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The Role of Financial Accounting in Corporate Governance

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Abstract: *Bushman and Smith (2001, this issue) provide a useful review of research on the role of accounting in management compensation contracts and an appealing future research agenda that builds on recent research using a cross-country approach. This paper rounds out their discussion by highlighting some limitations of their research agenda, providing a critical review of the contributions of accounting scholars to governance research and highlighting research opportunities on the role of financial accounting in governance mechanisms other than managerial incentive contracts.*

Keywords: Financial Accounting, Finance, Corporate, Government.

I. INTRODUCTION

Two of the most important aspects of any venture are corporate oversight and financial statement management. They give businesses the chance to make informed judgments, follow the law, and ultimately increase their profits. The process of financial reporting management is gathering information from a variety of sources, including accounting records, internal papers, reports from external auditors, etc., and analyzing it to produce accurate financial statements for use in making decisions. Expectations of responsibility and openness for stakeholders, including directors, executives, shareholders, and creditors, are outlined in corporate governance. It lays out requirements for openness and responsibility from all parties involved, including directors, executives, shareholders, and creditors.

It is impossible to exaggerate the value of corporate governance in managing financial reporting. Businesses can lower the risk of fraud or poor management while also giving investors a reliable picture of the company's success over time by adhering to ethical standards like honesty and integrity when generating financial statements. Corporate governance also assists in ensuring compliance with pertinent laws and regulations, failure to which could incur expensive penalties. Also, by improving their efficacy or return on investment, organizations can identify chances for corporate governance that may ultimately lead to greater results.

Making good faith efforts to disclose information, acting fairly, providing independent oversight, implementing sound risk management procedures, establishing clear policies regarding conflicts of interest, fostering effective communication among those involved in the process, allocating enough resources to monitoring activities, and adhering to ethical standards set by organizations like the OECD are among the fundamental tenants of corporate governance.

Literature Review:-

The role of accounting in corporate governance has been extensively studied in the literature, with a focus on its impact on transparency, accountability, and decision-making. Research has shown that high-quality accounting information is essential for effective corporate governance, as it provides stakeholders with a clear understanding of a company's financial performance and position (Healy & Palepu, 2001). The accuracy and reliability of accounting information are crucial in maintaining stakeholder trust and confidence in corporate governance (Dechow et al., 2010). Furthermore, accounting information plays a vital role in decision-making, as it provides stakeholders with relevant and timely data to inform their decisions (Graham et al., 2005). The quality of accounting information is positively correlated with the quality of decision-making in corporate governance (Francis et al., 2005).

Regulatory frameworks, such as the Sarbanes-Oxley Act (SOX) in the United States, have been implemented to improve the quality of accounting information and enhance corporate governance (Cohen et al., 2008). The adoption of International Financial Reporting Standards (IFRS) has also been shown to improve the

comparability and transparency of accounting information, leading to better corporate governance (Daske et al., 2008). Strong regulatory frameworks are essential in promoting high-quality accounting information and effective corporate governance (La Porta et al., 2006). Additionally, accounting information is an essential component of corporate governance mechanisms, such as audit committees and internal controls (Klein, 2002). The effectiveness of corporate governance mechanisms is positively correlated with the quality of accounting information (Cohen et al., 2008).

Understanding Corporate Governance and Financial Reporting Management

Corporate governance refers to the set of guidelines, procedures, and policies that regulate how a business is run. It offers the foundation for making sure that an organization's goals are achieved in a way that is advantageous to all stakeholders. Corporate governance includes the creation of guidelines and procedures to guarantee openness, responsibility, equity, moral rectitude, and compliance with legal requirements. The process of gathering, examining, and communicating financial data concerning an organization's performance to its stakeholders is known as financial reporting management. This comprises both internal and external reports, such as annual financial statements and budgeting documents.

Financial reporting management and corporate governance are related in that both works to advance transparency within a business. The goals of good corporate governance are to uphold moral principles and protect shareholder rights. The ability of shareholders to make wise decisions based on precise knowledge of the company's performance over time is a result of excellent financial reporting management. Additionally, it guarantees that investors have access to trustworthy information when deciding whether to make an investment or assess any potential dangers involved with doing so.

By reducing the likelihood of manipulation or misreporting through the proper application of accounting rules and preventing fraudulent operations, strong corporate governance increases investor confidence in an organization's reported figures. Additionally, it makes ensuring businesses comply with ethical accounting standards while meeting their disclosure obligations under several international financial reporting regulations, including IFRS.

The Importance of Corporate Governance in Financial Reporting Management

It is impossible to exaggerate the value of corporate governance in managing financial reporting. Any organization's success depends on accuracy, transparency, and responsibility. By providing control of the financial reporting process, corporate governance contributes to ensuring that these fundamental values are followed. The confidence of stakeholders in an organization's performance and operations is safeguarded by this scrutiny.

A system of checks and balances that can assist prevent errors or misrepresentations is provided by adequate corporate oversight, which is a crucial component of financial statement control. Also, helpful in preventing dishonest behaviors like insider trading and unlawful financial activities, and good company governance can be. Effective corporate governance can also assist firms in lowering their risk exposure and enhancing compliance with relevant rules and laws.

Companies must implement robust internal controls to guarantee that financial statements are accurate and dependable. This requires precise data collection, good tracking of changes made during the close cycle, adherence to GAAP accounting principles, and allocating sufficient resources to regular financial monitoring. Furthermore, it is crucial for providing effective oversight throughout the whole lifecycle of any finance management-related project or effort to have an independent audit committee with qualified members who comprehend both GAAP standards and best practices for smart decision-making.

The Key Principles of Corporate Governance and Financial Reporting Management

All firms must adhere to the fundamental rules of corporate governance and financial reporting management to succeed. To manage their finances effectively, board members, audit committees, and top management must comprehend the fundamental ideas of corporate governance and financial reporting.

The board of directors plays a crucial role in insuring the establishment and ongoing monitoring of appropriate internal controls as well as the accuracy and dependability of all reported information. The board oversees ensuring the establishment and ongoing monitoring of appropriate internal rules and regulations as well as the accuracy and dependability of all submitted data. This includes examining yearly reports, creating budgets, establishing strategic goals, tracking performance against those goals, evaluating risk management policies and practices, and authorizing significant transactions like acquisitions or divestitures, among other things.

To ensure adequate oversight of financial accounts, audit committees are crucial. They independently verify the accuracy and completeness of the information provided by external auditors or other parties involved. The necessary rules and regulations governing accounting standards, such as Generally Accepted Accounting Principles, should be assessed by audit committees. They should also evaluate if internal control measures are strong enough to catch material inaccuracies or errors in reported data before they are made public.

Executive management must actively supervise daily operations, develop strategies to meet predetermined goals, carry out plans as necessary, analyze results to aid in decision-making and implement corrective actions as needed. They must also routinely update stakeholders on performance relative to predetermined targets while tracking progress toward objectives. The importance of maintaining accurate records cannot be overstated.

Executive staff should make sure that their business activities are meticulously recorded in accordance with laws like the Sarbanes Oxley Act's (SOX) 404 provisions, which require effective internal control systems over financial reporting procedures.

Risk managers must take the situation head-on and identify potential risks connected to the operating environment, develop strategies to reduce those risks, monitor those strategies' efficacy, and report findings and recommendations on a regular basis, all the while making sure that various departments or divisions in charge of various facets of system design and implementation coordinate their efforts. Internal controls also play a crucial role in ensuring that the specific steps taken are sufficient to reduce the risks that have been identified; depending on the complexity of a particular process, these controls can include the division of labor among multiple people responsible for different parts of the same process flow, the use of dual authorization protocols, automated checks, and balances, as well as regular reviews through external auditors or consultants, among others.

The Relationship Between Financial Reporting Management and Regulatory Compliance

Corporate governance is not complete without financial reporting management since it assures adherence to all laws and standards that may be relevant. To comply with national and international accounting standards, financial managers must ensure that all financial reports are accurate and up to date. Without efficient financial reporting administration, businesses risk facing severe fines or even criminal charges for non-compliance.

In the modern, globally integrated business environment, regulatory standards differ from nation to nation. When drafting financial reports, financial executives must be aware of the differences in regulatory standards across different countries and should, if necessary, seek professional help. They must comprehend how specific transactions will impact the financial results of their organization in addition to the many rules that apply in distinct nations. It is crucial to have a thorough understanding of accounting principles like GAAP and IFRS if you want to make sure the financial reports are correct.

Common Challenges in Financial Reporting Management and Corporate Governance

When it comes to corporate governance and financial reporting, businesses today face a variety of difficulties. Financial records that are not properly maintained can result in expensive mistakes, missing deadlines, and compliance problems that could result in heavy fines or worse. Organizations must have a thorough

understanding of the fundamentals of corporate governance, financial reporting management, and operational efficiency techniques.

Data accuracy is a frequent issue that firms have while managing financial reporting. Businesses must make sure their data is accurate in order to provide trustworthy reports that adhere to applicable requirements. To ensure data accuracy, it is crucial to keep track of transactions, confirm that account balances are up to date, and handle any necessary modifications as soon as they arise. To ensure data correctness and produce trustworthy reports that adhere to current rules, organizations should invest in quality assurance processes, such as internal audits or external auditor reviews.

When faced with the task of juggling many regulatory requirements across several jurisdictions while following strict deadlines imposed by regulators worldwide, organizations need to come up with effective solutions to stay on top of their game. Companies can advance and streamline the process of gathering data from various sources into one comprehensive report quickly and accurately without compromising accuracy levels due to human errors that may

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occur due to a lack of expertise or oversight by investing in technology tools like cloud computing services or automation software systems. Businesses may rest easy knowing they are prepared for any financial reporting management chores and can stay in compliance with international requirements thanks to these solutions.
Even if the typical problems with financial reporting management and corporate governance can seem overwhelming, they can be overcome with the correct approaches. Organizations can have more control over their finances while still adhering to legal standards by using efficient systems for financial reporting management.

Strategies for Streamlined Financial Reporting Management

Administration of financial reporting can be a complex and time-consuming task, especially for international organizations. CFOs must devise plans to improve the workflow within their teams in order to guarantee the accuracy and effectiveness of financial reports.
The first thing that organizations should do is assess how their financial reporting activities are currently doing. Examining any current report-generating software or systems as well as any manual procedures that might be causing delays or errors is part of this approach. Organizations should select areas for improvement to optimize financial reporting operations after evaluating the current systems and processes.
CFOs can think about integrating solutions like automated data collecting and analysis software, which will help shorten the time needed for data entry and verification procedures, to boost efficiency among financial reporting teams. With cloud computing services like Microsoft Azure and AWS, CFOs may ensure secure data storage while gaining instant access to resources without having to purchase additional hardware or software licenses.
Additionally, these systems offer safe storage alternatives so that private data is constantly shielded from illegal access.
During the financial reporting process, CFOs should place special emphasis on developing successful teamwork by outlining duties and deadlines for each project task force group in advance. Also, organizing regular meetings with key participants can help keep everyone updated on changes to regulations like IFRS or GAAP.

Best Practices for Financial Reporting Management in the Context of Corporate Governance

Corporate governance requires effective financial reporting management. Organizations must keep accurate records and adhere to all applicable laws and requirements. Organizations should adhere to best practices to maintain transparency, accountability, and compliance in order to ensure successful financial reporting management.
Companies must be aware of the rules and guidelines that apply to their operations in order to be compliant. This includes timely filing of financial reports and adherence to accounting standards like double-entry bookkeeping or GAAP. This includes knowing how to accurately complete accounting procedures like double- entry bookkeeping or Generally Accepted Accounting Standards as well as knowing the deadlines for submitting

financial reports (GAAP). Organizations should also have procedures in place to track and document changes made during the year so that they can supply up-to-date information as needed.
Companies should use tools like dashboards or data visualizations that comply with applicable regulations and standards while incorporating internal controls to show stakeholders how funds are being used in a transparent and accountable manner. For instance, businesses can utilize dashboards or other tools for data visualization to convey information about their finances in a simple and compliant manner. Also, businesses should think about adding internal controls like the segregation of tasks or audit trails to ensure that every transaction is accurately recorded without any inconsistencies or mistakes arising along the way.

Here's how accounting plays a pivotal role in corporate governance:

1. Strategic Project Planning:

Effective accounting practices serve as a crucial tool for corporate governance, enabling corporations to make informed decisions on operations, expansion timelines, and project investments. Accurate accounting data aids in crafting intelligent strategies, illustrating, for instance, how temporary boosts in company profits through employee and equipment cutbacks may have short-term benefits but could potentially deplete essential human resources for future projects.

2. Financial Reporting and Transparency:

Accounting is the rock of financial reporting, enabling companies to present accurate and transparent financial statements. These statements—comprising the balance sheet, income statement, and cash flow statement—offer stakeholders a comprehensive view of a company's financial health. Accurate accounting practices ensure that these reports fairly represent the company's performance, facilitating informed decision-making by shareholders and investors.

3. Risk Management:

Accounting principles aid in assessing and mitigating risks. Through techniques like risk assessment, companies can identify potential financial risks and implement strategies to manage them effectively. Accounting plays a pivotal role in providing accurate data and insights that aid in risk evaluation, enabling companies to make informed decisions to safeguard their interests.

4. Stakeholder Communication:

Accounting isn't just about numbers; it's a language that facilitates communication with stakeholders. When prepared accurately, financial statements serve as a means to communicate a company's performance, strategy, and potential risks to investors, creditors, and other stakeholders. Clear and transparent financial communication fosters trust and confidence in the company's management.

5. Financial Decision Support:

The quality and precision of accounting data play a pivotal role in shaping every decision within a corporation. This data enables companies to effectively manage their assets, prioritize projects, and make informed choices. Managers depend on accounting insights to gauge income levels, sources, and anticipated timelines for receipt. This information guides decisions regarding hiring, equipment acquisition, and debt management, ensuring a strategic approach to corporate income management.

Financial Reporting and Corporate Governance in India

Financial reporting and corporate governance in India are critical components of the country's economic framework, ensuring transparency, accountability, and fairness in the corporate sector. The regulatory framework governing financial reporting in India is primarily based on the Companies Act, 2013, and the Securities and Exchange Board of India (SEBI) guidelines. The Institute of Chartered Accountants of India (ICAI) is responsible for setting accounting standards, while the National Financial Reporting Authority (NFRA) oversees the auditing profession. Indian companies are required to prepare financial statements in accordance with the Accounting Standards (AS) and Indian Accounting Standards (Ind AS), which are converged with International Financial Reporting Standards (IFRS).

Despite the regulatory framework, financial reporting in India faces several challenges, including the complexity of accounting standards, inadequate disclosure, and lack of transparency. The Satyam Computers scandal in 2009 highlighted the need for stronger corporate governance and financial reporting regulations. In response, the Indian government introduced the Companies Act, 2013, which strengthened corporate governance norms, enhanced disclosure requirements, and introduced stricter penalties for non-compliance. The Act also mandated the formation of audit committees, nomination and remuneration committees, and stakeholders' relationship committees to ensure better governance.

Corporate governance in India is critical in ensuring transparency and accountability in companies. The SEBI guidelines require listed companies to have a minimum of 50% independent directors on their boards, and at least one woman director. The Companies Act, 2013, also introduced the concept of "key managerial personnel" (KMP), which includes the chief executive officer, chief financial officer, and company secretary, who are responsible for ensuring compliance with regulatory requirements. Indian companies are also required to disclose their corporate governance practices in their annual reports, including details of board composition, audit committee, and whistleblower policies.

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Recent developments in financial reporting and corporate governance in India include the introduction of the Insolvency and Bankruptcy Code, 2016, which aims to improve the ease of doing business and provide a framework for resolving corporate insolvency. The government has also introduced the Goods and Services Tax (GST), which has simplified the tax regime and improved compliance. The SEBI has also introduced guidelines for listed companies to disclose their dividend distribution policies and has strengthened regulations for auditing and accounting firms.

The Best Practices For Financial Reporting and Analysis

1. Know The Financial Reports That Are Essential to Your Business Income Statement

An income statement, also known as a profit and loss statement, is a financial document that summarizes a company's revenue, expenses, and profits over a specific period of time. The income statement is used to measure a company's financial performance.

Balance Sheet

A balance sheet is a financial statement that provides a snapshot of a company's financial position at a specific point in time. It lists the company's assets, liabilities, and equity and shows how these elements are related to each other: Assets = Liabilities + Equity. The balance sheet is used to assess the company's financial strength and stability, as well as its ability to pay debts and meet obligations.

Statement of Cash Flows

A statement of cash flows is a financial statement that provides information about a company's cash inflows and outflows over a specific period of time, typically a month or a quarter. The statement of cash flows is used to understand how a company is generating and using cash, which is critical for its short-term liquidity and financial stability.

AR Aging Report

An aging report, also known as an accounts receivable aging report, is a financial document that shows how long it takes for a company to collect payment from its customers. The aging report categorizes the company's accounts receivable into different aging buckets, such as 0-30 days, 31-60 days, 61-90 days, and over 90 days, and provides a summary of the amount of money the company is owed in each category.

Budget vs Actual

Budget versus actual reporting, also known as budget variance analysis, is a financial management tool that compares a company's actual financial performance to its budgeted or planned performance. The objective of budget versus actual reporting is to identify variances or differences between actual results and budgeted or planned results and to analyze the causes of these variances.

Budget versus actual reporting typically includes the following elements:

1. Budget or planned results: This is the amount of revenue, expenses, and other financial results that the company planned to achieve during a specific period of time.
2. Actual results: This is the actual amount of revenue, expenses, and other financial results that the company achieved during the same period of time as the budget.
3. Variance analysis: This is the process of comparing the budgeted or planned results to the actual results to identify variances and analyze the causes of these variances. Variance analysis helps the company understand why its results were different from its expectations and provides information for making adjustments and improvements.

2. Implement GAAP Accounting Principles

GAAP stands for Generally Accepted Accounting Principles. It is a set of guidelines and rules widely used as a framework for financial reporting in the United States, providing a common set of standards for entities to prepare and

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present their financial information in a consistent and transparent manner. These principles are established by the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA).

3. Follow the Four C's of Good Data

Another best practice for financial reporting is to ensure that the data used for reports is accurate and timely. This means that the data is correct, current, complete, and consistent (the 4 c's). By ensuring that the data meets the 4 c's, businesses can ensure that their financial reports are reliable, which can increase credibility and trust among stakeholders. Furthermore, errors and inaccuracies in financial reports can lead to poor decision-making and costly mistakes.

It is essential to have a process in place to verify and validate data before it is used in financial reports. This can be accomplished by implementing a data governance framework, which includes data quality checks, data audits, and data validation. This process will help to ensure that the data is accurate, complete, and consistent, and will help to improve the overall quality of financial reporting.

4. Establish Monitoring and Reporting Frequency to Ensure Accurate and Useful Financial Reports

Accounting management establishes a consistent monitoring and reporting frequency for accurate financial reporting. This includes setting regular intervals for recording financial transactions, such as daily or weekly, and for compiling and analyzing financial data, such as monthly or quarterly. By doing so, business owners can have confidence that their financial records are accurate and up to date, which in turn allows for more effective decision-making and forecasting.

Additionally, setting a regular reporting frequency helps to identify trends and patterns in financial performance, and can aid in identifying potential issues or areas for improvement.

5. Implement Performance Analysis and Benchmarking

Performance analysis is the process of evaluating the performance of an organization, business unit, product, etc. The goal of performance analysis is to identify areas of strength and weakness and to understand how performance can be improved. Performance analysis typically involves gathering data, analyzing the data, and presenting the results in a meaningful way.

Benchmarking, on the other hand, is the process of comparing the performance of an organization, business unit, product, etc. against standards of excellence or best practices within the industry. Benchmarking provides a way to measure performance against a standard, and to identify areas where improvements can be made.

Benchmarking can be used to evaluate a variety of factors, including cost, quality, productivity, and customer satisfaction.

Performance analysis and benchmarking are often used together to provide a comprehensive view of performance and to identify areas for improvement. By comparing performance against industry standards and best practices, companies can make informed decisions about their operations and strategy, and improve their overall performance.

In addition, regular performance analysis and benchmarking allows companies to monitor their progress over time, making it easier to track their performance and identify areas where they need to improve. This leads to increased accountability within the organization.

6. Create Clear Summaries and Explanations

For busy company leaders, it is important that the financial reports that are received provide valuable insights that aid in decision-making. Creating clear summaries and financial analysis is essential for financial reporting. Accounting and financial leadership should present the most important data in a simple and direct way, using clear and concise language, providing summaries at the start of the report, and using charts, tables, and graphs to present key data.

It is also important for accounting and financial leadership to explain any data or figures in the report to help company leaders understand the context and significance of the information. This way, stakeholders can understand and use the financial reports effectively, which helps in making informed decisions about the financial health of the business.

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II. RESEARCH METHODOLOGY

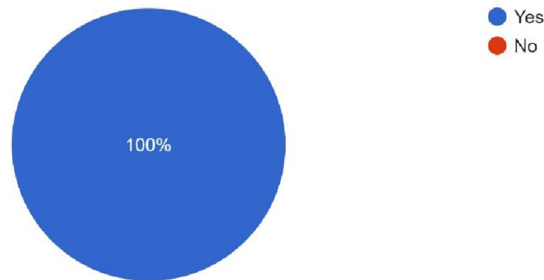
The case organisation of this study is the oldest government owned commercial bank in Sri Lanka (hereafter PUB), and was established by a special statute in 1938. During a period in which economic activities were focused on the plantation sector, PUB was initially established to assist import-export trading businesses by providing funds on reasonable terms (Sanderatne, 1989). In 1961, PUB was nationalised, and since then used often by the government as a means to influence the economic development of the country (Sanderatne, 1989). PUB is the largest bank in Sri Lanka, based on assets valued at SLR484 billion, claiming approximately a quarter of the total assets held by commercial banks in the country and 20% market share of the country's banking sector. Its diversified business segments and product lines include retail banking (e.g., consumer lending and finance, micro finance, leasing, pawning), corporate banking (e.g., debt-based products, transaction services), and international and treasury services (e.g., foreign exchange, money market, correspondent banking).

Primary Data:-

We conducted a survey among individuals to assess their knowledge of Corporate Governance . The results indicate that 100% of the respondents are aware of Corporate Governance . The secondary data was collected from Scholarly articles, various online journals, Research Papers, Magazine Articles, website.

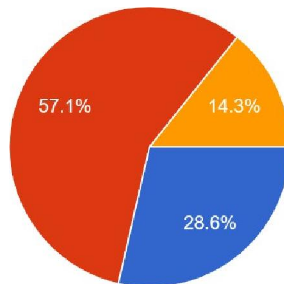
Are you familiar with Financial Frauds?

7 responses



Secondary Data

We conducted a survey among individuals and asked them the question "What is meant by corporate governance?" The results are represented in a pie chart with the following breakdown:



The data presented indicates that 57.1% of respondents have a clear understanding of corporate governance, suggesting a solid grasp of its principles and importance. Additionally, 28.6% possess some knowledge about corporate governance, which may imply familiarity with certain aspects or practices but not a comprehensive understanding. Meanwhile, the remaining 14.3% are aware of what the term "corporate governance" refers to, although their knowledge may be limited. This distribution highlights varying levels of awareness and understanding of corporate governance among individuals.

The secondary data so obtained is analysed and presented in a systematic manner such as : First Part represents types of various fraud, second part represents various techniques of forensic accounting

III. CONCLUSION

The FASB regulations, GAAP guidelines, international financial reporting standards (IFRS), and other pertinent laws must all be kept up to date by CFOs. As businesses enter new markets and nations, maintaining an up-to- date knowledge of these legislations is an essential component of corporate governance. As a result, maintaining compliance with regulatory regulations is crucial for producing accurate and current financial reports.

For assistance in managing their financial statements, organizations may think about partnering with accounting companies. These companies can help to streamline procedures for cash flow statements, income statements, balance sheets, cash flow analyses, and calculations of retained earnings in addition to offering insightful information about local laws and regulations. They can also offer advice on how to file documents with the Securities Exchange Commission (SEC).

To sum up, maintaining compliance with evolving legislation is essential for effective financial reporting management across numerous countries. To stay competitive in today's market and safeguard themselves from any legal concerns, organizations need to adopt plans that involve close collaboration with seasoned accounting professionals that comprehend the complexity involved with worldwide compliance standards.

Financial accounting is a key ingredient in the corporate governance process. A complex set of institutions and rules have evolved to facilitate the financial reporting process, and the information provided by this process is an important input to major governance mechanisms. Indeed, it is no surprise that the US financial reporting system is often cited as an important factor in the tremendous success of US capital markets.

As we conclude our exploration of corporate governance in the Indian corporate sector, it's time for al of us to realise that effective corporate governance is not just a choice, but a necessity in the dynamic Indian business landscape. It sets businesses apart, attracting investors who value ethical conduct and responsible decision- making. Moreover, it plays a crucial role in shaping the nation's economic landscape, driving growth, employment, and social responsibility.

So, if you wish to develop these skillset to lead corporate governance and work in the finance departments at your dream company, check out the popular finance courses offered by IMS Proschool. They offer comprehensive yet short term courses that you can pursue with your current job or studies and is hundred percent based on practical based learning approach. They ensure that every student at their institution not just learn but also know how to implement the same in a real life scenario.

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