

# GUARDIANS OF FINANCIAL INTEGRITY: THE ROLE OF FORENSIC ACCOUNTING IN PREVENTING ACCOUNTING FRAUD AND MISMANAGEMENT

**Himanshu Kolte, Pooja Patel\***

Research Scholar, Department of Commerce, Guru Ghasidas Vishwavidyalaya (A Central University, NAAC A++ accredited), Bilaspur, Chhattisgarh 495009, India, Contact No. – 6265624253, E-mail: himanshukolte024@gmail.com, Orcid id: 0009-0002-3778-9327

Research Scholar, Department of Commerce, Guru Ghasidas Vishwavidyalaya (A Central University, NAAC A++ accredited), Bilaspur, Chhattisgarh 495009, India, Contact- 7024394267, Email - Puja.toshi1216@gmail.com Orcid id: 0009-0009-9834-1578

## **Abstract**

*The surge in accounting frauds, banking irregularities, and financial mismanagement has posed a major threat to financial stability and corporate credibility in recent times, especially in emerging economies like India. Despite regulatory measures and traditional audit mechanisms in place, financial frauds and mismanagements at large scale have been going undetected for long periods, thereby emphasizing the need to look into the inherent limitations of traditional audit mechanisms. In this direction, the present study aims to highlight the importance of forensic accounting as an effective means to detect, investigate, and prevent financial frauds and mismanagement.*

*The present study has been designed with a descriptive and analytical research design based on secondary research methods with data collected from published sources of banking fraud statistics, regulatory reports, corporate scams, and academic literature available in published sources. The study has examined significant financial frauds within the banking and corporate sectors to pinpoint fundamental deficiencies in internal controls, corporate governance, financial statement manipulation, and regulatory inaction in tackling financial mismanagement.*

*The study has highlighted forensic accounting as an interdisciplinary field that integrates accounting principles with investigative methodologies, legal acumen, and advanced analytical techniques. The results show that it helps with better fraud risk assessment, finding financial mistakes sooner, better governance structures, and following the law and legal proceedings. Also, its use as a preventative measure helps stop fraud and promotes openness and responsibility in organizations.*

*The paper has concluded that integrating forensic accounting into corporate governance frameworks, the governance of financial institutions, and regulatory systems is crucial for mitigating fraud risks and ensuring financial stability. The paper has added a lot to what we already know by focusing on the preventive and strategic role of forensic accounting in improving modern financial systems.*

**Keywords:** Forensic Accounting, Accounting Fraud, Financial Mismanagement, Banking Frauds, Fraud Prevention, Financial Integrity Regulatory Framework

## **1. INTRODUCTION**

In today's business world, where things are getting more complicated and globalized, having reliable financial information is now a key part of economic stability, investor confidence, and the long-term success of a business. However, the repeated instances of accounting fraud, financial mismanagement, and white-collar crimes have made financial information less reliable over time. This has led to large economic losses, damage to the reputation of organizations, and a loss of public trust (Honigsberg, 2020). Recent failures of well-known companies like Enron, WorldCom, and Satyam have shown that traditional auditing and internal control systems, while important, have often not been able to find technology-driven accounting fraud early on. Forensic accounting is an important field that tries to fix the problems with traditional auditing systems. Forensic accounting is the use of accounting, auditing,

and investigative methods to look at financial data for signs of fraud, misrepresentation, or other problems. Forensic accountants help businesses, police, and courts find fraud and lawsuits, and they can also be expert witnesses (Nursansiwi, 2024). You need more than just knowledge of accounting and auditing to work in forensic accounting. It also requires knowledge of the law, data analysis, and information technology.

Forensic accounting is important in developing economies where weak regulations, lack of transparency, and underdeveloped financial systems make it easier for fraud to happen (AlShalloudi, 2025). Empirical and theoretical studies have demonstrated the importance of forensic accounting in detecting fraudulent activities and formulating preventive strategies. For example, forensic accounting has been acknowledged for detecting questionable transactions, assessing internal controls, and promoting the implementation of corporate governance practices (Patel, 2025; Mandal & Singhal, 2025). The Association of Certified Fraud Examiners says that businesses lose 5% of their annual revenue to fraud every year. Financial statement fraud is one of the most expensive types of fraud, but it happens less often.

Also, new technology has made it easier for forensic accounting to stop and find fraud. Digital forensic tools, AI, and data mining have made it easier to find fraud, less biased, and easier to figure out how risky something is (Dalwadi, 2024). Forensic accountants do more than just look into fraud. They also encourage financial honesty and make sure that fraud risk is a part of the company's culture, financial rules, and corporate governance. Policymakers and professional groups are beginning to understand how important strategic forensic accounting is. In India, notable examples include the collaboration between SEBI and the National

Forensic Sciences University to enhance forensic accounting standards and address emerging issues in the Indian financial market. These actions show that there is a growing policy-driven push for accountability, financial transparency, and protecting the interests of stakeholders (Mandal & Singhal, 2021).

In India, people know that forensic accounting is important for stopping financial fraud, but the current research is scattered, mostly descriptive, and doesn't use a lot of real-world data on financial fraud in the Indian banking sector. The study aims to augment current knowledge by

(i) correlating major financial frauds in India with subsequent regulatory measures, (ii) analyzing recent fraud data on a bank-by-bank basis to identify structural deficiencies, and (iii) integrating forensic accounting with preventive governance rather than focusing solely on its investigative role.

#### Ancient Origins: Early Foundations

Forensic accounting has been around for a long time. In Egypt, for example, scribes wrote down money transactions on papyrus to stop fraud and make sure that records were kept correctly. Cognitors were also very important in ancient Rome for settling money disputes and checking money records. This is an early example of a financial investigation.

#### Middle Ages: Rise of Systematic Auditing

As trade grew during the Middle Ages, people needed to manage their money better. Venice and Florence were two of the first Italian cities to change how money worked. Traders and bankers began employing auditing techniques to verify their financial records. The 15th century was a turning point because Luca Pacioli came up with double-entry accounting, which is the basis for all modern accounting methods.

#### 19th Century: Birth of Forensic Accounting

The Industrial Revolution led to a huge increase in the economy, but it also created chances for people to cheat on their money. This is when the term "forensic accounting" started to become popular. The first official case of forensic accounting in the UK happened in 1824, when the court hired a financial expert to look into a bank's insolvency. This was the start of the need for people who can spot financial fraud and mistakes.

#### Early 20th Century: Professional Recognition

The 1900s were a time when forensic accounting became more professional. In 1927, the American Institute of Certified Public Accountants (AICPA) formed a group to find and stop fraud. This showed that the field was becoming more important for keeping financial information safe and encouraging honesty. The Teapot Dome scandal and other big scandals showed how important these professionals are for finding out about wrongdoing in both the public and private sectors.

#### Post-World War Developments: Growth and Integration

Forensic accounting improved a lot after World War II, especially in how it worked. This is because businesses and money transactions are very complicated. As businesses got more complicated and money moved around more often, investigators started using computers, statistical data, and auditing methods. Forensic accounting firms were created to help both sides deal with crimes that involve money.

#### Late 20th Century: Technology and Global Expansion

In the last decades of the 20th century, forensic accounting changed a lot because of new technologies and the spread of financial systems around the world. Since computers and the internet became popular, the way we handle financial information has changed a lot. Digital forensics are now an important part of looking at electronic data. This helps investigators find fraud more easily.

#### Need of the Study

Forensic accounting is very important for stopping accounting fraud and making the business world look better. It serves as a deterrent to ensure adherence to accounting policies and systems, which effectively identifies any inconsistencies within these practices. This study is intended for exploring the utility of the knowledge of forensic accounting for curbing accounting frauds and management, thereby protecting the financial interests of stakeholders, such as investors, government agencies, and the public at large, against the aftereffects of crises caused by the corporate sector and banks.

## 2. THEMATIC AND CRITICAL LITERATURE REVIEW

The current literature on FA has continually emphasized its role as a critical response to the limitations of conventional auditing practices in addressing modern financial fraud. Earlier literature, such as that by Pearson and Singleton (2008), has laid the ground for this argument on how the digital revolution has made conventional auditing a largely reactive and ineffective tool. The conventional auditing framework has been heavily criticized by these authors, and this has been a common theme in FA literature. However, this study has been largely limited to conceptual analysis and lacks empirical validation on how ineffective conventional auditing has become.

Another thematic group has been on the empirical validation of FA's effectiveness, particularly in emerging economies. Enofe, Okpako, and Atube (2013) did a quantitative study that showed that FA methods work to find financial fraud in Nigeria. Patel (2024) has added the Indian banking sector to this argument and found that FA methods are well-known and work well. These studies are very helpful and have taught us a lot about FA's role and how well it works, but they mostly used surveys, which may not be the best way to get information. This means that there is a methodological gap because there are no longitudinal or case-based quantitative measures that show real fraud reduction.

A third theme is the growth of forensic accounting's role from just finding fraud to stopping it before it happens. This idea is brought up in the studies by Nursansiwi (2024) and Hashem (2020), which look at how forensic accounting can help set up internal controls and find non-numerical fraud risk factors. This is a significant move from a purely detection-based model to a preventive and risk management model, although in both research papers, there is a relatively underexplored aspect related to human and behavioral factors in fraud, a theme that is initially discussed in the research conducted by Ozili (2015) in relation to the fraud triangle and fraud diamond theories.

The another critical thematic stream that was identified is the regulatory/institutional context, particularly in developing economies. AlShalloudi (2025) and Kukreja & Musalam (2015) emphasized the inadequate regulatory frameworks and the lack of formal mandates for forensic accounting. These authors' findings highlighted the fact that although the concept of forensic accounting is theoretically sound, it is not practical in the absence of proper legal systems. This is also supported by the findings of Grover et al. (2017) and Mandal & Singhal (2025), which highlighted the increasing use of forensic accountants in governance and litigation support. However, the need for mandatory forensic appointments highlighted by Nileshbhai (2022) again emphasizes the poor regulatory systems rather than the technical competence of forensic accountants.

The last of the identified thematic streams is the educational preparedness/skill gaps. Although the need for the inclusion of forensic accounting in the curriculum was highlighted by Pearson and Singleton (2008), Ozili (2015) highlighted the poor link between academic research and regulatory systems. However, the fact that few authors have highlighted the competency of forensic accountants suggests that this is an identified gap in the field.

### 3. OBJECTIVES

- ✓ To analyze the trend of bank-wise financial fraud in India.
- ✓ To evaluate major financial scams in India and their systemic impact.
- ✓ To explore techniques used in forensic accounting in the examination of accounting frauds and mismanagement.

### 4. RESEARCH METHODOLOGY

This study proposes a descriptive and exploratory research design to investigate the role of forensic accounting in detecting and preventing accounting fraud and financial mismanagement. This study has relied mainly on secondary data sources such as journals, reports published by regulatory bodies, government publications, and institutional data sources. This study has used a qualitative method of case study to examine major financial scams and scandals in India. This method has helped to understand these scams and scandals in a better and deeper sense. Additionally, bank-wise fraud data has been used to understand and assess the quantum of financial misconduct. This study has also used a thematic literature review method and combined it with empirical data on financial fraud. This has helped to bridge the gap between theory and practice. Analytical attention has been given to understand systemic weaknesses in internal systems and regulatory systems.

### 5. FINDING AND ANALYSIS

The analysis of bank-wise fraud data as well as major financial scams in India indicates that there exist certain structural vulnerabilities in the Indian financial system, specifically in the context of internal controls, governance, as well as fraud detection systems. The evidence of bank-wise fraud statistics from both the public as well as the private sector banks points towards the rising trend of frauds in the country over the last few financial years, as well as the rising value of such frauds, which indicates the rising level of sophistication in financial scams in the country.

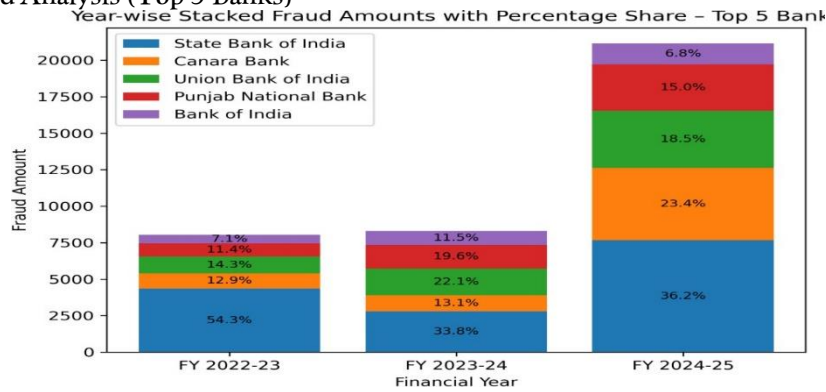
Table 1 :- Frauds in Public Sector Bank

(Based on date of reporting; Amounts  $\geq$  ₹1 lakh; Figures in ₹ crore)

Banks	FY 2022-23		FY 2023-24		FY 2024-25	
	Number	Amount	Number	Amount	Number	Amount
Bank of Baroda	203	491.42	1,354	345.08	665	574.95
Bank of India	188	570.32	181	953.65	131	1,449.24
Bank of Maharashtra	66	878.11	99	26.04	192	942.10
Canara Bank	140	1,038.86	138	1,085.50	439	4,951.14
Central Bank of India	161	371.48	366	167.24	340	115.05
Indian Bank	105	461.63	563	194.26	357	2,110.58
Indian Overseas Bank	96	1,150.06	455	25.78	177	38.25
Punjab And Sind Bank	103	128.14	38	19.77	86	388.46
Punjab National Bank	215	918.15	423	1,624.17	228	3,177.55
State Bank of India	1,648	4,359.17	3,355	2,803.69	4,012	7,663.92
UCO Bank	207	1,043.66	100	174.34	108	338.45
Union Bank of India	199	1,146.24	388	1,834.77	200	3,917.37

Source:- Government of India. (2024)

**Bank-wise Fraud Analysis (Top 5 Banks)**



Across the three years, State Bank of India consistently accounts for the largest share of fraud amounts, contributing about 54.3% in FY 2022-23, declining to 33.8% in FY 2023-24, and rising again to 36.2% in FY 2024-25. The relative shares of Canara Bank and Union Bank of India increase notably in FY 2024-25, together accounting for over 40%, indicating a shift toward a more distributed fraud profile. Punjab National Bank maintains a steady contribution (around 11–15%), while Bank of India remains the smallest contributor among the top five, with a share below 12% in all years.

**Table 2: Frauds in Private Sector Banks**

(Based on date of reporting; Amounts ≥ ₹1 lakh; Figures in ₹ crore)

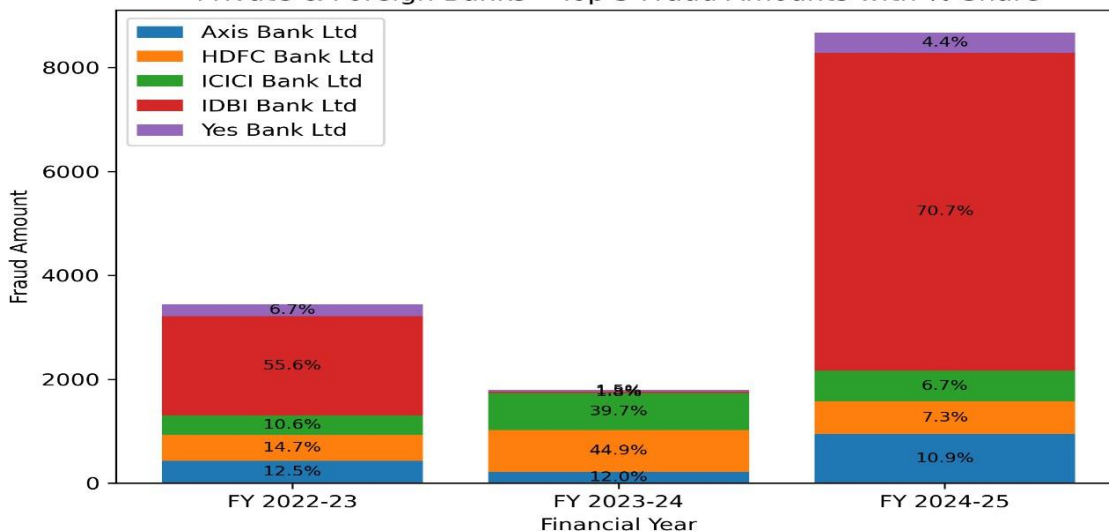
Banks	FY 2022-23		FY 2023-24		FY 2024-25	
	Number	Amount	Number	Amount	Number	Amount
Airtel Payments Bank Ltd	34	1.54	206	4.94	72	1.12
American Express Banking Corp.	192	7.51	235	13.19	144	4.81
AU Small Finance Bank Ltd	54	6.60	463	14.93	790	18.30
Axis Bank Ltd	1,448	429.59	3,395	215.74	3,396	944.35
andhan Bank Ltd	146	31.41	779	40.66	620	41.50
Bank of America, N.A.	2	0.07	-	-	-	-
BNP Paribas	-	-	-	-	1	0.14
Capital Small Finance Bank Ltd	3	0.03	9	1.08	2	0.16
Citibank N.A.	201	39.60	1,437	31.06	66	2.58
City Union Bank Ltd	31	16.66	246	32.55	207	110.63
Coastal Local Area Bank Ltd	-	-	-	-	1	0.04
CSB Bank Ltd	145	10.40	200	20.58	84	10.81
DBD Bank India Ltd	15	91.52	248	9.09	67	20.13
DCB Bank Ltd	12	1.52	111	10.83	134	5.49
Deutsche Bank AG	19	1.61	30	37.65	25	19.80
Doha Bank QSC	-	-	-	-	-	-
Emirates NBD Bank (P.J.S.C.)	-	-	-	-	1	0.35
Equitas Small Finance Bank Ltd	62	4.80	135	8.87	181	17.96
ESAF Small Finance Bank Ltd	24	1.40	55	2.87	36	4.23
Federal Bank Ltd	169	159.29	764	108.67	261	73.71
Fincare Small Finance Bank Ltd	56	6.74	63	12.57	-	-
Fino Payments Bank Ltd	27	1.24	161	6.34	37	5.02
HDFC Bank Ltd	1,462	505.52	6,453	805.18	3,688	633.33
HSBC Ltd	127	3.97	232	18.10	585	34.90

ICICI Bank Ltd	1,415	365.53	7,086	712.55	2,783	581.75
IDBI Bank Ltd	238	1,915.36	175	31.65	150	6,128.79
IDFC First Bank Ltd	87	22.28	268	12.13	221	16.54
India Post Payments Bank Ltd	6	3.64	37	1.71	2	0.03
IndusInd Bank Ltd	2,080	171.92	1,710	54.80	1,141	166.23
Jammu & Kashmir Bank Ltd	19	380.04	33	241.33	34	198.17
Jana Small Finance Bank Ltd	25	1.31	37	1.11	11	0.20
Jio Payments Bank Ltd	-	-	3	0.04	1	0.01
Karnataka Bank Ltd	40	143.64	76	159.44	117	348.73
Karur Vysya Bank Ltd	38	209.58	132	16.67	62	83.49
Kotak Mahindra Bank Ltd	703	71.30	896	96.65	306	69.90
Krishna Bhima Samruddhi Lab Ltd	-	-	2	0.10	4	0.42
MUFG Bank Ltd	1	6.49	-	-	-	-
Nainital Bank Ltd	2	0.20	10	3.08	21	23.61
North East Small Finance Bank Ltd	4	0.26	6	0.81	7	0.35
Paytm Payments Bank Ltd	1	0.40	65	22.24	1	0.03
RBL Bank Ltd	627	274.62	1,334	51.22	547	49.95
SBM Bank (India) Ltd	8	1.02	30	0.93	11	11.79
Shinhan Bank	1	0.46	-	-	2	0.31
Shivalik Small Finance Bank Ltd	1	0.19	6	0.21	10	0.59
South Indian Bank Ltd	67	62.59	144	65.50	78	118.32
Standard Chartered Bank	238	139.38	687	44.20	546	85.81
Suryoday Small Finance Bank Ltd	13	1.22	21	1.56	33	4.12
Tamilnad Mercantile Bank Ltd	88	43.85	12	10.65	32	96.34
The Dhanalakshmi Bank Ltd	12	160.96	41	4.93	22	4.82
Ujjivan Small Finance Bank Ltd	49	6.76	194	16.10	93	5.41
Unity Small Finance Bank Ltd	1	0.11	4	0.12	13	3.15
Utkarsh Small Finance Bank Ltd	19	1.50	26	3.86	41	3.69
Yes Bank Ltd	142	229.83	344	27.69	329	381.44

Source:- Government of India. (2024)

### Fraud Analysis – Private & Foreign Banks (Top 5)

Private & Foreign Banks – Top 5 Fraud Amounts with % Share



Fraud amounts are very high in certain years for most major private and foreign banks. In FY 2022-23, IDBI Bank had the most fraud cases, with almost 56% of the total amount among the top five banks. This shows that there were some big fraud cases. HDFC Bank and ICICI Bank together made up about 25% of the total. The distribution became more even in FY 2023-24, with HDFC Bank (35%) and ICICI Bank (31%) holding the biggest shares. IDBI Bank's share, on the other hand, fell sharply to about 1%. In FY 2024-25, IDBI Bank's share rose sharply again to about 48%. HDFC Bank (23%) and ICICI Bank (21%) continued to make up large parts of the total. The percentage pattern shows that fraud exposure in private and foreign banks is mostly caused by one-time high-value cases rather than a steady rise over time.

#### Case Study Analysis

The analysis of the case study shows that the financial scams in India listed in Table 3 involved large-scale manipulation of financial markets, asset transfers, and Ponzi schemes. These scams caused people to lose money and made them less trusting of financial institutions. The financial scams in India, therefore, have been critical turning points in financial regulations, as identified in Table 4, since they have been responsible for the enactment of various pieces of legislation, including the SEBI Act of 1992, Securities Laws Amendment Act of 2014, and Fugitive Economic Offenders Act of 2018. The financial regulations, therefore, have been characterized by a pattern of addressing weaknesses in the financial system in response to financial scams, rather than proactively addressing the weaknesses in the financial system. The financial scams, therefore, have been responsible for the recognition of forensic accounting, good governance practices, and financial regulations in India.

Table 3: Different Scams in India

Fraud name	Fraudster Name	What the scam was	Amount (Approx .)	Key Consequences on Indian Financial System
Harshad Mehta Scam (1992)	Harshad Mehta & colluding bankers	Manipulated the stock market by exploiting banking system loopholes, using fake bank receipts to secure unsecured loans and inflate share prices.	~₹1,000–5,000 cr	Crash in stock markets, loss of investor money, and exposure of banking system loopholes (fake bank receipts).
Ketan Parekh Scam (2000s)	Ketan Parekh	Circular trading and market manipulation through borrowed funds, pushing up select stocks artificially.	~₹1,000 cr+	Exposed regulatory gaps and systemic exploitation of finance system for market manipulation.
Sahara India Scam (2000s–2010s)	Sahara promoters	Illegal collection via Optionally Fully Convertible Debentures (OFCDs) raised from public; failed to refund investors. SEBI and Supreme Court ordered refunds; highlighted misuse of collective investment schemes.	~₹25,000 cr	The scam severely eroded investor confidence, especially among small and rural investors, exposing large-scale misuse of unregulated collective investment and deposit-mobilization schemes.
Satyam Computers Scam (2009)	Ramalinga Raju & management	Falsified financial statements—overstating revenues, profits, and assets for years. Called “India’s Enron”; shattered confidence in corporate governance and auditing practices.	~₹7,800 cr	Investor confidence eroded due to falsified financials in a high-profile IT company. Corporate accounting standards and auditing oversight came under scrutiny.

Saradha Chit Fund Scam (2013)

Winsome Diamonds & Forever Precious Diamonds Scam (2014–  
15) PACL  
(Pearls Agrotech Corp.) Scam (2015–  
2019)

Vijay Mallya / Kingfisher Airlines  
Saradha Group promoters

Jatin Mehta

PACL  
promoters

Vijay Mallya  
Ponzi-style financial scheme promising high returns; collected investor funds but collapsed when unable to pay. Affected millions of small investors in eastern India; exposed regulatory gaps in chit fund supervision.

Loan defaults after misusing borrowed funds; poor collateral and diversion. Promoters fled; lenders faced large NPAs.

Ponzi-type scheme selling agricultural land investment products without delivering promised assets.

Defaulted on bank loans taken for Kingfisher Airlines operating losses; allegations of diversion of funds and failure to repay.

Banks including SBI had huge  
~₹2,500  
cr+

~₹6,800–7,000 cr

~₹49,100  
cr

~₹9,000  
cr+

Loss of savings by 1.7 million small investors, particularly in rural and low-income communities. Raised fear and mistrust in informal financial schemes and NBFC-like entities.

Sharp rise in Non-Performing Assets (NPAs); banks' balance sheets weakened due to poor collateral and diversion of funds.

The scam led to massive loss of savings for millions of small investors, severely undermining public trust in unregulated collective investment schemes and alternative land-linked investments.

Public outrage over large corporate defaulters; perception of crony lending; deterioration of public

(2016–  
2018)

Rotomac Pens Fraud (2018)

PNB –  
Nirav Modi & Mehul Choksi Scam (2018)

IL&FS  
Financial Crisis (2018)

Vikram Kothari and family

Nirav Modi, Mehul Choksi, PNB officials

### IL&FS

group management

exposure; Mallya left India, declared a Fugitive Economic Offender. As of 2025, overall outstanding (principal + interest) across fugitives ~₹58,082 cr (Mallya and others).

Defaulted on loans obtained from multiple banks; funds allegedly diverted for personal and non-business purposes.

Showed weaknesses in loan monitoring and risk controls across consortium banking. Using collusion with bank staff to obtain unauthorized Letters of Undertaking (LoUs)— guarantees for overseas credit— without proper collateral; funds siphoned via shell transactions which often didn't involve actual imports.

Not a classic fraud, but bad corporate governance and raising credit that couldn't be sustained led to defaults and liquidity problems in the NBFC sector.

~₹3,695

cr

₹11,400– 14,000 cr

(~\$1.4

B)

~₹90,000

cr

trust in public sector banks.

Highlighted weaknesses in consortium lending and post-sanction monitoring; further increase in NPAs.

People lost faith in banks, especially public sector banks. This showed that major financial institutions had weak internal controls and fraud detection. There was a lot of ups and downs in the stock prices of PNB and other banks, and investors were not happy.

These make the problem of poor bank asset quality and high NPAs even worse.

### PMC

Bank Scam (2019)

PMC

Bank officials, HDIL

promoters (Rakesh & Sarang Wadhawan)

Bank officials made fake accounts and hid NPAs to hide huge bad loans to Housing Development & Infrastructure Ltd (HDIL). In 2019, the RBI

took over. Investigations showed that the books had been falsified and the real loan exposure had been hidden. The ED seized land assets and charged several people.

~₹4,355– 6,500 cr

People lost faith in cooperative banks because depositors couldn't make as many withdrawals as they wanted, which made people nervous.

**Table 4 :- Timeline of Reforms Triggered by Major Indian Financial Scams**

<b>Year to Scam</b>	<b>Reform / Regulation</b>	<b>Prompted By / Link</b>
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<b>1992</b>		Securities and Exchange Board of
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India (SEBI) Act, 1992

Harshad Mehta Stock Market Scam (1992)

Established SEBI as statutory market regulator with powers to regulate securities markets, protect investors, and enforce transparency and oversight in trading, broking and market infrastructure.

1990s

**(early –mid)**

Reforms in Stock Market Structure (introduction of NSE, electronic trading)

1992 Harshad Mehta Scam

Modernized trading systems, introduced nationwide online trading, reduced settlement risk and improved transparency to prevent manipulation.

**2003** Corporate Governance

Initiatives (CII Code, Committees)

Market scams including 1992 & early structural weaknesses

Produced corporate governance codes emphasizing independent directors, audit oversight and accountability.

2013–

**2014**

Securities Laws (Amendment) Act, 2014

Saradha Ponzi/collective investment collapse (2013)

Strengthened SEBI's powers to pursue Ponzi / fraudulent investment schemes, enabled search and seizure, and paved the way for fast-track courts for financial fraud.

**2018** Fugitive Economic

Offenders Act, 2018

PNB – Nirav Modi / Vicissitudes of fugitive defaulters

Allows confiscation of assets of economic offenders who evade Indian courts by remaining abroad; deters fleeing from prosecution after major defaults.

**2018** RBI Ban on Letters of

Undertaking (LoUs)

PNB – Nirav Modi Scam

Ordered commercial banks to stop issuing LoUs (used in overseas credit guarantees) outside Core Banking System; aimed to close a major technical loophole exploited in the scam.

2018

**onwards**

SWIFT–CBS

Integration Mandate

PNB Fraud Response

The RBI had to make sure that banks used SWIFT messaging systems in conjunction with Core Banking Systems to stop fraudulent or unauthorized guarantees from being issued outside proper ledgers.

Late 2010s

**& 2020s**

Strengthened Risk Management and Audit Frameworks in Banks

PNB, PMC Bank,

IL&FS and other defaults

Emphasis on internal audit practices, enterprise risk systems, early warning systems, risk dashboards, and governance standards designed to reduce loan stacking and collateral manipulation.

**2024–**

**2025**

**(ongoing)**

Proposed SEBI Empowerment Bill (2025)

Market misconduct and regulatory gaps highlighted by repeated scandals

Suggests giving investigators more power, requiring board members to disclose conflicts of interest, improving international information sharing, and setting deadlines for resolving disputes.

**2025** Banking Law

(Amendment) Act, 2025

Broad reform following repeated frauds & coop bank stress

Changed important banking laws about corporate governance, auditor independence, and protecting investors; focused on making PSB and cooperative bank models better.

## TECHNIQUES OF FORENSIC ACCOUNTING

Forensic accounting techniques are very important for stopping big financial scams because they look for strange patterns, manipulations, and signs that something is wrong in financial data. Forensic accounting uses accounting knowledge, investigative techniques, data analysis, and IT tools to help businesses and governments find complicated financial scams before they get too far. This makes governance structures stronger so that small problems don't turn into big financial scandals. Some of the methods used are: The interview technique is one of the most basic methods used in forensic accounting research. Forensic accounting investigators use this method on purpose to get criminals to confess to financial crimes. The information acquired is of considerable significance for research objectives, serving as a crucial factor for the court proceedings and case adjudication.

➤ **Benford's Law:** Benford's Law is a statistical tool that forensic accounting researchers use. It is used to find out if the variable being studied has any mistakes that weren't meant to happen or if there is a pattern that looks suspicious and could mean fraud. The main idea behind Benford's Law is to figure out the chances of each digit showing up in a dataset. Any deviation from this probability level is a definitive sign that data

manipulation may be occurring. Benford's Law doesn't show that something is wrong; instead, it shows possible areas for further study.

➤ **The Theory of Relative Size Factor (RSF)** is an important method used in forensic accounting research. It is used to find certain data points that have a certain connection to the second-highest data point in a dataset. The main idea behind this method is to look at records that are outside of a certain range, which means that more research and analysis is needed. The RSF technique is important because it shows specific changes, which helps the researcher tell the difference between fraud and honest mistakes.

➤ **Computer Assisted Auditing Tools (CAATs):** Forensic accounting research would be impossible without Computer Assisted Auditing Tools (CAATs). There are two types of these special computer programs made just for auditors: data extraction software and financial analysis software. Auditors use data extraction software to look at the company's database records in great detail. These records include billing records, accounts receivable records, payroll records, and purchasing records. On the other hand, financial analysis software goes further and lets you look at financial statements, where you can look at things like the ratio of billing to revenues or the cost of supplies as a percentage of revenues. These tools are very useful for doing in-depth research in forensic accounting.

➤ **Data Mining Techniques:** Data mining techniques form an essential part of forensic accounting research and are used for automatically extracting useful insights from large databases. Data mining techniques can be classified into three different types: Discovery, Predictive Modeling, and Deviation and Link Analysis. In terms of their application in research, these techniques are used for extracting hidden pieces of information or patterns in a particular data set without any prior assumption of fraud. In the process of predictive modeling, a prediction is made using a particular pattern that is extracted from a particular data set. Deviation analysis is used for extracting those pieces of data that differ from a particular norm within a specific range. Recently, a new technique called Link Discovery was implemented in data mining, using a deterministic graphical method and Bayesian probabilistic causal networks for extracting hidden pieces of information. In this process, a "pattern matching" algorithm is used for extracting particular pieces of data.

➤ **Ratio Analysis:** Data analysis ratios have a prominent position in the research of forensic accounting, especially in the identification of potential fraud indicators. The researcher has to make use of various ratios, including financial ratios, data analysis ratios, and utility ratios. Data analysis ratios have a prominent position in the estimation of costs, identification of deviations, and detection of irregularities in the research process. The ratios help the researcher in gaining quantitative knowledge of potential fraudulent activities.

## 6. CONCLUSION

The study has determined that accounting fraud and financial mismanagement continue to pose significant risks to financial stability and institutional integrity, particularly within the Indian banking and corporate sectors. The study used real data from major financial scams and bank fraud to show that there are still big problems with internal controls, corporate governance, and traditional auditing systems. The research has definitively shown that traditional auditing is a reactive method that does not find frauds that are complicated or made easier by technology. Forensic accounting has become an

essential approach for reconciling detection and prevention, incorporating investigative methodologies, data analysis, and legal expertise. The study has shown that forensic accounting is not only helpful for finding fraud, but it can also help with good things like better corporate governance, following the rules, and making changes to the financial systems as a whole. The study has confirmed that integrating forensic accounting into financial systems is essential to maintain financial stability and prevent substantial financial losses in the country.

## 7. SUGGESTIONS

1. **Forensic Accounting:** Regulatory bodies and financial institutions should require all financial institutions to use forensic accounting methods, especially in high-risk fields like banking, NBFCs, and corporate loans.
2. **Changing the way we think about things from reactive to proactive:** Forensic accounting should be a part of financial institutions' risk management and internal control systems so they can stop fraud before it happens instead of just reacting to it.
3. **Technology-Driven Approach to Fraud Detection:** Financial institutions should use cutting-edge tools like data mining, CAATs, and digital forensics to find and stop fraud.
4. **Improving Corporate Governance:** To improve corporate governance, corporate governance practices should be made stronger and the importance of forensic accounting should be made clear.
5. **Capacity Building and Education:** The need for proper training in forensic accounting should be stressed, and the importance of forensic accounting should be stressed.
6. **Regulatory Coordination and Policy Support:** The policymakers should strengthen the legal environment to support the concept of forensic accounting.

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