

# **BOARD COMMITTEES**

## **A HAND BOOK**

**The Companies Act, 2013 Series**



### **THE INSTITUTE OF Company Secretaries of India**

**IN PURSUIT OF PROFESSIONAL EXCELLENCE**  
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ICSI House, 22, Institutional Area, Lodi Road, New Delhi 110 003  
**tel** 011-4534 1000, 4150 4444 **fax** +91-11-2462 6727  
**email** info@icsi.edu **website** www.icsi.edu

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ICSI House, 22, Institutional Area, Lodi Road, New Delhi - 110 003

*Phones*: 41504444, 45341000 o *Fax*: 24626727

*Website* : www.icsi.edu o *E-mail* : info@icsi.edu

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## Preface

*If legitimacy is to be restored to the system, the chain of accountability must be made more effective.*

*– David S. R. Leighton and Donald H. Thain*

With the advent of globalization and the blurring of geographical borders have created tremendous demands on the Boards of Directors, in terms of their time, commitment and required skill sets. The regulatory requirements are complex and the onus on the Boards is immense and therefore, it is imperative to delegate certain matters to specialist board committees. These committees with formally established terms of reference, criteria for appointment, life span, role and functions, constitute an important element of the governance process. Committees enable better management of full board's time and allow in-depth scrutiny and focused attention, which will lead ultimately to evolve appropriate strategies.

Committees are a sub-set of the board, deriving their authority from the powers delegated to them by the board. The boards were enabled to delegate its authority to committees under the Companies Act, 1956. However, with the raising of the benchmark of corporate governance, the Companies Act, 2013 prescribes the constitution of certain additional committees. On similar lines, the revised Clause 49 of the Listing Agreement also requires listed entities to constitute these committees.

This 'Handbook on Board Committee' brings together, in a concise manner, the need for committee management, the legal prescriptions of the committees, how to enhance the effectiveness of committees and the frequently asked questions in relation to committees of the board and its functioning.

I place on record my sincere thanks to Mr. V.K Agarwal, formerly Principal Director, ICSI for his valuable inputs in finalizing the book. I commend the dedicated efforts put in by team ICSI led by Ms. Alka Kapoor, Joint Secretary and comprising Ms. Banu Dandona, Deputy Director, Ms. Deepa Khatri, Assistant Director and Ms. Disha Kant, Assistant Education Officer in the Directorate of Professional Development –II in preparing this publication under the overall guidance of Mr. Sutanu Sinha, Chief Executive, of the Institute and the guidance and leadership of Mr. Sanjay Grover, Central Council Member and Chairman, Corporate Laws and Governance Committee.

I am sure that publication will prove to be of immense benefit to companies in adopting and implementing better corporate governance norms.

In any publication of this kind, there is always a scope for further refinement. I would be personally grateful to users and readers of this handbook for their feedback.

**CS R. Sridharan**

*President*

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## INTRODUCTION

A board committee is a small working group identified by the board, consisting of board members, for the purpose of supporting the board's work. Committees are generally formed to perform some expertise work. Members of the committee are expected to have expertise in the specified field.

Committees are usually formed as a means of improving board effectiveness and efficiency, in areas where more focused, specialized and technical discussions are required. These committees prepare the groundwork for decision-making and report at the subsequent board meeting. Committees enable better management of full board's time and allow in-depth scrutiny and focused attention.

However, the Board of Directors are ultimately responsible for the acts of the committee. Board is responsible for defining the committee role and structure.

The structure of a board and the planning of the board's work are key elements to effective governance. Establishing committees is one way of managing the work of the board, thereby strengthening the board's governance role. Boards should regularly review its own structure and performance and whether it has the right committee structure and an appropriate scheme of delegation from the board.

Committees often serve several different functions:

**Governance:** In large organizations participation of each and every director is not possible in decisions making of the organization as a whole, a committee is given the power to make decisions, spend money, or take actions. Some or all such powers may be limited or effectively unlimited. Members of the committee take decisions, keeping in view the interest of all stakeholders.

**Coordination:** Where there is a large board, it is common to have committees with more specialized functions for better coordination - for example, audit committee, finance committee, compensation committee, etc. wherein members meet regularly to discuss developments in their areas, review projects that cut across organizational boundaries, talk about future options, etc

**Research and recommendations:** Committees are often formed to do research and make recommendations on a potential or planned project or change. For example, an organization considering a major capital investment might create a temporary working committee

of several people to review options and make recommendations to the Board of Directors. Such committees are typically dissolved after giving recommendations.

With the increasing business complexities and time commitment of Board members, constituting committees has become inevitable for organization of any significant size. Committees keep the number of participants manageable; in larger groups, either many people do not get to speak or discussion gets quite lengthy.

### **NEED FOR COMMITTEES**

A Board can set up committees with particular terms of reference when it needs assistance (for example a New project sub-committee) or when an issue requires more resources and attention (review of effect of legislative changes on organisational programs). They can be set up for a specific purpose or to deal with general issues such as 'development'. They can be established on a short-term or temporary basis, or they can be formed as a permanent body for ongoing work.

A Board can either delegate some of its powers to the committee, enabling it to act directly, or can require the recommendations of the committee to be approved by the Board. The Board will normally depend heavily on the findings and recommendations of its committees, although final decisions to accept or reject these recommendations will be made by the Board. Committees thus have an important role to play in company governance.

Committees may be formed for a range of purposes, including:

- Board development or Governance Committee
  - to look after/administer/support Board members and committee members and other executive positions
- Selection Committee/Nomination Committee
  - to select Board members, to select a CEO, to select key managerial and senior management personnel
- Investment Committee
- Risk Management Committee
- Safety, Health & Environment Committee
- Committee of Inquiry
  - to inquire into particular questions (disciplinary, technical, etc.)



- to manage the business of the organization between Board meetings.
- Finance or Budget Committees
  - to be responsible for financial reporting, organising audits, etc.
- Marketing and Public Relations Committees
  - to identify new markets, build relationship with media and public, etc.

Committees need clear goals, objectives, and terms of reference in order to function efficiently, and Boards should ensure that these are developed before establishing the committee. Many committees have been known to work outside their intended purpose due to a lack of precise objectives.

### **COMMITTEE MANAGEMENT**

- Committees function in accordance with the terms of reference established by the board.
- Board Committees may be standing committees; or ad hoc committees that cease when the activities are completed. Standing committees should be included in the articles or by-laws.
- Committees recommend policy for approval by the entire board.
- Committees make full use of board members' expertise, time and commitment, and ensure diversity of opinions on the board.
- They do not supplant responsibility of each board member; they operate at the board level and not the staff level.
- Minutes should be recorded for all Committee meetings and final minutes are required to be placed before the Board.

### **A. Important points for consideration while constituting Committees**

- Ensure the committee has a specific charge or set of tasks to address, and ensure board members understand the committee's charge, the same has been enunciated in terms of reference.
- Have at least two board members on each committee, preferably three

- The memberships on the board committees should be planned in such a way so that the time devoted by the each member is justified. The committee minutes and action taken reports should be placed before the subsequent board meeting. The committee may be permitted to take expert guidance.
- Committee members may be briefed upon by the senior management personnel on certain agenda items. Committee chairs should promote full and fair discussions on the various issues placed before the committees. The company secretary of the company should be the secretary of the committee.

## **B. How to constitute a Committee**

### *Selection of committee chairman*

The Board may appoint the committee chairman or the committee members can choose/elect the chairman. The committee chairman is the key to an effective committee, he sets the tone, pace and strategies of the committees' functioning, hence chairman selected should have motivational and leadership skills and time commitment expected of him.

In seeking an effective chairman, most important things are knowledge and experience relevant to the work of the committee, proven leadership and behavioral skills that will be essential if the committee is to work effectively. The role of committee chairman requires extra work, time for communication with committee members and senior management so that he remains informed about the developments and a willingness to resolve conflicts among members .

The committee chairman co-ordinates work and establishes an environment of thoughtful deliberation. The chairman is expected to stimulate the members and help the group use all the abilities and experiences its members possess and new skills that they develop as they work together. The committee's goal must be aligned to achieve the objectives of the organization as a whole. The committee chairman will be responsible for preparing agendas for the meetings, assigning responsibilities to committee members and doing some of the follow-up to make sure that the assigned work is being done by members.

According to "Articles of Association" under Table F of Schedule I of the Companies Act, 2013, committee may elect a Chairperson of its meetings. Where no such Chairperson is elected, or if at any meeting the Chairperson is not present within five minutes after the time

appointed for holding the meeting, the members present may choose one of their members to be Chairperson of the meeting.

The Exposure Draft on Secretarial Standards (SS-1) provides that a member of the Committee appointed by the Board or elected by the Committee as Chairman of the Committee, in accordance with the Act or any other law or the Articles, shall conduct the Meetings of the Committee. If no Chairman has been so elected or if the elected Chairman is unable to attend the Meeting, the Committee shall elect one of its members present to chair and conduct the Meeting of the Committee, unless otherwise provided in the Articles.

#### *Selection of committee members*

Specific committee members may be appointed by either the Board or the committee Chairman. Area of knowledge and expertise domain and time commitment of the Board member should be considered as the criteria for the selection on any specific committee. The committee members should be selected with following questions in mind: What tasks are the committee responsible for and who among the members possess the skills and experience needed to complete those tasks. Every effort should be made to match the needs and requirements of the committee and the skills, knowledge and interests of prospective committee members.

It is very important that members have a clear view of the committee's goals and the chairman should have flair to utilize the committee member's knowledge exponentially well to achieve those goals.

### **C. Committee Functioning**

The committee has to function in accordance with the terms of reference assigned by the Board.

As a good practice, an annual committee calendar should be prepared and finalized for all the major activities during the year. The committee calendar should be in line with the overall annual board calendar so that efforts are unified and coordinated for maximum benefit. In addition to this, scheduling regular meetings of the committee in advance also helps members plan far enough in advance to assure good attendance.

#### **Role of individual committee member**

How the role of committee members is described may vary according to the size and nature of the organisation. However, all committee members need to individually commit to:

- upholding the values and objectives of the organisation;
- giving adequate time and energy to the duties assigned; and
- acting with integrity and avoiding or declaring personal conflicts of interest.

As committee members, they will make decisions as a collective group and hold joint responsibility for decisions and actions taken by the committee, even in their absence. They are responsible for ensuring that all decisions are taken in the best interests of the organisation and that their role is carried out effectively. Individual members should demonstrate selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

Committee members should have access to relevant information to support them in carrying out their responsibilities. This clarity should commence during the committee formation process, with provision of:

- a written role description; and
- confirmation of the commitment required.

There should be a proper/formalized induction process, ensuring that the new members are well-equipped to carry out their role effectively. It should be ensured that the terms of reference are well understood by the committee members. It is also important to have a training and development strategy in place for the committee members, ensuring that they remain sufficiently well-informed and skilled.

Committee members need to ensure that there is clarity in relation to the task being delegated. Committees cannot delegate responsibility for decisions taken.

Table F of Schedule I of the Companies Act, 2013 in this context expressly provides the following:

- The Board may delegate any of its powers to committees consisting of such member or members of its body as it thinks fit. Any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may be imposed on it by the Board.
- A committee may meet and adjourn as it thinks fit.
- Questions arising at any meeting of a committee shall be determined by a majority of votes of the members present, and in case of an equality of votes, the Chairperson shall have a second or casting vote.

- All acts done in any meeting of the committee or by any person acting as a director, shall, notwithstanding that it may be afterwards discovered that there was some defect in the appointment of any one or more of such directors or of any person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such director or such person had been duly appointed and was qualified to be a director.
- Save as otherwise expressly provided in the Act, a resolution in writing, signed by all the members of the Board or of a committee thereof, for the time being entitled to receive notice of a meeting of the Board or committee, shall be valid and effective as if it had been passed at a meeting of the Board or committee, duly convened and held.

In a more idealistic manner and as a good governance practice a feedback form of the meeting may be given to each member for effective results in subsequent meetings. The questions therein may include: how were the deliberations/ discussions of each agenda item? How effective was the impact of the materials provided for the meetings in understanding the issues? Were the deliberations rooted towards benefit of the organization? Were the conflicts dealt at the meeting?

### **COMMITTEES MANDATORILY TO BE CONSTITUTED UNDER THE COMPANIES ACT, 2013**

In addition to the Audit Committee, the New Act has also mandated the constitution of three additional board committees for all listed companies and such other classes of companies prescribed in the Rules.

- The **Nomination and Remuneration Committee** is expected to ensure among other things that remuneration arrangements support the strategic goals of the business and more importantly to conduct performance evaluation of every director.
- The **Corporate Social Responsibility Committee** would formulate the Corporate Social Responsibility policy of the company, recommend the expenditure that can be incurred for this purpose and monitor such policy of the company from time to time.
- The **Stakeholders Relationship Committee** would help resolve the grievances of the security holders of the company.

A summary of the key provisions related to these Committees is discussed hereunder.

## AUDIT COMMITTEE

Audit Committee is one of the main pillars of the corporate governance mechanism in any company. Charged with the principal oversight of financial reporting and disclosure, the Audit Committee aims to enhance the confidence in the integrity of the company's financial reporting, the internal control processes and procedures and the risk management systems. Under the Companies Act, 1956, every public company in India having paid-up capital of not less than rupees five crores was required to constitute an Audit Committee under Section 292A. The Clause 49 of the Listing Agreement, applicable only to the listed companies, requires all listed companies to duly constitute an Audit Committee with a prescribed set of responsibilities.

Under the Companies Act, 2013 (hereinafter called the Act), the Audit Committee's mandate is significantly different from what was laid down under Section 292A of the Companies Act 1956, and its scope and constitution have also been broadened. The Act mandates every listed company and certain other class or classes of companies to constitute an Audit Committee.

### Applicability

**Section 177** of the Act read with rule 6 of the Companies (Meetings of the Board and its Powers) Rules, 2014 the Board of directors of every listed company and the following classes of companies is required to constitute a Audit Committee of the Board-

- (i) all public companies with a paid up capital of ten crore rupees or more;
- (ii) all public companies having turnover of one hundred crore rupees or more;
- (iii) all public companies, having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding fifty crore rupees or more. The paid up share capital or turnover or outstanding loans or borrowings or debentures or 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.

### Composition of the Audit Committee

The Audit Committee shall consist of a minimum of three directors with independent directors forming a majority. The majority of

members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement.

The Revised Clause 49 of the listing agreement effective from 1st October, 2014, provides that audit committee of listed company shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors. All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

Defining the term “financially literate” the clause provides that the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows shall be treated as financial literacy.

Further it is provided that 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.

The Chairman of the Audit Committee shall be an independent director. The Chairman of the Audit Committee shall be present at Annual General Meeting to answer shareholder queries.

The Company Secretary shall act as the secretary to the committee.

### **Meetings of the Committee**

As per the revised clause 49 the Audit Committee should meet at least four times in a year and not more than four months shall elapse between two meetings. The quorum shall be either two members or one third of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present.

Perhaps, the most powerful committee, the Audit Committee may invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the committee, but on occasions it may also meet without the presence of any executives of the company. The finance director, head of internal audit and a representative of the statutory auditor may be present as invitees for the meetings of the audit committee.

### Functions of the Committee

Section 177(4) of the Act provides that every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board. Terms of reference as prescribed by the board shall *inter alia*, include, –

- (a) the recommendation for appointment, remuneration and terms of appointment of auditors of the company;
- (b) review and monitor the auditor's independence and performance, and effectiveness of audit process;
- (c) examination of the financial statement and the auditors' report thereon;
- (d) approval or any subsequent modification of transactions of the company with related parties;
- (e) scrutiny of inter-corporate loans and investments;
- (f) valuation of undertakings or assets of the company, wherever it is necessary;
- (g) evaluation of internal financial controls and risk management systems;
- (h) monitoring the end use of funds raised through public offers and related matters.

Role of the Audit committee is also given in the revised clause 49, which includes :

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 of the company;
3. approval of payment to statutory auditors for any other services rendered by the statutory auditors;
4. reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:
  - (a) matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (c) of sub-section 3 of section 134 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 management
  - (d) significant adjustments made in the financial statements arising out of audit findings
  - (e) compliance with listing and other legal requirements relating to financial statements
  - (f) disclosure of any related party transactions
  - (g) qualifications in the draft audit report
5. reviewing, with the management, the quarterly financial statements before submission to the board for approval;
  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;
  7. review and monitor the auditor's independence and performance, and effectiveness of audit process;
  8. approval or any subsequent modification of transactions of the company with related parties;
  9. scrutiny of inter-corporate loans and investments;
  10. valuation of undertakings or assets of the company, wherever it is necessary;
  11. evaluation of internal financial controls and risk management systems;
  12. reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
  13. reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;

14. discussion with internal auditors of any significant findings and follow up there on;
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;
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;
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;
18. to review the functioning of the Whistle Blower mechanism;
19. approval of appointment of CFO (i.e., the whole-time Finance Director or any other person heading the finance function or discharging that function) after assessing the qualifications, experience and background, etc. of the candidate;
20. carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

### **Powers of the Audit Committee**

The Audit committee has the following powers under the section 177:

1. The Audit Committee has the power to call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company.
2. The Audit Committee has authority to investigate into any matter in relation to the items specified in terms of reference or referred to it by the Board and for this purpose the Committee has power to obtain professional advice from external sources. The Committee for this purpose shall have full access to information contained in the records of the company.
3. The auditors of a company and the key managerial personnel 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.

As per revised clause 49 the Audit Committee shall have the powers to:

- (i) investigate any activity within its terms of reference;
- (ii) seek information from any employee;
- (iii) obtain outside legal or other professional advice;
- (iv) secure attendance of outsiders with relevant expertise, if it considers necessary.

Revised Clause 49 further provides that the Audit Committee shall mandatorily review the following information:

- (a) management discussion and analysis of financial condition and results of operations;
- (b) statement of significant related party transactions (as defined by the Audit Committee), submitted by management;
- (c) management letters / letters of internal control weaknesses issued by the statutory auditors;
- (d) internal audit reports relating to internal control weaknesses; and
- (e) the appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee.

### **Audit Committee and Vigil Mechanism**

Subsections (9), (10) of section 177 of the Act read with rule 7 of the Companies (Meetings of Board and its Powers) Rules, 2014 provide that 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-

- (a) the Companies which accept deposits from the public;
- (b) the Companies which have borrowed money from banks and public financial institutions in excess of fifty crore rupees.

The companies which are required to constitute an Audit Committee shall oversee the vigil mechanism through the Audit Committee. 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 vigil mechanism are required to be disclosed by the company on its website, if any, and in the Board's report.

### **Disclosure in Board's Report**

The Board's report is required to disclose the composition of audit committee and where the Board had not accepted any recommendation of the Audit Committee, the same is also required to be disclosed in the Board's report along with the reasons therefore.

### **Risk Management Committee**

In addition to the requirement of the Companies Act 2013 as well as the revised clause 49 that the audit committee will evaluate of internal financial controls and risk management systems, the revised Clause 49 of the Listing Agreement also requires that the company through its Board of Directors shall constitute a Risk Management Committee.

The majority of the Risk Management Committee shall consist of members of the Board of Directors. Senior executives of the company may be members of the said committee but the chairman of the committee shall be a member of the Board of Directors.

The Board shall be responsible for framing, implementing and monitoring the risk management plan for the company. Further, the Board shall define the roles and responsibilities 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.

## **NOMINATION AND REMUNERATION COMMITTEE**

### **Applicability**

As per section 178 of the Act read with rule 6 of the Companies (Meetings of the Board and its Powers) Rules, 2014, the Board of directors of every listed company and the following classes of companies are required to constitute a Nomination and Remuneration Committee of the Board-

- (i) all public companies with a paid up capital of ten crore rupees or more;
- (ii) all public companies having turnover of one hundred crore rupees or more;
- (iii) all public companies, having in aggregate, outstanding loans or

borrowings or debentures or deposits exceeding fifty crore rupees or more.

The paid up share capital or turnover or outstanding loans, or borrowings or debentures or deposits, as the case may be, as existing on the last audited financial statement shall be taken into account for the above purpose.

### **Composition**

The Committee so constituted by the Board shall consist of three or more non-executive directors out of which not less than one-half shall be independent directors. The chairperson of the company (whether executive or non-executive) may be appointed as a member of the Nomination and Remuneration Committee but he shall not chair such Committee. In case of a listed company as per revised clause 49, Chairman of the committee shall be an independent director.

The Chairperson of the Committee or, in his absence, any other member of the committee authorised by him in this behalf is required to attend the general meetings of the company. In contrast to this, the revised clause 49 provides that the Chairman of the Nomination and Remuneration Committee could be present at the Annual General Meeting, to answer the shareholders' queries. However, it would be up to the Chairman to decide who should answer the queries.

### **Functions:**

Sub- sections (2), (3) and (4) of section 178 deal specifically with the functions of the Committee.

The Nomination and Remuneration Committee shall:

1. identify persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, recommend to the Board their appointment and removal. Further it has been attached with a wider responsibility of carrying out evaluation of every director's performance.
2. formulate the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board a policy, relating to the remuneration for the directors, key managerial personnel and other employees. While formulating the policy, the Committee shall consider the following:
  - (a) the level and composition of remuneration is reasonable

and sufficient to attract, retain and motivate directors of the quality required to run the company successfully;

- (b) relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and
- (c) remuneration to directors, key managerial personnel and senior management involves a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the working of the company and its goals.

The remuneration policy formulated by the Committee is required under the Act to be disclosed in the Board's report.

*"Senior management"* for the purpose of the section means personnel of the company who are members of its core management team excluding Board of Directors comprising all members of management one level below the executive directors, including the functional heads.

Functions of committee as per revised clause 49 of the Listing Agreement

The role of the Committee constituted by a listed company includes:

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, key managerial personnel and other employees;
2. formulation of criteria for evaluation of Independent Directors and the Board;
3. devising a policy on Board diversity;
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 their appointment and removal. The company shall disclose the remuneration policy and the evaluation criteria in its Annual Report.

## **STAKEHOLDER RELATIONSHIP COMMITTEE**

### **Applicability**

Sub-Section(5) of section 178 provides that the Board of Directors of a company which consists of more than one thousand shareholders, debenture-holders, deposit-holders and any other security holders at any time during a financial year shall constitute a Stakeholders Relationship Committee.

### **Composition of Board of Committee**

Stakeholders Relationship Committee shall consist of a chairperson who shall be a non-executive director and such other members as may be decided by the Board.

The chairperson of the committees or, in his absence, any other member of the committee authorised by him in this behalf is required under the section to attend the general meetings of the company.

### **Functions**

The main function of the committee is to consider and resolve the grievances of security holders of the company.

On similar terms revised clause 49 of the listing agreement provides that a committee under the Chairmanship of a non-executive director and such other members as may be decided by the Board of the company shall be formed to specifically look into the redressal of grievances of shareholders, debenture holders and other security holders. The grievances of the security holders of the company may include complaints related to transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends, which shall be handled by this committee.

**The current requirement** under the Listing Agreement clause 49 is for the constitution of a board committee i.e. 'Shareholders/Investors Grievance Committee' 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 balance sheet, non-receipt of declared dividends etc. The main function of this committee is to expedite the process of share transfers.

### **PENAL PROVISIONS UNDER THE COMPANIES ACT, 2013.**

In case the company does not comply with the constitution of Audit Committee, Nomination and remuneration Committee and Stakeholder Relationship Committee, wherever required, the company shall be punishable with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than twenty-five thousand rupees but which may extend to one lakh rupees, or with both:

It has been further provided that non-consideration of resolution of any grievance by the Stakeholders Relationship Committee in good faith shall not constitute a contravention of this section.

## CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

### Applicability

Sec 135 (1) read with rule 3 of Companies (Corporate Social Responsibility Policy) Rules, 2014, mandates every company (which may include a holding company or a subsidiary company) having:

- (a) net worth of rupees five hundred crore or more, or;
- (b) turnover of rupees one thousand crore or more or;
- (c) a net profit of rupees five crore or more

during any financial year to constitute a Corporate Social Responsibility (CSR) Committee of the Board.

Any financial year has been clarified as to imply any of the three preceding financial years.

Further a foreign company defined under clause (42) of section 2 of the Act having its branch office or project office in India which fulfills the criteria specified above is required to comply with the provisions of section 135 of the Act and the rules made thereunder. The net worth, turnover or net profit of a foreign Company for the purpose of this section, shall be computed in accordance with balance sheet and profit and loss account of such company in respect of its Indian business operations.

### Clarification

'Net Profit' means the net profit of a company as per its financial statement, but shall not include the following:

- (i) any profit arising from any overseas branch or branches of the company whether operated as a separate company or otherwise; and
- (ii) any dividend received from other in companies in India, which are covered under and complying with the provisions of section 135 of the Act.

It has also been clarified in the Rules that every company which ceases to satisfy the criteria mentioned above for three consecutive financial years shall not be required to –

- (a) constitute a CSR Committee; and
- (b) comply with the provisions contained in section 135, till such time it meets the criteria specified in sub section (1) of section 135



### Composition

Section 135 provides that the CSR committee shall be constituted with three or more directors, out of which at least one director shall be an independent director. Companies (Meetings of Board and Powers) Rules, 2014, however, relax this requirement as below:

1. an unlisted public company or a private company covered under sub-section (1) of section 135 which is not required to appoint an independent director, shall have its CSR Committee without such director.
2. a private company having only two directors on its Board shall constitute its CSR Committee with two such directors:
3. with respect to a foreign company covered under these rules, the CSR Committee shall comprise of at least two persons of which one person shall be as specified under clause (d) of sub-section (1) of section 380 of the Act ,i.e. the person resident in India authorized to accept on behalf of the company, service of process and any notices or other documents and another person shall be nominated by the foreign company.

The composition of the Corporate Social Responsibility Committee is required to be disclosed in the Board's report prepared under the Act.

### Functions

In accordance with section 135 the functions of the CSR committee include:

- (a) formulating and recommending to the Board, a CSR Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;
- (b) recommending the amount of expenditure to be incurred on the CSR activities.
- (c) monitoring the Corporate Social Responsibility Policy of the company from time to time.
- (d) Further the rules provide that the CSR Committee shall institute a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the company.

### Important Aspects in relation to CSR Policy and CSR Committee

The Board of Directors of the company shall, after taking into account the recommendations of CSR Committee, approve the CSR Policy for

the company and disclose contents of such policy in its report and the same shall be displayed on the company's website, if any.

As per the rules, the CSR Policy of the company shall, inter-alia, include the following, namely –

- (a) a list of CSR projects or programs which a company plans to undertake falling within the purview of the Schedule VII of the Act, specifying modalities of execution of such project or programs and implementation schedules for the same; and
- (b) Monitoring process of such projects or programs. It is to be noted that the CSR activities does not include the activities undertaken in pursuance of normal course of business of a company. The Board of Directors shall ensure that activities included by a company in its CSR Policy are related to the activities included in Schedule VII of the Act.

The CSR Policy of the company shall specify that the surplus arising out of the CSR projects or programs or activities shall not form part of the business profit of a company.

The Board of every company shall ensure that the company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its CSR Policy. CSR expenditure shall include all expenditure including contribution to corpus, the projects or programs relating to CSR activities approved by the Board on the recommendation of its CSR Committee, but does not include any expenditure on any item not in conformity or not in line with activities which fall within the purview of Schedule VII of the Act. Subsection (5) of the section 135, provides that if the company fails to spend such amount of 2%, the Board shall, in its report, specify the reasons for not spending the amount.

### **CSR Reporting**

The Board's Report of a company covered under these rules pertaining to a financial year commencing on or after the 1st day of April, 2014 shall include an annual report on CSR containing particulars and in case of a foreign company, the balance sheet filed under sub-clause (b) of sub-section (1) of section 381 shall contain an Annexure regarding report on CSR.

Schedule VII listing out the activities which may be included by companies in their Corporate Social Responsibility policies is reproduced at Annexure 'A' :

## **CONVENING AND CONDUCTING COMMITTEE MEETINGS**

### **Annual Calendar**

As a good practice a calendar of committee meetings should be maintained so that prior arrangements can be made.

### **Notice of Committee meetings**

Similar to a board meeting the notice of committee meeting be sent to the committee members . In this context section 173 (3) provides that a meeting of the Board shall be called by giving not less than seven days' notice in writing to every director at his address registered with the company and such notice shall be sent by hand delivery or by post or by electronic means. A meeting of the Board may be called at shorter notice to transact urgent business subject to the condition that at least one independent director, if any, shall be present at the meeting. In such a case of absence of independent directors from such a meeting of the Board, decisions taken at such a meeting shall be circulated to all the directors and shall be final only on ratification thereof by at least one independent director, if any. Rule 3 of Companies (Meetings of Board and its Powers) Rules, 2014 relating to meetings of Board through video conferencing or other audio visual means is also applicable to committee meetings.

### **Quorum**

Committees shall meet at least as often as stipulated by the Board or as prescribed by any law or authority.

Nothing specifically has been mentioned in the Act or Rules with regard to quorum in Committee meetings. The Exposure Draft of Secretarial Standards (SS-1) in this context provide that the presence of all the members of any Committee constituted by the Board is necessary to form the Quorum for Meetings of such Committee unless otherwise stipulated in the Act or any other law or the Articles or by the Board.

Regulations framed under any other law may contain provisions for the Quorum of a Committee and such stipulations shall be followed.

### **Attendance Register**

Attendance register becomes all the more important with the requirement of disclosure of attendance of the members of the board / committee in the Annual Return. Every company should maintain

separate registers for the meeting of the Board and that of its committees.

The Exposure Draft of Secretarial Standards (SS-1) in this context provide that separate registers shall be maintained for Meetings of the Board and Meetings of the Committee. The attendance register shall contain the particulars relating to : date of the Meeting; in case of a Committee Meeting name of the Committee; place of the Meeting; time of the Meeting; names of the Directors and signature of each Director present; name and signature of the Company Secretary who is in attendance and also of persons attending the Meeting by invitation.

Every Director, Company Secretary who is in attendance and every Invitee who attends a Meeting of the Board or Committee thereof should sign the attendance register at that Meeting. As already mentioned Rule 3 of Companies (Meetings of Board and its Powers) Rules, 2014 relating to meetings of Board through video conferencing or other audio visual will apply for quorum in committee meetings.

The exposure draft clearly specifies that the attendance register shall be deemed to have been signed by the Directors participating through electronic mode, if their attendance is recorded by the Chairman or the Company Secretary in the Attendance Register and the Minutes of the Meeting.

According to the exposure draft the attendance register is required to be maintained at the Registered Office of the company or such other place as may be approved by the Board. The attendance register may be taken to any place where a Meeting of the Board or Committee is held. The attendance register shall be open for inspection by the Directors. A Member of the company shall not entitled to inspect the attendance register. The Company Secretary in Practice appointed by the company or the Secretarial Auditor or the Statutory Auditor of the company can inspect the attendance register as he may consider necessary for the performance of his duties. The entries in the attendance register shall be authenticated by the Company Secretary or where there is no Company Secretary, by the Chairman , by appending his signature to each page. The attendance register shall be preserved for a period of at least eight financial years and may be destroyed thereafter with the approval of the Board.

The recording of proceedings of Meetings through electronic mode shall be preserved for at least eight financial years and may be destroyed thereafter with the approval of the Board.

The attendance register shall be kept in the custody of the Company Secretary. Where there is no Company Secretary, the attendance register shall be kept in the custody of any Director authorized by the Board for the purpose.

### **Recording proceedings of Committee Meetings**

Section 118 and Rule 25 of the Companies (Management and Administration) Rules, 2014 requires maintenance of minutes for meetings of each of the committees of the Board in a distinct minute book.

- The minutes of proceedings of each meeting shall be entered in the books maintained for that purpose along with the date of such entry within thirty days of the conclusion of the meeting.
- Each page of minutes of proceedings of a meeting of the Board committee are required to be initialled /signed by the chairman of the said meeting or the chairman of the next succeeding meeting. Similarly the last page of the record of proceedings of each meeting is to be dated and signed by the chairman of the said meeting or the chairman of the next succeeding meeting.
- In the case of a meeting of the Board of Directors or of a committee of the Board, the minutes shall also contain—
  - the names of the directors present at the meeting; and
  - in the case of each resolution passed at the meeting, the names of the directors, if any, dissenting from, or not concurring with the resolution.
- A resolution passed by circulation by the majority of committee members under section 175 shall be noted at a subsequent meeting of the committee and be made part of the minutes of such subsequent meeting.
- The minutes books of the Board and committee meetings shall be preserved permanently and kept in the custody of the company secretary of the company or any director duly authorized by the Board for the purpose and shall be kept in the registered office or such place as Board may decide.
- Earlier the Ministry insisted on maintenance of records by every listed company or a company having not less than 1000 shareholders, debenture holders and other security holders, in electronic form. Vide Notification GSR 537(E) dated 24<sup>th</sup> July, 2014

the rule was liberalised, now Rule 27 of Companies (Management and Administration) Rules, 2014 provides that every listed company or a company having not less than 1000 shareholders, debenture holders and other security holders, may maintain their records in electronic form. Accordingly the minutes may be maintained by the company, either in electronic form or in physical form.

## **OTHER LEGAL ASPECTS OF COMMITTEE FUNCTIONING**

### **Time Commitment for the Committee meetings**

The intent of committee formation is to ensure that proper time is devoted on the issues. Considering this the revised clause 49 provides that a director shall not be a member in more than ten committees or act as Chairman of more than five committees across all companies in which he is a director. Furthermore, every director shall inform the company about the committee positions he occupies in other companies and notify changes as and when they take place.

For the purpose of considering the limit of the committees on which a director can serve, all public limited companies, whether listed or not, are counted whereas all other companies including private limited companies, foreign companies and companies under Section 8 of the Companies Act, 2013 are to be excluded.

Similarly for Chairmanship / membership of the Audit Committee and the Stakeholders' Relationship Committee alone shall be considered.

Section 92 of the Companies Act, 2013 requires every company to prepare an annual return in Form No. MGT.7 as mentioned in Rule 11 of the Companies (Management and Administration) Rules, 2014. The return shall include the particulars, on the close of the financial year, regarding meetings of members or a class thereof, Board and its various committees along with attendance details. The Act focuses on disclosure or more specifically speaking on accountability and reporting towards stakeholders.

### **Meetings through Video Conferencing**

According to Section 173(2) of the Act, a director may participate in a Board meeting either in person or through video conferencing or other audio visual means, as may be prescribed, which are capable of recording and recognising the participation of the directors and of recording and storing the proceedings of such meetings along with date and time.

Rule 3 of the Companies (Meetings of Board and its Powers) Rules, 2014 provide for a detailed manner in which a company may hold a board meeting through video or audio visual connection. The rules provide for convening and conducting the Board meetings through video conferencing or other audio visual means. It is implied that the provisions of video conferencing shall apply to the Committee Meetings as well. In this context Rule 4 of the aforesaid rules bars the Audit Committee from taking consideration of accounts in a meeting held through video conferencing.

### **Sitting Fees**

Section 197(5) read with Rule 4 of the the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 a director may receive remuneration by way of fee for attending meetings of the Board or Committee thereof as may be decided by the Board which shall not exceed one lakh rupees per meeting of the Board or committee thereof. It has been further clarified that Independent Directors and Women Directors, the sitting fee shall not be less than the sitting fee payable to other directors.

### **Performance evaluation**

Measurement and evaluation of performance of the committee is necessary for the purpose of knowing whether the organisation's goals and mission being achieved, or not, or only in part?

Evaluating the performance of individual members of the Board may also be necessary. It is , therefore, necessary to provide Board and Committee members with clear guidelines and expectations from the beginning. Company can not turn around and blame someone for not achieving an objective they did not know existed.

A regular process of evaluating the committee's performance can help to identify strengths and weaknesses of its processes and procedures and to provide insights for strengthening orientation and educational programs.

Under Section 134 read with rule 8(4) of Companies (Accounts) Rules, 2014 every listed company and every other public company having a paid up share capital of twenty five crore rupees or more calculated at the end of the preceding financial year shall include, in its Board's report, a statement indicating the manner in which formal annual evaluation has been made by the Board of its own performance and that of its committees and individual directors.

### Delegation of Power

The Board may, by a resolution passed at a meeting, delegate to any committee of directors, the managing director, the manager or any other principal officer of the company or in the case of a branch office of the company, the principal officer of the branch office, the following powers on such conditions as it may specify (Section 179).

- (a) to borrow monies;
- (b) to invest the funds of the company;
- (c) to grant loans or give guarantee or provide security in respect of loans;
- (d) Vide circular 19/2014 dated 12 June, 2014 the Ministry of Corporate Affairs has clarified that the powers of the Board under rule 6(2)(a) of Companies ( Share Capital and Debentures) Rules, 2014 read with section 46 of the Act, with regard to issuance of duplicate shares can be exercised by a committee of Directors. The committee of directors may exercise such powers subject to any regulations imposed by the Board in this regard.

### ENHANCING COMMITTEE EFFECTIVENESS

Committee effectiveness may be enhanced through the following practices:

- Providing an orientation for new committee members on the committee functioning and terms of reference.
- Maintenance and circulation of Annual Calendar of Committee meetings.
- Ensuring that committee members are sent the agenda and other relevant information sufficiently well in advance of meetings.
- The chairman should take a lead in involving each of the committee members, thereby enhancing the committee's performance.
- The chairman should involve committee members in developing an annual committee plan of work. It should be ensured that the committee plans are in alignment with the overall strategic plan of the company.



**FAQS IN RELATION TO COMMITTEES OF BOARD OF DIRECTORS AND THEIR FUNCTIONING**

1. Section 46 read with the Companies (Share Capital and Debentures) Rules, 2014 requires passing of Board Resolution for issuance of share certificates. Under the Companies Act, 1956 such power could be delegated to Committee of the Board. Companies Act, 2013 is silent on this issue.

Ans. Section 179 which deals with powers of Board lists items which are required to be approved by Board at its duly convened meeting. These items are such which require deliberation and discussion at the meeting and are of important nature. One such item is 'issue of securities'. This matter has already been examined by the MCA and it has, vide its General Circular 19/2014 dated June 12, 2014, clarified with regard to issue of duplicate share certificates, that a committee of Directors may exercise such powers subject to any restrictions imposed by the Board in this regard [in the light of the provisions of sections 179, 180 and regulation 71 of table "F" of Schedule I to the Companies Act, 2013].

2. As per provision of Section 149(5) appointment of independent directors is being given one year transition period but there is no such transition time for remuneration or nomination committee. Under Section 178 Nomination & Remuneration committee is to have minimum 2 independent directors. If a company does not have Independent directors as of now, how can the committee be constituted as one year transition time given for appointment of Independent Directors? Can remuneration and nomination committee constitution be also assumed to be formed in one year transition time?

Ans. Ministry has, vide its Notification dated June 12, 2014, clarified that the public companies required to constitute Nomination and Remuneration committee can constitute the same within one year from the commencement of the relevant rule or appointment of Independent Directors by them, whichever is earlier.

3. In case the board delegates its powers to borrow to one of its committee, is the company required to file Form MGT 14 for delegation its power to Committee and also each time the committee exercises the power which is delegated to it?

Ans. The Company is required to file e-form MGT 14 with the ROC only when the board delegates its power to its committee to

borrow and no MGT -14 is required to be filed each time the committee exercises its power to borrow money within the limits authorized by the board.

4. Is it compulsory for Company Secretary to attend all Board, Committee and General Meetings?

Ans. Yes, it is compulsory for a company secretary to attend all Board, committee and general meetings of the Company as it is the one of the duties of the company secretary as mentioned in section 205 of the Companies Act, 2013.

### **Conclusion**

Board Committees are the pillars of Corporate Governance. As the responsibilities of directors have become more demanding, Boards have increasingly formed committees to deal with some of their more detailed work. As the needs of the Board change, the need for committees may also change. Hence, it is essential that committees and their role be subject to periodic review. Board members should be aware that Board responsibilities remain, when serving on a Board committee, and may be enhanced. To be more effective, Board committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

In general, Board committees focus on specific areas allowing the Board to concentrate on broader issues and directions. The work of the committees should be directed by the Board. Board committees should have their own charter setting out their roles and responsibilities, for example, in the area of membership (including succession planning), meeting frequency and core agenda, committee authority, reporting obligations etc. committees should be appropriately constituted, taking into account any relevant legislation and the objectives of the company. Day by day, the role of independent director is gaining importance in the effect functioning of the Board committees. Board committees with formally established terms of reference, criteria for appointment, life span, role and function constitute an important element of the governance process and should be established with clearly agreed reporting procedures and a written scope of authority. Board committees should be free to take independent outside professional advice when necessary, at the cost of the company, subject to a proper process being followed.

*Annexure 'A'***SCHEDULE VII  
(See Section 135)****ACTIVITIES WHICH MAY BE INCLUDED BY COMPANIES IN THEIR CORPORATE SOCIAL RESPONSIBILITY POLICIES.**

Activities relating to as per the Act enforced: –

- I. eradicating extreme hunger and poverty;
- II. promotion of education;
- III. promoting gender equality and empowering women;
- IV. reducing child mortality and improving maternal health;
- V. combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;
- VI. ensuring environmental sustainability;
- VII. employment enhancing vocational skills;
- VIII. social business projects;
- IX. contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; and
- X. such other matters as may be prescribed.

The Ministry of Corporate Affairs vide Notification No. GSR 130(E) replaced items (i) to (x) of Schedule VII. The Notification stated as under:

- (I) In Schedule VII, for items (i) to (x) and the entries relating thereto, the following items and entries shall be substituted, namely :-
  - I. 'ID eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation and making available safe drinking water:
  - II. promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects;
  - III. promoting gender equality, empowering women, setting

- up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;
- IV. ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agro forestry, conservation of natural resources and maintaining quality of soil, air and water;
  - V. protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts;
  - VI. measures for the benefit of armed forces veterans, war widows and their dependents;
  - VII. training to promote rural sports, nationally recognised sports, paralympic sports and Olympic sports;
  - VIII. contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women;
  - IX. contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government
  - X. rural development projects."

*Annexure 'B'***THE COMMITTEE – A COMPARATIVE TABLE**

<b>AUDIT COMMITTEE (Section 177)</b> read with rule 6 of Companies (Meetings of Board and its Powers) Rules, 2014	<b>NOMINATION AND REMUNERATION COMMITTEE (Section 178)</b> read with rule 7 of Companies (Meetings of Board and its Powers) Rules, 2014	<b>STAKEHOLDER RELATIONSHIP COMMITTEE (Section 178)</b>	<b>CSR COMMITTEE (Section 135)</b> read with Companies (CSR Policy) Rules, 2014
<b>Applicability</b>			
Every listed company and the following classes of companies is required to constitute a Audit Committee of the Board- (i) all public companies with a paid up capital of ten crore rupees or more; (ii) all public companies having turnover of one hundred crore rupees or more; (iii) all public companies, having in aggregate,	Every listed company and the following classes of companies is required to constitute a Nomination and Remuneration Committee of the Board- (i) all public companies with a paid up capital of ten crore rupees or more; (ii) all public companies having turnover of one hundred crore rupees or more; (iii) all public companies, having in aggregate, outstanding	A company which consists of more than one thousand shareholders, debenture-holders, deposit-holders and any other security holders at any time during a financial year shall constitute a Stakeholders Relationship Committee.	Every company (which may include a holding company or a subsidiary company) having: (a) net worth of rupees five hundred crore or more, or; (b) turnover of rupees one thousand crore or more or; (c) a net profit of rupees five crore or more during any financial year.  Foreign company having its branch office or project office in India, which fulfils the above mentioned criteria.

outstanding loans or borrowings or debentures or deposits exceeding fifty crore rupees or more.	loans or borrowings or debentures or deposits exceeding fifty crore rupees or more.		
<b>Composition</b>			
<p>The Audit Committee shall consist of a minimum of three directors with independent directors forming a majority. The majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement.</p> <p>In addition to this, the <b>Revised Clause 49 of the listing agreement</b> provides that audit committee of listed company shall</p>	<p>The Committee so constituted by the Board shall consist of three or more non-executive directors out of which not less than one-half shall be independent directors. The chairperson of the company (whether executive or non-executive) may be appointed as a member of the Nomination and Remuneration Committee but he shall not chair such Committee.</p> <p><b>In case of a listed company as per revised clause 49</b> Chairman of the committee shall be an independent</p>	<p>Stakeholders Relationship Committee shall consist of a chairperson who shall be a non-executive director and such other members as may be decided by the Board.</p> <p>The chairperson of the committees or, in his absence, any other member of the committee authorised by him in this behalf is required under the section to attend the general meetings of the company.</p>	<p>Three or more directors, out of which at least one director shall be an independent director. Further according of the Rules:</p> <ol style="list-style-type: none"> <li>1. an unlisted public company or a private company which is not required to appoint an independent director, shall have its CSR Committee without such director.</li> <li>2. a private company having only two directors on its Board shall constitute its CSR Committee with two such directors.</li> </ol>

<p>have minimum three directors as members. Two-thirds of the members of the audit committee shall be independent directors. All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.</p>	<p>director.</p> <p>The chairperson of the committees or, in his absence, any other member of the committee authorised by him in this behalf is required under the section to attend the general meetings of the company.</p> <p>In contrast to this, the <b>revised clause 49</b> provides that the Chairman of the nomination and remuneration committee could be present at the Annual General Meeting, to answer the shareholders' queries.</p>		<p>3. with respect to a foreign company covered under these rules, the CSR Committee shall comprise of at least two persons of which one person shall be the person resident in India who is authorised to accept service of process and any notices or other documents and another person shall be nominated by the foreign company.</p>
<b>Functions</b>			
<p>The Committee functions are as under:</p> <p>According to the Section every Audit Committee shall act in accordance with the terms of reference</p>	<p>However, it would be up to the Chairman to decide who should answer the queries.</p> <p>The Committee functions are as under:</p> <p>1. identify</p>	<p>The main function of the committee is to consider and resolve the grievances of security holders of the company.</p> <p>On similar terms <b>revised clause 49</b> of the listing</p>	<p>The Committee functions are as under:</p> <p>(a) formulating and recommending to the Board, a CSR Policy which shall indicate the activities to be undertaken by</p>

<p>specified in writing by the Board which shall, <i>inter alia</i>, include, –</p> <p>I. the recommendation for appointment, remuneration and terms of appointment of auditors of the company;</p> <p>II. review and monitor the auditor's independence and performance, and effectiveness of audit process;</p> <p>III. examination of the financial statement and the auditors' report thereon;</p> <p>IV. approval or any subsequent modification of transactions of the company with related parties;</p> <p>V. scrutiny of inter-corporate loans and investments;</p> <p>VI. valuation of undertakings or</p>	<p>persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, recommend to the Board their appointment and removal. Further it has been attached with a wider responsibility of carrying out evaluation of every director's performance.</p> <p>2. Formulate the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board a policy, relating to the remuneration for the directors, key managerial personnel and other employees. While formulating the</p>	<p>agreement provide that a committee under the Chairmanship of a non-executive director and such other members as may be decided by the Board of the company shall be formed to specifically look into the redressal of grievances of shareholders, debenture holders and other security holders. The grievances of the security holders of the company may include complaints related to transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends, which shall be handled by this committee.</p>	<p>the company as specified in Schedule VII;</p> <p>(b) recommending the amount of expenditure to be incurred on the CSR activities.</p> <p>(c) monitoring the Corporate Social Responsibility Policy of the company from time to time.</p> <p>(d) Further the rules provide that the CSR Committee shall institute a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the company.</p>
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<p>assets of the company, wherever it is necessary;</p> <p>VII. evaluation of internal financial controls and risk management systems;</p> <p>VIII. monitoring the end use of funds raised through public offers and related matters.</p> <p>The Powers of Audit Committee are as under:</p> <p>1. The Audit Committee may call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory</p>	<p>policy the committee shall consider the following:</p> <p>(a) the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors of the quality required to run the company successfully;</p> <p>(b) relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and</p> <p>(c) remuneration to directors, key managerial personnel and senior management involves a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the working of the company and its goals.</p>		
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<p>auditors and the management of the company.</p> <p>2. The Audit Committee shall have authority to investigate into any matter in relation to the items specified in terms of reference or referred to it by the Board and for this purpose shall have power to obtain professional advice from external sources and have full access to information contained in the records of the company.</p> <p>3. 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>			
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