

Roles & Responsibilities of Directors

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Board



- Important functions:
- Advising corporate strategy,
- Main plans of action,
- Policy on risk management,
- business plans – annual/periodical,
- oversight on main capital expenditures/acquisitions/disposal, misuse of assets and related party transactions
- Adherence with corporate law and regulations viz. accounting & financial reporting systems, internal & operational systems
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- Guiding for achieving Stake holders interest
- Corporate social responsibilities

Directors-CII Views



□ Independence of Directors

- Retention of authority to decide the criteria of independence to be with the board

Directors-Government Companies issues



- In case of Government Companies, the **designation of Chairman & Managing Director often merged** and hence the Chairman becomes inevitably an Executive Director.
- This calls for a **need of having 50% directors as Independent Directors** on the board of Govt. Companies. There is a need to resolve this issue.

Directors-Protection of independent Directors



- Clause 49 envisages a lot of responsibilities on the Audit Committee & Independent Directors with no inbuilt protection

Directors-Confidentiality issue



- how to ensure **confidentiality** by Independent directors.
- confidentiality agreement needs to be signed by each director.

Directors-Training of independent directors



- **Model of Training needs to be developed for training**
- **of Independent Directors in respect of:**
 - Role of Audit Committees
 - How to make board meetings more effective.
 - Independence a frame of mind-How to achieve it?
 - Basic parameters of Internal Control and Risk
 - Management Framework
 - Application of Laws & Regulations
 - Responsiveness in situation like fraud, handling of
 - Whistle Blower or any other unusual situation etc.

Directors-Members Attributes



- Key is **good understanding of the business** —including company's products, services, and industry
- **Willingness** to dedicate **substantial time** and energy
- Other relevant attributes
 - Extremely high **level of integrity**
 - Healthy **skepticism and courage** to challenge
 - **Inquisitiveness and independent judgment**
- Chair needs strong leadership qualities, objectivity, and ability to promote effective working relationships

Directors-Members Attributes



➤ Financial knowledge

- Good understanding of financial reporting
- Concern that “**financial experts**” may be subject to additional liability and “non-expert” members may over rely on them

➤ Independence

- Essential, because committee must be willing to **question management’s judgment** or challenge its position
- Regulators and various organizations have developed rules and definitions of independence

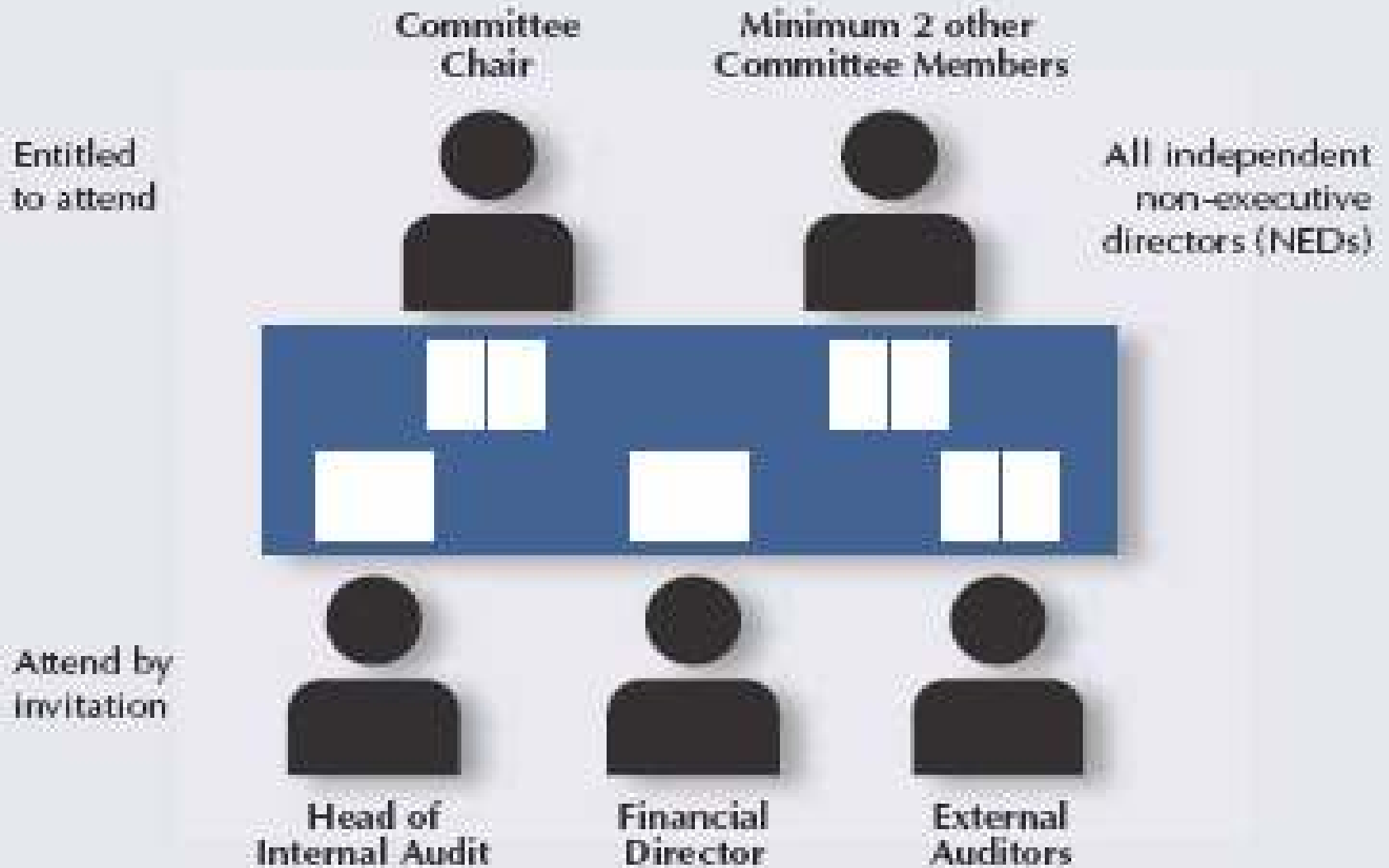
Directors :Codes of Conduct/Ethics



An effective approach to business ethics does much more than just state policies. An effective code of conduct framework consists of the following key elements:

- **Introductory Materials:**
 - Organizational mission statement
 - Letter from the CEO
 - Statement of values/organizational principles
 - General statement of compliance with laws and regulations
- **Ethical Conduct Policies:**
 - Statement of relevant values and the policy's positive intent
 - Clear statement of the policy
 - Brief examples of acceptable and unacceptable conduct
 - Consequences of misconduct to the organization and employees
 - Reference to specific policies
- **Compliance Administration:**
 - Ethics and compliance certification form
 - Directory of key contact persons
 - Links/references to related information
 - Compliance and ethics reporting procedures
 - Due process regarding ethics and compliance
 - Decision making assistance

Audit Committee



Audit Committee- Role of Audit Committee



Financial reporting

- Appropriateness of accounting policies
- Disclosure requirements
- Fairness and balance of MD&A/ operating review
- GAAP conversion

Risk management & internal control

- Understanding key risk areas
- Effectiveness of controls
 - Fraud risk

Audit committees: areas of focus

External audit

- Appointment and remuneration
- Scope of work
- Independence requirements
- Significant audit findings/ recommendations
- Reviewing the performance of external auditors

Internal audit

- Charter, authority and resources
- Scope of work
- Internal audit effectiveness
- Responses to internal audit recommendations

Maintaining & measuring effectiveness

- Training needs
- Maintaining financial literacy
- Annual performance evaluation of audit committee

Communicating & reporting

- Relations with management
- Updates & recommendations to the full board
- Reports to board and shareholders

Regulatory, compliance & ethical matters

- Effectiveness of system for ensuring compliance with laws and regulations
- Code of conduct/ethics
- Whistleblowing

Audit Committee- Why Audit committee matters?



Corporate reporting supply chain

Management

Board of directors

Independent external auditor and audit committee

Regulators, investors and other stakeholders

- Creating value
- Business processes
- Financial information and controls

- Setting policy
- Approve the financial statements
- Appointment of audit committee

- Review integrity of the financial statements and annual report
- Assurance to board of directors and shareholders

- Institutional and other shareholder involvement
- Balanced reporting by media and analysts
- Regulatory monitoring

Audit Committee- Six suggestions to improve audit committee effectiveness



- Getting a **grip on risk**
 - **Understanding** the business
 - **Injecting objectivity** into the reporting process
 - Overseeing the **C-suite**
 - Honing **effectiveness**
 - **Disclosing** what matters..
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- **Communication to the market ,the steps taken to improve audit effectiveness is equally important for assurance of the key stake holders.**

Audit Committee-Some Best practices



- **Financial reporting** -Effectiveness of oversight based on
 - Applying **robust knowledge** of company to **reviewing financial reports**
 - Understanding how **materiality** is evaluated, quantitatively and *qualitatively*
 - Understanding **significant accounting policies** as well as estimates and other areas where management applies judgment

Audit Committee-Some Best practices



- Committees can fully embrace the role of **overseeing risk management** by:
 - Understanding how risk management process is **tailored to company's specific needs**
 - Probing **whether process is ongoing** —not just at a point in time
 - Ensuring responsible individual has appropriate **stature, expertise, and time**
 - Meeting **periodically** with **chief risk officer**

Audit Committee-Some Best practices



- Many committees also **oversee compliance with laws and regulations**
- Leading practices:
 - Understand **design of program** and how its effectiveness is maintained
 - Understand **significant issues and management's investigation** and follow-up
 - Review **trends in compliance and management's plans** to address systemic issues
 - Meet **periodically** with chief compliance officer and chief ethics officer

Audit Committee-Some Best practices



- Challenge is **balancing** advising and counselling management with fiduciary duty to monitor and oversee management
- To **build trust, need strong, open communications** channels with senior management—continually, not just during meetings
- Establish **clear understanding and consensus** on where management's responsibilities end and committee's begin
- Management should **seek committee's input in advance of key decisions**

Audit Committee-Some Best practices- Charter



- Ensure board approves **written charter** and any changes
- Assess **annually and ensure all responsibilities** discharged
- Charter
 - Confirms **scope** of committee's duties and authority
 - Guides **agenda** setting for meetings
 - Provides checkpoints for **tracking activities**
 - Provides **important orientation information** for new members
 - Communicates to **shareholders**
- **Disclose** on company's website

Audit Committee-Some Best practices-evaluation



- Evaluate **committee performance** regularly by comparing activities against
 - **Charter**
 - **Leading practice**
- Assess **committee dynamics**, not only on *what* the committee does, but also on *how effectively* it functions
- Should be **robust**—not simply a “**check the box**” exercise
- Obtain feedback from **board, management, internal audit, general counsel, and external auditors**

Disclosure : Clause IV



- **(C) Boards disclosure-Risk management**

New

- Risk assessment & minimization procedure
- Periodical review
- Properly defined framework

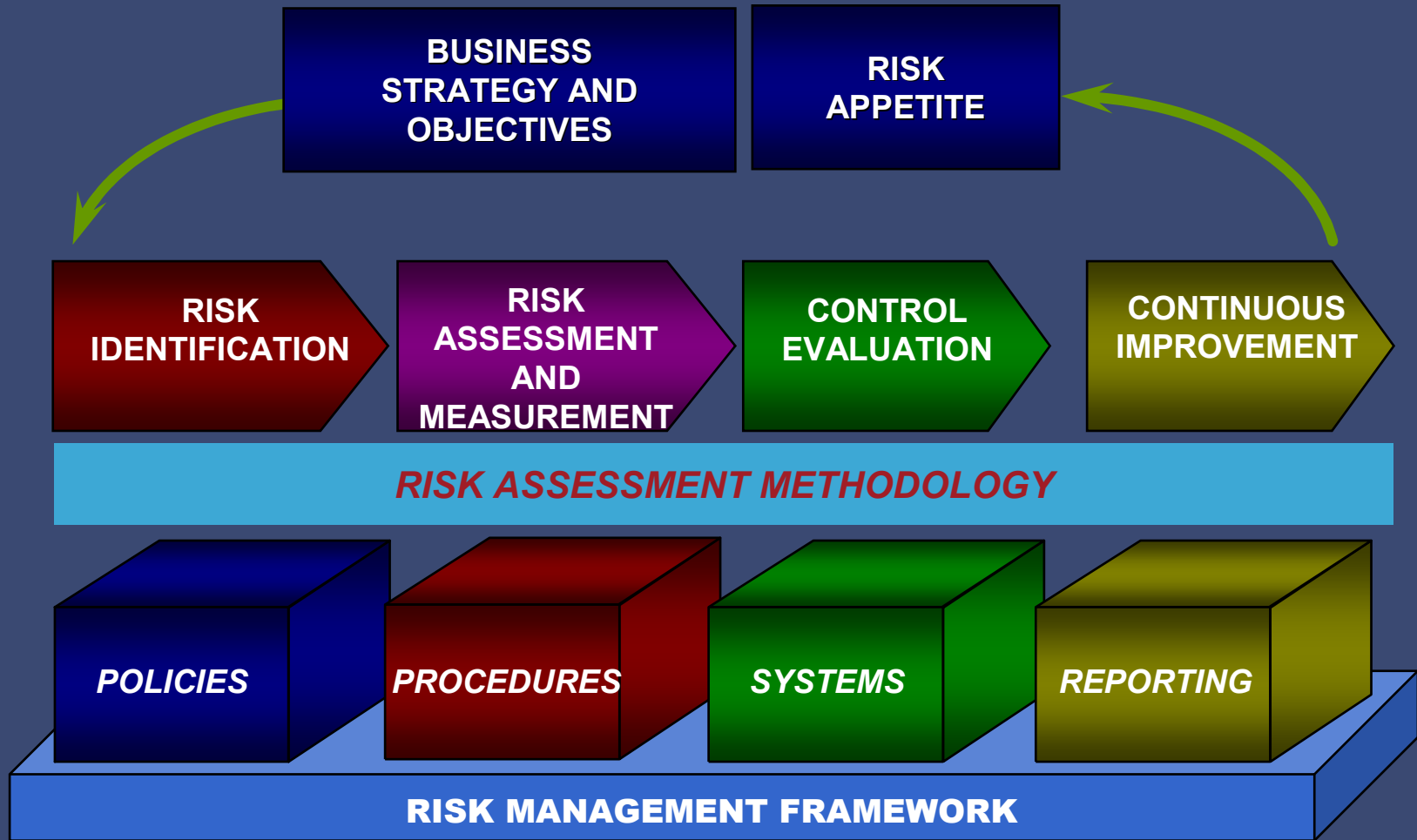
Why Risk Management?



Increased change ...



What Should Companies Do - Develop a Risk Management Framework



Clause 49 – Information to be placed before Board



- Annual operating plans, budgets and updates
- Quarterly results of company and its business segments

Clause 49 – Information to be placed before Board



- Minutes of the audit committee and other board committees
- Recruitment and remuneration of senior officers
- Appointment or removal of CFO and Company Secretary
- Show cause, demand, prosecution notices and penalty notices which are materially important
- Fatal or serious accidents, hazards, pollution issues and labor problems

Clause 49 – Information to be placed before Board



- Any material default in financial obligations to and by the company, or substantial non-payment for goods sold by the company
- Issues involving possible public or product liability claims of substantial nature
- Details of joint ventures and collaborations
- Transactions involving payment towards goodwill, brand equity and intellectual property
- Any materially significant sale of business and investments
- Foreign currency and other risks and risk management
- Any regulatory non-compliance

Management Discussion and Analysis contents



- Industry structure and developments
- Opportunities and Threats
- Segment-wise or product wise performance
- Outlook

Management Discussion and Analysis contents



- Risks and concerns
- Internal control systems and their adequacy
- Discussion on financial performance with respect to operational performance
- Material developments in Human Resources/Industrial Relations front, including number of people employed

CEO/CFO Certification



- They have reviewed the balance sheet and profit and loss account and all its schedules and notes on accounts, as well as cash flow statements and the Directors' Report
- The statements do not contain any materially untrue statement or omit any material fact nor do they contain statements that might be misleading
- The statements together present a true and fair view of the company, and are in compliance with existing accounting standards and/or applicable laws/regulations
- There are no transactions entered into by the company during the year which are fraudulent, illegal or violative of the company's code of conduct

CEO/CFO Certification



- They are responsible for establishing and maintaining internal controls and have evaluated the effectiveness of internal control systems of the company
- They have also disclosed to the Auditors and the Audit Committee, deficiencies in the design or operation of internal controls
- They have disclosed to the auditors as well as the Audit Committee instances of significant fraud, if any, that involves management or employees having a significant role in company's internal control systems
- They have indicated to the Auditors as well as the Audit Committee and in the notes to the accounts whether there were significant changes in internal control and/or of accounting policies during the year

Report on Corporate Governance



- Brief statement on company's philosophy on code of governance
- Board of Directors
- Audit Committee

Report on Corporate Governance



- Remuneration Committee
- Shareholders Committee
- General Body Meetings
- Means of communication
- General shareholder information

Report on Corporate Governance



- Disclosures on materially significant related party transactions that may have potential conflict with the interests of company at large
- Disclosure of accounting treatment if different from accounting standards, with explanation
- Details of non-compliance by company, penalties, strictures imposed on the company by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets during last three years
- Whistle blower policy and affirmation that no personnel has been denied access to the audit committee

Risk Assessment Methodology

For illustration purposes only

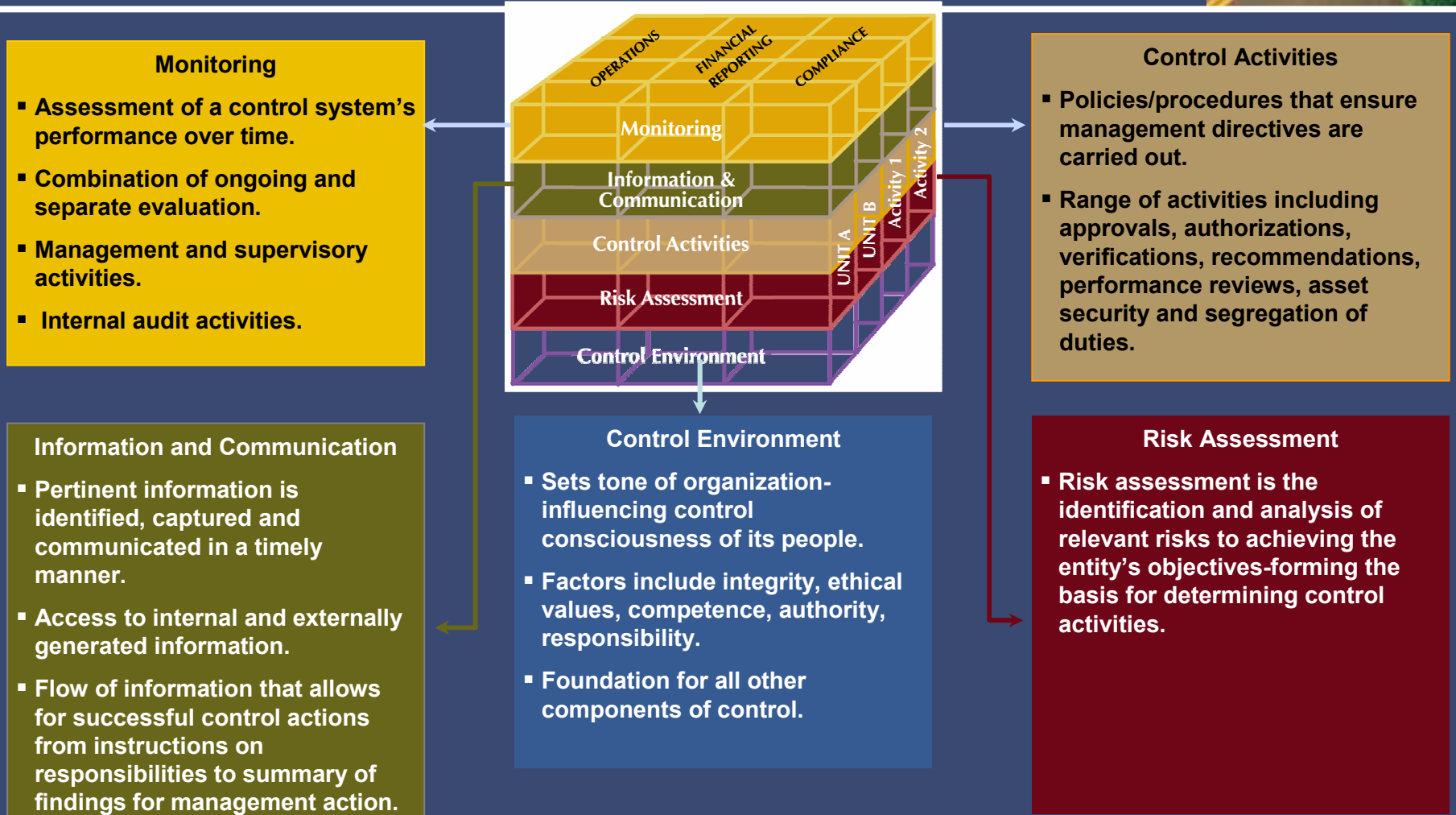
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		PROBABILITY					

	Not necessary to implement controls
1	Controls nice to have
2	Controls should be implemented to address risks
3	Risk must be fully mitigated



Final score based on simple average of exposure matrix number

COSO Framework



All five components must be in place for a control to be effective.





Thank You