



## Forensic Auditing as a Catalyst for Sectoral Transformation and Financial Integrity in Public Sector Banks: A Vision for Viksit Bharat @2047

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### ABSTRACT

Public Sector Banks (PSBs) play a key role in the Indian economy. They help people save money, provide loans, support businesses, and promote economic development. However, these banks face many problems such as financial frauds, rising NPAs, internal controls, and lack of transparency. These problems reduce bank profits and lower public confidence in the banking system. To achieve the goal of Viksit Bharat @2047, it is important to improve the financial health and governance of public sector banks.

Forensic auditing has become an effective method to deal with fraud and financial irregularities in banks. This research paper studies how forensic auditing helps improve financial integrity and governance in Indian public sector banks. Forensic auditing involves a detailed examination of financial records to detect fraud, manipulation, and misuse of funds. It uses investigative techniques, data analysis, and digital tools to identify suspicious activities at an early stage.

The study is based on secondary data collected from annual reports of public sector banks, RBI publications, government reports, and earlier research studies. The paper explains how forensic auditing helps banks detect frauds, reduce financial losses, strengthen internal control systems, and improve risk management. It also helps in legal cases by providing reliable evidence.

The findings show that forensic auditing increases transparency, and compliance with banking rules. It helps banks shift from a system where fraud is detected after losses occur to a preventive system where risks are

identified in advance. The use of technology-based forensic tools further improves audit effectiveness and decision-making.

**Keywords:** Forensic Auditing, Public Sector Banks, Financial Fraud, Transparency, Financial Integrity, Viksit Bharat @2047.

## 1. INTRODUCTION

Public sector banks (PSBs) play a crucial role in the economic development of India by providing financial support to industries, businesses, agriculture, and the general public. They act as key instruments for implementing government policies related to financial inclusion, credit expansion, and economic stability. As India moves towards the national goal of Viksit Bharat @2047, ensuring a strong, transparent, and efficient public sector banking system has become a priority. However, increasing cases of financial fraud, governance failures, and operational inefficiencies have raised serious concerns about the financial integrity of public sector banks.

Financial fraud has emerged as a major challenge for public sector banks in recent years. Issues such as non-performing assets, loan diversion, asset misappropriation, accounting manipulation, cyber fraud, and corruption have weakened public trust and affected the overall performance of banks. Traditional auditing methods, which mainly focus on checking compliance and reviewing past transactions, are often not sufficient to detect complex and well-planned frauds. These limitations have created the need for advanced and investigative approaches that can identify financial irregularities at an early stage and prevent future occurrences.

In this context, forensic auditing has gained significant importance as a specialized tool for fraud detection and prevention. Forensic auditing combines accounting knowledge, auditing techniques, investigative skills, and legal understanding to examine financial records in depth. Unlike conventional audits, forensic audits focus on identifying suspicious transactions, tracing the flow of funds, gathering evidence, and establishing accountability. In public sector banks, where large volumes of public money are involved, forensic auditing helps in strengthening internal controls and improving transparency.

The growing use of digital banking, online transactions, and advanced financial technologies has further increased the risk of fraud in the banking sector. While digitalization has improved efficiency and

customer convenience, it has also introduced new threats such as cybercrime, data manipulation, and identity fraud. Forensic auditing, supported by data analytics and technology-based tools, enables banks to monitor transactions continuously and identify unusual patterns. This proactive approach helps in reducing financial losses and improving risk management systems. Financial fraud poses a significant threat to organizations across the globe, undermining trust, eroding financial stability, and damaging reputations (Currall & Epstein, 2003). As organizations increasingly rely on complex financial systems and digital platforms, the risk of fraudulent activities has escalated (Kraemer-Mbula et al., 2013). Cases of embezzlement, asset misappropriation, and financial statement manipulation are becoming more sophisticated often eluding traditional audit mechanisms (Jejenywa et al., 2024). Forensic auditing, which combines accounting expertise with investigative techniques, has emerged as a critical tool in identifying and addressing such fraudulent activities, playing a pivotal role in maintaining organizational integrity (Pratama et al., 2024).

Forensic auditing also acts as a catalyst for sectoral transformation in public sector banks. By promoting ethical practices and accountability, it encourages a shift from reactive fraud investigation to preventive governance. The findings of forensic audits help banks redesign their policies, strengthen internal control mechanisms, and improve decision-making processes. Moreover, forensic auditing supports regulatory compliance and assists law enforcement agencies in prosecuting financial crimes, thereby enhancing the credibility of the banking system.

The vision of Viksit Bharat @2047 emphasizes good governance, transparency, financial discipline, and institutional accountability as key pillars of national development. A financially strong and trustworthy banking sector is essential to achieve these objectives. Forensic auditing contributes directly to this vision by improving financial integrity and restoring public confidence in public sector banks. It ensures that public funds are used responsibly and that financial misconduct is detected and addressed effectively.

Despite its advantages, the adoption of forensic auditing in public sector banks faces several challenges, including shortage of skilled professionals, high implementation costs, limited technological infrastructure, and lack of uniform regulatory guidelines. Addressing these challenges is necessary to fully realize the benefits of forensic auditing. Investment in training, technology, and policy support can

enhance the effectiveness of forensic audits and strengthen the banking sector. This study examines forensic auditing as a catalyst for sectoral transformation and financial integrity in public sector banks, in line with the Viksit Bharat @2047 vision. The research aims to highlight the role of forensic auditing in fraud prevention, governance improvement, and financial stability, thereby contributing to the development of a transparent, accountable, and resilient public sector banking system in India.

The Objective of this study is to ascertain how forensic auditing can strengthen financial integrity and support the transformation of public sector banks in India toward the vision of 2047.

## 2. LITERATURE REVIEW

### Concept of Financial Fraud

Financial fraud refers to intentional fraud undertaken to obtain unlawful financial benefits. It includes manipulation of accounting records, misrepresentation of financial statements, asset theft, corruption, and cyber-related financial crimes. Financial fraud weakens banking stability, damages institutional credibility, and reduces public trust in financial systems (Hashim et al., 2020; Reurink, 2018).

### Types of Financial Fraud (Conceptual Framework)

Financial fraud in banking institutions can be categorized into the following major types:



Figure 1: Financial Fraud Categorized into Types  
Source: Author Compiled

**Asset Misappropriation:** Asset misappropriation occurs when employees misuse or steal organizational assets. Examples include unauthorized withdrawals, payroll fraud, expense manipulation, and fund diversion. It is one of the most frequent forms of fraud in financial institutions (Reid, 2018).

**Financial Statement Fraud:** This involves deliberate falsification of financial reports to present a stronger financial position than actual. It includes overstating revenues, concealing liabilities, and manipulating accounting records (Reurink, 2018).

**Corruption and Bribery:** Corruption includes abuse of authority for personal gain, bribery, favouritism, and unethical decision-making practices that weaken governance and transparency (Dion, 2020).

**Cyber Fraud and Money Laundering:** With digital banking expansion, cyber fraud such as phishing, hacking, and identity theft has increased significantly. Money laundering conceals illegal fund sources, making detection complex (Faccia et al., 2020). These categories form the conceptual foundation of the study and identify areas where forensic auditing intervention becomes essential.

### Concept of Forensic Auditing

Forensic auditing refers to the application of accounting, auditing, and investigative techniques to detect fraud and financial irregularities. It involves evidence collection for legal proceedings and strengthens internal control mechanisms. Forensic auditing enhances accountability and transparency in public institutions (Akinbowale et al., 2021).

Reurink (2018) explains that forensic accounting practices help uncover financial manipulation and support legal investigations by analyzing complex financial structures.

### Role of Forensic Auditing in Fraud Detection and Prevention

Kumar and Lal (2025) explained that forensic accounting significantly improves the identification of concealed fraud schemes, including digital transaction fraud and collusion. However, they highlighted implementation challenges, including high costs and a shortage of skilled

professionals. The increasing sophistication of fraud, particularly in digital and financial systems, has increased the demand for forensic accounting practices across sectors. Dhole and Sabale (2024) examined forensic auditing in banking money movement processes within Indian public and private sector banks. This study revealed that manipulation in fund transfer procedures has increased banks' vulnerability to financial fraud. The author emphasized that forensic auditing helps find transaction flows, detect irregular fund transfers, and ensure regulatory compliance. However, inconsistent implementation across institutions remains a concern.

### Forensic Auditing in Financial Risk Management

Halimuzzaman et al. (2025) investigated forensic accounting as a financial risk management tool in the banking sector. Their findings suggest that forensic auditing improves fraud detection, Anti-Money Laundering (AML), and Know Your Customer (KYC) compliance. However, inadequate infrastructure and a shortage of trained professionals limit its full integration into institutional risk management frameworks.

### Technological Advancements in Forensic Auditing in

Elumilade et al. (2024) emphasized the growing importance of data-driven techniques in forensic auditing. Technologies such as Artificial Intelligence (AI), machine learning, big data analytics, blockchain, and robotic process automation enhance real-time fraud detection and predictive accuracy. Despite their effectiveness, challenges related to data privacy, regulatory readiness, and implementation costs remain significant.

Hossain (2023) also highlighted the importance of data analytics in forensic accounting for improving fraud detection efficiency and financial transparency.

### Forensic Auditing and Economic Development

Sharma and Rahman (2024) explored forensic accounting as a catalyst for economic development. Their findings suggest that adoption of forensic practices improves governance, enhances investor confidence, reduces financial misconduct, and promotes transparency. Similarly, Akinbowale et al. (2021) found that forensic accounting practices

significantly contribute to transparency, accountability, and anti-corruption mechanisms in the public sector.

## Research Gap

Although existing studies have extensively examined financial fraud, fraud detection mechanisms, risk management, and technological tools in forensic auditing, limited research has analysed how forensic auditing acts as a catalyst for sectoral transformation and financial integrity in public sector banks within the framework of India's long-term development vision. Therefore, this study seeks to bridge this gap by examining the transformative role of forensic auditing in strengthening governance and supporting the vision of Viksit Bharat @2047.

## 3. RESEARCH METHODOLOGY

### Research Design

This study adopts a descriptive and analytical research design. The descriptive approach is used to understand the role of forensic auditing in Public Sector Banks (PSBs) and to explain its impact on fraud detection, transparency, and financial integrity. The analytical approach examines how forensic auditing contributes to sectoral transformation and supports the long-term vision of strengthening the banking system under Viksit Bharat @2047. This combined design helps in both explaining existing practices and analyzing their broader implications.

### Sources of Data

The research is primarily based on secondary data. The data has been collected from reliable and authentic sources such as: Reserve Bank of India (RBI) reports, Annual reports of Public Sector Banks, Research papers and academic journals, Government publications and policy documents, financial reports and news articles. These sources provide comprehensive insights into fraud cases, regulatory developments, and forensic auditing practices in the banking sector.

### Data Collection Techniques

Data was collected through a systematic literature review. Relevant academic and professional sources were identified using keywords such as “forensic auditing,” “financial fraud detection,” “fraud prevention,” and “public sector banks.” Academic databases including Google

Scholar, Research Gate, and other scholarly platforms were used to gather relevant studies. This ensured that the information collected was credible and relevant to the research objectives.

### Data Analysis Method

The collected data was analysed using qualitative content analysis. This method involves systematic coding and categorization of textual information to identify recurring themes, patterns, and relationships. The analysis focused on key areas such as fraud detection mechanisms, preventive strategies, governance improvement, and challenges in implementation. This approach helped in developing a structured understanding of forensic auditing as a catalyst for financial integrity and sectoral transformation.

### Scope of the Study

The study focuses specifically on Public Sector Banks in India and examines the role of forensic auditing in fraud prevention, financial integrity, and governance improvement. The research is aligned with the national vision of Viksit Bharat @2047.

### Limitations of the Study

The study is limited to secondary data sources and does not include primary surveys or interviews. The findings depend on the availability and reliability of published reports and documents. Additionally, rapidly changing financial regulations may affect long-term conclusions.

### Evolution of Forensic Auditing in Fraud Detection

Forensic auditing has developed significantly over time. In earlier years, traditional auditing mainly focused on checking financial records and ensuring accuracy. However, with the rise in financial frauds, loan scams, and cyber-related crimes, the need for specialized investigation techniques increased. This led to the growth of forensic auditing as a separate and important field. In the banking sector, frauds became more complex and organized. Simple checking of accounts was not enough to detect hidden transactions or manipulated records. Forensic auditing introduced detailed examination, data analysis, and investigative methods to identify fraud patterns and financial irregularities. Today, forensic auditing plays a major role in detecting fraud at an early stage.

It helps in identifying suspicious transactions, tracing money trails, and collecting evidence. Over the years, it has become an essential tool for maintaining transparency and preventing financial losses in public sector banks.

### Role of Forensic Auditing in Public Sector Banks

Forensic auditing plays a crucial role in strengthening public sector banks. It helps in identifying financial frauds, analyzing loan irregularities, and detecting misuse of funds. Since public sector banks handle large amounts of public money, maintaining financial integrity is very important. Forensic auditors examine bank transactions, loan records, and internal processes to find any signs of fraud or corruption. They also help in investigating cases related to non-performing assets (NPAs), fake documentation, and unauthorized transactions. In addition, forensic auditing improves internal control systems. It helps banks identify weaknesses in monitoring systems and suggests corrective measures. This reduces the chances of fraud and improves operational efficiency. Thus, forensic auditing supports transparency, accountability, and trust in public sector banking operations.

To understand the effectiveness of forensic auditing, a comparative analysis of fraud prevention indicators before and after its implementation in public sector banks is presented in Table.

S. No.	Parameters	Before Implementation of Forensic Audit	After Implementation of Forensic Audit
1	Fraud Detection Time	10–12 Months	3–5 Months
2	Accuracy in Fraud Identification	Moderate	High
3	Financial Loss Control	Low recovery rate (25–35%)	Improved recovery rate (60–70%)
4	Transparency in Transactions	Limited	Strong monitoring and transparency
5	Internal Control Effectiveness	Weak	Strengthened
6	Employee Accountability	Low	High
7	Risk Management Efficiency	Reactive approach	Proactive approach
8	Loan Default/Fraud Monitoring	Periodic checking	Continuous surveillance
9	Compliance with Regulations	Partial compliance	Strict compliance
10	Public Trust in Banks	Moderate	Significantly improved

Table 1: A Comparative Analysis of Fraud Prevention Indicators

Source: Author Compiled

Table clearly shows that the adoption of forensic auditing has improved fraud detection speed, strengthened internal controls, and enhanced transparency, thereby supporting financial integrity in public sector banks.

### Integration of Technology in Forensic Auditing

Technology has transformed the way forensic auditing is conducted. Modern tools help auditors analyse large volumes of financial data quickly and accurately. This makes fraud detection faster and more effective. Data analytics is widely used to identify unusual transaction patterns. Artificial intelligence helps in detecting hidden fraud risks by studying trends and behaviors. These tools allow forensic auditors to focus on high-risk areas and take timely action. Blockchain technology also supports forensic auditing by providing secure and transparent transaction records. It helps in tracking the movement of funds and verifying their authenticity. The integration of technology has improved the efficiency and reliability of forensic auditing in public sector banks.

### Impact of Forensic Auditing on Public Sector Banks

Forensic auditing has a strong positive impact on the functioning of public sector banks. It helps in improving financial transparency and strengthens internal control systems. By detecting fraud at an early stage, it reduces financial losses and protects public funds.

It also promotes accountability among employees and management. When proper monitoring systems are in place, the chances of corruption and misuse of power decrease. Another important impact is the increase in public trust. When people know that strong investigation and monitoring systems are working in banks, their confidence in the banking system increases. Overall, forensic auditing contributes to a safer and more stable banking environment.

### Forensic Auditing and Financial Integrity

Financial integrity means honesty, transparency, and accountability in financial activities. Forensic auditing plays an important role in maintaining these values in public sector banks. It ensures that financial records are accurate and free from manipulation. By investigating

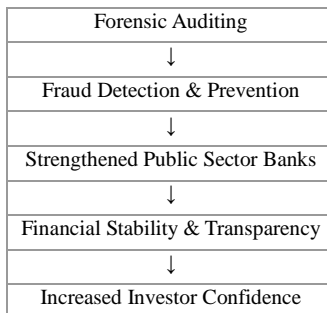
suspicious activities, it prevents misuse of funds and protects the financial system. Forensic auditing also supports ethical practices by encouraging proper documentation, monitoring, and reporting. This helps in building a culture of honesty and responsibility within the banking sector. Strong financial integrity leads to better governance, reduced corruption, and improved performance of public sector banks.

### Forensic Auditing as a Catalyst for Sectoral Transformation

Forensic auditing acts as a driving force for change in the banking sector. It encourages banks to adopt better control systems, improve risk management, and strengthen compliance practices. With the help of forensic auditing, banks become more transparent and accountable. It supports institutional reforms by identifying weaknesses and suggesting improvements. This leads to better decision-making and efficient operations. It also promotes the use of modern technology, skilled professionals, and better monitoring systems. These changes help in transforming public sector banks into stronger and more reliable institutions. Thus, forensic auditing contributes to long-term development and transformation of the banking sector.

### 4. CONTRIBUTION TO VISION OF VIKSIT BHARAT @2047

The vision of Viksit Bharat @2047 aims to create a strong, transparent, and corruption-free economy. Forensic auditing plays an important role in achieving this goal, especially in the banking sector. Ensuring their financial stability and integrity is necessary for national growth. Forensic auditing helps in reducing fraud, improving governance, and protecting public money. It also supports investor confidence by ensuring that financial systems are trustworthy. A transparent and secure banking system attracts investment and supports economic progress. Therefore, forensic auditing contributes directly to building a strong financial foundation for a developed India by 2047.



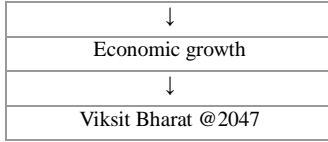


Figure shows how forensic auditing helps in detecting and preventing fraud, which strengthens public sector banks. Strong banks improve financial stability and transparency, increase investor confidence, and support economic growth, ultimately contributing to the vision of Viksit Bharat @2047.

## 5. CHALLENGES IN IMPLEMENTING FORENSIC AUDITING IN PUBLIC SECTOR BANKS

Despite its importance, forensic auditing faces several challenges in public sector banks. One major challenge is the shortage of trained forensic professionals. Specialized skills are required to investigate financial frauds effectively. Another issue is resistance from within organizations, where employees or management may not fully cooperate in investigations. High cost of advanced technology and tools is also a barrier. Legal procedures can be time-consuming, which delays the investigation process. Data privacy and security concerns also create difficulties in handling sensitive financial information. Addressing these challenges is necessary for the effective implementation of forensic auditing.

## 6. SUGGESTIONS AND RECOMMENDATIONS

To strengthen forensic auditing in public sector banks, several steps can be taken. Banks should invest in training programs to develop skilled forensic auditors. Regular workshops and awareness programs can help employees understand fraud risks and reporting procedures. Adopting advanced technologies like data analytics and AI can improve fraud detection. Strong regulatory support and clear policies can make forensic investigations more effective. Coordination between banks, government authorities, and investigation agencies should be improved. Continuous monitoring systems should be established to detect fraud at an early stage. These steps will help in strengthening financial integrity and supporting the transformation of public sector banks in line with the vision of Viksit Bharat @2047.

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