BOARD & BEYOND

BY VOLO ADVISORY

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Founders & Governance

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Due diligence before you say yes to a board

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Governance as a growth tool: how founders use boards to scale, raise and hire better.

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IN THIS ISSUE

Founders & Governance

Governance as a growth tool: how founders use boards to scale, raise and hire better.

In this issue

- Cover story: governance is a growth tool
- What investors look for in diligence
- ESOPs and cap-table hygiene
- Founder diary: our first board meeting
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From the editor

Each issue of VOLO — The Monthly takes one theme and looks at it from the boardroom: what the rules say, what good practice looks like, and what directors and founders in our community are actually doing. As always, we welcome your letters and ideas for future issues at hello@voloadvisory.com.

BOARD DUE DILIGENCE

Due diligence before you say yes to a board

> ***An independent directorship carries real legal and reputational exposure. A structured due diligence process protects you and tells you whether you can genuinely add value.***

Saying yes to a board is easy. Leaving one gracefully, once you have discovered something uncomfortable, is not. Independent directors in India carry fiduciary duties under Section 166 of the Companies Act 2013 and the code of conduct in Schedule IV. Section 149(12) limits an independent director's liability to acts of omission or commission that occurred with their knowledge, attributable through board processes, and with their consent or connivance, or where they did not act diligently. That protection only works if you can show you were diligent. Diligence starts before the appointment.

Step 1: Read the public record

Start with what anyone can access. For a listed company, this is extensive; for an unlisted company, the MCA21 portal still gives you a good deal.

- **Annual reports for at least three years**, including the board's report under Section 134, the corporate governance report and the auditor's report.
- **Auditor's report qualifications**, emphasis of matter paragraphs and the CARO report, where applicable.
- **Stock exchange disclosures** on BSE and NSE: resignations of directors, auditors or key managerial personnel, and the reasons given.
- **Charges registered** against the company and any defaults disclosed.
- **Related party transactions** and the policy approved by the audit committee.
- **Litigation and regulatory actions**, including any orders from SEBI, tax authorities or sector regulators.

Step 2: Look for warning signs

None of these is automatically disqualifying, but each deserves a direct question:

- Frequent changes of statutory auditor, CFO or company secretary.
- Independent directors who resigned before completing their term, especially citing "pre-occupation" without further detail.
- Large or growing related party transactions, or loans to group entities.
- Delayed financial results or repeated extensions for filings.
- Significant pledging of promoter shareholding.
- A board where the same few people sit on every committee.
- Board papers or minutes that the company is reluctant to share in any form.

Step 3: Ask for private information

Once there is serious mutual interest, it is reasonable to ask the company secretary for a limited information pack, under a confidentiality undertaking if required:

1. Minutes of the last few board and audit committee meetings.
2. The latest board evaluation summary and any action plan arising from it.
3. The internal audit plan and the most recent significant findings.
4. The risk register or risk management committee report, where one exists.
5. The draft letter of appointment and the terms of any D&O insurance policy.
6. Details of the familiarisation programme for independent directors.

GET ON BOARD RESOURCES

Get on board: the essential resource kit (search firms, annual reports, appointment letters)

> ***A practical kit for aspiring independent directors: how to work with board search firms, where to find annual reports in India, and what your letter of appointment must contain.***

Aspiring directors often ask the same three questions. How do I get noticed by the people who fill board seats? How do I research a company properly? And once I am offered a role, what should the paperwork say? This kit answers all three.

Part 1: Working with board search firms

Many listed and large unlisted companies use executive search firms or specialist board advisers to identify independent directors. They work for the company, not for you, so approach them accordingly.

How to be found

- **Prepare a board CV**, separate from your executive CV. Lead with governance experience, committee work, sector knowledge and functional depth such as audit, risk, technology or human capital.
- **Write a short positioning statement**: two or three lines on the kind of board you can help and why.
- **Keep your public profile consistent** with your CV, including dates and titles.
- **Register with the independent directors' databank**, if you have not already, and keep it current.

How to work with a search consultant

1. Request an introductory conversation, not a specific role. Consultants remember people who are clear about what they offer.
2. Be honest about your availability, existing directorships and any conflicts.
3. If you are put forward for a role, ask for the brief: skills sought, committee expectations, timeline and remuneration structure.
4. Keep the consultant informed if your circumstances change.
5. Never pay a fee to be placed on a board. Reputable search firms are paid by the client company.

Part 2: Where to find annual reports and filings

Reading the public record is the foundation of both interview preparation and due diligence.

- **Company investor-relations pages:** listed entities must publish a range of information on their websites, including annual reports, financial results, shareholding patterns, policies, and the terms and conditions
- disclosures such as director or auditor resignations.
- **MCA21 portal:** for both listed and unlisted companies, you can view master data, director details and charges, and purchase access to filed documents such as financial statements and annual returns.
- **Credit rating rationales:** where the company has rated debt, published

BOARD ANNUAL REPORTS

How to read an annual report like a director

> ***Investors read an annual report for returns. Directors read it for risk, judgement and the quality of governance. A step-by-step method for reading Indian annual reports with a director's eye.***

An Indian listed company's annual report can run to several hundred pages. Directors, aspiring directors and candidates in due diligence do not need to read every page with equal care. They need a method: a sequence that moves from the independent view of the auditor to the narrative of management, and finally to the detail that tells you whether the story holds together.

Know what you are holding

For a listed entity, SEBI LODR Regulation 34 sets out the contents of the annual report, which typically include:

- Audited financial statements, standalone and consolidated, with the auditor's reports.
- The board's report under Section 134 of the Companies Act 2013.
- Management discussion and analysis.
- The corporate governance report.
- The business responsibility and sustainability report, for the entities to which it applies.
- The secretarial audit report.

You can download annual reports from the company's investor-relations page and from the BSE and NSE websites. For unlisted companies, filed financial statements are available through the MCA21 portal.

Step 1: Start with the auditor

Read the independent auditor's report first. Look for:

- **Modified opinions**: qualified, adverse or disclaimer.
- **Emphasis of matter** and material uncertainty related to going concern.
- **Key audit matters**, which tell you where the auditor spent the most judgement.
- **The report on internal financial controls** and any material weaknesses.
- **The CARO annexure**, where applicable, for issues on statutory dues, loans, fixed assets and fraud reporting.

Then read the secretarial audit report for compliance observations.

Step 2: Read the cash before the profit

Profit involves judgement; cash is harder to manage. Compare operating cash flow with net profit over several years. Persistent gaps deserve questions. Then check:

- Trade receivables and inventory growth compared with revenue growth.
- Movements in borrowings, and the maturity profile of debt.
- Capital expenditure compared with depreciation.
- Contingent liabilities and commitments, which sit in the notes but can be significant.

Step 3: Go to the notes that matter

The notes to accounts hold most of the information directors need. Prioritise:

4. **Revenue recognition**, particularly for long-term contracts or multiple-element arrangements.

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