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Strengthening Board – Auditor Dialogue:

Continuing quality improvement of corporate financial reporting

14 January 2026

The National Financial Reporting Authority (NFRA), on 7 January 2026, issued a circular on effective communication between statutory auditors and Those Charged With Governance (TCWG), emphasising where accountability lies in corporate governance framework (Circular). In the past, certain audit practices were premised on the notion that enhanced auditor–governance communication was primarily relevant to only certain regulated sectors. By addressing the Circular to all companies whose securities are listed in India and or outside India and [i]specified bodies corporate, NFRA has now removed any ambiguity that may have existed. For boards and audit committees, the message is clear: engagement with auditors can no longer be episodic or delegated entirely to management.

Statutory and Auditing Framework

The audit committee serves in an oversight role, reviewing audit effectiveness, internal controls, related-party transactions, and significant accounting judgments. Auditors and Audit Committees work towards the common goals of ensuring audit quality and the integrity of financial statements. The auditor's role extends beyond reporting to shareholders; it requires meaningful engagement with TCWG through the audit cycle, in compliance with the Standards on Auditing (SA) prescribed under the Companies Act, 2013. The board of directors, through the directors' responsibility statement, expressly affirms the integrity of accounting standards, judgments, internal financial controls, fraud prevention systems, and legal compliance. Independent directors are required to satisfy themselves about the robustness of financial information and risk management frameworks.

This is where SA 260 (Revised) and SA 265 assume importance. SA 260 (Revised) mandates a structured, documented, two-way dialogue between auditors and TCWG. SA 265 requires timely written communication of significant deficiencies in internal control, including their potential effects, to both TCWG and management.

NFRA's Core Concern: When Communication Becomes a Ritual

NFRA has, from time to time, highlighted the importance of auditors' communication with TCWG in the course of NFRA's enforcement, review, and monitoring activities. In accordance with NFRA's objective of protecting public interest and investor protection, and the obligation to suggest measures for improvement of overall audit quality and to promote awareness and significance of accounting and auditing standards, auditor's responsibilities, NFRA commenced a series of publications[ii] on Auditor – Audit Committee interactions.

NFRA's concern, stems from its enforcement experience, where it observed instances such as:

- engagement with audit committees were only as a matter of convenience, limited to last-minute presentations before financial approval of financial statement without adequate supporting discussions of significant matter of actions,

- failure to communicate significant matters to TCWG, ranging from unusual transactions to internal control weaknesses, materiality, key audit matters, significant risks, valuation deficiencies, circuitous dealing with promoters or group-controlled entities outside the normal course of business.

- failure to establish and document significant strategic decisions, suspected or identified fraud and vies regarding the integrity and competence of senior management.

Notably, NFRA's concern is that meetings with management should not constitute communication with TCWG, and that silence or the absence of comments cannot be treated as acceptance.

These observations are not new; what is new is the regulator's clear expression that such practices undermine the governance framework.

Recasting Communication as a Joint Obligation: The Circular emphasises on robust two-way communication as a shared governance responsibility amongst auditors, TCWG, management and audit committee. The key governance takeaways are set out below.

(a) **Determination of TCWG**

- Auditors are required to identify TCWG at the outset of the audit.
- While the Board of Directors is typically responsible for governance, a sub-group like the Audit Committee may be identified.
- Where a sub-group is treated as TCWG, auditors must assess whether that body has real authority over the matters communicated and whether escalation to the full board is warranted.

(b) **Establishing a Communication Framework**

NFRA encourages preparing a framework of communication with TCWG including:

- Objective and Purpose: defining the goal of two-way communication.
- Nodal Persons: identified nodal persons to ensure two-way communication during audit.
- Prepare and Plan: the form, timing and expected general contents of communications at the start of the financial year, to ensure effective implementation of Standards on Auditing.
- Expectations: matters on which TCWG is expected to proactively inform auditors matters that will be relevant to audit such as strategic decisions, suspected fraud, regulatory interactions, and concerns regarding management integrity or competence of senior management).
- Communication: Must contain the views / suggestions of TCWG on the matters raised by auditors or vice versa.
- Escalation Policies: escalation protocols about discussions and interactions of auditor and management / nodal officers.
- Documentation: all significant communications to be documented and formally acknowledged by both sides either in the form of minutes or the meeting or letters;
- Frequency: frequency of meetings and expected agenda matters for the meeting.
- Duration: sufficiency of duration for a meaningful outcome.

This is not intended to limit auditor independence, but to ensure that governance bodies are informed early enough to exercise proper oversight.

(c) **Continuous Engagement**

- NFRA recommends at least two substantive interactions annually – one before audit commencement and another well before financial statement approval.
- additional meetings must be proactively requested by auditors in writing if significant difficulties are encountered, or suspected fraud, or serious internal control weaknesses are observed or difference of views/ opinions with those of the management in respect of significant accounting estimates.

(d) **Rigorous Documentation and Form**

- All significant communication (including oral) must be documented with the date, time, and participants, and included in the Audit Work Papers and Board/audit committee minutes.

(e) **Mandatory Agenda Items**

Interactions between Auditors and TCWG must include:

- Audit Planning: Strategy, quantification of materiality, and the assessment of Risk of Material Misstatement (ROMM).
- Internal Controls: Significant or material weaknesses in internal financial controls and adequacy of operating effectiveness of controls.
- Judgmental Areas: Management estimates (e.g., valuation, impairment testing, going concern assessment, expected credit loss allowance) judgements, assumption and forecasts.
- Accounting: areas or concerns requiring speciation attention by auditors and its view on appropriateness of the policies applied by the management.
- Independence: Compliance with ethical requirements and safeguards against threats to independence.

Conclusion

The Circular does not alter the statutory framework governing audits and financial reporting but significantly strengthens the expected standard of accountability for boards, audit committees, and auditors. It emphasises on planning, documentation, and clarifies that effective communication is the cornerstone of audit quality.

Adoption of structured, documented framework for auditor-governance communication are recommended. Clearly defining governance forums, escalation protocols, documentation standards and frequency of engagement will help meet regulatory expectations and demonstrate active oversight.

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[i] Rule 3 covers: (i) Companies with paid-up capital of not less than INR 500 cr; (ii) those annual turnover of not less than INR 1000 cr; (iii) those having outstanding loans, debentures and deposits of not less than INR 500 cr as on 31st March; (iv) Insurance Companies, Banking Companies, those engaged in generating or supply of electricity and those governed by special act; (v) those body corporates incorporated outside India which are a subsidiary or associate of any company or body corporate incorporated in India and whose income or net worth exceed 205 of the consolidated income or consolidated net worth, as the case may be.

[ii] NFRA Auditor-Audit Committee Interaction Series 1 – Accounting Estimates ECL (https://nfra.gov.in/nfra-auditor-audit-committee-interaction-series-1-accounting-estimates-ecl/)
NFRA Auditor-Audit Committee Interaction Series 2- Audit Strategy and Planning (https://nfra.gov.in/nfra-auditor-audit-committee-interaction-series-2-audit-strategy-and-planning-28-3-25/)
NFRA Auditor-Audit Committee Interaction Series 3 – Related Parties (https://nfra.gov.in/nfra-auditor-audit-committee-interaction-series-3-related-parties/)
NFRA Auditor-Audit Committee Interaction Series 4 – Audit of Accounting Estimates and Judgements Impairment of Non-financial Assets- Ind AS 36, SA 540 (https://nfra.gov.in/nfra-auditor-audit-committee-interaction-series-4-audit-of-accounting-estimates-and-judgements-impairment-of-non-financial-assets-ind-as-36-sa-540/)

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