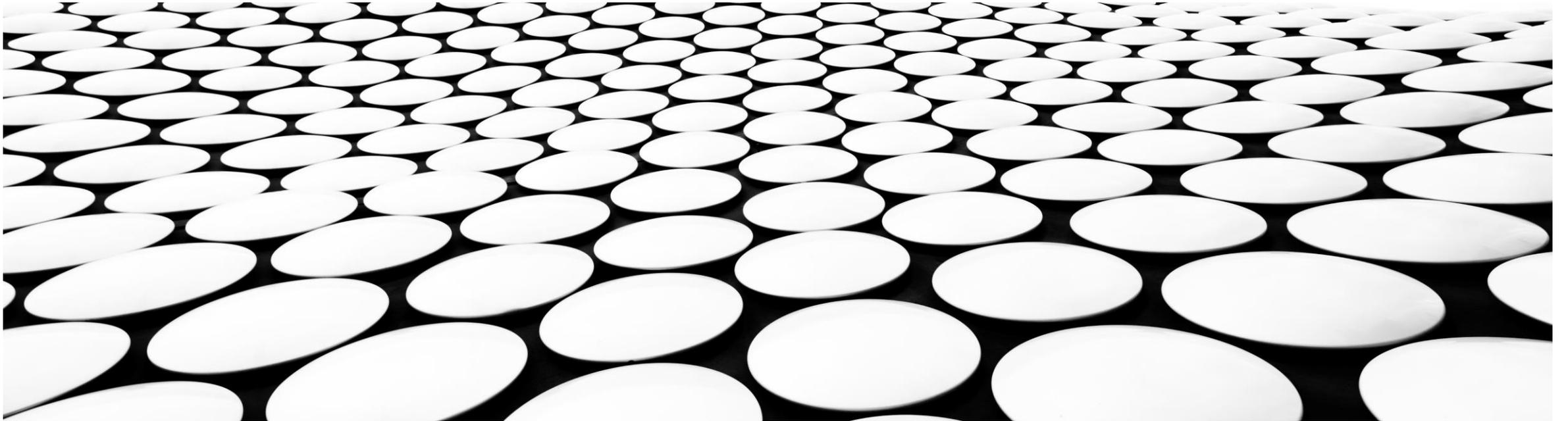


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# AUDIT COMMITTEE EFFECTIVENESS

HUZEIFA I. UNWALA





**THIS SESSION IS DEDICATED TO THOSE HONEST AND HARDWORKING  
AUDIT COMMITTEE MEMBERS (BRAVE HEARTS) AND AUDITOR  
(HEROES) WHO PERFORM UNDER CHALLENGING CIRCUMSTANCES  
AND LEGAL COMPLEXITIES TO PROVIDE THEIR SEAL OF ASSURANCE**

# AUDIT COMMITTEE & CORPORATE GOVERNANCE

- An Audit committee is a sub committee of the Board of Directors and is a key feature in the SEBI LODR 2015 and section 177 of the Companies Act 2013.
- Audit committee should work without bias and its aim should be to strengthen the financial disclosures of the company
- The terms of reference of the Audit committee includes – fixing of appointment and remuneration of auditors, review of auditors performance, examination of financial statements, approval or any subsequent modification of transactions of the company with related parties (omnibus approval can be provided by the audit committee only for one FY), scrutiny of inter-corporate loans and investments, evaluation of internal financial controls and risks management systems, monitoring of funds of public offer.
- Any transaction that is not exceeding Rs. 1 Crore can be voided where the transaction is entered into by Director or Officer of the company, without approval of Audit Committee.
- Minutes of the Audit Committee to be noted by the Board of Directors in meeting as per applicable mandatory Secretarial Standards.
- Where the Board does not accept the recommendations of the audit committee, it shall be disclosed along with reasons (for not accepting the recommendations) – section 177(8).
- Audit committee shall have the authority to investigate any item in its terms of reference or referred to it by the Board. For doing so the Audit Committee may seek external professional advice. For the purpose of investigation, the Audit Committee shall have full access to information contained in the records of the company.
- Audit Committee Chair-person or in his absence audit committee member authorised by the Chair should attend the AGM of the company.

What is the  
game?  
- Market  
capitalization/  
Wealth  
creation

# AUDIT COMMITTEE & AUDITORS

- Be pro-active, go beyond the minimum regulatory benchmarks. *King IV Code states that the governing body should act ethically beyond mere legal compliance.*
- Delegation is not absolving responsibility, **Entrust - Verify – Confirm.**
- Risk management beyond financial risk, look at materiality in terms of influence or impact
- Make voluntary disclosures in the interest of transparency
- Holding a pre & prep call between the Audit Chair & Auditor before the Audit Committee
- Set the agenda but stay flexible for stretch, enough time for meetings/ in-depth discussions on critical areas, avoid duplications (Statutory - Internal - Cost - Secretarial),
- Concise and precise communication - Short summaries on key topics, use of dashboards, trends, etc
- Audit Committee's views on the Chief Audit Executive and the arrangements for internal audit (*King IV Code*)

## What is the game?

Frauds are a series of lies and unethical behavior the audit committee members and auditors should have an eye for spotting unethical behavior.

## AUDIT COMMITTEE & CFO

- Audit Chair may be consulted on the appointment and profile of the CFO
- Audit Committee to provide views on the effectiveness of the CFO & Finance function
- CFO should play the role of linking the Audit Committee to the senior management of the company
- CFO should record the significant matters/ notes that the Audit Committee has considered in relation to annual financial statements and how they were addressed
- KMP/ CFO/ Internal Auditors of the company to state their comments and have the right to be heard in the Audit Committee meetings while the auditor's report is being heard.

### What is the game?

For new and complex accounting treatments/ adjustments – does the CFO present the impact assessment and/ or alternatives to the Audit Committee?

## CORPORATE FAILURES – KEY REASONS

- Corporates fail on account of poor audit committee performance...
- Corporates fail on account of poor audit quality...
- Corporates fail on account of poor governance and business decisions...

Are audit committees & auditors soft targets???

# WE ARE SLOW TO ADOPT TO NEW LEGAL AMENDMENTS

## Did Things Change After Enron And Satyam?

Measure of effectiveness	Satyam*		Enron**	
	Pre	Post	Pre	Post
Number of audit committee directors	3.69	3.94	4.16	4.23
Proportion of independent directors	0.888	0.889	0.894	0.925
Number of audit committee meetings	4.83	5.12	4.76	7.59
Attendance at audit committee meetings	86.8%	83.8%	Not Available	
<b>Number of firms in the sample***</b>	<b>323</b>	<b>323</b>	<b>432</b>	<b>432</b>

Source: R Narayanaswamy, K Raghunandan, and Dasaratha V Rama

Bloomberg | Quint

# EXAMPLE - TRANSPARENCY

PUBLICATIONS  
2019 AUDIT COMMITTEE  
TRANSPARENCY BAROMETER  
WEDNESDAY, NOVEMBER 6, 2019

## EXAMPLE 1: VISA, INC.

**Source: Visa, Inc. (S&P 500), 2019 Proxy Statement, Proposal 3 - Ratification of the Appointment of [Audit Firm]**

[https://www.sec.gov/Archives/edgar/data/1403161/000119312518343216/d635500ddef14a.htm#toc635500\\_67](https://www.sec.gov/Archives/edgar/data/1403161/000119312518343216/d635500ddef14a.htm#toc635500_67)

The Audit and Risk Committee has appointed [Audit Firm] as our independent registered public accounting firm to audit the financial statements of Visa Inc. and its subsidiaries for the fiscal year ending September 30, 2019. [Audit Firm] has been our independent auditor since our initial public offering in 2008, and [Audit Firm] audited our financial statements for fiscal year 2018. The Audit and Risk Committee periodically considers whether there should be a rotation of independent registered public accounting firms because the Audit and Risk Committee believes it is important for the registered public accounting firm to maintain independence and objectivity. In determining whether to reappoint [Audit Firm], the Audit and Risk Committee considered several factors including:

- + the length of time [Audit Firm] has been engaged;
- + [Audit Firm]'s independence and objectivity;
- + [Audit Firm]'s capability and expertise in handling the complexity of Visa's global operations in our industry;
- + historical and recent performance, including the extent and quality of [Audit Firm]'s communications with the Audit and Risk Committee, and feedback from management regarding [Audit Firm]'s overall performance;
- + recent PCAOB inspection reports on the firm; and
- + the appropriateness of [Audit Firm]'s fees, both on an absolute basis and as compared with its peers.

The Audit and Risk Committee believes that the continued retention of [Audit Firm] as our independent registered public accounting firm is in the best interest of the Company and our stockholders, and we are asking our stockholders to ratify the selection of [Audit Firm] as our independent registered public accounting firm for fiscal year 2019.

# AUDIT COMMITTEES THAT MAKE A DIFFERENCE

- Deep accounting and financial expertise
- Examine non-financial information with equal rigour as financial information
- Constantly seek benchmarking insights and track company/ sector specific information
- Manage relationship with executive management at complete arms length including social behaviour
- Are tough minded and get into substance by deep questioning
- Seek opinions and views from subject matter experts (if need be allocating annual budgets)
- Focused eye on complaints (employee, vendor, customer, third parties)
- Alertness to risks and conflict of interests, ability to manage tricky relationships

# TIPS FOR MAKING AUDIT COMMITTEE EFFECTIVE

- Audit Chair is the pivot and should be a dynamic personality who has ability to work along with the CFO, CEO, Board members, Lead Audit Partner and other key stakeholders. Audit Chair should have the ability to ask probing questions and set the tone.
- Pre-read material and preparatory calls or private sessions (2 to 4) before key audit committee meets. At least 8 Audit Committee meets during the year (Executive sessions).
- Size of 4 to 6 members with diversity of experiences (Financial expert, Audit & Risk Background, Compliance knowledge)
- To set policies for hiring of employees or ex-employees of independent auditors
- To establish and oversee procedures for receipt and disposal of complaints pertaining to questionable accounting treatments, internal controls, auditing matters or any other matter such as ethics breach that may have a bearing on the internal control environment of the company.
- Pre-approve all auditing and non-auditing services provided by the auditor
- Open session discussion that has a free flow of thoughts and ideas between Audit Committee member and auditor/s
- Increase Internal Auditors facetime with the Audit Committee



**VIEWS EXPRESSED ARE PERSONAL.**

**PRESENTER EXPRESSES GRATITUDE FOR YOUR PATIENCE.**