



# Scope and Effectiveness of Audit committees

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December 2024

# Defining our mission: We understand your expectations from us...

## Role of Audit committee

Sections 177 and 134(5) of the Companies Act 2013 establish that the ultimate responsibility for financial governance lies with the Board and, by extension, the Audit committee.

The Audit committee is responsible for:

- **Monitoring** financial reporting, auditing processes, and ensuring internal controls and risk management systems are adequate.
- **Approving** or modifying related party transactions.
- **Establishing** a vigil mechanism for reporting genuine concerns.
- **Ensuring** compliance with laws and regulations, including "Prevention of Insider Trading" (LODR).
- **Overseeing** material financial transactions such as fundraising and M&A, with a focus on fair valuation.
- **Scrutiny** of inter-corporate loans and investments
- **Valuation** of undertakings or assets of the company, wherever it is necessary

However, the emergence of new risks, such as ESG and cybersecurity, has raised new expectations for the Audit committee, extending beyond traditional financial oversight.

## Core objectives

**Establish a robust financial oversight framework**

**Ensure integrity and transparency in financial reporting**

**Fostering stakeholder trust and confidence**

**Critical oversight of material transactions**

**Enhancing of audit quality and independence**

**Strengthening of financial compliance and Internal control**

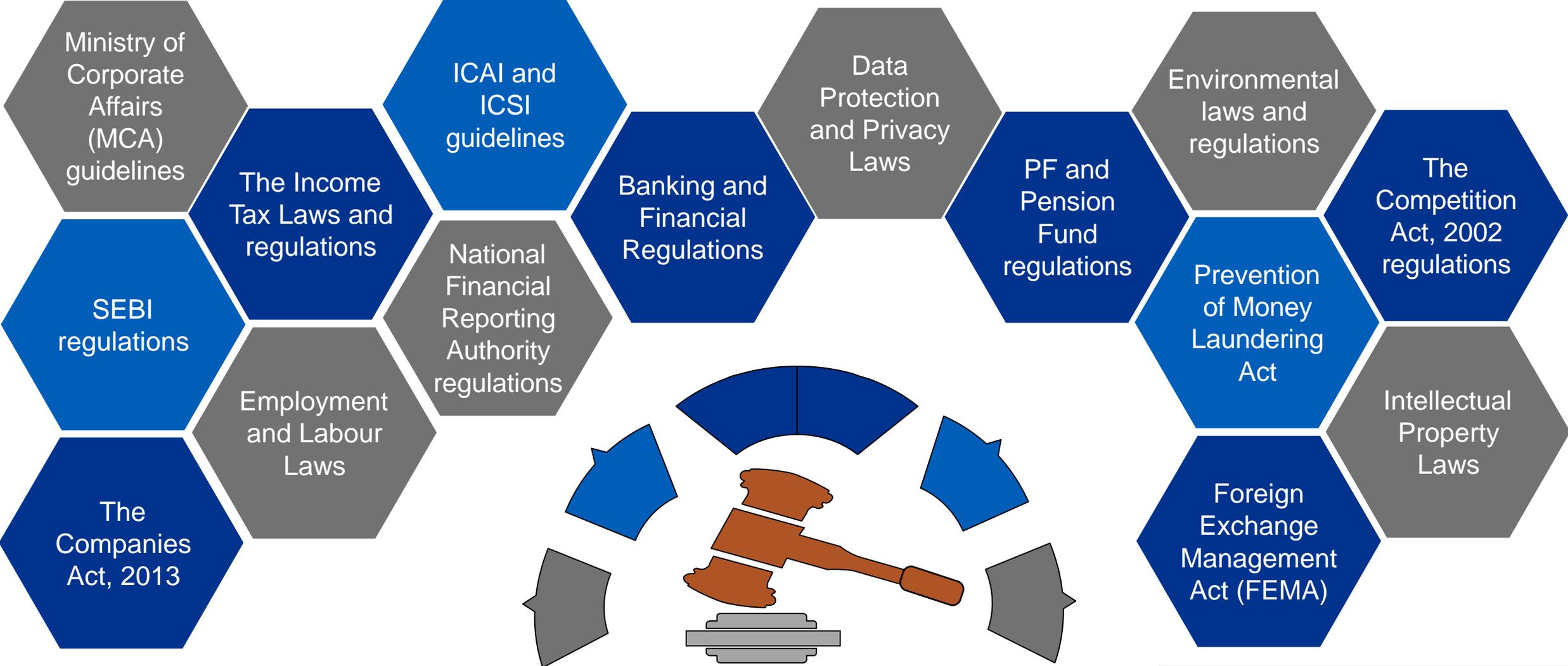
# We operate in a rapidly evolving corporate governance landscape...



**Audit committees, must navigate through new complexities that extend beyond traditional oversight roles, necessitating fresh perspectives and innovative strategies...**



# Amidst a multitude of regulatory guidelines...



**And many more...**

# And as the landscape evolves, our horizons continue to broaden...

Financial oversight

Recommendation for appointment and remuneration of auditors

Monitoring compliance with legal and regulatory

Review of Auditor independence and performance

RPTs, Loans, and Off-Balance Sheet Transactions

Transparency and Disclosure

Monitoring of end use of funds raised through public offers and related matters

Insider trading and UPSI

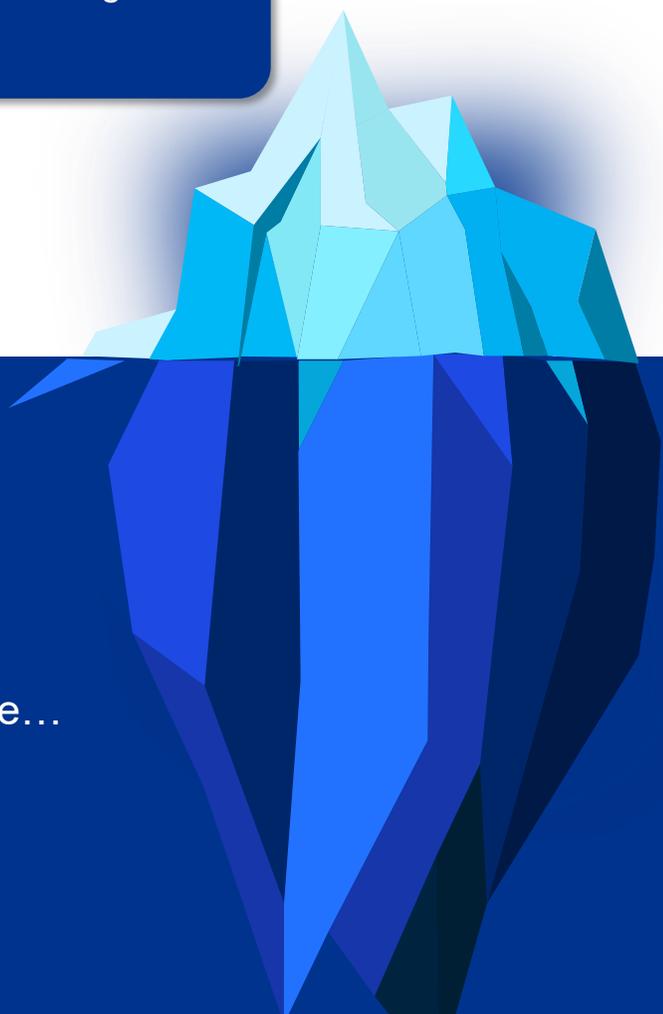
Evaluation of Internal financial control and Risk management systems

Implementation of the whistleblower policy and Vigil mechanism

External and Internal Audit quality

- Litigations and Disputes
- Ethics and Compliance
- Conflict of interest
- Coordination between Auditors, Management and Committees

Many more...



# While carrying the weight of accountability...

## Liabilities of the Board and Audit committee members



### Indicative penalty clauses for Audit Committee:

#### Section 129 – Financial statement violations

Violations of financial statement requirements, such as failing to properly prepare, approve, or file financial statements, including the failure to present true and fair financial records, or non-adherence to prescribed accounting standards, can lead to serious consequences. These may include imprisonment for up to one year, fines ranging from ₹50,000 to ₹5 lakh, or both.

#### Section 134 – Financial statement & Board report violations

Failure to comply with the provisions relating to financial statements and the Board's report—such as neglecting to ensure accuracy, proper disclosures, or timely filing—leads to a penalty of ₹3 lakh for the company. Each officer in default will incur a fine of ₹50,000.

#### Section 178 – Contravention to the provisions of constitution of committees

Violations relating to establishment of necessary committees or neglecting their responsibilities of compliance and governance as prescribed under Sections 177 and 178 can result in a penalty of ₹5 lakh for the company including a penalty of ₹1 lakh.

# Workload Assessment



# Audit committee: the center of oversight

	<b>Audit committee</b>	<b>NRC Committee</b>	<b>Stakeholder Relationship Committee</b>	<b>CSR Committee</b>	<b>Risk management Committee</b>
	<ul style="list-style-type: none"> <li>Financial oversight</li> <li>Regulatory compliance</li> <li>RPTs</li> <li>Internal financial controls</li> <li>External and Internal audit quality</li> <li>Transparency and disclosures</li> <li>Appointment of auditors</li> <li>Review of RMS</li> <li>Whistleblower policy</li> </ul>	<ul style="list-style-type: none"> <li>Board composition</li> <li>Director appointment</li> <li>Remuneration policies</li> <li>Succession planning</li> <li>Performance evaluation</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholder engagement</li> <li>Grievance redressal</li> <li>Feedback mechanism</li> </ul>	<ul style="list-style-type: none"> <li>CSR policy development</li> <li>CSR regulation compliance</li> </ul>	<ul style="list-style-type: none"> <li>Risk assessment</li> <li>Risk management framework</li> <li>Monitoring and evaluating evolving risks such as ESG and Cyber Security</li> <li>Monitoring and reporting risk exposure</li> <li>Crisis management</li> <li>Compliance oversight</li> </ul>
<b>Time Spend</b>	Can go up to ~200-300* hours per year	Can go up to ~100-120 hours per year	Can go up to ~30-50 hours per year	Can go up to ~40-60 hours per year	Can go up to ~80-100 hours per year
<b>Meeting/Year</b> <small>(reqd. by law)</small>	<b>At least 4 times</b> in a year and max gap of 120 days	<b>At least once</b> in a year.	<b>At least once</b> a year	<b>At least once</b> a year	<b>At least twice</b> a year
<b>Chairperson</b>	CP shall be Independent	CP shall be independent, and CP of the committee shall not be the CP of the Company	CP shall be a non-executive director and may or may not be an independent director	Not specified	CP shall be a member of the Board.

\* Hours spend fulfilling duties as an individual member of the Audit committee in the past 12 months, including all time related to travel, reviewing materials, attending meetings, and any other related board/ committee activities.

Source: Audit best practices report, February 2022 by Harvard law school forum on Corporate Governance; and KPMG insights

# Case in Point (1/2)

The commitment of audit committee members isn't a one-size-fits-all deal - it depends heavily on the company's size and industry. Some might dedicate over 300 hours a year just to audit committee duties, while others rack up even more by serving on multiple committees.

## ICICI Bank (FY 23-24)

Board and Committees	No of Meetings
Board	10
Audit Committee	16
Nomination and Remuneration Committee	7
Corporate Social Responsibility Committee	4
Stakeholders Relationship Committee	4
Risk Committee	8
Credit Committee	31

The other committees include Customer Service Committee, IT Strategy Committee, Risk Committee, Fraud Monitoring Committee, Review Committee for Identification of Willful Defaulters/Non-Co-operative Borrowers etc.

## Audit committee members

Name of Member	Other committees and meetings attended
<b>Uday Chitale</b> Chairperson (16/16)*	<ol style="list-style-type: none"> <li>1. CSR (4/4)*</li> <li>2. Stakeholder relationship committee (4/4)*</li> <li>3. Review committee for identification of willful defaulters/non-co-operative borrowers (1/1)*</li> </ol>
<b>S. Madhavan</b> Member (16/16)*	<ol style="list-style-type: none"> <li>1. Risk committee (<b>Chairperson</b>) (8/8)*</li> <li>2. Fraud monitoring committee (6/6)*</li> </ol>
<b>Radhakrishnan Nair</b> Member (16/16)*	<ol style="list-style-type: none"> <li>1. Fraud monitoring committee (<b>Chairperson</b>) (6/6)*</li> <li>2. CSR (4/4)*</li> </ol>

\* No of meetings attended

## Key Audit Matters

1. Identification and provisioning of non-performing advances (NPA)
2. Evaluation of Litigations included in contingent liabilities
3. Information Technology systems and controls impacting financial controls.

## Infosys (FY 22-23)

Board and Committees	No of Meetings
Board	8
Audit Committee	11
Nomination and Remuneration Committee	7
Corporate Social Responsibility Committee	4
Stakeholders Relationship Committee	4
Risk Management Committee	4
ESG Committee	4
Cybersecurity Risk Sub-committee	4

## Audit committee members

Name of Member	Other committees and meetings attended
<b>Bobby Parikh</b> Chairperson (11/11)*	<ol style="list-style-type: none"> <li>1. Risk Management Committee (4/4)*</li> <li>2. Stakeholders Relationship Committee (4/4)*</li> </ol>
<b>D. Sundaram</b> Member (10/11)*	<ol style="list-style-type: none"> <li>1. NRC (<b>Chairperson</b>) (6/7)*</li> <li>2. Risk Management Committee (<b>Chairperson</b>) (4/4)*</li> <li>3. Cybersecurity Risk Sub-committee (4/4)*</li> <li>4. Stakeholders Relationship Committee (4/4)*</li> </ol>
<b>Michael Gibbs</b> Member (11/11)*	<ol style="list-style-type: none"> <li>1. NRC (7/7)*</li> <li>2. Risk Management Committee (7/7)*</li> <li>3. Cybersecurity Risk Sub-committee (<b>Chairperson</b>) (4/4)*</li> <li>4. Stakeholders Relationship Committee (<b>Chairperson</b>) (NA)*</li> </ol>

\* No of meetings attended

## Key Audit Matters

1. Revenue recognition
2. Revenue recognition - Fixed price contracts using the percentage of completion method

# A global perspective



# Applying a global lens...

		Audit committee		Role of Audit committee		Role of Audit committee In relation to External Auditors		
		Min. no. of ID(s) required	Chair Independent	Risk Mgmt.	Review of RPT's	Appt./ Rmvl. of Ext. Auditors	Setting Audit Fees	Rev. Audit scope & Adeq.
	Australia	50%	C/R	C	-	C	C	C
	France	66%	-	L	-	L	L	L
	Japan	50%	-	-	C	C	-	-
	UK	100%	L	C	-	L	L	L
	United States	100%	L	L/R	C	L	L	L
	India	66%	L	L	L	L	L	L

Key: L = Requirement by law or regulations;

R = Requirement by the listing rule;

C = Recommendation by the codes or principles;

Source: OECD Corporate Governance Factbook 2023

## UK - Presents a compelling case to study

**Revisions to the UK corporate governance code (2024):** Boards must now declare the effectiveness of internal controls, enhancing accountability and transparency.

**Audit and corporate governance reforms:** New reforms strengthen the audit framework and establish the Audit, Reporting and Governance Authority (ARGA) for better oversight.

**Emphasis on ESG factors:** Companies are integrating Environmental, Social, and Governance (ESG) considerations into their strategies to meet stakeholder demands for transparency.

**Technological advancements and cybersecurity:** Governance frameworks are adapting to address rising cybersecurity threats amid digital transformation.

**In-depth review of specific risks:** A significant portion of Audit committees' meetings is now dedicated to reviewing specific risks, reflecting a proactive risk management approach.

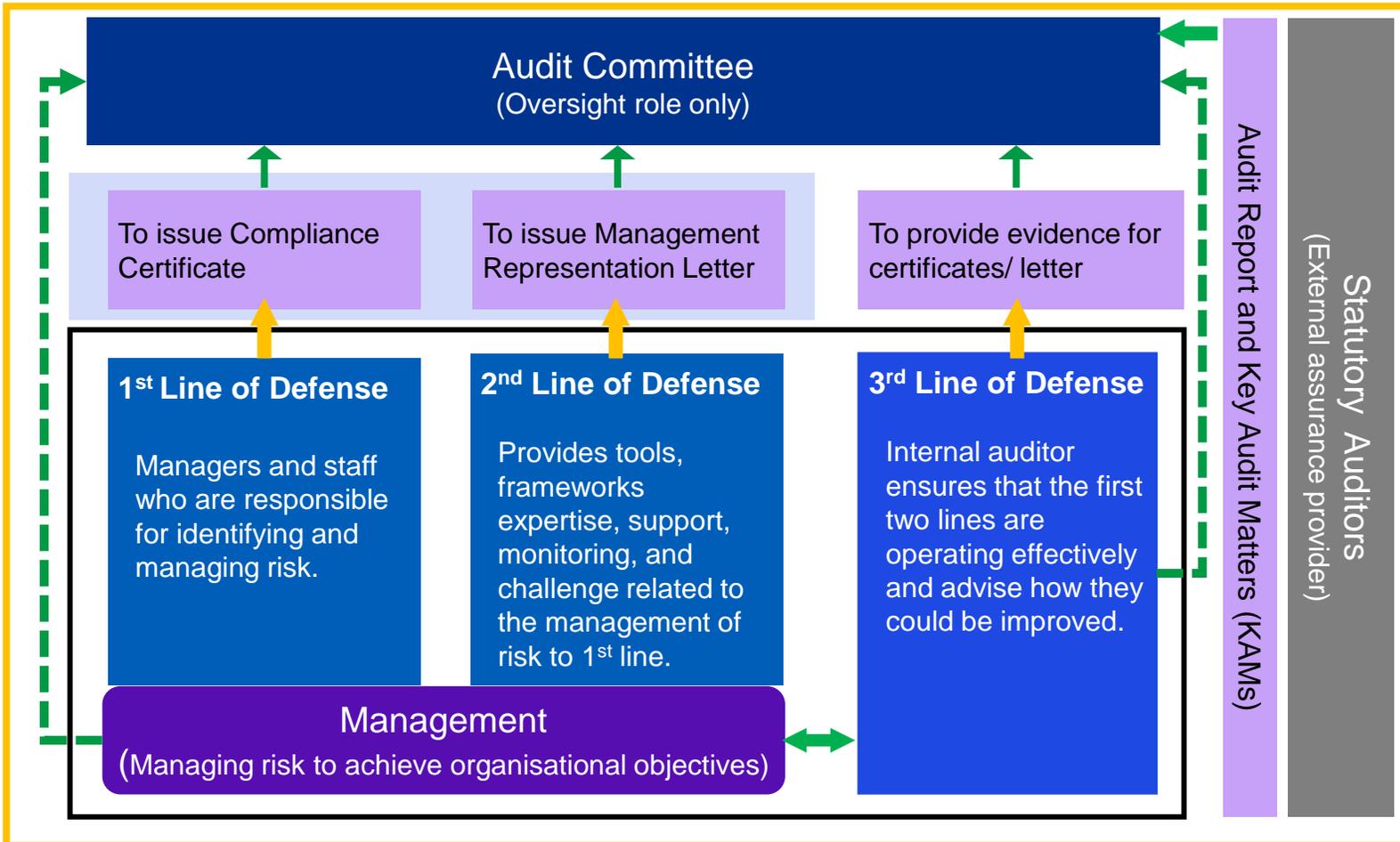
# Points to Ponder & Consider



# The management team led by CEO and CFO are primarily responsible ...

## Three Line Of Defense

Regulators (NFRA, SEBI and other governing bodies)



## Audit Committee Oversight:

### 1. Review of management's assurance documents

- AC to thoroughly examine the Compliance Certificate and Management Representation Letter.
- Engage with Management to discuss the evidence backing these documents.
- Ensure confidence in the accuracy and completeness of the information provided.

### 2. Reliance on statutory auditor insights

- Review the Statutory Auditor's Audit Report.
- Focus on Key Audit Matters (KAMs) identified.
- Consider any flagged opportunities for improvement.

### 3. Authority to appoint external experts

- Leverage the authority to hire external experts if needed.
- Use expert insights to address complex or specialized issues.

# Paving the way forward: aim to build a robust support framework...

## **Strategic scope refinement**

Strengthen the AC's oversight role by reviewing its scope, agenda and focus areas.

## **Sharpening the focus**

Exclude non-core elements such as ESG, Cyber, AI, Tech outside the scope of AC and integrating them across other committees.

## **Execution versus oversight**

Maintain clear boundaries, while mgmt. handles execution, the AC should focus solely on effective oversight, ensuring governance.

## **Mitigate information asymmetry**

Structured information-sharing protocols among audit, risk, and other Board committees to reduce information asymmetry.



## **Improved training & Orientation program**

Trainings and certification programs for Board/AC members and CXOs for continuous profession development & to ensure enhanced effectiveness.

## **People competency and Bandwidth**

Ensure that the Audit committee has right skill sets, expertise, and time capacity to effectively fulfill its oversight responsibilities.

## **Collaborative engagement**

Deeper engagement with CFOs, CXOs, Internal and Statutory auditors, and seek direct support from proxy advisors and consultants.

## **Other ways to enhance effectiveness**

Adopt best practices relating to mgmt. letters, key audit matters, AC's independent interaction with CFO, with auditors, internal auditors, etc.

Lastly, remember that “One Size Doesn't Fit All”. Craft robust internal controls framework based on the size and nature of an organization.

# Leading practices for an effective Audit committee

## From 'Good' to 'Great'...

### Strategic scope refinement

- Focus on 'Materiality' – what's important.
- Align audit scope with organizational priorities
- Periodic reviews of Audit committee's terms of reference and capabilities
- Set clear, measurable objectives for audit committee regularly

### Sharpening the focus

- Exclude non-core elements such as ESG, Cyber, AI, Tech from AC's scope
- Clearly define audit committee boundaries to avoid overlap
- Prioritize financial reporting and risk-related oversight

### Execution versus oversight

- Emphasize policy review and risk monitoring over operational involvement
- Regularly revisit the roles & responsibilities to maintain oversight clarity
- Avoid deep dives into execution, trust management's implementation

### Mitigate information asymmetry

- Promote communications – both formal and informal for information symmetry
- Establish protocols for timely information flow
- Insist on clear, concise reporting templates to streamline reviews
- Promote real-time updates on critical audit issues

### Improved training & Orientation program

- Invest in ongoing trainings on regulatory & risk trends
- Industry sector-specific risk awareness
- Refreshers on financial and governance standards regularly
- Plant/factory visits
- Conduct self-assessments and peer reviews to identify improvement areas

### People competency and Bandwidth

- Ensure adequate resources and support for AC to do its job
- Ensure diversity in expertise in finance, risk, and industry specifics
- Regularly assess skill gaps and refresh committee composition accordingly
- Limit the number of committee roles each member holds to maintain focus & efficiency

### Collaborative engagement

- Closer collaboration with management and auditors
- Insist that the AC is kept apprised of key issues by mgmt. and other committees
- Hold regular pre-meeting sessions with auditors to align on key audit issues
- Engage external advisors as needed to gain objective perspectives on complex issues.

### Other ways to enhance effectiveness

- Formal assurances on key financial & operational matters through mgmt. representation letters for more informed oversight & decision making
- Timely circulation and review of key audit matters
- Skill, age, and gender diversity
- Use executive sessions to discuss sensitive issues without mgmt. presence

# Governing Principles

1

## Lay solid foundations for management and oversight

Recognize and publish the respective roles and responsibilities of board and management.

2

## Structure the AC to add value

Have an AC of an effective compositions, size and commitment to adequately discharge its responsibilities and duties.

3

## Promote ethical and responsible decision making

Actively promote ethical and responsible decision making.

4

## Safeguard integrity in financial reporting

Have a structure to independently verify and safeguard the integrity of the company's financial reporting.

5

## Make timely and balanced disclosure

Promote timely and balanced disclosure of all material matters concerning the company

6

## Respect the rights of shareholders

Respect the rights of shareholders and facilitate the effective exercise of those rights.

7

## Recognize and manage risk

Establish a sound system of risk oversight and management and internal control.

8

## Encourage enhanced performance

Fairly review and actively encourage enhanced board and management effectiveness.

9

## Remunerate fairly and responsibly

Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined.

10

## ABOVE ALL, ACT WITH INTEGRITY and IN GOOD FAITH

Act in good faith, but do apply "Professional Skepticism"

# AC's Premium for good governance

When high performance is combined with effective oversight and high integrity it builds trust and invariably leads to long term value creation for all stakeholders.



**Thank you!**

# An attempt to clarify roles for effective oversight...

Role In	Management	Internal Auditor	Stat Auditor	Board	AC
<b>Operations</b>					
Audit Quality & Assurance	C	R	R	I	A
Financial Policy, SOP & Systems	R	R	R	I	A
Financial Controls	R	R	R	I	A
Related Party transaction	R	A	C	A	A
Consolidation	R	I	A	A	A
impairment and Contingent Liabilities	R	A	A	A	A
Financial Reporting and Disclosures	R	C	A	A	A
Leadership & bandwidth in Finance	R	I	I	I	A
<b>Compliances</b>					
Regulatory Compliance	R	C	C	A	A
Enterprise Risk Management	R	C	I	A	I
Digital, Cyber & Privacy Risks	R	A	I	A	I
Whistle blower / vigil mechanism	A	I	I	I	A
Insider Trading Prevention	A	I	I	A	A
<b>Strategy</b>					
M&A Due diligence	R	-	-	A	A
Funding Mechanism & Leverage	R	C	C	A	A
Business strategy & AOP	R	C	C	A	C
<b>Governance</b>					
Composition & Diversity	-	-	-	R	R
Building Culture	-	-	-	I	R

**Responsible (R):** The role responsible for **executing** specific tasks or deliverables. This role does the work needed to achieve the objective, carrying out actions and implementing processes to meet the Organisation's goals.

**Accountable (A):** The role ultimately accountable for the task's successful completion and outcomes. This role ensures objectives are met **and takes ownership** of the results, though they **may not perform the actual work**.

**Consulted (C):** Individuals or roles who are **consulted for their input or expertise**. They provide guidance, advice, or information as needed to help those responsible perform effectively.

**Informed (I):** Parties who need to be **kept informed** of progress, decisions, or outcomes. They do not directly contribute to the task but have a vested interest in staying updated.

# Leading practices for “Indoor Management”

## Audit Committee Culture

- Mix of expertise and knowledge
- A willingness to probe, applying professional skepticism, and not “us v/s them”
- Mentor to the CFO, Finance Controller and General Counsel
- Frequency and duration of meetings



## Setting the Agenda

- Prioritization / time allocation
- Discussions with CFO, Internal auditors and external auditors and Chief Risk Officer
- Share draft agenda with other committee members



## Effective Meeting

- Timely circulation of pre-meeting materials
- Balance presentation and discussion time
- CEO presence for accountability
- Follow up regularly
- Deliberations from any external/internal interactions to be discussed with committee members
- Conclude/begin with executive session



## Alignment of Responsibilities

- Alignment of AC terms of reference, with the oversight of the Board, and other committees
- At least one member of the committees serves on the risk management committee and other board committees and vice versa



## Timely Documentation

- Documentation of the proceedings
- Diligence applied by Committee members
- Mapping of goals with AC charter
- Periodic reporting of Whistleblowing, POSH, even if it’s a NIL report
- Follow through on audit findings ; track the implementation of corrective actions and monitor their impact

