

## When is it Time to Call a Forensic Accountant?

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*Timing is everything*, as they say. Determining when it's time to seek the services of a forensic accountant can make all the difference when you're involved in a business or personal dispute.

When financial document inconsistencies are discovered or there is a suspicion that assets have been hidden, an investigation is necessary to determine if there are damages and, if so, recover the losses. When this happens, the first thought is often to contact the CPA who prepares the company's financial statements or tax returns. However, forensic, financial and tax accountants are each distinct disciplines requiring specialized skills. In situations where deception and theft are at issue, the appropriate choice is a forensic accountant.

An auditor, generally a CPA, conducts an examination of an entity's accounting records to support an opinion as to whether the entity's financial statements as a whole fairly present the results of operations. To form this opinion, there is a consistent application of rules and procedures. Forensic accountants, on the other hand, also possess the necessary training and expertise to identify the various ways individuals can circumvent and/or break the rules and procedures.

### Strengths of the Forensic Accountant

At a minimum, the forensic accountant possesses:

- An in-depth knowledge of accounting rules.
- The keen ability to work outside the structured environment that characterizes traditional financial accounting. While the forensic accountant may utilize auditing techniques, the procedures performed are typically driven by the facts and circumstances surrounding the specific inquiry.
- The ability to apply investigative techniques and analyze financial information for use in legal proceedings.
- The analytical skills necessary to sort through financial and legal documents — often employing data mining software — to find inconsistencies and perform the calculations necessary to determine the correct financial values.
- The ability to provide expert testimony that enables the Court to form an opinion.

### A Case Study

#### **Situation**

- The case involved a shareholder dispute where the minority shareholder suspected that the majority shareholder was stealing cash from a chain of laundromats.
- The business accountant traced disbursements from the books and records of the business to the personal bank account of the majority shareholder, ignoring vendor invoices.
- When the forensic accountant asked the business accountant why there were no forensic procedures applied to analyze the underlying invoices (e.g., tracing) the response was that the examination is an "audit" procedure and this is a litigation.

## **Process**

- The forensic accountant not only analyzed the invoices, but also the corresponding utility bills and then calculated the ratio of utility usage to sales. In essence, the high utility usage and expense signaled higher sales revenue.
- Based on this analysis and other procedures, the forensic accountant was able to determine, with a reasonable degree of accuracy, the amount of cash stolen from the business over a three-year period.

## **Outcome**

The Court was convinced that the business' income was materially understated, accepted the forensic accountant's findings, and awarded the minority shareholder in excess of \$1 million.

## **When It's Time**

The following are some life events and business circumstances which may make it prudent to reach out for the services of a forensic accountant:

- In divorce proceedings to ensure all the marital estate's income and assets are equitably distributed
- There is a suspicion that company assets (e.g., inventory, the client base, etc.) of your business are being stolen by other business partners or employees
- An employee or business partner is suspected of embezzling from your business
- The sale or purchase of a business requires a valuation to confirm the company's fair market value
- A relative has died and there is a concern that the executor did not follow the will's directives
- A catastrophic loss (fire, flood) has occurred and there is a need to ensure the loss is calculated accurately and the claim settled properly

## **Contact Us**

PKF O'Connor Davies has forensic accountants among its staff. If you have any questions or concerns please contact the partner in charge of your account or Shelley Brown, MBA, CPA/ABV/CFF, CVA, Principal, at 201.639.5760 or [shelley.brown@pkfod.com](mailto:shelley.brown@pkfod.com).

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