

CHAPTER-8

CORPORATE GOVERNANCE

8.1 Introduction

8.1.1 Need for Corporate Governance

Corporate Governance is a system of structuring, operating and controlling an organisation with a view to achieve long term strategic goals, to satisfy the stakeholders and complying with the legal and regulatory requirements. Corporate Governance is a way of directing and controlling companies to ensure greater transparency and better financial reporting. It is concerned with the ethics, value parameters and conduct of the Company and Management. The absence of good governance structures and lack of adherence to the governance principles increase the risk of corruption and misuse of entrusted power by the Management in the public sector.

8.1.2 Provisions as Contained in the Companies Act, 2013

The Companies Act, 2013 was enacted on 29 August 2013 replacing the Companies Act, 1956. In addition, the Ministry of Corporate Affairs has also notified (31 March 2014) Companies Rules, 2014 on Management and Administration, Appointment and Qualification of Directors, Meetings of Board of Directors and its powers. The Companies Act, 2013 together with the Companies Rules provide the framework for Corporate Governance. The requirements, *inter-alia*, provide for:

- Appointment of Independent Directors in Public Companies and mandatory establishment of certain committees like Audit Committee by the companies having paid-up share capital of ₹ 10 crore or more, or turnover of ₹ 100 crore or more, or outstanding loans, debentures and deposits, exceeding ₹ 50 crore. {Rule 4 of Companies (Appointment and Qualification of Directors) Rules, 2014 and Section 177(1) of the Companies Act, 2013}.
- Qualifications for Independent Directors along with the duties and guidelines for professional conduct {Section 149(6) read with Rule 5 of the Companies (Appointment and Qualification of Directors) Rules, 2014}.
- Mandatory appointment of one-woman director on the board of Public Companies having paid-up share capital of ₹ 100 crore or more or turnover of ₹ 300 crore or more {Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014}.

- Holding of a minimum of four meetings of Board of Directors every year in such a manner that not more than 120 days shall intervene between two consecutive meetings of the Board {(Section 173(1) of the Companies Act, 2013)}.

8.1.3 SEBI Guidelines on Corporate Governance

After enactment of the Companies Act, 2013, Securities and Exchange Board of India (SEBI) amended (April and September 2014), clause 49 of the Equity Listing Agreement to align it with the Corporate Governance provisions specified in the Companies Act, 2013.

SEBI notified (2 September 2015) the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 which came into effect from 1 December 2015 repealing the earlier provisions.

SEBI further issued (13 October 2015) a uniform listing agreement format for all types of securities which required the listed entity to comply with the provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

8.1.4 Review of Compliance by Selected SPSEs of the Corporate Governance Provisions

As on 31 March 2023, there were 37 State Public Sector Enterprises (SPSEs) in Haryana under the audit jurisdiction of the Comptroller and Auditor General of India (CAG). The Bureau of Public Enterprises, established in February 1988, (under the Finance Department, Government of Haryana) has issued instructions to SPSEs on various issues, however, no instructions have been issued on Corporate Governance.

For the purpose of the review, an assessment was done based on the provisions contained in the Companies Act, 2013. The review covers 32 working SPSEs for the year ended 31 March 2023. List of SPSEs covered as well as SPSEs excluded from this report is given in the *Appendix 8.1* and *Appendix 8.2* respectively.

Besides, equity of Haryana Financial Corporation (HFC) and bonds of Haryana Vidyut Prasaran Nigam Limited (HVPNL) were listed on stock exchange. However, applicability of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 to HFC was not considered as it stopped fresh business since 2010.

8.2 Composition and Meetings of Board of Directors

8.2.1 Board of Directors (BoDs) is the instrument of Corporate Governance. It is the agency for the implementation of governance policies and practices. It

is imperative that the BoDs devote attention to Corporate Governance and must be equipped with the requisite representation and its members should meet regularly. Section 173(1) of Companies Act, 2013 stipulates that the Board shall meet at least four times in a year with a maximum time gap of 120 days between two consecutive meetings. **Table 8.1** shows the Companies where the requirement of number of meetings to be held in a year was not complied with during 2022-23.

Table 8.1: SPSEs where requirement of four meetings of BoDs was not met

Sl. No.	Name of SPSE	No. of meetings held
1.	Haryana Schedule Castes Finance and Development Corporation Limited	2
2.	Haryana Police Housing Corporation Limited	3
3.	Haryana State Financial Services Limited	3
4.	Haryana State Electronics Development Corporation Limited	3
5.	Hartron Informatics Limited	3
6.	Haryana Medical Services Corporation Limited	Nil
7.	Faridabad City Transport Services Limited	1
8.	Karnal Smart City Limited	3
9.	Haryana Land Reclamation and Development Corporation Limited	3

Haryana Schedule Castes Finance and Development Corporation Limited in its reply stated (January 2025) that due to administrative constraints, it was unable to conduct the required four Board meetings during 2022-23.

Haryana Land Reclamation and Development Corporation Limited in its reply stated (January 2025) that meeting to be held on 28 June 2022 was adjourned sine-dine due to non-completion of quorum and it was further postponed due to business of Chairman of the Company in other important assignments.

8.2.2 Independent Directors

According to Section 149 (6) of the Companies Act, 2013 an independent director means a director other than a managing director or a whole-time director or a nominee director, who is a person of integrity and possesses relevant expertise and experience. The presence of independent directors on the Board, capable of taking an independent view on the decisions of the management is considered as a means of protecting the interests of shareholders and other stakeholders. Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014 provides that every public company with paid-up share capital of ₹ 10 crore or more or turnover of ₹ 100 crore or more or with aggregated outstanding loans, debentures and deposits exceeding ₹ 50 crore shall have at least two independent directors on their board. List of 17 SPSEs meeting these criteria is given in **Appendix 8.3**. Of these 17 SPSEs, five SPSEs¹ were not required to follow the

¹ Haryana Rail Infrastructure Development Corporation Limited, Gurugram Metropolitan City Bus Limited and Haryana Orbital Rail Corporation Limited being joint venture unlisted public companies, Haryana Women Development Corporation Limited, being a Company registered under Section 8 of the Companies Act, 2013 and Haryana Scheduled Castes Finance and Development Corporation Limited being private company.

criteria of having Independent Director. Of the remaining 12 SPSEs, three SPSEs (Haryana Police Housing Corporation Limited, Haryana Seeds Development Corporation Limited and Drone Imaging & Information Services of Haryana Limited) did not have any Independent Director while remaining nine SPSEs met the criteria of having at least two independent Directors on their Boards.

Haryana Seeds Development Corporation Limited in its reply stated (December 2024) that the matter regarding appointment of Independent Directors is still under consideration with the State Government.

8.2.3 Representation of Women in the Board of Directors

Section 149 (1) of the Companies Act, 2013 read with Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014 provides that every public company having paid-up share capital of ₹ 100 crore or more or turnover of ₹ 300 crore or more shall have at least one woman Director in its Board. There were nine such SPSEs meeting this criterion as listed in *Appendix 8.4*. All these nine SPSEs had women directors on their Board.

8.3 Appointment and Functioning of Independent Directors

8.3.1 Issuance of Formal Letter of Appointment

As per Schedule IV of the Companies Act, 2013, the appointment of Independent Directors shall be formalised through a letter of appointment which shall set out the terms and conditions of appointment. However, it was observed that out of nine SPSEs having Independent Directors on their board, in three SPSEs as listed in *Table 8.2*, no appointment letters detailing the terms and conditions were issued during the period 2022-23.

Table 8.2: Appointment letters of Independent Directors not issued by SPSEs

Sl. No.	Name of SPSEs	Appointment letter not issued to Independent Directors
1.	Dakshin Haryana Bijli Vitran Nigam Limited	2
2.	Gurgaon Technology Park Limited	2
3.	Haryana Agro Industries Corporation Limited	3

8.3.2 Training of Independent Directors

Schedule IV to the Companies Act, 2013 stipulates that the Independent Directors shall undertake appropriate induction training and regularly update and refresh their skills, knowledge and familiarity with the Company. However, it was observed that in SPSEs, listed in *Table 8.3*, no such training was conducted for Independent Directors who were on the Board during the year 2022-23.

Table 8.3: SPSEs where no training was conducted for Independent Directors

Sl. No.	Name of SPSEs
1.	Dakshin Haryana Bijli Vitran Nigam Limited
2.	Haryana State Industrial and Infrastructure Development Corporation Limited
3.	Haryana Mass Rapid Transport Corporation Limited
4.	Haryana Agro Industries Corporation Limited
5.	Haryana State Roads and Bridges Development Corporation Limited
6.	Gurgaon Technology Park Limited

Haryana Mass Rapid Transport Corporation Limited and Haryana State Industrial and Infrastructure Development Corporation Limited in its reply stated (December 2024) that Independent Directors are well experienced and qualified. The reply is not acceptable as the Independent Directors could not have undertaken induction training without initiative from the inducting organisation (i.e. the Company).

8.3.3 Meetings of Board of Directors and Board Committees

Para III (3) of Schedule IV of the Companies Act, 2013 states that Independent Directors should strive to attend all the meetings of Board of Directors and Board Committees of which he/she was a member. Some of the Independent Directors, however, did not attend these meetings during 2022-23. **Table 8.4** indicates the number of such independent directors:

Table 8.4: Independent Directors who did not attend the meetings

Sl. No.	Name of SPSEs	No. of Independent Directors who did not attend Board Meetings (No. of meetings)	No. of Independent Directors who did not attend other Board Committee Meetings (No. of meetings)
1.	Haryana Power Generation Corporation Limited	1(1)	1(2) ²
2.	Haryana Vidyut Prasaran Nigam Limited	3(6)	1(4) ³
3.	Haryana State Industrial and Infrastructure Development Corporation Limited	4(3)	2(2) ⁴
4.	Haryana State Roads and Bridges Development Corporation Limited	4(4)	4(8) ⁵
5.	Gurgaon Technology Park Limited	1(1)	---

Note: Figures in bracket indicate number of meetings in which at least one of the independent directors was absent.

Haryana Power Generation Corporation Limited, Haryana State Industrial and Infrastructure Development Corporation Limited and Haryana State Roads and Bridges Development Corporation Limited in its reply stated (December 2024) that sometime Independent Directors could not attend the meetings due to their

² One Independent Director was absent in one Audit Committee Meeting and one Nomination and Remuneration Committee meeting.

³ One Independent Director was absent in three Audit Committee meetings and one Nomination and Remuneration Committee meeting.

⁴ One Independent Director was absent in one Audit Committee meeting and one Independent Director was absent in one Nomination and Remuneration Committee meeting.

⁵ Four Independent Directors were absent in four Audit Committee meetings, two independent directors were absent in one Nomination and Remuneration Committee meeting and three independent Directors were absent in three Corporate Social Responsibility Committee meetings.

pre-occupation. The reply is not acceptable as Independent Director should be encouraged to attend the Board meeting so that an independent view on the decisions of the management may be taken in the interest of the stakeholders.

8.3.4 Attending General Meetings of the Company

Para III (5) of Schedule IV of the Companies Act, 2013 states that Independent Directors shall strive to attend all the General meetings of the Company. **Table 8.5** indicates SPSEs where Independent Directors did not attend the General meetings of the Company during the year 2022-23.

Table 8.5: List of Companies where Independent Director did not attend General Meetings

Sl. No.	Name of SPSEs	No. of Independent Directors who did not attend General Meetings
1.	Uttar Haryana Bijli Vitran Nigam Limited	1
2.	Dakshin Haryana Bijli Vitran Nigam Limited	1
3.	Haryana Mass Rapid Transport Corporation Limited	1
4.	Haryana Agro Industries Corporation Limited	3
5.	Haryana State Roads and Bridges Development Corporation Limited	2

Haryana Mass Rapid Transport Corporation Limited and Uttar Haryana Bijli Vitran Nigam Limited in its reply stated (December 2024) that it is not mandatory to attend the General Meetings. Haryana State Roads and Bridges Development Corporation Limited stated in its reply (December 2024) that Independent Directors could not attend General meeting of the Company due to their pre-occupancy. The replies are not acceptable as Independent Director should be encouraged to attend the General meetings so that an independent view on the decisions of the management may be taken in the interest of the stakeholders.

8.4 Filling-up the vacancies of Directors and Key Managerial Personnels

Timely filling up of vacancies in the posts of Directors and key managerial personnel's etc. ensures the availability of required skill and expertise in the management of the company. Any delay in filling of vacancies may hamper the effectiveness of the decision-making process. Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014 stipulates that vacancy arising out of resignation or removal of an Independent Director should be filled up at the earliest but not later than the immediate next board meeting or three months from the date of such vacancy, whichever is later. However, it was observed that the SPSEs detailed in **Table 8.6** did not comply with the above provision during 2022-23 and the posts of Independent Directors remained vacant for a considerable period of time:

Table 8.6: SPSEs where vacancies of Independent Directors not filled in time

Sl. No.	Name of SPSE	Minimum no. of Independent Directors required	No. of posts vacant	Total number of months for which posts remained vacant (During 2022-23)
1.	Haryana Power Generation Corporation Limited	2	1	7 (20 July 2022 to 05 February 2023)
2.	Uttar Haryana Bijli Vitran Nigam Limited	2	1	6 (01 April 2022 to 05 October 2022)
3.	Dakshin Haryana Bijli Vitran Nigam Limited	2	1	7 (10 June 2022 to 22 January 2023)
4.	Haryana Seeds Development Corporation Limited	2	2	24 (Two post remained vacant for 12 months 01 April 2022 to 31 March 2023) each
5.	Drone Imaging and Information Services of Haryana Limited	2	2	24 (Two post remained vacant for 12 months 01 April 2022 to 31 March 2023) each
6.	Haryana Police Housing Corporation Limited	2	2	24 (Two post remained vacant for 12 months 01 April 2022 to 31 March 2023) each

Haryana Power Generation Corporation Limited in its reply stated (December 2024) that the one Independent Director of the Company resigned on 9 June 2022, the Company initiated the process for appointment of Independent Director on 21 June 2022 against the vacancy of Independent Director followed by reminder. However, the State Government approved the appointment on 27 January 2023 and order of appointment was issued on 6 February 2023.

Uttar Haryana Bijli Vitran Nigam Limited in its reply stated (December 2024) that the tenure of Independent Directors was completed on 15 December 2021, the case was, therefore, sent to the State Government to fill up the vacancies well before the date of completion of their tenure i.e on 18 November 2021 followed by reminders. However, the State Government approved the appointment on 6 October 2022.

Further, it was also observed that in the SPSEs listed in **Table 8.7**, vacancies of key managerial personnel were not filled within the period of six months from such vacancy prescribed in Section 203 (4) of the Companies Act, 2013:

Table 8.7: SPSEs where vacancies of key managerial personnel not filled up in time

Sl. No.	Name of SPSE	Name of post	No. of months for which post remained vacant during 2022-23
1.	Haryana Scheduled Castes Finance and Development Corporation Limited	Chief Finance Officer	12
		Company Secretary	12
2.	Haryana Police Housing Corporation Limited	Chief Finance Officer	12
		Company Secretary	12

8.5 Audit Committee

8.5.1 Composition of Audit Committee

Section 177 (1) and (2) of the Companies Act, 2013, stipulate that there shall be an Audit Committee with a minimum of three directors with Independent Directors forming majority. Further, Rule 6 of Companies (Meetings of Board

and its Powers) Rules, 2014 provides that every public company with a paid-up capital of ₹ 10 crore or more or turnover of ₹ 100 crore or more or outstanding loans or borrowings or debentures or deposits exceeding ₹ 50 crore or more shall constitute an Audit Committee.

In terms of above stipulations, 17 companies listed in *Appendix 8.3* were required to constitute Audit Committee. However, it was observed that SPSEs as detailed in *Table 8.8* did not constitute Audit Committee during 2022-23:

Table 8.8: SPSEs where Audit Committee not constituted

Sl. No.	Name of SPSE
1.	Haryana Women Development Corporation Limited
2.	Haryana Police Housing Corporation Limited
3.	Haryana Seeds Development Corporation Limited

Haryana Women Development Corporation Limited in its reply stated (November 2024) that the Company is a private limited company, therefore, it is not required to constitute Audit Committee. The reply is not acceptable as the Company is registered as public company with the Ministry of Corporate Affairs.

Haryana Seeds Development Corporation Limited in its reply stated (January 2025) that Independent Directors are yet to be appointed by the State Government and in the absence of Independent Directors, the Audit Committee could not be constituted.

Further, majority of the members of the Audit Committee were not Independent Directors in respect of the SPSEs detailed in *Table 8.9*.

Table 8.9: SPSEs where Audit Committees do not have majority of Independent Directors

Sl. No.	Name of SPSE
1.	Drone Imaging and Information Services of Haryana Limited
2.	Gurgaon Technology Park Limited

8.5.2 Review of Supplementary Audit Findings of the CAG

All SPSEs are subject to the audit of the CAG as per the statutory mandate. Section 143 (6) of the Companies Act, 2013, authorises the CAG to carry out supplementary audit of accounts of Government Companies. Further, Section 177 (4) (iii) of the Companies Act, 2013 provides that Audit Committee shall examine the financial statements and Auditors' Report thereon. Thus, in case of SPSEs, it is the mandate of the Audit Committee to review the findings of the CAG. Audit observed that comments of CAG on Annual Accounts were not reviewed by Audit Committee of Haryana State Roads and Bridges Development Corporation Limited.

8.6 Other Committees

8.6.1 Nomination and Remuneration Committee

Section 178 (1) of the Companies Act, 2013 and Rule 6 of the Companies (Meeting of Boards and its Powers), Rules 2014, stipulate that each public company shall constitute a Nomination and Remuneration Committee (NRC) comprising of at least three Directors, all of whom should be non-executive Directors and at least half shall be independent and Chairman of the Committee shall be an Independent Director. However, there was no such committee in the SPSEs as detailed in **Table 8.10**.

Table 8.10: SPSEs not having Nomination and Remuneration Committee

Sl. No.	Name of SPSE
1.	Haryana Police Housing Corporation Limited
2.	Haryana Seeds Development Corporation Limited

Though Drone Imaging and Information Services of Haryana Limited formed the above Committee, the requirement of Independent Directors was not fulfilled during 2022-23. Further, two SPSEs (Drone Imaging and Information Services of Haryana Limited and Haryana Agro Industries Corporation Limited) have NRC Committee but did not held meeting of NRC.

In case of any contravention of the provisions of Section 178 (Nomination and Remuneration Committee), company shall be punishable with fine which shall not be less than one lakh rupees. However, it was observed that no such penalty had been imposed by the Registrar of the Companies during 2022-23.

8.7 Whistle Blower Mechanism

8.7.1 Section 177 (9) of the Companies Act, 2013 read with Rule 7 of the Companies (Meeting of Boards and its Powers), Rules 2014 provides that the Company shall establish a vigil mechanism for directors and employees to report concerns about unethical behavior, actual or suspected fraud or violation of the company's code of conduct or ethics policy. It was observed that six SPSEs were required to establish the mechanism, however, one SPSE (Haryana Police Housing Corporation Limited) did not establish any such mechanism.

8.7.2 Para III (10) of Schedule IV of the Companies Act, 2013 read with Rule 7(2) of the Companies (Meeting of Boards and its Powers) Rules, 2014 stipulates review of functioning of the 'Whistle Blower Mechanism' by the Audit Committee, in case the same exists in the Company. In one SPSEs (Haryana Vidyut Prasaran Nigam Limited), though whistle blower mechanism existed, the Audit Committee did not review it.

8.8 Annual General Meeting

Section 96 of the Companies Act, 2013 provides that, every company other than a One Person Company shall in each year hold in addition to any other meetings, a general meeting as its annual general meeting. It was observed that no Annual General Meeting (AGM) was held in SPSEs as listed in **Table 8.11** during 2022-23.

Table 8.11: SPSEs where Annual General Meeting was not held

Sl. No.	Name of SPSE
1.	Haryana Scheduled Castes Finance and Development Corporation Limited
2.	Haryana State Financial Services Limited
3.	Faridabad Smart City Limited
4.	Faridabad City Transport Services Limited
5.	Haryana Kaushal Rozgar Nigam Limited

Section 101 of the Companies Act, 2013 provides that a general meeting of a company may be called by giving not less than clear 21 days' notice either in writing or through electronic mode in such a manner as may be prescribed. Further, a general meeting may be called after giving a shorter notice if consent is given in writing or by electronic mode by not less than 95 *per cent* of the members entitled to vote at such meeting. It was observed that in Haryana Forest Development Corporation Limited has issued shorter period notice despite not getting requisite consent.

8.9 Policy Relating to Related Parties

Regulation 23 (1) & (4) of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 stipulated that every company shall formulate a policy on materiality of related party transactions. Further, such material related party transactions required to be approved by Shareholders through resolution. However, Haryana Vidyut Prasaran Nigam Limited has not formulated such policy.

8.10 Conclusions

Out of 32 selected SPSEs, no Independent Directors were appointed in three SPSEs; delays of more than six months were observed in filling vacancies of Independent Directors in six SPSEs; delays of 12 months were observed in filling up vacancies of key managerial personnel in two SPSEs; no Audit Committee was there in three SPSEs; no Nomination and Remuneration Committee was constituted in two SPSEs; no whistle blower mechanism was put in place in one SPSE, policy dealing with related party transactions was not disclosed on website whose bonds were listed on the exchange.

8.11 Recommendations

Haryana Bureau of Public Enterprises should prepare a policy for appointment of Independent Directors stating standard terms and conditions including timeline for initiation of proposal for their appointment, sitting fees etc. Government of Haryana may impress upon the respective Administrative Ministries/ Departments to ensure compliance of provision as contained in the Companies Act, 2013 read with Companies Rules, 2014 so as to achieve the objectives of Corporate Governance in SPSEs.