

## The Passionate Shepherd

*the beguiler beguiled ...*

### FORENSIC ACCOUNTING

Forensic accounting is the the identification, interpretation, and communication of the evidence of economic transaction and reporting events. Forensic accounting is the specialty practice area of accountancy that describes engagements that result from actual or anticipated disputes or litigation. "Forensic" means "suitable for use in a court of law", and it is to that standard and potential outcome that forensic accountants generally have to work. Forensic accountants, also referred to as forensic auditors or investigative auditors, often have to give expert evidence at the eventual trial. Some public accountants specialize in forensic accounting—investigating and interpreting white collar crimes such as securities fraud and embezzlement, bankruptcies and contract disputes, and other complex and possibly criminal financial transactions, such as money laundering by organized criminals. Forensic accountants combine their knowledge of accounting and finance with law and investigative techniques in order to determine if illegal activity is going on. Many forensic accountants work closely with law enforcement personnel and lawyers during investigations and often appear as expert witnesses

Engagements relating to civil disputes may fall into several categories: calculating and quantifying losses and economic damages, whether suffered through tort or breach of contract; disagreements relating to company acquisitions—perhaps earn outs or breaches of warranties; and business valuation. Forensic accountants often assist in professional negligence claims where they are assessing and commenting on the work of other professionals. Engagements relating to criminal matters typically arise in the aftermath of fraud. They frequently involve the assessment of accounting systems and accounts presentation—in essence assessing if the numbers reflect reality.

Forensic accountants may be involved in recovering proceeds of crime and in relation to confiscation proceedings concerning actual or assumed proceeds of crime or money laundering. In the United Kingdom, relevant legislation is contained in the Proceeds of Crime Act 2002. In India there is a separate breed of forensic accountants called Certified Forensic Accounting Professionals. Forensic accountants utilize an understanding of business information and financial reporting systems, accounting and auditing standards and procedures, evidence gathering and investigative techniques, and litigation processes and procedures to perform their work. Forensic accountants are also increasingly playing more proactive risk reduction roles by designing and performing extended procedures as part of the statutory audit, acting as advisers to audit committees, fraud deterrence engagements, and assisting in investment analyst research.

#### NEW VOCABULARY:

**embezzle:** to appropriate (as property entrusted to one's care) fraudulently to one's own use  
<*embezzled* thousands of dollars>

**circumvent:** to manage to get around especially by ingenuity or stratagem <the setup *circumvented* the red tape — Lynne McTaggart>

**kickback:** 1 : a sharp violent reaction 2 : a return of a part of a sum received often because of confidential agreement or coercion <every city contract had been let with a ten percent *kickback* to city officials — D. K. Shipler>

**spurious:** : false <the *spurious* eminence of the pop celebrity> a: of falsified or erroneously attributed origin : forged b: of a deceitful nature or quality <*spurious* excuses>

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**off-balance-sheet finance (OBSF)** A method of financing a company's activities so that some or all of the finance and the corresponding assets do not appear on the balance sheet of the company. By making use of OBSF a company can enhance its **accounting ratios**, such as the gearing ratio and return on capital employed, and also avoid breaking any agreements it has made with the banks in respect of the total amount it may borrow. It has been possible for companies, by drawing up complex legal agreements, to conduct off-balance-sheet finance and thus mislead the user of the accounts. The accounting profession has attempted to counter these practices by emphasizing that accounting should reflect the commercial reality of transactions and not simply their legal form. Financial Reporting Standard 5, Reporting the Substance of Transactions, provides specific guidance for certain transactions, such as factoring, for which companies have previously used off-balance-sheet finance. In the USA, off-balance-sheet finance was identified as a major factor in the scandal surrounding the collapse of the energy-trading giant Enron in 2002 - the largest business scandal in US history.

**creative accounting** Misleadingly optimistic, though not illegal, forms of accounting. This can occur because there are a number of accounting transactions that are not subject to regulations or the regulations are ambiguous. Companies sometimes make use of these ambiguities in order to present their financial results in the best light possible. In particular, companies often wish to demonstrate increasing accounting profits and a strong balance sheet. Examples of transactions in which creative accounting has taken place concern consignment stocks and sale and repurchase agreements. In these contexts, creative accounting will involve the separation of legal title from the risks and rewards of the activities, the linking of several transactions to make it difficult to determine the commercial effect of each transaction, or the inclusion in an agreement of options, which are likely to be exercised.

**window dressing** Any accounting practice that attempts to make a balance sheet look better than it really is. For example, banks used to call in their short-term loans and delay making payments at the end of their financial years, in order to show **spuriously** high cash balances. Another example is when a company borrows cash from an associated undertaking to disguise a short-term liquidity problem.

**lapping** In the USA, the fraudulent practice of concealing a shortage of cash by delaying the recording of cash receipts. In the UK it is referred to as *teeming and lading*. There are a number of variations, but essentially the cashier conceals the theft of cash received from the first customer by recording the cash received from the second customer as attributable to the first, and so on with subsequent customers. The cashier hopes to be in a position to replace the cash before the dishonesty is discovered. As such hopes are frequently based on attempts at gambling, the deception is often discovered.