

11

Audit Committee & Corporate Governance

11.1 - Corporate Governance

Concept of Corporate Governance	<ul style="list-style-type: none"> Corporate Governance is the system by which companies are directed and governed by the management in the best interests of the stakeholders and others ensuring better management, greater transparency and timely financial reporting. Responsibility to ensure corporate Governance rests with the Board of Directors.
Legal Framework	<p>In India, the legal framework of Corporate Governance is contained in</p> <ul style="list-style-type: none"> Sec. 177 of the Companies Act, 2013 (relating to Audit Committee) and Chapter IV (Regulation 15 to Regulation 27) of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015. <p style="text-align: center;">Points to remember</p> <ul style="list-style-type: none"> SEBI (LODR) Regulations, 2015, issued by SEBI with the objective of streamlining and consolidating the provisions of various listing agreements in operation for different segments of the capital markets, such as equity shares, preference shares, debt instruments, units of mutual funds, Indian depository receipts, securitised debt instruments and any other securities that the SEBI may specify. These Regulations are divided into 2 parts - the substantive provisions are incorporated in the main body while the procedural requirements are incorporated in the form of schedules. It may be noted that the LODR Regulations deal with only post-listing requirements and exclude all pre-listing requirements.
Issues involved in Corporate Governance – Chapter IV of SEBI (LODR) Regulations, 2015	<ul style="list-style-type: none"> (a) Board of Director including its composition, independent director, non-executive director etc. (b) Obligations w.r.t. Independent Directors, directors and senior management. (c) Code of Conduct and Vigil mechanism (d) Provisions regarding composition and functioning of Audit Committee (Regulation 18). (e) Provisions regarding setting up and role of Nomination and Remuneration Committee. (f) Provisions regarding setting up and role of Stakeholder Relationship Committee (g) Provisions regarding setting up and role of Risk Management Committee (h) Management of Subsidiaries (i) Disclosures on important issues regarding Related party Transaction, accounting treatment etc. (j) Disclosure of Management Discussion and Analysis. (k) Information to shareholders (l) CEO/CFO Certification. (m) Compliance Certificate

Important Questions

Q. No. 1: Write short note on: Corporate Governance.

Q. No. 2: Write short note on: Matters addressed in SEBI (LODR) Regulations, 2015 regarding Corporate Governance. [Nov. 15 (4 Marks)]

Or

Enumerate the issues addressed in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 regarding Corporate Governance.

11.2 - Audit Committee [Sec. 177 of Companies Act 2013]

Requirement of Constitution of Audit Committee - Sec. 177(1)	<p>Every listed public company and the following classes of companies shall constitute an Audit Committee:</p> <ul style="list-style-type: none"> (i) all public companies with a paid-up capital of ₹10 Cr. or more; (ii) all public companies having turnover of ₹100 Cr. or more; (iii) all public companies, having in aggregate outstanding loans, debentures and deposits exceeding ₹50 Cr. or more. <p style="text-align: center;">Points to remember</p> <ul style="list-style-type: none"> • The paid-up share capital or turnover or outstanding loans, debentures and deposits, as the case may be, as existing on the date of last audited Financial Statements shall be taken into account for the purposes of this rule. • The following classes of unlisted public company shall not be required to constitute audit committee: <ul style="list-style-type: none"> (a) a joint venture; (b) a wholly owned subsidiary; and (c) a dormant company as defined u/s 455.
Composition of Audit Committee – Sec. 177(2)	<ul style="list-style-type: none"> • The Audit Committee shall consist of a minimum of three directors with independent directors forming a majority. • It is also required that majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement.
Functions of Audit Committee – Sec. 177(4)	<p>Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, <i>inter alia</i>, include:</p> <ul style="list-style-type: none"> (i) the recommendation for appointment, remuneration and terms of appointment of auditors; (ii) review and monitor the auditor's independence and performance, and effectiveness of audit process; (iii) examination of the financial statement and the auditors' report thereon; (iv) approval or any subsequent modification of transactions of company with related parties; (v) scrutiny of inter-corporate loans and investments; (vi) valuation of undertakings or assets of the company, wherever it is necessary; (vii) evaluation of internal financial controls and risk management systems; (viii) monitoring the end use of funds raised through public offers and related matters. <p style="text-align: center;">Points to remember</p> <p>Provisos to Sec. 177(4)(iv) provides the following:</p> <ul style="list-style-type: none"> • Audit Committee may make omnibus approval for related party transactions proposed to be entered into by the company subject to such conditions as may be prescribed. • In case of transaction, other than transactions referred to in Sec. 188, and where Audit Committee does not approve the transaction, it shall make its recommendations to the Board. • In case any transaction involving any amount not exceeding ₹1 Cr. is entered into by a director or officer of the company without obtaining the approval of the Audit Committee and it is not ratified by the Audit Committee within 3 months from the date of the transaction, such transaction shall be voidable at the option of the Audit Committee

	<p>and if the transaction is with the related party to any director or is authorised by any other director, the director concerned shall indemnify the company against any loss incurred by it.</p> <ul style="list-style-type: none"> Provisions of this clause shall not apply to a transaction, other than a transaction referred to in section 188, between a holding company and its wholly owned subsidiary company.
Discretionary Powers – Sec. 177(5)	<p>The Audit Committee may</p> <ol style="list-style-type: none"> call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors, and review financial statement before their submission to the Board and also discuss any related issues with the internal and statutory auditors and the management of the company.
Authority to Investigate – Sec. 177(6)	<ul style="list-style-type: none"> The Audit Committee shall have authority to investigate into any matter in relation to the items specified in Sec. 177(4) or referred to it by the Board. For this purpose, audit committee shall have power to obtain professional advice from external sources and have full access to information contained in the records of the company.
Auditor's right to be heard – Sec. 177(7)	<p>The auditors of a company and the key managerial personnel shall have a right to be heard in the meetings of the Audit Committee when it considers the auditor's report but shall not have the right to vote.</p>
Disclosures in Board Report – Sec. 177(8)	<p>The Board's report u/s 134(3) shall disclose the composition of an Audit Committee and where the Board had not accepted any recommendation of the Audit Committee, the same shall be disclosed in such report along with the reasons therefor.</p>
Vigil mechanism – Sec. 177(9) & 177(10)	<ol style="list-style-type: none"> Every listed company and the companies belonging to the following class or classes shall establish a vigil mechanism for their directors and employees to report their genuine concerns or grievances- <ul style="list-style-type: none"> the Companies which accept deposits from the public; the Companies which have borrowed money from banks and public financial institutions in excess of ₹50 crore. The vigil mechanism shall provide for adequate safeguards against victimisation of persons who use such mechanism and make provision for direct access to the chairperson of the Audit Committee in appropriate or exceptional cases. The details of establishment of such mechanism shall be disclosed by the company on its website, if any, and in the Board's report.

Important Questions

Q. No. 3: Explain the constitution and functions of audit Committee u/s 177 of the Companies Act.

Or

Write short note on: Requirement for Audit Committee as per Companies Act, 2013.

[Nov. 17 (4 Marks)]

HINT: Refer Section 177(1) and 177(4) of Companies Act 2013.

11.3 - Audit Committee [Regulation 18 of SEBI (LODR) Regulations, 2015]

Requirement of Qualified & Independent Audit Committee	<p>(a) The audit committee shall have minimum 3 directors as members. Two-thirds of the members of audit committee shall be independent directors.</p> <p><i>In case of a listed entity having outstanding Superior Rights (SR) equity shares, the audit committee shall only comprise of independent directors.</i></p> <p>(b) All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.</p> <p>(c) The Chairperson of the Audit Committee shall be an independent director.</p> <p>(d) The Chairperson of the Audit Committee shall be present at AGM to answer shareholder queries.</p> <p>(e) The audit committee at its discretion shall invite the finance director or head of the finance function, head of internal audit and a representative of the statutory auditor and any other such executives, to be present at the meetings of the committee.</p> <p>(f) The Company Secretary shall act as the secretary to the committee.</p> <div style="background-color: #f0f0f0; padding: 10px; margin-top: 10px;"> <p style="text-align: center;">Points to remember</p> <ul style="list-style-type: none"> • Financially literate - means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows. • Accounting or related financial management expertise - A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. </div>
Meetings of Audit Committee	<ul style="list-style-type: none"> • The audit committee should meet at least 4 times in a year and not more than 120 days shall elapse between two meetings. • The quorum shall be either 2 members or 1/3 of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present.
Powers of Audit Committee	<p>The audit committee may exercise following powers, in addition to others:</p> <ul style="list-style-type: none"> • To investigate any activity within its terms of reference. • To seek information from any employee. • To obtain outside legal or other professional advice. • To secure attendance of outsiders with relevant expertise.
Role of Audit Committee - Part C of Schedule II	<ol style="list-style-type: none"> 1. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible. 2. Recommendation for appointment, remuneration and terms of appointment of auditors. 3. Approval of payment to statutory auditors for any other services rendered by them; 4. Reviewing with management the annual financial statements before submission to the Board, focusing primarily on: <ol style="list-style-type: none"> (a) Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of Sec. 134(3)(c) of the Companies Act, 2013. (b) Changes, if any, in accounting policies and practices and reasons for the same (c) Major accounting entries involving estimates based on the exercise of judgment by

	<p>management</p> <p>(d) Significant adjustments made in the financial statements arising out of audit findings</p> <p>(e) Compliance with listing and other legal requirements relating to financial statements</p> <p>(f) Disclosure of any related party transactions</p> <p>(g) Qualifications in the draft audit report</p> <p>5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval;</p> <p>6. Reviewing, with the management, the statement of uses/application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter;</p> <p>7. Review and monitor the auditor's independence and performance, and effectiveness of audit process;</p> <p>8. Approval or any subsequent modification of transactions of the company with related parties;</p> <p>9. Scrutiny of inter-corporate loans and investments;</p> <p>10. Valuation of undertakings or assets of the company, wherever it is necessary;</p> <p>11. Evaluation of internal financial controls and risk management systems;</p> <p>12. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;</p> <p>13. Reviewing the adequacy of internal audit function.</p> <p>14. Discussion with internal auditors of any significant findings and follow up there on;</p> <p>15. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board;</p> <p>16. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;</p> <p>17. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors;</p> <p>18. To review the functioning of the Whistle Blower mechanism;</p> <p>19. Approval of appointment of CFO after assessing the qualifications, experience and background, etc. of the candidate;</p> <p>20. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.</p> <p>21. Reviewing the utilization of loans and/ or advances from/investment by the holding company in the subsidiary exceeding rupees 100 crore or 10% of the asset size of the subsidiary, whichever is lower including existing loans / advances / investments existing as on 01.04.2019.</p>
Mandatory Review Areas of the Audit Committee	<ul style="list-style-type: none"> • Management discussion and analysis of financial conditions and results of operations. • Statement of significant related party transactions submitted by management • Management letters/letters of internal control weaknesses issued by the statutory auditors. • Internal audit reports to internal control weaknesses; and • The appointment, removal and terms of remuneration of the Chief Internal Auditor.

- Statement of deviations:
 - (a) Quarterly statement of deviation(s) including report of monitoring agency, if applicable submitted to stock exchange in terms of Regulation 32.
 - (b) Annual statement of funds utilised for purposes other than those stated in offer document/prospectus.
- The auditor should ascertain from the minutes book of the Audit Committee and other sources like agenda papers, etc. whether the Audit Committee has reviewed the above-mentioned information. Where certain deficiencies or adverse findings are noted by the Audit Committee, the auditor will be required to see that these have been suitably dealt with by the management in the report on corporate governance.

Important Questions

Q. No. 4: State the main features of the Qualified and Independent Audit Committee set up under regulation 18 of SEBI (LODR) Regulations 2015. [Nov. 08 (8 Marks), MTP-April 18]

Or

Every listed company shall constitute a qualified & Independent audit committee in accordance with the terms of reference subject to a few conditions. Explain. [MTP-Aug. 18]

Q. No. 5: The audit committee has been granted several roles under SEBI (LODR) regulations 2015. Oversight of the company's financial reporting process; recommendation for appointment of auditors; approval of payment to statutory auditors etc. are some of the roles that an audit committee perform. State the role of Audit Committee as provided under SEBI (LODR) Regulations.

Q. No. 6: State the "mandatory Review" areas of the audit committee. [May 12 (4 marks)]

Or

List few documents that require mandatory review by Audit Committee.

[Nov. 18-New Syllabus (5 Marks)]

Q. No. 7: D Ltd., a company incorporated in India has six members in its Audit Committee. Due to recessionary conditions in India the revenue of the company is going down and there is slowdown in other activities of the company. Therefore, it is expected that there would not be significant work for members of the Audit Committee.

Considering the overall recession in the company and the economy, the members of the Committee decided unanimously to meet only once at the year end. They reviewed monthly information system of the company and found no errors.

As an auditor of D Limited would you consider the decision taken by the Audit Committee to hold the meeting once in a year, is complying with Listing Obligation and Disclosure Requirements (LODR)? Also state the quorum requirements for such meetings.

[Nov. 13 (4 Marks), RTP-Nov. 18. Nov. 19 – New Syllabus (5 Marks)]

HINT: Decisions taken to conduct meeting once in a year and review of only monthly information system is not in line with the requirements of Regulation 18 of SEBI (LODR) Regulations, 2015.

Q. No. 8: Mr. 'U', a respectable Chartered Accountant of international repute was requested by one of the major corporates in India to join its Board and also as a Chairman of Audit Committee. He expressed his apprehensions that he is not having the requisite experience. Mr. 'U' seeks your view on the responsibility of Audit Committees vis-à-vis the review of Financial Statements.

[May 14 (4 Marks)]

HINT: Refer "Role of Audit Committee" as per SEBI (LODR) Regulations, 2015.

Q. No. 9: Write short notes on: Power of Audit Committee as stipulated under SEBI (Listing Obligations and Disclosure Requirements) Regulations.

Q. No. 10: Comment on the following in the light of certificate of compliance of conditions of Corporate Governance to be issued for a listed company where the Board consists of 10 directors including a non-executive director as its chairman and further:

- (i) There were 5 meetings held during the year as follows: 01/04/2019, 01/06/2019, 01/09/2019, 03/01/2020, 25/03/2020.
- (ii) There are 4 independent directors. One of them resigned on 25/05/2019. A new independent director was appointed on 01/09/2019.
- (iii) The chairman of Audit Committee did not attend the Annual General meeting held on 14/09/2019.
- (iv) The internal audit reports were obtained by Audit Committee on quarterly basis. Quarter 1 internal audit report commented on certain serious irregularities as regards electronic online auction of scrap. The agenda of Audit Committee did not deliberate or take note of the issue.

[Nov. 18-Old Syllabus (4 Marks), RTP-Nov. 19]

HINT: (i) Gap between meetings held on 01.09.2019 and 03.01.2020 is more than 120 days; (b) Casual vacancy in the office of director was filled up after the period prescribed under section 149(4); (iii) Chairman was mandatorily required to attend AGM (iv) Review of internal audit reports is mandatory for audit committee.

11.4 - Comparison of Audit Committee Requirements as per SEBI (LODR) Regulations and Sec. 177

**Regulation 18
vs. Section
177**

	Regulation 18 of SEBI (LODR) Regulations, 2015	Section 177 of the Companies Act, 2013
Applicability	<ul style="list-style-type: none"> For entities seeking listing for the first time. 	<ul style="list-style-type: none"> Every listed company all public companies with a paid-up capital \geq ₹10 Cr.; all public companies having turnover \geq ₹100 Cr.; all public companies, having in aggregate, outstanding loans or borrowings or debentures or deposits > ₹50 Cr.
Member Composition	Minimum 3 directors shall be members. 2/3rd of the members shall be independent directors.	The Audit Committee shall consist of a minimum of three directors with independent directors forming a majority.
Knowledge of Members	All members shall be financially literate	Majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement.
Interaction of Statutory auditor	Representative of external auditor, when required shall be present as an invitee for the meetings of Audit Committee	The auditors of a company shall have a right to be heard in the meetings of the Audit Committee when it considers the auditor's report but shall not have the right to vote.
Secretary	Company Secretary will work as Secretary of audit Committee.	No Such reference.

Additional requirements as per Sec. 177 which are silent in SEBI (LODR) Regulations	<ul style="list-style-type: none"> (a) Every Audit Committee shall act in accordance with terms of reference to be specified in writing by the Board. (b) The Board's report u/s 134(3) shall disclose the composition of an Audit Committee and where the Board had not accepted any recommendation of the Audit Committee, the same shall be disclosed in such report along with the reasons therefor. (c) The auditors of a company and the key managerial personnel shall have a right to be heard in the meetings of the Audit Committee when it considers the auditor's report but shall not have the right to vote.
Additional Requirements as per Regulation 18 of SEBI (LODR) Regulations which are silent in Sec. 177	<ul style="list-style-type: none"> (a) The audit committee may invite such of the executives, as it considers appropriate (and particularly head of the finance function) to be present at the meeting of the committee, but on occasions, it may also meet without the presence of any executives of the company. (b) The company secretary shall act as secretary to the committee. (c) The audit committee shall meet at least four times in a year. The gap between two meetings should not be more than four months. (d) The quorum of the audit committee shall be two members or one-third of the members of the audit committee whichever is higher and minimum of two independent directors be present.

Important Questions

Q. No. 11: Section 177 of the Companies Act, 2013 provides that every listed company and other class of companies as prescribed shall constitute a committee of the Board known as "audit Committee". Briefly discuss the additional requirements as per Sec. 177 which are silent in SEBI (LODR) Regulations, 2015.

11.5 - Role of Auditor in Audit Committee and Certification of Compliance of Conditions of Corporate Governance

Statutory requirements	Regulation 18	Regulation 18 requires a representative of the statutory auditor, when required, shall be invited to the meetings of the Audit Committee.
	Sec. 177	Sec. 177 requires that auditors of a company and the key managerial personnel the right to be heard in the meetings of the Audit Committee when it considers the auditor's report but they shall not have the right to vote.
Auditor's Role	<ul style="list-style-type: none"> (a) To ensure that he communicates frequently with the Audit Committee on key accounting or auditing issues that, in his judgment, give rise to a greater risk of material misstatement of the financial statements. (b) To ensure that he addresses any questions or concerns voiced by the Audit Committee. (c) To assist and advise the Audit Committee on improving corporate governance, oversight of financial reporting process, implementation of accounting policies and practices, compliance with accounting standards, strengthening of the internal control systems in regard to financial reporting and reporting processes. (d) To assist the management and the Audit Committee to enable them to discharge their functions effectively and in certification of the requirements of corporate governance. <p>Note: Auditor role is not to drive corporate governance directly. It is the management's responsibility to do so and, in the process, auditor may play a significant role in assisting management to ensure better standards of corporate governance.</p>	

Auditor's responsibilities	<ul style="list-style-type: none"> • Auditor's responsibility in certifying compliance with the requirements of corporate governance relates to the verification and certification of factual implementation of requirements of corporate governance as stipulated in the SEBI (LODR) Regulations, 2015. • Such verification and certification is neither an audit nor an expression of opinion. • Certificate from the auditor as regards compliance with the requirements of corporate governance is neither an assurance as to the future viability of the company, nor the efficiency or effectiveness with which the management has conducted the affairs of the company.
Auditor's procedures	<ul style="list-style-type: none"> • The auditor should conduct verification of compliance with the requirements of corporate governance as stipulated in the LODR Regulations, in accordance with the Guidance Note on Certification of Corporate Governance issued by ICAI. • The Standards on Auditing would be applicable in the performance of certification with the requirements of corporate governance by the auditor, to the extent relevant. • The auditor should document matters, which are important in providing evidence to support the certificate of factual findings, in accordance with SA 230 on "Audit Documentation". • The auditor should consider obtaining management representations in accordance with SA 580, "Written Representations".

Important Questions

Q. No. 12: Briefly explain the role of auditor in audit committee and certification of compliance of conditions of Corporate Governance.

11.6 - Significant Issues Covered by SEBI (LODR) Regulations, 2015

Applicability (Regulation 3)	<p>Unless otherwise provided, SEBI (LODR) Regulations, 2015 shall apply to the listed entity who has listed any of the following designated securities on recognised stock exchange(s):</p> <ul style="list-style-type: none"> (a) specified securities listed on main board or SME Exchange or institutional trading platform; (b) non-convertible debt securities, non-convertible redeemable preference shares, perpetual debt instrument, perpetual non-cumulative preference shares; (c) Indian depository receipts; (d) securitised debt instruments; (da) security receipts; (e) units issued by mutual funds; (f) any other securities as may be specified by the Board.
Regulations related with Corporate Governance	<ul style="list-style-type: none"> • Regulations 17 – 27. • Regulation 46(2) [Clause (b) to (i)] • Schedule II – Corporate Governance • Schedule V – Annual Report
Applicability of Corporate Governance Regulations – Regulation 15	<p>Regulations 17 to 27 and 46(2) of SEBI (LODR) Regulations, 2015 dealing with Corporate Governance requirements shall be applicable to all companies whose securities are listed on a recognized stock exchange. However, compliance is not required, in respect of the following class of companies:</p> <ul style="list-style-type: none"> (a) Companies having paid up equity share capital not exceeding ₹ 10 crore and Net Worth not exceeding ₹ 25 crore, as on the last day of the previous financial year;

	<p>Provided that where the provisions of Regulations becomes applicable to a company at a later date, such company shall comply with the requirements of these Regulations within six months from the date on which the provisions became applicable to the company.</p> <p>(b) Companies whose equity share capital is listed exclusively on the SME Exchange.</p>
Board Composition – Regulation 17(1)	<ul style="list-style-type: none"> The Board of Directors of the company shall have an optimum combination of executive and non-executive directors with at least one woman director and not less than 50% of the Board of Directors comprising non-executive directors. <p>Provided that the Board of directors of the top 500 listed entities shall have at least one independent woman director by April 1, 2019 and the Board of directors of the top 1000 listed entities shall have at least one independent woman director by April 1, 2020;</p> <p>Explanation: The top 500 and 1000 entities shall be determined on the basis of market capitalisation, as at the end of the immediate previous financial year.</p> <ul style="list-style-type: none"> Where the Chairperson of the Board is a non-executive director, at least 1/3rd of the Board should comprise independent directors and in case the company does not have a regular non-executive Chairman, at least half of the Board should comprise independent directors. The board of directors of the top 1000 listed entities (with effect from April 1, 2019) and the top 2000 listed entities (with effect from April 1, 2020) shall comprise of not less than six directors. Where the listed company has outstanding SR equity shares, atleast ½ of the board of directors shall comprise of independent directors. No listed entity shall appoint a person or continue the directorship of any person as a non-executive director who has attained the age of seventy five years unless a special resolution is passed to that effect, in which case the explanatory statement annexed to the notice for such motion shall indicate the justification for appointing such a person. With effect from April 1, 2020, the top 500 listed entities shall ensure that the Chairperson of the board of such listed entity shall - <ul style="list-style-type: none"> (a) be a non-executive director; (b) not be related to the Managing Director or the Chief Executive Officer as per the definition of the term “relative” defined under the Companies Act, 2013: <p>Provided that this requirement shall not be applicable to the listed entities which do not have any identifiable promoters as per the shareholding pattern filed with stock exchanges.</p> <p>Explanation - The top 500 entities shall be determined on the basis of market capitalisation, as at the end of the immediate previous financial year.</p>
Meaning of Independent Director – Regulation 16(1)(b)	<p>Independent director’ shall mean a non-executive director, other than a nominee director of the company:</p> <ul style="list-style-type: none"> (a) who, in the opinion of the Board, is a person of integrity and possesses relevant expertise and experience; (b) who is or was not a promoter of the company or its holding, subsidiary or associate company; and not related to promoters or directors in the company, its holding, subsidiary or associate company; (c) apart from receiving director's remuneration, has or had no material pecuniary relationship with the company, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year;

		<p>(d) none of whose relatives has or had pecuniary relationship or transaction with the company, its holding, subsidiary or associate company, or their promoters, or directors, amounting to 2% or more of its gross turnover or total income or ₹ 50 Lacs or such higher amount as may be prescribed, whichever is lower, during the two immediately preceding financial years or during the current financial year;</p> <p>(e) who, neither himself nor any of his relatives</p> <p>(i) holds or has held the position of a key managerial personnel or is or has been employee of the company or its holding, subsidiary or associate company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed;</p> <p>(ii) is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of:</p> <ul style="list-style-type: none"> • a firm of auditors or CS in practice or cost auditors of the company or its holding, subsidiary or associate company; or • any legal or a consulting firm that has or had any transaction with the company, its holding, subsidiary or associate company amounting to 10% or more of the gross turnover of such firm; <p>(iii) holds together with his relatives 2% or more of the total voting power of the company; or</p> <p>(iv) is a Chief Executive or director, by whatever name called, of any non-profit organisation that receives 25% or more of its receipts from the company, any of its promoters, directors or its holding, subsidiary or associate company or that holds 2% or more of the total voting power of the company;</p> <p>(v) is a material supplier, service provider or customer or a lessor or lessee of the company;</p> <p>(f) who is not less than 21 years of age.</p> <p>(g) who is not a non-independent director of another company on the board of which any non-independent director of the listed entity is an independent director.</p>
	Verification regarding composition of BOD	<p>(i) Ascertain whether, the Board comprises an optimum combination of executive and non-executive directors, with at least one woman director and not less than 50% of members of Board comprising non-executive directors.</p> <p>The minutes of the Board meetings may be verified to ascertain whether a director is an executive director or a non-executive director.</p> <p>(ii) Verify that no listed entity shall appoint a person or continue the directorship of any person as a non-executive director who has attained the age of 75 years unless a special resolution is passed to that effect, in which case the explanatory statement annexed to the notice for such motion shall indicate the justification for appointing such a person.</p> <p>(iii) Verify that where the Chairperson of the Board is a nonexecutive director and at least 1/3rd of the Board comprise of independent directors.</p> <p>In case the listed entity does not have a regular non-executive Chairperson, at least ½ of the Board should comprise of independent directors.</p>

		<p>(iv) Verify that the board of directors of the top 1000 listed entities (with effect from April 1, 2019) and the top 2000 listed entities (with effect from April 1, 2020) shall comprise of not less than 6 directors.</p> <p>(v) <i>In case of listed company having outstanding SR equity shares, the auditor shall check that at least half of the board of directors comprises of independent directors.</i></p> <p>(vi) <i>Ensure that the Chairperson of the board of the top 500 listed entities is - (a) a non-executive director; (b) not related to the Managing Director or the CEO as per the definition of the term "relative" defined under the Companies Act, 2013.</i></p> <p>(vii) Auditor may also examine the annual disclosure submitted by the directors to the Board.</p> <p>(viii) Auditor should also verify that independent non-executive director, apart from receiving remuneration, should not have any material pecuniary relationship with the listed entity, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year.</p>
Remuneration of Directors	Regulation 17(6)	<ul style="list-style-type: none"> • The board of directors shall recommend all fees or compensation, if any, paid to non-executive directors, including independent directors and shall require approval of shareholders in general meeting. • The requirement of obtaining approval of shareholders in general meeting shall not apply to payment of sitting fees to non-executive directors, if made within the limits prescribed under the Companies Act, 2013 for payment of sitting fees without approval of the Central Government. • The approval of shareholders mentioned in clause (a), shall specify the limits for the maximum number of stock options that may be granted to non-executive directors, in any financial year and in aggregate. • The approval of shareholders by special resolution shall be obtained every year, in which the annual remuneration payable to a single non-executive director exceeds 50% of the total annual remuneration payable to all non-executive directors, giving details of the remuneration thereof. • Independent directors shall not be entitled to any stock option. • The fees or compensation payable to executive directors who are promoters or members of the promoter group, shall be subject to the approval of the shareholders by special resolution in general meeting, if- <ul style="list-style-type: none"> (i) the annual remuneration payable to such executive director exceeds ₹ 5 crore or 2.5 % of the net profits of the listed entity, whichever is higher; or (ii) where there is more than one such director, the aggregate annual remuneration to such directors exceeds 5 % of the net profits of the listed entity: <p>Provided that the approval of the shareholders under this provision shall be valid only till the expiry of the term of such director.</p> <p>Explanation: For the purposes of this clause, net profits shall be calculated as per section 198 of the Companies Act, 2013.</p>

	Disclosure (Part C of Schedule V)	<p>(a) all pecuniary relationship or transactions of the non-executive directors vis-a-vis the listed entity shall be disclosed in the annual report;</p> <p>(b) criteria of making payments to non-executive directors;</p> <p>(c) In addition to disclosures required under the Companies Act, 2013, the following disclosures shall be made:</p> <p>(i) all elements of remuneration package of individual directors summarized under major groups, such as salary, benefits, bonuses, stock options, pension etc;</p> <p>(ii) details of fixed component and performance linked incentives, along with the performance criteria;</p> <p>(iii) service contracts, notice period, severance fees;</p> <p>(iv) stock option details, if any and whether issued at a discount as well as the period over which accrued and over which exercisable.</p>
	Auditor's duties	<ol style="list-style-type: none"> 1. Examine the minutes of the Board meetings and General meetings, agenda papers, notice, etc., so as to ascertain whether the remuneration of non-executive directors has been decided by the BOD after receiving prior approval of the shareholders in the general meeting; 2. Refer the Articles of Association of the company, wherever applicable; 3. Examine the Report of the Board of Directors on corporate governance to be included in the annual report of the company so as to ascertain whether it contains the disclosures required for remuneration of directors and compensation to non-executive directors. It may also be correlated with the information contained in the financial statements. 4. Where ESOP has been granted to non-executive directors, services of expert may be taken so as to determine the value of ESOP. In this regard, reference may be made to SA 620 dealing with "Using the Work of an Auditor's Expert"
Obligations of Directors and Senior Management	Definition of Senior Management – Reg. 16(1)(d)	<p>"Senior Management" shall mean</p> <ul style="list-style-type: none"> • officers/personnel of the listed entity who are members of its core management team excluding board of directors <p>and</p> <ul style="list-style-type: none"> • normally this shall comprise all members of management one level below the "CEO/MD/MTD/Manager (including CEO/Manager, in case they are not part of the board) and shall specifically include CS and CFO.
	Regulation 17(2), (2A), (3), (4)	<ul style="list-style-type: none"> • The Board shall meet at least 4 times a year, with a maximum time gap of 120 days between any two meetings. • The quorum for every meeting of the board of directors of the top 1000 listed entities with effect from April 1, 2019 and of the top 2000 listed entities with effect from April 1, 2020 shall be 1/3rd of its total strength or 3 directors, whichever is higher, including at least one independent director. <p>Explanation I – For removal of doubts, it is clarified that the participation of the directors by video conferencing or by other audio-visual means shall also be counted for the purposes of such quorum.</p> <p>Explanation II - The top 1000 and 2000 entities shall be determined on the basis of market capitalisation, as at the end of the immediate previous financial year.</p>

	<ul style="list-style-type: none"> • The Board shall periodically review compliance reports pertaining to all laws applicable to the listed entity, prepared by the listed entity as well as steps taken by the listed entity to rectify instances of non-compliances. • The Board shall satisfy itself that plans are in place for orderly succession for appointment to the Board and senior management.
Regulation 17A	<p>The directors of listed entities shall comply with the following conditions with respect to the maximum number of directorships, including any alternate directorships that can be held by them at any point of time -</p> <p>(1) A person shall not be a director in more than 8 listed entities with effect from April 1, 2019 and in not more than 7 listed entities with effect from April 1, 2020: Provided that a person shall not serve as an independent director in more than 7 listed entities.</p> <p>(2) Notwithstanding the above, any person who is serving as a whole time director / managing director in any listed entity shall serve as an independent director in not more than 3 listed entities. For the purpose of this sub-regulation, the count for the number of listed entities on which a person is a director / independent director shall be only those whose equity shares are listed on a stock exchange.</p>
Regulation 25	<ul style="list-style-type: none"> • An independent director shall be held liable, only in respect of such acts of omission or commission by the listed entity which had occurred with his knowledge and with his consent or where he had not acted diligently with respect to the provisions contained in these regulations. • An independent director who resigns or is removed from the board of the listed entity shall be replaced by a new independent director at the earliest but not later than the immediate next meeting of the board or 3 months from the date of such vacancy, whichever is later. Provided that where the listed entity fulfils the requirement of independent directors in its board without filling the vacancy created by such resignation or removal, the requirement of replacement by a new independent director shall not apply.
Regulation 26	<ul style="list-style-type: none"> • A director shall not be a member in more than 10 committees or act as chairperson of more than 5 committees across all listed entities in which he is a director which shall be determined as follows: <ul style="list-style-type: none"> (a) all public limited companies, whether listed or not, shall be included and all other companies including private limited companies, foreign companies and companies u/s 8 of the Companies Act, 2013 shall be excluded; (b) for the purpose of determination of limit, chairpersonship and membership of the audit committee and the Stakeholders' Relationship Committee alone shall be considered. • Every director shall inform the listed entity about the committee positions he or she occupies in other listed entities and notify changes as and when they take place. • Non-executive directors shall disclose their shareholding in the listed entity in which they are proposed to be appointed as directors, in the notice to the general meeting called for appointment of such director.

	<ul style="list-style-type: none"> • Senior management shall make disclosures to the board relating to all material, financial and commercial transactions, where they have personal interest that may have a potential conflict with the interest of the listed entity at large. • No employee including key managerial personnel or director or promoter of a listed entity shall enter into any agreement for himself or on behalf of any other person, with any shareholder or any other third party with regard to compensation or profit sharing in connection with dealings in the securities of such listed entity, unless prior approval for the same has been obtained from the Board of Directors as well as public shareholders by way of an ordinary resolution: Provided that such agreement, if any, whether subsisting or expired, entered during the preceding three years from the date of coming into force of this sub-regulation, shall be disclosed to the stock exchanges for public dissemination: Provided further that subsisting agreement, if any, as on the date of coming into force of this sub-regulation shall be placed for approval before the Board of Directors in the forthcoming Board meeting: Provided further that if the Board of Directors approve such agreement, the same shall be placed before the public shareholders for approval by way of an ordinary resolution in the forthcoming general meeting: Provided further that all interested persons involved in the transaction covered under the agreement shall abstain from voting in the general meeting.
Auditor's duties	<ul style="list-style-type: none"> • Ascertain from the minute's book of the Board meetings whether Board meetings were held at least 4 times a year, with a maximum time gap of 120 days between any two meetings. • Ensure that a director of the company is not a member in more than 10 committees or is acting as Chairman of more than 5 committees across all companies in which he is a director. For this purpose, a declaration should be obtained from the director to this effect. It should be cross checked from the mandatory annual requirement for every director to inform the company about the committee positions he occupies in other companies as well as from the changes notified by the director as and when they take place. • To review compliance reports of all laws applicable to the company, auditor should consider the requirements of SA 250 "Consideration of Laws and Regulations in an Audit of Financial Statements". • As per SA 250, responsibility for the prevention and detection of non-compliance rests with the management. The auditor's responsibility is limited to verification that management has taken suitable steps and has put in place policies and procedures to ensure compliance with laws and regulations and to detect deviation from such procedures. • The auditor should obtain written representations that management has disclosed to the auditor all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Code of Conduct	Regulation 17(5)	<ul style="list-style-type: none"> The board of directors shall lay down a code of conduct for all members of board of directors and senior management of the listed entity. The code of conduct shall suitably incorporate the duties of independent directors as laid down in the Companies Act, 2013.
	Regulation 26(3)	All members of the Board and senior management shall affirm compliance with the code of conduct on an annual basis.
	Regulation 46(2)	Listed entity shall disseminate code of conduct on its website.
	Part D of Schedule V	Annual Report of the company shall contain a declaration signed by the CEO stating that the members of board and senior management have affirmed compliance with the code of conduct.
	Auditor Duties	(i) Ascertain whether the Board has laid down a Code of Conduct for all Board members and senior personnel of the company. (ii) Obtain a copy of the code of conduct. (iii) Verify whether all Board members and senior management have affirmed compliance with the code on an annual basis. (iv) Verify whether the code has been posted on company's website.
Vigil Mechanism	Regulation 22	<ul style="list-style-type: none"> The listed entity shall formulate a vigil mechanism for directors and employees to report genuine concerns. The vigil mechanism shall provide for adequate safeguards against victimization of director(s) or employee(s) or any other person who avail the mechanism and also provide for direct access to the chairperson of the audit committee in appropriate or exceptional cases.
	Regulation 46	Listed entity shall disseminate vigil mechanism on its website.
	Part C of Schedule V	Corporate Governance Section of the annual report shall contain details of establishment of vigil mechanism, whistle blower policy, and affirmation that no personnel have been denied access to the audit committee
	Auditor Duties	(i) Ascertain whether the listed entity has formulated vigil mechanism. (ii) Ensure that vigil mechanism provide for adequate safeguards against victimization of director(s) or employee(s). (iii) Ensure that vigil mechanism also provide for direct access to the chairperson of the audit committee in appropriate or exceptional cases. (iv) Verify whether the vigil mechanism has been posted on company's website. (v) Ensure Corporate Governance Section of Annual Report shall provide the appropriate details of vigil mechanism.
Audit Committee	Regulation 18	Already Discussed
Nomination and Remuneration Committee	Regulation 19	(1) The board of directors shall constitute the nomination and remuneration committee as follows: (a) the committee shall comprise of atleast three directors; (b) all directors of the committee shall be non-executive directors; and

		<p>(c) at least 50% of the directors shall be independent directors and in case of a listed entity having outstanding SR equity shares, 2/3rd of the nomination and remuneration committee shall comprise of independent directors.</p> <p>(2) The Chairperson of the nomination and remuneration committee shall be an independent director.</p> <p>Provided that the chairperson of the listed entity, whether executive or non-executive, may be appointed as a member of the Nomination and Remuneration Committee and shall not chair such Committee.</p> <p>(3) The quorum for a meeting of the nomination and remuneration committee shall be either two members or one third of the members of the committee, whichever is greater, including at least one independent director in attendance.</p> <p>(4) The Chairperson of the nomination and remuneration committee may be present at the AGM, to answer the shareholders' queries; however, it shall be up to the chairperson to decide who shall answer the queries.</p> <p>(5) The nomination and remuneration committee shall meet at least once in a year.</p> <p>(6) The role of the nomination and remuneration committee shall be as specified in Part D of the Schedule II.</p>
	Role of Nomination and Remuneration committee	<p>(1) Formulation of the criteria for determining qualifications, positive attributes and independence of a director and recommend to the board a policy relating to, the remuneration of the directors, KMP and other employees;</p> <p>(2) Formulation of criteria for evaluation of performance of independent directors and the board;</p> <p>(3) Devising a policy on diversity of board;</p> <p>(4) Identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the board of directors their appointment and removal;</p> <p>(5) whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors.</p> <p>(6) recommend to the board, all remuneration, in whatever form, payable to senior management.</p>
Stakeholder Relationship Committee	Regulation 20	<p>(1) The listed entity shall constitute a Stakeholders Relationship Committee to specifically look into the various aspects of interest of shareholders, debenture holders and other security holders.</p> <p>(2) The chairperson of this committee shall be a non-executive director.</p> <p>(3) At least three directors, with at least one being an independent director, shall be members of the Committee and in case of a listed entity having outstanding SR equity shares, at least 2/3rd of the Stakeholders Relationship Committee shall comprise of independent directors.</p> <p>(4) The Chairperson of the Stakeholders Relationship Committee shall be present at the AGM to answer queries of the security holders.</p> <p>(5) The stakeholders relationship committee shall meet at least once in a year.</p> <p>(6) The role of the Stakeholders Relationship Committee shall be as specified in Part D of the Schedule II.</p>

	Role of Stakeholder Relationship committee	<p>The role of the committee shall inter-alia include the following:</p> <ol style="list-style-type: none"> (1) Resolving the grievances of the security holders of the listed entity including complaints related to transfer/transmission of shares, non-receipt of annual report, non-receipt of declared dividends, issue of new/duplicate certificates, general meetings etc. (2) Review of measures taken for effective exercise of voting rights by shareholders. (3) Review of adherence to the service standards adopted by the listed entity in respect of various services being rendered by the Registrar & Share Transfer Agent. (4) Review of the various measures and initiatives taken by the listed entity for reducing the quantum of unclaimed dividends and ensuring timely receipt of dividend warrants/annual reports/statutory notices by the shareholders of the company.
	Auditor's duties	<ul style="list-style-type: none"> • Ascertain whether Shareholders/ Investors Grievance Committee has been set up under the chairmanship of a non-executive director to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of financial statements, non-receipt of dividends, etc. • Ascertain from the minutes book of the Shareholders/ Investors Grievance Committee meetings whether such committee is prima facie functioning. • Verify the investors' grievances pending up to the date of certificate of compliance of conditions of corporate governance.
Risk Management Committee	Regulation 21	<ol style="list-style-type: none"> (a) The board of directors shall constitute a Risk Management Committee. (b) The majority of members of Risk Management Committee shall consist of members of the board of directors and in case of a listed entity having outstanding SR equity shares, at least 2/3rd of the Risk Management Committee shall comprise of independent directors. (c) The Chairperson of the Risk management committee shall be a member of the board of directors and senior executives of the listed entity may be members of the committee. (d) The risk management committee shall meet at least once in a year. (e) The board of directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit, such function shall specifically cover cyber security. (f) The provisions of this regulation shall be applicable to top 500 listed entities, determined on the basis of market capitalisation, as at the end of the immediate previous financial year.
Management of Subsidiary companies - Regulation 24		<ol style="list-style-type: none"> (1) At least one independent director on the board of the listed entity shall be a director on the board of an unlisted material subsidiary, incorporated in India or not <p>Material Subsidiary - For the purposes of this provision, notwithstanding anything to the contrary contained in regulation 16, the term "material subsidiary" shall mean a subsidiary, whose income or net worth exceeds 20% of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.</p>

	<p>(2) The audit committee of the listed entity shall also review the F.S. in particular, the investments made by the unlisted subsidiary.</p> <p>(3) The minutes of the meetings of the board of the unlisted subsidiary shall be placed at the meeting of the board of directors of the listed entity.</p> <p>(4) The management of the unlisted subsidiary shall periodically bring to the notice of the board of the listed entity, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary.</p> <p>Significant transaction or arrangement: shall mean any individual transaction or arrangement that exceeds or is likely to exceed 10% of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the unlisted subsidiary for the immediately preceding accounting year.</p> <p>(5) A listed entity shall not dispose of shares in its material subsidiary resulting in reduction of its shareholding to less than 50% or cease the exercise of control over the subsidiary without passing a special resolution in its General Meeting except in cases where such divestment is made under a scheme of arrangement duly approved by a Court/Tribunal, or under a resolution plan duly approved under section 31 of the Insolvency Code and such an event is disclosed to the recognized stock exchanges within one day of the resolution plan being approved.</p> <p>(6) Selling, disposing and leasing of assets amounting to more than 20% of the assets of the material subsidiary on an aggregate basis during a financial year shall require prior approval of shareholders by way of special resolution, unless the sale/disposal/lease is made under a scheme of arrangement duly approved by a Court/Tribunal, or under a resolution plan duly approved under section 31 of the Insolvency Code and such an event is disclosed to the recognized stock exchanges within one day of the resolution plan being approved.</p>
	<p style="text-align: center;">Points to remember</p> <p>Definition of Material Subsidiary: <i>As per Regulation 16(1)(c), material subsidiary shall mean a subsidiary, whose income or net worth exceeds 10% of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.</i></p>
Secretarial Audit – Regulation 24A	Every listed entity and its material unlisted subsidiaries incorporated in India shall undertake secretarial audit and shall annex with its annual report, a secretarial audit report, given by a company secretary in practice, in such form as may be specified with effect from the year ended March 31, 2019.
Disclosures	<p>Disclosure and Transparency – Reg 4(2)(e)</p> <p>The listed entity shall ensure timely and accurate disclosure on all material matters including the financial situation, performance, ownership, and governance of the listed entity, in the following manner:</p> <ul style="list-style-type: none">(i) Information shall be prepared and disclosed in accordance with the prescribed standards of accounting, financial and non-financial disclosure.(ii) Channels for disseminating information shall provide for equal, timely and cost efficient access to relevant information by users.(iii) Minutes of the meeting shall be maintained explicitly recording dissenting opinions, if any

	Related Party Disclosures	Regulation 27	<ul style="list-style-type: none">The listed entity shall submit a quarterly compliance report on corporate governance in the format as specified by the Board from time to time to the recognised stock exchange(s) within 15 days from close of the quarter.Details of all material transactions with related parties shall be disclosed therein.The report shall be signed either by the compliance officer or the chief executive officer of the listed entity.
		Regulation 46	<ul style="list-style-type: none">The listed entity shall disseminate the policy on dealing with related party transactions on its website.
		Schedule V	<ul style="list-style-type: none">The listed entity shall make disclosures in compliance with the Accounting Standard on “Related Party Disclosures”.Listed entity shall disclose transactions of the listed entity with any person or entity belonging to the promoter/promoter group which hold(s) 10% or more shareholding in the listed entity, in the format prescribed in the relevant accounting standards for annual results.
	Accounting Treatment	Where in the preparation of financial statements, a treatment different from that prescribed in an Accounting Standard has been followed, the fact shall be disclosed in the financial statements, together with the management's explanation as to why it believes such alternative treatment is more representative of the true and fair view of the underlying business transaction.	
	Disclosures in relation to the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013	<ul style="list-style-type: none">Number of complaints filed during the financial yearNumber of complaints disposed of during the financial yearNumber of complaints pending as on end of the financial year.	
Minimum Information to be placed before BOD - Part A of Schedule II	<p>A. Annual operating plans and budgets and any updates.</p> <p>B. Capital budgets and any updates.</p> <p>C. Quarterly results for the listed entity and its operating divisions or business segments.</p> <p>D. Minutes of meetings of audit committee and other committees of the board of directors.</p> <p>E. The information on recruitment and remuneration of senior officers just below the level of board of directors, including appointment or removal of Chief Financial Officer and the Company Secretary.</p> <p>F. Show cause, demand, prosecution notices and penalty notices, which are materially important.</p> <p>G. Fatal or serious accidents, dangerous occurrences, any material effluent or pollution problems.</p>		

	<p>H. Any material default in financial obligations to and by the listed entity, or substantial non-payment for goods sold by the listed entity.</p> <p>I. Any issue, which involves possible public or product liability claims of substantial nature, including any judgement or order which, may have passed strictures on the conduct of the listed entity or taken an adverse view regarding another enterprise that may have negative implications on the listed entity.</p> <p>J. Details of any joint venture or collaboration agreement.</p> <p>K. Transactions that involve substantial payment towards goodwill, brand equity, or intellectual property.</p> <p>L. Significant labour problems and their proposed solutions. Any significant development in Human Resources/ Industrial Relations front like signing of wage agreement, implementation of Voluntary Retirement Scheme etc.</p> <p>M. Sale of investments, subsidiaries, assets which are material in nature and not in normal course of business.</p> <p>N. Quarterly details of foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movement, if material.</p> <p>O. Non-compliance of any regulatory, statutory or listing requirements and shareholders service such as non-payment of dividend, delay in share transfer etc</p>
CEO/CFO Certification - Part B of Schedule II	<p>The CEO/CFO or any other person heading the finance function shall certify to the Board that:</p> <p>(a) They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief:</p> <ul style="list-style-type: none"> • These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading. • These statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations. <p>(b) There are no transactions entered that are fraudulent, illegal and violative of the company's code of conduct.</p> <p>(c) They accept responsibility for establishing and maintaining internal controls w.r.t. financial reporting.</p> <p>(d) They have indicated to the auditors and the audit committee:</p> <ul style="list-style-type: none"> • Significant changes in internal control over financial reporting during the year. • Significant changes in accounting policies during the year. • Instances of significant fraud.
Content of Management Discussion and Analysis - Part B of Schedule V	<p>As part of the directors' report or as an addition thereto, a Management Discussion and Analysis report should form part of the Annual Report to the shareholders. This Management Discussion & Analysis should include discussion on the following matters within the limits set by the company's competitive position:</p> <ol style="list-style-type: none"> 1. Industry structure and developments. 2. Opportunities and Threats. 3. Segment-wise or product-wise performance. 4. Outlook 5. Risks and concerns. 6. Internal control systems and their adequacy.

	<p>7. Discussion on financial performance with respect to operational performance.</p> <p>8. Material developments in Human Resources/Industrial Relations front, including number of people employed.</p> <p>9. Details of significant changes (i.e. change of 25% or more as compared to the immediately previous financial year) in key financial ratios, along with detailed explanations therefor, including:</p> <ul style="list-style-type: none"> • Debtors Turnover • Inventory Turnover • Interest Coverage Ratio • Current Ratio • Debt Equity Ratio • Operating Profit Margin (%) • Net Profit Margin (%) • or sector-specific equivalent ratios, as applicable. <p>10. Details of any change in Return on Net Worth as compared to the immediately previous financial year along with a detailed explanation thereof.</p> <p>The above information presented by the Management is likely to include non-financial information, which may be outside the area of auditors' expertise. In such situations, the auditor is only required to review the compliance with Disclosure requirements and not verify the particular facts as disclosed by the management.</p> <p>The auditor should ascertain segment-wise or product-wise performance as stated above and considered as a part of Management Discussion and Analysis Report is consistent with what is reported in financial statements complying with AS 17 (Segment Reporting)/Ind AS 108 (Operating Segments).</p>
<p>Report on Corporate Governance - Part C of Schedule V</p>	<ul style="list-style-type: none"> • There shall be a separate section on Corporate Governance in the Annual Reports of company, with a detailed compliance report on Corporate Governance. • Non-compliance of any mandatory requirement of SEBI (LODR) regulations with reasons thereof and the extent to which the non-mandatory requirements have been adopted should be specifically highlighted. • The companies shall submit a quarterly compliance report to the stock exchanges within 15 days from the close of quarter as per the prescribed format. <p>The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the company.</p>
<p>Compliance Certificate from Auditor - Part E of schedule V</p>	<ul style="list-style-type: none"> • The company shall obtain a certificate from either the auditors or practicing company secretaries regarding compliance of conditions of corporate governance as stipulated in these regulations and annex the certificate with the directors' report, which is sent annually to all the shareholders of the company. • The same certificate shall also be sent to the Stock Exchanges along with the annual report filed by the company.
<p>Adverse or Qualified Statement</p>	<p>Depending upon the facts and circumstances, some situations may require an adverse or qualified statement or a disclosure without necessarily making it a subject matter of qualification in the Auditors' Certificate, in respect of compliance of requirements of Corporate Governance.</p>

	<p>Examples are:</p> <ul style="list-style-type: none"> (a) The number of non-executive directors is less than 50% of the strength of Board of directors. (b) A qualified and independent audit committee is not set up. (c) The chairman of the audit committee is not an independent director. (d) The audit committee does not meet four times a year. (e) The necessary powers have not been vested by the Board in the audit committee. (f) The time gap between two Board meetings is more than 120 days. (g) A director is a member of more than ten committees across all companies in which he is a director or act as chairperson of more than 5 committees. (h) The information of quarterly results is neither put on the company's website nor sent in a form so as to enable the Stock Exchange on which the entity's securities are listed to enable such Stock Exchange to put it on its own website. (i) The power of share transfer is not delegated to an officer or a committee or to the registrar and share transfer agents.
Proforma Certificate	<p style="text-align: center;">CERTIFICATE</p> <p>To, The Members of..... (Name of the entity)</p> <p>We have examined the compliance of conditions of Corporate Governance by (name of the entity) for the year ended on as stipulated in SEBI (LODR) Regulations, 2015.</p> <p>The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statement of the company.</p> <p>In our opinion, and to the best of our information and according to the explanations given to us, subject to the following:</p> <ol style="list-style-type: none"> 1) 2) <p>We certify that the company has complied with the conditions of Corporate Governance as stipulated in the above-mentioned listing Agreement.</p> <p>We state that no/..... investor grievance(s) is/are pending for a period exceeding one month against the company as per the records maintained by the shareholders/investors Grievance Committee.</p> <p>We further state that such compliance is neither an assurance as to the future viability of the company nor the efficiency or effectiveness with which the management has conducted the affairs of the company.</p> <p>For & on behalf of XYZ & Co. Chartered Accountants (Partner/Proprietor) Place..... Date.....</p>

Important Questions

Q. No. 13: Elaborate under SEBI (LODR) Regulations, 2015, who is an independent director.

Q. No. 14: P Limited is a listed Company in which no code of conduct is laid down for its board members and senior members. As an auditor of P Limited:

- (i) Briefly explain the compliance requirements with respect to Code of Conduct as per Listing Order Disclosure Requirement (LODR) Regulations.
- (ii) What will be your role in compliance of above-mentioned Code of Conduct as per LODR Regulations?

Q. No. 15: Write short note on: CEO/CFO Certification to the Board.

Q. No. 16: Write short note on: Content of Management Discussion and Analysis. [Nov. 13 (4 Marks)]

Q. No. 17: The auditor of Mould Limited made an adverse statement in his certificate as the Audit Committee of the company did not meet four times a year. Discuss few circumstances which require an adverse or qualified statement in the auditor's certificate in respect of compliance of the requirements of Corporate Governance. [Nov. 16 (4 Marks)]

Or

Discuss any eight (8) adverse or qualified statement or disclosure, which you would like to make in respect of non-compliance with requirements Corporate Governance of a company.

[May 18 – Old Syllabus (4 Marks)]

Or

Some situations may require an adverse or qualified statement or a disclosure without necessarily making it a subject matter of qualification in the Auditors' Certificate, in respect of compliance of requirements of corporate governance. Give four examples of such situations.

[MTP-Oct. 18]

Or

A listed entity has to obtain a compliance certificate from either the statutory auditors or practicing company secretaries regarding compliance of conditions of corporate governance and annex it to the Directors' Report. Discuss some situations which may require an adverse or qualified statement in respect of the above certificate. [Nov. 19 – Old Syllabus (5 Marks)]

Q. No. 18: M/s All-in-one limited is a large – sized listed Indian company with focus on design and delivery of custom made information Technology applications for various business entities in India and abroad. The management wants to know whether they are required to constitute Risk Management committee as per SEBI (LODR) Regulations, 2015 and if so, required, what should be its composition? Advise. [May 18 – New Syllabus (4 Marks)]

Q. No. 19: The Directors and senior management of a listed company of which you are the statutory auditor, want to know their obligations under the SEBI Regulations in regard to Board or Non-Executive Directors. (mention any Five). [May 19 – Old Syllabus (5 Marks)]

Q. No. 20: You have been appointed as an auditor of M/s Real Ltd. in which total number of directors in the board is 9. As an auditor, state the points to be considered in verification of composition of Board under Regulation 17 of The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015. [May 19 – New Syllabus (6 Marks)]

11.7 - Miscellaneous

Statement of Deviations – regulation 32	<p>The listed entity shall submit to the stock exchange the following statement(s) on a quarterly basis for public issue, rights issue, preferential issue etc., -</p> <p>(a) indicating deviations, if any, in the use of proceeds from the objects stated in the offer document or explanatory statement to the notice for the general meeting, as applicable;</p> <p>(b) indicating category wise variation (capital expenditure, sales and marketing, working capital etc.) between projected utilisation of funds made by it in its offer document or explanatory statement to the notice for the general meeting, as applicable and the actual utilisation of funds.</p> <p>The statements so specified above shall be continued to be given till such time the issue proceeds have been fully utilised or the purpose for which these proceeds were raised has been achieved.</p> <p>These statements, shall be placed before the audit committee for review and after such review, shall be submitted to the stock exchange(s).</p>		
Limited review of Audit of entities to be consolidated – Reg. 33(8)	<ul style="list-style-type: none"> The statutory auditor of a listed entity shall undertake a limited review of the audit of all the entities/ companies whose accounts are to be consolidated with the listed entity as per AS 21 in accordance with guidelines issued by the Board on this matter. <p style="text-align: center;">Points to remember</p> <p>Following persons are required to comply with the prescribed procedure to ensure compliance of Reg. 33(8):</p> <p>⇒ all listed entities whose equity shares and convertible securities are listed on a recognised stock exchange;</p> <p>⇒ the statutory auditors of such entities;</p> <p>⇒ all entities whose accounts are to be consolidated with the listed entity, and</p> <p>⇒ the statutory auditors of entities whose accounts are to be consolidated with the listed entity.</p>		
Information to Shareholders – Regulation 36	<p>The listed entity shall send annual report to the holders of securities, not less than 21 days before the AGM.</p> <p>In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:</p> <p>(a) a brief resume of the director;</p> <p>(b) nature of his expertise in specific functional areas;</p> <p>(c) disclosure of relationships between directors inter-se;</p> <p>(d) names of listed entities in which the person also holds the directorship and the membership of Committees of the board; and</p> <p>(e) shareholding of non-executive directors.</p>		
Delegation of Power to transfer the securities – Regulation 40	<p>Board of a listed entity shall delegate the power of transfer of securities to a committee or to the compliance officer or to the registrar to an issue or share transfer agents.</p> <p>Board and/or the delegated authority shall attend to the formalities pertaining to transfer of securities at least once in a fortnight. The delegated authority shall report on transfer of securities to the board in each meeting.</p> <table border="1" data-bbox="379 1865 1447 1980"> <tr> <td data-bbox="379 1865 576 1939">Auditor's duties</td><td data-bbox="576 1865 1447 1980"> <ul style="list-style-type: none"> Ascertain from the minutes book of the Board meetings whether the listed entity has delegated the power of share transfer to an officer or a committee or to the registrar and share transfer agents. </td></tr> </table>	Auditor's duties	<ul style="list-style-type: none"> Ascertain from the minutes book of the Board meetings whether the listed entity has delegated the power of share transfer to an officer or a committee or to the registrar and share transfer agents.
Auditor's duties	<ul style="list-style-type: none"> Ascertain from the minutes book of the Board meetings whether the listed entity has delegated the power of share transfer to an officer or a committee or to the registrar and share transfer agents. 		

		<ul style="list-style-type: none"> • Verify whether the delegated authority has attended to share transfer formalities at least once in a fortnight. • Verify whether any transfer request are pending for more than a fortnight and are not attended to in terms of this Regulation.
Obligations of various persons in case of resignation of Statutory auditors (SEBI Circular CIR/CFD/CMD1/114/2019 dated 18.10.2019)	Regulatory Provisions	<ul style="list-style-type: none"> • Listed companies are required to make timely disclosures of resignation of statutory auditors to investors in the securities market for enabling them to take informed investment decisions. • As per requirement of Regulation 18(3) read with Part C of Schedule II 3) of the SEBI (LODR) Regulations, 2015, the Audit Committee of a listed entity, inter alia, has to make recommendations for the appointment, remuneration and terms of appointment of auditors of a listed entity. Further, the Audit Committee is also responsible for reviewing and monitoring the independence and performance of auditors and the effectiveness of the audit process. • As per requirement of Regulation 30(2) read with Part A of Schedule III) of SEBI LODR Regulations, detailed reasons to be disclosed by the listed entities to the stock exchanges in case of resignation of the auditor of a listed entity as soon as possible but not later than 24 hours of receipt of such reasons from the auditor. • Regulation 36(5) of the SEBI LODR Regulations lays down certain disclosures to be made part of the notice to the shareholders for an AGM, where the statutory auditors are proposed to be appointed/re-appointed, including their terms of appointment.
	Conditions to be complied with	<p>The conditions to be complied with upon resignation of the statutory auditor of a listed entity/ material subsidiary w.r.t. limited review / audit report as per SEBI LODR Regulations, are as under:</p> <p>A. Conditions to be complied with while appointing/re-appointing an auditor</p> <p>All listed entities/material subsidiaries shall ensure compliance with the following conditions while appointing/re-appointing an auditor:</p> <p>(i) If the auditor resigns within 45 days from the end of a quarter of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for such quarter.</p> <p>(ii) If the auditor resigns after 45 days from the end of a quarter of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for such quarter as well as the next quarter.</p> <p>(iii) Notwithstanding the above, if the auditor has signed the limited review/ audit report for the first three quarters of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for the last quarter of such financial year as well as the audit report for such financial year.</p>

	B. Other conditions relating to resignation	
	Reporting of concerns with respect to the listed entity/its material subsidiary to the Audit Committee	<p>a. In case of any concern with the management of the listed entity/material subsidiary such as non-availability of information / non-cooperation by the management which may hamper the audit process, the auditor shall approach the Chairman of the Audit Committee of the listed entity and the Audit Committee shall receive such concern directly and immediately without specifically waiting for the quarterly Audit Committee meetings.</p> <p>b. In case the auditor proposes to resign, all concerns with respect to the proposed resignation, along with relevant documents shall be brought to the notice of the Audit Committee. In cases where the proposed resignation is due to non-receipt of information/ explanation from the company, the auditor shall inform the Audit Committee of the details of information/explanation sought and not provided by the management, as applicable.</p> <p>c. On receipt of such information from the auditor relating to the proposal to resign as mentioned above, the Audit Committee/board of directors, as the case may be, shall deliberate on the matter and communicate its views to the management and the auditor.</p>
	Disclaimer in case of non - receipt of information	In case the listed entity/ its material subsidiary does not provide information required by the auditor, to that extent, the auditor shall provide an appropriate disclaimer in the audit report, which may be in accordance with the Standards of Auditing as specified by ICAI/NFRA.
	The listed entity/ material subsidiary shall ensure that the conditions as mentioned in A and B above are included in the terms of appointment of the statutory auditor at the time of appointing/re-appointing the auditor. In case the auditor has already been appointed, the terms of appointment shall be suitably modified to give effect to A and B above.	
Obligations of the listed entity and its material subsidiary	Format of information to be obtained from the statutory auditor upon resignation	Upon resignation, the listed entity/ its material subsidiary shall obtain information from the Auditor in the specified format. The listed entity shall ensure disclosure of the same as per requirement of Part A of Schedule III.

		Co-operation by listed entity and its material subsidiary	During the period from when the auditor proposes to resign till the auditor submits the report for such quarter I financial year as specified above, the listed entity and its material subsidiaries shall continue to provide all such documents/information as may be necessary for the audit/limited review.
		Disclosure of Audit Committee's views to the Stock Exchanges	Upon resignation of the auditor, the Audit Committee shall deliberate upon all the concerns raised by the auditor with respect to its resignation as soon as possible, but not later than the date of the next Audit Committee meeting and communicate its views to the management. The listed entity shall ensure the disclosure of the Audit Committee's views to the stock exchanges as soon as possible but not later than 24 hours after the date of such Audit Committee meeting.
	Other Provisions	<ul style="list-style-type: none"> • In case an entity is not mandated to have an Audit Committee, then the board of directors of the entity shall ensure compliance of this circular. • The Stock Exchanges are advised to bring the provisions of this circular to the notice of all listed entities and their material subsidiaries and also disseminate it on their websites. • In case the auditor is rendered disqualified due to operation of any condition mentioned in Section 141 of the Companies Act, 2013, then the provisions of this Circular shall not apply. 	

Important Questions

Q. No. 21: Mr. S has been appointed as a director of CAC Ltd. You are required to state the information to be provided to the shareholders of the company in accordance with Regulation 36 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

HINT: Refer Regulation 36 of SEBI (LODR) Regulations, 2015.

Summary of Examination Weightage (New Syllabus)

Attempt	Marks	Topics Covered
May 2018	4	Requirement and Composition of Risk Management Committee
Nov. 2018	4	Mandatory Review Area of Audit Committee
May 2019	6*	Verification of Composition of Board of Directors
Nov. 2019	5*	Meetings of Audit Committee and Mandatory Review Area
May 2020		
Nov. 2020		
May 2021		
Nov. 2021		

* Only Descriptive Questions