

FORENSIC ACCOUNTANTS: HISTORY, PROFESSION AND CHALLENGES

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ABSTRACT

Forensic accounting is a dynamic field that has grown over time as evidenced by its size and significance. The prominence of technological advancements around the world had a direct effect on the growth of forensic accounting. The two main services forensic accountants provide are investigative and litigation services. This presentation identifies the role of a forensic accountant, the services they perform, the educational challenges, and required skills. The discussion concludes with thoughts about the future of the profession.

Keywords: Forensic accounting, fraud, artificial intelligence

INTRODUCTION

Forensic accounting has experienced immense changes throughout the years. Modifications in the field are directly correlated with the advancement of technology in the world. According to Smith (2015,17) , the field began as a profession indistinguishable to audit and decades later separated from the audit function to fraud detection. It was not until this separation that forensic accounting began to be recognized as a separate distinct area within accounting. Along with the separation of the two fields, Smith explains the changes in forensic accounting functions began to include investigative and litigation services. More recently, the forensic activities have become directly affected by technological advancements. The future of the field can be perceived as an expansion of further modifications.

FORENSIC ACCOUNTING HISTORY

Exploring the history of forensic accounting allows one to comprehend the immense change that forensic accounting has experienced over time. In addition, the history of forensic accounting also leads to a better understanding of the continuously changing nature of the field.

Understanding how the term forensic accountant emerged into the vocabulary provides a foundation for the concept's influence. However, it was much later after the separation of auditing

and fraud detection that the term was officially used to describe the specific work being performed. Although it is unknown when the term forensic accountant was first used in the literature, Crumbley and Apostolou (2007, 16) claim the first mention was in the Journal of Accountancy in 1946. They also suggest that Zeph Telpner may have used the term in a continuing professional education (CPE) seminar in 1961 during a presentation of the Sister Elizabeth Kenney Minneapolis embezzlement case (Crumbley & Apostolou, 2007, 16). Regardless of when the term forensic accountant became part of the accounting vocabulary, forensic accountants have performed significant contribution to the accounting field and has had a positive impact.

Crumbley and Apostolou (2007), make a convincing argument that the first individual to perform work qualifying as a forensic accountant was Frank J. Wilson who was responsible for the conviction of Alphonse Capone. The government were unsuccessful in proving that Capone had committed the various criminal acts. Wilson knew that there had to be another way to convict the criminal. Wilson, an IRS Special Agent, used a net worth indirect method to determine funds flow as persuasive evidence for Capone's conviction of tax evasion using deductive reasoning. Thus, Wilson was recognized as the first forensic accountant.

FORENSIC ACCOUNTING PROFESSION

Forensic accounting is a discipline that involves the application of financial findings in legal affairs, which often requires defining the engagement, gathering evidence, interpreting evidence, and presenting the evidence through a written or an oral manner. Within the typical endeavors that a forensic accountant typically experiences, there are several attributes that facilitate their success. A forensic accountant needs several skills in order to be effective and efficient. According to Hahn, Miller, and Rufus (2015), it is essential for a forensic accountant to have the skills of critical thinking, reasoning, and communication. They also indicate an effective critical thinker is rational, skeptical, reasonable, well-informed- open-minded, self-aware, and persistent (2015). Being able to identify areas of concern has an immense impact on the engagement. Reasoning is comprised of deductive as well as inductive reasoning. The utilization of either of these two types of reasoning allow an individual to draw a conclusion based on either the evaluation of premises or patterns. Lastly, communication is an essential skill due to the significance of delivering information. A forensic accountant must demonstrate skill in both written and oral communication because the individuals take part in engagements that may require either type of communication.

Critical thinking is often classified as one of the most significant skills to implement throughout one's life. Although often mentioned in courses and included in classroom assignments, it has always been difficult to properly analyze its components. Critical thinking is a skill that involves logic, reasoning, and creativity. These three components are utilized as an essential combination in order to draw conclusions and generally understand things better. Along with reasoning and communication, critical thinking is one of the most significant skills for forensic accountants to have due to the specific nature of each engagement. There are often instances in which improper or a lack of critical thinking would cause an investigation to produce an invalid conclusion. Emphasizing the use of one's own professional skepticism along with being free of bias equips individuals with the ability to more thoroughly analyze information, in order to form a more accurate conclusion.

It is important to distinguish the difference in roles between transactional accountants, internal auditors, external auditors, and forensic accountants. In fact, it is intriguing that the role of a forensic accountant is quite different from that of other accountants. Often, individuals express

immense interest in the area of forensic accounting due to the misconception that the field is based entirely on performing investigation work. Forensic accountants address specific issues as defined by an engagement, whereas the other three accountant categories have more defined roles. An external auditor is usually required to form an opinion on the overall financial statements, and an internal auditor is required to ensure compliance with policies and procedures within an organization. A transactional accountant is responsible for preparing the financial statements of an organization in order to deliver value to all decision makers that utilize the financial statements. The forensic accountant role varies greatly in that they address more specific issues, and their services are conducted on an as-needed basis. In fact, the scope is defined by the specific engagement; therefore, much of the forensic accountant's work is performed for a specific purpose (Rufus, Miller, and Hahn, 2015). Meanwhile, transactional, internal, and external auditors perform work on more of a consistent basis or through planning. This is significant to the accounting profession due to the realization that a forensic accountant must often exercise different skills depending on the specific situation.

FORENSIC ACCOUNTING EVOLUTION

In *A Successful Career Transition to Forensic Accounting* Kreuter (2019) describes his journey from serving several roles as an accountant at a small firm to becoming specialized in forensic accounting. He describes his role as an audit and tax accountant at the firm in his early career and how an arbitration case altered his work interest. Kreuter began a new practice area for the firm and as the firm grew its contact base, engagements involving litigation support and fraud investigations became more frequent as each case was different and interesting (2019). The endless possibilities that an engagement often encourages a forensic accountant to seek additional knowledge by advancing their education. Kreuter (2019) claims that his PhD in clinical psychology enhanced his ability to interview witnesses and understand their motivation and behavior. He also shared some skills that, in his experience, are essential in order to be a successful forensic accountant. These skills include an ethical mindset, determination, and passion for the work, and strong written and oral communication skills (Kreuter, 2019). He emphasizes the importance of experience in order to acquire the previously stated significant skills.

Kreuter claims that authoring informational articles, making presentations, and becoming skilled in Excel can also play a valuable role in the development and growth of a successful forensic accountant (2019, p. 8). Overall, there are several characteristics that most types of accountants share, one of the most significant being the need to constantly expand knowledge and be prepared to explore new areas.

Credentials

Obtaining a credential allows individuals to differentiate themselves from other accountants. According to Boyle, Lawrence, & Mahoney (2013), the immense number of credentials available for selection by individuals in the accounting field has only increased. Along with the increase in credentials, the importance of choosing the best credentials for an individual that strives to add value to their workplace has increased as well. A CPA often seeks to obtain additional credentials based on inherent interest in the specialized area, advice given by acquaintances, and need in the workplace. Huber suggests that the field of forensic accounting is expected to grow at a high rate (Huber, 2015, p. 13). Accountants that pursue a career as a forensic accountant have many well-known credentials that are available to further their expertise. In fact, there are also various organizations that further increase the variety of credentials available in

forensic accounting. Boyle, Lawrence, & Mahoney discuss the most prominent U.S. based organizations that offer credentials (2013, p. 62).

Certified Public Accountants

The American Institute of Certified Public Accountants (AICPA) offers the Accredited in Business Valuation (ABV) and the Certified in Financial Forensics (CFF) credentials for accountants specializing in forensic accounting (Boyle, Lawrence, & Mahoney, 2013, p. 63). The ABV credential was established for CPAs that strive to gain expertise in valuation services, and the exam includes content pertaining to qualitative and quantitative analysis and valuation analysis (Boyle, Lawrence, & Mahoney, 2013, p. 63). The CFF credential is for CPAs who seek expertise in forensic accounting and meet specific experience requirements, complete hours of forensic accounting-related CPE, and pass the exam (Boyle, Lawrence, & Mahoney, 2013, p. 63). The four-hour exam includes content related to practice management, specialized and fundamental forensic knowledge, and professional responsibilities (Boyle, Lawrence, & Mahoney, 2013, p. 63).

Misuraca suggest CPAs are required to maintain objectivity, and her role as a forensic accountant confirmed this for her (2018, p. 17). When performing work for the clients, CPAs do not become advocates for the clients, but should always maintain an independent judgement.

Certified Fraud Examiners

The Association of Certified Fraud Examiners (ACFE) is the largest antifraud organization in the world and is dedicated to decreasing the amount of business fraud across the globe (Boyle, Lawrence, & Mahoney, 2013, p. 67). The ACFE offers the Certified Fraud Examiner (CFE) credential, and an individual can obtain the CFE designation by meeting the professional and educational standards, be a member of ACFE, and take and pass the 10-hour CFE exam (Boyle, Lawrence, & Mahoney, 2013, p. 67). An individual must also meet at least two years of related experience in the field of fraud examination and a bachelor's degree or its equivalent (Boyle, Lawrence, & Mahoney, 2013, p. 67).

An overlooked skill can often be the versatility that the prioritization of increasing knowledge creates for accountants. Becoming an even greater asset to an accounting firm may include attaining the Certified Fraud Examiner (CFE) certification (Kreuter, 2017, p. 7). This certification is an indication of the accountant's advanced interviewing skills. This directly implies that the individual is able to accurately interpret body language and speech, effectively probe interviewees, and identify signals for conflicting responses when interviewing witnesses. The importance of the type of training that forensic accountants undergo is valuable and should not be overlooked. Although difficult to develop training for the forensic accounting profession due to the specific nature of the engagements, the basic skills for the profession can still be effectively developed and enhanced through proper training.

Along with seeking the CPA and CFE credentials in order to become competent in the areas of one's work, an individual should also continuously strive to grow and expand existing knowledge. Effective ways to continuously develop knowledge include continuing professional education (CPE) classes, as well as courses at universities.

Education

One of the issues that penetrates the field of forensic accounting is the difficulty that educators experience when forming programs that are implemented in order to increase knowledge

of the profession. Teaching courses on a subject that deals primarily with specific engagements that are often novel or include a varying degree of procedures creates an issue for educators. Although, forming a consensus on the delivery and content of the courses is crucial to the learning experience of the students.

Fleming, Pearson, and Riley (2008) discuss the difficulty involved with creating a fraud and forensic accounting program because there were not many universities offering these kinds of classes, and those that did, did not offer an entire program. The instructors at West Virginia University found that there was a lack of consensus on the content or delivery for the fraud and forensic accounting course that were offered at other universities (Fleming, Pearson, and Riley, 2018, p. 573). This meant that the program would have to be built from the ground up, and it would later be called the Forensic Accounting and Fraud Investigation (FAFI) program. They included hands on training and discussion with professionals to prepare the students for what forensic accounting is like in the real world (Fleming, Pearson, and Riley, 2018, pp. 576-578).

According to Pearson and Singleton, it is crucial that students become familiar with the significant role that information technology (IT) plays in forensic accounting, and this is why the writers encourage universities to add a course that involves working with software packages that include data mining software (2008, p. 552). Heitger and Heitger discuss the importance of litigation support and the ways to address and explore the educational experiences in the classroom (2008, p. 568). A list of items that students should be exposed to is given, and this included role-playing activities with the attorney related to trial testimony (Heitger and Heitger, 2008, p. 569). Although instructing the students the fundamental of the profession is difficult due to the variations among areas, the profession has a responsibility to guide and prepare individuals even before they arrive to the workplace.

THE FUTURE

Forensic accounting once began as a part of auditing, and its future once held an approaching separation into its own area of accounting. Modifications to the area of forensic accounting could potentially hold an even further division between investigative and litigation services, although the subsections have been functioning well as being classified as a part of forensic accounting. However, before the creation of the term forensic accounting, individuals may have believed that it was properly placed with auditing. With the increase in credentials available for individuals that seek to become specialized in certain areas of accounting or forensic accounting, it is inevitable for the areas to continue to branch out and form even more specialized areas of interest within the field.

The future of forensic accounting is strongly affected by today's technological environment (Smith, 2015, p. 20). As forensic accounting has stretched and continues to stretch into new areas, many of the areas often require the use of technology. A forensic accountant working today must be equipped with the knowledge to run investigative assignments, develop income forecasts, and identify digital information that indicates evidence of fraud (Smith, 2015, p. 20). The work performed by a forensic accountant often includes gathering digital metadata, which requires skills that were obviously not required before the use of computers. The computer skills that are required in order to perform the kinds of analysis in the present are already far beyond the knowledge required to prepare and organize information in spreadsheets (Smith, 2015, p. 20). Forensic accountants must become proficient in forensically extracting evidence and then able to preserve the information properly (Smith, 2015, p. 20). As most frauds in current times involve a technological element, key evidence in fraud investigations often include the

necessity for proficiency in any communication devices or electronics that could provide evidence. Smith predicts that due to the increase in importance of these skills, accounting and computer forensics will become even more integrated in the future (Smith, 2015, p. 20).

Challenges

Despite technology undeniably playing a key part in the role of a forensic accountant, this does not mean that all other areas can be substituted with the use of technology. For instance, the necessary restrictions that took place due to the COVID-19 outbreak placed several obstacles in the path of the forensic accountants attempting to complete engagements. Although the forensic accountant is still able to conduct interviews and meetings over online meeting platforms, the lack of direct human contact decreases the usefulness of the information gathered by the meeting (Wiesenfeld, 2020). As this was an unprecedented event, the individuals working in forensic accounting were not prepared. When changes occur in the world, the most successful individuals are those that adapt, continue, and improve. Just as working remotely is not desirable in order to improve efficiency, forensic accountants will need to develop a way to improve the quality of work, meanwhile still keeping pace with the increase in regular as well as novel forms of fraud (Wiesenfeld, 2020). For example, Wiesenfeld discussed the emergence of perpetrators selling false checks that are meant to deceive people during the distribution of COVID-19 relief checks, and this increase in new forms of fraud only slows down the productivity of the forensic accountant (2020). As changes occur around us, there is often not an abundant number of choices to decide from, and adaptation is the only step that must follow. The number of new cases of fraud and the halt of litigation services have placed an immense strain on the forensic accounting profession. This will likely urge individuals in the profession to form new strategies and dive further into incorporating the use of technology more effectively.

Artificial Intelligence

Artificial intelligence (AI) has demonstrated an immense potential to continue making an impact in several areas of business. It has shown to be a significant instrument in improving the efficiencies of our workplaces as well as augmenting the work that humans can perform. As we have already witnessed the effects that artificial intelligence has had in other areas, it is intriguing to consider these effects when looking toward the future of forensic accounting. According to Metallo, “Artificial intelligence is a technological development that will inevitably impact the law and the forensic accountant as an expert witness” (2020). Due to forensic accountants serving the significant role as an expert witness, there will need to be a continuous effort to adapt to emerging AI technology within the legal system.

According to Metallo, AI could be used to enhance the accuracy of examinations and make them more objective (2020). In fact, it was found that when experts used more objective methods in a review of a case, there was a direct correlation to there being a lower possibility of bias entering the analysis. Another aspect of the forensic accountant career in which artificial intelligence will demonstrate effects will be in the required knowledge or experience that individuals must obtain. Metallo states that individuals will need to be familiar with “machine evidence and its reliability” (2020). Forensic accountants will be expected to be familiar with the functions of the machines that will be used. As Lillard discusses, perpetrators continue to form more sophisticated ways to commit fraud due to advances in information technology, and the only way to keep up with the perpetrators long enough to capture them is by being well equipped with the knowledge necessary to improve efficiency in the work performed (2020).

CONCLUSION

The forensic accounting profession is a specialty practice area of accounting that performs work in engagements that result from actual or anticipated dispute or litigation. It provides an accounting analysis that is sustainable to the court which will form the basis for discussion, debate, and ultimately dispute resolution. A forensic accountant often engages in work that requires evidence that is able to persuade the jury beyond a reasonable doubt, and this is completed by fact finding and interpretation. The increase in the number of fraudulent activities since the beginning of the twenty first century has only emphasized the need for forensic accounting.

Forensic accounting has played a significant role in the changing world even before the term was first used. Since before the separation of forensic accounting and auditing services, individuals have been performing work on specific engagements that are often unlike others performed in prior periods. This constant stream of new knowledge and strategies has increased the value of the forensic accounting-based designations that are offered by prominent accounting organizations. The profession is of immense value and should prioritize continuous growth through research and formation of strategy.

The importance of the work performed in the forensic accounting field is evident. Fraud will always be a continuous underlying risk to all companies, and it will be impossible to protect against this entire risk due to constantly changing nature of fraudulent activity. As a forensic accountant, their responsibility is to maintain current knowledge and develop proper training programs for future forensic accountants. The profession will not lose its value in our society over time. Its significance in businesses is expected to increase and with this increase in demand, there should be an emphasis in preparing those who will be performing the work in the near future. Just as forensic accountants in 2020 were met with an unprecedented event, students should be exposed to the difficulties that individuals before them have endured. This is how innovative individuals are differentiated and prepared for their future positions in the workplace. It is easy to say that individuals will learn best in the workplace due to variations in procedures among firms, but it should be a priority to prepare the students with scenarios and case studies that reflect the possibilities of their future engagements prior to their arrival to those future engagements when possible.

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