

Business Valuation and  
Forensic & Litigation Services  
Section



# Forensic Procedures and Specialists: Useful Tools and Techniques

## **Notice To Readers**

This paper is intended to provide educational and reference material primarily for audit committee members and others who may want to use the work of a forensic specialist. The document is based on the application of current forensic procedures and techniques in investigating the potential that fraud exists when specific indicators or red flags of fraud are uncovered. It also recognizes the value of the use of forensic specialists in such instances.

This document was written by and represents the views of the members of the Forensic Procedures Task Force of the AICPA's Forensic & Litigation Services Committee regarding the use of forensic procedures, techniques, and specialists and how such use differs from that of an audit of historical financial statements. The guidance contained in this paper has not been reviewed or approved by any senior technical committee of the AICPA.

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## INTRODUCTION

In 2004, the AICPA Forensic & Litigation Services (FLS) Committee issued a discussion paper entitled *Forensic Services, Audits & Corporate Governance: Bridging the Gap* (2004 Discussion Memorandum). The 2004 Discussion Memorandum explored a number of questions about the use of forensic procedures and forensic specialists in the audit process. The goal of the 2004 Discussion Memorandum was to:

- Identify ways for CPAs with experience in the forensic services discipline to work effectively with financial statement auditors.
- Assist in developing guidance to assist forensic accountants, audit committees, financial statement audit teams, and others who use the services of the forensic accountant.
- Enhance the results of work performed by all of the above.

After consideration of comments received during a public roundtable on September 22, 2004, in Washington, D.C., and written submissions on the 2004 Discussion Memorandum, the AICPA FLS Committee concluded that there is a lack of understanding about how forensic procedures and forensic specialists can be utilized. As a result, the committee concluded that there is a need among audit committees and throughout the accounting community for a more thorough understanding of the nature of forensic procedures and the extent of their potential use.

The intent of this paper is to help answer the following questions that arose from the 2004 Discussion Memorandum:

- What are forensic procedures?
- How do forensic procedures differ from audit procedures?
- Who can use forensic procedures and specialists?
- What are the potential uses of forensic procedures to reduce litigation, business, and audit risk?

The paper begins to answer these questions by defining and describing the most widely recognized forensic procedures used by forensic specialists. Forensic examinations or investigations are performed to confirm the existence of fraud. The purposes and structures of financial statement audits and fraud or forensic examinations are different, and the two should not be confused.

The applicable professional standards that govern the work of CPAs performing forensic services are described in AICPA Consulting Services Special Report 03-1, *Litigation Services and Applicable Professional Standards*. Because auditors and forensic specialists follow different sets of professional standards in performing their work (i.e. generally accepted auditing standards [GAAS] versus consulting standards, respectively), special care must be taken to ensure that all applicable professional standards are followed. Furthermore, using forensic specialists in a set-

ting that calls for auditor independence should be carefully evaluated to rule out conflicts or the perception of conflicts. This paper does not provide guidance on these issues, but instead, focuses on the practical usage of forensic procedures.

## WHAT ARE FORENSIC PROCEDURES?

*Black's Law Dictionary* defines *forensic* as “used in or suitable to courts of law or public debate.” *Forensic procedures* involve the systematic gathering of evidentiary data through the use of recognized investigative techniques that can be presented in a court of law. A *forensic specialist*, though not specifically defined, is an individual having expertise and/or training and experience in one or more disciplines that could be used in a forensic environment. Disciplines commonly applicable to forensic environments include accounting, auditing, fraud examination, law, computer and other technologies. *Forensic accounting services* generally involve the application of special skills in accounting, auditing, finance, quantitative methods, certain areas of the law and research, and investigative skills to collect, analyze, and evaluate evidential matter and to interpret and communicate findings, and may involve either an attest or consulting engagement.<sup>1</sup> For purposes of this Discussion Paper, forensic accounting services consist of (1) litigation services and (2) investigative services.

*Litigation services* entail the role of the forensic specialist as an expert or consultant and consist of providing assistance for actual, pending, or potential legal or regulatory proceedings before a trier of fact<sup>2</sup> in connection with the resolution of disputes between parties. Litigation services generally consist of expert witness, consulting, and other services. These services are defined as follows:

1. *Expert witness services* are litigation services in which a member is designated to render an opinion before a trier of fact as to the matter(s) in dispute.
2. *Consulting services* are those litigation services in which a member provides advice about the facts, issues, and strategy of a matter. The consultant does not testify as an expert witness before a trier of fact unless the consultant's role subsequently changes to that of an expert witness.
3. Other services are *litigation services* in which a member serves as a trier of fact, special master, court-appointed expert, referee, arbitrator, or mediator on behalf of a client.

*Investigative services* include forensic services such as performing analyses or investigations, which, though not involved in litigation, may require the same skills used in litigation services. If a forensic specialist is utilized in a financial statement audit, questions may arise concerning the

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<sup>1</sup> Definition adopted by the AICPA Business Valuation/Forensic and Litigation Services Executive Committee; January 2006.

<sup>2</sup> A *trier of fact* is a court, regulatory body, or government authority; their agents; a grand jury; or an arbitrator or mediator of the dispute.