

# Forensic Accounting – A Tool for Encountering Bank Frauds (An Opinion Survey)

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## ABSTRACT

A country's development directly depends on the economic health of that country. It is not exaggerated to say that the economic progression of a nation is vital to keep the nation rolling on its wheels. An efficient and strong banking system is the backbone of the country's economy. But, in recent years Indian economy experienced various bank frauds and scams that pulled the economic system into the stake. But the failures in the Indian banking system pushed the economy at stake and adversely affected investors' investment behavior. This led to financial distress and funds were divorced and improperly drain off many banks collapsed. As per the recent records, a total of 9,103 fraud cases in banks were recorded during the financial year 2021-22. Therefore, the present study aims to study the appropriateness of forensic accounting in mitigating financial fraud in banks.

**Key Words:** Economic progression, Banking system, Forensic Accounting, Financial frauds, Financial crimes, white-collar crimes, detection and prevention of frauds.

## INTRODUCTION

Forensic accounting is an emerging tool for detecting and preventing financial fraud and provides justice by providing crucial information related to financial crime. Most organizations like banks, insurance companies, and police have well recognized the importance of this forensic accounting and started taking help for their investigations. The increasing rate of white-collar crimes and difficulties faced by investigation agencies in detecting frauds has also been the reason for the emerging and increasing importance of forensic accounting.

According to the Journal of Forensic Accounting, "Forensic accounting is sufficiently thorough and complete so that an accountant, in his/ her considered independent professional judgment, can deliver a finding as to accounts, inventories, or the presentation thereof that is of such quality

that it would be sustainable in some adversarial legal proceeding, or within some judicial or administrative review". (*Fraud, the unmanaged Risk*. Earnest and Young 2003). It is a specific area of accounting which investigates fraud and analyze financial information which can be utilized in legal trials. Forensic accounting is a judicious mix of accounting, auditing, and investigative skills to perform investigations of financial fraud. It is helpful for legal action and analytical accounting.

**Bank Frauds in India:** "A bank fraud means and includes any of the following acts committed by any person with the connivance or by his agent including a banker with an intention to cheat or actually cheat or conceal or falsify or forge documents, accounts or indulge in misappropriation which results in wrongful gains to any person with or without monetary loss in the course of banking transactions" (Mohan, 2002). Due to advancements in technology, now, frauds relating to digital payments are also taking place. The RBI categorized these digital payment frauds into 10 types. They include phishing, hacking, pharming, smishing, vishing frauds, frauds using online sales platforms, frauds due to unverified mobile phones, frauds using screen sharing apps, ATM card skimming, SIM swaps/cloning, frauds by compromising credentials on results through search engines, fraud through QR code scan and impersonation on social media (The Times

of India, 2022). Technological advancement is increasing the number of banking transactions on one side and on other, number of fraudulent cases also increasing. The following table presents the banking frauds during the last five years.

<b>Table No.1 Number of Bank Frauds in India</b>				
	<b>No. of Cases</b>		<b>Amount Involved (Rs. in Crores)</b>	
<b>Year</b>	<b>No.</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
2017-18	5916	15.62	41167	8.28
2018-19	6798	17.94	71534	14.39
2019-20	8703	22.97	185468	37.32
2020-21	7363	19.44	138422	27.85
2021-22	9103	24.03	60414	12.16
<b>Total</b>	<b>37883</b>	<b>100.00</b>	<b>497005</b>	<b>100.00</b>
<b>CAGR</b>	<b>9%</b>		<b>8%</b>	
<b>Source:</b>	1. <a href="https://factly.in/data-amount-involved-in-reported-cases-of-bank-fraud-increase-over-three-fold-in-four-years/">https://factly.in/data-amount-involved-in-reported-cases-of-bank-fraud-increase-over-three-fold-in-four-years/</a> 2. <a href="https://www.theweek.in/news/biz-tech/2022/05/27/rbi-annual-report-bank-frauds-on-the-rise-but-total-value-involved-halved.html">https://www.theweek.in/news/biz-tech/2022/05/27/rbi-annual-report-bank-frauds-on-the-rise-but-total-value-involved-halved.html</a>			

Table-1 depicts the details of the number of bank frauds and the amount involved in the frauds in India during the five years period of 2017-18 to 2021-22. An average of nine per cent and eight per cent growth rate was recorded in respect of number of frauds cases and amount involved in frauds during the study period. Out of 37, 883 fraud cases the highest number of frauds cases 9, 103 cases representing 24.03 per cent has recorded in the year 2021-22. But interestingly, in the same year, amount involved in frauds decreased by nearly 50% as compared to the previous year. The number of bank frauds and amount involved in the frauds increased during the first three years and decreased in the last two years.

## REVIEW OF LITERATURE

Detection and prevention of bank frauds and scams, which shows an adverse effect on the economy of the country, are the most important concern before the authorities. Financial institutions are needed to maintain honesty, fairness, and transparency in their operations. For this, there is a great demand for forensic accountants who need accounting, finance, law, investigative, and research skills to identify, interpret, communicate, and prevent fraud. However, as the incidence of white-collar crime (fraud, bribery, corruption, money laundering, etc.) continues to increase, demand for the services of forensic accountants looks set to grow (Yadav, 2013). Forensic accounting is an effective tool to prevent bank fraud and scams. In India, it is an emerging stage and needs high support on a continuous basis (Sukamal Basu, 2014). Forensic accounting is very useful in dealing with financial issues and plays a vital role in detecting finance-related crimes. Forensic accounting ensures the trustworthiness of the financial statement of a company (Chaturvedi, 2015). Forensic accounting helps government and non-government agencies in keeping crime checked (Supriya, 2019). In reality, every organization, in any manner, not only banks, may experience some extent of the fraud. So it is required for every organization to assess fraud and encounter it by fulfilling the regulatory norms. A change in the regulations from time to time, which leads to the enhanced cost of compliance, necessitates high attention from the management side. Forensic accounting addresses all these needs (Dr.Sukhamaya Swain and Dr.Lalata K Rani, 2016). Legal and ethical ways are only the way to arrest the growth of white-collar crimes at the budding level. Forensic accounting has the prospects in the

coming days to detent the increasing levels of fraud and scandals (Essaikimuthu Madaswamy Konar).

Forensic accountants should extend their assistance to police, ACB, CBI, and other investigating authorities in the collection of needed evidence to prove the frauds and scams. FAs should carefully examine the financial statements and skillfully verify and search out the fraud in books of accounts as per the provisions of the Criminal Procedure Code, Indian Penal Code, Companies Act, Income Tax Acts, etc. Forensic accountants also ensure that all fixed assets are purchased/ disposed of as per the CARO (Companies Auditor's Report Order – 2003) norms. In order to carry out the duties, the Forensic accountants have to draw a corollary and reference to the section 293 Companies Act, 1956, AS 24 (Discontinuing Operations) and to AAS 16 (Going Concern) and thereafter make his observations on this matter (Ritka Bajaj Waghray, 2018) Forensic accountant should have a mix of multi-skills of knowledge in respect of accounting, auditing, finance, law, computer, company affairs, and investigative skills. Forensic accountant uses financial information to investigate unfair operations in banks and prevent them to protect public money. It is also required to present suitable evidence to the court for legal proceedings if any. Due to globalization, modern business firms are facing a variety of challenges and risks that lead to optimize their global investment projects which are needed thorough inspection and analysis. Forensic Accounting is the ultimate tool for all these modern and complex issues (Dr. Nabil Ahmed Mareai Senan and M. M.Swalih, 2019). In India, banking institutions are facing a large number of NPA accounts. It is very high in public sector banks as compared to private sector banks. This shows a negative impact on the performance of banks as well as the nation's economy. In this connection, the importance of forensic accounting is increasing in reducing NPAs (Kalikant Mishra, 2020). Once reasons and roots for fraud by fraudsters are identified in time, it is the duty to take appropriate measures to prevent them. In a Nepal study, a large number of bank managers agreed that employee dissatisfaction is the major reason for fraud in banks. Employee collusion with customers and vendors, usage of poor information technology, and poor database management were the other important reasons for fraud in Nepal banks (Acharya, 2021). Digitalization threw more banks into fraudulent shocks because of digital crimes like hacking, phishing, siphoning, etc., which adversely affects the image of in the industry and customers of the bank and results in massive NPAs (Mayank Gangwani, 2020).

## Research GAP

Prior to this study, many academicians, researchers, and practitioners analyzed forensic accounting and its applicability to combat fraud in the economy. But, recently, no study has taken place, extensively, taking the opinions of professional experts on the suitability of forensic accounting in the detection and prevention of bank fraud. Hence this study is undertaken.

## Objectives of the Study

The following are the objectives of the present study.

- **Primary Objectives:**

1. To find out the reasons for fraud in banking institutions and
2. To evaluate the applicability of forensic accounting in encountering bank frauds.

- **Secondary Objective:**

1. To find out the necessity of including forensic accounting as a subject in academic curriculum for students and
2. To make proper suggestions to reduce fraud in banking institutions.

## METHODOLOGY

This paper is developed based on the study carried, out in 2020, by the researcher Mayank Gagwani, Indian Institute of Technology Delhi. He collected the needed data from respondents and analyzed them. Based on the above study, it is tried to collect the opinions of professional experts (Faculty who teach finance subjects, Chartered Accountants, Cost, and Management Accountants, Managers of different organizations, research scholars, and police officials) only.

The present study is based on primary and secondary data. Secondary data has been collected from books, magazines, and journals. The needed data was also collected through websites. Primary data has been collected through the structured questionnaire in the Google Form. The prepared Google Form is shared in the above said people's group through WhatsApp and E-mail. Multiple-choice questions are framed for the collection of the data. The non-probability sampling method is applied for this purpose. So, collected data has been analyzed with help of statistical tools like tables, percentiles charts, and graphs are applied. To evaluate the data descriptive statistics are applied.

## ANALYSIS AND DISCUSSION

Based on the collected opinions in the survey, data has been analyzed with help of tables, and percentages for explanation and to reach findings. The explanation for collected data has been presented in the following lines.

<b>Qualification</b>	<b>No. of Respondents</b>	<b>%</b>
Graduation	3	1.61
Post-Graduation	79	42.47
Professional Study	81	43.55
PhD	21	11.29
Others	2	1.08
<b>Total</b>	<b>186</b>	<b>100.00</b>

*Source:* Primary Data

Table-2 presents the details about the educational qualification of respondents. Education is the most important metric to answer the questions in the questionnaire. For this purpose, the Google form was sent to only select academic background people who have accounting knowledge like post-graduation, Graduation, and professional studies like CA, CMA, and MBA. A total of 186 respondents responded, 43.55 percent and 42.47 percent of respondents representing 81 and 79 in number were professional studies and post-graduation background respectively. 11.29 percent of the total respondents were Ph.D. backgrounds. Interestingly, an ignorable number i.e., two, one who had 12<sup>th</sup> class and one diploma in radiology also responded. It raises the question that whether they were aware of forensic accounting or not. The opinions of these two people are ignored on the ground of doubt.

<b>Profession</b>	<b>No. of Respondents</b>	<b>%</b>
Faculty	120	65.22
Chartered Accountants	27	14.67
Cost & Management Accountants	10	5.43

Managers	21	11.41
Govt. Services	4	2.17
Others (Police Officers)	2	1.1
<b>Total</b>	<b>184</b>	<b>100</b>
<i>Source:</i> Primary Data		

The professional background of respondents was depicted in the table-3. The highest number of respondents 120 representing 65.22 percent of the total was from the teaching fraternity. 27 in number representing 14.67 percent of the total, 21 in number representing 11.41 percent, and 10 in number representing 5.43 percent belonged to Chartered Accountants, managerial people, and Cost and Management Accountants respectively. Four respondents belonged to Government services and the remaining two are police officials. Government servants and police officials are also involved in the investigation of fraud and corruption. So, their opinions are also considered for this study.

Reason	No. of Respondents	%	Mean	SD	CV	Ranks
Poor governance/administration,	123	20.99	2.68	0.233	0.087	2
Poor monitoring,	104	17.75	2.67	0.343	0.128	4
Immoral behavior,	80	13.65	2.34	0.652	0.290	6
Political interferences,	108	18.43	2.84	0.198	0.070	1
Technological backwardness,	82	13.99	2.53	0.269	0.110	3
Pressures on bank officials to meet targets	89	15.19	2.36	0.546	0.231	5
<b>Total</b>	<b>586</b>	<b>100.00</b>				
<i>Source:</i> Primary Data (SPSS calculation)						

Opinions of respondents in respect of reasons for bank fraud are presented in the table-4. The highest number of respondents opined that poor governance/poor administration by bank officials is the main reason for bank fraud. But mean, standard deviation, and coefficient of variance of the data are considered the most possible reason for bank fraud political interference and poor governance/administration, and technological backwardness are the second and third most possible reasons for fraud in banks respectively. As per CV is concerned, poor monitoring system by bank officials, pressures on bank officials to meet targets and immoral behavior are the fourth, fifth, and sixth reasons, respectively, for bank fraud. The table-4 opinions of respondents in respect of the use of forensic accounting for controlling bank frauds are furnished.

Response	No. of Respondents	%
Yes	162	88
No	6	3.3
Don't Know	16	8.7
<b>Total</b>	<b>184</b>	<b>100</b>
<i>Source:</i> Primary Data (SPSS calculation)		

The highest number of respondents i.e. 162 in the number expressed that forensic accounting is a very useful tool to banks for controlling fraud. This number represents 88 percent of the total 184 respondents. 8.70 percent of the respondents were unknown of the usage of forensic accounting for controlling bank frauds. Only 3.30 percent of the respondents opined that forensic accounting does not useful to banks.

It is interpreted from the table-5 that training bank employees in forensic accounting will highly useful in

detecting and preventing potential bank fraud to a high extent.

**Table – 6 Training to bank employee in FA by bank for detecting and preventing potential bank frauds.**

Response	No. of Respondents	%
Yes	156	84.78
No	14	7.61
Don't Know	14	7.61
<b>Total</b>	<b>184</b>	<b>98.92</b>

*Source:* Primary Data (SPSS calculation)

From the table-6, it is found that forensic accounting will be highly useful to students if it is introduced in their curriculum as one of the as one subjects.

**Table – 7 Introduction to Students to Taught FA will Highly Useful**

Response	No. of Respondents	%
Yes	170	92.39
No	5	2.72
Don't Know	9	4.89
<b>Total</b>	<b>184</b>	<b>100</b>

*Source:* Primary Data (SPSS calculation)

The highest number of respondents expressed their opinion that forensic accounting should be introduced to students as a course at the degree as well as PG level. It is found from the table-7.

**Table-8 Level FA courses should be offered.**

Level of Course	No. of Respondents	%
Degree	34	18.48
PG	23	12.5
Both	127	69.02
<b>Total</b>	<b>184</b>	<b>100</b>

*Source:* Primary Data (SPSS calculation)

## FINDINGS

Forensic accounting, no doubt, is an emerging tool to control financial fraud. It provides great assurance to the users of the financial statements of a company. Though it is a new area it has a high potential for Indian professionals to practice. Sure, it will able to encounter financial fraud or crimes.

## SUGGESTIONS

In India, the number of white-collar crimes or financial frauds is increasing in different forms particularly in the financial sector due to a lack of rigorous observation authority. India is experiencing heavy economic losses due to these financial frauds. This shows that India has not had sufficient professionals to enforce the law rigorously. In this situation, forensic accounting plays a vital role in preventing financial or white-collar frauds/crimes. In India, though, it is unfamiliar to many people (infant stage); it is emerging as a tool for encountering financial fraud. But due to ever-increasing cases of bank fraud and cybercrimes, its growing importance can't be denied (Chaturvedi, 2015). The immediate landmark creation is "Forensic Research



Foundation”. They support the investigation of fraud. For fraud investigation, in India, Serious Investigation Fraud Office (SIFO) had been established. This study makes the following suggestions to minimize frauds or scams in banks.

<b>Suggestions to Control Bank Frauds</b>	
<b>Reason</b>	<b>Action Required</b>
Poor governance/administration	A stringent Legal System should be implemented
Poor monitoring	Internal Control and Data Base Management System (Data Analysis) should be adopted
Immoral behavior	Proper training for employees and Awareness of Ethical Values should be created
Political interferences	Sufficient autonomy to bank officials should be delegated and frequent interferences of political leaders should be avoided
Technological backwardness	New innovative Blok Chain tools like Ethereum, Kaleido, Corda, IBM Blok Chain Platform, Hyper-ledger, Azure Blok Chain Work Bench, etc., should be adopted to protect and authenticate the secured data.
Pressures on bank officials to meet targets	A free working environment for employees in the offices should be created to perform duties without pressure.

In India, Forensic accounting is at the infant stage which raises the need for expertise among the young generation. It should be introduced to graduate as well as post-graduate level students to popularize this profession among the youth. This act not only increases employment opportunities but also makes the youth professional experts.

**Limitations**

The present paper has some limitations. Firstly, the Non-probability sampling method is applied for the collection of the opinions of respondents. Thus findings may not be generalizable. Secondly, descriptive statistics were used for analysis.

**Scope of the Study:**

The scope of the present paper is limited to finding the opinions of respondents about forensic accounting and their awareness in respect of forensic accounting.

**Scope for Further Research:**

There is a broader perspective and a high possibility to conduct research in the area of forensic accounting. Detection and Prevention of Financial Frauds in Financial Institutions, Tools and Techniques of Forensic Accounting, Application of AI & ML in Forensic Accounting, Cyber Security in Mitigating Financial Frauds, etc., are some of the most relevant areas for research in this field.

**CONCLUSION**

It can be strongly felt that the negligence and ineffectiveness in the present auditing system of banks are the main reason for increasing fraud. This throws the bank into a financial crisis which leads to not only damage to the image of banks among bank customers but also more number of non-performing assets (NPAs) in banks. Therefore, forensic accounting is at the center of attention to mitigate financial fraud and ensures

prompt financial reporting.

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