



NFRA's signal to Audit Committees

Communication is now a cornerstone of governance

Board Leadership Center (India)

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When communication becomes governance

Communication between auditors and Audit Committees (AC) has traditionally been treated as a structured procedural requirement aligned to the annual audit cycle. This has typically involved formal meetings at defined milestones, supported by presentations and standard reporting formats.

Recent guidance issued by the National Financial Reporting Authority (NFRA) indicates that this approach, while compliant with technical standards, may no longer be sufficient to demonstrate effective governance.

This shift is not driven by the introduction of new auditing standards. Rather, it reflects an increased regulatory emphasis on **how governance responsibilities in relation to an audit are discharged and evidenced in practice.**

For ACs, this represents a governance consideration rather than a technical or procedural one.

The central message emerging from the NFRA circular is clear: **audit quality is directly linked to the quality, depth, and timing of engagement between auditors and 'those charged with governance' (TCWG).**



Information flow and governance oversight

Earlier practice focused on:

- Structured update on fixed milestones
- Reliance on final audit outcomes as evidence of oversight
- Summary presentation on key milestones

NFRA's observations highlights that such communication often limits visibility into how judgments were formed. The expectation now is:

Earlier engagement on significant risks and assumptions

Communication during the audit, not only at its conclusion

Inputs provided with regard to significant matters by TCWG

Oversight that is visible before outcomes are finalised

Adequate time spent by TCWG on key matters

Identification of 'Those charged with governance'

Traditionally, communication with the AC was assumed to satisfy governance requirements. NFRA reframes this assumption.

Governance responsibility depends on oversight function, not committee designation. Where audit judgements are influenced by strategy, incentives or enterprise risk, engagements may need to extend beyond the AC. Therefore, auditors are expected to assess whether they are the sole governance interface for audit matters or part of a broader governance structure.

Audit communication as a structured process

NFRA's guidance emphasises that audit communication should be viewed as a **process rather than a series of discrete events**. Specifically, effective governance engagement is expected across three stages:

Planning and risk assessment

Discussion of audit scope, key risks, materiality, and approach

1

Progress and emerging issues

Consideration of significant transactions, control observations, and areas of judgment during the audit

2

Finalisation

Confirmation of outcomes, unresolved matters, and overall conclusions.

3

The second stage 'progress and emerging issues' is often the least formalised in practice. However, this is the stage at which governance input is most likely to influence outcomes, hence, central to effective oversight.



Documentation and evidence of oversight

NFRA's focus on documentation is directed at **quality rather than volume**. Records of interaction between auditors and TCWG should enable an independent reviewer to understand:

01	02	03	04
the matters considered,	the questions raised and inputs provided	the nature of challenge and discussion, and	the basis on which judgments were accepted.

Minutes that only record agenda items and resolutions do not adequately evidence governance oversight, particularly where significant judgments or estimates are involved. As audit communication increasingly relies on presentations and summaries, TCWG should ensure that deliberations and inputs are appropriately captured in formal records.

Auditor independence as a governance responsibility

The circular also reinforces that auditor independence is not solely an auditor assertion but a governance responsibility. TCWG's are expected to evaluate independence:

- in substance and context,
- over time, and
- with reference to relationships, non-audit services, and overall engagement dynamics.

This evaluation should be evident from committee deliberations and documentation, rather than inferred from standard confirmations alone.



Considerations for Audit Committees and Boards

1. Has the auditor explicitly identified and communicated as to who constitutes TCWG for audit purposes?
2. Is the AC, the appropriate and sufficient forum for all audit-related governance matters, or do certain issues require broader board or committee engagement?
3. Are audit judgments being shaped through early dialogue with auditors, or largely endorsed at the point of finalisation?
4. Does the TCWG have structured mid-cycle engagement with auditors on emerging risks, significant transactions, and areas of judgment?
5. Is sufficient time allocated for deliberation on complex audit matters, independent of reporting and statutory deadlines?
6. Do the minutes of interaction between auditors and TCWG evidence challenge, debate, and the basis for judgments, rather than only conclusions and approvals?
7. Are expectations regarding the inputs required from TCWG clearly articulated to auditors?
8. How does TCWG independently assess auditor independence beyond formal declarations and confirmations?
9. Is the auditor engagement and communication framework formally documented and resilient to changes in people, structure, or committee composition?
10. If reviewed by a regulator or external stakeholder, would the audit engagement demonstrate depth of governance oversight or primarily procedural compliance?

KPMG in India contact:

Ritesh Tiwari
Partner
Board Leadership Center
E: riteshtiwari@kpmg.com

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KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011 Phone: +91 22 3989 6000, Fax: +91 22 3983 6000.

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