



**SECTION 177    AUDIT COMMITTEE**

**APPLICABILITY**

(1) The Board of Directors of **every listed Public company** and following companies, shall constitute an Audit Committee.

*The board of directors of every listed company and a company covered under rule 4 of the Companies (Appointment and Qualification of Directors) Rules,2014 shall constitute an “Audit Committee” and a “Nomination and Remuneration Committee of the Board”*

*If a company is not required to appoint independent director then no need to constitute such committee*

*Explanation. - The paid up share capital or turnover or outstanding loans, or borrowings or debentures or deposits, as the case may be, as existing on the date of last audited Financial Statements shall be taken into account for the purposes of this rule.*

**NUMBER OF DIRECTORS REQUIRED**

(2) **The Audit Committee shall consist of a minimum of three directors with independent directors forming a majority:**

**Provided that majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement.**

**In listed companies at least 2/3rd will be independent directors as per Clause 49 of Listing Agreement.**

**Further Audit committee in case of Section 8 companies can be formed without independent directors.**

**FUNCTIONS OF COMMITTEE**

(4) Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include,--

(a) **the recommendation for appointment, remuneration and terms of appointment of auditors of the company;**

**(appointment and terms of appointment shall not be the part of terms of reference of audit committee in case of Government Companies)**

(b) **review and monitor the auditor’s independence and performance, and effectiveness of audit process;**

(c) **examination of the financial statement and the auditors’ report thereon;**

(d) **approval or any subsequent modification of transactions of the company with related parties;**

41	X Ltd unlisted public co. ID at least 2 Audit Committee — 5 directors Co is having 2 ID
	149 177 here No. of ID Should be 3 to Comply with 177

Provided that the Audit Committee may make omnibus approval for related party transactions proposed to be entered into by the company subject to such conditions as may be prescribed.

Provided further that in case of transaction, other than transactions referred to in section 188 and where Audit Committee does not approve the transaction, it shall make its recommendations to the Board;

Provided also that in case any transaction involving any amount not exceeding one crore rupees is entered into by a director or officer of the company without obtaining the approval of the Audit Committee and it is not ratified by the Audit Committee within three months from the date of the transaction, such transaction shall be voidable at the option of the Audit Committee and if the transaction is with the related party to any director or is authorised by any other director, the director concerned shall indemnify the company against any loss incurred by it :

Provided also that the provisions of this clause shall not apply to a transaction, other than a transaction referred to in section 188, between a holding company and its wholly owned subsidiary company.

- (e) scrutiny of inter-corporate loans and investments;
  - (f) valuation of undertakings or assets of the company, wherever it is necessary;
  - (g) evaluation of internal financial controls and risk management systems;
  - (h) monitoring the end use of funds raised through public offers and related matters.
- (5) **The Audit Committee may call for the comments** of the auditors about **internal control systems, the scope of audit**, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company.
- (6) The Audit Committee **shall have authority to investigate** into any matter in relation to the items specified in sub-section (4) or referred to it by the Board and for this purpose shall have power to obtain professional advice from external sources and have full access to information contained in the records of the company.
- (7) The **auditors of a company and the key managerial personnel** shall have a right to be **heard in the meetings of the Audit Committee** when it considers the auditor's report but shall not have the right to vote.
- (8) **The Board's report under sub-section (3) of section 134 shall disclose the composition of an Audit Committee** and where the Board had not accepted any recommendation of the Audit Committee, the same shall be disclosed in such report along with the reasons therefor.
- (9) **Every listed company or the Companies which accept deposits from banks or the Companies the public financial institutions in excess of fifty crore rupees, shall ESTABLISH A VIGIL MECHANISM FOR DIRECTORS AND EMPLOYEES** to report genuine concerns in such manner as may be prescribed.
- (10) The **vigil mechanism** under sub-section (9) shall **provide for adequate safeguards against victimization of persons who use such mechanism and make provision for direct access to the chairperson of the Audit Committee in appropriate or exceptional cases:**
- Provided that the **details of establishment of such mechanism** shall be disclosed by the **company on its website**, if any, and in the **Board's report**.