

Status of Audit Committee In Accordance With Sebi (Listing Obligations and Disclosure Requirements) Regulations 2015: A Case Study of Public and Private Sector Banking Companies

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ABSTRACT: The main aim of the paper is to know the status of an audit committee in Public and Private Sector Banking Companies in regard to SEBI's Listing Obligations, 2015. This study includes two public and private sector banking companies viz., SBI and Bank of Baroda (Public Sector Banks) and HDFC and ICICI Bank (Private Sector Banks) for the periods 2014 -15 and 2015 -16. This study shows that all sampled banks set up audit committee as per SEBI's Regulations 2015. Private Sector Banks i.e.HDFC and ICICI have independent director as Chairman of Audit Committee but Public Sector Banks i.e.SBI and Bank of Baroda have Non Executive Director as Chairman of Audit Committee (AC). It is suggested that SBI and Bank of Baroda should appoint Independent Director in Audit Committee to make Independent AC and to fulfill the requirements of SEBI Regulations 2015

1. INTRODUCTION:

Corporate Governance is integral to the existence of the Companies. Corporate Governance is needed to promote a corporate culture of transparency, accountability and disclosure. Corporate Governance in Banks explained by the "Ganguly Committee Report on CG in Banks" and CG under Basel I, II and III. Banks are governed by governed by the Banking Regulation Act, 1949 and come under the control of the Reserve Bank of India. Hence directions of the RBI have to be followed. The Institute of Company Secretaries of India defined Corporate Governance as 'Corporate Governance is the application of best management practices, **compliance of law in true letter and spirit** and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders".

COMPOSITION OF AUDIT COMMITTEE:

Every listed entity shall constitute a qualified and independent audit committee in accordance with the terms of reference, subject to the following:

- i) The audit committee shall have minimum three directors as members.
- ii) Two – thirds of the members of the audit committee shall be independent directors.
- iii) All members of the audit committee shall be financially literate and at least one member shall

have accounting or related financial management expert.

- iv) The chairperson of the audit committee shall be an independent director and he shall be present at the Annual General Meeting to answer shareholder queries.
- v) The Company Secretary shall act as the secretary to the audit committee.

MEETINGS OF THE AUDIT COMMITTEE:

The listed entity shall conduct the meetings of the audit committee in the following manner:-

- a) The audit committee shall meet at least four times in a year and not more than one hundred and twenty days shall elapse between two meetings.
- b) The quorum for the audit committee meeting shall either be two members or one third of the members of the audit committee, whichever is higher, with at least two independent directors.
- c) The audit committee shall have powers to investigate any activity within its terms of reference.

RESEARCH METHODOLOGY:

A. Research Questions:

- i) Has Transparency been maintained in the Composition of Committee?
- ii) Has the minimum requirement of a number of Independent Directors has been fulfilled?
- iii) Has the minimum number of meetings of the committee being held?

- iv) Has information about literacy and financial expertise of the committee been displayed?
- v) Has the audit committee charter and terms of reference were disclosed?
- vi) Has the committee’s report been disclosed?
- vii) Has chairman attended AGM?

B. Scope of the Study

This paper focuses on the composition of the Audit Committee(AC) and meetings of the AC of the Public Sector Banks and Private Sector Banks for the year 2014-15 and 2015-16 as per LODR 2015. SBI and Bank of Baroda (Public Sector Banks) and HDFC Bank and ICICI Bank (Private Sector Banks) have taken in the current study.

2. REVIEW OF LITERATURE:

Slloumet.al. (2015) examined the impact of audit committees and compensation plans on the audit fees in Lebanon. The relationship of audit committee independence, audit committee size and meeting, audit committee expertise and short term and long term compensation plans to the audit fees have been embraced as the major hypotheses of the study. For accomplishing above stated objective, they relied on primary data from 110 family owned businesses comprising all sectors of the Lebanese and secondary data from the annual reports of the selected firms. The hypotheses have been tested by a panel regression analysis and favorable relationship between audit committee independence, member’s expertise, compensation plans and audit fees has been inferred while the existence of a negative relationship between committee size and audit fees has been adjudged by them.

Laily (2017) attempted to look up the considerable effect the audit committee poses on the earnings management of the manufacturing units in Indonesia. Out of the population of 151 units listed in Indonesian stock exchange, sample of 86 public units has been drawn and regression analysis has been applied to analyze and test the data for the study. There is no such significant effect of audit committee observed on the ground of analysis of data. It is opined that audit committee ensures reliability and fairness of financial reporting and it can only tend to reduce the earnings management practices only if committee do not perform its functions suitably or they are not independent.

DATA ANALYSIS AND DISCUSSION

Table – 1

Status of Audit Committee of public and Private Sector Banking Companies for the Financial Year 2014-15

Sl . No.	Particulars	SBI	Bank of Baroda	HDFC Bank	ICICI Bank
1.	Transparency in composition of the committee (Minimum three Directors)	Total Members -8 Chairman – Non-Executive director Whole Time Director – 2 Non-Executive Director - 6	Total Members – 6 Chairman – Non-Executive Director Whole Time Director – 2 Non-Executive Director – 4	Total Members – 4 Chairman – Non – Executive Director (Independent Director) Independent Directors - 4	Total Member – 4 Chairman – Non Executive Director (Independent Director) Independent Directors - 4
2.	Compliance of minimum requirement of number of Independent Directors in the committee	No information about ID in Corporate Governance Report .	No Information provided about Independent Director in Corporate Governance Report .	Yes	Yes
3.	Compliance of minimum requirement of the number	Total Meeting – 11 1 attended – 13	Total Meeting – 11 3 attended – 12	Total Meeting – 8 1 attended – 2	Total Meeting – 6 4 Attended - 6

	of the committee's meetings (at least four times)	attended – 3 2 attended – 4 3 attended – 7 2 attended – 8 1 attended – 9 2 attended – 0	attended – 2 1 attended – 3 1 attended – 4 1 attended – 6 3 attended – 8 2 attended – 9	attended – 3 1 attended – 6 1 attended – 7 1 attended – 8	
4.	Information about literacy and financial expertise of the committee	Information provided	Information Provided	Information provided	Information provided
5.	Disclosure of Audit Committee charter and terms of reference	Disclosed	Disclosed	Disclosed	Disclosed
6.	Disclosure of Committee's report	Not published in CG Report	Not published in CG Report	Not Published in CG Report	Not published in CG Report
7.	Chairman of the Audit Committee attended AGM	Attended	Attended	Attended	Attended

Status of Audit Committee of public and Private Sector Banking Companies for the Financial Year 2015-16

Sl. No.	Particulars	SBI	Bank of Baroda	HDFC Bank	ICICI Bank
1.	Transparency in composition of the committee (Minimum three Directors)	Total Members - 8 Chairman – Non-Executive director Whole Time Director – 2 Non-Executive Director - 6	Total Members – 5 Chairman – Non-Executive Director Whole Time Director – 1 Non-Executive Director – 4	Total Members – 4 Chairman – Non-Executive Director (Independent Director) Independent Directors - 4	Total Member – 4 Chairman – Non-Executive Director (Independent Director) Independent Directors - 4
2.	Compliance of minimum requirement of number of Independent Directors in the committee	No information about Independent Director in Corporate Governance Report	No Information provided about Independent Director in Corporate Governance Report	Yes	Yes
3.	Compliance of minimum requirement of the	Total Meeting – 11 3 attended – 0	Total Meeting – 12 1 attended – 1	Total Meeting – 9 1 attended – 1	Total Meeting – 8 3 Attended – 8 1

	number of the committee's meetings (at least four times)	2 attende d – 1 1 attende d – 3 1 attende d – 4 1 attende d – 5 1 attende d – 6 2 attende d - 9 1 attende d - 11	1 attende d -2 2 attende d -3 2 attende d -10 1 attende d -11 1 attende d -12	2 attende d – 8 2 attende d – 9	attende d – 7
4.	Information about literacy and financial expertise of the committee	Information provided	Information Provided	Information provide d	Information provide d
5.	Disclosure of Audit Committee charter and terms of reference	Disclo sed	Disclo sed	Disclos ed	Disclos ed
6.	Disclosure of Committee's report	Not publis hed in CG Report	Not publis hed in CG Report	Not Publish ed in CG Report	Not publish ed in CG Report
7.	Chairman of the	Attend ed	Attend ed	Attend ed	Attend ed

Audit Committee attende d AGM				
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3. OBSERVATIONS:-

- 1) Banks have set up an audit committee as per SEBI's Regulations 2015.
- 2) SBI and Bank of Baroda (Public Sector Banks) do not have an Independent Director, as Chairman of the Audit Committee but HDFC and ICICI (Private Sector Banks) are having Independent Director.
- 3) Private Sector Banks comply with the minimum requirement of Independent Director in Audit Committee during the study period, but Public Sector Banks do not have any information about Independent Director in Audit Committee.
- 4) Both Public and Private Sector Banks are having more than 3 members of the Audit Committee for all two financial years.
- 5) All banking companies comply with the requirement for the number of audit committee meetings (4 times in a year) in all two financial years, but Bank of Baroda held the highest number of meetings i.e. 11 and 12 meetings respectively.
- 6) Banks have disclosed attendance of members of Audit Committees in their Annual Report but some member did not attend the entire Audit Committee meeting.
- 7) Banks have disclosed charter and terms of reference of the Audit Committee and also disclosed the report of the Audit Committee.
- 8) In all banking companies the Chairman of the audit committee attended the AGM to answer the shareholder queries during the study period.

SUGGESTIONS:-

- 1) SBI and Bank of Baroda should appoint Independent Director in the Audit Committee to make independent audit committee and to fulfill the requirement of SEBI Regulations 2015.
- 2) Members should attend all Audit Committee meetings for smooth functioning of the Audit Committee.

4. CONCLUSION:

The positive aspects of SBI are Corporate Governance practices include board Corporate Governance Philosophy, requisite and sufficient number of board members with a large representation of non-executive directors. The negative aspect is none of the above stated banks have reported the

agenda of the Audit Committee Meeting or the minutes of these committees available in the annual report or the website of the banks.

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