



## Bridging the gap: NFRA’s circular for enhancing auditor-TCWG communication

6 February 2026

### First Notes on

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- All**
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- All**
- Audit committee
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### Effective

- Immediately**
- Within the next three months
- Post three months but within six months
- Post six months
- Forthcoming requirement

## Background

On 7 January 2026, the National Financial Reporting Authority (NFRA) published a circular in relation to *Effective Communication between Statutory Auditors and Those Charged With Governance (TCWG), including Audit Committees* (the Circular). The Circular emphasises the importance of transparent, timely, and well-structured communication throughout the audit cycle to strengthen governance oversight and enhance audit quality.

NFRA has also highlighted certain recurring gaps in the existing practices of communication between statutory auditors and TCWG including Audit Committees. Common issues noted by NFRA include incorrect evaluation of company’s governance structure resulting in incorrect identification of TCWG, gaps in design and documentation of communication processes, lack of timely communication, and failure to discuss significant audit findings related to transactions outside the normal course of business, deficiencies in internal controls and risks associated with related party transactions.

To strengthen these practices, the Circular reiterates and clarifies the statutory and professional obligations under the Companies Act, 2013 (the 2013 Act), relevant Rules, and Standards on Auditing (SAs), particularly SA 260 (Revised), *Communication with Those Charged with Governance* and SA 265, *Communicating Deficiencies in Internal Control to Those Charged With Governance and Management*. These Standards require auditors to identify TCWG at the outset, maintain continuous two-way communication, and provide timely written reporting of significant deficiencies in internal controls.

This issue of First Notes summaries the NFRA’s expectations and responsibilities for TCWG and auditors. It also summarises the recommendations of NFRA aimed at promoting a structured, transparent, documented and timely exchanges between auditors and governance bodies to elevate audit quality and enhance the overall governance framework within companies.

## Responsibilities of TCWG

The Circular reiterates that the audit of financial statements does not diminish TCWG’s responsibilities. The objectives of effective communication with TCWG enable the auditor to obtain relevant information and convey significant audit observations in a timely manner. These requirements enhance governance by providing clear visibility into audit planning, key risks, and auditor independence, thereby supporting audit quality, safeguarding public interest, and maintaining investor confidence in public interest entities. The obligations on various stakeholders in respect of accounts and audits of companies as mandated under the 2013 Act and relevant rules, outlined in the Circular, are included in Annexure I of this First Notes.

# Requirements for enhancing two-way communication

In light of the findings identified by NFRA - both through the findings noted above and through its broader monitoring and enforcement activities, NFRA's Circular sets out a series of expectations for statutory auditors, management, TCWG, and Audit Committees. These key recommendations, summarised in the infographic below:



## 1. Appropriate determination and documentation of TCWG

At the outset of the audit, auditors are required to determine and document who constitutes TCWG. In case where a sub-group of the Board of Directors has been identified as TCWG (which could be, for example, the Audit Committee plus some members of the Board), auditors must assess whether that sub-group has the appropriate authority to act on the issues communicated. They must also ensure that any information shared with such sub-groups is effectively relayed to the full Board. Where circumstances warrant, the auditors should communicate directly with the Board.

## 2. Establishing effective two-way communication

Effective compliance with the Standards on Auditing requires a structured, ongoing exchange of information between auditors and TCWG. This responsibility is shared collectively by the Board of Directors, Audit Committee, management, and the auditors. To meet these requirements effectively, companies must implement well-defined policies and processes that facilitate timely, transparent, and meaningful communication.

## 3. Agenda and matters to be communicated with TCWG

Act prescribe detailed requirements for auditor-TCWG communications, the Circular emphasises that certain matters should invariably form part of the agenda for interactions between Auditors and TCWG. These include discussion on:

- compliance requirements under the 2013 Act and applicable SAs
- audit planning and risk assessment
- progress updates and significant findings such as major difficulties encountered, significant transactions, accounting policy issues, material weaknesses in internal controls, discussions on critical estimates
- confirmation of the auditor's compliance with independence and the Code of Ethics

# Requirements for enhancing two-way communication

## 4. Establish a robust two-way communication framework

SA 260 requires that communication between the auditor and TCWG be documented, two-way, and continuous, with even oral discussions captured in the audit records. It is recommended that Auditor and TCWG agree, at the outset of audit, on the scope, timing and expectations of such communications.

The Circular further urges Boards of Directors to establish a comprehensive communication framework that strengthens the effectiveness and consistency of exchanges between auditors and TCWG. This framework should clearly set out:

- the overarching purpose and governance structure
- designation of nodal persons from the Company and Audit Engagement Team for audit-related communications
- defined expectations of two-way communication from TCWG, covering strategic decisions, fraud concerns, management integrity, regulatory interactions, internal controls, and governance matters
- brief outline of key SAs such as SA 260 and SA 265, requiring specific communications with TCWG
- escalation and update mechanisms for communications involving nodal officers and TCWG sub-groups
- well-laid-out policies outlining the procedures for auditors to update or escalate matters to TCWG, including communication protocols with TCWG nodal officers and subgroups, as well as the documentation and communication of TCWG's views, instructions, and actions on significant audit matters such as audit scope, timing, risk assessments, and evaluation of internal controls
- meeting cadence
- mandatory formal documentation and acknowledgment of all significant communications through minutes or official correspondence

## 5. Appropriate form of communication between auditors and TCWG

All communications should be in writing, and any oral discussions must be documented in detail and included in audit work papers as well as Board or Audit Committee agendas and minutes. The Circular reiterates that communications must be issue-specific and generic bullet-point presentations or emails implying deemed acceptance due to lack of response do not meet the objectives of the SAs. The communication should also document the views and suggestions of both the Auditor and TCWG, and the discussions should be of sufficient duration to enable meaningful deliberation and outcomes.

## 6. Timely communication

Regular and timely two-way communication between the auditors and TCWG, throughout the audit period is critical to meeting the objectives of SA 260 and SA 265. Such communication enables early identification of issues and facilitates timely corrective actions, rather than post-facto resolution. The Circular recommends that the auditors and TCWG should meet at least twice annually - one at the planning stage before commencement of the audit and another well before the approval of financial statements - aligned, where possible, with quarterly Board meetings to facilitate effective deliberation. Additionally, issue-driven ad hoc meetings should be requested formally by auditors, and TCWG should respond by either accepting or declining the request with written reasons.



## Our comments

The Circular does not introduce any new/ additional requirements beyond those already prescribed in the auditing standards; rather, it provides additional clarity with respect to the regulators' expectations and encourages more consistent, high-quality application. Drawing on insights from its reviews and inspections, NFRA has highlighted opportunities for companies and auditors to better align their practices with the spirit and expectations of the Standards on Auditing.

Through this Circular, NFRA has reiterated that effective two-way communication between auditors and TCWG is not optional, it is a statutory and professional obligation. Strengthening these interactions supports a resilient governance framework and enhances investor confidence. The Circular therefore outlines several essential considerations to help entities adopt a more structured and proactive communication approach. Some of the key aspects of this Circular are as follows:

- **Role of auditors in identification of TCWG**

The Circular emphasises that the statutory auditors are primarily responsible to identify TCWG at the outset. While the question of who qualifies as TCWG has been debated by regulators, the Circular provides clearer direction: auditors must engage with those who genuinely hold oversight responsibilities at the appropriate governance level, rather than defaulting to executive committees or management-level groups. The Circular also cautions against the assumption that the Audit Committee is always TCWG. Auditors are expected to exercise professional judgement throughout the engagement, demonstrate an understanding of the company's governance structure, and justify why a particular forum is appropriate for TCWG communication in the given context.

To support this, the Circular emphasises the need for written acknowledgement of TCWG identification and all subsequent communications. A practical first step is for auditors and the company, including the Board, to align early on who will act as TCWG, first through discussion and then through formal documentation. Establishing a brief communication charter outlining expectations, communication formats, and the scope of matters to be discussed can help avoid ambiguity and ensure consistency. Another key consideration is engaging early with essential governance stakeholders—particularly the company secretary, whose role in organising meetings, circulating materials, and maintaining minutes could be vital to ensuring smooth, well-coordinated, and well-documented communication throughout the audit.

- **Focus on depth and detail of communication**

The Circular seeks to strengthen both the transparency of, and the evidentiary support for, interactions between auditors and TCWG. A key emphasis is on the timing and depth of these interactions. A recurring theme emerging from the Circular is that substantial audit related matters are discussed in too little time, often very close to the finalisation of the audit. This limits the scope for meaningful dialogue, informed challenge or course correction. By encouraging 'between meetings' in addition to the regularly scheduled meetings during the course of audit to have more in-dept discussions on some of the issues that are developing, the Circular signals a shift from end-of-audit reporting to a more continuous communication process - one that enables TCWG to provide relevant inputs to auditors at a point when such input is likely to be most effective. For instance, having auditors participate in the entire Audit Committee meeting - rather than joining only for their presentation- can further enhance context, transparency and alignment.

- **Strengthening documentation of oversight through detailed and substantive minutes**

The Circular underscores the need for richer meeting documentation, including detailed minutes that capture the questions raised, the challenge offered, and the responses provided. The intention is to evidence that governance discussions are active, and meaningfully engaged, moving away from brief or perfunctory summaries that do not reflect the substance of deliberations. Auditors should also closely

## Our comments

- **Strengthening documentation of oversight through detailed and substantive minutes (Contd.)**

collaborate with management, particularly the secretarial team, to ensure that minutes are sufficiently detailed, accurate, and properly acknowledged.

As part of implementation, it may be beneficial for auditors to provide pre-read materials when more complex or detailed or detailed topics are to be discussed. Supplying information in advance allows TCWG members to come prepared, understand the context, and participate in more focused and constructive conversations. This practice is likely to supports deeper two-way dialogue, reduces the pressure to rush through complex matters, and enhances the overall quality of auditor-TCWG interactions.

- **Formalise and strengthen the role of the Board in interactions with auditors**

The Circular calls on Boards to institutionalise a formal, Board-approved framework that ensures structured, timely, and well-documented two-way communication between statutory auditors and TCWG. Such a framework would give Boards and Audit Committees early and ongoing visibility into audit planning, key risks, complex transactions, internal control weaknesses, regulatory non-compliance, and matters affecting auditor independence—enable proactive oversight and timely intervention. By clearly defining roles, responsibilities, escalation matrix, and communication protocols and standardising the form, frequency, and documentation of interactions, the framework will ensure that auditor-TCWG engagement is transparent, consistent, and not driven by end-stage discussions. It supports informed challenge and decision-making by TCWG, reduce the risk of critical issues being delayed or diluted, and helps institutionalise robust compliance mechanisms around laws, regulations, related-party transactions, and internal controls. From the auditor’s standpoint, the framework would provide a clear pathway for escalating sensitive issues and strengthen audit quality and documentation and help ensure compliance with regulatory expectations.

- **Access to Board of Directors**

The Circular emphasises the establishment of a structured communication framework with TCWG which would also enable the auditors to have direct and timely access to the Board of Directors. Such a framework would facilitate the auditors’ comprehensive understanding of the company’s governance environment, risk oversight mechanisms, and significant judgments.

It would also promote the effective flow of relevant information, explanations, and clarifications necessary for the auditors to appropriately plan and perform the audit, address significant risks, and exercise professional judgement, while ensuring that matters of audit significance are promptly escalated to the appropriate level of oversight.



## Bottomline

The Circular marks a move toward a more engaged and forward-looking audit environment—one where communication between auditors and TCWG is deliberate, ongoing, and embedded into governance routines rather than confined to procedural checkpoints. Its focus on clarity of roles, structured dialogue, and well-maintained documentation aims to create stronger alignment between auditors and oversight bodies.

By setting expectations for clearer accountability and more transparent interactions, for both Board of Directors and auditors, the Circular encourages a governance culture in which issues are surfaced early, considered thoughtfully, and addressed with greater rigour. The process is inherently iterative and depends on active collaboration from all stakeholders specially auditors, TCWG, management, and the secretarial team - each of whom would play a critical role in ensuring that communication is open, proactive, and constructive.

This is not expected to be a one-time compliance exercise but a collective journey that companies should begin immediately, recognising that sustained engagement and shared responsibility significantly reduce the likelihood of unforeseen issues arising late in the audit process. When applied consistently, these principles are well-positioned to raise audit quality, reinforce the robustness of oversight functions, and strengthen trust in financial reporting across companies.

# Annexure I:

## Key obligations under the 2013 Act in respect of accounts and audit of companies

The Circular outlines various obligations on the Board of Directors (BOD or Board), Independent Directors (IDs), Audit Committees and statutory auditors of companies in respect of accounts and audits of companies as mandated under the Act and relevant rules. A summary of the key stakeholders and some of their responsibilities in relation to effective two-way communication is presented below:

### 1

#### Board of Directors [Section 134 of the Act]

- Responsible for approval of financial statements
- Required to attach Board's Report containing the Directors' Responsibility Statement.
- Statement is required to disclose aspects stated under the relevant Section of the Act:
  - adherence to applicable accounting standards
  - selection and application of accounting policies and making of judgements/estimates on reasonable and prudent basis
  - maintenance of adequate records for safeguarding the assets of the company and preventing and detecting fraud and other irregularities
  - preparation of accounts on a going concern basis
  - implementation of adequate internal financial controls and ensuring their operating effectiveness and
  - implementation of proper systems to ensure compliance with all applicable laws.

### 2

#### Independent Directors [Schedule IV (Clause II, III) of the Act]

- Required to ensure integrity of financial information
- Required to ensure robustness of financial controls and risk management systems
- Key duties include:
  - Regular skill upgradation and company familiarisation.
  - Seeking clarification or additional information where necessary.
  - Staying informed about the company and its external environment.
  - Ensuring adequate deliberation on related party transactions.
  - Reporting unethical behaviour, fraud, or code violations.
  - Ensuring unresolved concerns are recorded in minutes.

### 3

#### Audit Committee [Section 177 of the Act]

- Plays a critical oversight role in financial reporting and audit.
- Key responsibilities include:
  - Reviewing and monitoring auditor independence, performance and audit effectiveness.
  - Oversight of related party transactions, inter-corporate loans, and investments.
  - Reviewing asset valuation and major accounting estimates.
  - Evaluating internal financial controls and risk management systems.
  - Holding discussions with auditors before and after the audit to address scope and concerns.

### 4

#### Auditors [Section 143 of the Act, SA 260 (Revised), SA 265]

- Required to report to shareholders on whether the financial statements:
  - Comply with the Act, accounting standards, and auditing standards.
  - Present a true and fair view of the company's financial position.
  - Statutorily required to comply with applicable auditing standards while conducting the audit
- Establish and document two-way communication with TCWG; communicate audit scope, risks, independence, findings.
- Communicate deficiencies in internal controls in writing and in a timely manner to TCWG and management.

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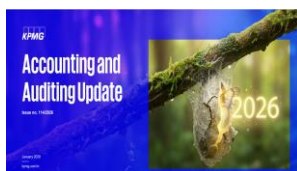
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### Issue no. 114 – January 2026

The topics covered in this issue are:

- GHG emission targets : navigating a new phase of emission accounting
- Understanding financial instrument classification and certain considerations ahead of an IPO
- Regulatory updates

To access the publication, please click [here](#)



### Sabka Bima Sabki Raksha 5 January 2026

The Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Bill, 2025 (the Bill) was introduced in the Lok Sabha on 16 December 2025. The said Bill received President's assent on 20 December 2025 and accordingly, the Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025 (the Act) was published for general information on 21 December 2025. However, the Act has not yet been brought into force, pending notification by the Central Government in the Official Gazette.

The Act seeks to amend the Insurance Act, 1938 (1938 Act), the Life Insurance Corporation Act, 1956, and the Insurance Regulatory and Development Authority Act, 1999 (IRDA Act). The government's decision to introduce the Act stems from a clear imperative to modernise India's insurance ecosystem. The Act does not repeal the older insurance laws, but radically revamps them through amendments. It marks India's shift to a more open, competitive, and regulation-driven insurance ecosystem, incorporating global best practices while strengthening consumer safeguards.

This issue of the First Notes aims to provide an overview of the Act.

To access the First Notes, please click [here](#)



### KPMG in India – Voices on Reporting Navigating the New Labour Codes

On 22 January 2026, KPMG in India held the Voices on Reporting webinar to discuss the key provisions of the New Labour Codes and the potential implications for financial reporting, compliance, and organisational readiness.

To access the publication, please click [here](#)

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