



## Role of Audit Committee under New Corporate Governance in India

### KEYWORDS

Azo dye decolorization, bacteria, textile industry effluent, Microbial biotechnology, Technical Textiles

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Economic reforms have been planned and processed in India for promotion of global trade. It has encompassed a wider area favoring competitive advantage. Minimised regulations and great disclosure are some new steps. It has necessitated development of supporting institutions and professionalised governance of emerging corporations and multinationals. It has been observed that the size and shape of negotiations is changing in the age of intellectual property transfer, professional service transfer and information technology transfer along with the cross country investment mobilization.

In this stage of second generation reforms there is great need of professionalizing the management and services. The changing shape of corporate bodies required better governance so that the corporations may be strengthened to complete successfully and win. The securities exchange Board of India (SEBI) announced guidelines on corporate governance which covers (i) the composition of Board of directors, (ii) the Audit Committee, (iii) the remuneration of non-executive director, (iv) the Board procedure (v) Management Discussions and Analysis Report (MDAR) (vi) information to shareholders, (vii) report on corporate governance and (viii) the compliance of conditions of corporate governance.

In this context, Audit Committee has importance in the new corporate governance.

### 1. Scope and Power of Audit Committee

Under the aforesaid guidelines, the Audit Committee for corporate governance is empowered (a) to investigate any activity within its terms of reference, (b) to seek information from any employee, (c) to obtain outside legal or other professional advice, and (d) to secure attendance of outsiders with relevant expertise. In order to exercise its powers and to make it transparent, SEBI has clearly mentioned in Annexure II of the guidelines that the Annual Reports of companies should clearly mention about the Audit Committee and its functioning the company under three heads, i.e. (i) Brief description of terms of reference, (ii) Composition, name of members and chairman of the committee, and (iii) meeting and attendance in each meeting during the year.

### 2. Role of Audit Committee

Since everywhere in the world and specially in developing economies like India corporate governance updating has got strategic importance. The strategy to govern corporations tomorrow must be capable of strengthening competition edge, regulating anti-competitive behaviors introducing greater transparency and greater emphasis on value

based professionalism. Simultaneously professionals need to keep themselves abreast with changing concepts so as to provide services as the corporate sector require.

The Audit committee as composed under SEBI guidelines having minimum three members (all non-executive directors) with at least one director of financial and accounting filed, and a chairman, who must be an independent Director, should operate through its role performance as below;

1. The committee should keep watch over the financial reporting process and the disclosure practices to ensure that the financial statements are correct, sufficient and credible.
2. The committee will recommend the appointments or removal of external auditor. The audit fees payable and the additional payments, if any, for other services are to be approved by the audit Committee.
3. The audit committee is empowered to review the annual financial statements before submission to the Board. Such review shall focus on (a) changes in policies and practices, (b) such events where managerial discretion is dominant (c) draft audit report highlights and special features, (d) significant adjustments arising out of audit, (e) the going concern assumption, and (f) compliance with the accounting standards.
4. The committee will ensure that the stock exchange regulations and other legal requirements have been strictly followed/complied with .... If there is any lacuna, the committee is empowered to report the matter to SEBI.
5. The committee is empowered to examine and report the cases where there are transactions with the interest groups such as promoters or members of management or their relative through which the corporate interest is likely to suffer.
6. To ensure that the internal control system is adequate or it requires any modifications, if the changes are necessary the committee can recommend introduction of such changes with immediate effect.
7. Comments over the internal audit system and its frequency needed is within the purview of the committee. It can also comment of the coverage of internal audit.
8. Discussions with the internal auditors in the event of any significant irregularity or fraud or policy violation or so much matter are immediately reported to the board.
9. The committee is authorized to discuss the scope and terms of reference of internal auditors before commencement of audit.
10. The committee is equally empowered to discuss with external auditors, the post-audit issues before finalizing

the report for presenting to the board.

11. Audit committee shall review the companies financial policies and risk management policies from time to time.
12. The audit committee shall take care of other stakeholders such as depositors, shareholders, debenture-holders and creditors.

Thus, the audit committee has wider coverage of activities and extensive overlook in corporate governance for greater transparency and safety of stakeholders interest. It has been recommended that accounting to SEBI guidelines, the proposed corporate governance plan covers almost all companies by end of March 2003 in for instalments beginning with (a) all new companies demanding listing and,(b) covering all those listed and already existing companies of (i) Group X of BSE or (ii) functioning with paid up capital of Rs.10 crore and above by and of March 2002 and (c) ultimately covering all existing and going concerns listed with paid up capital of Rs.3 crore and above to last instalments.

The committee expected to meet at least thrice a year, i.e. two six monthly meetings and one meeting before finalization of accounts. The company secretaries are expected to place the minutes of meeting of audit committee along with minutes of others committee before the Board Directors.

Conclusively the audit committee is a super power committee over the checks and controls exercised though internal audit and external audit arrangements. In making such arrangements also the Board of Directors is expected to consult the committee and resolve according to the suggestions, decision taken in the audit committee meetings. The amendments made in the companies Act 1999 and in listing procedure of stock exchanges has given due recognition and facilitation to the functioning the audit committee. It is expected that the frauds, embezzlements and cheating cases in companies shall control altogether. since the functioning of audit committee has been made mandatory.