



A Study on the Suitability of Forensic Accounting in Uncovering Bank Frauds in India

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ABSTRACT

This study explores the suitability of forensic accounting in uncovering bank frauds in India, a country where financial fraud has become a growing concern for the banking sector. Bank frauds, including loan frauds, cybercrimes, embezzlement, cheque frauds, and money laundering, are posing significant risks to the stability of financial institutions. Forensic accounting, which integrates accounting, auditing, and investigative techniques, plays a vital role in detecting, investigating, and preventing these fraudulent activities. This research evaluates the effectiveness of forensic accounting in identifying fraud, investigates its application in real-life scenarios, and examines the challenges faced by Indian banks in implementing forensic accounting practices.

Keywords: Fraud, Forensic Accounting, Banking System, India

1. INTRODUCTION

An efficient, transparent and unbiased financial system is crucial for the steady growth of the economy. Instead of taking the economy to new heights, banks are found to be a part of perpetrators in frauds that lead to economic and financial failure. Bank failures not only put depositor's money at stake but also deprive the financial system of liquidity. In recent time India has witnessed various banking scams that has put the financial system in a scary situation. Illegal affairs at Punjab National Bank, Yes Bank, ICICI Bank, Punjab and Maharashtra Cooperative Bank and Dewan Housing Finance Company (DHFL) are just few of the examples that has created turmoil across the whole financial system. These scams has brought scrutiny towards the capability of auditors and accountants in uncovering biased books and doubtful financials of certain banks and financial institutions. This is the reason to implement forensic accounting in preventing, detecting and investigating such kind of fraud-related activities. Bank frauds have become a significant concern in India, with an increase in cases involving financial mismanagement, embezzlement, and fraudulent activities. Forensic accounting, a specialized field that combines accounting, auditing, and investigative techniques, has proven to be an effective tool in uncovering fraudulent activities. A forensic accountant is the one who makes use of all the accounting, auditing and investigative skills which will be used during court proceedings by way of public forums, argument

and in resolving conflicts (Zysman, 2001).

2. OBJECTIVES OF THE STUDY

1. To understand the relevance of Forensic Accounting in detecting Bank Frauds in India
2. To assess the challenges and limitations of applying Forensic Accounting Techniques in the Indian Banking System

3. RESEARCH METHODOLOGY

The research paper uses a descriptive and analytical research design. The information is summarised from various secondary sources such as blogs, newspaper, journal, etc.

4. FORENSIC ACCOUNTING- CONCEPTUAL FRAMEWORK

Forensic accounting is that branch of accountancy by which accountants can investigate accounting cases and also provide experts advice with legal evidences on fraud cases (Nicolae & Diana, 2017). Heitger and Heitger (2008) explained forensic accounting as the application of forensic skills to collect and analyse data in accounting and financial cases, interpreting, and communicating the results. For the current study, forensic accounting is defined as a process in which the accountants, internal auditors, or fraud examiners apply their forensic knowledge, capabilities and experience to uncover frauds and provide the findings to those who are interested with relevant interpretation. In the time of new age frauds and scandals, regulatory authorities have started considering latest tools and techniques to fight such frauds. Example of one such tool is called forensic accounting. It can be said that a forensic accountant is just like a blood hound of bookkeeping that can smell fraudulent acts in financial records just by looking beyond the financial numbers with evidences. This expert advice can be presented in a court using it as expert evidence. It can be said that forensic accounting is very closely connected to the legal process and has the capability to be involved in proceedings of the civil and criminal courts. Detection and prevention of fraud was the sub part of the conventional accounting function as of now but the idea of curbing fraud was not efficiently practiced as auditors were

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only concerned with cross checking the compliance of auditing standard and generally accepted accounting principles (GAAP)

etc. and hence could not perform the task of preventing and finding out fraudulent practices present in the organisation.

5. REVIEW OF LITERATURE

The comprehensive analysis of the key works of the literature survey has been presented in the tabular form as given below:

S. No.	Title of Paper	Journal Name	Author Name	Year	Findings
1	Evaluating the perceived usefulness and fairness of forensic accounting and investigation standards	Journal of Financial Regulation and Compliance	Abinash Mandal, Amilan S.	2020	The respondents consisted of 118 accounting professionals whose online survey responses were collected and analysed descriptively
2	A systematic review on forensic accounting and its contribution towards fraud detection and prevention	<i>Journal of Financial Regulation and Compliance</i>	Kaur, B., Sood, K., & Grima, S.	2023	This paper found out that to uncover fraud at an early stage, we must increase consumer knowledge of basic forensic accounting techniques by installing accurate supply chain monitoring systems, inventory management and conducting efficient and effective regulatory, honest inspections.
3	Forensic accounting in India: an exploration of education, practice, and career opportunities	Sachetas	Dave, N., & Patel, D.	2023	<i>Mostly all the accountants in India lack the expertise and knowledge required to conduct fraud detection in a smooth manner. Forensic Accounting education is crucial in India as it ensures that accountants can provide reliable testimony in court and during criminal investigations.</i>
4	Forensic accounting in India (future prospects for its application)	International Journal of Recent Research in Commerce Economics and Management	N Chaturvedi	2015	According to the researcher's survey the maximum fraud had happened due to information theft, corruption & Bribery. Forensic accounting is very beneficial these days to control quantification of financial losses.
5	Forensic accounting concept in India	International Journal of Trade and Commerce-IIARTC	Singh, P.	2012	The researcher has concluded while quoting that forensic accounting is in immense demand in present time, with the public call for honesty, transparency and trust in financial reporting which is growing rapidly.
6	The effectiveness of forensic accounting in detecting, investigating, and preventing frauds in India	Online International Interdisciplinary Research Journal	Malusare, L. B.	2013	The researcher studied the effectiveness of forensic accounting in prevention, detection and investigation of financial frauds. The paper found out that the forensic auditors are qualified enough to perform their duties well.
7	An Overview of Forensic Accounting In India.	Emerging Issues In Commerce	Shreedha	2018	The researcher has found out that the forensic accounting is at developing stage in India. Forensic accounting is an essential tool for uncovering financial crime and in the direction of justice, providing crucial information about

S. No.	Title of Paper	Journal Name	Author Name	Year	Findings
					the facts found out related to financial crimes.
8	Suitability of forensic accounting in uncovering bank frauds in India: an opinion survey	Journal of Financial Crime	Mayank Gangwani	2020	The researcher has found that insiders who are working in the bank team up with outsiders in committing fraudulent activities that has resulted in bank failures. He has also concluded that both forensic accountant and traditional accountant are different from each other and also adoption of forensic accounting in India will help regulatory authorities in doing their job more efficiently and effectively.
9	Role of Forensic Accounting in combating the scams of Banking Sector in India	BIMS International Research Journal of Management and Commerce (Journal for Humanities & Science)	Roopa M. Nalawade	2019	The ever increasing number of frauds and the limitations of the authorities to combat the frauds have highlighted the importance of Forensic Accounting these days. Forensic accounting is a crucial tool to detect, investigate and prevent the fraudulent activities. In order to cover up and prevent financial frauds and white collar crimes forensic accounting is using various latest tools.

6. FINDINGS AND CONCLUSION

Role of Forensic Accounting in Uncovering Fraud

Forensic accounting plays a crucial role in detecting, investigating, and preventing fraud. It involves:

- **Investigative Techniques:** Forensic accountants use advanced techniques to trace and investigate suspicious transactions, often going beyond traditional accounting practices.
- **Data Analysis:** Forensic accountants analyze financial records and transaction data to identify discrepancies, unusual patterns, and hidden fraudulent activities.
- **Evidence Gathering:** The process includes collecting and preserving evidence that can be used in court, such as emails, documents, and transaction records.
- **Expert Testimony:** Forensic accountants often serve as expert witnesses in legal proceedings, presenting findings in a manner that is understandable and credible to the court.

Effectiveness of Forensic Accounting in India

Forensic accounting has gained significant attention in India, especially after the exposure of several high-profile financial scandals. Its effectiveness is seen in:

- **Early Detection:** Forensic accountants can detect fraudulent activities early, often preventing further financial damage.
- **Identification of Perpetrators:** Through detailed analysis,

forensic accountants can identify the individuals involved, whether they are bank employees, customers, or external parties.

- **Restoring Trust:** By uncovering fraud and ensuring accountability, forensic accounting helps restore trust in the banking system.

Challenges in Applying Forensic Accounting in India

Despite its potential, the implementation of forensic accounting in India faces several challenges:

1. **Lack of Expertise:** The demand for qualified forensic accountants in India is growing, but there is still a shortage of trained professionals in this field.
2. **Complexity of Fraud:** The increasing sophistication of financial frauds, such as cybercrimes and complex loan manipulations, makes it challenging to detect frauds using traditional methods.
3. **Legal and Regulatory Barriers:** Although forensic accounting is recognized, there is a lack of a comprehensive legal framework to support its application in India. This can lead to difficulties in obtaining necessary evidence and securing convictions.
4. **Technological Barriers:** Fraud detection often requires advanced technological tools for data analysis and cybersecurity, which some Indian banks may lack the resources to implement.

7. CONCLUSION

Forensic accounting has proven to be an essential tool for

detecting and investigating bank frauds in India. While it offers significant potential to uncover fraudulent activities, its effectiveness is constrained by challenges related to expertise, complexity, and the legal framework. By addressing these issues through training, legal reforms, and better technological integration, forensic accounting can become a more effective means of safeguarding the banking sector in India.

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