



**Forensic Accounting:
An Introduction**

Forensic Accounting

Forensic Accountants are part investigator, part auditor, part solicitor and part accountant. Forensic Accountants utilise an understanding of business information, financial reporting systems, accounting and auditing standards, evidence gathering, investigation techniques and litigation procedures to perform their specialised role.

Why Hire a Forensic Accountant?

There are a number of situations in which a forensic accountant can be useful. Most commonly, they help to calculate economic damages and are involved in dispute resolution, which falls under the heading Litigation Support. In these instances, the forensic accountant can conduct a detailed investigation of the financial information that may be part of a legal dispute in order to provide an accurate assessment of any damages or costs incurred. Similarly, a forensic accountant may also be hired to calculate business economic losses. This may be necessary during contract disputes, as well as product liability claims or arguments over trademark or patent infringement. In such cases, the forensic accountant can conduct a review of the organisation's financial evidence, which includes all documentation as well as computerised data.

A forensic accountant may also be engaged to identify, isolate, extract, and define meaningful evidence to support a client's goal. Examples of such investigations could include bribery & corruption allegations, larceny, bid-rigging, employee theft, etc.

What the Forensic Accountant Does

No two forensic accounting engagements are the same. Whether providing litigation support services or conducting a fraud investigation, each engagement will require a specialised understanding of the situation and the ability to formulate a plan aimed at delivering a solution. In general, forensic accounting assignments will include the following steps:

Define the Scope

It is helpful to meet the client to obtain an understanding of the important facts, individuals and companies and the issues of concern. This process is called scoping the engagement. It is the creation of the scope of work that the engaging party and forensic accountant have agreed.

Conflict Check

A conflict check should be carried out as soon as the relevant parties are established. It is a fundamental requirement that a Forensic Accountant is independent so that no bias is introduced into the investigation and any results that may follow. This is especially important when the Forensic Accountant is engaged to provide expert witness testimony.

Case Review

It is often useful to carry out a preliminary investigation prior to the development of a detailed plan of action. This will allow subsequent planning to be based upon a more complete understanding of the issues.

Investigation Plan

This plan will take into account the knowledge gained by meeting with the client and carrying out the initial investigation and will set out the scope of the engagement, the objectives to be explored and the type of methodology/s that will be used by the Forensic Accountant in conducting the investigation.

Secure Evidence:

Depending on the nature of the case this may involve locating documents, financial information, assets, a person or company, another expert or proof of the occurrence of an event.

Perform the Investigation

The actual analysis performed will be dependent on the nature of the assignment and may involve such actions as: calculating economic loss, summarising a large volume of transactions, tracing assets or calculating the present value of assets.

Reporting

The report will detail the nature of the assignment, scope of the investigation, approach utilised, limitations of scope and findings and/or opinions. The report will include schedules and graphics necessary to properly support and explain the findings.

Typical Forensic Accounting Assignments

Business Disputes

In disputes involving economic damages, the forensic accountant begins with an analysis of the business transactions supporting the damages claim.

- Identify relevant sources of information needed for the investigation and analysis including, testimony, third-party records, company records and industry/market research
- Calculate or rebut claimed economic damages through a detailed analysis of available data
- Communicate results of the analysis in a clear and easily understood manner both in written report format and if necessary as an expert witness.

Business Valuations

The forensic accountant's business valuation assessment is based on accepted industry guidelines and relevant assumptions, and are often used in the following circumstances

- Buy/sell agreements
- Determination of damages in third-party liability matters
- Dissenting shareholder actions
- Estate and succession/exit planning
- Initial Public Offerings
- Partnership disputes
- Divorce proceedings

Matrimonial Disputes

There is a growing trend for engaging the assistance of a forensic accountant in matrimonial disputes. In this situation, the forensic accountant will analyse complicated and incomplete financial information. With a good understanding and knowledge of the legal process, the forensic accountant can prepare share-split calculations, conducting investigations and prepare reports for court hearings. He can also provide accounting support for disputes on trust and family assets as well as valuations of spouse-owned businesses.

Briscoe Wong Advisory's Forensic Experts in An Investigations Role

Fraud Examiners, Forensic Accountants and Internal Auditors have extensive experience analyzing a range of fraud allegations and business related losses, including employee expenses claim fraud, theft, bid-rigging fraud, embezzlement and many other schemes that result in the misappropriation of cash, assets and/or merchandise.

Fraud can cause financial ruin for any company, destroying even the strongest business. When a business owner, manager or employee is accused of falsely reporting transactions, overstating the value of an asset or destroying business assets for insurance money, the forensic accountant can find out how the fraud occurred and how best to determine the loss incurred.

Forensic Accountants can provide expert support in matters that are not a direct result of fraud; they can include loss of profits as a result of machinery breakdown, fires, explosions, natural disasters, third-party negligence, contractual disputes, lost-market share, or even changes in the economy. Whatever the root cause is, the forensic accountant can get to the core of the matter and design a solution that best suits the client's needs.

The forensic accountant can deliver a wide range of services to determine the amount of fair and reasonable loss that may have been suffered, including:

- Conducting an in-depth review of the company's operational and financial records
- Analysing industry data to estimate the real effect on profit
- Preparing an analysis of the business's past, current and future performance
- Considering mitigating circumstances that may offset any loss that was sustained
- Calculating the damages sustained by the business as a result of the incident

Fraud Risk and Compliance

Fraud and misconduct are a constant threat to a company's operations. A company's failure to safeguard itself from internal and external threats can see it go from being very successful being out of business in a very short space of time.

In order to reduce this risk, the forensic accountant can help to identify and design mitigation strategies and compliance review programs to reduce the client's exposure to fraud and misconduct.

The forensic accountant will work with organisations to manage their exposure to fraud and misconduct, including:

- Conducting fraud risk assessments as part of an organisation's wider risk control framework;
- Assisting organisations in reviewing their internal control procedures in the context of the risk of fraud;
- Designing and implementing fraud control plans including fraud prevention measures;
- Advising organisations on using their own technology tools to reduce fraud risk;
- Identifying suspicious or 'high risk' transactions, suppliers or employees using data analytics;
- Providing fraud awareness training including investigative techniques and procedures;
- Advising on the set up and management of whistle-blower hotlines; and
- Advising on regulatory changes that might affect the company's operations.

Briscoe Wong Advisory is an independent specialist provider of assistance to distressed companies in Hong Kong, PRC and throughout Asia. The firm's success is the result of delivering many years of excellent business-focused advice efficiently and independently to distressed companies, their management and professional advisors.

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