

“Forensic Accounting in India: An Analysis of Regulatory Framework and Accounting Professionals Insights on Fais 2023”

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Abstract: Forensic Accounting has emerged as vital method for detecting and mitigating corporate frauds and enhancing transparency in financial management of corporates. This study discusses the available theoretical framework of forensic accounting in India by probing the opinions of accounting professionals, particularly Chartered Accountants (CAs) in Karnataka. The study digs into key aspects like applicable legal framework and recently introduced Forensic Accounting and Investigation Standards (FAIS) 2023. With an extensive literature review and pragmatic analysis, the study highpoints the objectives of FAIS 2023 in fraud detection and mitigation. A survey conducted among accounting professionals reveals the perception about awareness of current framework and implementation challenges. The study ends with recommendations for strengthening the forensic accounting discipline to address corporate frauds more efficiently and effectively in India.

I. Introduction

At the present time, the landscape of financial accountability and transparency in corporate administration has experienced the significant changes, mainly in context of India's developing economy. The increased white-collar crimes (Prof. Megha Naik-2019), attached with the increased complexity of financial transactions, has made the necessity for vigorous mechanisms to detect and prevent fraud. Forensic accounting has emerged as the most needed discipline that not only reports these challenges but also plays a vital role in maintaining the integrity of financial reporting.

Historically, Kautily in his work, Arthashastra, identifies carious methods of wealth misappropriation (Dr. Percy Bose B-2023). But, the formal recognition of forensic accounting as different profession has emerged as momentum in recent years as high-profile corporate frauds highlighted the vulnerability within financial landscape. Recently established regulatory bodies and frameworks like Serious Fraud Investigation Office (SFIO) is committed to combating financial frauds encouraging good corporate governance (Ms. Nirali Dave-2023).

This study aims to explore the effectiveness of the existing forensic accounting theoretical framework in India with the help of gathered opinions of accounting professionals and by understanding their perspectives, the author aims to discuss strengths, weaknesses and areas to improve with the current system. As our country India operating in global market, the findings of this research will contribute to understand the challenges and opportunities with in the field of forensic accounting.

II. Literature Review

Les Nunn et al., (2006) in their article discussed the critical role of forensic accountants in investigating financial scandals and misappropriation of assets, emphasizing the need for strong communication skills, a solid accounting background, and expertise in fraud detection and the legal system. Forensic accountants utilize advanced technology, such as computer forensic labs and specialized software, to uncover fraud in today's technologically advanced environment. Experience gained through working on complex fraud cases in law enforcement is deemed essential for success in this field. Additionally, the impact of laws like the Sarbanes-Oxley Act and regulations like SAS 99 on the work of forensic accountants is discussed, underlining the importance of their role in ensuring financial integrity and credibility in investigations.

Dr. Pradip Kumar Das (2020) In his article discussed the field of Forensic Accounting (FA) and its implementation in India. FA is a specialized discipline that combines accounting, auditing, financial, and investigative skills to identify and investigate financial frauds and irregularities. The document highlights the types of frauds, such as management fraud, employee fraud, embezzlement by management, and cybercrime. It also discusses the role of forensic accountants under Indian statutes and the challenges and prospects of FA in India.

Kopal Saxena (2020) The paper highlights the complex and specialized nature of forensic accounting, emphasizing its investigative aspect. Additionally, it emphasizes the scope of forensic accounting in India, covering areas such as financial fraud, money laundering, scams, and increasing non-performing assets (NPA). The author also discusses the need for forensic accounting in India, citing examples of money laundering cases, failures of cooperative banks, online transaction frauds, banking frauds, financial scams, and terrorism funding. It also outlines the significance of forensic accounting in terms of fraud detection, preventive measures, dispute settlement, and maintaining financial health. The paper also provides suggestions for future research in the field of forensic accounting.

Mohammed Alfify, Abdul Ghani Faiyyaz (2020), the author had used secondary data and discussed the topic relevance of forensic accounting in the dynamic financial system of India. Financial frauds have resulted in poor performance and tpo corporate collapse resulting huge loss for new investment opportunity. while, India is in 78 ranks in Corrupt County list. By understanding the requirement of forensic accounting RBI has asked banks to include forensic accounting in their accounting practices and SEBI has decided to create a “forensic cell” to address the issues related to corporate frauds.

Rajeev Kumar Saxena & Brijesh Kumar (2021) This article explores the significance of forensic accounting in investigating financial scams and fraud cases in India. It advocates for the mandatory implementation of forensic auditing to address the inadequacies of current statutory audits in detecting financial scandals, particularly in the governmental sector. The auditors emphasize the pivotal role of forensic accountants in safeguarding the Indian economy by detecting and preventing financial fraud through investigative accounting and litigation support. Additionally, the article underscores the importance of whistleblowing in fraud detection and highlights the increasing global demand for forensic accounting expertise. Overall, the paper stresses the need for continuous technological reinforcement and global cooperation in the field of forensic accounting to ensure transparency, fairness, and accountability in financial practices and combat financial irregularities effectively.

Sharad Kumar. The article traces the history and evolution of forensic accounting, including its origins with Kautilya's mention of financial embezzlement methods centuries ago. It examines the need for forensic accounting to detect and prevent financial frauds, especially in the banking sector which has seen numerous major scams. The techniques and tools used in forensic accounting like data mining, ratio analysis, and computer-assisted audit tools are outlined. The article analyses survey data to demonstrate the effectiveness of forensic accounting in fraud detection and prevention. However, it also highlights the problems and challenges facing forensic accounting in India such as lack of qualified professionals, unclear regulations, and difficulties in cross-border fraud cases. Overall, it advocates for greater adoption of forensic accounting practices to improve corporate governance and financial transparency.

Dr. Hiral Desai, Ms. Parasmani Jangid, (2023) The author in his article “forensic accounting in Indian perspective”. Using secondary data, he discussed about meaning of forensic accounting and its role in India and he gave few examples of corporate frauds, further in his discussion he gives importance of forensic accountants, his intellectual competencies, accounting and legal knowledge.

Research Gap

Forensic Accounting in India has been gaining momentum in recent years, however, a significant gap exists in understanding the perspectives of accounting professionals regarding the availability and effectiveness of the existing framework. While a few studies have emphasized the need for forensic accounting in India, limited attention has been given to analysing the perspectives of accounting professionals on the current regulatory framework, implementation challenges faced in this discipline. This study aims to bridge these gaps by exploring and examining the opinions of accounting professionals.

Statement of The Problem and Need for The Study

Corporate fraud is a significant issue that can undermine the financial health and integrity of businesses, affecting everything from public trust to investor confidence. Accounting professionals are the people who directly involve in forensic accounting process but their understanding level and opinions towards the existing theoretical framework, legal framework and single set of standards had not need examined adequately.

Objectives of The Study

The prime objective of this research work is to explore the role of Forensic Accounting and the viewpoints of Accounting Professionals about the effectiveness of forensic accounting practices. This may be further, segregated into following specific objectives:

To discuss the concept of Forensic Accounting in India, and examine the existing standards, legal and regulatory frameworks.

To study the Forensic Accounting and Investigation Standards (FAIS), 2023.

To identify and discuss the challenges faced by accounting professionals in practicing forensic accounting in India.

To analyse the viewpoints of accounting professionals regarding the effectiveness of forensic accounting in India.

III. Research Methodology/Research Design

Research Design: This study used both qualitative and quantitative research design to gather and analyse data collected though structured questionnaires.

Data Collection Methods: Primary data is collected through structured questionnaires administered to accounting professionals, who are working in Bengaluru, Karnataka. Secondary data gathered from relevant literature, reports, and case studies on forensic accounting and financial fraud detection in India.

Sampling Technique:

In this study convenience sampling technique has been used to select accounting professionals. By taking samples from Bengaluru, Karnataka.

Scope of The Study

The study covers a geographical location of Bengaluru, Karnataka. The study intends to cover accounting experts like selected Chartered Accountants of Bengaluru, Karnataka.

IV. Discussion

Forensic Accounting in India:

Forensic accounting is a unique field of that integrates accounting, auditing and Investigative skills to examine financial transactions and records with the intention to identify frauds, In India, the field forensic accounting has been gaining significant importance due to increased white-collar crimes and corporate frauds. It plays an important role in investigating and analysing financial documents to produce as evidence for the crimes in front of the court, often deals closely with law enforcement bodies. It utilises various methods and techniques like data mining, accounting software to find red flags in accounting practice and assists in litigation support. Use of accounting principles and investigation skills and techniques lets accounting professionals to present their findings in a manner that is fit for legal proceedings, and extending its helping hands to enforcement agencies. So, as the demand for the forensic accounting been increasing, it is essential for accounting professionals to well-versed in forensic accounting skills.

Forensic Accounting and Investigation Standards 2023 set by ICAI, discusses the forensic accounting as “Forensic Accounting is gathering and evaluation of evidence by a professional to interpret and report findings before a Competent Authority”.

“Forensic Accounting: The overriding objective of Forensic Accounting is to gather facts and evidence, especially in the area of financial transactions and operational arrangements, to help the Professional report findings, to reach a conclusion (but not to express an opinion) and support legal proceedings”. And;

it says that professionals can involve in forensic accounting work. Then, “Professional: A professionally qualified accountant, carrying membership of a professional body, such as the ICAI, who undertakes forensic accounting and investigation assignments using accounting, auditing and investigative skills”. That includes all the CAs and the CA firms which are having membership from ICAI can undertake the forensic accounting.

Legal and theoretical framework for forensic accounting in India

In India, the legal framework for forensic accounting is backed with different laws and regulations that governs financial dealings, fraud detection, and the forensic accounting and investigation procedures. Indian laws extending helping hands for the forensic accounting are:

Information Technology Act, 2000, to address the cyber crimes

Indian Penal Code 1860, to deal fraud and forgery.

Indian contract Act, 1872, to deal with contractual related frauds.

Prevention of money laundering Act, 2002, to look out the financial frauds related to money laundering.

The Foreign Exchange Management Act, 1999, this helps in dealing foreign exchange transactions related transactions.

The Companies Act, 2013, to govern the accounting practices of corporates in India.

In addition to the above laws Government had established various regulatory bodies. Serious Fraud Investigation Office (SFIO), The controller and audit general, Economic Offences Wing, Central bureau of Investigation (CBI), ICAI, Lokayukta at State level are the examples for the organisations dealing on financial frauds.

Forensic Accounting and Investigation Standards (FAIS) 2023

The Forensic Accounting and Investigation Standards 2023 (FAIS-2023), Is the recent effort by ICAI on forensic accounting and investigation, it can be considered as a significant milestone in creating a strong framework for forensic accounting and investigation in India. The aim of the standards is to provide a standardised and comprehensive approach to the exercise of forensic accounting, by upholding consistency, uniformity, reliability, and credibility in practice of forensic accounting by professionals.

Purpose and Scope of FAIS 2023

The FAIS 2023, are applicable to all members of ICAI that is Chartered Accountants or their team. they need to follow these standards if they wanted to engage in forensic accounting assignment. These standards govern assignments commissioned by different participants, like corporates, controlling authorities, government agencies and courts. FAIS 2023 provides a standardised approach to different kinds of activities such as fraud detection, financial investigation, disputes resolution. It is relevant in cases

involving financial statements frauds, embezzlements, bribery, misappropriation of fraud, corruption, and cybercrimes related to finance. FAIS 2023 ensures inquiries related to finance are conducted with expertise and best practices.

Key Principles of FAIS 2023

FAIS 2023, highlights the following principles that a professional need to adhere at the time of engaging forensic accounting engagements:

Independence and objectivity: Professionals must remain independent and unbiased in the investigation process and their enquire report must be solely on facts and evidences.

Professional Competence and due care: professionals are expected to follow high level of expertise and adhere to necessary diligence at the time of conducting enquires.

Confidentiality: FAIS 2023, makes it mandatory to maintain strict confidentiality in dealing personal and sensitive information gathered through forensic accounting investigations.

Documentation: FAIS 2023, with the intention of maintain transparency expects the professionals to maintain thorough documentation of all processes, evidences and findings.

Challenges in Implementation:

Legal constraints: there is no a single set of regulating standards to be followed at the time of executing forensic accounting

Less experts: in India very a smaller number of accounting professionals involved in forensic accounting.

Education: it's difficult to educate and train accounting experts to involve in forensic accounting.

Tech-infra: to examine frauds in different dimensions technological infrastructure is required and it's difficult to develop such infrastructure.

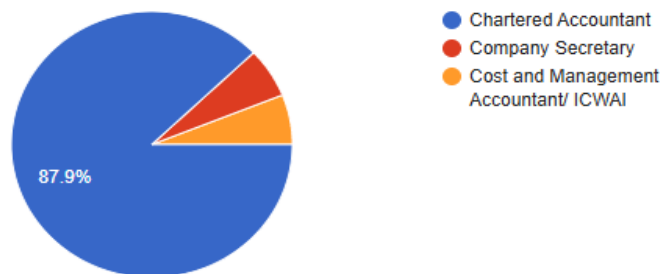
Cost and Time: to implement forensic accounting it takes huge time and cost.

Data Analysis and Interpretation

Data Analysis and Interpretation

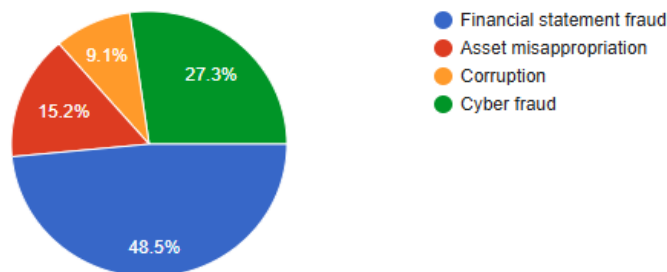
The response for this study provides important insights into the available forensic accounting framework in India.

Types of Professionals



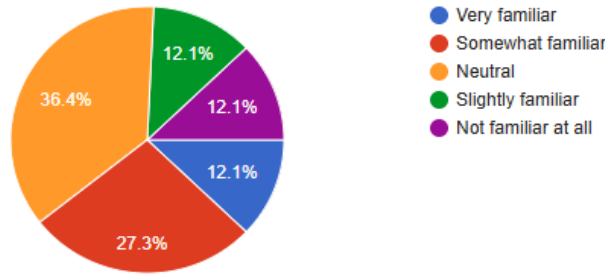
Most of the respondents are Chartered accountants (87.9%), a few respondents (12.1%) from Company secretary and Management accountants.

Common types of frauds that respondents have encountered



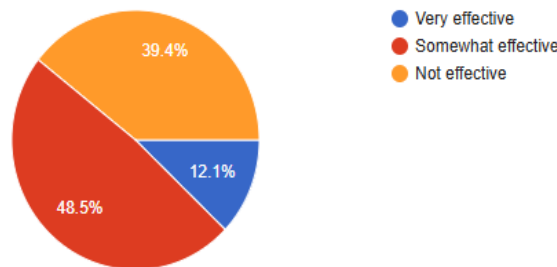
With respect to types of frauds encountered in their profession, financial statements frauds (48.5%) are the highest commonly encounter frauds, this highlights the concern over manipulation of financial reports. followed by cyber frauds (27.3%) shows the impact of threats of digital frauds due to weaker regulatory and cybersecurity system. Asset Misappropriation (15.2%), and corruption (9.1%) are also observed but nevertheless to a lesser extent, may be due to strong internal control. These highpoints the growing concern over fraudulent financial reporting and cyber-related crimes in corporate environments. This underscores the need for strong regulatory system, IT security and suitable forensic auditing systems in corporate governance

Professionals’ familiarity with the legal and regulatory frameworks



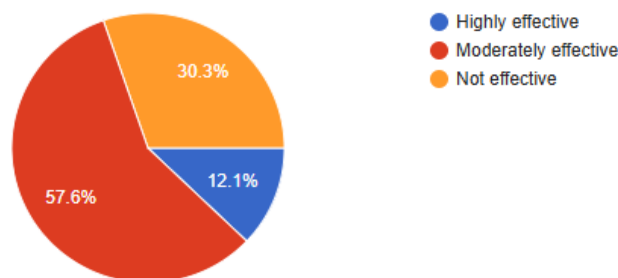
The data reveals huge gap in the awareness of legal and regulatory frameworks frauds incorporates among accounting professionals. only 12.1% of professionals reported very familiar, and 27.3% were said somewhat familiar, while most segment 38.4% said neutral and 24.2% admitted to having slightly familiar and not familiar at all. This highlights that over 60% of professionals lack required knowledge over regulatory frameworks available to deal with corporate frauds. This gap gives the indeed requirement of training and awareness campaigns.

Effectiveness of existing forensic accounting regulations in India.



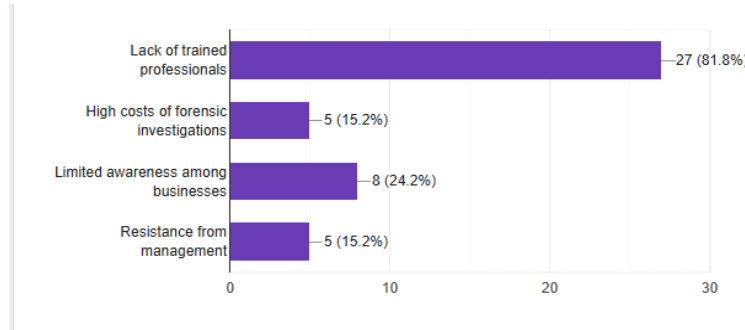
At the time of assessing the effectiveness of existing forensic accounting regulations, only 12.1% found them very effective, whereas 48.5% thought they were somewhat effective. A notable 38.4% considered them ineffective, suggesting that current regulations may not be completely supportive for professionals in fraud detection and mitigation, this highpoint the gap in existing forensic accounting regulations in India, there is a demand for new accounting framework to deal the forensic cases.

Effectiveness of forensic accounting in fraud detection and prevention



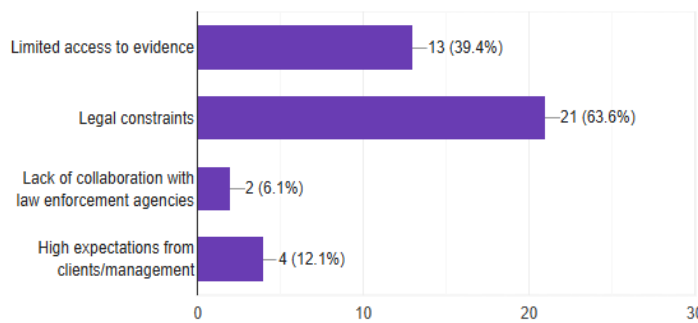
The effectiveness of forensic accounting in fraud detection and prevention, 12.1% claimed it as highly effective, though the majority (57.5%) claimed that it moderately effective. However, 30.3% thought it was not effective, indicating that need of improvements in forensic accounting theoretical framework related implementation and execution of forensic accounting in India.

Challenges in implementing forensic accounting



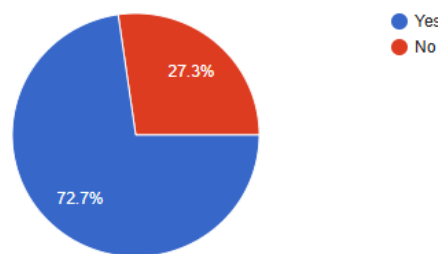
The major difficulties in implementing forensic accounting in India were acknowledged as the lack of trained professionals (81.8%), followed by incomplete awareness among businesses (24.2%). High costs of forensic investigations (15.2%) and resistance from management (15.2%) also contributed to the challenges, reflecting the necessity for more training and awareness programs facilities by concerned authority.

Challenges do professionals faced while dealing with fraud investigation.



The weightiest challenge was legal constraints (63.6%), followed by limited access to evidence (39.4%). Other issues included high expectations from clients/management (12.1%) and lack of collaboration with law enforcement agencies (6.1%). These answers indicate that regulatory and legal obstacles delay forensic accounting practices, there is a need for developing a clear legal backup to deal with each and every case.

Whether professionals receive adequate training in forensic accounting



On the question of whether professionals receive adequate training in forensic accounting, 72.7% respondents said YES, while 27.3% Claimed that there is a gap in training opportunities. The qualitative replies further supported this concern, stressing the need for more awareness, institutions like ICAI and other governing bodies should come up with more training and awareness programs for accounting professionals. And should come up with more legal bodies to support the forensic accounting functions.

Findings of the Study

Most respondents (87.9%) are Chartered Accountants (CAs).

Financial statement frauds (48.5%) and cyber frauds (27.3%) are the most frequently met fraud types.

Awareness of legal and regulatory frameworks is low, with 38.4% of professionals remaining neutral and 24.2% having minimal or no familiarity.

Only 12.1% of respondents claimed forensic accounting regulations very effective, and 38.4% found them ineffective, showing a necessity for policy improvements.

A majority (57.5%) believed forensic accounting was moderately effective in fraud detection and prevention, but 30.3% found it ineffective.

The lack of trained professionals (81.8%) is the most significant challenge in implementing forensic accounting.

Legal constraints (63.6%) and incomplete access to evidence (39.4%) were key difficulties faced in fraud investigations.

While 72.7% believed that training is available, but qualitative responses recommended the need for more structured training programs.

Respondents emphasized the need for stricter norms, increased awareness, legal support, and encouragement for forensic accounting courses.

V. Conclusion:

Forensic Accounting is not exposed in Indian corporate landscape, ICAI been trying to frame a set of standards procedures, due to different kinds of challenges like low awareness, inadequate training facilities, weak regulatory frame work, lengthy legal procedures. This study reveals professionals' concerns with financial statement frauds and cyber fraud being prevalent while forensic accounting remains ineffective due to less awareness and shortage of trained professionals. To strengthen its impact in India, there is a need of large number of trained professionals, better regulatory framework.

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