

# Corporate Governance

## 3.1 Corporate Governance

Corporate Governance is a system of structuring, operating and controlling an organisation with a view to achieving long term strategic goals to satisfy the stakeholder (shareholders, employees, customers, suppliers, government and community) and complying with the legal and regulatory requirements. Corporate Governance is a way of directing and controlling companies. It is concerned with the morals, ethics, values, parameters, conduct and behaviour of the company and management. It is the system by which companies are directed and controlled by the management in the best interest of the shareholders and other stakeholders ensuring greater transparency and better and timely financial reporting. 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 public sector.

### 3.1.1 Corporate Governance in India

The direction of Corporate Governance initiatives in India has been dictated mainly by the Companies Act, 1956, Securities and Exchange Board of India (SEBI) and Department of Public Enterprises (DPE). While the various amendments to the Companies Act, 1956 gave the governance direction to the companies in the country as a whole, the DPE had issued guidelines on Corporate Governance for Central Public Sector Enterprises (CPSEs) providing the path for governance initiatives in the public sector.

### 3.1.2 DPE guidelines on Corporate Governance for Central Public Sector Undertakings

The DPE issued guidelines on Corporate Governance in November 1992 on the inclusion of non – official directors on the Board of Directors. DPE issued further guidelines in November, 2001 providing for inclusion of independent directors on the Board of Directors. To bring in more transparency and accountability in the functioning of CPSEs, the government in June, 2007 introduced the guidelines on Corporate Governance for CPSEs. These guidelines were voluntary in nature. These guidelines were implemented for an experimental period of one year. On the basis of the experience gained during this period, it was decided to modify and reissue the DPE guidelines in May, 2010. These guidelines have been made mandatory and applicable to all CPSEs. The guidelines issued by DPE covered the areas of composition of Board of Directors, composition and functions of Board committees like Audit Committee, Remuneration committee, details on subsidiary companies, disclosures, reports and the schedules for implementation. All references to DPE guidelines in this chapter refer to the DPE guidelines issued in May, 2010 which are mandatory to all CPSEs.

### 3.1.3 Provisions of the Companies Act, 1956 with regard to Corporate Governance

The Companies Act, 1956 does not have any direct provisions regarding Corporate Governance but different provisions of the Companies Act, 1956 prescribe certain practices that go in building a robust corporate governance structure. Some of the provisions of the Companies Act, 1956 are indicated below:

- Section 217 (2AA) made applicable with effect from December, 2000 provides for Directors' Responsibility Statement as part of the Board's Report indicating that the applicable Accounting Standards have been followed in the preparation of the accounts and reporting the material departures there from, that the companies follow their accounting policies consistently and that all the accounting records are maintained as per the requirements of the Companies Act, 1956.
- Section 292A made applicable with effect from December, 2000 provides for the constitution of Audit Committee as a Committee of the Board in every public company having a paid up capital of not less than ₹ 5 crore. The terms of reference of the Audit Committee include all matters related to financial reporting process, internal control and risk management system of the company, overseeing the audit process and performing other duties and responsibilities as assigned by the Board.
- Section 299 of the Act requires every director of a company to make disclosure, at the Board meeting, of the nature of his concern or interest in a contract or arrangement (present or proposed) entered by or on behalf of the company. The company is also required to record such transactions in the Register of Contract under section 301 of the Act.

#### 3.1.4 SEBI guidelines on Corporate Governance

The Securities and Exchange Board of India (SEBI) vide its circular dated 21 February 2000 introduced a new clause 49 in the Listing agreement. Clause 49 of the Listing Agreement was amended in October 2004 and the revised clause was made effective from 1 January 2006. Clause 49 of the listing agreement provides for the composition of the Board of Directors, the remuneration of the non – executive directors, composition and functions of the Audit Committee, role of the Board of Directors and Audit Committee of a holding company *vis-à-vis* the subsidiary, Disclosures and Compliance reports among other things.

#### 3.1.5 Review of compliance by selected CPSEs of the Corporate Governance provisions

As on 31 March 2013, there were 525 Central Government Public Sector Enterprises (CPSEs) under the audit jurisdiction of the Comptroller and Auditor General of India. These included 358 government companies, 161 deemed government companies and six statutory corporations. Majority of these CPSEs, including Maharatnas, Navratnas and Miniratnas are earning profit and have improved their financial performance over the years. In the context of the policy of the government to grant more autonomy to the CPSEs, Corporate Governance has become even more important. Under the Maharatna Scheme, CPSEs are expected to expand international operations and become global giants, for which effective Corporate Governance is imperative.

For the purpose of the review, an assessment framework was prepared based on the provisions contained in the Companies Act, 1956, guidelines issued by the SEBI and DPE. The assessment framework consists of specific questions regarding the composition and functions of the Board of Directors, code of conduct of Board members, composition and the terms of reference of Audit Committees etc.

This year, CPSEs under the Ministry of Chemicals and Fertilizers, Ministry of Defence, Ministry of Steel and Ministry of Shipping have been selected for the purpose of reviewing their adherence with the Corporate Governance provisions reflected in their assessment framework. The review covered **45 companies** under the jurisdiction of the aforesaid four ministries. The period of one year ended March, 2013 was covered in the review. A list of these companies is given in the **Appendix - XXI**. The findings of the review are presented in the following paragraphs.

## 3.2 Board of Directors

### 3.2.1 Government Nominee Directors

DPE guidelines stipulated that Government Nominee Directors should not exceed one-sixth of the actual strength of the Board of Directors and it is preferable to have only one representative on the Board. However, in no case, they should exceed two. In the following companies, Government Directors were more than two in number:

Sl. No.	Name of the CPSEs	No. of Government Nominee Directors
1	Fertilizer Corporation of India Limited	4
2	Karnataka Antibiotics and Pharmaceuticals Limited	5
3	Rajasthan Drugs and Pharmaceuticals Limited	7
4	The Fertilizer and Chemicals Travancore Limited	3

### 3.2.2 Independent Directors

The Board is the most significant instrument of Corporate Governance. The presence of independent representatives on the Board, capable of challenging the decisions of the management, is widely considered as a means of protecting the interests of shareholders and other stakeholders. In terms of Clause 49 (I) (A) (ii) of listing agreement and the DPE guidelines, where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise independent directors and in case he is an executive director, at least half of the Board should comprise independent directors. The nominee directors are not considered as independent directors.

**3.2.2.1** The review of composition of the Board of Directors of the reviewed companies revealed that the following companies did not have the required number of independent directors on their Board:

Sl. No.	Name of the CPSEs	Required	Actual
1	Bharat Dynamics Limited	5	3
2	Bharat Electronics Limited	8	7
3	Brahmaputra Crackers and Polymers Limited	5	2
4	Brahmaputra Valley Fertilizer Corporation Limited	4	1
5	Dredging Corporation of India Limited	4	3
6	Ennore Port Limited	4	3
7	Ferro Scrap Nigam Limited	2	1
8	Garden Reach Ship Builders & Engineering Limited	4	3
9	Goa Shipyard Limited	4	3
10	Hindustan Aeronautics Limited	7	4
11	Hindustan Antibiotics Limited	2	1
12	Hindustan Fluorocarbons Limited	3	1
13	Hindustan Organic Chemicals Limited	4	1
14	Hindustan Shipyard Limited	5	2
15	Hindustan Steel Works Construction Company Limited	2	1
16	KIOCL Limited	4	2
17	Madras Fertilizers Limited	4	3
18	Mazagon Dock Limited	5	4
19	MECON (India) Limited	5	3
20	Mishra Dhatu Nigam Limited	4	3
21	MSTC Limited	4	3
22	National Fertilizers Limited	3	1
23	Steel Authority of India Limited	8	7

3.2.2.2 In respect of following CPSEs, there were no independent directors on the Board.

Sl. No.	Name of the CPSEs
1	BEL Optronics Devices Limited
2	Bengal Chemicals and Pharmaceuticals Limited
3	Central Inland Water Transport Corporation Limited
4	Fertilizer Corporation of India Limited
5	Hindustan Fertilizer Corporation Limited
6	Hindustan Insecticides Limited
7	Indian Drugs and Pharmaceutical Limited
8	Karnataka Antibiotics and Pharmaceuticals Limited
9	Projects & Development India Limited
10	Rajasthan Drugs and Pharmaceuticals Limited
11	Rashtriya Chemicals and Fertilizers Limited
12	SAIL Refractory Company Limited
13	The Fertilizer and Chemicals Travancore Limited

### 3.2.3 Non-executive Directors on the Board

Clause 49 (I) (A) (i) of listing agreement and para 3.1 and 3.2 of DPE guidelines stipulate that the Board of Directors of the company shall have an optimum combination of executive and non-executive directors/functional and non – functional directors with not less than fifty *per cent* of the Board of Directors comprising non-executive directors. In the following companies, the non-executive directors constituted less than 50 *per cent* of the total Board strength.

Sl. No.	Name of the CPSEs	Required	Actual
1	Hindustan Aeronautics Limited	7	6
2	Hindustan Insecticides Limited	3	2
3	Hindustan Organic Chemicals Limited	4	3
4	Hindustan Shipyard Limited	5	4
5	Rashtriya Chemicals and Fertilizers Limited	3	2

### 3.2.4 Information on activities and affairs of the company

DPE guidelines and clause 49 of the listing agreement have prescribed the minimum information about the activities and affairs of the company that should be furnished to the Board. Such information includes annual operating plans, budgets, quarterly results, minutes of audit committee, information on recruitment and remuneration of senior level officers just below Board level, details of joint venture, foreign exchange etc. In respect of the following companies, annual operating plans, capital and revenue budgets and updates were not furnished to the Board:

Sl. No.	Name of the CPSEs
1	Eastern Investment Limited
2	Fertilizer Corporation of India Limited
3	Hindustan Antibiotics Limited
4	Hindustan Steel Works Construction Company Limited
5	Indian Drugs and Pharmaceutical Limited

### 3.2.5 Risk Management

Enterprise risk management helps management in managing the risk and avoiding damage to the entity's reputation and associated consequences. Considering the significance of risk management in the scheme of corporate management strategies, its oversight should be one of the main responsibilities of the Board/Management. DPE Guidelines emphasize that the Board should ensure the integration and alignment of the risk management system with the corporate and operational objectives and also that risk management is undertaken as a part of normal business practice and not as a separate task at set times. In respect of the following companies, risk policy is yet to be evolved.

Sl. No.	Name of the CPSEs
1	Bharat Dynamics Limited
2	Eastern Investment Limited
3	Ennore Port Limited
4	Fertilizer Corporation of India Limited
5	Hindustan Aeronautics Limited
6	Hindustan Antibiotics Limited
7	Hoogly Dock and Port Engineers Limited
8	SAIL Refractory Company Limited
9	Sethusamudram Corporation Limited
10	Vignyan Industries Limited

### 3.2.6 Filling-up the posts of directors – functional, non-functional, independent

Timely filling up of vacancies in the posts of Directors 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. In respect of following companies there was delay of 6 months or more in filling the posts of directors-functional, non-functional, independent etc., as on 31.03.2013.

Sl. No.	Name of the CPSEs	Name of the post	No of months
1	BEL Optronics Devices Limited	Director (Finance)	7
2	Bharat Dynamics Limited	Director (Technical)	7
3	Bharat Electronics Limited	Director (Finance)	10
		2 Independent Directors	6
4	Brahmaputra Crackers and Polymers Limited	Director (Finance)	13
5	Brahmaputra Valley Fertilizer Corporation Limited	Regular Chairman & Managing Director	16
		Director (Finance)	9
6	Dredging Corporation of India Limited	2 Independent Directors	24
		One Government Director	12
7	Ferro Scrap Nigam Limited	Managing Director	7
		Independent Director	8
8	Garden Reach Ship Builders & Engineering Limited	Director (Finance)	10
9	Hindustan Aeronautics Limited	Director (Corporate Planning & Marketing)	18

10	Hindustan Insecticides Limited	Independent Directors	Not filled since May 1989
11	Hindustan Shipyard Limited	Independent Directors	6
12	Hindustan Steel Works Construction Company Limited	One Independent Director	9
13	KIOCL Limited	4 Independent Directors	7
14	Rashtriya Chemicals and Fertilizers Limited	Director (Technical)	6
		Director (Marketing)	21
		Independent Directors	7 to 34
15	The Fertilizer and Chemicals Travancore Limited	Independent Directors	13

### 3.3 Audit Committee

**3.3.1** Clause 49 (II) (A) of listing agreement and Chapter 4 of DPE guidelines stipulate that, there shall be an Audit committee with a minimum of three directors as members of which two-thirds shall be independent Directors. However, **Indian Drugs and Pharmaceuticals Limited** had not formed an Audit Committee, despite having paid up capital of more than ₹ 5 crore, in violation of the DPE guidelines.

#### 3.3.2 Composition of Audit Committee

In respect of the following companies, two-thirds of the members of the Audit Committee are not Independent Directors as required:

Sl. No.	Name of the CPSEs
1	BEL Optronics Devices Limited
2	Bengal Chemicals and Pharmaceuticals Limited
3	Brahmaputra Valley Fertilizer Corporation Limited
4	Central Inland Water Transport Corporation Limited
5	Fertilizer Corporation of India Limited
6	Hindustan Fertilizers Corporation Limited
7	Hindustan Fluorocarbons Limited
8	Hindustan Insecticides Limited
9	Hindustan Organic Chemicals Limited
10	Karnataka Antibiotics and Pharmaceuticals Limited
11	Madras Fertilizers Limited
12	National Fertilizers Limited
13	Projects & Development India Limited
14	Rashtriya Chemicals and Fertilizers Limited
15	The Fertilizer and Chemicals Travancore Limited

#### 3.3.3 Chairman of the Audit Committee

As per clause 49 (II) (A) (iii) of the listing agreement and DPE guidelines, the Chairman of the Audit committee shall be an independent director. In the following cases, the Chairman of the Audit committee was not an independent director:

Sl. No.	Name of the CPSEs
1	BEL Optronics Devices Limited
2	Fertilizer Corporation of India Limited
3	Hindustan Antibiotics Limited
4	Hindustan Fertilizers Corporation Limited
5	Hindustan Insecticides Limited
6	Hindustan Organic Chemicals Limited
7	Karnataka Antibiotics and Pharmaceuticals Limited
8	Madras Fertilizers Limited
9	Projects & Development India Limited
10	Rashtriya Chemicals and Fertilizers Limited
11	The Fertilizer and Chemicals Travancore Limited

**3.3.4** The Company Secretary did not act as the secretary to the Audit Committee in respect of following companies as required vide clause 49 (II) (A) (vi) of the listing agreement:

Sl. No.	Name of the CPSEs
1	Bengal Chemicals and Pharmaceuticals Limited
2	Central Inland Water Transport Corporation Limited

**3.3.5** The terms of reference of the Audit Committee should be in writing and should clearly articulate the role and the specific responsibilities of the Audit Committee. In respect of **Hindustan Antibiotics Limited**, no terms of reference were specified for Audit Committee.

**3.3.6** It is a good practice to issue appointment letters to the members of Audit Committee which clearly sets out their appointment and purpose, commitment required, remuneration, appraisal, support and training that they will receive, expected conduct, duration of appointment and how often it may be renewed and termination conditions. This good practice was being followed in following companies:

Sl. No.	Name of the CPSEs
1	Hindustan Steel Works Construction Company Limited
2	Madras Fertilizers Limited
3	MSTC Limited
4	Rashtriya Ispat Nigam Limited
5	Sethusamudram Corporation Limited

### 3.3.7 Meetings of Audit committee

Clause 49 II (B) of Listing Agreement and Chapter 4 of DPE guidelines (para 4.4) require that the Audit Committee should meet at least four times in a year and not more than four months shall elapse between two meetings. During review, it was noticed that in respect of following companies, there were less than four meetings in the year 2012-13:

Sl. No.	Name of the CPSEs
1	Bengal Chemicals and Pharmaceuticals Limited
2	Fertilizer Corporation of India Limited
3	Hindustan Antibiotics Limited
4	Hindustan Fertilizers Corporation Limited
5	Hoogly Dock and Port Engineers Limited

6	Karnataka Antibiotics and Pharmaceuticals Limited
7	Mishra Dhatu Nigam Limited
8	Projects & Development India Limited
9	Sethusamudram Corporation Limited

**3.3.8** In the following companies, the gap between two audit committee meetings exceeded four months:

Sl. No.	Name of the CPSEs
1	Bengal Chemicals and Pharmaceuticals Limited
2	Ferro Scrap Nigam Limited
3	Fertilizer Corporation of India Limited
4	Hindustan Fertilizers Corporation Limited
5	Hindustan Insecticides Limited
6	Hindustan Organic Chemicals Limited
7	Hindustan Steel Works Construction Company
8	Karnataka Antibiotics and Pharmaceuticals Limited
9	MOIL Limited
10	MSTC Limited

### 3.3.9 Adequacy of internal audit function

As per clause 49 (II) (D) (7) and DPE guidelines, the Audit Committee should review the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure, coverage and frequency of internal audit. In the following companies, the audit committee has not reviewed the internal audit functions:

Sl. No.	Name of the CPSEs
1	Bengal Chemicals and Pharmaceuticals Limited
2	Bharat Dynamics Limited
3	Dredging Corporation of India Limited
4	Fertilizer Corporation of India Limited
5	Hindustan Aeronautics Limited
6	Hindustan Antibiotics Limited
7	Karnataka Antibiotics and Pharmaceuticals Limited

**3.3.10** It is also the responsibility of the Audit committee to hold discussion with internal auditors and/or auditors on any significant findings and follow up there on. It was observed that, in the following companies, the audit committee has not conducted any discussion with internal auditors:

Sl. No.	Name of the CPSEs
1	Bengal Chemicals and Pharmaceuticals Limited
2	Fertilizer Corporation of India Limited
3	Hindustan Aeronautics Limited
4	Hindustan Antibiotics Limited
5	Hindustan Fertilizers Corporation Limited

### 3.3.11 Whistle Blower Mechanism

Clause 49 II (D) (12) of the Listing Agreement and Para 4.2.12 of DPE guidelines require the Audit Committee to review the functioning of the 'Whistle Blower Mechanism' in case the same exists in the company. The Listing Agreement contemplates that the company may establish a mechanism for employees to report to the management concerns about unethical behaviour, actual or suspected fraud or violation of the company's code of conduct or ethics policy. This mechanism could also provide for adequate safeguards against victimisation of employees who avail of the mechanism and also provide for direct access to the Chairman of the Audit Committee in exceptional cases. Once established, the existence of the mechanism may be appropriately communicated within the organization. In the following companies, there was no whistle blower mechanism:

Sl. No.	Name of the CPSEs
1	BEL Optronics Devices Limited
2	Bengal Chemicals and Pharmaceuticals Limited
3	Bharat Electronics Limited
4	Central Inland Water Transport Corporation Limited
5	Fertilizer Corporation of India Limited
6	Garden Reach Ship Builders & Engineering Limited
7	Goa Shipyard Limited
8	Hindustan Antibiotics Limited
9	Hindustan Organic Chemicals Limited
10	Hoogly Dock and Port Engineers Limited
11	Indian Drugs and Pharmaceuticals Limited
12	Karnataka Antibiotics and Pharmaceuticals Limited
13	Mazagon Dock Limited
14	MECON (India) Limited
15	MOIL Limited
16	Projects & Development India Limited
17	Rajasthan Drugs and Pharmaceuticals Limited
18	Rashtriya Ispat Nigam Limited
19	SAIL Refractory Company Limited
20	Sethusamudram Corporation Limited
21	Vignyan Industries Limited

**3.3.12** In some of the companies, though whistle blower mechanism exists, the Audit committee did not review it.

Sl. No.	Name of the CPSEs
1	BEML Limited
2	Bharat Dynamics Limited
3	Cochin Shipyard Limited
4	Dredging Corporation of India Limited
5	Ferro Scrap Nigam Limited
6	Hindustan Aeronautics Limited
7	Hindustan Steel Works Construction Company Limited
8	The Fertilizer and Chemicals Travancore Limited

### 3.3.13 Review of fixation of audit fees

As per Para 4.2.2 of DPE guidelines, Audit Committee should recommend the fixation of audit fees of the Statutory Auditors' to the Board of Directors. In the case of following companies the Audit Committee did not recommend the fixation of audit fee:

Sl. No.	Name of the CPSEs
1	Bengal Chemicals and Pharmaceuticals Limited
2	Central Inland Water Transport Corporation Limited
3	Fertilizer Corporation of India Limited
4	Hindustan Antibiotics Limited

### 3.3.14 Discussion with Statutory Auditors

Clause 49 (II) (D) and para 4.2.10 of DPE guidelines provide that Audit Committee should hold discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern. In respect of the following Companies, the audit committees did not hold the discussions:

Sl. No.	Name of the CPSEs	Which discussion not held
1	BEL Optronics Devices Limited	Both pre-audit and post audit discussions
2	Bengal Chemicals and Pharmaceuticals Limited	Both pre-audit and post audit discussions
3	Brahmaputra Crackers and Polymers Limited	Pre-audit discussion
4	Dredging Corporation of India Limited	Both pre-audit and post audit discussions
5	Ferro Scrap Nigam Limited	Both pre-audit and post audit discussions
6	Fertilizer Corporation of India Limited	Both pre-audit and post audit discussions
7	Goa Shipyard Limited	Both pre-audit and post audit discussions
8	Hindustan Fertilizers Corporation Limited	Pre-audit discussion
9	Hindustan Shipyard Limited	Pre-audit discussion
10	Hindustan Steel Works Construction Company Limited	Pre-audit discussion
11	Karnataka Antibiotics and Pharmaceuticals Limited	Both pre-audit and post audit discussions
12	KIOCL Limited	Pre-audit discussion
13	Mazagon Dock Limited	Pre-audit discussion
14	The Fertilizer and Chemicals Travancore Limited	Pre-audit discussion

### 3.3.15 Progress of Expansion Projects

One of the prime responsibilities of the Audit Committee is the oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible. The Audit Committee needs to have first hand knowledge of the ongoing projects in the company to carry out its functions effectively. In view of this, the Audit Committee has to make a periodical review on progress of expansion projects, joint ventures, Special Purpose Vehicles and take to the notice of the Management, deficiencies, if any and subsequently monitor the action taken. In respect of following companies, the audit committees have not carried out any such exercise:

Sl. No.	Name of the CPSEs
1	BEML Limited
2	Bharat Electronics Limited
3	Garden Reach Ship Builders & Engineering Limited
4	Goa Shipyard Limited
5	Hindustan Aeronautics Limited

6	Mishra Dhatu Nigam Limited
7	MOIL Limited
8	National Fertilizers Limited
9	Steel Authority of India Limited

### 3.4 Code of Conduct for all Board Members

Clause 49 (I) (D) of the listing agreement and Para 3.4 of DPE guidelines stipulate that the Code of conduct for all Board members should be posted on the website of the Companies and all Board Members and senior management personnel shall affirm compliance with the code on annual basis. The code of conduct was not posted on website by following companies:

Sl. No.	Name of the CPSEs
1	Bengal Chemicals and Pharmaceuticals Limited
2	Central Inland Water Transport Corporation Limited
3	Fertilizer Corporation of India Limited
4	Hindustan Fertilizers Corporation Limited*
5	Hindustan Insecticides Limited
6	Hindustan Organic Chemicals Limited
7	Hoogly Dock and Port Engineers Limited
8	Indian Drugs and Pharmaceuticals Limited
9	Mazagon Dock Limited
10	Rajasthan Drugs and Pharmaceuticals Limited
11	SAIL Refractory Company Limited*
12	Sethusamudram Corporation Limited
13	Vignyan Industries Limited

**3.4.1** In respect of the following companies, annual affirmation on the code of conduct has not been recorded by the company:

Sl. No.	Name of the CPSEs
1	Bengal Chemicals and Pharmaceuticals Limited
2	Central Inland Water Transport Corporation Limited
3	Hindustan Organic Chemicals Limited
4	Indian Drugs and Pharmaceuticals Limited
5	SAIL Refractory Company Limited

### 3.5 Remuneration Committee for performance related pay

Chapter 5 of DPE guidelines contemplates that each CPSE shall constitute a Remuneration Committee comprising at least three Directors, all of whom should be part-time Directors (i.e. Nominee Directors or Independent Directors). The Committee should be headed by an Independent Director. CPSE will not be eligible for performance related pay unless the Independent Directors are on its Board. Remuneration Committee will decide the annual bonus/variable pay pool and policy for its distribution across the executives and non unionized

\* Company stated that they do not have a web-site.

supervisors, within the prescribed limits. In the following companies there is no remuneration committee.

Sl. No.	Name of the CPSEs
1	Bengal Chemicals and Pharmaceuticals Limited
2	Fertilizer Corporation of India Limited
3	Hindustan Antibiotics Limited
4	Hindustan Insecticides Limited
5	Hindustan Organic Chemicals Limited
6	Hoogly Dock and Port Engineers Limited
7	Karnataka Antibiotics and Pharmaceuticals Limited
8	Rashtriya Chemicals and Fertilizers Limited
9	SAIL Refractory Company Limited
10	Sethusamudram Corporation Limited
11	The Fertilizer and Chemicals Travancore Limited
12	Vignyan Industries Limited

### 3.6 Conclusion:

From the above, it can be seen that some CPSEs are not following the DPE guidelines on Corporate Governance inspite of the guidelines being made mandatory. It is seen that many companies do not have adequate representation of independent directors on their Boards. Vacancies on the Board of Directors had not been filled up in time.

The functioning of the Audit Committees generally was not as envisaged by the guidelines. The Audit Committees of a number of companies had not reviewed the adequacy of internal audit, had not held discussions with statutory auditors and had not reviewed the progress of expansion projects, all of which were necessary for financial reporting purposes. A number of companies had also not put a whistle blower mechanism in place.

Most of the companies have also not constituted remuneration committees and risk management committees which are essential for better functioning of the company.

### 3.7 Recommendations:

The following recommendations are made to improve the quality of corporate governance in CPSEs:

- **Since the power of appointment of directors vests with the Government, induction of the requisite number of independent directors on the Board should be ensured in the CPSEs;**
- **Compliance of DPE guidelines may be monitored by the Administrative Ministries of the CPSEs.**