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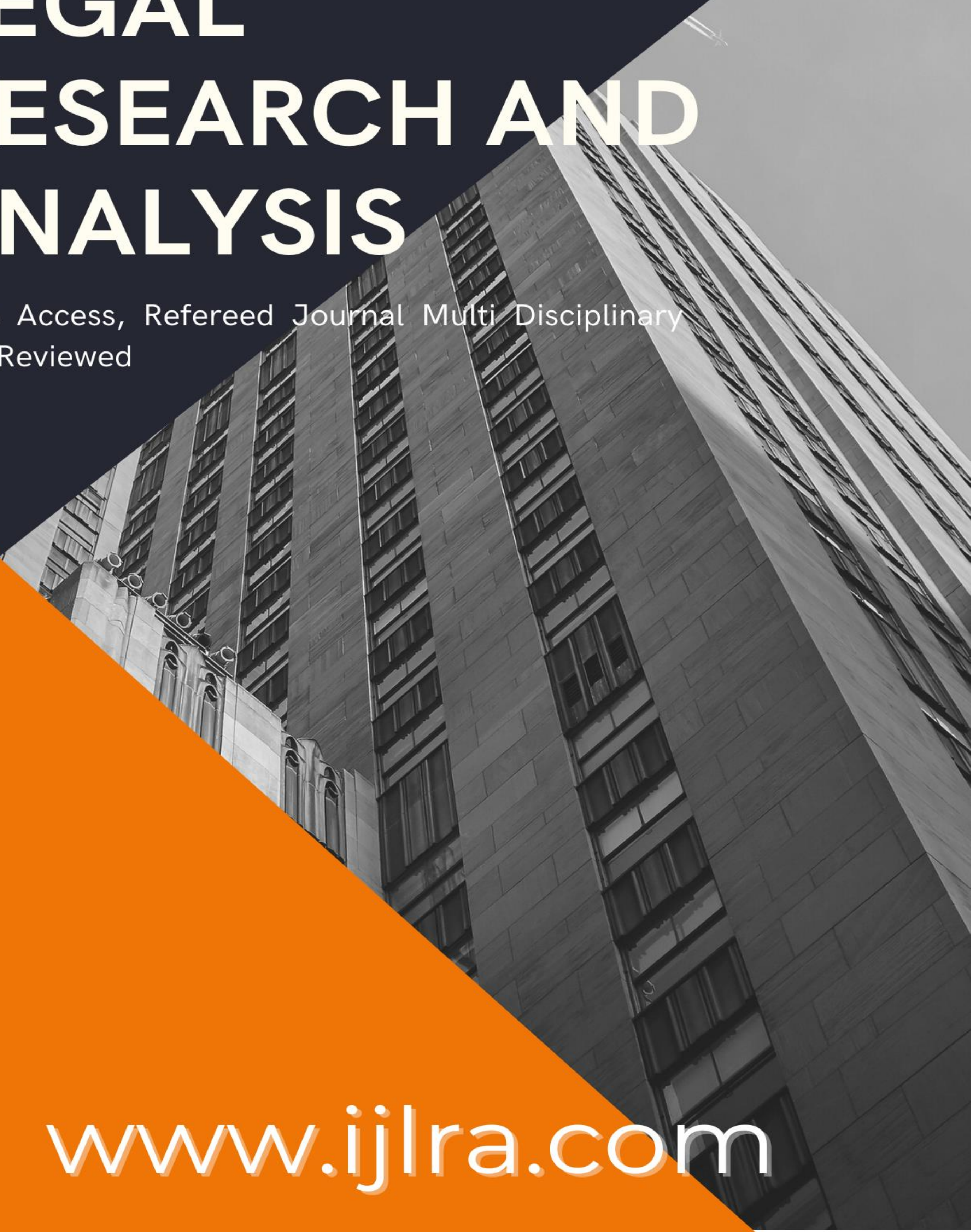

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FINANCIAL TRANSPARENCY AND GOOD GOVERNANCE

AUTHORED BY - TANVEEN KAUR

In the era of globalization and sophisticated technological advances, one is led to develop in making financial reports in accordance with predetermined standards. When managing financial reports in the scope of the public sector, there are three main pillars that must be considered, namely Transparency, Governance, and Accountability of reports.

Good governance is very important in managing financial statements in the public sector. In the context of governance, it includes structures, processes and mechanisms that can be used to direct and control public organizations. Good governance can contribute to improving the quality of financial reports in the public sector. Governance has several indicators that we need to understand, namely effective, participatory, transparent, accountable, productive and able to produce laws.[1]

Importance of Financial Transparency in Governance

Financial transparency is of great importance in the proper operation of corporate governance structures. It is the basis for corporate accountability, stakeholder trust, and ethical financial management. The significance of financial transparency in governance can be understood on the basis of the following major points:

- Boosts Investor Confidence

  Transparent financial reporting fosters investor confidence by presenting precise and complete details of a firm's financial well-being, performance, and risks. Investors, especially institutional investors, look up to released financial statements and reports to make investment decisions. Firms that are more transparent enjoy increased domestic and foreign investment, which leads to economic growth.
- Minimizes Information Asymmetry

  Financial transparency closes the gap between management and stakeholders, especially outside investors, creditors, and regulators. Financial transparency

[1] (PDF) The Influence of Transparency, Governance, and Financial Accountability in Managing Financial Reporting in the Public Sector

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guarantees equal access to financial information for all stakeholders, hence fostering fairness and safeguarding the interest of minority shareholders.

- Enhances Regulatory Compliance

  Clear financial disclosures enable companies to comply with statutory and regulatory requirements. It supports the enforcement of company laws, stock exchange rules, tax laws, and auditing standards.

- Prevents Corporate Frauds and Financial Mismanagement

  Lack of transparency provides room for improper financial practices and corporate malpractices. Timely, transparent, and elaborate financial reporting prevents such malpractices because financial activities come into the view of regulatory bodies, auditors, and shareholders. The Satyam scandal is a prime example where non-transparency in financial reporting resulted in huge losses and damage to reputation.

- Fosters Board Accountability and Ethical Governance

  Financial transparency makes the board of directors accountable to shareholders and regulatory bodies. It enables independent directors and audit committees to effectively monitor financial management, internal controls, and risk assessment procedures. Transparent reporting allows boards to implement ethical financial practices and enhance overall governance standards.

- Facilitates Better Risk Management

  Transparent financial reporting allows companies to realize financial risks and weaknesses in time. It makes it possible for management to intervene promptly to rectify, revise business strategies, and prevent impending financial crises. It also enhances a company's resilience to withstand economic shocks and maintain operational viability.

- Enhances Corporate Reputation and Long-term Sustainability

  Firms that practice transparent financial reporting have greater reputational capital in the marketplace. It enhances investor, customer, business partner, and regulator relationships, leading to long-term corporate sustainability and business continuity.

- Consistent with International Best Practices

  Financial transparency aligns Indian corporate governance practices with international standards, making Indian companies more competitive and desirable in the global market. It facilitates India's integration into global financial markets and improves the credibility of its capital markets.[2]

Interconnection between Financial Transparency and Good Governance

The interconnection between financial transparency and good governance is a critical aspect of corporate governance in India. Financial transparency is the extent to which firms provide stakeholders with relevant, reliable, timely, and understandable financial information. This transparency is essential for building trust and accountability, especially in the context of corporate fraud and governance scandals.

In India, financial transparency has become a major determinant of effective good governance practice. It is not just a governance requirement but an instrument of long-term sustainability and moral governance. The regulatory framework established by bodies like SEBI, MCA, and the enactment of significant reforms like Clause 49, Companies Act 203, and amendments regarding ESG and CSR reporting, play a significant role in promoting financial transparency. Case studies of corporations such as Infosys, TATA Group, and Satyam illustrate the positive impact of high transparency on board independence, effective audit practices, and better investor relations. However, the research also highlights critical challenges such as poor enforcement, compliance loopholes, and a lack of stakeholders' awareness as impediments to achieving complete financial transparency.

Recommendations

- Step up Regulation: While tremendous progress has been made in applying corporate governance in the form of regulation with Acts like the Companies Act, 2013 and SEBI LODR guidelines, tighter surveillance needs to be maintained, particularly on small and medium enterprises and unlisted companies.
- Encourage Voluntary Transparency Programs: Firms ought to be motivated to embrace voluntary transparency programs, such as wide-ranging disclosure of non-financial information like ESG (Environmental, Social, and Governance) metrics, in order to enhance stakeholder confidence and secure long-term investments.
- Corporate Governance Training: Organizations must commit to governance training programs for directors and senior leadership to enhance their awareness of the pivotal

[2] 1217046854.pdf

role financial transparency plays in ensuring ethical and responsible corporate behaviour.

- Greater Utilization of Technology: Financial transparency can be optimized by utilizing state of-the-art technologies like blockchain to facilitate real-time reporting of finances to identify financial irregularities. These technologies must be encouraged for adoption by companies to facilitate greater transparency and efficiency in reporting finances.
- Enhance Internal Audits: Companies need to enhance internal audit processes to ascertain that financial disclosures are complete, accurate, and timely. All listed companies must undergo independent audits to avoid the commission of fraudulent acts, as was seen in the Satyam debacle.