

IMPACT OF FORENSIC ACCOUNTING AND AUDIT IN THE INDIAN BANKING SECTOR

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I certify that the dissertation entitled:

Impact of forensic accounting and audit in the Indian Banking Sector

submitted for the degree of MSc in Accounting and Finance Management is the result of my own work and that where reference is made to the work of others, due acknowledgement is given.

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Abstract

Impact of forensic accounting and audit in the Indian Banking sector

Ramnath Raja

Forensic accounting in India face an inefficient implementation especially in the banking sector due to various factors. Drawing on the fraud diamond model, this dissertation explores and discusses the factors and problems which distorts the effective implementation of forensic accounting in India based on primary and secondary data collected. The process of collecting data for this paper was through open-ended internet-mediated questionnaire sent to accounting professionals practicing in India. The results indicate that the present scenario of forensic audit is not effective, and it can be improved through establishment of proper regulatory authority and by imparting excellent training to the future forensic accountants. It is also recommended to establish a separate regulatory body for forensic accountants which produces and governs rules, laws and regulations relating to this field in India.

Keywords: Forensic accounting, Fraud, Fraud Triangle, Fraud diamond, Techniques, Investigation

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1. Introduction

1.1 Overview

In recent years, the breadth and frequency of fraud increased dramatically in the Indian economy. According to a Reserve Bank of India (RBI) report for the financial year 2018-19, approximately INR 715 billion of financial fraud were identified, with a total of 3,766 fraud cases portraying the Indian economy's vulnerability to failure in the absence of stringent actions to mitigate it (Manikandan, 2019).

Extending the instances of significant fraudulent money embezzlement activities, a Forbes article highlights key frauds that have caused the Indian financial sector to become hampered (Panchal, 2019). The article addresses latest suspicious financial activities at Punjab National Bank Non-performing assets (NPAs) scam by Nirav Modi, Mehul Choksi's Gitanjali group, the issue of non-performing assets of the banks in the recent past, IL&FS shadow banking scam to cite a few cases (Panchal, 2019). These instances imply the need for more proactive controls that will aid identifying embezzlement and nipping it at the bud.

The application of forensic accounting and auditing principles can act as a major contributor to the mitigation of financial fraud. The concept of forensic accounting is of primary importance in this regard because of its fundamental objective of identifying possible patterns and behaviours in the financial reports. It facilitates the gathering of evidence to aid the occurrence of the tracing mechanism or the prospect of fraud. The key distinction between forensic audit and financial audit lies in the fact that at the time of conducting a forensic audit, the search is dependent largely on the detection of corruption or fraud through identifying elements of conflicts of interest, unethical bribery or extortion cases, rather than verifying whether the records in the aspect of the transactions has been maintained or not (Nigrini, 2011).

The idea of forensic accounting deals with the integration of financial information or documents and legal laws at the individual or organization level in order to include facts that may aid in court proceedings. While the forensic audit method is like a normal audit technique, the additional dimension of it lies in the fact of identifying legal proceedings and

court appearances (Honigsberg, 2020). The forensic audit consists primarily of evidence gathering or to disprove the possibility of corporate or individual fraud to be added by the supreme authority to the conduct of the legal procedures. Researchers affirm that implementing a forensic audit procedure can contribute significantly to the reduction and curtailment of fraudulent activities by giving the opportunity to trace the misappropriation as soon as possible. In this sense, however, it is noteworthy that the forensic audit technique is complex and needs appropriate training to extricate all of its usefulness and output (Amiri, 2018). Furthermore, the incorporation of information technology concepts in this regard will contribute significantly to the increase of the method and to the reliability of financial statements that provide the ultimate monitoring of business activities and the usefulness to users.

1.2 Aim and Objectives of the research

1.2.1 Research Background

Though in a sarcastic tone, Mark Twain presented banks as institutes providing assistance when the times are good but denying it when the times are tough; The existing situation shows a shift in the role of financial damages attributed to misappropriation and misappropriation. Because of this aspect, the introduction of innovation and adequate steps to raise and defend the weakening Indian financial sector has in recent times given top priority to the forensic audit and accounting principle and the Indian banking industry is no exception. It is well spoken and accepted by the public, but the challenge lies in the complexities linked to the detection of fraud or misappropriation that might occur. The Reserve Bank has been promoting proactively the adoption of forensic auditing processes by banks by establishing a common pool, ageing on the basis of qualified and skilled track record assessment for companies or persons eligibility to access financial support (Kumar, 2018). The RBI's classification of fraud based on the Indian penal code has operationalized an online searchable database, a central fraud register, which helps in timely detection and prevention of fraud, and serves to provide the basis on which banking institutions can make informed business decisions.

1.2.2 Research objectives and questions

In 2019, a KPMG report identified the areas of forensic accounting and auditing practices which are still lacking in the Indian banking economy amplifying the persistent crisis (KPMG, 2019). Though the RBI launched guidelines to incorporate compulsory forensic accounting and audit in the banking sector, the issues persist with the subsistent increase in the issue of NPAs. The problems which influence the effectiveness of forensic accounting include identifying factors such as information asymmetry and lack of knowledge, the forensic analysis, limiting the scope of data monitoring to a short period of time, which in most cases is not enough, the lack of proper hiring decisions by banks for well-equipped and well versed forensic auditors, or companies (KPMG, 2019). As suggested earlier in this chapter, the process requires strong skill sets and expertise to trace crime patterns, and the effectiveness of the process in most cases is disrupted due to inexperienced people employed for this purpose (Roy and Saha, 2016). Other issues include the quality and depth of the reports submitted to the bank and the failure to standardize the process distorts the purpose and its usefulness. Moreover, the need for dynamism and continuous integration of approaches into techniques in line with industrial development and criminal prospects gains a significant position in the elements that emanate the issues of forensic auditing in the context of Indian banking sector.

The primary research objective is thus to identify and analyse the effectiveness of forensic accounting and audit in the context of the Indian banking sector. This includes identifying elements that distort the attainment of the maximum effectiveness of forensic accounting procedures and possible techniques and tools which can contribute to its optimal efficiency attainment. This leads to two research questions:

- What are the factors which influence the effective implementation of forensic accounting and audit in the Indian Banking sector?
- What are the various tools and techniques used by forensic auditors to carry out the fraud investigation?

Little research has been undertaken that answer the above questions and this research paper tries to identify the answers that correspond to the literature review as well as potential solutions that were previously not discovered.

1.3 Structure

This dissertation consists of five chapters, each of which contributes to the research objective and in process of exploring the research proposal. The first chapter provides the background to the research paper, which describes the research objectives and highlights the importance of forensic accounting and auditing in India.

The second chapter contains a literature review that describes what forensic accounting is, conditions that hinder successful forensic accounting and audit implementation and execution, competency needed by a forensic accountant, potential prospects of forensic investigations in India, etc. Literature review chapter is considered crucial to completely understand every aspect of the research objective.

Chapter 3 is on methodology and research design and explains the approach and technique used to obtain the qualitative primary data. A mix of interpretivism, using aspects of phenomenological approach was considered for this study wherein open-ended internet mediated questionnaire were sent out via e-mail to the participants who are practicing chartered accountants in India. The “Fraud Diamond” model will be utilised to analyse the data to answer the research questions.

Chapter 4 presents and discusses qualitative data findings. The purpose of this chapter is to explore the results of the study, the validity and reliability as well as the assumptions of the researcher based on the questionnaire responses and linking it to the literatures previously discussed under ‘Literature Review’ chapter.

The final chapter, Chapter 5, discusses the recommendations, consequences, drawbacks, and assumptions as well as suggestions for potential studies. It is hoped that this research will provide a resource for accountants working in the field of forensic audit and investigation as well as the bank management.

2 Literature Review

2.1 Overview

Recent scams and financial frauds in the Indian banking sector have led to a thought in gaining an understanding of why there is a requirement of forensic accounting and audit and the factors affecting its implementation. For this research, a variety of literatures were referred and read to understand what work has been done so far and to know the areas of the research which needs further examination to gain a consensus of the present intellectual thinking on the topics that this research will be discussing.

Much literature and journal articles have explained what is meant by forensic accounting and how it can be effectively used to investigate financial frauds and curb scams in the future. This review will focus on the major themes that are relevant for the purpose of this research.

2.2 Forensic Accounting

Forensic accounting refers to the special practices of regulatory framework where the accounting, auditing, and investigating skills are used to dig into the insight of incidents governed through the legal system of the country. In the opinion of Nigrini (2011), this provides a framework of accounting analysis to explore the key factors responsible behind the operation and activities. Therefore, the utilization of forensic accounting would be levied on the financial sector to identify the root of fraudulent activities performed in the accounting system and financial practices.

Forensic accounting can be described as a scientific way of analysing and investigating any kind of fraud that is committed through the process of accounting. Forensic accountants are the professionals who perform these investigations. This process of investigation is also called as forensic audit (Kumar, 2020).

2.3 Role of competency and proficiency in the forensic accounting and audit procedure and the current perspective of it in India

In performance and quality of a forensic audit procedure, the competence of a forensic accountant is of key importance. It has been previously identified that the approach includes coherent approaches to legal aspects and accounting procedures to determine whether fraud in the business environment has committed or has been occurred in the due course of time. In addition to the importance of forensic auditors in the identification of trends and concealed evidence of the infringement or misappropriation in the organizational context, the forensic accountant performing the same plays an important role in the validity of the evidence collected. Identifying the strong relationship exists between the two, Adedire Temitope (2016), expresses the significance and importance of the competency and skill set in the process of conducting the forensic audit. The author identifies that the relationship between audit quality and procedural efficiency are substantially negative, claiming that the high level of the auditors' competence contributes to the convergence of the audit expectation gap. The author indicates the value and significance for development of financial bank reports by integrating competences in banking industry by implementing appropriate training and efficiency boosting frameworks for their workforce. Echoing opinion in a similar context, Olaoye (2018), mentions the existence of a significant relationship between formal education and development of forensic accounting. The author acknowledges that students and practitioners should continuously strengthen their forensic accounting knowledge and skills to ensure the continuous growth of economic practices.

The difference is notable in forensic accountants and financial auditor's eligibility criteria in the Indian context. The investigation and conduct of forensic audit reside with the serious fraud investigation officer (SFIO) who is empowered by the central government under section 211 of the Indian Companies Act, 2013 in the Indian company framework.

On the contrary, the provisions of section 141(1) of the same companies act puts forth the qualification of the company auditors in the form of mandatory requirement to hold a chartered accountant qualification under the Chartered Accountants act,1949 (India) as well as holds a valid certificate of practice. The need for adequate training and skills

enhancement in the Indian economic environment is evidenced by consistent provision of training and effectiveness to the performers through ongoing internships and seminars. The primary forerunners of the procedure include active participation from the Institute of Chartered Accountants of India (ICAI) and Institute of Company Secretaries of India (ICSI) authorities that provide the scope of education and career pursuing the same.

Forensic accounting services are majorly dominated by the big four consultancy firms like PWC, KPMG, Deloitte, and Ernst & Young. Many small and mid-sized accounting firms do not provide these services because of the nature of its expertise requirement in accounting. One of the biggest milestones in the field of forensic accounting in India is the landmark creation of “Serious Fraud Investigation Office” (SFIO) which is a statutory corporate fraud investigating agency in India (Waghray, 2018).

2.4 Superiority of forensic auditing over traditional auditing procedures

The auditor's approach to forensic and traditional auditing differs from each other. Although the traditional financial audit does encompass an approach of incorporating the mention of key audit matters in the superficial level for those aspects which can be a probable risk element in the company framework, the conjunction of the legal procedures in addition to the traditional auditing procedures serves the skeletal base of the forensic audit, incorporating the minute evaluation and in-depth analysis of the company's performances leading to the possibility of early detection of fraud (Abdulrahman et al., 2020). The main aspect that characterizes and reinforces the superiority of forensic audit in comparison to the traditional processes is that the forensic audit encompasses a performance evaluation over a period of time to facilitate the audit, while the focus of regular auditing is on the true and fair representation of the performance of an organization in a particular financial year. Although the principle underlying a traditional audit serves as an important foundation in forensic auditing as well as the integration of the legal and statutory framework in the process, this is a more practical approach which facilitates trust in the forwarding of financial support by the banks and provides assurance to the investors of the return on their financial assets.

2.5 Significance of guidelines and control on the effectiveness of the forensic accounting and auditing procedures

It is not only important to strengthen the procedural conduct of the forensic audit process through proper guidance and supervision, but it also allows for an enhanced battle against fraud. The increasing number of organizational frauds suggests that proper supervision and monitoring procedures are of prime importance in addition to the compliance and inclusion of strict legislation to mitigate the occurrence. Extending the significance of governance and control mechanism on the forensic audit procedure, Rehman and Hashim (2019) identifies that The forensic accounting detective roles can be strongly influenced and conducted by the incorporation of advanced corporate governance to combat and reduce fraud occurrence and other related procedures. The authors identified three main parts of corporate governance enforcement in the form of the board of directors, audit and risk committee as well as the senior management within a corporate field, which demonstrates the important influence that corporate governance can have on the conduct of forensic accounting and audit as well as on the strict reduction of unethical practices.

The Indian legal system and the regulatory banking authorities take up constructive measures to guide the conduct of forensic accounting and auditing procedures. The details of reporting fraudulent activities by the forensic accountants in the organizational environment is dictated by the provisions of Sections 143(12) to 143(15) of the Indian Companies Act.

Furthermore, the legal provisions of the Securities Exchange Board of India(SEBI) Act 1992, Information Technology (IT) Act 2000, Insurance Act 1938, Companies auditor report 2016 and penalties under the prevention of corruption Act 1988 (amended 2018), mandate the reporting of the fraudulent activity where the conduct of forensic audit initiation necessity can be identified. In this context, the Reserve Bank of India (RBI) has laid down the standards and regulations that Indian banks can especially use to deal with fraud related to loans. The RBI guidelines classifies the types of fraud in the form of misappropriation or criminal breach of trust, fraudulent encashment of forged instruments, the window dressing of financial accounts, unauthorized credit facilities or reward of illegal gratification, cash shortages, fraudulent foreign exchange transactions or other types of

fraud not specifically identified. In addition, the Central Fraud Registry (CFR) has been adopted by the RBI in a way which facilitates access to the database, enabling rapid identification of fraud and the adoption of required measures to report directly to them by digital or offline fraud reporting methods. In addition, the RBI explicitly requires early warning signals to be identified and red flag accounts of INR 500 million or more, regardless of the status of their payment. The RBI continuously keep track of risky accounts to help identify the loan defaults and reduce them, empowering employees to report potentially fraudulent activities.

2.6 Issues in forensic accounting and audit processes

The problems in the forensic accounting system help to identify the possible elements which obstruct procedural performance. Even though the capabilities and prowess of the forensic accountant plays a significant role in the designing and delivering astute and utilizable results for the informed decision-making aspect, the realization aspect is debatable in the context of the contemporary Indian scenario. The following paragraph summarizes the primary reasons that can contribute to the magnification of the issues rooted in the process of the forensic auditing procedure that is evident in the context of Indian economy.

2.6.1 Ineffective implementation

There is a common belief among the accountancy professionals in India that the current laws relating to forensic accounting and audit does not have any flaws in detecting fraud and hence there is no requirement for new concepts to be introduced to this field. This creates an acceptability issue (Philip et al., 2017). The author also says that adaptability is yet another problem. Amending the existing law on Forensic accounting in India is viewed as a tedious process and hence causing problem of implementation of new laws and regulations.

Reluctant to adopt to “Computer Aided Auditing Tools” (CAAT) also is a common problem among small and medium size Chartered Accountancy firms. They find the process of transition from manual process to technological upgrades a cumbersome one. Moreover, the author describes that the firms are unwilling to spend a huge sum of money to

purchase software which is costlier than human capital and consider that this cost outweighs the benefits derived out of its usage. In contradiction to this, Chakrabarti (2014) states that the Indian accountants lack information technology knowledge and are not tech savvy. In addition to the above, the author views the traditional judicial system as well as the current political climate as a challenge in collecting evidences of frauds against the corporate bureaucrats.

Forensic audit process is expensive than a normal audit because of its nature and the level of expertise it uses. In addition to this, appointment of a forensic accountant is not a statutory requirement. Hence companies do not opt for these services and this too contributes to the problem in implementation (Philip et al., 2017). This statement is also supported by Chakrabarti (2014). The author further states that due to globalisation, many multi-national companies are involved in doing respective businesses in India. Hence there are many possibilities for a financial fraud to occur outside India and forensic accountants are challenged with the difficulty of prosecuting the fraudsters in Indian jurisdiction.

Many companies hesitate to bring the fraud cases to court as it is viewed as a costly process since it usually involves expert witnessing. Hence they normally deal it outside the court to avoid the cost as well as the bad reputation it would bring to the company (Chakrabarti, 2014). The judicial system in India still follows the British's system in which a fraud case will involve huge expenditure to bring it in the light of the court and hiring expert lawyers also involves huge cash outflow (Kumar Das, 2020). The entire process of forensic accounting is a time consuming and a complicated process. Generally companies hesitate to avail of these services in order to avoid such cumbersome work and continue to concentrate on the business (Philip et al., 2017).

Apart from all of the above problems, the significant one is the fact that there are no specific guideline or act on forensic accounting practices framed by the concerned authorities (Chakrabarti, 2014).

2.6.2 Information asymmetry

The asymmetry of information in forensic audits is another important distortion of effective implementation. The inability to have the correct data at the appropriate time

distorts the mechanism and efficiency of the forensic audit procedure significantly. In this regard, Garrow et al., (2019) identifies that the storage and maintenance of data in the organizational context seriously affect the quality of reports of the company. The author argues that in the absence of any information by not reporting to the auditors, the auditors construct reports based on available data supplied by the board of directors thereby distorting the validity of the procedures. Contributing an important aspect in the juncture, Roy and Saha (2016) state that the lack of auditors' independence in the relationship between the entity and the auditor magnify the information asymmetry. It surfaces because it is not independent and is obliged to operate within professional boundaries.

As far as the tenure of fraud detection is concerned, Manikandan (2019) in the economic times' article states that the average of two years to detect frauds by the Indian regulators and policymakers. The KPMG report found that the large frauds above INR 1 billion take on an average about four and a half years to be detected which clearly validates the negative impact of the information asymmetry in the effectiveness of the forensic audit procedures. The report further elaborates the issue by stating that the information asymmetry is also an evident factor in the delayed detection of fraud as well as the restriction of tenure of evaluation is not enough to guide the overall fraud detection mechanism (KPMG, 2019).

The total number of frauds and the respective amount involved in various banking sectors is depicted in the following figure (*Figure 1: Reported Fraud Cases*).

Bank Group/ Institution	2017-18		2018-19	
	Number of Frauds	Amount Involved (₹ million)	Number of Frauds	Amount Involved (₹ million)
1	2	3	4	5
Public Sector Banks	2,885 (48.8)	382,608.7 (92.9)	3,766 (55.4)	645,094.3 (90.2)
Private Sector Banks	1,975 (33.4)	24,782.5 (6.0)	2,090 (30.7)	55,151.4 (7.7)
Foreign Banks	974 (16.5)	2,560.9 (0.6)	762 (11.2)	9,553.0 (1.3)
Financial Institutions	12 (0.2)	1,647.0 (0.4)	28 (0.4)	5,534.1 (0.8)
Small Finance Banks	65 (1.1)	61.9 (0.0)	115 (1.7)	75.2 (0.0)
Payment Banks	3 (0.1)	9.0 (0.0)	39 (0.6)	21.1 (0.0)
Local Area Banks	2 (0.0)	0.4 (0.0)	1 (0.0)	0.2 (0.0)
Total	5,916 (100.0)	411,670.4 (100.0)	6,801 (100.0)	715,429.3 (100.0)

Figure 1: Reported fraud cases

(Source: India Today. 2020)

2.6.3 Standardization of procedures and reporting

The procedural standards and uniformity of the techniques employed constitute a significant factor in ensuring success and usability of the forensic accounting system. Amongst the well profound techniques used for the operationalization of the forensic accounting procedure, Varadarajan (2017) propose that cash proof should be the most vital techniques in the forensic accounting process. The author state that the cash proof can provide better evidence for the fraud since figures can be manipulated in the database using technology. Identifying the core forensic auditing and tools to practice, Nigrini (2011) recognizes the significance of appropriate data analytics tools for the effective accomplishment of the process. The author extends support to Benford's law and use of tools like descriptive analysis, correlation, and time series analysis for conducting the forensic audit.

Non-standardization of procedures is a fundamental aspect that distorts the utility of the report in the real-time context of banking operations. The consistent application of procedures calls for standardization to be incorporated to facilitate realization and enhancement of operations. The report standardization helps the company and the banks to make judgments and informed decisions to achieve their ultimate advantage. The poorly structured report leads to the distortion of the benefit attainment aspect. In the absence of the standard reporting procedure banks cannot make any informed decisions. An informative report helps the banks to identify the indicators of the assessed eligibility of potential borrowers of financial loan.

2.6.4 Non integration of dynamism

The strong influence of digitalization in the auditing and accounting process is profound in the current situation and forensic auditing is no exception. The growing complexity of the audit process by using Computer-Aided Audit Techniques (CAAT) and other tools does not only amplify cybercrimes and theft, but also makes it difficult for the auditor to monitor the quantity of digital data as well as auditable records. In order to demonstrate the need for digital literacy in traditional and forensic auditing Simha and Satyanarayan (2016) acknowledges the need for a continuous monitoring and operational know-how in an ever more complex IT environment by highlighting the need for proper training to make use of the process more efficiently and to improve the results, as many activities are involved.

However, Identifying this aspect of issue magnification in the forensic auditing process, Moid (2018) states that the changing patterns of businesses and regulatory frameworks scarcity of resources at auditors disposal backed up with the mountainous data accumulation and technological dynamism has made auditing a complex process. Innovative and integrated new technologies necessitate knowledge, training, and experience in order to be equipped to use Computer Aided Audit Techniques (CAATs) which are classified as General Audit Software (GAS) or Common Software Tools (CST).

2.7 Tools and techniques used in Indian forensic accounting and audit

The advancement in information technology is seen as advantageous as well as disadvantageous. This is because, though technology has helped in the ease of doing

business, still it is complex to understand everything about it. The perpetrators use these technical knowledge to commit financial frauds, especially in the banking sector (Nalawade, 2019). Forensic accountants are expected to be updated in all the technical aspects and to look beyond numbers in the financial statements. Some of the popular tools and techniques which are considered effective in detecting and preventing frauds are as follows:

- Benford's Law: Developed by Frank Benford, it is one of the methods used to test whether a variable under study is due to fraud or an unintentional mistake (Chakrabarti, 2014).
- Theory of Relative Size Factor (RSF): It is a technique to identify unusual transaction or fluctuation in the system being audited (Nalawade, 2019).
- Trending: The examiner uses this technique to identify frauds by focusing on the transactions that are exceptional in nature. This technique is helpful for decision making by the top management (Nalawade, 2019).
- Ratio Analysis: A Variety Of financial ratios are calculated to analyse the trends between various periods of the same company as well as to compare with other companies in the same industry. Any abnormal fluctuation identified in the process will be investigated further to find the reason for such variations. It is utilised to find the financial strength of a company as well as compare the figures with previous year's performance and ratios of similar companies within the same industry. This is to identify significant deviations and to ensure that the figures are not manipulated to conceal fraud (Philip et al., 2017).
- Computer Assisted Auditing Tools (CAAT): It is used for forensic auditing purposes. It is a computer program which helps in investigating the account balances and credibility of the transactions (Philip et al., 2017).
- Data mining: Another technique that is commonly used is the "Data mining". This technique is mainly used when a forensic accountant must deal with a large volume of data (Philip et al., 2017).
- Expert system: Unresolved issues can be identified with the help of an expert system. A database containing predetermined knowledge of many field of work ranging from law, accounting, and finance to various other areas. The working

mechanism is based on artificial intelligence that can suggest solutions for all kind of problems (Nalawade, 2019).

2.8 Theoretical Frameworks

According to Miles and Huberman (1994), theoretical framework is a conceptual structure in the form of a visual aid or a document that is used to explain the concepts, key factors and variables used in the study and to represent the relationship between the variables in the study.

The concept of forensic accounting and audit considers the effort to find out why the business operation is being conducted and incorporates the instruments and techniques within the national or corporate framework to mitigate the negative effects. The overall impact and effectiveness of forensic accounting and audit as well as the efficient reporting in the Indian banking industry can be found by performing two-way analysis, whether there are any opening to commit fraud in India and whether policies are adequate to avoid incidents. For this purpose, the researcher will describe the fraud triangle theory originally developed by Donald Cressy in 1953, the fraud diamond theory proposed by Wolfe and Hermanson (2004) and the Organisation for Economic Cooperation and Development (OECD) proposed by “corporate governance cycle model” and then choose one theory as a lens to guide in answering the research questions.



Figure 2: Fraud Triangle

(Source: Michael Volkov, 2018)

The fraud triangle model significantly helps to analyse the factors which trigger the unethical practices in the business scenario. The theory of fraud triangle comprises three interdependent phases including pressure on the individual, which analyses the motivation for the crime that can either be because of personal finance pressures or external factors such as inflation or the increase in the price of goods and services. (Omar et al., 2017).

By examining these aspects, the Indian government may examine the motives and reasons behind the defaults of financial assistance, which could be particularly useful for the development of mitigative measures.

The second stage includes the possibility of engaging in fraud and examines the techniques or situation that encourage to commit fraud. This stage primarily involves monitoring of a clear course of action which can be operationalised by corporate or individual abuse and gives regulators essential insights about the mode of fraud or weakness of regulatory action that fuel the individual or corporate body to commit fraud.

The third stage mainly involves rationalising the crime, which involves the justification of the crime by criminals and making it acceptable in their internal moral domain. The fraudsters are perceived as being not the criminal themselves but rather a victim of the situation and include external factors of influence.



Figure 3: Fraud Diamond

(Source: Leandra Lederman, 2018)

This model is an extension of fraud triangle theory proposed by Wolfe and Hermanson (2004) with an additional element, namely capacity, and was termed as the fraud diamond

theory. They argue that fraud cannot happen unless this element is present. The perpetrators of fraud must have the necessary skills, traits, and ability to commit fraud. It is believed that many frauds would not have occurred without the apt person with the right capabilities.

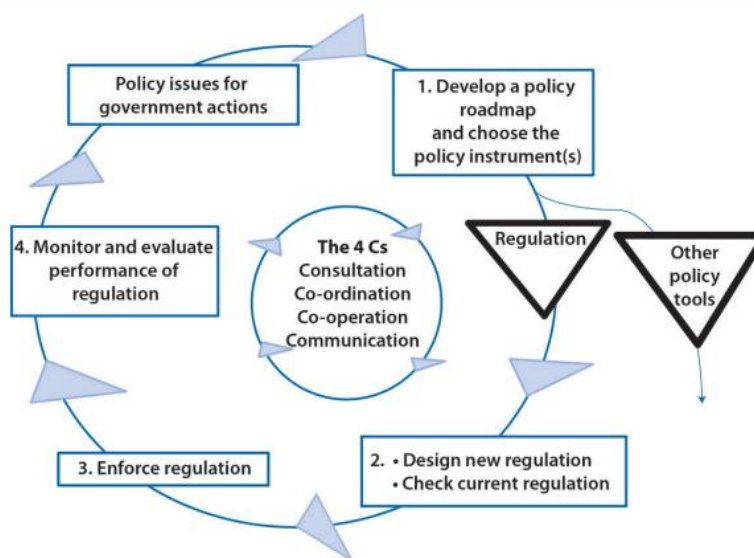


Figure 4: Regulatory Governance cycle model

(Source: Oecd-ilibrary.org. 2020)

The success of any policy or procedural framework relies on the stringent control and effectiveness monitoring on a continuous basis and in the case of forensic accounting, it can play a vital significance by facilitating the derivation of superior benefit and the enhanced possibility of combating the fraud occurrences. As per the prepositions of the regulatory governance model framed by OECD, four main stages are followed while framing or modification of policy at the national level which instigates government intervention and formulation of strategies for the enhancement of the process namely, development of public policy and choice of instruments, design of new regulation or the reviewing of existing statutory regulations, implementation of the new regulation and monitoring evaluation of its impacts. However, the incorporation of the 4Cs forms the central pivot for the operation and enactment of this model (OECD, 2015). The development of a public policy stage involves identifying the need and requirements for a specific policy to be developed at national level by identifying the various factors and

requirements that warrant taking action, or forensic accounting as a result of frequent frauds.

The second step considers the design of the strategic plan in which key areas need to be modified or improved to properly implement the policy. The third stage in policy development, as described in the cycle, involves the operationalization of new policies with regard to the criteria for the application and to specific instruments that can be traced in the various legal and statutory norms and interventions established by the Indian Government in respect of forensic auditing processes.

However, the primal significant stage for the forensic accounting policy lies in its evaluation practices. The model identifies the exposed evaluation measures of specific policies by conducting the measurement and analysis of four main areas which includes, oversight and quality control, transparency, systematic adoption and methodology which can come to assist in the identification of the extent to which the forensic accounting had accorded with its intended outcomes. The process can be effectively assessed by evaluating whether the functions and procedures set in place are aligned with the current demand and are made publicly available for use by the beneficiaries, openness and stakeholders engagement in the conduct of the process, investigation of formal requirements including proportionality consideration or the infrastructure of the policy as well as methodological evaluation through, cost-benefit analysis, goals attainment, legal consistency, guidelines for adoption of proper forensic auditing procedure (OECD, 2015).

3. Methodology and research design

3.1 Overview

This section outlines the research philosophy, strategy, data collection method and analysis. The overall research objective is to explore the effectiveness of forensic accounting in the Indian banking sector.

The approach used in this research for data collection is phenomenological. Qualitative data is considered the right fit for this research given the nature of the research objective. The method of data collection was carried out through responses received from internet-

mediated survey questionnaires sent to practising Chartered Accountants in India via e-mail.

3.2 Research paradigm and overall approach

As noted in Chapter 1, the primary objective of this dissertation is to explore the degree of effectiveness of the regulatory policy relating to forensic accounting in the context of the Indian banking sector. Whether the system of policies have been effective in the present context or has been subjected to flaws which need to be corrected to enhance the ease of business conduct in the banks. Also, the research aims to identify the educational qualification, skills and required attributes of the forensic accountants and address the weaknesses in these areas which distorts the overall purpose of the forensic audit. It is already established that the development of forensic accounting in the context of the Indian business environment has been at a nascent stage which may affect the availability of the data (Lohana, 2013). However, the research will be conducted through the exploration and mining of the available data from both the primary and secondary sources.

Hence, for the purpose of this study, the paradigm which best describes the philosophy that will drive this research is that of a mix of interpretivism, using aspects of phenomenological approach. The data generated by qualitative research provides richness in terms of contributing multiple as well as varied information about a phenomenon. To understand the contextual landscape of the current topic in a best way, it was decided that the research should be exploratory in nature. The responses and insights gained from the participants are then looked at in a subjective manner. This was decided to be the most useful approach in understanding the different perspectives, views and experiences of the people involved in the survey that helped to shape the purpose of the study since very little research exists regarding this specific topic.

The current research involves an exploratory element of finding the effectiveness and performance of the regulatory system relative to the forensic accounting aspect in the context of the Indian banking operations. Hence, the research objectives require details to be collected that cannot be obtained through quantitative methods. Therefore, it has been considered to use qualitative research approach for the current study (Saunders et al.,

2009). The researcher will acquire data through participants who are practicing Chartered Accountants in India.

3.3 Research Strategy

A proper research strategy helps in the proper dissection of the key elements that are crucial to the research topic. This research used open-ended internet-mediated questionnaires to collect data and those data were analysed for key themes and patterns.

Amongst the popular qualitative and quantitative research strategies, the use of qualitative approach in conjunction with analysis of texts and documents is proposed. This data integration will facilitate to gain access to a higher degree of knowledge that can help in the identification of feasible aspects that answer the research questions. Hammarberg et al., (2016) states that qualitative methods are used in research to get answers about the experience, meaning and perspective from the participant's point of view. Qualitative approach offers a distinctive understanding which is hard to gain from quantitative methods like close-ended question surveys (Tiley, 2017).

The qualitative research design has been followed to conduct the study as the description of forensic accounting in Indian banking sector is the only option to collect relevant data, which could be collected through an open-ended internet-mediated questionnaire sent via mail to the auditors in the practice industry. This aspect of data collection will aid in the realization of the insight acquisition on the status of the forensic accounting and audit currently in place.

Also, the secondary source of data gathered from the government databases on the research topic will assist in attaining important aspects and elements that will help decode the answers to the research questions in a scientific method.

3.4 Collection of Primary Data

3.4.1 Methods

This research paper aims to explore the factors affecting the effective implementation of forensic accounting in India and the possible tools and techniques that can be utilised to

improve its efficiency. Hence, a qualitative study is thought to be appropriate when the aim is to explain a person's thought and experience in each context.

Qualitative survey approach is primarily exploratory in nature and has been used to obtain an understanding of the reasons and opinions of the research participants. The process of collecting data involved sending a set of open-ended internet-mediated questionnaires to the participants who agreed to take part in the survey via e-mail. The responses to these open-ended internet-mediated questionnaires were regarded as the primary data for this research and it contributes to the qualitative nature of the research.

A suitable strategy for this research is qualitative survey and it is in line with the interpretive and phenomenological approach. Participants share their own experiences and opinions which was considered to contribute to a well-versed study. The usage of the data collected supports the overall research design and hence the researcher believes that this method will be a suitable approach for the study of this research.

3.4.2 Sources of data

Data collection refers to the significant aspect of research conduct as it facilitates in answering the research questions in a logical manner. Primary and secondary source of data have been used for this research. A qualitative approach is used to obtain primary data by obtaining responses for open-ended internet-mediated questionnaire. Questionnaires tend to be used for explanatory or descriptive research (Saunders et al., 2009). These qualitative data are read and analysed carefully. The analysis involves the comparison of qualitative responses from each participant. The collected data are then summarized into categories. Identical statements are then grouped together to understand patterns that lead to an answer. Statements which contradict with others are also studied. Section 3.5 provides more detail on the analysis and the theory informing the analysis.

The population for the purpose of this study comprises practising Chartered Accountants in India. A total of ten participants were contacted for this research out of which eight participants provided considerable primary data to justify the reasons for this research. Data analysis is performed to identify the relevant information to be noted, organised for presentation, analysis, and interpretation.

For the attainment of the objectives of the research, the analysis also comprises the studying of database documents in the government websites as well as the responses from Chartered Accountants which will be used in conjunction with relevant theoretical aspects and practices of forensic accounting how to trace a link in the context of the Indian banking sector. Although the core questions of the research form the prime focus of the study, the questionnaire may be set in accordance with the judgment and requirements of the situation as deemed fit.

Regarding the secondary data, the sources comprised established databases from websites of RBI and other related government portals, documents, and texts. Documentary and content analysis will be carried over to form a meaningful interpretation for obtaining answers to the research objectives.

The primary data were collected from the participants by open-ended internet-mediated questionnaire sent via e-mail where the participants consisted of chartered accountants practicing in India. The questions were prepared in "Google forms" and are in support of the literatures previously discussed. A total of ten participants were considered for data collection out of which eight people responded. The typed responses averaged fifty to hundred words per reply. The main reason for choosing practicing chartered accountants over people working in industry was that the practising accountants have direct exposure to the banking operations through concurrent audit of banks which will not be present in the case of an accountant working in the industry not related to banks.

Questions 1, 7, 8 and 9 of the internet-mediated survey questionnaires were informed by the fraud diamond model. Question 5 was informed by Chakrabarti (2014) and Philip (2017), question 2 was informed by Rehman and Hashim (2019), question 7 by Garrow (2019), question 9 by Nigrini (2011), Simha and Satyanarayan (2016) and Nalawade (2019). All other questions were specifically developed for this research purpose.

3.4.3 Access and Ethical Issues

From an ethical point of view, all the participants to the research were informed that the open-ended internet-mediated questionnaire will be sent via e-mail to their respective mail IDs and that their personal information and their responses will be kept confidential unless

desired otherwise. Regarding the ethical aspects of the research conduct, it is left to the participants whether they want to disclose the identity or maintain their anonymity and the responses will be treated as confidential. The researcher will seek to obtain data at the convenience of the auditors to not disrupt the normal working procedure in any aspect.

The participants that were communicated for survey were practicing Chartered Accountants in India who are experienced with background in auditing and accounting works. These participants have extensive knowledge in the respective subjects along with practical experience. Their knowledge, expertise and experience were beneficial for this research which guided in a correct path to a great extent. Face-to-face interviews were not possible due to unavoidable circumstances, open-ended internet-mediated questionnaires were drawn up and sent via e-mail to the participants who then mailed back their responses to the researcher in full to the questions asked. A brief mail was drawn up explaining the summary of the research and its purpose along with attachments of plain language statement and informed consent form.

3.5 Approach to Data Analysis

Since this research is descriptive and exploratory, a qualitative research design is considered appropriate to explore different factors that influence effective implementation of forensic accounting and auditing in the Indian banking sector.

The “Fraud Diamond” model (see section 2.8) was applied as a lens to guide the researcher in gathering data that are meaningful in answering the research questions.

One of the characteristics of fraud diamond model is perceived “motivation” or “incentive” to commit fraud. By identifying the reasons for committing a fraud, regulatory body governing the forensic accountants can device appropriate mitigative measures to curb such activities. For this to be discussed, it is necessary to analyse the current situation in India regarding the governing of forensic accountants and the questionnaire is framed in such a way as to identify whether there exists any regulatory body that govern forensic accountants in India.

The second characteristic is “opportunity”. It refers to the situations that allow a fraud to occur. One question that specifically addresses this characteristic is “Why is there an increasing cases of banking fraud in India despite forensic audit in place?”. This question attempts to find the loopholes or opportunities and any other possible reasons available to commit financial fraud in banks. The third characteristic is “rationalisation”. It refers to the justification given by an individual or an organisation for committing fraud. The fourth characteristic, namely “Capacity”, refers to the capabilities of the perpetrators to commit fraud. Various capacities include designation, intelligence, ability to coerce and stress subordinates etc. The question “What are the challenges faced by a forensic accountant from the management of the banks being audited?” and “How do you see the use of technology in tracing financial scams in the Indian banking sector?” tries to obtain data relating to the difficulties faced by forensic accountants due to the management powers of the banks being subject to investigation.

The primary data collected is analysed in an interpretivist nature through the four characteristics of the fraud diamond. Thus, the data has been collected and analysed according to these characteristics to assist in the findings presented in the next chapter.

The secondary data collected comprised of a report by KPMG and a circular released by the Reserve Bank of India (RBI) which discussed about the reporting responsibilities of banks regarding any fraudulent activities. A document analysis was undertaken to highlight the relevant data needed for this study.

3.6 Conclusion

The above-mentioned procedures used to obtain primary data are believed to be the most useful in terms of extracting information for this research. The following chapter presents and discusses the findings and the nature of data presented that complements the phenomenological approach undertaken. The questions were drafted in a strategic manner and a constant revision to the questions framed to fit in the research objectives made it possible to gain a high-quality standard of response from the open-ended internet mediated questionnaire survey conducted.

4 Findings and discussion

4.1 Overview

A series of open-ended internet-mediated questionnaires were used to collect data from practicing Chartered Accountants in India for this research. As noted above, the fraud diamond model has been used to help to identify the patterns and meanings of the responses received. All the responses gathered were written as quotes in this section to meaningfully present and interpret the information. These questionnaires can be seen in the appendix section of this research paper.

4.2 Findings

4.2.1 Factors affecting the effective implementation of forensic accounting

One of the research questions that this research intended to explore was the factors which affect the effective implementation of forensic accounting in the Indian banking sector. The participants who are practising Chartered Accountants in India with good experience were asked about their opinion on the current laws and regulations relating to forensic accounting in India and the factors affecting its implementation. This question was considered as a useful starting point for understanding the present scenario of the laws and regulation governing forensic accounting. Participant 1 opined that

“The current laws and regulations pertaining to forensic accounting are not particularly well laid out in India. There are no clear-cut guidelines as to what constitutes a forensic accounting engagement and what is a mere extension of internal or management audit. The lack of guiding principles in terms of collection of evidences and the corresponding prosecution in a court of law from the point of view of Accountants and Auditors is a setback. However, the same is evolving with the evolution of the legal and accounting landscape.”

The above statement is in line with Chakrabarti (2014) who stated that there are no specific guideline or act framed by concerned authorities on forensic accounting.

The fraud diamond model’s “motivation” aspect as originally developed by Donald R. Cressey in the year 1973, aims to identify the factors which motivates the perpetrators of fraud and only if a separate regulatory body of forensic accountants is established, it can

draft proper guidelines that can identify the motivations and pronounce proper mitigative measures to curb fraudulent financial activities.

This perspective of the current situation of the laws and regulations became a recurring point throughout the various participant's answer, with Participant 2 remarking

“At present, the forensic accounting as a profession is still evolving in India and is currently not regulated by any specific laws and regulations framed by the regulators. However, to address the financial irregularities and to protect the interest of the diverse group of stakeholders and investors, few regulatory agencies / courts usually order for a forensic audit on certain 'defaulting entities'. These engagements are usually done by Chartered Accountants who are specifically appointed by the regulatory agency concerned.”

From the above response it has been stated that only when a financial default or fraud occurs, the regulatory agencies or the court of law orders for an investigation to take place, i.e. the current laws are reactive rather than being proactive in preventing frauds with Participant 3 remarking

“The present laws and regulations necessitate forensic audit only in circumstances of fraud / on complaint by statutory authority / whistle-blowers. There is no legal requirement for even larger business concerns to undergo a forensic audit. In this context, I believe the laws as on today have a re-active stance rather than a pro-active one when it comes to forensic accounting / auditing.”

The above opinion was supported by Participant 6 commenting

“There is no effective law in place which regulates the monitoring of forensic accounting. Forensic accounting is being initiated only when a fraud occurs. The laws are more of detective rather than being preventive.”

In contrast to the above remarks, Participant 5 answers that the current laws and regulations are satisfactory by stating that

“The current laws and regulations relating to forensic accounting in India is adequate and effective.”

This kind of acceptability issue was addressed by Philip et al., (2017) who stated that the accounting professionals in India has a common belief that the current laws and regulations are sufficient enough to detect financial frauds.

This response makes us to contemplate how the accounting professionals perceive the aspects of laws and regulations of forensic accounting in India differently. However, since this study involved only a handful of participants, it makes it quite difficult to form a conclusive opinion.

The “rationalization” characteristic of fraud diamond model developed by Wolfe and Hermanson (2004) refers to the justification given by fraudsters to make their criminal actions appear acceptable in their internal moral domain which is still unacceptable legally. Hence, top management of the banks or the borrowers cannot commit financial fraud just because there are loopholes in the current laws and regulations relating to forensic accounting and audit or for any other matter concerned.

As per the 2019 KPMG report, Reserve Bank of India(RBI) Master circular “DBS.CO.CFMC.BC.No.1/23.04.001/2014-15 dated July 01 2014 on Frauds – Classification and reporting” requires all the banks which has disbursed loan under Multiple Banking Arrangement (MBA) to report all the cases classified as fraud to the Central Fraud Monitoring Cell (CMFC) and RBI within the due date specified in the circular (KPMG, 2019).

As per the master circular, individual banks are allowed to decide whether to classify an account as ‘Red Flagged Accounts (RFA) or ‘Fraud’ depending on the account’s activity and then report it to the Central Repository of Information on Large (CRILC) platform to alert other banks regarding the reported account. A Red Flagged Account is one where an account is being suspected of fraudulent activities which is triggered by ‘Early Warning Signals’ (EWS). The bank then convenes a meeting of the Joint Lender’s Forum (JLF) to discuss the issue. The meeting should be convened within 15 days of request and if the situation demands, the account will be red flagged by all the consortium banks and will be subjected to forensic audit commissioned or initiated by the consortium lender or the largest lender under Multiple Banking Arrangement (Reserve Bank of India, 2017).

The problem of the forensic audit commissioned is that it must be completed within a maximum period of 3 months from the date of the Joint Lender’s Forum meeting authorising the audit (KPMG, 2019). The timeframe provided for forensic accountants given is very less when compared to the normal financial statements audit which is carried on for

a period of 1 year. This is a huge limitation and can be considered as a hinderance for an effective audit report to be produced by a forensic accountant.

Apart from the current regulatory scenario of forensic accounting, there are other factors which play a major role in affecting the effective implementation of forensic accounting and audit procedures. One of the main reasons considered is lack of education, skills, training, and qualification. To favour this statement, Participant 2 answers

“In my opinion, I strongly believe the forensic accounting should be devised as a separate profession. The syllabus quality could be improved by converging with the global regulators. The hands-on training methodology also plays a key part. Forensic labs should be set up and practical training is to be provided. All these would ensure quality forensic audits are done in the future.”

Participant 2 further says

“The forensic audit is very different from a routine assurance engagement and nevertheless it requires a specialized qualification to undertake the assignment effectively. At present, the Institute of Chartered Accountants of India ("ICAI"), regulates the accounting profession in India broadly. The ICAI is offering a post qualification certification course on 'Forensic accounting and fraud prevention' to the members to assist them in performing the forensic assignments effectively. One can also enrol for the Certified Fraud Examiner course conducted by the Association of Certified Fraud Examiners, USA to get an international and global recognition in the field of forensic accounting. Also, the forensic accountants would require a good understanding of the Information systems infrastructure and IT concepts. However, these qualifications are only an initial enabler. It is the practical exposure that enhances the continuous knowledge up-gradation and improves the quality of work performed.”

Participant 2 views that practical training enhances the effectiveness of implementing forensic accounting. Adedire Temitope et (2016) also stresses the importance of competency and skill set in the forensic audit process. If the forensic accountants are not well informed of the latest amendments or inexperienced to investigate bank financials, the management of the bank being investigated will view this as an chance as described by the “opportunity” characteristics of fraud diamond framework to conceal the fraud committed.

Participant 1 too emphasises on the experience of an accountant to take up forensic audit engagement by commenting

“The qualification and experience of the Auditor hugely influence the conduct of forensic audit. The focus areas and operating tools of a conventional Auditor and a Forensic Auditor are different. The nature of evidences collected/to be collected is dependent on the skills and experience of the Auditor. An Auditor with several years of experience is bound to have studied and understood the ways and means of different industries which gives him a head start while approaching a forensic engagement.”

Participant 4 talks about the ill-effects of unqualified professionals and lists the requirements of a forensic accountant by remarking

“Unqualified will cause a mess in the Technical Aspects viz, Methodical approach will not be present, protocols will not be followed. Inexperienced accountants will lack in implementing the protocols.

Essential Qualifications-

- 1.Computer Aided Audit Tools - Basic and Technical Knowledge of the system.
- 2.Expert Knowledge in Ratio Analysis, Data Mining.”

Olaoye (2018) supports the continuous strengthening of forensic accounting knowledge and skills to ensure continuous growth of economic practices.

The current education and syllabus of forensic accounting is not up to the mark as per Participant 4 who says

“As there are no provisions for forensic accounting or accountants in India, Universities do not find it necessary to include forensic accounting as one of the areas of accounting like cost, managerial accounting while fixing their curriculum. This needs to change to ensure effective forensic audits in future.”

Few other participants also point out the importance of practical training and case studies for effective forensic audits to take place in future. Their comments are as follows

“Strict Implementation of practical training in forensic audit by institutes will only improve the standards and skills of the auditors.”

“The forensic accounting subject needs revision with enhanced focus on practical tools and case studies. This may ensure higher quality of audits in the future.”

Participant 4 sees that the lack of specialisation and training as an important factor affecting the implementation of forensic accounting in India by saying

“At Present, there is no legal emphasis on this area, India lacks specialized and Trained practitioners in the investigation of multifaceted frauds occurring in the companies.

Although the government of India has made Serious Fraud Investigation Office (SFIO) under the Ministry of Corporate Affairs to culminate the frauds happening in India, there is no evident reduction in the number of frauds in India. Similar sections are available in the companies act and the Income tax act.”

One common pattern to be observed here is that the participants keep on stressing the need of practical training for forensic accountants. This participant adds that there is a lack in awareness of forensic accounting by saying

“One among the various factors is the environmental issue - As there are no provisions for forensic accounting or accountants in India, Universities do not find it necessary to include forensic accounting as one of the areas of accounting like cost, managerial accounting while fixing their curriculum. This spreads more darkness towards the awareness of forensic accounting. More so there are issues in Technological Advancements wherein the firm must adopt to CAAT (Computer Aided Audit Tools) Techniques, however the training cost for the same is high.”

Though the participants advocated for the need of practical training, Participants 1 and 6 conveyed the fact that the current training process of forensic accountants are insufficient by saying

“Currently, forensic accounting and auditing is offered as a special qualification to qualified accountants. However, the same is insufficient considering the size of the industry and nature of frauds happening. The syllabus and training must be revised to offer a more practical knowledge to such Accountants in the present scenario.” (Participant 1)

“Training process of forensic accountants is highly insufficient in India. Effective training programs for professionals is required as early as possible.” (Participant 6)

As per a KPMG report, there are no professional standards prescribed for forensic engagement in India like other developed countries have such as the codified principle-based standards or guidance for investigation that explains the skills required of a professional accountant, investigative skills and mindset (KPMG, 2019).

From the above comments and information, it can be stated that the syllabus and training process of forensic accounting profession requires a serious uplift. Olaoye (2018) cites the link between formal education and forensic accounting development and emphasizes the importance of continuous upgradation of skill sets and knowledge.

As per the second characteristics of fraud diamond, namely “opportunity”, originally developed by Donald R. Cressy in 1973, perpetrators of fraud utilises opportunities available to them to commit fraud such as abusive use of their power to their financial advantage, applying technical skills to loot money and successfully conceal it from the auditors and other regulatory authorities etc. Hence, forensic accountants are advised to update their skills and technical knowledge that are in line with the current developments to perform an effective investigation. Lack of specific guidelines or act on forensic accounting and audit practices as mentioned by Chakrabarti (2014) can be seen as an opportunity available to the perpetrators of fraud.

Participant 2 listed few points which discussed the things that lack in terms of effective implementation of forensic accounting in India

- “1. Regulation of forensic accounting profession by a professional body which could regulate the said profession.
2. Training to be provided to members of the professional body to enable them to discharge their professional commitments in the best possible way.
3. Knowledge on the latest technological up-gradation / advancements and working knowledge on the latest and emerging technologies by the forensic accountants.
4. Proper regulation of the forensic accounting profession by the regulator through the strict implementation of disciplinary actions and code of ethical guidelines.
5. Periodic government laws and regulations.”

Participant 1 went on to say that organisational factors are the primary reason for the lack of effective implementation of forensic accounting by commenting

“The biggest factor that affects the effective implementation of forensic accounting is organizational. The traditional organizational structures and models make effective implementation very difficult. The centralized model of operations especially with entrepreneurial establishments are an important factor in effective implementation.”

The participant of the above tries to convey that organisations follow bureaucratic control. This message is further supported by Participants 3 and 6 answering

“The primary factor that impairs the effective implementation of forensic accounting is the dominant role played by owner managers and resultant breakdown in organisational controls. Also, stakeholders do not directly perceive the benefits of

forensic accounting and consequently believe that forensic accounting is cost prohibitive.” (Participant 3)

“Management's active involvement in Insider trading and siphoning of funds through various routes, covering up such actions with bribery and corruption.” (Participant 6)

Rehman and Hashim (2019) stressed the importance of corporate governance which can influence forensic accounting and audit roles to a great extent and identified three important parts of corporate governance enforcement which includes board of directors, audit and risk committee and the senior management which helps in the reduction of unethical practices.

The fourth characteristic of fraud diamond, namely “capability”, refers to the capacities of the perpetrators to commit fraud. Being a member of top management in banks gives power to influence the accounting system and provides avenue to employ any other deceptive methods to conduct fraudulent financial activities.

Forensic accountants also face other challenges from the management of a bank being audited/investigated as per Participant 2 who lists the following

- “1. Lack of co-operation
2. False explanations
3. Intentional hiding of key facts and suppressing few key information
4. Hostility
5. Personal threats”

Few participants views lack of data or poor-quality data provided by the management, non-cooperation from bank officials etc. as an obstacle to further investigate into the matters of frauds. This is in support of Garrow (2019) who identifies that the quality and timing of data provided to auditors distorts the efficiency in forensic auditing process.

Participants 3,4,5 and 6 comment as follows

“Challenges include-

1. Unorganized Data produced at large
2. Time within which the audit is to be completed

3. Accuracy of the data can only be reasonably measured; however absolute accuracy is required to certify.

4. Technically banks are yet to catch up with the latest advancements. Tools to test the data needs to match with the bank's version." (Participant 4)

"Lack of access to data. Also, management induces political influence on the auditors to bring out things in their favour even if something has gone wrong." (Participant 6)

Roy and Saha (2016) accuses that the lack of auditor independence will also magnify the information asymmetry.

"Availability of relevant and accurate data, access to the right person." (Participant 5)

"Non-cooperation from bank officials and time sensitivity of certain evidences like transaction logs which automatically get purged within a few days are the key challenges while taking up the audit." (Participant 3)

From the above responses, one common thing that can be noticed is that the non-cooperation by bank management and their bureaucratic approach is often a reason for the forensic accountants to unable to effectively implement the investigative procedures.

Another important question asked in the questionnaire was the adequacy of forensic accountants in India and its impact on the investigation. Almost all the participants were of the view that India lacks in the number of required forensic accountants given the increased rate of financial fraud occurrences. Participant 4 mentions

"Considering the volume at which fraud occurs, we can concur that the adequacy of the forensic accountants in the country must increase. It will help in achieving the goal of Forensic audit. Auditors must audit the accounts with the prejudice that the accounts are manipulated. However, Auditors value the accounts with inclination to their clients as it is rightly said auditors are not bloodhound but are watch dogs."

The following responses are in supportive of the above mentioned

"In my opinion, the field of forensic audit is not given sufficient importance in the context of the number of frauds being unearthed. Since it is seen as a re-active measure only in cases where fraud is already suspected, the perceived value of the forensic audit is diminished. No concern wishes to undergo a forensic audit unless there is a serious complaint from a stakeholder."

"As mentioned earlier, the forensic accounting in India is still evolving and there are only few Chartered Accountants who have passed the certificate course on Forensic accounting and fraud prevention conducted by ICAI. This factor would have a huge

impact on the overall purpose of forensic audits and would result in resource bottleneck.”

“The number of specialized forensic accountants is pretty low which in turn directly affects the quality and purpose of forensic audits. However, the need for more forensic accountants needs to be balanced with the quality of work.”

“Huge forensic task force is required in a developing country like India.”

“There is a shortage for forensic accountants in India resulting in delay of investigation and collection of evidence.”

It is evident from the above response, though not conclusive, that lack of the number of forensic accountants in India is also a major factor for ineffective implementation.

Another important question that was asked in the questionnaire was about the increasing cases of banking frauds in India despite forensic audit in place.

Participant 2 sight various reason for the increase in banking frauds which are as follows

“The banking frauds are of many types. It might be an occupational fraud, or a fraud committed by an external party on the banks. However, the frauds committed by lenders are of a sizable portion. The increasing case of banking frauds in India is may be due to be below reasons:

- 1) Poor Know Your Customer checks and lack of background verification
- 2) Ineffective due diligence of customers
- 3) Failure to verify the statements provided by the customers. Often these statements are placed in file as matter of data collection compliance rather.
- 4) Possible collusion of top management with fraudsters
- 5) Political background of the loan defaulters
- 6) Large and vast size of banking system and lack of adequate resources to oversee the process. “

Participant 4 accuses the system in place by saying

“There is no Rigid law to maintain and supervise the same. Every system will work only when there is

1. System is Devised - Exclusive law is not devised to detect frauds and fraud related activities.

2. System is Implemented - Though exclusive law is not available there are laws which gives an overview or Additional responsibility in the hands of company, which is not taken to task.

3. System is maintained - Only when an exclusive law is enforced and the same is being maintained this can curbed.”

Participant 6 says that Big 4 audit and assurance firms are given priority for forensic audits and these firms operate on a procedure dictated by global standards. The participant tries to say that this reduces the auditor’s own thought process by commenting

“In effective monitoring, Huge volume of transactions, lack of human resources. There are only few qualified forensic accountants in India. Also, only Big 4’s are hired for majority of the Forensic related work. Big 4’s predominantly work with their own pre-determined standards and templates which are prepared/ used by their global branch offices. A Forensic accountant shall not work based on a pre-determined standard which will restrict their thought process. Management should look beyond Big 4’s. There are a lot of audit firms in India which prioritize country’s economic development over self-economic development.”

Participant 3 views the lack of governing and oversight by regulatory bodies as the reason for increasing banking frauds in India by remarking

“As would be appreciated by all and sundry, frauds happen due to the breaking of organisation controls and resultant system deficiency being exploited by an unscrupulous person for personal gains / destruction of wealth. In the case of banking frauds, the monitoring oversight by the top management of the banks has been found wanting in most of the high-profile bank frauds (like Nirav Modi Fraud in Punjab National Bank and Punjab Maharashtra Cooperative Bank Fraud). Further, regulatory oversight by Central Bank of India (RBI) and auditors has been found to be compromised on account of falsified evidences or lack of appropriate organisation controls.”

There are other miscellaneous issues which hinder the effective implementation of forensic accounting in India. Some significant problems lie in the mandates of forensic audit itself.

The foremost problem is the lack of awareness of the nature of fraud and the scope of forensic audit. The following are the scope deficiencies and limitations of forensic audit mandates as per the report produced by (KPMG, 2019):

- In most of the cases, scope of forensic audit is being limited only to the period of last 2 to 4 years during which the fraudulent activities were suspected. The actual

preparation and manipulation would have started much earlier than the period under audit which makes the usefulness of the audit report severely diminished.

- Another issue lies in the fact that forensic audit is limited only to the organisations where fraudulent activities may have been suspected. There are high chances of related entities being involved in this who may be borrowers of other consortium banks in other multiple banking arrangements.
- There are few inherent limitations of forensic audits where less or insufficient information is made available to forensic auditor when compared to a government investigator. A forensic auditor cannot force anybody to produce information, conduct searches and seize documents etc.
- Sometimes the management of the bank being audited do not provide data, transaction summary or any other supporting documents for verification.
- In most of the cases, the scope of forensic audit cannot be defined upfront since prima facie evidence is required to identify and classify an account as possible red flag to initiate detailed forensic investigation later.

4.2.2 Tools and techniques to carry out an effective fraud investigation

The second and last research question was to find out the tools and techniques used by forensic accountants to carry out investigation even when they face challenges as stated in the previous findings.

Participant 1 spots technical knowledge as a major tool for investigation commenting that

“Technology plays an important role in tracing financial scams. Data analytics and Artificial Intelligence can be harnessed in a huge way to detect and understand patterns and trends in the past cases which in turn can be used to detect and raise red flags in real time.”

Nigrini (2011) too advocates the importance of data analytics as a tool for effective achievement of the forensic auditing process. Again, as per the “opportunity” aspect of fraud diamond, the perpetrators of fraud will utilise technical skills to commit fraudulent activities.

Participant 2 response supports the response from Participant 1 and further recommends forensic accountants to update their skills in technology to trace out fraud by revealing

“To say precisely, use of technology in tracing frauds is the current and future expectations from a forensic accountant. At present, there are various forensic audit tools and software for discharging the forensic audit work. With the rapid growth of technology, the world is constantly changing every day. Forensic accountants need to rise to the occasion and update and learn the latest and emerging technologies to make the best possible use of technologies.”

The above response is in support of Simha and Satyanarayan (2016) who specified the need for digital literacy in an increasing IT complexity.

Participant 3 also talks about the reliance on technology and its inevitable use in the future by quoting

“There has been a gradual increase in the use of technology by banks, business concerns and authorities which collect taxes and act as a regulator. Further, the amount of information generated by each person has multiplied beyond imagination over time. Keeping in view the amount of data generated by a business concern, whether structured in the form of tax filing forms or unstructured in email correspondences and the reducing cost of analysing such data, technology is the biggest enabler for tracing financial scams. In the coming years, there is going to be an increased reliance on technology which would in turn ensure better transparency and help identify malignant trends in industry in the early stages.”

From the above responses, it is evident that knowledge in Information Technology (IT) is inevitable, however Chakrabarti (2014) alleges that Indian professionals lack these skills and that they are not tech savvy.

The above statement is contradicted by Participant 4 who views that banks are reluctant to adopt technological developments by commenting

“Banking Companies are not aware of the fact that the benefits of adopting this technology would surpass the cost involved in it; in the longer run. The major dilemma with the technological advancement is the escalating number of computer frauds which happens inside the company and it is hard to be detected by the accountants. Since a fraud can happen on both end - outside and Inside.”

Nalawade (2019) claims that perpetrators use technical know-how to commit financial frauds especially in the banking sector.

One of the questions sent to the participants required the methods followed by forensic accountants when the audit evidences collected are inadequate to form an audit opinion wherein Participant 5 has commented

“The evidence should be adequate and admissible in court. The evidence is used to determine how the fraud was concealed, quantifying financial loss, identify perpetrators of fraud. The forensic accountant can use substantive techniques, analytical procedures, computer assisted audit techniques, testing of internal controls, interview and interrogation, confidential informants, Surveillance, and undercover operations.”

Chakrabarti (2014), Nalawade (2019) and Philip et al., (2017) also listed these measures to detect and prevent financial frauds.

Participant 2 has listed few methods to be followed during these challenges faced

- “1. Performing alternate audit procedures / techniques to obtain the required evidence as far as practicable.
2. Assessing the degree of inadequacy of audit evidence and its impact on the overall opinion.
3. Resign from engagement, if unable to obtain significant evidence and unable to perform any alternate audit procedures as well
4. Consider the advice of a legal counsel.”

And it is supported by Participant 1 who mentions

“Analytical reviews are carried out and external confirmations are sought and obtained whenever the audit evidence available is insufficient to frame an audit opinion. Physical verification of inventory and site visits to debtors are also carried out to obtain sufficient audit evidence.”

One common point noted from few other participants was that the forensic accountants avoid this situation either by resigning from the engagement or by giving a ‘disclaimer of opinion’. The responses in this regard were

“A disclaimer of opinion is being given, but it does not serve the purpose of the audit. Moreover, external verification, inquiries with employees and vendors are being made but it can hardly have an impact in arriving at an opinion.”

“Specific limitations/ disclaimers are giving in the opinion. Auditors wash their hands clean with disclaimers.”

These above responses are surprising since the responsibility of a forensic accountant is to investigate the fraud concerned and to produce the evidence in the court of law.

4.3 Conclusion

The findings from both the primary and secondary sources of data reveal that the absence of separate regulatory authority, lack of appropriate training, skills and experience of forensic accountants, lack of cooperation by the management of the banks etc., act as the major barriers in the effective implementation of forensic accounting and audit in India. As previously mentioned in the literature review, competency and skill of a forensic accountant was considered a significant factor in the process of conducting the forensic audit (AdedireTemitope et al., 2016). Most of the participants too conveyed the existence of direct relationship between education, qualification, skills, training, and an effective forensic investigation.

The other research objective was to find out the techniques utilised by forensic accountants and from the data collected, it was discovered that there are few tools and techniques which a forensic accountant can apply to overcome the challenges faced during the investigation. Nalawade (2019) and Philip et al., (2017) mentions various tools and techniques that will be of help to forensic accountants to carry out an effective forensic investigation.

Steps were taken to limit the threats of validity and reliability by creating specific questions that related directly to the research objectives. The research was conducted through the interpretation of the researcher and any firm conclusions could not be arrived at based on the research method, mainly due to small amount of participants however the study provides a substantial amount of insight into the factors affecting the effective implementation of forensic accounting and audit in India as well as the tools and techniques used by forensic accountants to conduct an effective forensic investigation.

5 Concluding comments

The previous chapter analysed the findings of the factors which influence the effective implementation of forensic accounting and audit in Indian banking sector and about the tools and techniques used by forensic accountants for better investigation.

The implications of the findings on the research objective as well as the limitations of the research and future recommendations are discussed in this final chapter of the dissertation. The final chapter aims at identifying aspects that may be improved in the study and providing recommendations for more investigation.

5.1 Research contributions

This research paper is assumed to have provided a source for potential researchers to further examine the problems around effective forensic accounting implementation in the Indian banking sector. Forensic accounting is one of India's most esteemed profession and it is important to look at what approaches will further enhance its effective implementation. With an increasing case of financial frauds, especially in the Indian banking sectors, the professional services of forensic accountants in India is expected to be of utmost importance and hence improvements in this field is inevitable. It is expected that the evidence gathered in this research paper would be useful and enable prospective researchers as well as forensic accounting professionals to take appropriate measures to eliminate all the variables that serve as an obstacle to effective forensic accounting and audit implementation.

This research found out that the current laws and regulations relating to forensic accounting are not clear and it is still evolving. This is since there are no specific authority or guidelines to regulate the forensic accounting. It was also found that forensic audit is not mandatory for banks or companies except for cases of reported fraud. Non-cooperation and hostile behaviour of the bank management and other officials is found to be a major challenge faced by forensic auditors while investigating the accounts. Collecting data and evidences are also a difficulty.

Another noteworthy finding was that the number of accountants specialised in forensic audit is low when compared to the number of financial fraud cases emerging in the country. The syllabus and training currently offered to forensic accountants are considered insufficient since the technology used in banking industry is getting complex in nature and the forensic auditors are expected to be skilled and updated in using various software platforms used by banks in order to perform an effective investigation.

5.2 Implications for practice

This research paper aims to provide other researchers with a platform to further examine variables that impact the effective implementation of forensic accounting in India. It is necessary to consider the present forensic audit situation in effect and how the banking officials view the value of it, based on data gathered for this research.

As highlighted by few participants, the syllabus of the forensic accounting subject must be revised and to converge with the global standards to ensure quality audits in the future. It is suggested that the fraternity of forensic accountants should appeal to the present regulators of this profession for serious revisions and updates to the current syllabus.

In the modern world, technology is being evolving in a rapid and dynamic manner. Hence, forensic accountants are expected to equip themselves with the current technological skills to carry out an efficient audit.

Considering the number of financial scams in India, specifically in the banking industry, it is high time to establish a separate regulatory body to govern the forensic accounting profession. This ensures key focus to the community in framing laws and regulations that re specific for this profession.

5.3 Recommendations for future research

Research which will be of relevance following this paper will discuss the need for a separate regulatory body for forensic accountants, review of the syllabus, appropriate training for prospective accountants requiring the pragmatic application of professional knowledge, in an effort to evoke a shift in the existing scenario, so that the forensic

accounting and audits are effective in future which will help in curbing fraudulent financial activities.

Future studies can explore the same impact of forensic accounting and audit in other fields apart from the banking industries, for example, manufacturing sector, service sectors etc. Advising future researchers who are seeking to examine the central issue of this research would be to make an attempt to attain a significant number of participants, particularly from the forensic accounting fraternity, as this could provide a better understanding of the laws, regulations and guidelines that presently exist in this area.

In future, research can be performed in other countries which could involve a much bigger population and study.

5.4 Research Limitations

Like with any qualitative research including open-ended interviews or questionnaires conducted by the self / interviewer, the results gathered cannot be interpreted as concrete evidence because of the ambiguity of the interpretation of the subject matter being addressed by the individual participant. While the in-depth and open-ended questions included in this study have been helpful and have offered valuable insight into numerous shortcomings in implementing effective forensic accounting and audit in India, experiences of the participants contribute to difficulties in construing the data. Few participants who did not hold forensic accounting specialisation certification or experience were uncertain to answer questions relating to the current syllabus, training, and other related area of this study. It could be said that a broader number of forensic accounting fraternity members would have offered a better view into such matters.

The research is limited to only the banking sector in India and the study includes the bias nature of the qualitative research due to factors like participants having more control over their responses which creates difficulty to investigate causality between various research phenomena, and the data collected is not statistically representative etc. Also, the number of participants that were considered for the survey was limited due to the dissertation submission deadline. This resulted in a total participant of seven which is much smaller than anticipated. More responses would have been considered if time were permitted. The

questions framed for the survey was research-oriented and may be difficult for some participants to answer.

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Appendix

Qualitative survey on Forensic Accounting

This open-ended question survey is being conducted to have an insight on factors affecting forensic accounting implementation and its impact on the Indian banking sector.

Name *

.....

E-mail *

.....

Are you a practicing Chartered Accountant in India? *

- Yes
- No

1. What is your opinion on the current laws and regulations relating to forensic accounting in India?
2. What are the factors (be it environmental, organizational, or individual) that affect the effective implementation of forensic accounting?
3. How does qualification and experience of a forensic accountant affect the conduct of forensic audit? What are some essential qualifications and experience required?
4. Why is there an increasing cases of banking fraud in India despite forensic audit in place?
5. In your opinion, do you think the syllabus of forensic accounting subjects needs to be revised or improved and if so, will this ensure effective forensic audits in future?
6. Does the budgetary allocation of funds to the regulatory body of forensic accounting affect the quality of decision making and the overall management? If so, how?
7. What are the challenges faced by a forensic accountant from the management of the banks being audited?
8. What is your opinion on the adequacy of forensic accountants in the country and how does it this affect the overall purpose of forensic audit?
9. How do you see the use of technology in tracing financial scams in the Indian banking sector?
10. What is the current training process of forensic accountants in India and are these sufficient in the present scenario?

11. What are the methods followed in the occasions of inadequate audit evidence available to the forensic auditor frame an audit opinion?