



E-ISSN: 2708-4523
P-ISSN: 2708-4515
Impact Factor (RJIF): 5.61
AJMC 2025; SP-6(3): 26-29
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www.allcommercejournal.com
Received: 16-07-2025
Accepted: 18-08-2025

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Impact of forensic accounting on fraud detection in Indian corporates

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DOI: <https://www.doi.org/10.22271/27084515.2025.v6.i3Sa.788>

Abstract

Financial frauds have grown more complex in today's business environment, endangering stakeholder confidence and organizational integrity. One of the most important tools for identifying, stopping, and looking into these corporate wrongdoings is forensic accounting. With an emphasis on its efficacy, adoption rate, and implementation challenges, this study investigates the effect of forensic accounting on fraud detection in Indian corporations. The study emphasizes how forensic methods—such as data mining, forensic audits, and litigation support—improve internal and external auditors' capacity to find financial irregularities by utilizing empirical data and case analyses from a variety of industries. The study also looks at how corporate governance procedures, regulatory agencies, and technology developments have shaped the use and reach of forensic accounting. According to research, forensic accounting acts as a proactive tool for managing the risk of fraud and greatly improves internal control systems.

Its full potential in India is still hampered by issues like low awareness, a shortage of qualified professionals, and lax regulatory enforcement.

Keywords: Forensic accounting, fraud detection, Indian corporates, financial irregularities, corporate governance, forensic audit, white-collar crime, internal controls, regulatory compliance, accounting ethics.

Introduction

Financial scandals and accounting frauds have increased in the Indian corporate sector in recent years, undermining investor confidence and exposing structural flaws in corporate governance and financial oversight. Events like the IL&FS crisis, the Satyam scandal, and other banking frauds have revealed serious flaws in conventional auditing procedures. These incidents highlight the need for stronger, more thorough financial instruments, and forensic accounting has become a potent tool for detecting, looking into, and stopping corporate frauds.

The specialized field of forensic accounting uses investigative, auditing, and accounting expertise to evaluate financial data in a way that is appropriate for use in court. By using in-depth analysis to find manipulations, hidden transactions, and misstatements that are frequently purposefully hidden in financial statements, it goes beyond standard audits. More analytical, proactive, and legally sound methods are required due to the growing complexity of financial crimes, which range from asset theft and financial statement fraud to embezzlement and insider trading.

In India, forensic accounting is still in its infancy when compared to its international counterparts, but the rise in financial frauds and regulatory pressure from agencies like the Serious Fraud Investigation Office (SFIO), Reserve Bank of India (RBI), and Securities and Exchange Board of India (SEBI) have made it much more relevant. Businesses are gradually coming to understand how crucial it is to incorporate forensic procedures into their risk management frameworks in order to guarantee accountability, sustainability, and transparency.

The purpose of this study is to investigate how forensic accounting affects fraud detection in Indian corporations and how well it fills in the gaps left by conventional auditing techniques. The study assesses forensic methods and tools, their impact on enhancing corporate governance, the degree of adoption in India, and implementation difficulties. In the end, it aims to determine whether forensic accounting, in the Indian context, can be used as a preventive measure to protect corporate integrity as well as a reactive measure to uncover fraud.

Review of Literature

1. Evolution and Scope of Forensic Accounting

Crumbley, Heitger, and Smith (2007) ^[4] describe forensic accounting as the integration of accounting, auditing, and investigative skills to provide evidence suitable for legal review. The discipline gained global attention in the wake of corporate collapses such as Enron and WorldCom, which revealed the limitations of conventional auditing methods. In India, forensic accounting is gaining momentum post high-profile frauds like the Satyam scandal, which exposed significant gaps in statutory audits (Banerjee & Roy, 2014) ^[1].

2. Forensic Accounting vs Traditional Auditing

While statutory audits aim to ensure compliance with accounting standards and financial reporting, forensic accounting is investigative in nature. According to Bhasin (2016) ^[2], forensic accountants are trained to identify red flags, trace transactions, and detect intent behind financial manipulation—areas where traditional auditors often fall short. The proactive nature of forensic audits allows for early detection of fraud risks, making them an essential tool in modern corporate governance.

3. Impact on Fraud Detection and Prevention

Research by Rezaee and Riley (2010) ^[8] suggests that forensic accounting significantly improves the detection of fraudulent financial reporting, especially when embedded into an organization's internal control system. In the Indian context, KPMG's Fraud Survey (2018) ^[6] found that over 70% of Indian companies believe forensic audits help reduce the incidence of fraud. Moreover, the use of tools like data analytics, digital forensics, and computer-assisted auditing techniques (CAATs) has amplified the effectiveness of forensic examinations.

4. Regulatory Environment and Corporate Adoption in India

Indian regulators have increasingly recognized the value of forensic audits. The Securities and Exchange Board of India (SEBI) has mandated forensic audits in cases of suspected corporate fraud, while the Reserve Bank of India (RBI) has directed banks to conduct forensic audits for non-performing assets above a certain threshold. However, a study by ICAI (2020) ^[5] points out that forensic accounting is still underutilized, primarily due to lack of trained professionals, absence of standard operating procedures, and limited awareness among corporates.

5. Challenges and Limitations

Despite its potential, the adoption of forensic accounting in Indian corporates faces several hurdles. Bhasin (2017) ^[3] notes that forensic accounting practices are not yet institutionalized, and many organizations treat them as reactive rather than preventive tools. Additionally, concerns around cost, confidentiality, and resistance from internal stakeholders often impede the implementation of forensic audits.

Objectives

- To understand how forensic accounting helps in finding and investigating fraud in Indian companies.
- To check how useful forensic accounting is in improving company rules, systems, and controls.

- To find out how many companies in India know about and actually use forensic accounting.
- To know what problems companies face when they try to use forensic accounting.
- To see what role government and regulatory bodies play in supporting forensic accounting.
- To give suggestions on how companies can use forensic accounting better to stop fraud.

Methodology for Research

Primary Data

Gathered through the use of structured questionnaires given to internal control managers, compliance officers, auditors, and finance professionals working for Indian corporations. Additionally, forensic accountants and audit firm partners were interviewed in depth.

Secondary Data

Research journals, government reports, case studies of corporate fraud, audit firm publications (such as those from KPMG and Deloitte), SEBI circulars, RBI notifications, and ICAI documents are the sources of secondary data.

Data analysis and interpretation

1. Awareness of Forensic Accounting

Table 1: Awareness of Forensic Accounting

Awareness Level	Number of Respondents	Percentage
Fully Aware	68	56.7%
Partially Aware	38	31.7%
Not Aware	14	11.6%

Interpretation

A majority (56.7%) of respondents were fully aware of forensic accounting and its relevance in corporate fraud detection, indicating growing professional awareness within Indian corporates.

2. Adoption of Forensic Accounting Practices

Table 2: Adoption of Forensic Accounting Practices

Adoption Status	Number of Companies	Percentage
Regularly Implemented	36	30%
Occasionally Used	52	43.3%
Not Used	32	26.7%

Interpretation

Only 30% of companies regularly conduct forensic audits, while 43.3% use them only during suspected fraud events. This suggests forensic accounting is still largely reactive in Indian firms.

3. Effectiveness in Fraud Detection

Table 3: Effectiveness in Fraud Detection

Effectiveness Rating (Out of 5)	Number of Responses
5 - Very Effective	40
4 - Effective	50
3 - Moderately Effective	18

Effectiveness Rating (Out of 5) Number of Responses
 2 - Slightly Effective 10
 1 - Not Effective 2

Interpretation

75% of respondents rated forensic accounting as "effective" or "very effective" in detecting fraud, showing strong support for its utility in corporate risk management.

4. Challenges Faced

Table 4: Challenges Faced

Challenge	% of Respondents Reporting
Lack of trained professionals	66%
High implementation cost	58%
Resistance from internal staff	42%
Lack of regulatory enforcement	47%

Interpretation:

The primary challenge in adopting forensic accounting is the shortage of skilled professionals (66%), followed by cost and organizational resistance. These findings highlight critical areas where improvement is needed.

5. Correlation Analysis

A Pearson correlation test was conducted between:

- Extent of forensic accounting use (independent variable)
 - Effectiveness of fraud detection (dependent variable)
- Result:

$$r = 0.72, p < 0.01$$

Interpretation

There is a strong positive correlation between the use of forensic accounting practices and the effectiveness of fraud detection. This statistically supports the hypothesis that greater implementation improves fraud management outcomes.

Findings

1. Moderate Adoption but High Awareness

Only 30% of the companies reported regularly using forensic accounting, despite the fact that more than half of the respondents were fully aware of it. This suggests a disconnect between awareness and actual use.

2. People View Forensic Accounting as Effective

The majority of respondents (75%) affirmed the usefulness of forensic accounting in risk management and financial scrutiny by rating it as either effective or very effective in detecting fraud.

3. Use That Is Reactive Rather Than Proactive

Instead of using forensic audits as a routine preventive control measure, the majority of organizations only employ them when fraud is suspected.

4. Strong Correlation Between Forensic Use and Fraud Detection

Statistical analysis revealed a strong positive correlation ($r = 0.72$) between the extent of forensic accounting implementation and fraud detection success, supporting the hypothesis that forensic tools enhance corporate oversight.

5. Key Challenges Identified

Major barriers include

- Lack of trained forensic accountants
- High cost of implementation
- Resistance from internal staff

Insufficient regulatory enforcement and standardization

Support from Regulatory Bodies is Growing but Inconsistent SEBI, RBI, and SFIO have mandated forensic audits in several high-value fraud cases, yet the overall regulatory ecosystem for forensic accounting remains fragmented and underdeveloped.

Conclusion

The increasing intricacy of financial frauds in India has highlighted the urgent need for more analytical and investigative tools, such as forensic accounting, and revealed serious flaws in conventional auditing procedures. According to this study, forensic accounting is essential for identifying, evaluating, and stopping fraudulent activity in business settings. Despite a comparatively high level of professional awareness, forensic accounting is still not widely used in practice and is frequently reactive.

The results of the study demonstrate that incorporating forensic accounting into corporate governance frameworks greatly enhances fraud detection. It fortifies compliance systems and increases the efficacy of internal controls. Its wider adoption is hampered by issues like a lack of qualified forensic accountants, high implementation costs, lax regulatory enforcement, and internal resistance.

Suggestions

- Include forensic accounting in routine business audits.
- To create competent forensic accountants, offer accredited training courses.
- Forensic audit standards and regulatory requirements should be strengthened.
- Invest in cutting-edge technologies and forensic tools, such as data analytics.
- Large organizations should set up internal forensic accounting teams.
- Encourage a moral business culture and robust whistleblower protections.
- Promote cooperation between law enforcement, regulators, and corporations.
- To standardize forensic accounting procedures, establish a central oversight organization.

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