

ROLE OF FORENSIC ACCOUNTING ON ADDRESSING BANKING SECTOR FRAUDS IN INDIA

Dr. Hariom Duggal

Assistant Professor, Department of Commerce
Indira Gandhi University, Meerpur, Rewari (Haryana) India,
horduggal@gmail.com

Abstract:

Forensic accounting is the application of accounting doctrines and discipline to evidences in a lawful disagreement and covers every aspect of accountancy understandings. Forensic accountants make an assessment regarding the bank's crisis, recognize its deficiencies, and generate the methods in order to make it safer from committing frauds. The basic objective of this paper to study the role of forensic accounting on addressing banking sector frauds in India and utilized secondary data gathered from academic publications, a variety of online journals, research papers, magazine articles, websites, and reports published by the RBI and found the number of fraud case percentage within the year, the public sector banks have more than 50% share in the total number of fraud cases in the initial two year of period consider in the study, but in the year 2020-21 it shifted to the private sector banks. The gap between the public sector banks amount and second position holding public sector banks found almost more than twice in the years 2020-21 and in the first two years have huge gap with 89.8% and 79.9% with the private sector banks have 8.1% and 18.4% respectively. Further study found that in all operations number of fraud cases have decreasing trends except card/internet and the maximum frauds through the advances and card/internet and others area of operations have a little bit share in total number of fraud cases in the years of the study. These increase in fraud cases and amount of frauds not only harmful for banks only but also impact the nation ultimately so there is need to minimise the frauds and it is done through the proper investigation of frauds so that the frauds is not repeat in future. The forensic accounting focus on the prevention of frauds and if fraud incurred than detection it as soon as possible and investigate the facts that is helpful in legal proceedings. Now a days forensic accountant also performs the duty to educate the staff and provide training to the employees so that internal control may increase and prevent the frauds.

Key Words: Forensic, Accounting, Banking, Frauds.

Introduction:

Banking system is very important part in a nation's economy, but banks also faced a lot off risks such as frauds, unethical practices and authorities violences of rules in financial operations. India is one of the fast-growing nations and faced a lot of fraud related issues particularly in the last two decades. Deloitte (2022) Indian Banking Fraud Survey, found that 78% respondent thinks that there will be noticeable growth in the next two years in the fraud activities in banking sector in India. The fraudulent activities in the banking sector not only affect the financial loss but also decrease the believe of all the stakeholders in the banking industry. So, there is a need to improve securities measures by the banks and it increase the operational cost of banks. However fraudulent activities in the banking sector make a negative impact on the economy of country through to the loss of flow of credit as well as capital for business which may be the cause the unemployment in the country. There is need to protect the banks from the financial scams and frauds for the growth of the nation that's why the need of forensic accounting arises. The Reserve Bank of India (RBI), the highest authority which control and manage banking industry in India, issued various regulations and suggestive measures that a forensic accountant must follow in performing their duties. This is clearly indicated that forensic accountant performs their duties in a controlled atmosphere and support banks to protect from the frauds through compliance with laws and ensuring that everything is going with morality and honesty. The role of forensic accountant is so crucial in detection frauds and making inside inquiries, due diligence for mergers and acquisitions and measure monetary risks. Moreover, they also provide assistance for money laundering prevention efforts, resources tracking, and support for legal procedure if required. Forensic accountants too support banks to convergence with monetary rules and can provide directions and tools to staff members related to fraud anticipation and detection. Forensic accountants make an assessment regarding the bank's crisis, recognize its deficiencies, and generate the methods in order to make it safer from committing frauds. The basic objective of this paper to study the role of forensic accounting on addressing banking sector frauds in India and the amount of frauds decreasing in all the area of operation except advances and deposits area of operations and maximum shares more than 90% share in the total amount of fraud amount lies with the advances and it is 99% in the years 2020-21.

Definitions of Forensic Accounting:

The sort of work is known as forensic accounting, according to the Association of Certified Chartered Accountants (ACCA). It encompasses all aspects of conducting a forensic investigation, such as creating a witness statement or expert report and maybe serving as an expert witness in court. The American Institute of Certified Public Accountants (AICPA), "forensic accounting is the application of accounting doctrines and discipline to evidences in a lawful disagreement and covers every aspect of accountancy understandings."

Review of Literature:

Singh, *et al.*, (2016), on their working paper entitled "Frauds in the Indian Banking Industry" found that 95% of total frauds in banking industry relate to the commercial banks and nationalized comprising state bank of India has highest fraud amount in the total fraud amount with 83.01%. Bhasin (2016), made a study on "The Fight Against Bank Frauds: Current Scenario and Future Challenges" conclude that the banking industry faced a several type of frauds such as Counterfeit cheques, cyberfraud's, fraudulent documents, not having collaterals and identity theft, particularly following the growth of information technology. The author also suggests different measures to be taken for minimizing frauds such as strengthen the internal control system, educate the employees, check the background of employee before hiring and convergence with the laws. Moid (2016) mentioned in their paper entitled "Application of Forensic Accounting to Investigate Scams in India" and found maximum monetary fraudulent activities in India committed due to the absence of strict regulations and not proper surveillance authorities. The research advice to create a independent authority as Forensic Research Foundation which main aim to provide assistance to the forensic accountant for their investigating activities. Ghosh (2017) has studied on Forensic Accounting and Forensic Auditing- Scope in Banking Sector and conclude that due to the rapid change of technology banking sector facing day to day new challenges and emphasize that Reserve Bank of India make forensic accounting and auditing mandatory for banks and published the forensic audit report containing how forensic accounting tools and techniques used for detection, prevention and mitigation of financial frauds. Nalawade (2019) made a study about source of origin, scope and importance of forensic accounting and conclude that Reserve Bank of India (RBI) and Indian government has been working on mitigation of frauds. RBI has made an agency named "Serious Fraud Investigation Office" with the collaboration of Ministry of corporate affairs. The Central Vigilance Commission and Central Bureau of Investigation are also supportive for anticipation

of financial frauds in India. It is also mentioned by the researcher that RBI has made direction to the banks to consider the forensic accounting practices in their activities. Gangwani (2020) mentioned in his study that due to the increasing of fraud in banking sector not only harmful for banks but it also decreases the confidence of depositor which resultant huge non-performing assets in banking industry. That's why there is a need of adoption of scholars and professional related to forensic accounting appropriateness in solving banks scams. Khare (2020) tried to understand the notion of forensic accounting and how it is differed from auditing and showed that most of accountant in India are not too much updated and familiar with the technological advancement even through accountant having a good experience also faced a lot of problem to find out the computer related frauds which clearly indicate the need of forensic accounting for the finding and anticipation of frauds. Further researcher also found that as far as India is concern the forensic accounting is used as analytical tool rather than defensive tool. Mrinal G. and Quiser A. (2021) made a study on the topic "Emerging Need of Forensic Audit in Corporate and Banking Frauds in India" concluded that in the present scenario of accounting there is a various type of corporate frauds and the knowledge of auditing is not enough to cater all need of corporate direction and control and this conform that there is a need of develop of forensic accounting and auditing across the globe. Sridhar L., Jebasingh R. and Narayanan P. (2021) wrote a paper on "The Effect of Forensic Accounting on Stock Market Management" found that the major reason of manipulation in financial statement by the corporates to raise the prices of stocks, to raise the capital from the financial institutions and to outperform expectations of analysts. Gupta (2022) mentioned in their paper the need of forensic accounting and auditing in bank frauds and other corporate frauds is increasing day by day. The scholar indicate that it is reality surprised that despite a various control measure such as qualified internal audit team. Separate audit department, outsider accountant and supervision of reserve bank of India, the portfolio of credit and non-performing assets of banks is increasing year by year.

Research of Methodology:

The present study carries out for inspect the role of forensic accounting on addressing banking sector frauds in India and utilized secondary data gathered from academic publications, a variety of online journals, research papers, magazine articles, websites and reports published by the RBI.

Data Analysis and Interpretation:

Table 1

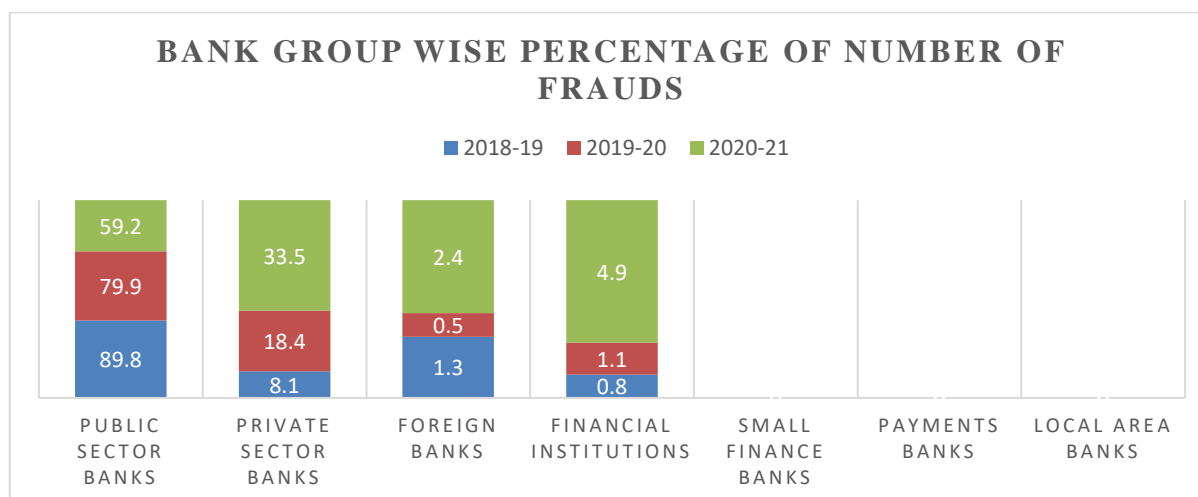
Bank Groupwise Number of Fraud Cases and Amount of Fraud

Bank Group/ Financial Institution	2018-19		2019-20		2020-21	
	No. of Fraud Cases	Rs. In Crores	No. of Fraud Cases	Rs. In Crores	No. of Fraud cases	Rs. In Crores
Public Sector Banks	3,704 (54.5)	64,207 (89.8)	4,410 (50.7)	1,48,224 (79.9)	2,903 (39.4)	81,901 (59.2)
Private Sector Banks	2,149 (31.6)	5,809 (8.1)	3,065 (35.2)	34,211 (18.4)	3,710 (50.4)	46,335 (33.5)
Foreign Banks	762 (11.2)	955 (1.3)	1,026 (11.8)	972 (0.5)	521 (7.1)	3,315 (2.4)
Financial Institutions	28 (0.4)	553 (0.8)	15 (0.2)	2,048 (1.1)	25 (0.3)	6,839 (4.9)
Small Finance Banks	115 (1.7)	8 (0.0)	147 (1.7)	11 (0.0)	114 (1.6)	30 (0.0)
Payments Banks	39 (0.6)	2 (0.0)	38 (0.4)	2 (0.0)	88 (1.2)	2 (0.0)
Local Area Banks	1 (0.0)	0.02 (0.0)	2 (0.0)	0.43 (0.0)	2 (0.0)	0 (0.0)
Total (In %)	6798 (100.00)	71534 (100.00)	8703 (100.00)	1,85,468 (100.00)	7,363 (100.00)	1,38,422 (100.00)

Source: RBI Annual Report 2020-21

The above table number 1 and following chart number 1 shows bank groupwise number of fraud case incurred during the financial year 2018-19, 2019-20 and 2020-21. The table and chart clearly indicate that public sector banks fraud cases increased in the year 2019-20 in comparison to the previous year and it decrease in the year 2020-21 and private sector banks have increasing trend during the study period and in the years 2020-21 they have recorded number of fraud case more than the public sector banks. Further found that if we compare the number of fraud case percentage within the year, the public sector banks have more than 50% share in the total number of fraud cases in the initial two year of period consider in the study, but in the year 2020-21 it shifted to the private sector banks. The other banks have little bit share in the total number of fraud cases and have decreasing trends in the number of cases during the study periods. The local area banks have minimum number of fraud case found in the study.

Chart 1



Further the table number 1 and following chart number 2 showed the bank group wise amount of frauds incurred and share of banks year wise in the total amount of frauds incurred during the study period. The maximum amount of frauds incurred found in the public sector banks in all years of study consider even through the number of cases are less than the private sector banks in the year 2020-21. The gap between the public sector banks amount and second position holding public sector banks found almost more than twice in the years 2020-21 and in the first two years have huge gap with 89.8% and 79.9% with the private sector banks have 8.1% and 18.4% respectively. The other banks have a little share in the frauds amount, the third position hold by the foreign banks in both the trends and local area banks have minimum share in the total amount of frauds.

Chart 2

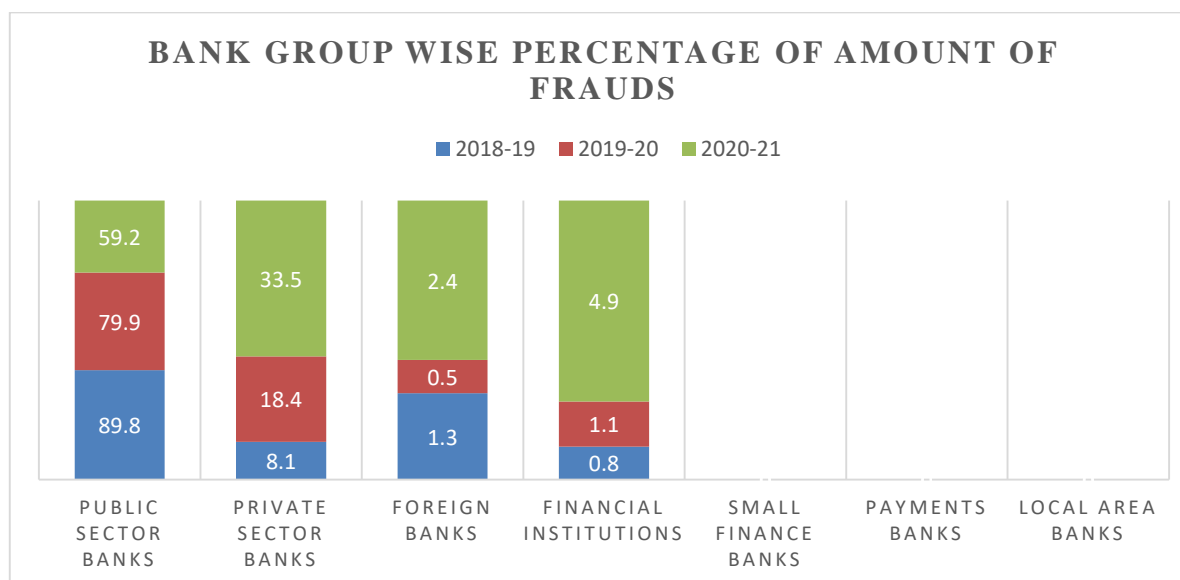


Table 2

Banking Area of Operation wise Number of Fraud Cases and Amount of Fraud

Area of Operations	2018-19		2019-20		2020-21	
	No. of Fraud Cases	Rs. In Crores	No. of Fraud Cases	Rs. In Crores	No. of Fraud Cases	Rs. In Crores
Advances	3,603 (53.0)	64,539 (90.2)	4,608 (52.9)	1,81,942 (98.1)	3,501 (47.5)	1,37,023 (99.0)
Off-Balance Sheet	33 (0.5)	5,538 (7.7)	34 (0.4)	2,445 (1.3)	23 (0.3)	535 (0.4)
Foreign Exchange Transaction	13 (0.2)	695 (1.0)	8 (0.1)	54 (0.0)	4 (0.1)	129 (0.1)
Card/Internet	1,866 (27.5)	71 (0.1)	2,667 (30.8)	129 (0.1)	2,545 (34.6)	119 (0.1)
Deposits	593 (8.7)	148 (0.2)	530 (6.1)	616 (0.3)	504 (6.8)	434 (0.3)
Inter-Branch Accounts	3 (0.0)	0 (0.0)	2 (0.0)	0 (0.0)	2 (0.0)	0 (0.0)
Cash	274 (4.0)	56 (0.1)	371 (4.3)	63 (0.1)	329 (4.5)	39 (0.0)
Cheques/Demand Drafts, etc.	189 (2.8)	34 (0.1)	201 (2.3)	39 (0.0)	163 (2.2)	85 (0.1)
Clearing Accounts, etc	24 (0.4)	209 (0.3)	22 (0.2)	7 (0.0)	14 (0.2)	4 (0.0)
Others	200 (2.9)	244 (0.3)	250 (2.9)	173 (0.1)	278 (3.8)	54 (0.0)
Total (In %)	6798 (100.00)	71534 (100.00)	8703 (100.00)	1,85,468 (100.00)	7,363 (100.00)	1,38,422 (100.00)

Source: RBI Annual Report 2020-21

The above table number 2 and following chart number 3 shows bank area of operation wise number of fraud cases incurred during the study and found that in all operations number of fraud cases have decreasing trends except card/internet and the maximum frauds through the advances and card/internet and others area of operations have a little bit share in total number of fraud cases in the years of the study. It is also revealed by the table that maximum number of frauds done through the advances area of operation of banks in the whole study period.

Chart 3

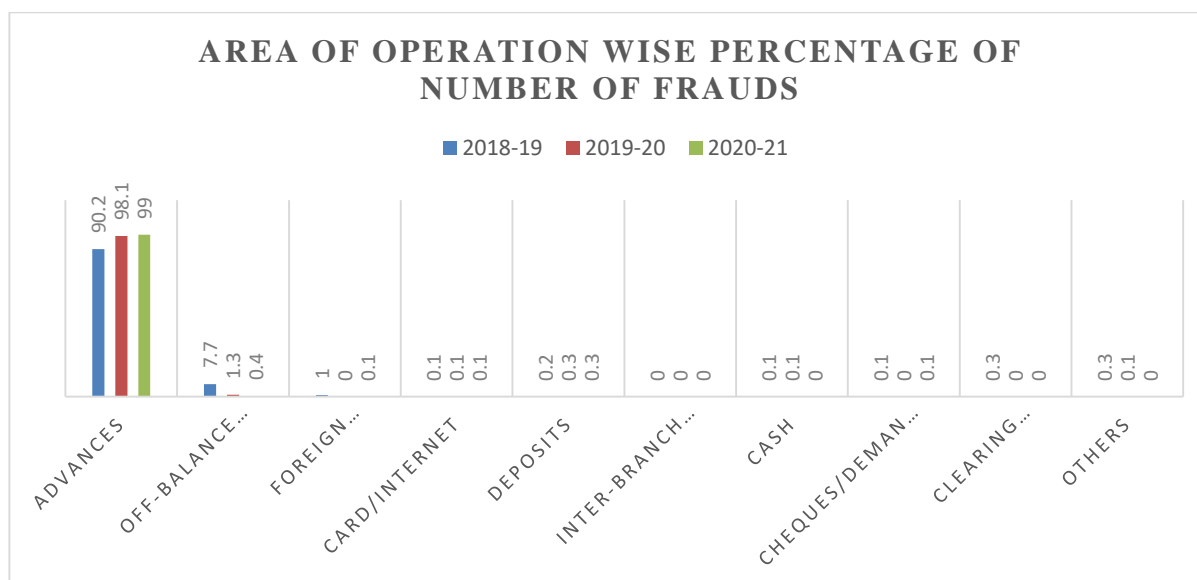
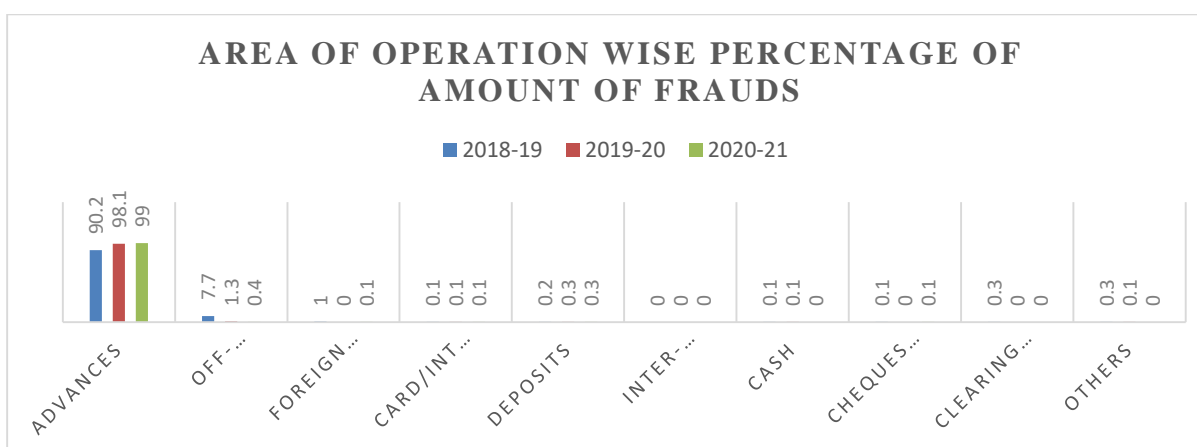


Chart 4



The above table number 2 and chart number 4 shows bank area of operation wise amount of frauds and found that the amount of frauds decreasing in all the area of operation except advances and deposits area of operations and maximum shares more than 90% share in the total amount of fraud amount lies with the advances and it is 99% in the years 2020-21.

The following table number 3 indicate the major frauds committed in India in different organisation and corporate and nature of fraud and amount of frauds also indicated by the table and these scams and frauds clearly mentioned that there is gap between the standard and practical applicability and loose holes in the policies at institutional level as well as regulatory level.

Table 3

Major Frauds in India

Sr. No.	Year	Nature of Fraud	Particulars	Amount of Fraud in Crore (INR)
1	1992	Stock Exchange	Harshad Mehata	4,000
2	2008	Siphoned fund for rural immersion	VP NHRM	10,000
3	2008	Stock Exchange	Ketan Parekh	1,500
4	2009	Fabricated revenue	SATYAM	8000
5	2010	No auction in issuing license	2G Spectrum	175000
6	2010	Misuse of funds for infrastructure	Common wealth Game	10000
7	2012	Embezzlement of expenses falsified	Fodder Scam	950
8	2012	Auction in allotment of coal blocks	Coal Allocation	186000
9	2013	Irregularities in procurement of Choppers	VVIP Chopper deal	3600
10	2018	Nirav Modi's PNB Scam	Nirav Modi	11400

Source: Author Collected

Conclusion:

The present study carried out for examine the role of forensic accounting on addressing banking sector frauds in India and found by data analysis that frauds are committed even the all measures are taken by the institutions and regulatory authority. These increase in fraud cases and amount of frauds not only harmful for banks only but also impact the nation ultimately so there is need to minimise the frauds and it is done through the proper investigation of frauds so that the frauds is not repeat in future. The forensic accounting focus on the prevention of frauds and if fraud incurred than detection it as soon as possible and investigate the facts that is helpful in legal proceedings. Now a days forensic accountant also performs the duty to educate the staff and provide training to the employees so that internal control may increase and prevent the frauds.

References:

1. Bhasin DM. The fight against bank frauds: current scenario and future challenges. *Ciência e*

- Técnica Vitivinícola; c2016 Feb 11, p. 31.
2. Ghosh DA. Forensic accounting and forensic auditing- scope in banking sector. 2017 May. Available from: <https://www.researchgate.net/publication/340091873>.
 3. Gangwani M. Suitability of forensic accounting in uncovering bank frauds: An opinion. J Financ Crime; c2020 Nov. DOI: 10.1108/JFC-07-2020-0126.
 4. Gupta DD. Growing needs of forensic audit in corporate and banking frauds in India. SSRN; c2022 Jul 23.
 5. Moid S. Application of forensic accounting to investigate scams in India. MJIBR-MITS Int J Bus Res. 2016 Jan-Jun;3(1).
 6. Mrinal G. and Quiser A. (2021), “Emerging needs of forensic Audit in Corporate and Banking Frauds in India” Journal of the management Accountant published by the institute of cost accounts of India. ISSN 0972-3528, Vol.56, Issue 10, October 2021, pp 47-50.
 7. Nalawade SR. Role of forensic accounting in combating the scams of banking sector in India. BIMS Int Res J Manag Commerce. 2019 Mar;4(1).
 8. Singh C, Pattanayak D, Dixit DS, Antony K, Agarwala M, Kant R, *et al*. Frauds in the Indian banking industry. Working Paper No: 505; c2016 Mar.
 9. Sridhar L., Jebasingh R. and Narayanan P. (2021), “Comprehensive study of the effects of forensic accounting on stock market management” Journal of the management Accountant published by the institute of cost accounts of India. ISSN 0972-3528, Vol.56, Issue 10, October 2021, pp 57-62.
 10. Global Fraud Report, Key Facts and Figures, Annual Edition: 2013/2014.
 11. <https://www.pwc.com/gx/en/forensics/gecs-2020/pdf/globaleconomic-crime-and-fraud-survey-2020.pdf>
 12. Reserve Bank of India Annual Report 2020-21. pp 151-152.