



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

January 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. To this end, BDO India has created a “reach out” programme to assist those charged with governance including Audit Committee members, Board of Directors and financial executives. The focus of this programme is on “developing effective Audit Committees”. The core purpose is to work on 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 the company’s risk management policies and programmes. In steering companies through today’s complex business environment, Boards need strong commitment and leadership from their Audit Committees.

To deliberate critical issues such as Roles & Charters of Audit Committees, Independence, Best Practices and Challenges faced by today’s Audit Committees, BDO India along with Achromic Point held a round-table discussion on “The emerging role of Audit Committee in a fast changing business scenario”. This event was conducted in New Delhi on December 10, 2010. As part of the round table discussions, a one-minute survey questionnaire was circulated amongst the participants comprising various Audit Committee members and management executives from the industry to capture their views on emerging issues.

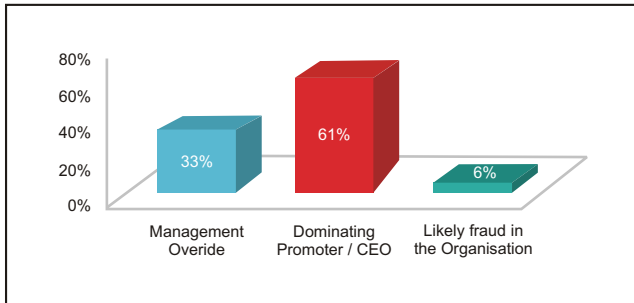
## ▶ ONE MINUTE SURVEY OBJECTIVES

The survey questionnaire comprised of issues such as addressing corruption risk, independence of Audit Committees in a family promoted company, etc. which are burning issues that impact the performance of Audit Committees. The participants were requested to respond to the following questions:

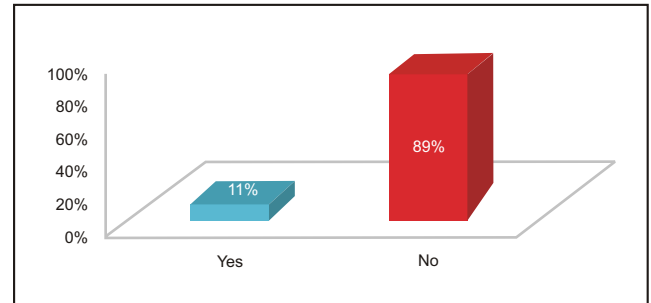
- I. What is the biggest threat to the performance of the Audit Committee?
- II. Are Audit Committees equipped to handle corruption risk?
- III. In a family controlled organisation, do you believe that Audit Committee is truly independent?
- IV. Should the Audit Committee have a right to whistle blow to a designated authority?
- V. To discover fraudulent financial reporting, does Audit Committee need a support system in addition to the existing layers of control?
- VI. Are Audit Committees addressing “Business Model” issues?
- VII. Are Audit Committees changing the “needle of corporate performance”?

## ▶ ONE MINUTE SURVEY RESULTS

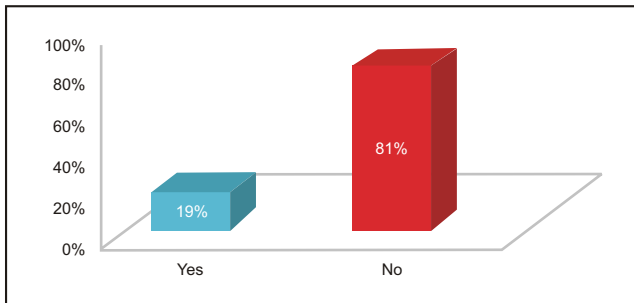
### I. What is the biggest threat to the performance of the Audit Committee?



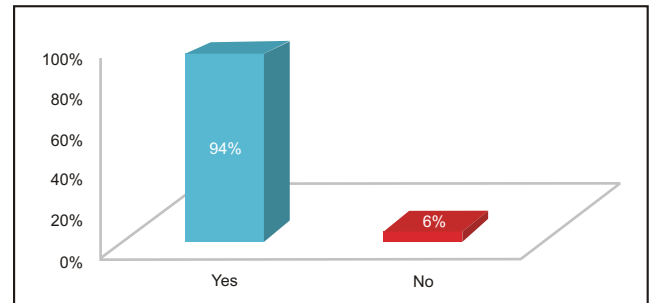
### II. Are Audit Committees equipped to handle corruption risk ?



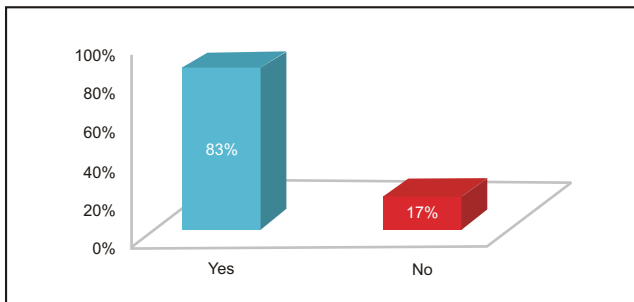
### III. In a family controlled organisation, do you believe that Audit Committee is truly independent?



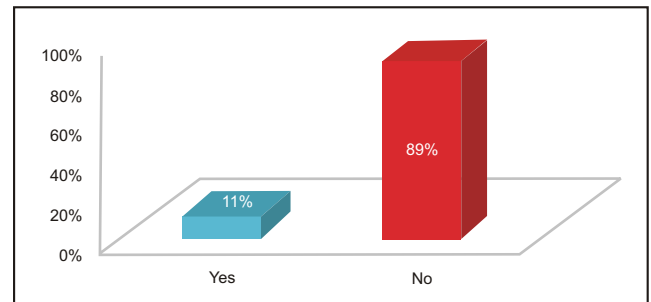
### IV. Should the Audit Committee have a right to whistle blow to a designated authority?



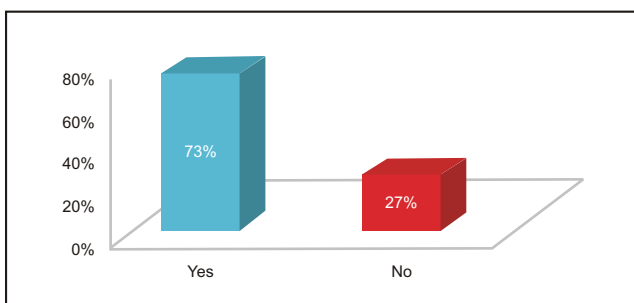
### V. To discover fraudulent financial reporting, does Audit Committee need a support system in addition to the existing layers of control?



### VI. Are Audit Committees addressing "Business Model" issues?



### VII. Are Audit Committees changing the "needle of corporate performance" ?



## ▶ INSIGHTS FROM THE AUDIT COMMITTEE ROUND TABLE DELIBERATIONS

The respondents provided useful insights and interesting views on increasing the effectiveness of Audit Committees, such as:

- The scope and terms of reference of the Audit Committee should be reviewed every year.
- Audit Committees should have access to whistle blowers data, customer complaints, along with their action plans/implementation efforts around the same.
- Establishing a learning and development calendar for Audit Committee members.
- The composition of Audit Committee members should be restricted to independent directors only.

The discussions also highlighted some best practices aimed at further improving the functioning of the Audit Committees, such as:

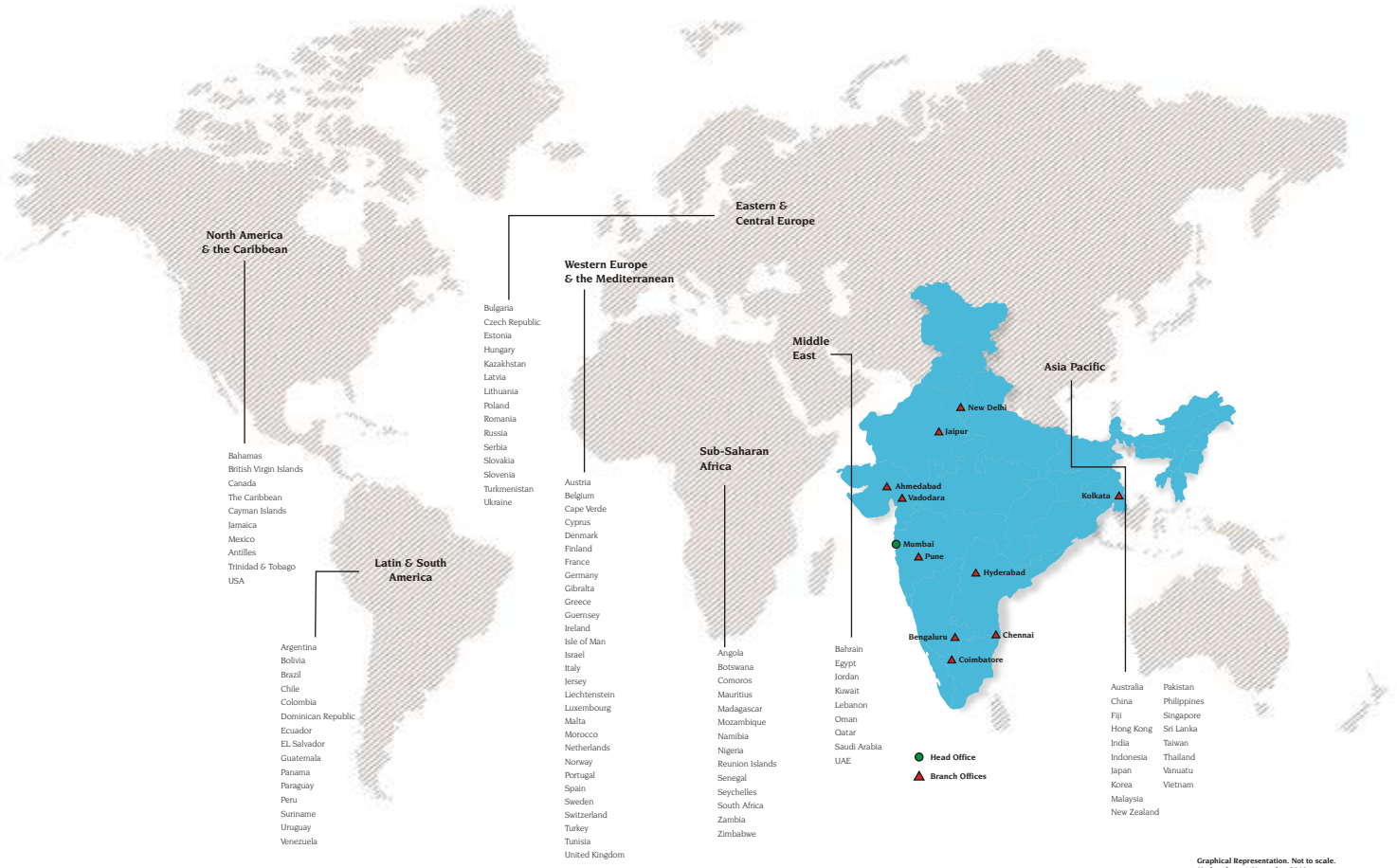
- Defining a criteria for appointing the Chairman of the Audit Committee & members of the committee.
- The Audit Committee Chairman & Members should be rotated over a period of 4-6 years.
- The Internal Audit Head must report to the Audit Committee Chair and not the CEO/CFO.
- Balancing of strategic, risk and compliance issues in the Audit Committee meeting agenda.
- Enhancing frequency of interactions between the Board, Audit Committee, Risk and Remuneration Committees for discussing inter-linkages.
- Drawing out action plans and circulation of minutes at the concluding stages of the Audit Committee meeting.
- Audit Committee members should stay away from participating in business decisions so that they are able to review the decisions independently.
- Audit Committee Chairman should set the tone of governance, risk and compliance by exercising healthy skepticism.
- Audit Committee should voluntarily undertake an annual performance appraisal of its functioning and individual members to assess the performance gaps, if any.
- Audit Committee should hold executive sessions with key executives of the holding and subsidiary companies to understand the business model.
- Audit Committee should take interest in monitoring the financial performance of the company vis a vis industry peers.

## ▶ PARTICIPANT PROFILE

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 Indian Companies from a variety of sectors such as Banking & Financial Services, Auto, Oil & Gas, Power, Telecom, Insurance and Manufacturing sectors.

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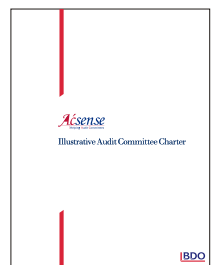
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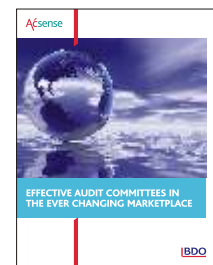
Graphical Representation. Not to scale. Updated as on November 2010

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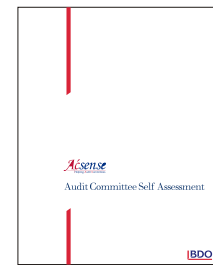
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**"The Audit Committee Chairman and members should be rotated over a period of 4 to 6 years. Moreover, the Internal Audit head should only be reporting to the Audit Committee and not to the CEO and/or CFO."**

*– Shailesh Haribhakti, Chairman, BDO Consulting Pvt. Ltd.*

**"Audit Committee is the only governance forum in which the controlling shareholder and management have limited influence. The chair needs to carefully use this advantage to protect the interests of other stakeholders."**

*– Nawshir Mirza, Non Executive Independent Director*

**"To assess the performance of an organisation, it is important to assess the quality of Audit Committee."**

*– S. K. Goel, Chairman and Managing Director, India Infrastructure Finance Company Ltd. (IIFCL)*

**"Audit Committee Chairman must exhibit finesse while performing with bit of tenacity."**

*– Sajeve Deora, Non Executive Independent Director*

**"Audit Committees are not receiving robust implementation support from the management teams hence, recurring issues are being highlighted to Audit Committees."**

*– Huzeifa Unwala, National Head, Risk Advisory Services, BDO Consulting Pvt. Ltd.*

**"The Audit Committee members should ask the functional heads to present the key risks that their function is facing."**

*– Sanjeev Singhal, Global President, Management Assurance Services, Spice Group*

**Audit Committees should be more facilitative than directive in its approach to the internal constituents of an organisation."**

*– Rajesh Doshi, Director, Compliance & Secretarial, Religare Enterprises Limited.*

**"Diversity along with objectivity of the Audit Committee members is accepted, however, the expertise or specialization of the committee members should not be compromised."**

*– Rajeev Kapahi, Sr. VP & CFO, DLF Pramerica Life Insurance Co. Ltd.*

**"Audit Committees would need to function independently from the Board of Directors of the company. Against the customary practice of holding the Audit Committee meeting on same day of the Board meeting the Audit Committee meeting should be held minimum a day or two prior to the Board meeting date."**

*– Vijay Sachdeva, Partner, Risk Advisory Services, BDO Consulting Pvt. Ltd*

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