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AUDIT COMMITTEES AND CORPORATE FRAUD PREVENTION: A CRITICAL ANALYSIS UNDER INDIAN COMPANY LAW

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ABSTRACT

Audit committees occupy a pivotal role in India's corporate governance architecture under Section 177 of the Companies Act, 2013 and the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI LODR Regulations"). Despite successive legislative reforms, major corporate frauds—the Satyam Computer Services scandal (2009), the Infrastructure Leasing and Financial Services (IL&FS) collapse (2018), and the Yes Bank crisis (2020)—continue to expose a chasm between formal statutory compliance and substantive governance effectiveness. This paper undertakes a critical doctrinal analysis of the Indian audit committee framework, examining its statutory foundations, theoretical underpinnings, judicial interpretation, and comparative alignment with international standards, including the Sarbanes-Oxley Act, 2002 and the OECD Principles of Corporate Governance. Drawing on case-based analysis and empirical findings, the paper identifies six principal shortcomings in the prevailing framework—emphasis on form over substance, inadequate individual accountability, structural whistle-blower protection gaps, regulatory fragmentation, absent mandatory technology standards, and ambiguous investigative duties—and advances targeted reform proposals to bridge the persistent gap between structural compliance and substantive governance engagement.

Keywords: *audit committee; corporate fraud; Companies Act 2013; SEBI LODR Regulations; corporate governance; whistle-blower; Satyam; IL&FS; Yes Bank; independent directors.*

I. INTRODUCTION

In an era of deepening capital market integration and increasingly complex corporate structures, the audit committee has emerged as the central institutional mechanism responsible for ensuring the integrity of financial reporting, the adequacy of internal controls, and the prevention of corporate fraud within listed companies. India's corporate governance architecture reflects this reality through an elaborate statutory and regulatory framework

anchored in Section 177 of the Companies Act, 2013¹ and Regulation 18 of the SEBI LODR Regulations.² Yet the recurrence of large-scale corporate fraud despite the formal existence of audit committees raises fundamental questions about the efficacy of India's governance regime in substance, as distinct from form.

The Satyam Computer Services scandal of 2009, which involved the fabrication of cash balances exceeding Rs. 50 billion, exposed systemic deficiencies in the audit committee's oversight capacity. The collapse of IL&FS in 2018, involving defaults of over Rs. 91,000 crore across a group of approximately 348 entities, demonstrated how organisational complexity within a conglomerate structure could defeat even formally constituted audit committees. The Yes Bank crisis of 2020 illustrated how executive dominance over internal information flows can neutralise the monitoring capacity of independent directors. In each of these incidents, the company in question had an audit committee constituted in full formal compliance with the applicable statutory and regulatory requirements. In each instance, that committee failed.

India's legislative response has been substantial: the Companies Act, 2013 introduced mandatory vigil mechanisms under Section 177(9),³ strengthened auditor reporting obligations under Section 143(12),⁴ established the Serious Fraud Investigation Office (SFIO) as a statutory investigative body, and created the National Financial Reporting Authority (NFRA) as an independent audit regulator. The SEBI LODR Regulations tightened independence requirements and expanded audit committee jurisdiction over related party transactions. Notwithstanding these reforms, empirical evidence indicates that corporate fraud in India remains widespread and that the audit committee's effectiveness as a fraud-prevention institution remains compromised by institutional and behavioural factors that statutory reform alone cannot address.

This paper proceeds in six parts. Part II situates the audit committee within its theoretical framework. Part III examines the statutory and regulatory foundations, including the comparative international framework. Part IV conducts a case-based analysis of three paradigmatic fraud incidents. Part V offers a critical analysis of the shortcomings in the existing framework. Part VI sets out targeted reform proposals, and Part VII concludes.

II. THEORETICAL FRAMEWORK

A. Agency Theory

The foundational theoretical basis for audit committee governance is agency theory, formulated by Jensen and Meckling in their seminal 1976 article.⁵ Agency theory

conceptualises the firm as a nexus of contractual relationships in which shareholders (principals) delegate decision-making authority to managers (agents), generating agency costs rooted in the separation of ownership and control. The audit committee is conceived within this framework as an independent monitoring mechanism designed to reduce those costs by subjecting managerial conduct to rigorous oversight and ensuring the accuracy of financial representations made to shareholders.

The application of agency theory to the Indian context is complicated by the prevalence of promoter-dominated ownership structures in which the same individual simultaneously occupies the roles of controlling shareholder and effective manager. Empirical research based on a panel of non-financial listed Indian companies from 2012 to 2022 confirms that strong promoter share ownership significantly weakens the positive relationship between governance quality and fraud prevention.⁶ Where the promoter dominates both ownership and management, the audit committee's nominal independence is undermined irrespective of its formal composition.

B. The Fraud Triangle and Detection Theory

Donald Cressey's Fraud Triangle posits that three conditions must concurrently exist for fraud to occur: pressure, opportunity, and rationalisation.⁷ Of these, opportunity is most directly susceptible to governance intervention. Audit committee oversight, internal controls, and external auditing are each directed at narrowing the opportunity space available to potential fraudsters. The 2024 ACFE Report to the Nations, based on 1,921 cases across 138 countries, found that more than 50 per cent of occupational frauds were facilitated by a lack of internal controls or override of existing controls.⁸ This finding underscores the centrality of the audit committee's role in fraud prevention.

The Fraud Triangle has been adopted within India's auditing standards framework through Standard on Auditing (SA) 240, which requires auditors to assess fraud risks during audit planning and to discuss identified risks with the audit committee. Subsequent theoretical extensions—the Fraud Diamond (adding capability), Fraud Pentagon (adding arrogance), and Fraud Hexagon (adding collusion)—further enrich the apparatus available to audit committees in structuring their fraud risk assessments.

C. Stewardship and Stakeholder Theories

Davis, Schoorman, and Donaldson's stewardship theory offers a contrasting perspective, arguing that managers are intrinsically motivated stewards whose interests align

with those of the organisation, such that governance mechanisms should facilitate rather than constrain managerial decision-making.⁹ While this theory provides limited justification for intrusive oversight in the context of genuinely trustworthy management, it offers an important caution against compliance frameworks that generate bureaucratic overhead without substantive governance value.

Freeman's stakeholder theory widens the normative scope of corporate governance beyond shareholder primacy to encompass the interests of employees, creditors, customers, and the broader public.¹⁰ The Companies Act, 2013 incorporates elements of stakeholder theory through Section 135 (mandatory corporate social responsibility) and Section 166 (directors' duties to the company and its stakeholders). The systemic consequences of the IL&FS collapse—which caused widespread disruption to India's mutual fund and pension fund industries—illustrate why effective audit committee oversight is properly understood as a matter of public institutional integrity, not merely shareholder protection.

III. STATUTORY AND REGULATORY FRAMEWORK

A. Section 177 of the Companies Act, 2013

Section 177 of the Companies Act, 2013 provides the primary statutory mandate for audit committees in India. The provision requires every listed company, every public company with paid-up share capital of Rs. 10 crore or more, every public company with annual turnover of Rs. 100 crore or more, and every public company with outstanding loans, borrowings, debentures, or deposits exceeding Rs. 50 crore to constitute an audit committee comprising at least three directors, a majority of whom must be independent directors, and at least one of whom must have competence in financial or accounting matters.

The statutory terms of reference under Section 177(4) are extensive: they include recommendation of auditor appointment and remuneration, examination of auditor independence, review of financial statements prior to submission to the Board, approval of related party transactions, scrutiny of inter-corporate loans and investments, and evaluation of internal financial controls and risk management systems.¹¹ Sections 177(9) and 177(10) mandate the establishment of a vigil mechanism for directors and employees, ensuring that genuine concerns can be raised without fear of victimisation and, in appropriate cases, communicated directly to the chairperson of the audit committee. ***B. SEBI LODR Regulations, 2015***

The SEBI LODR Regulations impose governance standards on listed entities that are

more stringent than those prescribed by the Companies Act, 2013 in several material respects. Regulation 18 requires that at least two-thirds of audit committee members be independent directors (compared to a simple majority under Section 177); that the chairperson be an independent director who attends the Annual General Meeting to address shareholder queries; that all members be financially literate; and that at least one member possess accounting or financial management expertise.¹² The Regulations further require at least four meetings per year, with no more than 120 days between successive meetings.

The 2022 amendments substantially extended the audit committee's jurisdiction over related party transactions (RPTs), requiring prior approval for transactions not only within the listed company but also for transactions between unlisted and foreign subsidiaries of the listed entity that exceed specified materiality thresholds. The restriction of RPT voting rights on the audit committee to independent directors adds a further layer of structural independence but correspondingly increases their workload.

C. Complementary Statutory Provisions

Several provisions of the Companies Act, 2013 complement the audit committee's governance function. Section 143(12) imposes a mandatory duty on statutory auditors to report suspected fraud—to the Central Government where the amount is material, and to the audit committee and Board in other cases—establishing a statutory information conduit between the external audit function and the audit committee. Section 134 requires the Board to include a directors' responsibility statement confirming the adequacy of internal financial controls.¹³ Section 188 governs board and shareholder approval of related party transactions, operating alongside Section 177(4)(iv) to create a dual oversight regime for RPTs.¹⁴

D. International Standards: SOX and OECD Principles

India's audit committee framework has been substantially influenced by the Sarbanes-Oxley Act of 2002 (SOX), enacted by the United States Congress in response to the Enron and WorldCom frauds. SOX Section 301 requires all members of the audit committees of listed U.S. companies to be independent of management; places direct responsibility on the audit committee for the appointment, compensation, and oversight of the external auditor; and mandates procedures for receiving and handling whistle-blower complaints.¹⁵ SOX Sections 302 and 404 require individual CEO and CFO certifications of the adequacy of financial disclosures and the effectiveness of internal controls over financial reporting, creating personal legal accountability for management representations.¹⁶

The G20/OECD Principles of Corporate Governance (2023) recommend that the board establish audit committees with appropriate independence, financial expertise, and oversight responsibilities as part of the global governance baseline.¹⁷ The OECD Corporate Governance Factbook 2023 documented near-universal adoption of board-level audit committees across 49 jurisdictions and identified convergence towards common criteria of independence, financial expertise, and meeting frequency.¹⁸ India's framework shows substantial alignment with these international standards in its structural requirements; the implementation gap—the distance between structural compliance and substantive effectiveness—remains the primary governance challenge.

IV. CASE-BASED ANALYSIS: THREE PARADIGMS OF AUDIT COMMITTEE FAILURE

A. Satyam Computer Services Limited (2009): Governance Collapse

The Satyam scandal remains the most consequential corporate governance failure in Indian history and the primary catalyst for the comprehensive legislative reform embodied in the Companies Act, 2013. Founded in 1987 by Byrraju Ramalinga Raju, Satyam Computer Services became India's fourth-largest software exporter by the mid-2000s and, in a profound irony, received the Golden Peacock Award for Excellence in Corporate Governance in 2008—months before the fraud was disclosed.

In his confession letter to the Board on 7 January 2009, Raju admitted that the company's cash and bank balances had been fabricated: actual balances of Rs. 3.21 billion had been inflated to Rs. 53.61 billion; non-existent accrued interest of Rs. 3.76 billion had been recorded; accounts receivable were overstated by Rs. 4.90 billion; and operating margins of approximately 13 per cent had been falsely reported as 24 per cent.¹⁹ The total misstatement exceeded Rs. 7,136 crore, and the company's market capitalisation collapsed from a peak of Rs. 36,600 crore to Rs. 5,600 crore following disclosure.

The SFIO investigation found that the audit committee, composed of academically distinguished independent directors, had failed entirely through dependence on management representations, absence of independent bank balance verification, and a complete failure to exercise the professional scepticism required under ICAI's auditing standards.²⁰ PricewaterhouseCoopers (PwC), which had audited Satyam since June 2000, failed to independently reconcile the fabricated bank statements for nearly a decade. SEBI subsequently banned Price Waterhouse from auditing any Indian-listed company for two years, ordered

disgorgement of Rs. 13 crore, and the ICAI Disciplinary Committee found the audit firm guilty of professional negligence.²¹

The Special CBI Court at Hyderabad convicted Raju and ten other defendants in 2015 for offences including cheating, forgery, criminal breach of trust, and criminal conspiracy.²² The Supreme Court, in *Satyam Computer Services Ltd. v. Union of India*, affirmed the Central Government's power to supersede corporate management in cases of grave governance failure threatening public interest.²³ The doctrinal legacy of Satyam is the foundational principle that an audit committee which rubber-stamps management-prepared financial statements without independent verification is not merely failing in its governance function but is a structural party to fraud.

B. IL&FS (2018): Systemic Failure Within a Conglomerate

The IL&FS crisis of 2018 presents a categorically different paradigm of audit committee failure, rooted not in individual fraudulent intent but in the organisational incapacity of governance structures to function within a conglomerate of extraordinary complexity. The IL&FS Group comprised approximately 348 entities operating across multiple regulatory jurisdictions.²⁴ By October 2018, total group indebtedness had crossed Rs. 91,000 crore, posing systemic risks to India's mutual fund and pension fund sectors.

The SFIO Interim Report of November 2018 documented a systematic fraud involving round-tripping of loans amounting to Rs. 2,270 crore, tenure mismatch of Rs. 541 crore, underprovisioning of non-performing assets, misreporting of net owned funds, and evergreening of loan advances through intra-group transactions.²⁵ The Grant Thornton forensic audit (Project Icarus) provided detailed evidence of management-directed manipulation of financial statements across multiple group entities.²⁶ Critically, Deloitte Haskins and Sells, the statutory auditor of IL&FS Financial Services Limited for approximately ten years, had issued unqualified audit opinions throughout the period despite the material irregularities documented by the forensic audit.

The NCLT's response established important jurisprudential precedents for audit committee accountability. The Tribunal permitted the Central Government to implead independent directors who served on the audit committee of IL&FS Financial Services on the basis that they were aware of the existence of non-performing assets and loan facilities extended to defaulters but failed to escalate the matter. The NCLT further refused to grant immunity to auditors SRBC & Co. LLP and BSR & Associates LLP (an affiliate of KPMG), holding that Section 339 of the Companies Act extends liability to "any person" facilitating

fraud, including statutory auditors.²⁷ This ruling established the doctrine that informed inaction by audit committee members—awareness of material risk without corrective action—may itself constitute a breach of governance duty.

C. Yes Bank (2020): Executive Capture

The Yes Bank collapse illustrates a third distinct paradigm: the neutralisation of audit committee oversight through executive capture of information flows within the organisation.²⁸ Founded in 2004, Yes Bank grew aggressively under the leadership of its MD and CEO, Rana Kapoor. The bank's asset quality review by the RBI revealed that its self-reported non-performing assets of Rs. 7,000 million as of March 2016 were in fact Rs. 49,300 million—an understatement of more than 600 per cent.

The Enforcement Directorate and CBI charge sheets alleged that Kapoor had abused his position to sanction loans to financially distressed entities in exchange for kickbacks routed through family-controlled firms, in violation of RBI regulations and the Prevention of Money Laundering Act.²⁹ Whistle-blower complaints about NPA misclassification and conflicts of interest were received during the bank's operational period; an inquiry committee established by the Board produced inconclusive results. The RBI imposed a moratorium on the bank in March 2020, and Rana Kapoor was arrested on charges of money laundering. The Yes Bank case illustrates the fundamental structural vulnerability in India's audit committee framework: where the MD and CEO exercises dominant influence over management information flows, the audit committee is effectively deprived of the independent access to material financial information that is the precondition for effective oversight.

V. CRITICAL ANALYSIS: SHORTCOMINGS IN THE STATUTORY FRAMEWORK

A. Form Over Substance

The most fundamental shortcoming of the Indian audit committee framework is its emphasis on structural compliance rather than substantive effectiveness. Section 177 prescribes the composition, minimum membership, and formal terms of reference of audit committees but does not prescribe performance standards for committee deliberations, disclosure requirements for the substance of committee discussions, or metrics for evaluating whether the audit committee has discharged its oversight functions effectively. Post-Satyam reforms illustratively resulted in increased proportions of independent directors on audit committees of

BSE 500 companies while attendance rates at audit committee meetings simultaneously declined—a pattern that epitomises the formal-substantive gap.³⁰

B. Statutory Ambiguity in the Scope of Investigative Powers

Section 177(6) empowers the audit committee to investigate any matter within its terms of reference and to seek external professional assistance, but does not specify the standard of diligence expected of committee members in conducting such investigations or the consequences of failing to exercise those powers effectively. This statutory ambiguity creates space for passive compliance—the discharge of governance functions through management representations rather than independent verification—which was precisely the failure mode demonstrated by the Satyam audit committee.³¹

C. Inadequate Individual Accountability

The accountability mechanisms applicable to individual audit committee members who fail to prevent fraud are structurally inadequate. While directors are exposed to liability for breach of fiduciary duty under Section 166 and for fraud under Section 447 of the Companies Act, 2013, the burden of proof required to establish individual liability is high, and most enforcement actions have targeted companies and controlling shareholders rather than independent directors. SFIO statistics for the period FY 2019–20 to FY 2023–24 indicate that out of 72 fraud cases investigated, actual imprisonment resulted in only 9 cases—a very low rate relative to the frequency and scale of corporate fraud in India.³²

D. Whistle-Blower Protection Lacuna

India's whistle-blower protection framework contains fundamental structural gaps. The Whistle Blowers Protection Act, 2014 applies exclusively to public servants and provides no legal protection for whistle-blowers in private or unlisted companies.³³ The vigil mechanism mandated under Section 177(9) operates within the management hierarchy of the company, creating an inherent conflict of interest where allegations pertain to senior management personnel. Survey data indicates that 52 per cent of respondents lacked confidence in complaint resolution mechanisms, 38 per cent reported feeling management pressure to remain silent, and 51 per cent reported witnessing or experiencing retaliation against whistle-blowers in their organisations.³⁴ By contrast, international evidence from the 2022 ACFE Report to the Nations found that organisations with effective whistle-blower hotlines experience 43 per cent fewer fraud instances than those without.³⁵

E. Regulatory Fragmentation and Coordination Deficits

The corporate fraud prevention architecture in India is characterised by the overlapping jurisdictions of SEBI, MCA, SFIO, RBI, NCLT, NFRA, the Enforcement Directorate, and the Central Bureau of Investigation, each operating under distinct statutory mandates and investigative timelines. The IL&FS crisis produced simultaneous investigations by six or more agencies, generating jurisdictional tensions and duplicative proceedings that extended the timeline for enforcement action and potentially impaired evidence preservation.³⁶ The institutional dispute between ICAI and NFRA over the boundaries of audit oversight further illustrates how regulatory fragmentation can undermine the deterrent value of the governance architecture.³⁷

F. Non-Integration of Technology in Mandatory Governance Standards

Neither the Companies Act nor the SEBI LODR Regulations mandate the use of technology-based fraud detection tools—including data analytics, AI-based anomaly detection, continuous auditing methodologies, and forensic accounting techniques—as part of the statutory governance framework. This regulatory lacuna is significant given that a majority of corporate frauds in India now involve complex digital transactions that conventional auditing methods are structurally ill-equipped to detect at an early stage. The ACFE's 2024 Report to the Nations found that proactive data monitoring was one of four anti-fraud controls that reduce both fraud losses and detection time by approximately 50 per cent.³⁸ The IL&FS round-tripping and Yes Bank NPA misclassification were transaction types that could have been flagged at an early stage by automated transaction monitoring systems.

VI. REFORM PROPOSALS

The shortcomings identified above call for targeted reforms that fill identified doctrinal and institutional gaps without wholesale redesign of the existing governance architecture. Seven principal reforms are proposed.

A. Statutory Performance Standards for Audit Committees

The most fundamental reform required is a legislative amendment to Section 177 and the SEBI LODR Regulations to shift the governance standard from structural compliance to substantive effectiveness. The MCA, in consultation with SEBI and ICAI, should gazette substantive performance standards prescribing minimum requirements for audit committee

deliberation processes. These should include mandatory independent verification of key financial assertions—such as cash balances, trade receivables, and NPA classifications—through direct confirmation with financial institutions rather than reliance on management representations; mandatory management letters summarising all significant matters discussed with statutory and internal auditors; and enhanced disclosure of the specific topics deliberated at each audit committee meeting and the committee’s conclusions on material issues.³⁹

B. Strengthened Whistle-Blower Protection

Parliament should amend the Whistle Blowers Protection Act, 2014 to extend its protections to employees of private sector and unlisted companies, and to permit anonymous complaints without mandatory disclosure of the complainant’s identity. SEBI should mandate the establishment of an independent external whistle-blower hotline, administered by a SEBI-empowered third-party service provider, for all listed entities, with complaints in cases involving senior management routed directly to SEBI. The MCA should further consider adopting a financial incentive model for whistle-blowers whose complaints lead to successful fraud prosecution, modelled on the U.S. Securities Exchange Act’s whistle-blower programme, which provides awards of 10 to 30 per cent of monetary sanctions exceeding USD 1 million.

C. Independent Audit Committee Director Nomination

SEBI should amend the LODR Regulations to require that independent directors serving on audit committees of promoter-controlled companies—where the promoter holds more than a specified threshold of voting shares—be selected from a panel of pre-qualified candidates maintained by an independent body such as the Indian Institute of Corporate Affairs, rather than from nominations made by the promoter group. The Companies Act, 2013 already provides the mechanism of the MCA’s databank of independent directors through the Indian Institute of Corporate Affairs; this mechanism should be operationalised as a mandatory nomination source for audit committee appointments in promoter-controlled companies.⁴⁰

D. CEO/CFO Certification of Internal Control Adequacy

India’s governance framework lacks a SOX-equivalent mechanism of individual CEO and CFO certification of internal control adequacy. While Section 134(5) of the Companies Act, 2013 requires a collective directors’ responsibility statement, it does not impose the individualised legal accountability that makes SOX Sections 302 and 404 certifications effective deterrents.⁴¹ The MCA should amend the Companies Act to require individual CEO

and CFO certifications, made on personal statutory responsibility, confirming the accuracy and completeness of financial statements, the adequacy of internal controls, and disclosure of any material weaknesses identified during the year, with false certification attracting liability under Section 447.

E. Mandatory Technology-Based Fraud Detection Standards

SEBI, in consultation with NFRA and ICAI, should issue a mandatory circular requiring listed entities above a specified market capitalisation threshold to implement automated transaction monitoring systems for related party transactions, inter-company fund flows, and cash and bank balance verification; to require internal audit functions to conduct data analytics-based fraud risk assessments at least once per financial year; and to require the audit committee to review and document the results of such technology-based assessments in the annual report. This reform can be implemented through amendments to the SEBI LODR Regulations and ICAI auditing standards within NFRA's existing mandate, without requiring primary legislation.

F. Financial Governance Coordination Council

The MCA should establish a Financial Governance Coordination Council comprising the chairs or nominees of SEBI, MCA, RBI, SFIO, NFRA, and NCLT, with a mandate to maintain a shared database of corporate fraud investigations, designate lead agencies for significant fraud investigations, develop coordinated enforcement timelines to prevent evidence dissipation, and publish an annual Corporate Fraud Prevention Report consolidating enforcement statistics and evaluating the effectiveness of the governance framework across agencies.

G. Expanded NFRA Mandate to Include Audit Committee Quality Reviews

The MCA should, through a gazette notification under Section 132 of the Companies Act, expand the NFRA's remit to enable periodic governance quality reviews of audit committees of listed entities. These reviews should examine the quality and independence of audit committee deliberations, the adequacy of information flows between the committee and statutory and internal auditors, the effectiveness of vigil mechanism administration, and the committee's engagement with RPT oversight. The findings should be incorporated into NFRA's annual inspection reports and inform SEBI enforcement decisions under the LODR Regulations, bridging the current institutional gap between external audit quality oversight and

audit committee governance quality.

VII. CONCLUSION

This paper has undertaken a critical doctrinal analysis of audit committees and corporate fraud prevention under Indian company law, drawing on statutory text, judicial precedents, regulatory enforcement actions, empirical research, and three landmark case studies. The central finding is that India's governance framework is architecturally sound but substantively inadequate to prevent corporate fraud in its current form.

The Companies Act, 2013 and the SEBI LODR Regulations together constitute one of the most comprehensive statutory frameworks for audit committees in the developing world, showing substantial alignment with the Sarbanes-Oxley Act and the OECD Principles of Corporate Governance. The framework has succeeded in institutionalising audit committees as permanent features of the governance landscape of listed Indian companies and has progressively strengthened their composition, powers, and disclosure obligations. The establishment of the SFIO, NFRA, and NCLT has provided an increasingly robust infrastructure for post-fraud accountability.⁴²

The case studies of Satyam, IL&FS, and Yes Bank collectively demonstrate, however, that formal compliance with the structural requirements of Section 177 and Regulation 18 does not guarantee effective governance. At Satyam, an audit committee of distinguished independent directors failed to detect cash balance fabrications of Rs. 50 billion. At IL&FS, audit committee members at multiple group levels were aware of material risks but took no corrective action. At Yes Bank, the audit committee approved financial statements that materially misrepresented the bank's non-performing asset position across multiple financial years.

The persistent gap between formal compliance and substantive governance engagement is rooted in institutional and behavioural factors that statutory reform alone cannot address: promoter dominance over director appointments; information asymmetries between management and independent directors; the absence of a reputational market for audit committee performance; inadequate whistle-blower protection; regulatory fragmentation; and the non-mandatory nature of technology-based audit tools. The seven reform proposals advanced in this paper collectively address these structural obstacles without requiring the creation of an entirely new governance architecture.

India's corporate governance reform trajectory—from the Confederation of Indian

Industry's voluntary code of 1998 through the Kumar Mangalam Birla Committee (1999), the Companies Act, 2013, and successive amendments to the SEBI LODR Regulations—reflects a sustained institutional commitment to progressively higher governance standards. The reform proposals in this paper represent the next necessary step in that trajectory: the transition from structural governance to substantive governance, and from compliance-based audit committee oversight to performance-based accountability. As one scholar has observed in the Indian context, the effectiveness of audit committees ultimately hinges on “competence, independence and integrity” as “necessary conditions for good governance systems.”⁴³ That transition depends not only on legislative reform but on a cultural shift within corporate organisations toward treating audit committee governance as a genuine institutional commitment to financial integrity rather than a compliance obligation to be formally discharged.⁴⁴

¹ Companies Act, 2013, § 177, No. 18, Acts of Parliament (India) [hereinafter Companies Act § 177].

² Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, reg. 18, SEBI Notification No. LAD-NRO/GN/2015–16/013 (India) [hereinafter SEBI LODR Regulations].

³ Companies Act §§ 177(9)–(10) (India).

⁴ Companies Act, 2013, § 143(12) (India) (imposing a mandatory duty on statutory auditors to report suspected fraud to the Central Government where material, and to the audit committee and Board in other cases).

⁵ Michael C. Jensen & William H. Meckling, *Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure*, 3 J. Fin. Econ. 305 (1976).

⁶ Khushboo Singh, *Corporate Governance and Fraud Prevention: An Empirical Study of Indian Corporations*, 6 J. Informatics Educ. & Rsch. 1 (2026), <https://doi.org/10.52783/jier.v6i1.4243>.

⁷ Donald R. Cressey, *Other People's Money: A Study in the Social Psychology of Embezzlement* (1953).

⁸ Ass'n of Certified Fraud Examiners, *Occupational Fraud 2024: A Report to the Nations* 6 (2024) [hereinafter ACFE 2024 Report].

⁹ James H. Davis, F. David Schoorman & Lyn Donaldson, *Toward a Stewardship Theory of Management*, 22 Acad. Mgmt. Rev. 20, 22–23 (1997).

¹⁰ R. Edward Freeman, *Strategic Management: A Stakeholder Approach* 46 (1984).

¹¹ Companies Act § 177(4) (India).

¹² SEBI LODR Regulations, reg. 18(1)(b) (requiring two-thirds of audit committee members to be independent directors).

¹³ Companies Act, 2013, § 134(5) (India).

¹⁴ Companies Act, 2013, § 188 (India) (governing board and shareholder approval of related party transactions).

¹⁵ Sarbanes-Oxley Act of 2002, Pub. L. No. 107-204, § 301, 116 Stat. 745 (2002) [hereinafter SOX].

¹⁶ SOX §§ 302, 404.

¹⁷ G20/OECD, *Principles of Corporate Governance* (2023 ed.) [hereinafter OECD Principles].

¹⁸ OECD, *Corporate Governance Factbook 2023* (2023) (documenting near-universal adoption of board-level audit committees across 49 jurisdictions).

¹⁹ Serious Fraud Investigation Office, *Investigation Report on Satyam Computer Services Ltd.* (2009) [hereinafter SFIO Satyam Report].

²⁰ Securities and Exchange Board of India, *Final Order in the Matter of Price Waterhouse*, Order No. WTM/SR/CFD/53/2018 (Jan. 10, 2018); Institute of Chartered Accountants of India, *Disciplinary Committee Order in the Matter of Price Waterhouse & Ors.* (2018).

²¹ *CBI v. Ramalinga Raju & Ors.*, CBI Case No. 3 of 2010, Special CBI Court, Hyderabad, Judgment (Apr. 9,

- 2015).
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- ³⁴ Global Integrity Report 2024 (India Edition) (reporting 52% lack confidence in complaint resolution, 38% felt management pressure to remain silent, and 51% reported witnessing or experiencing retaliation against whistle-blowers).
- ³⁵ ACFE 2024 Report, *supra* note 4, at 14 (finding organisations with effective whistle-blower hotlines experience 43% fewer fraud instances and 50% lower losses).
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