

investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.

- Discussion with external auditors before the audit commences, have the nature and scope of audit and post audit discussion on any area of concern.
- Reviewing the company's financial and risk management policies.
- Looking into the reasons for substantial defaults in the payments to the depositors, debentures holders, shareholders and creditors.

The recommendations of the Audit Committee on any matter relating to financial management, including the audit report, are binding on the Board of directors and consequently on the company. For any reasons, if the recommendations of the Audit Committee are not acceptable by the Board, it has to record reasons for the non-acceptance and communicate the same to the shareholders. The audit committee's recommendations are of mandatory nature to be implemented without dilution in any matter. Moreover, annual reports of companies are required to contain a separate section on corporate governance.

### RECENT DEVELOPMENTS

The National Foundation for Corporate Governance (NFCG) jointly set up by the Ministry of Company Affairs, the Industry, ICAI and ICSI to evolve corporate governance principles in three areas – institutional investors, independent directors and auditing. The non-binding principles, in line with the principles developed by the 30-member international policy advocating body, would further foster and develop corporate culture in the country, besides making available adequate number of independent directors for the corporate sector. The NFCG will ensure compliance of corporate governance norms in letter and spirit by the Indian companies.

It is estimated that over 9,000 listed companies require about 30,000 independent directors to comply with the requirements of Clause 49. The PRIME database has created the website "primedirectors.com" to enable listed companies find suitable independent directors for their boards. The main sponsors of the website are the National Stock Exchange of India Limited and Bombay Stock Exchange Limited with the Confederation of Indian Industry as the institutional partner.

In the fast changing business scenario, risk management has acquired top priority. As such, strong and effective corporate governance is no longer a 'nice

to have' but a 'must have'. This is the reason why companies, besides restructuring of board of directors, are looking at a more holistic governance model.

Investors are placing high value on those companies, which follow internationally accepted practices of corporate governance. They expect fair return on the investment of their hard earned savings.

Companies have been realizing that it is high time to put their houses in order if investors have to be drawn back to capital markets.

### SUGGESTIONS

Following suggestions deserve careful consideration for better corporate governance norms:

1. The provisions of corporate governance under the Companies Act and Clause 49 of the Listing Agreement should be harmonized to facilitate easy compliance and economy for companies.
2. Defining independence is necessary but not sufficient to ensure independence of judgment. The criteria has much to do with the choice of directors and the skills that they bring to the board, the conduct of board meetings, the quality and quantity of financial, operational and strategic information supplied by the management to the board; management's appetite for independent evaluation and criticism of strategies and performance; the extent to which promoters and management truly want healthy debate and independent oversight.
3. In practice, however, "independence" of directors lies in the quality of the Board where members are encouraged to express their independent views without fear or favour on controversial issues. Equally important is the ability of board members in asserting what they believes is in the best for the company, particularly when there is a conflict of interest and difference of opinion in the board. To achieve this, Indian corporate sector has to create and promote a culture of professionalism and openness in corporate affairs. The greatest challenge before corporate leaders today is to build and restore trust among stakeholders and improve the credibility in the independence of the board. In the ultimate analysis, what is important is the role of the board rather than the higher number of independent director.
4. Nominee directors of Government in PSUs should promote professionalism and independent functioning of the boards. They should not be allowed to interfere in the normal functioning of the board and day-to-day management of companies. However, government being the