CG Review 2009: India 101-500

A review of corporate governance practices at the mid market listed companies in India

March 2009



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About the study

The FICCI GT: India 101-500 CGR 2009 was designed to **analyze corporate governance practices at 'mid-market' listed companies in India.**

The review methodology was based on a survey to gauge the nature and extent of corporate governance practices and approximately 500 companies across various sectors were targeted to participate in the survey.

The respondents were asked to comment on specific aspects relating to corporate governance practices in their companies and their responses were collated and analyzed by FICCI and Grant Thornton. In addition, **views of strong advocates of corporate governance in India** were obtained on specific issues emanating from the survey and extracts from the same have been provided in specific chapters and also more fully covered in a separate section on "The experts' viewpoint" in this report.

To facilitate an effective analysis of the survey results, the respondents were **classified into five tier**s, based on their latest available annual revenues, as set out in the ensuing table.

Revenues	%
Less than Rs. 100 crore	**2**
Rs. 101 crore to Rs. 250 crore	**12**
Rs. 251 crore to Rs. 500 crore	**18**
Rs. 501 crore to Rs. 1,000 crore	**29**
Above Rs. 1,000 crore	**39**

A secondary classification, based on the **age profile** of the respondents' businesses has also been tabulated below:

Years of existence	%
Less than 5 years	**10**
5 to 10 years	**7**
Above 10 years	**83**

Though this review was commissioned by FICCI and Grant Thornton in October 2008, subsequent events have only gone to further corroborate the need for an **in-depth study** on corporate governance in India.

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Foreword

Welcome to our first review of corporate governance practices at India's mid market companies.

Surveys and discussions relating to corporate governance in India have typically tended to focus on the largest companies who are most visible in the market. However, implications of issues relating to corporate governance practices are equally if not **more relevant to the relatively smaller companies**, which are invariably ignored. To provide a ground level perspective on the substance, rather than the form, FICCI and Grant Thornton have undertaken a unique review - while targeting 500 companies outside the top 100 companies in India in this **FICCI GT: India 101-500 CGR 2009.**

Recent events involving an Indian technology major, have prompted questions and deep introspection on corporate governance practices in the country, as well as brought focus on aspects relating to disciples exercised by the **dominant shareholder**, accountability of the **management**, role of the **auditors** (external and internal), functioning of the **board** and **audit committee** and also the value of **ethical conduct** in business.

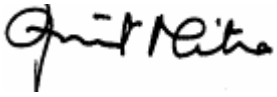
The spotlight is now firmly on (and is likely to continue to be in the near future) on key aspects of the governance framework, with particular emphasis on the audit and finance functions which have a **legal, moral and ethical responsibility** to identify and disclose aspects of any collateral agenda that has the potential to impact interests of stakeholders adversely. The focus is also on the rights and responsibilities that accompany a board position which clearly is vital, yet the role of which hitherto has often been perceived as a ceremonial one.

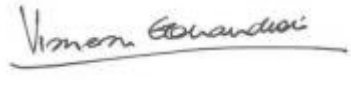
It has been recognized for some time, that although there is the duty of all directors to act in the best interests of the company, this is **not sufficient to give full assurance** that potential conflicts will not impair the board's decision-making.

The issues relating to corporate governance in India certainly require the active participation of forces outside the company, particularly **the regulators**. However, these cannot be the only pillars for effective implementation and need to be supplemented with ethical and effective management, through established controls, stringent mechanisms and above all a **clear mindset** that recognises the real value of good governance.

Though several committees have been constituted to make recommendations in this regard, the real issue relates to the practicality of these recommendations and the **extent of their implementation** in India.

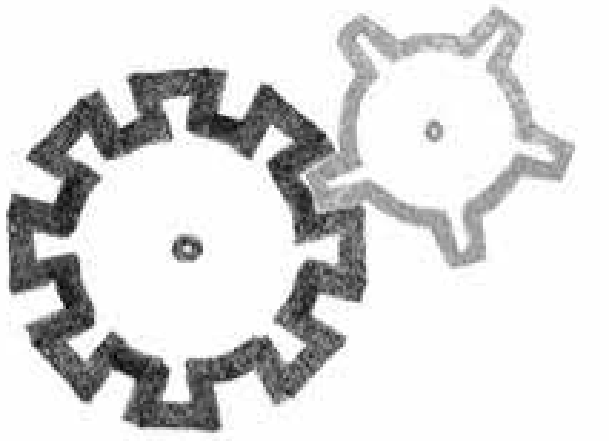
This report identifies and analyses the ground realities while also providing **fresh perspectives** associated with corporate governance practices in India. We hope that **FICCI GT: India 101-500 CGR 2009** will provide useful insights to all stakeholders.





Dr Amit Mitra
Secretary General
FICCI

Vishesh Chandiok
National Managing Partner
Grant Thornton, India



Global developments: an insight

Just as companies must remain aware of their respective markets, it is also important for them to **monitor the state of corporate governance in various territories** where they have their operations.

Corporate governance is regarded as an important aspect of a responsible business in every economy in the world and therefore it is no surprise to see **evolutionary changes to corporate governance** guidelines and recommendations that have been taking place in leading international financial marketplaces during recent years.

US

The US is in the **process of fully adapting** to AS5 issued by the PCAOB.

This standard establishes requirements and provides direction that applies when an auditor is engaged to perform an audit of management's assessment of the effectiveness of internal controls over financial reporting.

On 24 May 2007, the PCAOB adopted this standard and the same supersedes AS2 relating to "An audit of internal control over financial reporting performed in conjunction with an audit of financial statements". The SEC in the US approved AS5 on 25 July 2007, and this is effective for fiscal years ending on or after 15 November 2007.

In a related matter, on 20 June 2007, the SEC amended its regulations on SOX, resulting in the auditor being required to express a single opinion directly on the effectiveness of internal control over financial reporting in the auditor's attestation report, as opposed to two separate reports that were required previously. The SEC stated that the single opinion more effectively communicates the auditor's responsibility in relation to management's process for assessing the effectiveness of internal control over financial reporting and conveys whether management's assessment is fairly stated.

UK

In the UK, the Financial Reporting Council has made **changes to the Combined Code**.

The most significant of these included:

- removal of the restriction on the same person chairing more than one FTSE 100 company
- allowing the chairman of listed companies (other than those on the FTSE 350) to sit on their audit committees, provided they are deemed to be independent at the time of their appointment

These changes to the Combined Code have taken effect for fiscal periods beginning on or after 29 June 2008; and such changes can be interpreted as an indication that the current system is operating satisfactorily in the UK.

Mainland China

Mainland China took **an important step forward** with the release of a joint circular concerning the establishment of internal controls structures by China's MoF and various other regulatory bodies. The basic standard for Enterprise Internal Control was issued in May 2008 and this requires Chinese listed companies to address specific control factors by developing effective internal control policies and performing periodic assessments on the effectiveness of their control structures.

Though early adoption is encouraged, this standard will become effective on 01 July 2009 and will be supported by additional guidelines that the MoF is expected to issue. The guidelines are likely to:

- outline a process for properly evaluating the effectiveness of controls and assessing their weaknesses
- provide more specific control requirements for certain processes
- offer guidance for audit firms to perform their assessments and issue final audit reports



Australia

The ASX Corporate Governance Council approved more substantive changes in 2007 **affecting fiscal years that began on or after 01 January 2008**. The key elements from these changes include:

- renaming the principles of good corporate governance and best practice recommendations as corporate governance principles and recommendations, in order to reinforce the concept that there are various approaches to address corporate governance principles
- restructuring the original 10 principles into 8 and reducing the number of recommendations from 28 to 26
- changes to Principle 2: Structure the board to add value, while detailing relationships that should be considered when assessing whether or not a director is independent, instead of providing a standard definition. These changes also require an explanation for any such relationships that may exist if the director concerned is stated to be independent
- changes to Principle 7: Recognise and manage risk to refocus the approach for determining business risk by assessing both financial and non-financial factors. It also requires companies to disclose a summary of their policies over monitoring and managing material business risks; and it notes the responsibility of CEOs and CFOs to provide assurances to the board concerning the soundness of systems to address financial reporting risks

In June 2008, this council further revised its supplementary guidance for Principle 7: Recognize and manage risk, to provide additional direction for implementation.

Japan

To illustrate further the growing global parity and focus of corporate governance, Japan implemented its Financial Instruments and Exchange Law of 2006 for reporting **years that began on or after 01 April 2008**. Often referred to as J-SOX, due to its similarities with the SOX, this law presents requirements for sound corporate governance practices and other issues, in an effort to improve the accountability and transparency of publicly registered companies in Japan.

India

Three years have passed since the revised Clause 49 was institutionalised and though India has had one of the best governance laws, it is the implementation and monitoring of these which need further impetus.

However, as recent events have shown, the challenges being faced by in India are unique as they don't relate to **maintaining the interests of all shareholders.** The problem in the Indian corporate sector is that of protecting the minority shareholders. For corporate governance to be more effective there must be a realization that it is neither the title nor the name of the person alone, rather the individual's ability to introduce robust, informed challenges or **constructive tension, that truly adds value to the board.**

This survey also indicates that **the trend of improving governance practices is well recognised and Clause 49 has in a sense confirmed the way for Corporate India**. However, there are and will always be a few who see it as another regulation requiring management time and effort, as they continue to convince their independent directors on how their compliance requirements will be met with minimal effort.

Executive summary

Our review uncovers that corporate India sees **significant value in the adoption of the prescribed corporate governance** practices, with 84% of the respondents stating that compliance with Clause 49 enhances the perceptions of their stakeholders on the conduct of the company's business. This is possibly also an indication of the mindset of Indian companies **where stakeholders' perception is considered as an extremely important business driver.** To the extent that such considerations result in decisions that seek to enhance shareholder value, this is a positive sign.

An overwhelming majority of the respondents (68%) felt that **Clause 49 was adequate to bring requisite levels of transparency** in their business and a even larger proportion saw the benefits extending to improved processes and controls (84%), enhanced awareness of roles (74%) and better risk management (74%) in their companies.

While a relatively small proportion (9%) of the respondents were in the process of developing a suitable strategy to comply with Clause 49, approximately one third of the respondents (32%) believed that they did not need independent assurance on various initiatives undertaken by them internally, to achieve the desired levels of compliance. Possibly, this is also a reflection of a **relatively cautious and "wait and see" approach** that such companies would typically adopt to new regulations.

A majority of the respondents (53%) had supplemented such internal initiatives with external help on specific aspects such as those relating to assessment of controls, enterprise wide risk management, institutionalisation of a compliance framework and implementation of a code of conduct.

An overwhelming majority of the respondents (61%) felt that compliance norms should differ based on company size; and this will result in achieving the desired levels of governance in spirit rather than the letter of the law. This is possibly the strongest signal to the lawmakers that a "one size fits all" approach may not necessary yield the desired levels of compliance in India.

A majority of the respondents (56%) felt that an ideal board structure should have between 25% and 50% as independent directors. What appears to have come out strongly is that the bane of the issue relating to the availability of independent directors is in the process adopted by companies to appoint independent directors. **A majority of the respondents (56%) disclosed that they did not have a nomination committee to lead the process of appointing independent directors in their companies.**

While 66% of the respondents also felt the need for the development of a predetermined charter with specific KRAs for the members of the board and audit committees, 37% felt that their **companies could do more in terms of a formal and tailored induction program for their new directors.**

All respondents claimed that their board was meeting at least once every quarter and at regular intervals in accordance with the provisions of section 285 of the Companies Act. A large number (48%) disclosed that their board was meeting between 6 to 8 times in a year. Approximately 10% also claimed that their board had met more than 8 times in the previous year.

"Given the feedback and views received in this first effort, we plan to make this an annual exercise. In the process we also hope to develop appropriate benchmarks on Corporate India's progress towards strengthening its corporate governance practices as well as achieve the much needed convergence between multiple legal and regulatory bodies."



Sidharth Birla
Chairman, Corporate Laws & Legal Affairs Committee, FICCI

"Although corporate governance is the legal framework, the ethical framework and the moral framework within which business decisions are taken; the debate in India has largely revolved around the legal framework only.

Since there is no dearth of legislation relating to corporate governance, it is the latter two aspects which need more focus in India."

Monish Chatrath
National Markets Leader
Grant Thornton, India



However, the average time duration in these board meetings ranged from:

- from 0 to 2 hours in the companies of approximately 19% of the respondents
- from 2 to 4 hours for 53% of the respondents
- from 4 to 6 hours for 19% of the respondents
- more than 6 hours for 9% of the respondents

This shows that it is the **quality rather than quantity of such meetings** which needs to come up to the desired levels in India.

The survey also showed that the preparation time given to the directors for the board meetings was:

- upto 1 week in the case of the companies of 50% of the respondents
- upto 2 weeks in the case of 41% of the respondents
- in excess of 2 weeks in the case of only 9% of the respondents

In a contrast, the average duration of the audit committee meetings was:

- 0 to 2 hours in the case of the companies of 50% of the respondents
- 2 to 4 hours in the case of 40% of the respondents

The **average duration of the audit committee meetings in the case of only 9% of the respondents was in excess of 4 hours.** The preparation time given to members of the audit committees was on similar lines as the time given to board members.

However, **a majority of the respondents (66%) did not have a policy for rotation of the members of their audit committees.** In the case of approximately 1 in every 3 respondents (28%) the roles of the chairman and MD/CEO was played by the same person. Approximately one-third of the respondents also felt the need to prepare or modify or update a statement in their company policy relating to matters such as energy consumption, employment, recycling and waste management.

The issue of corporate governance and its implementation in India is also being seen in the light of the emergence of the Indian economy, as a global powerhouse. With greater integration within the global framework, Indian companies realise that they also need to be seen as being sound, ethical and transparent in their operations.

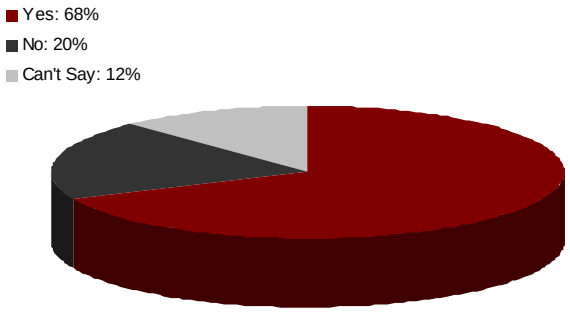
And it is not simply legislation that will facilitate greater adoption of good governance practices – it is softer aspects that need greater attention in India.

Detailed review – Clause 49

1. Do you feel that companies in India have benefited from Clause 49?

Guidance: SEBI monitors and regulates corporate governance of listed companies in India through Clause 49. This clause is incorporated in the listing agreement between stock exchanges and companies and compliance is mandatory for listed companies. The revised Clause 49 (institutionalized from 01 April 2006) covers a wide spectrum of governance related regulations including board composition and procedure, responsibilities of the audit committee, oversight of subsidiary companies, risk management, CEO/CFO certification of financial statements and internal controls, monitoring of legal compliance and other disclosures.

Figure 1



The original Clause 49 was issued by SEBI in February 2000. All Group -A companies (as defined by SEBI then) had to comply with its provisions by 31 March 2001. All other listed companies with a minimum paid-up capital of Rs.10 crore and net worth of Rs.25 crore had to comply by 31 March 2002 and the remaining listed companies with a minimum paid-up capital of Rs.3 crore or net worth of Rs.25 crore had to comply by 31 March 2003.

Subsequently, on 29 October 2004, SEBI amended the original Clause 49 and issued a new circular which laid down a tighter qualification criteria for independent directors. Another important difference was that while the original clause gave the board the freedom to decide whether a materially significant relationship between director and the company affected his/her independence, the new clause took this discretionary power away from the director. There were several other recommendations in the revised Clause 49 which were refinements of the older version.

However, the debate regarding the 'independence' of a director has continued and this poses a serious question (as recent events have shown) - what would happen to the decisions taken by the board, if subsequently it is found that an independent director was not actually independent.

Notwithstanding the debate, the survey demonstrated that **Corporate India has immense faith in Clause 49, to bring about complete transparency** and enhanced governance standards. This is **reflected by 68%** of the respondents who believed that it has contributed strongly towards ensuring transparency in their company's operations.

"We do not need any additional guidelines for corporate governance in India. Clause 49 provides adequate guidelines in this respect and the real problem comes when these are followed in form only. To my mind the extent of implementation of the non mandatory clauses show the extent of the adoption of corporate governance guidelines in spirit."

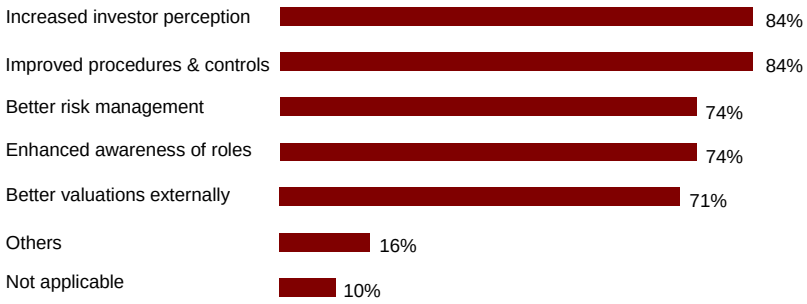
Prasad R Menon
MD, Tata Power Company Ltd

2. What is the nature of the benefits derived by complying with the Clause 49?

Guidance: Transparency, disclosure and independence are three pillars of good governance.

These are being sought to be achieved by Clause 49 through measures like composition of board, disclosures on risk management and compliance, responsibilities of the audit committee, related party transactions and CEO/CFO certification of internal controls over financial reporting.

Figure 2



The overall reaction of the respondents on **benefits from Clause 49 is clearly positive**. 84% of the respondents view the regulation as a means to formalise procedures and internal controls, while 74% see this bringing about greater transparency (in terms of highlighting the importance of specific roles) and a similar proportion (74%) see value in the form of improved risk management in their companies.

For an enterprise risk management initiative to be effective, the same has to have clear deliverables that are monitored, or else this could end up as a mere compliance exercise. The annual report should present a comprehensive discussion on major risks facing the company. These should include risks like client and geographic concentration, employee retention, foreign exchange movements, etc. It is also important to visualise that each of these risks will have clear action plans and metrics within the company that help in their management. More than metrics, what differentiates an effective risk management process from others is its seamless integration with the company's internal planning and target setting processes. Or else companies run the peril of the risk management process being seen as a time-consuming and superfluous activity.

71% of the respondents view Clause 49 as an **opportunity to enhance the valuations of their companies** by demonstrating good governance practices. Then there are also a few who see it as another regulation and are in the process of evaluating the costs of compliance.

At the same time a large number of the respondents (84%) stated that **compliance with Clause 49 would enhance their stakeholder's perception** (which includes better business valuations). This is possibly also an indication of the mindset of Indian companies where stakeholders' perception is considered an extremely important business driver. However, if such efforts are solely towards visible positioning of compliance (in form rather than the substance) then this defeats the spirit of Clause 49. Yet to the extent that such considerations result in decisions that seek to enhance the business value, this is a positive sign.

Creating value would call for adopting the principles of good governance in spirit rather than the letter. This is something that cannot be achieved by regulation or monitoring but has to come from within.

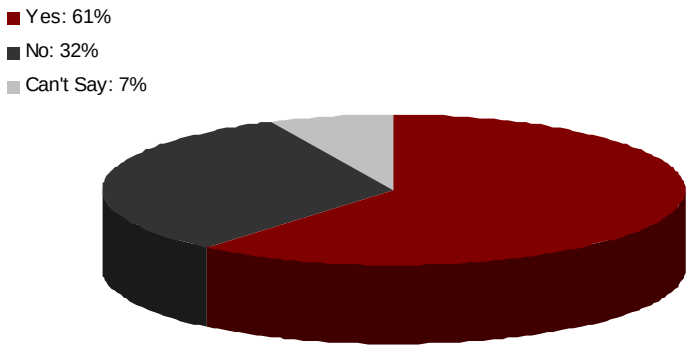
"For Clause 49 to have a greater impact, the monitoring framework needs to be strengthened. In this respect, there is a need for convergence of the ROC, SEBI, ICAI and the Ministry of Company Affairs on matters relating to compliance. One of the major issues being faced today is the overlapping of their roles and inadequate empowerment."

Sudhamoy Khasnobis
MD & CEO, ARCIL

3. Do you think SEBI should create different Clause 49 compliance levels on the basis of the market capitalisation of the company?

Guidance: Clause 49 applies to companies seeking to list (at the time of seeking in principle approval) and existing listing companies with a paid up share capital more than Rs. 3 crore or net worth more than Rs. 25 crore (at any time in the history of the company). As per Clause 49, there needs to be a separate section in the annual reports of companies with a detailed compliance report on corporate governance. Non-compliance of any mandatory provision of this clause with reasons thereof and the extent to which the non-mandatory provisions have been adopted, needs to be specifically highlighted in the report on corporate governance.

Figure 3



The majority of the respondents (61%) felt that the **compliance norms for Clause 49 should vary for companies, based on their size and age**. The existing Clause 49 does not make such a distinction and this is possibly one of the reasons why the compliance in substance, is not at the desired levels in India.

In the US, SOX had categorized companies based on their market capitalization, where companies with relatively smaller market capitalization were given relaxation in terms of the timelines for compliance requirements.

This is one aspect which may need further introspection by the regulators in India. Directors are appointed by the shareholders who are the owners of the company and it becomes important for those concerned with the evaluation of governance to do so with common sense in order to promote partnership and trust based on mutual understanding. This is where regard may need to be given to a company's individual circumstances – in particular the size and complexity and the nature of risks the company faces. Whilst SEBI has every right to challenge departures from mandatory compliance requirements, it is important for this not to be evaluated in a mechanistic manner.

At the same time there are requirements which require the board to review the status of the company's compliances with applicable laws and regulations in all jurisdictions where the company operates in. It may be noted that there are presently dozens of laws in India and this poses a practical challenge for companies in terms of compliance.

Regulators need to also consider that what India needs is practical legislation and not more legislation before they seek full compliance in spirit.

"Clearly a one size fits all approach would not work in any country. However it is not the basis for making distinctions on compliance matters that alone will drive success. If the management or promoters themselves lack the mindset to adopt corporate governance as a religion, no distinction will serve to achieve the desired levels of compliance."

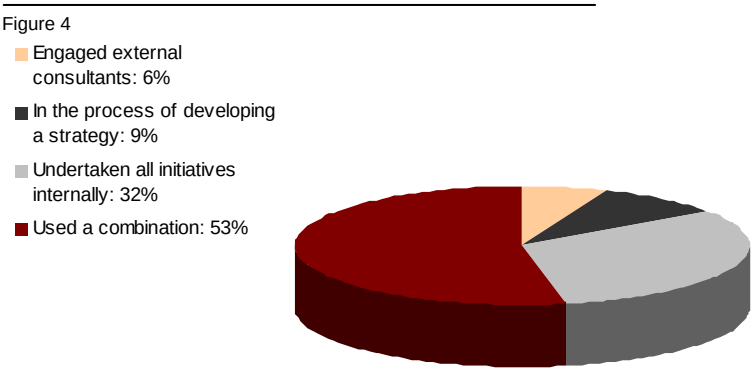
Nawshir Mirza
Professional Independent Director



4. How has your company gone about ensuring compliance with Clause 49?

Guidance: As per clause 49, the CEO and the CFO are required to make certain certifications to the board about the financial statements, internal controls, fraudulent and illegal activities. The company is also required to lay down procedures to inform board members about the risk assessment and minimization procedures. These are typically areas where the management seeks external guidance and support.

Figure 4



The CEO (the MD or Manager appointed in terms of the Companies Act) and the CFO (the whole-time Finance Director or any other person heading the finance function discharging that function) need to **make certain certifications to the board,** relating to (a) the financial statements and the cash flow statement for the year; (b) the likely omission of any material facts or statements that might be misleading in the financial statements; (c) compliance with existing accounting standards, applicable laws and regulations; and (d) transactions entered into by the company which are fraudulent, illegal or in violation of the company's code of conduct.

Both the CEO and CFO are required to accept responsibility for establishing and maintaining internal controls and the evaluation of the effectiveness of the internal control systems. They are also required to disclose to the auditors and the audit committee, deficiencies in the design or operation of internal controls of which they are aware and the steps they have taken or propose to take to rectify these deficiencies. In addition, they are required to indicate to the auditors and the audit committee the significant changes in internal control and compliance with accounting policies during the year, instances of significant fraud of which they have become aware and the involvement therein of the management or of an employee having a significant role in the company's internal control system.

The management is also required to lay down procedures to inform the board about the risk assessment and minimisation procedures within the company. Such procedures are required to be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

The management and board typically seek external help and assurance over systems, processes, controls, risk management, development and institutionalization of a code of conduct, establishment of a whistle blowers policy framework and assessment of their compliance levels with respect to Clause 49.

The survey showed that a relatively small proportion (9%) of the respondents were still in the process of developing a suitable strategy to comply with Clause 49. At the same time, approximately one third of the respondents (32%) believed that they did not need an independent assurance on various initiatives undertaken by them internally, to achieve the desired levels of compliance. Possibly, this is also a **reflection of a relatively cautious and "wait and see" approach** that such companies would typically adopt to new regulations.

A majority of the respondents (53%) though, had supplemented such internal initiatives with external help on specific aspects such as those relating to **assessment of controls, enterprise wide risk management, development of a code of conduct, assessment of the compliance framework and implementation of good governance practices.**



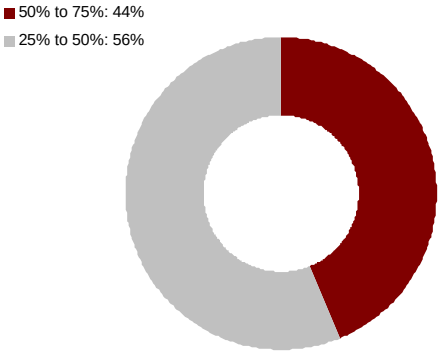
Detailed review – presence of independent directors on the board

5. What is the ideal proportion of independent directors in a board?

Guidance: Clause 49 requires 50% of the board to be independent if the chairman in an executive director and one-third of the board to be independent if the chairman is a non executive director. There has been a recent amendment (April 2008) to Clause 49 which requires half the board to comprise independent directors if the chairman is the promoter or is related to promoters occupying management positions at the board level or at one level below the board.

Though the term "independent director" has not been specifically defined in the Companies Act, the proposed Companies Bill addresses this aspect and provides for one third of the board of listed (and other specified companies) to be independent

Figure 5



Clause 49 seeks to establish an 'ideal board' and the powers entrusted with the board, to achieve the desired objective of ethical practices and transparency.

The board is required to have an optimum combination of executive and non-executive directors with not less than 50% comprising non-executive directors. Where the chairman of the board is a non-executive director, at least one-third of the board should comprise of independent directors and in case he is an executive director, at least 50% of the board should comprise of independent directors. The proposed Companies Bill does not make the distinction based on the status of the chairman and to this end there is a need for consistency between Clause 49 and the proposed Companies Bill.

Though Clause 49 defines independence on the basis of a material pecuniary relationship, the same is left for the director's judgment and for them to disclose. The proposed Companies Bill on the other hand seeks to define materiality on the basis of the company's turnover, though there appears to be a need to also evaluate independence on the basis of materiality vis-à-vis the said individual's income. In this context, the regulators may also consider the proportion of the individual's income that arises from the company where he/she is a director.

A majority of the respondents (56%) felt that **an ideal board should consist of 25%-50% independent directors, while also recognising that true governance on the board is not achieved through numbers (of independent directors) alone.**

"Independence is a state of mind and unless the inclination to adhere strictly with principles of corporate governance comes from within, no matter what the composition is, the board will never be independent in practice."

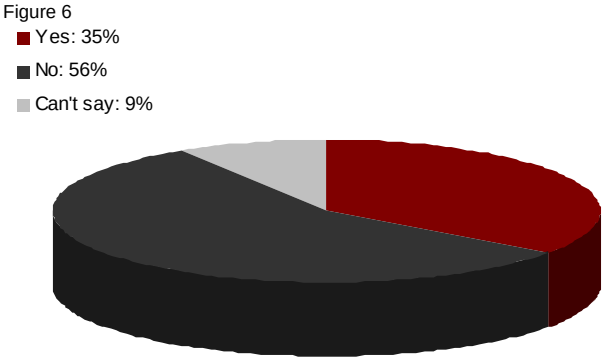
Nawshir Mirza
Professional Independent Director

6. Does a nomination committee lead the process of appointment of directors in your company?

Guidance: Though there is no mandatory requirement for nomination committees in India, some other countries like the UK have provided guidance on the role of a nomination committee (comprising independent directors) in screening, selecting and recommending directors for appointment.

Sections 252, 253, 254, 255, 256, 257, 259, 260, 262, 263, 313, 263, 264, 265, 267 and 269 of the Companies Act deal with some significant provisions relating to the appointment of directors.

Figure 6

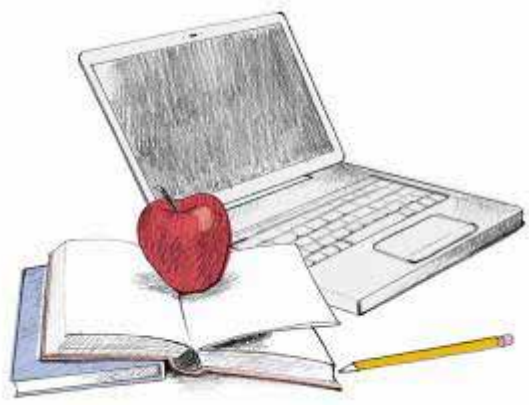


Good governance principles envisage a**ppointments to the board to be made on merit and against objective criteria**. In this context, care needs to be taken to ensure that appointees have enough time available to devote to this role. This is where a nomination committee can play an important role by leading the process for board appointments and making recommendations to the board for its constitution.

Unfortunately, unlike countries like the UK, there is little recognition in India of the requirement to have a "nomination committee" for board appointments. Ironically, it is in India where the debate has focused on the availability of the requisite number of independent directors for board appointments and the need for an objective process to facilitate the same.

The survey shows that majority of the respondents (56%) **do not have a nomination committee to lead the process of identifying and appointing directors.** Possibly, the general practice has been for the promoters to identify people known to them or with whom they have comfort levels or otherwise people who are known personalities and can thus enhance the visible creditability of the board. This naturally restricts the choice to a relatively small segment and explains why the second most populated country in the world has been voicing **a problem with numbers when it comes to finding independent directors.**

An objective nomination committee can ensure the right balance on the board (a factor which if not suitably ensured can lead to corporate failure) and perhaps the current financial crisis will help executives realise the impact of critical insights that can be provided by having a suitably balanced combination of independent and executive directors on the board.

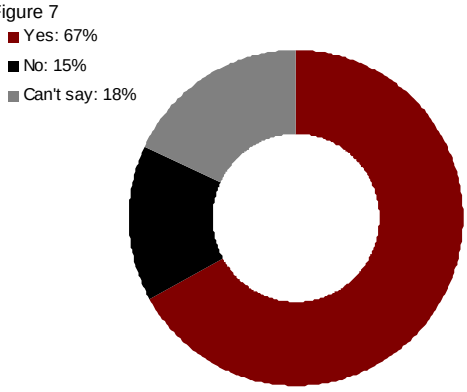


Detailed review – working of the board and the audit committee

7. Do you feel the need for a pre-determined charter with KRAs for the board and the audit committee?

Guidance: This is a non-mandatory provision in Clause 49. However, the roles and powers of the audit committee have been specified with certain mandatory requirements in Clause 49.

Figure 7



Clause 49 establishes a framework for the working of the board, the independent director and the audit committee. However, this is open to some interpretation and the judgment of the company which may determine the course of working (if it chooses to) of the audit committee.

The respondents have **voted strongly (67%) in favor of having a pre-determined charter as well as a pre-set of KRA's for the board and the audit committee.** This demonstrates the importance of establishing baseline objectives and a framework within which the efficacy and the efficiency of the board and the audit committee can be clearly established, and subsequently measured.

In this process, there is a role for the nomination committee who as a good practice, should prepare a description of the roles and capabilities required for appointments to the board and the audit committee.

The main roles and responsibilities of the audit committee should also be set out in written terms of reference and these should not only cover the mandatory aspects specified in Clause 49 but also address other good practices like an independent and direct review of the performance of the finance and internal audit functions.



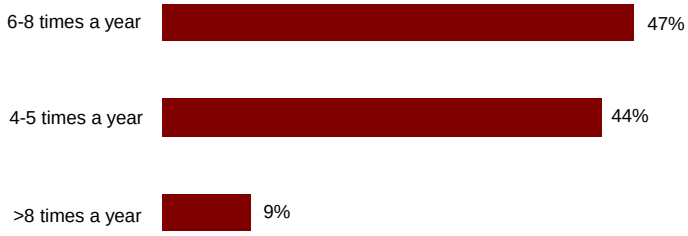
8. In your company, how frequently does the board of directors meet in a year?

Guidance: Clause 49 requires the board to meet 4 times in a year with maximum gap of 3 months between 2 consecutive board meetings.

The Companies Act requires 1 board meeting to be held every quarter and at least 4 such meetings in a year.

The proposed Companies Bill requires the board to meet 4 times in a year with a gap of not more than 120 days between two consecutive meetings.

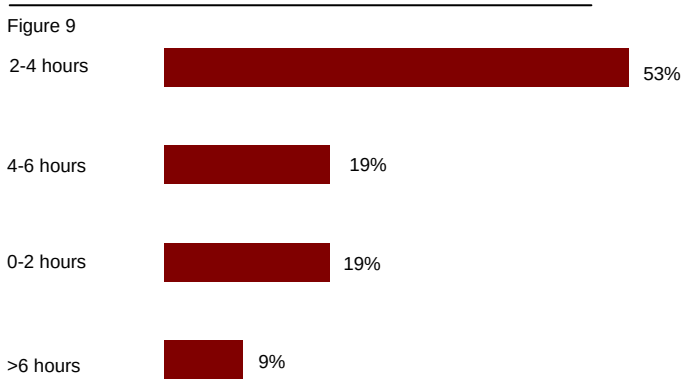
Figure 8



9. What is the average duration of the board meetings?

Guidance: No specific guidance has been provided.

Figure 9



Clause 49 of the listing agreement has addressed the issue of "time spent" and broadly touched upon aspects relating to "preparation" of the board. The board is required to meet at least 4 times a year, with a maximum time gap of 3 months between any 2 consecutive meetings.

Further, there is a minimum amount of information to be made available to the board, for the purpose of discussion and analysis during the board meeting. This includes information on annual operating plans and budgets, quarterly results, details of meetings of the audit committee (including proceedings and minutes) and details of new recruitments at the senior management level. In addition, the board also needs to be provided details of "key issues" which can have negative implications on the company.

The survey endeavored to identify the importance given to board meetings as well as the preparation of the directors for board meetings.

We observed that all respondents were confident of their company's ability to comply with the minimum legislative requirements for the frequency of board. A large proportion (56%) disclosed that these boards have had over 6 meetings in the past year.

As for the time spent (per board meeting), 53% of the respondents stated that their board meetings usually lasted between 2-4 hours in their company.

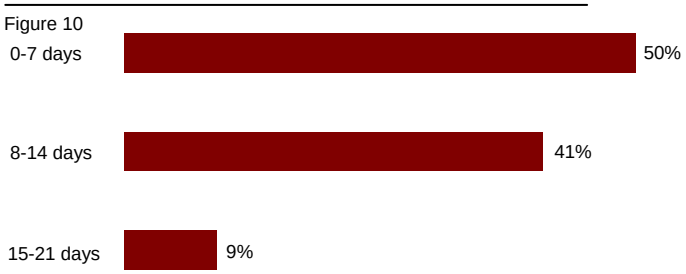
Clearly, it is very difficult for the board to do full justice to all aspects associated with their roles in short duration meetings. However the real issue lies in the quality of discussions in these meetings.

This is where the survey showed that **only 28% of the companies had board meetings with a duration of 4 hours or more** while the rest had a relatively shorter average duration of their board meetings.

10. In your company, how much in advance of the board meeting, is the agenda with relevant backup material shared with the board members?

Guidance: Section 286 of the Companies Act covers the requirement of sending a notice along with the agenda in advance of the board meeting. However, no stipulated time is prescribed for sending this notice to the directors. The proposed Company Bill has prescribed a minimum time of 7 days for the agenda and notice to be sent to the directors.

Figure 10



Presently, Section 286 of the Companies Act governs the requirements relating to the notice and agenda of the board meeting. As per this section, no time limit is stipulated for sending the notice and the agenda thereof. However, the proposed Companies Bill has recommended "*a 7 day prior notice*" for the same.

The Secretarial Standard-1, on "Meetings of the Board of Directors", issued by the Institute of Company Secretaries of India also broadly lays down the procedural requirements for conducting board meetings. This requires at least 15 days prior notice of the meeting and at least 7 days notice for the agenda of the same.

Presently, this standard is recommendatory in nature; however this will become mandatory once the proposed Companies Bill is enacted.

The survey results suggest that board members should be given more "preparation time" ahead of the meetings. The board usually has a tight and formally mandated agenda, with very little scope for deliberation and critical discussions on matters, which may not be part of the original agenda. This can result in inadequate time being spent by the board to discuss matters such as future strategy, value creation, talent management, etc.

In order to do full justice to the agenda and their role, directors need to come well prepared for the board meetings. However, a half of the survey respondents stated that their board was generally provided the agenda with the relevant backup material in a period between 0 and 7 days before the board meeting.

It was **only in the case of a small section (9%) where adequate preparation time, in excess of 14 days** was given to the directors.

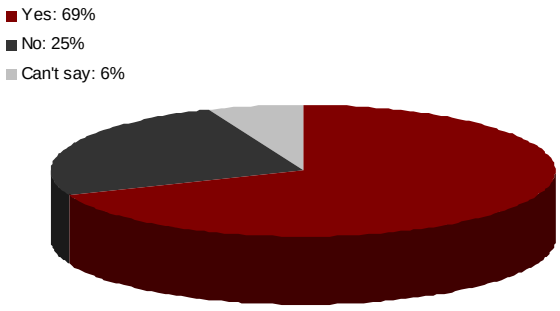
"It is important for the non-executive directors to spend more quality time with the company rather than restricting their interactions to only the board or committee meetings. They should also make suggestions for the agenda for the board meetings and this will facilitate an effective utilisation of time in these meetings."

Santosh Kumar Nair
Head of Business Risk Services
Grant Thornton, India

11. Based on your experience, are you satisfied with the outline of the current role and responsibilities of members of the board of directors of companies in India?

Guidance: There is a broad reference to the responsibilities of the board in Clause 49. In addition a note on the powers of the board is provided in Section 292 of the Companies Act.

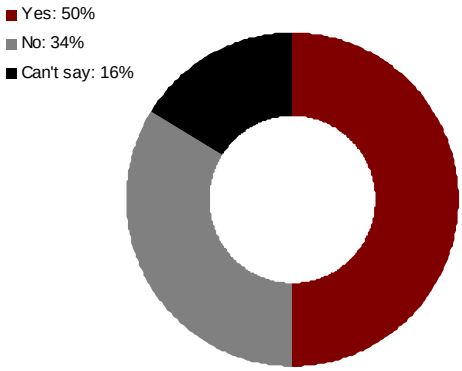
Figure 11



12. Do you think that boards in India need additional responsibilities and consequent powers to make a significant impact?

Guidance: Same as for Q11.

Figure 12



Upon being asked to rate the 'functioning of the board' and its relative performance, **69% of our respondents rated the same as satisfactory, for their companies.** At the same time, 25% of the respondents believed their boards could do better in terms of demonstrating their roles and responsibilities.

Half the respondents also felt the need to provide the board with additional responsibilities and consequent powers to enable them to discharge their roles more effectively. While the powers of the board are currently very broad in theory, the responses of the respondents **indicate a need for greater clarity on aspects** which would make the board more independent from the promoters on one part and the management on the other.

"FICCI supports the need for greater clarity on the role, responsibilities and obligations of independent directors."

Sidharth Birla
Chairman, Corporate Laws & Legal Affairs Committee, FICCI

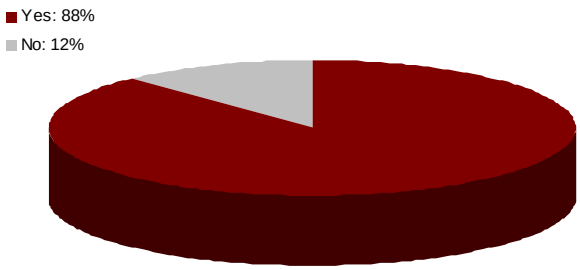
Detailed review – relationship of the director and the company

13. Are the directors of your company involved in business planning and strategy formulation?

Guidance: Clause 49 requires the company to lay down procedures by which the board is informed of the risk assessment and minimization initiatives in the company. These procedures are required to be reviewed periodically by the company.

The proposed Companies Bill defines specific duties of the board.

Figure 13

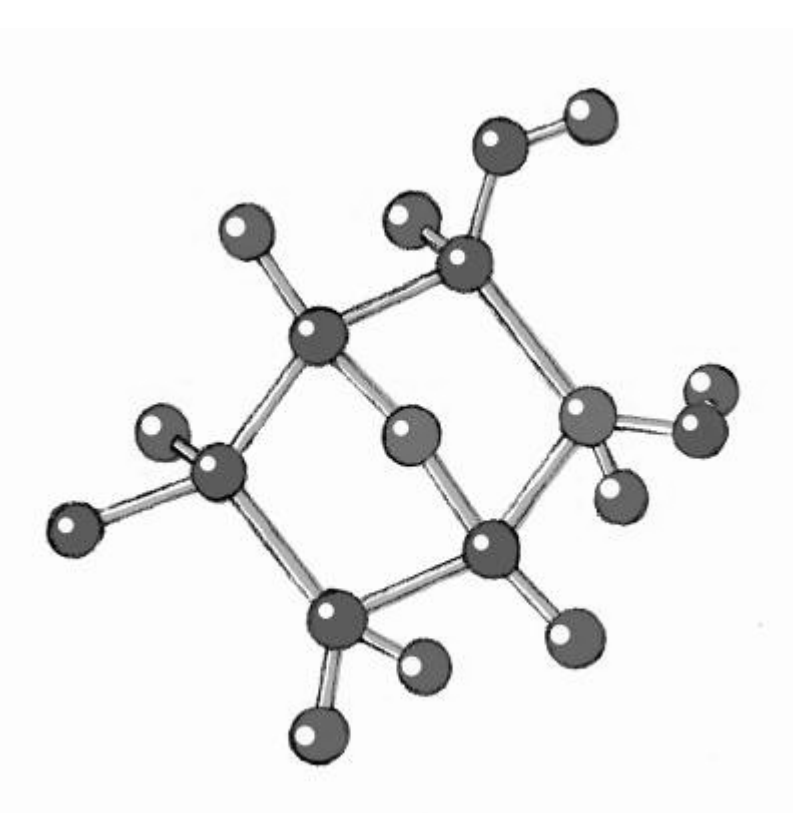


Historically, boards have been engaging themselves largely in conformance roles mandated by statute, but without much engagement in strategy formulation.

The fiduciary duty of a board includes a review and monitoring of strategy and it is encouraging to see the **increasing high level of involvement (88%) of the board in business planning and strategy formulation.**

"Independent directors are typically not ultimately involved in the company's strategic decision making process, to the extent they should be. This is essentially due to the 'limited time' that they can realistically devote to understanding the organisation's issues and thereby propose creditable solutions."

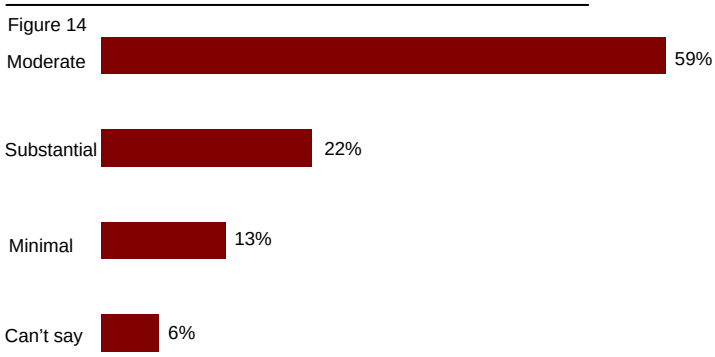
Daljit Singh
President – Strategy & Organisational Development
Fortis Healthcare



14. What level of involvement do the independent directors have in the annual planning and strategy development of your company?

Guidance: No specific guidance has been provided.

Figure 14

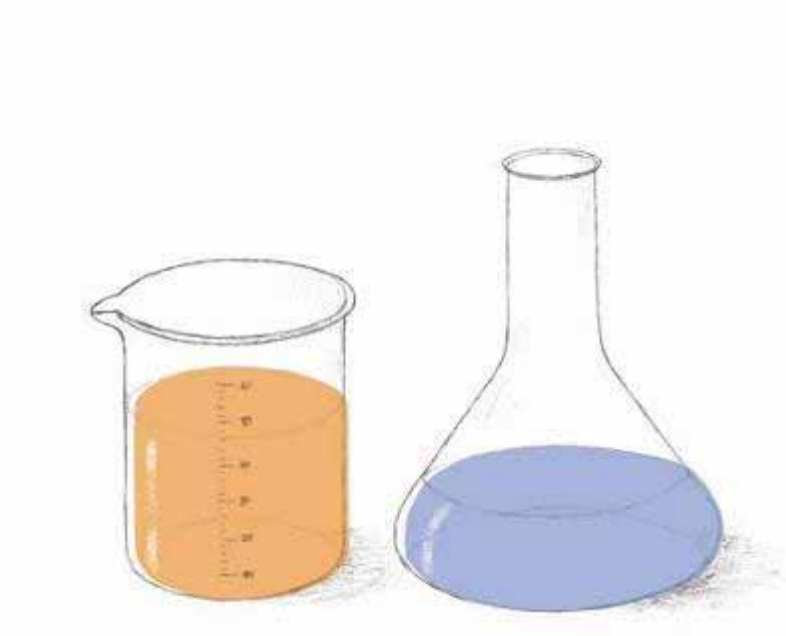


While delving further on the nature and type of contributions made by independent directors, the survey showed that in the case of 59% of the respondent companies, the involvement of independent directors in the annual planning and strategy development was moderate while in the case of 13% it was minimal.

22% of the respondents felt that the role played by the director on their company was substantial. This shows that while boards are increasingly beginning to look more closely at strategic aspects of their company, there is room for improvement and for independent directors to demand more involvement.

At the more basic level, the board is expected to act with "oversight, insight and foresight" and the role of a non-executive director is to challenge and contribute to the development of strategy and to review the performance of the management. They are expected to bring wider experience and a fresh perspective to the boardroom while playing an important role in ensuring that financial controls are robust.

Although non-executive directors need to build close relationships with the executives and remain informed, the former need to be willing to engage or challenge the executive directors, as required.

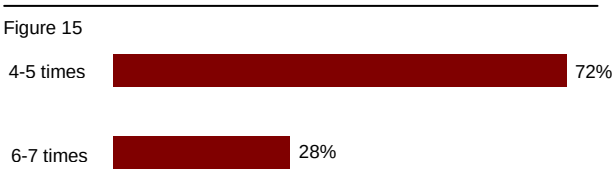


Detailed review – the audit committee

15. How frequently does the audit committee of your company meet in a year?

Guidance: Clause 49 requires the audit committee to meet at least 4 times in a year and the gap between any two consecutive meetings not to exceed 4 months.

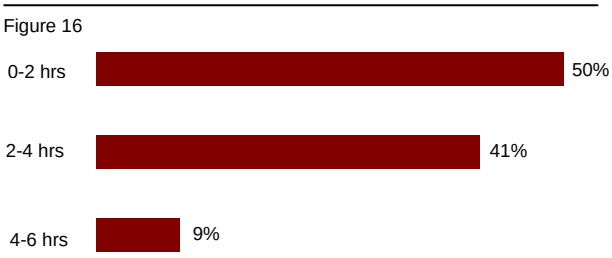
Figure 15



16. What is the average duration of the audit committee meetings in your company?

Guidance: No specific guidance has been provided.

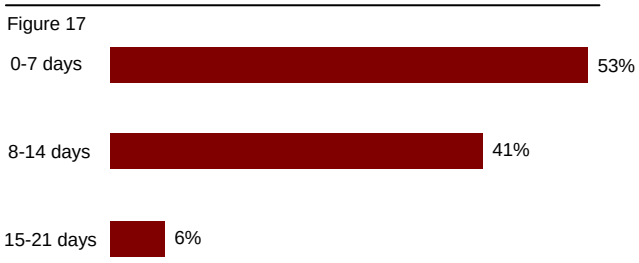
Figure 16



17. How much in advance of the audit committee meeting is the agenda circulated?

Guidance: No specific guidance has been provided.

Figure 17



The management has the overall responsibility to prepare financial statements in accordance with generally accepted accounting principles. The external auditors have the responsibility to audit these financial statements. The audit committee's responsibility is one of reviewing the financial information, related party transactions, auditor's management letter (for internal control weaknesses), internal audit reports and the appropriateness of the scope and performance statutory audit and internal audit. The role of an audit committee therefore is of critical importance, especially in the context of ensuring transparency within the operations of the company.

Over 70% of the respondent companies stated that though the company held their audit committee meetings **4-5 times a year,** the average duration of these meetings in the case of half the respondents was 0 to 2 hours only. Further, when analyzed in the context of the **average preparation time** given to the audit committee, in a majority of the cases (53%) this **was up to 7 days only.**

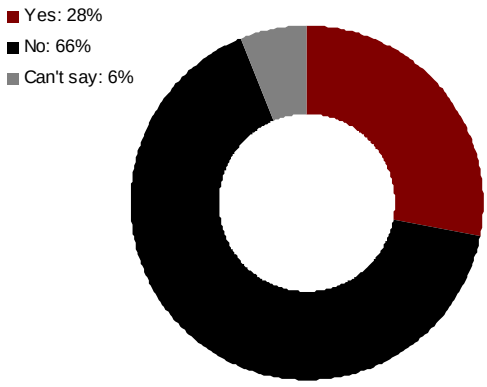
"The audit committee has an important role to play and stakeholders look to them to protect their interests. Consequently, the audit committee meetings need to be planned well in advance and all members provided with adequate information and time for preparation for audit committee meetings."

PM Sinha
Former Chairman, Pepsico India Holdings Private Limited

18. Does your company have a policy for rotation of your audit committee members?

Guidance: No specific guidance has been provided.

Figure 18



Although Clause 49 recommends rotation of independent directors (some of whom may also constitute a part of the audit committee), this is not prescribed in the case of the audit committee.

During the course of the survey, several of the respondents came out strongly in support of the need for rotation of members of the audit committee.

However, the survey showed that this is not an established practice. **66% of the respondents stated that their company did not have a specific policy for rotation of the audit committee,** whereas 28% of them disclosed that they had a policy for rotation.

One of the suggested norms that can be applied by the audit committee is to set up a **formal process for evaluating the performance and effectiveness of the audit committee and its members.** This can be performed through a series of detailed questionnaires (to be completed by the members of the board and its committees), which will aid in identification of specific action points to be reported by a senior independent non-executive director and the chairman, for further action, including rotating members of the audit committee.

"Any long term relationship leads to an enhancement of the *familiarity threat*. This is no different in the case of audit committee members and therefore there should be a mandatory rotation of audit committee members post serving between 5 and 7 years."

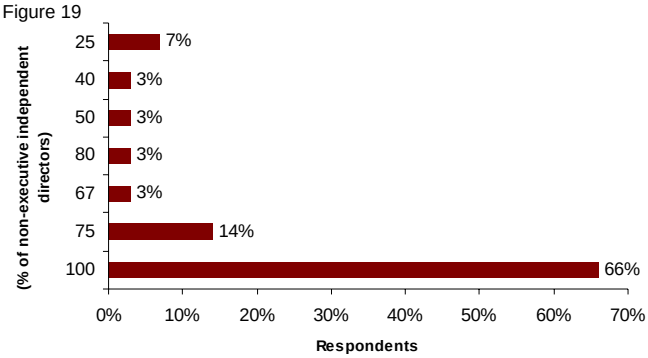
Vishesh Chandiok
National Managing Partner
Grant Thornton, India

19. In your company, what proportion of the audit committee comprises of independent non-executive directors?

Guidance: As per Clause 49, two-third of the members of the audit committee are required to be independent.

The proposed Companies Bill specifies the constitution of the audit committee (a minimum of 3 directors and a majority of them to be independent).

Figure 19

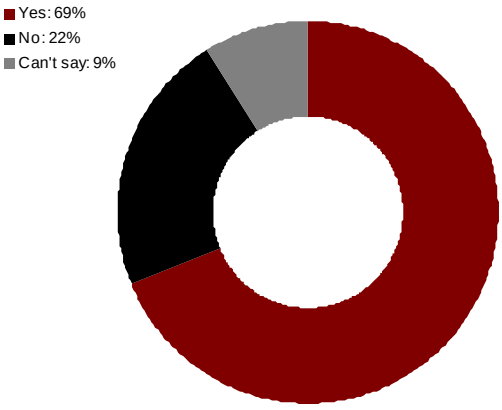


20. Is there a separate section of the annual report for your company, which describes the work of the audit committee?

Guidance: Clause 49 stipulates a specific report on corporate governance in the annual report. This also requires listed companies to provide details of their audit committee, its composition, charter, meetings, attendance etc.

Section 292A of the Companies Act also provides requirements relating to the audit committee and the annual report.

Figure 20



In the case of nearly two thirds (66%) of the respondents, the audit committee comprised independent directors only. **At the same time in the case of 13% of the respondents, the constitution of independent directors was below the specified requirement.**

69% of the respondents also disclosed that the tasks undertaken by their respective audit committees were clearly set out in their annual report.

Some key tasks of the audit committee relate to communications with the board, the management and their auditors. It is important that the communication between the audit committee (which may discuss matters independently) and the board remains strong and regular.



Detailed review – relationship between the audit committee, the remuneration committee and the board

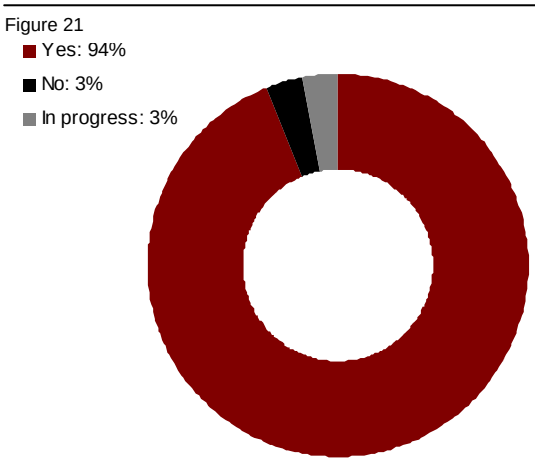
21. Does your company have a remuneration committee?

Guidance: This is a non mandatory provision under Clause 49.

Schedule XIII under the Companies Act prescribes the role of the remuneration committee.

The proposed Companies Bill requires a remuneration committee to be established for listed companies and the committee should consist of non executive directors with at least one independent director.

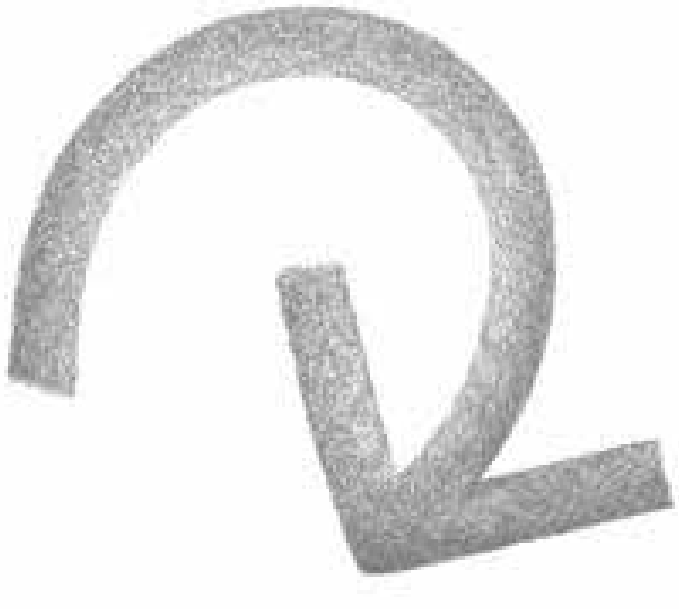
Figure 21



In addition to the audit committee, the "remuneration committee" also plays a crucial role in ensuring high standards of governance. The "remuneration committee" should be set up on behest of the shareholders, to implement under agreed terms of reference, the company's policy on specific remuneration packages for executive directors and avoid any potential conflicts of interest.

The proposed Companies Bill envisages a broader role for "remuneration committee" as it has re-looked at aspects such as the remuneration of the independent director as well as key qualifications that an independent director should possess.

Though significant provisions, these are not without challenges. For instance, meetings called at short notice must include an independent non-executive director and if that is not possible, then they must still obtain ratification of any decisions by at least one of the independent non-executive directors.

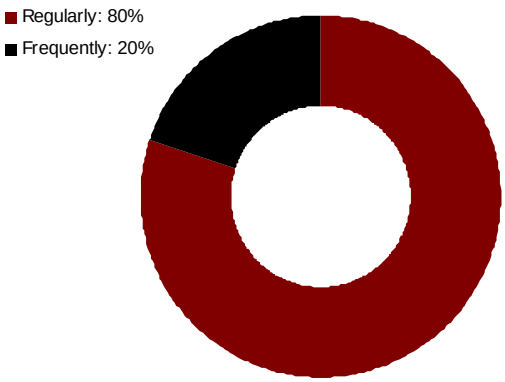


22. How does the audit committee in your company interact with the board?

Guidance: Clause 49 stipulates for the audit committee to review the financial statements with the management before submission to the board, with a specific focus on several aspects of financial reporting.

The Companies Act (section 292A) and the proposed Companies Bill also prescribe the role of the audit committee on similar lines.

Figure 22



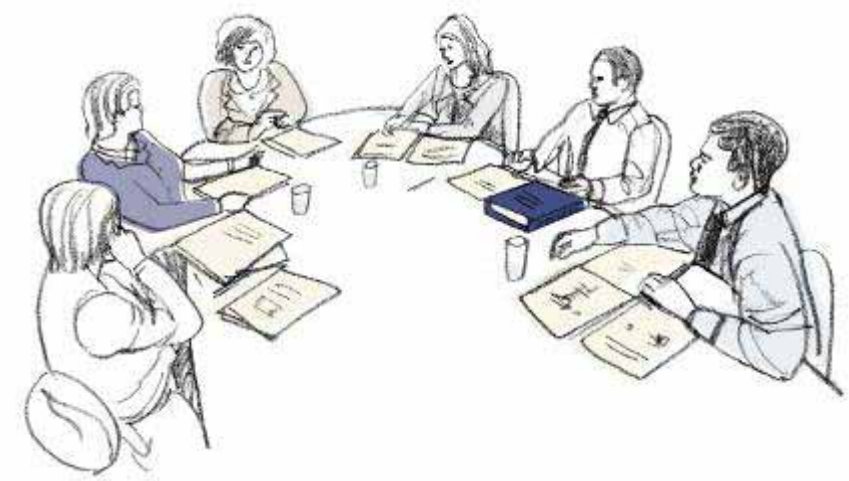
80% of the respondents felt that their audit committees were interacting regularly with the board.

Clause 49 stipulates for the audit committee to review the financial statements with the management before submission to the board, with a specific focus on several aspects of financial reporting which include matters to be included in directors' responsibility statement, changes in accounting policies, accounting entries requiring major estimation, significant adjustments, statutory compliances and compliances with the listing agreement, qualifications in the draft audit report and related party transactions.

As a good practice, the audit committee should serve to act as an intermediary between the "auditors" and the "board".

"The audit committee should also spend a day (at least) with the internal auditors (in the absence of a management representatives) and with the external auditors (in the absence of an audit representative from the company). Divergence of views, if any, should be settled amicably with a final say on the matter resting with the audit committee."

PM Sinha
Former Chairman, Pepsico India Holdings Private Limited

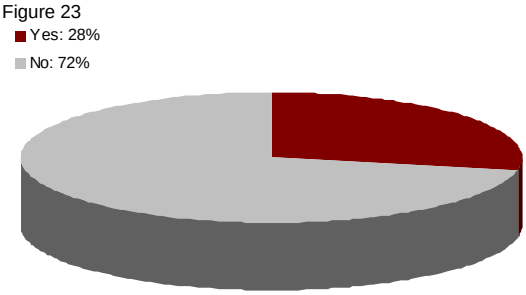


Detailed review – the ideal board structure

23. From your experience, do you find that the roles of the chairman, CEO/MD are invariably played by the same person?

Guidance: Though Clause 49 and the Companies Act do not provide specific guidance on this aspect, the proposed Companies Bill provides the definition of key managerial personal, the CEO and the CFO.

Figure 23



The responsibility for implementation of corporate governance practices starts at the very top, with the chairman and the board setting out clear examples with their actions.

The ownership structure in a company and the relationship among members of its board, in particular between the chairman and the CEO, continues to influence the perception regarding independence.

In a company where a large, single shareholder exists, that entity or individual investor can effectively control the business. In a company where no controlling shareholder exists, the directors should act as if one did exist and attempt to protect this imaginary entity at all times (even if it means making tough decisions like replacing the CEO and making changes that are unpopular with management, or turning down acquisitions because they are not in line).

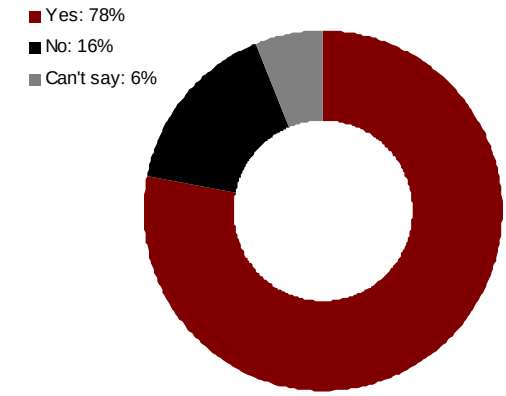
In India, majority of the firms are **promoter led who may not be keen on relinquishing complete control over proceedings of the company.**

At the same time, companies are seeing the value in objectivity and the impact of the value of the roles of the chairman and CEO with these two roles being discharged by different individuals, particularly in the larger companies. **The survey showed that this transition has either not taken place or is in the process in the case of 28% of the respondents.**

24. Is there a summary of the process that your company has applied in reviewing the effectiveness of its internal control system?

Guidance: Clause 49 deals with CEO/CFO certification but this is not prescriptive.

Figure 24

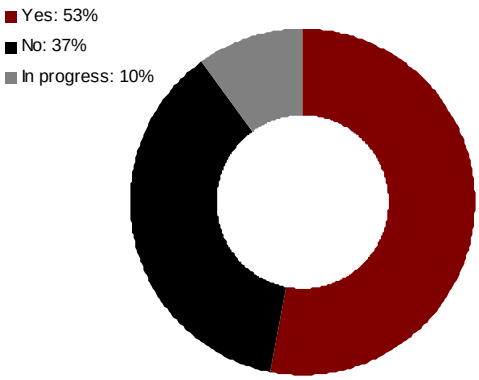


Detailed review - reinventing the board

25. In your company is there a process in place to ensure that newly appointed directors receive a formal and tailored induction upon joining the board?

Guidance: Clause 49 covers training of the board in the business model and risk profile of the company in a non-mandatory provision.

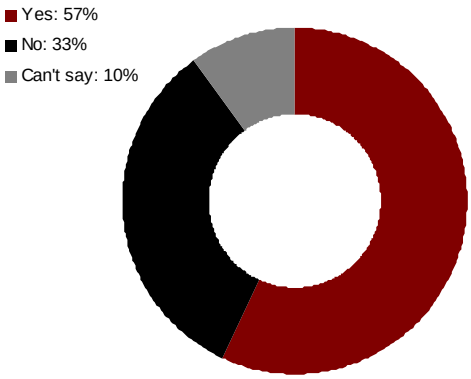
Figure 25



26. Does your company train its board members on the business model and risk profile of the company?

Guidance: Same as for Q25

Figure 26



One of the demands of business is to be "ahead of the competition."

This invariably extends to the board where strategic decisions regarding a company's future roadmap and vision are taken. Often companies appoint new directors in the event of a rapid expansion or diversification into new domains, as the new directors bring in fresh perspectives and in-depth knowledge. Companies may also change directors (Clause 49 supports rotation of directors, who can be re-appointed if required).

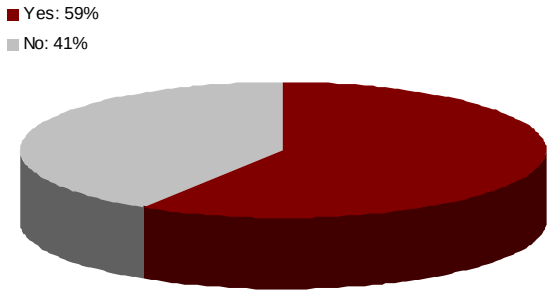
The survey aimed to analyze the extent of information flow and transparency that companies exercise with the entire board and has yielded some interesting insights. According to the survey, the communication process between the board and any new appointments remains strong. On the matter of providing a formal induction to newly appointed directors, about **53% of the respondent companies admitted that there is a formal process for induction in place** for newly appointed directors.

The survey also showed that companies are generally pro-active in updating the entire board on key issues affecting the industry and the company. **More than half (57%) of the respondents stated that their companies were taking steps to impart suitable training to its board members** on the business model and risk profile of the business.

27. Does your company have a Chief Risk Officer?

Guidance: No specific guidance has been provided.

Figure 27



An effective enterprise risk management framework helps in identifying and mitigating risks in early stages.

Such a framework requires ongoing interaction across the organisation with a timely and systematic evaluation of the real threats, vulnerabilities and consequent risks.

The concept of risk management has not struck the desired chord within India as yet. In case of a large section of the respondents (41%), there was no "Chief Risk Officer" or a specific individual entrusted with the task of overlooking this function.



"Enterprise risk management facilitates a structure, discipline, process and a level of conformance across the company to ensure that risks are approached systematically and continually reviewed. Companies need executives who can be made accountable for enabling an efficient and effective governance of significant risks (while striking the right balance with reward) and the role of a Chief Risk Officer is evolving from this requirement."

Monish Chatrath

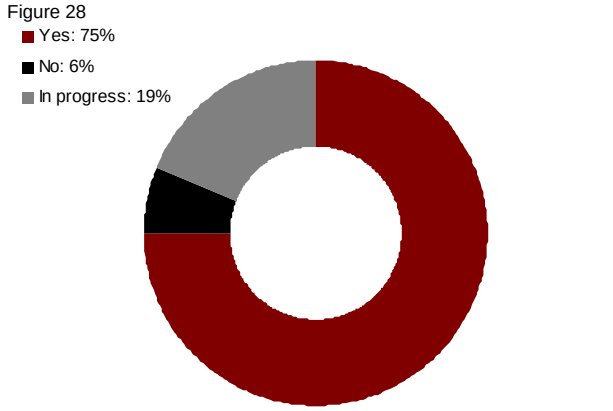
National Markets Leader
Grant Thornton, India

Detailed review – company code of conduct: moral and ethical framework

28. In your company, is there a 'code of conduct' containing 'business values & ethics' in place and communicated to all employees?

Guidance: Clause 49 requires a code of conduct which is signed by the board and one level below board and posted on the website of the company.

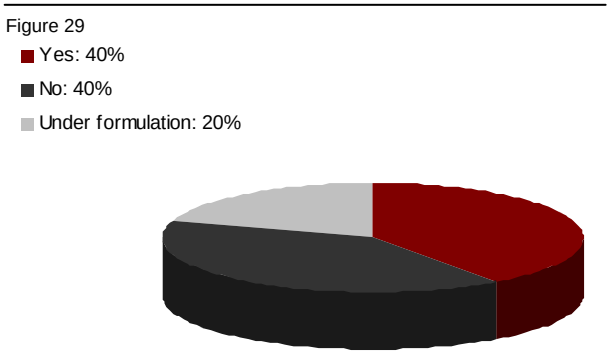
Figure 28



29. Does your company have a Whistleblower policy?

Guidance: This is a non mandatory provision under Clause 49.

Figure 29



The survey shows that most of the respondents **(75%) have a code of conduct containing business values & ethics relating to their employees, management and board,** while in the companies of 19% of the respondents this was being developed.

The survey also showed that in the case of **40% of the respondents, their companies had a formal whistleblower policy framework in place**, while a similar proportion of the respondents did not have one in their companies. The remaining (20%) of the respondents were in the process of developing such a framework in their companies.

In 2003, the SEBI's committee on corporate governance, mooted the concept of a **compulsory "Whistleblower Policy"** wherein an official of a company who observes an unethical or improper practice can approach the audit committee of the company without necessarily informing his/her supervisors. The suggested provision was later diluted and instituted as a non-mandatory provision in Clause 49.

"An effective whistleblower policy framework should apply to all stakeholders including suppliers and debtors and not be restricted to employees alone."

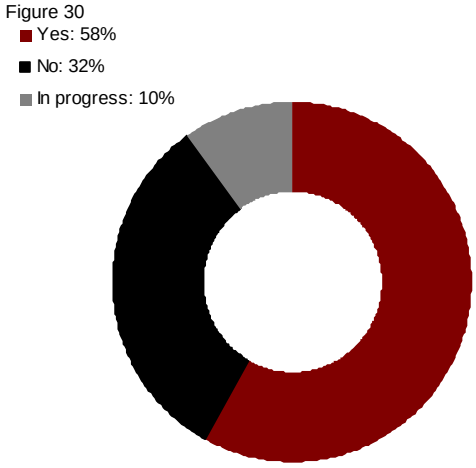
Anil Roy

Head of Forensic & Investigations
Grant Thornton, India

30. Is there any specific company policy concerned with matters such as energy consumption, employment, recycling, waste disposal, etc.?

Guidance: Section 217, point 1 (e)"Board Report" deals with the conservation of energy, technology absorption, foreign exchange, earnings of the board report and outgo.

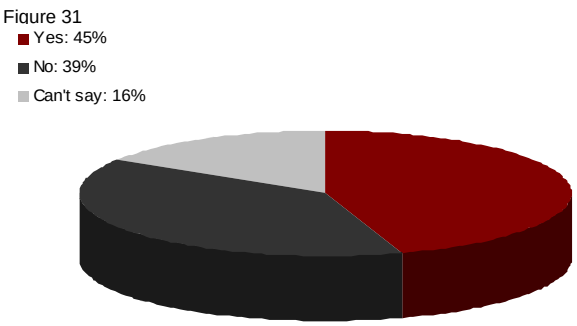
Figure 30



31. Are such policy objectives stated with quantified results?

Guidance: No specific guidance has been provided.

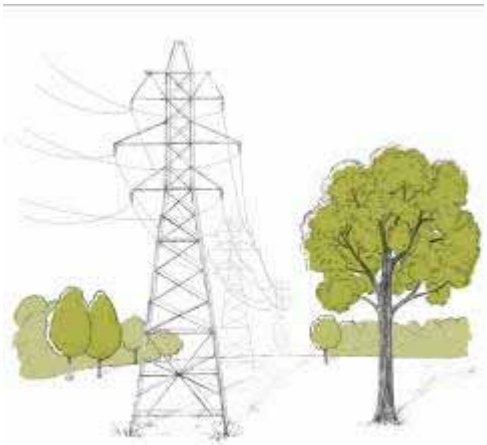
Figure 31



Over time, the value and ethical framework guiding CSR activities has developed greatly in India. As more companies realize the value of "giving back to society" this trend is gaining momentum.

With India ratifying the Kyoto Protocol, 'the environment' has emerged as a focal area for various sections of society – including Indian companies. This debate has got accentuated over time, with an increasing value being attached by stakeholders for companies that play an active role in controlling environmental degeneration and bringing stability to the environment.

Given this background, the Survey focused on evaluating the importance given to the environment. **A majority of the respondents (58%), had a policy in place which looked at aspects related to the environment**. The "perceived value" of investing and implementing initiatives in this regard was also appreciated by the respondents, with a **majority (45%) saying that their policy objectives were in line with quantified results. At the same time, 39% of the respondents were not sure of the benefits** accruing from such policies.



The experts' viewpoint

Among the many shortcomings that have been highlighted in the recent past, the one area that has been debated at length relates to the role of independent directors who are required to safeguard the interests of all stakeholders. The recent large corporate fraud and subsequent resignations of independent directors across Indian companies have raised serious questions on the role of the independent director and the appointment process. This shows that the role, as envisaged in Clause 49 has not always translated into becoming an adequate check on managerial excesses.

So where does the solution lie? According to experts, the solution lies in involving the independent director more closely with the long term strategy of the company and providing them more detailed information. In addition, there has to be clear and transparent communication between the board and the independent director, for them to play a more meaningful role. This would also require the boards to undergo a "cultural shift" and adopt a stronger "ethical and moral" conduct in business operations. Some of the additional suggestions that relate to independent directors include:

- providing guidance in the context of a minimum or stipulated time that independent directors should spend on reviewing the affairs of the company
- limiting the number of boards that an independent director can appear on (to a maximum of 5 in number)
- having the independent director play a more pro-active role towards the internal audit function. For instance, at the beginning of every financial year, work closely with the audit committee and lay down an internal audit plan, which will set the benchmark for achievements for that year
- having the independent directors meet and interact independently, without the presence of any executive management

One of the arguments that comes up from time to time relates to the availability of independent directors, both in terms of quality and quantity.

This argument looks weak in theory, when one considers that India is a country with a vast pool of intellectual capital.

What is required is a systematic process of identifying suitable independent directors and a centralized body that acts as a repository. At the company level, the establishment of a well qualified "nomination committee" can also address this issue. Currently, this is not a mandatory requirement in India, whereas in countries like the UK, this is an active principle in the Combined Code. Ideally, and independent director should be appointed only after a thorough analysis of their credentials which should take into account:

- reputation
- management capability
- expertise in specific areas
- time and commitment

Role of the CFO/ Finance head

Apart from the role of the independent director, the role of the CFO or equivalent has also come under the scanner. The question being asked is – should the CFO not be accountable for corporate fraud and is there enough in the law to take strong punitive action taken against him/her? In reality, this is a highly subjective area. From a practical standpoint, a CFO may often be expected to 'tow the line' with the desires of the promoters and/or management. However, 'integrity' is a personal issue and a matter of one's individual choice. Further, no matter what the role of a CFO is eventually formulated, it is in the implementation of the envisaged role, that there exist several difficulties. Firstly, "transparency" and "ethics" need to form part of the culture of the company and this should be clearly set as a tone from the top.

Having said that, the CFO is and should be held accountable, to ensure reliable financial reporting. There appears to be merit in having a separate "code of conduct" for CFO's which specifically details greater powers for CFO's, including the power to directly report to the audit committee.

Role and responsibility of the auditor (internal and external)

The primary responsibility for preventing and detecting fraud rests with the management of a company. However, in recent times investors are seeking additional work by external auditors to have a greater chance of detecting fraud in financial reporting. Collusive management fraud is almost impossible for external auditors to detect, unless the scope of the audit is changed from a test check to a 100% check. It is widely believed that the cost versus benefit equation for a 100% check rarely makes economic sense.

Auditor independence is another matter that is under wide debate globally, and particularly in India post the recent significant corporate fraud. With long standing audit relationships being prevalent in the country, a mandatory rotation of the audit firm is being proposed as a quick solution to auditor independence. The global best practice on this matter is the mandatory rotation of audit partners, in form and in spirit (i.e. giving up all responsibilities on the client), as opposed to the firm being replaced. Audit firms gain a lot of knowledge about their client and the client's industry, and it is believed to be detrimental to audit quality to suggest mandatory rotation of audit firms for the sake of independence. Indeed, research shows that most frauds go undetected in the first few years of a new audit relationship.

Listed companies requiring the appointment of 2 external audit firms, or mandatory joint audit is another suggestion being currently debated in India. The considerations in respect of joint audit that need to be kept in mind include ensuring that the audit costs for the company do not increase by any significant amount, and that the two external audit firms indeed work in a collaborative manner by splitting the audit work equitably amongst them. The liability of both the auditors needs to be joint and several, as opposed to relating to their area of the audit, something that will require a change in the Indian auditing standard on this topic.

Many experts are suggesting the need to make it mandatory for listed companies to appoint an external firm as internal auditors, as opposed to leave it to an internal department to perform the role, who may suffer from the inability to raise their voice against the executive management who in effect are responsible for their welfare. Experts believe that appointment of both external and internal auditors, determining their performance and affixing their remuneration is best performed by the audit committee. Provided the audit committee has the independence, objectivity and lack of conflict of interest, this is perhaps the best solution in balance to preserving audit quality and yet maintaining independence.

Roadmap for implementation

Experts almost unanimously suggested that the current laws and regulations in India were amongst the best in the world, and in line with current global best practices. However, it was also almost unanimously pointed out that there is a dire need for a much more proactive monitoring framework on compliance with these laws.

Unless there is a genuine intention within a company to incorporate "compliance in principle as opposed to compliance in legal form" into corporate strategy and operations, regulations will only have a limited effect. Ultimately, governance as a best practice can only be driven by the board and top management who have faith in the system and are convinced of the benefits.

Looking ahead, Corporate India will also need to introspect on their internal philosophy, revisit the pre-set "moral and ethical" framework and inhabit a work culture oriented towards greater accountability and transparency.



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Prasad R Menon
Sudhamoy Khasnobis



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- business performance reviews
- risk management
- technology risk assurance and advisory
- development of whistle blowers policy framework



Acronyms & abbreviations

AS	Accounting Standard
ASX	Australian Securities Exchange
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Combined Code	Combined Code on Corporate Governance
Companies Act	Companies Act, 1956
CSR	Corporate Social Responsibility
FICCI	Federation of Indian Chambers of Commerce and Industry
ICAI	Institute of Chartered Accountants of India
JBC	Joint Business Council
KRA	Key Result Area
MD	Managing Director
MoF	Ministry of Finance
PCAOB	Public Company Accounting Oversight Board
ROC	Registrar of Companies
SEBI	Securities and Exchange Board of India
SEC	Securities and Exchange Commission
SOX	Sarbanes-Oxley Act of 2002
UK	United Kingdom
US	United States

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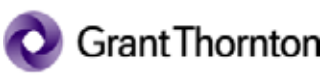
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