



FORENSIC ACCOUNTING

Test Your Forensic Accounting IQ

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This is the second in a series of occasional forensic accounting quizzes. Answers appear on page 38.

1. The Panel on Audit Effectiveness in 2000 did *not* recommend this surprise or unpredictable forensic-type procedure during an audit.
 - a. Recounts of inventory and unannounced visits to locations
 - b. Interviews of financial and non-financial client personnel in different locations
 - a. Requests for written confirmations from client employees regarding matters about which they have made representations to the auditors
 - b. Tests of accounts not normally performed annually
 - c. None of the above
2. The FBI's website states that white-collar crimes can be categorized by all except which one of the following:
 - a. Rationalization
 - b. Deceit
 - c. Concealment
 - d. Violation
3. Behavioral psychologists call rationalization by the term _____, where someone who is about to cheat will adjust the definition of cheating to exclude his or her actions.
 - a. Greed
 - b. Incentive
 - c. Reframing
 - d. Reflection
4. An Oversight Systems Report on Corporate Fraud says that the primary reason for fraud is:
 - a. To seek personal gain
 - b. To make fools of their victims
 - c. Pressures to do whatever it takes to meet goals
 - d. Weak internal controls
 - e. Do not consider their action fraudulent
5. Ronald L. Durkin suggests that a forensic audit should involve which of the following features that are not present in a traditional audit:
 - a. Not limiting the scope of engagement based upon materiality
 - b. Not accepting sampling as evidence
 - c. Not assuming management has integrity
 - d. Seeking the best legal advice
 - e. All of the above
6. Which one of the following activities would probably not fall within the scope of forensic accounting?
 - a. Employee crime specialist
 - b. Asset tracing specialist
 - c. Insurance claims
 - d. Valuation analysis
 - e. Attestation services
7. To prove any type of fraud, a prosecutor must show that _____ was present.
 - a. Surprise
 - b. A trick
 - c. Scierter
 - d. Cunning
 - e. Dissembling
8. Jacob Bushong has been engaged to help an attorney defend an employee accused of kiting in a moderate-sized business. In which phases of litigation will Bushong likely be most involved?
 - a. Pleadings
 - b. Discovery
 - c. Trial
 - d. Outcome
 - e. Appeal
9. _____ numbers are the page numbers placed on evidence in the courtroom.
 - a. Compel
 - b. Bates
 - c. *Tecum*
 - d. ATG
10. Horizontal analysis typically involves comparison of:
 - a. Companies by market share in the industry
 - b. Cash value at a predictable moment in liquidity
 - c. Year-to-year changes in financial statements
 - d. Organizational structures best suited for a planned business venture
 - e. Both a and b

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1. (e). The Panel suggested that all four elements should be incorporated into audit tests, along with tests of accounts traditionally deemed “low risk.”

2. (a). The site does not cite rationalization.

3. (c). For example, Dan Ariely says, “People who would never take \$5 from petty cash have no problem paying for a drink of a stranger and putting it on the company tab.” (S.L. Mintz, “The Gauze of Innocence,” *CFO*, April 2009, p. 56)

4. (c). The 2007 study discovered that the primary reasons for fraud are “pressures to do whatever it takes to meet goals” (81 percent of respondents) and “to seek personal gain” (72 percent). Oversight Systems Report on Corporate Fraud, 2007, www.oversightsystems.com; *Managing the Business Risk of Fraud: A Practical Guide*, IIA, AICPA, ACFE; www.acfe.com/documents/managing-business-risk.pdf, 2008, p. 6.

5. (e). R.L. Durkin, “Defining the Practice of Forensic Accounting,” *CPA Expert*, Special Edition, 1999.

6. (e). A typical financial audit (attesta-

tion) is a sampling activity that does not look at every transaction. A forensic audit will focus on a specific aspect of the books and examine every check, invoice, or entry.

7. (c). To prove a fraud, there are four legal elements:

1. A false representation or willful omission regarding a material fact
2. The fraudster’s knowledge that the representation was false (scienter)
3. The target’s reliance on this misappropriation
4. Damages suffered or a loss incurred by the victim

8. (b). Bushong will probably do the majority of his work in the discovery phase, but he may be called to testify at trial.

9. (b). The Bates number is the document identifier.

10. (c). Horizontal analysis is an excellent forensic analytical technique to spot “cooking the books.” From 1999 to 2001, for example, HealthSouth’s net income increased nearly 500 percent, but revenues grew only 5 percent. The SEC said that HealthSouth

started cooking its numbers in 1986, which Ernst & Young failed to find over 17 years.



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