

Exercises

★ 19.1 Stimulus material – ‘What is a forensic accountant?’

Read the article below and respond to the following questions:

- a What is ‘a litigious society’?
- b What is ‘litigation support’?
- c What is the role of a forensic accountant in litigation support?
- d What designations for forensic accountants mentioned in this article are recognised in the United States?
- e Research the current situation in Australia for accountants who wish to gain more specialised qualifications in forensic accounting. What courses are available, and are these designations recognised in Australia?
- f What are the qualities and skills needed to be a forensic accountant?

Forensic accounting and litigation support

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When you picture your accountant do you think dull, unimaginative, conservative and lifeless? Most people picture their accountant sitting behind his or her desk, bank statements, tax returns and other records stacked high, punching away at their calculator. They spend hours upon hours crunching numbers in order to prepare your tax returns or tell you that your financial statements are accurate.

Now picture your accountant looking more like Sherlock Holmes with his trademark magnifying glass, or Columbo with his trench coat and witty interrogation ways, or Jordan Cavanaugh the stubborn investigative medical examiner on “Crossing Jordan”. That is the look of the newest breed of accountant known as the forensic accountant.

In today’s litigious society, many of the matters being brought before the judicial system have a significant issue relating to accounting. Divorce cases require assets identification and valuation, lifestyle analysis, and income determination. Contract disputes need calculation of losses or determination if fraud exists. The parties to the legal dispute and the Courts often need the assistance of an expert to sort out, calculate and explain these matters. That is the role of the forensic accountant in providing litigation support.

Litigation support is the practice of providing assistance of an accounting nature in investigating and assessing the financial merits and integrity of a lawsuit or legal dispute. It deals primarily with issues related to the quantification of economic damages or calculation of economic circumstances. The forensic accountant draws on various resources to obtain relevant financial evidence and to interpret and present that evidence in a manner that will assist the parties in better understanding the issues. Litigation support is the integration of accounting, auditing and investigative skills to provide an analysis suitable for use by the court

to form the basis for dispute resolution.

The increased complexity of today’s business environment has enhanced the need for the forensic accountant. Many companies are reacting to concerns that arise from employee dishonesty, mismanagement by company executives and tampering of the financial statements. One need only look at recent headlines regarding Enron, MCI-WorldCom and Tyco to see the role that the forensic accountant will play in the future of our economy. It will be the job of the forensic accountant to investigate and uncover the fraudulent behavior that seems rampant in corporate America.

The growing field of litigation support has led many accounting firms and accountants into new areas of expertise. No longer is it enough just to be a Certified Public Accountant.

Specialization in areas of fraud accounting, forensic examination and business valuation have led to such designations as the Certified Fraud Examiner, the Certified Forensic Accountant, the Certified Valuation Analyst and the Accredited in Business Valuation designation. Accountants are spending hundreds of hours studying the unique techniques required in these disciplines.

The forensic accountant’s role in litigation support includes six areas of service:

- 1 providing assistance in obtaining documentation necessary to support or refute a claim,
- 2 review relevant documentation to form an initial assessment of the case,
- 3 assist legal counsel with depositions including the formulation of questions regarding the financial evidence,
- 4 attendance at depositions, hearings and trials to provide assistance with questioning and cross-examination,
- 5 review of opposing expert’s reports and exhibits and helping counsel to understand the issues,



6 assistance with settlement discussions and negotiations.

The ever-growing field of litigation support provides the legal and business community with fraud examinations, business valuations, income analysis, structured settlements, asset searches, lost profits and damages, contract dispute resolution, personal injury calculations, and determination of wrongful death and wrongful termination damages.

The forensic accountant is being called upon to apply special procedures, outside the normal scope of accounting and auditing, to detect a wide variety of fraudulent conduct, from discovering misappropriation of funds or assets, to assisting investors defrauded in the course of commercial transactions.

The business valuation expert is being sought to value businesses and ownership interests in a variety of arenas including divorce, bankruptcy, contract matters, business dissolutions and shareholder disputes.

The calculation of business economic losses caused by contract disputes, construction claims, product liability claims and losses stemming from breach of contracts require the services of the forensic accountant. More and more, insurance companies are turning to forensic accountants, to verify the validity of claims made.

No longer will we view our accountant as the quiet, shy, unassuming bean counter hiding behind a calculator and an IRS manual. Today's forensic accountant fills a vital role with qualities including curiosity, persistence, creativity, discretion, organization, confidence, sound professional judgment and succinct communication skills. These qualities, along with their accounting knowledge and skills and investigative mentality allows the forensic accountant to go beyond the bounds of generally accepted accounting and auditing standards to become an invaluable part of the litigation team.

Source: www.appelrouth.com:80/forensicaccounting.asp

★ 19.2 Stimulus material

Read the article below and summarise it under the following headings:

- Skills required of a forensic accountant
- Work that a forensic accountant may be asked to perform
- Firms a forensic accountant is most likely to work for
- Commonly used forensic accounting services.

The accounting detectives

Forensic accountants have been called the James Bonds of the accounting profession, and the only members of the profession who are not boring or predictable. Others have described them as mad, flashy and egotistical; why else would they, as part of their job, willingly submit to brutal cross-examination by hostile barristers in sensitive court cases, knowing that it is the barrister's job to discredit their evidence?

Forensic accountants are often appointed to join a legal team involved in a financially complex case. The accountants will investigate and analyse evidence, and then form an opinion. When they are called to appear in court as expert witnesses, they must support their conclusions, explaining how and why they reached them. Ultimately, a forensic accountant is there to help a judge make sense of difficult accounting issues.

A forensic accountant also provides advice, investigation and support where any financial discrepancies, such as fraud, are discovered or suspected. They can also calculate and project lost or potential earnings.

They must have impeccable professional credentials and a thick skin. Those that measure up will be in demand at about \$450 an hour.

The Institute of Chartered Accountants (ICA) says the role of a forensic accountant is 'the application of accounting knowledge and skills to issues arising from civil and criminal litigation and investigations'. Paul Vincent, head of the ICA's special interest group and principal of the boutique firm Vincents Chartered Accountants – Forensic and Litigation Services, says if there is an argument about money in court, barristers on both sides will need a forensic accountant.

In the past 10 years, forensic accounting has gone from being an incidental part of the workload of a senior partner in an accounting firm to a specialist business. In accounting circles, the specialisation is known as a sub-profession and all the big accounting firms have dedicated units. Boutique firms have also sprung up, such as RGL International in Sydney.

The growth of boutique firms has been supported by