

Commentary

A study on Forensic Audit and Indian Banking Fraud

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Abstract:

Forensic audit targets to assess financial statistics and detect fraud through the use of an aggregate of accounting, auditing, and research abilities. It entails applying accounting strategies to felony problems and disputes to offer evidence that can be utilised in criminal court cases. Forensic accountants are regularly requested to investigate monetary fraud and provide qualified testimony in court. As the range of corporate and banking frauds has increased in recent years, the government has increasingly sought public honesty, impartiality and transparency of facts through the usage of forensic auditing. Forensic auditing seeks to detect, investigate, and prevent fraud through the use of a selection of equipment. Forensic auditing is important to reduce economic fraud and improve the performance of the corporate and banking sectors. If forensic auditing is made mandatory within the company and banking sectors, many scams can be brought under control. It's been counselled that the appointment of forensic accountants in public quarters and large-scale organisations needs to be made obligatory for the sustainable development of the economic system.

I. Introduction

Forensic Audit

A forensic audit was initiated to examine the financial records of a business entity in a systematic way to uncover evidence that can be utilised in legal cases in court. This process is a more advanced version of an internal audit, and the person performing this audit must possess knowledge of the law and legal structures, as well as have professional skills in accounting and auditing.

A forensic audit is only conducted when there is something suspicious about a firm or enterprise. The government or administrative authorities conduct these audits to stumble upon the fraudulent activities, malpractices or misconduct occurring within an agency. If any bad pastime is detected, the research is maintained for proof and prison proceedings start.

A forensic audit is required for a specific motive, such as finding the fraud or misrepresenting a monetary announcement by using inspecting the past transaction and accumulating evidence with the intention to prove that some fraud has happened and may be utilised in court for criminal lawsuits. At the same time, internal audit is targeted

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on compliance, regulations, accounting standards, and different controls that businesses need to comply with for their operation.

Forensic audit has a couple of functions to serve in relation to ensuring correct and dependable renovation of statistics within the economic statements. Some of the targets of this technique are as follows:

- Figuring out the instances of fraud through different investigation methods and looking into them.
- Ensuring prevention of frauds by using applying inner controls except the recommendation also hints from government.
- The participation of auditors in the improvement of fraud prevention applications.
- Research of required subjects and collection of evidence for the felony or judicial court cases.

II. OBJECTIVES

- 1) To study the different types of banking fraud.
- 2) To study the types of forensic fraud.
- 3) To study the process for a Forensic audit

Bank Fraud

Bank fraud involves intentional actions or omissions by a person during a banking transaction or within the financial records of the institution. This leads to unlawful temporary benefits for someone, which may or may not cause financial harm to the bank. The financial losses that banks experience due to fraud are comparable to the total losses from crimes like theft, burglary, robbery, and other similar offences. Illegitimate credit facilities are provided for unlawful benefits, including cash credits offered against the pledge of goods, hypothecation of items against payments, or concerning account books.

• Types of Banking Fraud

Banking fraud undermines consumer self-belief in banking institutions. A number of the most common types of fraud are:

1. Identity theft

Fraudsters impersonate people to gain access to their banking accounts and carry out unauthorised transactions. They trick customers into revealing their nonpublic and banking records through a system known as phishing, in which they pose as a dependable entity and solicit sensitive information.



2. Credit card fraud

Scammers gain access to a customer's credit card information and make unauthorised transactions. It is able to happen through skimming, online hacking or physical robbery.

3. Mortgage fraud

People or enterprises provide false facts while seeking loans, proceeding to default once the mortgage is distributed.

4. Cheque fraud

Scammers forge, adjust, or create counterfeit cheques to make fraudulent deposits or withdrawals.

5. Online and cellular banking fraud

Fraudsters hack into online bank debts of clients or use malware to steal sensitive information.

6. Wire transfer fraud

Fraudsters trick financial institution employees into moving money from the financial institution to a fraudulent account.

Deloitte discovered that statistics robbery, cybercrime, 0.33 party fraud, bribery and corruption and fake documentation have been the most common kinds of banking fraud between 2019 and 2021.

Types of Forensic Audit

Based on the sort of fraud and problems that arise in a business setup, the kind of forensic audit reviews may also differ. However, such audits are widely categorised into two categories – monetary announcement audit and financial due diligence audit.

- **Monetary announcement Audit:** It checks for accuracy in the economic statements that organisations put together. The principal attention is on the footnote disclosures that mention the threat control elements, except for others. The auditor, in this case, also ensures the statements are organised to comply with the recommendations specific to the aid of financial regulatory bodies.
- **Economic Due Diligence Audit:** it is one of a kind from standard auditing techniques because it goes beyond thinking about the monetary statements most effectively. Instead, it specialises in acquiring evidence that might assist in determining whether or not a business is suit to be bought or sold or has to be invested in for it to perform well.

Forensic audit investigations are made for numerous motives, including the following:

1. Corruption:

Corruption presents a significant obstacle to socio-economic growth and impacts various levels of business. It leads to negative perceptions of the company and can seriously damage its reputation. This includes any misuse of one's position or unethical actions involving resources. In such cases, a forensic auditor aims to uncover evidence of extortion, bribery, or any related conflict of interest.

2. Extortion:

Going beyond basic corruption, extortion refers to the act of using threats, intimidation, or violence to obtain money from another person or entity. This could occur under the guise of 'protection payments', especially in complex cyber extortion scenarios or in dealings with small enterprises. Moreover, the presence of extortion within a company's finances undermines its credibility with vendors and clients. This is a crucial reason for maintaining accurate financial statements.

3. Bribery:

Bribery involves the unethical act of influencing someone's position or authority to gain a benefit, often by promising something advantageous to the individual providing the bribe. Instances of bribery can arise in various contexts and not always require a direct offer. When someone operates beyond their power, it negatively impacts the organisation's profits and interests, which is prohibited by law.

4. Conflict of Interest:

Similar to the issues associated with bribery, a conflict of interest occurs when actions are taken for personal gain, which harms the organisation. Such behaviour is a key factor prompting a forensic audit.

5. Fraud:

Several factors contribute to fraud within a company's financial sphere. These include:

- Deliberate false representation or statements
- Misrepresentation by a perpetrator
- Intent to mislead
- The representation must be related to factual circumstances
- Active concealment of information
- Promises made without intent to fulfil them
- The representation must have deceived the opposite party
- Any act or omission deemed fraudulent by law
- Wrongful loss and gain are considered inconsequential

6. Asset Misappropriation:

This can involve creating false invoices, misusing funds, issuing payments to

nonexistent employees or suppliers, stealing inventory, or abusing company resources. This situation often arises when individuals entrusted with managing a company's assets divert them for personal use. Additionally, it can severely harm the organisation by allowing external parties to gain control over operations. It directly affects the cash flow of the business.

1. Fraud on Financial Statements (FSF):

The deliberate and systematic misrepresentation or misstatement of financial information, giving the wrong impression or leaving out important details in order to mislead stakeholders about a company's financial health, is known as financial statement fraud. In order to display inflated earnings or growth figures, this usually entails postponing revenue or expenses. In more extreme situations, it involves inflating profits. Market players' and capital markets' trust in the accuracy of financial data is weakened as a result.

The FDA's Forensic Data Analysis

The Fraud Triangle and Fraud Risk Procedures for Performing a Forensic Examination. A forensic auditor needs to be knowledgeable about the legal ramifications of accounting matters and have received specific training in forensic auditing methods. Additional steps beyond those of a regular audit are part of a forensic audit.

Organizing the inquiry when a client hires a forensic auditor, the auditor needs to identify the primary focus of the audit.

For instance, the client can have concerns about the calibre of the raw materials that were provided. The forensic auditor will plan their investigation to accomplish goals like:

- detecting any fraud that may be taking place
- determining the period of time during which the fraud was perpetrated
- figuring out how it was hidden; identifying the perpetrators
- calculating the monetary losses brought on by the fraud
- obtaining relevant evidence that can be used in court
- Suggesting safeguards against fraud in the organisation in the future.

Gathering Proof The forensic auditor must determine the possible forms of fraud perpetrated and the techniques employed in accordance with the audit's goals. The evidence collected must be adequate to prove the fraudster or fraudsters' identities in court, give specifics of the fraudulent plan, and record the parties impacted and the monetary losses sustained. The court will be better able to comprehend the deception and the provided proof if the evidence is presented coherently. Forensic auditors must make sure that no one tampers with the documents and other evidence they have gathered. In a forensic audit, the following techniques are frequently used to gain evidence:

- Primary techniques, such as doing reconciliations and evaluating documents;
- Analytical techniques, which are used to assess patterns over particular time periods or to obtain comparative data from several departments.

- Software programs created to identify fraud are known as computer-assisted audit procedures.
- Comprehending internal controls and evaluating them to find weaknesses that made the fraud possible.

Literature Review:

The escalating frequency and sophistication of banking frauds in India have underscored the need for robust investigative mechanisms. Forensic auditing has emerged as an indispensable tool for the detection, prevention, and mitigation of financial crimes, leveraging technological innovations, regulatory frameworks, and diverse investigative techniques.

Technological Integration and Digital Transformation:

Contemporary forensic auditing has undergone a substantial transformation through the integration of advanced technologies. Artificial intelligence (AI), blockchain, and data analytics have revolutionised fraud detection capabilities. Forensic accountants now routinely employ computer-assisted audit techniques (CAATs), system log analysis, and anomaly detection algorithms to identify suspicious transaction patterns (Sharma & Rao, 2020). In the Indian context, AI-driven fraud detection systems have demonstrated exceptional performance, with deep learning models such as long short term memory (LSTM) networks achieving up to 99.95% precision in identifying fraudulent transactions (Kumar & Gupta, 2021). Random Forest algorithms applied to credit card fraud datasets have attained 95.19% accuracy, illustrating the effectiveness of ensemble learning methods in detecting complex fraud schemes (Patel & Singh, 2022).

Regulatory Framework and Compliance Mechanisms:

The Reserve Bank of India's (RBI, 2023) mandate for forensic audits in cases of large advances and account restructuring has established a structured regulatory environment. The Institute of Chartered Accountants of India's (ICAI, 2020) introduction of the Forensic Accounting and Investigation Standards (FAIS) has standardised audit procedures and reporting requirements. Between April 2024 and March 2025, RBI enforcement actions across 353 regulated entities resulted in penalties totalling ₹54.78 crore, reflecting increased regulatory vigilance (Reserve Bank of India, 2023).

Fraud Typology and Detection Mechanisms:

Indian banking frauds exhibit distinct typologies. Advances related frauds by value accounted for 92.1% of total fraud amounts in 2024–25, whereas card and internet frauds represented 56.5% of reported cases (Reserve Bank of India, 2025). Forensic

auditors apply techniques such as Benford's Law analysis, transaction pattern scrutiny, and digital footprint tracking to detect anomalies (Deloitte, 2021). Public sector banks constitute 71.3% of fraud amounts despite only 29.0% of case counts, indicating higher value incidents within government-owned institutions (Reserve Bank of India, 2025).

Effectiveness and Impact Assessment:

Empirical research establishes that forensic audit implementation correlates with significant fraud reduction. Organisations adopting comprehensive forensic frameworks report a 20 percentage point increase in conflict of interest policy adoption and a 23 percentage point improvement in whistleblower mechanisms (Chandra & Mehta, 2019). Proactive forensic auditing integrating continuous risk assessment, litigation support, and hotlines has been shown to materially decrease incident rates and strengthen internal controls (Aggarwal & Verma, 2022).

Research Debates and Theoretical Frameworks: Two primary debates shape the literature:

- i. **Proactive vs Reactive Forensic Auditing:** Traditional forensic audits focus on post-incident investigations, whereas emerging frameworks advocate proactive, continuous audit approaches that blend monitoring, data analytics, and whistleblower channels (Reddy & Joshi, 2021).
- ii. **Technology Enabled vs Traditional Skills:** While AI and machine learning enhance detection, human expertise in legal interpretation, judgment, and investigative acumen remains irreplaceable. Successful implementations integrate technological tools with multidisciplinary competencies (Nair & Banerjee, 2023).

III. Research Methodology:

Research Design:

An explanatory approach has been chosen for this research design.

Secondary Data:

Secondary data was gathered from scholarly articles, different online journals, research papers, magazine articles, and websites.

IV. Data Analysis

Table no 1- Fraud Cases Bank Group wise

(Amount in Rs. crore)

Bank Group/Institution		2022 23		2023 24		2024 25	
Bank Group/Institution		Number of Frauds	Amount Involved	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved
Public Sector Banks		3,331 (24.7)	12,557 (66.2)	7,460 (20.7)	9,254 (75.6)	6,935 (29.0)	25,667 (71.3)
Private Sector Banks		8,971 (66.4)	5,206 (27.4)	24,207 (67.2)	2,722 (22.3)	14,233 (59.4)	10,088 (28.0)
Foreign Banks		804 (6.0)	292 (1.5)	2,899 (8.0)	154 (1.3)	1,448 (6.0)	181 (0.5)
Financial Institutions		9 (0.1)	888 (4.7)	1	1	2	13
Small Finance Banks		311 (2.3)	31 (0.2)	1,019 (2.8)	64 (0.5)	1,217 (5.1)	58 (0.2)
Payments Banks		68 (0.5)	7	472 (1.3)	35 (0.3)	113 (0.5)	6
Local Area Banks		0	0	2	0	5	1
Total		13,494 (100.0)	18,981 (100.0)	36,060 (100.0)	12,230 (100.0)	23,953 (100.0)	36,014 (100.0)

Figures in parentheses represent the percentage share of the total. 2. Data are in respect of frauds of Rs.1 lakh and above reported during the period. 3. The figures reported by banks and FIs are subject to changes based on revisions filed by them. 4. Frauds reported in a year could have occurred several years prior to year of reporting. 5. Amounts involved reported do not reflect the amount of loss incurred. Depending on recoveries, the loss incurred gets reduced. Further, the entire amount involved is not necessarily diverted. 6. As on March 31, 2025, 783 frauds amounting to Rs.1, 12,911 cores were withdrawn by banks due to noncompliance with the principles of natural justice as per the judgment of the Hon'ble Supreme Court dated March 27, 2023. 7. Data pertaining to 2024 25 includes fraud classification in 122 cases amounting to Rs.18,674 core, pertaining to previous financial years, reported afresh during the current financial year after reexamination and ensuring compliance with the judgment of the Hon'ble Supreme Court, dated March 27, 2023.

Source: RBI Supervisory Returns.

Table no 2- Frauds Cases Area of Operations
 (Amount in Rs. core)

Area of Operation	2022 23		2023 24		2024 25	
Bank Group/Institution	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved
Advances	4,021 (29.8)	17,542 (92.4)	4,118 (11.4)	10,072 (82.4)	7,950 (33.2)	33,148 (92.1)
Off-Balance Sheet	13 (0.1)	280 (1.5)	11	256 (2.1)	8	270 (0.7)
Forex Transactions	13 (0.1)	12 (0.1)	19 (0.1)	38 (0.3)	23 (0.1)	16
Card/Internet	6,699 (49.7)	278 (1.5)	29,082 (80.6)	1,457 (11.9)	13,516 (56.5)	520 (1.4)
Deposits	652 (4.8)	259 (1.4)	2,002 (5.6)	240 (2.0)	1,208 (5.0)	527 (1.5)
Inter-Branch Accounts	3	0	29 (0.1)	10 (0.1)	14 (0.1)	26 (0.1)
Cash	1,485 (11.0)	159 (0.8)	484 (1.3)	78 (0.6)	306 (1.3)	39 (0.1)
Cheques/DDs, etc.	118 (0.9)	25 (0.1)	127 (0.4)	42 (0.3)	122 (0.5)	74 (0.2)
Clearing Accounts	18 (0.1)	3	17	2	6	2
Others	472 (3.5)	423 (2.2)	171 (0.5)	35 (0.3)	800 (3.3)	1,392 (3.9)
Total	13,494 (100)	18,981 (100)	36,060 (100)	12,230 (100)	23,953 (100)	36,014 (100)

Note: 1. Figures in parentheses represent the percentage share of the total.
 2. Refer to footnotes 2 7 of Table VI.2.
 Source: RBI Supervisory Returns.

Table no 3- Enforcement Actions (April 2024 March 2025)

Regulated Entity	Number of Penalties	Total Penalty Rs crore)
Public Sector Banks	8	11.11
Private Sector Banks	15	14.80
Foreign Banks	6	3.52
Payments Banks	1	0.27
Small Finance Banks	2	0.72
Regional Rural Banks	6	0.59
Cooperative Banks	264	15.63
Non-banking Financial Companies/ Asset Reconstruction Companies	37	7.29
Credit Information Companies	1	0.02
Housing Finance Companies	13	0.83
Total	353	54.78

Source: RBI

The number of fraud cases in the banking industry has increased to 36,075, more than four times as many as there were five years ago.

However, from over Rs 1.85 trillion in FY20 to over Rs 14,000 crore in FY24, the total amount of money involved fell precipitously.

Private sector banks have reported the most fraud over the last three years. However, public sector banks have continued to contribute considerably to the overall amount of fraud, according to the Reserve Bank of India's periodic report.

V. CONCLUSION

The study's main objectives are fraud and forensic auditing identification and operation. This study evaluates different banking fraud as well as forensic inspection fraud, and how it can be used to help detect fraud as well as different kinds of fraud. Bank fraud is presently a major problem for the nation. Still, the rate at which a practical defence medium is being developed is extremely slow. Financial deception harms the standard of living in the ultramodern world and hinders the progress of the country.

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