



THE ESSENCE OF FORENSIC ACCOUNTING IN DETECTION OF NPA IN INDIAN BANKING SECTOR

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ABSTRACT

Due to poor credit analysis of any project's requirements and inadequate banker oversight following loan disbursement to the company, bank loans end up being bad. They never check the final purpose of the money given to the company. As a result, the borrower takes advantage of banks' lenient policies. By using the borrowed money for personal gain, the borrower misuses the money. The firm's bank account statement is used by the forensic accountant to verify actual financial transactions. As a result, they stop banks from producing non-performing assets. The RBI (Reserve Bank) of India issued instructions for declaring the forensic accounting for accounts that are thought to be fraudulent.

KEY WORDS: *Non performing asset, forensic accounting, bank, loans.*

INTRODUCTION

A strong banking industry is necessary for an expanding economy. Other industries will suffer if the financial sector collapses as well. Non-performing assets (NPAs) are of special concern to Indian banks. The performance of a bank is gauged by its NPAs. A large number of NPAs have a negative impact on banks' profitability and net worth, which lowers asset value and raises sustainability risk. NPA growth affects the company's overall profit margin and the value to its shareholders because of the increased need for provisions.

Numerous changes in the banking system have been initiated as a result of the Narasimhan Committee Report-I on Non-Performing Assets in the Banking system from 1991. However, "exports decreased and the external sector ceased to offer any incentives for economic growth after the global financial crisis of 2008." Companies' stock remained unsold. They steadily decreased their production capacity as a result. Their revenue dropped sharply, as did their earnings. They failed to pay back loans to banks on time. Due to this, unmanageable bad loans, often known as NPAs, were created in banks. Due to severe provisions for their bad loans, this had an impact on bank profitability, which in turn led to a reduction in lending to the corporate sector.

Despite a rise in interest rates and a sharp decline in private investment after 2011–2012, credit growth from PSBs persisted. In India, this caused debt distress. This contributed to the significant growth of non-performing assets in Indian banks.

The growth of non-performing assets among Indian banks over the past few years has caused the Supreme Court to express grave worry. The Court has instructed the concerned Ministry/departments/banks to launch a forensic audit of specific companies to determine whether funds have been diverted by the promoters/directors for their own personal use during several hearings of numerous legal petitions and PILs filed against Big Corporate Houses.

To make sure that the lenders' funds are used appropriately and for the intended purpose, the Reserve Bank of India has requested that banks perform forensic accounting on all 28 NPA accounts that it has designated for resolution. As a result, forensic accounting and auditing are becoming increasingly important when dealing with NPAs and money laundering investigations.

A forensic accounting is one that examines financial records in a way that they can be used as evidence in court. A forensic auditor uncovers gaps in the organization's management control system and names those responsible for taking advantage of these conditions inside. This aids in reducing corporate fraud.

OBJECTIVES

Due to misleading financial reporting, recent corporate frauds like Satyam Computers, Enron, WorldCom, and Madoff have shocked the globe. Therefore, the objective of my study is regarding the importance of conducting forensic accounting for prevention of NPA by studying the data regarding NPA and important cases regarding fraudulent activities which resulted in NPA.



LITERATURE REVIEW

"Forensic accounting" is defined by Manning (2002) as "the combination of accounting, auditing, and investigation abilities in accordance with a degree that is required by a court of competence to handle matters in dispute in the framework of civil and criminal litigation. Investigation, dispute settlement, and litigation support are the three main facets of forensic accounting.

In the banking industry, fraud and irregularities can now be found via forensic audit, according to a study by Arvind Sharma and Anshul Garg (2018). The forensic audit technique, which the authors emphasised is more concentrated and specialised than a typical audit, aids in determining the existence of certain fraud and NPA areas.

P. Venkataraman (2019) addressed the application of forensic audit in the discovery of NPA in Indian banks in another study he performed. In order to aid in the recovery of bad loans, the author made the point that forensic audit could be utilised to pinpoint the primary cause of NPA. The study also emphasised the need of forensic audit in revealing the root causes of NPA, such as fraud or an absence of due diligence.

In one study, Sengupta, and Gupta (2019) looked at how forensic auditing affected the identification of non-performing assets in Indian banks. According to the report, forensic auditing is a useful tool for identifying NPAs and can assist banks in lowering their NPA levels. In addition, the study discovered that banks that implemented forensic auditing had lower NPA ratios than banks that did not.

Shah and Kansara (2020) looked at the function of forensic auditing in the identification and prevention of non-performing assets in Indian banks in another study. According to the study, forensic auditing can assist banks in preventing and detecting NPAs by spotting potential threats and flaws in their procedures and systems. The study also discovered that banks can lessen their exposure to NPAs and enhance their risk management procedures with the aid of forensic auditing.

The usefulness of forensic auditing in identifying and avoiding fraud in Indian banks was evaluated in research by Singh and Gupta (2021). According to the study, forensic auditing is a useful technique for identifying and stopping fraud and can assist banks in lowering their exposure to NPAs. The study also discovered that banks that implemented forensic auditing experienced less fraud than institutions that did not.

Mehta and Joshi (2021) conducted a study to determine how forensic auditing affected Indian banks' financial performance. According to the study, forensic audits can help banks become more financially successful by lowering their NPA levels and strengthening their risk management procedures. According to the study, institutions which utilised forensic auditing were more profitable and had lower credit risk than banks that did not.

The function of forensic audit in the Indian banking industry, particularly in the identification of NPA, was covered in research by Debasish Das (2021). The author emphasised that conducting a forensic audit can assist in identifying discrepancies in the credit appraisal process that may result in the accumulation of non-performing assets (NPAs). The study also made clear that forensic audit could be utilised to assess the efficiency of the banks' recovery mechanisms.

RESEARCH METHODOLOGY

The research is based completely on secondary data collected from various journals, papers, magazine, case studies. Also, data collected from various true case regarding NPA in Indian Banks.

PRESENT STATUS OF NPA IN INDIAN BANKS

The following table shows the present status of NPA in public and private sector banks. It is crucial to keep in mind the fact that the NPA situation in Indian banks may alter depending on a number of variables, including prevailing economic conditions, regulatory restrictions, and the efficacy of the recovery mechanisms put in place by banks.

**Table: Showing gross and NET NPA for public and private sector banks.**

YEARS	PUBLIC SECTOR BANKS		PRIVATE SECTOR BANKS	
	GROSS NPA (%)	NET NPA (%)	GROSS NPA (%)	NET NPA (%)
2010-2011	2.40	1.20	1.97	0.53
2011-2012	3.30	1.70	1.80	0.60
2012-2013	3.80	2.00	1.90	0.50
2013-2014	4.70	2.70	1.90	0.70
2014-2015	5.33	3.14	2.05	0.81
2015-2016	9.30	5.70	2.80	1.40
2016-2017	11.70	6.90	4.10	2.20
2017-2018	14.60	8.00	4.70	2.40
2018-2019	11.60	4.80	5.30	2.00
2019-2020	9.70	3.10	3.70	1.50
2020-2021	7.50	2.10	4.20	1.20
2021-2022	6.20	1.50	3.30	0.80

From the above table we can see that NPA is increasing for both the public and private sector banks of India, hence the need of forensic accounting is increasing.

SOME LATEST CASES REGARDING NPA FRAUD

There have been numerous instances of fraud in relation to the Non-Performing Assets (NPA) problem that has long plagued Indian banks. Here are a few current instances:

Punjab National Bank Scam: In 2018, diamond sellers Nirav Modi and Mehul Choksi scammed the Punjab National Bank (PNB) of more than Rs. 13,000 crores. In order for Modi and Choksi's businesses to be able to secure loans from other banks, PNB personnel issued false letters of undertaking (LoUs) to them.

The Reserve Bank of India (RBI) issued a moratorium on Yes Bank in March 2020 as a result of the bank's poor financial situation. It was later discovered that Rana Kapoor, the bank's founder, had engaged in fraudulent actions, including financing to businesses with questionable financial standing and syphoning off funds.

Another example is the loan default involving Kingfisher Airlines, which cost a group of banks more than Rs. 9,000 crores. Vijay Mallya, the airline's owner, was accused of money laundering and fraud in 2016, and he left the country.

Other NPA fraud incidents in Indian banks include, among others, the Rotomac Pens scandal, the Bhushan Steel fraud, and the Winsome Diamonds fraud. To stop future scams like this, Indian banks' NPAs need to be better regulated and monitored, as shown by these incidents. These are only a few instances of the fraud cases which have recently troubled Indian institutions. The Insolvency and Bankruptcy Code (IBC) was implemented, and the regulatory framework was strengthened as part of the government's and regulatory agencies' efforts to resolve the NPA crisis.

CONCLUSION

As we know in the scientific process known as forensic accounting, financial data is first acquired, then examined, and then presented in a suitable document that can stand the test of time in courtrooms. It is an effective tool to stop the growing frauds. Forensic accounting helps the banks in two ways:

Firstly, it covers the inquiry of criminal cases involving theft from employees, securities scams, insurance scams, etc. It also contains requirements and recommendations for possible further steps and secondly, it includes the investigation of criminal cases including theft from workers, securities fraud, insurance fraud, etc. It also includes specifications and advice for potential next steps.

Now, NPAs are an inherent component of the banking industry and will continue to be so as long as banks exist, but they must be strictly controlled. The amount of NPAs relies on how effectively bankers manage NPAs. The forensic study will assist the banks in determining the extent of non-performing assets (NPAs) in each industry, their causes, and potential corrective actions for actual income recognition, asset categorization, and provisioning. To determine the root causes and consequences of NPAs, the role played by different sectors in raising NPA levels, etc., the origins and impacts of NPAs must be microscopically investigated.

The development of non-performing assets in banks is attributed primarily to bankers' ineffectiveness in evaluating credit and credit monitoring, together with political intervention in loan approval, according to a review of secondary data gathered from a



variety of sources. This issue is lessened through forensic accounting, which also aids in keeping the amount of NPAs in banking under control.

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