

- Identify questionable accounts, account balances, and relationships between accounts, for finding out variances from current expectations and past relationships.
- Gather and preserve evidence corroborating asset losses, fraudulent transactions, and financial misstatements.

1.7 Steps involved in forensic audit.

Forensic audit is an expanded version of investigative audit in search of and in prevention of financial fraud by finding the inadequacies and shortcomings in the existing system and by blocking the loopholes, to prevent the wrongdoers to take any advantage of the inadequacies and loopholes in the system. Forensic Audit starts with an understanding of complete commercial activity and involves the following:

- To evaluate the accounting transactions in the manner they are recorded and should have recorded.
- To investigate the inconsistencies prevalent from the origin till the finalization of transaction.
- Examine the linking of each transaction till its finalization.
- Establishing the inconsistencies, missing links and facts if they have been altered, destroyed, or falsified through investigation to reveal misappropriation and frauds.
- To assist in legal proceedings, to secure documentary, physical and electronic evidence to prove the nature and quantum of fraud and be an expert witness, if need be.

1.8 Distinction between Statutory Audit and Forensic Audit

Statutory Audit	Forensic Audit
1) Objective of statutory audit is Express opinion as to 'true & fair' presentation.	1) Objective of forensic audit is to determine correctness of the accounts or whether any fraud has actually taken place.
2) 'Substantive' and 'compliance' procedures are the techniques used in statutory audit.	2) Techniques like analysis of past trend and substantive or 'in depth' checking of selected transactions are used in forensic audit.
3) Normally all transactions for the particular accounting period.	3) There is no limitation for period of audit Accounts may be examined in detail from the beginning.
4) In statutory audit auditor Relies on the management certificate/ representation of management for Verification of stock, estimation of realizable value of current assets, provisions/ Liability estimation, etc.	4) In forensic audit , auditor carries Independent verification of suspected/ selected items such as stocks, current assets, provisions/ Liability estimation etc.
5) Off balance-sheet items (like contracts etc.) are Used to vouch the arithmetic accuracy & compliance with procedures.	5) Regularity and propriety of Off balance-sheet transactions/contracts are examined.