Regulatory Changes and Role of Audit Committee : Indian Evidence

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Abstract

Corporate governance reforms have emphasized on the need for an audit committee and expanded its role and responsibilities over the last two decades. The purpose of this study was to examine the evolution of audit committee and document changes in audit committee's composition and responsibilities in the Indian context. This article investigated the impact of regulatory changes on audit committee composition in terms of size, independence, and meeting frequency from 2003 – 2018. This study found that the size of the audit committee and its meeting frequency has increased over the years. Our findings suggested that in the absence of mandatory compliance regarding independence of audit committee, we saw a considerable decline in fully independent audit committees. We also documented increased presence of executive directors on audit committee.

Keywords : **audit committee, financial reporting, auditing, risk management, corporate governance, SEBI Clause 49, disclosure**

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Over the past two decades, with each new wave of financial irregularities, audit committee's relevance as an effective mechanism for strengthening corporate governance has increased. An audit committee is expected to reduce risks of corporate scandals and financial misstatements (Mautz & Neuman, 1977). There is an ongoing debate among regulators, policymakers, and board of directors on designing an efficient and effective audit committee (Böhm et al., 2013). In this article, we comprehensively investigate the changes in audit committee composition and its responsibilities. Specifically, we examine the impact of regulatory changes on the changing roles and responsibilities of audit committee and audit committee characteristics (size, independence, and meeting frequency) in Indian firms.

The corporate sector's failure has repeatedly affected the economy and endangered the stability of the financial systems. Active markets for corporate control and the belief in common values are not sufficient to monitor managers. These scandals prompted the Securities and Exchange Board of India (SEBI) to enact new regulations to protect the shareholders' interests. SEBI has strengthened the roles and responsibilities of the audit committee over time. Pervasive concentrated ownership, family control, and weak investor protection provide us with an ideal setting to examine the trends of audit committee composition in India.

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Audit committee is the subset of board and has the responsibility of overseeing a firm's financial - reporting process (Klein, 2002). The Sarbanes - Oxley Act (Sarbanes - Oxley Act, 2002) defined audit committee as, "committee (or equivalent body) established by and amongst the board of directors of an issuer to oversee the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer" (p.747). Audit committee acts as a facilitator between the board and the internal and external auditors. Well-structured audit committee ensures independence of external auditors and improves a firm's financial reporting process (Cadbury Committee, 1992). Further, researchers showed that high-quality audit committee will reduce the likelihood of resource diversion by mangers (Chen & Li, 2013 ; Pomeroy & Thornton, 2008).

The regulators across the globe have prescribed four broad areas of audit committee oversight : (a) to oversee the external audit process, including the appointment and termination of the auditors and preapproval of their audit and non-audit services ; (b) reviewing the adequacy of internal control functions ; (c) whistleblowing provisions to handle matters related to accounting and auditing ; (d) review the financial reporting process and information provided by the auditors and ensure the information is correct, sufficient, and credible.

The requirement of an independent audit committee is recommended by corporate governance codes (United Kingdom, Switzerland) or through law (United States, India, Singapore) or as a requirement of the listing rule (Australia, China, Malaysia). In the United States, an audit committee is required to have at least three directors and all of them independent. In India, Clause 49 of the listing agreement mandates that the audit committee must constitute at least three members and two-thirds of its members must be independent. The Appendix compares the convergence of standards regarding audit committee composition and responsibilities across countries.

Our study contributes to the literature by examining evolution of the corporate governance regulations related to audit committee in the Indian context. Al-Mudhaki and Joshi (2004) and Bhasin (2012) examined the impact of SEBI regulations on audit committee composition during the initial period of governance compliance. We extend this line of research by examining the trend of audit committee composition and responsibilities over the last 20 years.

Using a sample of Indian listed firms, we examine the audit committee composition from 2003 – 2018. We observed that 99.27% of the listed firms in India had constituted an audit committee. Our results are comparable with the evidence for Dutch firms presented by Gupta (2019). We find that size and meeting frequency of the audit committee has also increased over the years. We also find a steady decline in the existence of a fully independent audit committee. Our findings show a significant increase in the number of executives (including Managing Director) on audit committee.

Literature Review

Prior studies showed that corporate governance ensured better firm performance (Bhagat & Bolton, 2008 ; Khan & Fatima, 2009 ; Sandhya & Parashar, 2019 ; Venkatraman & Selvam, 2014) and protects its shareholders (Defond & Hung, 2004). Hence, we believe that to protect the interests of shareholders, the presence of an effective corporate governance system is essential. Regulators around the world have emphasized the relevance of audit committee to achieve effective corporate governance. The monitoring and oversight responsibilities of an audit committee improve corporate decision making. Researchers showed that an audit committee is established either through legislation or stock exchange listing agreement (Fichtner, 2010 ; Okike, 2007 ; Walker, 2004). Fichtner (2010) found that before Sarbanes - Oxley (SOX), only 10 countries had mandated the requirement of audit committee. Over the years, they found that 31 of the world's largest capital markets required audit committee to be established.

Extant literature showed substantial variations in the audit committee composition and compliance (Böhm et al., 2013 ; Fichtner, 2010). Böhm et al. (2013) found high compliance levels by Dutch firms where the disclosure of audit committee charters and standards was mandated by governance code. The absence of boilerplate law regarding audit committee charters in Belgium and Spain resulted in better enforcement of audit committee standards. On the other hand, listed firms in Germany, France, and Italy exhibited lower compliance in the absence of mandatory corporate governance code. Further, they found that audit committee size, independence, and meeting frequency varied across countries and companies. They emphasized on the need to move towards compulsory public disclosure to eliminate differences in audit committee design and charter.

Al-Mudhaki and Joshi (2004) found that audit committee formation was slow during the initial phase of corporate governance regulations in India. Bhasin (2012) found that Indian firms adhered to minimum standards as stipulated by the governance regulations regarding audit committee post-Narayana Murthy Committee recommendations (2004). Except for Al-Mudhaki and Joshi (2004) and Bhasin (2012), none of the prior studies have examined the trends related to audit committee characteristics in India. These studies focused on audit committee composition in the initial phase of corporate governance compliance.

In the past few years, we have seen several reviews and amendments to India's governance code. Many papers have examined the evolution of corporate governance all over the world, but very few studies have examined the developments specifically in the context of an audit committee. This paper fills the gap by reviewing the audit committee's composition and responsibilities in the Indian context. The paper aims to examine the evolution of audit committee regulations in India and simultaneously examine the evolution of its composition and responsibilities over the last two decades.

Audit Committee Evolution in India

Research suggests that corporate governance practices vary depending on the institutional setting, thus negating the concept of a one-size-fits-all approach (Arcot & Bruno, 2007 ; Black et al., 2012). Unlike the United States, firms in India are owned and controlled by family firms. The presence of promoter - manager reduces the agency conflict between the owners and managers. However, the agency issue is now between the promoter-managers and minority shareholders (Sarkar, 2010 ; Shleifer & Vishny, 1997). Hence, an important corporate governance issue in India is about protecting the interests of the minority shareholders.

An audit committee is regarded as the panacea for the inadequacies of corporate governance. An audit committee is established to reduce agency costs and enhance information flow among stakeholders (Bradbury, 1990). The presence of an effective audit committee enhances the credibility of the financial disclosures of a firm. Audit committee plays a vital role in protecting the investors and maintaining the health of the capital markets. Hence, we examine the evolution of audit committee regulations in the Indian context.

Over the years, several committees have been constituted under SEBI by the Confederation of Indian Industry (CII) to advice on issues related to corporate governance. Since our focus is on audit committee, we will restrict our discussion to recommendations related to audit committees. Table 1 provides the details of various

Table 1. ***Details of Various Committee Recommendations Regarding Audit Committee***

Committees	Audit Committee : Recommendations
CII, 1997	• Listed companies with turnover over INR 100 crores or paid-up capital of INR 20 crores should have an audit committee. • Minimum of three members, all non-executive directors with adequate knowledge of finance, accounts, and basic company law. • Should assist board and provide effective supervision of the financial statement process.

	• In order to ascertain the accuracy of the financial reports, they must periodically interact with external and internal auditors.
SEBI appointed Kumar Mangalam Birla Committee Report, 1999	• Minimum three members : All members must be non-executive directors, with the majority being independent ; at least one director must have financial and accounting knowledge. • Meeting : Three times a year - one before finalization of annual financial statement and one necessarily every six months. • Review financial statements, adequacy of internal audit and internal control systems. • Recommending the appointment and removal of external auditor, fixation of audit and non-audit fees.
SEBI appointed Narayana Murthy Committee, 2003	• All members should be non-executive directors and financially literate; at least one member should have accounting or related financial management expertise. • Review of financial statements, letters of internal control weaknesses, and management discussion and analysis. • Quarterly review of use/application of proceeds from Initial Public Offering (IPO). • Related Party Transactions (RPTs) should be placed before independent audit committee for review/ approval/ratification. • The financial statements of the subsidiary company should be reviewed by the parent company's audit committee. • Both board and audit committee must review the key risks. • Whistle Blowing Mechanism : Employees should be able to approach the audit committee without informing their supervisors to report unethical practices. • The appointment, removal, and terms of remuneration of the chief internal auditor must be subject to review by the audit committee.
CII, 2009	• Minimum three members, all members must be non-executive directors, with the majority being independent. • Chairman : He must be an independent director and must receive additional payment for being the chairman. • Separate executive sessions for audit committee. • Pre-approval of RPTs by audit committee which are not in the ordinary course of business or not on arms-length basis. • Mechanism of Whistle Blowing : Employees of a firm should also have direct access to the chairman of the audit committee. • Risk Management Policy: Audit committee along with board must identify risks impacting the company's business and document their process of risk identification, risk minimization, and risk optimization.
SEBI appointed Uday Kotak Committee, 2018	• Audit committee should scrutinize the end utilization of funds where the total amount of loans/ advances/ investment from the holding company to the subsidiary exceeds INR 100 crore or 10% of the subsidiary's asset size, whichever is lower. • Number of meetings : Increased from four to five. • The board needs to disclose to its shareholders if it doesn't accept the recommendation of the audit committee.

Source : Compiled from corporate governance reports of various committees constituted over the years from https://www.sebi.gov.in/reports-and-statistics/reports.html ; CII (1997), CII (2009) , SEBI (1999) , SEBI (2003) , SEBI (2017).

committees constituted under CII and SEBI and summarizes the recommendations specific to audit committee composition and its role and responsibilities in India.

Several recommendations were accepted by SEBI leading to Clause 49 listing agreement and its amendments over the years. The next section discusses the important SEBI regulations related to audit committee.

SEBI Clause 49 : 2001– 2018

The expanding Indian economy and the desire of Indian firms to access global capital markets spurred corporate governance reforms. In India, Section 292A of the Companies Act, 1956 stated the need to constitute an audit committee for a public company. However, none of the companies had established an audit committee till the first code of "Desirable Corporate Governance in India" was issued by CII on April 19, 1997. Further, to promote strong corporate governance, SEBI convened the Kumar Mangalam Birla committee in 1999, which recommended establishing an audit committee with minimum three members. Based on these recommendations, SEBI amended the listing agreement and incorporated a new clause called as Clause 49 listing agreement. Clause 49 listing agreement (2001) mandates the firms to have an audit committee consisting of non-executive directors, with at least three members, and two thirds must be independent. The developments in United States led SEBI to set up the Narayana Murthy committee to review and improve the Clause 49 listing agreement (SEBI, 2003).

The revised Clause 49 listing agreement (SEBI, 2004) mandated that an audit committee must constitute at least three members and two thirds of its members must be independent. All audit committee members must be financially literate and at least one member must have accounting or related financial management expertise. The revised Clause 49 dropped the requirement of non-executive directors.

Clause 49 (2004) (SEBI, 2004) mandated that the audit committee recommend the board regarding appointment, dismissal of statutory/external auditors, and fixation of audit fees. They are also responsible for approving the non-audit activities of the external auditors and fixing the non-audit fees. Clause 49 also mandates that audit committee reviews the whistle-blower mechanism, monitor the utilization of proceeds of a public or rights issue, and review the statement of significant RPTs submitted by management. The audit committee should review the internal audit report related to internal control weaknesses and letters of internal control weaknesses issued by the statutory auditors.

SEBI Clause 49 (2004) (SEBI, 2004) does not have a clear provision for separate meeting between the audit committee and the auditors (internal and external auditors) to discuss matters in an open forum and obtain frank opinions. The provision for private meeting provides an opportunity for the audit committee to ask specific questions and allows the auditor to provide additional, candid, and confidential comments to the audit committee (KPMG, 2016). The revised Clause 49 dropped the requirement of reviewing the going concern assumption by the audit committee, which may result in material uncertainty about the firm's ability as a going concern.

The Satyam scandal triggered a series of corporate governance regulations including significant expansion of the audit committee's roles and responsibilities. In addition to the responsibilities stipulated in SEBI Clause 49 (2004), Clause 49 (Amendment) 2010 entrusted the audit committee with the responsibility to approve the CFO appointment. The audit committee needs to assess qualifications, experience, and background of the candidate in order to ensure that the CFO has expertise to review and certify the financial statements (SEBI, 2010). Further, SEBI Clause 49 (2010) imposes risk-oversight responsibilities on the audit committee.

The Companies Act (1956) was amended which led to enactment of Companies Act (2013) on August 30, 2013. SEBI reviewed Clause 49 listing agreement to align its provisions with the provisions of the Companies Act (2013). SEBI continued all the provisions of the previous amendments, while adding new responsibilities. The revised Clause 49 (2014) requires the audit committee to scrutinize the inter-corporate loans and investments and empowers it to pre-approve or modify RPTs, bestowing the audit committee with the ultimate power to

Table 2. ***Audit Committee – Evolution of Regulation Under SEBI Clause 49 Listing Agreement***

Audit Committee	Composition	Roles and Responsibilities
Feb 21, 2000	• Members : Minimum three, all of them should be non-executive directors. Majority of them must be independent, and at least one director must have financial and accounting knowledge. • The chairman of the committee shall be an independent director. • Meeting : At least thrice a year. • Quorum : Two members or one third of the members of audit committee, whichever is higher and minimum of two independent directors.	• Review financial statements with focus on compliance of accounting standards, going-concern assumption. • Review financial statements for any changes in accounting policies and practices. • Recommend the appointment and removal of external auditor, fixation of audit and non-audit fees. • Review RPTs, company's financial and risk management policies and internal control systems are in place. • Inquire about payment defaults to the investors.
Oct 29, 2004	• Members : Minimum three and 2/3rd of them must be independent. All members must be financially literate. • Expertise : At least one member must have accounting or related financial management expertise. • Meeting : At least four times in a year and not more than four months should elapse between two meetings.	• Review the functioning of whistle-blower mechanism. • Review the chief internal auditor's appointment, removal, and remuneration policy.
April 5, 2010	-	• Audit committee must approve the appointment of CFO.
April 17, 2014 & Sep 15, 2014	-	• They must evaluate: o Internal financial controls & o Risk management systems. • They must scrutinize inter-corporate loans and investments. • Firms must obtain audit committee's approval before indulging into RPTs. • Omnibus approval of RPTs subject to specific conditions.

Source : Compiled from SEBI (2000), SEBI (2004), SEBI (2010), SEBI (2014a), SEBI (2014b).

approve such transactions (SEBI, 2014a, 2014b). Table 2 details the evolution of audit committee regulations under SEBI Clause 49 listing agreement.

Data Analysis and Results

This study aims to investigate the audit committee composition in India in terms of size, independence, and meeting frequency. Consistent with prior studies (Bhasin, 2012), we define size as the total number of members in the audit committee ; independence as the proportion of independent directors in the audit committee ; and meeting frequency as the number of times the audit committee meets each year. SEBI Clause 49 listing (2001) agreement required all listed entities to follow the listing agreement by not later than March 31, 2003. Therefore,

Table 3. *Distribution of Audit Committee Size (Absolute Numbers and %)*

Audit Committee		Proportion of Sample Firms															
Size		**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
1 – 2	No.	36	142	156	192	158	123	104	116	108	95	90	81	52	51	32	32
	%	5.48	6.53	6.37	6.84	5.33	4.00	3.29	3.48	3.15	2.70	2.51	2.18	1.33	1.25	0.75	0.73
3	No.	432	1,314	1,488	1,580	1,706	1,788	1,775	1,844	1,921	1,923	2,003	2,053	1,950	2,168	2,314	2,267
	%	65.75	60.47	60.78	56.33	57.56	58.17	56.19	55.31	55.96	54.60	55.84	55.14	49.95	53.23	54.05	51.84
4	No.	114	466	523	657	754	742	797	902	877	966	976	1,005	1,097	1,170	1,205	1,270
	%	17.35	21.45	21.36	23.42	25.44	24.14	25.23	27.05	25.55	27.43	27.21	26.99	28.10	28.73	28.15	29.04
5	No.	47	175	179	246	226	267	293	298	338	362	328	373	497	425	446	475
	%	7.15	8.05	7.31	8.77	7.62	8.69	9.28	8.94	9.85	10.28	9.14	10.02	12.73	10.43	10.42	10.86
6	No.	16	53	66	80	77	91	123	110	119	113	117	129	196	174	178	206
	%	2.44	2.44	2.70	2.85	2.60	2.96	3.89	3.30	3.47	3.21	3.26	3.46	5.02	4.27	4.16	4.71
7 or	No.	12	23	36	50	43	63	67	64	70	63	73	82	112	85	106	123
more	%	1.83	1.06	1.47	1.78	1.45	2.05	2.12	1.92	2.04	1.79	2.04	2.20	2.87	2.09	2.48	2.81
Average		3.42	3.42	3.43	3.49	3.49	3.55	3.62	3.60	3.62	3.64	3.62	3.66	3.81	3.71	3.72	3.77
Sample Size		657	2,173	2,448	2,805	2,964	3,074	3,159	3,334	3,433	3,522	3,587	3,723	3,904	4,073	4,281	4,373

Note. No. represents the total number of firms and '%' indicates the proportion of firms representing the audit committee size specification.

Table 4. *Distribution of Audit Committee Member Independence (Absolute Numbers and %)*

Independent Directors		Proportion of Sample Firms (%)															
in Audit Committee		**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Less than 67%	No.	242	764	781	871	799	707	672	674	635	644	593	625	747	604	592	606
	%	36.83	35.16	31.90	31.05	26.96	23.00	21.27	20.22	18.50	18.29	16.53	16.79	19.13	14.83	13.83	13.86
67% to 99%	No.	183	686	799	1,032	1,204	1,370	1,473	1,614	1,728	1,826	1,950	2,117	2,321	2,577	2,791	2,935
	%	27.85	31.57	32.64	36.79	40.62	44.57	46.63	48.41	50.33	51.85	54.36	56.86	59.45	63.27	65.20	67.12
Fully Independent	No.	232	723	868	902	961	997	1,014	1,046	1,070	1,052	1,044	981	836	892	898	832
	%	35.31	33.27	35.46	32.16	32.42	32.43	32.10	31.37	31.17	29.87	29.11	26.35	21.41	21.90	20.98	19.03
Proportion of Independent Directors		58.64	60.20	63.44	64.02	66.22	68.92	70.34	70.92	71.60	71.58	72.72	72.32	70.94	72.44	72.30	72.02
Sample Size		657	2173	2448	2805	2964	3074	3159	3334	3433	3522	3587	3723	3904	4073	4281	4373

Note. No. represents the total number of firms and '%' indicates the proportion of firms representing the audit committee independence specification.

we collected the audit committee details for the firms from 2003. The data were collected from CMIE Prowess database for the listed (BSE and NSE) companies from 2002–03 to 2017–18. We used simple statistical tools such as percentages and means to observe the audit committee composition changes.

Audit Committee Size

SEBI Clause 49 mandates that an audit committee must consist of minimum three directors. Table 3 indicates the trend in terms of audit committee size. The average size of the audit committee was 3.77 (2017–18), with the number of directors on audit committee ranging between 1 and 13. Overtime, we observe a considerable decrease in the number of firms not adhering to the minimum requirement of three directors. We found that nearly 99.27% (2017–18) of the firms had an audit committee with a minimum three directors. Majority of the firms (51.84%) had constituted an audit committee with a minimum size of three according to SEBI regulation and 29.04% of the firms had an additional director. Further, we can see that there has been a consistent increase in audit committee with more than three members from 28.77% (2002 – 03) to 47.43% (2017–18).

Audit Committee Independence

Clause 49 mandated that the audit committee must constitute of directors with two-thirds being independent. Table 4 shows that the average proportion of independent directors on audit committee increased from 58.64% (2002–03) to 72.02% (2017–18). Compliance of Indian firms has increased over time and the proportion of firms having less than 66% independent directors on audit committee dropped to 13.86% (2017–18). We observed a steady decline of a fully independent audit committee from 35.31% (2002–03) to 19.03% (2017–18). Further, the average proportion of independent directors stayed around 70% pre- and post-Satyam scandal. These results are consistent with the findings of Narayanaswamy et al. (2015). We observed considerable decline in fully independent audit committee from 26.35% (2013–14) to 21.41% (2014–15) after the SEBI Clause 49 redefined the audit committee's role regarding RPTs. The revised SEBI Clause 49 mandated that firms need prior approval of RPTs by the audit committee (Effective from October 1, 2014), which led to addition of executive members on the audit committee.

Table 5 discusses the presence of executive directors and managing director (MD) within the audit committee. The executive directors' presence on the audit committee increased from 21.46% (2002–03) to 49.39% (2017–18). Further, the presence of managing director in audit committee increased from 4.11% (2002–03) to 11.71% (2017–18). The decline of independent directors in audit committee highlights the deep discomfort in the context of firms controlled directly or indirectly by promoters. We found that listed entities complied with the mandatory requirements only as stipulated under the Clause 49 listing agreement since non-compliance would result in fine.

Frequency of Audit Committee Meetings

Prior research found that diligence is one of the important measures for ensuring audit committee effectiveness (Collier & Zaman, 2005 ; Raghunandan & Rama, 2007). Audit committee meetings' frequency is a proxy for diligence (Abbott et al., 2004 ; Raghunandan & Rama, 2007). Clause 49 requires the audit committee to meet at least four times in a year with not more than four months gap between the two meetings. Table 6 shows that the average audit committee meetings increased from 2.85 (2002 – 03) to 3.92 (2017–18). The proportion of firms with less than four audit committee meetings steadily decreased from 61.34% (2003–04) to 18.11% (2017–18). Even though there has been a steady improvement in the number of firms adhering to the SEBI mandate, we still

Table 5. ***Distribution of Executive Directors (ED) and Managing Director (MD) in Audit Committee (Absolute Numbers and %)***

Directors in Audit		Proportion of Sample Firms (%)															
Committee		**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Presence of ED (%)	No.	141	448	516	689	793	899	980	1,110	1,180	1,326	1,415	1,573	1,760	1,889	2,048	2,160
	%	21.46	20.62	21.08	24.56	26.75	29.25	31.02	33.29	34.37	37.65	39.45	42.25	45.08	46.38	47.84	49.39
Presence of MD (%)	No.	27	86	105	142	151	176	192	223	246	271	297	358	377	385	443	512
	%	4.11	3.96	4.29	5.06	5.09	5.73	6.08	6.69	7.17	7.69	8.28	9.62	9.66	9.45	10.35	11.71
Sample Size		657	2,173	2,448	2,805	2,964	3,074	3,159	3,334	3,433	3,522	3,587	3,723	3,904	4,073	4,281	4,373

Note. No. represents the total number of firms and '%' indicates the proportion of firms with ED and MD on audit committee.

Table 6. ***Distribution of Audit Committee Meetings (Absolute Numbers and %)***

No. of Meetings Held		Proportion of Sample Firms (%)															
		2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
0	No.	163	340	368	421	392	387	369	386	373	395	385	404	519	545	578	612
	%	24.81	15.65	15.03	15.01	13.23	12.59	11.68	11.58	10.87	11.22	10.73	10.85	13.29	13.38	13.50	13.99
1-3	No.	240	660	518	377	236	221	154	170	144	129	140	146	181	171	119	180
	%	36.53	30.37	21.16	13.44	7.96	7.19	4.87	5.10	4.19	3.66	3.90	3.92	4.64	4.20	2.78	4.12
4	No.	141	763	1,026	1,257	1,374	1,453	1,480	1,483	1,816	1,938	2,097	2,359	2,172	2,300	2,390	2,209
	%	21.46	35.11	41.91	44.81	46.36	47.27	46.85	44.48	52.90	55.03	58.46	63.36	55.64	56.47	55.83	50.51
5	No.	66	268	362	541	718	743	868	987	832	773	724	551	610	631	705	870
	%	10.05	12.33	14.79	19.29	24.22	24.17	27.48	29.60	24.24	21.95	20.18	14.80	15.63	15.49	16.47	19.89
6	No.	18	77	88	116	143	157	178	170	138	151	122	130	227	244	274	294
	%	2.74	3.54	3.59	4.14	4.82	5.11	5.63	5.10	4.02	4.29	3.40	3.49	5.81	5.99	6.40	6.72
7	No.	13	36	38	50	42	56	53	66	57	57	42	58	82	83	100	100
	%	1.98	1.66	1.55	1.78	1.42	1.82	1.68	1.98	1.66	1.62	1.17	1.56	2.10	2.04	2.34	2.29
More than 8	No.	16	29	48	43	59	57	57	72	73	79	77	75	113	99	115	108
	%	2.44	1.33	1.96	1.53	1.99	1.85	1.80	2.16	2.13	2.24	2.15	2.01	2.89	2.43	2.69	2.47
Average		2.85	3.33	3.52	3.63	3.84	3.90	4.00	4.03	3.98	4.02	3.93	3.89	3.90	3.89	3.93	3.92
Mode		3	3	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Sample Size		657	2,173	2,448	2,805	2,964	3,074	3,159	3,334	3,433	3,522	3,587	3,723	3,904	4,073	4,281	4,373

Note. No. represents the total number of firms and '%' indicates the proportion of firms representing the audit committee meeting specification.

see 13.99% of the firms did not even meet once a year. There has been a steady increase in firms having more than four meetings from 17.20% (2002–03) to 31.37% (2017–18), suggesting that firms hold meetings based on their requirements and not just complying with the SEBI regulations.

Discussion and Policy Implications

Over the years, there has been a steady increase in audit committee size and meeting frequency. The Clause 49 listing requirement of four meetings generally coincides with the quarterly financial results of a firm. The agenda of the audit committee meetings would be tied to discussions related to financial reporting and compliance. However, the audit committee is also entrusted with oversight of risk management, which requires it to communicate and coordinate with other committees. Hence, in our opinion, the audit committee should meet more than four times a year. Further, we also observed that fully independent audit committees have reduced in the last few years. We report an increased presence of promoter-controlled managers and managing directors on audit committee.

Researchers showed that audit committees enhance financial reporting quality (Klein, 2002 ; Woidtke & Yeh, 2013). Karamanou and Vafeas (2005) showed that insiders' presence in audit committees reduced the financial reporting quality of firms. Pucheta - Martínez and De Fuentes (2007) showed that the size and percentage of independent directors on audit committees reduced the likelihood of obtaining qualified audit reports. Woidtke and Yeh (2013) showed that an independent audit committee enhanced earnings informativeness. Further, audit committees with greater independence shielded the auditors from dismissal after issuing going concern reports (Carcello & Neal, 2003). Therefore, an audit committee should be independent of the management to ensure statutory auditor independence. Further, promoter-managers and executives in the audit committee raise considerable doubt regarding the audit committee's independence.

Effectiveness of an audit committee in the Indian context is suspect with decreased independence and the management's option not to accept the audit committee's recommendations. An audit committee that is independent and competent will boost investor confidence (Levitt, 2000). Thus, in our opinion, the need for strengthening audit committee independence becomes paramount for Indian firms.

Conclusion

This paper documents the evolution of the audit committee in India. The audit committee's role has evolved from being a liaison between external auditors and management to a safeguard of auditor independence to overseeing the financial reporting process, internal controls, and risk management. Recent corporate governance scandals have forced the regulators in India to increase the audit committee's responsibilities (prior approval of inter-corporate loans and investments, prior approval regarding RPTs).

Implications, Limitations of the Study, and Scope for Further Research

The findings indicate a significant increase in the audit committee size and meeting frequency and a steady decline of fully independent audit committees. We find that the number of executives in audit committees and the presence of MD on audit committees have risen over the years. We recommend strengthening of audit committee independence. In this study, we do not examine the impact of audit committee effectiveness concerning its oversight process. Hence, we recommend further research to understand the audit committee's effectiveness concerning its responsibilities.

Authors' Contribution

Savitha Heggede conceived the idea, collected the data, and undertook the empirical study. Prof. Aditya Mohan Jadhav reviewed the results and supervised the study. The numerical computations were done using Stata 13.1 and Savitha Heggede wrote the manuscript in consultation with Prof. Aditya Mohan Jadhav.

Conflict of Interest

The authors certify that they have no affiliations with or involvement in any organization or entity with any financial interest, or non-financial interest in the subject matter, or materials discussed in this manuscript.

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Appendix

Appendix. ***Audit Committee : Composition & Responsibilities Across Countries***

Jurisdiction	Audit Committee Establishment	Audit Committee Chair Independence	Ratio of Independent Members	Risk Management Role of Audit Committee	Review of RPTs by Independent Directors / Audit Committee
United States	Law/requirement of listing rule	Independent	100%	Law/requirement of listing rule	Recommended
United Kingdom	Code	Independent	100%	Recommends that audit committees cover risk management	-
Singapore	Law	Law	>50%	Requirement of listing rule	Required
Japan	Law	-	>50%	-	Recommended
Brazil	Code and requirement of listing rule	Independent	>50%	Code	-
Russia	Law/Requirement of listing rule/Code	Independent	>50%	Requirement of listing rule/Code	Recommended
India	Law	Independent	66%	Law	Required
China	Law	Independent	>50%	Code	Required

Source : OECD Corporate Governance Factbook 2019.

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