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W ith the responsibility of detecting and preventing fraud falling heavily on the accounting profession, every accoun-
tant needs to recognize fraud and learn the tools and strategies necessary to catch it in time. Providing valuable information to those responsible for dealing with prevention and discovery of financial deception, Fraud Auditing and Forensic Accounting, Fourth Edition helps accountants develop an investi-
gative eye toward both internal and external fraud and provides tips for coping with fraud when it is found to have occurred.

Completely updated and revised, the new edition presents:

• Brand-new chapters devoted to fraud response as well as to the physiological aspects of the fraudster
• A closer look at how forensic accoun-
tants get their job done
• More about Computer-Assisted Audit Tools (CAATs) and digital forensics
• Technological aspects of fraud auditing and forensic accounting
• Extended discussion on fraud schemes
• Case studies demonstrating industry-
tested methods for dealing with fraud all drawn from a wide variety of actual incidents

Inside this book, you will find step-by-step keys to fraud investigation and the most current methods for dealing with financial fraud within your organization. Written by recognized experts in the field of white-
collar crime, this Fourth Edition provides you, whether you are a beginning forensic accoun-
tant or an experienced investigator, with industry-tested methods for detecting, inves-
tigating, and preventing financial schemes.

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Praise for the Fourth Edition of
Fraud Auditing and Forensic Accounting

“Tommie and Aaron Singleton have made important updates to a book I personally rely very heavily upon: Fraud Auditing and Forensic Accounting (FAFA). In the newest edition, they take difficult topics and explain them in straightforward, accessible language. All my students benefited from reading the third edition of the FAFA to better understand the issues and area of fraud and forensic accounting. With their singular focus on understandability and practicality, the Fourth Edition of this book makes a very important contribution for academics, researchers, practitioners, and students. Bravo!”

—Dr. Timothy A. Pearson, Director, Division of Accounting, West Virginia University, Executive Director, Institute for Fraud Prevention

“Finally someone has written a book that combines fraud examination and forensic accounting. The authors have clearly explained both in their earlier edition and now they have enhanced the first with additional materials. The order in which the material is presented is easy to grasp and logically follows the typical fraud examination from the awareness that something is wrong to the court case. The explanatory materials presented aid this effort by being both well placed within the book and relevant to the narrative.”

—Dr. Douglas E. Ziegenfuss, Chair and Professor, Department of Accounting, Old Dominion University

“Fraud Auditing and Forensic Accounting is a masterful compilation of the concepts found in this field. The organization of the text with the incorporation of actual cases, facts, and figures provides a logical and comprehensive basis for learning the intricacies of fraud examination and forensic accounting. The authors successfully blend the necessary basics with advanced principles in a manner that makes the book an outstanding resource for students and professionals alike.”

—Ralph G. Summerville, President of Forensic/Strategic Solutions, PC
Fraud Auditing and Forensic Accounting
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When times are good, people steal. When times are bad, people steal more!

This quote was made casually in a conversation by Tommie to an academic colleague, but does represent the raison d’être for the new edition of this book. Since time immortal, there have always been a number of humans who are bent in their ethics, morals, sociological makeup, psychological makeup, or sense of justice, and are ready, willing, and able to commit crimes of all types, including white-collar crimes. But hard economic times seem to cause a few more than normal to crumble under the economic pressure and give in to the temptation to commit a fraud.

The Association of Certified Fraud Examiners (ACFE) did an empirical study in 2009 on the effect of the weak economy on the number of frauds being detected by CFEs, entitled “Occupational Fraud: A Study of the Impact of an Economic Recession.” Based on the results of the responses of 507 CFEs, more than half indicated that the number of frauds had increased since the recession began (37.3 percent slight increase, 18.1 percent significant increase). About 49 percent also saw an increase in the dollar amount of the losses due to fraud. Obviously, and empirically evident in the ACFE study, pressure has increased on an increasing number of people due to the recession. And as all antifraud professionals know, pressure is a key to the occurrence of frauds. Therefore, there is a greater need than ever for corporations, companies, and government agencies to be vigilant to protect assets that are more precious than ever.

We are proud to be a part of the fourth edition of this book. The book begins with a general background about fraud auditing and forensic accounting in
Chapter 1. Chapters 2 through 5 provide the basics of fraud such as fraud schemes, how they are perpetrated, what red flags (similar to fingerprints) exist for certain types of schemes, understanding the fraudster, and a fraud risk assessment to identify weak areas. Chapters 6 through 8 follow the “PDC” model for the antifraud profession: prevent, detect, and correct (respond). Chapters 9 through 12 cover the information technology (IT) aspects of fraud including the computer as an instrument of fraud, the target of fraud, and the fact systems are “data warehouses” that contain evidence of fraud. Chapter 13 focuses on the nonfinancial aspects of fraud investigation. Chapters 14 through 16 focus on the legal disposition of a fraud investigation and the major legal concepts, principles, and help for fraud auditors and forensic accountants, especially related to evidence and expert testimony. Chapter 17 is written specifically for public accounting and CPAs.

The material has been slightly reorganized from the third edition to make reading and assimilation of the content easier. New material includes updates in fraud response (a new Chapter 8), computer-related fraud (Chapter 9), cyber forensics (Chapter 12), physiological aspects of the fraudster (a new Chapter 13), and fraud and the CPA (Chapter 17).

We hope this book enables and empowers auditors, CPAs, law enforcement, risk and loss prevention professionals, and all others who have a responsibility related to fraud to better prevent, detect, and respond to fraud.

Tommie W. Singleton
Aaron J. Singleton
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Acknowledgments

It is true that anything or anyone visible to the public eye is actually standing on the shoulders of others who made that moment possible. So we would like to acknowledge a few “shoulders.”

First, we want to thank Jack Bologna and Robert Lindquist, authors of the first two editions of this book. In 1992, Dr. Tommie Singleton interviewed Jack Bologna as part of his dissertation at the University of Mississippi on the topic of pioneers in electronic data processing (EDP) audit. Mr. Bologna was indeed a pioneer not only in EDP audit, but also in forensic accounting. Jack was involved with the Association of Certified Fraud Examiners (ACFE) in its early days, was editor for what may have been the first forensic accounting journal in the 1980s, and was an academic who taught forensic accounting. His contributions are a monument and testimony to his knowledge and abilities regarding fraud. Robert Lindquist has a strong reputation of being a fraud expert and is sought after as an expert witness in fraud cases. His work and efforts are stellar, and he is a well-respected professional in Canada and the United States.

Second, we would like to thank some individuals who have helped us in our professional growth. Former FBI agent Alton Sizemore became a supporter and friend to Dr. Singleton about 14 years ago. He is a frequent guest lecturer in Tommie’s classes, even when he was over 100 miles from the university where Dr. Singleton taught for many of those years. He has taught us much regarding the legal elements of fraud, digital evidence, and the law enforcement perspective of fraud. He also has taught us to have fun when circumstances allow it. Indeed, Alton is a favorite of former students for these reasons.

Kevin Andrews has been a supporter, continually involving us in the local chapter of the ACFE. Like Alton, Kevin is a staple in Dr. Singleton’s classes speaking to students about the antifraud profession and how to develop a career as a forensic accountant. He also had a vision of a local, high quality,