

Chapter-IV
Corporate Governance

CHAPTER IV

Corporate Governance

4.1 Introduction

4.1.1 Need for 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 stakeholders and complying with the legal and regulatory requirements. Corporate Governance is a way of directing and controlling Companies and ensuring greater transparency and better and timely financial reporting. It is concerned with the morals, ethics, values parameters, conduct and behavior of the Company and management. The absence of good governance structures and lack of adherence to the governance principles increases the risk of corruption and misuse of entrusted power by the Management in the public sector.

4.1.2 Provisions contained in the Companies Act, 2013

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

- Mandatory appointment of Independent Directors on the Board {Section 149(4) read with Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014} for the following classes of Companies:
 - Every listed public Company shall have at least one-third of the total number of Directors as Independent Directors; and
 - Every public Company with paid-up share capital of ₹ 10 crore or more; or turnover of ₹ 100 crore or more; or aggregate outstanding loans, debentures and deposits exceeding ₹ 50 crore shall have at least two Independent Directors on its Board.
- 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 at least one Woman Director on the Board {Section 149(1) read with Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014} for the following classes of Companies:
 - every listed Company; and
 - every other public Company having paid up share capital of ₹ 100 crore or more; or turnover of ₹ 300 crore or more.
- Mandatory establishment of certain committees like Audit Committee {Section 177(1)}, Nomination and Remuneration Committee {Section 178(1) read with Rule 6 of Companies (Meeting of Board and its Powers) Rules, 2014} for the following classes of Companies:
 - every listed public Company; and
 - every public Company with a paid-up capital of ₹ 10 crore or more; or turnover of ₹ 100 crore or more; or aggregate outstanding loans or borrowings or debentures or deposits exceeding ₹ 50 crore or more.
- Holding 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)}.

4.1.3 SEBI guidelines on Corporate Governance

After enactment of 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 Act, 2013.

Securities and Exchange Board of India 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. These regulations were amended from time to time.

4.1.4 Review of compliance of the Corporate Governance Provisions by SPSEs

As on 31 March 2023, there were 45 State Public Sector Enterprises (SPSEs) registered under the Companies Act (including three Government Controlled Other Companies) in the State of Punjab and under the audit jurisdiction of the CAG of India (as detailed in *Appendix 4.1*). This chapter covers review of 29 working SPSEs for the year ended 31 March 2023. Out of these 29 SPSEs, only one SPSE *i.e.*, Punjab Communications Limited (PCL) is a listed⁵¹ Company. The list of working SPSEs covered and non-working SPSEs excluded from this chapter is given in *Appendix 4.1*.

An assessment was done based on the provisions contained in the Act, 2013 and guidelines/regulations issued by SEBI (April and September 2014) on Corporate Governance and compliance thereof by the SPSEs.

4.2 Composition of Board of Directors

4.2.1 Independent Directors

As per Section 149(6) of the Act, 2013 ‘Independent Director’ shall mean a Director other than a Managing Director or a Whole Time Director or a Nominee Director of the Company. The presence of Independent Directors on the Board, capable of taking an independent view on the decisions of the management is widely considered as a means of protecting the interests of shareholders and other stakeholders. As per Section 149(4) of the Act, 2013, every listed public Company shall have at least one-third of the total number of directors as Independent Directors. Further, 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. Furthermore, as per Ministry of Corporate Affairs (MCA) notification GSR-463(E) dated 05 June 2015, Independent Director of Government Company is to be appointed by Ministry or Department of the Government which is administratively in charge of the Company. Also, MCA notification GSR-466(E) dated 05 June 2015 provides that a Company registered under Section 8 (*i.e.*, a Company established for furtherance of charitable or not for profit purposes) of the Act, 2013 is not required to appoint Independent Directors; and MCA notification dated 05 July 2017 provides that an unlisted public Company which is a wholly owned subsidiary is not required to appoint Independent Directors.

⁵¹ Listed on Bombay Stock Exchange

The list of eight SPSEs meeting these criteria relating to appointment of Independent Directors is given in *Appendix 4.2*. Of these eight SPSEs, in the Board of four SPSEs detailed in **Table 4.1**, there were no Independent Director as on 31 March 2023. Of the remaining four SPSEs, two⁵² met the requirement of having at least two Independent Directors on their Board.

In Punjab State Power Corporation Limited (PSPCL), as against the requirement of two Independent Directors, there were two Independent Directors for part of the year 2022-23 (up to 6 November 2022). Thereafter, the post of one Independent Director remained vacant.

In Punjab State Container and Warehousing Corporation Limited (CONWARE), there was only one Independent Director.

CONWARE replied (January 2024) that this matter was brought to the notice of the State Government from time to time and the same was under consideration of the State Government.

Table 4.1: SPSEs not having any Independent Directors

Sr. No.	Name of the SPSE
1.	Punjab Genco Limited
2.	Punjab State Grains Procurement Corporation Limited
3.	Punjab Water Resources Management and Development Corporation Limited
4.	Punjab State Bus Stand Management Company Limited

Source: Information provided by the SPSEs

Punjab Genco Limited (PGL) stated (February 2024) that all the Directors were appointed by the State Government and they fall under the category of Independent Director. The reply was not acceptable as the State Government has not designated these Directors as Independent Directors separately which it could have done, or the Company could have pursued the matter with the State Government to have them designated as such.

Punjab State Grains Procurement Corporation Limited (PUNGRAIN) stated (January 2024) that the Directors on the Board are appointed by the State Government and it had no power to appoint Independent Directors. Punjab Water Resources Management and Development Corporation Limited (PWRMDC) stated (January 2024) that the Independent Directors were not appointed on the Board by the State Government. Punjab State Bus Stand Management Company Limited (PUNBUS) stated (January 2024) that the Company had Independent Directors till June 2022, thereafter no Independent Directors were appointed by the State Government.

⁵² Punjab State Transmission Corporation Limited and Punjab Communications Limited

Audit is of the view that these SPSEs could have pursued the matter of appointment of Independent Directors with the State Government to comply with statutory requirement.

The matter was referred to the State Government (August 2024); reply thereof was awaited (January 2025).

4.2.2 Representation of Woman in the Board of Directors

Section 149(1) of the Act, 2013 read with Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014 provides that every listed Company shall have at least one Woman Director on its Board and every other 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. However, as per MCA notification GSR 466(E) dated 05 June 2015, a Company registered under Section 8 of the Act, 2013 is not required to appoint a Woman Director.

The list of seven SPSEs meeting these criteria is given in **Appendix 4.3**. Of these seven SPSEs, in the Board of two SPSEs⁵³, there were no Women Directors on their Board as on 31 March 2023.

PWRMDC stated (February 2024) that a Woman Director had been appointed by the State Government, however, she had not joined the Board (February 2024).

Punjab Agro Foodgrains Corporation Limited (PAFC) stated (February 2025) that it did not receive any specific nominations for the appointment of Women Directors during the period under review, hence, there was no Women Directors during 2022-23. Further, since, the foodgrains procurement activity of the Company has been withdrawn *w.e.f.* Kharif Marketing Season (KMS) 2019-20 and it is in process of merger with PUNGRAIN, there will be no requirement for appointing new Directors. The provisions regarding appointment of Women Directors were applicable to the Company due to turnover of ₹ 414.23 crore for the financial year ending March 2022. As there was no other business activity during financial year 2022-23 and the turnover was only ₹ 6.42 crore, the provisions of appointment of Women Director were no more applicable.

The reply of PAFC was not acceptable as the turnover on the last date of latest audited financial statements of the Company *i.e.*, 2021-22 was to be considered for applicability of the provisions regarding Women Directors during 2022-23.

⁵³ Punjab Agro Foodgrains Corporation Limited and Punjab Water Resources Management and Development Corporation Limited

4.2.3 Non-executive Directors on the Board of a Listed Company

Clause 49(I)(A)(i) of Listing Agreement and Regulation 17(1)(a) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 stipulates that the Board of Directors of the Company shall have an optimum combination of executive and non-executive Directors with not less than 50 *per cent* of the Board of Directors comprising non-executive Directors.

The clause of having at least 50 *per cent* non-executive Directors on the Board of the Company was applicable to only listed SPSE *viz.* Punjab Communications Limited in the State of Punjab. The Company had adequate numbers of non-executive Directors (seven out of required five) on Board during 2022-23.

4.3 Appointment and functioning of Independent Directors

4.3.1 Issuance of formal letter of appointment and Code of business ethics

As per Clause IV(4) of Schedule IV of the 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. Further, Clause (IV)(4)(e) requires that the letter of appointment of Independent Directors shall include the Code of Business Ethics that the Company expects its Directors to follow. Regulation 17(5)(b) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 stipulate that Code of Conduct prescribed by the Board of Directors of a listed Company shall suitably incorporate the duties of Independent Directors as laid down in the Act, 2013. The duties cast upon Independent Directors are placed at Clause III of Schedule IV of the Act.

It was observed that out of four SPSEs where Independent Directors were appointed, only three SPSEs (PCL, PSPCL and Punjab State Transmission Corporation Limited (PSTCL)) had issued appointment letter which *inter alia* contained the Code of Conduct prescribed by the Board of Directors (including the duties of the Independent Directors). In CONWARE, the Independent Directors were appointed through orders of the State Government and, neither any formal appointment letter detailing the terms and conditions was issued by the Company nor any Code of Conduct was prescribed by the Board.

4.3.2 Induction training of Independent Directors

Clause (III)(1) of Schedule IV of the Act, 2013 stipulates that the Independent Directors shall undertake appropriate induction and regularly update and refresh their skills, knowledge and familiarity with the Company. However, it was observed that out of four SPSEs where Independent Directors were appointed,

only two SPSEs (PCL and PSPCL) imparted formal training to their Independent Directors and in two SPSEs (CONWARE and PSTCL), no formal training was conducted for Independent Directors who were on their Board during the year 2022-23.

CONWARE stated (January 2024) that it does not undertake the training of Independent Directors as the appointment is made by the State Government.

The reply was not acceptable in view of the statutory requirements.

4.3.3 Role of Independent Directors in meetings of Board and other Committees

4.3.3.1 Attending General Meetings of the Company

Clause (III)(5) of Schedule IV of the Act, 2013 states that Independent Directors shall strive to attend the General Meetings of the Company. Out of four SPSEs where Independent Directors were appointed and general meetings were held, none of the general meeting was attended by all the Independent Directors during the year 2022-23.

4.3.3.2 Meetings of Board Committees

Clause (III)(3) of Schedule IV of the Act, 2013 states that Independent Directors should strive to attend all the meetings of Board of Directors and the Board Committees of which he/she is a member. It was observed that out of four SPSEs where Independent Directors were appointed, Independent Director of only one SPSE (CONWARE) had attended all the Board and Committees meetings. **Table 4.2** indicates the remaining three SPSEs where all the Independent Directors did not attend the meetings of the Board and Committees during 2022-23:

Table 4.2: Meetings of the Board and Committees not attended by all the Independent Directors during the year 2022-23

Sr. No.	Name of the SPSE	Board meetings	Audit Committee meetings	Nomination and Remuneration Committee meetings
1.	Punjab Communications Limited	Three out of six meetings	One out of four meetings	All three meetings held were attended
2.	Punjab State Power Corporation Limited	Seven out of the seven meetings	Seven out of the seven meetings	No meeting was held
3.	Punjab State Transmission Corporation Limited	Three out of six meetings	All three meetings were attended	No meeting was held

Source: Information provided by the SPSEs

PSTCL stated (January 2024) that due to their pre-obligations, the Independent Directors were not in a position to attend the meetings.

4.4 Meetings of Board of Directors

The Board is the most significant instrument of Corporate Governance. It is the agency for the implementation of governance for policies and practices. It is imperative that the Board devotes adequate attention to Corporate Governance and must be equipped with the requisite representation and its members should meet regularly. Section 173(1) of the 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. However, the Board of Directors of a Company registered under Section 8 of the Act, 2013 is required to hold one meeting every six months.

Table 4.3 shows the list of 15 SPSEs where required Board meetings were not held in a year. Out of these, in 11 SPSEs there was a gap of more than 120 days between two consecutive meetings of the Board during the year 2022.

Table 4.3: Details of SPSEs where less than required number of Board meetings were held and there was a gap of 120 days between two consecutive meetings

Sr. No.	Name of Company	Number of BoD meetings held	Gap of more than 120 days between two consecutive meetings of BoD
1.	Amritsar Smart City Limited	2	Yes
2.	Gidderbaha Power Limited	2	Yes
3.	Jalandhar Smart City Limited	2	Yes
4.	Ludhiana Smart City Limited	2	Yes
5.	Punjab State Civil Supplies Corporation Limited	1	Yes
6.	Punjab Agro Foodgrains Corporation Limited	2	No
7.	Punjab Tourism Development Corporation Limited	0	No meeting held
8.	Gulmohar Tourist Complex (Holiday Home) Limited	0	No meeting held
9.	Punjab Thermal Generation Limited	2	Yes
10.	Punjab Agro Industries Corporation Limited	3	Yes
11.	Punjab Police Housing Corporation Limited	3	No
12.	Punjab Police Security Corporation Limited	3	No
13.	Punjab State Bus Stand Management Company Limited	2	Yes
14.	Punjab Municipal Infrastructure Development Company	1	Yes
15.	Punjab State Industrial Development Corporation Limited	3	No

Source: Information provided by the SPSEs

In addition to the SPSEs mentioned in **Table 4.3** above, four SPSEs (PSPCL, Punjab State Seeds Corporation Limited (PUNSEED), Punjab Agri Export

Corporation Limited (PAGREXCO) and CONWARE) held the required minimum four meetings in a year, however, there was a gap of more than 120 days between two consecutive meetings of the Board.

Eleven⁵⁴ SPSEs attributed (January/February 2024) the shortfall in required number of meetings to administrative reasons. Punjab Thermal Generation Limited (PTGL) and Gidderbaha Power Limited (GPL) stated that these SPSEs have not commenced their business yet and as such, meetings were not held on regular basis.

PAFC stated (February 2025) that one meeting scheduled on 8 July 2022 could not be held due to the pre occupancies of the official Directors appointed by the Government, who were also holding positions in other Central/State Government departments. Further, the Company was not doing any business after the withdrawal of the sole activity of the Company *i.e.*, procurement of foodgrains *w.e.f.* KMS 2019-20 and the Company is in process of merger with PUNGRAIN.

The reply of PAFC was not acceptable as the Company was still engaged in liquidation of the leftover stock after withdrawal of the procurement activity and the Act, 2013 does not provide any exemption on the basis of low level of business activity/turnover.

4.5 Filling up of the post of Directors and Company Secretary

As per Rule 8 of Companies (Appointment and Remuneration of Managerial Personnel) Rules 2014, every listed Company and every other public Company having a paid-up capital of ₹ 10 crore or more shall have a whole time Key Managerial Personnel⁵⁵ (KMP). Further, as per Rule 8A of Companies (Appointment and Remuneration of Managerial Personnel) Amendment Rules 2020, every private Company having a paid-up capital of ₹ 10 crore or more shall have a whole time Company Secretary.

Timely filling up of vacancies in the posts of Directors ensures the availability of the 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. Section 203(4) of Act, 2013, stipulates that if the office of any whole time KMP is vacated, the resulting vacancy shall be filled-up by the

⁵⁴ Gulmohar Tourist Complex (Holiday Home) Limited, Jalandhar Smart City Limited, Ludhiana Smart City Limited, Punjab Agri Export Corporation Limited, Punjab Agro Industries Corporation Limited, Punjab Municipal Infrastructure Development Company, Punjab Police Housing Corporation Limited, Punjab Police Security Corporation Limited, Punjab State Bus Stand Management Company Limited, Punjab State Civil Supplies Corporation Limited and Punjab Tourism Development Corporation Limited

⁵⁵ As per Section 2(51) of the Act, 2013, the Key Managerial Personnel, in relation to a Company, means (i) Chief Executive Officer or Managing Director or the Manager; (ii) Whole Time Director; (iii) Company Secretary; (iv) Chief Financial Officer; and (v) such other officer as may be prescribed.

Board at a meeting of the Board within a period of six months from the date of such vacancy.

The list of seven SPSEs required to have whole time KMP is given in *Appendix 4.4* and the list of four SPSEs (private Companies) required to have a whole time Company Secretary is given in *Appendix 4.5*.

In case of PSPCL, the post of Executive Director (Administration) remained vacant for a period of nine months (from 18 May 2022 to 01 March 2023) during 2022-23. In case of PUNBUS also, the post of the Chief Financial Officer remained vacant for a period of six months (from 01 July 2022 to 10 January 2023).

Punjab Small Industries and Export Corporation Limited did not have a full time Company Secretary during 2022-23 and in case of Punjab State Industrial Development Corporation Limited (PSIDC), the post of Company Secretary remained vacant for more than six months during 2022-24 (from 24 December 2022 to 03 July 2023).

4.6 Audit Committee

4.6.1 Composition and activities performed by the Audit Committee

Section 177(1) and 177(2) of the Act, 2013 read with Rule 6 of Companies (Meetings of Board and its Powers) Rules, 2014 provides that every listed public Company and Companies covered under Rule 4⁵⁶ of the Companies (Appointment and Qualification of Directors) Rules, 2014 shall constitute an Audit Committee with a minimum of three Directors as members, of which majority shall be Independent Directors.

In terms of above stipulations, eight SPSEs mentioned in *Appendix 4.2* were required to constitute Audit Committees. Seven SPSEs have constituted the Audit Committee and in case of one SPSE (PUNBUS), the Audit Committee was dissolved with effect from 30 June 2022 due to resignation of Independent Directors.

Further, of these seven SPSEs, three SPSEs (PGL, PUNGRAIN and PWRMDC) had no Independent Directors in the Audit Committee during 2022-23, as they did not have Independent Directors on their Board. In PSPCL, as against the requirement of two Independent Directors, there were two Independent Directors for part of the year 2022-23 (upto 6 November 2022).

⁵⁶ Every listed Company and 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.

Thereafter, the post of one Independent Director remained vacant. CONWARE had vacancy of one Independent Director on its Board during 2022-23.

In the following SPSEs, as detailed in **Table 4.4**, the Audit Committee did not carry out the following duties cast upon them as per Section 177 of Act, 2013.

Table 4.4: Review of functions performed by the Audit Committees

Sr. No.	Name of the SPSE	Activities reviewed by Audit Committees	Activities not reviewed by Audit Committees
1.	Punjab State Transmission Corporation Limited	<ul style="list-style-type: none"> ● Appointment of Cost Auditor. ● Review of annual financial statements. ● Quarterly progress of Internal Audit and compliance status of decisions of Audit Committee. ● Approval of Cost Auditor's Report. ● Review of Statutory Auditor's report and comments of CAG. 	<ul style="list-style-type: none"> ● The internal control systems in the Company. ● The performance of Internal Auditors. ● Adequacy of Internal Audit functions.
2.	Punjab Genco Limited	<ul style="list-style-type: none"> ● Evaluation of internal financial control and risk management system. ● Review of performance of Company. ● To take note of appointment of Statutory Auditors. ● Reviewed and approved the draft Financial Statements. 	<ul style="list-style-type: none"> ● Review of annual financial statements. ● The report of Statutory Auditor and audit report of CAG. ● Appointment of Internal Auditor and Internal Audit Report. ● Performance of Internal Auditors. ● Adequacy of Internal Audit functions.
3.	Punjab State Container and Warehousing Corporation Limited	<ul style="list-style-type: none"> ● Discuss and take note of Internal Audit Report. ● Approval of draft annual accounts and draft Consolidated financial statements of the Company. 	<ul style="list-style-type: none"> ● The report of Statutory Auditor and Supplementary Audit Report of CAG. ● The appointment of Internal Auditor. ● Review of annual financial statements. ● Review of internal control systems in the Company. ● Review of adequacy of Internal Audit functions.

Sr. No.	Name of the SPSE	Activities reviewed by Audit Committees	Activities not reviewed by Audit Committees
			<ul style="list-style-type: none"> ● Review of comments of Statutory Auditors and CAG.
4.	Punjab Water Resources Management and Development Corporation Limited	<ul style="list-style-type: none"> ● Consider and review financial statement. 	<ul style="list-style-type: none"> ● The report of Statutory Auditor and Supplementary Audit Report of CAG. ● The appointment of Internal Auditor. ● Review of internal control systems in the Company. ● Review of adequacy of Internal Audit functions. ● Review of comments of Statutory Auditors and CAG.
5.	Punjab State Grains Procurement Corporation Limited	No meeting of the Audit Committee was held during 2022-23.	

Source: Information provided by the SPSEs

PUNGRAIN stated (February 2024) that the Annual Financial statements of the Company were pending for audit by the Statutory Auditors of the Company appointed by the CAG. Since, during FY 2022-23, it had not received the Audited Annual Financial Statements after audit by Statutory Auditors along with Statutory Audit Report and comments from the CAG, no Audit Committee meeting could be held.

PWRMDC stated (February 2024) that the Audit Committee was performing its functions well as per the provisions of Companies Act and any suggestions/recommendations of the Committee are being implemented accordingly. The reply was not acceptable as the Audit Committee reviewed the financial statements only and did not perform other functions as tabulated above.

CONWARE stated (February 2024) that the Audit Committee was constituted to consider, discuss, and deliberate the issues regarding appointment, remuneration, appointment of auditors, examination of financial statements, Auditor's report. Accordingly, the financial statements, financial transactions, control systems and all incidental matters including annual financial statements were considered by the Audit Committee. The reply was not acceptable as review of minutes of meetings of the Audit Committee did not suggest the specified activities being undertaken by the Audit Committee.

4.7 Other Committees

4.7.1 Nomination and Remuneration Committee

Section 178(1) of the Act, 2013 read with Rule 6 of Companies (Meetings of Board and its Powers) Rules, 2014 provides that every listed public Company and Companies covered under Rule 4⁵⁷ of the Companies (Appointment and Qualification of Directors) Rules, 2014 shall constitute a Nomination and Remuneration Committee (NRC) with a minimum of three non-executive directors as members of which not less than one-half shall be Independent Directors.

In terms of above stipulations, eight SPSEs detailed in *Appendix 4.2* were required to constitute NRC. However, three SPSEs, as mentioned in **Table 4.5**, did not have any NRC.

Table 4.5: SPSEs not having Nomination and Remuneration Committee

Sr. No.	Name of the SPSE
1.	Punjab State Grains Procurement Corporation Limited
2.	Punjab Water Resources Management and Development Corporation Limited
3.	Punjab State Bus Stand Management Company Limited

Source: Information provided by the SPSEs

In case of PUNBUS, the NRC was dissolved from 30 June 2022 onwards due to resignation of Independent Directors. PUNGRAIN stated (January 2024) that the Board and members of the Corporation were not empowered to appoint any Director or KMP, therefore, there was no requirement of constituting the NRC. PWRMDC stated (January 2024) that the constitution of Committees required proper ratio of Independent Directors, who are generally appointed by the State Government. Since the Independent Directors were not appointed by the State Government during 2022-23, constitution of Committees was not as per the provisions of the Act, 2013.

Further, out of five SPSEs having the NRC, three SPSEs listed in **Table 4.6** did not have the required number of Independent Directors in the NRC.

Table 4.6: Number of Independent Directors in Nomination and Remuneration Committee

Sr. No.	Name of the SPSE	Total Directors in Committee	Independent Directors in Committee
1.	Punjab Genco Limited	4	0
2.	Punjab State Container and Warehousing Corporation Limited	3	1
3.	Punjab State Power Corporation Limited	2	1

Source: Information provided by the SPSEs

⁵⁷ Every listed Company and 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.

In case of PSPCL, as against the requirement of two Independent Directors, there were two Independent Directors for part of the year 2022-23 (up to 6 November 2022), thereafter, the post of one Independent Director remained vacant. PGL replied (February 2024) that the Directors of the Company are appointed by the State Government/administrative department. The Directors so appointed fall under the category of Independent Directors. NRC comprises of requisite number of Independent Directors. CONWARE replied (January 2024) that it had constituted NRC with three Directors including one Independent Director and matter regarding appointment of an Independent Director was under consideration of the State Government.

In case of any contravention of the provisions of Section 177 relating to Audit Committee and Section 178 relating to NRC and Stakeholders Relationship Committee of the Act, 2013, the Company shall be punishable with fine of ₹ five lakh and every officer of the Company who is in default shall be punishable with fine of ₹ one lakh.

It was noted that no such penalty had been imposed by Ministry of Corporate Affairs during the year 2022-23.

4.8 Vigil Mechanism

Section 177(9) of the Act, 2013 read with Rule 7 of the Companies (Meeting of Boards and its Powers) Rules, 2014 stipulate that every listed Company or a Company which accepts deposits from public or borrowed money from banks or financial institutions in excess of ₹ 50 crore shall establish a vigil mechanism for directors and employees to report their genuine concerns or grievances. Eight SPSEs as listed in *Appendix 4.6* were required to establish the Vigil Mechanism.

However, it was observed that in four SPSEs listed in **Table 4.7**, there was no Whistle Blower Mechanism.

Table 4.7: SPSEs not having Vigil Mechanism

Sr. No.	Name of the SPSE
1.	Punjab State Grains Procurement Corporation Limited
2.	Punjab State Civil Supplies Corporation Limited
3.	Punjab Police Housing Corporation Limited
4.	Punjab Municipal Infrastructure Development Company

Source: Information provided by the SPSEs

Punjab State Civil Supplies Corporation Limited (PUNSUP) and PUNGRAIN stated (February 2024) that the Company being a State Government Company and not a public sector undertaking, there was no requirement of vigil mechanism. The reply was not acceptable as these Companies borrowed money

from banks or financial institutions in excess of ₹ 50 crore (as per provision mentioned). Hence, they were required to establish a vigil mechanism.

Punjab Municipal Infrastructure Development Company (PMIDC) stated (February 2024) that the proposal for setting up this mechanism will be taken up in the next Board of Directors meeting for approval.

Punjab Police Housing Corporation Limited (PPHC) stated (February 2024) that as per latest approved financial statement for year 2021-22, the Company has outstanding unsecured borrowings of ₹ 140 crore from Housing and Urban Development Corporation Limited (HUDCO). Since HUDCO is neither a bank nor a public financial institution, the borrowings made from HUDCO does not fall under the Rule 7(1)(b) of Companies (Meetings of Board and its powers) Rules, 2014. Hence, the Company was not required to establish vigil mechanism.

The reply of PPHC was not acceptable since HUDCO is indeed a public financial institution as per definition of Reserve Bank of India.

4.9 Internal Audit Framework

4.9.1 Role of Internal Audit

Internal Audit is an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system. Internal Audit, therefore, provides assurance that there is transparency in reporting, as a part of good governance.

4.9.2 Legal Framework

Section 138(1) of the Act, 2013 read with Rule 13 of the Companies (Accounts) Rules, 2014 provides that the following class of Companies shall be required to appoint an Internal Auditor which may be either an individual or a partnership firm, namely:

- (a) every listed Company;
- (b) every unlisted public Company having paid up share capital of ₹ 50 crore or more; or turnover of ₹ 200 crore or more during the preceding financial year or more; or outstanding loans of ₹ 100 crore or more; or outstanding deposits of ₹ 25 crore or more at any point of time during the preceding financial year; and

- (c) every private Company having turnover of ₹ 200 crore or more; during preceding financial year or outstanding loans of ₹ 100 crore or more at any point of time during the preceding financial year.

4.9.3 Audit Findings

As per the criteria, 11 SPSEs as listed in *Appendix 4.7* were required to appoint an Internal Auditor. However, two SPSEs (PUNGRAIN and PUNSUP) have not appointed Internal Auditors and in case of two SPSEs (PSPCL and PSTCL), the Internal Audit was being conducted departmentally by assigning the duties of Internal Auditor to qualified regular employees of the Company.

Three SPSEs (PUNBUS, PWRMDC and PSIDC) stated that they had appointed the Internal Auditors for the year 2022-23, however, the Internal Audit report was not submitted.

PUNGRAIN stated (January 2024) that the Corporation appoints qualified Chartered Accountants as Internal Auditors of the Corporation on year-to-year basis for conducting the audit. Since the Financial Statements of 2019-20 were being finalised, the Corporation had appointed Internal Auditors for the FY 2019-20. Further appointments of Internal Auditors shall be made with the commencement of the audit of subsequent financial years.

The status regarding SPSEs having an Internal Audit mechanism in place, where reports are being submitted to the management, is detailed in **Table 4.8**:

Table 4.8: Status of Internal Audit in SPSEs

Sr. No.	Name of Company	Particulars
1.	Punjab Communications Limited	Internal Auditors were appointed; Internal Audit Report was submitted quarterly to Audit Committee of the Company. The Audit Committee discussed the report and gave its recommendations to the Board.
2.	Punjab State Power Corporation Limited	Internal Audit was conducted departmentally on half yearly basis and the Internal Audit Reports were considered by the Audit Committee.
3.	Punjab State Transmission Corporation Limited	Internal Audit was conducted departmentally on half yearly basis and the Internal Audit Reports were discussed by the Audit Committee.
4.	Punjab Agro Foodgrains Corporation Limited	Internal Auditors were appointed. The frequency of reporting is quarterly. Audit Committee discussed the reports of Internal Audit and found it satisfactory.
5.	Punjab Police Housing Corporation Limited	Internal Auditors were appointed. Internal Audit Reports were submitted annually.

Source: Information provided by the SPSEs

4.10 Conclusion

Out of 29 SPSEs, 15⁵⁸ did not hold the required number of Board meetings in a year, and 11 SPSEs had not complied with the requirement of maximum time gap of 120 days between two consecutive meetings of the Board. Four SPSEs did not have any Independent Director on their Board as on 31 March 2023 while there was shortfall in requisite number of Independent Directors in two SPSEs. In four SPSEs, where Independent Directors were appointed, formal letter of appointment was sent in only three SPSEs. Out of seven SPSEs required to have a Woman Director on their Board, two SPSEs did not have any Woman Director on their Board. Similarly, out of eight SPSEs that were required to establish vigil mechanism, four SPSEs did not have any such mechanism in place. In five SPSEs, the Audit Committee did not review internal control systems of the Company, performance of Statutory Auditors and Internal Auditors and adequacy of Internal Audit functions. Two SPSEs did not have an Internal Audit mechanism in place while in case of three SPSEs, Internal Audit Report has not been submitted.

4.11 Recommendations

- The respective Administrative Departments may direct the SPSEs to conduct the Board meetings in accordance with the requirement of Companies Act, 2013 and to appoint the requisite number of Independent Directors and Women Directors, where applicable.
- The SPSEs may:
 - Conduct Board Meetings in accordance with the requirement of Companies Act, 2013;
 - Constitute Audit Committee and Nomination and Remuneration Committee, wherever applicable;
 - Establish Vigil Mechanism;
 - Strengthen their Internal Audit functions; and
 - Ensure that Audit Committee carries out the functions cast upon it by the Companies Act, 2013.

⁵⁸ As referred to in Table 4.3 and paragraph.4.4.

