



Forensic Accounting and Fraud Detection in Nepali Banks

Mukti Prasad Neupane ¹ and Chet Narayan Sapkota ^{2*}

¹Department of Account/Finance, Madhyabindu Multiple Campus, Tribhuvan University

²Department of English, Madhyabindu Multiple Campus, Tribhuvan University

Abstract

This paper overviews the role of forensic accounting in the detection of fraud in Nepalese banking sector. This study employs a descriptive and causal comparative research design and a questionnaire survey was carried out with 385 bankers from commercial and development banks in Chitwan. The collected data were analyzed using SPSS. Frequency Pearson correlation and multiple regression analysis statistical tools were employed. Similarly, the forensic accounting tools like whistleblower hotlines, ethical philosophy, review of digital fraud and sustainable governance systems, as indicated in the findings, have a very strong positive correlation and hence they are the most crucial factors influencing the effectiveness of forensic accounting in fraud detection. Nevertheless, the degree of fraud detection is only weakly correlated or even negatively correlated with the use of control systems and litigation hotlines as seen in the figure. The study suggests that to effectively deal with the recent financial frauds, ethical leadership, forensic tools, and internal controls must be enhanced. Besides this, increasing the protection of whistleblowers and improving the efficiency of litigation hotlines are also the measures that can help to further prevent fraud in Nepali banks.

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*Corresponding
Email: nsapkota2074@gmail.com

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Introduction

Forensic accounting is a practice that combines accounting, auditing, and investigative skills to uncover, prevent and investigate financial fraud (Dalwadi, 2023; Singleton, 2006 Sudarmani, 2023). The primary focus of forensic accounting is analyzing financial records, detecting fraud, and gathering evidence for court cases using methods such as data analytics, forensic audits, and fraud risk assessment. Subedi and Neupane (2024) pointed out that forensic accounting significantly contributes to uncovering fraudulent activities such as loan frauds, embezzlement, money laundering, and financial misrepresentation which in turn grows transparency and financial integrity in the banking sector.

Fraud detection is mainly about finding and stopping instances of unethical and illegal practices that often come in forms of transaction monitoring, forensic audits, artificial intelligence, and internal control systems. Kaur et. al (2022) argued that having efficient fraud detection systems is paramount for banks in order to reduce financial losses, meet regulatory requirements, and obtain customers' confidence. Forensic accounting is a mix of auditing, investigative, and analytical skills used to detect and prevent fraud in organizations (Bologna & Lindquist, 1995). Forensic accounting is an indispensable tool in combating fraud by spotting fake financial statements, tracing the records of illicit transactions, and making it easier to press charges (Ishaku et. al, 2019; Abdulrahman et al., 2020; Kaur et. al, 2023). Examining financial data to find errors and unusual patterns is the main activity in detecting frauds (Albrecht et al., 2008). In banking, forensic accounting is helpful in increasing financial transparency, ensuring regulatory compliance, and avoiding fraud (Okoye, 2019). Even though Nepal Rastra Bank closely monitors the banking sector, financial frauds still are the main problems of the banking sector in Nepal, thus causing doubts about the effectiveness of existing audit and internal control systems.

Traditional accounting and auditing practices have been mainly focused on compliance and financial reporting, thus they have only limited capability to identify complex and technologically sophisticated frauds. It is very important for accounting professionals to adopt technological changes if they want to stay in competition. The relentless digital transformation provides a lot of possibilities for accounting professionals to be involved in more strategic, value-added roles besides working through the problems of the changing technological environment (Chahal, 2025). Absence of forensic accountants with required skills, shortage of



advanced analytical tools, and lack of incorporation of forensic accounting into risk management frameworks are the issues which further deteriorate the fraud prevention abilities. As digital banking is increasing, banks and other financial institutions are becoming highly exposed to fraudulent activities (Odeyemi et al., 2024). Furthermore, Afriyie et al. (2023) stated that these practices create loopholes in suspicious financial statement, defective internal controls, and poor corporate governance. Forensic accounting has a unique way of fraud detection but still, in Nepal, it is not yet a common practice. This research paper aims to fill the gap by analyzing the position, effectiveness, and problems of forensic accounting in the banking sector of Nepal along with the recommendations for enhancing fraud detection and financial transparency.

Bologna and Lindquist (1995) mentioned that forensic accounting is a major investigative division that merges the skills of auditing, investigatory and financial to spot and stop fraud. A significant role of forensic accounting is to scrutinize the financial data to discover inconsistencies, fraud, and irregularities (Albrecht et al., 2008). Moreover, Okoye (2019) mentioned that these techniques play an essential role in the banking sector as they not only help diminish the instances of financial fraud but also improve the transparency and regulatory compliance aspects.

The Fraud Triangle Theory originated by Cressey (1953) illustrates the fraudulent behavior based on three factors: pressure, opportunity, and rationalization. Dorminey et al., (2012) believed that the pressure originates from financial stress, the state of the economy, or the setting of unattainable performance targets, which may drive bank employees to commit fraud. Dorminey et al. (2012) also mentioned that the lack of effective audits, and the failure to segregate duties are some of the weaknesses that increase the risk of fraud in banking institutions. Through fraud risk assessments, forensic audits, and data analytics forensic accountants help in risk mitigation. Rationalization refers to the process of individuals justifying their unethical conduct as a result of them being treated unfairly or as a result of the standards of the organization (Zyglidopoulos et al., 2009). Aksa et al. (2020) further clarified that rationalization helps forensic accountants in assessing the ethical culture and behavioral fraud indicators. Partnering with human resource and compliance departments facilitates ethics training, whistleblowing, and fraud awareness programs. Accordingly, Wolfe and Hermanson (2004) took the Fraud Triangle a step further by adding capability and creating the Fraud Diamond Theory. The three sides



of the triangle, pressure, opportunity, and rationalization are the reasons for the fraud, but the capability explains either a person will be able to carry it out and hide it. People who have special skills, authority, experience, and those with access especially the senior level are the ones that are likely to exploit control weaknesses without being noticed. Capability shows that the mere presence of fraud cannot be justified by only motivation and opportunity. Odukoya and Samsudin (2021) found that an integrative approach such as forensic accountants and bank examiners both are needed to be involved as permanent fixtures in fraud prevention and detection. Similarly, Kim and Kogan (2014). believed if a person deeply understands internal controls and banking systems, he can easily bypass the safeguards and change the financial records. Usually, such individuals are very self-confident and have a good deal of knowledge of how to carry out and conceal fraudulent activities over a long period of time and make detection more difficult.

The Fraud Diamond model highlights that, apart from considering employees' power, skills, and conduct for fraud prevention; companies also have to take into account employee selection, training, and evaluation (Abdullahi, 2015). Leading forensic accountants to the discovery of the signs of capability can certainly result in more effective fraud detection and prevention measures. Omar and Bakar (2012) explained that forensic accounting is an essential in uncovering banking financial crimes such as the misappropriation of funds, money laundering, and fraudulent loans. Bin Zul Kepli and Nasir (2016) stated that the authorities and enforcement agencies should keep themselves updated to prevent these illegal proceeds. More importantly, any detected loopholes must be addressed as soon as possible. Forensic accountants through techniques such as financial statement analysis, data analytics, and investigative methodologies can identify irregularities and suspicious transactions that help in the strengthening of internal controls and ensuring compliance with the regulations.

The recent development in the AI-based fraud detection and transaction monitoring systems has made it possible for banks to handle financial data and identify unusual behavior instantly. Kasum (2009) acknowledged that besides pointing out fraud, forensic accounting also prevents the recurrence of financial misconduct and facilitates better financial control. Using forensic accounting methods brings transparency in banking activities, interim financial losses can be minimized, and the banks gain more trust and support from its stakeholders particularly where the risk of financial crime is on the rise. Previous research in fraud detection and forensic



accounting has mainly focused on how effective forensic tools are in financial institutions. Nevertheless, the influences of whistleblower hotlines, moral philosophy, and digital fraud review as separate variables have not been sufficiently investigated in the case of Nepali banks.

Studies conducted in Nigeria, Bangladesh, the UAE, Sri Lanka, Nepal, and other developing countries (for instance, Ezeagba, 2017; Subedi & Neupane, 2024) reveal that the use of forensic accounting tools such as forensic audits, data analytics, fraud risk assessment, digital forensics, whistleblower hotlines, and litigation support contribute to greater transparency, reliability, and compliance with regulations. Institutions like banks which decide to go for forensic accounting structures are more protected from fraud compared to those that still only rely on the traditional auditing methods. Implementation of various digital forensic tools, forensic audits, and whistleblowing methods has led to increased fraud detection in the banking sector, including banks in Nepal (Joshi, 2020).

Digital tools (such as data mining, artificial intelligence, and blockchain analysis) play a crucial role in fighting complex financial crimes (Kaur et al., 2022; Odeyemi et al., 2024). In addition, a number of researches highlight that the integration of forensic accounting with corporate governance should be regarded as a lasting method for fraud prevention and financial transparency (Agbo & Ezuwore, 2020; Xanthopoulou et al., 2024).

In Nepal, banking frauds such as loan fraud, embezzlement, cybercrime, and financial manipulation have been on the rise, exposing the weaknesses of conventional audit methods even though Nepal Rastra Bank (NRB) has been regulating the sector quite strictly (Pokhrel, 2024; Sanepa, 2019). This has led to the increasing demand for forensic accounting methods that combine accounting skills, legal knowledge, and use of modern technology (Pinzón et. al (2024). Forensic accounting in Nepal is still exploratory mainly due to the unavailability of professionals, poor technological facilities, and a heavy dependence on compliance, oriented audits (Parajuli, 2021; Upadhyay, 2018). This research looks into forensic accounting in Nepali banks, explores common fraud types, assesses the effectiveness of forensic techniques in detecting fraud, and offers suggestions to fortify the system. This research states that forensic accounting as a key fraud detection tool that has not yet been fully formalized, especially in the case of banking in Nepal. Research in other similar developing countries reveal that forensic accounting results in more efficient fraud detection, increased transparency, and better



governance while it is apparent that the absence of such research exists in Nepal. The research outlines fraud detection as a dependent variable, which is affected by six different independent variables of the forensic accounting system: the extent to which a business depends on control mechanisms, the existence of a litigation hotline, a whistleblower hotline, a sustainable governance system, an ethical philosophy, and a digital fraud review.

Thus, this study aims to identify types of frauds detected through forensic accounting and to assess the relationship between forensic accounting practices and fraud detection effectiveness. The findings of this study can be helpful in modernizing forensic audit techniques, creating qualified professionals, and enhancing regulatory compliance as per the guidelines of NRB.

Method

This study was conducted using a descriptive and analytical research design which explored the effects of forensic accounting systems on identifying fraud in Nepalese banks. The population consisted of staff members from all 20 commercial banks and 17 development banks in Nepal. By means of a purposive sampling technique, a total of 385 employees from Nabil Bank Limited, Rastrya Banijya Bank, SBI Bank Limited, Nepal Bank Limited, Himilayan Bank Limited, Everest Bank Limited, and Muktinath Bikas Bank Limited located in Chitwan district were surveyed. Determination of sample size was done through the use of the standard formula $n = z^2p(1-p)/e^2$.

The researchers primarily depended on the first-hand data that were attained via a structured questionnaire. The answers were evaluated on a five, point Likert scale ranging from (1) strongly disagree to (5) strongly agree. The datasets were processed with SPSS version 25 and involved descriptive statistics, correlation analysis, and multiple regression analysis. To check the association of variables Pearson correlation was applied whereas the multiple regression analysis was utilized to measure how the different aspects of forensic accounting impact fraud detection.

Results

This section shows the research findings that are primarily based on 385 respondents who had valid responses to the survey questionnaire. Different statistical methods were used to ensure thorough analysis of the data. Initially, descriptive statistics are used to break down the demographic features such as gender, age, educational qualification, number of years working in the banking



sector, and job position in the bank. Collectively, these statistics give an indication of the composition of the sample. Besides this, a correlation study is carried out to explore strength and direction of relationships among some key elements closely associated with forensic accounting and fraud detection in the banking industry in Nepal. Moreover, simple regression analysis is performed to determine the power of each independent variable to predict fraud detection whereas multiple regression analysis examines the combined impact of these variables to find out their relative importance. Altogether, these methods increase the trustworthiness and accuracy of the results and offer a better insight in which forensic accounting affects fraud detection in the banking industry of Nepal. The demographic profile of the respondent is presented below in table 1.

Table 1
Demographic Profile

Descriptions	Category	n	%
Gender	Male	213	55.00
	Female	172	45.00
	Total	385	100
Age group	Below 25	79	20.51
	25-34	97	25.20
	35-44	92	23.89
	55 and above	46	11.94
	Total	385	100
Educational qualification	Plus two and below	61	15.84
	Bachelor’s Degree	156	40.51
	Master’s Degree	137	35.58
	PhD or higher	31	8.05
	Total	385	100
Years of experience in banking			
Sector	Less than 1 year	3	0.007
	1-5 years	63	16.37
	6-10 years	117	30.38
	More than 10 years	97	25.19
	Total	385	100



Position in the bank	Teller	97	25.19
	Credit Officer	87	22.59
	Compliance Officer	63	16.36
	Risk Mgmt. Officer	42	10.90
	Internal Auditor	48	12.46
	Fraud Examiner	33	11.16
	Others	15	3.90
	Total	385	100

The demographic characteristics of the respondents provide key information of people, experience, and diversity of banking professionals. Distribution by gender reveals that from among 385 people that were surveyed, 55.00% were male (213) and 45.00% were female (172). It shows that probably there is a relatively balanced representation of both genders though male participation was a bit higher. The near parity suggests that perspectives on forensic accounting and fraud detection are drawn from a diverse gender base, enhancing the reliability of the findings.

Age distribution reveals that the majority of respondents fall within the economically active age groups. Specifically, 25.20% belong to the 25–34 age group, followed by 23.89% in the 35–44 group. Respondents below 25 years account for 20.51%, while only 11.94% were aged 55 and above. This indicates that most participants are in their early to mid-career stages, implying familiarity with modern banking practices and evolving fraud detection techniques. However, the relatively lower representation of older respondents may limit insights from highly experienced senior professionals.

Educational qualification data reveals that the majority of respondents have a strong academic profile. Most of them hold a Bachelor's degree (40.51%), followed by Master's degree (35.58%). Only 15.84% have completed up to plus two or lower, whereas 8.05% have a PhD or doctorate qualification. It shows that majority of them are educationally sound and most probably understand the intricacies of forensic accounting, fraud risk assessment, and investigative procedures.

Experience in the banking sector is measured in years, which reveals that the respondents are mostly senior-level professionals. Largest segment (30.38%) has 6 to 10 years of working



experience, followed by 25.19% with more than 10 years of experience. People with 15 years constitute 16.37%, whereas few (0.007%) have less than one year of experience. This kind of spread indicates that majority of the respondents are familiar with banking operations at a deep level, which is necessary for them to provide a well-informed opinion on fraud detection and forensic accounting practices.

Position in the bank reflects a wide variety of roles with tellers being the biggest group (25.19%) followed by credit officers (22.59%) and compliance officers (16.36%). Other positions are internal auditors (12.46%), fraud examiners (11.16%) and risk management officers (10.90%), a very small proportion (3.90%) were in other positions. The variety of roles suggests that the research must include the perspectives of both operational and control-related employees. This is necessary for a deep understanding of the ways banks detect fraud.

Overall, the demographic profile suggests the research is conducted on a well-balanced and qualified group of banking professionals who have enough experience and are well-represented in different job roles. Having respondents from compliance, auditing, and risk management roles is useful to provide the data about forensic accounting and fraud detection. Hence, the data collected is expected to be dependable and suitable for assessing fraud detection methods in Nepali banks.

Correlation Analysis

Correlation analysis involves a statistical technique of determining the degree and the trend of a relationship between two or more variables that exist. It is frequently used in business research, economics, social sciences, and finance to aid the researcher in understanding the behavior of variables together. When two variables are perfectly negatively correlated, the value is, -1, when two variables are perfectly positively correlated, the value is +1, and when there is no relationship between variables, the value is 0.

**Table 2***Pearson Correlation Matrix of Fraud Detection and Related Variables*

Variable	1	2	3	4	5	6	7
Fraud detection (1)	-	.181	-.100	.605**	.497**	.477**	.353*
Control sys. Reliance (2)		-	.344*	.214**	.399*	.345**	.299**
Litigation hotline (3)			-	.211*	.423**	.199**	.321*
Whistleblower hotline (4)				-	.157*	.312*	.200*
Ethical philosophy (5)					-	.423*	.213**
Digital fraud review (6)						-	.234*
Sustainable Governance (7)							-

Note. $N = 385$, * $p < 0.01$, ** $p < 0.05$

Table 2 shows correlation coefficient values of different variables. Data shows that fraud detection had large correlations with institutional factors. Whistleblower hotline ($r=0.605$), ethical philosophy ($r=0.497$), digital fraud review ($r=0.477$), and sustainable governance ($r=0.353$) four components of institutional factors were highly positively correlated with fraud detection. However, reliance on control systems ($r=0.181$) and litigation hotlines ($r=0.100$) had weak or negative correlations with fraud detection, thereby indicating that the use of traditional techniques only is not enough.

Regression Analysis

Regression analysis refers to one of the statistical techniques that can be helpful for prediction and decision making in business research, economics, social sciences, and finance through determining the relationship of a dependent variable with an independent variable. Transaction data analysis through regression analysis is one of the ways that can be utilized in forensic accounting and fraud identification to make financial anomalies.



Table 3

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.723 ^a	.523	.516	0.33351

a. Predictors: (Constant), Digital fraud Review, Control systems reliance, Litigation hotline, Ethical philosophy, Whistleblower hotline, Sustainable governance system

Regression model summary result given in Table 3 confirmed that the independent variables account for 52.3% of the variation in fraud detection ($R = 0.523$), and ANOVA results support the evidences of overall model significance ($F = 69.100, p < 0.001$). Similarly, Table shows that *out* of the various predictors, the whistleblower hotline came out as the most powerful positive determinant of fraud detection ($B = 0.369, p < 0.001$), thus, their emphasis on secure and anonymous reporting channels is definitely justified. Along the same lines, ethical philosophy work ($B = 0.262, p < 0.001$), digital fraud review ($\beta = 0.183, p < 0.001$), and sustainable governance systems ($\beta = 0.129, p=0.003$) were also positively and significantly related to fraud detection, which implies that the right ethical culture, good use of technological tools, and well, designed governance frameworks considerably raise banks capabilities in spotting fraud.

On the other hand, excessive reliance on control systems ($B = 0.121, p = 0.002$) and litigation hotlines ($B = 0.151, p < 0.001$) were found to be significantly negatively correlated with fraud detection, which means that too much dependence on the old, reactive, and compliance, focused control systems might actually be an obstacle to fraud being identified in advance. The results highlight that fraud detection is facilitated the most through the utilization of ethical conduct, digital surveillance, and transparent governance, and only to a limited extent through conventional control, based strategies.

**Table 4***Multiple Regression Analysis Predicting Fraud Detection*

Predictor	β	SE B	B	<i>t</i>	<i>P</i>
Constant	1.458	0.276	—	5.28	.001
Control systems reliance	-0.137	0.045	-.121	-3.06	.002
Litigation hotline	-0.169	0.041	-.151	-4.07	.001
Whistleblower hotline	0.352	0.040	.369	8.71	.001
Sustainable governance system	0.124	0.042	.129	2.99	.003
Ethical philosophy	0.282	0.044	.262	6.44	.001
Digital fraud review	0.192	0.047	.183	4.11	.001

Note: Dependent variable = Fraud detection. B = unstandardized coefficient; SE = standard error; β = standardized coefficient.

Table 4 shows multiple regression result of the impact of six independent variables. On fraud detection, the model constant ($B = 1.458, p < .001$) is statistically significant, which means that the baseline level of fraud detection is meaningful. From the predictors, whistleblower hotline ($B = 0.369, p < .001$) has the strongest positive and significant influence on fraud detection, followed by ethical philosophy ($B = 0.262, p < .001$), digital fraud review ($B = 0.183, p < .001$) and sustainable governance system ($B = 0.129, p = 0.003$). These findings indicate that the implementation of ethical and monitoring mechanisms is very important in fraud detection. The model constant for fraud detection is significant ($B = 1.458, p < .001$), which implies that the baseline level of the dependent variable is meaningful. Among the predictors, whistleblower hotline component ($B = 0.369, p < .001$) is the factor that highly and significantly influences fraud detection, followed by ethical philosophy ($B = 0.262, p < .001$), digital fraud review ($B = 0.183, p < .001$) and sustainable governance system ($B = 0.129, p = 0.003$). In short, these results suggest that ethical and monitoring mechanisms' installation greatly matters in fraud detection. By contrast, control systems reliance ($B = -0.121, p = 0.002$) and litigation hotline ($B = -0.151, p < .001$) reveal significant negative relationships which suggest that over, reliance on formal control or litigation, based mechanisms may not be the most effective ways to



Overall, first model variables are significant in explaining the dependent variable indicating that preventive and ethical approaches are the most effective in fraud detection as against traditional control, oriented methods. Control systems reliance ($B = 0.121$, $p = 0.002$) and litigation hotline ($B = 0.151$, $p < .001$), both variables are negatively and significantly correlated, suggesting that putting too much emphasis on formal control or litigation, based mechanisms may not be the best ways of detecting fraud. All of the first model variables, to a great extent, are statistically significant in explaining the dependent variable

Discussion

The findings of this current research are mostly in line with those of earlier studies which stressed the indispensable function of forensic accounting in the recognition and prevention of frauds in the banking sector. Ishaku et. al (2023) shows that forensic accounting is an essential component of uncovering fraudulent transactions, strengthening internal controls, and reducing financial misconduct. The results also align with the findings of Agboare (2021) in which the use of forensic accounting such as forensic audits and digital crime investigations was found to be very effective in discovering fraud, with both surveys determining a strong positive association between forensic procedures and fraud reduction. Moreover, the current study agrees with Subedi and Neupane (2024) in that good governance systems, digital fraud reviews, and whistleblower hotlines are instrumental in detecting fraud while traditional control systems if over relied upon, may negatively impact detection efficacy.

While the present findings are consistent with a Vutumu (2024) study that focuses on the theoretical aspect of forensic accounting only and ignores the practical usage of the tool. The current study, on the other hand, offers real life accounts from Nepalese banks showing how forensic accounting in practice led to fraud detection through a statistically validated framework. Besides, Tabot et al. (2025) agreement that investigative techniques and the forensic expertise of a team play a vital role in the discovery of fraud, this paper further highlights the advantage of analytical skills and a deep knowledge of the organization in successfully implementing fraud prevention paradigms. This study will be helpful to assist for regulators and policymakers as it highlights the necessity of



advocates for the implementation of initiatives such as prioritizing the protection of whistleblowers, ensuring reliable reporting channels, practicing ethical leadership, and increasing the use of digital forensic technologies. It also reveals that effective governance and continuous forensics are the main ingredients to accomplishing openness and safety in the banking industry.

The finding of this study could not be generalized to whole banking sectors as well as insurance, and manufacturing sectors because frauds patterns may appear differently. The study was based on primary data collected from the banking staffs of limited banks branch offices situated in Chitwan district. So, further research must be done consulting charter accountants and other professionals too.

Conclusion

The research indicates that forensic accounting is important for detecting fraud in Nepalese banks. This study noted that internal controls and fraud detection techniques must be regularly updated to be able to handle new financial risks. Control systems in banks are believed to be mostly effective; nevertheless, incorporating forensic accounting more extensively would probably make them even more effective.

The study finds that the present methods are very effective and efficient in detecting fraud. It also points out that for these methods to be really successful in fighting new financial risks, internal control and fraud prevention measures must be constantly upgraded. The study further reveals that, in the forensic tools, whistleblower hotlines, ethical philosophy, and digital fraud review are three most effective methods that strongly facilitate fraud detection. Using forensic accounting techniques brings about better outcomes compared to other more traditional control methods such as relying on internal control systems and investigation hotlines. The statistical test outcomes show that there is a strong positive relationship between the use of forensic accounting methods and the occurrence of higher fraud detection rates. Thus, the application of whistleblower hotlines and a strong ethical culture have the greatest positive influence on fraud detection. On the contrary, excessive dependence on control systems and investigation hotlines results in a drop in detection efficiency.



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