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Interviewing as a 'Forensic-type' Procedure

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Audit failures, of which the one involving Enron and Arthur Andersen is only the most notable recent example, have progressively directed the attention of both the public and government regulators to the accounting profession. Accordingly, the chairman of the Securities and Exchange Commission (SEC) instructed the Public Oversight Board to appoint a 'Panel on Audit Effectiveness' to review and evaluate the effectiveness of financial statement audits of publicly-traded companies. The Panel listed as the first of eight major recommendations that "auditors should perform some 'forensic-type' procedures on every audit to enhance the prospects of detecting material financial statement fraud" (O'Malley, 2000). One powerful forensic-type procedure available to those responsible for detecting fraudulent activity is interviewing. Effective interviewing is a function of both a well-prepared interviewer and a well-structured interview. Successful interviewers typically have extensive interviewing experience and are proficient in identifying the verbal and nonverbal cues of deception. Those who have the skills to effectively conduct interviews will be more successful in uncovering fraud than those who do not. The purpose of this paper is to explain and illustrate, through an actual case study, some basic principles of effective interviewing.

INTRODUCTION

In 1996, the Association of Certified Fraud Examiners surveyed 2,608 companies concerning the prevalence of fraud within business today. The survey results indicated that organizations lose about 6% of their revenues or $400 billion annually to occupational fraud and abuse (Wells, 1997). In 1998, KPMG, LLP conducted a survey of 5,000 leading U.S. companies and organizations to determine the nature and extent of fraud as an ongoing business problem. According to the report, businesses lose an average of $116,000 per fraud incident and only 4% of such incidents were discovered during external auditor review. Consequently, the accounting profession is currently under attack for failing to detect fraud during financial statement audits. Audit failures involving companies such as Global Crossing, Baptist Foundation of Arizona, Cendant Corporation, McKesson HBOC, Inc., and Hanover Sterling have further eroded the perceived credibility of financial statement audits. Recently, Arthur Andersen offered $750 million to resolve all claims against the firm over its Enron audits, but attorneys for the plaintiffs rejected the offer as insufficient (Weil and Schroeder, 2002).