

# FAQs on NFRA Circular on Communication with Auditors

- Team Corplaw | [corplaw@vinodkothari.com](mailto:corplaw@vinodkothari.com)
- March 31, 2026

On January 7, 2026, the National Financial Reporting Authority (NFRA) issued a [circular on effective communication between statutory auditors and Those Charged With Governance \(TCWG\), including Audit Committees](#) ('Circular'), reiterating the need for structured, transparent, and well-documented two-way communication throughout the audit cycle. The circular stems from NFRA's observations w.r.t gaps in the existing communication between auditors and governance bodies, that were found to be an area of concern, primarily resulting in weak governance oversight.

At its core, the Circular is not introducing a new law; rather, it reinforces the existing framework under the **Companies Act, 2013 (CA, 2013)** and **Standards on Auditing (SoA) (notably SA 260 and SA 265)**, while clearly setting regulatory expectations on how auditors and TCWG should interact. The emphasis is on timely identification of TCWG, periodic and meaningful engagement with the Board/Audit Committee, communication of significant risks and audit findings, proper documentation of discussions, and shared accountability for strengthening governance and financial reporting.

The Circular directs companies and auditors to place the Circular's contents before the Board and Audit Committee and institutionalise communication mechanisms, and at the same time, NFRA has effectively converted what was earlier considered a professional standard requirement into a compliance expectation with direct governance implications.

Having said that, the Circular also raises several practical questions for companies, auditors, and governance professionals. Who exactly falls within its scope? Is it applicable to all companies or only those covered under NFRA jurisdiction? Do subsidiaries, joint ventures, and wholly owned subsidiaries need to independently comply? What happens where accounts are consolidated at the parent level? Should separate TCWG communication frameworks be established at each entity level within a group? What specific actionables are expected from companies, boards, audit committees, and auditors to ensure compliance?

Given the breadth of NFRA's expectations and the potential implications for group structures and governance processes, we have analyzed and collated questions on the various nuances and impact of the NFRA Circular for better understanding in the form of FAQs as listed hereinafter:

<b>I. Applicability</b>	<b>3</b>
1. From where do the requirements under the Circular arise?	3
2. Is the circular applicable to all companies or only to companies under NFRA jurisdiction?	3
3. Does the Circular introduce new requirements or reiterate existing SoA requirements?	3

4. What prompted NFRA to issue this circular?	4
5. Is the Circular applicable to subsidiaries of listed or NFRA-covered companies?	4
6. From when is the Circular applicable, and what should companies do immediately?	5
7. Are wholly owned subsidiaries required to comply separately?	5
8. Are joint ventures and associate companies covered under the Circular?	5
<b>II. Understanding TCWG</b>	<b>6</b>
9. Who qualifies as Those Charged With Governance (TCWG) under the Circular?	6
10. Whether the Board of Directors and Audit Committee both qualify as TCWG?	6
11. In the absence of an Audit Committee, who should be treated as TCWG?	6
12. Who is responsible for identifying TCWG?	7
<b>III. Two-Way Communication</b>	<b>7</b>
13. What is the meaning of two-way communication?	7
14. Why is Two-Way Communication required?	7
15. Are companies and auditors required to establish formal SOPs or communication frameworks?	8
16. Does each entity in a group need to ensure separate TCWG communication?	8
17. If financial statements are consolidated at the parent level, is separate compliance required at subsidiary level?	9
18. Can communication with group-level TCWG be treated as sufficient compliance for subsidiaries?	9
19. How should TCWG communication be handled in case of group audits involving multiple entities?	9
20. What are the key responsibilities of statutory auditors under the circular?	9
21. What actionables are expected from companies to comply with the circular?	9
22. How frequently should auditors meet with TCWG?	10
23. What documentation and records should be maintained for TCWG communication?	10
24. What are the consequences of non-compliance with the circular?	11
25. Under what circumstances can an auditor restrict or withhold communication of certain matters with TCWG?	11
26. Who is a nodal officer? Whether any senior management personnel can be appointed as nodal officer?	12

## I. Applicability

### 1. From where do the requirements under the Circular arise?

The Circular reiterates responsibility on the Board of Directors as a whole, the Independent Directors, the Audit Committee and the Statutory Auditors of a company.

- Section 134(5) of CA, 2013 prescribes pointed affirmation to be made by the Board called under the Directors' Responsibility Statement, pertaining primarily to proper maintenance of accounts
- Schedule IV of CA, 2013 prescribes the Code of Conduct for IDs requiring satisfaction of integrity of accounts, and addressing concerns w.r.t running of a company
- Section 177(4) of CA, 2013 requires the Audit Committee to review auditor's independence and performance, effectiveness of audit, including discussion of scope of audit and areas of concern post-audit
- Section 143 of CA, 2013 requires the statutory auditor to make a report on the financial statements, ensuring compliance with accounting and auditing standards.

### 2. Is the circular applicable to all companies or only to companies under NFRA jurisdiction?

Rule 3(1) of the NFRA Rules, 2018 empowers NFRA to exercise its powers u/s 132(2)/(4) on the auditors in respect of the following class of companies and bodies corporate:

- every listed entity
- unlisted public company having either of the following as on immediately preceding FY:
  - PUSC  $\geq$  500 crores; or
  - Turnover  $\geq$  1,000 crores; or
  - Aggregate o/s borrowings/debentures/deposits  $\geq$  500 crores
- companies in the banking/insurance/electricity/governed by any Special Act
- any company/body corporate, upon reference being made in public interest
- subsidiary/associate foreign company of a company covered by aforesaid clauses, provided its income/net-worth exceeds 20% of consolidated income/net-worth

Sub-rule (4) prescribes a sunset clause of 3 years i.e. a company falling under this rule will continue to be governed by NFRA, for 3 years post ceasing to be applicable with any of the aforesaid clauses.

### 3. Does the Circular introduce new requirements or reiterate existing SoA requirements?

The Circular does not introduce any new requirements, but reiterates and strengthens compliance with existing provisions of the CA, 2013 and SoA.

The Circular is issued based on NFRA's observations of non-compliance in communication between Auditors and TCWG. It refers to existing SoA primarily:

- SA 260 (Revised)- requiring structured, two way communication with TCWG
- SA 265- requiring communication of deficiencies in internal control.

Section 143(9) of the CA,2013 mandates auditors to comply with auditing standards, which is reiterated in the Circular

The Circular highlights:

- Improper identification of TCWG
- Inadequate documentation of communication
- Failure to communicate significant audit matters

#### **4. What prompted NFRA to issue this circular?**

The Circular has been issued based on observations issued by NFRA during the discharge of its statutory functions, wherein it noticed deficiencies in communications between Statutory Auditors and TCWG

- NFRA observed a need to strengthen communication between:
  - Statutory Auditors
  - Those Charged with Governance(Including Audit Committee)
- Findings from investigations into professional misconduct, which revealed several non-compliances, including:
  - Incorrect identification of TCWG
  - Inadequate and incomplete documentation of communication
  - Failure to communicate significant audit matters(e.g., risks, materiality,unusual transactions)
  - Treating management discussions as communication with TCWG
  - Non communication of internal control deficiencies and regulatory non-compliances
- These deficiencies indicated ineffective implementation of SA 260(Revised) and SA 265
- NFRA emphasised that such lapses:
  - Affect audit quality and financial reporting governance
  - May erode investor confidence.

#### **5. Is the Circular applicable to subsidiaries of listed or NFRA-covered companies?**

Rule 3(1) of the NFRA Rules, 2018 provides that NFRA jurisdiction extends to subsidiaries/associates of companies already covered, including foreign subsidiaries/associates.

- A subsidiary/associate (including foreign) of a covered company will fall under NFRA where:
  - Income or net worth exceeds 20% of the consolidated income or net worth of the parent company covered under the other clauses of applicability of the said Rules.
- Accordingly:
  - Not all subsidiaries are automatically covered
  - Only those meeting the prescribed threshold are covered
- Further,Rule 3(4) provides a sunset clause of 3 years,i.e.,
  - Once covered ,such subsidiary/associate continues under NFRA jurisdiction for 3 years even after it ceases to meet the criteria.

**6. From when is the Circular applicable, and what should companies do immediately?**

The Circular is applicable from the date of its issue i.e., 07.01.2026, as no separate effective date is prescribed. The Circular is clarificatory in nature and reiterates existing requirements under the CA, 2013 and SOA as discussed above.

- Accordingly, companies, TCWG and auditors are required to ensure immediate alignment with existing provisions, including:
- Establishing a robust two-way communication process between Auditors and TCWG
- Determination and documentation of TCWG at the beginning of the audit (as required under SA 260)
- Putting in place a documented communication framework, covering:
  - Scope and timing of audit
  - Expected flow of information between Auditor and TCWG
- Ensuring communication is properly documented:
  - Written communication or documentation of oral discussions
  - Inclusion in audit working papers and Board/Audit Committee minutes
- Ensuring timely and periodic interactions, including:
  - Meetings before commencement of audit
  - Meetings prior to approval of financial statements

**7. Are wholly owned subsidiaries required to comply separately?**

Wholly owned subsidiaries are not required to comply separately merely by virtue of being wholly owned, but only if they fall within NFRA jurisdiction under Rule 3 of NFRA Rules, 2018.

- As per Rule3(1):
  - Coverage extends to subsidiaries/associates of covered companies only where:
    - Income or net worth  $\geq$  20% of consolidated income/net worth
- Accordingly:
  - A wholly owned subsidiary is not automatically covered
  - Applicability depends on meeting the prescribed threshold criteria
- Where such wholly owned subsidiary is covered:
  - It shall be independently required to comply with the Circular
- Further, Rule 3(4) provides a sunset clause of 3 years, even after it ceases to meet the criteria

**8. Are joint ventures and associate companies covered under the Circular?**

Joint ventures and associate companies are not automatically covered, but are covered only if they fall within NFRA jurisdiction under Rule 3 of NFRA Rules, 2018. Refer Q5 above.

## II. Understanding TCWG

### 9. Who qualifies as Those Charged With Governance (TCWG) under the Circular?

Those Charged With Governance (TCWG) is a collective body of individuals responsible for overseeing the strategic direction and accountability of the company, as defined under SA 260 (Revised).

- As per SA 260(Revised):
  - TCWG refers to those responsible for:
    - Oversight of strategic direction of the company
    - Obligations relating to accountability and financial reporting
- The Circular clarifies that:
  - Board of Directors shall qualify as TCWG
- TCWGs may also include:
  - A sub-group of the Board, such as:
    - Audit Committee
    - Certain other board members
- Where a sub-group is identified as TCWG:
  - Auditor shall determine:
    - Whether such sub-group has authority to act
    - Whether there is a need to communicate and therefore escalate a particular matter to the full Board

### 10. Whether the Board of Directors and Audit Committee both qualify as TCWG?

It is important to understand the context in which the identification of TCWG is relevant. The same is done for ensuring proper oversight and accountability over financial and internal controls. Accordingly, where the Board of Directors have been identified as TCWG, there is no need to additionally designate the members of the Audit Committee again for the same purpose. Having said that, if on the other hand the Audit Committee has been identified as TCWG, there can be several pre identified matters which can still be escalated to the Board as a whole.

### 11. In the absence of an Audit Committee, who should be treated as TCWG?

In the absence of an Audit Committee, the Board of Directors shall be treated as TCWG.

- As per SA 260(Revised):
  - TCWG refers to those responsible for:
    - Oversight of strategic direction
    - Accountability of the entity
- The Circular clarifies that:
  - Board of Directors is overall responsible for governance of the company
  - Therefore, it qualifies as TCWG
- TCWG may be a sub-group of the Board(e.g., Audit committee)
  - However where no such group exists:
    - Entire Board acts as TCWG

## 12. Who is responsible for identifying TCWG?

[Para 11 of the SoA 260 \(Revised\)](#) requires the Statutory Auditor to determine the persons with whom it shall communicate, however, it is important to note that the first level of identification will have to be done by the company itself. It would first be the company who would know which of its officials fit into which role and as such the determination made by the company needs to be aligned with the statutory auditors. Accordingly:

- Identification of TCWG will be done by the company
- Such identification must be mutually aligned with by the statutory auditors before the beginning of audit.

## III. Two-Way Communication

### 13. What is the meaning of two-way communication?

Two-way communication refers to a mutual exchange of information between the Auditor and TCWG, where both parties actively communicate and respond to each other.

- As per SA 260 (Revised):
  - Communication is not one-sided, but requires:
    - Auditor to communicate audit-related matters
    - TCWG to provide relevant inputs and feedback
- The Circular reiterates that:
  - Communication must be two-way, regular and documented
- Communication from Auditor to TCWG to include:
  - Audit scope and timing
  - Materiality and key risks
  - Significant findings and deficiencies
- Communication from TCWG to Auditor to include:
  - Strategic decisions affecting audit
  - Suspected or identified fraud
  - Views on management integrity and internal controls
- It also requires:
  - Active participation and discussion by both parties
  - Recording of views, responses and actions

### 14. Why is Two-Way Communication required?

Two-Way Communication helps in several aspects including the following:

- Helps in developing a constructive working in the context of audit;
- Obtaining information including the appropriate sources of audit evidence and information about specific transactions;
- Fulfil responsibility of TCWG to oversee the financial reporting process thereby reducing the risks of material misstatement of the financial statements.

### **15. Are companies and auditors required to establish formal SOPs or communication frameworks?**

The Circular does not mandate establishment of formal SOPs, but recommends creation of a documented communication framework to ensure effective two-way communication.

As per the Circular:

- It is a joint/collective obligation of:
  - Board of Directors
  - Audit Committee / TCWG
  - Management
  - Statutory Auditors
- To establish a robust and effective two-way communication process

The Circular specifically recommends that:

- The Board should prepare and document an overall communication framework between TCWG and Auditors

The framework may include:

- Objective and purpose of communication
- Identification of nodal persons (Board & Audit Engagement Team)
- Expectations from TCWG and Auditors
- Policy for escalation and updating of matters
- Process for documentation of discussions and actions
- Frequency of meetings and agenda items

### **16. Does each entity in a group need to ensure separate TCWG communication?**

Each entity is required to ensure separate communication between its Auditor and its own TCWG, as identification and communication with TCWG is entity-specific under SA 260 (Revised).

- As per 260(Revised)
  - The Auditor shall determine TCWG at the beginning of the audit for each entity
  - The same identification will be by way of mutually aligning on the identified TCWG
  - TCWG refers to those responsible for oversight of that entity's financial reporting
- The Circular reiterates that:
  - Correct identification of TCWG is necessary
  - Communication must be regular, two way and properly documented
- Accordingly:
  - Each entity which is covered under the NFRA Rules discussed above in Q2 needs to have its own Board/Audit Committee as TCWG.
  - Therefore, separate communication is required for each entity

- Communication at group level:
  - Does not substitute entity-level communication.

**17.If financial statements are consolidated at the parent level, is separate compliance required at subsidiary level?**

Separate compliance is required at the subsidiary level, even where financial statements are consolidated at the parent level. Accordingly, consolidation at parent level does not dilute entity-level responsibilities. Each subsidiary which is covered under the applicability needs to have its own TCWG( Board/Audit Committee) and audit obligations.

**18. Can communication with group-level TCWG be treated as sufficient compliance for subsidiaries?**

As discussed above, every entity covered under the NFRA Rules, will require compliance with the requirements of the Circular at its own level.

**19.How should TCWG communication be handled in case of group audits involving multiple entities?**

Where communication relates to consolidated accounts, the same should ideally be addressed to the TCWG of the entity which is consolidating the accounts (parent entity) and not the TCWG of the respective downstream entities.

**20.What are the key responsibilities of statutory auditors under the circular?**

The Circular reiterates that Statutory Auditors are required to ensure effective, timely and documented communication with TCWG in accordance with the CA, 2013 and relevant SoA.

The circular reiterates that auditor shall:

- Ensures regular, timely and two-way communication with TCWG
- Document all communications
- Not treat management discussions as TCWG communication
- Communicate significant matters such as:
  - Unusual transactions
  - Non-compliance with laws and regulations
  - Related party transaction issues

**21.What actionables are expected from companies to comply with the circular?**

The Circular expects companies to strengthen and formalise the Two-Way communication process between TCWG and Statutory Auditors in line with existing provisions.

- The Circular reiterates that it is a joint obligation of:
  - Board of Directors
  - Audit Committee/ TCWG
  - Management
  - Statutory Auditors
  - To establish a robust two-way communication process
- Companies are expected to:
  - Establish and document a communication framework,including:

- Objective and purpose of communication
- Identification and purpose of communication
- Expected flow of information between TCWG and Auditors
- Ensure proper identification of TCWG and clarity on roles
- Facilitate regular and timely meetings with auditors
  - At least twice a year (pre-audit and before approval of financial statements)
- Ensure all communications are properly documented:
  - Written communication or documentation of oral discussions
  - Recording in Board/Audit Committee minutes
- Ensure discussion of key audit matters, including:
  - Audit scope, timing and materiality
  - Significant risks and unusual transactions
  - Internal control deficiencies
- Provide relevant information to auditors, such as:
  - Strategic decisions
  - Suspected fraud
  - Concerns regarding management integrity

## 22. How frequently should auditors meet with TCWG?

The Circular recommends that Auditors and TCWG should meet at least twice in a financial year, along with additional interactions as required.

- As per the Circular:
  - Auditors and TCWG should meet:
    - Once before commencement of the audit
    - Once well before approval of financial statements
- These meetings should be scheduled in a manner that:
  - Facilitates effective deliberations at Board meetings
- Additionally:
  - More frequent meetings may be required in certain situations, such as:
    - Difficulty in obtaining audit evidence
    - Suspected fraud
    - Significant internal control weaknesses
    - Differences of opinion with management
- In such cases:
  - Auditor shall request meeting in writing
  - TCWG shall:
    - Accept the request, or
    - Provide reasons in writing for refusal

## 23. What documentation and records should be maintained for TCWG communication?

The Circular requires that all communications between Auditors and TCWG be properly documented and maintained as part of audit and governance records.

- As per the circular:

- All significant communications shall be in writing and formally acknowledged by both Auditor and TCWG
- The documentation shall include:
  - **Written communication:**
    - Communication should be clear, specific and unambiguous
    - Mere presentations or emails implying acceptance are not sufficient
  - Oral communication:
    - Must be documented in writing, including:
      - Date and time
      - Persons involved
      - Details of discussion
  - Inclusion in records:
    - Communication shall form part of
      - Audit working papers
      - Agenda and minutes of Board/Audit Committee meetings
  - Content of communication:
    - Matters communicated by Auditor
    - Views/suggestions of TCWG
    - Actions or decisions taken

#### **24. What are the consequences of non-compliance with the circular?**

Non-compliance may lead to action by NFRA under Section 132 of the CA, 2013, as it may amount to professional misconduct by auditors.

- As per Section 132(4) of CA, 2013
  - NFRA is empowered to:
    - Investigate matters of professional or other misconduct
- Upon establishing misconduct, NFRA may impose:
  - Monetary penalty
    - Individual auditor: Minimum ₹1 Lakh and Maximum 5 times of the fees received
    - Firm: Minimum ₹5lakh and Maximum 10 times the audit fees
  - Debarment:
    - Auditor or audit firm may be debarred from practice
    - For a period of a minimum of 6 months up to 10 years
- The Circular emphasises that:
  - Non-compliance with SA 260 and SA 265 is not merely procedural
  - It can lead to serious governance and audit failures

#### **25. Under what circumstances can an auditor restrict or withhold communication of certain matters with TCWG?**

Law or regulation may restrict the auditor's communication of certain matters with those charged with governance. For example, laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act. In some circumstances, potential conflicts

between the auditor's obligations of confidentiality and obligations to communicate may be complex. In such cases, the auditor may consider obtaining legal advice.

**26. Who is a nodal officer? Whether any senior management personnel can be appointed as nodal officer?**

The appointment of nodal officer for communication is a direct recommendation from the NFRA circular which is aimed at strengthening the bridge between auditors and TCWG. To maintain two-way communication NFRA has recommended identifying nodal officers for communication. As per the NFRA Circular, nodal officers for this purpose may include IDs as well as non-IDs. Accordingly, nodal officers for the purpose of the NFRA Circular can only be board members, however, in our view, members from finance team may assist the nodal officer for coordination purposes with the team of Statutory Auditor for the purpose of enabling two-way communication.

*Vinod Kothari & Company*