



Fraud examinations can stem the rate of forensic probes

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Fraud examination and forensic accounting have as many commonalities as they do differences.

With the popularity of many television programs, the word forensic brings forth images of criminal investigations into serious crimes.



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Forensic accounting, while not dealing with a murder mystery, still is enigmatic. Even for many accountants and Certified Public Accountants, the term forensic accounting suggests something quite a bit more puzzling than the idea of fraud examination.

“Forensic accounting is the use of accounting skills to investigate fraud or embezzlement and to analyze financial information for the use in legal proceedings.” That’s a definition found with a web search.

So, that clears it up, right?

Probably not, and how is forensic accounting different than fraud examinations?

LITANY OF SCAMS

Let’s dig deeper.

“The use of accounting skills to investigate fraud or embezzlement.” This part of the definition is at best an oversimplification of the areas for which forensic accounting techniques can be applied.

Forensic accounting is used in many of the following situations which can all fall under the general umbrella of fraud, a list that is far from exhaustive:

- Embezzlement.
- Misappropriation of assets.
- Check kiting.
- Financial statement fraud.
- Fraudulent credit cards.
- Money laundering.
- Fraudulent insurance claims.
- Securities fraud.
- Vendor fraud, including contracts and purchasing.
- Post-acquisition disputes.
- Bankruptcy and insolvency analysis.

SPECIALIZED SKILLS

As should be clear from the list, forensic accounting can be applied to a wide variety of circumstances and can be useful in business disputes as well as family disputes, including potential review of assets and liabilities in divorce proceedings or estate valuations.

The accounting techniques that are used often also will be combined with



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The core of forensic accounting is to analyze financial information for use in legal proceedings.

other specialized investigative techniques related to computers and computerized data.

In addition, forensic investigations often focus on interviewing techniques and other methods of gathering evidence and data related to the potential fraud.

These skills often fall outside the classic definition of accounting skills, and the forensic accountant must know how to gather and preserve this evidence while performing the forensic engagement, as well as use the appropriate expert in areas where he or she does not have the required skill set.

BOUND FOR COURT

The second part of the definition truly is the heart of forensic accounting: “To analyze financial information for the use in legal proceedings.”

This is the primary focus of forensic investigations – the use of results in a legal proceeding.

The vast majority of these engagements will be used in civil litigation, however some will be in criminal proceedings.

PRESERVING INTEGRITY

In every case, forensic investigations must keep in mind the likelihood the information will be used in a court of law

and ensure that safeguards are made to preserve the integrity of the evidence collected and analyzed.

This demands expertise in many different areas. The skill sets required often lead to the use of a team of experts to ensure that each area of the investigation is handled correctly.

That means that often the forensic accountant will work with lawyers or law enforcement and other specialized professionals.

SAME TECHNIQUES

So, how does forensic accounting relate to fraud examination?

Fraud examination techniques are many of the very same ones used by forensic accountants.

The need for fraud examiners to understand the use of their work in potential legal proceedings is an important focus of the fraud examiner’s skill set.

PROACTIVE EFFORT

The primary difference comes in the nature of the forensic engagement versus what could be done in a fraud examiner’s assignment.

Forensic accountants know they are performing an investigation that most likely will be used in a legal proceeding. It is a reactive engagement to a situation

where fraud has or is believed to have occurred.

A fraud examination can be exactly the same, however, it also can be a proactive engagement that focuses on reviewing controls in place and uncovering potential vulnerabilities before a fraud occurs.

This type of engagement potentially can avoid the need for a forensic investigation in the future.

REDUCING THE NEED

Forensic accounting shares many of the same characteristics as fraud examinations.

It is the hope that the continued focus on fraud will lead to the type of proactive efforts that reduce or eliminate the need for forensic accounting engagements – ones designed by their very nature to end up in court after a fraud already has occurred.

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