
AUDIT COMMITTEES AND CORPORATE ACCOUNTABILITY: A CROSS-JURISDICTIONAL EXAMINATION

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ABSTRACT

The paper examines Audit Committee's role in improving financial transparency in companies around the World. The paper focuses on legal, functional and real-life significance of audit committee in strengthening corporate governance frameworks across various jurisdictions. The paper also focuses on the real-time importance of audit committees by way of various examples. A Deep study is conducted to evaluate the Satyam scandal which stands as the best example of failure of audit committee. The paper also examines the provisions and regulations on audit committees in the United States and the United Kingdom. At the end of the paper, the contemporary challenges and recommended reforms are provided to enhance the enforcement of audit committees in real-time scenarios.

INTRODUCTION:

Financial transparency and accountability form the foundation of corporate governance. The financial statements of a company showcases the economic performance of the company, market stability, investor confidence and public trust in the company. It is important to maintain transparency for the long term performance of the company. At this point, the role of Audit committees and the Auditors play a major role. The committee forms the foundational trust that shareholders of a company rely upon in a company. Audit committees can detect fraud and scams at the root stage. A problem at the root stage can prevent major losses in terms of the economy as well as the goodwill.

In today's world, the audit committees occupy a critical position within the corporate governance ecosystem. They are duty bound to check and pay attention to financial reporting, internal controls, risk management systems, external auditor independence and related party transactions. The increasing complexity and challenges to shareholder autonomy in companies require their role to be more transparent

REGULATORY FRAMEWORK OF AUDIT COMMITTEE IN INDIA:

Following the Satyam Computers scandal, the Indian government introduced major legislative reforms in the Companies Act, 2013. Section 177 of the Companies Act of 2013 and Regulation 18 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 were drafted to regulate the audit committees in the companies strictly. India follows a hybrid model consisting of Statutory and Regulatory approach towards the regulation of audit committees in companies.

Section 177 of the Companies Act of 2013¹ deals with the appointment, composition, powers and duties of an audit committee in a listed company. According to the provision, the board of directors of every listed company shall constitute an audit committee with a minimum of three directors. Independent directors must form the majority in the audit committee to maintain accountability and transparency. The legislative intent behind these provisions is clear. The provisions intend to ensure that the public shall be entitled to face significant financial exposure of the companies. The supra section provides for a robust oversight structure that aims at

¹ The Companies Act, 2013, § 177.

preventing financial manipulation.

The provision empowers duties to the audit committee to examine quarterly and annual financial statements, review compliance with accounting standards and look after the auditor's observations and changes in accounting policies. The provision requires the audit committee to evaluate the effectiveness of operational controls, compliance systems and detection of fraud mechanisms. One of the significant functions of the audit committee is the approval or modification of related party transactions. Related party transactions are the major root cause of corporate governance failures. A vigilance Mechanism, often known as a whistleblowing mechanism, shall also be reviewed and examined by the Audit Committees. The provision lays down various responsibilities on the audit committee to ensure financial transparency and accountability².

Regulation 18 of the Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations of 2015³ also provides extension of the powers and duties to audit committee as provided under the Companies Act of 2013. The regulation mandates that two-thirds of the committee must include independent directors, the chairperson should be an independent director, and at least one of the member must have expertise in the domain of finance. It empowers to make quarterly financial disclosures, conduct internal audits and maintain financial integrity.

The Satyam Scandal is the stepping stone that laid down how important the audit committees are. The scandal led to the developments in the provisions relating to the audit committees in India's company law framework. The Satyam Computer Services Scam of 2009 remains one of the best examples of audit committee failures in corporate history in India. A massive financial fraud amounting to nearly USD 276 million was undetected for years despite the presence of an audit committee which was legally mandated to oversee financial reporting, internal controls and auditor independence. The committee repeatedly approved the falsified financial statements which included inflated cash balances, fictitious revenues and manipulated profit margins⁴.

² Jayanti Krishnan, Audit Committee Quality and Internal Control: An empirical analysis, 80 AAA 649, 675 (2005).

³ The Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, Reg. 18.

⁴ Anisha Mishra & Dr Reshma Umair, A Study on Economics of Corporate Governance and Regulation, 5 IJLR

Infosys Ltd. stands as the best example of exemplary governance. The audit committee of the company demonstrates high independence, financial expertise, and proactive risk monitoring, transparent RPT oversight and robust whistleblower investigations. The audit committee of Infosys Ltd. entirely consists of independent directors. The committee consists of two members as financial professionals and the committee reviews cybersecurity, data privacy and operational risks. Infosys Ltd. shows strong audit committee leadership, promoting credibility and investor confidence⁵.

The dual governance regime and approach ensure both regulatory enforcement and oversight on investor protection. The mandate of independent directors, financial expertise, enhanced disclosure requirements and rigorous monitoring of related party transactions seeks to prevent recurrent failures such as the Satyam scandal. This integrated governance structure reinforces the role of audit committees as a crucial step in ensuring corporate integrity, upholding fiduciary responsibilities and protecting the interests of the shareholders at every stage of financial decision-making.

REGULATORY FRAMEWORK OF AUDIT COMMITTEES IN THE UNITED STATES:

The United States established a stringent and rules-based governance framework for audit committees. After the WorldCom and Enron financial scandals in the U.S, the government felt the need for a strict architecture of laws to regulate the audit committees. The major issue embedded in these scandals was their overstated revenue, auditor collusion and lack of board oversight. The primary legislation governing the audit committees in the U.S is the Sarbanes-Oxley Act of 2002. The U.S follows a rules-based approach towards the audit committees. The Sarbanes-Oxley Act, hereby known as the SOX Act, is the world's most comprehensive and prescriptive framework on audit committees⁶.

Section 2(3) of the SOX Act of 2002⁷ defines the audit committee as the committee established by and between the board of directors of an issuer to oversee the accounting and financial

2583, (2025).

⁵ Aarti Kumari & Dr Vimal K Aggarwal, Corporate Governance Compliance: A Case Study of Infosys, 1 KIJAHHS 2348, (2014).

⁶ Lawrence J Abbott et al., Corporate Governance, Audit Quality, and the Sarbanes-Oxley Act: Evidence from Internal Audit Outsourcing, 82 AAA 803, (2007).

⁷ The Sarbanes-Oxley Act, 2002, § 2(3).

reporting processes and audit the financial statements of the issuer. The definition clearly lays down the functions and duties of the committee. The section aims to restore investor confidence by strengthening the independence, competence and autonomy.

Section 301(3) of the SOX Act of 2002⁸ clearly lays down that the audit committee must consist of independent directors in case of public companies. The provision provides guidelines as to determine who is an independent director. According to the provision, any person who accepts any kind of consultation, compensatory or advisory fee from the issuer does not qualify to be independent. The audit committee member shall not be a affiliated person to the issuer or to any of their subsidiary. The section also provided with the procedures to be laid down by the audit committee under its power. Audit committees shall provide procedures for the receipt, retention and treatment of the complaints with regard to matters relating to accounting, internal accounting and auditing. The requirements as laid down by the act seeks to eliminate financial incentives which might give rise to compromise with the objective oversight.

Section 404 of the SOX Act of 2002⁹ introduced the concept of internal control reporting, accessing management of assets and looking after the effectiveness of internal controls over financial reporting. They oversee the internal controls, manage risks and regulate compliance frameworks. The SOX Act under section 806 mandates whistleblower protection which enables the employees to report financial misconduct without fear of retaliation.

Section 407 of the SOX Act of 2002¹⁰ requires at least one of the members of the audit committee to be a qualified financial expert. The qualification for a person to be a financial expert has been clearly laid down negating arbitrariness and vagueness. A person by his education and experience should either be a public accountant or an auditor or a principal financial officer or a comptroller or principal accounting officer of an issuer will qualify to be a financial expert as per the provisions of the Act.

The best example of audit committee failure leading to a financial scam in the U.S is the WorldCom Inc. scam of 2002. The CEO and the other senior management staff used improper accounting and fraudulent methods to mislead investors and other directors. They reduced the reported line costs and the exaggerated reported revenue which led to eventual downfall of the

⁸ The Sarbanes-Oxley Act, 2002, § 301(3).

⁹ The Sarbanes-Oxley Act, 2002, § 404.

¹⁰ The Sarbanes-Oxley Act, 2002, § 407.

company. The lack of independence in the audit committee led to the scandal and cites as one of the best lesson for the companies in the US to maintain independent directors as part of the audit committee¹¹.

The U.S framework demonstrates a strong emphasis on the standardization, enforcement, auditor independence and criminal liability giving audit committees powers to endure financial transparency. It mandates strict independence requirements which remains free from management influence. The provisions strengthen technical competence and enables more effective oversight of complex financial reporting.

REGULATORY FRAMEWORK OF AUDIT COMMITTEES IN THE UNITED KINGDOM:

The United Kingdom adopted a principle-based and flexible governance model which is primarily governed by the UK Corporate Governance Code of 2024. Section 24 of the UK Corporate Governance Code of 2024¹² mandates the board to establish a audit committee comprising of independent non-executive directors with minimum of three members and two in cases of small companies. The provision also mandates the board to ensure that at least one of the members of the committee has relevant financial experience in recent times.

Section 25 of the UK Corporate Governance Code of 2024¹³ sets out the roles and responsibilities of the audit committee. The committee is required to monitor the integrity of financial statements of the company, review relevant financial reporting judgments and make any formal announcements relating to the company's performance financially. The audit committee should provide advice regarding the fairness, balance and understanding of the annual reports and accounts. The committee must ensure that the reports provide ample information to shareholders to access to the company's business model, strategy, position and performance. The committee is required to review the company's management of risks, framework of internal control until and unless a separate committee on board risks is established.

Along with the UK Corporate Governance Code of 2024, the Financial Reporting Council of

¹¹ Tina Aror & Munashe Naphtali Mupa, A WorldCom and the Collapse of Ethics: A Case Study in Accounting Fraud and Corporate Governance Failure, 26 WJARR 3773, (2025).

¹² U.K Corporate Governance Code, 2024, § 24.

¹³ U.K Corporate Governance Code, 2024, § 25.

the UK has issued the Minimum Standards for Audit Committees and External Audits¹⁴. These standards relate to the oversight responsibilities for the external audit. The primary aim of these standards is to restore trust in audit and corporate governance consultation. The specific recommendation from the Competition and Markets Authority's Statutory Audit Services Market Study to the FRC led to the issuance of minimum standard for audit committees.

The Standards include sections describing the responsibilities of oversight of auditors, audit and reporting. The standards set out some additional responsibilities for the audit committee. The committee must ensure that the company manages its non-audit relationships with audit firms to make sure that it has a fair chance of suitable external auditors at the next tender. This is in light of need for greater market diversity and any measures of market opening which may be introduced. The committee must make sure that the external auditor has complete access to company staff and records. The committee must monitor and review the independence of external auditor and his objectivity¹⁵.

The case study on the Carilion scandal provides the importance of the audit committee's role in saving a company from going into bankruptcy and avoiding financial fraud. Carilion, a UK-based construction and services firm, went into bankruptcy in January 2018. The scandal sheds light on the consequences of corporate financial mismanagement and the failure of audit committees. The company presented misleading financial accounts and continued to increase its dividend every year. The audit committee of the company failed to detect the growing acquisitions made by the company which initially seemed like a promising strategy but later turned out to be a major contribution to the company's downfall¹⁶.

The regulatory framework governing the audit committees in the U.K shows the commitment in strengthening the corporate accountability through a principle-based, flexible and futuristic governance model. The mandate of independent non-executive directors, financial expertise and extensive responsibilities aims to ensure that the audit committees function as effective guardians of corporate integrity. The code and the standards undermine the importance of combining regulatory structure with strong governance culture.

¹⁴ Financial Reporting Council, Minimum Standards for Audit Committees and External Audit, 2023.

¹⁵ Joseph V Carcello & Terry L Neal, Audit Committee Composition and Auditing Reporting, 75 AAA 453, (2000).

¹⁶ Dr Robert Chapman, *Ineffective Risk Management and the Collapse of Carillion*, 7, PM World Journal Issue XII (2018).

COMPARATIVE ANALYSIS BETWEEN INDIA, THE UNITED STATES OF AMERICA AND THE UNITED KINGDOM:

Aspect	India	United States	United Kingdom
Approach	Statutory and Regulatory (Hybrid Model)	Rules-Based	Principles-Based
Independence of the members	Majority independent	Fully independent	Majority independent
Financial Expertise	Minimum one member	Mandatory financial expert	Relevant and recent financial experience
RPT Regulation	Very strict	Less pronounced	Moderate
Whistleblower protection	Mandatory	Strong statutory protection	Not centrally mandated

CONCLUSION:

Audit committees have emerged to one of important pillars of corporate governance. It is entrusted with the responsibility of safeguarding the financial integrity, promoting transparency and strengthening investor confidence. The comparative study of India, the United States and the United Kingdom highlight the distinctive approach of various jurisdictions to curtail the same problem. Each of the approach showcased varying degrees of effectiveness but share a common objective. The case studies of Satyam, WorldCom and Carillion demonstrate robust frameworks can fail if there is no independency, professional scepticism, financial expertise and active oversight. These scams provide that the true strength of an audit committee lies in the ethical commitment, competence and vigilance of its members. The audit committees effective functioning is necessary for improving the corporate governance culture, prevention of financial scandals and securing long ter sustainability of the companies in the rapidly evolving financial landscape.