

India to become first country to make non-financial audit mandatory for companies

India will become the first country to make non-financial audit mandatory for companies of certain class. The audit, also known as secretarial audit, will ensure that all listed companies and public limited companies with paid-up capital of at least Rs 50 crore or public companies with a turnover of at least Rs 250 crore comply with all sections of Companies Act 2013.

The step is part of government's effort to improve governance and transparency in Indian companies to provide comfort to foreign investors.

"The audit which is a part of secretarial standards will ensure more transparency in boardrooms. This will increase the confidence of investors who want to invest in private limited companies," Atul Hasmukhrai Mehta, president, Institute of Company Secretaries of India (ICSI) had told ET earlier.

For non-compliance of audit, government has introduced penal provisions including fine between Rs 1 lakh and Rs 5 lakh.

"There are around 230 sections in Companies Act which require compliance and the audit will ensure that the act is being followed by companies in letter and spirit," said Sachin Paranjape, Senior Director in Governance, Risk and Regulatory practice of Deloitte.

The secretarial standards recently issued by ICSI, effective from July 1, also make it mandatory for companies to send a notice for a board meeting seven days in advance and that there will be no last minute changes to agenda of board meetings. Standards require holding a meeting in every quarter.

However, experts say that these standards will take away the flexibility from companies to devise their own process and methods to do board and general meetings within the purview of the Companies Act, 2013.

It will only add to the cost of compliance on the companies without really achieving anything substantial," said Lalit Kumar, Partner, J Sagar Associates.

"Standards are too prescriptive and aim to micromanage the affairs of the companies. The role of company secretaries will only go down," he added.

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