

FORENSIC AND OTHER SPECIAL CATEGORY AUDITS

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ABSTRACT

Performance and environmental audits focus on specific areas, but forensic audits look for misbehaviour. Forensic auditing is used in business to detect financial crimes and fraud. Sometimes the Regulatory Authority misses schemes. Due to cybercrimes and other frauds, forensic accounting and auditing experts are needed for investigations. This audit might be requested by a government agency, approved by any organisation, or done internally. This blog defines and categorises exceptional audits. Audits may also examine tasks, authorisations, responsibilities, and internal control standards in addition to transgressions. Specific audits may be performed during business restructuring or insolvency..

Keywords: Forensic; Special; Category; Audits

INTRODUCTION

A forensic auditor may examine your records and transactions in great detail to determine whether you suspect fraud, embezzlement, or any other financial irregularities. Its goal is to gather evidence that might be used in court or to help a business understand and prevent fraud in the future. Forensic and other special category audits examine specific financial irregularities or fraud accusations, in contrast to traditional financial audits. While a performance audit or an environmental audit may focus on a specific area, a forensic audit's goal is to uncover evidence of misconduct.

Forensic auditing is a subset of regular auditing that should be performed by a financial auditor or another specialist with investigative skills. The objective is to resolve the matter now pending before the court or other adjudicatory authority. There is no denying that fraud and other white-collar crimes are becoming more common. In order to identify financial crimes and fraud, the concept of forensic auditing first appeared in the corporate sector. Frauds are not usually detected by the Regulatory Authority. Forensic accountants and auditors are becoming more and more necessary to perform the investigative duties related to these domains as the number of cybercrimes and other types of fraud keeps increasing. In addition to completing forensic accounting tasks as required by the applicable legislation, chartered accountants and cost

accountants are primarily involved in financial and cost audits. However, many government agencies, corporations, and private individuals require forensic audits to help with the investigation of financial crimes, frauds, etc..

Types of forensic audits:

- Financial Statement Fraud: This involves intentionally understating debts or inflating revenue on a business's financial statements.
- Asset misappropriation is the theft or misuse of firm assets like money, shares, or property.
- Corruption: Bribery, extortion, conflicts of interest, and other frauds.
- Bankruptcy Fraud: Lying or concealing assets during bankruptcy.
- Securities fraud: This includes misrepresenting a company's securities or manipulating stock prices.
- Tax evasion/fraud: Illegally avoiding taxes.
- Often utilised in court situations, this forensic audit resolves financial disputes.
- Forensic accountants provide expert testimony and financial evidence in court.
- Computer forensics investigates digital data for fraud and misconduct.
- To evaluate economic damages in various legal actions, forensic audits might be used.
- To determine a company's fair value in a merger, acquisition, or other transaction, forensic audits might be used..

The following clauses were boldly included into the Companies Act of 2013::

1. 1. Section 210: Examining the company's operations;
2. 2. Section 211: Serious Fraud Investigation Office (SFIO) Establishment
3. 3. Section 212: SFIO to look into the company's operations;
4. 4. Section 213: Examining the Company's operations in other situations;

The Ministry of Corporate Affairs launched the revolutionary Serious Fraud Investigation Office (SFIO) to recognise the value and development of forensic auditing in India and globally. While forensic auditors are subject to a variety of rules, forensic accountants are not. This is really

important to keep in mind. Combating and preventing fraud and scams is a focus of the Companies Act of 2013..

Notable provisions of the Companies Act, 2013 include the following::

- i. Under the Companies Act, 2013's Section 245 (1) (g), a group of members, depositors, or all of the above can file a lawsuit against the company, its directors, auditors (including the audit firm), experts, advisors, consultants, or any other individual for any loss incurred as a result of deceit, fraud, mismanagement, or unlawful activities.
- ii. According to Section 149 (12) of the Companies Act, 2013, an independent director can only be held responsible for company actions that happened while he was aware of them, due to Board processes, with his permission or collaboration, or when he failed to act diligently..

Reasons to perform a forensic audit:

The reasons behind doing a forensic audit may be categorised into three main areas: (i) Fraud (ii) Misappropriation (iii) Corruption

Corruption: There are several types of corruption, such as bribery, extortion, and conflicts of interest. Bribery is when one party gives money to another in return for favours or business transactions; extortion is when one party demands money from another; and conflict of interest is when one party uses their position to further their own interests at the expense of the organisation..

Fraud: Definitions provided by the Oxford English Dictionary describe fraud as a criminal deceit, an unsavoury artifice or trick, the inability of a person or thing to meet expectations or claims, or the use of misleading information to gain an unfair advantage. Deceiving another person into believing anything that is not true is called fraud. Taking advantage of another person's mistakes to improve one's own position is unethical and dishonest. Any of the following acts done by a contracting party, with that party's approval or by that party's agent, with the intent to deceive that party or his agent, or to induce that party to engage into a contract, are deemed as "fraud" under Section 17 of the Indian Contract Act, 1872: 1. An untruth that someone who doesn't believe it to be true suggests it; 2. A truth that someone who knows or believes it to be true conceals; 3. A promise that isn't going to be kept; 4. Any other action that could be used to deceive; and 5. Any action or failure to act that the law explicitly declares as fraudulent..’’

Misrepresentation: False statements, deceptive statements, inaccurate assertions, deliberate misrepresentations, misstatements of facts, and untruthful statements are all examples of what is meant when someone makes an act or statement to another that does not match the facts. According to the Indian Contract Act of 1872, Section 18, the following conduct is deemed as

"misrepresentation": i. A statement that is not backed by facts, even though the person making it believes it to be true; ii. Breaking a duty in a way that benefits the person making the claim or someone claiming on their behalf by misleading another to their detriment; iii. Unintentionally leading one party to an agreement to misunderstand the substance of the thing that is being discussed in the agreement and its implications."

OBJECTIVES OF THE STUDY

1. To study on types of forensic audits
2. To study on Forensic and special category audits challenges with evolving nature of fraud

The Importance of Forensic Examination

- More than just a calculator, a court accountant deals with both criminal and civil cases. They have a wide range of skills. They should be fluent in English, proficient in using a variety of computer programs, and capable of independent research. There are court accountants who focus in banking and insurance, two sectors that are particularly vulnerable to fraud, and who are well-versed in the ins and outs of those businesses.
- Civil proceedings, professional audits, investigations into terrorism, tax and white-collar crimes, mergers and acquisitions, and the vast majority of big accounting firms employ court accountants. Public, government, and corporate accounting are just a few of the many fields in which court accountants work.
- Establish a causal relationship between the application of accounting concepts and methods and wrongdoing. Evaluations of resources, casualties, and damage, among other quantitative studies, are relied upon by prosecutors.
- Forensic accounting is necessary for many different types of activities, including: stock exchange limitations, value-changing strategies, item risk, shareholder claims, and contract breaches. It is common practice to request proof of a master's degree from court accountants, court examiners, or investigative experts when they appear in court.
- A court accountant will investigate allegations of fraud inside a company. They will have expertise in surveying, bookkeeping, law, and financial reporting. Or a company employee who does their best to avoid being dishonest. Accounting, general counsel, antitrust law, litigation, investigation, and valuation are some of the additional areas in which we provide assistance. The job and public reports of court accountants often deal with the who, what, where, and why issues, even if they seldom provide evaluations. FA has been, and will continue to be, innovative in its approach to helping users distinguish between out-of-the-

ordinary points. Court accountants have all participated in psychological warfare through separation, protection claims, damages claims, sham processes, development, sovereignty checks, and scrutiny of financial records. On many occasions, court accountants play a crucial observing role during audits, working closely with legal scholars and solicitors.

- Forensic accounting is a hybrid discipline that draws from both accounting and forensic science. Forensic accountants are needed because the organization's assessment process failed to spot certain flaws in the management structure. By thoroughly analysing, questioning, and researching both general and criminal problems, forensic accountants are able to produce a report that is both fair and accurate. Financial fraud and bureaucracy investigations rely on court accounting in the same way as laboratory reports and court inspections help solve murder and Dakoit cases. Whatever the case may be, forensic accounting covers a lot of ground, and the deceit it engages in is just one part of the bigger picture..

Different Types of Audits Employed by Businesses:-

Companies seldom comply with all procedures.

A Tax or Legal agency prescribes many audit kinds. Which clause is mandatory dependent on the firm..

The forensic audit regulatory environment

A. IBC : With the implementation of the IBC and the CIRP procedure, the Resolution Professional (RP) gained the authority and discretion to request an audit of a transaction of a forensic nature, as he saw fit. The International Business Code (IBC) makes no mention of forensic auditing, although it does allow for the audit and scrutiny of certain types of transactions depending on whether they include linked or unconnected parties. Furthermore, the RP is free to choose the circumstances that warrant a transaction audit. Apart from that, the adjudicating body has the power to set aside a transaction if they find it to be advantageous. Fraudulent, extortionate, or undervalued transactions aimed at defrauding creditors are examples of such transactions. The entity's liquidator or RP may apply to the adjudicating body for this to happen..

B. RBI : In RBI/2015-16/75 DBS.CO, the forensic audit also mentions dishonest borrowers who committed fraud..

C. SEBI : The Securities and Exchange Board of India (SEBI) has begun reviewing listed businesses. Among these are: Section I: The beginning of a forensic audit (or whatever it's called) and the identity of the entity initiating it, together with the reasons for its launch; Section II: The

beginning of a forensic audit (or whatever it's called), the identity of the entity initiating it, and the reasons for its launch. ii) Received the final forensic audit report (excluding reports required by regulatory agencies) and management comments by the listed business.

D. SFIO : Under Section 212 of the Companies Act 2013, the SFIO can examine the corporation if permitted by the Central Government. When it comes to other cases, such as Winsome Group, SFIO has sent in forensic auditors and assembled teams of experts from accounting, law, and forensics to look for signs of fraud. Even though forensic auditing is still in its infancy, it should be promoted and based on thresholds so that entities are automatically audited when such criteria are passed. Possible cutoffs include asset size, PBT, or turnover..

Special audit

Special audits focus on one component of an organization's operations. This audit may be ordered by a government agency, any corporation, or even an organisation. We define and describe particular audits in this blog..

Need for special audit

When an organization's financial management or administration appears illegal, a special audit is needed. It helps determine violation breadth and reasons. Audits may also examine duties, permissions, responsibilities, and internal control methods in addition to transgressions. Additional audits may be required during firm restructuring or insolvency..

Types of special audit

Typically, a special audit is carried out to verify certain facts or achieve a certain objective. The sort of special audit would determine whether audit procedures are pertinent to a particular assignment or circumstance. Every kind of audit has a certain function. Here are a few instances.:

1. A compensation audit may be used to assess the efficacy, competitiveness, and legal compliance of a company's stock option, bonus, incentive, and pay programs on an annual basis.
2. Audit for compliance An organization's adherence to certain rules and regulations or contract terms is what a compliance audit is all about. Companies may be subject to compliance audits by regulatory agencies to check if they are following the terms of their business licence. The main objective of a compliance audit is to determine how well an organisation follows all applicable rules, regulations, policies, and guidelines. An audit that checks for compliance with the Companies Act is called a secretarial audit in Indian law.

3. Lastly, an examination of the construction site: A construction audit looks at all the money that went into a certain project, as the name says. Its primary function is to keep tabs on various construction expenditures, including, but not limited to, payments to vendors and contractors. It is possible to verify the legality of construction expenses by comparing the recorded costs with the actual papers.
4. Internal audit: Using an internal audit, one may evaluate the execution of a process or the organization's performance in relation to predetermined criteria. These audits may look at the company's controls in the areas of general controls over information technology, accounting, financial reporting, and corporate governance.
5. Cost audit: It is well-known that an audit involves checking and verifying information. Applying this principle to spending data makes audits a more targeted and specialised operation. It is defined as a cost audit. A cost audit is an examination of the financial records relating to the production of a product, including the expenditures on labour, materials, overhead, and any other relevant expenses. As a result, it establishes whether or not the cost accounting system is a solid basis for estimating production costs.
6. An audit for fraud: This process checks the financial accounts for signs of fraud in certain areas. Several methods exist for perpetrating fraud, including forging journal entries to conceal wrongdoing, misusing assets, and tampering with financial documents. Consequently, if the company finds out that authorities or management are involved in fraud, it could perform a targeted audit to investigate the matter. Any area of the financial system that could be affected is audited for potential fraud. For example, in the event that a cashier absconds with funds, a fraud audit will be conducted to ascertain the exact amount of money that was taken, to investigate the cashier's previous work, to review their records in detail, etc.
7. Auditing the information systems: An audit of the information systems is essential for ensuring that the systems are running well and free of errors. If you want to know how good the general controls are for software development, this audit is for you. Additionally, an information systems audit is carried out to assess various controls, including data processing, software applications, IT infrastructure, access to information systems, and more.
8. A royalty audit determines if the party using a patent, license, or franchise is paying the right amount of fees to the party owning the intellectual property.
9. Income Tax Audit A taxpayer's books of accounts are verified by a tax audit. The primary goals of a tax audit are to confirm the accuracy of the taxpayer's income tax calculation on

the return and to check for compliance with relevant income tax regulations. The books of accounts must be audited by a trained chartered accountant.

- 10. GST audit:** The Assistant Commissioner of CGST/SGST may initiate a Special Audit in compliance with Indian indirect tax rules, considering the nature and complexity of the case and the interest of revenue, as per the GST [Section 66 of the CGST Act 2017]. In the event that the Assistant Commissioner suspects that the input tax credit has been claimed wrongly or that the registered person has declared an inaccurate amount of the taxable supply, a special audit may be undertaken at any stage during the inspection, inquiry, or investigation..

Features of Experiential Reviews:

Unlike general audits, which look at the entire organisation, special audits focus on a specific area or procedure.

While most audits are conducted internally, government agencies and other outside parties may request external audits for certain reasons.

A particular occurrence or worry, such a suspicion of fraud or the necessity to examine a certain procedure, is usually what sets them off..

Forensic and special category audits difficulty in light of the changing nature of fraud

Forensic and special category audits encounter challenges such as the ever-evolving character of fraud, complex financial data, a lack of knowledge about the many types of fraud, and legal and regulatory hurdles. Particularly in cloud systems, these audits confront difficulties with data accessibility and protection, in addition to necessitating specialised expertise and tools. Furthermore, fraudsters' resistance and the limitations of forensic audits as supporting material might undermine their effectiveness..

1. **The Evolving Character of Fraud:** It might be difficult to stay abreast of evolving fraud methods and develop effective detection and prevention strategies.
2. **Financial Data That is Difficult to examine and Understand** Forensic auditors sometimes require specialist training and tools to examine and understand data sets that are both huge and complex.
3. **Knowledge Gap:** Forensic audits might not cover all the bases if we don't know enough about what fraud looks like and when relevant reviews should be conducted.

4. Challenges from Law and Regulation: Sometimes, the rules and regulations in place don't fully cover the needs of forensic audits or even allow for the implementation of recommendations.
5. Fifthly, gaining access to and preserving data may be challenging and requires certain knowledge and tools, especially in digital and cloud environments.
6. Opposition from Suspects: In an attempt to conceal evidence or obstruct the investigation, fraudsters may resist forensic audits.
7. Corroborative Evidence: Forensic audits often provide corroborative evidence rather than definite proof in court, which means that more study and evidence collecting are usually required.
8. The effectiveness of forensic audits might be jeopardised in the absence of robust whistleblower systems, which are crucial for exposing instances of fraud and wrongdoing.
9. Skill Sets and specialist Tools: Forensic audits need a wide range of specialist skills and tools, including data analytics, digital forensics, and forensic accounting.
10. Restrictive Scope: When investigating potential fraudulent transactions, forensic audits may only look at a certain time period, leaving out larger or earlier fraud tendencies.

CONCLUSION

Forensic auditing is among the most specialist kind of auditing. Members of the team must be highly competent in accounting and auditing as well as in a wide range of related fields, such as the relevant legal framework, fraud audits, investigative methods, evidence collection, and document analysis. Organisational compliance, openness, and accountability are substantially enhanced by forensic and other specialised audits. Forensic audits are tailored to investigate and reveal financial irregularities, wrongdoing, or fraud, sometimes with legal consequences; in contrast, other specialised audits including environmental, social, tax, and information technology audits concentrate on specific operational and regulatory domains. In addition to revealing inefficiencies and dangers, these audits allow for better decision-making and governance. As businesses face more scrutiny and increasingly complex concerns, these expert audits are essential tools for ensuring honesty, sustainability, and long-term success.

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