



NFRA PRESCRIPTION ON THOSE CHARGED WITH GOVERNANCE (TCWG)

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National Financial Reporting Authority (NFRA) constituted under Section 132(1) of the Companies Act 2013 aims to enhance transparency and accountability in corporate financial reporting, protecting investor interests by ensuring reliable financial statements from large entities where upholding public-interest is *sine qua non*.

NFRA exercises jurisdiction over listed companies (listed in India or outside India), unlisted public companies with paid-up capital of ₹500 crore or more or annual turnover of ₹1,000 crore or more or having aggregate outstanding loans, debentures, and deposits of ₹500 crore or more, companies under Special Acts like banking, insurance, electricity, or other bodies governed by specific statutes (Applicable Companies).

NFRA in the course of quality review audits of various companies found out that there is a widespread communication gap between Statutory Auditors and Board of Directors of Applicable Companies. NFRA further noted that there has been failure in adhering to Standards on Auditing (SA 260 and SA 265 specifically) resulting in inadequate documentation, failure to report internal control deficiencies, and mis-identifying management as TCWG.

TCWG are those who are charged with the responsibility for overseeing the strategic direction of a company including obligations relating to accountability of a company.

To address significant, recurring lapses in communication between statutory auditors and TCWG, NFRA has issued a detailed Circular dated 07th January, 2026 (the said Circular). Applicable Companies are required to adhere to the said Circular and create mechanisms to comply with the said Circular.

Through the said Circular, NFRA proposes an effective, documented, two-way communication is a governance necessity, not just a procedural formality as under:

Correct Identification of TCWG

- Statutory Auditors must correctly identify TCWG at the start of their audit.
- This normally includes the Board of Directors and, where relevant, the Audit Committee or other governance bodies like any other sub-committee of the Board.
- Treating management as TCWG is not acceptable.

Towards this objective, the Board of Directors are tasked with devising and approving a **Board Policy on Identification of TCWG**

Two-Way, Timely & Continuous Communication

Communication should not be a one-time event at year-end. It must be ongoing throughout the audit cycle. At the minimum, two formal engagements annually are recommended i.e, **before the beginning of the audit** to discuss audit strategy, scope, materiality, risk areas and **before the approval of financial statements** by the Board/TCWG to review significant findings. Additional meetings should be held whenever significant issues like suspected fraud, internal control weaknesses etc arise



Towards this objective the Board of Directors are tasked with putting in place a Communication Framework between TCWG and the Auditors.

Written & Well Documented Communication

- All significant communication between TCWG and Auditors must be documented in writing.
- Oral communication must be documented with date, time, participants, and substance of discussion.
- Written communication should be clear, specific, and unambiguous. Non-receipt of acknowledgement or answer cannot be considered as acceptance of content in the communication.

Scope of Matters to Be Communicated

Auditors are expected to communicate the following key matters with TCWG in a structured manner:

During audit planning:

- Audit strategy, scope, timing and materiality
- Significant risks identified (e.g., going concern, valuation, unusual transactions)
- Audit methodologies and focus areas

During audit performance and reporting:

- Significant accounting estimates and judgments
- Deficiencies in internal financial controls
- Matters affecting auditor independence and ethical compliance
- Non-compliance with laws & regulations that could impact operations
- Related party transactions and significant unusual/complex transactions
- Communication of key audit matters and significant findings

These discussions must be formally acknowledged and included in audit documentation, working papers, and relevant Board/Audit Committee minutes.

Responsibilities of Board and Audit Committee

- Board, Audit Committee and independent directors should actively engage with auditors, and not just passively receive information.
- Board and Audit Committee are expected to ensure that auditors' communications assist in fulfilling oversight responsibilities.

The said Circular directs Company Secretaries of Applicable Companies to place this circular before the Board and Audit Committee for compliance and institutionalization of practices.
