



# **The Importance and Need for Forensic Audit in India to Detect Banking Frauds and Protect Investors Interest**

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**Abstract.** In recent years, there has been an increase in fraudulent operations in the financial and corporate sectors as a result of technical and digital innovation. As a result, the necessity of forensic audit in the current scenario is critical in detecting such frauds and protecting the interests of shareholders. As a result, the study attempted to determine the value of forensic audit in the current situation. The purpose of this study is to emphasize the importance and use of forensic audits. A systematic review of the literature was used as the study's approach. According to the conclusions of the study, forensic auditing is crucial in mitigating and avoiding financial fraud. Forensic auditing has established itself as a strategic tool for company success.

**Keywords:** Forensic Audit, Banking Frauds.

## **1. Introduction**

A forensic audit is a type of accounting investigation that aims to determine whether or not a company's financial report contains any evidence of fraud. The term 'forensic' refers to information that is suitable for production in court. A forensic audit is a combination of accounting, auditing, and investigative abilities used to resolve a legal issue. Legal and financial papers are investigated by forensic auditors. The purpose of the forensic audit is to look into any indications of fraudulent conduct within the company. According to Akinkoye (2019), forensic auditing is a procedure that entails the investigation and evaluation of the fraudulent issue as well as anti-fraud controls. A forensic audit looks for questionable financial activity that could lead to fraud, embezzlement, or financial negligence. Financial audit, according to Eiya et al. (2013), tries to find major deviations in financial data from applicable accounting and auditing rules, whereas forensic audit looks beyond the transactions and focuses on the transaction's substance. In a similar manner, Okoye and Gbegi (2013) proposed that forensic auditors take the position of external auditors. This is necessary in order to prevent any type of fraud. Furthermore, the study found that public sectors with forensic audit departments have seen a significant reduction in financial fraud. During a forensic audit, the auditor looks for evidence that can be produced in court. In the context of deposing in court, the intervention of forensic audit comes in handy for untying the knots linked to financial wrongdoing. The auditor heavily relies on interview and investigation to carry out the forensic audit. Victims, accused, and cooperating witnesses all provide information.

The difficulty of doing a forensic audit has grown exponentially as the use of computers has increased. The task of acquiring data becomes more complicated. This is because tracing the transaction trace in a computerised setting is difficult. According to Asuquo's (2012) research, forensic auditors must possess excellent computer skills and expertise. According to the report, forensic auditors are specialist individuals who use information technology to decrease and prevent fraud. Similarly, Kurnaz et al. (2019) stated that the lack of audit tools for undertaking forensic audits posed significant obstacles in the sector.

Simply said, forensic auditing is the study and analysis of a company's financial records in order to establish evidence or proof that can be utilised in a court of law for future references. The function of forensic auditors is becoming increasingly important as the number of banking and corporate frauds rises. In the recent scenario, everyone from financial regulators to corporate employees wants to retain the services of a forensic audit since it is a critical weapon, particularly when one smells a fraud or corporate scam and the force of forensic auditing is unleashed to great effect. The SEBI now wants listed businesses to provide disclosures to stock exchanges about their forensic audits. Forensic audits not only prevent fraud, scams, or wrongdoing; they also safeguard investors and shareholders indirectly. With the help of forensic auditors who have the necessary knowledge, skills, and experience to spot frauds in advance, the rising number of banking and corporate frauds can be reduced to a bare minimum. In our country, forensic auditors were not given much weight, but the sooner regulators and the corporate environment recognize the value of forensic audit, the better for all parties.

## **Literature Review**

According to Smith and Crumbley (2009), traditional auditing is under ongoing criticism due to its inherent limitations. The forensic audit is a sophisticated technique for getting over the constraints of typical auditing methods. According to Gaikwad and Varade (2017), forensic audit is a crucial enabler in creating a positive working environment and developing a complete corporate governance policy. The role of forensic audit in avoiding financial fraud has been the subject of several studies. Enofe et al. (2015) completed a study that is a stranded piece of literature in this topic. In Nigeria, the researcher

looked into the impact of forensic audits on corporate fraud. The findings suggested that using forensic audit services on a regular basis could aid in the early detection and prevention of fraud. Furthermore, the study suggested that forensic auditing be made mandatory for businesses. In their study, Asaolu et al. (2020) discovered that forensic audits significantly minimise the problem of tax evasion. The study was conducted using a quantitative research design. The study employed a sample size of 301 people. According to the findings, forensic auditing is a critical component in reducing financial fraud. According to Nandini and Ajay's study (2021); Oluwapelumi's study (2021), forensic audit is a critical facilitator for implementing corporate governance policies and decreasing business failure. Furthermore, forensic audits boost the investor's level of satisfaction. The faithful presentation of the financial statement and forensic audit have a major relationship. Because of its incapacity to prevent fraud, public trust in statutory audit is constantly eroding. According to Kutus et al. (2018), forensic audit practise has a substantial association with public trust. Furthermore, the outcomes of the study demonstrated that statutory audit and public confidence had an adverse relationship.

A forensic audit has evolved into a dynamic and strategic instrument for detecting and preventing fraud and mistakes. Because of the increasing complexities of company processes, forensic audit is becoming increasingly important. Despite the expanding importance of forensic auditing, many countries around the world are still unaware of its value. According to Mojsoska and Dujovski (2015), the Republic of Macedonia still does not recognize the forensic audit branch. The field of forensic accounting and auditing has to be recognised in order to train people who can help decrease and prevent fraud. In a similar vein, Temitope et al. (2016) found that forensic audit awareness is extremely low in the business world. The outcomes of the study demonstrated a negative association between forensic audit and people's expectations from forensic audit, although Njanke (2009); Okoye and Obialor (2020) argued that forensic audit is critical in detecting and preventing fraudulent practises. To combat the malpractices, the federal ministries in Anambra State used forensic audits. According to the study, it is critical to prioritise the forensic audit in the ministry in order to ensure honesty, fairness, and transparency in reporting. To assess the importance of forensic auditing Ekechukwu (2018) investigated the relationship between forensic audit and bank profitability at the Nigerian National Bank. To investigate the link between independent and dependent variables, the researcher used multiple regression approaches. Profitability indicators such as net profit margin, earnings per share, and profit after tax (PAT) were examined as predictor variables, whereas forensic accounting was regarded as a dependent variable. The findings revealed that forensic audit and bank profitability indicators have a substantial link.

### **Purpose and significance of the study**

Based on the significance of the study, the researcher has defined the following research objectives:

- To investigate the value of forensic auditing in detecting banking fraud in India.
- To comprehend the importance of forensic auditors in safeguarding stakeholders' interests.

### **Methodology of Research**

The current research is based on descriptive and exploratory secondary sources of information. The accessible secondary sources of information were gathered from a variety of research papers, news reports, journals, working papers, and published material. The researcher visited numerous websites to understand the need and importance of forensic audit in detecting banking frauds and corporate thefts, primarily to defend the interests of the shareholders, in order to meet the study's objectives. In the first instance, the researcher gathered the needed and available information for the study, and then examined the data to determine the importance of forensic auditors in discovering banking frauds and protecting shareholders from corporate crises. The researcher has reached a reasonable and logical conclusion based on the study's clear and conceptual analysis, so that forensic auditors can play a concrete role in reducing the rise in fraudulent activities for the system's effectiveness and stakeholders in general.

### **Analysis**

In this age of digital revolution, our country's banking system is becoming more familiar with recent technological innovation, and an increasing number of banks are opting for the digital technological domain in order to give acceptable services to their consumers. With the increased use of technical instruments in the financial sector, the number of fraudulent operations has increased as well. As a result, the number of forensic auditors in India is increasing in order to detect such frauds and protect shareholders' interests.

### **In India, forensic auditing is on the rise**

The surge in banking frauds in India has created a demand for skilled people who can effectively minimize the threat and risk in the banking sector by analyzing risk assessments, and such risks can be identified by our country's forensic auditors. A forensic auditor is a professional who has completed specialized training and is an expert in forensic auditing in the banking sector and its frauds sphere. They possess certain characteristics and talents that enable them to spot fraud in an organization.

There has been a significant increase. a rise in the number of forensic accountants in our country, and the reason for this is that In our country, there has been an upsurge in the number of people who have been defrauded. In recent years, forensic auditors have become more prominent. aren't only looking for a solution to a problem; they're also looking for There are a variety of reasons behind the scams, but they all have one thing in common: are also establishing a risk-mitigation strategy and a strategy for managing the banking industry. The emergence of forensic science Related to the fact that the audit is also due to the fact that the audits carried out by such auditors will be used as proof and a record in the future continuing to justify

the deception activities. One of the reasons for the rise in forensic auditing in our country is that the RBI has made forensic auditing required for loan accounts in banks with a particular exposure that have become non-performing. The importance of forensic audit is growing by the day, since it is a critical weapon for uncovering corporate malfeasance, unethical acts, or a fraud, allowing forensic auditors to unleash their full potential.

### **Forensic Audit's Importance in Detecting Banking Frauds**

Banking fraud has become increasingly frequent in India, particularly in this era of technological and digital innovation. Since national banks are moving to the digital sphere, the risk of fraudulent activities and cyber security risks has increased in the industry. Due to the increased danger of fraud in the banking sector, forensic auditors are being sought to help limit the hazard and risk. According to recent Reserve Bank of India projections, financial frauds in India are expected to treble in 2020 compared to 2019. As a result, it is critical for the banking sector to use forensic auditors wisely in order to prevent financial frauds from occurring in the first place by putting in place many specific processes. Any fraud that occurs in a specific bank has the potential to harm the country's internal banking system, which is unsuitable for the entire sector, given how crucial the banking industry is for any economy's general economic growth and development.

Certified specialists, such as forensic auditors, who are experts in the fields of litigation assistance, forensic auditing, and accounting for investigation, have an accurate skill set in the field of fraud investigation and may thus reduce the number of financial frauds. The forensic auditor plays an important role in establishing evidence and facts that enable criminal and fraudulent actions in banks to be detected. In this current period of industrial development, there is also a risk of cyber security threats in the banking sector, which may be effectively handled by forensic auditors conducting thorough risk assessments. The position of forensic auditors in the banking sector is extremely difficult and sensitive, since they must battle fraud and fight crimes using their expert professional knowledge and abilities. Effective forensic auditing can assist banks in resolving financial problems, preventing significant losses and allowing the sector to remain profitable. As a result, forensic audit is extremely beneficial to our country's banks since it not only detects frauds but also gives the sector a sense of belonging and security in the age of cyber thefts and frauds.

### **The Importance of Forensic Audit to Investors**

The critical responsibilities that forensic auditors play in detecting frauds and illegal activities justify the necessity of forensic audit in the corporate world. The cost of frauds in any area is far higher than one might imagine, to the point where the aftereffects of frauds can leave a firm or a sector reeling for a long time, causing a shareholder to lose money due to the catastrophic effects on many sectors. The rise in the number of frauds in the banking and corporate worlds is hurting the interests of shareholders directly or indirectly, and forensic audit is becoming more important to safeguard such shareholders by detecting frauds and managing risk from many conceivable threats.

Fraudulent acts of a firm can quickly ruin its reputation, resulting in a drop in market value due to a shift in stakeholders' perceptions. As a result, the work of forensic auditors is critical in detecting such fraudulent actions early on, ensuring that the interests of shareholders are protected while the company's reputation is preserved, resulting in a win-win situation for all sides. Forensic audits can also assist management in debunking charges that are harmful to the firm and its shareholders, as well as providing actual evidence of a fraud that is valuable to regulators and stakeholders. A shareholder must keep an eye on whether or not a firm is releasing and sharing its reports after conducting a forensic audit, so that they may protect themselves from banking and corporate frauds that are prevalent in the market.

### **Conclusion**

In recent years, there has been an increase in the need for forensic audits. Because of the constant rise in the number of financial fraud cases, forensic audit has grown in popularity. Following a review of the literature, it has been determined that forensic audit is an essential tool for combating corruption within a company. A forensic audit aids in increasing the organization's performance and productivity in addition to preventing corruption. Forensic audit has been found to be a panacea for preventing fraud and error in several countries throughout the world. The forensic audit is being used by many anti-corruption authorities to combat corruption. The forensic audit would complement the efforts of many agencies to combat financial fraud in the workplace. Aside from that, the forensic audit has the capacity to set up a fraud-proof internal control system in the company. As a result, it can be inferred that forensic audits will become more relevant and important in the near future.

The importance of forensic audit has been passed down through the banking and corporate worlds. According to the findings, the function of forensic auditors extends far beyond the detection of crimes and the identification of dangers. It was discovered that a forensic auditor must possess the necessary abilities, expertise, and knowledge to assess risk while also recognizing fraudulent operations, thereby safeguarding the interests of market shareholders. The banking sector in India contributes significantly to the growth of our economy, but escalating financial frauds are not only wreaking havoc on the sector, but also on the system's overall reputation. In recent years, technical advancements have resulted in a spike in cyber theft and banking fraud in our country, necessitating the hiring of forensic auditors who will not only uncover thefts, errors, and frauds in the system, but also acquire evidence and documentation for future references. Forensic auditors are also involved in effective planning and executing strategies to prevent frauds from occurring in the first place, and the nature of their work is difficult because they must improve due diligence and mitigation efficacy. The job of forensic audit is not one-

size-fits-all, with decisions and outcomes affecting a variety of systems. The relevance of forensic auditing extends well beyond auditing, and as a result, they must maintain a high level of quality in their work so that fraudulent actions can be avoided for the benefit of both the banking sector and the shareholders.

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