

AUDIT COMMITTEE AND CORPORATE GOVERNANCE

Question 1

State the main features of the Qualified and Independent Audit Committee set up under clause 49 of the listing agreement. (8 Marks) (November 2008)

Answer

The main features of a qualified and independent audit committee to be set up under clause 49 of listing agreement are as follows:

- (i) The audit committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors
- (ii) All members of audit committee shall be *financially literate* and at least one member shall have accounting or related financial management expertise.
- (iii) The Chairman of the Audit Committee shall be an independent director
- (iv) The Chairman of the Audit Committee shall be present at Annual General Meeting to answer shareholder queries
- (v) The audit committee may invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the committee, but on occasions it may also meet without the presence of any executives of the company. The finance director, head of internal audit and a representative of the statutory auditor may be present as invitees for the meetings of the audit committee
- (vi) The Company Secretary shall act as the secretary to the committee.

The term "financially literate" means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.