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Corporate Governance Reforms: A Critical Review

Santosh Kumari[1], Aman Agarwal[2]

[1]Associate Professor Department of Commerce, Shri Ram College of Commerce University of Delhi Delhi (India)

[2]Alumnus, (M.com Batch 2018-20), University of Delhi, (India)

Abstract

After the slew of reforms introduced during the 1990s, not much could be done as the corporate scams and scandals still continued. However, the financial crisis of 2008 and the Satyam scandal came as an eye-opener for the government, only after which there were numerous reforms undertaken. "Minimum Government, Maximum Governance" is the philosophy that has shaped the policies and reforms on corporate governance in India in the recent times. The issue of corporate governance policies and disclosure requirements that could lead to good corporate governance has always been hotly debated. Schools of studies have been conducted to bring out the impact of reforms and policies on the firms, yet it still remains one of the widely studied areas and this paper itself is one such addition to the existing literature. The disclosure requirements have changed tremendously in the era of corporate governance reforms. This study is an effort to critically evaluate the major reforms undertaken in India over the years in the field after the 2008 Financial Crisis and the changes that have occurred to develop a more robust and transparent disclosure of corporates' financial position.

Keywords: Corporate Governance, Corporate Governance Reforms in India, Corporate Financial Transparency, Corporate Financial Disclosures.

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Introduction

The distinction between the ownership of a corporation and its control has led to the origin of corporate governance. This became the basis of the principal-agent theory propounded by American Journalists Michael Jensen and William Meckling in 1976, which views owners as the Principal and the managers as the Principal's Agents. The owners delegate the authority to manage the corporation's affairs to professional managers who then manage it for them. The owners the Whenever the principal-agent theory is concerned, there always exists a conflict of interest between the managers and the owners. The managers are concerned with the profitability for which they may take risks beyond the risk appetite of the owners. The managers are privy to such internal information of the company which owners are not, creating information asymmetry, the outcome to which is conflict. These instances of conflict can prove disastrous for both the owners and the managers, as they erode the investors' confidence. The emphasis on financial transparency and strict disclosure norms have been at the forefront of corporate governance policies. The government is adopting the international best practices on corporate governance; for instance, the convergence of accounting standards with the IFRS, check on executive compensation, the board of directors' composition have all been revamped according to the international best practices, only to protect the interest of the stakeholders concerned.

Corresponding Author: Santosh Kumari, Associate Professor Department of Commerce, Shri Ram College of Commerce University of Delhi Delhi (India), E-mail: dr.santoshkumari@srcc.du.ac.in

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Since the introduction of the 1991 Economic Reforms in India, the corporates have undergone tremendous changes. Even more so, the approach to govern these corporations has also transformed. The need for sound and effective corporate governance took prominence with the introduction of liberalisation, where deregulation, autonomy in financial matters, both external and internal, were introduced. The firms were now reliant on the capital and money markets, which took decisions based on various indicators of the very firm. This reliance on the markets required a comprehensive corporate governance framework as the information required if, falsified, would expose the investors to tremendous risk, which may even turn catastrophic, as is evident by many corporate scandals and financial crises that the country has faced, from Harshad Mehta to Nirav Modi and the great Financial crisis of 1991 to the Financial crisis of 2008. All these have hit the economy like a juggernaut that has mandated a robust corporate governance policy to strengthen and develop a safer, conducive environment for the various stakeholders. The aftermath of corporate bankruptcies like Enron, Arthur Anderson, WorldCom was that a consensus formed internationally among those in the top ethos on measures necessary to constrict the corporations. Even in India, at a time when the economy was reeling under the burden of surmounting debt and political turmoil, this consensus can be fairly tracked.

The liberalisation phase attracted corporate houses from all over the world, which now looked for investments in India. To induce these corporate houses to invest in the Indian economy, the government started the process of reforms. Even the corporations in India were in dire need of funds and were looking for better avenues. The financial scams of the 1990s, such as Ketan Parekh and Harshad Mehta Scam, eroded investor confidence in the financial market in India. The government then vested SEBI, the market watchdog, with enhanced powers which were not the case earlier and transformed the board into a statutory body with substantial powers to regulate the market. In 1996, a new stock exchange, NSE (National Stock Exchange), was set up in Delhi to counter the ever-growing monopoly of the BSE (Bombay Stock Exchange). The focus now shifted towards regaining investor confidence in the Indian corporates. By 2015 only, to consolidate the various regulations that different types of companies needed to follow before listing, SEBI came up with its LODR (Listing Obligation and Disclosure Requirements) to be followed by every company before and after listing in stock exchanges. The initial developments in corporate governance recognised the need for independent audit committees and independent boards for better functioning as recommended by Naresh Chandra Committee on corporate governance and audit committee. The demand also arose to amend the laws governing the corporates, and a committee was again formed under Naresh Chandra on Regulation of Private Companies and Partnership.

By 2008, there were reforms that overhauled the laws and regulations to better suit the aspirations of the then-emerging corporate sector. However, laws must be amended continuously as digitisation and ICT (Information and Communication Technology) is ever-changing and governance in such cases gets even more challenging. In 2006, the MCA came up with its digitisation initiative – MCA 21, to cut the time required for the various processes in the incorporation and other formalities. A new Companies Act was enacted in 2013, which replaced the old one with provisions that were earlier not part of the legislation. The focus shifted towards a more diversified board which would represent various sections of stakeholders such as the Small Shareholders Director representing the minority interest of the ownership, and the principal creditor financial institutions would nominate Nominee Directors to protect their interest, the inclusion of Women Director for a more diverse perspective and promotion of gender diversity and the Independent Directors' role was made even more significant. Even the SEBI, through its LODR in 2015, introduced significant regulations regarding independent directors' and women directors highlighting their role in corporate board and governance. The evidences towards inclusion of women directors also point out a positive relation with the firm performance (Ullah et al., 2019) . In another study, it was concluded that the board diversity is positively related to the corporate financial performance (Jain, 2020).The laws on the corporate resolution were streamlined once the IBC (Insolvency and Bankruptcy Code) was enacted in 2016.

Disclosures in financial statements are the keystone whenever there is talk of firm performance as every variation should be communicated to the shareholders, which affects their position or decision-making in the corporation. Lessons from the past has taught that as long as the disclosure norms are stringent, it will be difficult to falsify financial statements and deceive investors and the government.

Review of Literature

The term 'Corporate Governance' has long been gathering prominence as a robust governance structure enhances the confidence in the corporates further attracting investors. Countless studies have been undertaken in the field for assessing the benefits derived by introducing sound and effective corporate governance policies on financial performance, internal control, board of directors, and various other dimensions. Corporate Governance is believed to be about increased transparency and also the trust and confidence of various stakeholders in the company's affairs (Murthy, 2011). Disclosure thresholds play an essential role in this regard. In 2000, Clause 49 was introduced by SEBI in its listing agreement wherein stringent measures were to be followed by a company before getting listed on the stock exchange. However, the stringent penal provisions were added only from 2004 onwards, and studies have pointed towards a positive effect of these penal provisions on the value of the firms and indicates an increased inflow of foreign investments, the reason for which being better monitoring (Dharmapala and Khanna, 2013).

Liberalisation, Globalisation, and Privatisation have introduced intense competition among the participants of the financial system. Firms now could rely on foreign players for finances, or in other words, firms could now opt for external financing more freely. To attract finances, voluntary disclosures by firms became necessary as it helps reduce the cost of financing (Francis et al., 2005). In addition, disclosure standards support keeping a check on the corporate activities as the investors respond negatively to illegal and unethical corporate involvement, and such acts need to be disclosed publicly to take an informed decision (Olsen and Klaw, 2017). However, having lower disclosure standards (lower disclosure standards here indicates disclosing additional risk that was previously thought to be less important) has its own unintended consequences, one of them being that the Investors assess the firm more positively if they allow this additional risk to dilute their already established overall risk perception of the firm (Fanning et al., 2015).

As pointed out, the twin indicators of a good corporate governance policy are 'Transparency' and 'Accountability' (Dhameja and Agarwal, 2017).

Accountability can be established by defining a proper relation between the Board and the Stakeholders, while transparency can be achieved by fully disclosing

material facts that affect the position of stakeholders in the company. Corporate Transparency can also be achieved through disclosure of information which includes:

1. Disclosure of financial information,
2. Disclosure of CSR activities,
3. Supply chain transparency,
4. Disclosure of ownership and organisational structure,
5. Disclosure of political engagement activities,
6. Disclosure of anti-corruption mechanisms and environmental activities
   (Ardigó and Zúñiga, 2019)

For long, studies have been undertaken to understand how corporate governance policies and transparency are related by analysing various dimensions such as the board of directors, audit committees, agency cost (Mueller, 2006; Maher and Anderson, 2000; Kent et al., 2010). It has also been suggested that high quality of disclosure can increase investor's monitoring and understanding of actions of the management and performance of the firm (Lombardo and Pagano, 2002; Hope and Thomas 2008). Disclosure in financial statements entails all the information about the company that may affect the stakeholders of the company either directly or indirectly. Amidst the asymmetry in the availability of information between the managers and the stakeholders, disclosing such information becomes a necessity for stakeholders' protection. Laws in India are much concerned with the small and retail investors' protection. While prioritising them, the aim of the government is to create a robust and conducive environment for other institutional investors as well.

Objective of Study

The objective of conducting this study is to critically review, analyse and evaluate the status of major reforms in corporate governance undertaken after the financial crisis of 2008 in India to ascertain the disclosure standards (the cornerstone of a good corporate governance policy), that needs to be complied with and how it has led to further transparent financial disclosures.

Corporate Governance Reforms in India (since 2008)

Whenever references to Corporate Governance are made, often terms like 'Transparency' and 'Disclosures' follow as soon. As mentioned earlier, transparency can be regarded as an indicator of good corporate governance in any

particular jurisdiction, though not the only one. Transparency can be referred to as providing every small piece of information to the stakeholders as and when they emerge. But it may not be possible, or it may even be uneconomical for the company itself to maintain such transparency. In corporate terms, achieving transparency is a complex process. Though the government of the day is inclined towards transparency for which laws, rules, regulations, and institutions are in place, lapses do occur, and the intention behind is defeated. In maintaining transparency, apart from the legislative framework and the governance structure, the role of the Board and the Statutory Auditors appointed by the company is even more crucial. They are responsible for disseminating whatever information is available to every stakeholder in the company. The Board is the final authority within the company that approves the annual report that is then presented to the shareholders at annual meetings and is filed with the government. Even though they are the final authority, there are specific disclosure requirements that have to be followed before presenting financial statements. The auditors appointed by the company are responsible for verifying if those disclosure requirements are followed and also verifies every record that can influence the financial statements, making the role of auditors even more vital and paramount in improving investors' confidence. Some of the major reforms that have been undertaken in these spheres have been discussed further.

Ministry of Corporate Affairs

The reform process, though, could be traced to have been initiated in the 1990s after the series of scams that followed and the burgeoning effects of opening up the economy to globalisation, which came as an eye-opener for the government. There was a need for a dedicated ministry to develop a focal point from where the government could exercise its authority over the corporations. However, by 2004 only, to ramp up its governance role, the government created a dedicated ministry, namely 'Ministry of Corporate Affairs' or MCA as we know it, to administer and regulate the affairs of the corporate sector. Prior to becoming a dedicated ministry, MCA was either a department or a part of the Ministry of Finance, Ministry of Law or Ministry of Commerce. The MCA is responsible for the administration of the Companies Act, 2013/1956. In addition, the Serious Fraud Investigation Office (SFIO)-for investigation of white-collar crimes/frauds, National Company Law Tribunal (NCLT) and its appellate National Company Law Appellate Tribunal (NCLAT) - tribunals set up for speedy disposal of corporate disputes of civil nature, comes under the administrative control of the MCA. Other organisations under MCA include the Indian Institute of Corporate Affairs (IICA), the Investor Education and Protection Fund Authority (IEPFA), the Competition

Commission of India (CCI) and the National Financial Reporting Authority (NFRA). The MCA handles information on all the operations right from the incorporation to the liquidation of the corporations, and the corporations are mandated to file all the major decisions regarding the affairs of the company wherever the law specifically mentions it. It can be said to be a nodal ministry for every corporation in the country.

Dispute Resolution Mechanism

Prior to 2016, there was no specialised tribunal or court to dispose of cases that needed quick disposal, especially the corporate cases, which required fast and easy dispute settlement to cope up with the ever-changing environment. At that time, as soon as an issue would reach the law courts of the land, it would get stuck in an endless loop from where there was no definite timeline as to when the final judgment would be delivered. This infinite loop warranted an easy dispute resolution mechanism, and the tribunals came into effect.

There was also a need to deal with disputes related to stressed companies and their resolution as quickly as possible. But the settlement mechanism was troublesome and extremely time taking. The government then came up with the IBC (Insolvency and Bankruptcy Code) in 2016. Earlier, the resolution process required vast amounts of money alongside the time it took before the final settlement. The banks also lacked the powers to take control of the assets of the defaulters at earlier stages of the crisis's inception, which held them back until the stressed companies would become NPA (Non-Performing Asset), and finally, it had to go through with the resolution process. There was also evergreening of the books by banks to make them look clean and avoid RBI inquiry. As a result, the directors and the promoters of the company became reckless as they knew that of the time taking process and that they would not be held personally accountable for the loans, and they did not care about the company's functioning leading to stressful situations. However, now, due to the emergence of the NCLT and NCLAT and the IBC (Insolvency and Bankruptcy Code), the situation has changed. The banks and the creditors could institute a case for bankruptcy and insolvency to recover their dues which checked the ever-growing ignorance by the company management. The following table brings out the points of difference between the resolution process in the pre-IBC (Insolvency and Bankruptcy Code) Regime and after introducing IBC (Insolvency and Bankruptcy Code):

Table 1: Differences between the regime before and after IBC came into effect

Basis	Pre-IBC Regime	IBC Regime
Institutional Framework	Legislations such as SICA, SARFAESI, Civil laws etc. and multiple fora being BIFR, DRT, Civil Courts, High Courts for dealing with insolvency related matters.	One legislation providing for insolvency processes of corporates. NCLT to be the appellate authority.
Approach	Ex-post in nature, i.e., beginning of process after the default had already happened.	Ex-ante in nature as it strives to prevent default and providing for a process in case of a default.
Objective	Recovery was sought after by most of the laws. SICA included restructuring. However, often they were used for stalling recovery.	Neither liquidation nor recovery is the motive rather it is revival and continuation by protecting it from management and liquidation.
Initiation	Process could be initiated by any of the stakeholder, RBI, Government, of sick units under SICA; Liquidation as per companies act by showing inability to pay debts.	A solvent CD may directly initiate voluntary liquidation. CIRP initiated on application by a FC, an OC or the CD in the event of a default of threshold amount by the CD. Liquidation commences only on the conclusion of CIRP.
Control during Resolution	the resolution of insolvency of the debtor was negotiated as under the SICA and other non- statutory debt restructuring schemes, the debtor continued to hold control over the firm.	Creditorsexercise control over the firm through an IP under CoC which included FCs.
Professionalisation	No such regulated service or any regulators.	Regulated industries and professions, namely, IPs, IPAs, and IUs exists now. In addition, IBBI is the new regulator, which regulates implementation processes and service providers' conduct.

Decision Making	BIFR was for commercial matters under SICA. Also, since the debtor was in control of firm, it created biases in decision making.	The CD and the AA stakeholders are authorised and facilitated for deciding matters within their ambit expeditiously. Viability as regards going concern is decided by the CoC and it also decides the way in which resolution process is to be conducted. Their approval is necessary for all crucial decisions.
Time Limit	Delays in proceedings and difficulty in resolution and no definite timeline was the main characteristics.	Proper time-bound process for speedy resolution.
Management during Liquidation	Official liquidators were appointed by HCs to deal assets of the CDs, provided for by Companies Act 2013.	IPs are assigned as liquidators to deal with the assets and NCLT supervises them.
Cross Border Insolvency	No specific legislation for cross border insolvency. Common Law principles were applied and general procedure under Code of Civil procedure was followed.	It empowers government to sign treaties for cross border insolvency. After a treaty has been signed, appellate authority is empowered to issue a letter of request to that country for dealing with the assets of the CD.

Source: IBBI Annual Report 2016-17

Table 2: Since beginning to 30-12-2020 Performance of IBC in the Resolution Process

Cases admitted into CIPR	4117
Cases were closed by appeal/review/settlement	549
Cases withdrawn u/s 12A of IBC	348
Approval of Resolution Plan	308
Cases resulted into liquidation	1112
Admitted Claims in resolved cases	Rs. 4.99 crores
Realisable amount in resolved cases on admission	Rs. 1.03 crores

Source: MCA Vision 2019-2024 and Economic Survey 2020-21

National Financial Regulatory Authority

The government also set up NFRA (National Financial Regulatory Authority) under Section 132(1) of The Companies Act, 2013 with a mandate to regulate the accounting and auditing practices to be followed by the companies, and monitor

and enforce the compliance to accounting and auditing standards. Before NFRA, the companies covered were under the supervision of ICAI, which had a liberal approach towards the auditors and the professionals like Chartered Accountants whenever violations came to the front. Also, the accounting standards were issued by ICAI, but after the emergence of NFRA, it will be issued only with its consultation in the matter.

Independent Directors

The lapses in provisions on the Board of Directors' composition were one of the highlights of the whole reform process. The Satyam scam, which was the result of the fraudulent acts of the executive directors, forced the government to redefine the board of directors. The role of independent directors to keep checks and balances within became significant. They are the key personnel to counter the promoters and be a shield to the overall interests of the stakeholders. Even the evidences point out that their presence on the board increases investors' confidence, which impacts both accounting and market returns of the company (Singh, 2019). Independent Directors are termed so because of their non-association with the company in any form, be it financial or non-financial. The Companies Act of 2013 defined the qualifications and disqualifications of the Independent Directors along with their role in the board and responsibilities that were to be mandatorily entrusted to them. The various committees of the board were also regulated by including Independent Directors on Board for transparency and unbiased decision making. The role of committees such as the audit committees, the nomination and remuneration committees, the stakeholder management committees and the risk management committees are phenomenal. According to the provisions of the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Rules, an audit committee and a nomination and remuneration committee is mandatory to be constituted with independent directors in the majority. To facilitate the availability of Independent directors, the government rolled out a data bank where the directors were to get themselves registered. Whenever a company was to appoint an independent director, it could simply search the repository and approach the person concerned. The criteria to get enrolled was also adequately defined to discourage spurious applications.

Apart from this, they have to declare their independence at the first meeting of the board in which they participate after joining as an independent director and are required to do so every year at the first board meeting. There are criteria mentioned in the companies act that determines an independent director's qualifications; failing to fulfil will result in removal as an Independent director.

The appointment of a new independent director is also reported to the Registrar of Companies, and any changes regarding the same shall also be filed with it.

Board Report

The Board Report, as it indicates, constitutes the disclosures as mentioned in both the Companies Act, 2013 and SEBI's Listing Agreement by the board of directors. The listing agreement enjoins the listed entities on a recognised stock exchange, under its regulations 29, 30, 31, 32, 33, a plethora of disclosures that shall form the contents of the annual report and the board report of the companies. The board report could also be regarded to have summarised all the recommendations it received from the various board committees and the reasons for not implementing those recommendations. The board report also finds mentions of all the directors' profiles, their classification into executive, non- executive, whole time and independent. Whenever there is a change in the independent directors' position regarding their independence or disqualification, the details are to be disclosed in the board report.

Corporate Governance Report

A Corporate Governance Report is also prepared in addition to the Board Report, which is prepared in accordance with the requirements mandated by Clause 49 of the listing agreement and shall be certified by the CEO/CFO/MD/Company Secretary. It informs the stakeholders on the board and its composition, the committees thereof, their meetings, the independent director's independence declaration, the meetings of independent directors held, disclosure of related party transactions on an aggregate basis and an annual secretarial compliance report, among others. These disclosures will ensure that the board and the committees function according to the law and it holds accountable the executives of the company in case of false information being disseminated.

Women On Board

Worldwide reforms in corporate governance had the issue of gender diversity as one of their agenda. To promote diversity in the board, the Companies Act, 2013 and the SEBI (Listing Obligations and Disclosure Requirements), 2015 mandated listed companies to include at least one woman on the board. Though in India, we have stringent laws regarding the inclusion of women directors, which also provide penal provisions for violation, the law has seldom been followed in its entirety. Having women directors on board offers a more diverse perspective and

could be termed as a more representative of the diverse customer and client base, as maintained by Erica Hersh at Harvard T. N. Chan School of Public Health. The presence of women directors also broadens the talent pool and results in higher returns as the investors reward such corporations more (Vijaylakshmi, 2019). Companies in India also lose competitive advantage globally when they ignore the leadership skills that women possess (Kanojia and Khanna, 2019). A study from Credit Suisse[1] shows large companies (with market cap greater than USD 10 Billion) having at least one woman director out-performed other large companies between 2012 and 2014. The role of women on board has now become the most debated topic after every other country in the world is taking the lead in inducting women on the board of directors. The lead was taken by the European nations like Norway, where 39% of directors are women, France has 34%, while in the UK 23%. In the USA, 21 % of the directors are women, whereas, in India, it is merely 13% (NIFTY 500 Companies).

e-Governance and MCA-21

The government also introduced its e-Governance policy and MCA-21, though launched in 2006, has recently completed its v2.0. The government has already announced its v3.0 wherein e-Adjudication module, e-Scrutiny Module, Compliance Management System (CMS) will form part of its key components to digitise all the processes and create a seamless environment for the corporates wherein approvals are given without the need for physical presence. As mentioned above, the creation of a repository of independent directors is one step towards digitisation. The Second Administrative Reforms Commission, in its 11th report, "Promoting e-Governance - The Smart Way Forward," highlights the benefits MCA-21 has provided to all, whether it is the government or the regulator or the stakeholders in the company. It improved the efficiency in delivering services that earlier otherwise would take time and reduced it significantly. A summarised table, which shows the time taken to provide services before and after the MCA- 21, is as follows:

Table 3 - Efficiency in Delivery under MCA-21

Service Metrics		
Type of Service	Prior to MCA 21	After MCA 21
Name Approval	7 days	1-2 days
Company Incorporation	15 days	1-3 days
Change of Name	15 days	3 days
Charge Creation/Modification	10-15 days	2 days
Certified Copy	10 days	2 days
Registration of Other Documents		
Type of Service	Prior to MCA 21	After MCA 21
Annual Return	60 days	Instantaneous
Balance-sheet	60 days	Instantaneous
Change in Directors	60 days	1-3 days
Change in Registered Office Address	60 days	1-3 days
Increase in Authorised Capital	60 days	1-3 days
Inspection of Public Documents	Physical appearance	on-line

Source: Second Administrative Reforms Commission 11th Report

Accounting Standards

When we consider the financial statements of a company, there are often mentions of Accounting Standards or IndAS, as we know them today in India. These accounting standards are the policies and rules that corporations need to abide by while preparing their books of accounts. Earlier, the accounting standards were country-specific, such as UK-GAAP (United Kingdom - Generally Accepted Accounting Principles), US-GAAP (United States - Generally Accepted Accounting Principles), Australian Accounting Standards. In India, there were

Accounting Standards, which were issued by the ICAI (Institute of Chartered Accountants of India). However, due to the difficulty in interpreting books of accounts, a need had occurred internationally for standardised global accounting standards, and hence, IFRS (International Financial Reporting Standards) emerged. The Indian equivalent of IFRS (International Financial Reporting Standards) is IndAS, the implementation of which started from 2015 onwards. These accounting standards ensure that the users of the financial statements are well informed, and no aspect of the corporation is left out that affects their position.

Convergence of Accounting Standards with IFRS

A significant reform in accounting standards occurred with the convergence of Accounting Standards with the IFRS and IndAS, i.e., Indian Accounting Standards, the counterpart to the globally accepted IFRS, emerged in India. The purpose of developing accounting standards that conform with international standards was to enhance the disclosures and bring out uniformity in accounting policies, which would streamline the comparison of financials among entities globally. The specific IndAS for the presentation of financial statements, IndAS-1, provides detailed guidelines for the preparation and presentation of the financial statements of a company. At the same time, the previous ASs had fragmented parts in different standards, which would altogether, along with the IGAAP (Indian Generally Accepted Accounting Principles), entail the preparation and presentation of financial statements. Every accounting standard comes with its own set of disclosure requirements. This ensures that whenever these standards are implemented, specific disclosures are made so that the books reveal the true and fair view and material facts are disclosed aptly.

The new accounting standards have elaborate definitions which were absent in the old ones, which provided clarity as to how the provisions are to be followed. For instance, in Inventories, the fair value has been defined and it explains the differences between the Net Realisable Value and the Fair Value, which was not the case earlier. These standards have also included matters which were not present earlier, instances of which are mentioned below:

Table 4: Changes in Accounting Standards with the inception of IndAS

	Accounting Standard	Modifications
1	Modified Valuation of Inventories (AS-2,IndAS-2)	● Subsequent recognition of carrying cost as and expense ● Inclusion of explanation regarding inventories of service providers ● Additional disclosures such as carrying amount of inventories pledged as security
2	Statement of Cash Flows (AS-3, IndAS-7)	● Specific inclusion of bank overdraft in cash and cash equivalents which requires payment on demand ● Inclusion of new examples to be classified as operating activities ● Additional Disclosure of C&CE in subsidiaries or other businesses on which control is obtained or lost
3	Events Occurring after Reporting Period (AS-4, IndAS-10)	● Treatment of proposed dividend changed ● Disclosure of material no- adjusting occurrences in financial statement
4	Leases (AS-19, IndAS-17)	● Specific provisions dealing with the lease of land and building ● Distinguishes between inception and commencement of the lease
5	Revenue Recognition (AS-9, IndAS-18)	● Definition of Revenue broadened by including all economic benefits arising in ordinary course resulting in an increase in equity except for contributions from equity participants ● Measurement of revenue at the fair value of the consideration received ● Interest to be recognised using effective interest rate method
6	Effects of Changes in Foreign Exchange Rates (AS-11, IndAS-21)	● Based on functional currency instead of reporting currency ● Excludes forward exchange contracts and other similar financial instruments to be included in IndAS 39 ● Directly recognise exchange differences in options on translation from foreign currency to functional currency
7	Related Party Disclosures (AS-18, IndAS-24)	● Instead of only relatives, any close member of the person is considered ● Additional disclosure of the name of the next senior most parent who prepared the financial statement for public use ● Extended disclosure of compensation of key managerial personnel under different categories
8	Financial Instruments: Presentation (AS-31, IndAS-32)	● Includes and deals with puttable instruments ● Conditions for offsetting financial liability or financial assets specified ● Includes in its scope contracts for contingent consideration in a business combination in case of acquirers

Source: Indian Accounting Standards and Accounting Standards

The instances of modifications mentioned above are some of the many other modifications that have shaped the existing IndAS. The focus of these inclusions and modifications was to present a fairer view of the company's financials which would ultimately lead to transparency in the way the company functions. For instance, as mentioned in table 4, the inclusion of explanation for inventories of service provider would help in determining the true value of inventories held by them. It will lead to a fair valuation of inventory where profit margins are not included and only those costs attributable to the service provided is included such as the labour cost and other personnel costs. In the case of statement of cash flows, the companies are now expected to disclose bank overdrafts specifically that warrant on-demand payment. This will allow investors to know about the immediate liabilities that loom around and the magnitude to which they can affect the companies' finances. Similarly, in related party transactions, one of the most debated areas in any company's financials, the definition of who constitutes a related party has been further broadened, which earlier was a grey area as only the relatives were considered related parties.

Statutory Auditors and Independent Auditors

The Statutory auditors in a company are appointed according to the provisions of the new Companies Act. It debars the reappointment of an individual auditor for more than one term, which is of five consecutive years of appointment to maintain their independence from the board's influence. There should be a minimum five years gap before reappointment. In the case of an audit firm, it cannot be appointed for more than two consecutive terms of five years each. After the completion of two terms, a gap of a minimum of five years is necessary. All these provisions are directed towards maintaining the audit quality of the company and auditors' independence as they are the ones verifying the records of the company and certifying that the accounts are prepared according to the policies and laws recommended by the government. There are various disqualifications that are mentioned for a person to be an auditor of the company, which also aims towards the auditors' independence. Apart from this, the audit committee of the board shall also be constituted with a majority of independent directors. The global experience from the past reveals that whenever a corporate scandal unfolded, the role of auditors in the scandal was tantamount to the board's role in misappropriations that happened. In the case of PNB (Punjab National bank), the auditors, due to the systemic fault, didn't analyse the SWIFT (Society for Worldwide Interbank Financial Telecommunication) transactions of the bank with the CBS (Core Banking System) transactions, which was a case of grave misconduct on their part. Though the investigating agency could not link the fraud with the role of auditors, nevertheless, it does raise questions on the auditing process being followed as the two major systems were not interlinked, and the auditors raised no concern. Further, the auditors are also debarred from providing certain services to the companies under section 144 of the act, including internal

audit, accounting and book keeping services, investment advisory or investment banking services. Rendering these services would indeed affect the independence of the auditors as these are lucrative services that would yield higher returns, as happened with Arthur Anderson during the 2000s when the auditing arm of the firm came in conflict with the consulting arm due to revenue mismatch between the two, which led the auditing arm to indulge in malpractices to increase its revenue.

The government to hold the auditors accountable included provisions that made them responsible for the acts and omissions committed by them. Penal provisions already in force were amended with even more severity in the new Companies Act, 2013. There are elaborated provisions as to what are the duties of auditors when they resign. The auditors are required to file a report with the Registrar of Companies (RoC) and the company within 30 days of resignation, which will state the reasons and circumstances leading to such resignation. This would ensure that the auditors are not forced or coerced by the Board to resign to hide their own maleficence. In addition to this, the auditors have also been entrusted with the duty to inform the central government directly, within the prescribed time limit and manner, of any misappropriations happening within the company. Such actions will not be constituted as a breach of duty. This safeguards the auditors against the brunt of the board and would help in unfolding any mala fide activity within the corporation.

Companies (Auditor's Report) Order, 2020

The auditors are mandated to prepare an Auditor's Report of the accounts and statements examined by them, which shall be presented in the general meetings. The report needs to be compiled following the rules and provisions of the act. The Companies (Audit Report) Order, 2020, which supersedes the order of 2016, regulates the auditor's report and has provisions that were earlier not present, making it even more informative. This order was passed with consultations from the NFRA (National Financial Reporting Authority). There are provisions that have been included, and the ones already existing were modified sufficiently to increase disclosures by the companies. The 2020 order is more focused on the disclosure of tangible and intangible assets covered under the accounting standard 'Plant, Property and Equipment'.

Table 5: Highlights of Companies (Auditor's Report) Order, 2020

	Points of Difference of CARO 2020 and 2016	Highlights of Changes
1	Focuses on the new IndAS 16 (Plant Property and Equipment) and intangible assets instead of fixed assets only	● Prescription of formal for title deeds of PPE not held in the company name. ● Revaluation details of assets if the change is >= 10% of the net carrying value.
2	Inclusion of proceedings pending under the Benami transaction (Prohibition) Act,1988 and its disclosure in financial statements.	
3	Inclusion of reporting on changes in Working Capital	● In case of sanctioned limit over and above Rs. 5 crores from banks or FIs on hypothecation of current assets. ● Conformity of quarterly results filed with the banks and FIs.
4	Inclusion of enhanced Provisions related to Investments, Loans and Advances Given	● To disclose aggregate amounts and outstanding balances of loans to subsidiaries, joint ventures and associates, and parties other than these. ● To specify loans or advances payable on demand given to promoters and related parties, without specific term of repayment. ● To determine if loans falling due in the current year to have been extended, renewed, replaced with fresh loans.
5	Provisions regarding transactions not recorded	● Disclosure of unrecorded transactions in the books but disclosed in income tax assessments, if they have occurred.
6	Reporting of Default in payments	● Disclosing if the company has been declared a willful defaulter. ● Specified format for lender-wise default details. ● If any funds are procured for meeting liabilities of subsidiaries, joint ventures and associates. ● Details regarding loans on pledging the securities in subsidiaries, JVs and associates.
7	Reporting of Cash Losses	● Losses incurred in the current and the preceding Financial Year and those reflecting in Cash Flow Statement.
8	Provisions on Uncertainty to meet liabilities	● To specify material uncertainty regarding financial assets realisation and payment towards financial liability. ● Also, disclosing any existence of uncertainty that the company may be incapable of meeting liabilities occurring within one year of the balance sheet date.

Source: Companies (Auditors Report) Order, 2020 and 2016

Moreover, there are provisions related to Whistle-Blower complaints received by the company, the Internal audit system and its report, details on the resignation of statutory auditors, if any during the year, the CSR projects and related expenditure of the company, inclusion of materiality clause of 10% in case of inventory and reporting of information if filed with the central government in appropriate form pertaining to suspected offences. The points mentioned earlier shall be considered

and commented on by the auditors in the Auditor's Report, which will enhance financial transparency even further. This increases the due diligence responsibility of the auditors so that the corporate failures could be tackled and refrained from recurring in the future. Furthermore, this entails the responsibility the statutory auditors hold for financial transparency and corporate governance. The disclosures have been made even more stringent pursuant to the passing of the 2020 order. From the working of the board of directors down to individual vouchers, are all under continuous monitoring by the agencies of the government. Only then will it be said that the financials are truly reflective of the strengths and weaknesses, and threats and opportunities of the corporations.

Conclusion

The disclosures in financial statements of companies have transformed from what they used to be earlier. With the emergence of a dedicated accounting standard for the preparation of financial statements, the scenario changed completely. The disclosures mentioned above are not exhaustive, but they illustrate the reforms that the government brought in to ensure full disclosure of the material facts. These reforms aim towards bringing transparency in corporate affairs, which would affect any stakeholder of the company. The law also mandates companies to disclose certain information on their websites which is compulsory in nature; failing to adhere to which will result in a penalty on the company and the officers responsible for such failure. The penal provisions have also strengthened amply to ensure compliance, but the regulatory regime needs to be more proactive and

vigilant to ensure full compliance. Laxity may lead to disastrous situations, which would instead affect the small and retail investors significantly and be a cause of downfall in the perception of the economy globally.

With the amendments to clauses and provisions (for instance, Sections relating to independent directors, auditors, presentation of financial statements, disclosure of certain information on the website of the companies, the applicability of laws, various amendments to auditors' report, the board report, compliance certification, accounting standards etc.), the financial statements prepared by the companies could now reveal even more information than they used to be in the past. It is imperative to note that the annual report is the master document that contains all the information and the disclosures are made in it which are presented to the stakeholders. The companies are also required to file these reports on a quarterly and half-yearly basis along with the requirement to file these annually with the government. These stringent measures have done wonders with the preparation and presentation of financial statements. It can confidently be said that the government has been proactive in dealing with the corporations' practices of hiding material facts and figures. However, the monitoring of compliance is a necessity. The government, with its institutions such as NFRA, SEBI, IBBI, NCLT, NCLAT, ROC, and others, has developed a robust structure for monitoring and governance of corporates in India. These institutions, however, are still emerging and continuous monitoring of these institutions is necessary, and so is the monitoring of the laws, rules, and regulations in place. Having said all this, it is also to be noted that further research on how these reforms have impacted the firm's value, performance and market perception needs to be conducted to substantiate the findings.

The reforms have impacted the way things were dealt with in the country. From the lethargic attitude of the government to a renewed proactive role in the recent times, from the lower standards of disclosure to a new level of financial transparency, have all affected the firms and the stakeholders in ways that may have led to better financial transparency; and all due to the measures and actions that were taken by the government in this regard. Now, the small and retail investors are protected amply due to this transparency, but their exploitation still continues in innovative ways to which the government also needs to think out of the box to curb the menace of corporate maleficence.

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