

CHAPTER 5: BOARD COMMITTEES

QUESTION 1:

Prekshak Ltd, a cosmetics manufacturing company was rapidly expanding its business operations and was planning to go for an IPO in couple of months. The Company presently had more than 1000 shareholders and was expecting the numbers to go up drastically after the IPO. One of the merchant bankers and advisors for the IPO, informed the Company's management that it had not constituted a Stakeholders Relationship Committee (SRC) and is liable to penalty under the Companies Act, 2013. In context of above facts, prepare a brief note covering the requirements for constituting Stakeholders Relationship Committee and the role of such committee. **(JUNE 2025) (5 MARKS)**

Ans:

- (a) The board of every company which has more than 1000 stakeholders shall constitute a stakeholder relationship committee the chairman of which must be a non-executive director.
- (b) every listed company shall form SRC the chairperson of which shall be a non-executive director.
- (c) Composition of committee is 3 directors of at least 1 shall be independent director and if the company has issued SR equity shares then $2/3^{\text{rd}}$ of the committee should consist of independent director.
- (d) The committee shall meet at least once a year.
- (e) Role of SRC includes the following:

- (i) Addresses complaints related to share transfer, dividends, reports, and dematerialization.
- (ii) Ensures prompt resolution of shareholder and investor grievances.
- (iii) Monitors investor servicing systems for efficiency and responsiveness.
- (iv) Promotes fairness in the treatment of all stakeholders.
- (v) Ensures compliance with shareholder rights and SEBI (LODR) Regulations.
- (vi) Provides regular updates to the Board on grievance redressal performance.
- (vii) Tracks and maintains records of pending and resolved complaints.
- (viii) Upholds transparency in stakeholder communication and governance practices.

QUESTION 2:

During the Meeting of Audit Committee of PQR Ltd. (BSE Listed Company), the member of the Audit Committee so desired to detailed information on material management control at depot. He also required the financial control system on material movement. The Project Head opined that Audit Committee has no such power. In light of the provisions of the Companies Act, 2013 and SEBI (LODR), Regulations 2015, explain whether such information can be called by Audit Committee. What panel provisions are applicable in case of Audit Committee is not constituted as per section 177 of the Act? (AUG 2021) (5 MARKS)

Ans:

- (a) Audit committee possesses certain powers according to companies act,2017 which include the following:
 - (i) The audit committee has the power to call for any comments or observations from the auditors regarding internal control systems, scope of audit or any observations and may also discuss issues related to this with the internal auditor, statutory auditors and the management of the company.
 - (ii) The committee also has the authority to investigate any matter which are the responsibility of the committee.
 - (iii) Auditors of the company and the key managerial personnel of the company have the right to be heard at the meeting although they do not have the right to vote.
- (b) In the instant case the member inquired for information about material management control the project head declined it by stating that the audit committee does not have power to investigate such affairs. By applying the above provisions the audit committee is well within their rights to call for such information and the claim of the project head is invalid.

- (c) If the company fails to comply with any of the provisions relating to the audit committee the company shall be liable to a penalty of Rs. 5 lakhs and every officer in default shall be liable for a penalty of Rs. 1 lakh

QUESTION 3:

In the light of the SEBI (LODR) Regulations, 2015, answer the following questions:

- (i) What shall be minimum number of members in a 'Risk Management Committee' (RMC)?**
- (ii) Can Senior Executives of a listed entity be members of the RMC?**
- (iii) What shall be the gap between two meetings of the RMC? (JUNE 2024) (5 MARKS)**

Ans:

- (i) The Risk Management Committee (RMC) must have at least three members, with the majority being members of the Board. It should include at least one independent director. For a listed entity with outstanding SR (Superior Rights) Equity Shares, at least two-thirds of the Committee must be independent directors.
- (ii) Yes, senior executives of a listed company can also be part of the Risk Management Committee.
- (iii) The risk management committee shall meet at least twice a year of which maximum gap shall not exceed 180 days.

QUESTION 4:

Infowin Ltd. has been pioneer in corporate governance practices. The Board is comprised of appropriate mix of independent and executive directors to separate Board functions of governance and management. The Board comprises of fifteen members with seven executive directors and eight independent directors. Responsibilities of the Chairman, CEO (Chief Executive Officer) and COO (Chief Operating Officer) have been clearly defined and they have to make periodic presentations before the Board on their responsibilities, targets and performance. The Board is responsible for selection of new directors and it delegates the selection of the new Board members to the Nomination and Remuneration Committee. The Nomination and Remuneration Committee recommends to the Board the induction of any new Board member. The Board also regularly works with the Chairman, CEO and the COO to determine the plans of internal succession of these posts in case of any emergency. The Board meets to review the quarterly results, discusses issues related to the company's financial performance and the shareholders' interests. The independent directors are

always kept up to date with the information regarding the company by the Board through separate meetings arranged at regular intervals. The Board currently has five committees namely, Audit Committee, Nomination and Remuneration Committee, Stakeholders Relationship Committee, Corporate Social Responsibility Committee and Investment Committee. The COO and CEO deal with interaction of the Board with the clients, employees, institutional investors, the government and press. The risk management is dealt with by the Board with the help of the Audit Committee. In light of the above, you are required to answer the following questions:

- (i) How do independent directors on the Board help Infowin Ltd. to formulate best business policies?
- (ii) What are the different committees formed as part of corporate governance of Infowin Ltd. and what role do these committees play? **(JUNE 2016) (5 MARKS EACH)**

Ans:

(i)

- (a) In the instant case, Infowin Ltd. has 15 directors, out of which 8 are independent directors. The roles of the Chairman, CEO, COO, and CFO are clearly defined, and they regularly present their goals, responsibilities, and performance to the Board.
- (b) Independent directors play a key role by bringing an unbiased and outside perspective to Board discussions.
- (c) They help ensure that no individual or group has too much influence over decisions and that open, constructive discussions take place.
- (d) They also help protect the interests of all shareholders and stakeholders, especially when there might be a conflict of interest.
- (e) Additionally, independent directors are responsible for balancing the interests of different stakeholders, ensuring decisions are free from owner, with leadership and succession planning, guiding and mentoring other executives, offering independent judgment and fresh ideas.

(ii)

The Board of Infowin Ltd. has constituted following five committees. They are as follows:

- (a) Audit committee: audit committee performs various functions which includes
 1. Scrutiny of intercorporate loans.
 2. Review of auditor independence and monitor his performance

3. Examination of financial statements and auditors report.
 4. Approval of related party transactions and for that purpose it can give omnibus approval and can also ratify RPT's
 5. Evaluating the internal financial control and monitoring the end use of funds raised to the public offer.
- (b) Nomination and remuneration committee: The NRC has the task to identify prospective people who are eligible to become directors and recommend their name to the board. Further it shall be responsible to formulate a policy on remuneration and at the same time which ensures that there is a balance between fixed and incentive pay and the remuneration is sufficient to retain and attract the directors of the quality required.
- (c) Stakeholder relationship committee: The committee addresses complaints related to share transfers, dividends, reports, and dematerialization, ensuring prompt resolution of shareholder and investor grievances. It promotes fairness in stakeholder treatment.
- (d) Corporate social responsibility committee: Formulate and recommend a Corporate Social Responsibility (CSR) Policy to the Board, outlining activities as per Schedule VII, propose the required expenditure, and regularly monitor its implementation through a transparent system for tracking CSR projects and programs.
- (e) Investment committee: Responsible for establishing the overall investment policy and operational framework for managing investment activities.

QUESTION 5:

Surabhi Pharmaceutical Ltd. is a listed company. The Board of the Company comprises of following : Mr. AG, Chairman (Executive) Mr. RS, Managing Director Mr. AR, Whole-Time Director Mr. DS, a Cost Accountant by profession, Nominee Director of XYZ Bank and Member of the Audit Committee Mr. UB, Practising Advocate (Independent Director) Mr. SP, retired Chairman of a Bank and Member of Audit Committee (Independent Director) Ms. KV, a practising Chartered Accountant and Chairman of Audit Committee (Independent Director) Due to certain personal issues, Ms. KV resigned from the directorship with effect from 01.04.2021. What immediate steps the Company should take to comply with the provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 with respect to composition of the Board and Audit Committee? (JUNE 2022) (5 MARKS)

Ans:

- (a) In accordance with SEBI (LODR) Regulations, 2015, if the Chairman of the Board is an Executive Director, then at least half of the Board must be Independent Directors.
- (b) In the instant case, the Board currently has 3 Executive Directors, 3 Independent Directors, and 1 Nominee Director.
- (c) Ms. KV, one of the Independent Directors, has resigned from the Board. With her resignation, the company no longer meets the required 50% composition of Independent Directors. To comply with the rules, the company must either appoint a new Independent Director to replace him or appoint a Non-Executive Director as the Chairman of the Board.
- (d) Since Ms. KV was also the Chairperson of the Audit Committee, her resignation affects the committee's composition too. Now, the Audit Committee has only one Independent Director and one Nominee Director, which does not meet SEBI's requirements.
- (e) To fix the composition of audit committee, the company should immediately appoint a new Independent Director who is financially literate and has experience in accounting or financial management, and Make the new Independent Director or Mr. SP the new Chairman of the Audit Committee.

QUESTION 6:

You are an extrovert Company Secretary possessing rich experience of more than a decade in providing professional advice on a diverse range of corporate and economic laws with special emphasis on best governance practices, risk management, principles and practice of environmental, social and governance, and corporate sustainability reporting. You are known for implementing governance and ethics into the very fabric of the client's organization, revising and re-framing the compliance framework, policies, processes in line with the corporate and local regulations and guidelines, exercising company's zero error and zero breach standards and contributing strategically to the achievement of business objectives and goals. You have recently been approached by 'Air Voice Limited' (shortly Air Voice), an unlisted Public Company, having its registered office at Pune. 'Air Voice' has provided the following data from its audited financial statements:

(₹ in Crores)

Financial year	Paid up share capital as on 31 st march	Turnover for the year ended	Aggregate of outstanding loans, debentures & deposits
2018-19	5	100	60
2019-20	5	110	55
2020-21	7	95	50
2021-22	7	90	45
2022-23	7	75	40

During the FY 2022-23, the liquidity of the Company was highly affected due to the brunt of stiff competition, wafer thin margins and due to Covid 19 pandemic. The aggregate outstanding loans, debentures and deposits increased from ₹ 45 crore as on 31st March 2022 to ₹ 60 crore as on 30th September, 2022 and dropped down to ₹ 40 crore as on 31st March 2023. There was no such increase in the aggregate of outstanding loans, debentures and deposits during the earlier financial years. Air Voice, which was obligated to constitute an Audit Committee in the Financial Year 2019-20 decided to dismantle it in the FY 2023-24. Now, taking into account the above inputs and in the light of the provisions of the Companies Act, 2013, examine:

- (i) Whether Air Voice Limited has complied with the provisions of the Act and the Rules made thereunder in dismantling the Audit Committee? **(3 MARKS)**
- (ii) What will be your answer in case Air Voice Limited is a subsidiary of Fast Voice Limited, a listed entity? **(2 MARKS) (JUNE 24)**

Ans:

- (i)
 - (a) According to Section 177(1) of the Companies Act, 2013:
 - (i) Every listed public companies;
 - (ii) Unlisted Public companies with paid-up share capital of ten crore rupees or more;
 - (iii) turnover of one hundred crore rupees or more; and
 - (iv) Outstanding loans, borrowings, debentures, and deposits exceeding fifty crore rupees.

Shall mandatorily constitute an audit committee.

- (b) In the instant case, the company was required to form an Audit Committee for the financial year 2018–19, as it had a turnover of ₹100 crore and total outstanding loans, debentures, and deposits amounting to ₹60 crore as of March 31, 2019.
- (c) However, for three consecutive years—2020, 2021, and 2022—the company did not meet the prescribed thresholds for paid-up share capital, turnover, and outstanding loans. Therefore, Air Voice Limited is not required to constitute an Audit Committee for the financial year 2023–24.
- (ii) Air Voice Limited, though a subsidiary of the listed company Fast Voice Limited, is not considered a listed company itself unless it is registered on a recognized stock exchange. Since it is not a wholly-owned subsidiary, it is not exempt from the requirement and must constitute an Audit Committee in accordance with the applicable rules.

QUESTION 7:

Why do companies set-up remuneration committee and what is its role in companies?

(JUNE 2015) (5 MARKS)

Ans:

(a) The Nomination and Remuneration Committee must be constituted by:

- (i) Every listed public company
- (ii) Every unlisted public company that meets any of the following:
 1. Paid-up share capital of ₹10 crore or more
 2. Turnover of ₹100 crore or more
 3. Outstanding borrowings exceeding ₹50 crore

Comprising of 3 or more non-executive directors out of which not less than one half independent directors.

Role of NRC is as follows

- (b) The nomination remuneration committee has the task to identify prospective people who are eligible to become directors and recommend their name to board.
- (c) Further the NRC shall be responsible to formulate the criteria for the evaluation of the performance of the board, independent directors and committees.
- (d) Further it shall be responsible to formulate a policy on remuneration and at the same time which ensures that there is a balance between fixed and incentive pay and the remuneration is sufficient to retain and attract the directors of the quality required.

- (e) Whether to extend or end the term of an independent director based on his/her performance
- (f) Make policies to ensure diversity in the board.

