

# Frauds put forensic accountants in the spotlight

## High profile cases piling the pressure on forensic accountants

By Kashmir Hill, in New York, [Accountancy Age](#)

Allen Stanford may still be grabbing headlines as he awaits trial on charges of fraud worth \$8.5bn but it is forensic accountants who will play a prominent role in readying the case for both sides and testifying as expert witnesses.

Forensic accountants' involvement in American criminal and civil litigation has become more visible because of the sensational nature of recent financial scandals, according to 30-year industry veteran Ronald L. Durkin, senior managing director of specialist accounting firm Durkin Forensic.

The biggest challenge is gathering records. "There are bound to be millions of computer files and electronic documents that must be forensically preserved and duplicated," writes Robert Harris, vice chair of the American Institute of Certified Public Accountants (AICPA).

In an October case hearing, the prosecution said it had established a searchable computer database with 4.1 million records and that it expects to add at least another 1.5 million documents.

Stanford and his co-defendants are charged with defrauding investors who purchased around \$7bn in certificates of deposit administered by Stanford International Bank. The company allegedly misappropriated most of those assets, including more than \$1.6bn for personal loans to Stanford himself, according to the government indictment.

An important strategy for forensic accountants is finding a benchmark period where assets and liabilities were fairly stated. Financial statements are then rolled forward on an account by account basis to see which assets dropped off the balance sheet and what debt was added, said Durkin.

Insurance policies, depreciation schedules, tax returns and loan applications are used to identify missing assets. Gathering these records is especially challenging in an international case like Stanford's, with the company's headquarters in Antigua, investors in more than 100 countries and branch offices in the US and abroad.

"It's a ripple effect. When the funds are moved from country to country, it becomes quite a challenge to find the scent and follow the trail," said Durkin, who tracked the assets of Saudi billionaire arms dealer Adnan Khashoggi in the late 1980s and 1990s.

"My guess is that there will be a considerable amount of records missing and therefore forensic accountants will need to reconstruct the financial and accounting transactions," Durkin speculated. Once the story of the assets has been reconstructed, forensic accountants need to tell that story.

"Communication skills are important when appearing before a jury or a judge," Durkin, who honed his testimonial skills as a special agent for the FBI, added. "You have to be able to take complicated, complex issues and put them in simple terms that are easy to understand."

Certification for forensic accountants isn't required, though there are a number of certifications offered by various professional associations.

The biggest drawback for clients is cost. Upon suspicion of fraud, a company retains a law firm and the firm hires a third party to conduct the forensic accounting, so that the forensic accounting work will be protected by attorney-client privilege.

“What most people don’t realise is that, once we find the fraud, like the \$50bn in the Madoff case, then the costs grow significantly due to the tremendous expense of the lawyers and forensic accountants,” said Larry Crumbley, professor of accounting at Louisiana State University.

Allen Stanford’s defence attorneys have said it may take a year to prepare his defence.

“A year is a lot of man hours and a lot of money,” Crumbley said.

## **IN OUR VIEW**

*When things go bad, forensic accountants often find themselves in demand on both sides of a conflict. But it is a necessity if the wrongdoing of fraudsters and other criminals is to be fully uncovered.*

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