

Monitoring Techniques Available to the Forensic Accountant

Mark J. Nigrini

Saint Michael's College, Colchester, Vermont USA

This paper reviews techniques available to forensic accountants in a proactive monitoring environment. The objective of these detective controls would be to facilitate the detection of intentional and unintentional errors in both revenue and expenditure or loss accounts. Early detection would facilitate loss minimization and suggest additional preventive controls where appropriate. Correlation could detect errors or anomalies in reported numbers where there are a large number of audit units (departments or franchisees), a series of revenues or expenses, and a benchmark for comparison. The examples discussed included franchisee reporting, electricity billing, and election results. Using time-series analysis the forensic accountant could gain new insights into understanding the revenues or expenditures/losses under consideration, and predict the value of the account for future periods. The actual results for multiple audit units would then be compared to the predictions, and significant differences would be investigated.

INTRODUCTION

The objective of this paper is to introduce data interrogation tests that could be used by forensic accountants to detect fraud, irregularities, and intentional or unintentional errors. These tests could be carried out on a proactive basis and would be most useful for transactional data that had an inherently high risk of irregularities. This might occur where the control system is open to abuse perhaps due to its reliance on third party reports (e.g., warranty claims for an auto manufacturer or sales reports to a franchisee) or where the controls are purposefully less than perfect in the interests of "customer service" (e.g., sales returns to a retail outlet). Data interrogation could also be performed after a fraud has been discovered, and where the forensic accountant seeks additional evidence of wrongdoing in the course of his or her investigation.

Monitoring is fundamental to any control system and encompasses observing what is happening and comparing it to a standard that has previously been set (IFAC, 2002). The IFAC