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Control of promoters contributing to corporate frauds: Study

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New Delhi: Control and concentration of promoters in the management of Indian companies is a contributing factor for corporate frauds in the country, says a study.

“One of the key contributing factors for corporate fraud in India is the control and concentration of promoters, whether families or MNC’s at the helm of affairs,” the study, which was conducted by Thought Arbitrage Research Institute in partnership with UN Global Compact India and supported by the Indian Institute of Corporate Affairs, said.

“Such controls over all aspects of business are often abused for personal gains at the cost of other stakeholders,” the study said.

It focused on frauds perpetrated by management of companies and not those, where a company was a victim of fraud by employees, vendors or any other person.

The study covered more than 100 private sector companies over a time period of 15 years — from April 1997 to March 2012.

Most fraudulent transactions were designed to either siphon off the companies’ funds by promoters or top management or to defraud government, investors or lenders, it said.

“Most of frauds in our study perpetrated through recording of assets at a value higher than their fair value or alternatively by a web of book entries through related party accounts to embezzle,” the study said.

Noting that fraud techniques used in last 15 years have not undergone much sophistication, the study said “no significant cases have come to light where the auditors have been able to detect such fraud in the course of their audits”.

The study said in 80 percent of the cases, size of the fraud was less than Rs 200 crore. However, the average revenue size of these companies has increased 7.25 times in the period after 2009, exposing larger number of stakeholders to risks of corporate failure,” it added.

“Greater independent oversight is required over the audit and accounting profession so as to improve its quality and make it a key defence against corporate frauds...,” it said.

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