

Interviewing and Other Investigative Techniques for Accountants

National Society of Accountants for Cooperatives

August 2012

Instructor:
Ron Durkin, CPA/CFF, CFE, CIRA
Partner, CliftonLarsonAllen

Agenda

- Basic Purpose of the Interview
- Seven Investigative Techniques
- Interview Strategy and Planning
- Who is to be Interviewed?
- Order of Interviews
- What is to be covered?
- Interview Tools and Techniques - The Basics
- Interview Plan for Senior Executives
- Interviewing Pitfalls
- Types of Questions

Basic Purpose of the Interview

- Interviewing is an essential investigative technique
- Primary purpose is to gather evidence
- It helps auditors comply with SAS 99/AU 316 requirements
- Identifies other individuals who may need to be interviewed
- Identifies additional areas (fraud angles) that need to be pursued

The Seven Investigative Techniques*

1. Undercover operations
2. Physical and electronic surveillance
3. Use of confidential sources and informants
4. Laboratory analysis
- 5. Interview and interrogation**
6. Database/public records check
7. Analytical procedures

*Source: Derived from Richard A. Nossen's The Seventh Basic Investigative Technique

The Seven Investigative Techniques

5. Interview and Interrogation

- Most frequently used technique
- Auditors required to conduct inquiries (interviews) with management and others pursuant to SAS 99
- Interrogations should only be conducted by properly trained professionals (normally not CPAs! - Need to be objective and interrogations are not done objectively!)
- Good cop - Bad cop?
- Interview contamination (location, time constraints, etc.)
- Repercussions
- Best practices

Interview Strategy and Planning

- Interview strategy should include:
 - Who is to be interviewed?
 - Order in which the interviews are conducted
 - What is to be covered in the interview - Should be broad areas based on the allegations or results of the risk assessment
 - Be sure to determine the who, what, when, where, how and why
- Interview plan should be tied to risk assessment (for proactive work)

Interview Strategy and Planning

- Involvement of Counsel (Reactive Engagements)
 - Depending on facts and circumstances (other than a traditional SAS 99 or AU 316 audit) the **CPA should consider involving counsel** to ensure legal concerns are adequately addressed.
 - The attorney client privilege provides interview protection.
 - **When conducting interviews that are responsive to a particular allegation or suspicion of fraud, it is generally better to work under the direction of counsel.**

Who is to be interviewed?

- Whistleblowers or those making allegations should be first up
 - Establish proper predication
- Peripheral witnesses such as bookkeepers, accounting clerks, loading dock personnel, management personnel (not involved), management personnel who may be involved (order of priority will be mentioned later)
- Remember that each interview can lead you to another person to interview - For example, “Do you know of anyone else in the ____ department who may have information regarding this issue that I can speak with?”

Order of Interviews

- Start with peripheral witnesses (or whistleblowers) first - Lower level employees
- Move up the food chain - Gather more and more information that can be used to interview the CEO, CFO, senior executives, etc.
- Last interview should be the highest level person in the organization

Order of Interviews

- Only exception - If there is a board of directors or audit committee, they should be interviewed early in the process. You want to use their perspective on the organization to assist you in the risk assessment and planning phases. For example, how do they view the risks in the organization? How is their fraud prevention and detection program working?
- Begin with neutral witnesses and move to corroborating witnesses.

What is to be covered?

- Many interviewers may use a template or list of specific questions. This may be ok but don't be wedded to it.
- Remember that the first substantive question (and response) may take you in a completely different direction.
- Background information should be obtained on the interviewees - Job title, how long there, other positions held, job responsibilities, who they report to, etc.

What is to be covered?

- Who else could help provide information on the issues discussed?
- Always leave the door open for them to come back to you with information.

Interview Tools and Techniques - The Basics

- Be well prepared for the interview.
- Remember that an interview is only a discussion and should not be threatening or intimidating.
- Don't call it an interview, inquiry or anything like that when setting it up. Say "Julie, I would like to come by and visit you to discuss some accounting issues. I know how important you are to the company and how little time you have. But, I really need to understand better what you do."

Interview Tools and Techniques - The Basics

- By being aggressive and direct, an interviewer can create hostility where there might have been none.
- First priority is to put the interviewee at ease. Try to develop rapport - Don't intimidate and don't be intimidated.
- The interviewer should remain objective, fair, and act with integrity at all times.

Interview Tools and Techniques - The Basics

- Listening is the key to an effective interview. Remember, you have two ears and one mouth, listen twice as much as you talk.
- Try not to interrupt - Wait for a break and go back to clear up issues that don't make sense
- Try to have someone else present to take notes, but if that doesn't work, do the best you can

Interview Tools and Techniques - The Basics

- Don't ask questions from a prepared list (your template) if you can. The interviewee may view this as being unprepared and they may just get into the routine of you asking a question from the list and he/she answering the question from the list. This takes away from the creativity of the process and is less effective.
- An effective interviewer is both an active listener and active observer.

Interview Tools and Techniques - The Basics

- Be aware of possible interview contamination - This is created by noisy surroundings, fishbowl room (possible intimidating surroundings), “in custody” perception, too rushed for time, etc.
- Be sure to challenge obviously false or misleading answers
- Ask follow-up questions for clarification
- If the interviewee requests confidentiality, consider conducting the interview outside the office (no absolute promise of confidentiality)

Interview Tools and Techniques - The Basics

- Ask if there are other people who may be able to shed some light on the issues
- ALWAYS ask the final question - “Is there anything you would like to tell me or are there areas we should discuss further?” If not, be sure to let them know to contact you later if they think of anything more that would help you better understand the issues that were discussed.

Interview Tools and Techniques - The Basics

- Be very wary of overly cooperative interviewees - They may have an ax to grind, may try to embarrass or discredit someone in management
- Look for obvious body language signs such as crossed arms, hostility, no eye contact, relaxed demeanor, change in complexion, boredom, facing away from you, etc.
- Keep interviewee on track; don't allow them to bring in extraneous information (try to take up time with unimportant information) that has no bearing on the matter.
- Don't become the interviewee; don't let them control you or milk you for information

Interview Plan for Senior Executives

- Do these interviews later in the process - Usually after the essential (preliminary/peripheral) interviews have been completed
- Have a purpose for the interview and be ready to explain why you are taking their valuable time - Ask if it is ok to take “a few notes”
- Have a number of areas to cover; information about them, their background, company background, tone at the top, control environment, any prior incidents, how would fraud be detected here?

Interview Plan for Senior Executives

- Be prepared for hostility and resistance
- Don't be afraid to ask the hard questions, questions about sensitive issues, code of conduct, ethics policies, hotline calls, etc.
- Have there been any fraud related issues in the past?

Interview Plan for Senior Executives

- Does the company have a fraud response plan?
- Have any issues been brought to your attention that would/could give rise to a misstatement of the financial statements?
- Are you aware of any related parties out there that may be doing business with your company?
- Do you have a process for approving vendors that could prevent kickbacks or other unethical behavior?

Interview Plan for Senior Executives

- Are there any individuals within the company who may have serious hardships (financial difficulties, divorce, health issues, gambling, criminal history, alcohol or drug dependency)?
- What fraud would be the easiest to commit against your organization? What could be the hardest to detect?

Interviewing Pitfalls

- Documenting the interview - Memo, template, other?
- What do you do with notes?
- Do you take copious notes, brief notes, no notes?

Interviewing Pitfalls

- What happens in three or more years and your investigation comes under scrutiny?
 - Is your investigation bullet proof?
 - Did you conduct appropriate interviews of key individuals and others?
 - What happens when the interviewee makes statements/comments about areas you discussed that are contradictory to what you recorded? “I told the investigators all about that but they weren’t interested in listening to me!”

Types of Questions

- Informational – designed to be non-confrontational and non-threatening
- Open – encourage a narrative type response
- Closed – avoid during informational part of interview; however can be used extensively during conclusion of interview
- Leading – contain an answer as part of the question and only seek agreement; do not provide actual information

Types of Questions

- Double-negative – are confusing and should be avoided
- Attitude questions – attitude of the interviewer is conveyed by the structure of the question
- Admission seeking – probative questions

Questions?
