

Unit-3 Corporate Governance

* Improved Corporate Governance:

Corporate governance is a cornerstone of sustainable business practices. To enhance transparency, accountability & long-term value creation, several strategies can be implemented:

1. Strengthening Board Independence & Effectiveness:
Increasing the proportion of independent directors, establishing clear board effect composition criteria, and providing ongoing director training can significantly enhance board effectiveness and objective decision-making.

2. Robust Risk Management and Compliance:
Implementing robust risk management processes, fostering a culture of compliance and regularly reviewing compliance programs can help organizations identify, assess, mitigate and monitor risks effectively.

3. Enhanced Transparency & Disclosure:
Improving the quality & transparency of corporate reporting, providing clear

and comprehensive information to Stakeholders, & embracing digital technologies, can enhance accessibility and engagement.

4. Strengthening Shareholder Rights & Engagement: Enhancing Shareholder rights & protections, fostering regular communication and dialogue with Shareholders, and implementing Shareholder friendly practices can promote accountability and Shareholder value.

5. Promoting Corporate Social Responsibility (CSR) and Sustainability: Embedding CSR and Sustainability principles into corporate governance frameworks, setting clear ESG goals, and engaging with Stakeholders can contribute to sustainable development and enhance corporate reputation.

6. Fostering Ethical Leadership & Corporate Culture: Cultivating a culture of integrity, ethics & accountability, promoting ethical decision-making, and recognizing ethical conduct can strengthen organizational values & purpose.

7. Improving Governance Oversight and Evaluation
Regularly assessing and evaluating governance structures, and procedures, creating autonomous board committees, and encouraging a culture of continuous improvement can enhance governance efficiently.

8. Strengthening Regulatory Oversight & Enforcement
Enhancing regulatory frameworks, ensuring robust enforcement mechanisms, and encouraging cooperation among regulators can promote accountability & discourage non-compliance.

By implementing these strategies, ensuring robust enforcement mechanisms and encouraging cooperation among regulators can promote accountability and discharge

By implementing these strategies, companies can significantly enhance their corporate governance practices, build trust with stakeholders and create long-term sustainable value.

* Government's Role in Improving Corporate Governance

The government plays a crucial role in improving corporate governance by formulating legislation, defining benchmarks and instituting regulatory frameworks. The Companies Act, 2013, is a significant step in this direction.

1. Enhanced Board Accountability:

The Act mandates independent directors and specifies criteria for board composition, ensuring independent oversight and balanced representation on corporate boards. The Act shows board composition criteria should be a minimum of 3 directors for public company & 2 for private company. A maximum of 15 directors in a company, in which 50% must be independent directors, out of which $\frac{1}{3}$ rd must be a women.

2. Empowered Shareholder Rights:

The Act promotes shareholder democracy by facilitating electronic voting and empowering minority shareholders to hold directors and management accountable.

3. Strengthened Audit and Financial Reporting:

The Act imposes restrictions on non-audit services by auditors and requires companies to adhere to stringent financial reporting standards, ensuring

audit independence and transparency.

4. Promotion of Responsible Corporate Conduct :

The Act mandates CSR spending and protects whistleblowers, promoting responsible business practices and ethical behaviour.

5. Regulation of Related-party Transactions:

The Act imposes stringent approval and disclosure requirements for related-party transactions, preventing conflicts of interest and ensuring fairness.

6. Corporate Governance Frameworks & Standards :

The Act requires companies to adopt corporate governance codes & standards, providing guidelines for governance structures & processes. Regular agencies like SEBI & MCA monitor compliance and enforce penalties for violations.

By introducing these provisions, the Companies Act, 2013, strengthens the government's role in improving corporate governance practices, enhancing investor protection, and fostering confidence in the integrity and transparency of corporate entities.

* Board of Directors and their role in Governance

The board of directors serves as the primary governing body of a company, responsible for overseeing its strategic direction, financial performance and ethical conduct. Here's a deeper dive into their key roles and responsibilities:

Strategic Leadership:

The board is responsible for setting the company's long-term vision, mission & strategic goals. They review and approve strategic plans, ensuring they align with the company's overall objectives and shareholder interests.

Risk Management Oversight:

Board of Directors plays a crucial role in identifying, assessing and mitigating risks that may impact the company's operations, financial performance or reputation. They monitor the effectiveness of risk management processes and internal controls to ensure that risks are adequately addressed.

Financial Oversight:

The board oversees the company's financial performance by reviewing financial statements, approving budgets and monitoring capital allocation decisions. They ensure the company's financial

reporting is accurate, transparent and compliant with relevant regulations.

Executive Oversight:

The board is responsible for appointing, evaluating and compensating key executives. They ensure that the executive team is aligned with the company's strategic goals and that their performance is in line with shareholder expectations.

Ethical Leadership:

The board promotes a strong ethical culture within the organization by setting ethical standards, enforcing compliance with laws and regulations, and ensuring that the company operates with integrity.

Stakeholder Engagement:

The board engages with various stakeholders, including shareholders, employees, customers and the community. They communicate effectively with stakeholders, address their concerns and ensure that the company's actions are aligned with their interests.

Board Effectiveness:

BoD is responsible for its own effectiveness and continuously evaluates its performance.

They ensure that the board is composed of qualified and independent directors who can provide effective oversight.

Crisis Management:

Directors play a critical role in responding to crises, such as natural disasters, cyberattacks or reputational damage. They provide leadership, make timely decisions and communicate effectively with shareholders during crises.

Corporate Social Responsibility:

The board oversees the company's corporate social responsibility initiatives, ensuring that the company operates in an ethical and sustainable manner. They consider the social and environmental impact of the company's activities.

Innovation and Growth:

The board encourages innovation and supports initiatives that drive growth and long-term value creation. They review and approve strategic initiatives that align with the company's overall strategy.

* Duties and Responsibilities of Auditors

Auditors play a crucial role in ensuring the accuracy, reliability and integrity of financial information. Their responsibilities encompass a wide range of activities, including Financial Statement Audit:

Auditors meticulously examine financial statements, including balance sheets, income statements and cash flow statements. They verify the authenticity of transactions, ensuring accurate recording and classification. Additionally, they assess the effectiveness of internal controls to prevent fraud and maintain accurate financial records. Based on their findings, auditors issue an audit opinion on the fairness and accuracy of the financial statements.

Reporting to Shareholders and Regulators:

Auditors prepare detailed audit reports, communicating significant findings to the audit committee. They may also be required to report certain findings to regulatory authorities. This ensures transparency and accountability in financial reporting.

compliance with Regulatory Requirements:

Auditors ensure that companies adhere to relevant laws, regulations and industry standards. They review company policies and procedures to assess their adequacy and compliance. This helps maintain regulatory integrity and ethical business practices.

Internal Control and Risk Management:

Auditors evaluate the design and effectiveness of internal controls to prevent and detect errors and fraud. They identify potential risks to the company's financial health and operations and recommend measures to mitigate them. This ensures the reliability of financial information and protects the company's assets.

Fraud Detection and Prevention:

They identify potential fraud risks and assess their likelihood of occurrence. If necessary, they conduct investigations into suspected fraud and irregularities. Additionally, they provide recommendations to improve fraud prevention and detection measures.

Whistleblower protection :

Auditors may contribute to creating a culture that encourages employees to report unethical behaviour or fraud. They may also be involved in protecting whistleblowers from retaliation.

Professional Development :

Auditors are required to engage in continuous professional development to stay updated with the latest accounting standards, auditing standards, and regulatory changes. This ensures that they maintain the highest standards of professional competence.

Liability and Accountability :

Auditors are liable for negligence or misconduct in the performance of their duties. They may face legal actions if their audit work is found to be deficient or misleading. This accountability ensures the quality and reliability of audit services.

By fulfilling these responsibilities, auditors play a crucial role in maintaining the integrity of financial reporting, protecting investor interests and promoting corporate governance.

* Rights and Privileges of Shareholders

Shareholders are the owners of a company. As such, they possess certain rights & privileges that are essential for protecting their interests and ensuring good corporate governance. Here are some of the key rights & privileges of shareholders:

Right to vote :

Shareholders have the right to vote on important company matters, such as the election of directors, approval of mergers and acquisitions, and changes to the company's constitution. Each share typically carries one vote, although voting rights can vary depending on the class of shares.

Right to Receive Dividends :

Shareholders are entitled to receive dividends, which are a portion of the company's profits distributed to shareholders. Dividends can be paid in the form of cash or additional shares.

Right to information :

Shareholders have the right to access important company information, including financial statements, and reports and other material disclosures. This right ensures transparency and accountability in corporate governance.

Right to Transfer shares :

Shareholders have the right to transfer their shares to others, subject to any restrictions imposed by the company's articles of association or applicable laws. This right promotes liquidity and allows shareholders to sell their shares when desired.

Right to Attend shareholder Meetings :

Shareholders have the right to attend & participate in general meetings of the company, includes Annual general meeting (AGM) & Extra ordinary Meetings (EOM), where they can ask questions, raise concerns, and vote on resolutions.

Right to elect Directors :

Shareholders have the right to ~~ins~~ elect directors to the board of directors, who represent their interests and oversee the management of the company.

Right to inspect corporate Records :

Shareholders have the right to inspect certain corporate records, such as the company's articles of association, register of members, and minutes of board meetings. This right allows shareholders to verify

the company's compliance with legal requirements and governance standards.

Right to Sue for Oppression or Mismanagement:

Shareholders have the right to take legal action against the company or its directors for oppressive or prejudicial conduct, mismanagement or breaches of fiduciary duties.

Right to inspect Auditor's Report:

Shareholders have the right to review and inspect the auditor's report on the company's financial statements, which provides independent assurance on the accuracy and reliability of the company's financial reporting.

Right to Share in Corporate Assets:

In the event of a company's liquidation, shareholders have the right to receive their proportionate share of the company's remaining assets after settling creditors' claims and other liabilities.

* Investors problem and protection
Investors face a myriad of challenges in today's complex financial landscape. To mitigate these risks and protect investor interests, various measures and regulations have been implemented. Here are some key aspects of investor protection:

Regulatory Oversight:

A robust regulatory framework is essential to safeguard investor interests. Regulatory bodies like the Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI), and Insurance Regulatory and Development Authority of India (IRDAI) play a crucial role in monitoring and regulating the financial markets. They implement rules and regulations to ensure fair practices, transparency and accountability.

Education and Awareness:

Financial literacy is a powerful tool for investor protection. Educating investors about investment products, risks and the importance of diversifying their portfolios can empower them to make informed decisions. Financial literacy programs, investor education campaigns,

and awareness initiatives can significantly contribute to investor protection.

Corporate Governance Standards:

Strong corporate governance practices are essential for ensuring the ethical and transparent conduct of companies. These standards include:

- Independent Board: unbiased oversight from independent directors.
- Audit Committee: independent oversight of financial reporting and controls.
- Transparent Disclosure: Accurate and timely information for investors.
- Whistleblower protection: safeguards for those reporting misconduct.

Investor Protection Funds (IPFs):

IPFs are designed to compensate investors who suffer losses due to the failure of financial intermediaries. These funds provide a safety net for investors, particularly in cases of fraud or insolvency.

Investor Protection and Education Fund (IPEF)

The IPEF is a fund established by SEBI to promote investor education and protection. It finances various initiatives, such as investor

awareness programs, research and training.
Investor Complaint Redressal System (ICRS)

ICRS is a mechanism established by SEBI to address investor complaints against intermediaries. It provides a platform for investors to lodge complaints and seek redressal.

* Corporate Governance Rating Process & Parameters:

Corporate Governance rating agencies like CRISIL, CARE and ICRA assess the quality of a company's governance policies & practices.

The key parameters and process involved:

1. Scope & Objective:

- Define the scope of assessment, focusing on key areas like board effectiveness, shareholder rights, financial reporting, and risk management.
- Set clear objectives for the rating process, such as assessing the company's adherence to best practices and providing a comprehensive evaluation.

2. Documentation and Review:

- Collect relevant documentation, including annual reports, board meeting minutes & regulatory filings.

- Analyze both qualitative and quantitative data to assess the company's governance practices.

3. Board Structure and Composition:

- Evaluate the independence and diversity of the board.
- Assess the effectiveness of board committees, such as the audit committee and remuneration committee.

4. Executive Remuneration process practices:

- Review the company's remuneration policy to ensure it's aligned with performance & shareholder interests.
- Assess the transparency and disclosure of executive remuneration.

5. Financial Reporting & Disclosure:

- Evaluate the accuracy, timeliness and transparency of financial reporting.
- Assess the effectiveness of internal controls in ensuring accurate financial reporting.

6. Shareholders and their Rights:

- Assess the protection of shareholder rights, including voting rights and the right to information.
- Evaluate the company's engagement with shareholders.

7. Risk Management and Internal Control:

- Assess the effectiveness of the company's risk management framework.
- Evaluate the adequacy and effectiveness of internal controls.

8. Ethical and Citizenship:

- Assess the company's commitment to ethical business practices and social responsibility.
- Evaluate the existence of effective whistleblower protection mechanisms.

9. Rating & Reporting:

- Assign a corporate governance rating based on the company's performance and compliance with best practices.
- Publish a detailed report outlining the company's strengths, weakness and overall governance rating.

10. Continuous Monitoring and Improvement:

- Conduct periodic reviews to assess changes in the company's governance practices.
- Provide feedback to the company on areas for improvement.
- Publicly disclose the company's EG rating.