On the Money Trail

By Pramod de Silva May 15, 2016 Sunday Observer: Sri Lanka

When you hear the term ‘forensic,’ you immediately think of a gruesome crime scene where the detectives have to work backwards to piece together the clues to eventually find a suspect. But did you know that it can be used for a variety of other scenarios – even to a stash of cash that has gone ‘cold’?

If you want to trace the “money trail,” you call a “forensic accountant” who will try to trace the origin of money that has usually been swindled and stashed somewhere else by corrupt rulers or individuals.

By definition, ‘forensic accounting’ is the use of accounting skills to investigate fraud or embezzlement and to analyze financial information for use in legal proceedings. The field in general is also called ‘financial forensics.’ The word ‘forensic’ by itself literally means ‘suitable for use in a court of law.’ Accountants in this field are often tasked with investigating fraud in complicated financial transactions and catching white collar criminals to bring them to justice.
Forensic accountants utilize an understanding of economic theories, business information, financial reporting systems, accounting and auditing standards and procedures, data management and data analyses for fraud detection and investigative techniques as well as litigation processes and procedures to perform their tasks.

The term has gained currency following the Panama Papers scandal which has exposed over 11 million documents related to money laundering and offshore accounts.

The issue of offshore tax evasion has become a matter of growing debate internationally. Estimates suggest US$ 190 billion a year is diverted from government tax coffers worldwide. No organization or global body has the authority over the actions of tax haven nations such as the British Virgin Islands, Seychelles or Panama itself, where the law firm Mossack Fonseca, at the heart of the scandal, is located.

The term ‘forensic accounting’ is believed to have been invented by Canadian accountant Bob Lindquist in the early 1970s well before tax havens became de rigueur. Lindquist, who has worked for government officials in Trinidad, Antigua, Grenada and St. Lucia following the money and also traced Nazi-looted art in Switzerland, is still active in the field which has suddenly come to the fore, post-Panama Papers.

“We’re talking about dishonesty and that doesn’t bother these people,” Lindquist told reporters recently. “Once you cross the bridge of, ‘Yes I can be dishonest,’ …people can easily explain it away. People do it because it’s human nature.”

Financial experts say there is basically nothing illegal about depositing your money outside the country of normal residence, but the key issue is whether you have obeyed the laws of your jurisdiction and declared your monies. The main issue here is that most people exposed in the Panama Papers have chosen not to do so. In other words, they have either swindled money or avoided paying any tax on funds in their own countries.

The Sunday Observer spoke to Averil Ludowyke, Partner (Assurance) at Ernest and Young and forensic accounting expert about the role forensic accountants and auditors would play in following the Panama Papers money trail. “Forensic accountants specialize in tax fraud investigations and money laundering investigations among other things. Thus, forensic investigations will most likely be launched to trace the funds and the individuals or corporates responsible. However, this will encompass a wide range of options and investigations including judicial inquiries, criminal investigations, tax authority investigations and parliamentary investigations,” says Ludowyke.

Ludowyke says there will be announcements of new transparency measures such as public registers of beneficial ownership and queries by regulators of financial institutions. “However, it is vital to properly look at all of the information. Merely being identified in the released documents does not mean that an individual or company has acted improperly.”

When asked what could be done to avoid such situations in the future, Ludowyke says: “Corporates should review their organizational structures to determine whether they are operating in accordance with applicable domestic laws. This is also applicable for individuals who may have such concerns. Those responsible for governance within the entity may request details related to the financial structures. With increased emphasis on global transparency, we believe that consistency, transparency and certainty in tax systems are important for businesses and governments alike.”