

AUDIT COMMITTEE: A TOOL FOR SUCCESS IN BOARD MANAGEMENT (A CASE STUDY OF IT AND TELECOM SECTOR COMPANIES)

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ABSTRACT

The study aims to examine the status of audit committee in IT and Telecom Sector Companies in IT and Telecom Sector Companies included in BSE Sensex viz. Infosys, TCSL, Wipro and Bharti Airtel for the financial years 2014-15, 2015-16 and 2016-17. The methodology has been adopted to analyze the various aspects of audit committee as transparency in the composition of audit committee, number of meetings held, audit committee charter, information about literacy and financial expertise of the committee members etc. The study reveals that all the sampled companies have independent director as chairman, chairman attended the AGM. All companies have disclosed charter and terms of reference of audit committee. The study suggests that all members should attend all committee meetings to review the company's performance.

KEYWORDS: Corporate Governance, SEBI, LODR, ID, Audit Committee, AGM.

Introduction

Several corporate frauds, scams and scandals in the recent past have occurred in India as well as worldwide. So the need of corporate governance was first realized when public confidence began to lose and market became fragile after a series of corporate failure all over the world. Corporate Governance is a formal system of accountability of senior management to corporate stakeholders. Corporate Governance includes company's accountability to shareholders and other stakeholders such as employees, suppliers, customers and local community. According to Kanan, S. "A good corporate governance principles should aim at generating, nurturing and sustaining wealth not just to the corporate but to all its stakeholders and equally distribute it among all."

Further he quotes, Tamil saint Vallurar in chapter 39, couplet 385

"Iyartralumeetalumkattalumkaathha

VaghuthalumValladhuarasu"

Translation of the same in Sanskrit would read as:

कुर्याद्विनार्जनोपायमार्जयत्पालयेद्वनम्।

रक्षितं खयथा तासां दधान् पात्रेशुमुनिप॥

The English Translation of the above couplet read as follows:

"A great king will be able to acquire wealth, develop and guard it; for equitable distribution on state expenditure and public good."

Though this couplet is for king and the government but it can be connected to a corporate house and its management team. Present corporate governance norms for all listed companies are regulated by the Companies Act, 2013. Now, the regulatory body security market, SEBI has notified on 2nd September 2015 in the extraordinary Gazette of India the Listing Obligation and Disclosure Requirements Regulations, 2015(LODR). So, all the listed companies are now governed by (LODR) regulations, 2015. Further, it is also necessary to mention here that every listed company should comply with the stricter provisions of Companies Act, 2013 and SEBI (LODR) Regulations, 2015.

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Board of Directors has the power to constitute various mandatory and non-mandatory committees; Audit Committee is the one of the most important statutory committee of the BOD.

As per Companies Act 2013 and SEBI's (LODR) Regulations, a qualified and independent audit committee shall be set up by every listed company. The Audit Committee shall have minimum three directors as members in which two third of the member shall be independent directors. The chairman of the committee shall be an independent director. The chairman should be present at AGM to answer shareholder's queries. All members of the audit committee should be financially literate and at least one member shall have accounting or related financial management expertise. The company secretary shall act as the secretary to the audit committee. The audit committee at its discretion shall invite the finance director or head of the finance function, head of internal audit and a representative of the statutory auditor and any other such executives to be present at the meetings of the committee. The audit committee shall meet at least four times in a year and not more than four months gap between two meetings. The quorum for audit committee meeting shall either be two members or one third of the members of the audit committee, whichever is greater, with at least two independent directors. The audit committee shall have powers to investigate any activity within its terms of reference, seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.

Research Methodology

• Research Questions

- Has transparency been maintained by sampled IT and Telecom Sector Companies in the composition of audit committee?
- Has the minimum requirement of number of ID been fulfilled by sampled companies?
- How many committee meetings held in sampled companies?
- Information about literacy & financial expertise of the committee members has been displayed or not?
- Has audit committee charter and terms of reference of the sampled companies been disclosed?
- Has committee's report been disclosed by the sampled companies?
- Has the chairman of the sampled IT and Telecom sector companies attended AGM?

• Scope of the Study

This research paper attempts to focus light on the composition pattern and meetings of the audit committee in the IT and Telecom Sector Companies for the financial years 2014-15, 2015-16, 2016-17 as per Companies Act 2013 and LODR 2015. Infosys Ltd., TCS Ltd., Wipro Ltd., Bharti Airtel Ltd. have been taken for the study.

Review of Literature

Tait & Loosemore (2012) compared the compliance level of various construction & non-construction firms listed in Australian Stock Exchange (ASX) as per the guidelines for sound corporate governance issued by ASX Corporate Governance Council. The status of audit committee has also been observed and analyzed. The sample of 20 ASX listed construction & non-construction companies have been taken for the study and their annual reports have been analyzed quantitatively and qualitatively. It is found that audit committee is in place to safeguard integrity of company's financial reporting and ensuring the protection of shareholder's interest in financial reporting.

Al-Baidhani (2014) in his paper asserted the powers, responsibilities, functions and relationships of audit committee as per the framework of corporate governance. The study had overseen and delineated in a descriptive way. It came into consideration that major collapses of leading corporate houses and emergence of U.S. Sarbanes-Oxley Act, 2002 and analogous laws has intensified the magnitude of authority and responsibility of Audit committee in context of corporate governance. The organization's board of directors bases their decisions on report of audit committee. It further proclaimed that though audit committee is crucially associated with corporate governance, it should evaluate itself annually in terms of performance and best practices to recognize opportunities for refinement.

Sairi (2015) investigated the impact of level of disclosure of one of the crucial element i.e. audit committee on the performance of 27 Islamic banks by developing corporate governance disclosure index.

The mechanism of content analysis using annual reports of selected banks has been adopted for analysis of the data and regression analysis provided evidence for the derived results. Low level of disclosure on grounds of average dimensional index has been reckoned that accounted for mere 46%. It has been recommended to develop robust governance practices that will ensure winning public confidence and boosting trust of the parties dealing with Islamic banks.

Data Analysis and Discussion

**Table 1: Status of Audit Committee of IT and Telecom Sector Companies
for the Financial Year 2014-15**

S. No.	Particulars	Infosys	TCSL	Wipro	Bharti Airtel
1.	Transparency in composition of the committee (Minimum three Directors)	Total Member-4 C/M-ID ID-4	Total Member-6 C/M-ID NED-1 NED /ID-5	Total Member-3 C/M-ID ID-3	Total Member-5 C/M-ID ID-5
2.	Compliance of minimum requirement of number of IDs in the committee (2/3 of the member)	Yes	Yes	Yes	Yes
3.	Compliance of minimum requirement of the number of the committee's meeting (At least four times)	Total Meeting-4 1 Attended-3 3 Attended-4	Total Meeting-5 1 Attended-4 5 Attended-5	Total Meeting-7 1 Attended-6 2 Attended-7	Total Meeting-4 1 Attended-1 1 Attended-2 1 Attended-3 2 Attended-4
4.	Information about literacy & financial expertise of the committee	Information Provided	Information Provided	Information Provided	Information Provided
5.	Information about participation of Head of Finance, Statutory Auditors, Chief Internal Auditors in committee's meeting	Information Provided	Information Provide	Information Provided	Information Provided
6.	Disclosure of Audit Committee charter & terms of reference	Disclosed	Disclosed	Disclosed	Disclosed
7.	Disclosure of Committee's report	Disclosed	Disclosed	Disclosed	Disclosed
8.	Chairman attended AGM	Attended	Attended	Attended	Attended

**Table 2: Status of Audit Committee of IT and Telecom Sector Companies
for the Financial Year 2015-16**

S. No.	Particulars	Infosys	TCSL	Wipro	Bharti Airtel
1.	Transparency in composition of the committee (Minimum three Directors)	Total Member-4 C/M- NED/ID NED/ID-4	Total Member-6 C/M- NED/ID NED/ID-5 NED-1	Total Member-3 C/M- NED/ID NED/ID-3	Total Member-4 C/M- NED/ID NED/ID-3 NED-1
2.	Compliance of minimum requirement of number of IDs in the committee (2/3 of the member)	Yes	Yes	Yes	Yes
3.	Compliance of minimum requirement of the number of the committee's meeting (At least four times)	Total Meeting-4 1 Attended-3 3 Attended-4	Total Meeting-5 1 Attended-4 4 Attended-5	Total Meeting-7 1 Attended-5 1 Attended-6 1 Attended-7	Total Meeting-4 4 Attended-4
4.	Information about literacy & financial expertise of the committee	Information Provided	Information Provided	Information Provided	Information Provided
5.	Information about participation of Head of Finance, Statutory Auditors, Chief Internal Auditors in committee's meeting	Information Provided	Information Provide	Information Provided	Information Provided
6.	Disclosure of Audit Committee charter & terms of reference	Disclosed	Disclosed	Disclosed	Disclosed
7.	Disclosure of Committee's report	Disclosed	Disclosed	Disclosed	Disclosed
8.	Chairman attended AGM	Attended	Attended	Attended	Attended

Table 3: Status of Audit Committee of IT and Telecom Sector Companies for the FY 2016-17

S. No.	Particulars	Infosys	TCSL	Wipro	Bharti Airtel
1.	Transparency in composition of the committee (Minimum three Directors)	Total Member-4 C/M- NED/ID NED/ID-4	Total Member-6 C/M- NED/ID NED/ID-5 NED-1	Total Member-3 C/M- NED/ID NED/ID-3	Total Member-4 C/M- NED/ID NED/ID-3 NED-1
2.	Compliance of minimum requirement of number of IDs in the committee (2/3 of the member)	Yes	Yes	Yes	Yes
3.	Compliance of minimum requirement of the number of the committee's meeting (At least four times)	Total Meeting-4 4 Attended-4	Total Meeting-5 1 Attended-5 5 Attended-6	Total Meeting-7 1 Attended-5 2 Attended-6	Total Meeting-4 1 Attended-4 3 Attended-5
4.	Information about literacy & financial expertise of the committee	Information Provided	Information Provided	Information Provided	Information Provided
5.	Information about participation of Head of Finance, Statutory Auditors, Chief Internal Auditors in committee's meeting	Information Provided	Information Provide	Information Provided	Information Provided
6.	Disclosure of Audit Committee charter & terms of reference	Disclosed	Disclosed	Disclosed	Disclosed
7.	Disclosure of Committee's report	Disclosed	Disclosed	Disclosed	Disclosed
8.	Chairman attended AGM	Attended	Attended	Attended	Attended

Observations

- All companies set up Audit Committee as per SEBI'S Regulations 2015.
- All companies of IT and Telecom sector have Chairman of Audit Committee is ID during three financial years and also have at least 3 directors as members of this committee but TCSL has appointed the largest number (6) of directors in this committee
- Companies comply minimum requirement of ID in Audit Committee (2/3 of the members) and number of meetings (4 times in a year) in the study period.
- All companies have disclosed attendance of members in meeting regarding to audit Committee in their annual report.
- Also companies have disclosed charter and terms of reference of Audit Committee and report of this committee's meeting.
- In all companies the chairman of the audit committee attended AGM to answer the shareholders' queries during study period.

Suggestions

Some members of the audit committee in all companies did not attend all meeting of audit committee. So, they should attend all meetings to review the performance of company.

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