CS PROFESSIONAL

GOVERNANCE, RISK MANAGEMENT, COMPLIANCES AND ETHICS REVISION NOTES

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LESSON 1 – CONCEPTUAL FRAMEWORK OF CORPORATE GOVERNANCE

GLOSSARY OF TECHNICAL WORDS

- Governance: relates to "the processes of interaction and decision-making among the actors involved in a collective problem that lead to the creation, reinforcement, or reproduction of social norms and institutions."
- Corporate Performance: is a composite assessment of how well an organization executes on its most important parameters, typically financial, market and shareholder performance.
- Triple Bottom Line: is an accounting framework with three parts: social, environmental and financial. Organizations have adopted the TBL framework to evaluate their performance in a broader perspective to create greater business value.
- Sarbanes Oxley Act: An American federal law, 2002, which substantially revised and strengthened securities laws and their administration in the aftermath of high profile corporate accounting scandals such as that involving Enron.

LESSON SUMMARY

- The root of the word Governance is from ‘gubernate’, which means to steer. Corporate governance would mean to steer an organization in the desired direction. The responsibility to steer lies with the board of directors/governing board. Governance is concerned with the intrinsic nature, purpose, integrity and identity of an organization with primary focus on the entity’s relevance, continuity and fiduciary aspects.
- Corporate Governance Basic theories: Agency Theory; Stock Holder Theory; Stake Holder Theory; Stewardship Theory.
- Since the majority of the members are in an advantageous position to run the company according to their command, the minority shareholders are

often oppressed. The corporate governance provide for adequate protection for the minority shareholders when their rights are trampled by the majority.

- OECD has defined corporate governance to mean "A system by which business corporations are directed and controlled". Corporate governance structure specifies the distribution of rights and responsibilities among different participants in the company such as board, management, shareholders and other stakeholders; and spells out the rules and procedures for corporate decision making. By doing this, it provides the structure through which the company's objectives are set along with the means of attaining these objectives as well as for monitoring performance.
- The initiatives taken by Government of India in 1991, aimed at economic liberalisation and globalisation of the domestic economy, led India to initiate reform process in order to suitably respond to the developments taking place world over. On account of the interest generated by Cadbury Committee Report, the Confederation of Indian Industry (CII), the Associated Chambers of Commerce and Industry (ASSOCHAM) and, the Securities and Exchange Board of India (SEBI) constituted Committees to recommend initiatives in Corporate Governance.
- As per CII "Corporate governance deals with laws, procedures, practices and implicit rules that determine a company's ability to take informed managerial decisions vis-à-vis its claimants - in particular, its shareholders, creditors, customers, the State and employees. There is a global consensus about the objective of 'good' corporate governance: maximising long-term shareholder value."
- The Kumar Mangalam Birla Committee constituted by SEBI has observed that: "Strong corporate governance is indispensable to resilient and vibrant capital markets and is an important instrument of investor protection. It is the blood that fills the veins of transparent corporate disclosure and high quality accounting practices. It is the muscle that moves a viable and accessible financial reporting structure."
- N.R. Narayana Murthy Committee on Corporate Governance constituted by SEBI has observed that: "Corporate Governance is the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business

conduct and about making a distinction between personal and corporate funds in the management of a company."

- The Institute of Company Secretaries of India has also defined the term Corporate Governance to mean "Corporate Governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders."
- Initiated by Cadbury Committee, corporate governance has grown multifold in UK. UK Corporate Governance Code, 2016 is a revised version of earlier code with few new recommendations.
- With the introduction of Sarbanes–Oxley Act, 2002 Corporate Governance practices have been fundamentally altered – auditor independence, conflict of interests, financial disclosures, severe penalties for willful default by managers and auditors in particular. The Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010 has given an opportunity to shareholders to hold accountable executives of the companies they own.
- Good governance is integral to the very existence of a company. It inspires and strengthens investor's confidence by ensuring company's commitment to higher growth and profits.
- Corporate Governance extends beyond corporate law. Its fundamental objective is not mere fulfillment of the requirements of law but in ensuring commitment of the Board in managing the company in a transparent manner for maximizing stakeholder value. The real onus of achieving desired levels of corporate governance lies with corporates themselves and not in external measures.
- Ancient Indian scriptures contain learning on governance. Kautilya's Arthashastra maintains that for good governance, all administrators, including the king were considered servants of the people. Good governance and stability were completely linked. There is stability if leaders are responsive, accountable and removable. These tenets hold good even today.

LESSON 2 LEGISLATIVE FRAMEWORK OF CORPORATE GOVERNANCE IN INDIA

GLOSSARY OF TECHNICAL WORDS

- Insurance Company: A company that calculates the risk of occurrence then determines the cost to replace (pay for) the loss to determine the premium amount. A business that provides coverage, in the form of compensation resulting from loss, damages, injury, treatment or hardship in exchange for premium payments.
- Banking Company: “banking company” means a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949.
- NBFC’s : A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/ debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company)
- CPSEs: Central Public Sector Enterprises (CPSEs) are those companies in which the direct holding of the Central Government or other CPSEs is 51% or more

LESSON SUMMARY

- Legal and regulatory framework of corporate governance in India is mainly covered under the Companies Act, 2013, Listing Regulations, 2015 and SEBI guidelines.

- The Securities and Exchange Board of India (SEBI) is the prime regulatory authority which regulates all aspects of securities market enforces the Securities Contracts (Regulation) Act including the stock exchanges. Companies that are listed on the stock exchanges are required to comply with the Listing Regulations, 2015.
- Corporate Governance’ as the application of best management practices compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders.
- The companies listed with Stock Exchanges have to adhere to the SEBI (LODR) Regulations, 2015 in addition to the provisions of the Companies Act or the Act under which they been formed. The banks under governed by the different statutes hence the respective Acts under which they have been incorporated have to comply with that requirement along with the directives of the Regulatory Authorities (like RBI for Banks and IRDA for Insurance)
- The inception of the Corporate Governance norms may for banks may firstly be treated when the RBI accepted and published the Ganguly Committee Recommendations. Since India is also following the best practices as enunciated by the Basel Committee and adopted by the banks in India as per the directions of the RBI, the Corporate Governance Norms as suggested in Basel I, II and III has also been elaborated in the chapter.
- The Corporate Governance norms for insurance companies are governed by the IRDA guidelines.

LESSON 3 BOARD EFFECTIVENESS

GLOSSARY OF TECHNICAL WORDS

- Globalization: Globalization implies the opening of local and nationalistic perspectives to a broader outlook of an interconnected and interdependent world with free transfer of capital, goods, and services across national frontiers. However, it does not include unhindered movement of labor and, as suggested by some economists, may hurt smaller or fragile economies if applied indiscriminately.
- Accountability: The obligation of an individual or organization to account for its activities, accept responsibility for them, and to disclose the results in a transparent manner. It also includes the responsibility for money or other entrusted property.
- Corporate Citizen: The legal status of a corporation in the jurisdiction in which it was incorporated.
- Familiarization Programmes: The Familiarization Programmes are aimed to familiarize the independent directors with the company, their roles responsibilities in the company, nature of industry in which the company operates and business model of the company by imparting suitable training sessions.

LESSON SUMMARY

- The Board of Directors plays a pivotal role in ensuring good governance. The contribution of directors on the Board is critical to the way a corporate conducts itself.
- Responsibilities of Board - to establish an organizational vision and mission, giving strategic direction and advice, overseeing strategy implementation and performance, developing and evaluating the CEO, to ensure the organization has sufficient and appropriate human resources, ensuring effective stakeholder relations, risk mitigation, procuring resources.
- The board functions on the principle of majority or unanimity. A decision is taken on record if it is accepted by the majority or all of the directors. A single director cannot take a decision.

- Executive director or ED is a common post in many organisations, but the Companies Act does not define the phrase.
- Non-executive directors do not get involved in the day-to-day running of the business.
- Independent directors are known to bring an objective view in board deliberations. They also ensure that there is no dominance of one individual or special interest group or the stifling of healthy debate. They act as the guardians of the interest of all shareholders and stakeholders, especially in the areas of potential conflict.
- Board composition is one of the most important determinants of board effectiveness. A board should have a mix of inside/Independent Directors with a variety of experience and core competence if it is to be effective in setting policies and strategies and for judging the management's performance objectively.
- The effectiveness of the board depends largely on the leadership skills, capabilities and commitment to corporate governance practices of each individual director.
- The Chairman's primary responsibility is for leading the Board and ensuring its effectiveness.
- Induction and continuous training of Directors is of utmost importance to keep them updated with latest happenings in the company and major developments that impact the company.
- A formal evaluation of the board and of the individual directors is one potentially effective way to respond to the demand for greater board accountability and effectiveness.
- An effective board evaluation requires the right combination of timing, content, process, and individuals.

LESSON 4 BOARD PROCESSES THROUGH SECRETARIAL STANDARDS

GLOSSARY

- Agenda: An agenda is a list of meeting activities in the order in which they are to be taken up, beginning with the call to order and ending with adjournment. It usually includes one or more specific items of business to be acted upon. It may, but is not required to, include specific times for one or more activities. An agenda may also be called a docket, schedule, or calendar. It may also contain a listing of an order of business.
- Minutes: Minutes, also known as minutes of meeting, protocols or informally notes are the instant written record of a meeting or hearing.
- Quorum: It is the smallest number of people needed to be present at a meeting before it can officially begin and before official decisions can be taken.
- Timestamp means the current time of an event that is recorded by a Secured Computer System and is used to describe the time that is printed to a file or other location to help keep track of when data is added, removed, sent or received.
- Secretarial Auditor means a Company Secretary in Practice appointed in pursuance of the Act to conduct the secretarial audit of the company.

LESSON SUMMARY

- According to Section 118 (10) of the Companies Act 2013, every company shall observe secretarial standards with respect to General and Board meetings specified by the Institute of Company Secretaries of India and approved as such by the Central Government.
- The Ministry of Corporate Affairs (MCA) has accorded its approval to the Secretarial Standards (“SS”) specified by the Institute of Company Secretaries of India.

- The Secretarial Standards were notified by the Institute of Company Secretaries of India in the Official Gazette and were effective from July 1, 2015.
- SS-1 facilitates compliance with these principles by endeavouring to provide further clarity where there is ambiguity and establishing benchmark standards to harmonise prevalent diverse practices.
- SS-1 requires Company Secretary to oversee the vital process of recording and facilitating implementation of the decisions of the Board.
- SS-1 is applicable to the Meetings of Board of Directors of all companies incorporated under the Act except One Person Company.
- SS-1 provides for some of the best standard practices to be followed for conduct of meetings by the companies.

LESSON 5 BOARD COMMITTEES

GLOSSARY OF TECHNICAL WORDS

- Audit Committee: An audit committee is a selected number of members of a company's board of directors whose responsibilities include helping auditors remain independent of management. Most audit committees are made up of three to five or sometimes as many as seven directors who are not a part of company management
- Corporate Social Responsibility Committee: The Corporate Social Responsibility Committee (the "Committee") is appointed by the Board of Directors (the "Board") to promote a culture that emphasizes and sets high standards for corporate social responsibility and reviews corporate performance against those standards.
- Independent Director: An independent director (also sometimes known as an outside director) is a director (member) of a board of directors who does not have a material or pecuniary relationship with company or related persons, except sitting fees.
- Government Company: A "Government company" is defined under Section 2(45) of the Companies Act, 2013 as "any company in which not less than 51% of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company"
- Fraud monitoring Committee: Pursuant to the directions of the RBI, the Bank has constituted a Fraud Monitoring Committee, exclusively dedicated to the monitoring and following up of cases of fraud involving amounts of Rs. 1,00,00,000/- (Rupees One Crore Only) and above. The objectives of this Committee are the effective detection of frauds and immediate reporting of the frauds and actions taken against the perpetrators of frauds to the concerned regulatory and enforcement agencies.

LESSON SUMMARY

- A Board Committee is a small working group identified by the Board, consisting of Board members for the purpose of supporting the Board's work.
- To enable better and more focused attention on the affairs of the Corporation, the board delegates particular matters to committees of the board set up for the purpose.
- Committees are usually formed as a means of improving board effectiveness and efficiency, in areas where more focused, specialized and technical discussions are required.
- Committees prepare the ground work for decision-making and report at the subsequent Board meeting.
- Audit committee is one of the main pillars of the corporate governance mechanism in any company. The committee is charged with the principal oversight of financial reporting and disclosures and enhance the confidence in the integrity of the company's financial reporting and disclosure and aims to the internal control processes and procedures and the risk management systems.
- Greater specialization and intricacies of modern board work is one of the reasons for increased use of board committees.
- Mandatory committees under Companies Act 2013 are Audit Committee, Nomination and Remuneration Committee, stakeholders Relationship committee, CSR Committee.
- Other committees – Corporate Governance Committee, Compliance Committee, Risk Management Committee, Ethics Committee, Strategies Committee, Capital Expenditure (Capex) Committee, etc.
- Nomination and Remuneration Committee: Nomination and Remuneration Committee as the name suggests is constituted by a company is to determine the qualification and remuneration packages of executive directors/ chief executive officers.
- Corporate Governance Committee: A company may constitute this committee to develop and recommend the board a set of corporate governance guidelines applicable to the company, implement policies and

processes relating to corporate governance principles, to review, periodically, the corporate governance guidelines of the company.

- Corporate Compliance Committee: The primary objective of the Compliance Committee is to review, oversee, and monitor the Company's compliance with applicable legal and regulatory requirements, its policies, programs, and procedures to ensure compliance with relevant laws, its Code of Conduct, and other relevant standards.
- Risk Management Committee: A business is exposed to various kind of risk such as strategic risk, data-security risk, fiduciary risk, credit risk, liquidity risk, reputational risk, environmental risk, competition risk, fraud risk, technological risk etc. A risk management Committee's role is to assist the Board in establishing risk management policy, overseeing and monitoring its implementation.

LESSON 6 CORPORATE POLICIES AND DISCLOSURES

GLOSSARY

- Transparency: In a business or governance context, is honesty and openness. Transparency and accountability are generally considered the two main pillars of good corporate governance.
- Policy: A set of ideas or a plan of what to do in particular situations that has been agreed to officially by a group of people, a business organization, a government, or a political party.
- CSR: Corporate social responsibility (CSR) is a self-regulating business model that helps a company be socially accountable – to itself, its stakeholders, and the public.

LESSON SUMMARY

- Policies are an essential component of every organization and address important issues.
- The companies should provide easy access to policies and also publicly disclose.
- Corporate policies serve as important forms of internal control, it minimize cost and help in building a learning culture.
- Good corporate governance should ensure that timely and accurate disclosure is made regarding all material matters concerning the corporation, including its financial situation and results.
- The following are the major legislations/regulations/guidelines on transparency and disclosure requirements
    - Companies Act, 2013
    - SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009
    - SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011
    - SEBI (Prohibition of Insider Trading) Regulations, 2015

- SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

LESSON 7 ACCOUNTING AND AUDIT RELATED ISSUES, RPTS AND VIGIL MECHANISM

GLOSSARY

- Audit: An official inspection of an organization's accounts, typically by an independent body.
- Vigil Mechanism: It is a mechanism called 'Vigil Mechanism' for all the Directors and employees to report to the management instances of unethical behavior, actual or suspected fraud or violation of the Company's code of conduct or ethics policy.
- A whistleblower is a person who publicly complains concealed misconduct on the part of an organization or a body of people, usually from within the same organisation.

LESSON SUMMARY

- Corporate Scams created the need to increasing auditors' effectiveness, setting up an audit committee and strengthen financial reporting standards.
- Auditors are professional accountants who assure shareholders reliability of financial statements.
- Auditors' effectiveness is enhanced through –
  - Encouraging Professional Objectivity
  - Maintaining Independence
  - Rotation of Auditors
  - Appropriate Remuneration
  - Restriction on Non- Audit Services
- To improve financial reporting standards India has revised its accounting standards. The new Ind-AS is in line with the International Financial Reporting standard.
- Section 139 requires mandatory rotation of auditors. An individual cannot act as an auditor for more than five consecutive years and an audit firm can be appointed as auditor for not more than two terms of five consecutive

years each. Once the term is ended, they cannot be reappointed a period of five years.

- The National Financial Reporting Authority is an independent regulator established under Section 132 of the Act to oversee the auditing profession, improve the quality of audit and ensure independence of audit firms.
- Whistle blowers are individuals who expose corruption and fraud in organizations by filing a law suit or a complaint with Government authorities that prompts a criminal investigation in to the organizations alleged behavior.

LESSON 8 CORPORATE GOVERNANCE AND SHAREHOLDERS RIGHTS

GLOSSARY OF TECHNICAL WORDS

- IEPF: Investor Education and Protection Fund (IEPF) is for promotion of investors' awareness and protection of the interests of investors. This website is an information providing platform to promote awareness, and it does not offer any investment advice or evaluation.

LESSONS SUMMARY

- Protection of shareholder rights is sacrosanct for good corporate governance. It is one of the pillars of corporate governance.
- In India, the SEBI Act, 1992, the various SEBI Regulations/Guidelines and the Companies Act, 2013 enables the empowerment of shareholder rights.
- Any member of a company who complain that the affairs of the company are being conducted in a manner prejudicial to public interest or in a manner oppressive to any member or members may apply to the Tribunal for an order.
- Shareholder has right to pass a special resolution, resolving that the company be wound up by the Tribunal.
- Principle III of the OECD Principles on Corporate Governance states that the corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders.
- Investor Education and Protection Fund (IEPF) has been established under Section 125 of the Companies Act, 2013 for promotion of investors' awareness and protection of the interests of investors.
- The Sarbanes-Oxley Act significantly increased the importance of investor relations in the financial markets.
- Institutional investors are organizations which pool large sums of money and invest those sums in companies. Their role in the economy is to act as highly specialized investors on behalf of others.

- UK Stewardship Code (2012) aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities.
- As a strategy CalPERS invest in sick and ailing companies where it employs good governance practices to improvise company's overall performance.
- The Institutional Investors use different tools like One-to-one meetings, focus lists, Corporate governance rating systems, etc. to assess the health of Company before investing resources in it.

LESSON 9 CORPORATE GOVERNANCE AND OTHER STAKEHOLDERS

GLOSSARY OF TECHNICAL WORDS

- Analytical: This is a way of doing something that involves the use of logical reasoning.
- Capitalism: An economic system characterized by private or corporate ownership of capital goods, by investments that are determined by private decision, and by prices, production, and the distribution of goods that are determined mainly by competition in a free market.
- Normative: Relating to, or determining norms or standards / conforming to or based on norms.
- Coexist: To exist together or at the same time / to live in peace with each other especially as a matter of policy.

LESSON SUMMARY

- "Stakeholder Theory is an idea about how business really works. It says that for any business to be successful it has to create value for customers, suppliers, employees, communities and financiers, shareholders, banks and others people with the money.
- R. Edward Freeman defined Stakeholder Theory in broad definition of a stakeholder is any group or individual which can affect or is affected by an organization." Such a broad conception would include suppliers, customers, stockholders, employees, the media, political action groups, communities, and governments.
- A more narrow view of stakeholder would include employees, suppliers, customers, financial institutions, and local communities where the corporation does its business. But in either case, the claims on corporate conscience are considerably greater than the imperatives of maximizing financial return to stockholders.

- Stakeholder engagement is the process by which an organisation involves people who may be affected by the decisions it makes or can influence the implementation of its decisions.
- The concept of stakeholders may be classified into Primary and Secondary Stakeholders.
- The 2009 CRT Principles for Responsible Business comprise seven principles and more detailed Stakeholder Management Guidelines covering each of the key stakeholder dimensions of ethical business practices: customers, employees, shareholders, suppliers, competitors, and communities.
- The CRT Principles for Responsible Business are supported by more detailed Stakeholder Management Guidelines covering each key dimension of business success: customers, employees, shareholders, suppliers, competitors, and communities.
- Clarkson introduced seven Principles of Stakeholder Management.

LESSON 10 GOVERNANCE AND COMPLIANCE RISK

GLOSSARY OF TECHNICAL WORDS

- Corporate Compliance: A corporate compliance program is generally defined as a formal program specifying an organization's policies, procedures, and actions within a process to help prevent and detect violations of laws and regulations
- Risk Assessment: Its a systematic process of evaluating the potential risks that may be involved in a projected activity or undertaking
- Corporate Citizen: Corporate citizenship involves the social responsibility of businesses, and the extent to which they meet legal, ethical and economic responsibilities, as established by shareholders.
- Compliance Risk: Compliance risk is exposure to legal penalties, financial forfeiture and material loss an organization faces when it fails to act in accordance with industry laws and regulations, internal policies or prescribed best practices
- Internal Audit: Internal audit is a dynamic profession involved in helping organisations achieve their objectives. It is concerned with evaluating and improving the effectiveness of risk management, control and governance processes in an organisation.

LESSON SUMMARY

- The risks that may stem from non-compliance with key legislative requirements can be very costly and damaging to an organisation.
- The key to managing these risks is installing controls that confirm the organization is complying with its internal and external requirements on a consistent and regular basis.
- A compliance management system is the method by which corporate manage the entire compliance process. It includes the compliance program, compliance audit, compliance report etc.

- The Company Secretary is the professional who guides the Board and the company in all matters, renders advice in terms of compliance and ensures that the Board procedures are duly followed, best global practices are brought in and the organisation is taken forward towards good corporate citizenship.
- Compliances, good governance and risk management in turn promotes corporate access to capital, increased investment, sustainable growth and financial stability.

LESSON 11 CORPORATE GOVERNANCE FORUMS

GLOSSARY OF TECHNICAL WORDS

- Capacity Building: Process by which organisations obtain, improve and retain the skills, knowledge and other resources needed to do their jobs competently.
- Trustee: An individual person or member of the Board given control or powers of administration of properties interest with a legal obligation to administer it solely for the specified purpose.
- Peer Reviews: Peer review process is a process through which the performance of individual countries is monitored by their peers, all carried out at committee-level, are at the heart of our effectiveness.

LESSON SUMMARY

- The International Corporate Governance Network ("ICGN") is a not-for-profit company limited by guarantee under the laws of England and Wales. The Network's mission is to develop and encourage adherence to corporate governance standards and guidelines, and to promote good corporate governance worldwide.
- The European Corporate Governance Institute (ECGI) was founded in 2002. It has been established to improve corporate governance through fostering independent scientific research and related activities.
- The Conference Board was established in 1916 in the United States of America. The Conference Board governance programs helps companies improve their processes, inspire public confidence, and ensure they are complying with regulations.
- The Asian Corporate Governance Association (ACGA) is an independent, non-profit membership organisation dedicated to working with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia.
- CSIA is dedicated to promoting the values and practices of governance professionals in order to create, foster or enhance the environment in which business can be conducted in a fair, profitable and sustainable manner.

LESSON 12 RISK MANAGEMENT

GLOSSARY OF TECHNICAL WORDS

- Risk Management: Risk management is the identification, evaluation, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability or impact of unfortunate events or to maximize the realization of opportunities.
- Fraud Risk: A fraud risk assessment is a tool used by management to identify and understand risks to its business and weaknesses in controls that present a fraud risk to the organization
- Secretarial Audit: Secretarial Audit is an audit to check compliance of various legislations including the Companies Act and other corporate and economic laws applicable to the company. It provides necessary comfort to the management, regulators and the stakeholders, as to the statutory compliance, good governance and the existence of proper and adequate systems and processes.

LESSON SUMMARY

- Risk is inherent in the business. Different types of risk exist in the business according to the nature of the business and they are to be controlled and managed.
- In traditional concept the natural calamities like fire, earthquake, flood, etc were only treated as risk and keeping the safe guard equipments etc were assumed to have mitigated the risk. But due to rapid changes, the various types of risks have emerged viz. Compliance risk, legal risk, country risk, operational risk.
- Risk may be controllable or uncontrollable. In other words, the systematic risk which stands at macro level is not controllable, but the unsystematic risk which is at micro level is controllable with the risk mitigation techniques.
- The risk may broadly be segregate as Financial Risk and Non-financial Risk.
- Financial Risk includes market risk, credit risk Liquidity risk, Operational Risk, Legal Risk and Country Risk. Non-financial risk does not have immediate financial impact on the business, but its consequence is serious.

- Non-Financial Risk do not have immediate financial impact on the business, but its consequence are very serious and later may have the financial impact. This type of risk may include, Business/ Industry & Service Risk, Strategic Risk, Compliance Risk, Fraud Risk, Reputation Risk, Transaction risk, Disaster Risk.
- To mitigate the various types of risks, which a business entity faces, a proper risk management process should be in force. It is a continuous process and is applied across the organisation. It is basically the identification of risk areas, assessment thereof, evaluating the impact of such risk, develop the risk mitigation techniques, establishing the sound internal control process and continuous monitoring thereof, setting of standards for each process and abnormal variances to be vetted.
- Risk management plays vital role in strategic planning. It is an integral part of project management. An effective risk management focuses on identifying and assessing possible risks.
- The process of risk management consists of the following logical and sequential steps, Identification of risk, Assessment of risk, Analysing and evaluating the risk, Handling of risk (Risk may be handled through the Risk Avoidance, Risk Retention/ absorption, Risk Reduction, Risk Transfer) and Implementation of risk management decision.
- ISO 31000 published as a standard on the 13th of November 2009, provides a standard on the implementation of risk management. ISO 31000 contains 11 key principles that position risk management as a fundamental process in the success of the organization.
- Fraud has been defined as, ‘A deliberate act of omission or commission by any person, carried out in the course of a banking transaction or in the books of accounts maintained manually or under computer system in banks, resulting into wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the bank”.
- Reputation Risk as the risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a bank’s ability to maintain existing, or establish new, business relationships and continued access to sources of funding (e.g. through the interbank or securitisation markets).

- SEBI (LODR) Regulations, requires that every listed company should have a Risk Management Committee.
- secretarial Audit is a process to check compliance with the provisions of all applicable laws and rules/regulations/procedures; adherence to good governance practices with regard to the systems and processes of seeking and obtaining approvals of the Board and/or shareholders, as may be necessary, for the business and activities of the company, carrying out activities in a lawful manner and the maintenance of minutes and records relating to such approvals or decisions and implementation.
- Secretarial Audit helps the companies to build their corporate image. Secretarial Audit facilitates monitoring compliances with the requirements of law through a formal compliance management programme which can produce positive results to the stakeholders of a company.

LESSON 13 COMPLIANCE MANAGEMENT

GLOSSARY OF TECHNICAL WORDS

- Compliance: Compliance means acting in accordance with a request or a command, rule or instruction. Compliance can be narrowly defined to mean the process by which an organisation ensures that it observes and complies with the external statutory laws and regulations.
- ICRM: The Internal Compliance Reporting Mechanism (ICRM) is of paramount important that the employees working in the organisation shall feel free in reporting non-compliance related issues either by their own parts or has observed any deficiency on the counter part.
- Money Laundering: Money laundering is the act of concealing the transformation of profits from illegal activities and corruption into ostensibly "legitimate" assets. The dilemma of illicit activities is accounting for the origin of the proceeds of such activities without raising the suspicion of law enforcement agencies.

LESSON SUMMARY

- A compliance management system is the method by which corporate manage the entire compliance process. It includes the compliance program, compliance audit, compliance report etc.
- A tool, which helps companies comply with provisions of various governing legislations as well as rules, regulations and guidelines issued thereunder, is a Compliance Solution.
- In the context of corporate governance, ethics is the intent to observe the spirit of law—in other words, it is the expressed intent to do what is right.
- Corporate Compliance Management can add substantial business value only if compliance is done with due diligence.
- The Company Secretary is the professional who guides the Board and the company in all matters, renders advice in terms of compliance and ensures that the Board procedures are duly followed, best global practices are brought in and the organisation is taken forward towards good corporate citizenship.

LESSON 14 INTERNAL CONTROL

GLOSSARY OF TECHNICAL WORDS

- Internal Control: The Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.
- Internal Check: Internal check is an arrangement of as duties allocated in such a way that the work of one clerk is automatically checked by another while internal audit is an independent review of operations and records undertaken by the staff specially appointed for the purpose.
- Internal Audit: Internal audit is a dynamic profession involved in helping organisations achieve their objectives. It is concerned with evaluating and improving the effectiveness of risk management, control and governance processes in an organisation.

LESSON SUMMARY

- The Information Systems Control and Audit Association (ISACA) has defined the Internal Control Systems as, 'The policies and procedures, practices and organizational structures, designed to provide reasonable assurance that business objectives will be achieved and that undesired events will be prevented or detected and corrected'.
- As per definition given by COSO, the Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.
- Components of Internal Control include internal check and internal audit. Internal check means an arrangement that a transaction is process by two or more persons and each one is independent and starts with when the predecessor has completed the task. So, it is a self balancing system which have in-built systems of independent checking of the work done by other. Internal audit may be done by the own staff or by engaging any professional person outside of the organisation. The scope of the internal audit is

determined by the management. Internal Auditor is required to submit its report to the management (who is appointing authority).

- COSO's Internal Control Framework includes enhancements and clarifications that are intended to ease use and application. One of the more significant enhancements is the formalization of fundamental concepts introduced in the original framework as principles. These principles, associated with the five components, provide clarity for the user in designing and implementing systems of internal control and for understanding requirements for effective internal control.
- The COSO Framework sets forth three categories of objectives, which allow organizations to focus on separate aspects of internal control. These are Operations Objectives, Reporting and Objectives Compliance Objectives.
- The Framework sets out five components of internal control and seventeen principles representing the fundamental concepts associated with components. Control Environment (5 principles), Risk Assessment (4 Principles), Control Activities (3 Principles), Information and Communication (3 Principles), Monitoring Activities (2 Principles)
- Everyone in an organization (viz: Management, Board of Directors, Internal Auditor and Other persons) all have the responsibility for internal control.

LESSON 15 RERPORTING

GLOSSARY OF TECHNICAL WORDS

- Inegrated Reporting: Integrated reporting (IR) is a "process that results in communication, most visibly a periodic "integrated report", about value creation over time.
- Financial Reporting: Financial reporting is the process of producing statements that disclose an organization's financial status to management, investors and the government.
- Annual Report: An annual report is a comprehensive report on a company's activities throughout the preceding year. Annual reports are intended to give shareholders and other interested people information about the company's activities and financial performance.

LESSON SUMMARY

- Financial reporting is the process of producing statements that disclose an organisation's financial status to management, investors and the government.
- Non financial reporting is the practice of measuring, disclosing and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable and inclusive development.
- Corporate sustainability is an approach that creates long-term stakeholder value by implementing a business strategy that considers every dimension of how a business operates in the ethical, social, environmental, cultural, and economic spheres.
- SEBI in its (Listing Obligations and Disclosure Requirements) Regulations, 2015 has mandated the requirement of submission of BRR for top 500 listed entities describing initiative taken by them from an environmental, social and governance perspective in the prescribed format [Regulation 34(2)(f)].
- Business Responsibility Report is a disclosure of adoption of responsible business practices by a listed company to all its stakeholders. This is important considering the fact that these companies have accessed funds

from the public, have an element of public interest involved, and are obligated to make exhaustive disclosures on a regular basis.

- Integrated reporting is a concept that has been created to better articulate the broader range of measures that contribute to long-term value and the role, organisations play in society.
- An Integrated Report is “a concise communication about how an organisation’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term”.
- The Guiding principles of International Integrated Reporting Framework are: Strategic focus and future orientation, Connectivity of information, Stakeholder relationships, Materiality, Conciseness, Reliability and completeness, Consistency and comparability.

LESSON 16 ETHICS AND BUSINESS

GLOSSARY OF TECHNICAL WORDS

- Business Ethics: Business ethics (also known as corporate ethics) is a form of applied ethics or professional ethics, that examines ethical principles and moral or ethical problems that can arise in a business environment.
- Indian Ethos: Indian Ethos in Management refers to the values and practices that can contribute to service, leadership and management. These values and practices are rooted in Sanathana Dharma (the eternal essence), and have been influenced by various strands ofIndian philosophy.
- CSR: Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.
- Ethical Dilemma: An ethical dilemma or ethical paradox is a decision-making problem between two possible moral imperatives, neither of which is unambiguously acceptable or preferable. The complexity arises out of the situational conflict in which obeying one would result in transgressing another.
- Code of Conduct: A code of conduct is a set of rules outlining the social norms, religious rules and responsibilities of, and or proper practices for, an individual.

LESSON SUMMARY

- Business ethics is a form of applied ethics. In broad sense ethics in business is simply the application of moral or ethical norms to business.
- The Board shall lay down a code of conduct for all Board members and senior management of the company. The code of conduct shall be posted on the website of the company.
- To create a code of ethics, an organization must define its most important guiding values, formulate behavioral standards to illustrate the application of those values to the roles and responsibilities of the persons affected, review the existing procedures for guidance and direction as to how those

values and standards are typically applied, and establish the systems and processes to ensure that the code is implemented and is effective.

- An ethical dilemma involves a situation that makes a person question what is the ‘right’ or ‘wrong’ thing to do. Ethical dilemmas make individuals think about their obligations, duties and responsibilities. These dilemmas can be highly complex and difficult to resolve. Easier dilemmas involve a ‘right’ versus ‘wrong’ choice; whereas, complex ethical dilemmas involve a decision between a right and a right choice.
- Advantages of business ethics - attracting and retaining talent, investor loyalty, customer satisfaction and regulators.
- In making ethics work in an organization it is important that there is synergy between vision statement, mission statement, core values, general business principles and code of ethics.

LESSON 17 CSR AND SUSTAINABILITY

GLOSSARY OF TECHNICAL WORDS

- Sustainable Development: Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs
- Corporate Sustainibilty: Corporate sustainability is an approach that creates long-term stakeholder value by implementing a business strategy that considers every dimension of how a business operates in the ethical, social, environmental, cultural, and economic spheres.
- Triple Bottom Line: The triple bottom line is an accounting framework with three parts: social, environmental (or ecological) and financial. Some organizations have adopted the TBL framework to evaluate their performance in a broader perspective to create greater business value.
- The Altman Z Score model is a financial model to predict the likelihood of bankruptcy in a company.

LESSON SUMMARY

- Corporate Social Responsibility (CSR) is a concept whereby companies not only consider their profitability and growth, but also the interests of society and the environment by taking responsibility for the impact of their activities on stakeholders, environment, consumers, employees, communities, and all other members of the public sphere.
- Corporate sustainability is imperative for the long-term sustainable development of the economy and society.
- The term sustainability accounting is used to describe the new information management and accounting methods that aim to create and provide high quality information to support a corporation in its movement towards sustainability.
- Sustainability (corporate sustainability) is derived from the concept of sustainable development which is defined by the Brundt land Commission as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.

- Corporate citizenship is a commitment to improve community well-being through voluntary business practices and contribution of corporate resources leading to sustainable growth.
- ISO 26000 is the international standard giving guidance on social responsibility and is intended for use by organizations of all types both public and private sectors, in developed and developing countries.
- The Global Compact Self Assessment Tool is an easy-to-use guide designed for use by companies of all sizes and across sectors committed to upholding the social and environmental standards within their respective operations.
- The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.
- In line with the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business and considering the larger interest of public disclosure regarding steps taken by listed entities, SEBI has mandated the requirement of submission of Business Responsibility Report (‘BRR’) for top 500 listed entities under Regulation 34(2)(f) of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 (“SEBI LODR”).
- In March 2019, the Ministry of Corporate Affairs has revised the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011 (NVGs) and has released the National Guidelines on Responsible Business Conduct (NGRBC), 2019.
- Risk-adjusted return on capital (RAROC) is a profitability metric that can be used to analyse return in relation to the level of risk taken on.

LESSON 18 ANTI-CORRUPTION AND ANTI-BRIBERY LAWS IN INDIA

GLOSSARY OF TECHNICAL WORDS

- Bribery: 'Bribery' includes giving or receiving bribe and third-party gratification. The act of giving bribe is when committed intentionally in the course of economic, financial or commercial activities and when it is established that there is a promise, offering or giving, directly or indirectly, of an undue advantage to any person who directs or works, in any capacity, for a commercial entity, for the person himself or for another person, in order that he in breach of his duties, act or refrain from acting.
- Facilitaion payment: 'Facilitation payment' means a payment made to government or private official that acts as an incentive for the official to complete some action or process expeditiously to the benefit of the party making the payment.
- Foreign Public Official: 'Foreign public official' means any person holding a legislative, executive, administrative or judicial office of a foreign country, whether appointed or elected, whether permanent or temporary, whether paid or unpaid and includes a person who performs a public function or provides service for a foreign country.
- PCA: The Prevention of Corruption Act, 1988 is an Act of the Parliament of India enacted to combat corruption in government agencies and public sector businesses in India.
- CVC: Central Vigilance Commission is an apex Indian governmental body created in 1964 to address governmental corruption. Recently, in 2003, the Parliament enacted a law conferring statutory status on the CVC.

LESSON SUMMARY

- A change in attitude of enforcement agencies, which have started enforcing anti-corruption laws aggressively in India, and have been supported in their efforts by the judiciary (which has taken up an active role in monitoring corruption cases).

- Corruption has been seen as an immoral and unethical practice since biblical times.
- The cost of implementing an enhanced and extensive anti-corruption compliance program should be weighed against that of defending a claim due to violation of anticorruption legislation.
- The PCA criminalizes the acceptance of gratification (pecuniary or otherwise) other than the acceptance of legal remuneration by public servants which is paid by their employers in connection with the performance of their duties.
- Due care and diligence is taken in developing the Corporate Anti-Bribery Code. This Code does not substitute or supplant any existing laws. If any of the parameter of this Code are or become inconsistent with the applicable laws, provisions of the related laws shall prevail.
- The LLA requires each State to establish a Lokayukta by law under the state legislature.
- The functions of the SPE then were to investigate cases of bribery and corruption in transactions with the War & Supply Deptt. of India during World War II.
- 'Facilitation payment' means a payment made to government or private official that acts as an incentive for the official to complete some action or process expeditiously to the benefit of the party making the payment.
- The Unlawful Activities (Prevention) Act, 1967' (Act no. 37 of 1967) was enacted to make provisions as to more effective prevention of Individual's and associations' certain unlawful activities.