

Quick, harsh punishment will deter corporate frauds: M Damodaran

Suresh P Iyengar Mumbai | Updated on December 14, 2021



M Damodaran, Former Chairman of SEBI, UTI and IDBI. - Businessline

The former SEBI Chairman says frauds are more complex than earlier

The punishment meted out to the perpetrators of corporate frauds should act as a strong deterrent to persons contemplating such action in future and quick verdicts in such cases will instil investors' confidence in the system, said M Damodaran, Chairperson, Excellence Enablers and Former Chairman of SEBI, UTI and IDBI.

Damodaran told BusinessLine that the economic progress and development has increased the number of frauds and they are more complex than earlier. "Prevention of frauds at all levels is a herculean task and is impossible to accomplish. It is important that the remedial measures are quick and efficient and punishments are stringent enough to deter persons contemplating such acts," he added.

When companies suspect frauds, they undertake enquiries to determine the facts and take appropriate action against errant employees. As per Sebi disclosure and transparency regulations, corporates have to disclose to stock exchanges whenever forensic audits are initiated.

Circumventing mandate

In order to avoid such disclosure, companies that undertake enquiries circumvent disclosure mandate by not categorising these enquiries as audits, said Damodaran.

The board of a company should develop a culture within the organisation that influence employees from acting in a deviant manner. Individual Directors who have been tasked by the statute to act in the interest of the company are also responsible for ensuring a climate to prevent fraud, he added.

While listed companies are subject to regulatory scrutiny, subsidiary companies are more easily compromised with lower standards of regulations. Managements should put in place appropriate checks and balances and control mechanisms to

prevent financial frauds. Auditors have major responsibility when it comes to identifying possible frauds once they have been perpetrated. Statutory auditors should not wait for managements or boards to bring existing or potential frauds to their notice. They must use ex-officio cynicism as a tool to unearth possible frauds, said Damodaran.

The Risk Management Committee should also identify weaknesses that might translate to fraud by persons who are aware of the loopholes or are smart enough to identify them, he added. At the end of the day, it is the responsibility of every stakeholder to prevent frauds and to report them to concerned authority as frauds not only impact the companies' financials, but also its reputation, he said.

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