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EFFECT OF FORENSIC ACCOUNTING ON THE FINANCIAL PERFORMANCE OF BANKS IN INDIA - A CASE ANALYSIS OF COMMERCIAL BANKS IN HYDERABAD REGION, TELANGANA STATE

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ABSTRACT

Purpose
The role of forensic Accounting in the n Banking Industry is crucial for safeguarding financial integrity, enhancing corporate governance, and fostering a sustainable business environment. By studying its impact, stakeholders can develop more effective strategies to combat financial crimes and promote ethical practices in the corporate landscape.

Design/Methodology/Approach
The study employed used a Primary data, using a structured questionnaire administered through an online platform targeting a selection of forensic accounting investigators and forensic accountants. The reliability and validity of the instrument were confirmed with the use of Cronbach Alpha and descriptive statistics. The sample size is 260 from 10 various corporate financial companies

Findings
The study concluded that forensic Accounting as a veritable financial tool significantly affected the quality of financial reporting systems in. The study provided the reality and significance of forensic Accounting in reducing incidents of fraud, detection of fraudulent activities, and corruption that can harm a country's reputation and economic prosperity, forensic Accounting is essential in Nigeria, considering the deepening resentments resulting from unreliable audited reports, misstatements in financial statements, and reported fraud cases and increasing asymmetric information. Notwithstanding, there were some limitations.

Originality
The present study examined the significance of forensic Accounting in detection and prevention of financial frauds in the on Commercial Banks in India. We selected top ten Commercial banks in Hyderabad region Union Bank, Axis Bank, Bandhan Bank, Bank of Baroda, Bank Of India, Canara Bank, Dena Bank, SBI, ICICI Bank and City Union Bank.

Research Limitations/Implications
The study provided the reality and significance of forensic Accounting in reducing incidents of fraud, detection of fraudulent activities, and corruption that can harm a country's reputation and economic prosperity, forensic Accounting is essential in. In this article we discussed about Role or Impact of Forensic Accounting in selected corporate Accounting/ Accounting companies.

Practical Implications
The practical implications of forensic Accounting in extend beyond mere fraud detection; they encompass broader aspects of corporate governance, risk management, and regulatory compliance. By adopting forensic accounting practices, companies can create a more transparent, accountable, and resilient corporate environment.

Social Implications
The social implications of forensic Accounting in highlight its role in fostering trust, accountability, and ethical behavior within the corporate sector. By addressing financial misconduct, forensic Accounting not only protects individual and corporate interests but also contributes to a healthier, more transparent society.

KEYWORDS: *Forensic Accounting, Froud Detection, Corporate Companies, Economic Stability, Legal and Social Justice, Risk Assessment and Management*

JEL Codes: *G10, G18, G22, K22.*

Article classification: *Research Paper with Empirical Evidence.*

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INTRODUCTION

Forensic accountants may offer their services in quantification of damages due to crime and in relation to appropriate proceedings. Unique only to , there is a specific species of forensic accountants known as Certified Forensic Accounting Professionals. An introduction to Accounting and Accounting, the life cycle of a financial transaction, Areas where AI/ML is used in the Accounting Industry, Importance of Model Explainability in the Regulated World, An introduction to solving real world Accounting problems – Credit Card Fraud Detection, Identity Fraud Detection, Anti Money Laundering Scenarios. Financial forensics may be used in prevention, detection, and recovery activities to investigate terrorism and other criminal activity, provide oversight to private-sector and government organizations, and assess organizations' vulnerability to fraudulent activities. Financial forensics is significantly used by intelligence agencies as well, such as the Federal Bureau of Investigation (FBI) and the Central Intelligence Agency (CIA) to uncover terrorism. As terrorist groups need funding to exist, this is a very effective measure in discovering terrorist cells.
Forensic Accounting involves using financial principles and techniques to investigate and analyze financial data, typically in cases of fraud, embezzlement, or other financial crimes. Professionals in this field, often known as forensic accountants, utilize their skills to trace assets, assess damages, and provide expert testimony in legal proceedings.

Key Areas Include

- **Fraud Investigation**: Analyzing financial records to uncover fraudulent activities.
- **Litigation Support**: Assisting in legal disputes by providing financial analysis and expert opinions.
- **Asset Tracing**: Identifying and tracking assets that may have been concealed or misappropriated.
- **Financial Modelling**: Creating models to project financial outcomes or assess economic damages.
- **Compliance and Risk Management**: Ensuring that financial practices adhere to laws and regulations to prevent fraud.



REVIEW OF LITARATURE

- **Meenu Gupta1, Pradeep Kumar Aggarwal and Rekha Gupta (2023):** This study tries to understand what went wrong and how, by analysing the annual reports, audit reports and financial statements and computing of Beneish M-score and Altman Z-score. The study finds that the erring auditors, self-dealing promoters and faulty management are the root causes of this fraud.
- **Oluwatoyin Esther Akinbowale, Heinz Eckart Klingelhöfer & Mulatu Fekadu Zerihun (2023):** The results obtained substantiate that the loopholes created as a result of non-effective application of forensic techniques are partly responsible for some cyberfraud incidents in the banking industry. There is no sufficient evidence to ascertain whether the fraud risk assessment and management in the banking industry has a relationship with the effective application of forensic accounting techniques in terms of the identified causes of cyberfraud. However, the findings establish a positive correlation between fraud risk assessment and management as it relates to forensic accounting implementation. This study provides an insight into the significance of forensic accounting applications for fraud risk mitigation. There is still a death of information regarding the forensic accounting for fraud risk mitiga tion; hence, it is envisaged that this study will add to the existing literature in this regard.
- **Augustine Desia, Rufus Ishola AkintoyeB, Theophilus Anaekenwa Aguguom (2023):** The aim of this study was to examine the implications and effects of forensic accounting as a veritable financial tool for qualitative financial reporting in

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the 21st century. In this period, forensic accounting is playing a significant role in the trajectory efforts in building enduring confidence in the credibility of financial reporting systems.

- **Ms. Tejashwini K C Research Scholar, Department of Studies in Commerce, Davangere University, Davangere – 577007(2023**): The field of forensic accounting falls under that of a relatively recent profession that makes use of a variety of methodologies and execution strategies. The global economy, society, and legal framework all have a role in how this branch of forensic science is organized and developed. Due to the rise in financial accounting frauds and deceptions in the worldwide economy, forensic accounting is now seen as the profession that will save the financial administration processes of academic, scientific, and commercial institutions. This particular field is defined by the whole of the talents in accounting, auditing, and investigation. Forensic accounting is quickly emerging in the field of corporate accounting frauds to play a comparable function, much like forensic science has long been used to apprehend criminals. By evaluating the earlier studies done in this area of forensic science, the goal of this study is to establish a novel method of tackling economic crime utilizing forensic accounting approaches.
- **Augustine Desi, Rufus Ishola Akintoye, Theophilus Anaekenwa Aguguom (2023)**: The aim of this study was to examine the implications and effects of forensic accounting as a veritable financial tool for qualitative financial reporting in the 21st century. In this period, forensic accounting is playing a significant role in the trajectory efforts in building enduring confidence in the credibility of financial reporting systems.
- **Oluwatoyin Esther Akinbowale, Polly Mashigo & Mulatu Fekadu Zerihun (2023):** The purpose of this study is to investigate the integration of forensic accounting and big data technology frameworks in relation to the mitigation of internal fraud risk in the banking industry. This study employed an explanatory research design involving the use of simulated data to mirror the situation in the banking industry. The forensic accountant should ensure that the machine learning models are regularly updated with new datasets for automatic classification and clustering analysis. There is still scanty information regarding the integration of forensic accounting and big data technology for mitigation of internal fraud risk in the banking industry. Hence, it is envisaged that this study will contribute to the method, theory and practise of internal fraud mitigation.
- **Firmansyah, Meutia Layli, Universitas Widya Gama Mahakam Samarinda Universitas Alma Ata Yogyakarta (2023):** The company's value can provide welfare to investors if the cost of bidding also increases; the cost of shares of an organization, the higher the welfare assistance from investors. This study aims to test and analyze the role of transparency moderation on company value and leverage. The method used in this study is a quantitative method with secondary data. The data collection technique uses purposive sampling. The data analysis is in the form of annual financial statements on manufacturing companies listed on the IDX for the 2018 – 2020 period. This research method uses multiple linear regression analysis. The results showed that leverage had a significant positive effect on the company's value. Meanwhile, company transparency does not affect the company value, but the company's transparency can moderate the relationship between the variable leverage to the Company Values. This illustrates that easy information access is one of the indicators of the company's transparency in conveying its information to parties outside the company.
- **Anggriyani1, Muhammad Yusuf2, Kornelius Harefa (2021):** The results of the qualitative discussion of the secondary data collected show that the use of fraud detection with audit investigations and forensic accounting is very useful so that fraud can be found correctly. Relevant parties such as Bawasda or regional Inspectorates, BPKP, BPK, ICW and the KPK collect data and sufficient evidence so that the data obtained can be strong enough to support in conveying that the Regency Government or Regent committed fraud. Submitting quarterly, semi-annual, and annual Budget and Expenditure data collection provided by the Regency Government so that the data is neatly organized and interconnected and easy to control.
- **Ridhi Gupta, Dr. Sanket Vij Research Scholar, Professor, Department of Management Studies, Bhagat Phool Singh Mahila Vishwavidyalaya, Khanpur Kalan, Sonepat, Haryana, (2021)**: The study discussed the utility of diverse techniques viz. Benford's Law, Theory of Relative Size Factor, and Data mining in detection and prevention of financial frauds. Responses from 100 accounting professionals were collected through snowball and judgment sampling. The study depicts the positive significance of forensic accounting practices in fraud detection and prevention in the n Corporate sector. The outcomes of the present study will guide the policymaker and decision makers in detection and prevention of financial frauds. Financial frauds and scams affected diverse organizations irrespective of size, nature, and type. Regulatory bodies like SEBI, RBI assayed to minimize the number of frauds however the outcomes of the efforts are not in favor. In the present scenario, fraudsters are clever and tech-savvy and execute innovative ways for frauds.
- **Dr. Chaya R Assistant Professor, Department of Commerce, Karnataka State Open University, Mysuru (2021):** This study proposes to identify the effectiveness of forensic accounting as a tool to mitigate corporate fraud and to evaluate forensic accounting for an effective internal control system and to suggest forensic accounting for delivering quality financial reports and effective mechanism to reduce the fraud instance. Corporate Fraud is a big business in its own way and one of the major challenges for all the size of business, its consequence is not only to the corporations but for the society as a whole, addressing the same is so vital and need immediate attention
- **By Nwaiwu Johnson, Ejimofor, Louis Chidi & Perekume, Mark (2021)**: The inspiration for this research which examined the effect of forensic accounting on quality of financial reporting of quoted banks in Nigeria was tensed by the high rate of low quality of audited financial reports by companies including quoted banks in Nigeria and its affirmation as unqualified

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reports by external auditors. The objective is to examine the effect of forensic accounting on quality of financial reporting of quoted banks in Nigeria. Cross sectional data were sourced from audited financial reports of quoted banks spanning from 2009-2018. Ordinary least square method were used to determine the extent to which forensic accounting affects quality of financial reporting of quoted banks in Nigeria.

- **Dr. M. Ganga Bhavani & Dr. Anupam Mehta, Assistant Professor, Manipal University, Academic City, Dubai, UAE Associate Professor, Institute of Management Technology (IMT), Academic city, Dubai, UAE Correspondence: Dr.M. Ganga Bhavani, Assistant Professor, Manipal University, Academic City, Dubai, UAE (2018)**: The results of this study show that very few universities in the UAE offer and focus on this course as part of their curriculum in graduate and postgraduate levels. This study takes into consideration the current scenario of this course's offerings among UAE universities, and the second outcome of this paper provides a comparison of course contents with the recommendations of the National Institute of Justice (NIJ) in the USA. The results will help provide an insight into the direction of forensic accounting education in the UAE, where developing and improving forensic accounting education offerings has created serious buzz across the globe. Because of the increasing number of various corporate scandals all over the world, forensic accounting education has become the order of the day, and every accounting student needs to be trained in this field and every university has to offer it as part of the curriculum.
- **Ali Rehman Internal Audit Department, A 'Sharqiyah University, 400, Ibra, Oman ali.rehman@asu.edu.om, Fathyah Hashim Graduate School of Business, Universiti Sains Malaysia, 11800 USM, Penang, Malaysia fathashim@usm.my (2017):** This paper attempts to integrate relevant empirical research and literature to extend the intended potentials of forensic accounting on corporate governance maturity particularly in public listed companies in Oman. Moreover, this paper will identify the role of forensic accounting as preventive measure rather than a detective control which is at present widely understood. The paper also proposes that internal audit poses a mediating role between forensic accounting and corporate governance maturity by linking professional theory and agency theory in its relationship. Since the existing literature provides less evidence that attempt to observe the influence of forensic accounting on corporate governance maturity, this paper offers and calls a promising proposition for future research.
- **Dr. Chaya R, Assistant Professor, Department of Commerce, Karnataka State Open University, Mysuru (2014):** This study proposes to identify the effectiveness of forensic accounting as a tool to mitigate corporate fraud and to evaluate forensic accounting for an effective internal control system and to suggest forensic accounting for delivering quality financial reports and effective mechanism to reduce the fraud instance. Corporate Fraud is a big business in its own way and one of the major challenges for all the size of business, its consequence is not only to the corporations but for the society as a whole, addressing the same is so vital and need immediate attention. Financial frauds and scams in modern organizations are perennial and affected diverse organizations irrespective of its size, nature and type.
- **Odelabu Adedire Temitope Jomo Kenyatta University of Agriculture and Technology (JKUAT) (2014):** this study were crucial in the formulating study conclusions. However, the study also took into account the expectations of the study. It was possible to conclude from the study findings that forensic investigation and forensic litigation were statistically significant in explaining changes in financial performance of commercial banks in Nigeria. It was also possible to conclude that use of forensic financial information influenced and improved performance of commercial banks in Nigeria.
- **Aribaba, Foluso Olugbenga (2013):** This paper examined the application of forensic accounting to companies in Nigeria using the basis of whether those saddled with the responsibility of maintaining accountability in both the public and private sector really appreciate its importance. The results show that forensic accounting in Nigeria is still new and that its impacts are not well felt
- **Aribaba, Foluso Olugbenga Centre for Distance Learning Obafemi Awolowo University, Ile-Ife, Nigeria (2013):** This paper examined the application of forensic accounting to companies in Nigeria using the basis of whether those saddled with the responsibility of maintaining accountability in both the public and private sector really appreciate its importance. The results show that forensic accounting in Nigeria is still new and that its impacts are not well felt.
- **Published by Elsevier Ltd. Selection and peer-review under responsibility of RIUDS Open access under CC BY-NC-ND license. (2011):** Since its emergence in America, forensic accounting has become an utmost concern of scholars in different countries. Since the introduction of forensic accounting into China in the late 1990s, most scholars have done research on forensic accounting from the perspective of accounting, but few of them have done it from multiple perspectives like legal science. On the basis of localizing forensic accounting in China, creating forensic accounting profession, and promoting the joint development of accounting and legal profession, we should exp lore the basic theory of forensic accounting, such as its values and functions. Forensic accounting is socio-professional activities which blend accounting and law and has its specific values and functions.
- **Norzalina Mohamad Yusof Dzarfan Abdul Kadir Mohamad Naimi Mohamad Nor Faculty of Accountancy-Universiti Utara Malaysia (2007):** This study intends to gain insights on students' and practitioners' perception on demand for and interest in forensic accounting practices; relevance of forensic accounting education; important learning mechanisms; and topical content of forensic accounting education. A seven-part questionnaire was distributed to UUM students enrolled in Forensic Accounting course; and to practitioners, which include auditors and CFE members. The results reveal that both

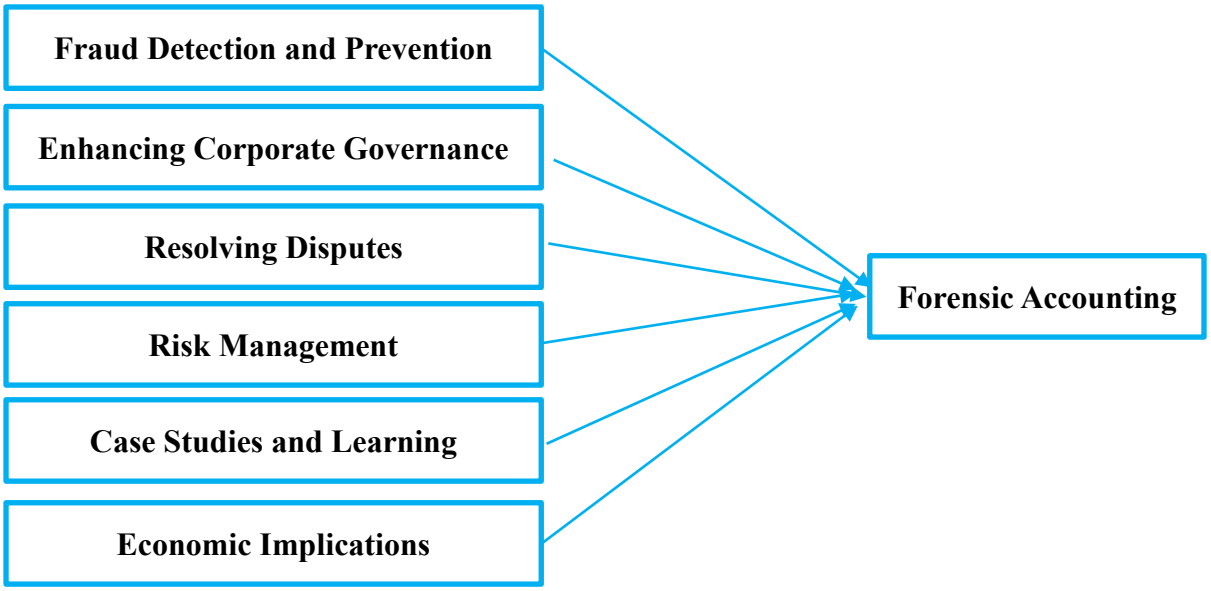
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students and practitioners view highly on the benefits of forensic accounting education and expect to see an increase in future demand and interest in three areas of forensic accounting. However, practitioners feel that the present accounting curriculum is not sufficiently responsive to society's demand for forensic accounting education. Improvements in the curriculum content of forensic accounting subject are also needed. Topics such as cyber and computer fraud need to be given more attention in the classroom. The results of the study could be used by education providers in designing forensic accounting syllabus.

- **Norzalina Mohamad Yusof Dzarfan Abdul Kadir Mohamad Naimi Mohamad Nor Faculty of Accountancy-Universiti Utara Malaysia (2007):** This study intends to gain insights on students' and practitioners' perception on demand for and interest in forensic accounting practices; relevance of forensic accounting education; important learning mechanisms; and topical content of forensic accounting education. ing mechanisms; and topical content of forensic accounting education. A seven-part questionnaire was distributed to UUM students enrolled in Forensic Accounting course; and to practitioners, which include auditors and CFE members. The results reveal that both students and practitioners view highly on the benefits of forensic accounting education and expect to see an increase in future demand and interest in three areas of forensic accounting.

RESEARCH METHODOLOGY

- **Conceptual Model**



Many companies may not fully understand the importance of forensic Accounting, leading to insufficient implementation of practices that could prevent fraud. The evolving legal framework in regarding financial misconduct may create confusion, making it difficult for companies to comply with regulations. There may be challenges in integrating forensic accounting practices with existing financial systems and practices in the corporate sector. Smaller companies may lack the resources to employ forensic accounting experts, which can lead to higher risks of financial crimes. Rapid technological advancements pose both opportunities and challenges for forensic Accounting, requiring constant adaptation and skills upgrading. Analyzing high-profile cases of fraud and financial misconduct can highlight gaps in current practices and the critical need for forensic Accounting. By addressing these issues, you can develop a comprehensive understanding of the role and impact of forensic Accounting in 's corporate sector.

- **Research Gap**

Limited Empirical Studies: There may be a scarcity of empirical research specifically focusing on the effectiveness of forensic accounting practices in the n corporate sector.

Sector-Specific Analysis: Most studies may not differentiate between sectors (e.g., manufacturing, IT, Accounting), missing how forensic accounting impacts different industries in unique ways.

Impact of Technology: There may be insufficient exploration of how emerging technologies (like AI and blockchain) are influencing forensic accounting practices in.

Cultural and Ethical Dimensions: There may be a lack of research examining how cultural attitudes towards accounting and ethics affect the adoption and effectiveness of forensic Accounting.

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- **Objectives of the Study**
  1. To study the impact of forensic accounting on the financial performance of commercial banks in Telangana.
  2. To investigate the effect of forensic accounting on the financial performance of commercial banks in Telangana.
- **Hypothesis of the Study**

  H0: There is no impact of forensic accounting on the financial performance of commercial banks in Telangana.

  H1: There is no impact of forensic accounting on the financial performance of commercial banks in Telangana.

  H0: Forensic investigation does not have a positive effect on commercial bank Performance in Telangana.

  H1: Forensic investigation has a positive effect on commercial bank Performance in Telangana.
- **Sample Size**

  The research is based on primary data collected through a questionnaire survey method. and secondary data from journals, reports and websites. The Sample Size is 10 Commercial Banks in Hyderabad region of Telangana state.
- **Limitations of the Study**

  This study is only confined to the selected commercial banks in Hyderabad region.

ANALYSIS & INTERPRETATION

Table No: Unit Root Test

	Level		First difference		Second difference	
Factors	**T-Test**	**Probability**	**T-Test**	**Probability**	**T-Test**	**Probability**
Fraud Detection and Prevention	-1.494309	0.5262	-6.141171	0.0000	-	-
Enhancing Corporate Governance	1.615584	0.5134	-5.178142	0.0002	-	-
Resolving Disputes	0.491427	0.1256	-9.606380	0.0000	-	-
Risk Management	-9.705827	0.0000	-	-	-	-
Case Studies and Learning	-1.746299	0.4010	-6.24.330	0.0000	-	-
Economic Implications	-12.46856	0.0000	-	-	-	-

Interpretation

To examine the impact of forensic accounting on the financial performance of commercial banks in Telangana stationery test is conducted to analyse the data stability. As it is the time series data augmented dickey fuller test is attempted to check the stationarity of the data in unit root test. Normal Level: The test resulted Fraud Detection and Prevention had the stationeries data in the normal level only as the probability value is less than 0.05. The test results Enhancing Corporate Governance, Resolving Disputes, Case Studies and Learning got significance (i.e., <0.05) in the first difference.

Table No:2- VECM- Forensic Accounting

VAR Lag Order Selection Criteria						
Endogenous variables: Economic factors Vs Forensic Accounting in Banking Industry						
Exogenous variables: C						
Sample: 1 6						
Included observations: 46						
Lag	LogL	LR	FPE	AIC	SC	HQ
0	1203.349	NA	2.06e+22	89.38678	89.60225	89.46344
1	-1835.589	114.1217*	2.20e+26	97.13627	81.42910*	68.59625*
2	1109.115	42.62073	2.19e+31	67.05870	68.42889	678.90199
3	-1076.762	36.46167	1.81e+18*	78.67168*	71.11923	74.89830
* Indicates lag order selected by the criterion						
LR: sequential modified LR test statistic (each test at 5% level)						
FPE: Final prediction error						
AIC: Akaike information criterion						
SC: Schwarz information criterion						
HQ: Hannan-Quinn information criterion						

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Interpretation

VAR lag order selection criteria table indicated lag order selected by the criterion. The above table depicts that LR test statistic seems to be significant at 5% level at lag 1. Similarly, Final prediction error (FPE) indicates lag order selection as lag 3. The information criterion like AIC (Akaike information criterion) is observed to indicates lad order selection as lag 3. Remaining criterion such as Schwarz information criterion (SIC) and HQ (Hannan Quinn Information criterion) seems to be indicated at lag1.Overall table concluded that this model indicates lag order selection as lag 1 which mean the Lower the value of the criterion the better the model fit to run Vector Error Correction Estimate Model.

Table No:3 Regression Analysis

Model Summary									
					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.780[a]	.892	.677	1.07162	.892	260.060	5	406	.000

Interpretation

The model summary indicates a strong relationship between the independent variables and the dependent variable, as evidenced by the high coefficient of determination (R Square). This suggests that a substantial proportion of the variance in the dependent variable is explained by the model. The adjusted R Square value, which accounts for the number of predictors in the model, remains close to the R Square, indicating that the model is well-fitted and not overly complex. The standard error of the estimate is relatively low, suggesting that the model's predictions are reasonably precise. Additionally, the significant change in R Square, as reflected by the F Change statistic, confirms that the inclusion of the independent variables significantly improves the model's explanatory power.

Table No:4 Regression Analysis

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3316.537	4	829.134	195.060	.000[b]
	Residual	871.387	205	4.251		
	Total	4187.924	209			

Interpretation

The table indicates that the regression model is statistically significant in explaining the variance in the dependent variable. The F-statistic is substantial, and the associated significance value is well below the conventional threshold, suggesting that the independent variables collectively have a significant impact on the dependent variable. The regression sums of squares, which represents the variation explained by the model, is much larger than the residual sum of squares, indicating that the model explains a considerable portion of the total variation in the data. This reinforces the strength of the model in capturing the relationships between the independent variables and the dependent variable.

Table No:5 Hypothesis Testing

Hypothesis No	Framed Hypothesis	P-Value	Result
H_1	Fraud Detection and Prevention	0.10	Supported
H_2	Enhancing Corporate Governance	0.12	Supported
H_3	Resolving Disputes	0.08	Supported
H_4	Risk Management	0.09	Supported
H5	Case Studies and Learning	0.25	Supported
H6	Economic Implications	0.62	Supported

CONCLUSION

In conclusion, the effect of forensic accounting on the financial performance of banks in India is significant and multifaceted. Forensic accounting enhances the integrity of financial reporting by identifying discrepancies and fraud, which in turn fosters investor confidence and strengthens the overall financial system. The proactive identification and mitigation of risks through forensic audits not only improve operational efficiency but also safeguard against financial losses. Moreover, as regulatory frameworks continue to evolve, the adoption of forensic accounting practices becomes increasingly vital for compliance and transparency. Banks that integrate these practices into their operations can expect not only improved financial performance but also a stronger reputation in the marketplace. Ultimately, the implementation of forensic accounting in Indian banks serves as a critical tool for enhancing accountability and financial health, contributing to a more resilient banking sector capable of withstanding

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economic challenges. As the financial landscape evolves, ongoing investment in forensic accounting will be essential for maintaining sustainable growth and fostering trust among stakeholders.

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