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ROLE OF INDEPENDENT DIRECTORS IN PREVENTING CORPORATE FRAUD

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Abstract

Corporate fraud remains one of the most persistent threats to the integrity of markets, the confidence of investors, and the stability of the broader economy. In India and across comparable jurisdictions, legislative frameworks have increasingly placed the burden of internal oversight on Independent Directors - non-executive members of the board who are expected to exercise objective judgment, monitor management conduct, and safeguard stakeholder interests without being compromised by any personal or financial connection to the company's controlling interests.

This paper examines whether Independent Directors in India, as constituted under the Companies Act, 2013 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, are genuinely effective agents of fraud prevention or whether structural and institutional constraints reduce them to ceremonial figures. Drawing on doctrinal legal analysis, comparative governance literature from the United States and the United Kingdom, and an evaluation of major Indian corporate fraud cases, the paper argues that while the formal architecture of independent directorship is largely sound, its practical impact is severely curtailed by promoter dominance, information asymmetry, inadequate selection processes, a disproportionate liability regime, and a board culture that discourages substantive dissent.

The paper proposes a set of targeted reforms - encompassing director nomination independence, enhanced information rights, mandatory directorial training, calibrated liability,

and stronger regulatory coordination - that could transform independent directorship from a compliance box into a genuine frontline mechanism for corporate integrity.

Keywords: *Independent Directors, Corporate Fraud, Corporate Governance, Companies Act 2013, SEBI LODR, Board Independence, Audit Committee, Promoter Dominance, Comparative Governance, Sarbanes- Oxley*

I. Introduction

The annals of modern corporate law are punctuated by episodes of spectacular fraud - Enron and WorldCom in the United States, Parmalat in Europe, and closer to home, the Satyam Computer Services scandal of 2009, the IL&FS collapse, and the Punjab National Bank affair. Each of these cases, despite their contextual differences, shares a common narrative: governance structures that failed to perform their fundamental supervisory function, boards that were either complicit or ineffective, and Independent Directors who, despite their formal designation, exercised neither independence nor meaningful oversight.

The response of legislatures worldwide has been broadly consistent: mandating larger numbers of independent directors, imposing stricter eligibility criteria, and prescribing detailed codes of conduct. In India, the Companies Act, 2013 represented the most comprehensive statutory overhaul of corporate governance since independence. It codified the concept of the Independent Director, imposed specific qualifications and disqualifications, mandated their participation in critical board committees, and introduced a Schedule IV Code for Independent Directors that outlined their duties, responsibilities, and expected conduct.

Yet, the critical question remains unanswered by legislation alone: does the formal appointment of an independent director translate into substantive independence? The persistence of corporate fraud in listed and unlisted companies alike suggests that the gap between statutory intent and boardroom reality is considerable. Understanding that gap - and identifying ways to bridge it - is the central purpose of this paper.

Part II defines Independent Directors and traces their conceptual and legislative evolution. Part III examines their anti-fraud role within the corporate structure. Part IV analyses the liability framework that governs their conduct. Part V offers a comparative perspective from the United States and the United Kingdom. Part VI identifies structural challenges that limit effectiveness

in the Indian context. Part VII proposes reforms. Part VIII offers concluding observations.

II. The Independent Director: Concept, Evolution, and Legal Framework

A. Conceptual Foundations

The Independent Director is, at its core, a governance response to the agency problem. Agency theory, as developed by Jensen and Meckling (1976), identifies the tension inherent in the separation of corporate ownership from management - shareholders delegate authority to managers who may pursue their own interests at the expense of shareholders. The board of directors is the primary institutional mechanism through which this tension is managed, and the presence of independent, non-executive members on the board is intended to introduce an external check on managerial behaviour.

Independent directors are expected to provide three distinct functions: a monitoring function (checking managerial performance and integrity), a resource function (providing expertise, networks, and strategic guidance), and a legitimacy function (enhancing public confidence in governance standards). It is the monitoring function that is most directly relevant to fraud prevention, and it is this function that the Indian statutory framework has sought to formalise and reinforce.

B. Legislative Evolution in India

The journey of independent directorship in India has moved progressively from voluntary adoption to statutory compulsion. The Cadbury Committee Report in the United Kingdom (1992) and the subsequent Greenbury and Hampel reports set the tone globally, emphasising board balance and the value of non-executive directors. In India, the Kumar Mangalam Birla Committee (1999), constituted by SEBI, first recommended the appointment of independent directors as part of a broader corporate governance framework, leading to the insertion of Clause 49 into the standard Listing Agreement.

The Narayana Murthy Committee (2003) further strengthened these recommendations, particularly in relation to audit committee composition and oversight responsibilities. However, these remained largely voluntary or contractual obligations. The Satyam scandal fundamentally altered this discourse. The Satyam board included ostensibly independent directors who failed to detect or report massive financial fraud perpetrated by the promoter-chairman. The incident crystallised the inadequacy of informal governance norms and accelerated legislative reform.

The Companies Act, 2013 - drawing also from the J.J. Irani Committee recommendations - made independent directorship a statutory requirement. Section 149 mandated the appointment

of at least one-third of the total board strength as independent directors for listed public companies, certain unlisted public companies meeting prescribed thresholds, and companies meeting specific paid-up capital or turnover criteria. The Act introduced a detailed definition of independence, a code of conduct under Schedule IV, provisions for tenure limitation (two consecutive terms of five years each), and requirements for annual independence declarations.

C. Statutory Definition and Eligibility

Section 149(6) of the Companies Act, 2013 defines an independent director by reference to a series of negative conditions - a person is independent if they do not meet any of several disqualifying criteria. The director must not be a promoter or connected to promoters of the company or its group companies; must not have a material pecuniary relationship with the company, its holding, subsidiary, or associate companies, or their promoters or directors; must not be related to managerial personnel; and must not hold substantial shareholding in the company.

The statute also prohibits prior service as a key managerial personnel or employee of the company or its group entities within the preceding three financial years. This temporal restriction is significant: it recognises that the habits of deference developed in an executive role can persist even after formal departure. The eligibility conditions are supplemented by the SEBI (LODR) Regulations, 2015, which impose additional disclosure and compliance obligations on independent directors of listed entities.

Schedule IV - the Code for Independent Directors - imposes affirmative duties that go beyond negative disqualification. Independent Directors are obligated to safeguard the interests of all stakeholders, particularly minority shareholders; to report concerns about unethical behaviour, actual or suspected fraud, or violation of the company's code of conduct; to exercise objective and constructive criticism; and to attend board meetings assiduously.

III. The Role of Independent Directors in Preventing Corporate Fraud

A. Audit Committee Oversight

The Audit Committee is perhaps the most consequential governance mechanism for fraud prevention, and Independent Directors are its backbone. Under Section 177 of the Companies Act, 2013, the Audit Committee must have a minimum of three directors, with Independent Directors forming the majority and the chairperson being an independent director. The SEBI (LODR) Regulations reinforce this mandate for listed entities and require the Audit Committee to include at least two-thirds independent members.

The Audit Committee's functions in fraud prevention are broad and consequential. It reviews financial statements and recommends them to the board, oversees the internal audit function, recommends the appointment and remuneration of the statutory auditor, evaluates the independence of auditors, and scrutinises the use of proceeds from public offerings. Critically, it examines related-party transactions, which are a primary vehicle for fund siphoning in promoter-driven companies.

When functioning effectively, the Audit Committee serves as an early-warning system for financial irregularities. By examining audit observations, internal audit reports, and management letters, independent directors on the committee can identify unusual patterns - unexplained provisions, abnormal revenue recognition, inter-company loans without commercial justification - that may signal fraud. The effectiveness of this function, however, is contingent on the quality of information provided, the technical sophistication of committee members, and the willingness of auditors to communicate concerns candidly.

B. Monitoring Related-Party Transactions

In the Indian corporate environment, characterised by high promoter ownership and complex group structures, related-party transactions (RPTs) represent one of the primary channels through which corporate fraud occurs. 'Tunnelling' - the extraction of value from a company by its controlling shareholders through transactions with related parties - is well documented in the Indian context. Independent Directors play a critical gate-keeping role in approving or recommending RPTs.

Section 188 of the Companies Act, 2013, read with Rules made thereunder, requires board approval - and in certain cases shareholder approval - for specified related-party transactions. The Audit Committee, staffed predominantly by Independent Directors, is required to grant prior omnibus approval for frequently recurring RPTs and to review the details of such transactions periodically. SEBI's amendments to the LODR Regulations in 2021 further tightened this framework, lowering thresholds for shareholder approval and requiring related parties to abstain from voting on their own transactions.

For independent directors to discharge this function meaningfully, they must have access to complete information about the group structure, beneficial ownership patterns, and the commercial rationale for transactions. The challenge is that such information is often mediated through management. An independent director who lacks the expertise or assertiveness to demand independent valuation reports, challenge management representations, or seek external legal or financial advice is ill-equipped to prevent RPT abuse.

C. Whistleblower Mechanisms and Internal Controls

Independent Directors also bear responsibility for the integrity of internal control systems, including whistleblower frameworks. Section 177(9) of the Companies Act, 2013 mandates that every listed company and certain other categories of companies establish a vigil mechanism through which employees and directors can report genuine concerns about unethical conduct, fraud, or regulatory non-compliance. The Audit Committee is required to oversee this mechanism.

A robust whistleblower mechanism depends not merely on its formal existence but on the perceived safety and credibility of the reporting channel. If employees believe that reports will be suppressed, that confidentiality will not be maintained, or that retaliation is probable, they will not use the mechanism. Independent Directors, through their oversight of the vigil mechanism, must ensure that it is independent of the management chain, that reports are taken seriously, and that outcomes are communicated back to reporters within reasonable timeframes. Additionally, independent directors are expected to satisfy themselves that internal control systems- including internal audit, risk management, and segregation-of-duties frameworks - are adequate and operationally effective. This requires engagement with the Chief Internal Auditor, review of internal audit plans and findings, and follow-up on audit observations. Where independent directors find that management has failed to address significant internal audit findings, they must be willing to escalate concerns to the full board or, where necessary, to the regulator.

D. Risk Management Oversight

Corporate fraud frequently flourishes in environments where risk management systems are either absent, superficial, or actively circumvented by management. The Companies Act, 2013 and SEBI regulations require the boards of certain categories of companies to constitute a Risk Management Committee, which must include at least one independent director among its members. The committee is tasked with formulating and overseeing the implementation of a risk management framework, including identification of emerging risks and mitigation strategies.

Independent Directors' contribution to risk oversight extends beyond committee membership. In board deliberations, they can raise questions about the adequacy of risk disclosures, press for scenario analysis in relation to identified risks, and demand that the board receive regular and meaningful risk reports rather than formulaic assurances. The quality of these interventions depends significantly on the director's domain expertise, their willingness to invest time in

understanding the company's business model and risk profile, and the extent to which the board culture encourages substantive dialogue.

IV. Liability Framework: Accountability and Its Limits

A. Civil and Criminal Exposure

Independent Directors in India are subject to a layered liability framework encompassing civil, criminal, and regulatory accountability. Under the Companies Act, 2013, directors - including independent directors - may be held liable for contraventions of statutory provisions, including those relating to financial statements, related-party transactions, and fraud under Section 447. Criminal liability for fraud under Section 447 is significant: conviction carries imprisonment of up to ten years and fines that may extend to three times the amount of fraud.

The SEBI Act, 1992 and regulations made thereunder provide for civil and criminal penalties in cases involving securities law violations, market manipulation, insider trading, and disclosure failures. In the aftermath of major corporate failures, SEBI has passed orders against independent directors, alleging that they failed in their oversight duties or were privy to fraudulent schemes. Proceedings under the Prevention of Money Laundering Act, 2002 have also implicated directors in cases involving proceeds of crime.

B. The Reasonable Diligence Defence

Recognising the risk that unlimited liability could deter qualified professionals from accepting board positions, the Companies Act, 2013 introduced a partial shield for independent directors. The proviso to Section 149(12) provides that an independent director shall not be held liable for acts or omissions by the company, its directors, or officers that occurred without their knowledge - attributable to a failure of the board process - or where they had acted on the basis of the information provided to them, or where they had not consented to the contravention and had objected to it and reported it to the relevant authority.

This provision, while welcome in principle, suffers from interpretive uncertainty. The standard of 'knowledge' in the context of a board director is not self-defining: courts may debate whether knowledge imputed through board papers, attendance at meetings, or membership of relevant committees suffices to fix liability. Judicial decisions have not uniformly applied this provision in a manner that provides clear guidance to directors or their legal advisors.

C. The Over-Deterrence Problem

The prospect of personal liability - including criminal prosecution and asset attachment - has

led to observable behavioural effects that are counterproductive to good governance. Qualified professionals, particularly those with significant reputations or personal assets at stake, may decline independent directorships in companies with complex ownership structures or in sectors with elevated regulatory risk. Those who do accept may adopt a posture of defensive compliance - meticulously attending meetings, signing off on agenda items, and generating a paper trail of objections - without engaging in the proactive, challenging oversight that genuinely prevents fraud.

This phenomenon of defensive governance is self-defeating. The legislature's intention was to create a cadre of engaged, empowered, and independent overseers. If the liability framework produces instead a cadre of risk-averse box-tickers who are present without being present, corporate governance is not served. A recalibrated liability framework - one that protects directors who act in good faith on the basis of information reasonably available to them, while maintaining accountability for wilful misconduct or deliberate neglect - is necessary to encourage genuine independence without sacrificing accountability.

V. Comparative Perspectives: United States and United Kingdom

A. The United States: Sarbanes-Oxley and Delaware Jurisprudence

The United States confronted its own crisis of board independence in the early 2000s. The collapse of Enron, WorldCom, Tyco, and HealthSouth exposed the systemic failure of boards that were nominally independent but functionally captive to management. Congress responded with the Sarbanes-Oxley Act of 2002 (SOX), which fundamentally restructured the governance landscape for publicly listed companies.

SOX's most significant structural contribution was the requirement that audit committees consist entirely of independent directors and that at least one member qualify as a 'financial expert.' It prohibited personal loans by companies to their directors, required the CEO and CFO to certify the accuracy of financial statements and the effectiveness of internal controls, and established the Public Company Accounting Oversight Board (PCAOB) to regulate the audit profession. The Act also created strong protections for whistleblowers, criminalising retaliation against employees who report securities law violations.

Delaware corporate law - the primary source of fiduciary duty jurisprudence for most major US corporations - has developed a sophisticated body of case law governing director liability. The business judgment rule protects directors who make decisions in good faith, on an informed basis, and in the honest belief that the decision is in the company's best interest. However, the rule's protection can be rebutted where directors have a conflict of interest, have

failed to exercise adequate oversight (the Caremark standard), or have acted in bad faith. The Caremark doctrine, in particular, has significant implications for independent directors: it establishes that a sustained failure to monitor compliance systems can itself constitute a breach of the duty of loyalty.

B. The United Kingdom: The Comply-or-Explain Model

The United Kingdom's approach to corporate governance reflects a different philosophical tradition—one that prioritises principles and transparency over prescriptive rules. The UK Corporate Governance Code, updated periodically by the Financial Reporting Council, establishes expectations for listed companies on a 'comply or explain' basis. Companies that depart from Code provisions are required to explain the reasons for their departure in their annual report, enabling shareholders to make informed assessments of governance quality.

The Code's provisions on board composition are notably demanding. It recommends that at least half the board of a listed company, excluding the chair, should consist of independent non-executive directors. The independence criteria under the Code are substantially similar to those in Indian law, though the Code's guidance on applying those criteria in practice is more detailed and nuanced. The chair's independence from management is separately addressed, recognising that the board's leadership structure significantly influences its culture and effectiveness.

The UK model places considerable emphasis on board evaluation - an annual assessment of the effectiveness of the board, its committees, and individual directors. For large listed companies (FTSE 350), the Code recommends externally facilitated evaluation at least every three years. This mechanism provides a structured opportunity to identify gaps in board composition, knowledge, and dynamics that may affect governance quality, and to compare the board's performance against peers.

C. Lessons for India

Both the US and UK models offer instructive contrasts and transferable lessons for India, though direct transplantation is neither feasible nor desirable given the structural differences in shareholding patterns, enforcement infrastructure, and corporate culture.

India's concentrated ownership structure - in which many listed companies are controlled by founding families or promoter groups with majority or near-majority stakes - creates governance challenges that the US dispersed-ownership model does not typically encounter. In such environments, the independent director faces pressure not from managers seeking to entrench themselves but from promoters seeking to extract value. The relevant governance risk

is not managerial entrenchment but promoter tunnelling and minority oppression - a distinction that should inform the design of independence criteria, committee powers, and liability rules. From the US model, India can draw lessons on the value of requiring demonstrable financial expertise on audit committees, the importance of robust whistleblower protection including safe harbour from civil liability for good-faith reports, and the potential role of a public oversight body for the audit profession as a supplement to internal board oversight. From the UK model, India can learn from the structured board evaluation mechanism, the role of the Senior Independent Director as a channel for shareholder engagement, and the emphasis on board culture as a determinant of governance quality.

VI. Structural Challenges: Why Independent Directors Fail in Practice

A. Promoter Dominance and Compromised Selection

Perhaps the most fundamental challenge to genuine independence in India is the process by which independent directors are identified and nominated. Despite the statutory requirement that the Nomination and Remuneration Committee play a central role in director appointments, the practical reality is that in many companies - particularly those with a dominant promoter - independent directors are selected by or with the active involvement of the controlling shareholder. Nominees who are personally known to, professionally associated with, or socially connected to the promoter family may be technically compliant with the eligibility criteria while lacking the psychological independence necessary for effective oversight.

The institutional mechanisms intended to counter this dynamic - the NRC, the independence declaration requirement, the shareholders' resolution for appointment - are insufficient as currently operated. NRC meetings may be brief and perfunctory; independence declarations are formal rather than substantive; and at shareholder meetings, the promoter's votes typically provide a comfortable majority for management-endorsed nominees. The result is that the process produces directors who are independent in name but dependent in fact.

B. Information Asymmetry

Independent Directors are critically dependent on information - financial reports, compliance certifications, internal audit findings, risk registers, legal opinions - that is generated, organised, and presented to them by management or management-controlled intermediaries. Where management controls the information flow, it can determine not only what is shared but how it is framed, what is emphasised, and what is omitted or buried in voluminous annexures.

This information asymmetry is structural: an independent director who visits the company for

board meetings a few times a year cannot possess the same understanding of operations as executives who work within the company daily. The problem is compounded in companies with complex structures, multiple subsidiaries, or significant off-balance-sheet arrangements. Without the ability to independently commission investigations, access financial systems directly, or engage advisors at company expense without management approval, independent directors may be systematically blind to the very irregularities they are expected to detect.

C. Board Culture and Symbolic Governance

Board culture - the informal norms, conventions, and expectations that govern behaviour in the boardroom - can either reinforce or undermine statutory requirements for independence. In many Indian companies, boards function with a culture of deference to the promoter or the executive chairman. Meetings may be brief, deliberations may be perfunctory, and the preparation of comprehensive pre-meeting information packs may be inconsistent. In such environments, an independent director who attempts to raise substantive concerns may find themselves marginalised, their questions met with impatience or deflection, and their re-appointment quietly not pursued.

The problem of symbolic governance is insidious precisely because it leaves no paper trail. The independent director continues to attend meetings, sign board minutes, and declare annual independence. But the substance of oversight is absent. The governance record appears clean precisely because the mechanism that should generate early warnings of misconduct is not functioning.

D. Limited Tenure and Continuity

The Companies Act, 2013 introduced tenure limits for independent directors - a maximum of two consecutive terms of five years each - with a cooling-off period of three years between consecutive terms. The intent was to prevent prolonged association with a company from compromising independence. However, the practical effect may be to remove experienced and institutionally knowledgeable directors at precisely the moment when their oversight is most valuable.

A director who has served five years with a company has acquired familiarity with its operations, management style, risk profile, and the subtler patterns that may indicate emerging problems. Replacing such a director with someone who must spend the first year or two in an orientation phase may reduce oversight quality precisely when continuity of institutional memory is most valuable. The tenure limitation rule may also limit the pool of directors willing

to invest in building genuine expertise about a company, knowing that their tenure is finite and relatively brief.

VII. Proposed Reforms for Strengthening Independent Directorship

A. Independent Nomination Processes

The most consequential reform is the depoliticisation of the director nomination process. India should consider establishing an independent panel or regulatory database - overseen by SEBI - of qualified independent directors, from which companies are required to select candidates using a transparent and structured process. The NRC should be required to demonstrate that candidates were identified through a genuine competency mapping exercise rather than through personal networks of the promoter.

Additionally, large institutional investors - mutual funds, insurance companies, foreign portfolio investors - should be empowered and incentivised to actively participate in the nomination process. Shareholder engagement on director appointments, particularly by institutional investors who hold significant minority stakes in listed companies, can provide a genuine counterweight to promoter- controlled selection processes.

B. Enhanced Information Rights

Independent Directors should have a statutory right to commission independent investigations, audits, or valuations at company expense without requiring management approval, subject to a reasonable threshold for triggering this right. They should have direct access to the company's financial information systems, be permitted to meet with the statutory auditor and internal audit teams without management present, and receive advance copies of board materials with sufficient lead time for preparation.

SEBI should also consider requiring companies to provide independent directors with a dedicated budget for obtaining independent legal, financial, or technical advice on matters before the board. The current framework, in which independent directors must seek management's approval to engage external advisors, is self-defeating in cases where the concern relates to management conduct.

C. Structured Competency Requirements and Continuous Training

The statutory framework should specify minimum competency requirements for independent directors, particularly those serving on the Audit Committee. The requirement for at least one 'financial expert' on the Audit Committee - a standard adopted in the US under SOX - should

be introduced in India. A financial expert should be defined to include persons with active experience in accounting, financial reporting, or auditing, rather than a broader and more diffuse category of financial sophistication.

The Indian Institute of Corporate Affairs (IICA), which administers the directors' databank required under the Companies Act, should develop and mandate a structured continuing education programme for Independent Directors. This programme should be differentiated by sector and committee role, include case studies of governance failures, and be updated regularly to incorporate regulatory changes and emerging risks. Completion of relevant training modules should be a condition for re-appointment or maintenance of active status in the directors' databank.

D. Calibrated Liability and Safe Harbour Protections

The liability regime should be restructured to provide clearer and more robust protection for independent directors who act in good faith on the basis of information reasonably available to them, while maintaining accountability for those who are wilfully negligent or complicit. The proviso to Section 149(12) should be expanded and clarified through specific judicial guidance or legislative amendment, defining the standard of 'knowledge' appropriate for a non-executive independent director and specifying what constitutes adequate due diligence in varying circumstances.

Criminal liability for independent directors should be reserved for cases where personal culpability - actual knowledge of wrongdoing, active facilitation, or dishonest concealment - can be demonstrated. The indiscriminate attachment of criminal liability to independent directors for company-level regulatory violations, without evidence of personal involvement, serves no deterrent purpose and substantially undermines the governance system by deterring qualified individuals from accepting directorships.

E. Strengthening Whistleblower Mechanisms

India should introduce stronger legal protections for employees and directors who report corporate misconduct, drawing on the US model under SOX and the Dodd-Frank Act. The Vigil Mechanism required under Section 177(9) should be supplemented by a direct reporting channel to SEBI for listed companies, with guaranteed confidentiality and civil immunity for good-faith reporters. Employers should face significant penalties for retaliation against whistleblowers, and independent directors who report concerns to regulators should be explicitly protected from removal or non-reappointment as a consequence.

F. Mandatory Board Evaluation

India should adopt, through regulatory mandate, a requirement for annual board evaluation that includes an independent assessment component, along the lines of the UK Corporate Governance Code. The evaluation should cover not only individual director performance and attendance but also board dynamics, information quality, committee effectiveness, and board culture. Results of board evaluations should be summarised and disclosed in the annual report, enabling shareholders to make informed assessments of governance quality. For NIFTY 500 companies, the evaluation should be externally facilitated at least once every three years.

VIII. Conclusion

The proposition that independent directors prevent corporate fraud is not self-evidently true. It is a hypothesis - one that the Indian legislative framework has adopted as the basis for an elaborate statutory architecture, but one that is contingent on conditions that the framework itself often fails to ensure. Independent directors prevent fraud when they are genuinely independent (in selection, in psychology, and in information access), when they are sufficiently expert to detect the sophisticated patterns that characterise modern corporate misconduct, when board culture supports substantive engagement, and when the regulatory environment provides appropriate incentives for proactive oversight without creating disproportionate personal liability.

In India, many of these conditions are inconsistently present. The formal architecture - the eligibility criteria, the Schedule IV Code, the committee mandates, the independence declaration - is reasonably robust. But the institutional and cultural conditions that give the architecture its practical meaning are frequently absent. Promoter dominance shapes the nomination process in ways that formal eligibility criteria cannot fully address. Information asymmetry renders oversight superficial in companies where management controls disclosure. Board culture in many organisations continues to treat the independent director as a legitimising presence rather than a genuine counterweight. And the liability framework, in its present form, may deter the very qualities of assertiveness and proactive engagement that effective fraud prevention requires.

The reforms proposed in this paper - independent nomination processes, enhanced information rights, competency requirements, calibrated liability, strengthened whistleblower protections, and mandatory board evaluation - are not individually novel. Many have been recommended

by committee reports, academic commentators, and institutional investors over the preceding two decades. The challenge is implementation: translating regulatory intent into boardroom reality requires not only legislative change but sustained enforcement, institutional capacity, and a shift in the expectations that shareholders, investors, and the broader public hold of corporate boards.

The stakes are significant. A corporate governance framework that relies on independent directors who are neither independent nor empowered does not merely fail to prevent fraud - it creates a false assurance that actively undermines vigilance. The goal of reform is not to eliminate fraud entirely, which no governance mechanism can achieve, but to ensure that independent directors function as genuine and effective components of a system that makes fraud harder to commit, harder to conceal, and harder to sustain. That goal is both achievable and essential.

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