

## **Audit Committee: Key Insights from Mehta & Mehta Webinar**

The Audit Committee is widely regarded as the most powerful and accountable committee of the Board, acting as the fulcrum of corporate governance. In a recent knowledge sharing webinar organised by **Mehta & Mehta**, senior professionals and panelists deliberated on the statutory framework, practical challenges, and evolving expectations from Audit Committees in the contemporary corporate and regulatory landscape.

With increasing regulatory scrutiny, stakeholder activism, and technology-driven risks, the role of the Audit Committee has expanded well beyond financial statement review, demanding a higher degree of independence, expertise, and professional scepticism.

### **Evolution of the Audit Committee in India**

The concept of an Audit Committee in India has evolved steadily from a voluntary governance mechanism to a robust statutory requirement. While its early focus was limited to financial reporting and audit oversight, corporate failures, frauds, and regulatory interventions have progressively enhanced its scope and authority.

The introduction of the Companies Act, 2013, followed by strengthened disclosure and governance norms under SEBI (Listing Obligations and Disclosure Requirements) Regulations, has transformed the Audit Committee into a quasi-supervisory body responsible for ensuring transparency, accountability, and integrity in corporate functioning.

### **Statutory Framework Governing the Audit Committee**

The primary legal framework governing the Audit Committee includes:

- ⇒ Section 177 of the Companies Act, 2013,
- ⇒ Rule 6 of the Companies (Meetings of Board and its Powers) Rules, 2014, and
- ⇒ Regulation 18 read with Part C of Schedule II of SEBI LODR Regulations.

### **Applicability**

An Audit Committee is mandatory for:

- ⇒ All listed companies; and
- ⇒ Public companies meeting prescribed thresholds of paid-up capital, turnover, or outstanding loans/borrowings.

The applicability is determined based on the latest audited financial statements available, and companies must continue compliance for a minimum period even if thresholds are not met subsequently.

Certain exemptions are provided to joint ventures, wholly-owned subsidiaries, and dormant companies; however, panellists strongly emphasised that voluntary constitution of an Audit Committee is a best governance practice, particularly for joint ventures and group entities.

## **Composition and Eligibility Requirements**

### **Under the Companies Act, 2013**

- ⇒ Minimum three directors;
- ⇒ Independent directors to form a majority;
- ⇒ Members must have the ability to read and understand financial statements.

### **Under SEBI LODR Regulations**

- ⇒ Minimum three directors;
- ⇒ At least two-thirds to be independent directors;
- ⇒ Chairperson must be an independent director;
- ⇒ All members to be financially literate;
- ⇒ At least one member to have accounting or related financial management expertise;
- ⇒ Company Secretary acts as Secretary to the Audit Committee.

The webinar strongly highlighted the need for professional competence, structured induction, and periodic training of Audit Committee members, given the complexity and breadth of their responsibilities.

## **Roles and Responsibilities of the Audit Committee**

### **Statutory Responsibilities under the Companies Act**

Key responsibilities include:

- ⇒ Recommendation for appointment, remuneration, and terms of auditors;
- ⇒ Review and monitoring of auditor independence and performance;
- ⇒ Examination of financial statements and auditor's reports;
- ⇒ Approval or modification of related party transactions (RPTs);
- ⇒ Scrutiny of inter-corporate loans and investments;
- ⇒ Evaluation of internal financial controls and risk management systems;
- ⇒ Monitoring end-use of funds raised through public issues;
- ⇒ Valuation of undertakings or assets, wherever required.

A critical distinction highlighted during the webinar was between “review” functions and “approval” powers, particularly in the context of RPTs, where the Audit Committee acts as a final decision-making authority carrying fiduciary accountability.

## **Expanded Role under SEBI LODR and Emerging Practices**

Under Regulation 18 of SEBI LODR, the Audit Committee's scope further extends to:

- ⇒ Oversight of financial reporting and disclosures;
- ⇒ Approval of non-audit services by statutory auditors;
- ⇒ Review of quarterly and annual financial results before Board approval;
- ⇒ Monitoring utilisation of issue proceeds and deviations;
- ⇒ Review of internal audit reports and performance of internal auditors;
- ⇒ Oversight of insider trading violations and penalty mechanisms;
- ⇒ Evaluation of whistle-blower complaints and vigil mechanisms.

Panellists emphasised that monitoring auditor independence applies not only to statutory auditors but also to secretarial auditors and cost auditors, as part of holistic governance oversight.

## **Audit Committee, Technology and Cyber Risks**

With increasing reliance on digital systems, automation, and artificial intelligence, Audit Committees are now expected to:

- ⇒ Extend oversight to technology-driven internal financial controls;
- ⇒ Review cyber security risks, audit trail (edit log) mechanisms, and system vulnerabilities;
- ⇒ Coordinate closely with the Risk Management Committee without duplicating responsibilities.

This evolving role demands enhanced technical awareness and cross-committee integration.

## **Practical Insight**

Panelist at the webinar emphasised that the Audit Committee must function as a governance authority rather than a procedural forum. Particular focus was placed on the enhanced accountability attached to approval powers, especially in relation to related party transactions, where the Audit Committee exercises final decision-making responsibility. The panelist also highlighted that assessment of auditor independence should extend beyond statutory compliance to include qualitative evaluation of professional scepticism and audit effectiveness. Regulators increasingly expect Audit Committees to demonstrate active engagement, informed oversight, and independent judgment, reflected through the quality of deliberations rather than mere adherence to form.

## **Conclusion**

The Audit Committee today stands at the centre of corporate governance, bearing responsibilities that often exceed those of the Board in specific domains. Its effectiveness depends not merely on statutory compliance but on the quality of independence, expertise, vigilance, and ethical leadership exercised by its members.

As regulatory expectations tighten and business risks become more complex, a strong, proactive, and professionally equipped Audit Committee is indispensable for safeguarding stakeholder interests, ensuring transparency, and reinforcing trust in corporate India.

To stay informed or access the webinar recording, visit the YouTube channel:

 **"Decoding Corporate Laws with Mehta & Mehta"**