Forensic Accounting: Fighting White Collar Crime

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Abstract

The global increase in fraud has caused many people to lose trust in accountants. However, experts in the field of Forensic Accounting, such as Certified Fraud Examiners, are restoring ethics and trust by fighting to deter white-collar crimes. The most prevalent type of fraud encountered is occupational fraud. Under occupational fraud the most common and consequential schemes are asset misappropriation and fraudulent statements. Due to the rapid increase of occupational fraud, organizations have implemented anti-fraud controls. Statistics have shown that these controls have helped to decrease the likelihood of fraud. This examination of Forensic Accounting points out the importance of Certified Fraud Examiners in the economic, business, and financial fields within the International Community.

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When asked about ethical issues in the field of accounting Raymond Reisig, both a CPA and Certified Fraud Examiner, stated that ethics is the foundation which accounting stands on because “Our whole profession depends on people trusting us.” However, due to the lack of ethics in many large companies involved with fraud, the public has lost faith in the accounting profession. There are a number of different types of frauds that occur daily, but the most prevalent type of fraud that seems to catch the public’s eye is occupational fraud.

According to the Association of Certified Fraud Examiners (ACFE), occupational fraud is “the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets” (2010, p. 6). Occupational fraud has now become a global problem, which has substantially increased the demand for forensic accounting. Forensic accounting is one of the many branches in accounting. Under this specific branch exists Certified Fraud Examiners. Certified fraud examiners are specifically trained to find fraud, detect the ways in which the fraud was committed, and uncover who may have committed the crime. Two of the many schemes under occupational fraud that certified fraud examiners are confronted with are asset misappropriation and fraudulent statements. One example of this could be found in a recent report in *The New York Times.* Anita Collins, 67, who is being charged for grand larceny in the first degree, for embezzling over $ 1 million over seven years from the Archdiocese of New York. Anita was able to skillfully delude the Catholic Church by sending fictitious invoices to the Archdiocese and issuing 468 checks to accounts she controlled (Otterman 2010).

According to *“Report to the Nations”* a worldwide study of 1,843 cases of occupational fraud from 2008-2009, stated that in the U.S. “Asset misappropriation schemes were the most common form of fraud… representing 90% of all cases” (ACFE, 2010, p. 4). Asset misappropriations range from conspiracies like skimming, when an employee does not record a sale and instead pockets the money, to schemes like check tampering, when an employee steals blank checks from the company and writes them out to himself. However, the most common fraud is billing. Billing happens when an employee deceives his employer to make false payments by submitting invoices for fictitious goods or services. Billing alone can cause an organization to lose, on average, a median loss of $128,000. Although Asset misappropriation is the most common type of fraud, according to *“Report to The Nations”* it is the least costly.

In contrast to asset misappropriation, fraudulent statements only made up less than 5% of all cases in the same study. However, these schemes are the most consequential, causing a median loss of more than $4 million (ACFE 4). Fraudulent statements involve the manipulation, falsification or alteration of accounting records, misrepresentation of financial statements, and the misapplication of accounting principles relating to amounts (Crumbley 2009). Financial statement schemes can be very hard to catch because they are buried under false numbers and fake company names. In October 2011, Michael C. Woodford, former Olympus president and chief executive, exposed the corporations “fraudulent accounting”. The scandal covered up $1.7 billion in losses by misstating their finances on their income statements. The corporation’s former and current executives tactically buried their losses so that external auditors could never discover them (Tabuchi 2012). Due to the complexity of financial statement fraud, such as the Olympus scandal, many companies hire certified fraud examiners to investigate their financial statements when they suspect fraud is present.

Occupational fraud is hard to detect due to the fact that owners and executives commit most fraud. For this reason many organizations have implemented anti-fraud controls to prevent and detect fraud. Anti- fraud controls consist of controls such as hotlines, fraud training for employees, surprise audits and employee support programs. In every study since 2002, the Association of Certified Fraud Examiners have found that tips are the most common and effective way to detect fraud (ACFE 4). This study found that 40.2 percent of all cases were detected by tips, employees were the most common source of fraud tips (ACFE 17). Anti- fraud controls are reinforcing ethical standards in the field of accounting.

Although fraud has caused many people to lose their trust in accountants, the field of accounting is implementing many ways to reduce fraud. Forensic Accounting plays a huge role in this because Certified Fraud Examiners are being used as tools to analyze and examine financial statements in a way that normal accountants cannot. Further research is needed in order to fully understand the requirements and characteristics a Certified Fraud Examiners should possess to be successful in the field of Forensic Accounting. The increase in demand for Forensic Accounting shows that our ethical standards are still our main priority. Occupational fraud is something that will always occur in every organization; we cannot change this. However, what forensic accounting can change is the way which society views accountants ethically.

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