

ACCOUNTING

FORENSIC ACCOUNTING

On the money trail

Don't tell forensic accountants there's a recession out there. With the financial world shaken by scandal, they're busier than ever

BY DARCY KEITH

Call them the number sleuths – unsung heroes armed with calculators on the prowl for dubious financial deeds.

Forensic accountants in Canada have been called into cases ranging from the Gomery inquiry into the federal sponsorship scandal to the controversial bookkeeping of Nortel Networks Corp. They also played a key role in the trial of Garth Drabinsky and Myron Gottlieb, who were found guilty last week of systematically manipulating the financial statements of Livent Inc. The live theatre company collapsed in 1998 after a group of investors, including Hollywood heavyweight Michael Ovitz, said they had uncovered evidence of accounting irregularities.

In the United States, forensic accountants have been kept busy tracing the \$50-billion (U.S.) that allegedly disappeared at the hands of Bernard Madoff.

With the financial world shaken, and stakeholders scrambling to salvage what they can, forensic accountants are finding themselves increasingly busy.

“Certainly in bust periods, such as we're going through, transgressions of the past bubble to the surface,” said Ted Baskerville, chairman of the Alliance for Excellence in Investigative and Forensic Accounting at the Canadian Institute of Chartered Accountants (CICA). “This one is worst than most, so it has increased the need for forensic accounting.”

And it's not over, Mr. Baskerville said: “I firmly believe we're going to see a storm, maybe in six to 12 months, where much more of this bubbling up will happen.”

Alison Thomas, a chartered accountant who recently graduated from the Diploma in Investigative Forensic Accounting (DIFA) course at the University of Toronto's Mississauga campus, sees a growing role for the discipline as more companies adopt cost-cutting measures and apply fewer resources to oversight and internal controls. This along with the increasing pressure to meet earnings targets may lead to financial-statement wrongdoing and accounting irregularities, she said.

Meanwhile, the federal government's rush to deliver economic stimulus may result in lax oversight of the money.

“Disputes will inevitably arise over who receives taxpayer money, how much and how it ultimately gets spent by recipient companies,” said Ms. Thomas, who works for the Toronto consulting firm Cole & Partners.

Ms. Thomas decided to specialize in forensic accounting because of its variety. “No one case is the same. The work is very unstructured and intellectually challenging, because there is no predetermined plan to follow and the plan is always changing as a case unfolds,” she said.

Corporate boards are increas-



Chartered accountant Alison Thomas sees a growing role for forensic accounting as companies cut costs and relax internal controls. KEVIN VAN PAASSEN/THE GLOBE AND MAIL

Step by step

The four phases of a forensic accounting case:

1. PLANNING
Accountants meet with clients and determine their objectives and the nature of the allegations or the dispute.

2. INFORMATION GATHERING
Investigators identify and review documents and conduct interviews to assess allegations and quantify the extent of any loss or wrongdoing.

3. ANALYSIS
The investigation's participants develop theories, hypotheses and approaches to address the allegations and issues and explain “what happened” quantitatively.

4. PREPARING REPORTS
Investigators summarize their analysis, conclusions and findings. These reports are often prepared for use in arbitrations, mediations, settlement conferences and trials.

» Source: Alison Thomas of Cole & Partners

» Darcy Keith

ingly turning to forensic accounting techniques to help them stay out of trouble. Creditors are using them when they suspect a borrower is hiding assets that could be used to cover bad loans. Law enforcement agencies and regulators working on fraud, money laundering and identity theft cases also are using more forensic accountants.

In recent years, forensic accountants performed corporate audits and assessed internal controls and other risks resulting from the rollout of the Sarbanes-Oxley Act of 2002, which established enhanced accounting standards for companies in the United States and their foreign subsidiaries.

“Now, that phase has finished and the investigative and forensic accountants have graduated back to, shall we say, mainstream work,” said Leonard Brooks, director of the DIFA course at the UofT Mississauga campus.

That means forensic accountants are much more than number-crunchers. They investigate white-collar crime and solve disputes over missing money, overstated costs, supplier kickbacks or inflated revenues. Their jobs can entail poring over balance sheets, reading personal e-mails and expense reports, tracing transactions, and scanning electronic records and journals on computer hard drives. They use the principles of psychology to help understand the motivations for possible wrongdoing.

“You are trying to understand what should have been there, what is there, where it may have gone, who might have been involved in doing whatever was done fraudulent-

ly or mistakenly, and preparing a report that can be helpful to the insurers, to the courts, to lawyers, or to principles that you are hired by,” Prof. Brooks said.

Those who work in the field need to be inquisitive, he said. “Their day-to-day activity as an investigative and forensic accountant will be solving puzzles. So if you have an individual who has a background in accounting and an inquiring mind and likes to solve puzzles, then this is a very good area for them,” he said.

It's also an attractive job for those seeking high compensation. The average salary of a chartered accountant whose primary work was investigative in 2007 was \$206,908, with a median salary of \$128,085, according to the CA Profession Compensation Survey. By comparison, those who primarily audited financial statements made an average of \$126,164, with a median salary of \$86,500.

With many cases kept private, it's difficult to determine how many people do forensic accounting work.

Many professionals, including Certified Management Accountants and Certified General Accountants, have been doing forensic work for years, notes Mr. Baskerville. But the need for more vigorous training is growing as cases grow larger and more complex, Prof. Brooks said.

Andrew Shin, a partner with Wintrip Wolkoff Shin, a Toronto firm that specializes in the field, said it's not the job of a forensic accountant to provide an opinion on whether someone has committed fraud.

“That is really a legal determination. Our role is to present the facts as we find

“**Certainly in bust periods, such as we're going through, transgressions of the past bubble to the surface.**

Ted Baskerville, chairman of the Alliance for Excellence in Investigative and Forensic Accounting

“**If you have an individual who has a background in accounting and an inquiring mind and likes to solve puzzles, then this is a very good area for them.**

Leonard Brooks, University of Toronto

them,” Mr. Shin said.

Mr. Shin and his two partners, who are all Chartered Accountants and graduates of the DIFA program, previously worked for major accounting firms but set up their own forensic boutique in 2006 after sensing an increase in demand.

While the focus on the profession can be traced back to the Enron scandal at the start of this decade and has become valued in litigation involving big corporations, clients are emerging among smaller companies and individuals, he said.

» Special to The Globe and Mail

FORENSIC TRAINING

The designation CA-IFA is a professional one overseen by the Canadian Institute of Chartered Accountants and requires rigorous training in investigative and forensic accounting.

Only Chartered Accountants are eligible, and they must first receive the Diploma in Investigative and Forensic Accounting (DIFA), offered by the University of Toronto's Mississauga campus and the Alliance for Excellence in Investigative and Forensic Accounting of the CICA.

Non-chartered accountants, including people coming from undergraduate business or accounting programs, can also enroll to receive the diploma. The program graduated its first class in 2003.

UofT's DIFA program has about 30 students a year and aims to attract those interested in working at the senior level in the market, said Leonard Brooks, its director.

Courses in forensic accounting are also taught in community colleges.

The DIFA course takes just over two years of mostly off-campus education. It exposes students to ethics and best practices, investigative-related matters, cost estimations that go into disputes, and various legal processes.

“The evidence has to be very germane, comprehensive, and has to be delivered with integrity and no bias so it can be relied upon,” Prof. Brooks said.

» Darcy Keith

CORPORATE SOCIAL RESPONSIBILITY

The push for broader accountability

BY TERRENCE BELFORD

Corporate social responsibility promises to create a whole new area of business for accounting firms, say leaders within the profession.

Indeed, it is taking the accountants' stock in trade of measuring, monitoring and reporting to new heights.

As Canadian corporations accept the need to become better corporate citizens, non-financial reporting in areas such as environmental impact, community involvement and product safety and reliability are certain to be as important as today's demands for precision in reporting financial performance, they predict.

Shareholders and consumers are increasingly demanding that business embrace social responsibility by adopting high standards on the environment, employment and other social issues.

They argue that CSR will ultimately lead to improved financial returns.

But that goal continues to be a bright hope than a

hard reality in Canada, say CSR experts such as Dirk Maten, Hewlett Packard Chair in Corporate Social Responsibility at the Schulich School of Business at York University in Toronto.

“The recognition that social responsibility is now fundamental to financial performance is much more advanced in Western Europe, Britain and even in the United States,” he said.

“When I came to Schulich two years ago from Royal Holloway [one of the colleges at the University of London] I expected – because of Canada's commitment to things like multiculturalism – it would be far more advanced.

“Instead, it is a very young plant that needs to be nourished.”

One of the chief impediments to more widespread acceptance is that corporate social responsibility is not intuitive, said Alan Willis of Alan Willis & Associates of Mississauga, an adviser on CSR to the Canadian Institute of Chartered Accountants.

“While environmental issues are fairly far advanced, the softer ones are not being addressed in great numbers,” Mr. Willis said. “Executives have difficulty seeing the reasons to deal with social issues. Many just say it is beyond their mandate.”

“They won't do it out of altruism; they will have to be shown there is a definite impact on the bottom line.”

And that is where accountants are making their mark. Those firms that have created CSR practices are finding that they are flourishing: Showing the impact of social responsibility on the bottom line can, and must, be measured, they say.

Johanne Gélinas, head of the corporate responsibility and sustainability practice in the Montreal office of Deloitte & Touche LLP, said her unit has eight people, up from five two years ago, while Deloitte now has 30 people working on CSR across the country.

“It is indeed a fast growing business,” she said.

» SEE ‘ACCOUNTABILITY’ PAGE 19

Laurier is
Excellence in Accounting

Congratulations to Elias Zeekhe
Highest Mark in Canada, CMA Case Exam 2008

ELIAS ZEEKEH, LAURIER MBA/CMA GRADUATE, TORONTO CAMPUS

LAURIER MBA / CMA GRADUATES consistently outperform other candidates on the CMA Case Exam. Unique to Laurier, our MBA/CMA curriculum is designed to **achieve excellence** and the results are clear – in 2007 and 2008, 100% of our students earned their CMA designations.

Obtain the Laurier degree and the CMA designation in the same ten terms. Convenient part-time alternate weekend study at our downtown Toronto MBA campus.

To sit in on a class, please contact Maria Tambllyn, MBA Program Leader, at 519.884.0710 ext. 2575.

LAURIER
Business & Economics

CMA Certified Management Accountants

WILFRID LAURIER UNIVERSITY • www.wlu.ca/mba

Laurier Past High Achievers

Debra Gillies
Highest Mark in Canada, CMA Case Exam 2007
Laurier MBA/CMA Graduate, Toronto Campus

Sponsored by:
CMA Canada Centre of Excellence
in Management Accounting for
Small and Medium-Sized Enterprises