A Study examines the role that forensic auditing plays in the money movement process for fraud prevention and mitigation, with a focus on Indian private and public sector banks.

Avinash Dhole[1]

Thakur Institute of Management Studies and Research

Swati Sabale[2]

Thakur Institute of Management Studies and Research

Abstract

Banks drive the financial sector, the money markets, and the growth of an economy. The banking industry in India is growing, and as it does, bank frauds are becoming more sophisticated and crafty. Interestingly, the banking industry in India refers to the rise in fraud as "an inevitable cost of doing business." The efficacy of forensic auditing in tracing the money movement procedures in Indian banks is examined in this study. It employs a mixed-method approach to find weaknesses and evaluate the effectiveness of forensic audits in combating financial fraud, including case studies, questionnaires, and expert interviews. To fully utilise the potential of forensic audits, the study emphasises the necessity of improved training programs, cutting-edge technical tools, and a supportive regulatory framework. The study suggests a framework for better integrating forensic auditing, with a focus on proactive fraud prevention and ongoing monitoring, in order to fortify the financial system against fraud and guarantee increased security and transparency in the money transfer procedures.

Keywords: Fraud Mitigation, Private Sector Banks, Public Sector Banks, Money Movement Process, Financial Fraud, India, Forensic Auditing, Money Movement Process.

Introduction:

Facilitating financial transactions and extending loans, the Indian banking sector comprises both public and private institutions and is an essential component of the country's economy. Nevertheless, financial fraud has turned it into a target, especially when money movement procedures are manipulated. The stability of individual institutions, the financial system as a whole, and economic expansion are all at risk from these actions. Financial fraud can be identified, mitigated, and prevented with the use of forensic auditing, a tool that integrates accounting, auditing, and investigation abilities. Its objectives are to thoroughly review financial transactions and documentation in order to identify irregularities, fraudulent activity, and guarantee regulatory compliance (Shakir and Ghulam Abbas, 2020).

Businesses that specialise in banking, insurance, and cyber security have come to understand the value of forensic accounting in their enquiries. Within this paradigm, forensic auditing has emerged as a vital ally in the detection, mitigation, and prevention of financial fraud. It emphasises how crucial forensic auditing is to the identification and prevention of fraud, upholding public confidence, and averting corporate failure. When it comes to locating and dealing with different kinds of fraud in financial systems, forensic auditing is essential. These include the following: money laundering, cyber fraud, vendor fraud, payroll fraud, asset theft, corruption, and fraud involving assets or insurance. Theft of tangible assets, fraudulent disbursements, and financial theft are all examples of asset misappropriation. Overstating revenue, underreporting expenses, and false revenue are all examples of financial statement fraud. Bribery, kickbacks, conflicts of interest, and extortion are all part of corruption. Malware, phishing, and hacking are all part of cyber fraud. Overbilling, repeated invoicing, and phantom vendors are examples of vendor fraud. False salaries, commission fraud, insurance fraud, bankruptcy fraud, money laundering, and procurement fraud are all examples of payroll fraud. By improving the integrity and transparency of financial systems, auditors can detect and prevent fraudulent activity more effectively by developing targeted tactics based on their understanding of different types of forensic frauds (ICAI, 2017).

According to the research, in order to fully realise the promise of forensic audits, comprehensive training programs, innovative procedures, and a supportive regulatory environment are required. The purpose of the research is to provide guidance to regulators, banking professionals, and policymakers on how to enhance the efficacy of forensic auditing and fortify the resilience of the banking industry. In the Indian banking industry, forensic auditing is a useful tool in the fight against financial crime.

This study examines criminal investigations, fraud detection, fraud prevention, and information security in the Indian banking industry. In conclusion, forensic accounting plays a vital role in an organization's capacity to detect and prevent financial fraud as well as supply data required for legal actions.

Literature Review and Problem Formulation:

Researchers of today have found studies and popular literature on several aspects of forensic auditing. Most scholarly study, both in the United States and elsewhere, is concerned with general aspects of forensic accounting and auditing, such as the use of forensic inquiry to detect and detect fraud and corruption and the competencies required for forensic audit. Few research studies address forensic auditing in banks in particular. A brief synopsis of the literature is provided below.

Indian banks suffered fraud losses of INR 17,284 crore in 2012–13, a fourfold rise over the previous fiscal year. The total number of bank frauds in the Indian banking industry has quadrupled in only a single year, with 62 banks reporting 26,598 cases of fraud. The problem is highlighted by the arrest of a bank chairman who was involved in bribery (Aggarwal and Singh, 2015).

The Reserve Bank of India (RBI) (RBI (2009b), 2009) sent out a circular in 2009 instructing banks to combat scams involving CEOs and chairmanships. The circular stressed how important it is for banks to know how to apply forensic auditing procedures. To look into banking frauds, banks had to find employees who had the right skills and give them the right forensic audit training. The RBI ordered banks to offer online exams in 2011 covering fraud prevention subjects such credit card fraud, money laundering, and associated regulations. This was done to make sure banks had the tools necessary to properly manage a variety of fraud situations (Indian Forensic, 2011).

A major accounting fraud caused the giant Indian IT business Satyam Computers to file for bankruptcy in 2009. Forensic audits provide a means of identifying weaknesses in financial resources by detecting and looking into financial anomalies and fund mismanagement. They focus on the integrity of financial accounts and act as financial detectives to uncover evidence of fraud, embezzlement, or other misconduct, going above and beyond ordinary audits. Narrow limits, thorough factual information development, loss or damage assessment, and suggestions for preventing future financial malfeasance are all part of forensic auditing (Puri, 2024).

According to (Pannvalan, 2016), a forensic audit is an extensive examination and appraisal of an individual's or company's financial records that are used as evidence in court to prosecute a defendant for financial misconduct, fraud, or embezzlement. In a bank context, every financial decision and transaction is scrutinised to ascertain the truth. Forensic results may be admitted as evidence in legal processes, and auditors may directly present evidence in court or give a deposition before a judge.

By combining traditional accounting, auditing, and financial investigative tasks with technology, forensic auditing finds, evaluates, and disseminates proof of financial transactions and reports incidents. Finding topics that need more research is a continuous effort. Red flags such as unexplained inconsistencies, questionable transactions, insufficient internal controls, changes in lifestyle, regulatory issues, and unanticipated financial difficulty in otherwise seemingly strong organisations frequently prompt forensic audits (N S and R, 2021).

In the research they conducted, Newman, Tshuma, and Sitsha (2023) investigate how forensic auditing affects financial scams such as bribery, employee fraud, network hacking, consumer theft, divorce, and corporate identity theft. Its goal is to create best practices and efficient fraud detection procedures.

Problem Formulation:

Research Gaps

Although regulatory bodies are aware of the likely causal relationships between fraud symptoms and real fraud incidents, there aren't many actionable suggestions to support this understanding. The explanatory power of current statistical methodologies is insufficient to predict future fraud, and the literature on forensic auditing in the banking industry is lacking despite a great deal of research.

Research focusses on RBI regulatory actions and the effect of forensic auditing on financial frauds.

A dearth of studies on the difficulties, applications, and efficacy of forensic auditing procedures in banks.

Comprehensive research is required to determine how best to customise and optimise forensic auditing to meet particular fraud detection and prevention difficulties.

The Reserve Bank of India (RBI) mandates forensic audits in order to identify and stop fraud; yet, the industry faces challenges because of a shortage of qualified auditors and complex legal requirements.

Aims & Objectives:

Aim

The primary objective of the current study is to comprehend how forensic auditing contributes to fraud mitigation and prevention in Indian banking institutions.

Objectives

Examining the uses and advantages of forensic auditing in banking operations.

To identify the kinds of fraud that are frequently committed in financial institutions.

Assessing the value of forensic auditing in support of banking institutions' anti-fraud initiatives.

To ascertain the challenges that forensic auditing departments in the banking industry face.

Research Methodology:

Research technique includes creating databases and gathering data from many sources, such as primary and secondary sources. Original content produced by researchers using a range of techniques, such as market research, observations, surveys, questionnaires, interviews, and student theses, is referred to as "primary data". Easy-to-gather secondary data from primary sources is data that is suitable for research. The primary goal of data gathering is to obtain reliable information in order to produce top-notch research findings. Employees of public and private sector banks will be surveyed as part of the research design in order to obtain secondary data for various sources. Important insights will be obtained using an ANOVA and descriptive statistics, and a 5-point Likert scale questionnaire will be developed to evaluate intrinsic coherence.

As part of the sample study, two surveys will be administered: one to employees of private public sector banks, and the other to those of these banks' outside staff. Among the sampling strategies used to collect the data are descriptive research design, positivist research paradigm, and descriptive presentation. The study will concentrate on the internal audit, forensic audit, and internal control departments of the head offices of private sector banks in India.

The study's conclusions might not be applicable to other economic sectors because its main focus is on forensic audits in Indian banking institutions for fraud mitigation and prevention. Purposeful sampling is a non-probability sampling technique that may have an impact on the study's conclusions.

Research Question & Hypothesis:

Research Questions:

What are the primary uses and advantages of forensic auditing in bank operations?

Which common fraud schemes are most pervasive in banking institutions?

How much can forensic auditing assist financial institutions in reducing and preventing fraud?

What challenges do forensic auditing divisions in the banking industry face?

Formulation of Hypotheses:

Hypothesis 1: Using forensic auditing to detect and stop common fraud

Dependent variable: Forensic Audit

Independent Variable: Common Fraud

H01: When it comes to identifying and thwarting common fraud, there is no discernible difference between a forensic accountant and a conventional accountant.

Ha1: When it comes to identifying and foiling common fraud, there is a noticeable difference between an ordinary accountant and a forensic accountant.

Hypothesis 2: The participation of insiders with outsiders during forensic audits is the primary cause of bank failures.

Dependent Variable: Forensic Audit

Independent Variable: Role of insiders in bank failures

H02: As part of their compensation or duties in the bank's operations, insiders refrain from engaging in dishonest behaviour with third parties that results in bank failures.

Ha2: As part of their compensation or duties in the bank's operations, insiders engage in dishonest behaviour with outsiders that results in bank failures.

Hypothesis 3: Regulatory agencies' use of forensic accounting to combat bank failures and frauds

Dependent Variable: Forensic Accounting

Independent Variable: Regulatory Authorities

H03: Regulators abstain from using forensic accounting to help stop fraud and bank failures.

Ha3: Regulatory agencies employ forensic accounting to help stop fraud and bank failures.

Hypothesis 4: Forensic auditing has a major influence in stopping financial fraud in Indian banking organisations.

Dependent Variable: Forensic Audit

Independent Variable: Control of financial frauds

H04: In Indian banking organisations, forensic auditing has little discernible impact in stopping financial fraud.

Ha4: In Indian banking institutions, forensic auditing significantly reduces the incidence of financial fraud.

Results and Discussions:

The dependent variable was regressed against the independent variables in order to ascertain the relationship between them. The project has a population and sample size of 100 replies.

Anova: Single Factor

SUMMARY				
Groups	*Count*	*Sum*	*Average*	*Variance*
Identification of CommonFraud using Forensic Audit	5	100	20	375.5
Bank Frauds due to Insiders Involvement with Outsiders during Forensic Audit	5	100	20	273.5
Identification of CommonFraud using Forensic Audit	5	100	20	190.5

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	0	2	0	0	1	3.885294
Within Groups	3358	12	279.8333			
Total	3358	14				

t-Test: Paired Two Sample for Means			
Tests	*Identification of CommonFraud using Forensic Audit*	*Bank Frauds due to Insiders Involvement with Outsiders during Forensic Audit*	*Identification of CommonFraud using Forensic Audit*
Mean	20	20	20
Variance	375.5	273.5	375.5
Observations	5	5	5
Pearson Correlation	0.993081237	0.743675763	0.786110403
Hypothesized Mean Differe	0	0	0
df	4	4	4
t Stat	0	0	0
P(T<=t) one-tail	0.5	0.5	0.5
t Critical one-tail	2.131846786	2.131846786	2.131846786
P(T<=t) two-tail	1	1	1
t Critical two-tail	2.776445105	2.776445105	2.776445105

The statistical tests comparing various groups in detecting common fraud and bank fraud because of insider involvement are shown in the table. The findings demonstrate that while the three groups' variances varied, their means are the same. Strong linear relationships between the groupings are suggested by high Pearson correlation coefficients. There is no statistically significant difference in the group means, as shown by the t-stat and critical t-values, which are both significantly below the critical t-values. The null hypothesis is not refuted by the data, and more research may yield more information. A more thorough statistical analysis is made possible by the availability of the data in a spreadsheet or other easily accessible format. Additional information and the identification of particular roles may offer more insights.

Conclusion:

The study emphasises how crucial forensic auditing is to combating financial fraud in banks. The specialised talents of forensic auditors augment its effectiveness by enabling them to identify and avert fraudulent actions with greater efficiency than conventional approaches. In court adjudication, forensic audit reports are extremely essential since they offer vital evidence for legal processes. By enhancing openness and accountability in financial reporting systems, it enhances corporate governance. Forensic auditing helps companies achieve their goals and flourish. It also helps prevent company collapse and investor impoverishment by quickly finding and resolving financial differences. Financial fraud is reduced and the trustworthiness of financial statements is increased. Preserving the integrity of the Indian banking industry requires the implementation of sophisticated forensic auditing techniques, extensive training initiatives, and a regulatory framework that is supportive of the industry.

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