ForensicLedger

How-To

Forensic Accounting Engagement Checklist

Step-by-step guide from initial scoping to expert testimony

- Complete engagement workflow (scope → retain → investigate → report → testify)
- Document collection and preservation requirements
- Engagement letter essentials
- Managing scope, budget, and deliverables

Litigation attorneys, family law attorneys, corporate counsel, and legal operations managers who need forensic...

Engagement Workflow

Phase 1: Scope & Select

- [ ] Define the specific financial questions to be answered
- [ ] Identify the case type (fraud, divorce, damages, valuation, bankruptcy)
- [ ] Determine whether expert testimony will be needed
- [ ] Compile shortlist of 3-5 forensic accountants
- [ ] Conduct initial consultations (most offer 30-min free)
- [ ] Compare rates, credentials, and relevant experience
- [ ] Select forensic accountant

Phase 2: Engage & Scope

- [ ] Execute engagement letter (see page 3 for required elements)
- [ ] Pay initial retainer ($5,000–$15,000 typical)
- [ ] Provide case summary and key financial questions
- [ ] Define deliverables (preliminary opinion, formal report, testimony)
- [ ] Set budget milestones and approval thresholds
- [ ] Establish communication protocol and reporting cadence

Phase 3: Document Collection

- [ ] Gather and index all relevant financial records (see page 4)
- [ ] Serve subpoenas for third-party records (bank statements, tax returns, brokerage)
- [ ] Preserve electronic financial data (accounting systems, spreadsheets, emails)
- [ ] Provide organized document set to forensic accountant with cover memo

Phase 4: Investigation & Analysis

- [ ] Forensic accountant performs analysis per engagement scope
- [ ] Regular progress updates (weekly or biweekly)
- [ ] Preliminary findings discussion (oral — to preserve work product)
- [ ] Identify any scope expansion needed (requires new cost estimate and approval)
- [ ] Final analysis completed

Phase 5: Report & Testimony

- [ ] Draft expert report prepared
- [ ] Attorney reviews for completeness and Rule 26 compliance
- [ ] Final report delivered
- [ ] Deposition preparation (8-16 hours)
- [ ] Expert deposition
- [ ] Trial preparation (16-40 hours)
- [ ] Trial testimony

Engagement Letter Essentials

What Must Be in Your Engagement Letter

Required Elements

- [ ] **Scope of engagement:** Specific financial questions to be addressed and limitations
- [ ] **Deliverables:** List of work products (preliminary opinion, formal report, demonstratives, testimony)
- [ ] **Billing rates:** By team member, with all rates specified (partner, manager, staff, paralegal)
- [ ] **Retainer amount:** And terms for replenishment
- [ ] **Budget estimate:** Total estimated hours by phase, with cap or approval threshold
- [ ] **Scope change protocol:** How additional scope will be communicated, estimated, and approved
- [ ] **Cancellation policy:** Terms and fees for cancelled depositions/trial dates
- [ ] **Travel policy:** Reimbursement terms (class of travel, per diem, mileage)
- [ ] **Confidentiality:** Data handling, document destruction, privilege protections
- [ ] **Termination clause:** Either party's right to terminate and final billing terms
- [ ] **Conflict of interest disclosure:** Confirmation of no conflicts with any party

> **Never proceed without an engagement letter.**
>
> A forensic accounting engagement without a written scope agreement invites scope creep, billing disputes, and potential ethics complaints. The engagement letter protects both sides.

> **Include a "Not-to-Exceed" clause.**
>
> Require the forensic accountant to obtain written approval before exceeding the estimated budget by more than 15%. This single clause prevents the most common billing disputes.

Document Collection Checklist

Financial Records to Collect — By Case Type

Divorce / Family Law

- [ ] Personal and business tax returns (3-5 years)
- [ ] Bank statements — all accounts (3-5 years)
- [ ] Brokerage and investment account statements
- [ ] Retirement account statements (401k, IRA, pension)
- [ ] Business financial statements (if self-employed)
- [ ] Payroll records and W-2s
- [ ] Loan applications (often contain financial disclosures)
- [ ] Credit card statements (3-5 years)
- [ ] Real property records (deeds, mortgages, appraisals)
- [ ] Insurance policies (life, property, business)
- [ ] QuickBooks / accounting software data file

Fraud / Embezzlement

- [ ] General ledger and chart of accounts
- [ ] Bank reconciliations
- [ ] Cancelled checks (front and back) and deposit slips
- [ ] Vendor files and purchase orders
- [ ] Payroll records and timesheets
- [ ] Expense reports and corporate credit card statements

- [ ] Access logs for accounting systems
- [ ] Email communications of suspected individuals
- [ ] Internal controls documentation
- [ ] Prior audit workpapers and management letters

Commercial Damages

- [ ] Historical financial statements (5+ years)
- [ ] Budgets and projections (pre-breach/pre-event)
- [ ] Contracts at issue
- [ ] Industry benchmarking data
- [ ] Customer/revenue data by segment
- [ ] Cost accounting data
- [ ] Economic and market data for relevant period

> **Preservation is Critical.**
>
> Issue a litigation hold notice immediately. Accounting system data, electronic files, and email must be preserved in native format. Altered or destroyed financial records can result in adverse inferences and sanctions.

Managing Scope and Budget

How to Prevent Scope Creep and Cost Overruns

Budget Management Framework

Milestone	What Happens	Budget Check
Engagement signed	Retainer paid; scope agreed	Baseline budget established
After document review	Forensic accountant has initial view of record volume	Revised estimate (if needed)
Preliminary findings	Oral discussion of initial conclusions	Decision point: proceed, narrow, or expand scope
Investigation complete	All analysis performed	Variance report vs. budget
Report drafted	Written report in progress	Remaining budget for testimony prep
Pre-deposition	Expert prepared for deposition	Separate testimony budget authorized
Pre-trial	Expert prepared for trial	Separate trial budget authorized

Watch for these scope-creep triggers

- "We found additional issues that need investigation" (get a cost estimate first)
- "The data was more disorganized than expected" (provide better-organized records)
- "We need to review additional years" (approve specific year additions, not open-ended)
- "The opposing expert raised new issues" (budget for rebuttal separately)

Forensic Accounting Methods Reference

Common Analytical Methods — What They Are and When They're Used

Method	Description	Best For
Net Worth Method	Compares assets/liabilities at two points in time to identify unexplained increases	Hidden income, tax fraud, lifestyle analysis in divorce
Bank Deposit Method	Analyzes all bank deposits vs. known income to identify unexplained deposits	Unreported income, cash-intensive businesses
Cash Flow Analysis	Tracks all sources and uses of funds to identify gaps	Embezzlement, asset tracing, divorce
Benford's Law Analysis	Statistical test comparing digit distribution of financial data to expected patterns	Detecting fabricated data in accounting records
Ratio Analysis	Compares financial ratios over time or against industry benchmarks to identify anomalies	Financial statement fraud, damages quantification
Data Mining / Analytics	Automated analysis of large transaction datasets for patterns	Large-scale fraud, duplicate payments, ghost vendors
Timeline / Transaction Tracing	Follows specific transactions through accounts chronologically	Asset tracing, fund diversions, money laundering
Discounted Cash Flow (DCF)	Projects future cash flows and discounts to present value	Business valuation, lost profits damages
Market Approach	Values a business based on comparable transactions	Business valuation in divorce or shareholder disputes

Ask your forensic accountant which methods they'll use — and why.

Methodology must be defensible under Daubert. If the forensic accountant cannot explain why their chosen method is appropriate for your specific case, that's a red flag.

Engagement Timeline Planner

Typical Forensic Accounting Engagement Timeline

Phase	Duration	Notes
Scoping and retention	1-2 weeks	Define questions, select expert, execute engagement letter
Document collection	2-4 weeks	Gather records; may require subpoenas (add 4-6 weeks)
Investigation and analysis	4-12 weeks	Depends on complexity and record volume
Preliminary findings	1 week	Oral discussion; decision point
Report writing	2-4 weeks	Draft → review → final
Rule 26 disclosure	Per court schedule	90 days before trial (plaintiff); 30 days after (rebuttal)
Deposition preparation	1-2 weeks	8-16 hours of prep
Deposition	1-2 days	Expert testifies
Trial preparation	2-4 weeks	16-40 hours of prep + demonstratives
Trial testimony	1-3 days	Direct + cross-examination

Start early.

Forensic accounting is time-intensive. A complex fraud investigation can take 3-6 months before the report is ready. Retain your forensic accountant within 30-60 days of identifying the need — waiting until discovery is closing is too late.

ForensicLedger

ForensicLedger

1. **Printability matters.** Attorneys print these. Avoid large solid color areas on interior pages (waste ink). Reserve full-bleed backgrounds for cover and back cover only. 2. **Tables are the star.** These guides live or die on their reference tables. Make tables scannable, well-spaced, and easy to read at 100% zoom on screen AND when printed on letter paper. 3. **Checklist pages should be func

Find forensic accountants at forensicledger.com