While some may consider report writing one of the more mundane aspects of conducting a fraud examination, documenting the case is every bit as important as investigating it. This article looks at how to record the results so end users receive the information they need and, equally essential, the report stands up in court if the case gets that far. Cases are frequently won or lost on the strength of the written record.

Standards for Report Writing
As with any written communication, the process of documenting the details of a fraud investigation begins with an understanding of who is going to read it. Unlike an audit report that is typically read by a company’s board of directors, its shareholders and/or lenders, a fraud report may be shared with company insiders, attorneys, defendants and witnesses, judges, juries and the media.

Therefore a report concerning a fraud examination is an entirely different matter from one for an audit, as it provides details of an alleged crime or tort. The fraud examiner presumes from the outset that many in the legal community will scrutinize whatever he or she writes. Thus, CPAs need to understand there is no such thing as a “confidential” investigative report, no matter how it is titled. Some people learn the hard way that if you put something in writing, you might as well carve it on Mount Rushmore—both are permanent.

Jim, a CPA and colleague of mine when I was with the FBI, was one of the most competent fraud investigators I’d ever met. It seemed that, no matter what the case was about, he could solve it. He was an investigator. Personable, thorough, thoughtful, relentless—he had it all. Well, not quite: When it came to writing it all down on paper, Jim frequently was a failure. He never seemed to grasp that the primary purpose of a fraud report was to communicate the results of a fraud investigation and to document the work actually performed.

Jim’s reports tended to be afterthoughts of his investigation because he didn’t plan from the outset to record what he had done. His communications were full of small mistakes. And rather than relying solely on the facts to document the circumstances,
Jim couldn’t resist putting in his two cents worth.

He often would conduct an entire investigation before writing up the results. By that time his fading memory of the events coupled with his poor report-writing skills took their toll. Jim got chewed up on the witness stand more than once for what he wrote and what he didn’t write. In one instance he didn’t write up his report at all until it became clear that the case was headed for court. Then he backdated the interviews he’d conducted to make it appear that he had typed them up in a timely manner. When he was forced to admit on the witness stand what he had done, this seasoned investigator’s credibility was totally destroyed and he lost the case. Jim could have avoided this problem and others by adhering to the five standards of reporting on fraud set forth in the Fraud Examiners Manual (see “Standards for Writing Fraud Reports,” below).

THE MEMORANDUM OF INTERVIEW
From notes taken at the time of the interview, the investigator should prepare a memorandum setting forth the key information furnished by the witness. By doing so, he or she fulfills the reporting standard of timeliness. (The FBI requires agents to write the memorandum within five days of the interview. That way, opposing counsel can’t claim the interview was unreliable because it was not recorded at the time of the event.)

The memorandum of interview is the heart of the investigative report. A separate memorandum should be prepared for each potential witness. By doing so, the writer safeguards confidentiality and does not subject the entire report to discovery by opposing counsel. If the fraud examiner writes the report as a single narrative consisting of multiple interviews, an attorney likely will be furnished the full document. But if the attorney wants to see an interview that was written as a separate memorandum, he or she probably will be entitled only to that specific one.

Interview memoranda constitute the bulk of the investigative report. Upon completion of the investigation, it is necessary for the examiner only to assemble the notes in order, prepare an index, list of exhibits and a synopsis (see below) in order to complete the paperwork.

Clear and concise language is the hallmark of a good memorandum of interview. Avoid using the third person, that is, “the interviewer” instead of “I.” Also, don’t use stilted or pretentious wording. Some of my FBI colleagues would write, “The interviewer telephonically contacted the witness,” instead of simply saying, “I telephoned the witness.”

In addition to the facts of the case, fraud examiners should include several other items in the memorandum of interview. (See “Preamble to a Memorandum of Interview,” page 77.)

- The witness’s name and contact information.
- The investigator’s identity.
- Evidence provided, such as documents.
- A statement that the interview was voluntary.
- The date of the interview.
- The date the memorandum was prepared.
- How the interview was conducted (for example, in person or by phone).
- If the interview was tape-recorded.

If the purpose of the interview is solely to obtain records or other evidence, that information should be reflected in a memorandum, too (see “Preamble to a Memorandum of Evidence,” page 77).

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### Standards for Writing Fraud Reports

Fraud reports are used as a basis for litigation and prosecution. Accordingly, they should adhere to five standards.

**Accuracy.** The fraud report must be accurate, devoid of mistakes in dates, amounts, spelling or even in recording the most seemingly unimportant facts or details. Carelessness leaves the entire report open to question and criticism.

**Clarity.** Use clear language not subject to various interpretations.

**Impartiality.** Do not add bias or foregone conclusions. Avoid expressing opinions—let the facts speak for themselves and let others interpret them.

**Relevance.** In every investigation the fraud examiner uncovers facts not relevant to the case; he or she should exclude such information.

**Timeliness.** Fraud examiners should prepare reports during the course of the investigation and not long after the fact. An investigator who does not prepare a report on a timely basis runs the risk of omitting or distorting important data.

REPORT STRUCTURE
Once the fraud examiner has solved the case, he or she should prepare the final written report. It typically has four parts, in the following order:

Synopsis. The reader should not have to examine the entire document in order to understand what it is about. Managers and attorneys—especially prosecutors—should be able to quickly read the key elements of the investigation to grasp the issues involved. As in a newspaper article, the first line of the synopsis—which should not exceed 200 words—should frame the story, for example, “John Doe, the CFO of ABC Corp., voluntarily confessed to overstating the company’s income by $4 million on its December 31, 2003, financial statements.” Following that, the synopsis summarizes only the most salient facts.

Index. An index of interview memoranda, exhibits and visual aids follows the synopsis. If the report is less than 10 pages long, an index usually is optional.

Memoranda of interviews. The report writer should list the memoranda in the order in which he or she conducted the interviews. In this way, the reader can easily follow the investigation as it progresses from one witness to the next.

Visual aids. Visual aids help the reader understand the case. They are especially helpful when there are multiple witnesses, events or other complex relationships involved. In addition to financial statement graphs, some of the visual aids commonly used include time flow diagrams (see exhibit 1, page 76) and matrices (see exhibit 2, above).

MISTAKES TO AVOID
Common errors in reports can come back to haunt fraud examiners on the witness stand, where they may have to defend nearly every word. Here are just two of the most typical ones.

Questions. Avoid writing memoranda using the question-and-answer format because reading it is tedious, and the opposing attorney likely will challenge the fraud examiner on why he or she asked a particular question but not another. Examples to steer clear of: Question: “Where do you work?” Answer: “ABC Corp.” and “I asked him where he worked, and he told me he was employed at ABC Corporation.”

It’s best to summarize what the witness said in this way: “He stated that he worked for ABC Corporation.”

Opinions. As CPAs our clients expect us to render an opinion. But in a fraud report, we must avoid them. The facts of a report should stand on their own, without embellishment or commentary. Do not write, “It is my opinion that John Doe committed fraud.” Opposing counsel could have a field day with such language, since your job as a fraud examiner is to gather the information and let someone else draw conclusions. It is your role to be investigator—not judge and jury—and a good presenter of facts. If you are tempted to render conclusions or opinions, it probably is because you didn’t make your report clear enough and you feel the need to help the reader along. If this is the case, revise the content of your report so the reader can easily understand it.

Writing reports is not easy. But they represent a critical element of a good investigation that gives credibility to your work. If your record is standard, you run the risk of ruining...
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THE FRAUD BEAT

an otherwise good investigation, just like Jim did. So by correctly doing the write thing, you are also doing the right thing.

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RESOURCES

Books
- CPA’s Handbook of Fraud and Commercial Crime Prevention (# 056504)
- Financial Reporting Fraud: A Practical Guide to Detection and Internal Control (# 029879)

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- Introduction to Fraud Examination and Criminal Behavior (# 730275)
- Identifying Fraudulent Financial Transactions (# 730244)
- Finding the Truth: Effective Techniques for Interview and Communication (# 730164)

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