

FORENSIC ACCOUNTING

Institute of Financial Accountants
Mid-Southern & Wessex Branch Event
17th May 2012

AGENDA

- ▶ Introduction: Definition of ‘forensic’
- ▶ Work of forensic accountants
- ▶ Forensic accounting – auditing
- ▶ The legal context
- ▶ Internal controls – Fraud
- ▶ Fraud investigation
- ▶ Non-fraud work
- ▶ Expert witness

Forensic Accounting

- ▶ Definition of 'forensic':

The word comes from the Latin **'forensis'** = *'public' or 'of a forum'*.

It relates to public discussion or argument or arguments appropriate to a court of law.

Currently, it has come to mean: the gathering of facts to support an argument, providing facts or evidence in a court of law.

Forensic Accounting

Forensic accountants gather facts and information and use what they have gathered as evidence to support a case, be it a commercial case for compensation or evidence to convict a fraudster.

Their work has to be painstaking and meticulous, **capable of being challenged and of withstanding that challenge**, carried out with skill and not a little imagination.

Work of Forensic Accountants

The job of the forensic accountant has some broad similarities with that of the auditor:

- ❖ Analysing,
- ❖ Interpreting,
- ❖ Summarising, and
- ❖ Presenting complex financial data in a way which is comprehensible to the lay person, and properly supported by sufficient, appropriate evidence.

Work of Forensic Accountants

The work of the forensic accountant is complex and varied and requires a range of skills and experience to meet the challenges they face in their day-to-day activities.

Forensic accounting can be divided into two areas of specialisation:

- Fraud investigatory work;
- Accounting and litigation support

Work of Forensic Accountants

Fraud detection (the glamour-end of the forensic accounting business) involves:

- ❖ Investigating and analysing financial evidence
- ❖ Advising on defensive systems and the methods whereby organisations can detect frauds (ideally at an early stage)
- ❖ Developing computerised applications to assist in the analysis and presentation of financial evidence
- ❖ Communicating their findings in the form of reports, exhibits and collections of documents, or
- ❖ Assisting in legal proceedings, including testifying in court as an expert witness and preparing visual aids to support trial evidence.

Work of Forensic Accountants

Forensic accounting isn't just about fraud. The techniques of forensic investigators can be brought to bear in a variety of situations:

- ❖ Business valuations
- ❖ Divorce proceedings and matrimonial disputes
- ❖ Asset tracing
- ❖ Personal injury and fatal accident claims
- ❖ Insurance claims for loss recovery
- ❖ Partnership and corporate disputes
- ❖ Challenging Confiscation Orders, or
- ❖ Civil and criminal actions concerning fraud and financial irregularities.

Forensic Accounting – Auditing

Auditing

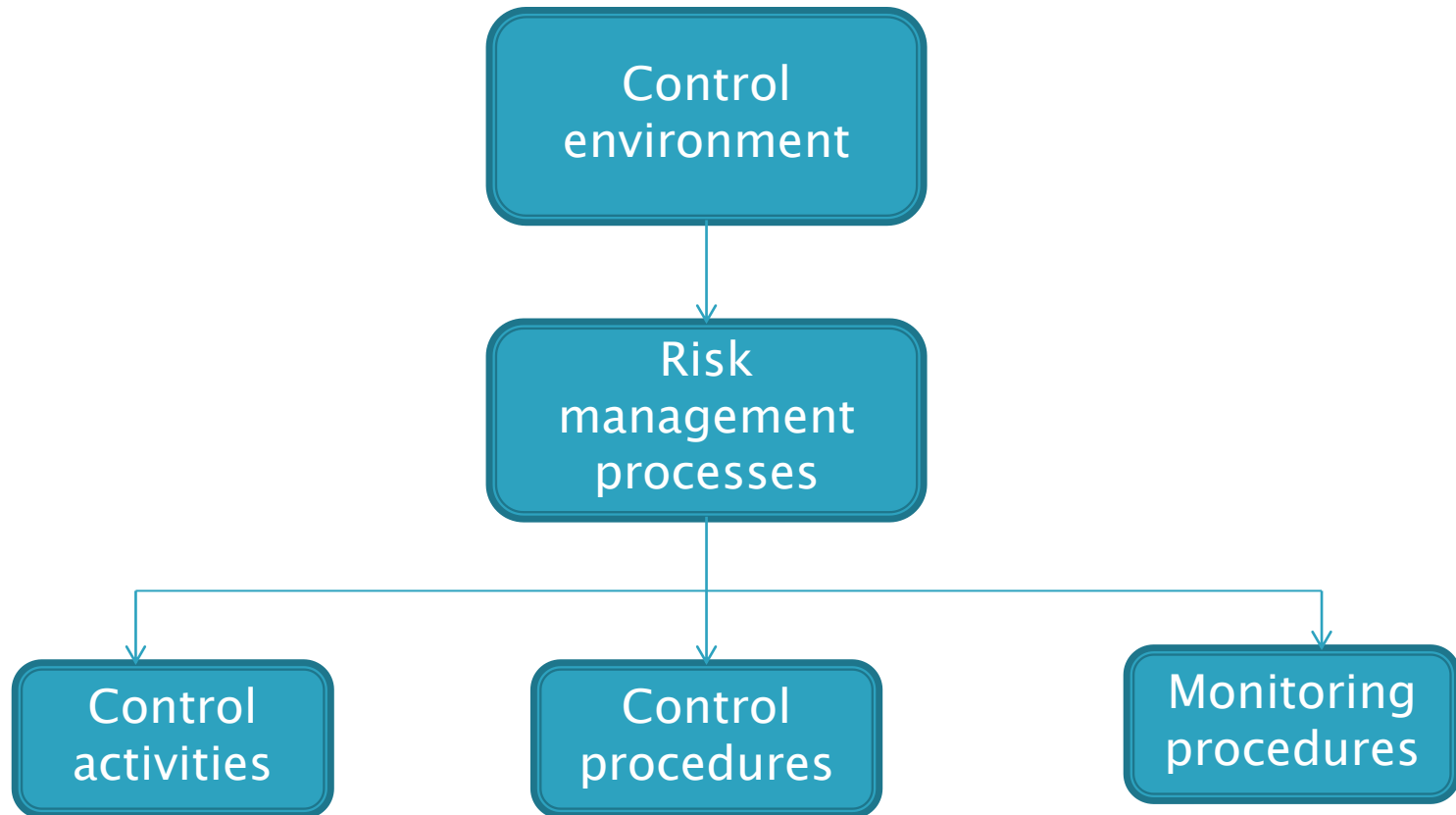
Gathering sufficient evidence so as to be able to form an opinion on the truth and fairness of the financial statements (not on ‘accuracy’ or ‘correctness’).

Consideration of fraud or deliberate misstatement of accounts is a secondary issue.

The Legal Content

- ❖ The Fraud Act 2006
- ❖ Theft Act 1968
- ❖ Proceeds of Crime Act 2002 (POCA)
- ❖ Money Laundering Regulations 2007
- ❖ Whistle-blowing: The Public Interest Disclosure Act 1998
- ❖ Foreign and Corrupt Practices Act 1977 (FCPA)
- ❖ Regulation of Investigatory Powers Act 2000 (RIPA)
- ❖ Police and Criminal Evidence Act 1984 (PACE)

Internal Controls – Fraud



Control environment

- ❖ Organisational structure
- ❖ Management's philosophy and operating style
- ❖ Human resources policies
- ❖ Culture of ethical behaviour and communication
- ❖ Commitment to competence

Control activities

Control activities are the policies and procedures established to address risks and to achieve the entity's objectives.

They include a range of detective and preventive control activities as diverse, for example, as:

- (1) authorisation and approval procedures;
- (2) segregation of duties (authorising, processing, recording, reviewing);
- (3) controls over access to resources and records;
- (4) verifications;
- (5) reconciliations;
- (6) reviews of operating performance;
- (7) reviews of operations, processes and activities;
- (8) supervision (assigning, reviewing and approving, guidance and training).

Control procedures

Examples:

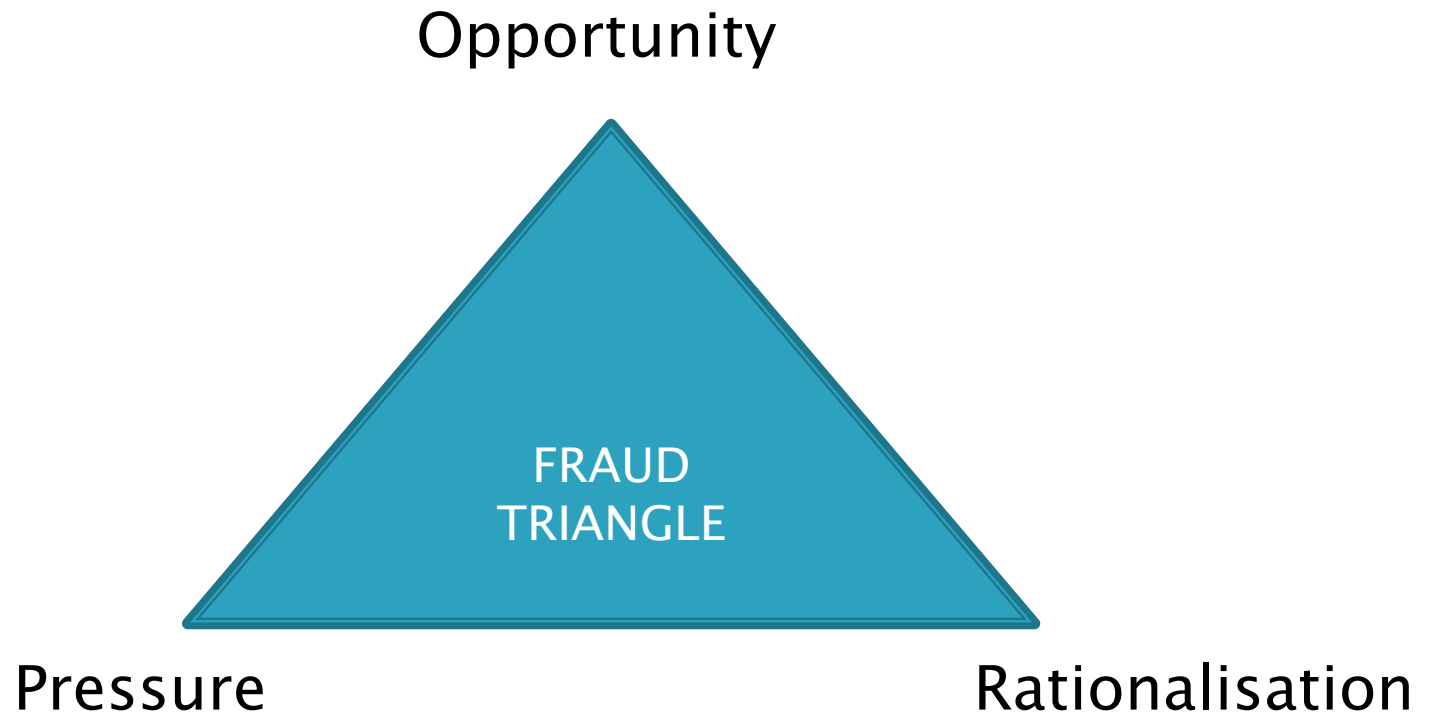
- Segregation of duties
- Organisational controls
- Authorisation and approval
- Physical controls
- Supervision
- Personnel
- Arithmetical procedures, and
- Management controls

Monitoring procedures

- ▶ To assess the quality of the system's performance
- ▶ It is aimed at ensuring controls are operating as intended and modified for changes in conditions

Fraud Investigation

Fraud Investigation



Fraud Investigation

Forensic accountants are called in to investigate a fraud or a possible fraud in two situations:

1. A fraud has been uncovered by an internal or external audit or management review.
2. Fraud is alleged by a whistle-blower or preliminary indications of something unusual have been uncovered by audit procedures.

Fraud Investigation

Before the investigation commences the task is to establish:

- ▶ What has happened
- ▶ If fraud has been committed who committed it, who knew about it, who was not involved
- ▶ Over what period the fraud was committed
- ▶ How it was committed and what controls were circumvented
- ▶ How much money was involved
- ▶ What are the relevant issues

Fraud Investigation

- ▶ Setting up the investigating team
- ▶ Planning the work to be performed

Fraud Investigation

Pre-investigation planning:

- ▶ A review of the personnel of the organisation, their responsibilities, roles and the extent of their authority.
- ▶ A review of the internal controls of the organisation including internal audit reports and management letters from the external auditors.
- ▶ Meetings with internal auditors as appropriate.
- ▶ Analytical review of financial and management accounts.

Fraud Investigation

- ❖ Analysing documents
- ❖ Obtaining documentary evidence
- ❖ Chain of custody
- ❖ Data analysis
- ❖ Interview

Analysing documents

It is recommended that all possible relevant documents be obtained.

Regarding collection of documents:

- ▶ Obtain original documents where feasible. Make working copies for review, and keep originals segregated.
- ▶ Do not touch originals any more than necessary.
- ▶ Maintain a good filing system for the documents. Losing a key document can damage the case.

Obtaining documentary evidence

Always obtain evidence by consent.

Evidence held by third parties. Obtain an Order by a Court on application by the claimant.

Don't attempt to obtain documents by other means. It can lead to charges of theft, trespass and other sanctions.

Chain of custody

A record must be made when the item is received or when it leaves the care, custody or control of the investigator.

Memorandum:

- ▶ What items were received
- ▶ When they were received
- ▶ From whom they were received
- ▶ Where they are maintained

Data Analysis

Data analysis. ACL

ACL_Tutorial_Metaphor.ACL - ACL 9

File Edit Data Analyze Sampling Applications Tools Server Window Help

Project Navigator

- ACL_Tutorial_Metaphor.ACL
 - Acceptable_Codes
 - ACL_Tutorial_Metaphor
 - Company_Dept
 - Credit_Cards_Metaphor
 - Employees**
 - Trans_April
 - Unacceptable_Codes

Welcome Employees

Filter:

Index: (None)

	First Name	Last Name	CardNum	EmpNo	HireDate	Salary	Bonus 2002
1	Leila	Remlawi	8590122497663807	000008	12/28/1997	52750	1405
2	Vladimir	Alexov	8590122281964011	000060	10/05/1997	41250	4557
3	Matthew	Lee	8590120784984566	000100	03/31/1999	38250	651
4	Alex	Williams	8590124253621744	000104	08/12/2001	40175	7460
5	Narinder	Singh	8590125999743363	000146	09/09/1999	32250	6991
6	Albert	Schmidt	8590120716753180	000157	09/26/2002	36170	837
7	Mohan	Parhar	8590128947747852	000161	08/10/2000	69750	4455
8	Nicole	Levy	85901227200558982	000172	06/15/2002	46150	1839
9	Jeanette	Wallace	8590128676326319	000180	05/11/1995	46500	953
10	Will	Harris	8590124781270125	000201	11/30/2001	79250	9723
11	Nils	Chiario	8590121762084715	000210	07/23/1996	43800	7484
12	James	Lee	8590129593164703	000222	12/11/1998	88420	8922
13	Heidi	Wiebe	8590127307204051	000230	02/07/1995	75280	8555
14	Pamela	Coverly	8590121282195395	000253	10/06/1996	62250	2167
15	Denise	Nieweler	8590121300586153	000269	09/10/1997	44680	7340
16	Hugh	Vanda	8590127188365686	000277	07/02/2002	31340	1972
17	Tim	Lalli	8590120884250381	000284	07/21/1998	40450	9386
18	Andre	Jacques	8590125431232531	000292	02/26/1996	57740	6614
19	Hilbert	Frank	8590121620630401	000306	04/06/2000	38270	1528
20	Patrick	Doyle	8590126323841585	000311	08/25/1995	79840	3090
21	Beth	Sinclair	8590121039256285	000328	11/16/1999	52180	5832
22	Igor	Belchev	8590122491455345	000331	11/30/2002	58760	148
23	Patricia	Walters	8590127043771382	000340	10/25/1995	39180	9145
24	Bernd	Mueller	8590129923638380	100010	09/06/1995	47250	1421
25	Iris	Shamus	8590123507612981	100023	09/26/1999	47380	9388
26	Paul	Perry	8590126391902275	100029	03/19/1995	46250	6671
27	Antonio	Sanchez	8590122965563802	100046	05/26/1999	55340	7221
28	Jacqueline	Miller	8590128618251512	100073	06/15/1995	67750	7084
29	John	Gilbert	8590125323000756	100093	09/08/1998	35900	4783
30	Janet	Gilley	8590128098022583	100125	07/02/1999	29950	6326
31	Lars	Andersson	8590126009071523	100130	02/18/1995	45370	6000
32	Olga	Roman	8590128742834790	100188	04/30/1996	63840	2597
33	Elisa	Sinclair	8590123888722712	100245	12/28/1998	46500	5008
34	Charles	Nasar	8590127928113525	200010	05/01/1995	29250	1988
35	Angela	Richie	8590128759193385	200052	12/11/1995	48420	3823
36	Blair	Green	8590124265829051	200147	09/10/1997	44680	2088
37	Jennifer	Goldberg	8590123556942657	200176	08/25/1998	39840	4801
38	Phyllis	Goodwin	8590121394166062	200227	11/30/1998	58760	2913
39	Barbara	Nelson	8590129151565076	200248	03/19/1996	46250	1262
40	Janelle	Gudge	8590128152739875	200281	09/08/1997	35900	4739
41	Rafael	Linea	8590128906141710	200311	02/18/1995	45370	1918
42	Per	Thiessen	8590122982198784	200339	04/30/1996	43840	5441

Overview Log Default_View

Employees 200 Records

Taskbar: 5 Micr..., Sage 50..., 3 Firefox, Microso..., 3 Ado..., Forensic..., 2 Micr..., 2 Win..., Window..., ACL_Tut..., 07:47

Data analysis. Duplicates

As of: 05/13/2012 18:17:26

Command: DUPLICATES ON Last_Name OTHER Bonus_2002 CardNum EmpNo First_Name HireDate Last_Name Salary PRESORT TO SCREEN
Table: Employees

9 duplicates detected

Duplicates:

Last_Name	Bonus_2002	CardNum	EmpNo	First_Name	HireDate	Salary
Fisher	8,916	8590128164445837	300025	Wei	07/25/1995	31,020
Fisher	624	8590126961897004	800022	Tina	11/28/1997	49,950
Lee	651	8590120784984566	000100	Matthew	03/31/1999	38,250
Lee	8,922	8590129593164703	000222	James	12/11/1998	88,420
Levy	1,839	8590122720558982	000172	Nicole	06/15/2002	46,150
Levy	9,756	8590128263176714	500140	Michal	09/27/1997	46,390
Michaels	6,281	8590126611059920	300013	LaVerne	04/26/1995	38,220
Michaels	9,151	8590122716976418	800093	David	07/27/1996	47,590
Nelson	1,262	8590129151565076	200248	Barbara	03/19/1996	46,250
Nelson	4,039	8590128977644129	800233	Greg	01/18/1997	43,390
Sinclair	5,832	8590121039256285	000328	Beth	11/16/1999	52,180
Sinclair	5,008	8590123888722712	100245	Elisa	12/28/1998	46,500
Smith	8,096	8590127452939923	800098	Daniel	07/05/2001	49,300
Smith	5,244	8590129875808876	800207	Philip	01/15/1999	57,800
Turner	863	8590125693710607	500103	Connie	02/22/1998	49,280
Turner	3,469	8590124651080991	800079	Bruce	06/12/2002	59,440
Wang	3,350	8590122464207976	200399	Daniel	10/08/2001	95,070
Wang	468	8590125699407125	800053	Sean	02/25/1998	40,590

Data analysis. Employees hired in 2002

	First Name	Last Name	CardNum	EmpNo	HireDate	Salary	Bonus 2002
6	Albert	Schmidt	8590120716753180	000157	09/26/2002	36170	837
8	Nicole	Levy	8590122720558982	000172	06/15/2002	46150	1839
16	Hugh	Vanda	8590127188365686	000277	07/02/2002	31340	1972
22	Igor	Belchev	8590122491455345	000331	11/30/2002	58760	148
47	Rejane	Boucher	8590129079724782	200345	09/09/2002	33740	813
48	Brett	Starr	8590121278290111	200346	09/26/2002	45780	6029
50	Kim	Montara	8590128375704378	200347	06/16/2002	20470	9195
58	Hilda	Demeter	8590121785018691	200365	02/07/2002	45690	9490
64	Sarah	Pollard	8590126069373535	300041	01/30/2002	30200	5765
90	Brendan	Hampton	8590121610225371	400044	09/20/2002	27400	7487
104	Pedro	Morales	8590126272564898	400200	12/10/2002	43600	42
131	Sergei	Zigic	8590124434068810	600018	09/13/2002	58750	655
132	Ruth	Patterson	8590126821848844	600023	03/11/2002	46350	6038
149	Fatima	Nahan	8590121160951469	800011	12/19/2002	41400	943
173	Bruce	Turner	8590124651080991	800079	06/12/2002	59440	3469
175	Masatoshi	Yoshimura	8590128759809183	800081	09/05/2002	56660	1129
176	Marilyn	Scoutten	8590122780127996	800090	03/06/2002	41400	3738
	<< End of File >>						

Data analysis

- ❖ Vertical Ratio Analysis
- ❖ Horizontal Ratio Analysis
- ❖ Ratio Analysis
- ❖ Correlation Analysis

Data analysis

PROFIT AND LOSS ACCOUNT

Vertical Analysis

Horizontal Analysis

	<i>Year One</i>		<i>Year Two</i>		<i>Change</i>	<i>%Change</i>
Net sales	250,000	100%	450,000	100%	200,000	80%
Cost of goods sold	<u>125,000</u>	50%	<u>300,000</u>	67%	<u>175,000</u>	140%
Gross profit	125,000	50%	150,000	33%	25,000	20%
Operating Expenses						
Selling Expenses	50,000	20%	75,000	17%	25,000	50%
Administrative Expenses	<u>60,000</u>	24%	<u>100,000</u>	22%	<u>40,000</u>	67%
Net profit / (Loss)	<u><u>15,000</u></u>	6%	<u><u>(25,000)</u></u>	-6%	<u><u>(40,000)</u></u>	-267%

ADDITIONAL INFORMATION

Average Debtors	155,000	210,000
Average Stock	65,000	130,000
Average Assets	330,000	425,000

Data analysis

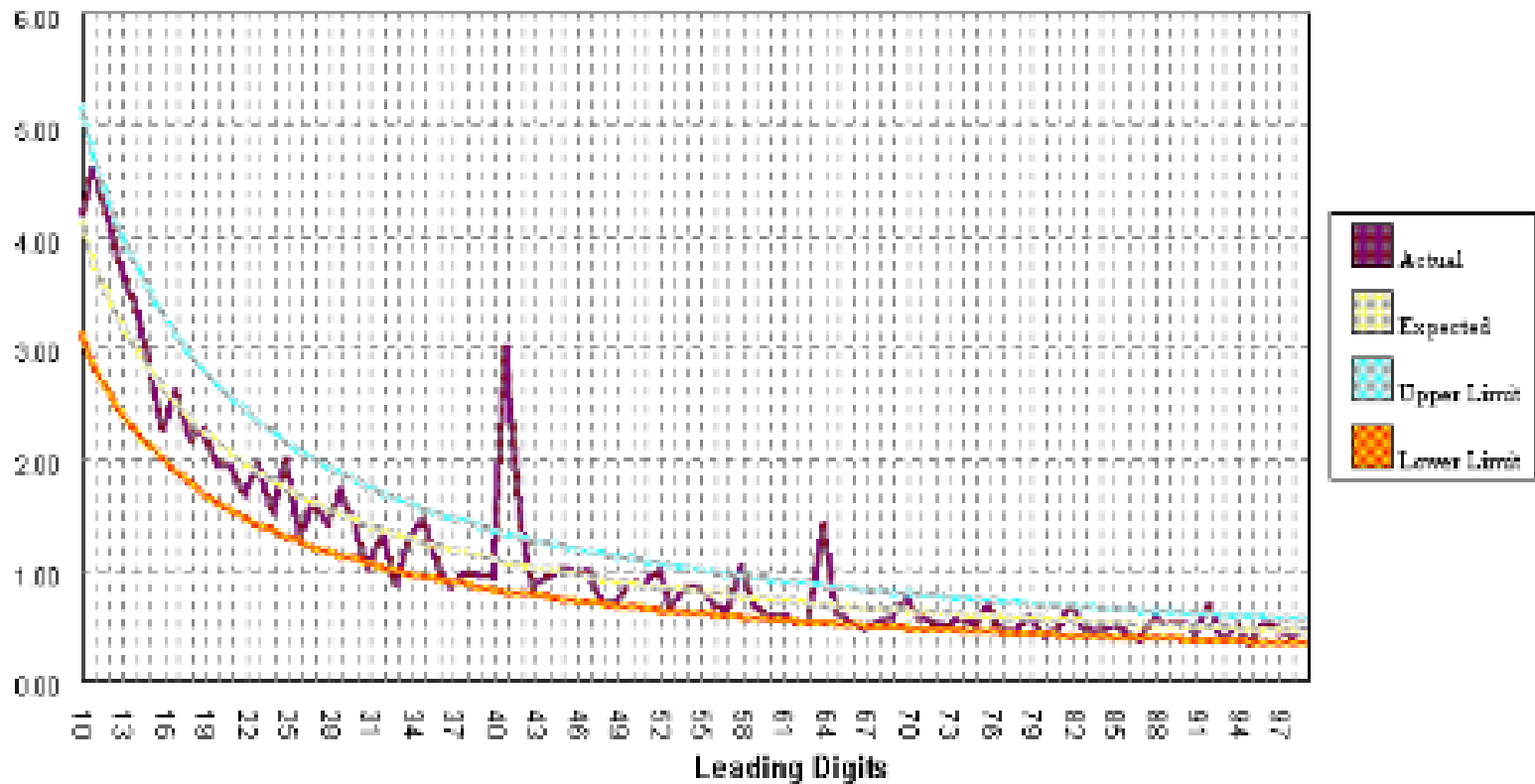
BALANCE SHEET

	<i>Vertical Analysis</i>		<i>Horizontal Analysis</i>			
	<i>Year One</i>	<i>Year Two</i>	<i>Change</i>	<i>%Change</i>		
Assets						
Fixed assets (net)	60,000	34%	60,000	40%	0%	
Current Assets						
Cash	45,000	26%	15,000	10%	(30,000)	-67%
Debtors	150,000	85%	200,000	133%	50,000	33%
Stock	75,000	43%	150,000	100%	75,000	100%
	<u>270,000</u>	154%	<u>365,000</u>	243%	<u>95,000</u>	
Creditors – amounts due within one year	<u>95,000</u>	54%	<u>215,000</u>	143%	<u>120,000</u>	126%
Net Current Assets	<u>175,000</u>	100%	<u>150,000</u>	100%	<u>(25,000)</u>	
Total Assets less Current Liabilities	235,000	134%	210,000	140%	(25,000)	11%
Creditors – amounts due after one year						
Long Term Debt	<u>60,000</u>	34%	<u>60,000</u>	40%		0%
Net Assets	<u><u>175,000</u></u>	100%	<u><u>150,000</u></u>	100%	<u><u>(25,000)</u></u>	
Capital and Reserve						
Ordinary Shares	100,000	66%	100,000	67%		0%
Retained Earnings	75,000	34%	50,000	33%	(25,000)	-33%
Total Shareholders Funds	<u><u>175,000</u></u>	100%	<u><u>150,000</u></u>	100%	<u><u>(25,000)</u></u>	

Data analysis

Application of Benford's Law to an Invoice History File

Actual, Expected, Upper Limit, Lower Limit



Data analysis

Ratio Analysis

Data analysis

ABC Ltd
Trading and Profit and Loss Accounts for the years ended 31 December

	1999			2000		
	£'000	£'000	£'000	£'000	£'000	£'000
Sales			1,077			1,598
Cost of Goods Sold:						
Opening stock	63			65		
Purchases	713			1,159		
		776			1,224	
Closing stock		-65			74	
Cost of sales			711			1,150
Gross Profit			366			448
Expenses			291			314
Net Profit (before tax)			75			134
Tax			26			46
Net Profit (after tax)			49			88
Dividend proposed			20			25
Undistributed Profit			29			63
Undistributed Profit b/f			75			104
Undistributed Profit c/f			104			167

Data analysis

Balance Sheet as at 31 December

	1999		2000	
	£'000	£'000	£'000	£'000
<u>Fixed Assets</u> (WDV)			183	280
<u>Current Assets</u>				
Stock	65		74	
Trade Debtors	158		176	
Bank	54		50	
		277		300
<u>Less Current Liabilities</u>				
Trade Creditors	60		92	
Tax	26		46	
Dividends	20		25	
		106		163
			171	137
			354	417
<u>Financed by</u>				
Ordinary Share Capital		250		250
Reserves:		104		167
Undistributed Profit			354	417

Data analysis

RATIO	1999	2000
PROFITABILITY		
Return on capital employed	21.2%	32.1%
Gross profit % of sales	34.0%	28.0%
Net profit % of sales	7.0%	8.4%
Total expenses % of sales	27.0%	19.6%
LIQUIDITY		
Rate of stock turnover	11.1 times	16.5 times
Debtor collection period (days)	53.5 days	40.2 days
Creditor payment period (days)	30.7 days	29.0 days
Current ratio	2.6 : 1	1.8 : 1
Acid test ratio	2.0 : 1	1.4 : 1

Data analysis

Example:

Jackson Hardware Supply is a medium-sized plumbing and electrical wholesale distributor. An anonymous note had been received which suggested the cashier had been stealing cash from the company. He had been seen driving a new BMW and had taken expensive holidays. The director of the company wanted to investigate the allegation. Although the cashier was a long and trusted employee, the director asked a forensic accountant to ascertain if the cashier has been stealing.

Data analysis

Example (cont'd):

The forensic accounting decided to analyse the Profit and Loss Account and to compare the salary charge in the current year with that of the previous year.

The balance of £220,000 in the salary expense account was significantly larger than the £180,000 for the previous year.

There were no changes in the work force and all employees received pay rises of 10%.

Data analysis

Example (cont'd):

Next step: to follow the overstatement in the salaries account back from the P & L to the source documents (the payroll payments). There were twelve entries in the wages book for John Doe, an employee who left last year. The payments had been made to someone else.

The forensic accountant interviewed the cashier who confessed.

Correlation analysis

Independent Variable

Dependent Variable

Number of days travelling

Hotel cost

Quantity of paper produced

Starch consumed

Number of houses built

Paint used

Verifying multiples of a number

With this function, a forensic accountant can determine whether regularly dispersed cheques, such as reimbursement for mileage, are consistent within the regular rate.

For instance, if the mileage checks do not measure up to the 40p per mile rate, an automatic red flag should go up.

Interview

Interview

“the whole technique of skilled interviewing is to build an atmosphere of trust in which the initial desire to remain silent is replaced by an urge to confide in the questioner”

(The Appeal Court)

Interview

An **interview** is a question and answer session designed to elicit information.

It is structured, not free-form and designed for a purpose.

It might consist of only one question or a series of questions.

Interview

Preparation:

Review case file and consider what type of information can be supplied by each of the potential witnesses.

Question typology

- ❖ Introductory questions
- ❖ Informational questions: open, closed and leading
- ❖ Closing questions
- ❖ Assessment questions
- ❖ Admission-seeking questions

Non-fraud work

Non-fraud work

- ▶ Valuation of business
- ▶ Matrimonial work – divorce and separation
- ▶ Asset Tracing
- ▶ Claims: consequential loss claims and damages for loss
- ▶ Personal injury and medical negligence claims

Valuation of Business

Reasons:

- ❖ For business sale
- ❖ Goodwill valuations for partnerships and sole traders
- ❖ Group reorganisations and restructurings
- ❖ For tax purposes: inheritance tax, capital gains tax, employee share schemes
- ❖ In legal proceedings: for quantum of damage, lost of opportunity, divorce proceedings

Value – Fair value

A company is owned by three people A, B and C who have equal shares. The company is valued at £12 million so if the whole business is sold each should receive a one-third share, i.e. £4 million.

C wants to sell. There are three scenarios:

1. Sale to a third party
2. Sale equally to A and B
3. Sale to either A or B

Value – Fair value

1. Sale to a third party:

C's minority holding will have to be discounted because it is a minority holding. Assume a discount of 60%, making C's shareholding worth £1.6m ($£4m - (60\% \times £4m)$).

If C sells to an outsider it is unlikely that C will receive any more than this as a minority shareholding in a private company is not particularly attractive asset for an investor.

Value – Fair value

2. Sale equally to A and B

If C sells equally to A and B they will each have a 50% shareholding and no-one will have overall control. C's share is probably still only worth £1.6m as it does not give either of the acquires a significant advantage.

Value – Fair value

3. Sale to either A or B

If C sold to either A or B they would acquire a controlling interest: 67%.

The value of a controlling interest is much greater than that of a minority so would attract a lower discount, say 20%.

C's share could be worth more: £6.4m (£12m x 67% less 20%), because of the benefit it would bring to the acquiring shareholder A or B.

Value – Fair value

C's shareholding is worth anywhere between £1.6m and £6.4m because it attributes some of the value acquired by the new majority shareholder (either A or B) to the seller, C.

The actual value depends on:

- The overall value of the company being agreed, and
- The discount factor to be applied

Which will be a matter for negotiation between the parties. It is here that the skill of the forensic accountant comes in.

Market value

Used by HMRC as the basis of valuing shares for tax purposes.

Definition of ‘market value’:

“The price which the property might reasonably be expected to fetch if sold in the open market at that time, but that price shall not be assumed to be reduced on the grounds that the whole property is to be placed on the market at one and the same time”.

(s. 272 TCGA 1992, s. 160 IHTA 1984 and s. 118 FA 2003 for stamp duty).

Bases of valuation

Approaches:

- ❖ Asset-based valuations
- ❖ Earnings-based valuations
- ❖ Discounted cash flow (DCF), and
- ❖ Dividend yield.

Tracing Illicit Transactions

The Financial/Behavioural Profile

It will identify most illicit funds which are deposited to accounts or expended in significant amounts.

Sources for the target's assets, liabilities, income and expenses:

- ▶ The target
- ▶ Associates
- ▶ Documents from financial sources (accountant, banker)
- ▶ Bank account records
- ▶ Mortgage and loan files
- ▶ Credit card records
- ▶ Tax returns
- ▶ Public records
- ▶ Business filings
- ▶ Real estate filings
- ▶ Court records

The Financial/Behavioural Profile

Steps:

1. Identify all significant assets held by the suspect.
2. Identify all significant liabilities.
3. Identify all income sources during the relevant time period.
4. Identify all significant expenses incurred during the relevant period.
5. Analyse the information collected

The Financial/Behavioural Profile

The Financial Profile		
TYPICAL ASSETS		For each significant asset determine:
Residence	Jewellery	-When was it acquired and from whom?
Real Estate	Clothing	- How much did it cost?
Bank accounts	Collectibles	- How was it paid for (currency, cheque, cashier's cheque)?
Stocks and bonds	Pensions	- What source of funds was used to acquire it?
Automobiles	Home	- What documentation exists for the purchase and where is it?
Insurance	Furnishings	
Cash on hand	Boats	
TYPICAL LIABILITIES		For each significant liability, determine:
Mortgage(s)		-What was the original amount of the liability?
Other loans		-What is the present balance due?
Lines of credit		-When was the liability incurred?
Credit cards		-What was the purpose for the loan or debt?
Instalment purchases		-How were the proceeds used and where were they deposited?
Accounts payable		-What security (collateral), if any, was given for the debt?
Taxes and other bills		-What documentation exists for the transaction and where is it?
Alimony and child support		-Was the debt written off as a bad loan for tax purposes?
		-Who was the creditor or lender?
TYPICAL SOURCES OF FUNDS		For each source of funds, determine:
Salary	Insurance proceeds	-What was the total amount during a given period?
Gifts	Commissions and fees	-What was the source?
Rental income	Awards	-How was it paid for (currency, cheque, other means)?
Dividends		-When were the funds received?
Interest		-Where was it deposited?

The Financial/Behavioural Profile

Sale of assets	Inheritances	-How was it spent?
	Disability payments	-What documentation exists and where is it?
TYPICAL EXPENDITURES		For each major expenditure item, determine:
Rent and mortgage	Clothing	-What was the total amount spent?
Health costs	Utilities	-How was it paid for?
Interest on loans	Food	-Where were the funds obtained to pay the expense?
Credit cards	Insurance	-What documentation exists and where is it?
Car payments		-When was the payment made?
Travel		

Tracing Illicit Transactions

COMPARATIVE NET WORTH - ASSET METHOD FORMULA

	<i>Assets</i>
-	<i>Liabilities</i>
=	<i>Net Worth</i>
-	<i>prior year's net worth</i>
=	<i>Net Worth increase</i>
+	<i>living expenses</i>
=	<i>Income (or Expenditures)</i>
-	<i>funds from known sources</i>
=	<i>Funds from Unknown Sources</i>

Net Worth Analysis

EXAMPLE

Year One:

Assets at Cost		Liabilities	
Residence	£100,000	Mortgage balance	£ 90,000
Stocks & bonds	30,000	Automobile loan	
Automobile	<u>20,000</u>	balance	<u>10,000</u>
TOTAL	£150,000	TOTAL	£100,000
Assets	£150,000		
Liabilities	<u>-100,000</u>		
Net Worth	£50,000		

Compute the target's net worth for year two, using the same method:

EXAMPLE

Year Two:

Assets at Cost		Liabilities	
Residence	£100,000	Mortgage balance	£ 50,000
Stocks & bonds	30,000	Automobile loan	
Automobile	20,000	balance	<u>0</u>
C.D.	<u>50,000</u>	TOTAL	£ 50,000
TOTAL	£200,000		
Assets	£200,000		
Liabilities	<u>- 50,000</u>		
Net Worth	£150,000		

Net Worth Analysis

EXAMPLE

Year Two:

Income		Expenses	
Salary	£30,000	Mortgage Interest Payments	£20,000
Commissions	<u>20,000</u>	Living Expenses	<u>10,000</u>
TOTAL	£50,000	TOTAL	£ 30,000

The difference between the target's income and expenses equals the increase (or decrease) in net worth from year one to year two which can be attributed to known sources. Here it is £20,000. Subtract the increase in net worth from known sources from the total increase in net worth to determine the amount from unknown sources.

EXAMPLE

Total Increase in Net Worth	£ 100,000
Increase attributed to Known Sources	<u><20,000></u>
<i>Dollars From Unknown Sources</i>	£ 80,000

Expenditure Method

EXPENDITURES (COMPARATIVE NET WORTH) FORMULA

	<i>Expenditures (Application of Funds)</i>
-	Known Source of Funds
=	<i>Funds from Unknown Sources</i>

Expenditure Method

EXAMPLE

Subject	Year One	Year Two
<i>Application of Funds:</i>		
Increase in bank balance	£ 2,000	£10,000
Down payment on residence	—	10,000
Purchase of automobile	10,000	—
Mortgage payments	8,000	20,000
Credit card payments	5,000	10,000
Other expenses	15,000	30,000
TOTAL	£ 40,000	£80,000
<i>Less: Known Sources of Funds</i>		
Cash on hand	1,000	
Salary	30,000	38,000
Interest earned on savings		
Account	1,000	2,000
Loan proceeds	8,000	
TOTAL	£40,000	£40,000
<i>Funds from Unknown or Illegal Sources</i>	0	£40,000

Bank Deposit Method

EXAMPLE

Subject	Year One	Year Two
<i>Application of Funds:</i>		
Increase in bank balance	£ 2,000	£10,000
Down payment on residence	—	10,000
Purchase of automobile	10,000	—
Mortgage payments	8,000	20,000
Credit card payments	5,000	10,000
Other expenses	15,000	30,000
TOTAL	£ 40,000	£80,000
<i>Less: Known Sources of Funds</i>		
Cash on hand	1,000	
Salary	30,000	38,000
Interest earned on savings		
Account	1,000	2,000
Loan proceeds	8,000	
TOTAL	£40,000	£40,000
<i>Funds from Unknown or Illegal Sources</i>	0	£40,000

Locating Hidden Assets

A target might attempt to preserve their assets by transferring them to other parties or to accounts that might escape detection:

- Transfer to family members or parties under their control
- Children's or Family Trust
- Home mortgage pay-down
- Insurance policies
- Prepaid credit cards
- Cashier's cheques and traveller's cheques
- Locating assets through subpoenas
- Locating assets off-shore

Expert Witness

Expert Witness

Duties:

- ❖ Establish the facts
- ❖ Interpret the facts
- ❖ Comment on the opposing expert's facts and opinions
- ❖ Define the professional standards in the area of your opponent's expertise

Expert Witness

- ❖ Preparing a Report
- ❖ Preparing to Testify

Expert Report

- ❖ Preparation
- ❖ Accuracy of reports
- ❖ Clarity
- ❖ Impartiality and Relevance
- ❖ Timeliness
- ❖ Avoid stating opinions regarding the guilt of innocence of any party
- ❖ Organise information chronologically

Expert Report

Outlining:

I. First-level head

A. Second-level head

1. Third-level head

a. Fourth-level head

(1) Fifth-level head

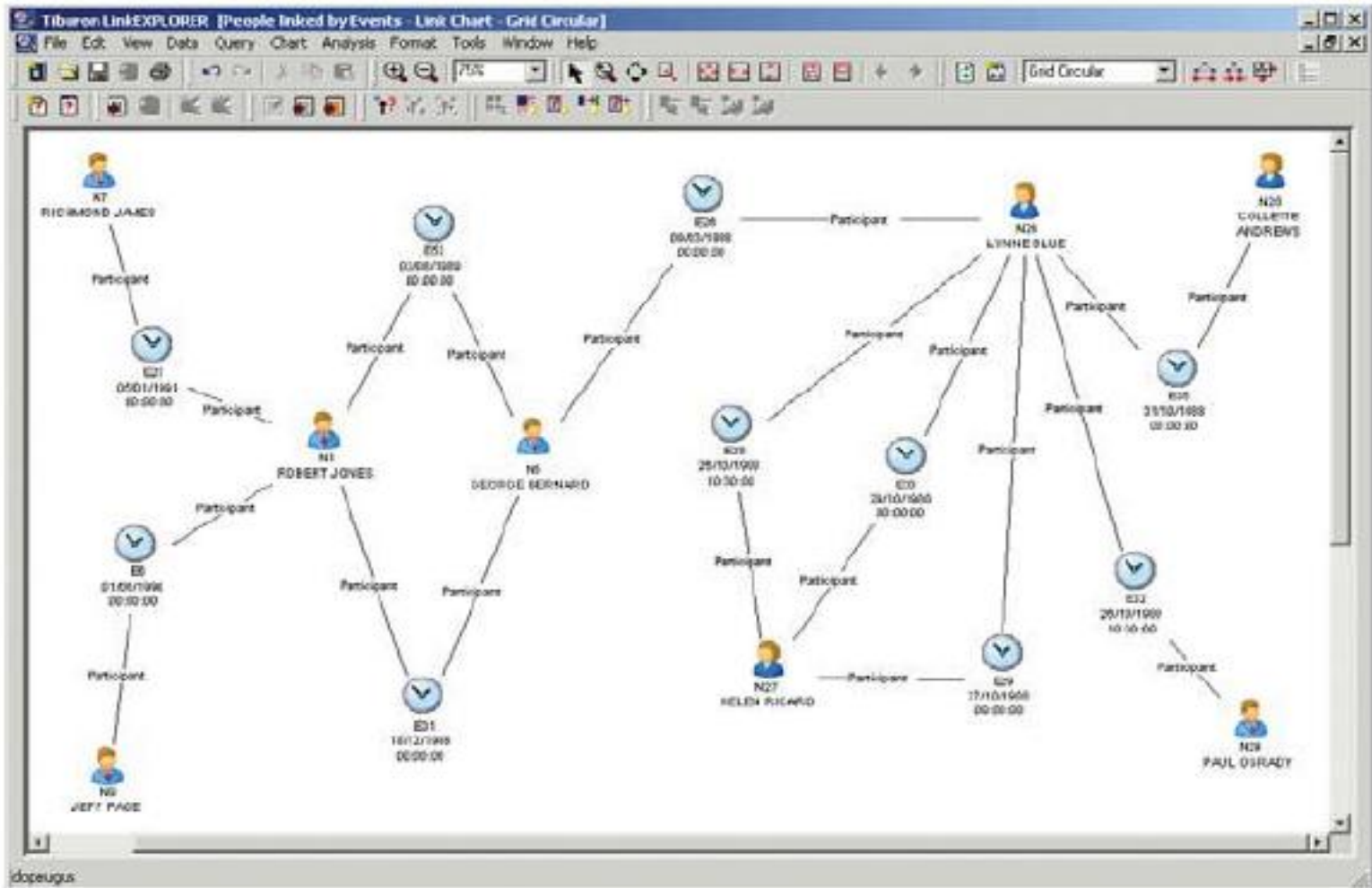
Report Structure

- ▶ Must give details of the expert's qualification and the material, literature, experiments, and tests on which he has relied.
- ▶ Must make clear which of the facts stated in the report are within the expert's own knowledge.
- ▶ Must contain the information considered in formulating opinions.
- ▶ Must summarise the range of opinion on the matter, giving reasons for the expert's own opinion.
- ▶ Must say who carried out any examination, measurement, test or experiment which the expert has used for his report.
- ▶ Must contain any exhibits to be used as a summary of or support for the opinions.
- ▶ Must contain a statement that the expert understands his duty to the court.
- ▶ Must contain a summary of the conclusions reached.
- ▶ Must be verified by a statement of truth.

Expert Report

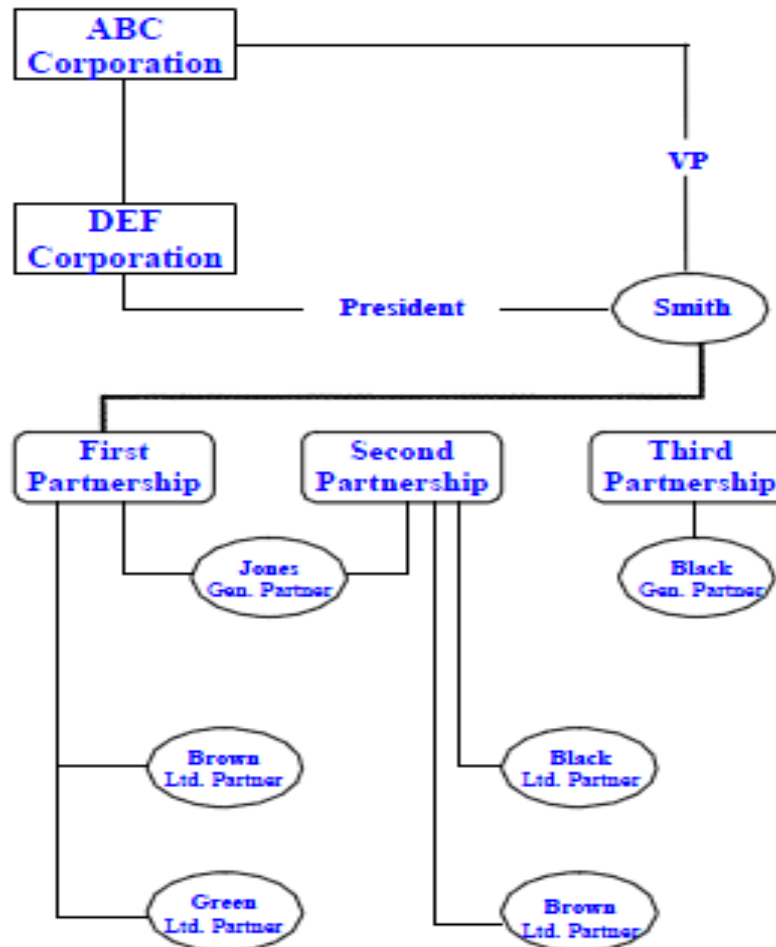
Visual Aids

Case Linking

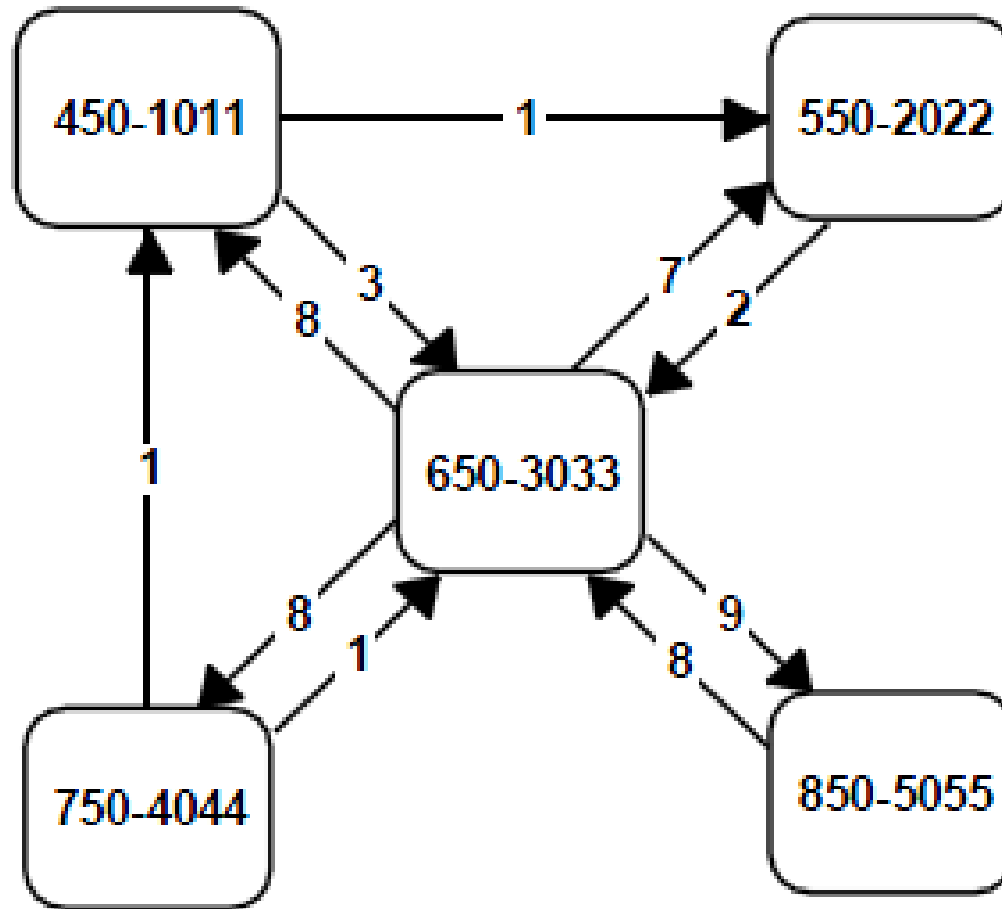


Link Network Diagram

LINK NETWORK DIAGRAM



Matrices

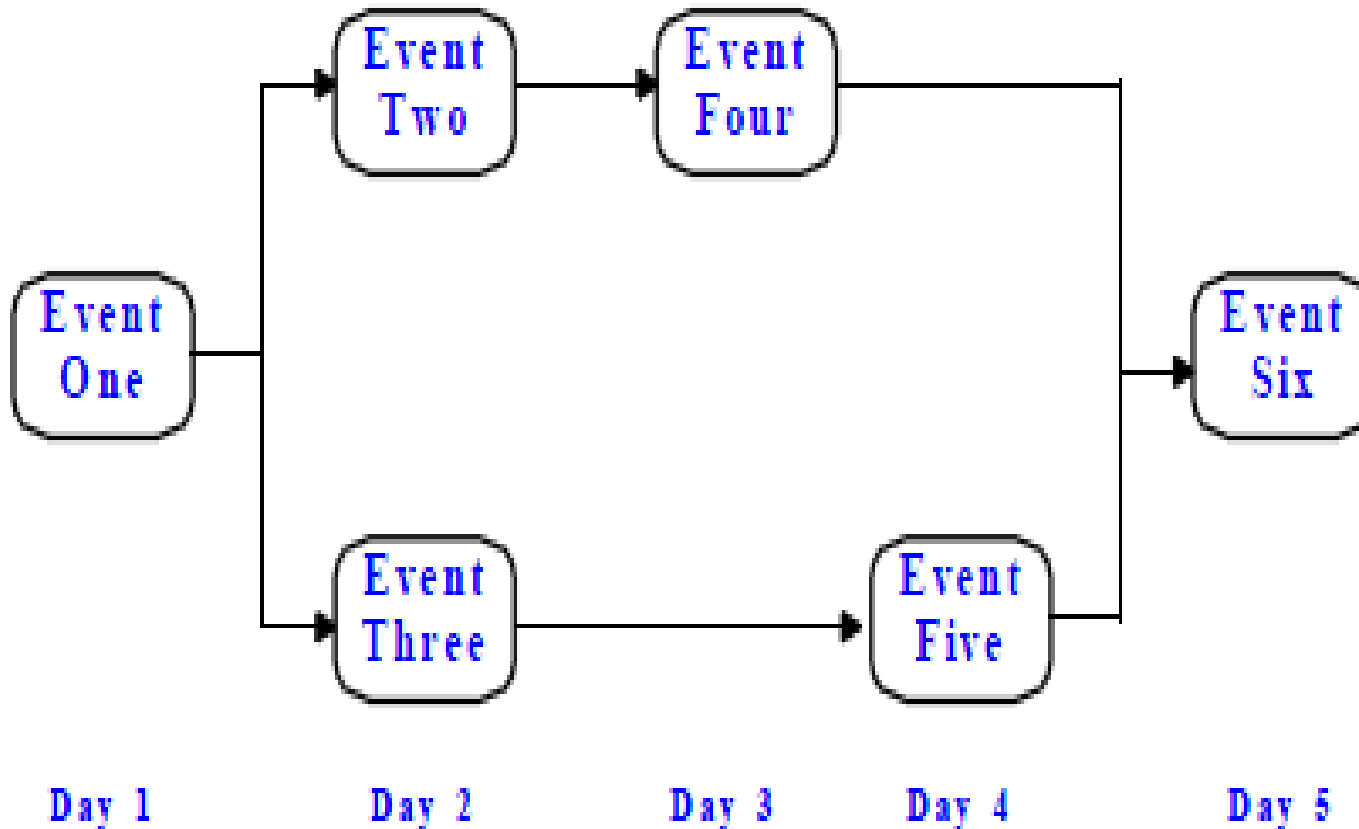


Matrices

This information also can be represented in chart form.

	450-1011	550-2022	650-3033	750-4044	850-5055	Total Outgoing Calls
450-1011	X	1	3			4
550-2022		X	2			2
650-3033	8	7	X	8	9	32
750-4044	1		1	X		2
850-5055			8		X	8
Total Incoming Calls	9	8	14	8	9	

Time Flow Diagrams



Summary of Witness Statement

Summary of Evidence

Linda Reed Collins

<u>Page</u>	<u>Topic</u>	<u>Testimony</u>
5	Collins hired 6/1/XX	Personnel file
5	Collins promoted to Purchaser 11/8/XX	Personnel file
8	Collins and Jones friends	Smith interview
15	Cheques to Orion	Robinson interview
30	Indebtedness of Collins	Public records

Preparing to Testify

❖ Direct Examination

❖ Cross-Examination

Becoming an Expert Witness

If you act as an expert witness or are planning to do so, accountingcpd.net's new course [Becoming an Expert Witness](#) is for you. The course looks at what it takes to be an expert witness and helps you prepare to testify and defend your report and opinion.

This online CPD course helps you:

- Understand what is expected from an expert witness
- Prepare to give evidence in court
- Know how you can qualify as an expert witness
- Understand witness liability

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Becoming an Expert Witness *by Juan Carlos Venegas*

An expert witness is someone with specialised training and/or experience who is allowed to testify in court to help the judge or jury understand complicated or technical subjects. Expert witnesses should be capable of turning the tables on an opposing lawyer by showing expertise, their command of the facts, and their ability to communicate and defend their opinions.

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This course defines what an expert witness is, what their duties are and helps you to be able to testify and defend your report and opinion.

This course allows you to work through activities to get the knowledge and skills that will enable you to improve your skills as an expert witness.

Becoming an Expert Witness enables you to:

- Understand what is expected from an expert witness
- Prepare to give evidence in court
- Know how they can qualify as an expert witness
- Understand witness liability

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Learning outcomes

Becoming an Expert Witness

- Expert witnesses distinguished from lay witnesses
- What lawyers look for in an expert witness
- Qualifying as an expert witness
- Court-appointed expert witnesses

Preparing to testify as an expert witness

- Independence
- Evidence
- Expert reports
- Working papers

Testifying as an expert witness

- Preparing to testify
- Testifying at trial

Liability of expert witness

THANK YOU!