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Research paper

The Role of Auditors in Prevention of Fraud under Corporate Governance Process

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Abstract

Corporate governance has emerged as a big issue in corporate sector due to the scams and scandals that are taking place to maintain equilibrium between economic and public goals individually and collectively.
The present paper is concerned with the role of Auditors as stake holders in corporate governance process and the importance of each Auditor in detection and prevention of fraud as stakeholder in knowing about the disclosure level in the corporate governance process.
The overall conclusion of the paper is that stakeholders primarily auditors should contribute their portion with responsibility as it represents value frame work, ethical frame work, and moral frame work of the present-day global business.

***Keywords**: Auditors, fraud, detection, prevention*

1. Introduction

In India the concept of corporate governance which focuses on accountability and transparency in the system like Investment decisions for a common person like share holders (who invest in the company), creditors (who fund the company by way of loans), financial analysts (who analyze the company position in the market) and security consultants (who offer consultancy on the buying of shares and securities) of the company and also auditors in the process of prevention of fraud and checking of manipulation in accounts and financial transactions of the company is based upon the disclosure made through corporate governance only.
The concept of corporate governance has come into force in India in the year 2006 after clause 49 was revised which is mandatory for all listed companies and which directly leads to maximization of share holder's wealth resulting in higher valuations of shares of the organization. Investors always like to invest in well managed companies at large.

2. Background

The first person to disclose the Corporate Governance which came into existence in USA in the year 2002 is Sarbanes –Oxley.
As per SEBI report disclosure is done by listed companies based upon the listing agreement but the contents are not adequate and are inaccurate on which investors make decisions to invest
In the words of prithvi Haldea the information provided must be accurate and complete as it forms main crux for markets and shareholders.

3. Importance of Research

Corporate Governance acquired importance on account of lack of transparency and poor disclosure procedure in the final accounts of the corporate world which has shattered the stake holder's confidence to a large extent. In the year 2004 new corporate governance code was introduced in India.

4. Stake Holders with Specific Reference to Role of Auditors in Prevention of Fraud

The responsibility, role and challenges of the various stakeholders in the Corporate Governance process is discussed here under focusing primarily on Role of Auditors.

Shareholders

- The market works with two types of shareholders, viz. institutional shareholders and Individual shareholders, according to the articles of association of the company and as per law of the land.

Board of Directors

- The Board of Directors who has to deal with various issues related to the organization is the pivot of corporate governance and should have a range of skills and understanding power of various things including share holders.

They should also have ability to face the challenges and try to improve the efficiency level during the performance of tasks.

Employees

- The most valuable assets are Employees as per the belief of stake holders in corporate governance and every step is taken to ensure to employees feel proud and confident to work and live with the organization

Further the stake holder's focuses on the health and safety of the employees by focusing on certain issues concerned with them on site and off site with a better remuneration package.

Creditors

- The creditors (i.e.) lenders according to the stake holders in corporate governance should follow certain terms and are bound to certain obligations while giving loans and advances to the company under corporate governance

Customers

- In a business customer look for better quality and affordable price which becomes the key factor for stake holders in the corporate governance

.**Business partners**

- Business partners from a important part among Stake holders in Corporate Governance aims at working with the business partners for upholding its promises and commitment made in trading.

Government

- Government plays a very vital role to provide healthy environment to mobilize large amount of investment from the investorsandCheck regularly the practices of the companies

Accountants

- In the process of corporate governance accountants play very vital role in management decisions based on financial reporting provided by them to the Board of Directors and Management.

Competitors

- In every business competition is inevitable as it exists according to stake holders in corporate governance it should be relatively fair and justified according to the code it should be conducted without any disputes and unlawful practices by the competitors in business

Society

- Stake holders in Corporate Governance want to ensure that its business operations are fair to all related parties in line with business philosophy. The Group supports activities that creates a better quality if life promoting happiness in the community

Auditors

- The role of Auditor in the effective implementation of Corporate Governance is not limited to presentation of a good financial report which should be fair and present true facts regarding the financial position of the company from the point of view of stake holders including the share holders, creditors, Customers, Business Partners and Management.
- The auditor's Report should bring out the statistical analysis of the company on which people can rely upon at all levels and in which report the measures taken by auditors should be stated the efforts in the areas of detection, prevention and reporting of fraud.
- In the present scenario of business scams such as Satyam scam and other scams auditor as an external and independent party in the process of corporate governance has to act with a responsible role to play in prevention of frauds and auditing failures that are committed by accounts and internal auditors
- The concept of fraud came into existence from the good olden days when men used to make use of tricks and manipulated the opportunities to acquire money in the form of monetary and non monetary forms, in the recent years it has gained a phenomenal increase due

to high end scams and frauds committed in the corporate world for making huge profits and for projecting the company favorably to lure public to invest in large amounts and there by gaining a phenomenal growth of assets and personal property of the management or persons involved in the company.

➢ The auditor in respect of fraud must examine the financial, accounting, and other kind of operations concerning the services and present a document a true picture of the company with a confirmation of the accounting entries are true and fair and is free from fraud in the contest of corporate governance practices

➢ The responsibilities concerning fraud prevention in an organization are divided between the top management (executive board), Auditors, and Internal audit team

➢ An important action in fraud prevention and detection can be carried forward by the establishment of anappropriate internal control system with specified task exactly with this responsibility. It should aim to

i. Respect the principle of separating functions (no function should allow an employee to execute a whole cycle of transactions.

ii. Examine the staff on their

- qualifications,
- competence,
- education,
- previous jobs,
- regular evaluations of their performances,
- taken leave;
- Access the public resources in and outside

iii. Proper external party investigation of the employees

- Especially in the case of senior and authority positions that have access to the management and involved in the process of financial reporting.

iv. In business a complex assessment of fraud and its prevention can help the management to better understand the unique risks that their company faces, to identify the gaps and in their controls, andhelp in formulating a plan to identify the appropriate resources available and procedures of control.

v. In order to prevent fraud we should build a stringent attitude towards fraudsters. As an important step in creating intolerance towards committing of fraud is to act consistently when an economic irregularity is discovered

vi. Last but not the least important is reaction of a company when detecting a fraud acquires importance, as it should act in a manner of publicly disclosing the fraud and professional transgression

5. Hypothesis

The following hypothesis can be concluded

- Negative cases when there exists significant difference between mandatory disclosure and voluntary disclosure in corporate annual reports, there is significant impact of percentage of directors on the board, there is significant impact of percentage of family members on the board on the disclosure level.
- Positive cases when no significance difference is found and there exists marginal impact of directors of the board and impact of family members is limited to certain level.

6. Methodology

Research is based on a various company after clause 49 was introduced in India and scams in the recent times which came into light recently which form part of primary data (to be collected through questionnaires and interviews of company secretaries and the available journals, articles, newspapers and magazines and reports of stock published in news papers which form part of secondary data.

The main objective of study involves descriptive and analytical type research design which is adopted for accurate results and with rigorous analysis done at every level involving all sources at disposal. The secondary data is intensively used for research in order to improve the functionality of System.

7. Recommendations

a) For effective control under corporate governance stake holders should make sure that independent directors along with the external auditors form part of the crucial controlling authority of the management to run business in which family members control the business.

b) Meetings between auditors and management along with stake holders should be held and reviewed regularly so that importance of corporate governance can be recognized in order to abolish the frauds and errors in financial statements.

c) Experienced directors can play a vital role in disclosing true and fair report of annual statements under corporate governance in-order to check any fraud or cheating in the matters of stake holders process of buying or selling of shares

d) Under corporate governance a distinction between politics and corporation should be made. Auditors should be made accountable in the context of share holders and also share holders should be self aware of their rights in the business

e) Corporate governance should bring out a strict monitoring policy for misuse of corporate assets and abuse in related party transactions and also in managing Interest of all parties including Management, board of Directors, and shareholders.

f) Corporate governance must be effectively implemented not only to provide a solution to the problems but is must be effectively conducted with a proper code for implementation.

8. Conclusion

The study can conclude Importance of Corporate Governance and the role of auditors in the process of prevention and detection of errors and disclosure level in annual reports that are being examined by auditors and scrutinized by them.
The auditor should prepare working papers which are sufficiently complete and detailed to provide an overall understanding of the audit
The study is also useful for research scholars to build a proper disclosure model in prevention of fraud and scams in the financials of the company which can be followed by all to fulfill the corporate governance norm in India.
Corporate governance will be successful if everybody contributes their share with responsibility as it represents the value frame work, ethical frame work, and moral frame work which forms the basis for business decisions.
Corporate governance has grown steadily over the years due to public awareness and interest as public has realized the importance of globalization of business due to the opening of economies worldwide.
The globalization of business is done to enhance competitiveness for sustainable development in the present environment of free and fair trade between countries on the global platform.

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