

DIRECTOR REPORT



DIRECTOR REPORT COMPANIES ACT, 2013

GOYAL DIVESH & ASSOCIATES,
Practicing Company Secretary

Series- 34

SERIES

NO- 34

Report of Board of Directors should be 'ATTACHED' to the Balance Sheet laid before the AGM.

A directors' report is intended to explain to shareholders, the company's affairs, including its subsidiaries and the nature and scope of company's business. The report is a summation of activities of the company in the relevant financial year and an idea about possible future developments.

In previous law there was a separate section 217 of the Companies Act, 1956. The whole section was related to the Report of Directors.

But in the Companies Act, 2013, a lot of sections make mandate to disclose the facts in the Director Report.

Provisions Relating to Director's Report.-

A. Applicability of Provision of Section-134 of Director Report:

The provision of Director Report (u/s 134) is applicable only to financial year commencing on or after 1st April, 2014.

B. Signing of Director's Report:

As per Section 134(6) Board Report and annexure thereto shall be signed by

- its 'CHAIRPERSON' if he is authorized by Board of director; Where he is not so authorized by,
- At least 2 (Two) Director, one of whom shall be a Managing Director.
- If there is no Managing Director then by Two Directors.

C. Basis of Board Report:

The Board's Report shall be prepared based on **"STAND ALONE FINANCIAL STATEMENT OF THE COMPANY"**

But the Board's Report shall contain **a Separate section** wherein a report on the performance and financial position of each:

- Subsidiary
- Associate
- Joint venture companies, including in the consolidated financial statement is presented.

D. Approval of Board Report:

- Approval of Board's Report shall be done in Meeting of the Board of Director Only. {179(3)}
- Approval of Board's Report shall not be done by "Circulation Resolution", or "by Committee". {179(3)}
- Meeting of Board of directors can't be done by "Video Conferencing".

E. E-filing of Resolution for approving Board report:

The Board resolution for approval of Board Report required being file with ROC in form **"MGT-14"** within 30 days of passing of Board Resolution.

CONTENT OF BOARD REPORT:

As per Section 134(3) of Companies Act, 2013 Director Report shall include:

- I. **Extract of Annual Return.** [As per Section 32(3)]: Board's Report required to attach extract of Annual Return of company in form MGT-9.

- II. **No. of Board Meeting:** There is required to mention No. of Board's Meeting in Director Report
- III. **Comment on Auditor Report:** Explanations or comments by the Board on every qualification, reservation or adverse remark or disclaimer made by auditors in auditor report.
- IV. **Comment on Secretarial Audit Report:** Explanations or comments by the Board on every qualification, reservation or adverse remark or disclaimer made Company Secretary in Practice in Secretarial Audit Report.
- V. **Particular of Loan & Investment: Directors** There is required to disclose by director in Board's Report that, the company have complied with the provisions of Section 186 of companies Act, 2013 in relation to Loan, Investment & Guarantee given by the company during the financial.
- VI. **Disclosure of Related Party Transaction :** There is required to disclose by director in Board's Report all the related party transaction entered by the company during financial year.

For this disclosure Related Party Transactions means following transactions (Section 188(1): Such disclosure in **form AOC-2**

NATURE OF RELATED PARTY TRANSACTION	
For Every Transaction	
Sale, purchase or supply of any goods or materials directly or through appointment of agents (or)	
Selling or otherwise disposing of, or buying, property of any kind directly or through appointment of agents (or)	
Leasing of property of any kind (or)	
Availing or rendering of any services directly or through appointment of agents (or)	
Appointment to any office or place of profit in the company, its subsidiary company or associate company (or)	
Remuneration for underwriting the subscription of any securities or derivative	
Appointment to any office or place of profit in the company, its subsidiary company or its associate company	

- VII. **Dividend Recommended:** If any dividend was declared by the company during the financial year the financial year. Directors required disclosing in Board Report regarding status payment of same.
- VIII. **Post Balance Sheet Events:** Material changes and commitments, if any, affecting the financial position of the company which have occurred between the end of the financial year of the company to which the financial statement relate and the date of report. Generally there is gap of 4 to 5 month between financial year ending and preparation of report of Board of Director's. If the yearend is 31st March, report of board of Directors commitments affecting the financial position of company between this period.
- IX. **Risk Management Policy:** A statement indicating development and implementation of a risk management policy for the company including identification therein of elements of risk, if any, this in the opinion of the Board may threaten the existence of the company.
- X. **Corporate Social Responsibility (CSR):** Directors required to disclose in the Board Report the details about the policy developed and implemented by the company on Corporate Social Responsibility initiatives taken during the year.
- XI. **Report on performance of subsidiaries, associates companies and joint ventures:**
The Board's Report shall be prepared based on **"STAND ALONE FINANCIAL STATEMENT OF THE COMPANY"**
But the Board's Report shall contain **a Separate section** wherein a report on the performance and financial position of each:
- Subsidiary
 - Associate
 - Joint venture companies, including in the consolidated financial statement is presented.
- XII. **Secretarial Audit Report:**
- Every listed company and a company belonging to other class of companies as may be prescribed shall annex with its Board's Report, a Secretarial audit report.
 - The Board of Directors, in their report shall explain in full any qualification or observation or other remarks made by the Company Secretary in practice in his secretarial audit report.

The following class of companies shall be required to **Annex Secretarial Audit Report with Director Report**, namely:–

- a) All Listed Companies
- b) Every **Public Company** having a **Paid-Up Share Capital** of Rs. 50 Crore (fifty crore rupees) or more
- c) Every **Public Company** having a **Turnover** of Rs. 250 Crore (two hundred fifty crore rupees) or more

XIII. Disclosure about cost Audit.

Full particular of cost auditor, along with due date and actual filling of cost audit report by the cost auditor.

XIV. Disclosure of Board Report. As per Secretarial Standard of ICSI

SS-I- The Annual report of company should disclose the number of meetings of Board and Committees held during the year, indicating number of meetings attended by each director.

SS-II- Annual return should disclose particulars of General meeting held during last three year.

XV. Disclosure where company is required to constitute Nomination and Remuneration committee. The director will disclose in Director Report followings:

- The policy of qualification
- The remuneration of directors as, formulated under section 178(3)

XVI. Disclosure if MD/WTD is receiving remuneration or commission from a MD/WTD or subsidiary Company. As per Section 197(14) of the Act, 2013

A MD/WTD of company can receive remuneration or commission from any holding company or subsidiary company of such company. This should be disclosed by the company in Board's Report.

XVII. Disclosure of Vigil Mechanism in board Report. If provisions of vigil Mechanism apply on company, then directors required to disclose in Board's report establishment of Vigil Mechanism.

XVIII. Disclosure of composition of Audit committee and their recommendations not accepted.

Section- 117(8)

- Composition of Audit Committee shall be disclosed in Board's Report of the Company.
- If the board doesn't recommendation of Audit Committees, it shall be disclosed along with reason in Board's report.

XIX. Declaration by Independent Director.

Director will disclose the statement on declaration given by Independent Director.

XX. Details Relating to Deposit.

- Details of deposits which are not in compliance with the requirement of chapter V of the Act.
- Deposit Accepted during the year.
- Unpaid and unclaimed deposit at the end of the year.
- If there is any default in repayment of deposit or payment of interest thereon during the year then; Number of such cases and total amount involved
 - At the beginning of the year
 - Maximum during the year
 - At the end of the year

XXI. Details of Director and KMP. There should be disclosure in the Director's Report about:

- Directors & KMP appointed during the Year.
- Directors & KMP appointed Resigned the Year

XXII. General Disclosures.

- ✓ Name of retiring directors and whether or not they offer themselves for re-appointment.
- ✓ Casual vacancies in the Board filled during the year.
- ✓ Re-appointment.
- ✓ Casual vacancy in the Board filed during the year

- ✓ Changes in Board during the year, by change of nominees, appointment of additional directors, death, resignation or any other reason
- ✓ Details, if anyone is contesting for election as director/ small shareholder director.

XXIII. Disclosure about ESOP and Sweat Equity Share.

Director report shall disclose following about Sweat Equity Shares. .[Rule 7 of Unlisted Companies (Issue of Sweat Equity Share] Rules, 2003

- Number of Share issued Condition of issue of shares.
- Pricing formula
- Total Sweat equity share issued.
- Money realized and benefit accrued
- Diluted EPS pursuant to issue of sweat equity shares.

If ESOP has been given, its details are to be disclosed.

XXIV. Statement of affairs of the Company. Generally following information is given about current year and pervious year:

- Turnover
- Profit
- Production of year

XXV. Director Perception of Future of Company. In this report directors perception of future of company given in consideration of ;

- Market Competition
- Production constraints
- Government Policies etc.

XXVI. Order of Court.

The details of significant and material orders passed by the regulators or courts or tribunals impacting the going concern status and company's operation in future.

XXVII. Details of employees drawing salary above prescribed limits. (LISTED)

Every listed company shall disclose in the Board's Report the ratio of the remuneration of each director to the median employee's remuneration and such other details as may be prescribed. [197(12)]. The disclosures are summarized as below:

- Comparison between remuneration managerial personnel and remuneration to employees.
- Details of employees drawing salary of Rs. 500,000/- or more per month.
- Details of remuneration to person holding 2% or more equity shares
- Details of employees (who are not directors or relatives) posted outside India.

XXVIII. Conservation of energy, technology absorption & foreign exchange dealing. Rule 8(3)

The report of the Board shall contain the following information and details, namely:-

(A) Conservation of energy-

- (i) the steps taken or impact on conservation of energy;
- (ii) the steps taken by the company for utilising alternate sources of energy;
- (iii) the capital investment on energy conservation equipments;

(B) Technology absorption-

- (i) the efforts made towards technology absorption;
- (ii) the benefits derived like product improvement, cost reduction, product development or import substitution;
- (iii) in case of imported technology (imported during the last three years reckoned from the beginning of the financial year)-
 - (a) the details of technology imported;
 - (b) the year of import;
 - (c) whether the technology been fully absorbed;
 - (d) if not fully absorbed, areas where absorption has not taken place, and the reasons thereof; and

(iv) the expenditure incurred on Research and Development.

(C) Foreign exchange earnings and Outgo–

The Foreign Exchange earned in terms of actual inflows during the year and the Foreign Exchange outgo during the year in terms of actual outflows.

XXIX. Director Responsibility statement 134(5)

The Directors' Responsibility Statement referred to in clause (c) of sub-section (3) shall state that—

- (a) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (b) the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit and loss of the company for that period;
- (c) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (d) the directors had prepared the annual accounts on a going concern basis; and
- (e) the directors, in the case of a listed company, had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.

Explanation.—For the purposes of this clause, the term "internal financial controls" means the policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information;

- (f) the directors had devised proper systems to ensure compliance with the provisions.

XXX. Other Details.

- a) The names of Companies which have become or ceased to be its Subsidiaries, Joint ventures or associated company during the year.
- b) The change in the nature of business, if any;
- c) The financial summary or highlights;
- d) The details in respect of adequacy of internal financial controls with reference to the financial Statements.
- e) Major events concerning the company are highlighted.

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Disclaimer: The entire contents of this document have been prepared on the basis of relevant provisions and as per the information existing at the time of the preparation. Though utmost efforts has made to provide authentic information, it is suggested that to have better understanding kindly cross-check the relevant

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