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FINANCIAL REPORTING AND CORPORATE GOVERNANCE IN INDIA: Evolution, Regulatory Architecture and Persistent Challenges

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ABSTRACT :

Financial reporting and corporate governance are usually taught as separate subjects, yet in practice one cannot work without the other. This paper looks at how the two have developed together in India, from the promoter-dominated, licence-era company to a listed sector that now reports under IFRS-converged standards, answers to a statutory audit regulator and lives under a detailed listing regime. It uses doctrinal analysis of statutes, SEBI regulations and committee reports, along with a qualitative reading of four episodes: Satyam (2009), IL&FS (2018), the Tata Sons–Mistry dispute (2016–2021) and the Infosys whistleblower complaints (2019). The question is simple: has a framework that now looks broadly comparable with international norms on paper actually produced reliable financial information and accountable boards? The paper argues that India has built a sophisticated rule architecture, mostly by adapting UK and US models, but that results are held back by concentrated promoter ownership, gatekeepers who are independent in form more than in fact, fragmented oversight and slow enforcement. It closes with proposals on independent-director appointment, the structure of the audit market, coordination among regulators and enforcement capacity. The study is doctrinal; it generates no new quantitative data, and its empirical claims rest on the literature cited.

Keywords: financial reporting; corporate governance, Companies Act 2013, SEBI LODR, Ind AS, NFRA, independent directors, statutory audit, India.

INTRODUCTION AND BACKGROUND

The modern company separates those who own it from those who run it. That separation is the source of its strength, because it lets thousands of people pool capital without managing anything, and also the source of its main weakness. Managers, and in many economies controlling shareholders, can pursue goals that differ from those of outside investors, and the costs of watching them are real.[1] Financial reporting is the main way insiders account to outsiders. Corporate governance, meaning boards, committees, auditors, regulators and the rights of shareholders themselves, exists largely to make that account believable and to give investors some remedy when it is not.[2] International benchmarks such as the G20/OECD

Principles of Corporate Governance treat transparent disclosure and board accountability as core pillars of any governance system.[3]

India is an instructive place to study this relationship. Its listed sector is dominated by promoter families and business groups, so the classic conflict between managers and scattered shareholders is overlaid by a second one, between controlling and minority shareholders. At the same time, the legal framework has changed enormously in a short span. In under three decades the country moved from voluntary industry codes to a layered statutory regime made up of the Companies Act 2013, the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015, Indian Accounting Standards (Ind AS) converged with IFRS and, since 2018, an independent audit regulator, the National Financial Reporting Authority (NFRA). Large failures, Satyam in 2009 and IL&FS in 2018 above all, have repeatedly tested that regime and, more often than not, reshaped it.

The author's earlier study of mutual fund regulation found a pattern that recurs here:[4] Indian regulation has converged with developed-market models in content, but behaviour and enforcement lag behind. Corporate reporting and governance show the same gap, and perhaps more sharply, because the pressures that distort reporting (promoter control, related-party dealings, a concentrated audit market) sit inside the company rather than outside it. This

[1]Michael C Jensen and William H Meckling, 'Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure' (1976) 3 *Journal of Financial Economics* 305.

[2]Paul M Healy and Krishna G Palepu, 'Information Asymmetry, Corporate Disclosure, and the Capital Markets: A Review of the Empirical Disclosure Literature' (2001) 31 *Journal of Accounting and Economics* 405.

[3]OECD, *G20/OECD Principles of Corporate Governance* (OECD Publishing 2015).

[4]Divyank Gupta and Arvind Kumar Singh, 'Comparative Study of Regulatory Frameworks for Mutual Funds: India vs Developed Markets' (Amity Law School, Lucknow).

paper therefore asks whether India's rules on financial reporting and governance, now broadly comparable with international norms on paper, deliver reliable reporting and accountable boards in practice.

The rest of the paper is organised as follows. Part 2 reviews the literature. Part 3 states the objectives and method. Part 4 traces how the framework evolved, and Parts 5 and 6 map the present reporting and governance architecture. Part 7 tests that architecture against four cases. Part 8 draws out the main findings, Part 9 offers reform proposals, and Part 10 concludes.

REVIEW OF LITERATURE

Theoretical Lenses

Agency theory is the natural starting point. It explains why governance mechanisms exist at all, and why monitoring and bonding costs arise whenever one party acts for another.[5] Positive accounting theory adds an uncomfortable point: managers do not simply apply accounting rules, they choose among them in response to contracting, political and capital-market

incentives, which is why standards alone cannot guarantee faithful reporting.[6] The earnings-management literature documents how discretion over accruals and estimates is used to meet targets, and offers statistical tools for detecting it.[7] Finally, the law and finance school argues that the legal protection of investors, and the enforcement of it, shape ownership structures and the depth of capital markets.[8] Taken together, these perspectives suggest that reporting quality rests on three things: the standards, the incentives of preparers and auditors, and the credibility of enforcement. A framework that gets only the first right will disappoint.

Government Mechanisms and Reporting Quality

Empirical work from the United States links board independence with a lower likelihood of financial statement fraud.[9] Other studies are less encouraging about independence as a cure-all: a well-known review found no reliable link between the proportion of independent directors and long-term firm performance.[10] On accounting standards, cross-country evidence suggests that adopting international standards can improve accounting quality and comparability, but mainly where enforcement and reporting incentives support the change.[11] Auditors, directors and other gatekeepers are only as useful as their independence from the people they are supposed to watch.[12]

The Indian Literature

In emerging markets the central agency problem is often a 'principal–principal' conflict between controlling and minority shareholders rather than the manager–shareholder conflict of the Anglo-American model.[13] Indian business groups can supply internal capital markets where external ones are thin, but they also create room for tunnelling between group firms.[14] Studies of Clause 49, the first mandatory governance regime for listed companies, found evidence consistent with markets valuing the reform,[15] and a firm-level study found a positive association between governance quality and market value.[16] Later work indicates that the benefit depended on enforcement and not on the rules alone.[17] Legal scholars have asked whether independent directors who

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[5]Jensen and Meckling (n 1).

[6]Ross L Watts and Jerold L Zimmerman, *Positive Accounting Theory* (Prentice Hall 1986).

[7]Patricia M Dechow, Richard G Sloan and Amy P Sweeney, 'Detecting Earnings Management' (1995) 70 *The Accounting Review* 193; Paul M Healy and James M Wahlen, 'A Review of the Earnings Management Literature and Its Implications for Standard Setting' (1999) 13 *Accounting Horizons* 365.

[8]Rafael La Porta and others, 'Law and Finance' (1998) 106 *Journal of Political Economy* 1113.

[9]Mark S Beasley, 'An Empirical Analysis of the Relation Between the Board of Director Composition and Financial Statement Fraud' (1996) 71 *The Accounting Review* 443.

[10]Sanjai Bhagat and Bernard Black, 'The Non-Correlation Between Board Independence and Long-Term Firm Performance' (2002) 27 *Journal of Corporation Law* 231.

[11]Mary E Barth, Wayne R Landsman and Mark H Lang, 'International Accounting Standards and Accounting Quality' (2008) 46 *Journal of Accounting Research* 467; Holger Daske and others, 'Mandatory IFRS Reporting Around the World: Early Evidence on the Economic Consequences' (2008) 46 *Journal of Accounting Research* 1085.

[12]John C Coffee Jr, *Gatekeepers: The Professions and Corporate Governance* (Oxford University Press 2006).

[13]Michael N Young and others, 'Corporate Governance in Emerging Economies: A Review of the Principal–Principal Perspective' (2008) 45 *Journal of Management Studies* 196.

[14]Tarun Khanna and Krishna Palepu, 'Is Group Affiliation Profitable in Emerging Markets? An Analysis of Diversified Indian Business Groups' (2000) 55 *Journal of Finance* 867; Marianne Bertrand, Paras Mehta and Sendhil Mullainathan, 'Ferreting Out Tunneling: An Application to Indian Business Groups' (2002) 117 *Quarterly Journal of Economics* 121.

[15]Bernard Black and Vikramaditya Khanna, 'Can Corporate Governance Reforms Increase Firms' Market Values? Evidence from India' (2007) 4 *Journal of Empirical Legal Studies* 749.

[16]Narayanan Balasubramanian, Bernard S Black and Vikramaditya Khanna, 'The Relation Between Firm-Level Corporate Governance and Market Value: A Case Study of India' (2010) 11 *Emerging Markets Review* 319.

[17]Dhammika Dharmapala and Vikramaditya Khanna, 'Corporate Governance, Enforcement, and Firm Value: Evidence from India' (2013) 29

are nominated, and in practice retained, through promoter influence can monitor effectively,[18] and have described India's approach as borrowing foreign institutional models while adapting them to local ownership patterns.[19] Overviews of the Indian system generally conclude that the rules converged with international practice faster than behaviour did.[20]

Research gap. Existing work tends to examine either one reform, typically Clause 49, or one actor, typically independent directors. Few studies follow the whole reporting chain of standards, preparers, audit committees, auditors and regulators, alongside the governance chain, and fewer still test that combined picture against events after the Companies Act 2013. This paper tries to do so.

RESEARCH OBJECTIVES, QUESTIONS AND METHODOLOGY

Objectives. The paper (i) traces the historical evolution of financial reporting and governance regulation in India; (ii) maps the present legal architecture; (iii) evaluates how it works through selected cases; and (iv) identifies gaps and proposes reforms.

Research questions. Four questions guide the study. How have India's financial reporting and governance frameworks evolved, and what drove each phase of reform? What are the principal institutions and instruments of the current framework, and how do they interact? What do major corporate failures reveal about its effectiveness? And which structural features of Indian corporate ownership most limit it, and what reforms would address them?

Methodology. The study is doctrinal. It analyses primary sources (statutes, rules, SEBI regulations and circulars, and judicial decisions) and secondary sources (committee reports and peer-reviewed literature). The four cases were chosen purposively, because each exposed a different weakness: fraudulent reporting, group-level governance and gatekeeper failure, controlling-shareholder conflict, and the handling of whistleblowers. Case facts are drawn from public orders, judgments and company disclosures. The paper has limits that should be stated plainly. It relies on published sources, it collects no primary data, and Indian company and securities law is amended so often that a reader should confirm the current text of any provision before relying on it.

EVOLUTION OF THE INDIAN FRAMEWORK

Indian company law inherited the English model. The Companies Act 1956 prescribed statutory books, audit and a basic disclosure regime. The Institute of Chartered Accountants of India (ICAI), set up under the Chartered Accountants Act 1949, began issuing accounting standards through its Accounting Standards Board in 1977. For roughly four decades after independence, ownership stayed concentrated in promoter families and in state-owned financial institutions, which held large blocks as lenders and nominated directors to company boards. Market discipline was weak, and so was the demand for credible disclosure. That changed after the liberalisation of 1991, the grant of statutory status to SEBI in 1992 and the arrival of foreign institutional investors, who wanted numbers they could trust.

Governance reform began with industry itself. The Confederation of Indian Industry published a voluntary code in 1998.[21] SEBI's Kumar Mangalam Birla Committee then recommended mandatory and non-mandatory norms on board composition, audit committees and disclosure, which entered the listing agreement as Clause 49 in 2000 and were phased in by company size.[22] After Enron and the US Sarbanes-Oxley Act of 2002, the Naresh Chandra Committee examined auditor independence and the relationship between auditors and the companies they audit.[23] The Narayana Murthy Committee's recommendations followed, and they produced a strengthened Clause 49 that took effect from 1 January 2006, with CEO and CFO certification of financial statements and a tighter definition of independence.[24]

The Irani Committee's review of company law informed the long process of replacing the 1956 Act.[25] It was the Satyam fraud of 2009, though, that accelerated matters. The Ministry of Corporate Affairs issued voluntary governance guidelines that year,[26] and Parliament eventually enacted the Companies Act 2013, which put independent directors, audit committees, related-party controls, auditor rotation, class actions and the NFRA on a statutory footing.

Journal of Law, Economics, and Organization 1056.

[18]Umakanth Varottil, 'Evolution and Effectiveness of Independent Directors in Indian Corporate Governance' (2010) 6 *Hastings Business Law Journal* 281.

[19]Afra Afsharipour, 'Corporate Governance Convergence: Lessons from the Indian Experience' (2009) 29 *Northwestern Journal of International Law and Business* 335.

[20]Rajesh Chakrabarti, William Megginson and Pradeep K Yadav, 'Corporate Governance in India' (2008) 20 *Journal of Applied Corporate Finance* 59.

[21]Confederation of Indian Industry, *Desirable Corporate Governance: A Code* (1998).

[22]SEBI, *Report of the Kumar Mangalam Birla Committee on Corporate Governance* (1999); SEBI Circular SMDRP/POLICY/CIR-10/2000 (21 February 2000).

[23]Department of Company Affairs, *Report of the Committee on Corporate Audit and Governance* (Naresh Chandra Committee, 2002).

[24]SEBI, *Report of the SEBI Committee on Corporate Governance* (Narayana Murthy Committee, 2003); SEBI Circular SEBI/CFD/DIL/CG/1/2004/12/10 (29 October 2004).

[25]Ministry of Corporate Affairs, *Report of the Expert Committee on Company Law* (Irani Committee, 2005).

[26]Ministry of Corporate Affairs, *Corporate Governance Voluntary Guidelines 2009* (December 2009).

In 2015 SEBI consolidated its listing norms into the LODR Regulations, turning what had been contractual terms of the listing agreement into binding regulation.[27] The Kotak Committee's 2017 report prompted a further series of amendments on board size, diversity, the separation of the chairperson and CEO roles for the largest companies (a requirement later softened to a voluntary one) and richer disclosure.[28] Table 1 summarises the main milestones.

Milestones in Indian financial reporting and governance regulation

Year	Development
1949	ICAI established under the Chartered Accountants Act
1956	Companies Act 1956
1977	ICAI Accounting Standards Board constituted
1992	SEBI given statutory powers
1998	CII voluntary corporate governance code
2000	Clause 49 introduced (Birla Committee)
2006	Revised Clause 49 in force (Murthy Committee)
2009	Satyam fraud; MCA voluntary guidelines
2013	Companies Act 2013
2015	SEBI LODR Regulations; Ind AS Rules notified
2017	Kotak Committee report
2018	NFRA constituted
2021	BRSR introduced for top listed entities

Source: compiled by the author from the instruments cited in Part 4.

THE FINANCIAL REPORTING ARCHITECTURE

Statutory Duties Under the Companies Act 2013

Financial statements must give a true and fair view and comply with the accounting standards notified under section 133.[29] The board's report must carry a Directors' Responsibility Statement affirming that applicable standards were followed, that prudent estimates were made, that proper records were kept to prevent and detect fraud and, for listed companies, that internal financial controls are in place and operating.[30] The statutory auditor must in turn report on the adequacy and operating effectiveness of those controls.[31] The design is deliberate: the board answers for preparing the accounts, and the auditor answers for independently giving an opinion on them. The design depends, of course, on the two actually being independent of each other.

Accounting Standards: From AS to IND AS

India converged with IFRS; it did not adopt it outright. The Companies (Indian Accounting Standards) Rules 2015 phased in Ind AS from the financial year 2016–17, first for larger and listed companies and later for others by net-worth thresholds, while smaller companies continue under the older Accounting Standards.[32] Ind AS moved Indian reporting towards fair-value measurement and expected-credit-loss provisioning. International evidence suggests such changes can raise comparability, but they also widen managerial judgement,[33] and wider judgement increases the burden on audit committees and auditors. A small number of carve-outs from IFRS remain, reflecting local policy choices.

Periodic and Non-Financial Disclosure Under LODR

Listed entities must publish quarterly results within 45 days and audited annual results within 60 days of the end of the period, with auditor review or audit as applicable, and must provide an annual report with prescribed content.[34] Since the financial year 2022–23 the top 1,000 listed entities by market

[27]Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015.

[28]SEBI, *Report of the Committee on Corporate Governance* (Uday Kotak Committee, October 2017).

[29]Companies Act 2013, ss 129 and 133.

[30]Companies Act 2013, s 134(5).

[31]Companies Act 2013, s 143(3)(i).

[32]Companies (Indian Accounting Standards) Rules 2015 (notified 16 February 2015).

[33]Barth, Landsman and Lang (n 10).

[34]SEBI (LODR) Regulations 2015, regs 33 and 34.

capitalisation have had to file a Business Responsibility and Sustainability Report (BRSR). SEBI has since added a core set of indicators subject to phased assurance, which pulls sustainability information into the same discipline that applies to financial numbers.[35]

Audit Regulation

The auditor's report is shaped by the Companies (Auditor's Report) Order 2020 (CARO 2020), which requires comment on matters such as fraud, whistleblower complaints and internal audit, and, for listed companies, by the Standard on Auditing on Key Audit Matters (SA 701).[36] Since 1 April 2023 companies that use accounting software must maintain an audit trail, or edit log, that cannot be disabled.[37] To protect independence, the Act sets rotation (a single term of five years for an individual auditor and two terms for a firm, followed by a cooling-off period), prohibits specified non-audit services, and obliges auditors to report suspected fraud above prescribed thresholds to the Central Government.[38]

The National Financial Reporting Authority

Section 132 of the Act empowers the NFRA to recommend accounting and auditing standards, monitor compliance, review audit quality, and investigate and penalise professional misconduct by auditors of listed companies and large unlisted companies.[39] Its creation answered a long-standing criticism that the profession regulated itself through the ICAI's disciplinary mechanism. NFRA inspection reports and enforcement orders against audit firms have since become an important, if contested, source of evidence on audit quality, and the boundary between its jurisdiction and the ICAI's has yet to be fully settled.

THE CORPORATE GOVERNANCE ARCHITECTURE

Board and independent directors. Under the Companies Act every listed company must have at least one-third of its board made up of independent directors, and at least one woman director. The LODR Regulations go further and require half where the chairperson is an executive or is related to the promoter. Section 149 and Schedule IV set out the criteria for independence and a code of conduct.[40]

Board committees. The audit committee must have at least three directors, with independent directors forming the majority under the Act and two-thirds under LODR. It oversees financial reporting, auditor appointment and independence, internal controls and related-party transactions. The nomination and remuneration committee and, for the largest listed entities, a risk management committee complement it.[41]

Related-party transactions. The Act and LODR require audit-committee approval of related-party transactions and shareholder approval for material ones, with related parties barred from voting on them. This reflects how central tunnelling risk is in promoter-controlled firms.[42]

Whistleblowing and shareholder remedies. Listed companies must operate a vigil mechanism, and minority shareholders can seek relief against oppression and mismanagement before the National Company Law Tribunal (NCLT) or bring class actions.[43]

Three design features stand out. First, India's regime relies on independent directors and committees as the principal monitors, a model imported from Anglo-American practice and traceable to the Cadbury Report in the United Kingdom and to Sarbanes-Oxley in the United States.[44] Second, it supplements them with unusually strong shareholder-approval requirements for related-party transactions, a sensible adaptation to controlled companies. Third, enforcement is divided among the Ministry of Corporate Affairs, SEBI, the NCLT, the NFRA and, for banks and non-banking financial companies, the Reserve Bank of India. That division brings specialised expertise, and it also brings coordination problems that no single regulator is responsible for solving.

The independent director deserves particular attention, because the whole structure leans on that office. Sections 149 and 150 of the Act and the Companies (Appointment and Qualification of Directors) Rules 2014 provide for a databank of eligible persons, and SEBI has since required that appointment and removal of independent directors be approved by special resolution.[45] These are real improvements. Yet where a promoter holds a controlling block, the

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[35]SEBI Circular SEBI/HO/CFD/CMD-2/P/CIR/2021/562 (10 May 2021); SEBI Circular SEBI/HO/CFD/CFD-SEC-2/P/CIR/2023/122 (12 July 2023).

[36]Companies (Auditor's Report) Order 2020, MCA Order S.O. 849(E) (25 February 2020); ICAI, Standard on Auditing 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

[37]Companies (Accounts) Rules 2014, r 3(1), as amended by the Companies (Accounts) Second Amendment Rules 2021.

[38]Companies Act 2013, ss 139(2), 144 and 143(12); Companies (Audit and Auditors) Rules 2014, r 13.

[39]Companies Act 2013, s 132; National Financial Reporting Authority Rules 2018.

[40]Companies Act 2013, s 149(1), (4), (6) and sch IV; SEBI (LODR) Regulations 2015, reg 17(1).

[41]Companies Act 2013, ss 177–178; SEBI (LODR) Regulations 2015, regs 18, 19 and 21.

[42]Companies Act 2013, ss 177(4) and 188; SEBI (LODR) Regulations 2015, reg 23.

[43]Companies Act 2013, ss 177(9), 241–242 and 245; SEBI (LODR) Regulations 2015, reg 22.

[44]Committee on the Financial Aspects of Corporate Governance, *Report of the Committee on the Financial Aspects of Corporate Governance* (Cadbury Report, Gee 1992).

[45]Companies Act 2013, ss 149–150; Companies (Appointment and Qualification of Directors) Rules 2014, r 6; SEBI (LODR) Regulations 2015, reg

special resolution can still be carried by the promoter's own votes, which is the structural reason many observers doubt that nominal independence translates into real independence.

CASE ANALYSIS

Satyam Computer Services (2009)

In January 2009 the founder-chairman, B Ramalinga Raju, admitted in a letter to the board that the company's balance sheet overstated cash and bank balances by a very large amount, roughly ₹5,000 crore, and that profits and revenues had been inflated over several years.[46] The fraud came after a board proposal in December 2008 for Satyam to acquire two companies linked to the founder's family, which investors greeted with such hostility that it was withdrawn within hours. Raju was later convicted by a special court,[47] and SEBI barred the auditor, Price Waterhouse, from auditing listed companies for two years.[48]

The case exposed failures at every layer of the framework then in force. The audit committee and independent directors neither detected the manipulation nor challenged the related-party proposal. The auditor relied on confirmations that turned out to be forged. And regulatory detection was slow, since the truth came out through the promoter's own admission and not through any outside check. The episode directly informed the 2013 Act's provisions on related-party transactions, auditor rotation and fraud reporting, and the creation of the NFRA.

IL&FS (2018)

Infrastructure Leasing & Financial Services, a systemically important non-banking financial group with a very large number of subsidiaries and associates, began defaulting on its obligations in 2018. The Union of India petitioned the NCLT to supersede the board, and in October 2018 the tribunal allowed a reconstituted board to take control on grounds of mismanagement.[49] The episode illustrated group-level governance risk: opaque structures, concentrated decision-making and reliance on rolling short-term debt to fund long-term assets. It also raised hard questions about audit committees, auditors and credit rating agencies that had, until shortly before the defaults, continued to give the group favourable ratings. It prompted regulatory attention to NBFC governance, asset-liability management and auditor oversight, and it strengthened the argument for the NFRA's inspection role.

Tata Sons v Cyrus Mistry (2016-2021)

Cyrus Mistry was removed as executive chairman of Tata Sons in October 2016, and the removal set off litigation over oppression and mismanagement, the powers of the controlling shareholder under the articles of association, and the role of nominee directors. The National Company Law Appellate Tribunal ordered Mistry's reinstatement, but in March 2021 the Supreme Court set that order aside, holding that the removal did not amount to oppression and upholding the contractual rights embedded in the articles.[50] For governance scholarship the case shows the limits of minority-protection law when shareholder rights are structured through articles of association. It also shows the tension between board independence and a controlling shareholder's ability to nominate and remove directors.

The Infosys Whistleblower Episode (2019)

In late 2019 anonymous whistleblowers alleged that senior management had pressed for aggressive revenue recognition at Infosys. The audit committee commissioned independent investigations by external law firms, and in January 2020 the company told the stock exchanges that it had found no evidence supporting the allegations.[51] This is a relatively positive example of the framework working. A vigil mechanism was triggered, the audit committee took charge of the investigation, and the company disclosed under LODR. It also showed how hard it is for investors to verify such a process from outside, and how important it is to protect whistleblowers.

Cross-Case Synthesis

The cases share four themes. First, controlling shareholders sit at the centre of the failures in Satyam and the Tata dispute, and the group structure is central to IL&FS. Second, gatekeepers (independent directors, audit committees, auditors and rating agencies) failed or were slow to act where promoter or management influence was strong. Third, related-party dealings are a recurring early-warning signal. Fourth, the regulatory response was reactive, with major reforms following scandals instead of preceding them. Table sets the cases side by side.

25(2A).

[46]Letter from B Ramalinga Raju to the Board of Directors, Satyam Computer Services Ltd (7 January 2009).

[47]*Central Bureau of Investigation v B Ramalinga Raju* (Special Court for CBI Cases, Hyderabad, judgment of 9 April 2015).

[48]SEBI, Final Order in the matter of Satyam Computer Services Ltd (January 2018).

[49]*Union of India v Infrastructure Leasing & Financial Services Ltd* (NCLT Mumbai, order of 1 October 2018).

[50]*Tata Consultancy Services Ltd v Cyrus Investments Pvt Ltd* (2021) 9 SCC 449.

[51]Infosys Ltd, disclosure to stock exchanges under SEBI (LODR) Regulations 2015, reg 30, on the conclusion of the Audit Committee investigation (January 2020).

Comparative summary of the four cases

Case	Core weakness	Gatekeeper outcome	Regulatory consequence
Satyam (2009)	Falsified accounts; related-party proposal	Auditor and board failed to detect	Companies Act 2013; NFRA; SEBI action against auditor
IL&FS (2018)	Opaque group structure; asset–liability mismatch	Auditors and rating agencies late to flag	NCLT supersession; NBFC and audit scrutiny
Tata–Mistry (2016–21)	Controlling-shareholder power under articles	Independent board role contested	Supreme Court affirmed contractual rights
Infosys (2019)	Whistleblower allegations on revenue recognition	Audit committee led the inquiry	Disclosure under LODR; no wrongdoing found

Source: compiled by the author from the decisions and disclosures cited in Part 7.

KEY FINDINGS

Four findings emerge from the analysis above.

The rules have converged; the behaviour has not. On paper, India's reporting and governance framework contains nearly every element that international benchmarks recommend: converged standards, audit committees, independent directors, auditor rotation, a dedicated audit regulator, related-party controls and a vigil mechanism. What the Satyam, IL&FS and Tata cases show is that the presence of these elements does not guarantee that they work. This echoes the mutual fund study, where convergence in design coexisted with a more compliance-driven, less substantive style of supervision.

Concentrated ownership is the binding constraint. The mechanisms in the framework were built for a world in which the main problem is a manager who ignores dispersed shareholders. In a promoter-controlled company the main problem is different, and the same mechanisms are weaker against it. A promoter who nominates the independent directors, shapes the audit committee and carries ordinary votes on appointments can, if so inclined, hollow out each check without breaking any rule.

Gatekeepers remain exposed. Auditors are appointed and paid by the very companies they audit, and the market for large-company audits is concentrated in a handful of networks. Rotation limits the length of a relationship but does not change who pays. Rating agencies face a similar issuer-pays problem. The NFRA is a real step forward, but its resources, its jurisdictional boundary with the ICAI and the pace of its proceedings are still being tested.

Enforcement is slow and fragmented. Responsibility is divided among the MCA, SEBI, the NCLT, the NFRA and sectoral regulators, and proceedings can run for years. Satyam's auditor was sanctioned nearly a decade after the fraud came to light. Delay of that order weakens deterrence, because a rule that is enforced late is enforced against a different market, a different board and often a different set of managers

REFORM PROPOSALS

The following proposals follow directly from the findings. They are offered as directions for debate, not as a finished blueprint.

Strengthen the appointment of independent directors. The existing databank and special-resolution requirement should be complemented by a 'majority of the minority' vote for independent-director appointments in promoter-controlled companies, so that the people meant to protect minority shareholders cannot be placed on the board only by the votes of the promoter. Nomination should also be anchored in a process led by independent directors and shareholders, not by the promoter group.

Reduce concentration and dependence in the audit market. Mandatory joint audits for the largest entities, with at least one non-network firm, would widen the field and give challengers a way to build reputation. Pairing this with a clear statutory statement of the NFRA's jurisdiction, and a defined protocol for sharing information with the ICAI, would reduce duplication and forum conflict.

Improve coordination among regulators. A standing inter-regulatory forum for the MCA, SEBI, the RBI and the NFRA, with a duty to share inspection findings and to publish time-bound action plans after major failures, would help close gaps between jurisdictions, especially for group structures such as IL&FS that cross regulatory lines.

Build enforcement capacity. Faster outcomes require more benches and members at the NCLT, specialised investigation capacity in the NFRA and SEBI, and a commitment to publish enforcement outcomes in a form that investors can use. Stronger protection for whistleblowers, including confidentiality and protection against retaliation, should accompany these measures, since whistleblowers are often the first to see what the formal checks miss.

CONCLUSION

India's financial reporting and corporate governance framework has come a long way in a short time. It has moved from industry codes to statute, from domestic accounting standards to Ind AS, and from a self-regulating profession to an independent audit regulator. Measured by the quality of its rules, it can fairly be called close to international practice.

Measured by outcomes, the picture is more mixed. Satyam, IL&FS and the Tata dispute each show a different way in which formal safeguards can fail when control is concentrated and gatekeepers depend on those they are meant to check. The Infosys episode shows that the framework can work when an audit committee acts with real independence, and that is perhaps the most useful lesson of all. The challenge now is less to add new rules than to make the existing ones bite: through independent directors who are independent in fact, an audit market that does not depend so heavily on a few firms and the paying client, regulators who cooperate, and enforcement that arrives in time.

As in the mutual fund sector, the Indian system is strong in structure and still developing in function. Future research could test these arguments empirically, for example by studying audit-quality indicators before and after the NFRA's creation, or by comparing the performance of promoter-controlled and professionally managed companies under Ind AS. That work would show how far the reforms discussed here have actually changed behaviour.

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