

DO YOU NEED A FORENSIC ACCOUNTANT IN A PARTNERSHIP DISPUTE?



A forensic accountant is trained to identify gaps and irregular patterns in business operations and records that may highlight weak areas.



E info@neumeistercpa.com
P 818-478-3052
W www.neumeistercpa.com

Headquarters
3900 W. Alameda Avenue
Suite 1200
Burbank, CA 91505

811 W. 7th Street
12th Floor
Los Angeles, CA 90017

Partnership disputes can quickly lead to animosity, mistrust, and even dissolution. In the end, up to 70% of business partnerships ultimately fail.

During shareholder or partnership disputes, the management of money coming in and going out of the company is often the most significant issue, which often leads to disagreement. Perhaps the partners or shareholders believe that a managing member, executive or employee is mismanaging monies, embezzling funds, or spending wastefully and subsequently causing damage to the business. These serious allegations can sometimes result in criminal charges being filed.

When company earnings are at stake, it is important to quickly gain a clear picture of all the facts in order to resolve a partnership dispute in a timely fashion. This sometimes means a shareholder or partnership lawyer needs to hire a forensic accountant in order to accurately scrutinize records and present the company's true financial situation, especially when a company is potentially bleeding money.

Partnership Funds as a Fiduciary Duty

All persons involved in a company, including shareholders and partners, have a fiduciary duty to the business – meaning they must operate and control financial transactions in a correct and responsible way.

Violations of the law or of partnership term agreements, such as embezzlement or misuse of business accounts, can lead to legal action for those who are liable. **Several common scenarios of breach of fiduciary duty include:**

- Taking money out of company pension funds
- Stealing from clients
- Misreporting payroll or income to the Internal Revenue Service
- Using company funds or property for personal use

In order to protect not only the credibility and the financial integrity of the business, as well as the personal interests of all those involved, it is necessary to identify any possibility of fraudulent actions being committed.

The information provided in this article is for informational purposes only and is not intended to substitute for obtaining tax, accounting, or financial advice from a professional accountant.

© Neumeister & Associates 2019 All Rights Reserved.

DO YOU NEED A FORENSIC ACCOUNTANT IN A PARTNERSHIP DISPUTE?

How Can a Forensic Accountant Help?

Frequently during business disputes, tensions are high and chaos can happen quickly. The facts and truth can be skewed through differing viewpoints and competing interests. But involving a forensic accountant can alleviate some of the strain and tension. Acting as an impartial third party, a clear financial picture can be drawn out and all financial transactions can be identified and recorded without any bias or hidden agenda. Hiring this external specialist can prove highly beneficial, ultimately allowing for a smoother and more thorough investigation.

A forensic accountant is trained to identify gaps and irregular patterns in business operations and records that may highlight weak areas. These weaknesses open up opportunities to facilitate illegal practices to happen under the radar. The forensic accountant can track and analyze money trails left behind by combing through and analyzing documents and systems to ensure all evidence is accounted for.

Two highly valued credentials to look for when hiring a forensic accounting firm in today's digital age include:

- **Certified Forensic Computer Examiner (CFCE)**
- **Certified Fraud Examiner (CFE)**

Serious allegations in partnership disputes, such as embezzling funds, can lead to criminal charges being filed.

Most businesses rely heavily on computer technology to run at least the minimum core systems of their business operations. While technology has proven highly advantageous in streamlining business operations and services, unfortunately it also goes hand in hand with the increase in white collar crime. Thus, there is a growing need to protect and secure sensitive digital information and valuables.

Taking a Proactive Approach

Not only can a forensic accounting firm provide value during partnership disputes, but they can also perform check-ups on the current status of a company to see how the internal controls systems are working. This type of review aims to prevent the existing system from becoming too dormant or easy to infiltrate by either internal or external threats. This is a smarter and less costly way to prevent fraudulent activities before they have an opportunity to start.

Without the proper controls in place, fraudulent behavior can go undetected for months or even years, leading to devastating financial loss and terrifying legal consequences. A thorough forensic review of financial statements and records can reveal inconsistencies and falsified documents. With regular updates and checks and balances in place, any anomalies or unusual activity are more likely to be picked up, and the internal system of checks and balances can be modified as needed before things turn sour.

In Summary

Hiring a forensic accountant can be costly and isn't necessary for all partnership or shareholder disagreements. However, cases involving financial disputes or discrepancies may create the need to bring in this type of investigatory specialist and is, in fact, highly recommended.

Operational transparency and being fully aware of money coming in and out of a company is essential to protect both the company as a whole and the people involved, which as a result, fosters a more successful future. If you're facing a precarious financial based problem within your own business partnership, we invite you to reach out to us.

References

Brown, Gregory. (2015, December 7). Should you hire a forensic accountant during a partnership dispute? *Brown & Charbonneau, LLP*. Retrieved from <https://www.bc-llp.com/should-you-hire-a-forensic-accountant-in-a-partnership-dispute/>

Forensic accounting. *Oxford Home Study Centre*. Retrieved from <https://www.oxfordhomestudy.com/forensic-accounting>

IACIS history. *IACIS*. Retrieved from <https://www.iacis.com/about-2/history/>

Ward, Susan. (2018, December 20). Why business partnerships fail? *The Balance – Small Business*. Retrieved from <https://www.thebalancesmb.com/why-business-partnerships-fail-4107045>

The information provided in this article is for informational purposes only and is not intended to substitute for obtaining tax, accounting, or financial advice from a professional accountant.

© Neumeister & Associates 2019 All Rights Reserved.



E info@neumeistercpa.com

P 818-478-3052

W www.neumeistercpa.com



Jeff Neumeister, Owner / CEO

CPA CPA/ABV/CITP/CFE, CFE,
CMA/CSCA, CM&AA, PCI, MA, MBA, MS