

Forensic Accounting: Older Than You Think

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A form of forensic accounting can be traced back to an 1817 court decision involving a bankrupt estate. A young Scottish accountant issued a circular advertising his expertise in arbitration support in 1824, and in the late 1800's and early 1900's articles began to appear discussing expert witnessing, evidence arbitration, and awards. Maurice E. Peloubet, a partner in a New York City accounting firm, probably first published the phrase forensic accounting in an article in 1946.

The scribes of ancient Egypt who inventoried the pharaohs' grain, gold, and other assets were the predecessors to today's accountant. Asset control and fraud prevention and detection were the accountant's main duty until the turn of the 20th century. Then as accrual basis accounting became common, reporting issues became a top priority.¹ Over time there developed a need for a fraud auditor and gradually the definition of forensic accounting has changed from merely testifying in court to more of an investigative accountant: a financial detective with a suspicious mind. In the late 1980s and 1990s these dreaded gumshoes were more like bloodhounds and less like watchdogs (independent auditors) and seeing eye dogs (internal auditors). The purpose of this article is to provide a history of forensic accounting and litigation support.

EARLY HISTORY

Forensic accounting (or at least, accounting expert witnessing) can be traced as far back as 1817 to a court decision:

Meyer v. Sefton was *inter alia*, an inquiry to determine the value of a bankrupt's estate. Here a witness who had examined the bankrupt's accounts was allowed to testify, since from the nature of the case such an inquiry could not be made in court.²

¹ J. T. Wells, "So That's Why It's Called a Pyramid Scheme," *Journal of Accountancy*, Vol. 190 (October 2000), pp. 91 - 95.

² *Meyer v. Sefton*, 2 Stark. 274 (1817); see Clarence V. McArthur, "Evidence - Accountants as Experts," *Canadian Bar Review*, Vol. XXVI, No. 5, May 1948, p. 873.