



# **FORENSIC ACCOUNTING**

## **CRAFTING EXPERT REPORTS**

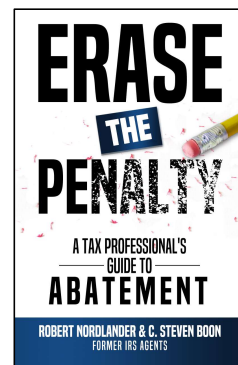
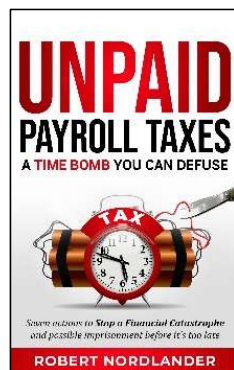
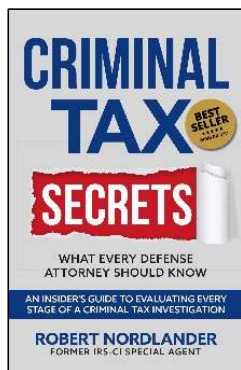
# Who Is Your Presenter?

He is a retired special agent with the Internal Revenue Service, Criminal Investigation (IRS-CI). He has over 20 years of experience conducting federal criminal investigations to include tax evasion, money laundering, and other white-collar crimes.

After a successful law enforcement career, he started a boutique forensic accounting and tax resolution firm. He speaks nationally on topics regarding forensic accounting, criminal tax investigations, and solving IRS problems.

He is a CPA and CFE. He has a Bachelor's degree in Accounting and a Master's degree in Business Administration.

He is an author of three books (available on Amazon).



**Robert Nordlander, CPA, CFE**

Principal member of  
Nordlander CPA, PLLC, a forensic  
accounting and tax resolution firm

[www.nordlandercpa.com](http://www.nordlandercpa.com)

# LEARNING OBJECTIVES



- Analyze the roles, responsibilities, and key skills required for forensic accountants.
- Evaluate the ethics in forensic accounting and strategies for ethical decision-making.
- Identify the rules governing expert witness testimony and reports
- Prepare clear, concise, and objective expert reports, including understanding their components and best practices.
- Conduct thorough investigations, gather evidence, and write accurate and detailed investigation reports.
- Identify the key components to an economic damages report.





# INTRODUCTION TO FORENSIC ACCOUNTING



## *Definition*

Forensic accounting combines accounting, auditing, and investigative skills to analyze financial information for legal purposes.

## *Significance*

Forensic accountants play a crucial role in resolving financial disputes, uncovering fraud, and ensuring transparency in financial reporting.

## *Applications*

Forensic accountants are essential, including embezzlement, money laundering, bankruptcy cases, insurance claims, and shareholder disputes



# ROLES AND RESPONSIBILITIES OF FORENSIC ACCOUNTANTS



## » Fraud Investigation

- Identify and examine discrepancies in financial statements or transactions.
- Use data analytics tools to detect patterns of fraudulent activity, such as phantom vendors, unauthorized transfers, or expense inflation.

## » Litigation Support

- Assist legal teams by providing expert opinions, analyzing financial evidence, and testifying in court as subject matter experts.
- Help attorneys understand complex financial data and present findings in a clear, persuasive manner.

## » Tracing Assets

- Investigate hidden or misappropriated assets in cases of divorce, business partnerships, or corporate fraud.
- Follow paper trails across international boundaries and through financial instruments like shell companies.



# ROLES AND RESPONSIBILITIES OF FORENSIC ACCOUNTANTS



## » Fraud Prevention

- Provide consulting services to design and implement internal controls that reduce the risk of future fraudulent activities.
- Conduct fraud risk assessments and employee training programs.

## » Financial Reconstruction

- Rebuild financial records from incomplete or tampered documents to provide an accurate picture of an organization's financial health.
- Analyze historical data to estimate economic losses or damages.





# KEY SKILLS REQUIRED FOR FORENSIC ACCOUNTANTS

## » Technical Expertise In Accounting And Auditing

- Mastery of accounting principles, auditing standards, and regulatory compliance requirements (e.g., Generally Accepted Accounting Principles—GAAP, International Financial Reporting Standards—IFRS).
- Proficiency in forensic accounting software, such as IDEA, ACL, and tools for analyzing large datasets.

## » Investigative Skills

- Strong ability to scrutinize documents, identify irregularities, and connect seemingly unrelated pieces of information.
- Understanding of criminal psychology to anticipate the methods used by perpetrators to conceal fraud.

## » Legal Acumen

- Familiarity with laws and legal procedures governing financial crimes in civil and criminal court.
- Ability to prepare legally admissible evidence and meet the stringent requirements of courtroom testimony





## KEY SKILLS REQUIRED FOR FORENSIC ACCOUNTANTS

### » Critical Thinking and Problem-Solving Abilities

- Ability to approach complex problems methodically and develop logical, evidence-based conclusions.

### » Communication Skills

- Skilled in presenting findings clearly and effectively to stakeholders with varying levels of financial expertise (e.g., legal professionals, business executives, juries).
- Expertise in preparing well-organized and compelling reports that withstand cross-examination.

### » Ethical Integrity

- Commitment to objectivity, independence, and ethical conduct when evaluating evidence and delivering findings.

# INDUSTRY OUTLOOK AND EMERGING TRENDS



01

## Growth in Cyber Forensics

- Increasing role of forensic accountants in investigating cybercrimes, including ransomware attacks and data breaches.
- Use of blockchain analysis tools to track cryptocurrency transactions in fraud or money laundering cases.

02

## AI and Big Data

- Leveraging artificial intelligence and machine learning for anomaly detection and predictive analytics.
- Growing importance of big data skills in managing and analyzing large-scale datasets..

03

## Globalization

- Challenges of conducting forensic accounting across borders, including dealing with varying regulatory environments, languages, and cultural practices.



# UNDERSTANDING ETHICS IN FORENSIC ACCOUNTING



## Definition Of Ethics

- Ethics refers to the moral principles that govern professional behavior. In forensic accounting, ethical conduct is critical due to the sensitivity and legal significance of the work.



## Why Ethics Matter

- Forensic accountants often deal with situations where their findings can influence court cases, business decisions, or reputations. Ethical lapses can lead to misinformation, damage credibility, and even result in legal consequences.



## The Trust Factor

- Forensic accountants are entrusted to remain impartial and objective. Their ability to make unbiased decisions and report accurate findings is paramount in building confidence with stakeholders.



# ETHICAL PRINCIPLES AND PROFESSIONAL STANDARDS



## AICPA Code of Professional Conduct

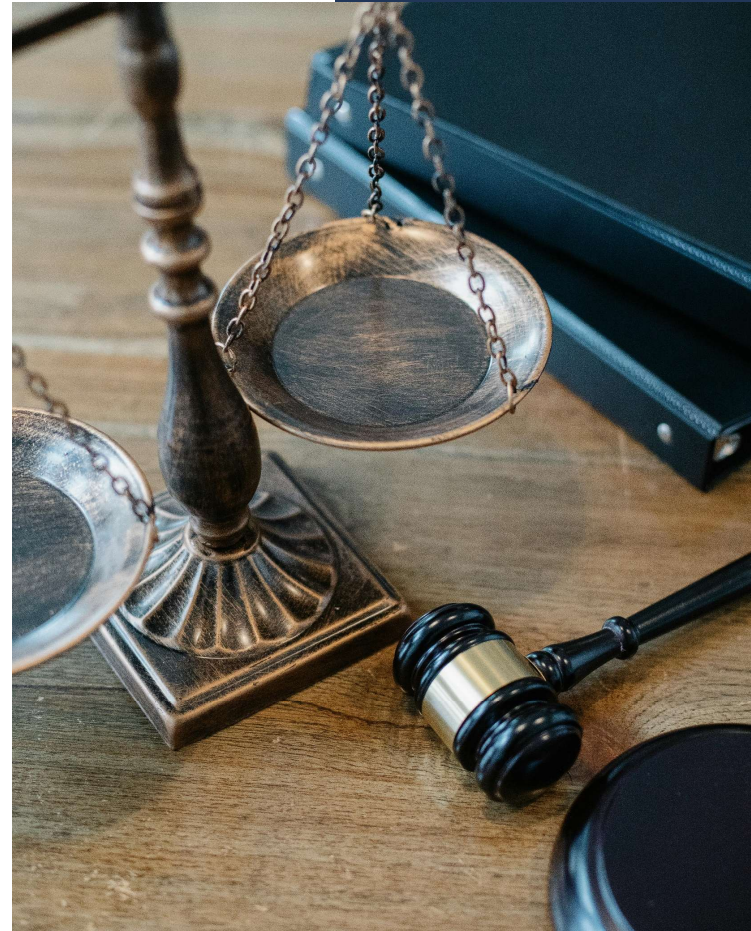
- Core ethical principles of the American Institute of CPAs (AICPA), such as integrity, objectivity, due care, confidentiality, and professional behavior.
- Principles specifically apply in the context of forensic accounting.

## Independence

- Maintain independence from clients or external influences to ensure unbiased evaluations.

## Honesty and Transparency

- Truthfully disclose findings, even when results are unfavorable to a client.



# COMMON ETHICAL DILEMMAS IN FORENSIC ACCOUNTING



## Conflicts Of Interest

Forensic accountants may face situations where their relationships or incentives compromise their objectivity.

## Pressure To Alter Findings

Clients or colleagues might pressure forensic accountants to modify reports or omit critical information to achieve a desired outcome.

## Confidentiality Vs. Public Interest

In cases of public interest, forensic accountants might struggle with whether to disclose sensitive information that could benefit the greater good.

## Navigating Ambiguity

Ethical dilemmas can arise when laws or guidelines are unclear, requiring forensic accountants to rely on their judgment and ethical reasoning.

# STRATEGIES FOR ETHICAL DECISION-MAKING



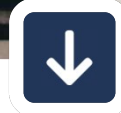
## Frameworks and Models

Ethical decision-making models, such as utilitarianism (weighing costs and benefits), deontology (following rules and duties), and virtue ethics (acting in alignment with personal integrity).



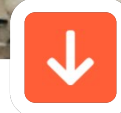
## Documentation

Meticulous documentation to demonstrate that decisions are based on thorough analysis and sound reasoning.



## Peer Consultations

Consult colleagues or professional organizations for guidance when facing difficult ethical questions.



## Training and Education

Continuous professional development to stay updated on ethical standards and best practices.



# CONSEQUENCES OF ETHICAL FAILURES



## » Legal Consequences

- Cases where unethical behavior led to legal action, loss of credentials, or fines. (bite marks, blood testing, etc.)

## » Reputational Damage

- Ethical lapses can ruin professional reputations and erode trust in the accounting profession.

## » Impact on Stakeholders

- Unethical practices can harm clients, shareholders, employees, and the public.





# PURPOSE AND IMPORTANCE OF EXPERT REPORTS



## » Purpose

- Primary role of expert reports in conveying findings, opinions, and conclusions to stakeholders, including legal professionals, businesses, and courts.
- Well-prepared reports can influence critical decisions and outcomes, particularly in legal proceedings.

## Credibility and Impact

Clear and objective expert reports bolster the forensic accountant's credibility and help simplify complex financial data for non-expert audiences.

# STANDARDS OF ADMISSIBILITY



## ***Daubert Decision***

- » Judges are the gatekeepers
- » Theory and technique can be replicable using standards and generally accepted in scientific community.
- » Reliability of data used by the expert
- » Help the “trier of fact”
- » More than 35 state courts adopted the standard





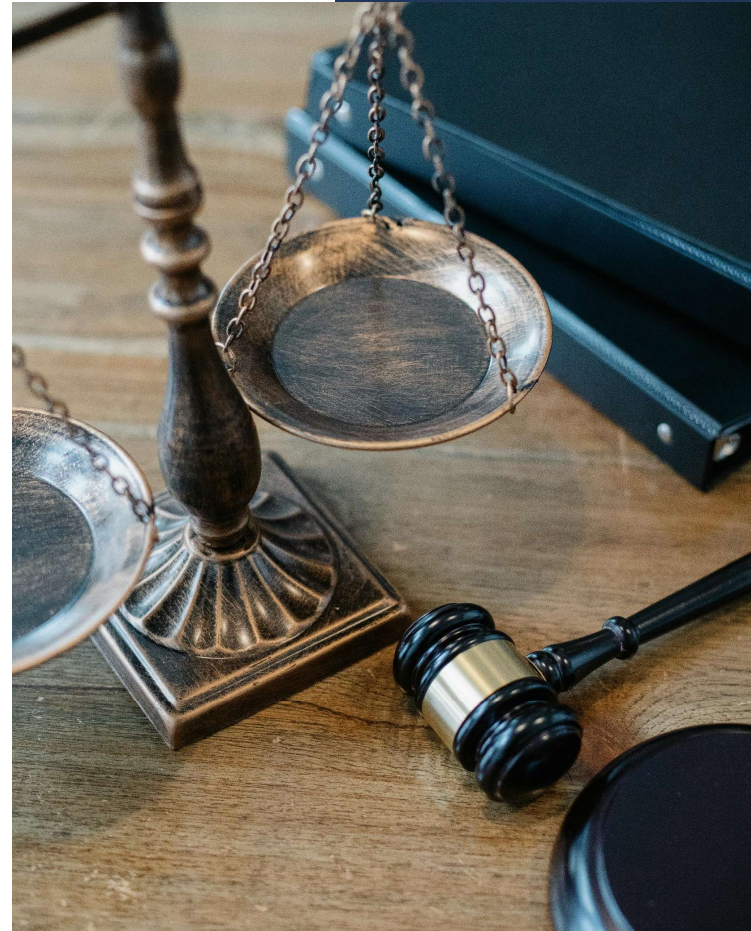
# FEDERAL RULES OF EVIDENCE



## Rule 702: Testimony by Expert Witnesses:

### • Criteria for Admissibility:

- The expert's knowledge will help the trier of fact understand the evidence or determine a fact in issue.
- The testimony is based on sufficient facts or data.
- The testimony is the product of reliable principles and methods.
- The expert has reliably applied the principles and methods to the facts of the case

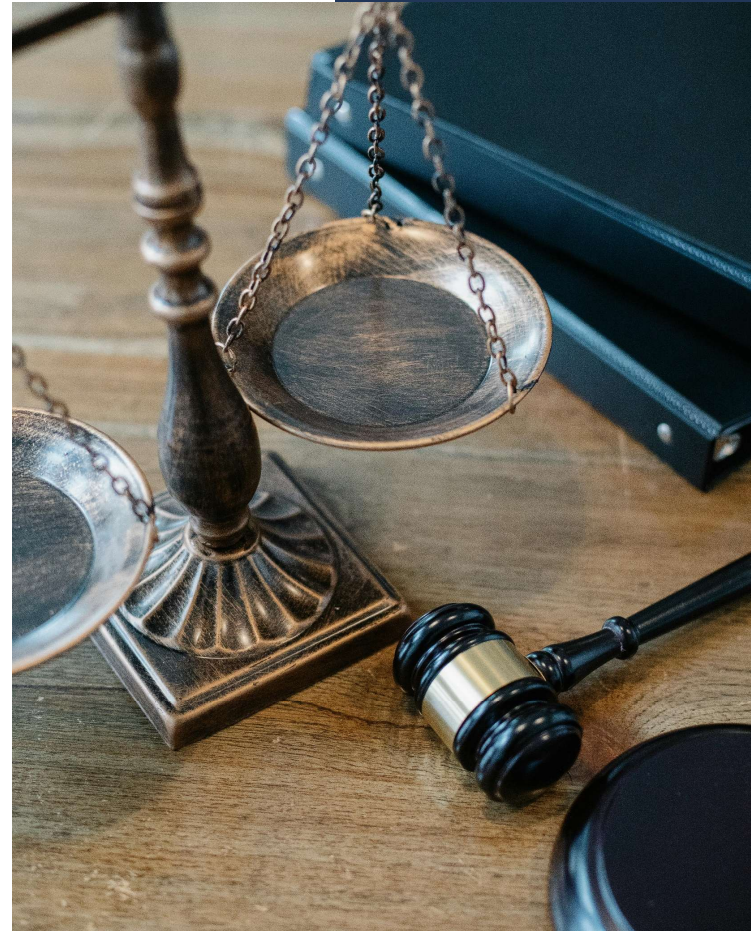


# FEDERAL RULES OF EVIDENCE



## Rule 703: Bases of an Expert's Opinion Testimony:

- **Sources of Information:**
  - Experts can base their opinions on facts or data that they have been made aware of or personally observed.
  - These facts or data need not be admissible in evidence if experts in the particular field would reasonably rely on them in forming an opinion



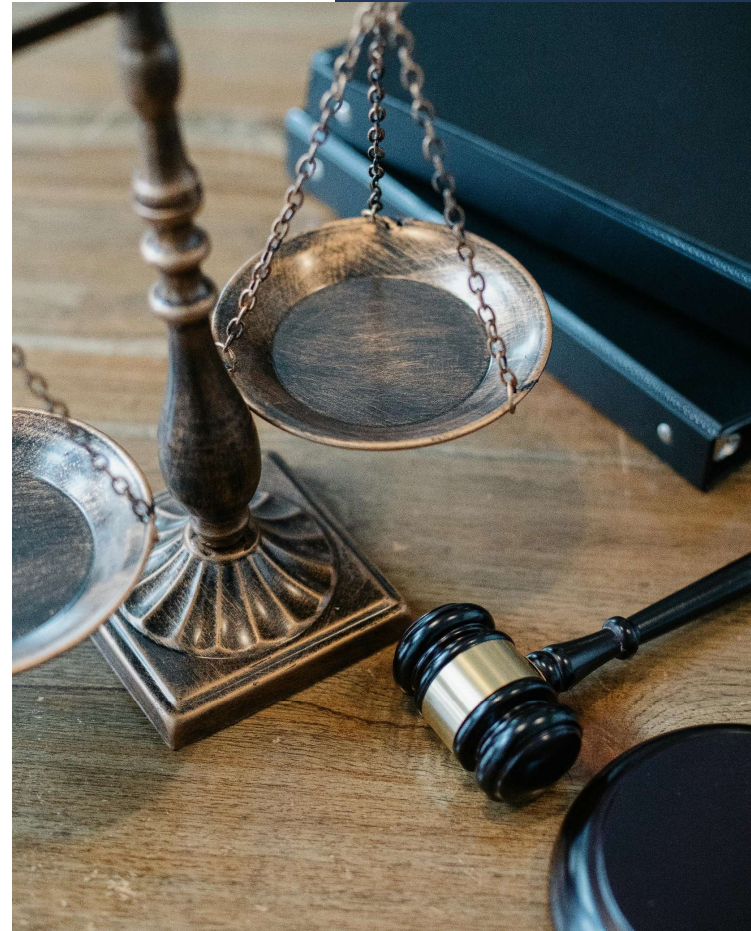


# FEDERAL RULES OF EVIDENCE



## Rule 704: Opinion on an Ultimate Issue:

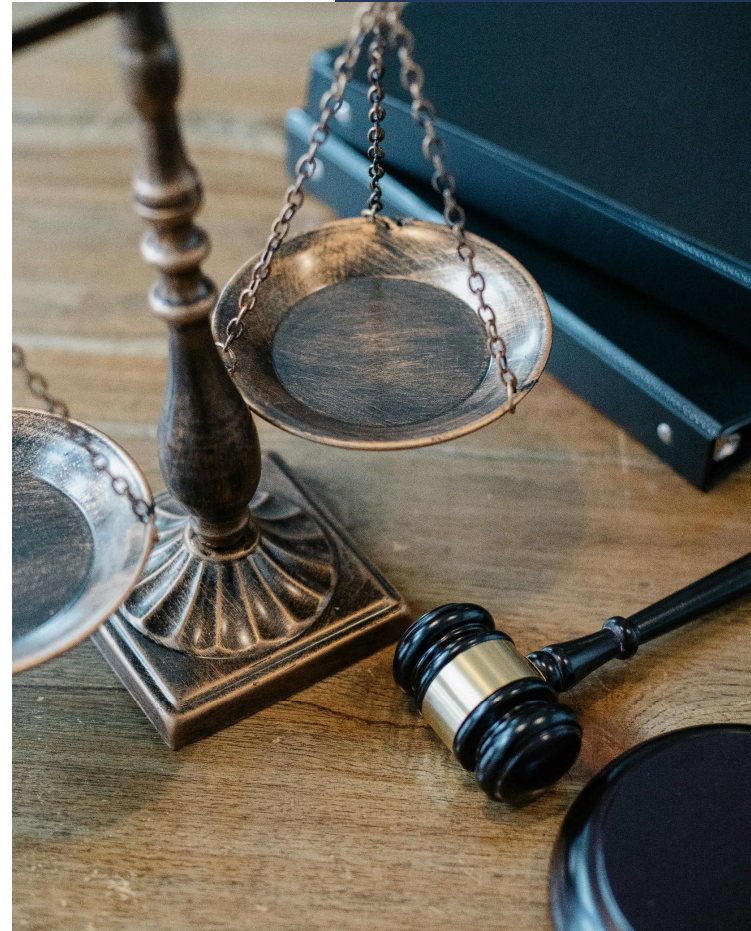
- **Permissibility:**
  - An expert may testify to an opinion that embraces an ultimate issue to be decided by the trier of fact.
  - Courts have not defined "ultimate issue" but appear to agree that when using words in the jury instructions, it has "crossed the line."
  - ACFE code of ethics state that the trier of fact (judge or jury) is to determine guilt, and not the expert.

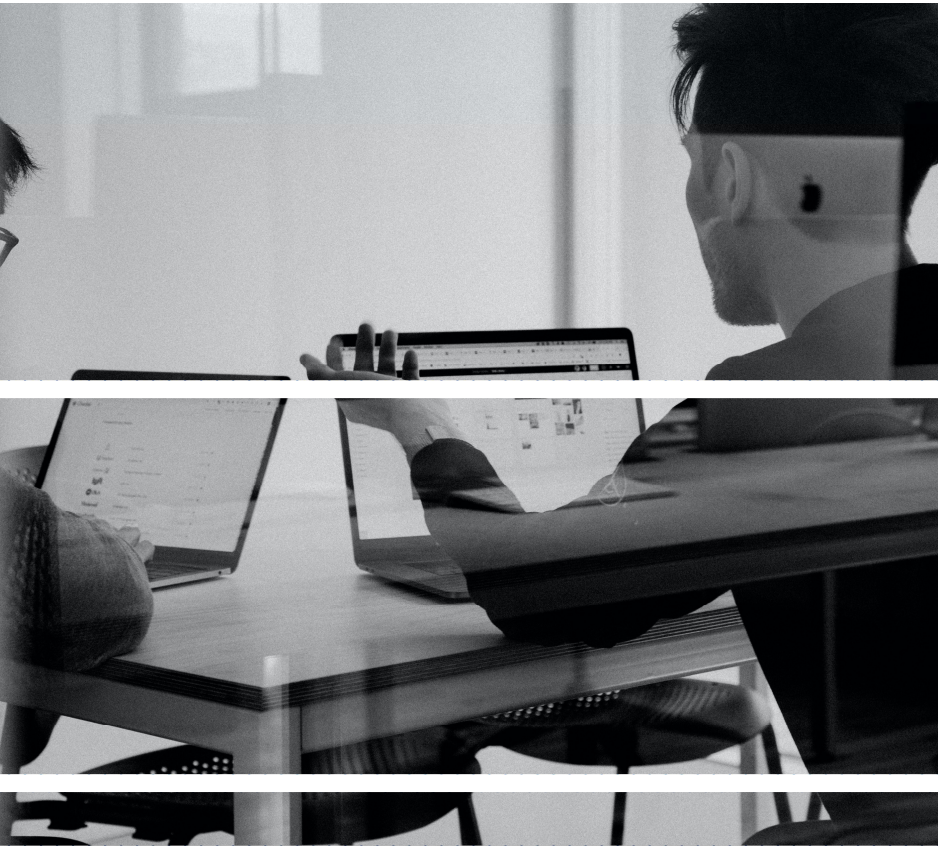


# FEDERAL RULES OF EVIDENCE

## Rule 705: Disclosing the Facts or Data Underlying an Expert's Opinion:

- **Disclosure Requirements:**
  - An expert may state an opinion—and give the reasons for it—without first testifying to the underlying facts or data. However, the expert may be required to disclose those facts or data on cross-examination





## RULE 26 FEDERAL RULES OF CIVIL PROCEDURE



### Disclosure of Expert Testimony (Rule 26(a)(2)):

- Identification of Expert
- Written Report
  - Complete Opinion and basis for it
  - Facts or data used for opinion
  - Exhibits used for opinion
  - Expert's qualifications, including publications for last 10 years
  - List of trials/depositions in last four years
- Compensation.



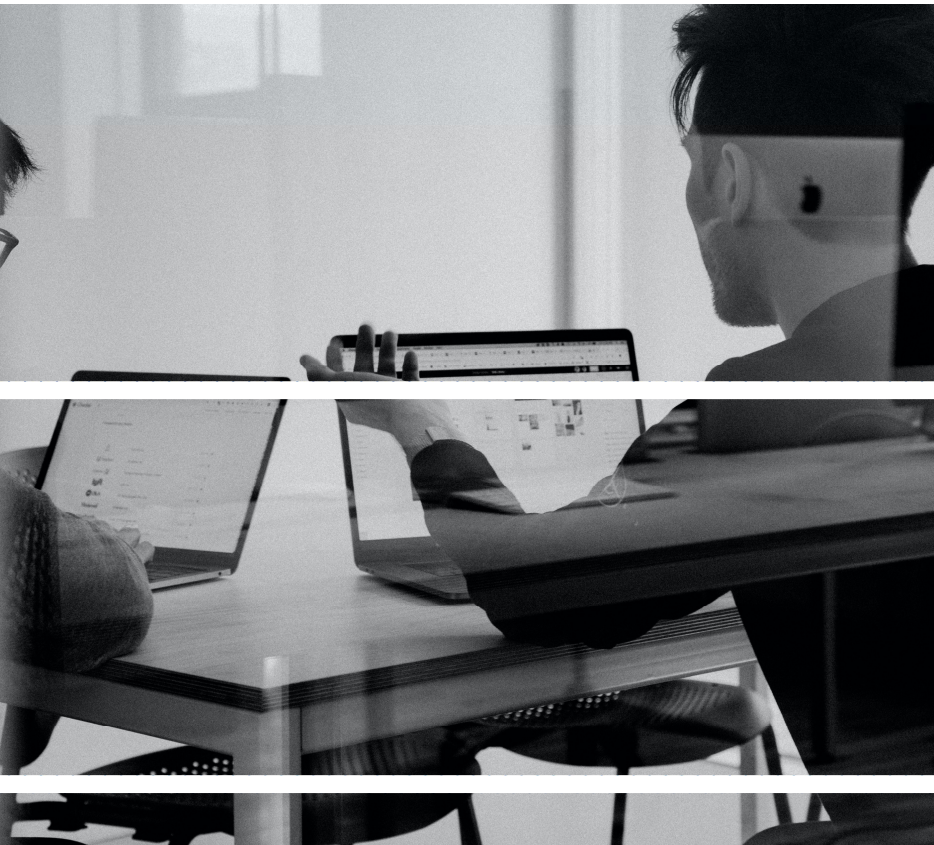
# RULE 26 FEDERAL RULES OF CIVIL PROCEDURE



## Draft Reports and Communications (Rule 26(b)(4)):

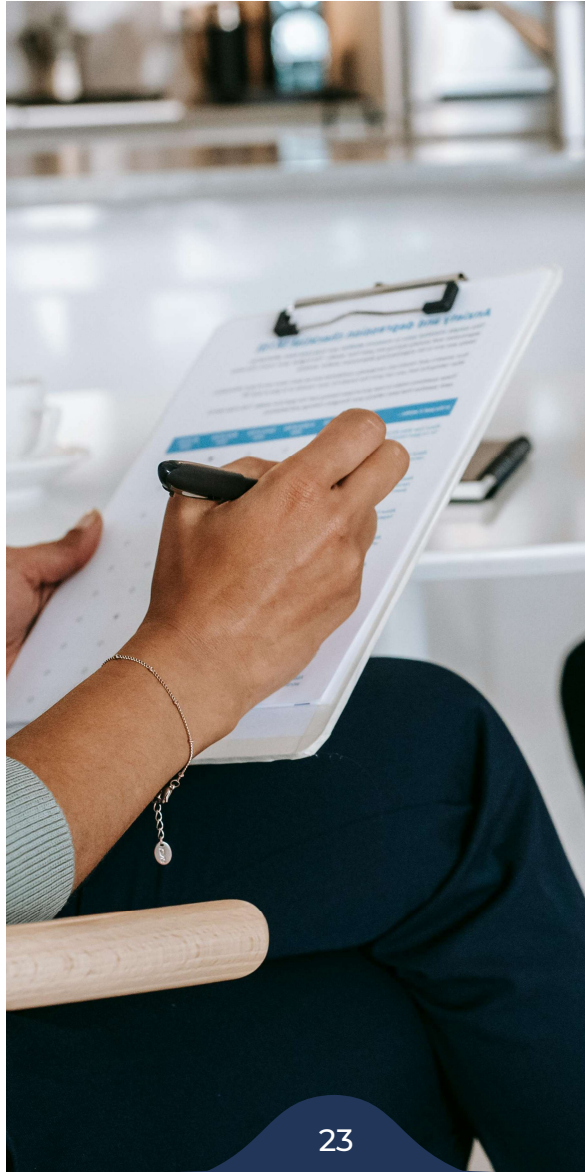
### Protection:

- Drafts of expert reports and certain communications between the party's attorney and the expert witness are protected from discovery.
- Except for:
  - Related to compensation for the expert
  - Identify facts or data that the party's attorney provided and that the expert considered in forming the opinions to be expressed.
  - Identify assumptions that the party's attorney provided and that the expert relied on in forming the opinions to be expressed





# COMPONENTS OF AN EFFECTIVE EXPERT REPORT



23

01

## Introduction

- The purpose of the report, the scope of work, and any specific questions the report aims to answer.
- Brief summary of the report's objectives and context. Qualifications of expert.

02

## Methodology

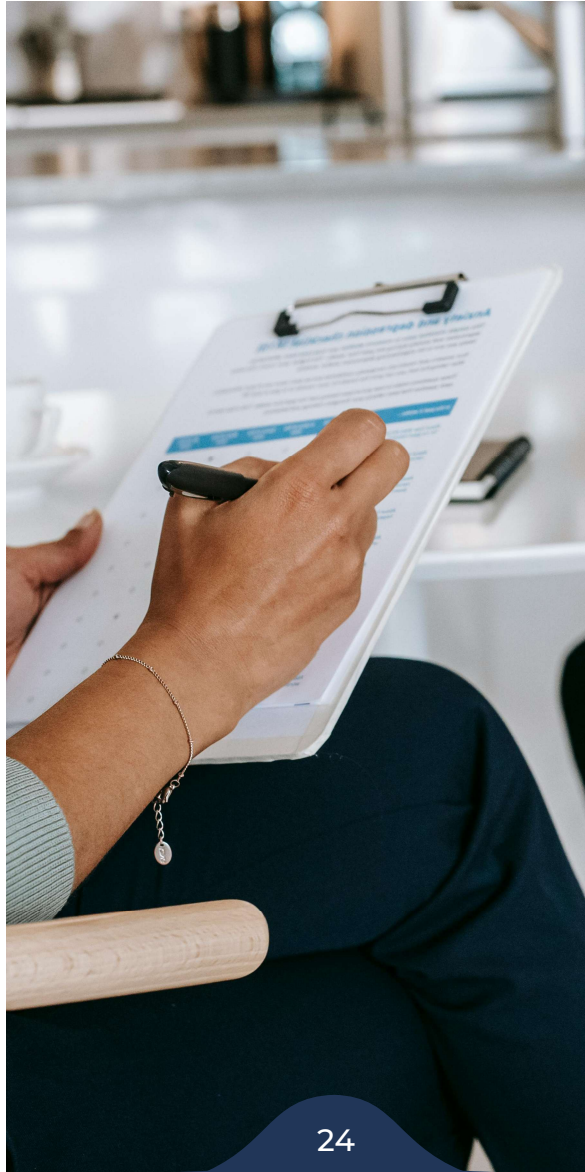
- Investigative methods and techniques used, including any specialized software or analytical tools.
- Importance of transparency in methodology to ensure findings are reproducible and defensible.

03

## Findings

- Key evidence uncovered during the investigation, supported by data, charts, or summaries where appropriate.
- Findings are directly tied to the objectives outlined in the introduction.

# COMPONENTS OF AN EFFECTIVE EXPERT REPORT



04

## Analysis

- Provide a detailed examination of the findings, highlighting trends, patterns, or anomalies in the data.
- Explain the reasoning behind interpretations or conclusions in a step-by-step manner.

05

## Conclusions And Recommendations

- Summarize the key takeaways from the analysis, addressing the specific questions or issues outlined in the report's scope.
- Offer actionable recommendations based on the conclusions, where applicable.

06

## Appendices and Supporting Documents

- Include all relevant supporting materials, such as raw data, interview transcripts, or reference documents.



## BEST PRACTICES FOR WRITING EXPERT REPORTS



### 01 Clarity and Precision

- Straightforward language to ensure the report is accessible to both technical and non-technical readers.
- Avoid unnecessary jargon or overly complex explanations, while maintaining professionalism and precision.

### 02 Conciseness

- Focus on delivering the key points without overwhelming the reader with unnecessary details or lengthy narratives.
- Use bullet points, tables, and visual aids to summarize information succinctly.

### 03 Objectivity

- Remain neutral and impartial in presenting findings, avoiding any bias or subjective language.
- Distinguish between facts, assumptions, and professional opinions.



## BEST PRACTICES FOR WRITING EXPERT REPORTS



04

### Logical Flow

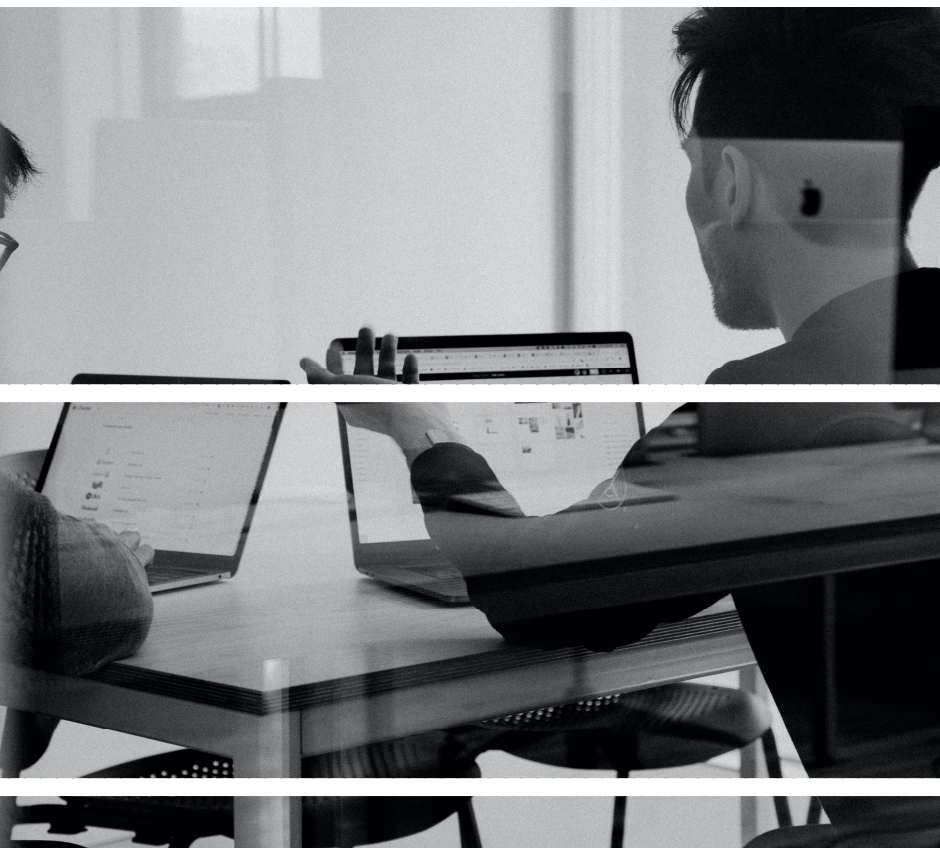
- Organize the report with a logical structure, ensuring that each section naturally leads into the next.
- Use headings, subheadings, and numbering to enhance readability and navigation.

05

### Legal and Professional Standards

- Ensure the report adheres to legal requirements for admissibility, such as clearly documented sources and a transparent methodology.
- Follow professional guidelines from organizations like the AICPA or other relevant bodies.





## COMMON CHALLENGES IN PREPARING EXPERT REPORTS



### » **Balancing Detail and Brevity**

- The difficulty of including enough detail to support conclusions while keeping the report concise and engaging.

### » **Complex Data Presentation**

- The challenge of simplifying complex financial data without compromising accuracy or precision.

### » **Maintaining Objectivity**

- The risk of unconscious bias creeping into the analysis or conclusions, especially when working closely with stakeholders

# ENHANCING REPORTS WITH VISUAL AIDS



## Charts and Graphs

- Use bar charts, pie charts, or line graphs to illustrate trends, proportions, or changes over time.

## Tables and Summaries

- Present numerical data or comparisons in clear and concise tables.

## Flowcharts or Diagrams

- Utilize visuals to explain processes, methodologies, or the relationships between data points





# CONDUCTING THOROUGH INVESTIGATIONS



## Investigation Planning

- **Setting Objectives:** Clearly define the scope of the investigation, identifying the key questions to be answered.
- **Building a Team:** Discuss how to assemble a multidisciplinary team (if needed), such as IT experts for cybercrime cases or legal advisors for complex disputes.
- **Developing a Strategy:** Outline the steps of the investigation, including timelines, milestones, and resource allocation.

## Identifying Sources of Evidence

- **Financial Documents:** Examine ledgers, invoices, bank statements, payroll records, and contracts.
- **Digital Evidence:** Gather emails, system logs, or metadata to uncover potential fraud patterns or unauthorized activities.
- **Interviews:** Highlight the importance of conducting interviews with relevant parties, such as employees, contractors, or witnesses, to gather firsthand accounts.
- **Industry Knowledge:** Leverage knowledge of the specific industry to identify unusual transactions or behaviors.

## Approaching Sensitive Cases

- **Preserving Relationships:** Discuss strategies for conducting investigations discreetly to maintain trust and avoid workplace disruption.
- **Handling High-Stakes Scenarios:** The nuances of investigations involving senior executives, whistleblowers, or external stakeholders

# GATHERING EVIDENCE



## Evidence Collection Techniques

- Document Examination: Techniques for analyzing hard-copy and electronic documents for inconsistencies, forgeries, or signs of tampering.
- Digital Forensics: Overview of retrieving data from devices, recovering deleted files, or investigating cyber trails.
- Fraud Detection Analytics: Data analysis tools to detect anomalies, such as duplicate payments or unusual spending spikes.
- Observation and Surveillance: Physical surveillance or monitoring might be necessary (e.g., theft or inventory fraud).



# GATHERING EVIDENCE



## Chain of Custody

- Importance of maintaining a clear and traceable chain of custody for all collected evidence to ensure its admissibility in legal proceedings.
- Examples of documentation and handling procedures to prevent evidence tampering or loss.
- Legal requirements for evidence collection, such as obtaining proper authorizations, adhering to privacy laws, and avoiding illegal methods of obtaining data.
- Ethical responsibilities, such as ensuring evidence is not misrepresented or withheld.



# CHALLENGES IN INVESTIGATION AND REPORTING



1

## **Incomplete Or Missing Evidence**

Discuss strategies for working with limited data, such as triangulating information from multiple sources or using statistical estimations.

2

## **Dealing with Uncooperative Subjects**

Provide techniques for building rapport during interviews or managing resistance.

3

## **Complex Financial Data**

Offer tips for simplifying technical findings into digestible insights for non-expert audiences.



# UNDERSTANDING ECONOMIC DAMAGE CALCULATIONS

## Overview Of Economic Damages

- » Financial losses resulting from events such as fraud, breach of contract, or personal injury.
- » Two primary categories of damages:
  - Direct Damages: Losses directly resulting from the event (e.g., stolen funds, lost wages).
  - Consequential Damages: Indirect losses, such as lost business opportunities or diminished reputation.

## Key Elements of Damage Calculations

- » Historical Data Analysis: Use past financial records to establish a baseline for losses.
- » Projections: Estimate future losses or impacts based on reliable assumptions and methodologies.
- » Discount Rates: Use of present value calculations to account for the time value of money.



# UNDERSTANDING ECONOMIC DAMAGE CALCULATIONS



## Methods for Calculating Damages

- » Lost Profits: Difference between actual and expected profits during the impacted period.
- » Diminished Business Value: Decline in a company's market value due to the event.
- » Replacement Costs: Costs of restoring or replacing assets.

## Challenges in Damage Calculations

- » Handling incomplete or inconsistent data.
- » Determining reasonable assumptions for future projections.
- » Managing disputes or objections from opposing parties about methodologies.

## EXPERT REPORTS IN CLASS ACTION LAWSUITS



### » Rule 23 of Federal Rules of Civil Procedures

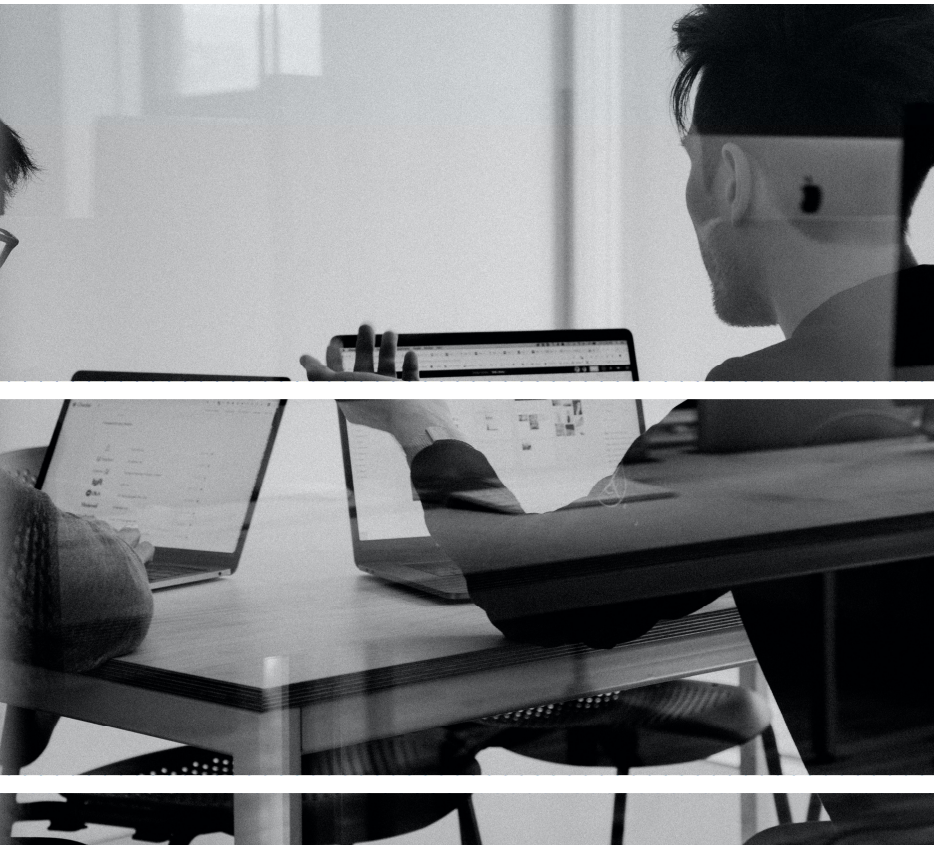
- Class certification requires that the classes are numerous, commonality, typical, and adequate.
- Possible inconsistent adjudications, opposing party disagrees to class, or class action is superior to individuals.

### » *Daubert* Standard

- Not all courts agree that the *Daubert* standard is necessary in class certification

### » Expert's Role

- Evaluate direct relation to cause of harm, identify the hurt party, and calculate potential damages with reliable data





# CRITIQUING ECONOMIC DAMAGE CALCULATIONS



## Evaluating The Approach

- Assess whether the chosen methodologies align with the circumstances of the case.
- Check the validity of underlying assumptions, such as market conditions or growth projections.

## Analyzing The Data

- Ensure that the calculations are based on accurate, relevant, and up-to-date data.
- Look for inconsistencies or errors in formulas, inputs, or interpretations.

## Assessing The Presentation

- Verify that the results are clearly communicated, with supporting evidence and explanations.
- Use of visual aids, such as graphs or charts, to enhance understanding..



# LEARNING OBJECTIVES



- Analyze the roles, responsibilities, and key skills required for forensic accountants.
- Evaluate the ethics in forensic accounting and strategies for ethical decision-making.
- Identify the rules governing expert witness testimony and reports
- Prepare clear, concise, and objective expert reports, including understanding their components and best practices.
- Conduct thorough investigations, gather evidence, and write accurate and detailed investigation reports.
- Identify the key components to an economic damages report.





# **FORENSIC ACCOUNTING**

## **CRAFTING EXPERT REPORTS**

