

THE CHANGING LANDSCAPE OF FORENSIC ACCOUNTING



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Everyone's favorite gangster, Al Capone, may have never been caught for tax evasion without the use of forensic accounting. It may come as a surprise to you that the application of forensic accounting can be traced back to over two centuries ago. In fact, in 1817 a Canadian case of estate bankruptcy resulted in an accountant testifying in court as an expert witness set the standard for just one of the many roles that forensic accountants are now known for today. With the globalization of white-collar crime, heightened security concerns, and advancements in technology, forensic accounting is one of the fastest growing fields in law enforcement.

Most organizations would agree that forensic accounting is an incredibly important process and it should be considered by management for a range of complex scenarios. Just as the business landscape has rapidly changed over the past few decades, so too has the accounting industry and how its methods are applied. Although external factors have led to a shift in the direction from staffing accountants in house to software applications and outsourced services, the core elements that drive the need for forensic accounting have remained the same.

Roots and Origins

Understanding money coming in and out of the business has always been a critical part of staying afloat, for both entrepreneurs and large corporations alike. However, with the countless demands of running a business, it can be difficult to keep track of everything outside of standard operating and accounting procedures, which is where forensic accountants come in to play. The need for accountants to detect and prevent fraud as part of their role in safeguarding businesses was recognized in the early 1900s, though the field lacked standardized practices and professional organization. At the time, however, this rudimentary practice of forensic accounting was considered under the same umbrella as auditing. Over the decades as businesses grew and became more financially complex, forensics separated from auditing as its own distinct accounting practice area.

While the term "forensic accounting" was not coined until several years later, the importance of the specialty was solidified in America during the 1930s investigation of notorious gangster Al Capone, in which forensic analysis of financial records revealed tax evasion totaling over \$200,000. Throughout the 20th century, the forensic accounting specialty developed significantly, becoming more sophisticated through advanced techniques and more structured through the establishment of organizations such as the Association of Certified Fraud Examiners (ACFE).

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The Growing Importance in Today's World

Throughout the years, forensic accounting has remained a resourceful and well-used tool. In fact, its relevance may be increasing as the business landscape as we know is changing and organizations are requiring further measures to ensure that their net profits are being protected. In these types of complex financial situations, the skills required to track fraud are almost always beyond the scope of a traditional internal accountant's knowledge.

Today, forensic accountants are being retained more often not only by entrepreneurs and corporations, but also by lawyers for litigation support and government agencies in matters of national security. With a significant rise in startups that don't have the bandwidth to set up internal accounting processes that match those of established organizations, coupled with the new security threats of an online marketplace environment has deemed forensic accounting a necessity, not a luxury. According to surveys conducted by ACFE, fraud loss is known to be increasing from \$6.3 billion in 2016 to over \$7 billion in 2018. More businesses are recognizing the need for proactive fraud prevention controls, rather than just reacting after fraud has already been committed.

The Rise of Fraud in the Future

In this day and age, technology is something of a double-edged sword; it streamlines business processes and helps to expedite forensic investigations, but it also provides new opportunities for white collar criminals to find loopholes to target. Undoubtedly, the need for forensic accounting services will only increase over the next few decades and come to be seen as a standard service for organizations. Along with this growing need, forensic accountants must be ready for the future, with the ability to keep up with continuous technological advancements, new forensic tools and methodologies, increased responsibilities, and the growing expectations of clients.

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In Summary

From humble beginnings to its transition from being recognized as "audit" to its own finance categorization, forensic accounting is a discipline that has significantly matured over the past century and has become a science that will continue to evolve in response to the digital age and changing business environment. At Neumeister & Associates, we have worked with everyone from solopreneurs to multi-billion dollar corporations. Not only are we able to provide an outside perspective on current internal controls, but we can also identify vulnerable areas where fraud could occur and provide options and suggestions to seal up those gaps.

As a business owner or key decision maker, the best thing you can do is take a proactive approach to establishing a system of checks and balances, thereby creating a process that will prevent fraud. If you need help, we are here to support you. If fraud has already occurred, we invite you to reach out and connect with us immediately.

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