Reviewed and Noted" — The Governance Illusion

"The minutes record that a meeting occurred. They do not record whether oversight did."

The Procedural Trap

There is a phrase that appears with remarkable consistency in audit committee minutes across listed companies in India.

"The committee reviewed the financial statements and noted the same."

"The audit findings were presented and noted by the committee."

"The committee reviewed the auditor's report and noted the observations."

These sentences are not false. They describe something that happened. Papers were tabled. A meeting occurred. A record was made.

What they do not describe — and what they are frequently mistaken for — is governance.

The Difference Between Presence and Oversight

Governance is not attendance. It is not the circulation of papers. It is not the completion of an agenda. It is not the recording of minutes that confirm a meeting concluded without disruption.

Governance is the structured application of informed challenge to decisions, representations, and assumptions made by management — before those decisions, representations, and assumptions become consequential.

The audit committee that reviews financial statements and notes them has performed a procedural function. The audit committee that reviews financial statements, identifies the three most material judgement areas within them, asks the auditor what independent evidence supports those judgements, and requires management to defend the assumptions underlying them — that committee has performed a governance function.

The difference between these two committees is not visible in the minutes. Both will record that the financial statements were reviewed and noted. The difference is visible only in what happened in the room before the minutes were written.

> *"'Reviewed and Noted' is the governance equivalent of 'Reviewed and Agreed' in an audit file. It records attendance. It does not demonstrate oversight."*

What NFRA Findings Reveal About Audit Committee Function

NFRA's enforcement record contains repeated evidence of audit committee failure — not failure to attend, not failure to constitute, but failure to function.

Revenue recognition anomalies of extraordinary scale passed through audit committee review without meaningful interrogation. Related party transactions involving fund diversion and loan evergreening were approved without the scrutiny the committee's own terms of reference required. Auditors were appointed at fee levels that experienced practitioners would immediately recognise as inadequate — without the committee asking whether the fee was sufficient for the audit the company required.

In each case, the procedural record of the audit committee was likely intact. Papers circulated. Meetings held. Minutes recorded. Resolutions passed.

The governance failure was not procedural. It was substantive. The committee confused the completion of its process with the exercise of its function.

The Kuru Court Problem

The Kuru court in the Mahabharata was not absent of governance. It was full of it. Elders of unimpeachable seniority were present. Rules were acknowledged. The setting was formal and procedurally legitimate at every step. And yet, round after round of an obviously catastrophic process unfolded — with everyone present, everyone watching, and no one intervening.

The institution did not fail because governance was missing. It failed because governance was performing — and performance is not the same as function.

The modern audit committee meeting has the same structural risk. Papers are comprehensive. Presentations are polished. Management is confident. The agenda moves efficiently. And sometimes, in that carefully managed environment, the concern that most needed to be raised is the concern that felt most premature to raise.

So it is noted. The meeting concludes. The minutes reflect a productive session.

> ***"The Kuru court also had productive sessions."***

What Genuine Oversight Looks Like

What Genuine Audit Committee Questions Look Like

The distinction between procedural and substantive governance becomes clearest when you examine the quality of questions asked.

A procedural question confirms that something has been done. *"Has the auditor confirmed independence?"* Yes. Noted. *"Has management provided the required representations?"* Yes. Noted. *"Has the audit been completed within the agreed timeline?"* Yes. Noted.

A substantive question challenges whether what has been done is sufficient.

"The auditor has confirmed independence — but our fee to this firm has increased 40% over three years. Has the committee assessed whether that level of fee dependency affects the quality of challenge we receive?"

"Management has provided representations — but the receivables ageing has deteriorated significantly this year while revenue has grown. What has the auditor done independently to satisfy themselves that the revenue is real?"

"The audit was completed on time — but the file for this complex entity was completed in three weeks fewer than last year. Has the committee asked the auditor whether time pressure affected the depth of work in any area?"

These questions are not hostile. They are not expressions of distrust. They are expressions of oversight — the structured application of informed challenge that separates governance from attendance.

> ***"A procedural question confirms that something has been done. A substantive question challenges whether what has been done is sufficient."***

The Financial Literacy Gap

One of the most significant findings in NFRA's enforcement record is the financial literacy gap on audit committees of listed companies.

The regulations are clear. All members of an audit committee must be financially literate. At least one must have accounting or financial management expertise. In practice, NFRA has documented cases where the majority of audit committee members did not meet the financial literacy standard in any meaningful sense.

Financial literacy on paper is not financial oversight in practice. A director who can read a balance sheet but cannot identify an aggressive revenue recognition policy, assess the reasonableness of an impairment assumption, or evaluate whether a going concern disclosure reflects genuine uncertainty — that director cannot perform the oversight function that the committee's terms of reference require.

The consequence is not merely a technical non-compliance. It is a structural governance failure. An audit committee that cannot evaluate what management presents cannot challenge it. An audit committee that cannot challenge management cannot protect the stakeholders whose interests it exists to serve.

The Questions That Governance Requires

Effective audit committee oversight does not require directors to master the technical detail of every accounting standard. It requires structured, persistent, informed enquiry — before the financial statements are approved, not after.

Before the Audit:

What are the areas of highest risk in this entity's financial reporting? What specific procedures has the auditor designed to address those risks? Is the audit scope sufficient for the complexity of this business?

During the Audit:

Have any areas emerged where management and the auditor disagree? Are there judgement areas where the auditor has residual uncertainty? Has the scope changed from what was planned, and if so, why?

After the Audit:

What were the key audit matters, and what did the auditor find? Were there any adjustments proposed by the auditor that management did not accept? Is the auditor satisfied that the financial statements give a true and fair view?

> ***"These are not questions that require deep technical expertise to ask. They require only the willingness to ask them — persistently, specifically, and without accepting procedural confirmation as a substantive answer."***

The Governance Standard

The Test of Governance

The test of governance is not whether the committee met. It is whether the committee's presence made a difference to the quality of financial reporting and audit that the company produced.

An audit committee that asks the right questions, at the right moments, creates an environment in which management cannot present optimistic assumptions without defending them, and auditors cannot issue opinions without the committee understanding what those opinions are based on.

An audit committee that reviews and notes creates a record. It does not create accountability.

The minutes will look the same either way.

The financial statements will not.

> ***"The question is not whether the committee met. It is whether the committee's presence made a difference to the quality of financial reporting and audit that the company produced."***

What the Minutes Cannot Show

The audit committee that circulates papers, follows agendas, and records minutes has performed governance procedurally. Whether it has performed governance substantively is a different question — and the answer is found not in the minutes but in the quality of questions asked before the minutes were written.

Governance is not a record of attendance. It is not a resolution passed. It is not a set of minutes that confirm a meeting concluded without disruption.

It is the structured, persistent, informed challenge that ensures the financial statements placed before shareholders reflect reality — not management's preferred version of it.

The Governance Imperative

Ask Before Approving:

The committee's function is not to ratify what management presents. It is to interrogate it. Every significant judgement in the financial statements should be tested — not accepted. The question is not whether management has an explanation. It is whether the explanation is sufficient.

Require Visible Challenge:

Where the auditor has raised a concern, the committee should know what it was, how it was resolved, and whether the resolution was satisfactory. Where the auditor has not raised a concern, the committee should understand why — and whether the absence of concern reflects genuine comfort or insufficient scrutiny.

Distinguish Process from Substance:

Completing the agenda is not governance. Reviewing the papers is not governance. Governance is the moment when a committee member asks the question that management hoped would not be asked — and requires an answer that is specific, evidenced, and sufficient.

> *"'Reviewed and Noted' is a record. Governance is what happens before the record is written."*

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This article is part of Anveshana's Audit Quality Insights series.