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UNDERSTANDING INTERNAL CONTROL MECHANISMS IN INDIAN CORPORATIONS:-

AUTHORED BY - NIRDHAR NAPHADE & NIPUN NAPHADE

Abstract

In the past decade, a number of countries passed laws governing financial reporting controls in response to significant global financial frauds like Enron and Worldcom. They required the board of directors, senior executives, and the auditors of the financial statements to assess and report on the adequacy and success of an organization's internal control structure. Resultantly, questions such as reasons for oversight of unlawful activities, failure to report violations in compliance practices, and incompetent managerial control over financial decisions were highlighted. The focus of shareholders and management was diverted from profit maximisation to stakeholder value maximisation, at the forefront of which was the commitment to be legally and morally compliant to socio-economic standards. To avoid unnecessary interference of the state in private organisations, the Indian government directed corporate leadership to implement internal checks and balances, to prevent unlawful activities at the first stage itself. This paper delves into the methods of internal control, the effects it has on organisations, and the level of efficiency each one reaches in the Indian economy. It adopts a theoretical approach and analyses secondary data in the light of certain research questions. The questions in turn provide an outline and direction to the analysis, which is converted into logical conclusion and suggestions.

KEY WORDS: Internal control system, Corporate governance, preventive controls, corrective measures, financial frauds.

I. Introduction to internal control mechanisms

India as a growing economy of the world sees a more diverse set of commercial entities, wherein the companies can be divided on the basis of their ownership structures, eg:- one person company, sole proprietorship, limited liability partnership, partnership firm, or limited company. Internal Control of an organization refers to the mechanisms put in place by the entity to internally manage risk. Following significant global financial frauds like Enron and Worldcom, several nations

passed laws governing financial reporting controls that require the board of directors, senior management, and the auditors of the financial statements to evaluate and report on the sufficiency and effectiveness of an organization's internal control over financial reporting¹. The goal of these laws is to strengthen the existing corporate governance framework.

1. Literature Review:

2. Research on the Internal Control of Small and Medium Manufacturing Enterprises under Comprehensive Risk Management (Chen Xiaofang).

This paper has combed the research results on internal control of small and medium manufacturing enterprises of domestic and foreign scholars. Combined with the status analysis of internal control and risk management of small and medium manufacturing enterprises, this paper built the internal control framework of small and medium manufacturing enterprises based on comprehensive risk management in order to improve the system of internal control theory and provide reference to small and medium manufacturing enterprises in China. However, the paper does not mention the risks, advantages, disadvantages or types of internal control systems.

3. On the Efficiency of Internal and External Corporate Control Mechanisms²(James P. Walsh and James K. Seward).

After reviewing the related work in organization theory and financial economics, this paper articulates the strengths and shortcomings of both types of control mechanisms; it also identifies a variety of managerial entrenchment practices that managers can use to compromise these mechanisms. A theoretical framework is developed next that explicates the interrelationships between and among these corporate control mechanisms. A number of research opportunities that span the disciplines of organization theory and financial economics are identified. However, this paper does not explain the intricacies of internal control systems and their disadvantages or challenges.

a. Legal environment of India:

The Companies Act, 2013³ ("Act") was enacted in 2013, which was a significant step in India in

¹ Jennifer Altamuro & Anne Beatty, *How does internal control regulation affect financial reporting?*, 49 (1) J. ACC.ECO., 58, 74, (2010).

² J Walsh & J Seward, *On the efficiency of internal and external corporate control mechanism*, 15 (3) T. ACAD. MGT. REV., 421, 456, (1990).

³ The Companies Act, No.18 of 2013, §. 2 (59) (Ind).

achieving this goal. The Institute of Chartered Accountants of India (ICAI) recently updated its “Guidance Note on Audit of Internal Financial Controls over Financial Reporting” (the “Guidance Note”)⁴, which was published in September 2015. The Guidance Note toughens the requirements in The Companies Act by substantively involving the external auditor in the compliance process. An organization’s internal controls, including its corporate governance and accounting procedures, are assessed via internal audits. By recognising issues and making corrections before they are found in an external audit, they help to preserve operational efficiency and assure compliance with laws and regulations, accurate and timely financial reporting, and data collecting. Since the Sarbanes-Oxley Act⁵ of 2002 rendered managers liable for the accuracy of the company’s financial statements, internal audits are essential to a company’s operations and corporate governance.

The Board of Directors of a company is responsible for the effective implementation of the Internal Control Mechanisms. Internal controls can help increase operational efficiency by enhancing the accuracy and timeliness of financial reporting, in while also assisting organization comply with laws and regulations and stop employees from stealing property or committing fraud. It includes rules, procedures, reports, code of conduct, etc and helps to maintain a professional culture in the organization.

b. Socio-economic factors

Without Internal Control Mechanisms, like a whistleblower policy, many scams like the Worldcom scam, or other scams continue to take place if there is no proper procedure of reporting. India has seen a lot of scams, like the Harshad Mehta scam, DHFL scam, NiravModi scam, Kingfisher scam, Ketan Parekh scam, etc⁶. A detailed study of scams suggests that a lack of internal control mechanisms facilitates these scams because it is always something that starts small and insignificant and ends up being the scam of the decade.

If studied properly, everything that goes wrong in a company can be traced down to a failure in the internal controls mechanism in the corporate. Thus we can concur that the Internal Controls

⁴ Guidance Note on Audit of Internal Financial Controls Over Financial Reporting, (Institute of Chartered Accountants of India), (Sep. 2015).

⁵Baker et al., *An institutional perspective of the Sarbanes-Oxley Act*, 21(1) MGT. AUD. J., 23, 27, (2006).

⁶ Singh, Gurinder, et al. *An Analysis of Financial Fraud through PNB Bank Scam and its technical Implications*, IEEE, 1, 9, (2020).

Mechanism in a company is the root of all safeguards and failsafes that a company contains or requires. In their book “The Philosophy of Auditing”, R.K. Mautz and Hussein Sharaf mention that ‘The existence of a satisfactory system of internal control eliminates the probability of irregularities’⁷. In this paper, we will take a close look at the importance of Internal Controls Mechanism and various types of internal controls. We will also study the important advantages and disadvantages of the internal controls system. In the end, the researcher shall offer suggestions to overcome a few of the disadvantages of the internal control mechanisms.

2. Methods of Internal Control:

There are five interrelated components of an internal control framework. They provide the entity with the procedure of following internal control mechanisms. These are usually implemented by corporations with some variations. They include control environment, risk assessment, control activities, information and communication, and monitoring.

a. Control environment:

An example of control environment can be the code of conduct of a company. It usually governs conduct of employees with other employees and management.

b. Risk assessment:

An example of this can be the risk register of a company. It helps to anticipate the future risks and keep provisions ready for them.

c. Control activities:

Examples of this can be internal audits or secretarial audits. It is the job of such audits to check the failsafe and countermeasures of the company.

d. Information communication:

This entails being transparent/translucent in the affairs of the company. It can include optimizing communication with the stakeholders of the company. It emphasizes on the importance of accountability.

⁷R. Mautz & H. Sharaf, *Internal control system in the philosophy of auditing*, AMER. AC. ASSOC., 42, 43, (2006).

e. Monitoring:

This requires daily or periodically checking all the complaints and concerns of the stakeholders. Effective Corporate Governance includes responsiveness and that can only be achieved by constant and efficient monitoring of the company.

3. Types of Internal control mechanisms:

Internal control mechanisms are a part of every company. They can be implemented formally or informally. It is imperative for an organization to have internal control mechanisms so as to avoid any wrong-doing, error or malpractice. Security, division of responsibility, authorisation, documentation, reconciliation, and other such control procedures are frequently included in these. They could also be broadly categorised as detective and preventive actions, followed by corrective actions.

a. Preventive control operations

They aim to avoid errors or fraud in the first place, including thorough documentation and permission procedures⁸. Examples of preventive controls include:

i. Separation of duties:

Segregation of duties is an essential internal control that aims to lower the likelihood of errors or fraud by ensuring that no one employee has the ability to both commit and cover up errors or fraud during the course of their duties. One instance of segregation of jobs is having one employee draft the checks and another employee approve the payments. In general, the responsibilities that should ideally be separated include: Transaction, Authorization, Reconciliation, Asset custodianship, etc.

ii. Pre-approval of actions and transactions

In a company where actions are reimbursed by the company or travel or purchase is paid for by the company, a pre-approval process should be adopted so as to ensure avoidance of fraud or scams⁹. An example of this can be travel authorization wherein an employee who has to travel to another site in the course of his or her employment, should provide details and estimated expense of such mode of travel.

⁸Will Kenton, *Internal controls: Definition, types, and importance*. INVESTOPEDIA (December 16, 2022) <https://www.investopedia.com/terms/i/internalcontrols.asp#toc-understanding-internal-controls>.

⁹Batubara et al. *Analysis of Internal Control System In Granting Credit In Pt. Bank Mandiri KCP Medan Belawan*, 1(2) ROW. J., 86, 89, (2022).

iii. *Access controls (such as passwords and Gatorlink authentication)*

Who or what has access to company assets, including IT systems, is controlled by access controls. These safeguards are essential security ideas that lessen danger to the business or organisation¹⁰. Access to sites, buildings, offices, and other IT assets is restricted via physical access control. To implement physical access control, security guards may be used to validate IDs or access key cards. Connections to computer networks, system files, and data are limited by logical access control. According to the information security guideline known as the principle of the least privilege (PoLP), users should only have access to system functions and data that are required for them to perform their job.

b. Detective controls

They are backup measures intended to identify things or situations that the first line of defence may have overlooked. Detective controls are designed to find errors¹¹ or problems after the transaction has occurred. Detective controls are crucial because they offer both a chance to find abnormalities after the fact and proof that preventive controls are working as intended. Examples of detective controls include:

i. *Review organizational performance*

Under this measure, the performance of an organization is evaluated by keeping multiple checks and balances. The different parts of the organization are evaluated separately and jointly and then their respective scores are evaluated to find out which area requires improvement and which is self-sufficient.

ii. *Monthly reconciliations of departmental transactions*

This measure is more related to financial transactions. It is known that in large companies, there are multiple branches and organs within the company which work autonomously in some functions and are co-dependent on others for other functions¹². Naturally, they carry out transactions within and without the company. Such transactions need to be reconciled with the company's books of accounts because although they are made by the particular branch of the

¹⁰Tourani et al. *Security, privacy, and access control in information-centric networking: A survey*, 20 (1) IEEE. J. 566, 590, (2017).

¹¹Ruchi Gandhi, *Why internal controls and related procedure are important for company?*, ENTERSLICE (June 15, 2020) <https://enterslice.com/learning/internal-controls-and-related-procedure-for-company/>.

¹²Denice Welch and Lawrence Welch, *Commitment for hire? The viability of corporate culture as a MNC control mechanism*, 15 (1), INTL. BUS. REV. 14, 26, (2006).

company, they represent the company as a whole and therefore need to be checked and verified by the Board of Directors or other relevant personnel. Therefore, monthly reconciliation of departmental transactions should be done to avoid discrepancy and confusion.

c. Corrective measures:

Given that the abovementioned measures are implemented and perform properly, errors and malpractices will ideally be detected by the company officials. Therefore, the company should have some corrective measures or procedures in place to negate the detected effect. These are called as corrective measures and these vary for each company depending on internal and external factors.

i. Patch Management:

Examples of patch management can be software update. When a software company finds any flaw or error or bug in the software after it is sold or published, then the company uses this process to remove or remedy such flaws¹³. This also prevents data breach or security breach and therefore makes the software safer to use.

ii. Updated policies:

When a company updates its user policy or procedure, it usually does so to avoid any legal action or any breach of privacy or security after it finds some flaw in its previous/original policy. Such updates are also part of the corrective measures of internal control.

iii. Disciplinary actions:

When the wrongdoing of any employee is brought to light, the company has to take disciplinary action to avoid such occurrence in the future. The event has already occurred and the harm has already been done, but the action proves to be a detriment for other actors in the future.

2. Advantages of internal controls:

The advantages of internal controls are wide and important. They include detection of errors and identification of frauds, time saving, very little scope for frauds and scams, operational efficiency.

¹³M. Meyer, & Joyce Lambert, *Patch management: No longer just an IT problem*, 77(11) CPA J. 68, 71, (2007).

a. Identification of frauds:

Good corporate governance requires good implementation of internal control mechanisms. They ensure that scams are identified and avoided. Identification of scams at an early stage and introduction of changes in management policies helps avoid and punish scams and is essential for the survival of a company¹⁴. Thus, Internal Control Mechanisms are the only way to ensure that such scams do not occur by keeping proper measures to root out such scams at the grassroots. Transparency is reflected through the Internal Control Mechanisms of a company. If company policies allow for easy access to company management, maintenance of a risk register, complaints register and efficient grievance redressal, then the company can be said to be transparent. This is a good practice and promotes good governance in the corporate sector.

b. Improves process performance:

It has to be noted that compliance and internal control mechanisms is a process and not a one-step function. It requires continuous compliance with laws and regulations, proper standards and measures and implementation of the required internal control systems in order to be efficient, transparent, accountable and responsible. Management can decide if a process is working as it is being implemented or if it requires further attention by continuously reviewing its efficacy. The accuracy of financial reporting, upon which management depends to make efficient company decisions or judgements, increases as systems are improved¹⁵. An example of the above can be if a company's revenue went down by 30% because of a reduction of in-store traffic, then the management would decide to focus on the company's website to increase web traffic and boost online sales.

c. Time saving:

Complying with the applicable laws and regulations is always efficient and time saving than risking a penalty. This means that when a company starts functioning, the management has to decide whether to carry out proper compliances or to commit illegal acts by not following regulations. At the outset, the company may feel that compliance is time consuming and tedious and non-compliance is more beneficial and time saving. However, in the long run, the company's

¹⁴Alabdullah et al., *Internal Control Mechanisms in Accounting, Management, and Economy: A review of the Literature and Suggestions of New Investigations*, 10(9) INTL. J. BUS. MGT. INV. 8, 11, (2021).

¹⁵ Ibrahim, Sahabi et al., *The impact of internal control systems on financial performance: The case of health institutions in upper west region of Ghana*, 7 (4) INT. JOUR. ACAD. R. BUS. SOC. SCI., 684, 690, (2017).

survival may be endangered if proper compliance is not followed¹⁶. The penalties, court proceedings, show-cause notices, etc will always prove to be more time consuming and expensive. Hence, compliance is cheaper and time saving than penalty. Proper utilization of Internal Control systems will ensure proper compliance.

d. Operational efficiency:

Internal Control does not just entail a few papers to be signed or a few forms to be filled. It needs a special department or a person making sure that all the laws, regulations, standards, rules, and notifications are followed and the company is compliant of all such norms. The company has to understand that this process is for the betterment and progress of the company and it only safeguards its interests. When a company does not have proper internal control mechanisms; or does not have proper implementation of such mechanisms, then it leads to disorder in the company as there is no defined hierarchy, there is no defined roles of employees, there is no provision for any future risks, the stakeholders do not trust the management of the company and hence can cause multiple interventions. A company operates smoother and better with good internal control mechanisms in place since everyone knows their roles and functions. The stakeholders trust the management as they can see that there are control mechanisms in place to avoid frauds and that their concerns and issues are addressed and resolved in time. By eliminating redundant or superfluous stages from a process, internal controls can increase the effectiveness of operations¹⁷. This could involve integrating functions efficiently or automating manual controls. The management may now receive timely information to confirm that present activities are accomplishing the goals of the organisation owing to increased operational efficiency.

e. Other advantages include:

- Identification of potential operating process opportunities
- Updated formal, centralized, and managed internal financial controls documentation for the company
- Enhanced support to CEO/CFO certifications
- Enhanced control environment, thereby mitigating risk
- Better understanding of inherent and residual control risks in internal controls

¹⁶Nellie Akalp, *The Consequences of Noncompliance in Business*, CORPNET, (Feb. 18, 2023), <https://www.corpnet.com/blog/the-consequences-of-noncompliance-in-business/>.

¹⁷Stefan Hanziker, *Efficiency of internal control: evidence from Swiss non-financial companies*, 21, JOUR. MGT. GOV., 399, 430, (2017).

- Helps in business process redesigning to plug revenue leakages & cost
- Containment opportunities
- Helps in rationalizing the number of controls across organization - moving to smart and automated controls
- Helps in standardizing policies and procedures for multi-location/multi-business companies
- Fosters a control conscious work culture for people behind controls
- Provides assurance to the CEO/ CFO as well as improves business performance
- In some instances, also serves as a base for blue print of optimal procedures while thinking about ERP.

3. Disadvantages of implementing control mechanisms:

However, there are also some disadvantages to the internal control mechanisms currently in place and practice in India. These include the cost of the process, human error, chance of misuse of power, follow up hassles, other problems with respect to the organizations and their unique structures.

a. Costly process:

As discussed earlier, the company management could be of the opinion that it would be costlier and more time consuming to carry out all the compliances than to just ignore them and avoid state interference in the short run. It may initially seem to be costly because of the compliance cost as it seems like an avoidable cost. Initially when the company is new, the entire process may appear to be a tedious responsibility. But if the management appoints the qualified staff to ensure healthy compliance, then in the long run, it becomes common practice to follow the compliances and the laws and regulations. Then it becomes easier, time saving and convenient. As for the cost, if the authorities detect non-compliance with proper laws and regulations, repercussions may include imposition of heavy monetary penalty, with extreme cases being punished with imprisonment of involved personnel. Thus, although compliance appears to attract higher costs than avoidance of preventive mechanisms, it is always cheaper than a penalty.

b. Human error:

In the process of complying with the requisite norms, laws, regulations, rules and proper practices, it becomes tedious and repetitive. Also, since it is carried out by the employees of the

firm who may be inexperienced, it may involve errors of compliance and this can lead to a penalty or even worse, imprisonment¹⁸. Therefore, it should be noted that the advantage mentioned earlier about the process being time saving and cost saving, turns out to be erroneous. Such human errors are unavoidable. This can cause distrust in the entire process of internal controls mechanism and its daily practice.

c. Misuse of power:

During the process of internal control mechanisms¹⁹, there are various people who are given the power and responsibility to carry out such compliances. There is a hierarchy among these people and that can lead to concentration of power if it is not implemented correctly. Centralisation of auditory power may lead to misuse of the power given to the individual if he tries to control all the variables in the process. This will lead to incomplete corporate governance and can also lead to scams and frauds and cause loss to the company and the stakeholders.

d. Follow up hassles:

During the entire process of the internal control mechanism, the management of the company has to keep a check on the persons responsible and make sure that the compliances are done in accordance with the law²⁰. As mentioned above, the management also has to make sure that there is no misuse of power and no concentration of such power. This follow up becomes very tedious and repetitive as it has to be done periodically and has to be done to ensure proper functioning of the internal control mechanisms and the compliance procedures. The company has to hire an officer to ensure all these compliances and follow ups and has to make sure that they are legally secure and compliant²¹. As this all requires time, manpower and money, the internal control mechanisms are wrongly considered to be a waste of time, money and effort.

e. Size of the Organization:

Small organizations have very low levels of internal control, which are almost negligible due to more interference by owners and management. This can cause financial frauds or other such

¹⁸SharadKohli, *Corporate Social Responsibility And Consequences Of Non Compliance*, RGLOBAL, (Dec. 2, 2022), <https://www.irglobal.com/article/corporate-social-responsibility-and-consequences-of-non-compliance/>.

¹⁹Eniola Anthony, (2020), *Internal Control Procedures and Firm's Performance*, *International Journal of Scientific & Technology Research*, 9, 6407-6415.

²⁰Hemang Parekh, *Corporate Governance and Directors' Duties in India*, THOMSON REUTERS, (Sept. 1, 2022) [https://uk.practicallaw.thomsonreuters.com/0-506-6482?transitionType=Default&contextData=\(sc.Default\)&first](https://uk.practicallaw.thomsonreuters.com/0-506-6482?transitionType=Default&contextData=(sc.Default)&first).

²¹Shruti Ranjan, *Individual liability and the role of compliance officers*, *IND. BUS. L. JOUR.*, (Jan. 15, 2018) <https://law.asia/individual-liability-role-compliance-officers/>.

offences. This is not the case when it comes to larger organisations. They have to follow stricter levels of internal control as the owners and the managers are different and they do not frequently interfere with the control systems. However, in larger companies, compliance of internal control would be difficult as they have to follow stricter levels of internal control.

f. Obsolescence:

Control system may become redundant with passage of time if not updated with change in the size and nature of business. Thus the persons in charge of the internal control mechanisms have to be up to date and have to keep updating the system with time and development. They cannot let the process become obsolete and redundant.

4. Legal Requirements:

As per²²*section 134* of the companies act, 2013, all listed companies shall publish a Director's Responsibility Statement which shall mention the internal financial control mechanisms implemented by the Company. As per *section 143* of the Act, the Auditor's report must state that there are effective internal control mechanisms in place and they are operating properly. Similarly, *Clause 49(V)(c)* of the Listing Agreement puts the responsibility on the CFO and the CEO to check the implementation of internal control systems. *Section 149* of the Companies Act states that it is the duty of the Independent Director to oversee that the integrity of financial information and the internal systems is proper and safe. *Section 177* of the Act requires the audit committee of a company to evaluate the internal controls and the risks present internally and to ensure proper checks and balances are in place. Thus, the persons responsible for checking and maintaining and reporting on internal control systems include the External Auditors, Internal Auditors, Directors, Independent Directors, CEO, CFO, etc. In the case of *Tri-Sure India Ltd. vs A.F. Ferguson And Co. And Others*²³, the Bombay High Court held that it was the auditor's responsibility to ensure that there were adequate internal control mechanisms in place in a company and that he or she should mention the same in the Auditor's report.

In USA, the SOX Act, also known as the Sarbanes-Oxley Act, 2002 was passed after the infamous Enron scam. After this, the Chief Financial Officer or the Chief Executive Officer of the Company

²²Bharath Rao, Internal Control over Financial reporting in the Indian context, SLIDESHARE, (July 19, 2016) <https://www.slideshare.net/bharathraob/internal-controls-over-financial-reporting-in-the-indian-context>

²³ 1987 61 CompCas 548 Bom

has to give an annual or quarterly report to certify that the company follows proper internal control mechanisms and guidelines. The auditors also have to attach a management report which certifies the effectiveness of the internal controls of the company. The COSO framework of 2013²⁴ gives the definition and legal requirement of companies to follow internal control. It gave the definition of Internal Control as

'A process designed by, or under the supervision of, the registrant's principal executive and principal financial officers, or persons performing similar functions, and effected by the registrant's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- 1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the registrant;*
- 2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the registrant are being made only in accordance with authorizations of management and directors of the registrant; and*
- 3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the registrant's assets that could have a material effect on the financial statements'*

In the United Kingdoms, the Cadbury Committee report in 1991 spoke about the responsibility of directors to report on the effectiveness of companies' internal control²⁵. This report also includes the recommendations on the roles of auditors, directors, non-executive directors, etc. It is a report on importance and implementation of good corporate governance in UK.

The Turnbull Committee report of 1999, informed directors of their obligation under the Combined Code with respect to keeping good internal controls in the company and having audits and checks to assure themselves of the quality of reporting in the company.

²⁴Coso Internal Control – Integrated Framework (2013).(n.d.). Retrieved January 27, 2023, from <https://assets.kpmg/content/dam/kpmg/pdf/2016/05/2750-New-COSO-2013-Framework-WHITEPAPER-V4.pdf>

²⁵<http://cadbury.cjbs.archios.info/>

5. Conclusion:

There are multiple reports of committees that advocate for an internal controls mechanism inside the company. The Cadbury Committee report in the United Kingdom mentioned that every company should have an internal control mechanism and the Director of the company should provide a report to mention such mechanism and ensure its smooth functioning. Similarly the clause 49 of the listing agreement in India specifies that the Internal Audit committee of a company should file a compliance certificate which ensures that there are certain statutory mandated internal controls which the company complies to. If either of these reports/certificates is wrong or untrue, then there can be penal provisions imposed on the director (in United Kingdom) or the Audit Committee (in India). As seen above, internal controls are integral to the smooth and long term functioning of a company. They do entail challenges, but internal control systems are efficient and time tested methods to avoid scams and frauds and therefore, violation of internal control system, or absence of any such system should ideally attract penalty.

6. Suggestions:

In the Indian context, good corporate governance practice is a comparatively recent term. A company that is responsive, transparent, efficient, accountable, fair, legally compliant and also profitable, not only earns money, but also earns goodwill and loyalty. The disadvantages as mentioned above including corporate governance being costly, some employee entrusted with the power ending up misusing power and follow up hassles can be overcome if the advantages are explained properly. The cost of penalty for non-compliance is always more than that of the compliance cost because it also entails harm to the goodwill of the company. If the hierarchy in the persons entrusted with the function of carrying out the internal control mechanism is properly set and implemented and if the roles of each person are explained to them properly, then there would be no place for any scam or fraud or misuse of any power. The follow up hassles, however, prove to be true and may cause some redundancy in the complying nature of a corporate. But if continued for the right amount of time, then the compliance becomes a part of the work life and is followed without any hassles or problems, then the follow up hassle can be proved to be wrong and untrue. To ensure that the companies maintain good corporate governance practice and proper internal control mechanisms, the Government should levy some penalty on non-compliance or absence of internal controls. This should only be done to act as a deterrent against non-compliance.

The Government can also, on the other hand, publish reports which announce companies which have greater standards of internal control mechanisms. This would act as an incentive for the companies as it would result in positive publicity of the companies and would result in a possibility for more investments. For the public at large, it would assure the masses of the good corporate governance practices followed by the companies and would encourage them to invest in such companies which have a robust internal control system.

