



CIRCULAR

SEBI/HO/IMD/IMD-I DOF2/P/CIR/2022/17

February 09, 2022

All Mutual Funds (MFs)/

Asset Management Companies (AMCs)/

Trustee Companies/ Board of Trustees of Mutual Funds/

Association of Mutual Funds in India (AMFI)

Sir / Madam,

Subject: Audit Committee of Asset Management Companies (AMCs)

1. Currently, the requirement for an Audit Committee is at the level of trustees of Mutual Funds. The working group constituted for the purpose of the regulatory revamp exercise of SEBI (Mutual Funds) Regulations, 1996 and various circulars issued thereunder suggested that an Audit Committee may be constituted at AMC level. The agenda was discussed in the Mutual Fund Advisory Committee (MFAC) and it was recommended that the AMC of mutual fund should constitute an Audit Committee.
2. In this regard, taking into account the recommendation of MFAC and the feedback received from the industry, it has been decided that the AMCs of mutual funds shall be required to constitute an Audit Committee. The role, responsibility, membership and other features of the Audit Committee of AMC are detailed in this circular.
3. **Role:** The Audit Committee of the AMC shall be responsible for oversight of financial reporting process, audit process, company's system of internal controls, compliance to laws and regulations and other related process, with specific reference to operation of its



Mutual Fund business. In this regard, the Audit Committee shall, inter-alia, have the following mandates:

- 3.1. To review the financial reporting processes, the system of internal controls and the audit processes for the Mutual Fund operations of the AMC;
- 3.2. To ensure that the rectifications, if any, suggested by internal and external auditors, etc. are acted upon.

4. Membership:

- 4.1. The Audit Committee of AMC shall have minimum three directors as members.
- 4.2. At least two-third members of the Audit Committee shall be independent directors of AMC. If two-third of the total strength results into fraction, then higher number after rounding up shall be considered.
- 4.3. The members of the Audit Committee will be appointed by the Board of Directors of AMC.
- 4.4. All members of Audit Committee shall be persons with ability to read and understand the financial statement and at least one member shall have experience and background in finance and accounts.
- 4.5. The Chairperson of the Committee shall be an independent director, with adequate experience in the areas of finance and financial services.

5. Meetings:

- 5.1. The Chairperson of the Audit Committee shall call the meeting as and when required. However, atleast four meetings shall be called in a financial year and not more than one hundred and twenty days shall elapse between two meetings.
- 5.2. The quorum for meeting shall either be two members or one third of the members of the Audit Committee, whichever is greater, with at least two independent director.



If one-third of the total strength results into fraction, then higher number after rounding up shall be considered for the quorum.

6. Reporting:

- 6.1.** The internal auditor shall submit its report to the Audit Committees of AMC and the Board of AMC;
- 6.2.** The Audit Committee of AMC shall forward their observations on internal audit report, if any, to the Trustees.

7. Powers and Responsibility:

7.1. Financial Reporting

- 7.1.1.** Oversight of the Mutual Fund Schemes' and AMC's financial reporting process.
- 7.1.2.** Considering and recommending for approval of AMC Board, all accounting policy issues for the Schemes and the AMC, including any proposed changes to the accounting policies and practices for transactions with related parties, etc.
- 7.1.3.** Review of audit opinion issued by the statutory auditors.
- 7.1.4.** Considering and recommending to the AMC Board, adoption of financial statements including half yearly unaudited financial results prepared for the Scheme and the financial statements of the AMC.
- 7.1.5.** Any other relevant matters.

7.2. Audit (Internal and Statutory) and Internal Controls

- 7.2.1.** Considering and recommending for approval, the appointment, re-appointment and, if required, the replacement or removal of the Statutory Auditor of the Mutual Fund, Internal Auditor of the Mutual Fund, etc. and the



fixation of fees for audit and any other services rendered by the Statutory Auditors with respect to the Mutual Fund.

- 7.2.2.** Reviewing the scope of Internal Auditors and recommending for approval of the Board of AMC.
- 7.2.3.** Reviewing the Internal Audit Reports of the Schemes of Mutual Fund (Including Internal Audit Report of critical activities outsourced by the AMC such as Custodian, Fund Accounting, the Registrar and Transfer Agent activity, etc.).
- 7.2.4.** Discussions with internal and statutory auditors on any significant findings and follow up there on.
- 7.2.5.** Reviewing the findings of any internal investigations by the AMC / internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature or issues highlighted or referred through whistle blower complaints, etc.
- 7.2.6.** Reviewing Regulatory Inspection Reports.
- 7.2.7.** Reviewing implementation status of all outstanding action points arising out of Internal Audit Reports, Statutory Audit Reports, Systems Audit Reports, Inspection Reports etc.
- 7.2.8.** Reviewing the adequacy of the internal control systems, including defining metrics for measuring internal controls, seeking comments of the internal auditors about Internal Control Systems, etc. and the steps taken towards improving the effectiveness of internal control system including through automation.
- 7.2.9.** Interacting with the statutory and internal auditors of the Mutual Fund, at least once annually without engagement of management of the AMC. Besides the mandatory requirement specified, such interactions may be held whenever felt necessary by the independent directors of the Audit Committee.



7.2.10. The Audit Committee of the AMC should interact with the Audit Committee of the Trustees at least once annually.

7.3. Regulatory Compliance and other Functions

7.3.1. Evaluating various internal control measures in terms of applicable SEBI (Mutual Funds) Regulations and various circulars issued thereunder.

7.3.2. Reviewing periodic report on compliance with applicable laws and regulations, including the details of non-compliance along with the corrective actions, as applicable.

7.3.3. Reviewing the Annual Compliance Report in relation to the “Policy on Prohibition of Insider Trading” of the AMC.

7.3.4. Assess that the AMC has been managing the mutual fund schemes independently of other activities and have taken adequate steps to ensure that the interest of investors of one scheme are not being compromised with those of any other scheme or of other activities of the asset management company.

7.4. In addition to the above responsibilities, AMC Board from time to time may also assign such other responsibilities to the Audit Committee, as deemed fit.

8. The Audit Committee of AMC shall comply with these guidelines in addition to the requirements of The Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as applicable.

9. **Applicability:** This circular shall come into force with effect from August 01, 2022.

10. This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

Regulation 77 of SEBI (Mutual Funds) Regulations, 1996, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

Hruda Ranjan Sahoo

Deputy General Manager

Tel no.: 022-26449586

Email: hrsahoo@sebi.gov.in