

# Forensic<sup>and</sup> Investigative Accounting



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# FORENSIC AND INVESTIGATIVE ACCOUNTING

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# PREFACE

*Forensic and Investigative Accounting* fills a void in accounting education literature by providing the first broad-based text covering all the important topics that have come to be identified with modern forensic accounting. Certainly, there are excellent books on fraud auditing, litigation support, valuation (both damages and businesses), cybercrime and other key forensic topics, but no text is specifically written to cover the forensic accounting waterfront. The authors hope that teachers will find *Forensic and Investigative Accounting* a particularly powerful teaching tool. The twin towers of forensic accounting—litigation support and investigative auditing—are covered in detail.

Today's forensic accounting teachers and students have a difficult task in studying this developing topic, but they are compensated by the fact that forensic accounting is red hot and relevant. In 2002, Congress took up the financial markets reform mantle and passed the Sarbanes-Oxley Act, which was in part designed to restore financial accountability by preventing and punishing fraud. The Act created a new independent accounting oversight group called the Public Company Accounting Oversight Board (PCOAB), subject to Securities and Exchange Commission review. Sarbanes-Oxley, recent SEC actions, initiatives starting to take shape from the PCAOB, aggressive pronouncements by the Institute of Internal Auditors and the AICPA, and new rules promulgated by the various stock exchanges, have all worked to change the perception of who is responsible for detecting and fighting fraud in financial statements and throughout the corporation and other entities. External auditors, internal auditors, company management, and audit committees are all charged in one way or another with fighting fraud under new initiatives. Yet, the task of fraud detection has proven so difficult that the continued growth in forensic accounting specialists seems assured along with the development of the forensic accounting discipline to match wits with new advanced technological and fraud schemes.

Students and teachers alike will find that forensic accounting also is extremely interesting, and the authors of *Forensic and Investigative Accounting* worked hard to build a sense of interest and yes, even excitement into the text. Some would argue that forensic accountants are more like "Quincy" (a once popular TV show about a crime-solving coroner) than the traditional starch-collared, numbers-cruncher. Forensic accountants work on books and records, but often in the context of legal conflicts and even criminal activities.

*Forensic and Investigative Accounting* demonstrates that this developing discipline is challenging. As the text demonstrates, an effective forensic accountant needs an understanding of accounting, investigative auditing techniques, computers, criminology, and courtroom procedures. Many forensic accountants will further specialize and have varying concentrations of these five sets of knowledge and skills.

All three authors are teachers, forensic accountants, and perhaps most of all, forensic accounting fans. While there are many complex forensic issues explained in this book, the authors worked hard to try to convey to students the contemporaneous nature of forensic accounting—forensic accounting is constantly developing in the news, in the legal and regulatory system, and as part of the accounting industry.

The authors believe that forensic accounting should be fun to teach and with the many internet-related assignments in the chapter exercises, students are encouraged to continue to seek out new stories and developments as they occur. Of course, studying a discipline that is experiencing such dramatic change will be challenging. However, there are plenty of fundamental concepts and topics that require a good deal of earnest attention and concentration that will help keep both students and teachers anchored to reality.

In today's climate all accountants—external, internal, corporate accountants and yes, the forensic-accounting specialist—must develop forensic competencies. The authors believe it will only be a matter of time before all accounting majors will take one or more forensic-type courses.

**June 2003**

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Finally, we'd like to thank our fellow instructors who adopt this book and the students who support our efforts.

D. Larry Crumbley  
Lester E. Heitger  
G. Stevenson Smith

# How TO USE THIS BOOK

*Forensic and Investigative Accounting* is organized to engage students in the study of forensic accounting. Special features, end-of-chapter exercises, appendices, and a forensic glossary are provided to further assist students in the learning process.

## Chapter Openings

All chapters begin with the same elements: a list of the learning objectives and an overview. This information provides a framework for understanding the material that will be studied in the chapter.

## Special Features

Hundreds of forensic stories, featured factoids, and illustrations are interjected throughout the chapters.



**Eyewitness** features are typically descriptive short snippets expressing a forensic event, action, or slant on an issue.



**Spotlight** features are used to interject a longer story in the forensic news or a statement on a forensic concept.



**Ethics** features are used when a forensic related standard or ethics-related authority is reproduced.



**Law and Order** features identify a legal case or regulatory ruling.



**Examples** are used when a specific situation is used to illustrate an important point.

## End-of-Chapter Materials

Every chapter ends with a conclusion that ties together the ideas presented in the chapter and with the chapter opening and overview help to give students a point of reference for additional study. End of chapter exercises are used to help the student assess his or her understanding of the chapter's salient points. Some will help direct the student to additional research. The exercises also provide the instructor with a ready means to evaluate student understanding of the material.

## End-of-Book Materials

A special forensic glossary is offered at the end of the book that can be referenced throughout the student's reading. Appendices offer additional source materials for extended reading and research.

**PART 1**

**THE FIELD AND  
PRACTICE OF FORENSIC  
ACCOUNTING**

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