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Corporate Governance and Fraud Prevention in India: Analyzing the Gaps in Recent Reform Implementation

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Abstract

This paper explores how recent changes in corporate governance in India are assisting in detection and prevention of fraud in corporate sector. Corporate governance refers as the rules and practices that guide how companies should operate with the goal of making them more transparent and accountable but there has been a lot of gap were may affect the proper functioning of firms. In the last few years, India has put into practice several new reforms to strengthen these practices and reduce fraudulent activities. This study explain whether these reforms are working as intended and try to identify the challenges that need to be addressed. By looking at real-world cases like Satyam scandal (2009), PNB fraud (2008), yes bank scandal (2019) etc. and analyzing the effectiveness of these measures, we aim to provide a clear picture of how well India's new governance rules are helping to combat fraud and what improvements might be necessary.

This research is based on secondary data and Data are collected from the published reports, research works, journals and articles.

Keywords: Corporate governance, fraudulence, Indian scenario, detection and prevention of frauds, challenges.

Introduction

Definition of Good Corporate Governance

Good governance involves the customs and establishments that regulate the exercise of power within a nation. In addition to being consensus-oriented and participatory, good governance also adds a normative or evaluative component. Responsible, open, receptive, successful, efficient, fair, inclusive, and compliant with the law. (Rusdianti 2024) [14]

Corporate governance is about in excess of simply getting the rules right. Corporate governance is the broad term describes the processes, customs, policies; laws and institutions that direct the organizations and corporations in the way they act administer and control their operations. It works to achieve the objective of the organization and manages the relationship among the stakeholders including the board of directors and the shareholders. It also deals with the accountability of the individuals through a mechanism which reduces the principal-agent problem in the organization. (Khan 2011) [11]

Regulators worldwide are now considering enacting stronger regulations to guarantee accountability, transparency, and sufficient disclosure in corporate regulation as a result of the recent corporate scandals and events that have occurred. (Marshall 2015) [13]

In our country India, where the economy is changing quickly, corporate governance is essential to keeping the integrity and transparency of the financial system. There is significant modifications focusing on the improvement of corporate governance frameworks in order to prevent fraud and malpractices within organizations have been implemented throughout the nation in recent years. Influenced by market forces as well as regulatory bodies, these reforms aim to safeguard stakeholder interests, encourage moral behavior, and bolster accountability.

The Govt. of India has provided it a special place in statutory framework. Corporate Governance helps to uphold the principles of transparency, integrity, ethics and honesty. It works as the soul of an organization. Therefore, one must adhere to it while indulging in any corporate practices. (Jalwani *et al*. 2022) [10]

In this research we examine the impact of these recent corporate governance reforms on fraud prevention in India, evaluating their effectiveness and the challenges that persist despite these efforts. This research aims to give a thorough picture of how these measures have affected fraud detection and deterrence in the Indian corporate sector by examining legislative changes, regulatory updates, and best practices adopted by corporations. In addition, the paper will examine current hurdles that hinder the complete implementation of these reforms, such as cultural factors that could obstruct ethical practices, compliance issues, and the complexity of enforcement mechanisms. Through this exploration, the paper aims to contribute to the understanding of corporate governance as a dynamic field, offering insights into the interplay between regulatory frameworks and organizational

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behavior in the fight against fraud. Ultimately, the findings of this research will inform policymakers, business leaders, and academics about the effectiveness of current reforms and the necessary steps to enhance corporate governance in India.

Literature Review

According to (Anon n.d.) Studies that look at how businesses respond to fraud detection are hard to come by. There has been no correlation found between the detection of fraud and the subsequent turnover of senior managers and directors in research closely related to the current study. Additionally, the researcher looked at 103 companies that engage in a variety of frauds, but only some of those companies have instances of financial reporting fraud.

(Farber 2005) [9] explained Overall, the results of researcher point to the market's and fraud firms' perception that strengthening governance mechanisms is a necessary step toward rebuilding confidence, trust following fraud.

According to (Bala *et al*. 2018) outlined Over the past few decades, politicians, development workers, intellectuals, and aid workers have all adopted a common discourse around the idea of good governance. The World Bank, the Asian Development Bank (ADB), the United Nations Development Program (UNDP-United Nations Development Programs), and other international development organizations define good governance using a functional approach that emphasizes management elements to advance economic concerns.

(Text 2018) [15], according to a comprehensive study conducted by Canadians, Americans, and Italians that was published in the Journal of Accounting Research last year. After examining 3,293 publicly listed companies across 41 nations, the researchers came to the conclusion that "board renewal mechanisms are related with significantly higher future environmental presentation. The study discovered, in particular, that businesses with boards that appointed a higher proportion of women directors and reacted to activist investors by using majority voting rules were more likely to take environmental action.

In the international policy discourse corporate governance has gained enough importance as business organizations' involvement are connected with sustainable development goals. Agreement on what exactly qualifies as Corporate Governance is still unclear though, like many important problems. Because we are aware of this situation, we adhere to a high definition that involves all interactions between the company and "internal" and "external" stakeholders. the development of corporate governance regulations can be seen over time and their impact on Indian corporate governance practices can also be observed. (Agrawal 2024) [2]

According to (Khan 2011) [11] the agency problem eventually causes the company to perform poorly, allowing managers to take more personal profits. Therefore, improved corporate governance is necessary for businesses to thrive and expand over time. By balancing ownership and control with the interests of the company's stakeholders, a business can achieve strong corporate governance. This tactic might help reduce agency conflicts within companies and promote a positive mindset among managers and shareholders.

According to (Lin and Hwang 2010) [12] explained how the walk on part of auditing in ensuring the quality of reported earnings has come under considerable scrutiny due to recent corporate accounting scandals.

Fraud related to mis governance: According to Jusuf (2014) defines fraud as intentional financial reporting containing misstatements. The triangle of fraud, opportunities, incentives and pressures, and behavior and justification, refers to the factors that lead to fraud.

According to (Arens, *et al* 2012) [1] Fraud in organizations is mostly caused by three factors known as the "fraud triangle": opportunities, attitudes, and incentives or pressures. Weak management control is another factor that contributes to fraud.

Types of fraud we faces if there is ill-governance are as follows:

- **i). Financial Statement Frauds:** This occurs when companies manipulate their financial reports to build their performance look better than it really is. For instance, they might overstate revenues or hide debts. This misleads investors and can affect stock prices.
- **ii). Insider Trading Frauds:** This is when someone with access to non-public information about a company trades its stock based on that information. For example, if an executive knows about a major upcoming deal and buys shares before the news is made public, it's unfair to other investors.
- **iii). Bribery and Corruption Fraud:** This happens when individuals within a company offer or receive bribes to influence decisions or gain favors. For example, a company might pay off a government official to win a contract. This undermines fair competition.
- **iv). Embezzlement:** This is when an employee or executive steals money or property from the company. For instance, a finance manager might create fake invoices to siphon funds into their personal account.
- **v). Conflict of Interest:** This happens when a person in a position of authority has a personal interest that could influence their decisions. For instance, a board member might approve a contract with a company they own, which can lead to biased decisions.
- **vi). Poor Internal Controls:** This refers to inadequate procedures to prevent fraud. If a company doesn't have strong checks and balances, it becomes easier for employees to commit fraud without getting caught.
- **vii). Fraudulent Reporting:** This includes reporting false information to regulatory bodies, such as overstating earnings to avoid penalties or regulatory scrutiny. And so on these types of fraud can severely damage a company's reputation and financial health. Effective corporate governance practices, like transparency and accountability, are essential to prevent these issues and protect stakeholders.

Objective of the Study

- i). Analyze the impact of corporate governance reforms on fraud prevention in India.
- ii). Evaluate the effectiveness of these reforms in reducing fraud cases.
- iii). Identify challenges faced in implementing these reforms.

Methodology of the Study

The methodology used in this study is descriptive and qualitative in nature which involves reviewing existing literature on corporate governance reforms and fraud prevention in India. Secondary Data are collected from different governments site. Additionally, case studies of specific companies will be analyzed to assess real-world impacts.

Corporate Frauds Scenario in India: Case Studies

The Satyam scandal is one of India's biggest corporate frauds, which came to light in 2009 and a major IT company, was found to have been falsifying its financial statements. The company's founder, Ramalinga Raju, admitted to inflating profits and assets to make the company appear more successful than it actually was. This deception went on for several years, misleading investors, employees, and the stock market. According to (Bhasin 2013) [5] where he explained about the accounting fraud of Satyam rocked the world; some even named it as Indian Enron. Satyam fraud is India's biggest corporate scandal since the early 1990s and its first high-profile casualty since the start of the global financial crisis.

(Bhasin 2013) [5] also explained the importance of corporate governance and the controversy surrounding Satyam Computer Services highlighted the value of ethics and how they relate to corporate culture. The Satyam founders' deception is evidence that human greed, ambition, and the desire for fame, fortune, and glory greatly influence "the science of conduct." Enron scandals and the current financial crisis are just two examples of the numerous instances where good behavior founded on strong ethics is required.

According to (Dewangan and Ikhar 2018) [7] explained the resean of this fraud is The Board of Directors places a great deal of trust and dependence on the Company's Head to make decisions. Acquisition of Land under the names of the Head of the Company's Family

According to (S. Gayathri 2018) the government-owned Punjab National Bank (PNB) announced on February 14 that at one of its Mumbai branches, it had found fraudulent transactions totaling $1.77 billion, or approximately Rs 11,400 crore. The bank claimed in a complaint to the Central Bureau of Investigation that this large-scale fraud was perpetrated by companies and individuals connected to billionaire jeweler Nirav Modi using bank employees.

The unmonitored use of the SWIFT financial messaging system was another breach of compliance that allowed Rs 11,400 crore scam to occur. The swift, collateral-free transactions that had been going on with the accomplices of other officials hadn't noticed Nirav Modi or the banks. It is also unexpected that, for a span of seven years, it remained undiscovered even during the external audit procedure.

As per (Uke 2018) [16] In the case of PNB fraud Raghuram rajan explain that there was two bank officials who had bypassed the core banking system of banks to issue fake letters of undertaking to the company of Nirav Modi and his uncle Mehul Choksi. Mr. Raghuram Rajan also enlighten about demonetization step taken by Indian government. He said that demonetization was not well planned and useful exercise. According to him demonetization had a negative impact but the idea was somehow useful for collecting taxes who stored their money in their lockers.

According to (Deb 2021) [6] explained the situation of fraud in yes bank and how corporate governance failed. in his study researcher told On March 5, 2020, the RBI released a bailout package and the central government placed YES Bank Ltd., the fourth-largest private bank in India, under moratorium. This move shocked the financial market. The former CEO had given loans to the struggling companies without making any kind of agreement in exchange. Independent directors are supposed to make independent decisions about strategy and risk management, but in practice, the bank has failed miserably at both and has extended loans without taking the ability of the borrowers to repay them into account. The audit committee has also failed to demonstrate its intelligence by endorsing the management's recommendations.

(Vyas 2017) [17] in his studied analyzed the scenario of frauds in banks. In May 2015, the banking regulatory body RBI established a Red Flag Account (RFA) and an Early Warning System (EWS) to alert the bank to potential fraudulent activity. However, the pattern of frauds in the banking sector of India has not greatly enhanced. In order to improve the current situation, banks must improve credit underwriting, monitoring, and the way they use the money they lend. Additionally, the government should enact stronger laws than those in place in order to change the behavior of the bad boy billionaires. The Indian banking industry is the lifeblood of the country's economy, providing funds as needed. Bank frauds function as a heart block, limiting the amount of money available for legitimate borrowers. When there is a savior blockage, bank failure, similar to that of the Yes Bank in 2020, and such a blockage can further cause the ecosystem to become paralyzed.

Theses all cases serve as cautionary tales about the importance of transparency, accountability and ethical practices in the corporate world.

Table 1: Principles of corporate governance

1.	Transparency	Companies should be open about their operations and financial performance. This means sharing important information with shareholders and the public, which help everyone to understand how's company doing.
2.	Accountability	Leaders and board members must take responsibility for their actions. If they make decisions that impact the company negatively, they should be held accountable.
3.	Fairness	All stakeholders like shareholders, employees, and customers – should be treated equally. This means that decision should not favor one group over other.
4.	Responsibility	Companies should act ethically and consider the impact of their decisions on society and the environment. They should aim to contribute positively to the society.
5.	Integrity	Ethical behavior should be at the heart of all company actions. This involves being honest and maintaining strong moral principles in business dealings.
6.	Board composition	The board of directors should be made up of divers and qualified individuals. This helps ensure that various viewpoints are represented and that decisions are well – informed.
7.	Risk management	Companies should identify and manage risks effectively. This includes having systems in place to monitor potential problems and make adjustments as needed.
8.	Performance monitoring	Regularly reviewing the company's performance and governance practices is essential. This helps identify areas for improvement and ensures that the company is meeting its goals.

***(Source:** prepared by researcher)*

We studied the recently progress report table no.2 which is published by (Eye 2024) [8] on corporate governance shows that companies are making strides in spotting and preventing fraud. By setting up strong internal controls and promoting honesty, businesses can better detect unusual activities and reduce risks. Regular audits and clear rules encourage employees to take responsibility, while training helps them recognize and report suspicious behavior. Additionally, using technology like data analysis allows companies to monitor financial transactions in real-time, so they can quickly address potential fraud. These efforts create a safer business environment, protecting everyone involved and building trust in the

Table 2: Progress across select parameters

	2019 (year)	2023 (year)
Companies with more than 50% board independence (with a tenure of less than 10 years)	25	30
Boards that have separated the roles of Chairperson and CEO	57	68
Companies with at least one Independent Woman Director	97	97
Board with a diversified and comprehensive set of skills	41	62
Companies where all board members have attended at least 75% of the board meetings held over the immediate past three years	60	90
Companies where all board members attended the previous AGM	13	64
Companies where executive pay was in line with revenues and profits over three years	48	38
Companies where CEO's variable pay was at least 50% of overall pay and less than 5% of profits	55	59
Companies that have a publicly disclosed conflict of interest policy for employees	49	69
Related party transaction policies that prohibit interested directors from participating in discussion and voting	44	56
Companies with whistle-blower policies that extend to all stakeholders, including employees, customers, and suppliers	34	43
Companies that are spending at least 2% of profits on CSR	75	74

Source: *institutional investor advisory service*

Conclusion

In conclusion, recent corporate governance reforms in India have made significant strides in preventing fraud and promoting transparency within companies. These reforms have introduced stricter regulations, improved accountability, and encouraged ethical behaviors, which together help create a safer business environment. However, challenges still remain. Issues like the need for better enforcement of these regulations, the importance of ongoing education for stakeholders, and the cultural shifts needed within organizations are crucial for these reforms to be fully effective. Overall, while the reforms have had a positive impact, continued efforts and commitment from all parties involved are essential to ensure that the fight against fraud remains strong and effective in India. By addressing these challenges, we can build a more trustworthy and robust corporate landscape that benefits everyone.

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