

Forensic Accounting Implementation – Needs and Applicability in Banks

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ABSTRACT

This presentation explains forensic accounting and its applicability in light of the recent spate of frauds against Indian banks. In supervising banking activities to find problems and to verify correctness and portrayals of real activity, forensic accounting offers many benefits. Testing and perceptive tactics can target offences that can't be found by standard bank auditing processes rather than just examining books and records for parity. The Reserve Bank of India (RBI) expressed concern about the resources' deteriorating state, leading it to advise banks to take action to ensure compelling investigations, observation, and follow-up of frauds from an operational standpoint. These important recommendations from the Reserve Bank of India are meant to improve the method of fraud examinations. Forensic accounting ensures the accuracy of financial accounts and banking transactions in this way.

In order to be appropriate for the court and serve as the foundation for discussion, debate, and, eventually, dispute settlement, forensic accounting integrates accounting, auditing, and investigation abilities. There was not much understanding of forensic accounting in India before the Enron Scam, Rajat Gupta case, and Satyam Scam. The Satyam case anomalies were brought to light by the media, and the demand for forensic accountants surged as a result. However, even today, India has a very small number of forensic accountants.

KEYWORDS: *Indian banks, Banking system, Forensic Accounting*

I. INTRODUCTION

Over the years, banks have encountered difficult circumstances as a result of scams. Due to regulatory inspections, banks are under extreme pressure to implement best practices. The banking sector is now unstable and exposed as a result of the scandals in Indian banks. Due to the numerous unreported scams, forensic accounting and auditing are crucial and must be taken care of right once.

The goal of forensic accounting is to elicit suspicious activity from banks' and corporations' financial records. An economist by the name of Kautilya was the first to understand the value and necessity of forensic accounting and accountants. The demand for forensic accountants in India has increased significantly in recent years and is still expanding. The Reserve Bank of India has mandated forensic accounting and audit; however banks are cautious when approaching fraud examiners and certified scammers and rely primarily on internal auditors. Due to the increase in fraud and scams, forensic accountants are in high demand. One of the shocking frauds in India that led to a market crisis in 2009 was the Satyam scam.

Since then, businesses have voiced concern about seeing early signs of fraud or insolvency. Thus, as forensic accountants and examiners have become more necessary in businesses, demand has skyrocketed. According to RBI, examining fraud also requires competence in "forensic accounting and audit" and value-based knowledge of transactions. In this approach, banks should find a means to teach employees who have the right aptitude and provide them with crucial forensic accounting and audit preparation so that qualified workers can carry out necessary fraud investigations involving substantial sums of money. Indian forensic institutions provide exceptional programs to control bank frauds. These meetings are probably being used to perpetrate banking fraud. In these situations, forensic accounting is an important tool for identifying and stopping bank frauds that were handled improperly. Abnormalities are present in complex banking activities, and they can only be handled by successfully adopting forensic accounting.

The relevance of the forensic accounting sector has grown over time, although banks can still avoid it if there isn't widespread knowledge of it. Both their staff and consumers need to be educated by the banks. The study primarily focuses on how Indian forensic accounting regulatory authorities are perceived by bank customers. Banks are unable to provide complete protection to the public, but they can take action to stop fraud. It has two sides to it because technology is the main culprit. On the plus side, it brought digitalization to the financial sector, simplifying all banking transactions. However, technology has also led to an increase in online banking frauds and risk management.

II. REVIEW OF LITERATURE

With globalization, Kohler (2002) in his discourse at a meeting on humanizing the worldwide economy focused on the need to expand transparency of monetary structures and to raise the reconnaissance of international capital markets. In mid-1990s, the World Bank formulated a well-defined technique to battle distinctive types of corruption and frauds, and together with the IMF made Financial Sector Assessment Program (FSAP), to survey, analyze and address potential monetary vulnerabilities. FSAP with its work has experienced a few changes and more extensive acknowledgment throughout the years, since its beginning in 1999.

Indian banking framework has remained tormented with a manifold increase in NPAs amid late years, which brought about an endless loop influencing its maintainability. Chakrabarty (2013) mentioned that while most number of frauds has been credited to foreign and private banks, public sector banks involve highest sums of money.

Important findings in RBI (2014b) incorporated the stress of asset quality and marginal capitalization by public sector banks, and different suggestions to address these issues. Rajan (2014) focused on great administration and autonomy to be given to public sector banks to build their competitiveness and to have the capacity to fund-raise from business sectors effortlessly. In light of the normal discernment that undeniably strict controls will make business opportunities take a hit, Raju (2014) expressed that, rules don't appear to be a bar in working of banks after the crisis.

Subbarao (2009) was of the supposition that without broad based trust and assumption of fair conduct, there wouldn't be a financial sector of the present scale and size. The researcher called the development of a moral hazard issue in the banking framework as privatization of profit and socialization of expenses.

To keep up consistency in fraud reporting, frauds have been characterized by RBI dependent on their types and arrangements of the Indian penal code, and reporting rules have been set for those as indicated by RBI (2014a and 2015a). Towards observing frauds by the board of directors, a circular was issued according to RBI (2015b) to help banks to set up a council to regulate internal investigation and examining, and plan on suitable preventive activities, following by survey of viability of those activities. Fair rules and whistle-blower policy are crucial to enable representatives to deal with frauds. RBI additionally issued a circular and presented the idea of Red Flagged Account (RFA), in light of the nearness of Early Warning Signals (EWS), into the present system, for early identification and aversion of frauds.

Gandhi (2014) examined the prime reasons for developing NPAs and perceived the absence of strong credit examination framework, inept supervision post credit disbursal, and insufficient recovery component as key hindrances tending to those viewpoints.

III. OBJECTIVES OF THE STUDY

1. To comprehend the benefits of forensic accounting implementation in Indian banks.
2. To assess the current state of forensic accounting application and its applicability in reducing fraud and scams in Indian banks.

A Brief Outline: Forensic Accounting

The consideration of bookkeeping, auditing and insightful expertise is called 'Forensic Accounting'. "Forensic Accounting is the use of bookkeeping standards, concepts and order to theories at issues in a legal debate and includes each part of bookkeeping knowledge" as indicated by the American Institute of Certified Public Accountants (AICPA). In like manner, forensic accounting gives a bookkeeping examination reasonable to the court which will frame the basis for deliberation and at lastly dispute resolution. According to the Journal of Forensic Accounting, "Forensic accounting is adequately complete so a bookkeeper, in his/her thought about independent proficient judgment, can convey a finding as to records, inventories, or the introduction thereof that is of such quality that it would be maintainable in some antagonistic lawful continuing, or under some legal or managerial review." There are two noteworthy types of Forensic accounting: Legal services perceive the job of a bookkeeper as a specialist and Investigative services requires the utilization of forensic bookkeepers' skills and may require court declaration and judgment.

Banks' use of forensic accounting and its importance

In recent years, forensic accounting has emerged as a crucial tool for identifying, organizing, and tracking improperly handled banking transactions as well as for confirming the legality of financial transactions. In addition to the delicate nature of the accounting for banks and other financial institutions, businesses engage in a variety of banking operations that could be illegal. In this way, forensic accounting possesses the integrity of financial and banking transactions.

Needs of Forensic Accounting in Banking Transactions:

Given that forensic bookkeeping techniques are required on one side due to the uncertainty of the occurrence of probable losses or illegal conduct, forensic accounting is very fundamental to the banking industry. On the other hand, forensic bookkeeping techniques are anticipated to ideally confirm that every banking transaction was successfully completed.

Example of Financial Fraud in India

Figure 1: Financial Fraud statistics



A more thorough understanding of the losses caused by financial scams shows that over Rs. 4,800 crore in frauds were reported in 2014. Vinay Mittal, an industrialist, is mentioned on the list of those who should be held accountable six times. Losses totaling more than Rs. 9,000 crores between 2015 and 2016 are seen in the total data, with the Vijay Mallya case accounting for a sizeable portion of these losses.

Mallya is accused of diverting a significant portion of the Rs. 6,027 crore loans obtained from a group of 17 banks for his now-inactive Kingfisher Airlines to front companies in seven different countries, including the UK, US, Ireland, and France. While SBI lost Rs. 1,600 crore, other public sector banks that provided loans to Kingfisher included Punjab National Bank, which approved Rs. 800 crore, Indian Overseas Bank, which provided Rs. 140 crore, Bank of Baroda, which provided Rs. 550 crore, Bank of India, which provided Rs. 650 crore, UCO Bank, which provided Rs. 320 crore, Central Bank of India, which provided Rs. 410 crore, State Bank of Mysore, which provided Rs. 150 (Rs.310 crore).

The Fugitive Economic Offenders mandate was approved by the Lok Sabha in the 2018 monsoon session of Congress in response to these cases, which showed net infringement. The law was first approved by the government with the hope that it would allow officials to attach and take the claimed defaulters' assets before they fled the country.

However, when the PNB fraud was discovered, which led to diamantaires Nirav Modi and Mehul Choksi departing the country after committing crimes relating to the Letters of Undertaking from the Punjab National Bank, the existing criminal component did not prove to be a strong deterrent. In his most recent attempt to avoid extradition, Nirav Modi requested a residence permit from the Singaporean government, which was denied despite the issuance of a red corner notice. The PNB scam, which allegedly began in 2011, was discovered in 2018, and PNB officials then informed the investigative agencies of the discovery. The bank was the target of some actions. 28 Indians were found to have been involved in bank fraud involving money. Once this was realized, The Enforcement Directorate (ED) and the Central Bureau of Investigation (CBI) worked to take legal action against these criminals, and their efforts were somewhat effective. Nevertheless, despite the severity of the problem, the current systems have shown to be ineffective. The administration's inability to capture and extradite wrongdoers from foreign countries has made it difficult for the investigating authorities to pursue their leads. The Indian government has extradition agreements in place with more than 48 nations for this reason.

Some statistics on scams and frauds in the Indian banking sector:

Any behavior that gives one individual an unfair advantage over another is considered fraud. In the Report of RBI Working Group on Information Security, Technology Risk Management, Electronic Banking, and Cyber Frauds, this definition was provided from the perspective of electronic banking as "a measured act of oversight or commission by any person, done in during a banking transaction or in the transaction records maintained either manually or in a digital way in banks, resulting in unjust gain to any person for a transitory period of time or otherwise, with or without intent to defraud." A year wise cases of fraud cases reported by the banking sector with the amount involved is given in Table 1.

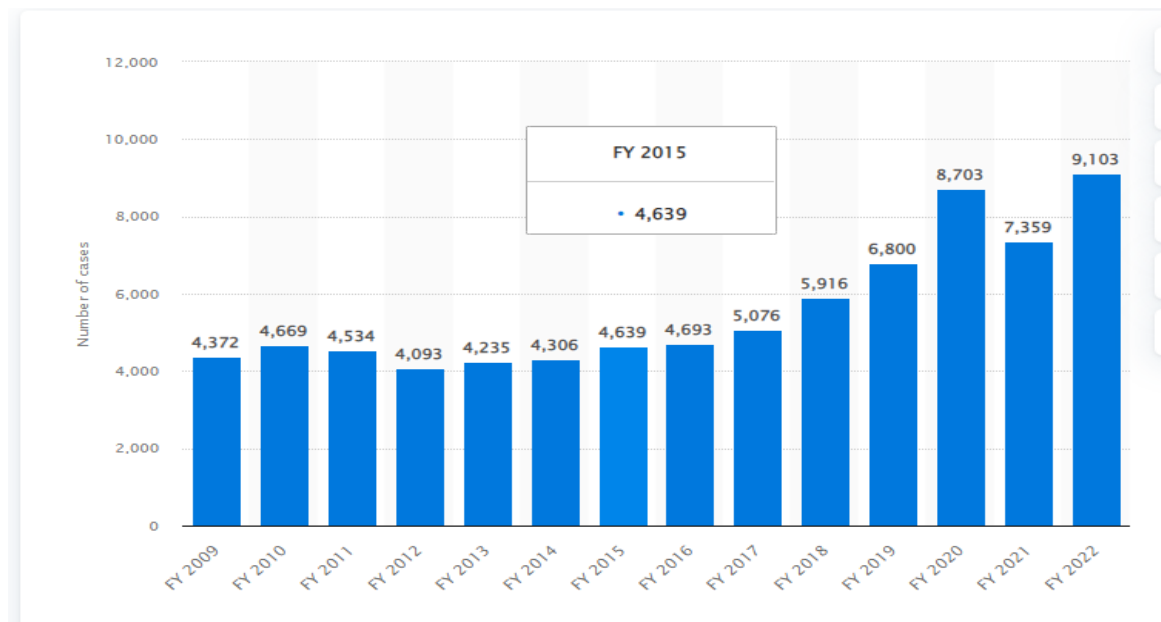
Table 1: Year-wise fraud cases in banks

YEARS	NO. OF FRAUDS	TOTAL AMOUNT OF FRAUDS(IN MILLIONS)	NUMBER OF CARDS/INTERNET BANKING FRAUDS
2013-14	4500	100	1100
2014-15	4900	190	1000
2015-16	5000	180	1300
2016-17	5100	235	1700
2017-18	5900	320	2000
TOTALS	25400	1025	7100

Source: <https://qz.com/india>

Table 1 shows bank fraud instances broken down by year from 2013–14 to 2017–18. In the past five years, more than 20,000 fraud incidents have been reported. The number of bank frauds is rising every year. Likewise, the money involved in these frauds has grown over time. In the 2017–18 fiscal year, there were 320 million in scams. Cards, net banking, payment wallets, etc. are now commonly used since the government has made major efforts to implement digital payment systems and go paperless.

Number of bank fraud cases across India between from financial year 2009 to 2022



IV. Conclusion

Given that one of the functions of banks is the passage of funds, the impact of frauds on financial transactions is growing significantly. Furthermore, frauds may affect the stability of the economy and may have a potentially crippling effect on confidence in the banking system. They have the power to destroy banks, impair Reserve Bank of India judgments, etc. The CBI and the ED will be able to identify numerous high-profile bank fraud cases involving businessmen and others with the help of forensic accounting. The increase in money involved is mostly attributable to the high-value loans and associated scams that have recently come to light and

offer a significant challenge to all participants in the banking system. Therefore, it is important to promote forensic accounting in India in order to prevent fraudulent transactions and questionable practices. Similar to this, necessary changes to the law be done in order to comprehend the significance of both forensic accountants specifically and forensic accounting generally.

The use of forensic accounting will aid organizations in preventing corruption and fraud, which will lead to expansion. The RBI provides guidelines for preventing fraud, and they advise banks to improve their systems. Additionally, banks have access to techniques like artificial intelligence and others that can quickly spot fraud. That is there is a pressing need to stop cybercrime because it has made people afraid. Criminal accounting will aid banks in earning the confidence of the public. The current banking frauds are expanding quickly and research indicates that citizens lack awareness of banking transactions and the corresponding frauds. The study's analysis reveals that awareness and trust are quite low.

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