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## **ROLE OF GOVERNANCE IN ENABLING THESE FRAUDS**

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### **CORPORATE GOVERNANCE TOOLS TO DETECT AND DETER FRAUD**

Companies may benefit a lot from corporate governance in the fight against fraud because it makes them more accountable, open, and organised. Strong control systems can help a business stop theft from getting worse, lower risks, and make sure everyone acts in an honest way. The internal control system is one of the most important tools in company government for stopping fraud. An internal control system is made up of a company's rules, procedures, and habits. Its job is to keep funds safe, make sure that financial reports are correct, and urge people to follow rules and laws. This way of doing things lets management quickly spot problems and fix them. Some common internal control measures are the use of permission and approval processes, methods for keeping records straight, and assigning roles. The practice of responsibility splitting lowers the risk of fraud in a company by making sure that no one person is in charge of every part of a financial transaction.

There are also steps for whistle-blowers in the government system, which are very important. Employees and other important people are pushed to use these steps to report fraud or other bad behaviour because they guarantee they will not be punished. For people who want to report theft in a safe space, many companies offer channels, hotlines, or websites where people can do so anonymously. Also, whistle-blower protection rules help keep the workplace honest and open by keeping workers from being punished<sup>1</sup>.

Many businesses have written down their rules in an official code of conduct and ethics to make sure everyone follows the right way to act and make decisions. It explains how the company handles scenarios where fraud might happen and stresses how committed the company is to fighting fraud. In order to stop fraud, this code sets the moral standards that all

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<sup>1</sup> Baranidharan S, Sankar AV. Financial Misconduct at Ricoh India: A Case Study of Falsified Accounts and the Consequences of Corporate Governance Failure. Asian Journal of Economics, Finance and Management. 2022 Dec 31:614-22.

workers, leaders, and management must follow. When managers and workers know the ethical standards that are expected of them, dishonest behaviour is less likely to happen.

People are becoming more and more aware of how important risk management systems are for stopping scams. A good risk management system can help a business find fraud and other practical and financial risks, analyse them, and lessen their effects. Risk management teams look for any weak spots and suspicious financial behaviour so they can catch scams early on. A lot of the time, companies also use third-party audits and external tracking to see how well their risk management tools find and stop fraud.

The Board of Directors is another tool for corporate governance. Its job is to make sure that plans to stop fraud are carried out and are working. A good board must set good governance rules, review them often, and then follow them. The board's audit group is very important for keeping an eye on things like financial honesty, putting in place internal controls, and following the rules set by regulators. Directors who know about the risks of fraud and have experience with corporate governance may be able to help set a leadership tone that makes everyone in the company understand how important it is to stop fraud.

There can't be a good government if people aren't held accountable and information about theft isn't shared. Financial information that is easy for stakeholders to get to through openness makes it less likely that scam will be hidden. When everyone is responsible for their actions and financial reports are correct and turned in on time, fraud is less likely to happen. Make sure everyone in the company knows that their actions are being watched to lower the chance of scam.

### **ROLE OF INTERNAL AUDIT AND COMPLIANCE MECHANISMS**

Internal auditing is an important part of any good company control system because it helps find and stop fraud. The internal audit function can give fair reviews of the company's controls and operations because it is separate from operating units. As part of their job, internal auditors have to look at operating processes, financial records, and legal compliance to find waste, fraud, or other problems.

One of the main jobs of internal audits is to check whether the internal control systems are good enough to find and stop fraud. They do regular audits and checks of records to make

sure everything is okay with the money<sup>2</sup>. In their search for signs of fraud, internal inspectors often look for things that don't make sense, questionable financial transactions, or holes in the system of controls. When internal auditors find proof of fraud, they work with top management and other relevant authorities to fix the problem and make the people responsible answer for their actions.

One of the other jobs of internal audit units is to look for signs of theft. An important part of this process is figuring out which parts of the business are most likely to be hacked. These could be areas that deal with money, buying things, or reporting finances. Internal inspectors may find weak spots in the company's controls during a fraud risk review and suggest ways to make them stronger. Since scam risks, laws, and business practices are always changing, it is crucial to carry out these assessments often.

Internal inspectors are very important for both finding crime and stopping it. When there is a strong internal audit system in place, fraudsters are less likely to commit theft. When both internal and external parties know that checks and keeping an eye on financial activity are normal business practices, fraud is less likely to happen. Auditors inside a company can teach workers how to spot fraud and explain why it's important to be honest in business.

Compliance processes are also very important for fighting scams. A detailed compliance process makes sure that the company follows all laws, rules, and moral standards that apply. Not following business rules or the law is a common sign of scam, and compliance measures can help find these violations<sup>3</sup>. Regular training should be given to employees on business ethics and policies, and there should be clear ways to report problems and keep an eye on things.

A company's compliance program isn't complete without a compliance officer or team to make sure the program is followed. The compliance officer of a company should be able to spot any legal risks and make sure the company meets all the rules, especially those that deal with fighting corruption, filing taxes, and stopping money laundering (AML). That way, fraud doesn't happen. Compliance workers watch business deals for red flags and fix them right away.

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<sup>2</sup> Shikha N. Corporate governance in India-the paradigm shift. *International Journal of Corporate Governance*. 2017;8(2):81-105.

<sup>3</sup> Talwar S, Pundir C. Corporate Governance: A Look through the Auditing Lens with reference to India. *Annals of the University Dunarea de Jos of Galati: Fascicle: I, Economics & Applied Informatics*. 2019 Jan 1;25(1).

A lot of companies use data analytics and automatic compliance tools along with compliance staff to keep an eye out for strange behaviour. Advanced data analytics can be used to find things like mistakes in financial statements, strange trends, or deals that don't make sense. One more helpful thing about automatic systems is that they can let the compliance department know about any problems they find. They can step in before the theft gets worse because of this.

The following tools for company governance are very important for fighting fraud: There are internal controls, processes for people who want to report wrongdoing, norms of behaviour, risk management systems, and board oversight. When these technologies are used properly, they may encourage openness, responsibility, and moral behaviour, which can help find and stop fraud. Because new risks and scam schemes are always coming up, it is very important that these control tools are updated on a regular basis.

The internal audit role and compliance processes are very important for finding and dealing with fraud in a business. An internal audit checks the company's control systems and a compliance program makes sure the company meets all the rules and laws. All of these things work together to encourage a mindset of honesty and responsibility, which makes people less likely to commit crimes.

Organisations need to take a broad view of corporate governance in order to effectively stop fraud. In this case, control tools and internal processes need to be built into every part of the business. A company can only protect itself from the risks of corporate theft if it has a culture of high ethics and is always making its control systems better.

### **RISK MANAGEMENT AND ETHICAL LEADERSHIP**

Risk management is an important part of good corporate governance because it helps companies find, analyse, and deal with possible threats like theft. One of the main goals of risk management is to keep potential risks from hurting the company's assets, image, and clients<sup>4</sup>. Ethical leadership that guides the business towards smart decision-making, on the other hand, is best for a company's principles and ethics as well as its compliance with all laws and rules.

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<sup>4</sup> Barde PV. Whistleblowing Mechanism: A Positive Step towards Enhancing Corporate Governance. Issue 1 Int'l JL Mgmt. & Human.. 2021;4:1613.

## **ROLE OF RISK MANAGEMENT IN FRAUD PREVENTION**

Finding risks that could hurt the company's reputation for honesty and fairness is an important part of managing risks well. To keep fraud from happening, it's important to give management the tools they need to spot and deal with potential fraud threats quickly. Once a company has found any weak spots, it can lower its risk of scam by taking extra steps.

Risk assessment is the first step in risk management. This means looking for and thinking about all the possible threats to the business. Anything that could hurt the company's finances or reputation goes into this group. This includes mistakes in the books, online threats, and financial fraud. Once a company knows what risks it faces, it can put those risks in order of how important they are and choose the best way to deal with them.

An important part of fraud risk management is making a fraud risk strategy that can be added to the company's overall risk management plan. Fraud needs to be found by using data analytics, keeping an eye on all financial transactions at all times, and studying how employees act around the clock. Business can find red flags in financial data that would be hard for people to see with the help of machine learning and artificial intelligence (AI). Another important part of fraud risk management is internal rules that make it less likely that fraud will happen.

However, risk management will not be able to work well without strong, moral leadership. Ethical leadership means that a leader's actions are in line with the values of the company, are open and honest, and are based on strong morals. They make the company more ethical by the way they act and by having their employees do the same. When directors show moral leadership, it spreads through the organization's governance culture and motivates everyone to do their part to keep the peace<sup>5</sup>.

Leaders who put making ethical decisions first encourage people to be honest and have ethics. This helps make sure that the company's values show up in everything it does. Setting up systems for responsibility, openness, and blowing the whistle makes sure that the company's risk management is in line with moral standards. A corporate governance system that works rests on leaders making sure that workers at all levels feel safe enough to report fraud or illegal behaviour.

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<sup>5</sup> Narayanaswamy R, Raghunandan K, Rama DV. Corporate governance in the Indian context. Accounting Horizons. 2012 Sep 1;26(3):583-99.

## **IMPACT OF ETHICAL LEADERSHIP ON ORGANIZATIONAL CULTURE**

A leader who puts ethics first has a big impact on the culture of the company, making it a place where honesty, dependability, and openness are highly valued. Ethical leaders set and stick to strict ethical standards that guide the company in the right way. The chance of scam going down goes down when people think their leaders are ethical. This is because they feel more responsible for upholding ethical standards at work. When its leaders are honest, a socially responsible business is more than just a way to make money. This is because leaders who act in an honest way make CSR projects stronger. This may be a better way to gain the trust of parties, such as customers, investors, and government bodies. No amount of risk management will be able to stop theft if people don't trust each other. This is why being a good boss and managing danger go hand in hand.

### **Board Composition and Effectiveness**

A Board of Directors that works well is an important part of good company governance, and this includes its ability to stop fraud. The Board's job is to keep an eye on the management of the company and make sure that fraud-warning steps are taken. A well-functioning board is necessary for fair oversight and promoting openness and responsibility. It does this by providing diversity, knowledge, and freedom.

### **Importance of Board Composition**

A board's size, variety, experience, and independence are all parts of what it is made of. The board's diversity—its members have a wide range of professional skills and experiences—means that different points of view are taken into account when decisions are made. A board with a variety of members can give a fuller picture of governance and risk issues, which can help fight possible fraud threats from different points of view. The inclusion of independent members is an important part of any board<sup>6</sup>. You can't say enough good things about having independent members because they bring a new point of view to the process of government. Because they aren't involved with the day-to-day operations of the company, they are less likely

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<sup>6</sup> Narayanaswamy R, Raghunandan K, Rama DV. Corporate governance in the Indian context. Accounting Horizons. 2012 Sep 1;26(3):583-99.

to be affected by biases within. Because they are not part of the company, they can accurately watch how management acts and hold them responsible for any wrongdoing.

The audit committee, which is usually made up of independent directors, keeps a close eye on the financial reports and internal control systems of a company. The audit committee helps lower the risk of financial fraud by making sure that the financial accounts are correct and that the business is following all legal and regulatory rules. It is very important for independent boards, especially those with skills in accounting or finance, to be able to find problems in financial records and speak out if they think fraud is happening.

### **Effectiveness of the Board**

It's just as important to pay close attention to the board's effectiveness as it is to its makeup. Even if the board is properly put together, it may not be able to do its job well if it lacks the necessary direction, participation, or commitment to governance. The effectiveness of the board can be seen in how well it performs its inspection duties, especially when it comes to finding signs of fraud and stopping them. A good board talks to management a lot and is very important for keeping an eye on how the business is doing. The board needs to make sure that the management has the right rules in place to stop scams. Internal checks, training for staff, and tools that look for fraud should all be part of these rules. One more thing the board is responsible for is making sure the company follows all laws and rules. If the board thinks there is fraud, it should quickly look into it and find a solution while being open and honest the whole time.

The quality of the board's meetings and the way it talks to stakeholders also have a big impact on how well it does its job. At the board's monthly meetings, the compliance systems, risk management plans, financial records, and internal controls of the company should all be looked over. When board members are in charge of money issues, they need to make sure there are no conflicts of interest<sup>7</sup>. The board should keep the lines of communication open with owners and government agencies in order to deal with any worries about fraud quickly and honestly.

This person is in charge of making sure the board works well. The head is in charge of leading the group's discussions, coming up with long-term plans, and making sure that everyone is part

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<sup>7</sup> Mangala D, Singla N. Do corporate governance practices restrain earnings management in banking industry? Lessons from India. *Journal of Financial Reporting and Accounting*. 2023 May 31;21(3):526-52.

in the decision-making process. The head should set the tone for the company so that the rest of the board can follow his or her lead when it comes to ethics and good governance.

### **Board Evaluation and Continuous Improvement**

For a board to keep working well, it needs to regularly evaluate itself. It is important for board members to think about how they and the group are doing so they can work on improving. The board could fix any problems that come up during the review process, such as not knowing enough about risk management or not being good at finding scams. To keep up with how fast-paced the business world is and how fraud is always changing, it is important to regularly evaluate the board's success.

Along with self-evaluation, external reviews can shed light on how well the board is doing its job. External judges are outside experts who look at the board's work and give it advice on how to do better. Because it does these studies, the board can keep its freedom, objectivity, and alertness in its oversight. In order to keep businesses from committing theft, risk management and moral leadership are very important. Fraud in the workplace can be found and stopped more easily with good risk management. Ethical leadership can help create a culture of honesty and responsibility. All of them work together to make a good method for stopping theft at all levels of the business.

In the same way, corporate governance is based on how well and who is on the board. The board needs to be neutral and have a wide range of skills in order to keep an objective eye on the business, especially when it comes to finding and stopping scams. Fraud risk reduction and good corporate governance depend on a board that evaluates performance often, has strong leadership, and keeps lines of communication open. If risk management, ethical leadership, and the effectiveness of the board can all work together, a governance system that promotes openness, responsibility, and moral behaviour can help companies lower the risk of fraud and look out for everyone's best interests.

### **Role of Independent Directors and Audit Committees**

Separate members and audit groups are two important parts of company government. As part of their job, they keep the company honest and make sure everyone does their part. They help

make sure that a business follows the law and looks out for the interests of its owners<sup>8</sup>. We'll talk about why independent people are important and how they help run a business. We will also talk about how audit groups help make sure that methods for controlling and reporting on finances are really good.

### **Role of Independent Directors**

The board of directors of a business may have "independent directors" who have no financial or operational ties to the business. By giving an unbiased opinion when the company makes decisions, they make sure that management is looking out for the interests of owners and other important parties. The different ideas and experiences that these directors bring to the board are an important part of good company governance.

As part of their job, independent directors have to give an unbiased opinion on what management does and decides. Directors who don't have a personal stake in the success of the company can keep management from putting its future at risk by keeping a neutral view. Having people on the team who are separate also helps management see possible risks. This group includes worries about problems with the government, breaking the law, and scams. They won't be biased, so we know these issues will be dealt with fairly.

Setting the tone at the top is an important part of leadership that affects the organization's culture and ethics. Independent directors are very responsible for this. Their leaders have the power to make rules that encourage openness, responsibility, and honesty. Independent directors play a big role in stopping corporate fraud and crime by making sure that the company strictly follows all legal and moral rules.

As the neutral directors, it is their job to make sure that the company follows all legal and regulatory requirements for reports. They help the company stay honest and follow all the rules because they are part of corporate governance procedures and organisations. When making decisions about deals involving related parties, it is important to avoid conflicts of interest. Having separate members can help with this. They help make sure that these choices are made freely and with the owners' best interests in mind.

### **Role of Audit Committees**

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<sup>8</sup> Chhabra Roy N, Prabhakaran S. Internal-led cyber frauds in Indian banks: an effective machine learning-based defense system to fraud detection, prioritization and prevention. *Aslib Journal of Information Management*. 2023 Mar 23;75(2):246-96.

The Audit Committee is a part of the board of directors that is in charge of audits, financial reporting, and internal processes<sup>9</sup>. One of the organization's most important jobs is to make sure that all financial and legal rules are followed and that the financial records are correct. Audit groups are very important in fighting corporate theft because they look into strange behaviour in financial records.

Most of the time, audit groups are made up of independent directors with experience in accounting or finance. They are supposed to look at the company's financial records and internal processes without bias. The audit group is in charge of looking over the company's financial records before the board of directors gives its OK. They lower the risk of financial theft and dishonesty by making sure that the financial records are correct and honest accounts of the business's money.

For both internal and foreign inspectors, the audit group is in charge at all times. Their promise is that inspectors will have full access to all the tools they need and be free to do thorough checks. The group needs to move quickly to fix any issues that come up with the company's internal controls or financial reporting. To do this, they look over the ideas and reports that the accountants gave them. A good accounting firm can help find financial crimes, theft, or false statements in financial records that the company's management might miss. The audit team's job also includes checking to see if the company's internal processes that are meant to stop theft are working. These rules are meant to stop mistakes in financial reporting and theft. The audit committee is in charge of making sure that these rules work to find and stop fraud as part of its review job. When internal controls are weak or not present at all, it is the audit team's job to make them better.

The audit group may also be a safe place for people who blow the whistle. The person or group is responsible for making sure that no one gets in trouble for speaking out against scams or bad management in the financial world<sup>10</sup>. Some companies have put in place leak rules so that employees can report suspicious behaviour without being identified. If the audit team thinks there may have been theft, they will look into it carefully and take the right steps. Lastly, the audit committee is very important for preventing corporate fraud because it checks the accuracy

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<sup>9</sup> Deshpande R. Whistle Blowers Protection under Corporate Governance System. , No. 1 Int'l JL Mgmt. & Human.. 2023;6:947.

<sup>10</sup> Chhabra Roy N, Prabhakaran S. Internal-led cyber frauds in Indian banks: an effective machine learning-based defense system to fraud detection, prioritization and prevention. Aslib Journal of Information Management. 2023 Mar 23;75(2):246-96.

of financial accounts, the honesty of financial reports, and the effectiveness of internal controls. The audit group takes a fair and unbiased view on governance in order to improve corporate governance, stop dishonest behaviour, and protect the interests of shareholders.

## **SIGNIFICANCE OF DISCLOSURES AND TRANSPARENCY**

One of the most important parts of running a business well is being open and honest with each partner. People who work, vote, and trade can make smart decisions when they have access to complete, correct, and up-to-date information. You can't say enough about how important statements are for keeping trust, stopping scams, and making sure the business follows all laws and morals.

All parties can easily get information about a company's operations, financial success, risks, and governance methods if the company is open about them. Companies that are honest give out useful and important details in a way that is simple to understand. This is very important for getting investors and other interested parties to trust you and for teaching your workers to be responsible. For openness to work, both financial and non-financial information must be shared correctly and on time. Disclosures like financial statements and talks with management help investors figure out how well a company is doing, what its risk profile is, and how to make smart investment choices. A lot of people could be hurt if there aren't any clear and complete reports. They might not know about threats or dishonest actions. This could cause fake information to get around, bad management, or even theft.

Sharing information about corporate governance standards is an important part of being open. This includes the work of audit groups, the roles and responsibilities of the board and independent directors, and the company's plan to deal with risk and stop fraud. Anyone who wants to know can find out for themselves if the leaders of the company care about looking out for clients, making money in the long run, and doing the right thing. Businesses that are open with their stakeholders care about the people who have a stake in them<sup>11</sup>. The group shows that it is ready to be looked at and held responsible for what it does by being open and honest about how it works. If someone does something wrong, the company is held accountable and can be criticised from the outside, which makes theft less likely.

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<sup>11</sup> Deshpande R. Whistle Blowers Protection under Corporate Governance System. , No. 1 Int'l JL Mgmt. & Human.. 2023;6:947.

## **MANDATORY DISCLOSURES AND REGULATORY REQUIREMENTS**

A number of law systems, including the Companies Act, 2013, SEBI rules, and IFRS, need people to make statements that are meant to be more open and stop fraud. This is shown by Section 134 of the Companies Act, 2013. It tells the board of directors they need to give a report on the company's money, risks, and any possible conflicts of interest. Companies on the stock market must also follow SEBI's Listing Obligations and Disclosure Requirements (LODR) rules. These rules say that companies must give important details about their finances, how they are run, and any risks they face. By making sure that everyone has access to full and correct information, these rules and laws make scams less likely to happen. If companies don't follow these rules for openness, they could get in trouble with the law, get fined, and have their business hurt. Companies are responsible for what they do, and scams can be stopped by making people give comments, which makes them more likely to be honest.

## **VOLUNTARY DISCLOSURES AND INVESTOR CONFIDENCE**

When it comes to making things more open, voluntary disclosures are just as important as those required by law. It's called a voluntary disclosure when you give people extra information that will help them but isn't needed by law. Companies can be open about their CSR projects, sustainability projects, and ways of dealing with ESG problems (environmental, social, and governance). These voluntary admissions help partners understand how committed the company is to doing business in an honest way and having a long-term plan.

The main purpose of optional statements is to build trust among investors. To get partners, a business should be open and honest about its processes, financial health, and ways of running things. Giving people full and correct information is one way for companies to show they care about ethics and being responsible. People will trust you more, which will make scam less likely.

## **IMPACT OF DISCLOSURES ON FRAUD PREVENTION**

Correct statements and openness are very important for finding and stopping scam. Being open and honest with investors, regulators, and accountants makes it more likely that those people will find any mistakes or strange things going on in the business's finances or operations. This makes theft less likely because dishonest people find it harder to pull off their plans when

everyone is watching<sup>12</sup>. Being open about revelations also helps build an attitude of responsibility throughout the company. Knowing that outsiders are closely watching what the company does makes it more likely that workers, managers, and board members will act in an honest way. Because of this shift in thought, it is harder for dishonest actions to stay hidden.

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<sup>12</sup> Laskar S. Sustainable Corporate Governance and Its Importance in India. Issue 2 Indian JL & Legal Rsch.. 2023;5:1.