

NFRA Circular on (SA) 260 (Revised) Standard on Auditing w.r.t Communication with Those Charged with Governance (TCWG)

Company Secretary/Compliance Officer of the Company to bring this circular to the notice of the Board of Directors and the Audit Committee via Agenda of discussion at Board Meeting & Audit Committee Meeting.

Circular issued by **National Financial Reporting Authority (NFRA)** dated January 7, 2026, aims to strengthen effective communication between **Statutory Auditors** and **Those Charged with Governance (TCWG), including Audit Committees**. It reiterates legal obligations under the Companies Act 2013 and Standards on Auditing (SAs) to **ensure audit quality and protect public interest**.

1. Statutory Obligations under Companies Act,2013:-

The circular outlines specific responsibilities for different pillars of Corporate Governance Participant:

- **Board of Directors (Section 134):** Must approve financial statements and attach a "Directors' Responsibility Statement" covering accounting standards, internal controls, and the going concern basis.
- **Independent Directors (Schedule IV):** Obligated to satisfy themselves on the integrity of financial information and ensure robust risk management systems.
- **Audit Committees (Section 177):** Responsible for monitoring auditor independence, performance, and the effectiveness of the audit process, as well as reviewing major accounting entries and related party transactions.
- **Statutory Auditors (Section 143):** Mandated to report whether financial statements give a true and fair view and must strictly comply with prescribed auditing standards.

2. Standards on Auditing (SAs) Requirements:-

The NFRA highlights two primary standards governing communication:

- **SA 260 (Revised):** Defines TCWG as those overseeing the company's strategic direction and accountability. It mandates a regular, two-way communication process throughout the audit.
- **SA 265:** Requires auditors to communicate significant deficiencies in internal controls to both TCWG and Management in writing and in a timely manner.

3. Common Non-Compliances Identified by NFRA:

Based on NFRA investigations, several recurring failures and professional misconduct by some Auditors were noted:

- **Incorrect Identification:** Misidentifying Management Executives/ Executive Director or only the Audit Committee as TCWG, rather than the full Board when necessary.
- **Poor Documentation:** Relying solely on audit engagement letters or brief presentations without recording the purpose, objective, or two-way nature of discussions.
- **Failure to Report Risks:** Neglecting to communicate significant matters like materiality, unusual transactions, related party issues, and non-compliance with laws.
- **Inadequate Internal Control Reporting:** Failing to report serious weaknesses or the absence of internal controls to TCWG or the inactivity of Risk Management Committees.

4. NFRA's Recommendations for Effective Communication:-

To address these gaps, the NFRA recommends establishing a robust **Communication Framework**:

| Requirement | Description |
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| Two-Way Nature | It is a collective mandatory obligation of the Board, Management, and Auditors to maintain effective dialogue i.e two-way communication. The Auditor shall determine who constitutes TCWG at the beginning of the Audit. |
| Form of Communication | All significant communications must be in writing , unambiguous, and formally acknowledged (e.g., in minutes or letters). |
| Frequency of meeting | At least two meetings per year between Auditors and TCWG: 1) once before audit commencement (for planned scope and timing of the audit) 2) once well before the approval of financial statements. |
| Board of the Company to make Framework | 1) Objective and Purpose of the Two-way Communication. 2) Identifying specific members of the Board and Audit Engagement Team to facilitate communication. (Nodal persons of the Board may include Independent Directors as well as Non-Independent Directors). 3) TCWG will communicate to the Auditors on the matters that will be relevant to audit. |



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| | <p>4) Policy and Process of updating or escalating the matters to TCWG, about the discussion and communication between Nodal officers of TCWG and Auditors and also the Auditors' interaction with subgroups of TCWG.</p> <p>5) To Set Frequency of meetings between TCWG, and the Auditors and the expected Agenda matters for the meetings.</p> |
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5) Mandatory Agenda Items for Communication between the Auditors and TCWG:-

Auditors must invariably discuss the following with TCWG:

- Audit strategy, planning, and quantification of **materiality**.
- Assessment of **Risk of Material Misstatement (ROMM)** and internal control environments.
- Significant findings, including difficulties in obtaining evidence or potential fraud.
