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CORPORATE GOVERNANCE AND FINANCIAL TRANSPARENCY IN INDIAN COMPANIES

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ABSTRACT

Corporate governance and financial transparency determine whether investors, lenders and the public can trust a company with their resources. This project examines how these two concepts have developed and operate in Indian companies, with particular emphasis on listed public companies.

The study begins by explaining the concepts and the principal theories, namely agency, stewardship, stakeholder and principal-principal perspectives. It then traces the evolution of Indian governance norms from the voluntary code of the Confederation of Indian Industry and the work of the Birla, Naresh Chandra, Narayana Murthy, Irani and Kotak committees to the Companies Act, 2013 and the SEBI Listing Regulations, 2015. The report analyses board structure, independent directors, committees, related party transactions, whistle-blowing, financial reporting under Ind AS, auditor independence and the role of the National Financial Reporting Authority.

Five cases, namely Satyam, Tata Sons, IL&FS, the Infosys whistle-blower complaints and Think & Learn, are used to illustrate how failures arise and how regulation has responded. The study concludes that India's legal framework is now broadly comparable to that of leading economies, but that concentrated ownership, doubtful independence of directors, slow enforcement and formalistic compliance continue to limit its effectiveness. It recommends measures to strengthen independent directors, audit quality, enforcement, related party oversight and whistle-blower protection.

Keywords: corporate governance, financial transparency, SEBI, Companies Act 2013, independent directors, audit, Ind AS, India.

CHAPTER 1: INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. It determines how power is distributed among shareholders, the board of directors and management, and how those who run a company are held to account for the way they use the resources entrusted to them. Financial transparency is the companion idea: it is the extent to which a company discloses timely, accurate and complete information about its financial position, performance, risks and dealings so that investors, lenders, regulators and the public can judge it for themselves. Good governance without transparency is unverifiable, and transparency without governance is merely a pile of data that nobody is responsible for.

In India, these two themes have moved from the margins to the centre of corporate law within three decades. The economic liberalisation of 1991 opened Indian companies to foreign capital, and the growth of the securities market made it necessary to protect a much larger and more diverse investor base. A series of high-profile failures, most notably the Satyam accounting fraud of 2009 and the collapse of IL&FS in 2018, showed that formal compliance with rules was not enough and that the quality of boards, auditors and disclosure practices was decisive. The regulatory response has been the Companies Act, 2013, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the convergence of Indian accounting standards with IFRS, and the creation of the National Financial Reporting Authority.

Indian companies also present a governance picture quite different from that of the United States or the United Kingdom. Ownership is frequently concentrated in the hands of promoter families, business groups or the State, and the principal tension is often not between dispersed shareholders and professional managers, but between controlling shareholders and minority investors. Any serious study of governance and transparency in India must therefore pay attention to promoter influence, related party transactions and the independence of those who are supposed to act as a check on the controlling group.

1.2 OBJECTIVES OF THE STUDY

The study has the following objectives:

To explain the concepts of corporate governance and financial transparency and the theories that underpin them.

To trace the historical evolution of corporate governance norms in India, from voluntary codes to statutory regulation.

To examine the present legal framework, including the Companies Act, 2013, the SEBI Listing Regulations and the accounting and auditing regime.

To analyse the governance mechanisms through which transparency is secured: the board, its committees, auditors, whistle-blowing and shareholder rights.

To study selected corporate failures and controversies and draw lessons from them.

To identify the continuing challenges and suggest practical reforms.

1.3 SCOPE AND METHODOLOGY

The study focuses mainly on listed public companies in India, since they are subject to the most detailed disclosure and governance obligations, although many principles also apply to large unlisted and private companies. It is a descriptive and analytical study based entirely on secondary data. The sources include bare Acts and rules, SEBI regulations and circulars, reports of the committees appointed by SEBI and the Ministry of Corporate Affairs, regulatory orders, annual reports of companies, academic books and journal articles, and reputed financial press coverage. The case studies in Chapter 7 have been selected because each illustrates a different type of governance failure.

1.4 LIMITATIONS

Because the study relies on secondary sources, it does not include primary survey data or a statistical test of the link between governance scores and company performance. Indian governance regulation is also amended very frequently through notifications and circulars, and numerical thresholds mentioned in this report reflect the position at the time of writing. Readers should verify the latest text of the relevant regulation before relying on any specific figure for legal or professional purposes. Several of the cases discussed involve proceedings that were pending or have been decided on appeal, and the report restricts itself to matters of public record.

1.5 CHAPTER SCHEME

Chapter 2 sets out the conceptual and theoretical framework. Chapter 3 traces the evolution of governance norms in India. Chapter 4 describes the legal and regulatory framework. Chapter 5 examines board structure and governance mechanisms, and Chapter 6 deals with financial

reporting, audit and disclosure. Chapter 7 presents case studies, Chapter 8 discusses challenges and recommendations, and Chapter 9 concludes the study.

CHAPTER 2: CONCEPTUAL AND THEORETICAL FRAMEWORK

2.1 MEANING OF CORPORATE GOVERNANCE

The Cadbury Committee in the United Kingdom described corporate governance in 1992 as the system by which companies are directed and controlled. The OECD Principles of Corporate Governance widen this to include the relationships between a company's management, its board, its shareholders and other stakeholders, and the structure through which objectives are set and performance is monitored. The Kumar Mangalam Birla Committee, which shaped the first mandatory Indian code, stressed three pillars: accountability, transparency and fairness in the treatment of all shareholders.

In practical terms, governance addresses a set of recurring questions. Who appoints and removes directors? How is the board composed and how does it supervise management? How are executives paid, and how are their incentives aligned with long-term value? How are decisions involving insiders and their related businesses approved? And what information must be made available to owners and the market so that they can exercise their rights?

2.2 MEANING AND DIMENSIONS OF FINANCIAL TRANSPARENCY

Financial transparency refers to the openness with which a company communicates its financial affairs. It has several dimensions. The first is quality of financial statements, meaning that accounts are prepared under recognised standards and give a true and fair view. The second is timeliness, since information that arrives late loses much of its value. The third is completeness, which includes disclosure of contingent liabilities, related party dealings, segment information, risks and significant judgements. The fourth is reliability, which depends on internal controls and on an independent audit. The fifth is accessibility: information must be presented so that ordinary investors, and not merely analysts, can understand and use it.

Transparency reduces information asymmetry between insiders and outsiders. When outsiders can see what insiders see, it becomes harder to conceal losses, divert funds or favour related parties, and the cost of capital tends to fall because investors demand a lower premium for uncertainty. Transparency is therefore both a protection for investors and an economic advantage for well-run companies.

2.3 THEORETICAL PERSPECTIVES

Agency theory. Jensen and Meckling (1976) argued that when owners hire managers to run a business, the managers may pursue their own interests at the owners' expense. Owners incur monitoring and bonding costs to limit this, and some loss remains. Boards, audit and disclosure rules can all be understood as devices to reduce these agency costs.

Stewardship theory. This view holds that managers are not inherently opportunistic and may be motivated by achievement and responsibility. It supports empowering management, but still requires a framework in which stewardship can be verified.

Stakeholder theory. A company's decisions affect employees, creditors, customers, communities and the environment as well as shareholders. Indian law reflects this view in Section 166(2) of the Companies Act, 2013, which requires directors to act in the best interests of the company, its employees, shareholders, the community and the protection of the environment, and in the mandatory corporate social responsibility provisions.

Principal-principal perspective. Research on emerging economies, such as Young et al. (2008), points out that where ownership is concentrated the central conflict is between controlling and minority shareholders. This perspective fits India well. Promoters often hold a large share of equity and exert effective control over the board, so protective rules on related party transactions, independent directors and minority voting are of particular importance.

2.4 LINK BETWEEN GOVERNANCE AND TRANSPARENCY

Governance and transparency reinforce one another. A board that is genuinely independent demands better information, an audit committee that is financially literate questions management's estimates, and a whistle-blower mechanism surfaces problems that formal reporting lines might hide. In the other direction, mandatory disclosure of board composition, remuneration, related party dealings and audit fees allows investors to judge how well governance is working and to vote, buy or sell accordingly. The Indian framework is built on this mutual reinforcement.

CHAPTER 3: EVOLUTION OF CORPORATE GOVERNANCE IN INDIA

3.1 THE EARLY PERIOD

Before 1991 Indian corporate governance was shaped by the licence-and-control system, a large public sector and the dominance of development finance institutions as lenders and, often,

as nominee shareholders. The Companies Act, 1956 contained provisions on board meetings, audit and disclosure, but the market for corporate control was weak and the securities regulator, then operating under the Controller of Capital Issues, had limited powers. SEBI was established as an administrative body in 1988 and was given statutory status by the SEBI Act, 1992, after the securities scam of 1992 exposed the weakness of market oversight.

3.2 FROM VOLUNTARY CODES TO MANDATORY RULES

The movement for formal governance standards began with industry. In 1998 the Confederation of Indian Industry published its Desirable Corporate Governance Code, drafted under the chairmanship of Rahul Bajaj, which was voluntary in nature. SEBI then constituted the Kumar Mangalam Birla Committee, whose 1999-2000 report led to the insertion of Clause 49 into the listing agreement of stock exchanges in 2000. Clause 49 required listed companies to have a minimum proportion of independent directors, constitute an audit committee, and publish a corporate governance report. Later committees refined and strengthened the framework. Table 3.1 summarises the principal milestones.

Table 3.1: Major milestones in the evolution of Indian corporate governance

Milestone	Year	Key contribution
CII Desirable Corporate Governance Code	1998	First major voluntary code in India; recommended independent directors and audit committees for listed companies.
Kumar Mangalam Birla Committee (SEBI)	1999-2000	Recommended board composition rules, audit and remuneration committees and disclosure norms; basis of Clause 49.
Naresh Chandra Committee	2002	Examined auditor independence and the auditor-company relationship; recommended CEO and CFO certification.
Narayana Murthy Committee (SEBI)	2003	Strengthened audit committee responsibilities, whistle-blower protection and disclosure of related party dealings; led to revised Clause 49 (2004-05).
J.J. Irani Expert Committee on Company Law	2005	Recommended modernising company law, including independent directors, directors'

		duties and simpler compliance; influenced the 2013 Act.
MCA Corporate Governance Voluntary Guidelines	2009	Issued after the Satyam episode; addressed board responsibilities, audit, secretarial audit and whistle-blowing.
Companies Act, 2013	2013	Statutory provisions on independent directors, women directors, committees, related party transactions, CSR and auditor rotation.
SEBI (LODR) Regulations, 2015	2015	Consolidated listing requirements for all listed securities, with a dedicated governance chapter.
Uday Kotak Committee (SEBI)	2017	Proposed reforms on board size, independence, role of the chairperson, secretarial audit and disclosures by promoters.

3.3 POST-SATYAM AND POST-2013 REFORMS

The Satyam fraud of January 2009 is widely regarded as the turning point. It showed that a company with a reputed auditor, independent directors and an apparently compliant governance structure could still report fictitious cash balances for years. The Ministry of Corporate Affairs responded with voluntary guidelines in 2009 and, more importantly, with the drafting of a new Companies Act. The Companies Act, 2013 introduced a statutory definition of an independent director, a code of conduct for independent directors, mandatory rotation of auditors, stricter control over related party transactions, a duty to establish a vigil mechanism and a punishment for fraud under Section 447.

SEBI aligned the listing framework with the new law through the LODR Regulations, 2015. The Kotak Committee of 2017 made a further set of recommendations, many of which SEBI accepted in 2018 and 2019. These included a minimum number of six directors for the largest listed companies, at least one woman independent director in the top listed entities, enhanced disclosure of auditor remuneration and resignations, and tighter conditions for the appointment and removal of independent directors. SEBI proposed separating the roles of chairperson and managing director for the top listed companies, but later made that requirement voluntary after industry concerns.

3.4 OBSERVATIONS

Three patterns stand out in this history. First, reform has tended to follow crisis: major steps came after market scams, the Satyam fraud and the IL&FS collapse. Second, India has gradually shifted from a voluntary, industry-led approach to a statutory approach, with the Companies Act and SEBI Regulations working in parallel and sometimes overlapping. Third, the content of reform has moved from structural requirements such as the number of independent directors towards behavioural and substantive ones, including the quality of oversight, enforcement against auditors, and the integrity of disclosure.

CHAPTER 4: LEGAL AND REGULATORY FRAMEWORK

4.1 THE COMPANIES ACT, 2013

The Companies Act, 2013 is the foundation of corporate governance law in India. Its main governance provisions are summarised below.

Board composition (Section 149). Every listed public company must have at least one-third of its directors as independent directors, and prescribed classes of companies must have at least one woman director. Section 149 also defines independence, limits independent directors to two consecutive terms of five years each, and Schedule IV contains a code of conduct for them.

Directors' duties (Section 166). Directors must act in good faith, exercise due and reasonable care, avoid conflicts of interest and not achieve undue gain. Breach attracts a fine.

Audit and nomination committees (Sections 177 and 178). Listed companies must constitute an audit committee and a nomination and remuneration committee, and companies with many shareholders must constitute a stakeholders relationship committee.

Vigil mechanism (Section 177(9)). Listed companies and prescribed classes must establish a mechanism for directors and employees to report genuine concerns.

Related party transactions (Section 188). Specified transactions with related parties require board approval and, above prescribed thresholds, approval of shareholders by special resolution, with related parties barred from voting.

Financial statements and responsibility statements (Sections 129 and 134). Financial statements must give a true and fair view and comply with the notified accounting standards. The board's report must include a directors' responsibility statement affirming, among other

matters, that proper accounting records were kept and that internal financial controls are adequate and operating effectively.

Auditors (Sections 139 to 143). Auditors are appointed for five-year terms, and listed companies must rotate them after prescribed terms. Section 143(12) obliges auditors to report suspected frauds above specified amounts to the Central Government or the audit committee.

Corporate social responsibility (Section 135). Companies meeting prescribed size or profit thresholds must spend at least two per cent of average net profit of the preceding three years on CSR, and must disclose their policy and spending.

Investigation and penalties (Sections 212 and 447). The Serious Fraud Investigation Office may investigate complex corporate fraud, and fraud is punishable with imprisonment and fines linked to the amount involved.

4.2 SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015

While the Companies Act applies to all companies, the LODR Regulations apply specifically to entities with listed securities and are generally more demanding. The governance requirements are found mainly in Regulations 17 to 27 and Schedules II to V, and disclosure requirements in Regulations 30, 33, 46 and others. Important features are as follows.

Board composition (Regulation 17). At least half of the board must be non-executive, and independent directors must form at least one-third of the board where the chairperson is a non-executive director who is not related to the promoter, and at least half of the board otherwise. At least one woman director is required, and the largest listed companies must have a woman independent director.

Committees (Regulations 18 to 21). Detailed rules govern audit, nomination and remuneration, stakeholders relationship and, for the top listed entities by market capitalisation, risk management committees.

Related party transactions (Regulation 23). All related party transactions need prior approval of the audit committee. Material transactions, which now include those above a threshold fixed by reference to the company's consolidated turnover, need shareholder approval, with related parties not permitted to vote.

Material events (Regulation 30). Companies must promptly disclose events that could affect investors' decisions, such as acquisitions, rating changes, fraud, auditor resignation and litigation.

Financial results (Regulation 33). Quarterly results must be filed within 45 days of the quarter-end and annual audited results within 60 days of the year-end, with limited review by the auditor for quarterly figures.

Annual reporting (Regulation 34). The annual report must contain the management discussion and analysis, a corporate governance report and, for the top listed companies by market capitalisation, a Business Responsibility and Sustainability Report (BRSR).

Website disclosure (Regulation 46). Listed entities must maintain a website with up-to-date disclosures on board composition, policies, financial results and shareholding.

4.3 ACCOUNTING AND AUDITING FRAMEWORK

Financial transparency rests on the quality of the accounting and auditing standards. India notified the Indian Accounting Standards (Ind AS), which are substantially converged with IFRS, in 2015, and they have been applied in phases since the financial year 2016-17 to listed companies and larger unlisted companies, while smaller companies follow the earlier accounting standards. Auditing is carried out under the Standards on Auditing issued by the Institute of Chartered Accountants of India (ICAI), and the Companies (Auditor's Report) Order, 2020 requires auditors to comment on specified matters such as fixed assets, loans, statutory dues, fraud, and related party transactions.

A distinctive Indian requirement is that the auditor must report separately on whether the company has adequate internal financial controls over financial reporting and whether those controls operate effectively. This obliges management to document and test controls, in a manner broadly similar to the Sarbanes-Oxley regime in the United States.

4.4 REGULATORS AND SUPPORTING INSTITUTIONS

Several institutions share responsibility for oversight. The Ministry of Corporate Affairs administers the Companies Act through the Registrar of Companies and operates the MCA21 portal on which companies file financial statements and annual returns, increasingly in XBRL format. SEBI regulates listed companies and securities markets and has powers of investigation, penalty and adjudication. The National Financial Reporting Authority (NFRA),

constituted in 2018 under Section 132 of the Companies Act, is an independent regulator for accounting and auditing standards and has powers to investigate and penalise auditors of listed companies and large unlisted companies. The ICAI, the Institute of Company Secretaries of India (ICSI), whose Secretarial Standards SS-1 and SS-2 govern board and general meetings, and the Institute of Cost Accountants of India (ICMAI) set professional standards. The Serious Fraud Investigation Office investigates complex corporate frauds, and the National Company Law Tribunal (NCLT) hears matters of oppression, mismanagement and insolvency.

4.5 BENEFICIAL OWNERSHIP AND INSOLVENCY LAW

Transparency about who ultimately controls a company has also become a legal priority. Section 90 of the Companies Act and the Significant Beneficial Owners Rules of 2018 require persons holding or controlling prescribed interests, generally ten per cent or more, directly or indirectly, to declare their interest, and companies to maintain a register. The Insolvency and Bankruptcy Code, 2016 provides a further discipline: a company that cannot pay its debts can be taken to the NCLT and its management may lose control, which raises the cost of weak governance and opaque financial reporting.

CHAPTER 5: BOARD STRUCTURE AND GOVERNANCE MECHANISMS

5.1 THE BOARD OF DIRECTORS

The board is the central governance institution. It appoints and oversees senior management, approves strategy and budgets, monitors risk and ensures the integrity of financial reporting. The law requires a mix of executive, non-executive and independent directors, and, in the case of listed companies, a minimum number of directors and at least one woman. The idea behind these requirements is that an executive-dominated board cannot be expected to challenge itself, so a group of outsiders who have no pecuniary relationship with the company other than their remuneration and who are free from the influence of promoters is placed on the board to represent the interests of all shareholders.

In practice, the effectiveness of a board depends less on its formal composition and more on the quality, diversity, time commitment and courage of its members. The Kotak Committee therefore emphasised board evaluation, succession planning and the disclosure of skills and expertise of each director. Section 178 and Schedule IV also require the performance of the board, its committees and individual directors to be evaluated annually, and the results to be summarised in the board's report.

5.2 INDEPENDENT DIRECTORS

Independent directors are expected to act as a safeguard for minority shareholders. The Companies Act provides detailed criteria for independence, excluding persons with material pecuniary relationships with the company, its promoters or its subsidiaries, and also limits their terms. SEBI requires that appointment or re-appointment of an independent director be approved by a special resolution of shareholders, and that resignation be accompanied by detailed reasons and confirmation that there are no other material reasons.

Despite these provisions, doubts remain about how independent many independent directors really are. They are often nominated by the promoter, they depend on the board for continued appointment, and their remuneration and prestige depend on staying in good standing with the controlling group. Recent changes, including the requirement that appointment and removal be approved by shareholders and that the votes of the public shareholders be reflected in the process, attempt to address this but cannot entirely remove the structural tension.

5.3 BOARD COMMITTEES

Committees allow the board to examine specialised issues in more detail. Table 5.1 summarises the principal committees prescribed for listed companies.

.1: Principal board committees of listed companies

Committee	Composition (LODR Regulations)	Principal functions
Audit Committee (Reg. 18; Sec. 177)	At least three directors; two-thirds independent; independent chairperson; members financially literate, with at least one having accounting or financial management expertise.	Reviews financial statements, recommends appointment and remuneration of auditors, approves related party transactions, evaluates internal financial controls and the vigil mechanism.
Nomination and Remuneration Committee (Reg. 19; Sec. 178)	At least three non-executive directors; at least two-thirds independent; independent chairperson.	Recommends criteria for selection of directors and senior management, board evaluation, and remuneration policy.

Stakeholders Relationship Committee (Reg. 20; Sec. 178)	Chaired by a non-executive director; at least three directors including one independent director.	Resolves grievances of shareholders and investors, including transfers, non-receipt of dividends and annual reports
Risk Management Committee (Reg. 21)	Applies to top listed entities by market capitalisation; at least three members, majority from the board including an independent director.	Frames risk policy, oversees cybersecurity, sustainability and business continuity risks, and reviews the risk management framework.

Of these, the audit committee has the most direct bearing on financial transparency. It interacts with the statutory auditor, the internal auditor and the chief financial officer, and it must satisfy itself about the reliability of the financial statements before they go to the full board. A committee with genuine financial expertise, adequate time and the habit of asking difficult questions can detect problems well before they become scandals.

5.4 RELATED PARTY TRANSACTIONS AND MINORITY PROTECTION

Related party transactions are among the most frequent channels for the transfer of value from minority shareholders to controlling groups. They are not wrong in themselves, since many group companies legitimately trade with one another, but they require scrutiny because the terms may not be set at arm's length. The Indian framework therefore requires disclosure in the financial statements under Ind AS 24, approval by the audit committee, approval by the board and, for material transactions, approval by independent shareholders. Companies must also adopt a policy on related party transactions and on materiality, and publish it on their websites.

Minority shareholders have additional protections. They may bring an action for oppression and mismanagement before the NCLT under Sections 241 and 242, class action suits are permitted under Section 245, and e-voting is available to all shareholders on specified resolutions. SEBI has also recognised proxy advisory firms and encouraged institutional investors to follow stewardship principles, so that large shareholders such as mutual funds and insurers take an active interest in governance rather than simply selling shares when dissatisfied.

5.5 WHISTLE-BLOWER MECHANISM AND RISK MANAGEMENT

Whistle-blowers are often the first to learn of misconduct. The Companies Act and the SEBI Regulations require listed companies to establish a vigil mechanism that provides adequate safeguards against victimisation and direct access to the chairperson of the audit committee in appropriate cases. SEBI's Insider Trading Regulations of 2015 were amended in 2019 to institute a whistle-blower framework for reporting violations and to protect the informant. The effectiveness of these systems depends on whether employees trust that reports will be investigated independently, and on the willingness of audit committees to treat allegations seriously even when they relate to senior management.

Risk management complements this. The board's report must describe the risk management policy, the risks that threaten the existence of the company, and the adequacy of internal financial controls. Large listed companies must have risk management committees and many now include cybersecurity, climate and supply chain risks in their risk registers.

5.6 CORPORATE SOCIAL RESPONSIBILITY AND ESG

India is one of the few countries to make corporate social responsibility spending mandatory for qualifying companies. Section 135 and the CSR Rules require a CSR committee, a CSR policy, annual spending of at least two per cent of average net profit and detailed reporting of projects, outcomes and unspent amounts. Beyond CSR, the Business Responsibility and Sustainability Report introduced by SEBI for the top listed companies requires disclosure on environmental, social and governance performance under the framework of the National Guidelines on Responsible Business Conduct, with a core set of indicators that are being phased in for independent assurance. The expansion from financial to non-financial transparency is likely to be a defining feature of the next phase of Indian governance.

CHAPTER 6: FINANCIAL REPORTING, AUDIT AND DISCLOSURE

6.1 QUALITY OF FINANCIAL REPORTING

The adoption of Ind AS has made the financial statements of Indian companies more comparable with those of overseas peers. Ind AS requires fair value measurement for many financial instruments, detailed disclosure of related party transactions, expected credit loss provisioning, and consolidated financial statements that present the group as a single economic entity. These features limit the use of off-balance-sheet structures and increase the volume of information available to investors. They also require more judgement from preparers, which in

turn increases the importance of the audit committee's scrutiny of estimates such as impairment, revenue recognition and valuation.

Section 129 and the Companies (Accounts) Rules also require consolidated financial statements for companies with subsidiaries, associates or joint ventures. Since many Indian governance failures have involved opaque group structures, consolidation is a major aid to transparency. Companies also file financial statements in XBRL format with the Ministry of Corporate Affairs, which makes the data machine-readable and easier to compare.

6.2 THE STATUTORY AUDITOR

The statutory auditor gives investors independent assurance on the financial statements. The Companies Act strengthens the independence of the auditor in several ways. It prohibits auditors from providing specified non-audit services to the company, it restricts the appointment of persons with prescribed relationships to the company, it requires rotation after fixed terms, and it makes auditors liable for fraud and misstatement. The auditor is appointed by shareholders on the recommendation of the audit committee, a design intended to reduce management's influence over the choice and fees of the auditor.

Section 143(12) of the Act requires auditors who have reason to believe that an offence involving fraud is being or has been committed to report it, while SEBI requires disclosure of the resignation of an auditor, including the reasons given, and, for listed companies, a statement from the auditor on any concerns. The NFRA's power to investigate and sanction auditors for professional misconduct, including the power to impose monetary penalties and bar auditors, has increased the practical accountability of the audit profession. The aim is to move away from a situation in which poor audits were reviewed only through the disciplinary system of the profession itself.

6.3 INTERNAL FINANCIAL CONTROLS AND INTERNAL AUDIT

Reliable financial statements begin with reliable internal controls. Under the Companies Act, directors of listed companies must lay down internal financial controls and ensure they are operating effectively, and the auditor must report on their adequacy. Internal audit, which is mandatory for listed companies and larger unlisted companies under Section 138, provides independent assurance to the audit committee on operations, compliance and risk. The effectiveness of this function depends on its independence from the executives it audits, the competence of its staff and the access it has to the audit committee.

6.4 DISCLOSURE OBLIGATIONS

Indian listed companies are subject to an extensive continuous disclosure regime. In addition to the quarterly financial results and annual report, the following disclosures are of special importance for financial transparency:

Management discussion and analysis of the industry, risks, outlook and segment-wise performance.

Disclosure of remuneration of directors and key managerial personnel, including the ratio of the remuneration of each director to the median remuneration of employees.

Quarterly shareholding patterns, including pledges of promoters' shares, which are significant because share pledging can create pressure to manipulate prices or results.

Disclosure of audit fees and of payments to the auditor's network firms, to reveal potential conflicts.

Event-based disclosures under Regulation 30, including defaults on borrowings, fraud, change in management and litigation.

Annual secretarial audit report for larger companies, confirming compliance with laws, and the annual secretarial compliance report required by SEBI.

The Securities and Exchange Board of India has also tightened insider trading rules and the prohibition on fraudulent and unfair trade practices, since insider dealing and selective disclosure undermine the credibility of the market as a whole. The requirement to maintain a structured digital database of unpublished price sensitive information is a practical example.

6.5 SUSTAINABILITY AND NON-FINANCIAL REPORTING

Financial transparency is now understood to include information about environmental, social and governance matters that may affect long-term value. The BRSR format requires quantitative disclosure on emissions, energy and water use, employee welfare and safety, supply chain, grievance handling and governance practices. Assurance of a subset of these indicators, known as BRSR Core, is being introduced in phases, starting with the largest companies. This brings sustainability reporting closer to the standard of financial reporting and will increase the demand for reliable internal data systems.

Chapter 7: Case Studies

The following cases illustrate how governance and transparency can fail and what regulators have learned. They are based on public records, regulatory orders and court decisions, and are presented in summary. Table 7.1 gives a comparative overview.

Case	Year	Core governance or transparency failure	Outcome and significance
Satyam Computer Services	2009	Chairman confessed to inflating cash and profits; related party acquisition proposal ignored minority interests.	Criminal conviction of promoters; regulatory penalties on the auditor network; influenced the Companies Act, 2013.
Tata Sons and Cyrus Mistry	2016	Dispute over the removal of the chairman of a holding company controlled by a charitable trust, and over the rights of minority shareholders.	Supreme Court upheld Tata Sons in 2021; highlighted the role of articles of association and holding company governance.
IL&FS	2018	Opaque group of over 300 entities, heavy debt, weak board oversight and failure of auditors and rating agencies to flag stress.	Government-initiated supersession of the board; criminal investigation by SFIO; led to closer scrutiny of auditors and rating agencies.
Infosys whistle-blower complaints	2019	Anonymous complaints alleged aggressive accounting practices by top management.	Audit committee commissioned independent inquiry; case showed the importance of whistle-blower processes.
Think & Learn (Byju's)	2022	Prolonged delay in filing audited accounts and resignation of the statutory auditor.	Raised questions about disclosure by large, fast-growing unlisted companies and the role of investors and auditors.

7.1 SATYAM COMPUTER SERVICES (2009)

Satyam was one of India's leading information technology companies, with a global clientele and a reputation for good governance, including awards for corporate governance. In December 2008, its board announced the proposed acquisition of two companies promoted by the family of its founder, Maytas Properties and Maytas Infra. Investors reacted strongly, and the proposal was withdrawn within hours. On 7 January 2009 the chairman, B. Ramalinga Raju, wrote to the board admitting that the company's balance sheet had been inflated over several years, including cash and bank balances of roughly Rs. 5,000 crore that did not exist.

Subsequent investigations found that revenues, profits and receivables had also been falsified. The government appointed a new board and conducted a supervised sale of the company, which was acquired by Tech Mahindra. In 2015, a special court convicted Raju and nine others, and SEBI imposed penalties and barred the individuals concerned from the securities market. SEBI later barred the network firm of the company's auditors from auditing listed companies for two years.

Lessons. The case demonstrates that the board and the audit committee had accepted management information without independent verification, that confirmation procedures by the auditors had not detected the false bank balances, and that related party dealings were a warning sign. It led directly to stricter rules on independent directors, on auditor rotation and on the reporting of fraud.

7.2 TATA SONS AND CYRUS MISTRY (2016)

In October 2016 the board of Tata Sons removed Cyrus Mistry from the post of executive chairman. Tata Sons is the holding company of the Tata group, and a majority of its shares are held by charitable trusts, while the Shapoorji Pallonji group is the largest minority shareholder. Mistry and his family companies challenged the removal and alleged oppression and mismanagement. The NCLAT ruled in his favour in 2019, but in March 2021 the Supreme Court set aside that decision and upheld the position of Tata Sons.

Lessons. Although the dispute was not an accounting scandal, it showed how the governance of a holding company with a unique ownership structure depends on its articles of association, on the balance of rights between controlling and minority shareholders, and on the independence of its nominee directors. It also demonstrated that stability at the top of a major business group is a governance issue of national interest.

7.3 IL&FS (2018)

Infrastructure Leasing & Financial Services Limited (IL&FS) was a systemically important non-banking finance company with more than 300 group entities. In 2018 its group began to default on payment obligations, and its borrowings were reported as over Rs. 90,000 crore. In October 2018 the Government of India applied to the NCLT to supersede the board, which was allowed, and a new board was appointed under the chairmanship of Uday Kotak. The SFIO investigated and filed charges against former management and others, and the auditors were examined by the regulator.

Lessons. The crisis exposed the risk of complex group structures in which funds flowed between entities, the failure of a board to challenge a dominant management, and the reliance of lenders and investors on credit ratings and audit reports that did not signal distress in time. It prompted increased attention to the duties of nominee directors, auditors and rating agencies and to the oversight of non-banking finance companies.

7.4 INFOSYS WHISTLE-BLOWER COMPLAINTS (2019)

In 2019 anonymous whistle-blowers made complaints to the board and to U.S. and Indian regulators alleging that senior management had directed practices to inflate revenue and profits. The audit committee of Infosys engaged independent law firms to examine the complaints, and in early 2020 announced that the investigation had found no evidence supporting the allegations. The case is useful not because misconduct was found but because it tested the process: how the complaints were received, who investigated, whether the investigation was independent of the executives named, and how the outcome was communicated to the market.

Lessons. A transparent and independent process for handling whistle-blower complaints is an essential part of governance. Even when allegations are not substantiated, the way a company responds affects investor confidence.

7.5 THINK & LEARN (BYJU'S) (2022)

Think & Learn, the owner of the Byju's education business, was one of India's most highly valued start-ups. Its statutory auditor resigned in 2022, and its financial statements for the year ended March 2021 were published after a substantial delay. The episode drew attention to the governance of large unlisted companies that attract significant investment and affect many stakeholders, but are not subject to the full disclosure obligations of listed companies. It also

illustrated the part that statutory auditors and institutional investors on the board can play in demanding timely and credible reporting.

7.6 COMMON THEMES

Across these cases certain themes recur: dominant promoters or founders; boards that deferred to management; opaque group structures and related party dealings; auditors who failed to detect or challenge irregularities; and delays in enforcement. At the same time, each case produced regulatory learning, and the present framework on independent directors, auditor oversight, whistle-blowing and related party transactions bears the imprint of these events.

CHAPTER 8: CHALLENGES AND THE WAY FORWARD

8.1 PRINCIPAL CHALLENGES

Concentrated ownership and promoter dominance. The typical Indian company is controlled by a family or a group, which can appoint most directors, shape management and influence auditors and independent directors. This makes the principal-principal conflict the most important governance problem, and rules that work well in dispersed-ownership markets may not be adequate.

Doubtful independence of independent directors. Although the law has defined independence more tightly and has required shareholder approval for appointment, independent directors are in practice often chosen from the promoters' network, and the time and information available to them may be limited. Cases of independent directors resigning without clear explanations indicate that the system has still not resolved how to protect those who raise concerns.

Compliance as a formality. Companies sometimes treat governance as a checklist exercise. They comply with the form of the rule, such as holding the required number of committee meetings, while the substance of independent challenge is missing. Boilerplate corporate governance reports give little real information to investors.

Weaknesses in audit quality and enforcement. The auditing profession in India is concentrated, with a few firms auditing most large companies, and auditor independence is still questioned. Enforcement actions against auditors, promoters and directors can take years, and the time lag reduces their deterrent effect. Frauds are sometimes detected only after investors have suffered losses.

Related party transactions and group structures. Complex group structures with cross-holdings, layered subsidiaries and pledged shares make it difficult to determine who is accountable and how funds move. Definitions of related parties and thresholds for materiality have been amended repeatedly and are still debated.

Compliance burden and the position of smaller companies. A heavy compliance load can discourage smaller companies and start-ups from listing, and the cost of compliance may be disproportionate to the benefit for them. Regulation should be proportionate to size, public interest and risk.

Reliability of non-financial and digital information. As reporting expands to ESG and sustainability matters, the risk of inconsistent methods, selective disclosure and inadequate assurance increases. Cyber risk and data protection are also becoming governance issues in their own right.

8.2 RECOMMENDATIONS

Strengthen the independence of independent directors. Provide a transparent nomination process involving institutional shareholders or a nomination committee dominated by independents, and ensure that directors who resign give full reasons to the exchange and regulator.

Improve the quality of the audit. Encourage joint audits and a wider pool of audit firms, enforce rotation and limits on non-audit services strictly, and give NFRA adequate resources to complete investigations promptly.

Make enforcement faster and more credible. Create special benches and time limits for adjudication of governance and fraud matters so that penalties follow wrongdoing within a reasonable time.

Tighten oversight of related party transactions and group structures. Require consolidated, easily accessible maps of group ownership, clear arm's-length evidence for material transactions, and look-through disclosure of pledged shares.

Protect and encourage whistle-blowers. Require the audit committee to report annually on complaints received and their disposal, and offer meaningful protection and, where appropriate, rewards for informants.

Move from form to substance in reporting. Replace boilerplate governance reports with concise disclosure of board skills, attendance, evaluation outcomes, key decisions and dissent, and encourage plain-language annual reports.

Apply proportionate regulation. Differentiate obligations according to size, listing status and public interest, while extending key disclosure and audit obligations to very large unlisted companies.

Enhance the role of institutional investors. Encourage mutual funds, insurers and pension funds to vote actively, disclose their voting records and engage with boards in accordance with stewardship codes.

Build governance capability. Invest in training for directors, audit committee members and company secretaries in financial reporting, cybersecurity, ESG and ethics, and promote a culture of integrity from the top.

CHAPTER 9: CONCLUSION

Corporate governance and financial transparency are the foundation of trust in the capital market. They affect the willingness of investors to supply capital, the cost at which companies can borrow, and the confidence of the public in business as an institution. India's experience over the last twenty-five years shows a clear movement from voluntary codes to a comprehensive statutory framework, from a focus on form to a focus on substance, and from financial disclosure to broader accountability that includes sustainability and responsible business conduct.

The legal framework is now broadly comparable to that of leading economies. The Companies Act, 2013, the SEBI Listing Regulations, Ind AS, the NFRA and the beneficial ownership rules together provide the architecture of an effective system. The main problem is no longer the absence of rules, but the gap between rule and practice. The cases of Satyam, IL&FS and others show that fraud and failure often occur in companies that appear to comply with the formal requirements, because ownership is concentrated, boards defer to powerful insiders, and monitoring by auditors, regulators and the market comes too late.

Further improvement therefore depends less on adding new provisions than on making existing ones effective. That requires boards with real independence and expertise, auditors who are willing to challenge management, investors who exercise their voting rights, regulators who act quickly and consistently, and above all, promoters and managers who regard transparency

not as a burden but as a source of long-term credibility. Companies that internalise these values will benefit from lower capital costs, stronger reputations and greater resilience, and in doing so will contribute to the development of a market in which trust is earned and not merely demanded.

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