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CORPORATE GOVERNANCE: A STRENGTHENING DIMENSION TO PREVENT ACCOUNTING ERRORS AND FRAUDS

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ABSTRACT

The way an organization is to be governed is named as Corporate Governance. It means that the stakeholders trust is held with prominence in the organization. Corporations are actually run by the management and which leads to the formation of concerned committees for the wellbeing of the stakeholder's faith in the organization. Corporate Governance is all about balancing societal and individual goals. Transparency is ensured by the Corporate Governance which in connection ensures strong and balanced economic development. Interests of all shareholders (majority and minority shareholders) are also ensured and safeguarded. It leads to enable each one shareholder full freedom to exercise their rights and for which the organization also fully recognizes their rights. Accounting is the essence which transforms into the financial statements of an organization which is a communication mechanism which foretells the stakeholders all they seek to know. Thus it becomes so much vital that the information in the financial statements is free from any error or fraud. Corporate governance does not ensures the reliability of the financial statements but it does helps to curb out deficiencies by fixing the roles and responsibilities and various committees and by adhering to various rules and regulations applicable on the organization. This paper entails the need of stronger corporate governance in the organization which work as a strengthening mechanism for early detection and prevention of accounting errors and frauds.

***KEYWORDS**: Accounting, Errors, Frauds, Corporate Governance, Financial Statements.*

Introduction

The interaction between all the participants (shareholders, board of directors, and company's management) in order to configure Corporation's performance and maintaining the same is Corporate Governance. A healthy relationship is required to exist between the owners and management of the organization which means no conflict of interest between them. The owners must evaluate the performance of an individual by comparing it with the standards set. The essential dimension stated above should not be compromised. Corporate Governance sets the manner by which providers of finance guarantee themselves of getting a fair return on their investment. Corporate Governance clearly demarcates between the owners and the managers. The managers are made the deciding authority. In today's corporations, the functions/ tasks of owners and managers must be clearly defined, rather, harmonized.

Effective strategic decisions are determined and dealt with the help of Corporate Governance due to which responsibilities of Board of Directors are determined. In today's market- oriented economy, the need for corporate governance arises as the utmost necessity. Also, the efficiency as well as globalization is significant factors imposing corporate governance. Corporate Governance is essential tool to develop and add value to the organization and meeting the stakeholder's requirements. Corporate Governance is broader in scope and includes both social as well as institutional aspects. Corporate Governance helps in building a trustworthy, moral, as well as ethical environment.

Benefits of Corporate Governance

- Success and economic growth is ensured due to good corporate governance.
- Best corporate governance practices maintains investors' confidence, which results in aiding company to raise capital efficiently and effectively.

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- The Capital cost is reduced.
- Positive impact on the share price.
- It improves morale of the owners as well as managers in order to achieve objectives that is in the interests of the shareholders and the organization.
- Best corporate governance practices helps minimizing wastages, corruption, risks and mismanagement.
- Brand formation and development is a result of good corporate governance.
- Corporate Governance ensures that the organization is managed in a manner that fulfils interests of all.

Guiding Principles of Corporate Governance

Business Roundtable supports the following core guiding principles:

- Corporate strategies are approved by the Board which are intended to encompass sustainable long-term value; a chief executive officer (CEO) oversees the senior management in operating the organization business which includes allocating capital for long-term growth,assessing and managing risks; and carve out the “tone at the top” for ethical conduct.
- Management develops and implements strategy and operates the company’s business under the oversight, along with the goal of producing sustainable long-term value creation.
- Management works as per the oversight governing body of the board and the audit committee, draws financial statements that present the company’s financial condition and manifestation of operations results and imbibes the timely disclosures in the statements which assists the investors need to assess the financial and business soundness and risks of the company.
- Audit committee of the Board of Directorsmaintains the relationship with the outside auditor, governs the company’s annual financial statement audit and internal controls over financial reporting, and looks after the company’s risk management and compliance programs.
- The nominating/corporate governance committee of the board plays a pivotal leadership role in shaping the corporate governance of the organization, strives hard to build an engaged and diverse board whose composition is appropriate and meeting the company’s needs and strategy, and actively conducts succession planning for the board.
- The compensation committee of the board develops an executive compensation policies, adopts and oversees the implementation of compensation policies that best fit within its standard norms; designs compensation packages for the CEO and senior management to incentivize the creation of long-term value, and develops insightful goals for boosting performance-based compensation that support the company’s long-term value creation strategy.
- The board and management must engage with long-term shareholders on issues and concerns that are of widespread interest to them and that affect the company’s long-term value creation. Shareholders that engage with the board and management in a manner that may affect corporate decision making or strategies are very much encouraged to disclose appropriate identifiable information so that to fix some accountability for the long-term interests of the company and its shareholders as a whole. As part of this responsibility, shareholders must recognize that the board shouldbe considerable to weigh both short-term and long-term uses of capital when determining how to allocate it so that it is ensured that it works beneficial to shareholders and to building long-term value of the organization.
- While making decisions, the board may consider the interests of all of the company’s constituencies, including stakeholders such as employees, customers, suppliers and the community in which the company does business, when doing so contributes in a direct and meaningful way to building long-term value creation.

Well, corporate governance is not just the law, it is much beyond than that and it cannot be imposed and regulated by the legislation alone because of its various parts comes from the management’s mind-set and their culture. The affairs of the organisation are managed by the corporate governance in order to provide the fair value for all of the shareholders which comes from these three-accountability, integrity and the reliability. In order to certify standards, the legislation can and should frame down a general framework which is the “form”. The integrity and the credibility for the process would finally be determined by the “substance”. The substance is inevitably connected to the management’s ethical standards and mind-set.

The organizations should always need to identify that the future development and the growth of the organization requires the full support and the cooperation from their stakeholders and this could be possible only when the organization is following the best practices of the corporate governance. For shareholders, management of the organization is required to perform as the trustees and does not create the difference of benefits among various sections of stakeholders, particularly between the owner and the other stakeholders. Corporate governance is the vital and key element in order to strengthen the organizations economic efficiency. With the help of the corporate governance, the organization takes the cognizance of the interest of the ample series of constituencies, and also of locality where they are operating. Also, it would ensure that the board is accountable for their decisions to the shareholders which would as a result guarantees that the organization as a whole is operating for the benefit and profit of society. Although by taking the advantage of asymmetry between the shareholders, huge amount of gains can be made in short run, and by balancing the interest of all shareholders, it could itself guarantee the growth and the survival of the organization in long run.

Conclusion

The era full of technological advancement is boon to the world but if misused then it can hamper the real picture of an organization as seen in major frauds of the world. Heading towards the best practices of businesses using corporate governance as the tool could minimise the threats and prevent the world from accounting errors and frauds. Corporate Governance acts as the realm to the society since it helps framing the organization as the ideal organisation for all the stakeholders. Accounting frauds are prevented and the financial statements depicts the picture of the organization which helps in decision making of the stakeholders. Accounting Frauds are dangerous than it seems as lots of stakeholders hard earned money is involved and which just vanishes in scams. To encounter such a trivial issue a better policies are needed along with a set of best standards needed to be framed and followed out widely to ensure transparency, fixing the responsibility and accountability to safeguard not just the stakeholders concerns but the national integrity on the wider paradigm. Lots of measures have been enforced to curb out such malpractices yet a lot is in store to get done. Corporate Governance practices ensures and imbibes the faith in the stakeholders that their interests are safeguarded and they would also get proper reliable statements along with the organization they have trusted in the world to make it a better place to grow and nurture the economy as a whole.

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