

Corporate Governance and Financial Statement Frauds: Evidence from Sri Lanka

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With the increased number of frauds taking place in the corporate world regulators and policymakers around the world have been making attempts avoid or reduce the frauds. Implementation of corporate governance code can be identified as one of the major mechanisms implemented against frauds. However, regardless of the implementation of such mechanisms still the frauds continued to be taking place. Accordingly, an attempt should be made to identify the extent of influence of Corporate Governance Code in the prevention and detection of frauds in the companies. The study was conducted based on 40 listed companies in Colombo Stock Exchange. The occurrence of the financial statement frauds was measured by incorporating Beneish M Score model. Corporate governance has been measured in terms of audit committee, CEO duality and Board Composition. As per the results of this study the corporate governance, board composition and CEO duality does not have a significant impact on the financial statement frauds. However, the results suggest that existence of audit committee has significant impact on the financial statements frauds. The existence of audit committee ensures the effective operation of internal controls which can prevent and detect frauds to a large extent.

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