

A man in a dark suit and tie is captured mid-air, jumping over three large, rectangular concrete blocks arranged in a descending staircase pattern. He is carrying a black briefcase. The background is a vast, flat, sandy landscape under a cloudy sky. A red vertical bar is on the left side of the page.

BDO ONE MINUTE SURVEY ON THE EMERGING ROLE OF THE AUDIT COMMITTEE IN A FAST CHANGING BUSINESS SCENARIO

Audit Committee Round Table Series - Part II
May 2011



CONTEXT

More than ever, there is a prevailing belief that effective Audit Committees are essential to Corporate Governance and the development and maintenance of efficient capital markets. The key objective of this "BDO One Minute Survey – On the Emerging Role of the Audit Committee" in a fast changing business scenario, is to explore the "substance element" of Audit Committees with the aim of sharing best practices and promoting high standards of performance and disclosure. Audit Committees, by providing an 'independent' reassurance to the board through its oversight and monitoring role, are the main pillars of Corporate Governance. Audit Committees play a significant role in the oversight of a company's risk management policies and programmes.

In our series of Audit Committee Round Table meets the first event was held in New Delhi on the topic of "Emerging role of Audit Committee in a fast changing business scenario" in December 2010. The Delhi Round Table meet focused on Audit Committee Structure, roles and responsibilities of Audit Committee members, ideal agenda for Audit Committee meetings, etc. The second Audit Committee Round Table meet was organized at Bangalore in February 2011. The Bangalore Round Table meet focused on the role of Independent Directors, Internal Auditors, Risk Managers who play a crucial role in the Audit Committee functioning.

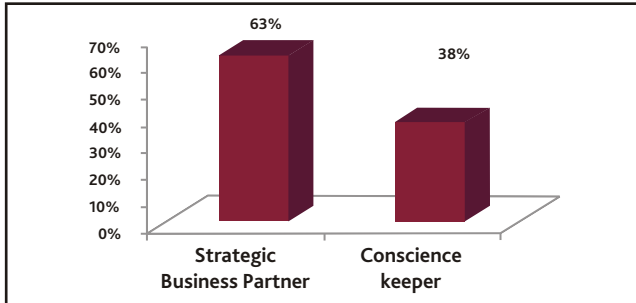
ONE MINUTE SURVEY

The event was attended by a select group of participants comprising of Executive and Non-Executive Directors, Members of Audit Committees, CFOs of listed and non-listed Companies from a variety of sectors including IT/ITES, Engineering, Real Estate and Insurance. The survey questionnaire covered issues such as Role of the Internal Auditor, fraud risks and Enterprise Risk Management. The participants were requested to respond to the following questions:

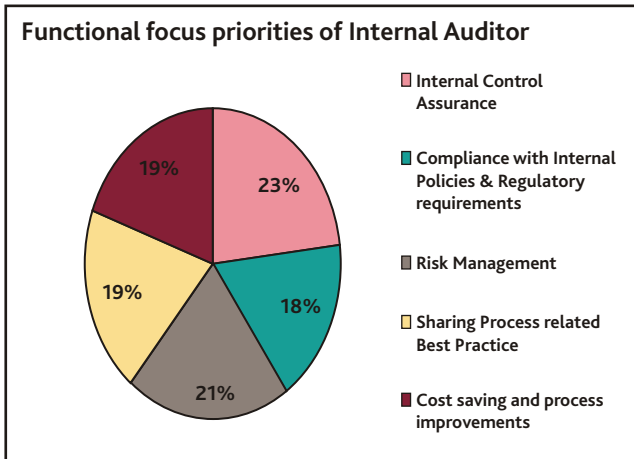
1. Should the Internal Audit function play the role of a Strategic Business Partner or Conscience keeper?
 2. What should be the functional focus of the Internal auditor?
 3. Should the Audit Committee establish an independent validation process for the management information systems of a company?
 4. What are the fraud risks that are most likely to occur?
 5. Has effective ERM improved the performance of the organization?
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ONE MINUTE SURVEY RESULTS

1. Should the Internal Audit function play the role of a Strategic Business Partner or Conscience keeper?



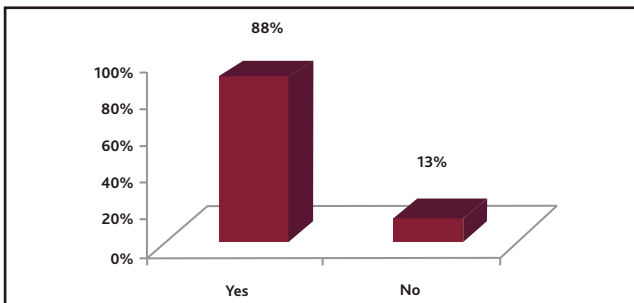
2. What should be the functional focus of the Internal auditor?



Participants insights

The participants echoed the growing sentiment on the transformation of the role of internal auditors from a gate keeper to a value driver. The participants believed that the traditional role needs significant enhancement. On a scale of priority, participants gave weightage to Internal Control Assurance, Risk Management, Cost Savings and process improvements, sharing of Best Practices followed by Policy Compliance.

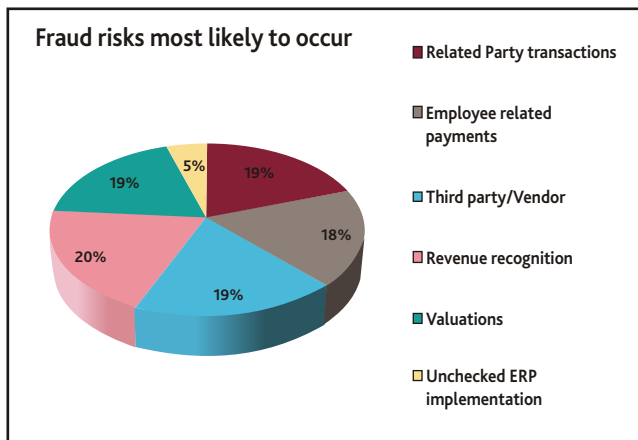
3. Should the Audit Committee establish an independent validation process for the management information systems of a company?



Participants insights

An over-whelming majority believed that Audit Committees should provide for additional measures of independent validation/reconciliation between the business Management information system and the financial management information system in order to effectively manage the fraud risks.

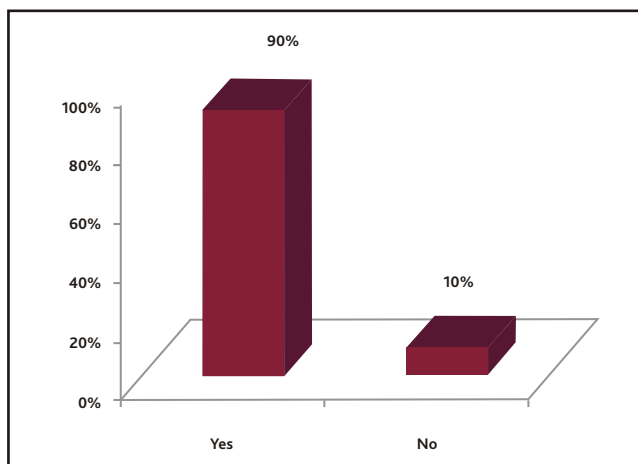
4. What are the fraud risks that are most likely to occur?



Participants insights

Organisations are exposed to a variety of fraud risks and the participants on a scale of priority rated Revenue Recognition as the most critical fraud risk and Enhanced ERP Implementation as the least critical fraud risk.

5. Has effective ERM improved the performance of the organization?



Participants insights

The vast majority of the participants agreed that an effective ERM process improves the organizational performance.

INSIGHTS FROM THE BANGALORE AUDIT COMMITTEE ROUND TABLE DELIBERATIONS

The deliberations provided useful insights and interesting views on increasing the effectiveness of Audit Committees, and further improving the functioning of the Audit Committee. Key issues arising from the deliberations were:

1. Mandatory Rotation of Audit Committee members.
 2. Clearly defining the reporting authority for the Internal Audit Head which would facilitate their independent functioning of the Internal Audit Head.
 3. Defining a set of measurement parameters followed by performance evaluation of Audit Committees on a yearly basis.
 4. Audit Committees should focus on reviewing Fraud Risk areas in the company and supervise the implementation of the Anti – Fraud Policy Framework.
 5. It would be appropriate to set up a training platform for independent Directors and Audit Committee members.
 6. Whistle Blower Policy and its effective implementation through channels such as Audit Committees, Ethics Officer, Operating a Hotline with a trusted third party may be evaluated and selected on the basis of culture, size and complexity of business operations. The Whistle Blower Policy implementation is a global Best Practice which puts an organization on notice.
 7. Internal Control Monitoring frameworks to comprise of a blend of Internal Audits, Control Self Assessments and Co – Sourced Internal Audit models. The control monitoring process should be bifurcated into sanity checks and surveillance checks – which is the emerging Best Practice on Internal Control Monitoring followed by industry leaders.
 8. Transparency, Passion & Commitment Centered Leadership discussed as the new mantra for sustainable growth and development.
 9. Well defined role and responsibilities for Independent Directors to avoid key influences.
 10. The Board and Audit Committees should have access to distilled information in a timely manner. The information content should be presented through the use of best communication aids such as Videography, Real – time interfaces and Last mile dialogues.
 11. The Chair of Audit Committee should embody the spirit of Leadership and set the tone at the top.
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QUOTES FROM THE EVENT

Speaking on the training and reporting needs of Independent Directors, said

"There should be an Orientation for the members of the A.C for their understanding of what they can do and what they can't do".

Mr. Rangachari, Independent Director

Speaking on the Cost of compliance and the effectiveness of Controls, said

"An element of surprise brings in a lot of insights into controls".

Mr. M.D Ranganath, Infosys Technologies Ltd, Chief Risk officer

Speaking on the Whistle Blower Policies in a company, said

"The trend is to bring up trivial issues; hence there must be some criteria to filter out complaints that have far reaching effects, while keeping the anonymity in place".

Mr. Gururaj, ABB Ltd, Senior Vice President- Company Secretary

Speaking on setting the tone at the top, said

"If you are willing to be transparent, the inherent message that you are sending is that you are accountable".

Mr. Shailesh Haribhakti, Chairman BDO Consulting Pvt. Ltd

Speaking on the Emerging Role of the Audit Committee, said

"When an audit committee is effective, it can provide important support to instil international best practices of corporate governance in an organization. Management teams should share with their audit committee timely and wholesome information in every aspect which would then create a virtuous cycle of respect and trust within the organization".

Mr. Huzeifa Unwala, National Head Risk & Advisory Services BDO Consulting Pvt. Ltd

Speaking on Corporate Governance, said

"There is no doubting the fact that Good Corporate Governance is the genesis, the DNA of any organisation that aspires to be a leader in the marketplace".

Mr. Sunil Birla, Partner, Haribhakti and Co.

BDO VIEW ON THE RESULTS OF THE ONE MINUTE SURVEY

The results of the survey underline the many challenges faced by Audit Committees in the current age. It also highlights the wide range of skills and expertise that need to be available to Audit Committees to enable them to operate effectively. All of the required skills and expertise needed are unlikely to be available within an organisation. This together with a need for an independent objective view on issues means that Audit Committees will need to work closely with reputable external organisations. BDO has through many years of operating a Risk & Advisory business vast experience of dealing with issues of formation & functioning of Governance & Audit Committees.

LANDMARK LEGISLATIVE MEASURES IMPACTING GLOBAL BOARDS & AUDIT COMMITTEES

Audit Committees need to be aware of constantly changing legislation in other major economies. As an example of this we list below some recent changes in UK.

1. Stewardship Code – United Kingdom – Key highlights

- 1.1 The Stewardship Code is a set of principles or guidelines released in 2010 by the Financial Reporting Council of UK directed at institutional investors who hold voting rights in UK companies in order to make them more active and engage them in corporate governance in the interests of their beneficiaries
 - 1.2 The Code adopts the familiar "comply or explain" approach used in the UK Corporate Governance Code
 - 1.3 The principles of the Code are that the institutional investors should:-
 - Publicly disclose their policy on how they will discharge their stewardship responsibilities
 - Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
 - Monitor their investee companies.
 - Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.
 - Be willing to act collectively with other investors where appropriate.
 - Have a clear policy on voting and disclosure of voting activity.
 - Report periodically on their stewardship and voting activities.
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2. Bribery Act 2010 – United Kingdom – Key highlights

2.1 The Bribery Act 2010 became law on April 8 2010 and comes into force on 1 July 2011. The Act creates four main offences as follows:

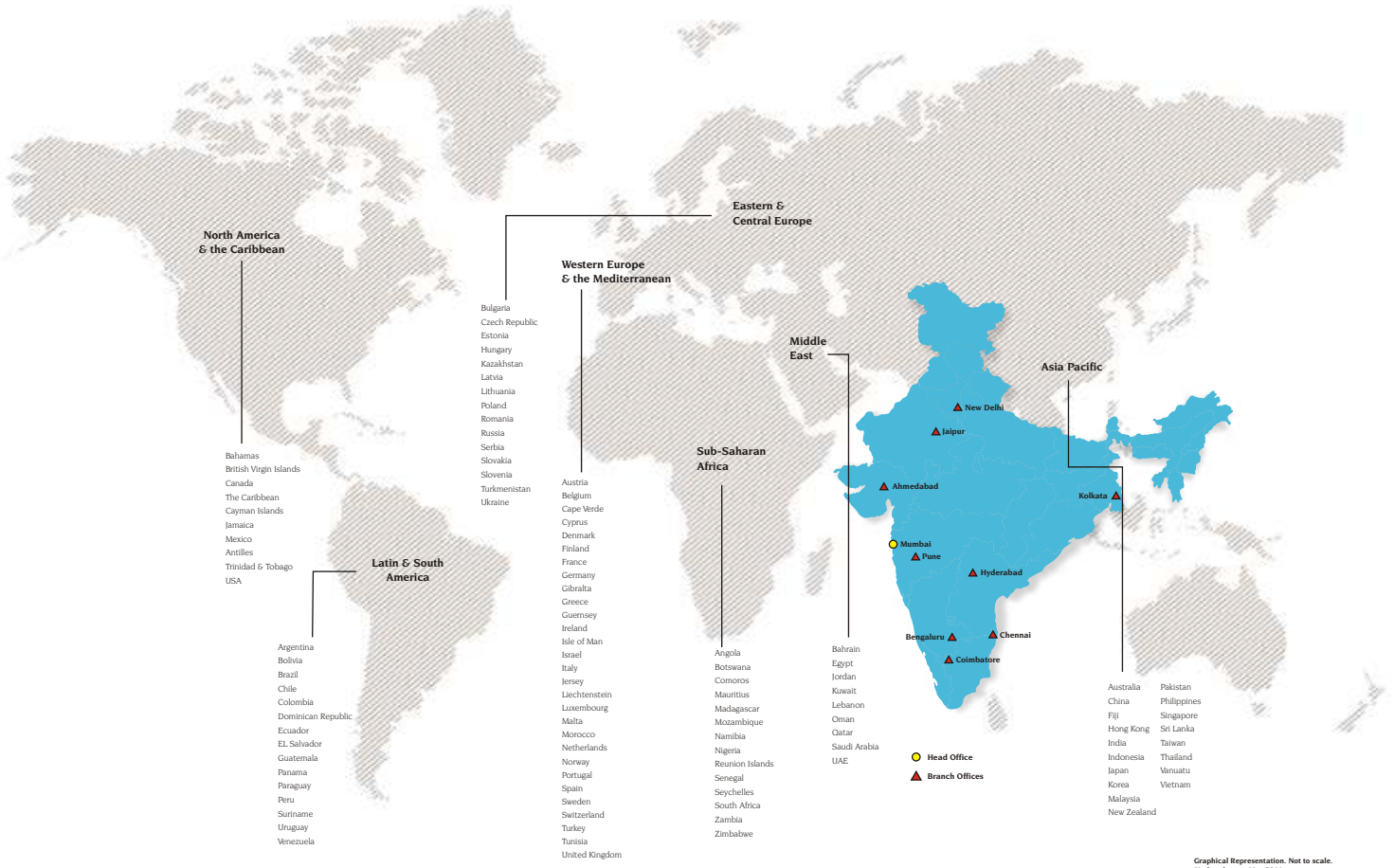
- Bribing another person (section 1): It is an offence to offer, promise or give a bribe.
- Receiving bribes (section 2): It is an offence to request, agree to receive or accept a bribe.
- Bribing foreign officials (section 6): It is an offence to bribe a foreign public official to obtain or retain business or a business advantage.
- Failure of commercial organisations to prevent bribery (section 7): This offence is based on the failure by a commercial organisation to prevent bribery by people acting on its behalf.

The Act's broad scope and extraterritorial reach extend to any individual ordinarily resident in the UK, who can be prosecuted for bribery offences committed anywhere in the world, and any corporate entity that has a permanent establishment, subsidiary or other operation in the UK. If commercial organisations are to avoid falling foul of the new law, they must develop compliance procedures that are appropriate to their circumstances and business sectors, taking into account their size, their area of operations and the particular risks to which they may be exposed.

BDO UK and India teams are well aware and equipped with tools for assessing your policies and procedures pertaining to the Bribery Act 2010. We have developed a risk focussed approach comprising of anti corruption risk assessment frameworks to meet the corruption challenge.

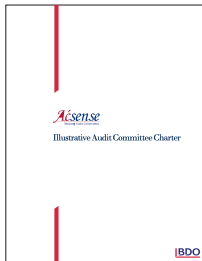
ABOUT BDO

BDO is the world's fifth largest accounting network

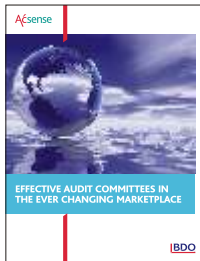


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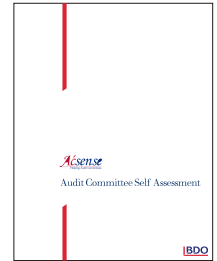
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<http://www.bdo.com/acsense/documents/practice/AC%20Self-Assessment.pdf>

To download the full view of the Audit Committee Round Table Series - Part I (Delhi)



<http://www.bdoindia.co.in/uploads/file/1/2/1/BDO%20One%20Minute%20Survey.pdf>

Highlights of Audit Committee Round Table Series - Part I (Delhi)

Sr. No.	Survey Questions	Responses	Audit Committee – Leading Practices
1.	What is the biggest threat to the performance of Audit Committees?	Management Override – 33 % Dominating Promoter/CEO – 61 % Likely Fraud in the Organisation – 6 %	<ul style="list-style-type: none"> Audit Committees are constrained by their constitution structure and lower availability of time. The leading practices followed by industry leaders consists of independent audit committee structures, planned meetings but open ended on time and data access, deeper information insights from auditees and auditors, focus on agenda and getting all the concerned players engaged in the Audit Committee discussions. Audit Committees are acting as a forum for building capacity on Governance, Risk & Compliance processes. Audit Committees are directing management teams to develop anti-corruption risk assessment frameworks that are capable of identifying suspicious indicators, fraud risk policy articulation, continuous anti-fraud education to employees, vendors and customers, acknowledged commitments from employees on ethics compliance and fraud risk scenario analysis. Audit Committee Chair displays strong leadership qualities and is fully competent to deal with any matter of Governance, Risk & Compliance. The Audit Chair is capable of exercising his authority on internal corrections, exceptions and non-compliances.
2.	Are Audit Committees equipped to handle Corruption Risk?	Yes – 11 % No – 89 %	
3.	In a Family controlled Organisation, do you believe that Audit Committees are truly independent?	Yes – 19 % No – 81 %	
4.	Should the Audit Committees have a right to Whistle Blow to a designated authority?	Yes – 94 % No – 6 %	
5.	To discover Fraudulent Financial Reporting, do Audit Committees need a support system in addition to the existing layers of control?	Yes – 83 % No – 17 %	
6.	Are Audit Committees addressing "Business Model" Issues?	Yes – 11% No – 89 %	
7.	Are Audit Committees changing the "Needle of Corporate Performance"?	Yes – 73% No – 27 %	

CONTACT US

Huzeifa Unwala Partner & National Head

Risk & Advisory Services
Direct +91 22 6672 9786
Mobile +91 98200 51936
huzeifa.unwala@bdoindia.co.in

Vijay Sachdeva

Partner, Risk & Advisory Services
Northern Region
Direct +91 11 4711 9911
Mobile +91 98109 07030
vijay.sachdeva@bdoindia.co.in

Sunil Bhadu

Partner, Risk & Advisory Services
Western Region
Direct +91 22 6672 9796
Mobile +91 98210 52931
sunil.bhadu@bdoindia.co.in

Anand Jhunjunwala

Partner, Risk & Advisory Services
Eastern Region
Direct +91 33 2229 8936
Mobile +91 98309 93305
anand.jhunjunwala@bdoindia.co.in

Sunil Birla

Partner, Risk & Advisory Services
Southern Region
Direct +91 80 6454 2545
Mobile +91 98440 08995
sunil.birla@bdoindia.co.in

Kaley Crossthwaite

Partner, BDO UK
Direct +44 2078933548
kaley.crossthwaite@bdo.co.uk
(Expert - UK Bribery Act 2010)

Registered Office:

42, Free Press House, 215, Nariman Point, Mumbai-400021
Tel: +91 (22) 6132 6999 Fax: +91 (22) 2285 6237

Website: www.bdoindia.co.in

Ahmedabad

703, Venus Atlantis, 100 Ft Road, Corporate Road
Pralhad Nagar, Ahmedabad - 380 015.
Tel: +91 (79) 4032 0441/4032 0442
Fax: +91 (79) 4032 0442

Bengaluru (Bangalore)

No. 45, 1st Floor, 2nd Main, Sankey Road, (Above Indian Bank)
Lower Palace Orchards, Bengaluru - 560 003.
Tel: +91 (80) 6454 2545/6454 2546
Fax: +91 (80) 6454 2547

Chennai (Madras)

5B, A Block, 5th Floor, Mena Kampala Arcade,
New No 18 & 20, Old No 113/114, Theyagaraya Road,
T. Nagar, Chennai - 600 017
Tel: +91 (44) 4213 2024 / 4554 4143
Fax: +91 (44) 4354 6876

Coimbatore

Shree Shanmugappriya, 2nd Floor, 454, Ponnaiyan
Street, Crosscut Road, Gandhipuram, Coimbatore - 641 012.
Tel: +91 (422) 2237793 / 2238793
Fax: +91 (422) 2233793

Hyderabad

Raja Pushpa House 3rd floor Plot No-34,
Silicon Valley, Madhapur, Hyderabad - 500 081
Tel: +91 (40) 42007771/0
Fax: +91 (40) 42007772

Jaipur

Manish Mansion, Plot No. 247, 1st Floor
Frontier Colony, Near Punjab National Bank,
Adarsh Nagar, Raja Park, Jaipur - 302 004.
Tel: +91 (141) 2604 743

Kolkata (Calcutta)

Geetanjali Apartments, Suite 7C,
7th Floor, 8B, Middleton Street,
Kolkata - 700 071.
Tel: +91 (33) 3201 6298/22298936
Fax: +91 (33) 2226 4140

Mumbai (Bombay)

701 Leela, Business Park, Andheri-Kurla Road,
Andheri (E), Mumbai - 400 059.
Tel: +91 (22) 6672 9999
Fax: +91 (22) 6672 9777

New Delhi

3rd Floor, 52-B, Okhla Industrial estate,
Phase III, New Delhi - 110 020.
Tel: +91 (11) 4711 9999
Fax: +91 (11) 4711 9998

Pune

C-10, Godrej Eternie, Old Mumbai Pune Highway,
Wakdewadi Pune - 411005
Tel: +91 (20) 3240 5094

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