensic accounting service areas, including bankruptcy/insolvency, computer forensics, economic damages, family law, fraud investigations, litigation support, stakeholder disputes and valuations.

Creating the CFF will address the highly specialized forensic skills many CPAs possess. According to AICPA research, CPAs represented 94 percent of forensic experts hired over the past two years.

To qualify for the credential, a CPA must be an AICPA member in good standing, have at least five years of experience in accounting and meet minimum requirements in relevant business experience and CPE.

The CFF credential will join the suite of three other AICPA specialty credentials: Accredited in Business Valuation (ABV), Certified Information Technology Professional (CITP) and Personal Financial Specialist (PFS).



and governmental entities and municipalities

- **Business economic losses:** Examples of assignments include contract disputes, construction claims, eminent domain infringement, product liability claims, trademark and patent encroachment and losses stemming from breach of non-competition agreements
- **Shareholder and partnership disputes:** Often involve a detailed analysis of numerous years' accounting records to quantify the issues in dispute
- **Business interruption/insurance claims:** Insurance policies differ significantly as to policy conditions. Accordingly, these assignments involve a detailed review of the policy to investigate coverage issues and the method of calculating the loss.
- **Personal injury/wrongful termination claims:** A forensic

accountant is often asked to quantify the economic losses arising from a work-related accident or the wrongful termination or death of an employee.

- **Matrimonial disputes:** Often involves the tracing, locating and evaluation of non-accounted-for assets and liabilities
- **Mediation and arbitration:** Because of their familiarity and comfort with legal issues and procedures, some forensic accountants seek out special training and become involved in alternative dispute resolution (ADR). ADR services include arbitration and mediation services, which are designed to help individuals and businesses resolve disputes with minimal disruption and in a timely fashion.

Personal characteristics

To fight fraud, you must perform your duties with the utmost personal integrity.

Forensic investigation services, as do most litigation services, demand special personal characteristics, such as:

- The ability to work with the client's attorney and to follow the requirements of the applicable legal jurisdictions
- The ability to work with a lack of structure that is common in traditional accounting, audit and tax engagements. On the positive side, fraud investigation requires flexibility and creativity and is well suited to those who enjoy such freedom.
- An inquiring, observant and alert attitude and a high degree of intuition, professional skepticism, attention to detail and judgment
- An aggressive, self-confident personality. Such traits are particularly necessary to be able to detect concealment and question witnesses or confront suspects.
- The ability to withstand the pressure of cross-examination by an oppos-

ing side in court, if the investigator provides expert witness services. This requires a high degree of confidence in one's capabilities as well as the ability to think quickly and logically and communicate clearly and convincingly while under fire. Those who do not possess these attributes should consider hiring an experienced witness to work with them or limiting their practice to expert fraud consultant services until they gain enough experience and confidence to offer expert witness services.

- A willingness to work on short deadlines and with unpredictable schedules at irregular intervals

Knowledge and expertise

In most cases, the best fraud investigation experience is gained by working under the direction of an experienced professional investigator. The inexperienced forensic accountant can learn valuable information

from conversations with experienced investigators and from reading any available investigation reports.

Forensic accountants need to be knowledgeable about matters not typically included in undergraduate or graduate accounting and business degree programs. These subject areas may include:

- The numerous types of fraud schemes and how they can be perpetrated, concealed, detected and prevented
- Criminology and civil and criminal legal concepts, such as how to gather information within the constraints of the legal system, legal rights of suspects, attorney/client/work product privilege, civil and criminal rules of evidence and procedure, etc.
- Specialized industries, in order to provide service to those industries. For example, knowledge about banking procedures, restaurant operations or bankruptcy laws would be required to investigate fraud in those areas. ▷

2 — Definitions in forensic accounting

Forensic accounting:

The term "forensic accountant" or "accounting" comprises two distinctly different fields. "Forensic" is generally defined as "belonging to the courts of justice." An "accountant" is generally identified as an "expert in the field of accounting." "Accounting" is described as a methodology for organizing, preserving and reporting on business transactions.

Forensic investigation:

The utilization of specialized investigative skills in carrying out an inquiry conducted in such a manner that the outcome will have application to a court of law. A forensic investigation may be grounded in accounting, medicine, engineering or some other discipline.

Forensic audit: An examination of evidence regarding an assertion to determine its correspondence to established criteria carried out in a manner suitable to the court. An example would be a forensic audit of sales records to determine the quantum of rent owing under a lease agreement, which is the subject of litigation.

Internal audit: An audit performed by an employee who examines operational evidence to determine if prescribed operating procedures have been followed.

External Audit: An audit performed by an auditor engaged in public practice leading to the expression of a professional opinion that lends credibility to the assertion under examination.

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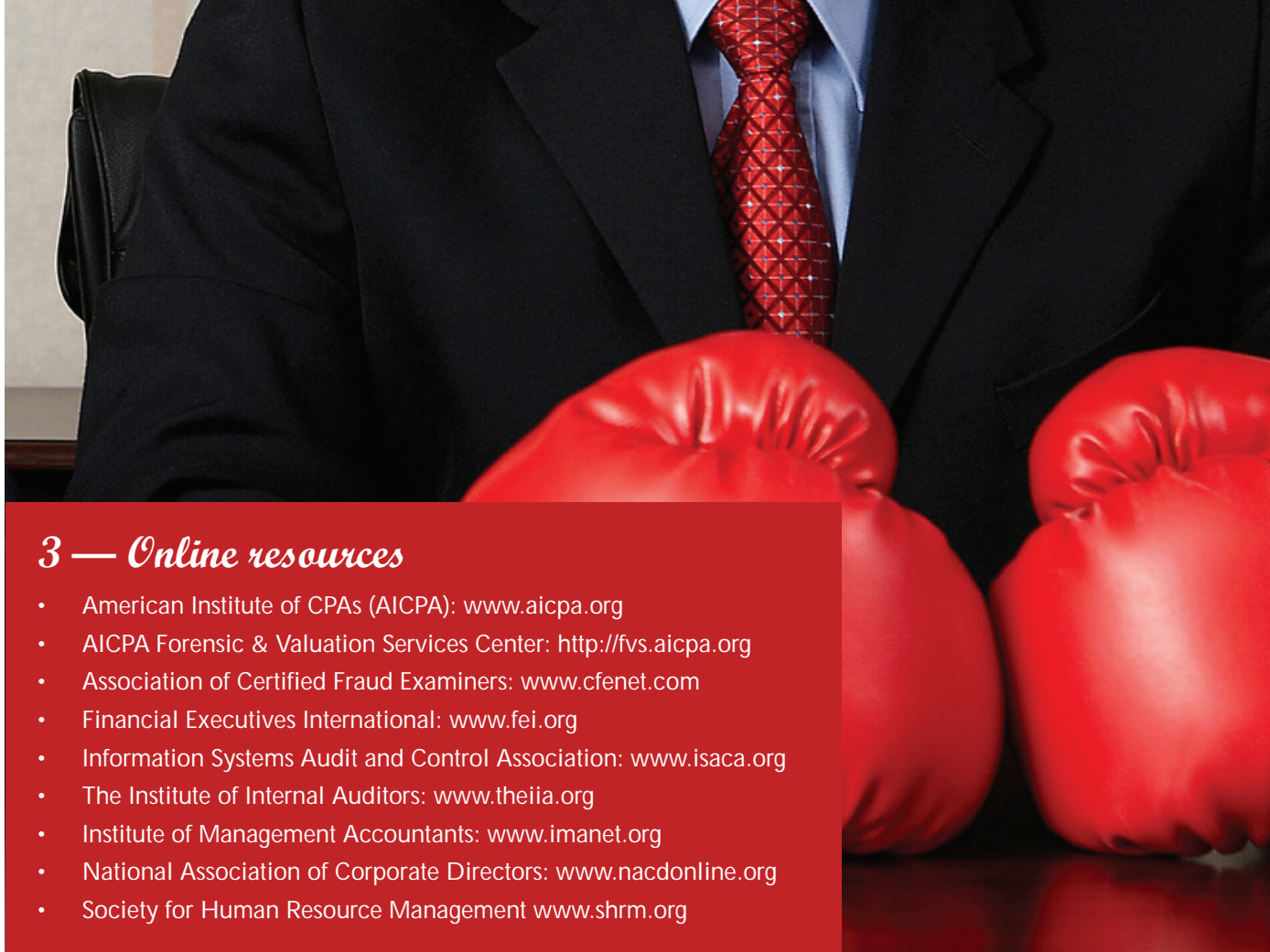
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3 — *Online resources*

- American Institute of CPAs (AICPA): www.aicpa.org
- AICPA Forensic & Valuation Services Center: <http://fvs.aicpa.org>
- Association of Certified Fraud Examiners: www.cfenet.com
- Financial Executives International: www.fei.org
- Information Systems Audit and Control Association: www.isaca.org
- The Institute of Internal Auditors: www.theiia.org
- Institute of Management Accountants: www.imanet.org
- National Association of Corporate Directors: www.nacdonline.org
- Society for Human Resource Management www.shrm.org

- Technical subjects, such as computer technology, to investigate fraud in those areas
- Accounting, controls and auditing matters that are the traditional purview of CPAs and internal auditors and that can be expected to be used in most fraud investigations

The good news is that there are ways to attain this information through coursework and continuing professional education classes.

Professional organizations, such as the American Institute of CPAs (AICPA), Institute of Internal Auditors (IAA), Association of Certified Fraud Examiners (ACFE) and National Association of Certified Valuation Analysts (NACVA), offer conferences, seminars, self-study courses, books and journals on fraud matters.

The forensic accountant should also display additional qualifications in his/her chosen field. In May 2008, the AICPA approved a new credential, Certified in Financial Forensics (CFF), in response to

the rising demand for forensic accounting services (see sidebar 1). The AICPA also offers the Accredited in Business Valuation (ABV) credential for CPAs offering those services.

Other credentials include Certified Valuation Analyst (CVA) from the NACVA and Certified Fraud Examiner (CFE) from the ACFE. See sidebar 3 for organizations that can provide additional materials, guidance and tools.

Follow your gut

If you attain forensic accounting skills, knowledge and expertise, and learn to follow your “Accounting Zen,” you’ll be well on your way to sniffing out accounting fraud. Here are a few words of wisdom by Rudyard Kipling I like to apply to forensic accounting:

“I keep six honest serving men
(They taught me all I knew);
Their names are What and Why and When
And How and Where and Who.” □

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