

Working in forensic team accounting essay

[Business](#), [Accounting](#)



Unit

Unit 12

Working with Attorneys

In-house or outside counsel usually participates in, or directs an investigation, when matters arise at a company demanding investigation.

The forensic accounting investigator generally works with such counsel. That relationship is the topic of this section.

Teaming With Forensic Accounting Investigators

Forensic accounting investigators can make important assistances to a financial crime investigation, provided that they can work efficiently with the company's internal and external auditors, as well as with other elements involved in resolving accusations or doubts of fraud. Forensic accounting investigators work in a highly stimulating atmosphere and often present their findings in forums ranging from the meeting room and the courtroom to trials before government agencies. All parties comprising management, audit committee, auditors, and legal counsel should consider including forensic accounting investigators in the process of decision making about the investigation. One of the important decisions, usually, is the extent to which the forensic accounting investigators can work with and trust on the work of others—precisely, the internal and external auditors. Another common decision is whether forensic accounting investigators—with their knowledge of accounting systems, controls, and typical fraud schemes—may be added to the team that assesses the organization's business processes to support the controls that permitted the fraud to occur. The party or entity hiring the

forensic accounting investigators— for example, audit committee, management, or counsel—may be committed to a detailed investigation of all issues and is eventually responsible for the investigation. The committee may appoint forensic accounting investigators directly and look to them for guidance, or it may ask outside counsel to appoint forensic accounting investigators, who usually will work at counsel's direction in achieving counsel's responsibilities to the audit committee. In some cases, the audit committee may need to work with two forensic accounting teams. One team, arranged by the external audit firm, gets charged with assisting the external auditors to meet their 10A duties and provide advice on the competence of the investigation conducted by the company. The other team, employed by 10A counsel, is in charge for an investigation that assists counsel and the audit committee in defining whether there was an illegal act and, if so, what corrective action is needed.

Forensic Accounting Investigators' Cooperation with Internal Auditors

Teaming with internal audit enhances both the efficiency and effectiveness of the investigation: internal audit knows the company and its staffs and systems better than outside forensic investigators, which causes the investigation to be more directed. While it is ideal to work with internal audit in directing investigations, it is important that a number of factors (explored later) be measured by those given the responsibility of conducting an internal investigation—frequently the audit committee.

Internal Audit's Position and Function

Observe the group's position in the company's organizational chart and its actual, day-to-day role—which due to any number of factors may differ from the role given by the organizational chart. If likely, consider the way in which the internal auditor is measured by the company with respect to developments to operating metrics, number of locations visited, coverage, types of issues raised and financial savings. Few considerations are given below: Is the internal audit unit attentive on controls guarantee—characteristically evidenced by location-based or compliance auditing—or on controls consulting, classically evidenced by forward-looking plans, early involvement in system deployments, and so on? Does the internal audit plan act in accordance with IIA standards for a risk-based approach—usually in the form of a risk assessment? A coverage-based metric, such as a site visit to every location every three years, is evidence that risk is not the main cause. Is there agreement about the role of the internal audit unit within the organization? Are any internal auditors qualified in forensic investigative accounting? How skilled are they? Do they provide a separate and distinct group of investigators? When fraud is suspected, do the internal auditors conduct investigations by means of this specialized group of forensic accounting investigators, or do they use auditors already allocated to the specific project? Are internal audit's suggestions applied, and if not, why not? What degree of collaboration exists between the internal audit group and the audit committee? Do the two meet frequently and discuss problems in depth, or do they meet only at formal meetings a year? How is the auditor evaluated and by whom?

Working Together

After gaining a detailed understanding of the factors discussed earlier, consider ways in which the investigative team can best work with the internal auditor and be prepared to make suggestions to the audit committee. Each group suggest different skills to the task, and the best solution is typically one that integrates both working together. The internal auditors usually bring: Core skills in auditing. Gathering and validating documentation, sampling, interviewing, and testing and investigating dataCore skills in project management. Scheduling, planning, document management, making audit steps (including follow-up), handling issue resolution, and recording and collaborating resultsKnowledge of the company and systems. Administrative structure, how transactions take place, how mistakes are likely to evidence themselves, and the powers of the company's people, systems, and proceduresWith these abilities, the internal auditor is very well positioned to obtain background information on people, systems, and processes. Past audits may provide understanding. The auditor is also a valuable team member in gathering data or helping as an adviser to the forensic investigators on problems of approach, particular issues that come to light, and possible follow-up activities.

Forensic Accounting Investigators' Cooperation with External Auditors

The external auditors of a company are usually assigned to carry out an audit under generally accepted auditing standards, and the main concentration of those external auditors is on auditing the financial statements according to professional standards. How well forensic

accounting investigators work together with external auditors characteristically depends on numerous factors, including the following.

Client History

The external auditor may be a trusted adviser or may have a tense relationship with the company due to previous events. Because the forensic accounting investigator is often placed between the company and its external auditor during an investigation, understanding their existing relationship is likely to be dangerous to successful communication during an investigation. The forensic accounting team will use the auditor's working papers and audit staff to assist in gaining an understanding of the client's systems, culture, and staffs, as well as other important data. Gaining access to information enclosed in the working papers of the external auditors may require official access letters, the terms of which should be cautiously measured by counsel. Also, the process of obtaining access letters may often take time away from getting the investigation started quickly. Because external auditors likely know the company better than a newly employed team of attorneys and forensic accounting investigators, designated in part because of their limited former experience with the company, they may be very useful sources of information. The audit firm's knowledge about a company's areas of risk, documentation, business processes, systems, and staffs can help the investigative team to start quickly.

Objectives of All Interested Parties

The forensic accounting investigator must bring liberation and fairness to the investigation and recognize the intentions of each of the interested parties to the investigation.

Forensic Accounting Investigators' Objectives

Forensic accounting investigators' objectives are determined by the range of work and the desire to meet the objectives of whoever engaged their services. Irrespective of the differing interests of the different communities, forensic accounting investigators must normally answer the following queries: Who is involved? Was the offender instructed by a higher administrator not currently a target of the investigation? Could there be partners? How much or what is the total influence on the financial statements? Have we recognized all material schemes? Over what period of time did this happen? How did this happen? What can be done to discourage a recurrence? How was it recognized, and could it have been identified earlier? Forensic accounting investigators should always keep in mind that they are mainly fact finders and not typically employed to reach or provide conclusions or opinions. This differs from the financial auditor's role. The financial auditor is presented with the books and records to be checked and determines the nature, level, and timing of audit procedures. The financial statements are management's concern, and an auditor confirms they have been prepared according to generally accepted accounting principles after finalizing these procedures and evaluating the results. The forensic accounting investigator commands a different set of skills and works at the direction of an employer that may be management, the audit committee,

counsel, or the auditing firm itself. The selection of audit procedures is critical and an important part of the audit team's responsibilities. When auditors choose to register the services of subject matter experts such as forensic accounting investigators they expect the investigators to offer suggestions on suitable procedures to be performed as well as related risks, costs and expected results. The investigators should be careful not to perform such measures unless specially asked to do so by the audit team (or whoever is directing the investigators). This approach can lead to frustration on the part of the investigators if, during an investigation, forensic accounting investigators are ordered to stop. Should that situation occur, it may be completely appropriate to discuss their anxieties with the audit team? But keep in mind that the audit team is normally more well-informed about the client's business as well as other audit procedures that may lessen the forensic investigator's concerns. But the forensic accounting investigators should take direction from those who appoint them, like auditors, counsel or directors.

Objectives of Other Parties to the Investigation

Throughout an investigation, each interested party may view the same facts differently. For this reason, it is important to understand the likely preferences and objectives of all participants and to view, in a broad context of expected and quite naturally differing points of view, any clashes that may appear. The board of directors, through the independent members of its audit committee, is likely to focus on conducting a detailed and complete investigation, but its members may lack the experience needed to evaluate the effort. In addition, they may be concerned about their personal reputes

and obligation. The board is likely to look to legal counsel and in some cases, to forensic accounting investigators to describe the considerations of the project. Management may be enthusiastic to bring the investigation to a quick assumption. The chief financial officer may be self-protective over the fact that his or her organization " allowed this to happen." The CEO may be worried about the investigation's influence on share price, company repute and obligation, and employee self-esteem. Perhaps mentioning cost or scope issues—but likely more concerned about staying as close as possible to events as they disclose anything—management's overall reaction is to securely manage the investigation. Regulatory agencies, including the SEC and law enforcement agencies, have implementation and prosecutorial objectives beyond the range of the investigative team's objectives. The forensic accountants should not expect to take part in all activities typical of financial crime investigations. For instance, the legal team may or may not see a need to include the forensic accountants in all interviews, instead asking them to attend only those interviews in which the legal team assumes accounting issues to surface. In most investigations in which counsel is involved, they are responsible for the conduct of the investigations and will allocate and distribute resources accordingly. The external auditor may have numerous concerns, including whether the investigation team will conduct an investigation of satisfactory scope, whether the situation suggests recalling forensic accountants from the auditors' firm, whether forensic accountants should be added to the audit team, and even whether the investigation will question the quality of past audits. The internal auditor may have different types of objectives, including not isolating management,

staying on schedule to complete the yearly audit plan, and not opening the internal audit team to criticism. The internal audit team may also feel embarrassed, defensive and angry that it did not detect the crime. The company's lenders are likely to be concerned about their exposure to damages. The investigation may take place during a period of financing consultations and may therefore need to address the moneylenders' objectives. Stockholders may become worried once suggestions of financial offensiveness are made. They may file a claim with the objective of extracting the largest possible reimbursement from the company and other parties, including the external auditors. The public may feel some degree of interest in the investigation, mainly if the entity is a public, government, or charitable organization or if it is an important regional employer. These concerns are often reflected in and nourished by media attention, and they create pressure to "get to the bottom quickly."

Who Should Direct the Investigation and Why?

Generally, a company's audit committee must actively lead the investigation. Forensic accounting investigators track the evidence wherever it leads and communicate their outcomes to the audit committee or to the committee's designee, such as counsel, whose decisions direct the conduct of the investigation. While the exterior auditors must be pleased that the audit committee has instructed an appropriate research, they neither direct the research nor decide what helpful activities are required by the conditions. Financial criminal activity research is filled with doubt, and a wrong move can generate dangerous results. Audit committees identify the value of consulting with a qualified team of experts, such as counsel and

forensic accounting investigators. A forensic accounting investigator working for an audit committee that does not seek advice or that restricts the investigation would be recommended to resign the assignment. In the course of an inquiry, a time may come when the forensic accounting investigator is alone in supporting a certain approach or sequence of techniques. Assume the audit committee interprets whistle-blower accusations as accusing the revenue recognition practices of the company but not the strategies comprising the delay and repayment of related marketing costs. The evidence should be the motivating force in determining the range and course of the investigation. On one hand, in situations of this kind, be persistent while following the standards, methods, and practices that are most appropriate in the circumstances. On the other hand, unlike decisions about the scope of the audit procedures—which depend exclusively on the auditors—decisions about the capability of an investigation’s scope depend on the audit committee. . Preferably, the forensic accounting investigator should have important effect on procedures related to the financial aspects of the investigation. Counsel should take responsibility for the legal features of the matter and support the efforts of the forensic accounting investigator by providing suitable guidance. The audit committee should rely on these and other professionals, but in the end it is the audit committee’s investigation. The committee must take ownership, with the advice of other parties in the main team that influences the direction of investigation. These may include forensic accounting investigators, legal counsel, internal and external auditors, and possibly others such as a public relations firm. Discussing early

and regularly is routine in these matters and should be strongly encouraged by the forensic accounting investigator.

In The Company of Lawyers

The first person to be contacted when there is a suspected fraud is characteristically in house counsel. Depending on the obvious severity of the matter and its obvious location in the company, other internal resources to be alerted at an early stage, in addition to the board typically through its audit committee, may include corporate security, risk management, internal audit, the controller's office, and the public relations and investor relations groups. Investigations usually start with extensive conversation about who should be involved, and the responsible executives may naturally wish to involve some or all of the functions just mentioned. Based on the conditions, the group of internal auditors can in fact be a remarkable resource to an independent forensic investigative team. As members in the larger team, internal auditors' knowledge of the company may improve both the performance with which proof is collected and the forensic team's performance in organizing discussions and examining results. Our advice to customer executives and in-house counsel is to interact with an exterior team but to consider making available to that team the company's internal auditors and other inner resources for any investigation of significant size. Forensic accounting investigators can think to work with or for attorneys in a number of situations, including:

- Internal investigations with respect to accounting or reporting issues, generally generated by: Audit committee concerns
Unknown tips
Internal audit concerns
Media or regulatory reports or communications
External auditor findings
- Regulatory investigations such as

investigations by Securities and Exchange Commission (SEC) Civil court case such as contract issues, investor lawsuits, illegal termination claims, and fraud recovery actions Tax authority investigations The number and kinds of lawyers are wide and different. The forensic accounting investigator may work with the general counsel for the company; SEC counsel; special independent (external) counsel to the panel of administrators or the audit committee, often termed as 10A counsel; lawyers for particular panel or audit committee members; counsel for particular workers or groups of employees; municipal or legal counsel; counsel for employees who may be under doubt or who wish to prevent that undesirable designation; and still others

Confidentiality Requirements

A potentially material overstatement of asset values or understatement of obligations is often the focus of inquiry, and there may be an immediate need to inform shareholders and marketplaces that formerly released financial statements may be not reliable. The level of the problem should be identified and corrective action taken. In that situation, lots of concerns often spin around the company: Was the misstatement made deliberately? Who knew or should have known of the misstatement? What needs to be done? In such investigations, privacy is usually very important. Leaks of information to the press or competitors may be predominantly damaging. If the investigation is to be successful in revealing the facts, the number of people within the company who are aware of daily developments should be properly restricted to avoid such leaks. The company may, however, willingly disclose information to supervisors during such investigations.

Forming the Investigative Team

Forensic accounting investigators are normally called upon to investigate potential financial statement misstatements or manipulations and asset misappropriations. Such engagements are referred to as internal accounting investigations. When investigating asset misappropriation, the forensic accounting investigator may be engaged by the general counsel of a company or by the outside advocate who represents the company. The forensic accounting investigator leading an asset misappropriation investigation typically receives outstanding collaboration from company executives, who recognize themselves and the company as the victim. Practice has shown that an investigation focused on asset misappropriation may produce evidence signifying other schemes, in which the company may have been taking benefits from criminal acts. Once the forensic accounting investigator picks up on a loose thread and tracks it, there often is no telling where it might lead. When potentially material accounting irregularities or accusations of potentially material fraud, come to its attention, the board of directors typically seeks the advice of counsel on a number of attentions that may include the following: Initial communications with investors, including employees, the market, shareholders, bondholders, moneylenders, and regulators; identification of an independent committee—normally a subset of the board of directors and usually the audit committee—to lead the investigation and determine the company's approach; formation of an investigative team, usually through holding of appropriate counsel and other experts such as forensic accounting investigators and other specialists; data maintenance and security to avoid any loss of critical information; urgent

workforces decisions such as arranging for paid leave, limit of duties or access, and termination Notification of insurance providers at the company and board levels The investigating team often includes: Forensic accounting investigators External auditor partner and key staff Forensic technology experts Independent counsel Based on the details of the investigation, the team may include other experts or specialists such as: Insurance expert Engineers Tax experts Valuation or assessment specialists Investment bankers Damages experts When working with lawyers, forensic accounting investigators should exactly understand: What other professionals are involved (current or expected) Their expected role and responsibilities regarding other team members The extent and source of any external inspection (SEC, IRS, DOJ, and so on) Estimated timing issues, if any Any legal concerns (extent of privilege, expectation that the company intends to ignore privilege, expectation of criminal charges, and so on) Expected form, timing, and audience of short-term or final deliverables Any limitations on departments or staffs that can be involved, interviewed, or utilized in the investigation process Essentials of the matters under investigation, as currently understood by counsel Independent counsel, with the help of forensic accounting investigators, often takes the lead in setting up, managing and organizing the investigative team. This process may include the selection and retention of other parties who make up the team. Independent counsel's responsibilities characteristically include the following: Launching the timetable in aggregation with the board of directors or management, distributing the timetable to the investigating team, and tracking progress against it Making, maintaining, and distributing a working-

group list (very helpful in sorting out which law firms or experts represent whom) Gathering, submitting, and pursuing the various document and employees access requests that the investigating team members will generate Organizing the final report with or for the board or its special committee, or doing so in collaboration with other teams from which reports are impending Forming and maintaining communication channels with the board of directors and other interested parties, generally including internal general counsel, company management, regulatory staffs, law enforcement or tax authority workers, and various other lawyers involved Establishing client or team meetings and plans Although the attorney may lead the investigation officially, the forensic accounting investigator frequently is the keystone of a successful investigating team. The forensic accounting investigator may provide the following types of help and support for the larger team directed by the advocate: Knowledge in accounting, in regulatory (such as SEC) auditing, in internal controls, and in financial analysis Ability to plan and conduct a proper financial crime investigation Interviewing skills, both fact-finding from witnesses and admission seeking from targets Experience in document verification and knowledge of a network of subspecialists trained in highly technical authentication procedures such as typewriter/printer analysis and verification through forensic laboratory science Knowhow in performing data removal and data examination of the company's books and records, including e-mail Ability to review and understand internal accounting transactions and their compliance with various rules Forensic imaging and other information technology (IT) knowledge such as e-mail search

tools Ability to accumulate public financial and nonfinancial information, including SEC or company registry filings, if applicable Support of counsel in developing various theories and investigative procedures and techniques Vendor validity checks on the basis of publicly available information Background checks on relevant staffs Preparation of specific sections of the draft and final reports or support of counsel for report sections that focus on accounting, reporting, or financial information Coordination with both internal and external auditors and the audit committee Review and analysis of financial, accounting, or reporting analysis and advice provided by other specialists Among larger firms, a global network of investigators to assist in multinational investigations Predominantly when investigations include review and analysis of accounting and financial information, the forensic accounting investigator is often an important member of the team. Some attorneys do not have extensive accounting or auditing experience, and certain accounting concepts may be foreign to them. For difficult investigations or investigations that involve public companies, it is often wise for the lead forensic accounting investigator to make a team that includes the following skills and experience: Knowledge to generally accepted accounting principles relevant to the applicable time period of the investigation Ability to conduct or assist with the investigation Knowledge to SEC-compliant accounting, financial disclosure, and other reporting Knowledge to generally accepted auditing standards and procedures Awareness with the regulatory investigative process Ability to instantly access industry or specialist knowledge as required—for example, skill in derivative financial instruments, bank

regulation requirements, and long-term contract accounting Ability to identify departures from customary commercial behaviour and business practices Awareness with the uses and abuses of overseas companies and trusts Relevant language skills and ability to meet the challenges of a geologically diverse investigation, as required. In specific, the forensic accounting investigator should take care to avoid: Providing valuation guidance unless appropriately trained Providing legal advice or making legal declarations in their work Acting as a judge or jury by making judgments as to the guilt or innocence of particular people or groups Note that commenting on specific elements of financial statements is entirely appropriate and can be legally expected of forensic accounting investigators with accounting and auditing experience. Conveying an audit opinion on financial statements or internal control effectiveness. Creating legal exposure as a result of comments that may lead to claims of insult or offense

Conclusion

The forensic accounting investigator can expect to work with or for attorneys in most investigations. To ensure that the investigation progresses as efficiently as possible and reach applicable conclusions and acceptable resolutions, each participant of the investigating team should follow few rules that are given below; Work collaboratively within the investigative team assembled by the client Regular conference calls facilitate this objective. Communicate early and often with the team: When differences arise, discuss them instantly and systematically to reach a mutual understanding. Create a professional, cooperative environment: " We have a job to do, let's work together for it." Exhibit respect and recognize the

distinctive capability of the various investigative team members: Both counsel and the forensic accounting investigator has unique skills that may be dangerous to the success of the investigation. Egos should not get in the way of serving the client. Have clearly understood roles and defined responsibilities in an effort to minimize both repetition and gaps in the investigation process. Qualified forensic accounting investigators and attorneys work well together. Many engagements end with the thankful recognition among all team members that cooperation and a mix of highly professional skills brought precision and determination. Understand the rules of the game in terms of documentation and reporting prospects, other parties involved, expected level of assistance from the company, 6(e) limitations, section 10A requirements, and so on. Recognize and manage the characteristically high-pressure environment and the probability of external inquiry.