



On the audit committee agenda 2026

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An Audit Committee (AC) can expect its company's financial reporting, compliance, risk, and internal control environment to be put to the test in 2026 by an array of challenges that have grown and intensified over the past year. From global economic volatility, conflicts, sanctions, supply chain disruptions, inflation, to cyberattacks, preparations global climate and sustainability reporting requirements, and advances in Artificial Intelligence (AI). In this volatile and opaque operating environment, demands by regulators, investors, and other stakeholders for more action and greater disclosure and transparency – will continue to intensify and the range and interconnectedness of risks and macro forces are putting corporate governance to the test. The role of an AC is of paramount importance, considering the need for robust corporate governance.

However, oversight of financial reporting, accounting, disclosure obligations amid ongoing trade and economic uncertainty, and changing regulatory requirements, will remain a top priority for ACs in 2026. ACs need to stress on transparent and well-documented disclosures such as judgements, particularly those which are forward-looking and used within forecasts. High-quality disclosures enable stakeholders to understand management's judgements and the company's response to emerging risks, supporting informed decision-making in a rapidly evolving environment.

Drawing on insights from our interactions with ACs and business leaders, we have highlighted the following six issues to keep in mind as ACs consider and conduct their 2026 agendas.



- I Accounting, auditing and regulatory developments
- II Sustainability reporting
- III Role of AC in tech and data governance
- IV Internal audit and key risks
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I Keeping pace with accounting, auditing and regulatory developments

Corporate reporting in India continues to evolve, with both investors and regulators playing a role in shaping the reporting landscape in the country. In order to keep pace with the evolving regulatory mandates and far-reaching expectations of the stakeholders, it has become imperative for the AC to keep the finger on the pulse of developments in the recent reporting requirements.

• Related Party Transactions (RPTs)

RPTs continue to be a critical area of focus in corporate governance, given their inherent risk of conflicts of interest and potential misuse. Recognising these risks, the Securities and Exchange Board of India (SEBI) has progressively strengthened the regulatory framework governing RPTs under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations). In recent years, and particularly through a series of amendments and circulars effective 1 September 2025, SEBI has significantly recalibrated the RPT regime to enhance transparency, consistency and regulatory oversight, while also introducing proportionality in compliance requirements.

Recent SEBI developments reflect a shift towards a risk-based and scale-sensitive approach. Key changes include the introduction of scale-based thresholds for determining material RPTs, standardisation of information to

be placed before AC and shareholders, and a tiered disclosure framework that aligns the depth of information with the size and nature of transactions. At the same time, SEBI has sought to reduce the compliance burden for smaller transactions and entities, while maintaining robust safeguards for material and high-risk RPTs.

In this evolving regulatory environment, the role of the AC remains central. Effective implementation of the revised RPT framework requires timely, complete and well-structured information, robust justification of transactions, and active oversight to ensure that RPTs are undertaken in the best interests of the listed entity and its stakeholders.

• Labour Codes

The implementation of India's four Labour Codes represents a significant regulatory shift with direct implications for workforce strategy, cost structures and financial reporting. While the codes formally became effective on 21 November 2025, full operationalisation remains a work in progress. Several central and state rules, notifications and digital systems are still evolving, creating a phase of heightened uncertainty and execution risk for organisations.

From an accounting perspective, the new wage definition and revised benefit frameworks have a

direct impact on employee benefit obligations, including provident fund, gratuity, overtime and leave encashment. Although the law is effective, the absence of finalised rules around thresholds, calculation mechanics and reporting formats means companies must recognise accounting impacts while remaining agile to iterative regulatory changes rather than a one-time transition.

Key developments to monitor include the notification of the National Floor Wage, which could trigger remeasurement of wage-linked liabilities across multi-state operations, and the gradual rollout of social security schemes for gig and platform workers, which represent contingent cost exposures for certain business models. Additional areas of focus include the 'reskilling fund obligation on retrenchment', tighter timelines for full and final settlements, gratuity eligibility for fixed-term employees, and higher overtime costs arising from an expanded wage base.



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I Keeping pace with accounting, auditing and regulatory developments

• Key accounting developments

Over the past year, MCA has notified significant Ind AS amendments aligned with International Financial Reporting Standards (IFRS), with tangible implications for financial reporting quality. The most critical impacts relate to balance sheet classification of borrowings, covenant compliance, liquidity disclosures, and tax transparency. AC should focus on management's judgement around liability classification, especially covenant assessments at the reporting date, proactive covenant management post-2026, and reassessment of hybrid instruments. Enhanced disclosures for supplier finance arrangements will affect cash flow presentation and liquidity narratives. While temporary relief exists for Pillar Two taxes, disclosure expectations increase immediately. Overall, these amendments heighten judgement, documentation rigor, and audit scrutiny.

Additionally, the International Accounting Standards Board (IASB) issued IFRS 18, Presentation and Disclosure in Financial Statements in April 2024, which replaces IAS 1 and is effective for accounting periods beginning on or after 1 January 2027. IFRS 18 introduces a new framework for presentation and disclosure across the complete set of financial statements, including enhanced requirements on grouping and aggregation of information, impacting the statement of profit or loss, balance sheet, cash flow statement, and related notes.

• NFRA circular on auditor–TCWG communication (2026)

On 7 January 2026, the National Financial Reporting Authority (NFRA) issued a circular clarifying regulatory expectations on effective communication between statutory auditors and Those Charged with Governance (TCWG), including audit committees. The circular does not introduce new requirements; rather, it reflects lessons from NFRA's inspection and enforcement experience. NFRA observed recurring weaknesses in practice, including incorrect identification of TCWG, weak or poorly documented communication, discussions occurring too late in the audit cycle, and insufficient depth on significant matters such as unusual transactions, internal control deficiencies and related party risks.

- The circular underscores that auditor–TCWG communication is central to audit quality and governance, not a procedural formality. It reiterates that TCWG responsibilities are not diminished by the audit and emphasises continuous, two way, and well documented engagement throughout the audit cycle. Boards and ACs are expected to ensure timely access, meaningful challenge, and robust documentation, as governance quality will be assessed not only by outcomes, but by how oversight is exercised and evidenced.



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I Keeping pace with accounting, auditing and regulatory developments

Areas of focus

Related Party Transactions (RPTs): Oversee alignment with revised SEBI industry standards, adequacy of information for approvals, and effective application of scale-based materiality thresholds, including subsidiary RPTs.

Labour Codes implementation: Monitor management's readiness for compliance with the Labour Codes, including impact on employee benefit accounting, workforce policies, internal controls and related disclosures amid evolving rules.

Ind AS amendments (effective 1 April 2025): Assess the impact of key Ind AS amendments on financial statements, covenant compliance, judgement areas and disclosure quality, particularly for liabilities classification, supplier finance and tax transparency.

Upcoming financial reporting changes (IFRS 18): Obtain early visibility on management's assessment and transition planning for IFRS 18 to mitigate future presentation, performance reporting and disclosure risks.

Auditor-AC communication: Strengthen timely, continuous and well-documented engagement with statutory auditors on significant judgements, internal controls, unusual transactions and related party risks.



Questions for the AC?

1. Is there a robust and structured management process to identify, assess and implement emerging accounting, auditing and regulatory developments, and is the AC kept appropriately informed through regular updates on implementation status, key judgments, control effectiveness, emerging risks, and the adequacy of escalation and remediation actions?
2. How have company's policies, controls and information packs been strengthened to comply with the revised SEBI Industry Standards effective 1 September 2025? Are materiality thresholds, including for subsidiary level RPTs, being applied consistently, with clear aggregation, tracking and disclosures?
3. What is management's current assessment of readiness for the Labour Codes, and which areas present the highest compliance, cost or judgement risk?
4. How are changes in wage definitions and benefit structures reflected in accounting estimates, provisions and disclosures amid evolving rules?
5. Which Ind AS amendments have required the most significant judgement, and how have their impacts on liabilities classification, covenants and disclosures been addressed?
6. How does management ensure that AC discussions with auditors are substantive, evidence based and aligned with NFRA's governance expectations?



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II Role of AC in overseeing a company's ESG and sustainability disclosures

The requirement of mandatory ESG disclosures and external assurance on these disclosures makes the role of the AC in overseeing ESG reporting more critical. As with public-facing financial reports, the AC may have a fiduciary duty to ensure that ESG reporting is complete and accurate. In situations where ESG reporting falls under the purview of the AC, one of the biggest challenges the committee will face is keeping pace with rapidly evolving ESG standards and regulations. This means keeping abreast of what is proposed, what is out for comment, and what is due to be finalised for implementation. ACs will need to ensure that management is closely monitoring developments and providing regular updates going forward.

Following are the key regulatory developments in this sphere:

BRSR Core assurance applicable to top 500 listed entities with effect from FY 2025-26

While the top 1,000 listed entities are required to provide BRSR disclosures in their annual reports, BRSR Core¹ framework prescribes reporting and assurance requirements for prescribed listed entities and their value chain. As per the prescribed glide path, the top 500 listed entities are mandatorily required to undertake assessment or assurance of BRSR core disclosures with effect from FY .

ESG disclosures for value chain on BRSR Core

ESG disclosures for the value chain and related assessment or assurance requirements are applicable on voluntary basis from FY 2025-26 and FY 2026-27, respectively. The scope of the value chain has been clarified to cover top upstream and downstream partners, individually comprising 2 per cent or more of the purchases and sales (by value), with an option to limit disclosure to 75 per cent of its purchases and sales. Further, reporting of previous year numbers is voluntary in case of first year of reporting of ESG disclosures for value chain.

New Extended Producer Responsibility (EPR) - linked environmental regulations have been notified

To operationalise India's carbon market, the government has introduced the Greenhouse Gases Emission Intensity Target Rules, 2025 (including subsequent amendments issued in January 2026), which prescribe mandatory GHG emission intensity targets and carbon credit obligations for designated entities, applicable from FY 2025-26 and full year targets applicable for FY 2026-27. Further, the Environment Protection (End of Life Vehicles) Rules, 2025 introduce Extended Producer Responsibility for environmentally sound scrapping and recycling of

end of life vehicles, with compliance obligations applicable from FY 2025-26. Additionally, the government has prescribed the Solid Waste Management Rules, 2026 to establish a strengthened 'polluter pays' framework for solid waste management, effective from 1 April 2026.

Framework for ESG debt securities (other than green debt securities)

In June 2025, SEBI issued a comprehensive framework governing the issuance and listing of ESG labelled debt securities other than green bonds, including social bonds, sustainability bonds and sustainability linked bonds. The framework introduces enhanced requirements around use of proceeds, project eligibility, sustainability performance targets, continuous disclosures, impact reporting and mandatory independent third party review or certification.

As ESG space is developing very fast, the ACs should proactively engage with management on the implementation plan of regulatory developments. It is also to be ensured that everyone involved in the organisation's external reporting receives the appropriate amount of training and education on ESG and climate-related priorities.



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1. BRSR Core is a sub-set of the SEBI BRSR format consisting of a set of Key Performance Indicators (KPIs) under nine ESG attributes.

II Role of AC in overseeing a company's ESG and sustainability disclosures

Questions for the AC?

1. As ESG disclosure requirements continue to evolve across jurisdictions, how is management monitoring regulatory developments and preparing the company's ESG reporting framework to remain compliant, consistent and decision useful for investors and stakeholders?
2. How has management defined the scope, methodology and assumptions underlying key ESG metrics, and how is the company ensuring transparency and consistency in these definitions to enable stakeholders to clearly understand and appropriately interpret disclosed information?
3. How is management collecting, measuring and reporting ESG data, and what governance and internal control framework is in place to ensure the reliability and completeness of non financial information?
4. How is management ensuring robust internal controls over ESG data—particularly where ESG reporting is led by standalone teams, with appropriate involvement of the finance function—and how is the company being prepared for ESG assurance, including strong measurement criteria, reliable evidence, and mitigation of risks that could lead to scope limitations or modified assurance opinions?



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Role of the AC in oversight of technological development and data governance

Technology automation or introduction of AI is reshaping how businesses operate, driving innovation and unlocking new ways to create value.

For many companies, much of the board's oversight responsibility for cybersecurity and data governance has resided with the AC. The AC plays a critical role in overseeing AI deployment, data governance and cyber resilience. While the board will lead on strategy to create business value from AI, the committee is expected to ensure that control frameworks keep pace with technology and provide robust oversight.

Further, regulatory scrutiny is also intensifying – as evident from the notification of the Digital Personal Data Protection (DPDP) Act and Rules 2025. The new rules provide specific compliance requirements for entities processing digital personal data in relation to providing goods and services within the territory of India and would help businesses to implement a robust data privacy and governance framework.

Areas of focus:

- Organisations need to determine the potential value of GenAI across their enterprise through the lens of workforce capacity and productivity. ACs should understand how GenAI and AI agents are being used to reduce manual, labour intensive finance processes, while ensuring

appropriate human oversight is embedded in AI workflows to maintain accuracy, judgement and control integrity.

- Given the broad role of finance in strategy and risk management, finance professionals can play a role in spearheading the company's use and deployment of GenAI and AI agents. ACs should oversee how the finance function is leveraging these technologies and the acceleration of digital strategies and transformations to add greater value to the business by providing forward-looking insights and analysis in key strategic and risk areas.
- Apart from finance function, ACs should understand the use of AI and other digital transformations in audit functions and satisfy themselves that management and auditors know how it's being employed. ACs may ask management to establish a framework for assessing the effectiveness of AI and other technologies deployment including attaching Key Performance Indicators (KPIs) to these assessments. These KPIs should be reported to the AC regularly, and AI should be a regular agenda item at committee meetings.
- Cybersecurity risks are escalating in scale and sophistication, with ransomware remaining a major threat. AI is increasingly being used to enhance social engineering attacks, while supply chain vulnerabilities continue to rise. ACs have a

critical role to play in ensuring that their organisations have robust cyber security defences – not in understanding the specifics of the technology involved, but in leading governance and policy to ensure effective response system, strong business continuity and resilience plans. This may require education or even bringing news skills into the boardroom and ACs.

- With the introduction of the DPDP Act, 2023 and DPDP Rules, 2025, the AC should evaluate management's readiness to comply with India's data privacy regime, including governance over personal data, consent, cybersecurity, use of AI/GenAI on data, breach response and regulatory exposure.



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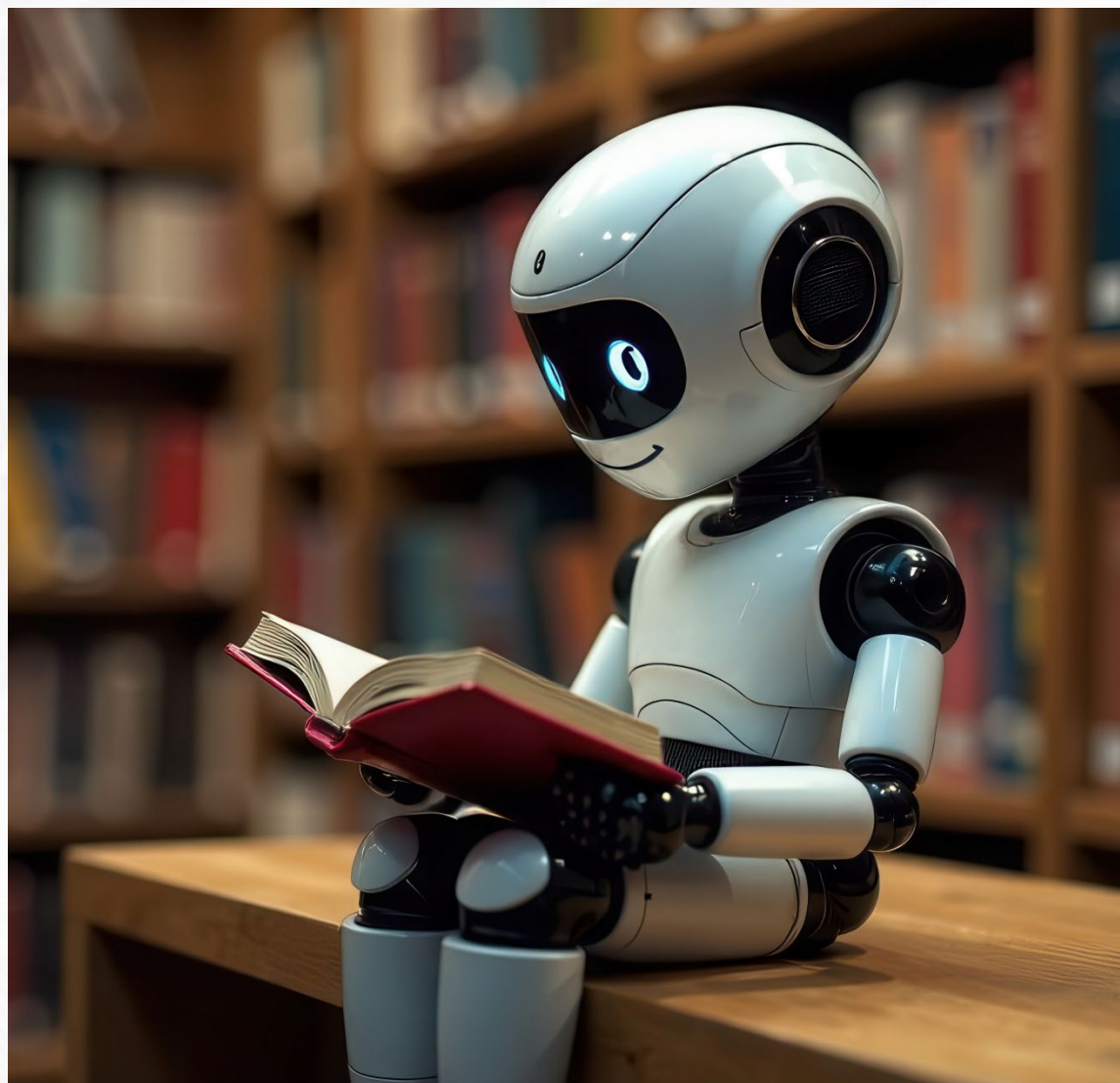
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Role of the AC in oversight of technological development and data governance

Questions for the AC?

1. How is management or the organisation identifying and addressing new risks being introduced with AI and GenAI?
2. How is management ensuring that its employees, management and board members are educated and trained in the technology solutions being deployed?
3. How does management ensure that its AI network and its data protection strategy is in alignment with the guiding principles of current applicable regulatory framework?
4. What precautions management taking to ensure that when GenAI is used to access data, it provides only the necessary data and only to authorised users?
5. How and when is a GenAI system or model including a third-party model developed and deployed, and who makes that decision? Understand GenAI risk management framework used by the company?
6. Has the management evaluated whether coverage of the cyber insurance policy of the company is adequate to compensate in case of a cyber-security incident?
7. Has the management evaluated what is the company's diligence of cyber defence and does the company have an appropriate response and recovery mechanism from such cyber incidents? Has the company hired/invested in talented cyber-security professionals to manage cyber-security risks?



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Make sure internal audit is focused on the company's key risks and is a valuable resource to the AC

Internal audit is a valuable resource for the AC and a crucial voice on risks and control matters. Internal audit should not only focus on financial reporting and compliance risks, but also on critical strategic, operational, AI and other technology risks and related controls, as well as sustainability risks. Therefore, AC should review the scope, staffing and budget of the internal audit function and holding executive session with the internal audit function.

Areas of focus

- Given the evolving geopolitical, macroeconomic, and risk landscape, reassess whether the internal audit plan is risk-based and flexible enough to adjust to changing business and risk conditions. AC should work with the head of internal audit and chief risk officer to help identify the risks that pose the greatest threat to the company's reputation, strategy, and operations, and to help ensure that internal audit is focused on these key risks and related controls.
- The risks posed by the company's use of GenAI and AI agents and whether the company's governance structure and risk management processes around AI are effective will likely be an important area of internal audit focus in the coming year. ACs should understand how internal audit is using GenAI and AI agents to improve its effectiveness and efficiency.
- Internal audit's broadening mandate will likely require upskilling the function to develop and maintain proficiency in areas such as advanced data analytics, AI, cybersecurity risk assessment, climate and sustainability, and operational resilience. Set clear expectations and help ensure that internal audit has the talent, resources, skills, and expertise to succeed and help the chief audit executive think through the impact of GenAI, AI agents, and digital technologies on internal audit.
- Controls and procedures should be a key area of internal audit focus. Clarify internal audit's role in connection with emerging risks such as ESG risks and enterprise risk management which is not to manage risk, but to provide added assurance regarding the adequacy of risk management processes.
- In light of ongoing volatility and significant changes arising from business transformation, acquisitions and the increasing use of digital technologies, including GenAI and AI agents, the AC should focus on whether internal controls over financial reporting have kept pace with the company's evolving operations and risk profile. AC should discuss with management on the design and operating effectiveness of key controls, the impact on

disclosure controls and procedures, and probing of identified control deficiencies beyond management's initial assessment to provide a balanced evaluation of the deficiency's severity and cause.



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Make sure internal audit is focused on the company's key risks and is a valuable resource to the AC

Questions for the AC?

1. Is there identified and assigned responsibility in the business for analysing, monitoring and interpreting geopolitical events?
2. Has the company conducted stress test on financial forecasts and business plans for geopolitical disruptions?
3. What are the risks posed by the company's digital transformation and by the company's extended organisation – sourcing, outsourcing, sales, and distribution channels?
4. What internal audit workflows can AI agents handle, and what internal audit workflows are AI agents actually handling today? Is internal audit maintaining a human-on-the-loop at critical stages of AI agent workflows?
5. Has the organisation ensured that the role and responsibilities of internal audit team are clearly outlined in the terms of reference and regularly review it to incorporate changes aligned to the business, risks and control environment?
6. In case of in-house internal audit function, do management teams have the necessary resources, and skill sets to address new risks and initiatives? How does management ensure upskilling of the internal audit team and ensure adequate talent, resources and skills within the department?
7. Is the coverage of internal audit adequate including periodicity, geography, locations, sites, business units, etc.?



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Stay focused on audit quality and stay abreast of the 'assurance challenge'

Regulators continue to focus on the quality of corporate reporting by reviewing the financial statements and audit reports to ensure compliance with applicable laws and regulations and also corroborate filings made by companies both within India and internationally. These regulators have enhanced their supervision and have been issuing observations to highlight the instances of non-compliances with respect to financial reporting requirements such as Ind AS, Standards on Auditing, Schedule III to the Companies Act, 2013, Companies (auditor's Report) Order, 2020 (CARO), etc. Regulatory scrutiny and inspections contribute to strong reporting and oversight ecosystem and also help ACs identify the root cause of audit issues and continuously help improve audit quality.

Areas of focus

- Focus on enhancing audit quality through effective and clear communication with the external auditor and a robust performance assessment. Set clear expectations for frequent, open, candid communications between the auditor and the AC, beyond the required communications that include matters about the auditor's independence as well as matters related to the planning and results of the audit.
- Given the rapid advancements in the use and deployment of AI, AC should discuss with the

external auditor how the audit plan provides for assessing risks posed by the company's use of GenAI and AI agents in the financial reporting and related internal control processes.

- ACs should also probe the audit firm on its quality control systems that are intended to drive sustainable, improved audit quality—including the firm's implementation and use of new technologies such as AI to drive audit quality. The effectiveness and value of the audit should keep improving over time particularly as technology enables auditors to test large populations of data and provide enhanced business insights.
- ACs should look out for the review reports issued by various bodies such as the National Financial Reporting Authority (NFRA), the Financial Reporting Review Board (FRRB), Quality Review Board (QRB), SEBI, overseas regulators, etc. and should understand the implications of the inspection reports on the company. Further, NFRA issued auditor-AC Interaction Series which highlights NFRA's expectations regarding robust communication between statutory auditors and ACs on significant areas such as RPTs and sets out illustrative questions that ACs should consider in evaluating management's assessments of these areas and the related audit procedures. Audit quality is a combined responsibility,

requiring the commitment and engagement of everyone involved in the process—the auditor, AC, and management. AC in their discussions with auditors should consider communications by the regulators including results of regulatory and internal inspections and efforts to address deficiencies.

- **Discussions** should also include the status of external auditor's implementation of SQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* and SQM 2, *Engagement Quality Reviews*. SQM 1 is effective for units and reviews of financial statements for periods beginning on or after 1 April 2025 and other assurance and related services engagements beginning on or after 1 April 2025. Additionally, SQM 2 requires audit firms to design and implement systems of quality management in compliance with this SQM by 1 April 2026.



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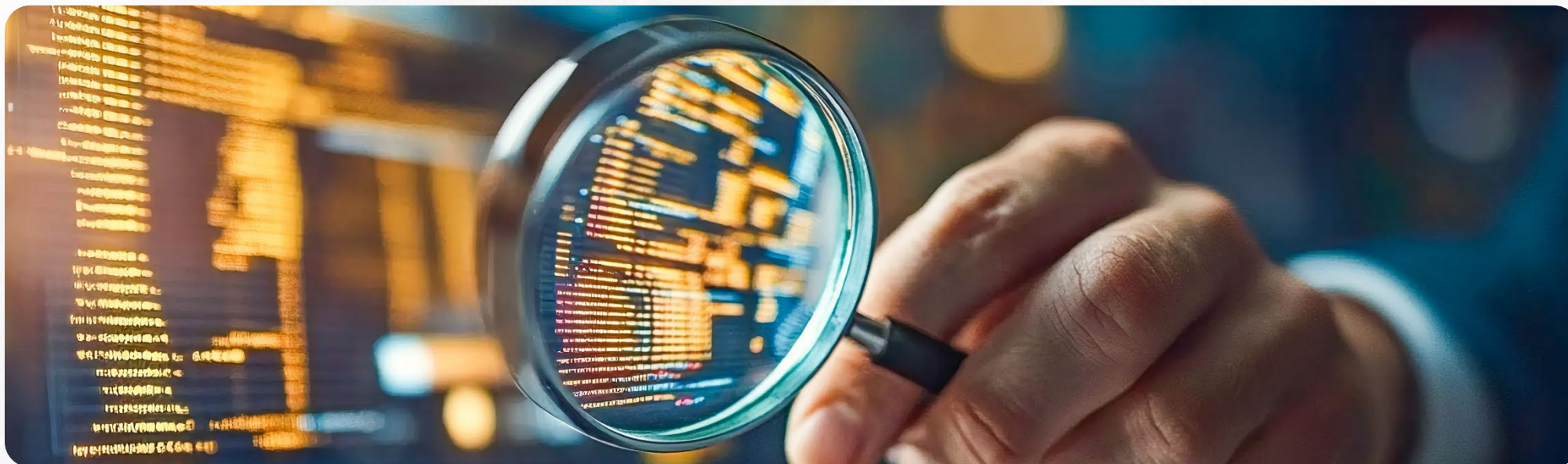
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Questions for the AC?

1. Has an appropriate discussion taken place with the external auditor regarding major issues that arose during the course of the audit, the key accounting and auditing judgements and the level of errors identified during the audit?
2. Has the external auditor ensured sufficient and proportionate documentation for risk assessed areas of material importance?
3. Has the AC leveraged its work with internal audit function to ensure a high audit quality with the external auditor?
4. How is the external auditor using GenAI and AI agents in the audit process, and what impact does this have on audit quality, audit strategy, and the firm's resource and talent requirements?
5. How ACs are looking at regulatory developments including international developments and analysing it from regulators' lens – NFRA, FRRB, European Securities and Markets Authority (ESMA) findings, Public Company Accounting Oversight Board (PCAOB) inspections, etc.?
6. What worked well in 2025, and what are the goals or milestones for improvements in 2026?



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Finance teams face a challenging environment—addressing talent shortages, while at the same time managing digital strategies and transformations and developing robust systems and procedures that go beyond conventional financial stewardship and reporting, aiming to enhance value by serving as strategic partners within their organisations. At the same time, many are contending with difficulties in forecasting and planning for a volatile environment.

Similarly, considering the continued expansion of the AC's oversight responsibilities beyond its core oversight responsibilities (financial reporting and related internal controls, and internal and external auditors) have heightened concerns about the committee's bandwidth, composition and skill sets. Therefore, the ACs are also required to assess on a continuous basis whether they have the right composition and skill sets. The composition of the AC should be high performing members with the right skill sets and professional experience. It is also important that the committee have the bandwidth and members with the experience and skill sets necessary to oversee areas of risk beyond its core responsibilities that it has been assigned. For example, issues such as cyber and data security, AI and GenAI, ESG (including climate), or mission-critical risks such as product safety, as well as supply chain issues and geopolitical risk, require more attention at the full

board level. Alternatively, a separate board committee or an additional sub-committee under the AC could take on significant responsibilities related to other critical risks.

Areas of focus

- AC should devote adequate time in understanding the finance team's AI and digital transformation strategy and work closely with the CFO to understand where finance can add strategic value to the business, and help ensure that finance is attracting, developing, and retaining the leadership, talent, and skill sets to execute those strategies alongside its existing responsibilities. Staffing deficiencies in the finance department may pose the risk of an internal control deficiency, including a material weakness.
- AC Chair should review whether the AC's delegated responsibilities, workload, and agenda remain appropriately tailored to the company's specific needs, risk profile, culture, and governance dynamics (recognising that one size does not fit all). Confirm that roles and oversight boundaries between management and the AC are clearly defined and focused on core responsibilities, including financial reporting, related risks and controls, and internal and external auditor oversight.

- As the committee's workload expands to include oversight of disclosures of non-financial information it is important that ACs have the necessary financial reporting and internal control expertise to effectively carry out these responsibilities as well as its core oversight responsibilities. Further, it is important to assess and review whether the AC has the bandwidth and the right composition and skill sets to oversee the major risks on its plate. Investors and regulators are focused on composition, skills and potential over-boarding, therefore a review is essential.



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Questions for the AC?

1. How does the organisation ensure that finance is attracting, developing, and retaining the leadership, talent, skill sets, and bench strength to execute those strategies, as well as its existing responsibilities?
2. Does the committee have the leadership, composition, skill sets and agenda time to carry out its core oversight responsibilities - financial reporting and internal controls along with the growing range and complexity of other risks, such as cyber and data security, supply chain issues and geopolitical risk, or ESG risks and disclosures? Does the committee need to hire experts in order to discharge its oversight duties?
3. How many members have deep knowledge of accounting and controls? Is the committee relying only on one or two members to do the 'heavy lifting' in the oversight of financial reporting and controls?



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