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"Evaluating the Efficacy of Forensic Accounting over Traditional Auditing and its application in selected Industries in Bengaluru"

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Abstract:

The frequency of financial fraud and white-collar crimes has increased recently worldwide, endangering economies, investors, and companies greatly.

Purpose This study investigates the growing relevance of forensic accounting over traditional accounting practices in Bengaluru's rapidly expanding economic sectors, focusing on its comparative effectiveness in fraud detection and regulatory compliance amid rising financial crime, cyber threats, and remote work environments.

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Design/methodology/approach A descriptive and quantitative research study is employed. Primary data collected from 61 respondents across diverse industries. A structured questionnaire incorporating Likert-scale items was distributed. The data was analysed using a one-sample t-test to evaluate perceptions regarding the distinctiveness and efficacy of accounting practices.

Findings The findings demonstrate strong stakeholder support for forensic accounting over traditional auditing. Respondents affirmed that forensic accountants possess superior analytical and investigative skills, and that forensic engagements are more effective, adaptive, and legally robust in addressing financial fraud. The IT and manufacturing sectors were the most represented, underscoring the growing demand for specialized financial oversight in technology-driven industries.

Keywords: Forensic accounting, financial fraud, Fraud detection, Traditional audit, Regulatory compliance, Bengaluru economy, Cyber risk

Introduction:

Financial fraud is so common, particularly in emerging economic like Bengaluru, strong forensic accounting procedures are required to protect financial integrity and uphold legal compliance. Technology, banking, and manufacturing are just a few of the fields where forensic accounting which combines investigative methods with financial knowledge is essential for identifying and correcting disparities.

“Forensic” refers to the application of scientific methods to investigate crimes. In the context of finance, forensic accounting involves analysing financial records to uncover evidence of potential criminal activity. Forensic accountants utilize a combination of accounting expertise, auditing techniques, and investigative skills to identify whether an individual or organization has engaged in financial misconduct, such as frauds or embezzlement (Nirali Dave, 2023)

“Forensic accounting is a challenging discipline that substantially interacts with auditing, economics, finance, information systems, and law” (Morris, 2010). Forensic accounting has emerged as a important area within the broader field of accounting, addressing key concerns such as fraud detection, corruption control, bribery prevention, legal support, expert testimony, and cybersecurity (Hassink et al., 2010; Rezaee & Wang, 2019). This multidisciplinary field integrates principles and methodologies from law, auditing, and financial analysis to investigate financial discrepancies and resolve issues related to economic damages, asset misappropriation, valuation disputes, and legal compliance (Dong, 2011).

Meaning of Forensic Accounting[1]

According to Indian Chartered Accountant Institute Framework Governing Forensic Accounting and Investigation Standards:

Forensic Accounting is the use of professional expert accounting knowledge in matters involving the possibility of fraud, to collect relevant evidence and facts which could help support an expert view for potential or actual civil or criminal litigation.

An investigation is the systematic and critical examination of facts, records, and documents for a specific purpose

Review of Literature:

1. Nirali Dave et.al (2023): This aim of this study explores the rise of forensic accounting in India after high sensitive fraud cases like Enron and Satyam. It explores the supremacy of consulting firms globally in this niche and the scarcity of specialized national experts. The introduction of a certified course by ICAI is remarked as a strategic response to address this skill gap. Enhancing the forensic training through university curricula is recommended to identify fraud detection from the grassroots.

[1] compendium of Forensic accounting and Investigation Standards as on February 1, 2021 (ISBN: 978-93-90668-08-3)

2. Dhiraj Desai et.al (2023): Persistent accounting crimes are endangering India's corporate environment more and more, which emphasizes how urgently forensic accounting methods must be included into regular business procedures. Such can help businesses more successfully identify and stop fraudulent activity. Effective management of fraud depends critically on the emphasis on early prevention using these specialist methods. In addition to preserving business integrity, this strategy advances robust financial environment. Businesses may create a climate less prone to dishonesty by giving openness and responsibility top priority, will eventually increase trust.

3. Nisha Naidu (2022): The aim and preparedness of accounting and legal professionals to include forensic accounting into their operations for efficient fraud detection and prevention are the subject of a recent study carried out in Northern India. Using SMART PLS analysis to evaluate data collected by snowball sampling, the study investigates these experts' perceptions of the function of FA in preventing financial fraud. The results show that practitioners have different degrees of preparedness and attitude to using FA methods. More fully integrating FA will enable experts to proactively handle possible financial irregularities therefore better protecting the economy.

4. Sharad Kumar (2021): This literature emphasizes the evolving significance of forensic accounting within the broader economic and legal framework. It highlights the distinction between traditional auditing and forensic accounting, underscoring its legal admissibility and investigative depth. The integration of analytical, auditing, and legal skills positions forensic accountants as vital agents in addressing financial misconduct. The study outlines litigation support and fraud investigation as key domains, reinforcing its relevance in delivering justice and transparency. Overall, forensic accounting is portrayed as a critical tool for enhancing regulatory compliance and investor confidence in modern economies.

5. M. Maheshwari et.al (2021): Economic crimes still pose serious problems for entire economies as well as individual businesses worldwide. Leading the way in tackling these problems and essential to identifying and stopping financial misconduct are forensic accountants. According to recent study, forensic accountants' abilities and approaches have a impact on lowering fraud incidents. The Indian public sector is now under pressing need to incorporate forensic accounting procedures more fully. The objective of using these specialist accounting methods is to improve accountability and transparency, therefore bolstering the general integrity and stability of financial operations inside public organizations and government agencies.

6. Mayank (2020): The author investigates the Investor confidence in India has been eroded by recent financial failures and scams, which included a startling 72,000 crore in recorded bank frauds in 2019. In reaction, academics and practitioners are consulted in a study that explores the efficacy of forensic accounting in fraud detection. Through the participation of professionals from both academia and industry, the project seeks to pinpoint and improve the techniques employed in forensic accounting.

7. Sana Modi (2013): This study examines the growing relevance of forensic accounting in view to the surge in economic crimes. It effectively identifies the role of foren accountants as proactive agents in fraud elimination and prevention within corporate structures. By focusing on secondary data and literature, the paper establishes a theoretical framework grounded in current practices and challenges. The exploration of forensic techniques and their applicability in the Indian context adds regional relevance to a global concern. Overall, the study contributes to a deeper understanding of foren accounting as a preventive and investigative tool in modern finance.

8. Prabhat Mittal, Amrita Kaur (2016): The revolutionary potential of big data to improve fraud detection and forensic accounting procedures in India is examined in this paper. By use of structural equation modelling, it evaluates the desire and knowledge of financial professionals to include Big Data technology into their operations. With its sophisticated tools that enable forensic accountants to quickly and accurately evaluate enormous volumes of data, this technology revolution is changing the way financial fraud is found and handled. In the end, this integration seems to greatly strengthen the honesty and openness of Indian financial operations.

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Statement of the Problem

Forensic accounting in Bengaluru is under scrutiny due to rising fraud across industrial, financial, and tech sectors. Organizations face challenges adapting these methods to evolving legal standards and complex regulatory demands. The surge in cyber threats from digital banking calls for tighter integration of cybersecurity with forensic practices. Remote work trends raise concerns about data integrity and the adaptability of investigative procedures. Strengthening forensic accounting is vital to protect financial systems in this rapidly growing economic hub.

Objectives of the study

- To analyze the specific accounting, investigative and analytical skills that differentiate forensic accountants from traditional auditors
- To evaluate the comparative effectiveness of forensic accounting versus traditional auditing in detecting and controlling fraud
- To compare the efficacy of computer-based applications, like testing data systems, in examining fraud against traditional fraud detection methods

Population

The population targeted comprises industries possessing relevant knowledge or experience with forensic accounting procedures. This group includes financial professionals, auditors, and domain experts who offer valuable insights into the practical application, challenges, and perceived efficacy of forensic accounting within various industrial sectors.

Sample Design

The study adopted a purposive sampling approach with selecting 61 industries operating in various sector of economy.

Method of Data Collection

Primary Sources of data collection techniques were employed to ensure the collection of original, firsthand responses.

Data Analysis Techniques

The collected data was subjected to quantitative analysis using the one-sample t-test. This inferential statistical method assesses whether the mean of the sample significantly deviates from a predetermined or theoretical population mean.

Industry profile of respondents

Table 1

INDUSTRY	FREQUENCY	PERCENTAGE
Automobile	8	13
Car rental	1	2
Cinematize charter	1	2
Consulting	1	2
Food	2	3
Housing	1	2
IT	24	39

Manufacturing	15	25
Pharmaceutical	3	5
Service	1	2
Recruitment	1	2
Software	1	2
Textile	2	3
Total	61	100

(Source: Primary Data)

The IT sector dominates the sample, accounting for 39% of responses, followed by manufacturing at 25%, indicating a tech-driven workforce with strong industrial support. Automobile and pharmaceutical industries show moderate representation, suggesting broader sectoral engagement. Several sectors such as car rental, consulting, and housing appear minimally, each at just 2%, highlighting niche participation. Overall, the data reflects Bengaluru's economic diversity, with a clear tilt toward technology and manufacturing.

Frequency distribution parameters pertaining to auditing and forensic accounting

Table 2

Question		**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**	**total**
Forensic accountants possess superior accounting, investigative, and analytical skills compared to traditional auditors.	F	0	0	5	19	37	61
	%	0	0	8.196721	31.14754	60.65574	100
Redoing calculations performed by accounting system will help to examine fraud.	F	0	0	8	24	29	61
	%	0	0	13.11475	39.34426	47.54098	100
Forensic accounting is more effective at detecting and preventing all forms of fraud and mismanagement compared to traditional	F	0	2	6	16	37	61

audit methods	%	0	3.278689	9.836066	26.22951	60.65574	100
Expertly prepared accounting policies help in the early identification of potential fraud.	F	0	1	8	22	30	61
	%	0	1.639344	13.11475	36.06557	49.18033	100
Utilizing risk calculation techniques allows forensic accountants to pinpoint specific instances of fraud.	F	0	2	8	18	33	61
	%	0	3.278689	13.11475	29.5082	54.09836	100
The methodologies employed in forensic accounting differ from those used in traditional audits.	F	0	2	4	22	33	61
	%	0	3.278689	6.557377	36.06557	54.09836	100
Computer based application like testing data system will examine fraud.	F	0	4	5	15	37	61
	%	0	6.557377	8.196721	24.59016	60.65574	100
Forensic accounting is inherently stronger than traditional audit methods when it comes to controlling fraud.	F	0	3	12	14	32	61
	%	0	4.918033	19.67213	22.95082	52.45902	100
Forensic accounting engagements can be specifically tailored to deter fraud and potentially prevent it, something	F	0	0	7	19	35	61

traditional audit methods fail to achieve.	%	0	0	11.47541	31.14754	57.37705	100
Investigation reports produced under forensic accounting are considered strong evidence and are accepted in a court of law.	F	0	0	9	27	25	61
	%	0	0	14.7541	44.2623	40.98361	100
Forensic accounting experts typically take a more involved and different approach when verifying the books of accounts compared to traditional auditors.	F	0	1	6	18	36	61
	%	0	1.639344	9.836066	29.5082	59.01639	100
Forensic accounting is more dynamic in nature compared to traditional audit practices.	F	0	5	9	16	31	61
	%	0	8.196721	14.7541	26.22951	50.81967	100

(Source: Primary Data)

The data shows strong support for forensic accounting over traditional auditing, highlighting its specialized skills in fraud detection and prevention. Respondents widely agree that forensic accounting methods are more effective and tailored to combat fraud, with significant trust in its outcomes in legal context.

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Hypothesis 01

Null Hypothesis (H0): Forensic accountants do not possess superior accounting, investigative, and analytical skills compared to traditional auditors.

Alternative Hypothesis (H1): Forensic accountants possess superior accounting, investigative, and analytical skills compared to traditional auditors.

Table 3

Mean(x)	12.2
Standard Deviation (s)	15.8965405
Count (n)	5
Standard Error of Mean (SEM)	7.109149035
Degrees of Freedom (df)	4
Hypothesized Mean	3
t-statistic	1.294107066
p-value	0.032644541

A t-value of 1.2941 means the sample mean (12.2) is about 1.29 standard errors above the hypothesized mean (3). This suggests a moderate difference in favor of forensic accountants.

The p-value of 0.0326 indicates a 3.26% chance of observing a sample mean as extreme as 12.2 (or more) if the null hypothesis were true. Since 0.0326 < 0.05, we reject the null hypothesis at the 5% significance level.

There is statistically significant evidence to support the claim that forensic accountants possess superior accounting, investigative, and analytical skills compared to traditional auditors.

Hypothesis 02

Null Hypothesis (H0): Computer based application such as testing data system will not examine fraud.

Alternative Hypothesis (H1): Computer based application like testing data system will examine fraud.

Table 4

Mean(x)	12.2
Standard Deviation (s)	14.9231364
Count (n)	5
Standard Error of Mean (SEM)	6.673829485
Degrees of Freedom (df)	4
Hypothesized Mean	3
t-statistic	1.378518888
p-value	0.020060564

A t-value of 1.3785 means the sample mean is about 1.38 standard errors above the hypothesized mean.
The p-value of 0.0201 indicates a 2.01% probability of observing a sample mean as extreme as 12.2 if the null hypothesis were true.
Since 0.0201 < 0.05, we reject the null hypothesis at the 5% significance level.

There is statistically significant evidence to support the claim that computer-based applications like testing data systems do examine fraud.

Hypothesis 03

Null Hypothesis (H0): Forensic accounting is not inherently stronger than traditional audit methods when it comes to controlling fraud.

Alternative Hypothesis (H1): Forensic accounting is inherently stronger than traditional audit methods when it comes to controlling fraud.

Table 5

Mean(x)	12.2
Standard Deviation (s)	12.53794241
Count (n)	5
Standard Error of Mean(SEM)	5.607138308
Degrees of Freedom (df)	4
Hypothesized Mean	3
t-statistic	1.640765663
p-value	0.048094986

- The t-statistic of 1.6408 tells us how many standard errors the sample mean (12.2) is away from the hypothesized mean (3). A higher t-value indicates stronger evidence against the null hypothesis.
- The p-value is 0.0481, which represents the probability of observing a sample mean as extreme as 12.2 (or more) if the null hypothesis were true.
- Since the p-value is less than 0.05, we reject the null hypothesis at the 5% significance level.
- There is statistically significant evidence at the 5% level to support the claim that forensic accounting is inherently stronger than traditional audit methods in controlling fraud.

Findings:

The sample of 61 individuals was slightly female-dominated, with most aged between 25–40, and IT being the most represented sector. A vast majority believed forensic accountants have superior skills compared to traditional auditors. Strong support was shown for forensic accounting's ability to detect and prevent fraud and the value of recalculating accounting system outputs. Expertly crafted accounting policies and risk calculation techniques were widely seen as effective in early fraud detection. Respondents agreed that forensic methods are distinct from audits and benefit from computer-based tools for fraud analysis. Many viewed forensic engagement as customizable and effective for fraud deterrence, with reports considered reliable evidence in court. Overall, forensic accounting was perceived as more dynamic and deeply involved than traditional auditing methods.

- With a p-value of 0.0326, which is lesser than the typical significance level of 0.05, null hypothesis is rejected. Therefore, based on this sample, it was found that forensic accountants possess superior accounting, investigative, and analytical skills compared to traditional auditors.

- With a p-value of 0.0201, which is lesser than the typical significance level of 0.05, null hypothesis is rejected. Thus, based on this sample, it was found that computer-based applications like testing data systems effectively examine fraud.

- With a p-value of 0.0481, which is lesser than the typical significance level of 0.05, null hypothesis is rejected. it was found that forensic accounting is inherently stronger than traditional audit methods in controlling fraud.

Conclusion:

Important new information has been obtained by analyzing t-tests and the results that follow on the abilities of forensic accountants compared to traditional auditors, the efficiency of computer-based applications in fraud detection, and the comparative effectiveness of forensic accounting against conventional auditing techniques. These results make it abundantly evident that there is no statistically significant proof that forensic accountants are better than traditional auditors or that computer-based systems already in use are more successful in detecting fraud than older techniques.

In a same vein, forensic accounting does not show to be a more successful fraud control method than conventional auditing. These findings lead to suggestions for companies that include enhancing technology tools with AI and advanced analytics, promoting a culture of ongoing professional development, and putting in place extensive training that closes the gap between traditional and forensic accounting abilities.

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