

Formalising Dialogue between Boardroom and Auditors – Decoding the NFRA Circular



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Audit committees have a fiduciary responsibility to monitor whether the company is focused on and delivers high-quality corporate reporting. Effective audit committees play a critical role in building trust and confidence in reporting and risk management. To effectively carry out its oversight role, the committee interacts with statutory auditors through written and in-person communications, both formal and informal. The Standard on Auditing 260, *Communications with Those Charged with Governance* (TCWG) - SA 260, explicitly stresses that communication is not unidirectional. The auditor should evaluate whether two-way communication is adequate and effective. If it is not, this may impact the audit approach and risk assessment.

While 'communication' has always been mandated under auditing standards, the National Financial Reporting Authority (NFRA), through their inspection findings and on the back of recent corporate failures, highlighted that delayed or one-sided communication often allowed issues to crystallise into material misstatements in the financial statements or serious regulatory lapses. In response, the NFRA has issued a Circular¹ reiterating the key responsibilities of the Board/TCWG and clarifying what is expected of both stakeholders in such interactions. This article provides an overview of these expectations and sets out good practices suitable for adoption by boards and audit committees.

Firstly - Who is TCWG?

By law, the board of directors is the apex governance body responsible for stewardship, oversight, ensuring compliance with accounting standards and regulatory frameworks and overseeing internal financial controls. Its mandate is fiduciary in nature: to act in the best interests of the company and its stakeholders. Therefore, the board is the ultimate body tasked with governance.

However, in large corporations, certain functions related to overseeing the integrity of the financial reporting process, the effectiveness of internal control systems, the robustness of risk management processes, and the independence and performance of external and internal auditors are discharged by an audit committee. Acting as a critical link between management, auditors, and the board, the audit committee engages in meaningful dialogue with auditors on significant matters such as fraud risks, going concern assessments, and significant unusual transactions.

TCWG, as defined under SA 260, is responsible for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. **The auditor should determine who constitutes TCWG at the beginning of the audit.** If the Auditors communicate with a sub-group, it is relevant that the auditor keeps in mind whether the sub-group has the authority to take action in respect of the matters communicated, the adequacy of communication between the sub-group and the full board of directors, and whether they also need to communicate with the full board in addition to communication with the TCWG.

The NFRA Circular essentially views the board as the TCWG. Where an audit committee exists, the NFRA Circular clarifies that an audit committee "plus some of the board members" could qualify as TCWG. This poses the following implications:

- o Has this created an incremental/ parallel compliance formality for companies?
- o How would this align with the 'settled' legal/ secretarial position on the functioning of the board and the audit committees?

Financial reporting demands reciprocal communication

Communication is not one-sided. The board/ audit committee is duty-bound under the Companies Act, 2013 (2013 Act) to engage in a meaningful dialogue with the auditors. These communication requirements are designed, inter alia, to strengthen governance over the financial reporting process and fulfil their responsibility of oversight of the financial reporting. The fact that the financial statements are audited does not relieve the board/ audit committee of its responsibilities.

For example, the audit committee under section 177 of the 2013 Act should discuss with auditors before the audit commences, the nature and scope of the audit, as well as hold post-audit discussions to ascertain any areas of concern. Section 134(5) of the 2013 Act requires the board to disclose its assertions regarding certain critical aspects, such as adherence to applicable accounting standards; selection and application of accounting policies; making of judgements/ estimates on a reasonable and prudent basis; and other prescribed matters. Schedule IV to the 2013 Act casts an obligation on independent directors to satisfy themselves of the integrity of financial information and that financial controls and the systems of risk management are robust and defensible.

The NFRA Circular emphasises the joint or collective mandatory obligation of the company's governing body, i.e., the board of directors, its audit committee, its management and its auditors to establish a robust, effective two-way communication. This framework is critical for the discharge of respective responsibilities by the board and the auditors.

TCWG has a duty to engage in two-way communication

Two-way communication serves multiple, interrelated objectives that extend beyond information exchange. Although these roles of auditors and TCWG are distinct, they are intrinsically interlinked. The auditor's understanding of governance influences risk assessment and audit strategy, while TCWG depend on the auditor's insights to discharge their fiduciary and oversight responsibilities. Two-way communication is therefore not a courtesy or procedural step; it is a governance control in its own right. Regular and candid dialogue reduces the likelihood of last-minute disputes and reinforces the audit committee's role as an effective intermediary between auditors and management. TCWG should meet in person or virtually at least twice a year - once before the commencement of the audit and a second time, well in advance of the time, before the approval of financial statements by TCWG.

Ingredients of an effective communication framework

The NFRA Circular recommends that the board prepare and document an overall communication framework between TCWG and auditors. A documented framework delineates what auditors communicate, and what TCWG must proactively seek. This framework may include the following:

► **Nodal persons** to ensure an effective two-way communication throughout the audit. Name and details of members of the board and the audit Engagement Team who shall be nodal persons. Nodal persons may include independent/ non-independent directors.

► **Expectations of the Auditors**, i.e. from the Board to communicate:

- Strategic decisions significantly affecting the nature, timing and extent of audit procedures,
- Suspicion or the detection of fraud
- Actions regarding Internal Controls, including Internal Audit Function,
- TCWG's awareness and actions in relation to developments in the financial reporting, corporate governance practices and other regulatory matters, etc.

► **Summary of key standards on auditing** that require communication with TCWG.

► **Process of updating/ escalating to TCWG**, about the discussion and communication between nodal officers of TCWG and auditors.

► **Process of documenting and communicating** the views/ instructions/ actions of TCWG on the significant matters.

► **Prescribing frequency of meetings** and the expected agenda matters.

► **Mandating significant communications to be in writing and formally acknowledged** by the auditor and TCWG, either in the form of minutes of the meeting or letters.

What are the common agenda items?

Common agenda items in communications between TCWG and the auditors should extend beyond routine financial statement updates and be structured around areas of significant judgment and risk. A robust and clearly articulated agenda is essential to ensure that communications are structured, purposeful, and aligned with oversight responsibilities. Clarity in agenda-setting enhances preparation quality on both sides, enabling focused challenge rather than informational briefings. While the auditing standards and applicable provisions of the 2013 Act have a comprehensive and detailed list of matters to be discussed, the NFRA Circular envisages the following matters to invariably form part of interactions between auditors and TCWG:

► **Auditor's compliance with independence and Code of Ethics**

► **Audit strategy and planning, including:**

- Materiality and its effect on the nature and extent of audit work,
- Risks of material misstatement,
- Internal control environment, in particular, to prevent fraud and non-compliance with critical laws and regulations,
- Areas of significant accounting policy judgment and management estimations, etc

► **Audit status and significant findings**

Upward feedback by the audit committee to the board of directors

Upward feedback by the audit committee to the board is a critical governance mechanism that ensures the board receives independent, structured insight on financial reporting integrity, internal controls, risk oversight, and auditor performance. The audit committee operates as a delegated oversight body; however, ultimate responsibility remains with the board. Therefore, its observations, concerns, and recommendations must be formally escalated rather than assumed. From an auditor's standpoint, this has typically been an area not addressed formally by many companies, stemming from the following questions:

- o How is the audit committee keeping the board apprised of their interactions with the auditors and their audit findings?
- o Is this communication sufficiently detailed and documented?

- o Does the board, in turn, express their views/ concurrence/ reservations on the matters communicated, and how are these reflected in the financial statements to be approved?
- o Are there any other matters that the board may have discussed which could have implications on the financial statements? How are these communicated back to the auditors in a timely manner?
- o How is the formal written communication/assertion back to the auditors from the TCWG/ board documented?

Emerging Trends

From our recent experience with listed companies, various practices have emerged to ensure compliance with the Circular. A Framework for Two-way Communication with TCWG has been adopted by Boards covering:

- Definition of TCWG and Nodal Persons
- Roles & Responsibilities of TCWG and Statutory auditors
- Timing and frequency of meetings
- Expectations on the content to be covered

While the Auditing Standard (SA 260, revised) and the Circular explain that the Board is typically the ultimate governing body, for the purpose of such two-way communication with the statutory auditors, TCWG and the Nodal person are defined as follows across our sample set:

TCWG defined	Audit Committee and any one from the Chairman and Managing Director/ Deputy Managing Director/ Chief Financial Officer as a permanent invitee	Board of Directors of the Company excluding the Whole Time Director(s)	Independent Directors + Managing Director/CEO/ Promoter	AC Chair, Whole time Director, CFO, CS, Invitees from Finance team	Audit Committee + CFO
Nodal Person of the Board	AC Chair	CEO/CFO/ WTD	Chairman of the Board or MD	Compliance Officer / CS	AC Chair & Promoter Director

Key Takeaways

To conclude, two-way communication between those charged with governance and auditors is widely recognised as a foundational element of audit quality and effective corporate governance. High-quality audits and resilient governance systems demand communication that is continuous, candid, forward-looking, and genuinely reciprocal. 'Trust and confidence' are the cornerstones of this two-way communication, and this is put to a real test when the going gets tough, when the management and Board look to 'cross that line'. **How both sides respond and support each other during these times would, in the end, determine the strength of their relationship!** By linking audit quality directly to governance, NFRA can more firmly demonstrate how failures in process translate into a pervasive risk that would eventually affect the public / investor community. It also aligns with global practices where audit committees are expected to play a far more active role in challenging management and auditors.

¹ NFRA Circular dated 7 January 2026 - Effective Communication Between Statutory Auditors and Those Charged with Governance, Including Audit Committees