

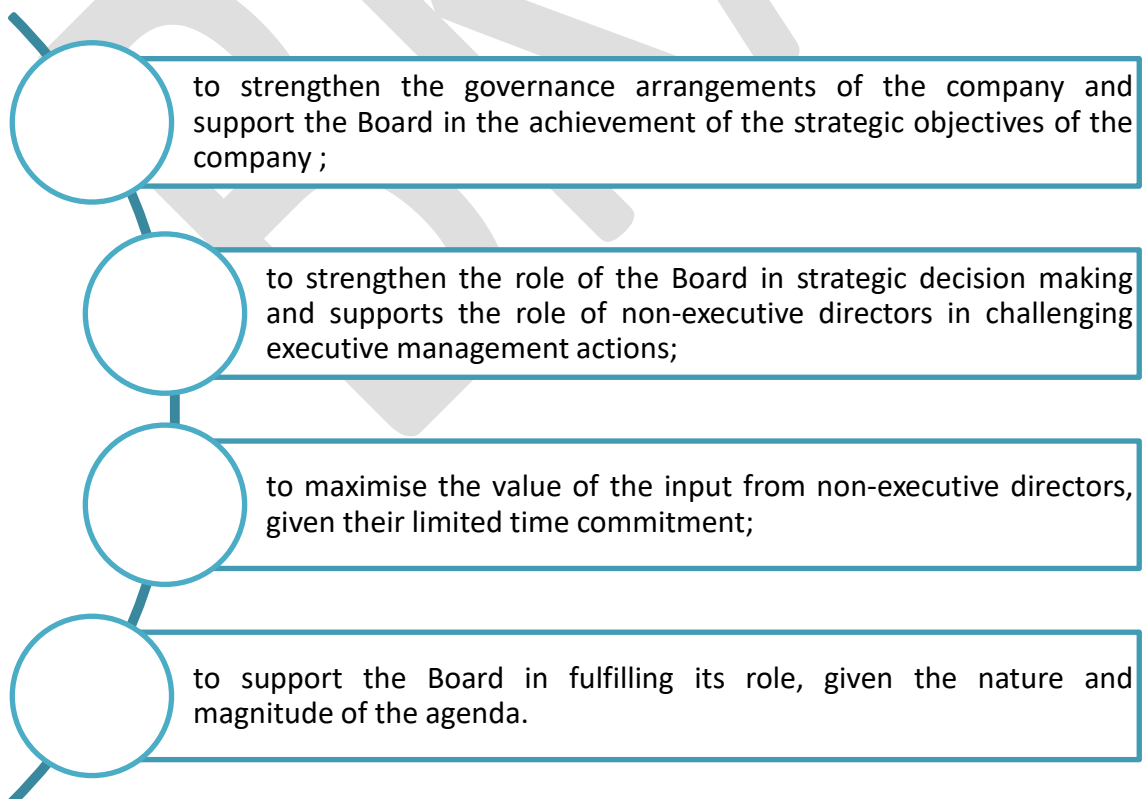


Inside the Boardroom: The Role of Committees for Effective Governance

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

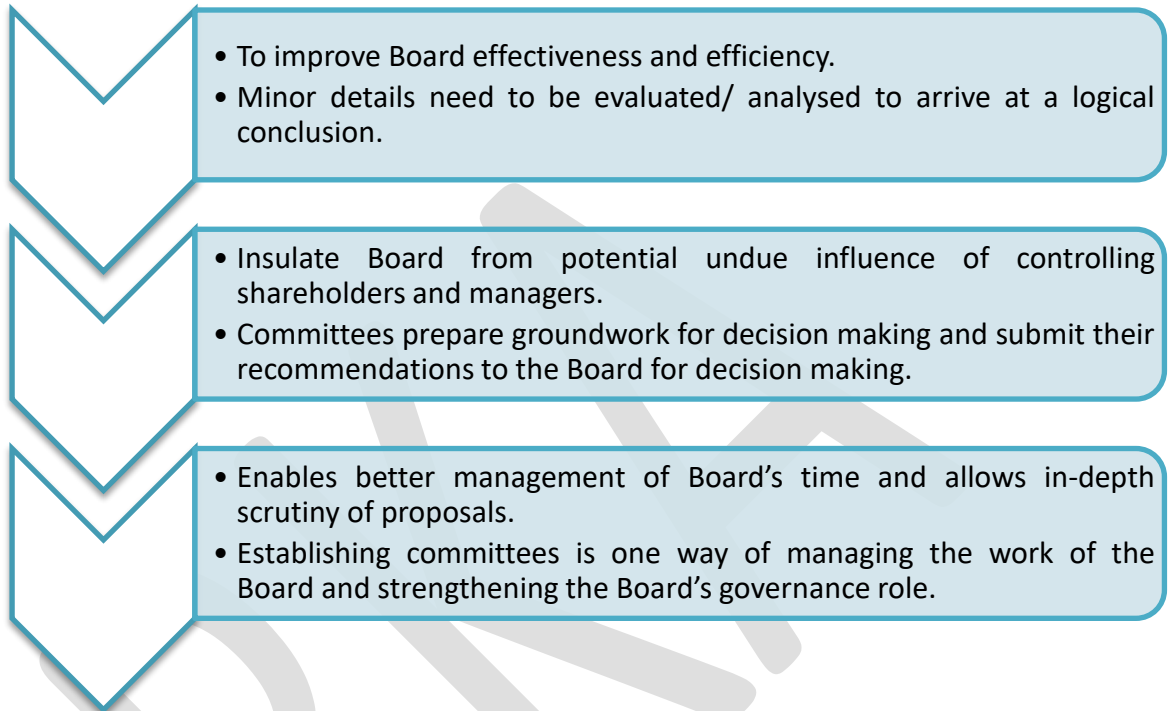
Regulation 2(1)(g) of the SEBI (LODR) Regulations, 2015 states that "Committee" shall mean committee of board of directors or any other committee so constituted. **Regulation 4(2)(f)(iii)(11)** states that when committees of the board of directors are established, their mandate, composition and working procedures shall be well defined and disclosed by the board of directors.

Committees thus have an important role-





Rationale behind Board Committees



Committee Management:

- ❖ Committees function in accordance with the terms of reference established by the 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 bylaws. 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.

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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.

Mandatory Committees:

As per Companies Act, 2013	As per SEBI (LODR) Regulations, 2015
Audit Committee Section 177	Audit Committee Regulation 18
Nomination and Remuneration committee Section 178 (1 to 4)	Nomination and Remuneration committee Regulation 19
Stakeholders Relationship Committee Section 178(5)	Stakeholders Relationship Committee Regulation 20
Corporate Social Responsibility Committee Section 135	Risk Management Committee Regulation 21

Audit Committee Section 177:

As per the provisions of the Companies Act, 2013

Constitution of Audit Committee – Section 177(1)

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The Board of Directors of following class of companies shall constitute an Audit Committee:

- Every listed public company, and
- Every unlisted public company, whose:
- Paid up share capital is 10 Crore rupees or more, or
- Turnover of 100 Crore rupees or more, or
- Aggregate, outstanding loans, debentures and deposits, exceeding 50 crore rupees.

Minimum Number of Director in Audit Committee – Section 177(2)

The Audit Committee shall consist of a minimum of **three Directors with independent Directors forming a majority**. Provided 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 – Section 177(4)

Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include:

- Recommendation for appointment, remuneration and terms of appointment of auditors of the company.
- Examination of the financial statement and the auditors' report.
- Review and monitor the auditor's independence and performance, and effectiveness of audit process.
- Scrutiny of inter-corporate loans and investments.
- Valuation of undertakings or assets of the company, wherever it is necessary.
- Evaluation of internal financial controls and risk management systems.
- Monitoring the end use of funds raised through public offers and related matters

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Approval or any subsequent modification of transactions of the company with related parties,

Provided that the 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;

Provided further that in case of transaction, other than transactions referred to in section 188, and where Audit Committee does not approve the transaction, it shall make its recommendations to the Board:

Provided also that in case any transaction involving any amount not exceeding 100 Crore rupees 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 three months from the date of the transaction, such transaction shall be voidable at the option of the Audit Committee 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.

Provided also that the 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.

Disclosure of Composition of Audit Committee in Board's Report – Section 177(8)

The Board's report under sub-section (3) of section 134 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.

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Nomination and Remuneration Committee Section 178 (1 to 4)

As Per the Provisions of the Companies Act, 2013

Nomination and Remuneration Committee and Stakeholders Relationship Committee – Section 178

Constitution of Nomination and Remuneration Committee – Section 178(1)

The Board of Directors of following class of companies shall constitute Nomination and Remuneration Committee, consisting of three or more non-executive Directors out of which not less than one-half shall be independent directors:

Every listed public company, and

- Every unlisted public company, whose:
- Paid up share capital is 10 Crore rupees or more, or
- Turnover of 100 Crore rupees or more, or
- Aggregate, outstanding loans, debentures and deposits, exceeding 50 Crore rupees.

Provided that the chairperson of the company (whether executive or non-executive) may be appointed as a member of the Nomination and Remuneration Committee but shall not chair such Committee.

Identification of persons to become Director -Section 178(2)

The Nomination and Remuneration Committee shall 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 and shall specify the manner for effective evaluation of performance of Board, its committees and individual Directors to be carried out either by the Board, by the Nomination and Remuneration Committee or by an independent external agency and review its implementation and compliance.



Eligibility Criteria for appointment of Director – Section 178(3)

The Nomination and Remuneration Committee shall 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.

Remuneration to Directors and KMPs – Section 178(4)

The Nomination and Remuneration Committee shall, while formulating the policy under sub-section (3) ensure that—

- (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:

Provided that such policy shall be placed on the website of the company, if any, and the salient features of the policy and changes therein, if any, along with the web address of the policy, if any, shall be disclosed in the Board's report.

Chairman to attend General Meetings – Section 178(7)

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



Stakeholders Relationship Committee Section 178(5):

As per the Provisions of the Companies Act, 2013

Constitution of Stakeholders Relationship Committee – Section 178(5)

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

Resolving the Grievances – Section 178(6)

The Stakeholders Relationship Committee shall consider and resolve the grievances of security holders of the company.

Chairman to attend General Meetings - Section 178(7)

The chairperson of the **Stakeholders Relationship Committee** or, in his absence, any other member of the committee authorised by him in this behalf shall attend the general meetings of the company.

Penalty for Contravention - Section 178(8)

Contravention by Company	5 lac Rs.
Contravention by Officer in default	1 lac Rs.

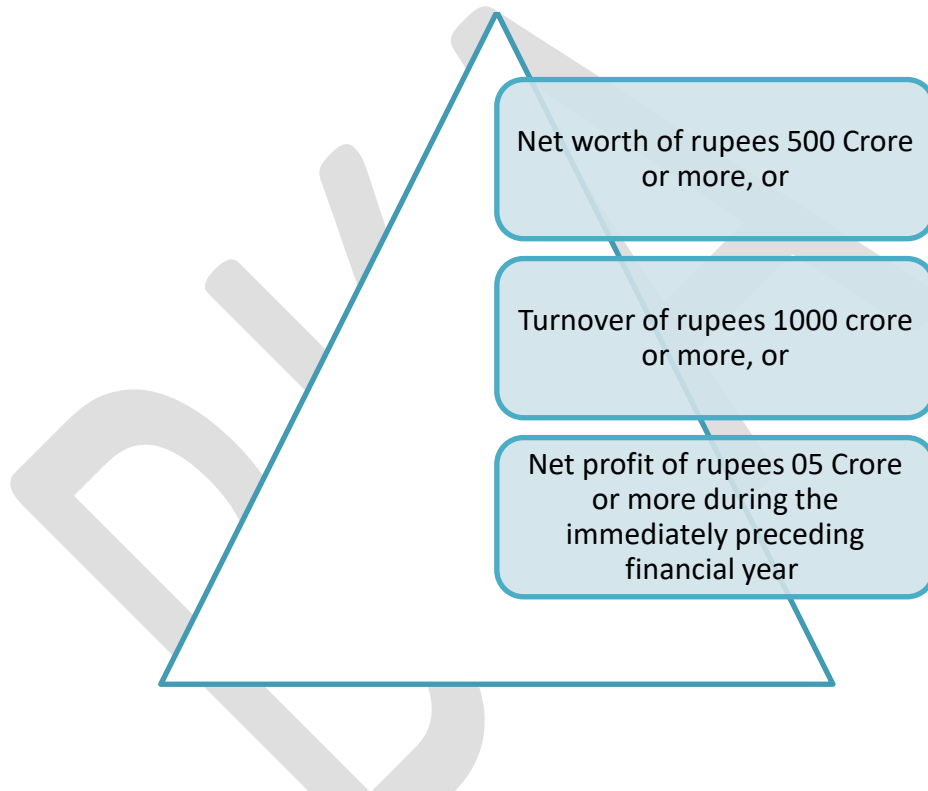
Provided that inability to resolve or consider any grievance by the Stakeholders Relationship Committee in good faith shall not constitute a contravention of this section.



Corporate Social Responsibility Committee (CSR Committee) Section 135

As per the Provisions of the Companies Act, 2013

Every company having-



shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more Directors, out of which at least one director shall be an independent director.

Provided that where a company is not required to appoint an independent director under sub-section (4) of section 149, it shall have in its Corporate Social Responsibility Committee two or more Directors.

Rule 3 of the Companies (Corporate Social Responsibility Policy) Rules, 2014 provides that every company including its holding or subsidiary, and a foreign company defined under clause (42) of section 2 of the Act having its branch office or project office in India, which fulfils the criteria specified in sub-section (1) of section 135 of the Act shall comply with the provisions of section 135 of the Act and these rules:

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Provided that net worth, turnover or net profit of a foreign company of the Act shall be computed in accordance with balance sheet and Profit and loss account of such company prepared in accordance with the provisions of clause (a) of sub-section (1) of section 381 and section 198 of the Act.

Provided further that a company having any amount in its Unspent Corporate Social Responsibility Account as per sub-section (6) of section 135 shall constitute a CSR Committee and comply with the provisions contained in sub-sections (2) to (6) of the said section

Disclosure of Composition of CSR Committee – Section 135(2)

The Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.

CSR Policy – Section 135(3)

The Corporate Social Responsibility Committee shall—

- (a) Formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company in areas or subject, specified in Schedule VII;
- (b) Recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and
- (c) Monitor the Corporate Social Responsibility Policy of the company from time to time.

Exemption from constituting CSR Committee – Section 135(9)

Where the amount to be spent by a company under sub-section (5) **does not exceed 50,00,000 rupees**, the requirement under sub-section (1) for constitution of the Corporate Social Responsibility Committee shall not be applicable and the functions of such Committee provided under this section shall, in such cases, be discharged by the Board of Directors of such company.

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As Per SEBI (LODR) Regulation, 2015

	<u>Audit Committee Regulation 18</u>	<u>Nomination & Remuneration Committee Regulation 19</u>	<u>Stakeholders Committee Regulation 20</u>	<u>Risk Management Committee Regulation 21</u>
<u>Composition</u>	<ul style="list-style-type: none">• The committee shall comprise of at least three directors• Two-thirds of the members of audit Committee shall be Independent directors.• In case of a listed entity having outstanding SR equity shares, the audit committee shall only comprise of independent directors.• All members of audit committee shall be financially literate and at least one member• shall have accounting or related financial	<ul style="list-style-type: none">• The committee shall comprise of at least three directors.• All directors of the committee shall be non-executive directors.• At least two-thirds of the directors shall be independent directors.	<ul style="list-style-type: none">• The Committee shall comprise of atleast three directors.• The committee shall have at least one independent director.• In case of a listed entity having outstanding SR equity shares, at least two thirds of the Stakeholders Relationship Committee shall comprise of independent directors.	<ul style="list-style-type: none">• The Risk Management Committee shall have minimum three members with majority of Them being members of the board of directors, including at least one independent director.• in case of a listed entity having outstanding SR equity shares, at least two thirds of the Risk Management Committee shall comprise independent directors.

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	management expertise			
<u>Chairperson</u>	<ul style="list-style-type: none"> The chairperson shall be an independent director. The Chairperson shall be present at Annual general meeting to answer shareholder queries. 	<ul style="list-style-type: none"> The Chairperson shall be an Independent director. Provided that the chairperson of the listed entity, whether executive or non-executive, may be appointed as a member of the Committee and shall not chair such Committee. The Chairperson of may be present at the annual general meeting, to answer the shareholders' queries; however, it shall be up to the chairperson to decide who shall answer the queries. 	<ul style="list-style-type: none"> The chairperson of This committee shall be a non-Executive director. The Chairperson of the Stakeholders Relationship Committee shall be present at the Annual general meetings to answer queries of the security holders. 	<ul style="list-style-type: none"> 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.

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	Secretarial Standard 2 prescribes that the Chairman of the Audit Committee, Nomination and Remuneration Committee and the Stakeholders Relationship Committee, or any other Member of any such Committee authorized by the Chairman of the respective Committee to attend on his behalf, shall attend the General Meeting.			
<u>Meetings</u>	The committee shall meet at least four times in a Financial year and not more than one hundred and twenty days shall elapse between two meetings.	The committee shall meet at least once in a Financial year .	The committee shall meet at least once in a Financial year .	The committee shall meet at least twice in a Financial year .
<u>Quorum</u>	The quorum for audit committee meeting shall either be two members or one third of the members of the audit committee, whichever is greater, with at least two independent directors.	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.		The quorum for a meeting of the Risk Management Committee shall be either two members or one third of the Members of the committee, whichever is higher, including at least one member of the board of directors in attendance. The meetings of the risk management committee shall be conducted in such a manner that on a continuous basis not more than one Hundred and

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				eighty days shall elapse between any two consecutive meetings.
<u>Role of Committee</u>	The role of the audit committee and the information to be Reviewed by the audit committee shall be as specified in Part C of Schedule II.	The role of the nomination and remuneration committee shall be as specified as in Part D of the Schedule II.	The role of the Stakeholders Relationship Committee shall be as specified as in Part D of the Schedule II.	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).
				The role and responsibilities of the Risk Management Committee shall mandatorily include the performance of functions specified in Part D of Schedule II.

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CONCLUSION:

- It is the board committees that ensure enforcement of corporate governance in the companies. A robust board of a company can contribute substantially in fostering best governance practices by ensuring compliance to various pertinent laws and regulations, resource management, accomplishment of organisational goals, holistic development of the human capital, prevent harassment of the workforce, embracing of ESG initiatives and so on and so forth. In view of this, various board committees both mandatory and non-mandatory holds massive importance.
- However, the size of the board committees and its composition also matters a lot in ensuring corporate governance that is the board members need to possess requisite expertise and experience in dealing with the matters of the concerned board committee and sufficient number of board members should be there in the committee to steer the process efficiently.
- Stakeholders both external as well as internal look up to the boards and their committees when it comes to safeguarding of their interests, sustainability and growth of a company, prevention of malpractices, betterment of the workforce, enforcement of safety measures at work stations etc. In view of this, board committees' needs to discharge their professional obligations impeccably.

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