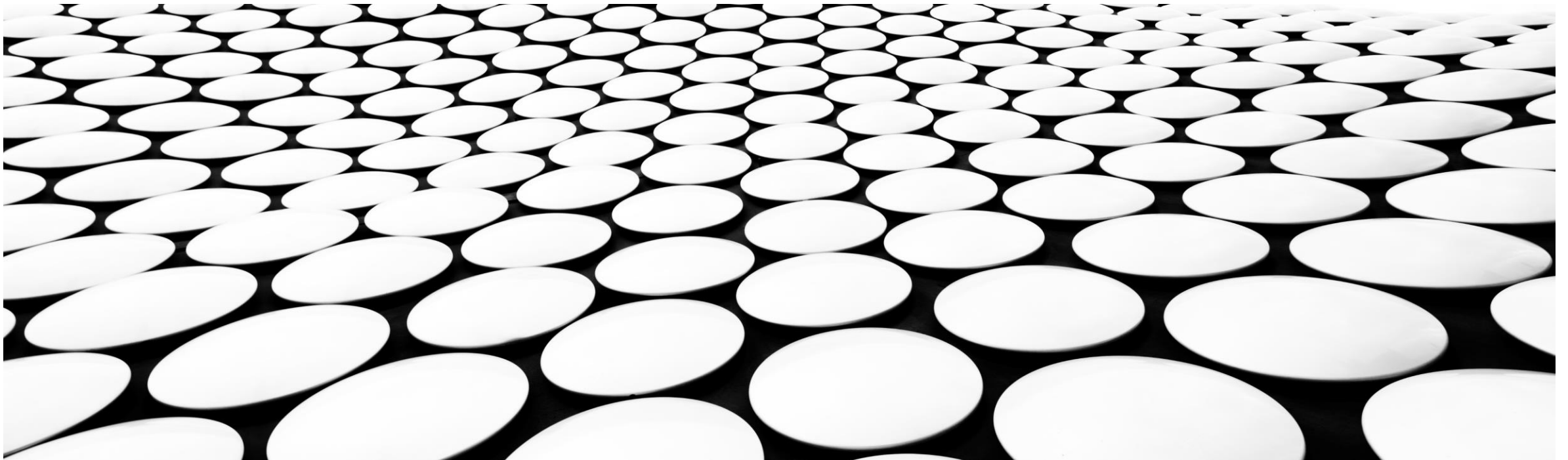

BEST PRACTICES ON CORPORATE GOVERNANCE – AN OVERVIEW

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BEST PRACTICES ON CORPORATE GOVERNANCE

CORPORATE GOVERNANCE –

An introduction

- Corporate Governance is the system of rules, practices and processes by which an organization is directed and controlled.

- Corporate Governance essentially involves balancing the interests of the many stakeholders in an organization company –
 - Promoters,
 - Shareholders,
 - Management,
 - Customers,
 - Financiers and investors,
 - Service providers,
 - Government and
 - The community.

CORPORATE GOVERNANCE

Need

- Board room failure
- Approval of inaccurate financial results
- Inadequate financial disclosures
- Conflict of interest
- Curbing the independence of auditors
- Banking practices
- Inadequate compliance practices
- Executive compensation

CORPORATE GOVERNANCE

Mechanism in the US

To protect the shareholders from corporate crimes, Sarbanes Oxley Act 2002, in the US came up with some fundamental changes in every aspect of corporate governance such as:

- Internal control
- Auditors independence
- Conflict of interest
- Corporate responsibility
- Enhanced financial disclosures
- Enhanced quantum of penalties for defaulters.

CORPORATE GOVERNANCE

Sarbanes Oxley Guideline

- Disclosure of controls
- Improper influence on conduct of audits
- Disclosures in periodic reports (Off-balance sheet items)
- Assessment of internal control
- CEO / CFO certification of Financial statements and controls
- Criminal penalties for retaliation against whistle blowers

CORPORATE GOVERNANCE

Mechanism In India

- Companies Act 2013 read with Rules promulgated from time to time
- Securities and Exchange Board of India guideline

CORPORATE GOVERNANCE

Companies Act 2013

Section	Topic
Section 149(1)	Appointment of Directors
Section 164(1)(2) & (3)	Disqualification of Directors
Section 149(6)	Independent Directors
Section 149(9)	Remuneration of Independent Directors
Section 149(8) & Schedule IV	Code of Independent Directors
Section 165(1)	Number of Directorships
Section 179(1)	Powers of Board of Directors
Section 180(1)	Restrictions of powers of the Board
Section 166	Duties of Directors
Section 184	Disclosure of interest by Director
Section 134(3)	Board Report
Section 134(5)	Directors Responsibility Statement

CORPORATE GOVERNANCE

Companies Act 2013 (Continued)

Section	Topic
Section 177(4)	Audit Committee
Section 177(9)	Vigil Mechanism
Section 178(1)	Nomination and Remuneration Committee
Section 178(5)	Stakeholder Relationship Committee
Section 188(1)	Related Party transactions
Section 195(1)	Prohibition of insider trading
Companies (Accounts) Rules 2014	Maintenance of Accounts
Section 138	Internal Audit
Companies (Audit & Auditors) Rules 2014	Companies Audit of Accounts
Companies (Corporate Social Responsibility Policy) Rules 2014	Disclosure about CSR Policies
Companies (Auditors Report) Order 2020	Reporting requirements in Auditors report

CORPORATE GOVERNANCE

SEBI (LODR) Guideline

Regulation	Topic
Regulation 17	Composition of board of directors
Regulation 3	Duties and Responsibilities of board
Regulation 34	Disclosures in Annual Report including Board Report
Regulation 34(2)(f)	Directors Business Responsibility Report
Regulation 17(A)	Number of Directorships
Regulation 16(B)	Modified definition of Independent Directors
Regulation 16(b)	Qualification of Independent Directors
Regulation 25(3)	Separate meeting of Independent Directors
Regulation 25(5)	Liability of Independent Directors
Regulation 25(7)	Training of Independent Directors
Regulation 17(10)	Performance evaluation of Independent Directors

CORPORATE GOVERNANCE

SEBI (LODR) Guideline (Continued)

Regulation	Topic
Regulation 22	Whistle blower mechanism
Regulation 23	Related party transactions
Regulation 19(1)	Nomination and Remuneration Committee
Regulation 20	Stakeholder Relationship Committee
Regulation 21	Risk Management Committee
Regulation 18(1)	Audit Committee
Clause D of Schedule V	CEO / CFO Certification
Clause E of Schedule V	Compliance certificate by auditors and practicing company secretary

CORPORATE GOVERNANCE

Steps

- Setting up Governance structure
- Setting up Board of Directors
- Setting up Audit Committee and Remuneration Committee
- Governance structure and responsibilities
- Setting up control environment and robust internal control processes
- Credibility of financial results of the Organization
- Independent audit of financial results
- Compliance Tracking
- Prevention of conflict of interest in operations
- Develop and implement policy manual across organization

CORPORATE GOVERNANCE – Setting up Governance Structure



CORPORATE GOVERNANCE –

Board of Directors

Responsible for the management of all activities of the Organization and the specific responsibilities are:

- Approving and overseeing the annual budget.
- Approving signing authority for the bank accounts
- Appointments of staff where not delegated to the Managing Director
- Approving expenditure above say \$100,000 if not included in the budget.
- Monitoring the financial position based on quarterly reports.
- Approving the annual accounts, auditor's appointment and report.
- Review annual tax filing of returns as per requirements in the units of operation.

The Board meeting needs to be convened each quarter as per Companies Act 2013 guideline.

CORPORATE GOVERNANCE –

Audit Committee

Responsible for:

- Assisting and advising the Board regarding its responsibility for the oversight of financial compliance;
- The review of independent registered public accounting firm’s qualifications and independence;
- The review and performance assessment of the corporation’s internal audit function and independent registered public accounting firm;
- The filing of Form 990, Return of Organization Exempt from Income Tax, to the Department of the Treasury Internal Revenue Service
- The review of Chief Financial Officer’s responsibilities to assure that there is in place an effective system of controls reasonably designed to:
 - Safeguard the assets and income of the organization,
 - Assure the integrity of the organization’s financial statements, and
 - Maintain compliance with the organization’s policies, plans and procedures, and with laws and regulations.
- Performing any other duties or responsibilities delegated to the Committee by the Board from time to time.

CORPORATE GOVERNANCE – Remuneration Committee

Responsible for:

- Oversight of the Organization’s compensation framework, particularly the study and evaluation of appropriate compensation mechanisms and criteria;
- Compensation levels and arrangements for personnel of the Organization;
- Approve performance management system in accordance with the Human Resource Policy;
- Approve performance-based compensation for personnel;
- Performing any other duties or responsibilities delegated to the Committee by the Board from time to time.

CORPORATE GOVERNANCE – Managing Director

Accountable to the Board on all financial matters to ensure that activities carried out are consistent with the Organization's financial and accounting policies, authorities and guidelines.

Specific responsibilities include:

- Ensure that the accounts are properly audited and that accepted recommendations of the auditors are implemented.
- Make contractual commitments for bank loans and real estate lease or purchase as per the approved budget. If not, included in the approved budget the amount must not exceed say, \$50,000 per transaction.
- Enter into contracts for activities of the organization.
- Formally present accounts, budgets and financial statements at designated meetings of the Board, drawing attention to important points.
- Guide and advise the Board in the approval of budgets, accounts and financial statements.

CORPORATE GOVERNANCE – Managing Director

Specific responsibilities (Continued)

- Advise the Board on the financial implications of strategic plans and key assumptions included in the operational plan and annual budget.
- Ensure that activities carried out are consistent with the financial and accounting policies and guidelines.
- Raise funds for the operations in collaboration with Country Directors, Managers and Executive Director of International Affairs
- Report the financial results of operations on a quarterly basis.
- Pay all obligations and file required reports in a timely manner.

CORPORATE GOVERNANCE – Chief Financial Officer

Responsible for compliance with the policies of the organization, supervising the Financial Team and supporting the Managing Director.

The specific responsibilities include:

- Manage the accounting procedures and key internal controls to assure the Board of the organization's financial integrity
- Prepare annual budget and present to the Managing Director followed by the Audit Committee prior to presentation to the Board.
- Manage expenses within the parameters of the overall approved budget, reporting to the Managing Director on variances and the reason for these variances.
- Authorize payments and contracts based on Approved Delegation of Authority.

CORPORATE GOVERNANCE – Chief Financial Officer

The specific responsibilities include (Continued):

- Ensure presentation of monthly and quarterly Accounts to the Audit Committee and the Board.
- Ensure Annual Financial Audits.
- Ensure necessary returns and authorizations are filed appropriately as per laws in the country of operations.
- Oversee the compliance with the financial policy of the Organization.

CORPORATE GOVERNANCE – Setting up Meetings

- Fixing and date and time of Board meetings and Committee meetings
- Preparation of notice and agenda of each meeting
- Getting it approved by President and Chair
- Ensuring the meeting has quorum
- Convening the meeting physically or through video conferencing
- Creating the Minutes of Meeting.
- Ensuring that at least four board meetings and Committee meetings are convened during the year.

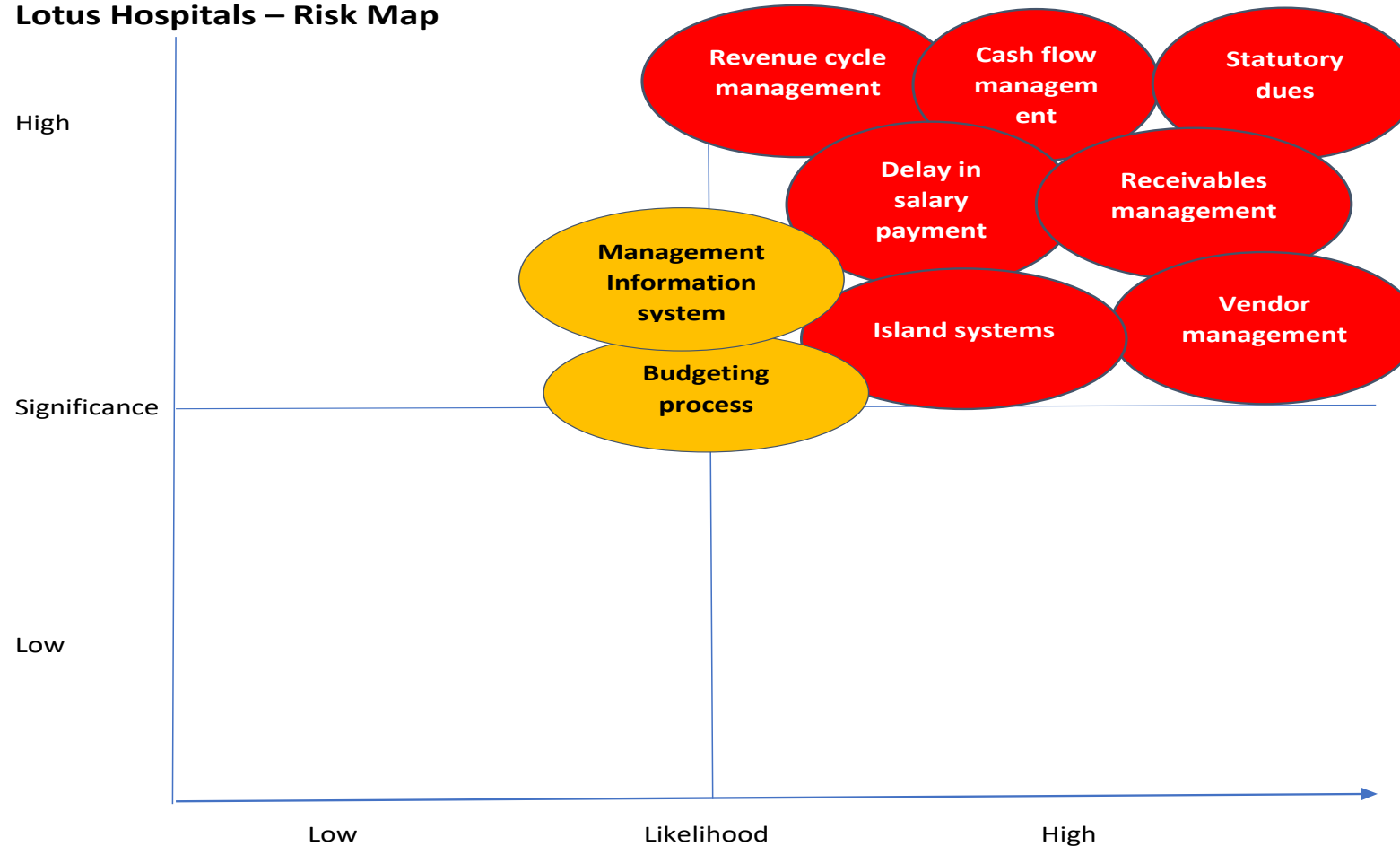
CORPORATE GOVERNANCE – Setting up Control Environment and Internal Control Process

- Establish Delegation of Authority at Corporate and Unit level
- Assign task to individuals and make the person accountable
- Segregate duties into custody, recording and approval functions,
- Restrict access to users and ensure one person cannot access the entire system
- Develop audit trail related to each activity
- Ensure independent verification of each activity and introduce maker, checker and approver concept
- Implement Risk Management process through assessment and mitigation of risks.

CORPORATE GOVERNANCE

Enterprise Risk Map - Illustration

Lotus Hospitals – Risk Map



CORPORATE GOVERNANCE – Generating credible Financial Management Process

- ❑ Implement bottom-up budgeting process with detailed allocation of expenses to each project rolled up to each department and unit
- ❑ Perform financial closure every month and track budget versus actuals for each project including opening and closing balance tied to bank account balance
- ❑ Carry out a robust rolling forecasting process by comparing revenue traction with expense burn rate per month, identifying surplus or deficit in future months and creating an alert to the operations management if there is any pending deficit in any running project.
- ❑ Since the projects are not of commercial nature, the finance team needs to ensure that the deficit of one project is not cross funded from surplus from other projects and each project need to stand on its own feet.

CORPORATE GOVERNANCE –

Independent audit of Financial results

- Ensuring conduct of independent audit of the Financial Statements of the organization consisting of :
 - Statement of Financial Position – Balance Sheet
 - Statement of Profit & Loss – Revenue less expenses
 - Statement of Cash flows
 - Statement of Functional expenses – bifurcated between, departments and overhead

- Ensuring getting a clean opinion from the auditors

- If there is a qualified opinion, then the explanation may be sought from the Officers by the Audit Committee and the Board of Directors

- If any Fraud is detected in the organization, the auditors need to be informed separately on this along with action taken report related to the incident

- Present the audited financial results to the Audit Committee and the Board of Directors

CORPORATE GOVERNANCE – Setting up Compliance Tracking Mechanism

S. No.	Compliance Requirement	Status
ROC Annual Filing		
1	Balance sheet and Profit and Loss Account (FY-2021-22) -Form AOC-4 to be filed by all companies	WIP
2	Annual Return-Form MGT-7 to be filed for companies having share capital	WIP
3	ADT-1 filing of intimation of Appointment of Auditor	Completed
4	Change of Registered office Address	Completed
5	Audit for the financial year 2021-22	Completed
6	Board Meeting Quarter ended March 2022	Completed
7	Board Meeting Quarter ended June 2022	Completed
8	Board Meeting Quarter ended September 2022	Completed
Income Tax Compliance (ITR)		
1	Furnishing of Income Tax Return AY 2022-23	WIP
2	FORM NO. 3CEB Report from an accountant to be furnished under section 92E relating to international transaction(s) and specified domestic transaction(s) AY 2022-23	WIP
4	Change of Registered office Address	Completed
5	Tax Audit Report and Income tax return For AY 2022-23	WIP
Income Tax (Compliance related to Tax Deducted at Source)		
1	Quarterly filling of TDS Return (Q2 FY 2021-22)	Completed
2	TDS Payment (September 2022)	Completed
3	Downloading TDS Certificates Q2	Completed
4	Change of Registered office Address	Completed
GST Compliance		
2	Gst Return for September 2022	Completed
3	Annual Gst Return for 2020-21	Completed
4	Change of Registered office Address	Completed
Banking Compliance		
1	Change of Registered office Address if any	Completed

CORPORATE GOVERNANCE – MD / CFO Certification

Complied with all applicable laws, enactments, orders, rules, regulations and other statutory requirements of all statutory and local authorities concerning the business and affairs of the organization.

Paid all applicable statutory dues within due dates.

Maintained proper registers, documents and records and filed proper forms and returns, forms and statements and furnished necessary particulars to the relevant authorities.

Not done or committed any act or entered into any transaction in violation of any statutory provisions.

Note: The above certificate has to be signed by each unit head and collated and presented to the Audit Committee and Board every quarter.

CORPORATE GOVERNANCE – Prevention of Conflict of interest in operations

- Managing Director and CFO needs to assess conflict of interest of all functionaries in the organization.
- If any such case is detected it needs to be reported to the Audit Committee and Board of Directors.
- The Board of directors assisted by the Audit Committee may review the issue and take appropriate decision related to the detected conflict of interest.

CORPORATE GOVERNANCE – Develop and Implement Policy Manual

The organization needs to develop and implement Policy manual approved by the Board of Directors In the following areas:

- Delegation of Authority
- Financial Policies
- Human Resources Policies
- Information and Data Management Policy
- Gender Diversity Policy Once the policies are approved by Board, it needs to be cascaded down the organization for Information and adherence.

CORPORATE GOVERNANCE – Benefits

- Improves Corporate performance through effective strategy and execution capabilities
- Augments Accountability
- Enhances investor trust and confidence
- Combat corruption through robust enterprise control processes
- Opens doors to prospective funding opportunities
- Improves Enterprise Risk Management
- Assists quality of decision making



THANK YOU!