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Effective Corporate Governance Practices – Audit Committee – A Survey

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ABSTRACT

The Companies Act was amended in the year 2000, included inter alia setting up of Audit Committee to provide certain measures of good corporate governance and for ensuring meaningful shareholders' democracy in the working of companies. A key element in the corporate governance in the process of any organization is its audit committee. The battle for the financial statement integrity and reliability depends on balancing the pressures of multiple stakeholders, including management, regulators, investors and the public interest. This Committee adds assurance to the shareholders that the auditors, who act on their behalf, are in a position to safeguard their interest. It is not only a pre-requisite for facing intense competition for sustainable growth in the emerging global market scenario but is also an embodiment of the parameters of fairness, accountability, disclosures and transparency to maximize value for the stakeholders.

KEYWORDS: Audit Committee, Corporate Governance, Stakeholders

INTRODUCTION

The Companies Act enables a statutory platform for essential Corporate Governance requirements essential for functioning of the companies with transparency and accountability, recognizing and protecting the interests of various stakeholders. In response to the changing business environment, the Companies Act, 1956 has been amended from time to time so as to provide more transparency in corporate governance and protect the interests of small investors, depositors and debenture holders, etc. The Companies Act was further amended in the year 2000, included inter alia setting up of Audit Committee to provide certain measures of good corporate governance and for ensuring meaningful shareholders' democracy in the working of companies.

Corporate governance is a system by which companies are directed and controlled and thus brought into sharp focus the role of board, shareholders and management. Corporate governance today is a strategic necessity where focus is on quality of governance. Corporate Governance practices have emerged as an integral element for doing business. It is not only a pre-requisite for facing intense competition for sustainable growth in the emerging global market scenario but is also an embodiment of the parameters of fairness, accountability, disclosures and transparency to maximize value for the stakeholders.

A key element in the corporate governance in the process of any organization is its audit committee. The battle for the financial statement integrity and reliability depends on balancing the pressures of multiple stakeholders, including management, regulators, investors and the public interest. The regulatory framework with regard to audit committee is covered under Clause 49 of the Listing Agreement and Section 292A of Companies Act 1956.

As per the provision of Companies Act, every public company, (listed and unlisted – Private Companies exempted) having paid up capital (equity and preference) of Rs.5 crores or more should constitute a Audit Committee. The Audit Committee of Board shall consist of not less than 3 Directors, two third of which should be directors other than Managing Director or Whole time Director. The Committee would ensure transparency and that the financial disclosures/ financial statements are correct and creditable. It will also ensure that, frauds, irregularities, failure of internal control system within the organization, are minimized. In the provision of clause 49, all members shall be financially literate and at least one member shall have accounting or related financial management expertise. The penalty for non-compliance of the requirements of clause 49 on 'Audit Committee' would attract the penal provisions contained in Sections 23(2), and 23E of the Securities Contracts (Regulation) Act, 1956.

The audit committee of the company is to monitor and provide effective supervision of the management's financial reporting process with a view to ensure accurate, timely and proper disclosures and the transparency, integrity and quality of financial reporting. The committee oversees the work carried out in the financial reporting process- by the management, including the internal auditors and independent auditor and notes the processes and safeguards employed by each. Audit Committee has a critical role to play in ensuring the integrity of financial management of the company. This Committee adds assurance to the shareholders that the auditors, who act on their behalf, are in a position to safeguard their interest.

STATEMENT OF THE PROBLEM

The corporate growth has been punctuated by incidences of corporate failures, securities scams, vanishing companies, mismanagement, growing shareholders dissatisfaction and unethical business practices. The Enron debacle and meltdown of certain once mighty US corporations have further aggravated the situation and raised various issues of Good Corporate Governance and attracted worldwide focus. After the recent Satyam Scam, there has been a lot of debate with regard to the measures which need to be taken to strengthen the standards of corporate governance in the country. Audit Committee has a critical role to play in ensuring the integrity of financial management of the company.

OBJECTIVES OF THE STUDY

1. To examine the key provisions of the present company law pertaining to Corporate Governance.
2. To elicit the opinions of the sample respondents (Professionals) about the effectiveness of Corporate Governance practices with regard to audit committee.

NEED FOR THE STUDY

In a globally competitive and technology driven business environment, while corporates require greater autonomy of operation and opportunity for self-regulation with optimal compliance costs, there is a need to bring about transparency through better disclosures and greater responsibility on the part of corporate owners and managements for improved compliance . It is also increasingly being recognized that the framework for regulation of corporate entities has to be in tune with the emerging economic scenario, encourage good corporate governance practices and enable protection of the interests of the investors and other stakeholders.

The present study examines how far the Corporate Governance practices with regard to audit committee ensure good Corporate Governance and enlarge investor protection.

METHODOLOGY

In view of the nature of data collected from the sample of respondents and from the secondary sources presented in this research report 'descriptive research' is considered to be the most appropriate for the present study. Hence the study is descriptive and analytical. The research problem and interview schedule have been formulated and framed accordingly. The suggestions of the study emerge from the inference drawn from the sample survey of the respondents in Tamil Nadu state and their opinions.

SELECTION OF SAMPLE

To obtain the views of experts in Company Law, a sample of 200 respondents were chosen which includes Company Secretaries in

whole-time employment, Company Secretaries in Practice, Chartered Accountants and experts in law from Tamilnadu. Area sampling technique was followed to select the respondents from Chennai, Madurai, Coimbatore, Salem and Trichy.

PRIMARY DATA

The present study is an empirical one based on sample survey method. The data required for the study were collected through a structured Interview Schedule.

SECONDARY DATA

The study also depended on secondary data. The data relating to legal aspects were collected from bare Acts, standard textbooks on Company Law, business Journals, newspapers, reports from Ministry of Corporate Affairs, SEBI.

GEOGRAPHICAL AREA

The State of Tamil Nadu has been chosen for the study. It is one of the two states having two Registrar of Companies in India in view of large number of companies located in these two states. Areas were chosen based on the concentration of companies in the State.

DATA ANALYSIS

The analysis of data of the study is presented based on the response of 200 respondents selected from Tamil Nadu. The data were analyzed using the following tools in tune with the objectives of the study.

- ❖ Percentage Analysis
- ❖ Average Score Analysis

DATA ANALYSIS AND INTERPRETATION
PERCENTAGE ANALYSIS

The Table 1 describes the distribution of the respondents based on their agreeability towards various aspects relating to audit committee.

Table 1 : Distribution of respondents based on audit committee

S.No.	Aspects	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Audit committee meets the expectation of the committee members, board, shareholders, regulators and capital markets.	61 (30.5)	102 (51)	10 (5)	24 (12)	3 (1.5)
2	Audit committee functions are still concentrated in the traditional areas of accounting and their role is not changing fast enough to make the corporate governance more effective.	73 (36.5)	99 (49.5)	16 (8)	11 (5.5)	1 (0.5)
3	Accounting and finance literacy is must for the members in the audit committee for better corporate governance.	120 (60)	55 (27.5)	12 (6)	12 (6)	1 (0.5)

Note : The value given in brackets are in Percentage

It is found from the Table that 120 (60%) of the respondents strongly agree towards "Accounting and finance literacy is must for the members in the audit committee for better Corporate Governance" followed by and 73(36.5%) towards "Audit Committee functions are still concentrated in the traditional areas of accounting and their role is not changing fast enough to make the Corporate Governance more effective." and 61 (30.5%) towards Audit Committee meets the expectations of the committee members, board, shareholders, regulators and capital markets" and so on relating to audit committee.

It is concluded that majority (60%) of respondents strongly agree towards "Accounting and finance literacy is must for the members in the audit committee for better Corporate Governance" on the audit committee.

AVERAGE SCORE ANALYSIS
In Audit Committee the following aspects are considered.

Audit Committee meets the expectations of the committee members, board, shareholders, regulators and capital markets.	- F21
Audit Committee functions are still concentrated in the traditional areas of accounting and their role is not changing fast enough to make the Corporate Governance more effective.	- F22
Accounting and finance literacy is must for the members in the audit committee for better Corporate Governance.	- F23

The Table 2 describes the average score of the different category of respondents on the various aspects relating to Audit Committee.

Table 2: Average Score – Personal Factors and Audit Committee

	Personal Factor	F21	F22	F23
Age (yrs)	< 30	3.95	4.19	4.57
	30-40	3.9	4.2	4.51
	40-50	4.04	4.13	4.24
	50-60	3.93	4.14	4.29
	>=60	4.09	4.09	4.73
Gender	MALE	4.03	4.17	4.38
	FEMALE	3.69	4.11	4.5
Profession	ACA	3.75	4.22	4.28
	ACS	3.97	4.17	4.39
	AICWA	3.78	3.97	4.05
	BL	4.23	4.15	4.46
	MBA	4.07	4.53	4.73
	OTHERS	4.14	3.86	5
Position	TOP Management	4.05	4.15	4.29
	Mid Management	4.19	4.19	4.52
	Others	3.7	4.15	4.45
Experience (years)	0-10	4.08	4.13	4.42
	10-20	3.86	4.24	4.35
	20-30	4.07	4.08	4.48
	30& Above	4.19	3.94	4.56
Monthly Income (Rupees)	10000 - 20000	4.43	4	4.43
	20000 - 30000	4	4.14	4.5
	30000 - 40000	3.64	4.1	4.31
	40000 - 50000	4.05	4.13	4.42
	50000 & Above	4.04	4.22	4.42

It is found from Table 2 that the respondents irrespective of the personal classification have given high level of agreeability towards F23 (Accounting and finance literacy is must for the members in the audit committee for better Corporate Governance) followed by F22 (Audit Committee functions are still concentrated in the traditional areas of accounting and their role is not changing fast enough to make the Corporate Governance more effective) in respect of Audit Committee than the other aspects considered. It is also inferred that the majority of the respondents have lesser level of agreeability towards F21 (Audit Committee meets the expectations of the committee members, board, shareholders, regulators and capital markets)

It is concluded that among the various aspects relating to Audit Committee the majority of the respondents have given very high level of agreeability towards "Accounting and finance literacy is must for the members in the audit committee for better Corporate Governance" (F23)and low level of agreeability towards "Audit Committee meets the expectations of the committee members, board, shareholders, regulators and capital markets.(F21)

FINDINGS

- ❖ Maximum of 35% respondents of each are in the age group of 30-40 and 40-50 years.
- ❖ Majority (82%) of the respondents are male.
- ❖ Most (44%) of the respondents have ACS qualification.
- ❖ Maximum (40%) of the respondents are in the position of top management.
- ❖ Majority (53%) of the respondents are in the experience category of 10-20 years.
- ❖ Maximum (48.5%) of the respondents are in the income group of Rs.50,000 and above.
- ❖ Majority (60%) of respondents strongly agree towards "Accounting and finance literacy is must for the members in the audit committee for better Corporate Governance" on the audit committee.

- Majority of the respondents have given very high level of agreeability towards "Accounting and finance literacy is must for the members in the audit committee for better Corporate Governance" (F23)and low level of agreeability towards "Audit Committee meets the expectations of the committee members, board, shareholders, regulators and capital markets.(F21)

CONCLUSION

Audit Committee has a critical role to play in ensuring the integrity of financial management of the company. This Committee adds assurance to the shareholders that the auditors, who act on their behalf, are in a position to safeguard their interest. It is not only a pre-requisite for facing intense competition for sustainable growth in the emerging global market scenario but is also an embodiment of the parameters of fairness, accountability, disclosures and transparency to maximize value for the stakeholders.

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