The Indian Journal for Research in Law and Management
Open Access Law Journal – Copyright © 2026
Editor-in-Chief – Dr. Muktai Deb Chavan; Publisher – Alden Vas; ISSN: 2583-9896

CORPORATE FRAUD AND LEGAL REMEDIES

-ISHA DHIR

INTRODUCTION

In modern era, corporate fraud has emerged as a major issue that has an influence on investor trust, corporate governance, and economic stability. Corporate Fraud means the illicit and deceptive practices that committed within a company.[1] Under Section 17 of the Indian Contract Act, 1872 the term 'fraud' is defined as any act by an individual who is a party to a contract, or any kind of willingness to allow any third person like agents, to trick the other person into entering into the contract. There is a need of strict legal framework to prevent corporate wrongdoing and holding accountability. In order to address these issues, The Companies Act of 2013 was passed as a comprehensive legal reform.[2] From the financial scandals such as Sahara, Satyam, Tyco and Enron it looks like corporate fraud has become an unruly plague which is persistently increasing and having sent ripples worldwide.[3]

WHAT IS CORPORATE FRAUD?

According to Survey done on Financial and Corporate Frauds 2016, it was revealed that the cases of financial frauds are increasing in India and as the economy is growing leads to increase in corporate frauds.[4] Corporate frauds are also known as corporate crimes or organizational crimes. They are part of white-collar crimes. White collar crimes were defined

---

[1] Vanshika Kapoor, *All about corporate fraud - iPleaders*, IPleaders (Jan. 27, 2024), https://blog.ipleaders.in/all-about-corporate-fraud/.
[2] Kajal Pranchal, Corporate Fraud and Legal Remedies, available at https://www.ijraset.com/best-journal/corporate-fraud-and-legal-remedies-under-the-companies-act-2013-kajal-panchal.
[3] https://docs.manupatra.in/newsline/articles/Upload/1D2B5971-22D4-4345-8B20-24BD9F9ACF77._Menon_51-62.pdf.
[4] Financial and Corporate Frauds Survey, available at http://www.grantthornton.in/globalassets/1.-memberfirms/india/assets/pdfs/financial-and-corporate-frauds.pdf.

by an *American Sociologist Edwin Sutherland* as '*one committed by a person of respectability and high social status in the course of his occupation'*.[5] The Companies Act of 2013 offers a strong legal framework for identifying, looking into, and prosecuting corporate fraud. This Act clearly describe and acknowledge corporate fraud in *Section 447*, which imposes harsh penalties like imprisonment and fines to discourage fraudulent activity. Whistleblower protection under *Section 177* is one of the main legal remedies brought about by the Companies Act of 2013.[6] The concept of fraud, as the RBI puts it in the definition section, "refers to" fraud, *which is any intentional act committed or disfigured by a person or other individual in manuals or accounts*.[7]

TYPES OF CORPORATE FRAUD

- **Financial Statement Fraud:** It includes the deliberate deception or control of fiscal reports to trick financial backers, leasers, or controllers. It includes swelling incomes, downplaying costs, or exaggerating resources to make a mixed signal of the organization's monetary well-being.
- **Embezzlement:** It is a kind of theft that happens when people dependent on overseeing assets or resources of an organization misuse those assets for individual increase. Some examples include redirecting cash, moving organization assets to individual records, or misrepresenting cost reports.
- **Insider Trading:** Insider trading means when people are told to classify non-public data about an organization use that data for their own benefit. This unlawful practice subverts market respectability and unreasonably inconveniences different financial backers who don't approach a similar data.
- **Bribery and Corruption:** This is also a kind of corporate fraud that is used everywhere in a country. It includes offering, giving, getting, or requesting something of significant worth to impact the activities of a person in a, influential place or authority.
- **Kickbacks and Procurement Fraud:** This includes offering or tolerating installments, gifts, or favors in return for granting contracts or ideal treatment in

[5] Amarjeet Singh: 'White Collar Crimes' available on www.scconline.com.
[6] The Companies Act, 2013, 447, No. 18, Acts of Parliament, 2013 (India). Ministry of Corporate Affairs, Report of the Expert Committee on Company Law, Government of India (2019).
[7] Rbi.org.in

obtainment processes. This kind of misrepresentation can expand contract costs, compromise the nature of labor and products, and sabotage fair rivalry.

- **False Billing and Expense Fraud:** Bogus charging happens when people or sellers submit fake billings for labor and products that were not given or were not approved. Cost misrepresentation includes representatives submitting misleading or swelled cost reports to get repayment for individual costs.[8]

[9]THE SCALE OF THE PROBLEM [NCRB REPORT]

- **Surging Economic Offences:** Economic offences across Indian cities grew by 4.6%, averaging roughly 117 daily fraud cases.
- **The "Big Three" Tactics:** Over 90% of economic offences fall under the combined cluster of *Forgery, Cheating, and Fraud*. Criminal Breach of Trust follows as the next major corporate-adjacent offence.
- **The Digital Migration:** Cybercrimes surged by 17.9%**.** Financial fraud makes up approximately 69% to 70% of all cyber cases, driven by corporate identity theft, deepfakes, and phishing.
- **The Enforcement Gap:** Your article can highlight a critical pain point—the conviction rate for complex digital financial frauds remains low, hovering around 29.2% in high-tech hubs like Telangana.
- **New Delhi [India], June 21:** India is witnessing a troubling rise in corporate fraud, with investigative agencies such as the Serious Fraud Investigation Office (SFIO) handling an increasing number of complex white-collar crime cases. According to Ministry of Corporate Affairs data, over 190 cases were assigned to SFIO between 2021 and 2023, involving serious violations like financial misreporting, fund diversion, shell companies, and corporate governance failures. The surge reflects the growing complexity and digital evolution of fraudulent practices in corporate India.[10]

THE PATH TO JUSTICE

1. [11]The Companies Act, 2013:

- **Section 447 (Punishment for Fraud):** This is the ultimate statutory weapon. It makes fraud a *cognizable, non-bailable offence*. It mandates imprisonment from *6 months to 10 years* and a fine up to three times the amount involved. If public interest is affected, the minimum jail term is 3 years.

[8] Available at https://ijrlm.com/wp-content/uploads/jms/converted/row_141_68a8bcd0e0797.pdf
[9] Available at https://visionias.in/current-affairs/news-today/2026-05-07/society/ncrb-releases-crime-in-india-2024-report
[10] Empowering Financial Justice How Dexian Can Architect The Future of Corporate Fraud Investigation For SFIO, available at https://theprint.in/ani-press-releases/empowering-financial-justice-how-dexian-can-architect-the-future-of-corporate-fraud-investigation-for-sfio/2665411/.
[11] The Companies Act, 2013

- **Sections 211 & 212 (SFIO Investigation):** The Central Government can assign serious or complex fraud cases to the *Serious Fraud Investigation Office (SFIO)***.** The SFIO operates as a multi-disciplinary body of experts capable of untangling hidden assets and forensic accounting trails.
- **Sections 241-242 (Oppression & Mismanagement):** Shareholders or the government can approach the *National Company Law Tribunal (NCLT***)** if a company's affairs are being conducted fraudulently. The NCLT has the power to remove corrupt directors, appoint new management, and terminate fraudulent contracts.
- **Section 213 (Investigation into Company's Affairs):** If shareholders suspect fraud, they can apply to the NCLT to initiate a formal investigation into the company's books and transactions.

2. [12]Bharatiya Nyaya Sanhita,2023 – BNS:

- **Criminal Breach of Trust (Section 316 BNS):** Applied when directors, managers, or employees misappropriate assets or funds entrusted to them by the company or its investors.
- **Cheating (Section 318 BNS):** Used when stakeholders, vendors, or consumers are dishonestly induced to deliver property or sign documents based on fraudulent misrepresentations.
- **Forgery (Section 336 BNS):** Targets the falsification of financial statements, digital records, balance sheets, or board resolutions to hide financial health.

3. Financial Recovery and Digital Remedies

- **Prevention of Money Laundering Act (PMLA), 2002:** Handled by the *Enforcement Directorate (ED)***.** If corporate fraud involves hiding or routing illicit wealth through shell companies, the ED can provisionally attach, freeze, and eventually confiscate the property and assets of the accused corporate entities.
- **Information Technology (IT) Act, 2000:** Addresses corporate cyber fraud. *Section 66C and 66D* provide remedies against identity theft, digital data tampering, phishing, and cheating by impersonation inside corporate networks.
- **Fugitive Economic Offenders Act, 2018:** If a corporate fraudster flees India to evade criminal prosecution (exceeding ₹100 crores), this law allows authorities to confiscate all their domestic and international properties without waiting for a trial conclusion.
- **Whistle Blowers Protection Act:** Protects individuals who expose corruption or fraud within public sector companies or government agencies.
- **Section 177 of Companies Act:** Mandates every listed company to establish a *Vigil Mechanism* (Whistleblower policy) to let employees report unethical behavior or corporate fraud securely, protecting them from victimization.

KEY SUGGESTIONS

The following types of suggestions/solutions are presented:

[12] The Bharatiya Nyaya Sanhita,2023

- **Intelligence sharing and collaborative action:** Governments and industry create hubs to share real-time intelligence and coordinate fraud responses across sectors.
- **Detecting fraudulent advertising and fraud:** Authorities, mobile network operators (MNOs) and internet platforms monitor and remove fraudulent promotions and block scam messages before they reach consumers.
- **Telecom security standards:** This solution describes upstream measures to secure communication networks that fraudsters use to initiate attacks.
- **User authentication:** Stronger identity verification reduces account takeover (ATO) and onboarding fraud.
- **Positive frictions for payment transactions:** Deliberate pauses and checks give consumers time to reconsider risky transfers.
- **Behavioral biometrics and transaction pattern analysis:** Banks and payment networks use real-time data on how users' type, swipe, and transact to detect anomalies in milliseconds.
- **Fund recovery:** Clear liability rules and cross-border coordination help return stolen funds to victims.
- **Consumer behavioral campaigns:** Education focuses on simple, repeatable actions rather than general awareness.[13]

JUDICIAL PRONOUNCEMENTS

- **Regal (Hastings) Ltd v. Gulliver [1942] UK:** In this case Directors of Regal (Hastings) Ltd acquired shares in a subsidiary company for personal gain during a corporate opportunity. Profits were made at the company's expense. Further the court held that directors are fiduciaries and must avoid conflicts of interest. They were required to account for the profits made.

- **Seagull Ltd v. Bank of India [2018] (India):** In this case Directors misused company funds for personal investments without board approval. They falsified financial statements to conceal the fraud. The Court held Directors criminally and civilly liable, disqualified from holding directorships, and ordered to repay all diverted funds with interest.

CONCLUSION

As we understand that corporate fraud is a breach of trust that hampers the business culture and extends beyond financial malfeasance. It damages the very texture of businesses, destroys the trust of stakeholders and tarnishes the reputation of the organizations. The reason behind the surge in fraud cases is mainly due to the intense competition in the market creating an environment for unethical practices. The legislation governing fraud in India, like the SEBI Act, PMLA and Companies Act are acting rigorously to prevent malpractice.[14] Corporate frauds are rising globally and in India as well. Fraudsters see financial institutions

---

[13] *Solutions to protect consumers from fraud in Digital Finance | CGAP Research & Publications*. Available at: https://www.cgap.org/research/publication/solutions-to-protect-consumers-fraud-in-digital-finance.

[14] All about corporate fraud, available at https://blog.ipleaders.in/all-about-corporate-fraud/.

as a series of process that they need to overcome, but once speared, the rewards can be magnanimous. Fraudulent acts have become a gigantic devil that has petrified the system and the society as a whole. In escalating rate, we are today watching that person, who are endowed with the significant task of managing businesses, manage for their own interest. Corporate fraud has become a debatable moot point for the academicians who study it, investigators and experts who explore it, and intellects debate it. Thus, the society is focusing more towards handling the aftermaths of frauds than preventing it.[15]

[15] https://docs.manupatra.in/newsline/articles/Upload/1D2B5971-22D4-4345-8B20-24BD9F9ACF77._Menon_51-62.pdf.