

## **Enforcement of Corporate Governance Against Financial Statement Fraud: A SEBI and Companies Act 2013 Perspective**

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### **ABSTRACT**

Corporate governance plays a crucial role in ensuring financial transparency, accountability, and ethical business practices. However, financial statement fraud remains a persistent challenge, undermining investor confidence and corporate integrity. This research examines the enforcement of corporate governance mechanisms under the Companies Act 2013 and SEBI's Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015 in preventing fraudulent financial reporting. Despite robust legal frameworks, gaps in enforcement, regulatory inefficiencies, and auditor collusion continue to facilitate financial misconduct. Through an analysis of governance challenges and enforcement mechanisms, this study highlights key areas for reform, including strengthening regulatory oversight, enhancing auditor independence, and leveraging technology for fraud detection. The findings underscore the need for stricter compliance measures, improved board accountability, and proactive policy interventions to mitigate financial fraud and enhance corporate governance effectiveness in India.

**KEYWORDS:** CORPORATE GOVERNANCE, FINANCIAL STATEMENT FRAUD, FINANCIAL ACCOUNTANCY FRAUD, ENFORCEMENT, SEBI, COMPANIES ACT 2013

### **1. Introduction**

Corporate governance is the foundation of ethical business conduct, ensuring fair financial reporting, investor protection, and fraud prevention (Usman, 2017). Financial statement fraud occurs when companies manipulate financial reports to deceive stakeholders, a practice that has led to several corporate collapses worldwide. India has witnessed major financial fraud cases, including the Satyam scandal (2009), exposing governance weaknesses. In response, the Companies Act 2013 and SEBI's Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015 were introduced to strengthen financial governance and prevent corporate fraud. Despite these measures, fraudulent financial reporting continues due to regulatory gaps, weak enforcement, and auditor collusion. This paper examines the effectiveness of corporate governance mechanisms in fraud prevention, explores the challenges in SEBI's enforcement mechanisms, and proposes policy recommendations for strengthening corporate governance in India.

### **2. Literature Review**

#### **2.1 Corporate Governance and Fraud Prevention**

Corporate governance involves the relationships between a company's board, shareholders, and stakeholders, providing a structured framework for decision-making and oversight. In India, corporate governance gained prominence after cases like the Satyam fraud, prompting the introduction of the Companies Act, 2013. This act introduced key provisions such as independent directors, mandatory board committees, corporate social responsibility (CSR), and stricter compliance regulations. Furthermore, institutions like SEBI, RBI, and the Serious Fraud Investigation Office (SFIO) play a critical role in monitoring governance practices and enforcing accountability. The good corporate governance enhances investor confidence, minimizes financial risks, and ensures sustainable business growth. While significant progress has been made in strengthening governance frameworks, continuous efforts are required to adapt to evolving business challenges and regulatory demands. (Usman, 2017)

Corporate governance has undergone significant evolution, primarily in response to financial crises and corporate fraud cases. Research highlights its critical role in enhancing transparency, accountability, and oversight mechanisms to safeguard shareholders and stakeholders. Major financial scandals, such as Enron and WorldCom, exposed severe governance weaknesses, leading to regulatory reforms like the Sarbanes-Oxley Act, which aimed to strengthen corporate accountability and internal controls (Costa, 2016). While corporate governance frameworks help mitigate unethical practices, they are not entirely foolproof, as fraudulent activities continue to evolve alongside regulatory mechanisms. Studies emphasize the necessity of board independence, stringent monitoring systems, and robust internal controls to maintain corporate integrity and investor confidence. However, the effectiveness of governance depends on its ability to adapt to changing financial landscapes and emerging risks. Strengthening corporate governance requires continuous oversight, regulatory compliance, ethical leadership, and a corporate culture that prioritizes transparency and accountability to effectively combat financial fraud and ensure sustainable business practices (Costa, 2016).

Corporate governance mechanisms are also critical in detecting fraudulent financial reporting, incorporating both financial and non-financial indicators. Research employing statistical prohibit models has demonstrated that financial ratios alone are insufficient in predicting fraud, necessitating the integration of qualitative governance factors. Key risk indicators include an excessively powerful CEO, weak internal controls, frequent senior management turnover, insider stock trading, and unclear business strategies (Grove & Basilico, 2008). These findings support regulatory measures such as the Sarbanes-Oxley Act, which was introduced to strengthen governance and fraud prevention mechanisms.

Corporate governance frameworks, including board independence, internal audits, and whistleblower protections, are essential for fraud detection. The findings reveal that companies with a higher proportion of independent outside directors are less likely to engage in corporate fraud. Specifically, the presence of independent directors on the board and key oversight committees, such as audit and compensation committees, significantly reduces the likelihood of fraudulent behaviour. (Uzun et al., 2004). While SEBI mandates strict governance rules, many companies continue to manipulate financial statements due to weak enforcement (Vaish, V., & Mehta, H., 2015).

Prior research highlights that auditors often fail to detect financial irregularities due to compromised independence and insufficient professional scepticism. A key factor influencing auditor independence is the prolonged association with clients, which fosters familiarity threats and reduces objectivity. Studies have also examined the role of regulatory frameworks in safeguarding auditor independence, yet enforcement remains a challenge, as evidenced by legal cases of audit failures. While auditor rotation is seen as a potential solution to mitigate familiarity threats, debates persist regarding the provision of non-audit services, as such engagements may create conflicts of interest. Another critical aspect explored in existing literature is the financial dependence of auditors on their clients due to high audit fees, which can lead to biased reporting. Additionally, weak disciplinary measures have been identified as a factor contributing to audit failures, reinforcing the need for stricter penalties and oversight mechanisms. Scholars have also emphasized the role of ethical education and training in promoting auditor independence, advocating for the integration of ethics into professional accounting curricula. Divergent perspectives exist among stakeholders, with corporate executives often perceiving auditors as negligent, whereas auditors argue otherwise. Strengthening audit committees and establishing independent regulatory bodies have been suggested as effective measures to enhance auditor independence. The literature underscores the need for regulatory reforms, stricter enforcement, and ethical training to ensure the protection of stakeholders' interests and the credibility of financial reporting. (Roy & Saha, 2016).

The study identifies key factors affecting statutory auditors' independence, including appointment procedures, tenure, and relationships with management. Auditor rotation, strict disciplinary measures, external reviews, and ethics training are recommended to mitigate risks. Stakeholders acknowledge the impact of regulatory enforcement and non-audit services on auditor objectivity. While concerns exist about remuneration, most respondents do not see fee caps as a solution to audit failures. Strengthening audit committees, implementing peer reviews, and enforcing legal reforms are essential to maintaining auditor independence and public confidence in financial reporting. (Tyagi, 2012)

## 2.2 Corporate Governance Framework in India

Corporate governance in India is governed by a range of laws, regulations, and guidelines formulated by the government and regulatory bodies.

A. The **Companies Act, 2013** serves as the principal legislation, promoting transparency, accountability, and ethical management. It incorporates several key provisions:

- Section 134 – Obliges directors to provide a detailed report on corporate governance, risk management, and financial disclosures.
- Corporate Social Responsibility (CSR) (Section 135) – Requires eligible companies to contribute to social initiatives.
- Independent Directors (Section 149) – Mandates the appointment of independent directors in certain companies.
- Audit Committee (Section 177) – Ensures financial integrity and regulatory adherence.
- Nomination and Remuneration Committee (Section 178) – Oversees board appointments and executive compensation.
- Section 166: Lays down the duties of directors, ensuring fiduciary responsibility.

B. The **Securities and Exchange Board of India (SEBI) Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015**, play a crucial role in reinforcing corporate governance for publicly listed entities by:

- Regulation 17 - Board of Directors: Mandates board composition, requiring at least 50% independent directors if the Chairperson is an executive director. It also outlines board responsibilities, including risk management and internal control oversight.

- Regulation 18 - Audit Committee: Requires listed entities to have an audit committee with a minimum of three directors, with at least two-thirds being independent. The committee ensures financial reporting integrity and internal control effectiveness.
- Regulation 19 - Nomination & Remuneration Committee (NRC): Mandates a committee to oversee executive compensation and board appointments, ensuring fair and performance-based remuneration structures.
- Regulation 20 - Stakeholders Relationship Committee: Requires companies to have a committee to resolve shareholder grievances, ensuring transparency in investor relations.
- Regulation 21 - Risk Management Committee: Establishes a framework for identifying and mitigating operational, financial, and cyber risks, especially for the top 1000 listed companies.
- Regulation 22 - Vigil Mechanism: Requires companies to have a whistle-blower policy, allowing employees and stakeholders to report governance and ethical violations.
- Regulation 23 - Related Party Transactions: Mandates disclosure and approval of transactions between related parties, preventing conflicts of interest.
- Regulation 24 - Corporate Governance for Subsidiaries: Extends governance norms to material subsidiaries, ensuring board oversight and financial transparency.
- Regulation 25 - Obligations of Independent Directors: Defines roles, responsibilities, and meeting requirements for independent directors, ensuring unbiased governance.
- Regulation 26 - Obligations of Directors and Key Managerial Personnel (KMPs): Limits directorships, mandates disclosure of conflicts of interest, and sets conduct standards for senior executives.
- Regulation 27 - Compliance Reporting: Requires quarterly compliance reports on corporate governance, ensuring ongoing adherence to SEBI's governance framework.
- Regulation 30 – Requiring the disclosure of key corporate events.

Previously, Clause 49 of the Listing Agreement (now replaced by SEBI' LODR) was instrumental in introducing governance reforms by enforcing independent director appointments and the establishment of audit committees. These provisions have since been integrated into SEBI's LODR framework.

The enforcement of corporate governance mechanisms under the SEBI (Listing Obligations and Disclosure Requirements) Regulations (LODR) is achieved through stringent compliance requirements for listed entities. The framework mandates adherence to regulations covering board composition, shareholder rights, disclosure norms, and financial transparency. Listed entities must comply with governance provisions specified under regulations 17 to 27, including audit oversight, stakeholder rights protection, and risk management mechanisms. The framework also enforces periodic compliance reporting, ensuring accountability and transparency. Failure to adhere to these norms can result in penalties, suspension of trading, or regulatory intervention by SEBI, reinforcing the commitment to sound corporate governance practices

C. The **National Guidelines on Responsible Business Conduct (NGRBC), 2019**, introduced by the Ministry of Corporate Affairs, encourage businesses to follow ethical practices and foster sustainable growth.

PRINCIPLE 1- Businesses should conduct and govern themselves with integrity in a manner that is Ethical, Transparent and Accountable.

PRINCIPLE 6 -Businesses should respect and make efforts to protect and restore the environment.

PRINCIPLE 9- Businesses should engage with and provide value to their consumers in a responsible manner.

D. Furthermore, the **Insolvency and Bankruptcy Code (IBC), 2016**, provides a legal framework for corporate restructuring and financial recovery, with:

- Section 208 – Outlining the authority of insolvency professionals.
- Section 29A – Restricting defaulting promoters from reclaiming ownership.

E. To combat corporate fraud and corruption, the, Bharatiya Nyaya Sanhita (BNS) and the Prevention of Corruption Act, 1988, implement legal safeguards, particularly:

- BNS Section 316 – Addresses criminal breaches of trust, which is applicable to the corporate fraud cases.
- Prevention of Corruption Act – Targeting bribery and illicit financial practices.

F. The **Reserve Bank of India (RBI) Guidelines** oversee governance standards for financial institutions, including banks and non-banking financial companies (NBFCs). RBI Master Circulars. provide continuous governance updates for financial entities.

G. Additionally, the **Institute of Company Secretaries of India (ICSI)** Corporate Governance Code offers voluntary guidelines aimed at improving board effectiveness and corporate transparency. It is a well-defined initiative that seeks to unify corporate governance principles across borders, prioritizing ethics, transparency, and sustainability. However, its success will depend on corporate willingness to adopt self-regulation, government support, and industry-wide acceptance. If widely embraced, it has the potential to reshape global corporate governance, fostering greater trust, accountability, and long-term business sustainability.

H. The **Corporate Governance Voluntary Guidelines, 2009**, released by the Ministry of Corporate Affairs, provide recommendations on:

- Board composition and responsibilities.
- The role of independent directors in decision-making.
- Policies governing executive remuneration.

Together, these laws and regulations create a robust corporate governance system in India, ensuring regulatory compliance, safeguarding investor interests, and promoting ethical business operations. Companies that align with these frameworks enhance their reputation, build stakeholder confidence, and ensure sustainable growth.

### 2.3 SEBI's Role in Enforcing Corporate Governance

SEBI enforces financial transparency through:

- Mandatory financial disclosures for listed companies.
- Independent board monitoring and audit committee oversight.

Penalties for fraudulent financial reporting (Usman, 2017).

However, compliance remains inconsistent, and some industries evade strict regulatory scrutiny.

### 2.4 The Companies Act 2013 and Its Fraud Prevention Provisions

The Companies Act, 2013 imposes strict penalties for financial fraud, misrepresentation, and misreporting:

- Section 248 – Provides for the removal of companies engaging in fraudulent or non-compliant activities from the register of companies.
- Section 447: Defines fraudulent activities and imposes penalties of imprisonment from six months to ten years and a fine not less than the amount involved in fraud, extendable up to three times the fraudulent amount.
- Section 448: Punishes false statements in returns, reports, and financial documents, with imprisonment up to two years or fines.
- Section 449: Penalizes false evidence in corporate investigations with imprisonment up to seven years and fines.
- Section 450 & 451: Enforce penalties for violations where no specific punishment is provided and double penalties for repeated offenses.
- Section 143: Mandates auditors to report fraud to regulatory authorities, failing which they face fines up to ₹25 lakh or imprisonment.

To encourage reporting of corporate misconduct, the Act provides protection mechanisms:

- Section 218: Prohibits companies from discriminating, suspending, or dismissing employees who report fraud or misconduct, ensuring legal protection during investigations.
- Section 211 & 212: Authorize the Serious Fraud Investigation Office (SFIO) to investigate fraud cases.

The Companies Act, 2013 enforces stringent penalties for financial misreporting and provides robust whistle-blower protections to uphold corporate governance. Section 447 penalizes corporate fraud with imprisonment ranging from six months to ten years and fines up to three times the fraud amount, while Section 448 criminalizes false statements in financial documents with imprisonment up to two years or fines. Sections 449, 450, and 451 impose penalties for providing false evidence, general violations, and repeated offenses, with stricter consequences for recurrence. Section 143 mandates auditors to report fraud, failing which they face fines up to ₹25 lakh or imprisonment. Additionally, whistle-blower protection is ensured under Section 177, which requires companies to establish a vigil mechanism for employees to report unethical activities confidentially, while Section 218 prohibits any discrimination or retaliation against whistleblowers. The Serious Fraud Investigation Office (SFIO) under Sections 211 and 212 is empowered to investigate fraudulent activities, ensuring that whistle-blower reports lead to concrete action. These provisions collectively enhance transparency, accountability, and ethical corporate conduct, deterring financial misconduct through strict legal enforcement.

Despite these measures, corporate fraud persists due to weak enforcement and delays in legal proceedings (Roy & Saha, 2016). A study examines how good corporate governance (GCG) mechanisms and corporate social responsibility (CSR) impact financial performance, with earnings management as a mediating factor. The findings indicate that both GCG and CSR positively influence financial performance, but earnings management (Earnings management is a practice followed

by the management of a firm to influence the earnings reported in financial statements) has a negative effect. The research also shows that earnings management partially mediates the relationship between GCG and financial performance, while it fully mediates the impact of CSR on financial performance. Additionally, strong governance mechanisms, such as independent commissioners and high-quality auditors, help reduce earnings manipulation, improving overall financial transparency. However, CSR activities can sometimes be used strategically for earnings management, influencing reported profits. (Mahrani, M., & Soewarno, N., 2018).

### 3. Challenges in Corporate Governance Enforcement

Despite having a robust legal framework, regulatory loopholes and weak enforcement continue to pose significant challenges in corporate governance. One of the key issues is the overlapping responsibilities among regulatory bodies such as SEBI, and the Serious Fraud Investigation Office (SFIO), ) which leads to inefficiencies in fraud investigations. Additionally, judicial delays slow down legal proceedings, preventing timely action against corporate fraud. The absence of real-time fraud detection mechanisms further exacerbates the problem, making it difficult to identify and address financial misconduct at an early stage (Usman, 2017).

Jurisdictional conflicts between ordinary courts and expert regulatory bodies can raise concerns about credibility, as generalist judges have the legal authority to overturn decisions made by specialized regulators. SEBI has faced legal hurdles in enforcing penalties against corporate offenders, as companies often challenge regulatory decisions in higher courts, delaying or weakening enforcement. While cases of regulatory bodies exceeding their statutory limits are rare, there are numerous instances where they have been overly cautious, operating below their full authority. This reluctance may stem from various factors, but regulatory bodies often exhibit excessive risk aversion, despite legal and public expectations for more assertive action. (Agarwal, 2013)

Family-owned businesses face unique corporate governance challenges that increase their vulnerability to corruption and financial mismanagement. Concentrated ownership, CEO duality, and generational conflicts often lead to weak oversight and governance inefficiencies. The dominance of family members in key decision-making positions, along with ineffective internal audits, creates opportunities for profit manipulation, favoritism, and financial statement fraud. Additionally, nepotism undermines transparency and accountability, making it difficult to implement fair corporate practices. The absence of structured succession planning further complicates leadership transitions, increasing governance risks. Addressing these challenges requires stronger regulatory frameworks, independent board oversight, and transparent governance mechanisms to ensure sustainable corporate performance and integrity in family businesses. (Paganou et.al, G. (2024). Fraud is more likely in firms with weak governance systems, where conflicts of interest and information asymmetry allow managers to manipulate financial statements for personal gain. Companies with large controlling shareholders (blockholders) are more prone to fraud, as these entities often prioritize their interests over minority shareholders, leading to governance failures. (Magnanelli, et.al. 2017).

Another major concern is auditor independence and financial misreporting, as auditors are essential in detecting financial fraud. However, conflicts of interest often hinder objective auditing practices. Research indicates that auditors, due to their financial ties with corporations, sometimes compromise their independence, leading to the manipulation of financial statements and an increased risk of fraudulent activities (Roy & Saha, 2016). Strengthening regulatory oversight and enforcing mandatory auditor rotation could help mitigate these issues and enhance financial transparency.

Fraud and corruption risks pose significant challenges for organizations, particularly in detection and prevention. Many companies rely on reactive measures instead of proactive strategies due to resource constraints and weak internal controls. A major concern is the lack of advanced fraud detection techniques, such as forensic data analysis, which is especially prevalent among small and midsize firms. Additionally, third-party fraud risks are often neglected, despite evidence that external vendors and partners are major contributors to corporate bribery and corruption. Organizations with inadequate fraud detection mechanisms also face a heightened risk of whistleblower disclosures, potentially resulting in reputational damage and regulatory scrutiny. Addressing these challenges requires stronger internal controls, enhanced risk management strategies, and improved third-party oversight to mitigate fraud effectively. (Moritz, 2016). Weak whistleblower protection laws remain a significant barrier to fraud detection. Many employees refrain from reporting corporate fraud due to fear of retaliation and a lack of adequate safeguards. Strengthening legal frameworks and offering financial incentives for whistleblowers could encourage more individuals to come forward with critical fraud-related information, ultimately improving transparency and accountability in corporate governance. Addressing these challenges through policy reforms, stricter enforcement mechanisms, and regulatory coordination is essential to enhancing corporate integrity and protecting investor interests.

Corporate governance faces several key challenges, as highlighted in PwC's 2024 Corporate Directors Survey. Many boards struggle with ineffective assessment processes, leading to stagnation and reluctance to replace underperforming directors due to personal relationships and collegiality. Additionally, boards continue to prioritize traditional skillsets

over emerging expertise in AI, sustainability, and geopolitics, despite their growing relevance. Environmental, Social, and Governance (ESG) oversight has weakened, with directors struggling to align sustainability initiatives with financial performance and lacking a consistent understanding of ESG priorities. AI governance also presents a challenge, as boards receive limited information on AI-related risks, despite trusting management to execute AI strategies. While political divisiveness, immigration, and economic inequality are major concerns, most boards avoid formal discussions on these issues. Shareholder activism is on the rise, yet many boards remain reactive rather than strategically engaging with shareholders. Corporate culture assessment is increasingly data-driven, yet directors still face challenges in effectively overseeing cultural dynamics. Lastly, board evaluations are often seen as ineffective "check-the-box" exercises that fail to drive meaningful change. Addressing these issues requires proactive governance reforms, stronger leadership accountability, and improved oversight mechanisms to enhance board effectiveness.

The 2024 Corporate Governance Survey by Excellence Enablers highlights key governance challenges and areas for improvement. While most companies comply with regulatory requirements for board composition and independence, some still lack diverse expertise and adequate board oversight. Gender diversity remains a challenge, with limited women in leadership roles, and geographical and age diversity also need improvement. Although board meetings meet the minimum regulatory requirement, director attendance remains inconsistent, affecting governance effectiveness. Committees such as Audit, Nomination and Remuneration, and Risk Management play a crucial role, but overlapping memberships reduce independent oversight. Companies are increasingly recognizing ESG risks, yet structured risk management and sustainability integration remain inadequate. Executive remuneration structures include both fixed and variable pay, but transparency in performance-based incentives is lacking. Virtual Annual General Meetings (AGMs) have limited direct shareholder engagement, with pre-submitted questions being the primary mode of interaction. While regulatory compliance is largely met, governance practices often remain a "tick-box" exercise rather than a proactive approach to strengthening governance. To enhance governance effectiveness, companies must improve board independence, increase diversity, integrate ESG into decision-making, strengthen risk management, and enhance transparency in executive compensation and shareholder engagement.

#### **4. Recommendations for Strengthening Corporate Governance**

To enhance corporate governance and mitigate the risk of fraud, it is recommended that companies strengthen board independence by increasing the proportion of independent directors. Establishing robust governance mechanisms, such as appointing independent chairpersons and ensuring well-structured audit committees, can improve oversight and reduce financial misconduct. Organizations should also minimize the influence of insiders or directors with personal or business ties to maintain objectivity in decision-making. Additionally, addressing weak supervisory practices, enhancing transparency, and reinforcing regulatory frameworks are essential for preventing financial scandals. Implementing these measures will foster corporate integrity, strengthen investor confidence, and promote long-term financial stability. (Pittarella, 2021)

The findings suggest that corporate governance reforms should focus on appointing financially knowledgeable independent directors rather than just increasing board independence. This will ensure stronger oversight, improves financial reporting accuracy, and reduces the risk of earnings restatements. (Agrawal, 2005)

To prevent fraudulent financial reporting, companies should strengthen internal controls, enhance audit mechanisms, and limit management's ability to override established processes. Establishing an independent board with rigorous oversight by audit committees can improve transparency and reduce the risk of financial misconduct. Additionally, regulatory bodies must enforce stricter penalties for financial misreporting and ensure that governance frameworks promote accountability. (Grove, 2008). To enhance corporate compliance and reduce financial fraud, regulatory bodies should utilize vicarious punishment as a deterrent by ensuring that enforcement actions are highly visible and consistently applied. Firms are less likely to engage in fraudulent activities when they observe peers facing significant penalties. However, as legal frameworks become more robust, companies rely more on formal regulations than on peer influence. Therefore, policymakers should adopt a balanced approach that combines strict legal enforcement with the reinforcement of social learning mechanisms to strengthen corporate governance and promote ethical business practices. Ethical leadership and role modelling by senior executives further instil integrity and governance principles across the organization. Regular corporate governance training and awareness programs help employees understand compliance requirements and ethical standards, while whistle blower protection encourages reporting of unethical practices without fear of retaliation. Peer influence and reputation concerns also drive companies to uphold strong governance standards, as firms that gain investor confidence through ethical conduct set an example for others. By integrating these mechanisms, businesses can foster a culture of accountability, strengthen governance frameworks, and mitigate financial misconduct. (Yiu, et. al., 2014).

The Serious Fraud Investigation Office (SFIO) plays a crucial role in corporate governance and fraud investigation, particularly following major financial scandals. Despite its statutory powers, challenges such as resource constraints,

procedural delays, and limited autonomy hinder its effectiveness. Comparisons with similar agencies in the UK and the US highlight the need for reforms to enhance SFIO's independence, investigative capabilities, and jurisdiction over bribery and corruption. Strengthening coordination between regulatory bodies and judicial authorities, alongside adopting global best practices, can improve corporate fraud enforcement and governance mechanisms. (Karnad, 2022).

To mitigate stock price crash risk, companies should implement strong corporate governance mechanisms that balance CEO power and market stability. While CEOs holding multiple influential positions—such as CEO duality, founder status, or board directorships—can contribute to stability, their influence should be monitored to prevent excessive control. Additionally, insider trading poses a significant risk by undermining investor confidence and increasing crash probability. Therefore, regulatory bodies should strengthen oversight of insider transactions to enhance transparency and protect shareholders. Since CEO tenure and compensation do not significantly impact stock price fluctuations, governance reforms should prioritize board independence, risk management strategies, and stricter disclosure requirements for insider trading. Strengthening these mechanisms will help ensure market stability and safeguard investor interests. (Kalia, 2024). Enhancing financial statement comparability is essential for improving accounting practices and financial transparency. When companies follow standardized accounting methods, financial information becomes more consistent, enabling investors, analysts, and regulators to make well-informed decisions. Greater comparability promotes conditional conservatism, ensuring timely recognition of losses and reducing information asymmetry, while simultaneously limiting unconditional conservatism to prevent excessive asset undervaluation and earnings manipulation. To strengthen transparency and market efficiency, corporate managers should prioritize financial statement comparability in their reporting processes. Additionally, regulators should implement standardized accounting procedures to enhance financial disclosure, improve comparability across firms, and support investor confidence in financial reporting. (Salehi, M, et.al., 2025)

To enhance corporate governance and financial transparency in India, several key reforms must be implemented. Strengthening SEBI's investigative authority is crucial, as its current powers are limited, causing delays in fraud detection and prosecution. Expanding SEBI's powers to conduct independent forensic audits, creating a Specialized Fraud Investigation Unit similar to the U.S. SEC, and imposing stricter penalties on fraudulent companies and auditors would ensure faster fraud detection and stronger deterrence against financial misconduct. Additionally, enhancing auditor independence is necessary to address conflicts of interest, as seen in corporate scandals such as Satyam (Vohra, et al., 2009). Mandating auditor rotation every five years, introducing external regulatory oversight for major audits, and enforcing criminal penalties for auditors who knowingly certify falsified statements would promote financial transparency and accountability.

Stricter regulatory frameworks, better compliance mechanisms, and improved oversight of financial disclosures are necessary to prevent fraud and ensure ethical corporate conduct. Continuous reforms and global best practices must be integrated to maintain investor confidence and promote sustainable economic growth. (Mishra, 2018)

The effectiveness of CG codes depends not just on formal adoption but also on how well they address India-specific issues such as promoter control, related-party transactions, and institutional investor activism. To enhance governance, stricter regulatory oversight, better enforcement mechanisms, and improved corporate transparency are needed. The corporate governance should be viewed as an evolving process requiring continuous refinement to align with global best practices while catering to India's business landscape. (Som, 2006)

Another important step is leveraging artificial intelligence (AI) for fraud detection, as India lags behind other markets in adopting AI for financial monitoring. Developing AI-driven fraud detection models to analyse financial statements for anomalies, mandating forensic audits in high-risk industries like banking and real estate, and partnering with global AI firms to enhance SEBI's surveillance mechanisms would allow for faster fraud identification and real-time monitoring of financial irregularities. Furthermore, boosting shareholder activism can improve corporate oversight, as low investor participation limits their ability to challenge corporate mis governance. Expanding proxy voting rights, establishing an Investor Protection and Activism Fund to support legal challenges against corporate fraud, and requiring companies to disclose governance-related complaints in their annual reports would increase transparency and accountability.

Strengthening whistle-blower protection is also essential, as employees often fear retaliation and hesitate to report fraudulent activities. Implementing secure anonymous reporting systems, providing financial incentives for whistleblowers, and creating a Whistle-blower Protection Unit within SEBI would encourage early fraud reporting and safeguard those exposing misconduct. Lastly, improving coordination among regulatory bodies is necessary, as SEBI and the Serious Fraud Investigation Office (SFIO), operate separately, leading to investigative delays. Establishing a centralized fraud investigation agency, developing a shared fraud database, and setting up dedicated corporate governance courts would enhance regulatory efficiency and ensure faster legal action against fraudulent entities. By implementing

these reforms, India's corporate governance landscape can be significantly strengthened, fostering greater investor confidence, financial integrity, and ethical business practices.

## 5. Conclusion

Corporate governance is essential for transparency, accountability, and ethical management in organizations. Independent directors and audit committees play a vital role in oversight and financial transparency, while enforcement challenges highlight the need for stricter penalties and ethical self-regulation. Strengthening board independence and improving risk management are crucial for aligning governance practices with global standards and enhancing investor protection. (Kumar, 2005). An effective governance and responsible CSR enhance financial performance, but stricter oversight is needed to prevent unethical financial reporting. The presence of independent board members and reputable external auditors enhances transparency and accountability, reducing fraudulent financial practices (Mahrani, M., & Soewarno, N. 2018). The regulators must work proactively and in coordination with the judiciary to ensure corporate governance standards are upheld. Striking a balance between public interest and business needs is essential to prevent market failures and financial fraud. The courts play a key role in ensuring regulatory accountability by interpreting laws in favour of public interest. (Agarwal, 2013). Firms with strong corporate governance structures, including independent boards and effective audit committees, experience fewer instances of financial statement fraud. (Magnanelli, et.al. 2017). Organizations must adopt a more proactive approach to fraud risk management by strengthening internal controls, enhancing fraud detection systems, and implementing robust third-party risk assessment strategies. Encouraging a corporate culture of integrity, improving governance frameworks, and conducting surprise audits can serve as effective deterrents against fraud and corruption. (Moritz, 2016)

Corporate governance is a key pillar of financial integrity, yet India continues to struggle with financial fraud due to weak enforcement, poor auditing practices, and ineffective whistleblower protections. While SEBI and the Companies Act 2013 have introduced robust regulatory frameworks, gaps in compliance and enforcement hinder their effectiveness. Strengthening SEBI's regulatory powers, integrating AI-based fraud detection, and enhancing auditor independence are essential to improving governance and preventing financial fraud. By aligning corporate governance enforcement with modern technology, shareholder activism, and regulatory coordination, India can effectively reduce financial statement fraud. Implementing these reforms will strengthen investor confidence, improve corporate transparency, and create a more fraud-resistant business environment. By addressing these challenges, India can create a more transparent corporate environment, protecting investors and ensuring financial stability.

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