Introduction to Forensic Accounting

i. According to the Association of Certified Fraud Examiners, occupational fraud is "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets."

   More generally, fraud can be defined as 'wrongful or criminal deception intended to result in financial or personal gain', according to the Oxford Dictionary.

ii. The skills needed to be a successful forensic accountant are; ability to identify fraudulent transactions with minimal information, strong interviewing skills the outcome of which must be admissible in court, a forensic accountant should be sceptical and should always question the originality/legitimacy of transactions, testimony and other documentation. Also, an in depth knowledge of evidence is key, this evidence must be presented in a written and/or oral format and understandable to a lay person.

   Examples of knowledge based skills are industry experience, auditing experience, technology skills, legal knowledge and accounting skills.

iii. A forensic accountant should have a balance of professional knowledge based skills, and personal attributes that combine to make a sound analysis and interpretation of the facts.

   The qualities of mind and/or body might include an analytical mindset, personal skills, common sense, & flexibility. Other examples of personal attributes are intelligence, diligent, analytical, confidence and integrity.

iv. There are 6 basic steps in conducting an investigation:
   1. Accepting the Investigation – when considering whether to take on an investigation you must ensure that you & your team have the appropriate skill set for the nature of the case. Also, any ethical issues should be considered such as whether there will be a conflict of interest
   2. Planning the Investigation – the objectives of the case need to be determined such as the type of fraud that has been committed, the people involved, the financial loss of the organisation, how relevant evidence can be obtained, and methods of preventing fraud in future.
   3. Gathering Evidence – a proper chain of custody must be established to ensure that all evidence is conclusive sufficient and thorough. The team must be vigilant in safeguarding the evidence against attempts by suspects to destroy it. Techniques might include; identifying gaps in customer's internal controls, analysing trends & reconciling cash accounts.
   4. Reporting - the client will expect a full report summarizing the evidence obtained, the extent of the losses incurred, the company's control mechanisms that were broken down by the perpetrators to commit fraud, the manner in which fraud was conducted, etc. The report may also contain recommendations and suggestions to improve internal controls for fraud prevention.
   5. Court Proceedings – the culmination of these investigations may mean a court case. So, the team may be called to court. They be able to substantiate the case with hard evidence, in a format that is understandable to non-accountants.
   6. Evaluation - Here you should summarise what you have learnt and what could have been done to improve or make the investigation more efficient. This will help with future cases.

v. Forensic accountants use their expertise in finance to investigate fraud and other financial misrepresentation. They work analysing financial information to enable lawyers to prosecute criminals, such as those funding illegal activities, and with insurance companies and other clients to resolve disputes.

   Forensic accountants are trained to deal with the business realities of situations. This enables them to identify criminal activities, such as money laundering activities and the illegal sale of arms. Analysis, interpretation, summarisation and the presentation of complex financial and business related issues are prominent features of the profession.

A forensic accountant must be familiar with legal concepts and procedures, and must be able to communicate financial information clearly and concisely in the courtroom.

Fraud auditing is a specialist area of forensic accountancy that deals with criminal activities restricted to fraud.

A financial audit is an independent, objective evaluation of an organization's financial reports and financial reporting processes. The primary purpose for financial audits is to give regulators, investors, directors, and managers reasonable assurance that financial statements are accurate and complete

Case Study

1. Firstly, we need to decide if we are going to accept this investigation. We need to ensure that we are not already acting for the school in another capacity e.g., annual accounts as this could generate a conflict of interests. Also, those involved should not be our personal friends or family members as this could jeopardised impartiality.

   We need to consider if we have the appropriate skill set internally to deal with this investigation before

   As forensic accountants are expensive we need to ensure that the school are aware of this and that they are prepared to pay the fees.

   The school should also be made aware of the information & resources that we may need such as files, computer systems, and employees.

2. Useful documents will include information such as
   i. School bank accounts
   ii. Petty cash account
   iii. Internal accountancy software e.g. Sage or QuickBooks
   iv. End of year accounts for the last 5 years to examine trends and anomalies.
   v. Mileage expenses books
   vi. Entertainment expenses documents and the list of the clients that he was purportedly entertaining.
   vii. Details of the lease agreement.
   viii. Employment contact for the administrator to determine what benefits they are actually entitled to.
   ix. Documents relating to any other accounts that this administrator has access to.

3. ‘He’ should be chosen based on merit, for example, previous experience analysing school accounts would be useful as they are slightly difference to normal company accounts.

   ‘He’ should have the skill set required for such as task such as industry experience, auditing experience, technology skills, legal knowledge and accounting skills. Also, the relevant characteristics such as intelligence, diligent, analytical, confidence and integrity are required.

The accountancy practice and individual accountant should also be impartial, i.e. not affiliated to the school or the administrator in any way.

4. The administrator should be interviewed during the evidence gathering stage i.e. stage 3. The proper chain of custody must be observed. If the evidence gleaned from the interview proves to be inconclusive and insufficient, or if the chain of custody is not followed, the evidence may be challenged in court and even deemed inadmissible. This could jeopardised the whole investigation.

   Before interviewing the administrator the forensic accountants must try and interpret and the understand as much of the other evidence as possible so that they can ask direct and relevant questions to the suspect. Interviewing suspects to obtain this confession is one of the key parts of gathering evidence, and the investigators must refrain from direct
   confrontations with the alleged perpetrators of fraud unless they have sufficient evidence to prove it.