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NEW DIMENSIONS OF CORPORATE FRAUD BY KEY MANAGERIAL PERSONNEL: INSIGHTS FROM REAL INSTANCES IN INDIA

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ABSTRACT

Company is the form of business organization, where the owners are not the one who manages the business. Instead, here the fund providers - investors and lenders provide the finances, but the fiduciary duty to handle the funds in productive and risk-free manner lies in the hands of senior executives. Thus, there is a trust-based relationship between fund-providers and the management. But when the management misuses the funds for personal gain in illicit manner, such incidents shake the faith of the public from the modern economic ecosystem. India witnessed a series of scams from Mundhra Scam to Mehta Scam. The paper attempts to analyse the common techniques employed in the contemporary frauds committed by key managerial personnel in India. For completion of the aim, qualitative study is undertaken by employing secondary data-based case study method. Five cases of frauds committed by key managerial personnel from January to June,2025 has been considered. To make the study more inclusive, cases from different ownership structures and industries have been considered. The study undertakes cross-case analysis by adopting structured analysis with elements of 'Fraud Triangle' theory. The analysis identified some common patterns like forgery, manipulating accounting records, circular transactions, preferential allotment and collusion to commit the fraud. Along with safeguards, the study proposes strengthening of corporate governance mechanisms of whistle blowing, auditing and representation of independent directors to mitigate the possibility of fraud. For data of cases considered, the study utilizes journalistic sources. Further studies can be undertaken by enlarging scope and adding other sources of data.

Keywords: fraud triangle, corporate fraud, key managerial personnel, promoters, fraud mitigation, corporate governance, cross-case analysis, structured analysis

Introduction

In general, the term 'fraud' can be understood as a willing non-disclosure of material facts to the party with a malicious intention to derive illicit benefit from it. Indian Contract Act,1872, provides a comprehensive definition for the term and defines it as any action with intention to cheat other party or its representative, or to convince them to enter the contract by representing the information that they themselves do not believe to be true, hiding of fact or to make false promises . Fraud is a criminal activity as it includes deception by concealing or modifying the fact, to deprive the benefits to other party, whether the party is an individual, a group of people or an organization .

Frauds can be categorized as- Frauds against Individuals, Fraud by Internal Stakeholders like fraud by Board of Directors or Employees and Fraud by External Stakeholders such as suppliers, customers or other external partners .

To understand the underlying psychology of perpetrators of frauds Donald R. Cressey developed a model termed 'Fraud Triangle'. He identified three factors that combinedly makes execution of fraud possible, any one or two of the factors don't result into committing fraud. These three factors are - Motivation, Opportunity and Rationalization. The factor of 'Motivation' refers to the compulsive or lucrative circumstances that creates will to undertake unethical actions. Second factor 'Opportunity' suggests the situation, where the person is left with resources but without proper system of supervision or controlling. The last important factor is 'Rationalization', that presents tendency of human to justifying their wrong-doings by transferring the burden of their deeds to some situation or person, and portraying themselves righteous .

Although all kinds of frauds create negative impact on corporate environment, the most devastating impact is created, when their perpetrators are key managerial personnel. Such frauds can be categorized as 'white collar crime' or 'occupational crime'. These crimes are unique, as they are committed by employing non-violent execution strategies for financial gain by the respectable person of society, who are perceived as role models for young entrepreneurs. .

If the fraud triangle is applied on the frauds committed by key managerial personnel, more characteristics of such frauds can be identified. Such key managerial personnel whether promoters or directors, face both kinds of circumstances that may be put under the factor of 'Motivation'. Financial greed being the most impactful factor , they also face some compulsive circumstances - unrealistic performance pressure, turbulence business environment safeguarding the image of entity, obtaining the contracts or societal environment . As senior management is the highest decision-making authority, hence left with unlimited power and access to resources of firm, which provides 'Opportunity'. They justify their unethical behaviour by consoling themselves as establisher or operator of the entity and shareholders as just provider of funds. Also, they portray compulsive business environment to force them to do such activities to save the company and thus 'Rationalizing' their deeds. When public realize misuse of their funds and trust by their 'agents', it shakes belief from foundations of capitalistic economy and creates long term negative impacts.

Research gap and Contribution of the Study:

identified different kinds of fraudulent practices and classified them in different categories such as on the basis of entity affected by fraud and on the basis of level of involvement. undertook study of 669 cases of corporate frauds across the globe, by identifying common patterns of demographic profiles and techniques employed and recommended proper system of checks and balances to mitigate the risks of frauds. on basis of secondary data analysis, founded that existence of common directors is a contagious phenomenon across supply chain to incite fraud, and advocated adoption of technology to mitigate such possibilities.

assessed major provisions of Indian regulatory environment by analyzing reasons and impacts of corporate fraud on the corporate environment from twelve cases of corporate frauds taken place between 2000-2020. With the help of case analysis and comparative analysis, concluded that corporate governance is the important mechanism to sustain the trust of stakeholders in the corporate structure. analyzed the theoretical models concerning corporate frauds and emphasized upon understanding of the factors guiding frauds to strengthen corporate governance mechanism in Indian context. by surveying 100 respondents from Indian companies including senior management, revealed that cases where source of dishonest behavior was senior management, were ignored for further action; however, pressure from different stakeholders strengthen the mechanism to be transparent. by collecting responses from 91 Indian companies, identified procurement as the activity prone to fraud and suggested regular organization-wide risk-assessment, investigations on forced labor and components of supply chains as well as third party audits.

Literature on corporate fraud advocates use of case-study method, as Case study method helps to generate new insights which in turn provides a fresh direction to the existing research including quantitative and causal researches . The study of literature reveals analysis of various kinds of frauds and motives. Most of the literature emphasized corporate governance mechanism and proper system of checks and balances as effective strategies for fraud mitigation. For frauds committed by board of directors also various studies are available, which analyze demographic factors and pressure-some situations by conducting empirical study.

However, no comprehensive case study has been made till now in the Indian context specifically focusing on frauds committed by senior management, their modus operandi and mitigation strategies together. This study will help to figure out the techniques employed by senior management for committing fraud in the new age, along with its mitigation.

Research Objectives and Design:

From the research gap identified above, the current paper attempts to achieve following research objectives:

To understand the modus operandi of the new age frauds, specifically committed by senior management

To analyze the common techniques employed for committing the fraud

To provide suggestion for mitigation of such frauds

To accomplish the research objectives, qualitative research approach utilizing case-study method is adopted. This study considers five cases of frauds committed by key managerial personnel in India, about which news-articles were published in Indian newspapers from January to June, 2025. To provide the study contemporary dimensions, the time period of January to June,2025 is selected. The cases selected over here are representative of different industries- manufacturing, engineering, banking, cooperative societies and technology, providing sufficient base to identify similarities within the modus operandi of frauds by key managerial personnel, across different ownership structures and regulatory set up. Moreover, cases where the regulatory authorities had decoded at least prima facie evidences about involvement of key managerial personnel and the modus operandi of the frauds, have been selected for accuracy of information. The study uses structured analysis method by employing parameters of 'Fraud Triangle' theory for cross-case analysis. The Cases of frauds considered for the study are:

Seya Industries

Gensol Engineering Limited

New India Cooperative Bank Limited

Konkan Railway Region Cooperative Credit Society

Brightcom Group Limited

Sources of Data:

To conduct this study, secondary sources of data are used. Along with other published literature and researches, journalistic sources such as news-websites and blog-websites are referred. Although such journalistic sources often face problem of subjective reporting, these sources are relevant to make the study contemporary. To ensure reliability of information, multiple sources of information have been utilized for every case.

Case Description

Seya Industries : A case of round-tripping, siphoning and non-disclosure

Seya Industries, a company of chemical industry, dealing with pigments, agrochemical, pharmaceuticals and rubber chemicals intermediates found guilty by SEBI for practicing fraudulent activities by its Key Managerial Personnel from FY2019 to FY 2022 . The activities involved book-keeping fraud and non-disclosure of material facts . Senior executives had undertaken round-tripping transactions with the companies of family members of CFO and CMD to inflate the sales and show strong financial position than actual . Round-tripping transactions are the transactions, where in company presents higher sales or enhanced costs by entering in the two opposite transactions with the same party, at the same time but with price differences. Company also has not followed the Indian Accounting Standards to record the amount of interest obligations . Moreover, the Promoters of the company are accused of non-disclosing the fund-transfers of Rs.81.26 crores with the related entities to siphon the money . Company had also not disclosed 72 crores of arbitration award . Even after receiving inquiry notices from the exchange and SEBI, company did not respond or clarify its position . The whole case came to the surface after SEBI initiated inquiries after receiving complaints from Standard Chartered India Fund Manager . SEBI inflicted penalties of a total sum of Rs. 58.5 crores to key managerial personnel along with debarring them from market participation and taking position of senior executive in any company regulated by SEBI . Following figure illustrates the fraud:

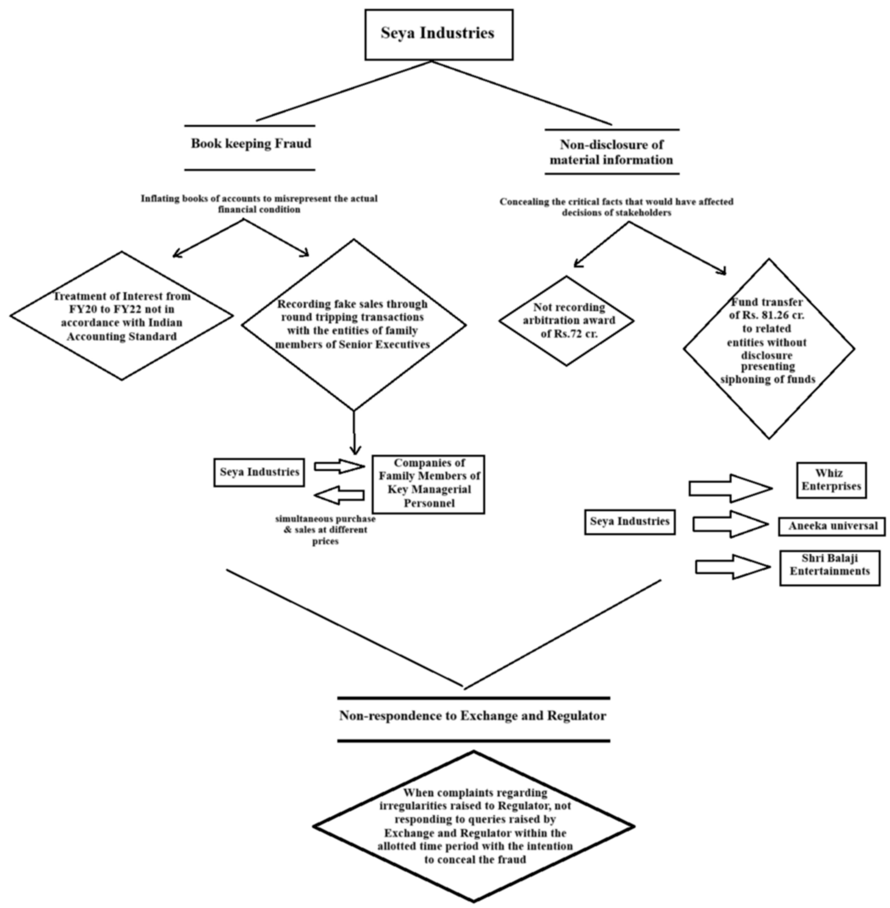

Figure 1. Seya Industries — A case of round-tripping and non-disclosure

Gensol : A new-age start up under the ambit of scrutiny

Gensol Engineering Ltd. a renewable energy sector company established in 2012, has been under the punitive provisions of SEBI due to its unethical and fraudulent practices harming its stakeholders. After receiving complaints in June,2024 and downgrading of Gensol's ratings by Credit Rating Agencies, SEBI undertook a probe into the incident. The Promoters of the company are accused of siphoning, stock market manipulation, misuse of funds raised and misleading the credit-rating agencies and public by presenting fake operations. The company raised funds of more than Rs.977 crores through public institutions like Indian Renewable Energy Development Agency Limited and Power Finance Corporation Ltd. for operations and development of the EV business, but the amount was hardly used for the stated purpose. The funds were routed by using multiple entities which were under the control of Promoters only. Fund diverted to Capbridge Ventures LLP was used to purchase a personal luxury apartment of Rs. 42.94 crores . Funds of about Rs.100 crores provided to Wellray Solar Industries Private Ltd. were used for the manipulation of stock prices of Gensol Engineering Ltd. from FY 2022 to 2024 . Even the preferential allotment of shares to Promoters was in reality funded by money of the company only, where Promoters got Rs. 10 crores channeled through Wellray Solar Industries Private Ltd. from the accounts of Gensol Engineering Ltd . The company had undertaken multiple circular transactions with entities affiliated to Promoters, to present business activities of Gensol. It had also tried to misrepresent its business activities through recording Memorandum of Understanding for 30,000 electric-vehicles as orders . Basic inquiries from exchange also revealed inactivity of Pune-based plant, to which certain costs and stocks were attributed for fulfilment of abovesaid order . To safeguard the credit rating of the company, despite default in debt and interest payment, company forged fake No Objection Certificates to get 'No Default' status . Activities of Promoters turned a potential company into a shell company to raise and use the money in unethical manner. SEBI prohibited Promoters from accepting the position of Senior Executive in any company regulated by SEBI. Company is facing bankruptcy provisions to wind up the business . Following figure depicts the fraud:

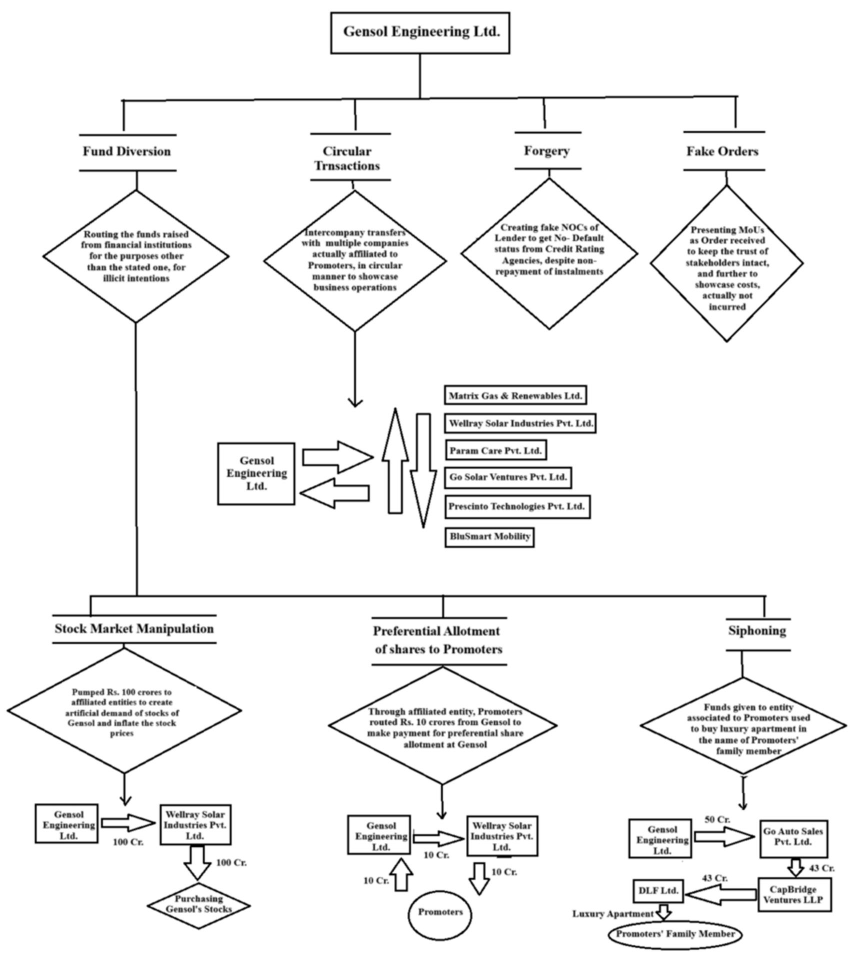

Figure 2. Gensol Engineering Ltd. — A new-age startup under the fraud lens

New India Cooperative Bank Ltd.: Erosion of trust of millions of people from banking

Headquartered at Mumbai, working since 1968 with a view to providing banking services to marginalised community, New India Cooperative Bank lost trust of its clients due to collusion of its senior executives. A regular audit from Reserve Bank of India reported discrepancies of Rs.112 crores between the cash shown on records and cash on hand at bank's vaults at its headquarters . An internal audit of Goregaon branch found Rs. 10 crores lesser than presented in the books of records . Thus, the fraud amounts to Rs.122 crores from the money of depositors of the bank . Investigation revealed involvement of former General Manager cum Accounts Head, former CEO and other six persons in embezzlement of cash from vaults and manipulating the accounts to conceal the fraudulent activity since 2020 . Former General Manager of the bank tried to justify the amount as providing friendly loan without collateral to two of the accused . Senior officials are accused to provide loans without proper authority and procedure or due diligence, which turned out into non-performing assets for the bank. They have also allegedly approved writing off the certain loans without proper recovery procedure . Despite regular audits fraud has not been exposed for 5 years, indicates involvement of some officials of regulatory body . However, the amount of Rs.122 crore is considered to be a tip of iceberg and further investigation is still ongoing . Following figure illustrates the above-mentioned fraud:

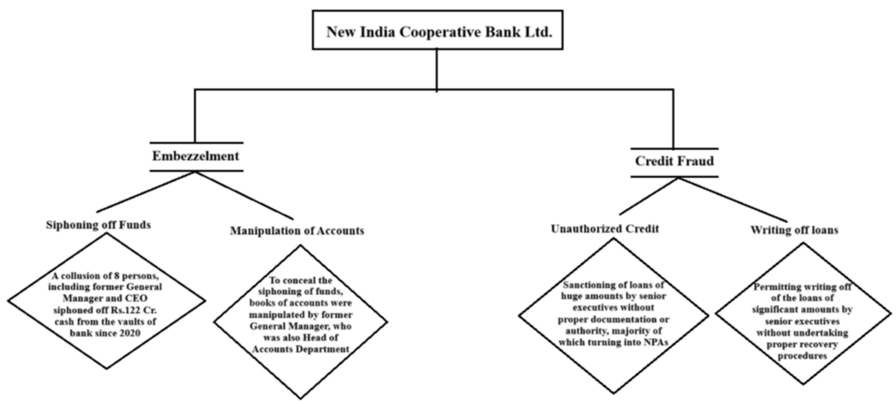

Figure 3. New India Cooperative Bank Ltd. — Erosion of depositor trust

Konkan Railway Region Cooperative Credit Society Ltd.: Victim of illicit activities of former President

To fulfil financial needs of employees of Konkan Railway Corporation Ltd., Konkan Railway Region Cooperative Credit Society Ltd. was established in 2000. The credit society has partnered with New India Cooperative Bank Ltd. to provide loans to employees of Konkan Railway Corporation Ltd., with the condition that if any employee defaults, the credit society would recover the loans . In 2022, New India Cooperative Bank Ltd. provided loans to 48 employees of a total amount of Rs. 2.48 crores, after receiving evidences of employment from former President of the society . However, the former President is accused for providing fake evidences to avail loans of total Rs. 2.48 crores, of which loans worth Rs. 2.11 crores were not paid . In such situation, the credit society is responsible to recover the loans, from those 48 persons, who are neither employees of Konkan Railway Corporation Ltd. nor known to the society. The case came to surface after the current administrative director of the credit society lodged FIR . Following figure depicts the fraud:

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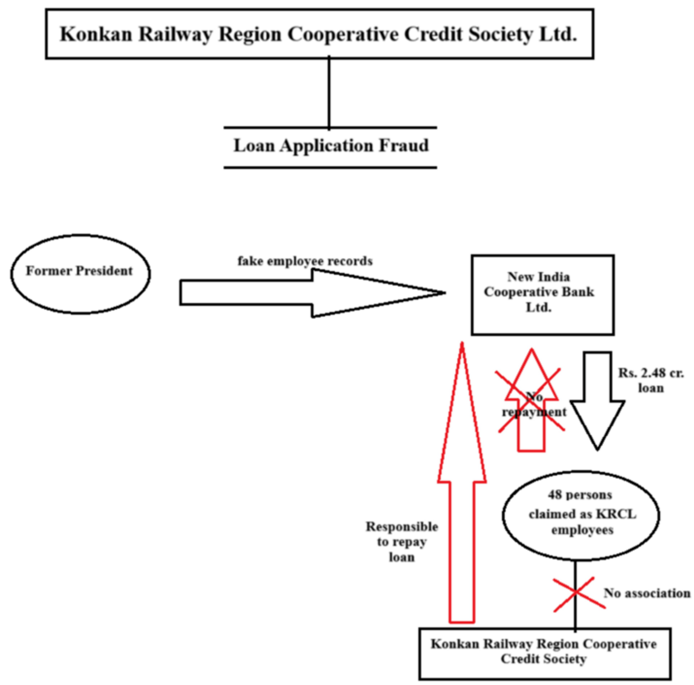

Figure 4. Konkan Railway Region Cooperative Credit Society Ltd. — Loan application fraud

Brightcom Group Ltd.: From creating publicity for other companies to leaving a negative impression in the market

Established in 1999, Brightcom Group Ltd.- a well-known name in digital marketing and software development solutions provider, faced degradation in its image due to unethical practices of its key managerial personnel. The Promoters, CMD and key officials are indulged in fabricating the books of accounts, siphoning through circular transactions and false disclosures to its shareholders. The company concealed the loss of Rs. 868 crores in the profit and loss statements of financial year 2016 to 2019 under the misleading head . It also misrepresented the costs as assets and valuation of intangible assets . In FY2021 and FY2022, company raised Rs. 867.78 crores through preferential allotment . Against amount of Rs. 245.24 crores for preferential allotment, from 22 non-promoter entities only Rs. 52.51 crores were received, remaining being siphoned . From these entities, four LLP entities were associated with CMD and Promoters, which were gradually shown as promoters' entities . For the shares allotted to these entities, only Rs.1.41 crores were received against receivables of Rs. 111.65 crores . Even after allotting promoter status, these entities didn't follow the provision of lock in period of 3 years . These firms were used in multilayered transactions to mislead about origin of funds and to siphon money . Funds originated from Brightcom Group Ltd. passed on through these four entities and ended by receiving much lesser amount than what it had originated. To conceal these gaps, senior executives overstated the received amounts from these entities. Hence, the bank statements were not in synchronisation with the situation, which the accounts were showing. Company presented promoters' holding of 3.5% as 18.47% to misguide stakeholders . SEBI had considered the situation, after receiving complaints about the company from stakeholders. Currently

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SEBI has banned the senior executives to take position of key managerial personnel in any registered company. Moreover, along with Promoters and Directors, Compliance Officers and Independent director were also imposed penalties . Following figure illustrates the above-mentioned fraud:

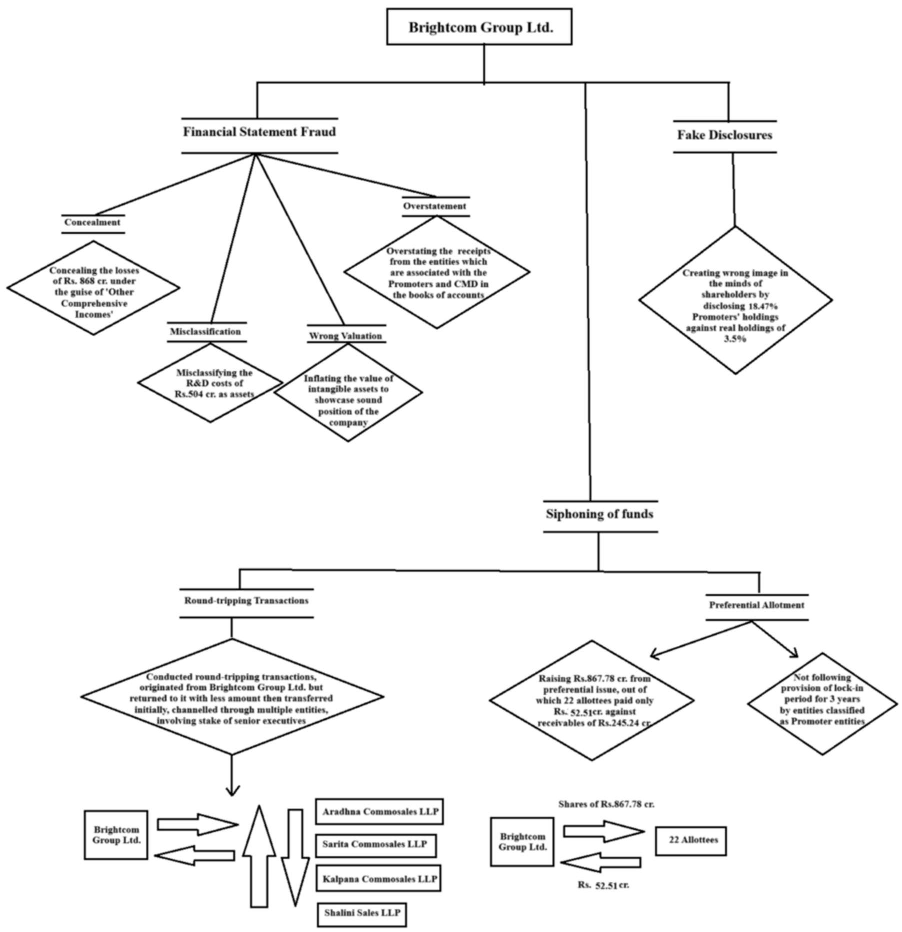

Figure 5. Brightcom Group Ltd. — From creative accounting to siphoning of funds

Discussion

Structured Analysis of the Cases

Structured Analytic Technique helps to reduce the subjectivity in analysis, especially methods involving analysis of real-life cases and incidents which sometimes relies on intuitive interpretations. The analysis follows parameters provided by the 'Fraud Triangle' theory, given by Donald R. Cressey in 1953. The theory has proposed three parameters viz. pressure, opportunity and rationalization.

'Pressure' is the compulsive and exclusive financial responsibility of the person . Above analysis considers compulsive situation due to responsibility of the position as 'High level of Pressure', while fraud under personal compulsion or greed is considered as 'Low level of Pressure'. defined opportunity as exploitation of authority to get rid of the compulsive situation. 'High level of opportunity' in above analysis is considered when authority is concentrated, while 'Low level of opportunity' is considered when stringent rules and compliance mechanism was present. Rationalization is the tendency to justify the unethical behaviour . 'Low level of rationalization' is considered when fraud is committed by greed to accumulate wealth. Severity of impact is measured by the amount and stakeholders involved, along with impact of fraud on society.

Following structured analysis summarizes above cases, and helps to identify key aspects of each fraud using dimensions of fraud triangle.

Sr. No.	Case	Type	Primary Fraud Type	Pressure	Opportunity	Rationalization	Risk Indicators	Structural Weaknesses	Severity of Impact
1	Seya Industries Ltd.	Listed Entity	Financial Statement Manipulation and Siphoning	Moderate	High	High	Exponential growth in sales, Round-tripping transactions, Non-disclosure of fund transfers	Weak audit compliance, Lack of proactive board Oversight, Concentrated Shareholding	Moderate
2	Gensol Engineering Ltd.	Listed Entity	Siphoning and Financial Statement Manipulation	High	High	High	Related party transactions, Sudden rise in stock prices, Preferential allotment of shares to Promoters	Weak internal controls, Complex subsidiary structure, Poor regulatory oversight, Failure of stakeholders to detect forged documents	Sever
3	New India Cooperative Bank Ltd.	Cooperative Bank	Embezzlement, Loan Fraud	Low	High	Low	Concentration of authority, custody and verification, Unnecessary manual interventions in operations, Non-reconciled cash balances	Inadequate physical control on vaults, Discrepancies in records, Reliance of committees on senior management personnel, Weak internal controls and risk management system	Sever

Sr. No.	Case	Type	Primary Fraud Type	Pressure	Opportunity	Rationalization	Risk Indicators	Structural Weaknesses	Severity of Impact
4	Konkan Railway Region Cooperative Credit Society Ltd.	Cooperative Credit Society	Loan Fraud	Low	High	Low	Concentration of loan amount to small number of applicants, Rising suspension accounts, Lack of transparency in regular functioning	Weak statutory audit, Inadequate board oversight, Inadequate verification procedure	Sever
5	Brightcom Group Ltd.	Listed Entity	Manipulation of financial statements, Siphoning	High	High	High	Round tripping transactions, Preferential allotment, Breach of lock-in period provision, Sudden rise in profits, Overvaluation of intangible assets	Complex structure of subsidiaries, Weak internal controls, Failure of audit,	Sever

Table 1 Structured Analysis of Cases using Parameters of Fraud Triangle (Prepared by Authors)

The dimension of 'Pressure' for the case-1 can be considered as moderate, as actions of inflating sales and round-tripping transactions present pressure on the senior management to improve performance of the firm, as Seya Industries Ltd. is a listed manufacturing firm, they were responsible to answer about performance of the firm to the shareholders and public. At the beginning of the financial year 2019-20 shareholding of promoters was 74.53%, which reduced to 63.72% by the end of the financial year . Thus, dominance of promoters along with weaker external auditing mechanism and independent oversight had created suitable environment to conduct the fraud. Hence, dimension of 'Opportunity' can be considered as high. Also, concentrated shareholding pattern might have created the sense of emotional ownership over the company and its resources, which have provided high level of justification or 'Rationalization' for siphoning. As the case affects other shareholders involving crores of rupees, its impact can be considered as moderate.

For case-2, loan of huge amount of Rs.977.75 crores from public finance institutions such as IREDA and PFC, might had created repayment pressure. Continued default in repayment suggests high level of 'Pressure' leading to forging of documents and financial statement manipulation. Concentrated shareholding of 62.63% as of March,2024 along with weak supervision of board committees and internal control provided 'Opportunity' to commit the fraud. In 2019, at the time of initial public offering, promoters held 96% of total shareholding . It suggests the psychological dominance on the ownership of the company, even after making it public, which had helped in 'Rationalization' of siphoning of the funds and deliberate misstatements to public and regulatory authorities. Activities of forging documents to retain credit ratings and financial misstatements, amount involved, and negative effect on public financial institutions, credit rating agencies, shareholders and public make its impact to be categorised as 'sever'.

In case-3, acts of siphoning of Rs.122 crores by a member of senior management from vault, granting friendly loans and writing off loans clearly indicate motivation of personal gain. Hence, fraud can be considered to be committed at will rather than under the pressure. So, dimension of 'pressure' is low in this case. 'Opportunity' can be considered high as the persons with key authority - CEO and General Manager are involved in the fraud. General Manager was also given the charge as the Head of Accounts department, which led to ease of concealment. The dimension of 'Rationalization' is low because apart from personal greed of wealth accumulation, no other reason justifies this fraud. However, as New India Cooperative Bank Ltd. is a component of formal financial ecosystem of the country. Fraud in such public-trusted institution creates question on operating mechanism of the institutions which handles money of millions of people. Hence, severity in terms of amount as well as impact on stakeholders is sever.

In case-4, to derive undue personal benefit, Chairman of the society provided falsified employees register, which indicates low level of 'pressure'. Weak regulatory supervision and concentration of authority made the institution vulnerable to fraud and provided 'Opportunity' to the Chairman. Wilful commitment of fraud indicates low 'Rationalization' or justification towards unethical acts undertaken. As Konkan Railway Region Cooperative Credit Society Ltd. holds trust of the people who are not often overlooked by formal financial system, such frauds create sever impact on such underrepresented segments of society by eroding their trust.

For case-5, actions of concealment of huge loss in financial statements for consecutive three financial years reveals high level of 'Pressure' on senior management to prove efficiency of management and preserve reputation of the brand. Simultaneously, siphoning adds dimension of personal greed along with professional pressure. Weak audit mechanism, inadequate internal controls and complex subsidiary structures provided senior management high level of 'Opportunity' to commit and conceal the fraud. Senior management's intention to protect image of the company in spite of losses combined with effort to accumulate personal wealth, showcase high level of 'Rationalization'. However, concealment of a huge amount of Rs. 868 crores categorise it in 'sever' category of impact.

Findings

Discussion of above cases reveals a couple of resembling practices to commit fraud by the key managerial personnel.

1. Breach of fiduciary duty:

The funds which were misappropriated in above cases were the funds of public. Public entrusted the reputation and credibility of above entities and talent of managerial personnel, and provided them fund to run and expand business, to keep their hard-earned money safe. The fraudulent activities by Promoters, President, and Chief Officers present breach of their fiduciary duty. It poses a serious question on the materialistic mentality of society as these activities were committed by wealthy members of the society, who out of their financial greed misused the trust of general public by taking advantage of their reputation.

2. Forging:

Key Managerial Personnel know the importance of documentary evidences in the corporate activities- from verifying accounting entries to conferring non-default status. Hence, they created fake documents, even under the name of other entities to support their illicit activities. Although, senior management created fake documents, the major question is upon the verification and authentication processes of the stakeholders, who trusted on these fake documents.

3. Manipulation of accounting records:

A common practice accompanied with embezzlement is modification of the books of accounts, recording fake sales, converting huge losses into profits and misclassifying various assets and costs to hid the actual differences created in company's financial position. It certainly highlights the loopholes in current procedures employed in independent auditing.

4. Timing:

An interesting fact revealed over here is that the cases which were revealed for the first time during 2025, share a common feature which is the timing. Although some of them have tried financial statement manipulation in some of the previous years, the major incidents of siphoning or embezzlement took place during the COVID period, where majority of the focus was diverted towards the pandemic and other economic issues. Relaxation in vigilance to sustain the economy provided an escape window in this crisis period.

5. Preferential Allotment:

The common modus operandi followed by three companies out of five entities under study, is issuing the shares by the way of preferential allotment to the related entities directly controlled by senior executives, for lesser price than shown in the disclosures to regulatory authorities and stakeholders, to concentrate decision-making power of a public limited company into fewer hands to escape regulatory provisions and for monetary gain of the senior executives.

6. Circular Transactions:

Companies concerned over here, have used circular transactions or round-tripping transactions, many a times to inflate the revenues. Simultaneously they have also used this fraudulent mechanism to route and siphon the funds of company by using related entities controlled by key managerial personnel. It draws attention towards noncompliance of provisions of disclosure of related party transactions, and weakness of regulatory bodies to enforce the provision.

7. Collusion:

In the cases discussed above, the cases of New India Cooperative Bank and Konkan Railway Region Cooperative Credit Society explicitly present collusion between the officials of regulatory body and member of senior management, President and Managing Director respectively. Although other three cases do not explicitly showcase traces of collusion, there is less possibility of occurrence of frauds of crores, escaping from strict regulations without collusion and corruption.

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Solutions

A) Safeguards under Corporate Governance Regulations:

1. Independent Directors:

Section 149 of Companies Act, 2013 makes appointment of independent director compulsory. For the listed company, at least one-third of the total strength of directors should be independent directors. Along with attending meetings of the company and being a member of various committees, these independent directors have duty to report any unethical behaviour or breach of code of conduct to safeguard the interest of stakeholders .

However, in the above cases, this measure to ensure transparency failed. Reason may be negligence. These cases also highlight structural errors:

An alone independent director can't raise the question about fraudulent activities, against all the members of boards. Possibility of being pressurised by other directors to acknowledge the wrong doings cannot be eliminated .

For appointment, removal and compensation, Independent Directors are dependent on the company. To safeguard their personal interest, they may not reveal the misconducts of company .

Although they are independent directors, source of information is not independent . They have to rely on the documents served by the fraudulent entity to fulfil their duty, which may be biased. Further, lack of detailed knowledge of day-to-day operations of company due to non-participation in daily activities is also an issue .

Section 149(12) of Companies Act,2013, provides immunity to Independent Directors from the acts of company where he has provided consent, but has not acted with proper assessment or diligence. However, this provision is not followed in reality due to other legal regulations. This compels Independent Directors to indulge in concealment of frauds and safeguarding the acts, where he might not be well versed about the decisions .

These inherent loopholes in the provisions relating to Independent Directors should be corrected. A separate mechanism should be developed for appointment, performance assessment and remuneration of independent directors, where they would not need to rely upon will of board . A system with the help of technology should be developed to assure timely availability of transparent information to empower independent directors for informed and unbiased decision making. Also, the immunity provided to independent directors should be functional in reality to protect independent directors for the decisions made under lack of data or less diligence.

2. Audit Committee:

Companies Act,2013 as well as SEBI's Listing Obligations and Disclosure Requirements Regulations raises requirement to constitute audit committee, where at least two third members should be independent directors. This provision was added to ensure transparency in the matters of company. From authorising related party transactions and corporate loans, reviewing financial statements, internal controls and risk management and approval of preferential issues, audit committee plays crucial role in corporate governance of company . But majority of the members of audit committee- the independent directors are not aware about day-to-day happenings of company.

From 1st January,2022 only independent directors have authority to approve related party transactions. But limited technical knowledge, lack of complete information and shorter period to sanction transactions create hurdle in informed decision making. Many a times this provision is misused to shift the burden of wrong deeds on independent directors .

Review of financial statements and assessing their truthfulness and fairness is also an important function of audit committee. Analysing the efficacy of internal control for fraud prevention is under its scope is duty of audit committee. These important tasks should be completed with time constraints, limited data and sometimes without core domain expertise .

Need of the hour is to strengthen audit committee, in terms of domain expertise, resources and time for considering the issues, as was envisaged in Companies Act,2013. It should also be ensured that the inputs received by Audit Committee must be unbiased and non-manipulated. A lead independent director can also be appointed for collective representation of independent directors .

3. Whistleblowing:

It is impossible to conduct fraud of crores of rupees without any knowledge of employees - at least of accounts department. Many of the cases discussed above, were not only concerned with accounts department, they were also affiliated with compliance departments. So, involvement of accountants and compliance officers and some other employees either by force or by allurement is inevitable. However, regulatory environment of India provides chance to such pressurized employees to speak up.

Section 177 of Companies Act,2013 as well as SEBI's Listing Obligation and Disclosure Regulations mandate constitution of vigilance mechanism for listed company borrowing more than 50 crores from public financial institutions. Audit committee is responsible to oversee this mechanism. Abovementioned companies are bound to spread awareness about the structure of vigil mechanism through formal communication channel, annual report and website. The section provides employees opportunity to bring fraudulent practices to the concern of audit committee to get protection from retaliatory actions by perpetrators like extinction from job . Although intention is good, these provisions lack proper implementation.

Although the provisions provide for constitution of vigil mechanism, they do not provide particular structure or procedure. It is completely in the hands of the company to decide the structure and implementation of vigil mechanism . Also, there is a concern whether this mechanism is actually functional or is just for fulfilling the regulations .

Employee who wants to raise voice always fears about the repercussions of his actions, as there is lack of evidences of practicing protective regulation . Moreover, the mechanism is under complete control of companies, lacking any external supervision, which more likely leads to collusion between fraudsters and the committee, and leaves employee to the plight .

Although law assures confidentiality of identity of whistleblower, it does not allow anonymous complaints, which demotivates employees to raise question against malicious practices due to possibility of collusion between investigators and perpetrators. Moreover, if the employee who was earlier involved in fraud, wants to speak up, he would not get any immunity for his courage, further reduces chances of revelation .

To overcome these lacunae the regulations should be made precise and detailed in the area of constitution of vigil system along with proper implementation, timeline to complete inquiries and assured protection by state to such employee. External investigators should also be appointed to ensure the protection of whistleblower and unbiased inquiries. If person involved in fraud realizes his mistake and wants to rectify it, he should be provided remission in punishment.

B) Other Safeguards:

1. Proper disclosures:

Although there are strict norms for procedures and related disclosures, it is required to pay special attention towards certain transactions such as preferential allotment and related party transactions, where most of the entities concerned over here had breached regulations. After completion of such transactions also, there should be some periodical vigilance to track their status.

2. Mitigating possibility of collusion:

To avoid possibility of collusion, regulatory body should ensure that for regular audits, same officers should not be sent. A system should be developed that only one member of senior management would not be left with supreme power.

3. Proper verification of documents by stakeholders:

In the cases discussed here, the basis of loan fraud was forged documents. Financial institutions and other stakeholders should cross verify the documents provided. Apart from it, use of technology may help to identify fake documents. For example, various government documents and certificates come with QR Codes, Barcodes or Unique numbers. It can be applied to corporate documents also.

4. Due diligence of Auditors:

The most important safeguard to mitigate frauds is auditing. Although audit procedures carry inherent limitations, like furnishing sampling-based opinion, it can be overcome by proper planning such as emphasizing transactions involving assets. Had the auditors reconciliated the cash account and bank statements, fraud of Brightcom Group would have been detected at nascent stage. So, diligent of auditors can also be an important step to contain frauds committed by key managerial personnel.

Limitations of Study and Future Scope:

This study only considers five cases of frauds, where members of senior management were perpetrators. To retain recency of case, the major sources of data for discussion of cases contain journalistic sources, which often inherit limitations of lack of balanced review or biasness. The section on mitigation strategies majorly focuses on regulatory safeguards along with other dimensions. Further studies can be conducted by enlarging the scope, focus on comprehensive mitigation strategies and adding other sources for data, such as reports of regulatory bodies on particular fraud.

Conclusion

Frauds perpetrated by key managerial personnel are not merely consequences of regulatory loopholes, but are indicative of inherent structural and behavioural limitations. These incidents also reflect impact of social dynamics in shaping the underlying processes of decision-making to discharge fiduciary duties. Strengthening corporate governance mechanism and enhancing stakeholders about their rights suggest procedural and supervisory strategies, which are helpful in addressing immediate risk. The focus should be deployed on long-term efforts to foster sustainable corporate environment by enhancing awareness of ethical principles among professionals along with cultivating social conditions that value adherence to ethical standards.