

Starting a Forensic Accounting Practice- How to Succeed in the Field

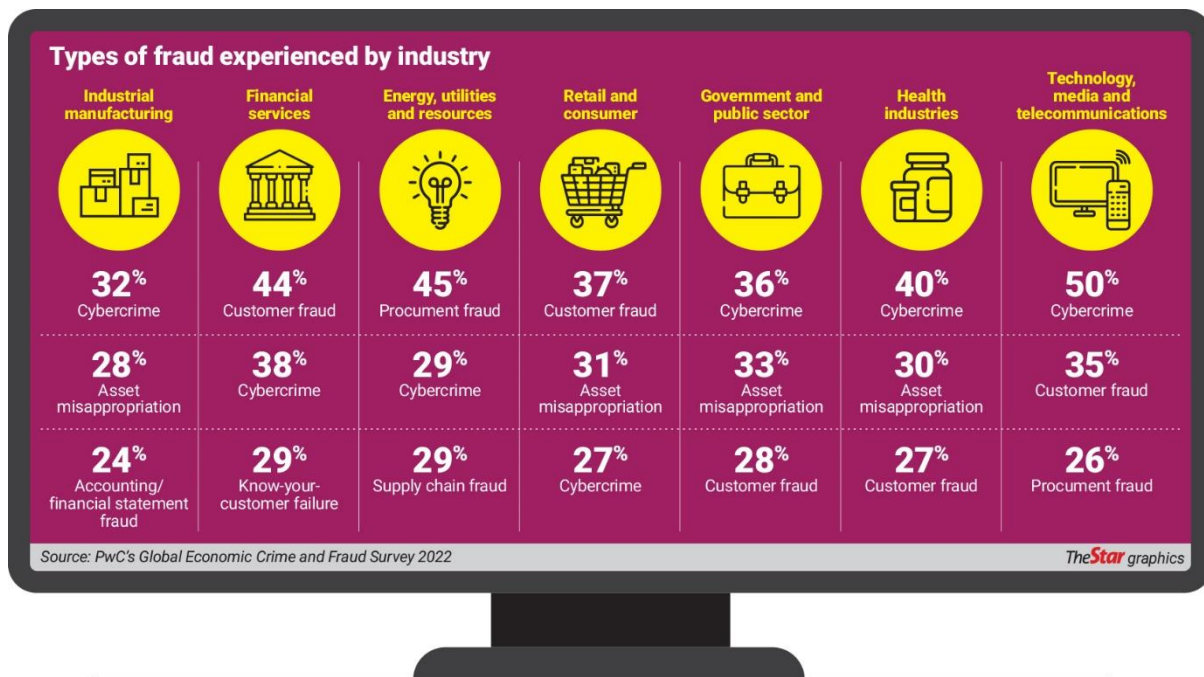
Are you someone who is fascinated by the world of numbers and passionate about uncovering financial wrongdoings?

With financial fraud becoming an alarming issue in recent times, forensic accounting has emerged as a crucial tool to combat it. If you're looking for a challenging and rewarding career, starting a practice in forensic accounting may be just the right move for you.



Fraud and Forensic Accounting

Fraud is a problem that affects individuals and businesses alike. According to a report by the Association of Certified Fraud Examiners, organisations lose around 5% of their annual revenues to fraud. Forensic accounting is a specialised field that helps organisations investigate and prevent fraud. In **fraud and embezzlement cases**, forensic accounting is sometimes utilised to set the scene for the court case. The process involves tracking down finances, doing due diligence checks, and identifying assets. Forensic accounting involves the investigative review of financial records and operational aspects to uncover fraudulent activities. For instance, a forensic accounting assignment may involve a **check for stock discrepancies** to identify a larger financial fraud or also conduct **quantification**, cost analysis, **revenue analysis**, and other types of investigations.



It is important to note that forensic accounting and forensic audit is sometimes used synonymously. However, it is preferable to use the term forensic accounting as it is recognised globally. Furthermore, forensic accounting differs from the domains of conventional audit, fraud examination, and financial forensics in terms of scope and approach. Throughout the article, we refer to forensic professionals as forensic accountants.

Starting a forensic accounting practice can be a challenging yet rewarding career choice. In the following sections, we'll explore the steps you can take to begin and succeed in the field.

The Right Academic Background

Clearly, forensic accounting involves more than just examining the financial data; it also involves investigating the circumstances present in an organisation. In order to find instances of fraud and embezzlement, forensic accountants have been trained to audit and analyse financial records. That being the case, if you're interested in pursuing a career in forensic accounting, there are several academic requirements and certifications you should consider. Specialisation in domains of accounting, information systems, and legal aspects is particularly useful. Additionally, certifications offered by boards such as the Institute of Chartered Accountants of India (ICAI), the American Institute of Certified Public Accountants (AICPA), the Association of Certified Fraud Examiners (ACFE) on forensic accounting can help boost your profile and credibility in the field. Certifications such as **Forensic Accounting and Fraud Detection (FAFD)**, **Certified in Financial Forensics (CFF)**, **Certified Fraud Examiner (CFE)**, etc., are some of the certifications one may opt for. However, it's important to keep in mind that these credentials are not a guarantee of work but, rather, a way to demonstrate your expertise in the field and build your profile.

Mastering the Skillset: What It Takes to Excel in Forensic Accounting

While a professional must possess the art of communication, attention to detail, and so on, forensic accounting is a specialised field that requires professionals to possess a unique set of skills. One such skill is the ability to think outside the box. Unlike traditional accounting, forensic accounting involves investigating and analysing financial data to detect fraud, embezzlement, and other financial crimes. To succeed in this field, forensic accountants need to be creative and use techniques such as lateral thinking, mind mapping, and brainstorming to uncover evidence that may have been hidden.

Lateral thinking is a critical tool for forensic accountants as it allows them to approach problems from different angles and develop innovative solutions. By breaking away from traditional thinking, forensic accountants can identify the root cause of a problem and find a more effective solution. **Mind mapping** and **brainstorming** are also useful techniques that can help forensic accountants organise their thoughts and ideas and explore new avenues of investigation.

Another technique that forensic accountants can use is the **reverse solution**. This involves working backwards from the desired outcome and identifying the steps needed to achieve it. **Cross fertilisation**, on the other hand, involves combining two seemingly unrelated ideas to create a new solution. **Problem switching** involves taking a problem and viewing it from a different perspective to find new solutions.

With the right mindset and tools, forensic accountants can approach problems creatively and uncover evidence that may have been missed using traditional methods.

Preventive Practice or Detective Practice?

Forensic accounting is a specialised field that involves the application of accounting, auditing, and investigative skills to detect and prevent financial fraud. As we have discussed earlier, forensic accountants need to have a unique set of skills, including analytical skills, problem-solving skills, and attention to detail, to be able to succeed in this field. However, the practice area of forensic accounting can be divided into two categories- preventive and detective.

1. Preventive Practice of Forensic Accounting

Preventive practices are proactive activities that are conducted before any fraud takes place. These practices are usually aimed at identifying and assessing the risks associated with potential fraud and putting in place measures to **mitigate those risks**. One of the most common preventive practices is **fraud risk assessment**, which involves identifying and analysing the risks of fraud in a company's operations, systems, and procedures. It is one step ahead of the internal control assessment and helps in developing a more comprehensive **fraud prevention strategy**.

Another important preventive practice is the **implementation of a framework** that helps establish a **culture of integrity and compliance** within the organisation. **Due diligence** and **background verification** for borrowers or investors, **cybersecurity**, and **hardening of systems** are other services that come under the preventive category. These practices are relatively easy to get into for beginners in the field and can be pitched to existing clients.

Here is an example of a preventive activity that a forensic accountant can conduct:

A manufacturing company approached a forensic accounting firm to assess its fraud risk. The firm conducted a comprehensive fraud risk assessment, which included a review of the company's internal controls, policies, and procedures. They identified several weaknesses in the company's systems and recommended changes to mitigate the risk of fraud. The firm also conducted employee training to increase awareness of fraud risks and prevention. The company implemented the recommended changes, which helped them prevent potential fraud in the future.

2. Detective Practice of Forensic Accounting

On the other hand, **detective practices** are reactive activities that are conducted after fraud has occurred. These practices involve **investigating the fraud, identifying the perpetrators, and gathering evidence** to support **litigation**. Further, detective practices include **post-fraud investigation, evidence discovery, quantification, reporting, and testifying** in a court of law. These practices **require experience**, and clients prefer experienced professionals as it is time-bound work and requires a strong knowledge base. Therefore, large firms are preferred over individual professionals.

Here is an example of a detective activity that a forensic accountant can conduct:

A bank suspected that one of their employees was involved in a fraudulent scheme. The bank engaged a forensic accounting firm to investigate the employee's activities. The firm conducted a detailed investigation, which included reviewing the employee's financial transactions and interviewing the employee and other relevant parties. The investigation revealed that the employee had been embezzling funds from the bank. The firm quantified the loss and provided evidence to support the bank's case. The employee was terminated, and the bank was able to recover a portion of the stolen funds.

Other forensic accounting services that a professional can offer are:

- Fraud risk assessment for an organisation
- Incidence reporting
- Developing whistleblowing policies
- Bankruptcy forensics
- Bank loan forensics
- Market research forensics
- Pre-placement due diligence
- Actual income profiling, etc.

It is always better to build a team for a full-fledged practice as it provides the necessary support and expertise required to handle complex cases. Starting a forensic accounting practice requires a combination of skills, experience, and an understanding of the different areas of practice. By focusing on preventive practices initially and building a strong team of experienced professionals, one can succeed in the field of forensic accounting. Finally, it is important to understand where you stand as a professional and grow further.

Here are 7 Strategies to Build a Strong Reputation as a Forensic Accountant

1. Find your niche.
2. Build your network.
3. Develop your skillset.
4. Be tech-savvy.
5. Develop your service offerings.
6. Identify your target market.
7. Establish your brand.

Every great accomplishment begins with a single step. Starting your own forensic practice may seem daunting but remember that even the most successful professionals started as amateurs. Above all, integrity should be your strong suit as a forensic accountant. It is the foundation of trust, credibility, and professionalism that clients expect from you in this field.

About the Author



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Dr Durgesh Pandey is a highly accomplished forensic accounting and fraud investigation expert and the founder member of DKMS & Associates, a boutique firm specialising in these areas. He holds the distinction of being the first PhD in Forensic Accounting from the National Forensic Sciences University (NFSIU), Gujarat, an institute of national importance under the Ministry of Home Affairs, Government of India. With extensive practice in designing systems procedures and accounting manuals for companies with multi-location accounting points, Dr Pandey has worked with several government organisations and banks as an auditor and subject expert. He has trained thousands of law enforcement officials on forensic accounting and conducted investigations for clients' corporate frauds, including the Economic Offences Wing, Anti-Corruption Bureau, and Enforcement Directorate, for investigative support on financial fraud.