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सत्यमेव जयते

राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण
NATIONAL FINANCIAL REPORTING AUTHORITY

NFRA संवाद

NFRA NEWSLETTER

INDEX

FROM THE DESK OF CHAIRPERSON

Dear Readers,

It gives me great pleasure to present this edition of NFRA संवाद, which brings together important reflections, technical insights and updates on financial reporting, auditing and regulatory practice.

This edition places particular emphasis on capacity building, regulatory effectiveness and practical strengthening of audit quality. For an independent regulator like NFRA, entrusted with oversight in public interest, sustained capacity building is essential for informed decision-making, consistency in approach and effective discharge of statutory responsibilities.

Regulatory outcomes are ultimately determined not merely by the existence of frameworks, but by the quality of compliance, the rigour of oversight and the willingness of all participants in the ecosystem to act in substance and not only in form.

Along with technical excellence, today, the ecosystem needs to embrace and get ahead of the advances in technology as well. I would urge all the practitioners, irrespective of the size of their practice to adopt relevant and useful technology which improve audit quality by focussing on areas needing critical judgement and professional scepticism.

I hope this edition will be useful to professionals, companies, audit committees, academics and other stakeholders. NFRA remains committed to strengthening transparency, accountability and confidence in financial reporting and auditing in public interest.

Nitin Gupta
Chairperson, NFRA

FROM THE EDITORIAL BOARD

Dear Readers,

It gives us immense pleasure to present **Volume 3** of the NFRA संवाद.

We extend our heartfelt greetings to the Chartered Accountant fraternity for Chartered Accountants' Day on 1st July, 2026, with our best wishes for their continued success in upholding the highest standards of professionalism, ethics, and excellence. As the business environment evolves rapidly with increasing technological advancements and stakeholder expectations, the profession's unwavering commitment to integrity, competence, independence, and public interest remains more vital than ever.

In this edition we bring together thought-provoking articles, regulatory perspectives, technical insights, and highlights of NFRA's key initiatives during the quarter ended June 2026. A new section **"Global Developments in Financial Reporting and Auditing"** have been added covering major development and changes in the financial reporting framework across the globe during FY 2025-26.

The articles featured in this edition explore a diverse range of contemporary issues shaping the financial reporting and auditing landscape including a case study.

In addition to these technical contributions, the Newsletter presents a comprehensive account of **NFRA's key events, outreach programmes, and webinars** conducted during the quarter ended June 2026, reflecting the Authority's continued focus on stakeholder engagement, knowledge dissemination, and strengthening audit quality through continuous dialogue and capacity building.

We wish all our readers an enriching reading experience.

Pune Outreach Programme

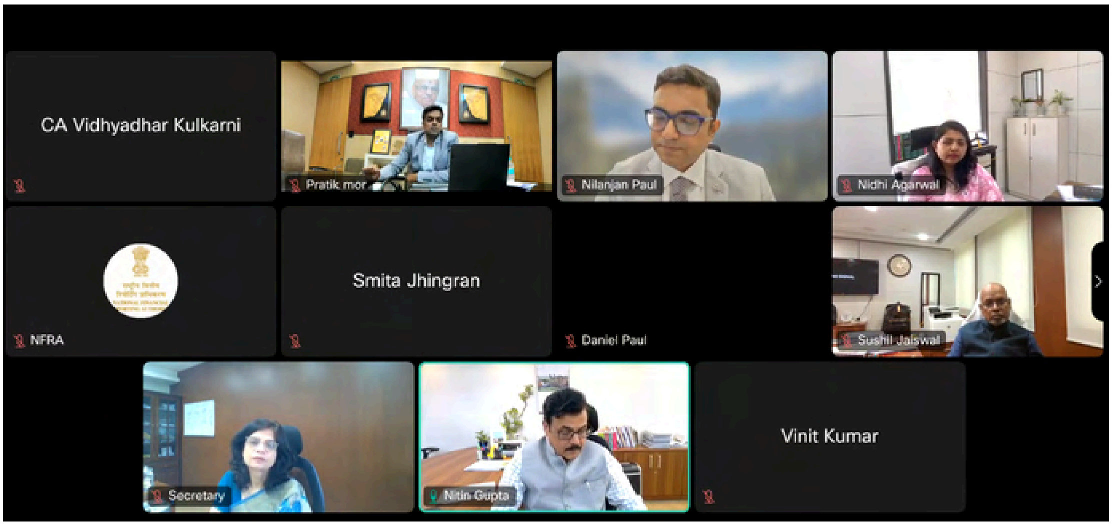
Outreach Event at Pune | Event Date 19th June, 2026

As part of its initiative "Creating a Better Financial Reporting Ecosystem", NFRA organised a one-day outreach programme and workshop in Pune on 19th June 2026, jointly with the Institute of Chartered Accountants of India (ICAI) hosted by Centre for Audit Quality Committee of ICAI & Pune Branch of Western India Regional Council of ICAI. The Outreach programme was inaugurated by Shri Nitin Gupta, Chairperson, NFRA, and CA Prasanna Kumar D, President, ICAI. Eminent Experts delivered focused technical sessions on key aspects of audit practice, including Audit Strategy Documentation, Risk of Material Misstatement, Accounting Estimates and Summary of Audit Conclusion. The workshop aimed at providing practical insights for improving audit quality in day-to-day professional work. The workshop witnessed active and enthusiastic participation from a large number of audit practitioners, including Small and Medium Practitioners (SMPs) as well as large audit firms.

NFRA Webinar on SA 450 - Evaluation of Audit Results and Summary of Uncorrected Misstatements

NFRA hosted its first webinar of the year 2026-27 on 11th May 2026 on SA 450 - Evaluation of Audit Results and Summary of Uncorrected Misstatements. The webinar aimed to reinforce auditors' responsibilities in ensuring credible financial statements. The webinar commenced by the inaugural remarks of Shri Nitin Gupta, Chairperson, NFRA, who emphasized NFRA's commitment to enhancing audit quality and transparency in financial reporting. He further referred to NFRA's broader toolkit, including circulars, advisories, webinars, workshops, and practice guidance, as methods to improve compliance and audit discipline. A specific January 2026 circular on communication between auditors and those charged with governance was mentioned as a key supporting measure.

The technical sessions were delivered by external panel comprising of CA Nilanjan Paul, Audit Professional and CA Pratik Mor, Audit Professional, who provided detailed insights into the subject matter that misstatements can arise from errors, fraud, or management judgment, impacting overall audit strategy. The speakers emphasized the complexity of assessing errors in financial reporting and materiality involved both quantitative and qualitative considerations, not just numerical thresholds. They further discussed reclassifications could be misstatements and should comply with GAAP standards. The sessions discussed misstatements, including factual and judgmental types, impacting profit and financial statements. The webinar highlighted the need for timely communication of uncorrected misstatements to governance bodies and emphasized the importance of detailed documentation for audit opinions and error assessments.



Webinar on SA 450 Evaluation of Audit Results and Summary of Uncorrected Misstatements | Event Date 11th May, 2026

The recording of the webinar is available at the link below:

[NFRA Webinar on SA 450 Evaluation of Audit Results and Summary of Uncorrected Misstatements]

Audit Quality Inspection Guidelines

In April, 2026, National Financial Reporting Authority (NFRA) has updated its Audit Quality Inspection Guidelines, reinforcing its commitment to enhancing audit quality, transparency, and investor confidence. The guidelines provide a structured framework for inspecting audit firms and evaluating compliance with auditing standards, quality control systems, governance practices, and risk management processes.

Key Highlights

Risk-Based and Proportionate Approach: Inspections will be tailored to the size, complexity, and public-interest significance of audit firms, while considering past inspection outcomes and emerging risk areas.

Comprehensive Review Scope: Inspections may cover firm culture, governance, quality control policies, technology-enabled audit processes, and selected audit engagements.

Selection Process: Audit firms and engagements will be selected using a combination of risk-based and random criteria.

Inspection Methodology: Reviews may include questionnaires, interviews, site visits, walkthroughs, document reviews, and testing of controls, followed by draft and final inspection reports.

Focus on Continuous Improvement: Inspection findings are intended to identify opportunities for strengthening audit quality systems and may require root-cause analyses and corrective action plans.

Timelines for Remediation: Auditors must respond to draft reports within 10 days, submit remediation plans within 90 days, and complete corrective actions within 180 days, unless extended by NFRA.

Transparency and Accountability: NFRA will publish inspection findings relating to non-compliances while safeguarding confidential and proprietary information in accordance with NFRA Rules, 2018.

The updated guidelines strengthen NFRA's oversight framework and promote higher standards of audit quality, governance, and accountability across the profession.

Find the detailed evaluation on the link below:

Audit Quality Inspection Guidelines

NFRA Domain

Companies Covered Under NFRA Domain - Provisional List as on 31 March 2025

NFRA has released the provisional list of companies as on 31st March 2025 which are covered under NFRA domain as per Rule 3(1) of the NFRA Rules, 2018. This list includes listed companies, unlisted public companies, entities from the banking, insurance, electricity, and other specified sectors covered under Rule 3(1) of the NFRA Rules, 2018.

Provisional List of Companies

Provisional List of Audit Firms Yet to File NFRA-2

NFRA has also published a provisional list of audit firms that have not yet filed the NFRA-2 return for audit reports signed between 1st April 2024 and 31st March 2025 (status as on 30th April 2026). The statutory due date for filing the same was 30 November 2025, the filing window remains open to facilitate compliance. Auditors of companies covered under Rule 3 of the NFRA Rules, 2018, are required to submit NFRA-2 annually in accordance with Rule 5 in timely manner.

Provisional list of Audit Firms that have not filed NFRA-2 forms for Reporting Period 2024-25 Position as on 30.04.2026

GLOBAL DEVELOPMENTS IN FINANCIAL REPORTING AND AUDITING: F.Y. 2025–26

VIDHYADHAR KULKARNI | Former Principal Consultant, NFRA

The following section highlights some of the significant developments in accounting and auditing standard-setting activities across major jurisdictions during FY 2025–26 for the benefit of stakeholders.

IFRS Accounting Standards

1) December 2025: Exposure Draft Risk Mitigation Accounting—Proposed amendments to IFRS 9 and IFRS 7

The International Accounting Standards Board (IASB) issued an Exposure Draft proposing amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures. The proposal introduces a Risk Mitigation Accounting model aimed at better reflecting how entities manage dynamic interest rate risk and aims to bring accounting and risk management closer. This exposure draft is open for public comments until 31st July 2026.

https://www.ifrs.org/news-and-events/news/2025/12/iasb-proposes-new-accounting-model-interest-rate-risk/

2) November 2025: Illustrative Examples of Disclosure of Uncertainties

The International Accounting Standards Board (IASB) of IFRS Foundation issued illustrative examples to assist entities in providing disclosures relating to uncertainties in financial statements.

https://www.ifrs.org/news-and-events/news/2025/11/iasb-issues-illustrative-examples-reporting-uncertainties-financial-statements/

3) November 2025: Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates

The International Accounting Standards Board (IASB) of IFRS Foundation issued amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates to clarify how companies should translate financial statements from a non-hyperinflationary currency into a hyperinflationary one. These amendments are effective for annual reporting periods beginning on or after 1st January 2027.

https://www.ifrs.org/news-and-events/news/2025/11/iasb-issues-amendments-ias-21/

4) November 2025: Research Papers on Intangible Assets

The International Accounting Standards Board (IASB) of IFRS Foundation published research papers relating to certain aspects of accounting and disclosures of intangible assets.

https://www.ifrs.org/news-and-events/events/2025/november/iasb-research-forum/

5) November 2025: IFRS Interpretation Committee Agenda Decisions – Volume 13

The IFRS Interpretation Committee of IFRS Foundation publishes Volume 13 of compilation of its Agenda Decisions. This volume includes Agenda Decisions issued during May -October 2025 and these agenda decisions (Committee's decisions) in many cases include explanations of how the principles and requirements in IFRS Accounting Standards apply to the issue described in the agenda decision.

https://www.ifrs.org/news-and-events/news/2025/11/compilation-of-agenda-decisions-volume-13-published/

6) June 2025: Post-implementation review of IFRS 16 Leases

The International Accounting Standards Board (IASB) of IFRS Foundation commenced post-implementation review of IFRS 16 Leases, new standard on leases accounting, which became effective for annual reporting periods beginning on or after 1 January 2019.

https://www.ifrs.org/news-and-events/news/2025/06/iasb-launches-review-ifrs-16-leases/

7) June 2025: Revision to IFRS Practice Statement 1 Management Commentary

The International Accounting Standards Board (IASB) of IFRS Foundation issued revised IFRS Practice Statement 1 Management Commentary.

https://www.ifrs.org/news-and-events/news/2025/06/iasb-issues-revised-practice-statement-management-commentary/

IFRS Sustainability Standards

1) December 2025: Targeted improvements to IFRS S2 Climate-related Disclosures

The International Sustainability Standards Board (ISSB) of the IFRS Foundation issued some amendments to IFRS S2 Climate-related Disclosures, to provide reliefs and clarifications to support companies in applying the greenhouse gas (GHG) emissions disclosure requirements of the Standard.

https://www.ifrs.org/news-and-events/news/2025/12/issb-issues-targeted-amendments-ifrs-s2/

2) October 2025: Biodiversity, Ecosystems and Ecosystem Services

The International Sustainability Standards Board (ISSB) of the IFRS Foundation met in October 2025 to discuss the recommendations of Taskforce on Nature-related Financial Disclosures (TNFD).

https://www.ifrs.org/news-and-events/updates/issb/2025/issb-update-october-2025/

3) May 2025: Education Material about the requirements in IFRS S2 Climate-related Disclosures

The International Sustainability Standards Board (ISSB) of the IFRS Foundation in order to support the implementation of its sustainability disclosures standards has issued education material about the requirements in IFRS S2 Climate-related Disclosures related to measurement and disclosure of greenhouse gas (GHG) emissions.

https://www.ifrs.org/news-and-events/news/2025/05/educational-material-ghg-ifrs-s2/

IFRS for SMEs Accounting Standard

1) September 2025: Education resources for IFRS for SMEs Accounting Standard

IFRS Foundation published a package of new educational resources to support implementation of the third edition of the IFRS for SMEs Accounting Standard.

https://www.ifrs.org/news-and-events/news/2025/09/educational-materials-ifrs-smes-accounting-standard/

2) May 2025: Education material on Section 11 Financial Instruments of IFRS for SMEs Accounting Standard

IFRS Foundation published education material to provide guidance on implementation of Section 11 Financial Instruments, which has been revised in the third edition of *IFRS for SMEs* Accounting Standard.

https://www.ifrs.org/news-and-events/news/2025/05/educational-materials-ifrs-smes-accounting-standard/

U.S. Generally Accepted Accounting Principles (U.S. GAAP)

1) December 2025: FASB Issues Standard on Codification Improvements

The Financial Accounting Standards Board (FASB), the U.S. national accounting standard-setter, has issued 'Accounting Standards Update (ASU)' updating the FASB Accounting Standards Codification in broad range of accounting matters in relation to 33 accounting and reporting issues. These amendments are applicable for annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods.

https://fasb.org/news-and-meetings/in-the-news/fasb-issues-standard-on-codification-improvements-423461

2) December 2025: Topic 832-Accounting for Government Grants Received by Business Entities

The Financial Accounting Standard Board (FASB) issued an Accounting Standards update to address the absence of specific authoritative guidance relating to accounting for government grants received by business entities.

https://fasb.org/page/PageContent?pageId=/projects/recently-completed-projects/accounting-for-government-grants.html

3) November 2025: Topic 815 Hedge Accounting Improvements

The Financial Accounting Standard Board (FASB) issued amendments to Topic 815 that deals with hedge accounting in general. The amendments address several incremental hedge accounting issues arising from the global reference rate reform initiative.

https://fasb.org/page/PageContent?pageId=/projects/recently-completed-projects/topic-815-hedge-accounting-improvements.html

4) July 2025: Credit Losses -Topic 606 Receivables and Topic 326, Financial Instruments—Credit Losses

The Financial Accounting Standards Board (FASB) issued clarificatory amendments to address challenges in applying guidance in Topic 326, Financial Instruments—Credit Losses, to current accounts receivable and current contract assets. These receivables and contract assets arise from transactions accounted for under Topic 606, Revenue from Contracts with Customers.

European Financial Reporting Advisory Group (EFRAG)

International Standards on Auditing

1) February 2026: Post-implementation review of ISA 540 (R), Auditing Accounting Estimates and Related Disclosures

The International Auditing and Assurance Standards Board (IAASB) of The International Foundation for Ethics and Audit (IFEA) commenced post-implementation review of ISA 540 (R), which was revised in 2019. The IAASB public consultation survey is open until 15th June 2026.

https://www.iaasb.org/news-events/2026-02/iaasb-launches-survey-post-implementation-review-isa-540-revised-accounting-estimates

2) January 2026: Amendment to ISA 620, Using the Work of an Auditor's Expert

The IAASB amended ISA 620 as a consequence to amendments in the ethical standards for professional accountants.

https://www.iaasb.org/news-events/2026-01/iaasb-issues-narrow-scope-amendments-related-iesba-s-using-work-experts

3) November 2025: New Illustrative Report under ISSA 5000, General Requirements for Sustainability Assurance Engagements

The IAASB issued illustrative reports, both unmodified and modified, to support implementation of ISSA 5000 in different engagement types.

https://www.iaasb.org/news-events/2025-11/iaasb-publishes-new-illustrative-reports-support-issa-5000-implementation

4) July 2025: Guidance on How the IAASB's Revised Going Concern and Fraud Standards Reinforce Professional Skepticism

The IAASB issued non-authoritative publication to enhance stakeholders understanding of how the revisions in ISA 240 (R), The Auditors' Responsibilities relating to Fraud in an Audit of Financial Statements and ISA 570 (R), Going Concern reinforce the application of professional skepticism by the auditors.

https://www.iaasb.org/news-events/2025-07/iaasb-highlights-how-revised-standards-reinforce-professional-skepticism

5) July 2025: Revision to ISA 240 (R), The Auditors' Responsibilities relating to Fraud in an Audit of Financial Statements

The IAASB issued revised ISA in the critical areas of auditor's responsibilities in relation to fraud when performing audit of the financial statements. The amendments relate to application of professional skepticism in all stages of audit, sharper focus during risk assessment and emphasis on timely communication with Management and Those Charged with the Governance.

https://www.iaasb.org/news-events/2025-07/iaasb-revises-fraud-standard-enhance-public-trust

6) May 2025: New Frequently Asked Questions on ISA 570 (R-2024), Going Concern

The IAASB issued FAQs in the context of comprehensive revision to ISA 570, in particular, the areas relating to auditor's work in evaluating the management's assessment of going concern.

https://www.iaasb.org/news-events/2025-05/new-faq-going-concern-now-available-iaasb

7) March 2025: Comprehensive implementation guidance on ISA for Less Complex Entities

The IAASB published a comprehensive toolkit to guide first-time implementation of its standalone auditing standard designed specifically for audits of financial statements of smaller and less complex entities (LCE) issued in December 2023 and applicable for audit of financial statements of annual reporting period on or after 15th December 2025.

https://www.iaasb.org/news-events/2025-03/iaasb-releases-comprehensive-implementation-guide-isa-lce

Public Company Accounting Oversight Board, U.S. (PCAOB)

1) October 2025: Staff Guidance- Examples of Evaluating the Reliability of External Information Provided by the Company in Electronic Form

PCAOB issued guidance to auditors in the implementation of amendments to PCAOB auditing standard viz. AS 1105, Audit Evidence. These amendments are related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of External Information provided by the company in Electronic Form.

https://pcaobus.org/oversight/standards/staff-guidance

American Institute of Certified Public Accountants (AICPA), U.S.

1) March 2026: Enhancing Audit Quality 2025 Highlights Report

AICPA issued a report on its activities during 2025 under initiative called 'Enhancing Audit Quality (EAQ)'. This report states that AICPA's initiatives focused on audit areas such as risk assessment process, quality management, technology-enabled auditing etc.

https://www.aicpa-cima.com/news/download/enhancing-audit-quality-2025-highlights-report

2) 2025: Audit Sampling- Audit Guide (2025)

AICPA issued revised audit guide on application of sampling in audit of financial statements. The 2025 revision takes into consideration the revisions in various auditing standards. Globally, it is considered as a primary resource for application of both statistical and non-statistical audit sampling. It contains several case studies illustrating real-time application of this guide.

https://www.aicpa-cima.com/cpe-learning/publication/audit-sampling-audit-guide

DISCLAIMER OF OPINION – AN ESCAPE ROUTE OR A REGULATORY TRAP?

PUKHRAJ TAK | Executive Director, NFRA

Executive Summary

A Disclaimer of Opinion is one of the most serious forms of audit reporting under SA 705. It is issued when the auditor is unable to obtain sufficient appropriate audit evidence and concludes that the possible effects of undetected misstatements could be both material and pervasive.

While the Standards on Auditing provide a legitimate framework for issuance of a disclaimer, recurring disclaimer opinions raise important questions relating to audit effectiveness, management accountability, governance oversight and stakeholder confidence. This article examines disclaimer of opinions through the lens of the Companies Act, 2013 and the Standards on Auditing applicable in India.

Why This Topic Matters

Financial statements are the primary means through which companies communicate financial performance and position to shareholders, lenders, regulators and other stakeholders. The statutory audit serves as an independent assurance mechanism intended to enhance confidence in those financial statements. When an auditor issues a Disclaimer of Opinion, users do not receive the assurance ordinarily associated with an audit opinion. Consequently, the circumstances leading to such disclaimer assume considerable significance.

Regulatory Architecture

Figure 1 – Financial Reporting Ecosystem

Board of Directors

⬇

Preparation of Financial Statements

⬇

Statutory Audit

⬇

Auditor's Report

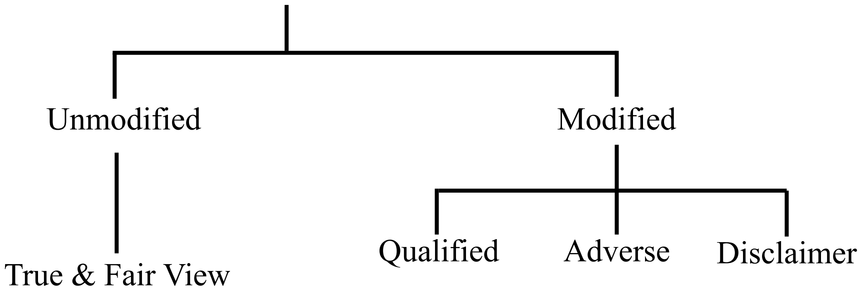
⬇

Shareholders / Investors / Lenders / Regulators / Other Stakeholders

Key Statutory Provisions

Provision	Subject Matter	Relevance
Section 129	Financial Statements	True and fair view requirement
Section 134	Board's Responsibility	Approval and responsibility for financial statements
Section 143	Auditor's Report	Auditor's reporting obligations
Section 177	Audit Committee	Oversight of financial reporting and audit process
Section 140	Resignation of Auditor	Relevant where engagement continuance is considered
SA 200	Overall Objectives	Reasonable assurance and reporting
SA 500	Audit Evidence	Sufficiency and appropriateness of evidence
SA 705	Modified Opinions	Disclaimer requirements
SA 260	Communication with TCWG	Governance communication
SA 220	Quality Management	Engagement quality responsibilities

Spectrum of Audit Opinions



What Exactly is a Disclaimer of Opinion?

Under SA 705, the auditor is required to disclaim an opinion when:

- sufficient appropriate audit evidence cannot be obtained; and
- the possible effects of undetected misstatements could be both material and pervasive.

The standard reporting language generally states:
"We do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion."

A disclaimer therefore signifies an inability to form an audit opinion rather than a conclusion that the financial statements are misstated.

Impact of Disclaimer of Opinion

A disclaimer of opinion does not imply that no audit procedures were performed. Rather, it indicates that the auditor was unable to obtain sufficient appropriate audit evidence necessary to form an opinion on the financial statements as a whole.

However, from a stakeholder perspective, significant questions arise:

Audit Committees	Investors	Lenders	Regulators
a) What prevented the auditor from obtaining evidence? b) What corrective actions are necessary?	a) Can reliance be placed on the financial statements? b) What risks remain unresolved?	a) Is the financial information adequate for credit decisions? b) Are assets and liabilities properly supported?	a) Why was evidence unavailable? b) Does the matter indicate governance weaknesses?

Increasing Trend of Disclaimer Opinions

Publicly available information indicates that disclaimer opinions have been issued in several cases involving:

✓ recoverability of loans and advances
✓ significant related-party transactions
✓ existence of assets
✓ recoverability of receivables
✓ unidentified counterparties
✓ limitations on access to records

While a disclaimer is an appropriate response where audit evidence cannot be obtained, repeated disclaimer of opinions on substantially similar matters may warrant closer scrutiny from a governance perspective.

Auditor's Responsibilities

SA 200 requires the auditor to obtain reasonable assurance regarding whether the financial statements are free from material misstatement. Where sufficient appropriate audit evidence cannot be obtained, the auditor is required to:

- evaluate the implications of the limitation;
- communicate with those charged with governance;
- consider whether alternative procedures are available;
- determine the appropriate audit opinion;
- where applicable, consider whether withdrawal from the engagement is legally permissible and practicable.

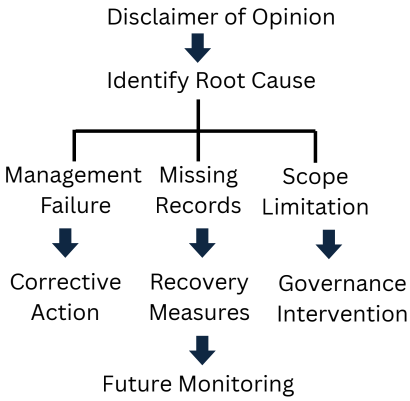
A disclaimer of opinion should be viewed as a reporting outcome arising from limitations in evidence rather than an end in itself.

Recurring Disclaimer Opinions – An Important Governance Question

Occasionally, disclaimer of opinions are observed over successive reporting periods in relation to substantially similar matters. Such situations may warrant evaluation of:

Management	Auditor	Audit Committee	Regulators
a) Whether management has resolved the underlying issue? b) Whether adequate documentation have been produced?	a) Can audit objectives realistically be achieved? b) Whether engagement continuance is appropriate?	a) Whether corrective actions have been monitored? b) Whether accountabil--ity of management has been ensured?	Do recurring limitations indicate broader governance concerns?

Audit Committee Response Framework



Is Disclaimer an Escape Route or a Regulatory Trap?

The answer depends on the facts and circumstances. A disclaimer is neither inherently improper nor evidence of audit failure. Indeed, SA 705 specifically contemplates situations where a disclaimer becomes necessary.

However, repeated disclaimers on material matters may expose:- management failures; governance weaknesses; ineffective oversight mechanisms, or unresolved evidentiary deficiencies. In such circumstances, a disclaimer may evolve from a reporting mechanism into a regulatory concern attracting greater scrutiny from regulators, investors and other stakeholders.

Concluding Observations

A Disclaimer of Opinion is among the most significant audit reporting outcomes contemplated by the Standards on Auditing. Although fully justified in appropriate circumstances, disclaimer of opinions raise important questions regarding the reliability of financial information and the effectiveness of corporate governance mechanisms. Accordingly, management, auditors, audit committees and regulators should carefully evaluate the circumstances giving rise to disclaimer of opinions and ensure timely corrective action to preserve confidence in the financial reporting ecosystem.

Opinions expressed in this article are solely those of the author and do not represent the views of the organization.

REGULATORY EFFECTIVENESS –THE LAST MILE CHALLENGE

ARUN KUMAR | Executive Director, NFRA

***India** is a unique country where the world's largest complement of people from different religions, cultures, languages, and cuisines coexist harmoniously. We call it unity in diversity, which is both our greatest strength and our greatest challenge. Having spent 7 years in NFRA, I see a miniature version of the same unity in diversity in the financial reporting ecosystem as well. While the domain is united by the Accounting Standards, Auditing Standards, other applicable regulations and the Companies Act, the various players and differing practices in the ecosystem make it diverse. Be it the various regulatory bodies, the preparers - which include large and small corporates, conglomerates, shell companies, and bankrupts; the auditors – around 2500 auditors auditing the public interest entities consisting of proprietors, partnerships, LLPs, networks, global players, local players, uncertain players; or the various users – such as investors, potential investors, retail investors, lenders, trade creditors, and other creditors.*

Each one or group of them poses different challenges to the regulators in maintaining a high-quality financial reporting ecosystem. Challenges exist and differ at the time of formulating the standards and regulations, implementing them, handholding the change, and ensuring that diverse users make full use of the financial statement disclosures. The regulatory perspective and priorities also differ across these three stages. Amid all these challenges and more, Indian Financial Sector regulators face the greatest hurdle at the last mile of the journey – the users of the financial statements. The challenge is directly correlated to the financial and accounting literacy of our growing base of users of financial statements.

Setting the Standards

The Indian regulators and key stakeholders proactively engage in international deliberations when a standard is introduced or amended. We ensure, to the extent possible, that our concerns are considered, and when we adopt these standards in India, we conduct extensive consultations. We provide "carve-outs" and "carve-ins" not out of a desire to be different, but out of a necessity to be accurate to our economic reality.

Navigating Compliance

Once the ink is dry on a new standard, the regulator shifts from the role of Standard Setter to that of Navigator. This is where the rubber meets the road — where preparers and auditors must translate theory into practice.

A regulator's role here is to ensure that "compliance" is not treated as a "check-the-box" exercise. The challenge for the regulator is to persuade the preparers and auditors to shift the focus from technical compliance to substantive integrity.

The Olympus case in Japan is a reminder of why substantive integrity matters. For two decades, the Olympus Company used complex off-balance-sheet vehicles to hide $1.7 billion in losses. The company made acquisitions at unreasonable valuations and charged inflated advisory fees to fictitious entities. All this was done to hide a huge loss on earlier investments, which was required to be disclosed when Japan changed to fair value accounting. They also created off-balance-sheet entities to conceal impairment losses. The fraud came to light, and later Olympus admitted to using funds to cover up investment losses, naming the former CEO, auditor, and executive vice president as the primary culprits.

Although one of the auditors raised questions with the Board regarding these unreasonable acquisitions, none of these concerns was reflected in the audit report. That auditor was forced to resign, and the incoming auditor also issued a clean report, thereby covering up the fraud in subsequent periods.

Here, the auditors focused on technical compliance but failed to consider substantive integrity.

In India, we face similar hurdles when new standards are introduced. When Ind AS 116, Leases, was introduced, it suddenly brought significant off-balance-sheet assets and liabilities onto the books. Almost all leases of more than 12 months and above a low-value threshold must now be recognised on the balance sheet as right-of-use assets with corresponding lease liabilities. The regulator's role was to ensure that auditors and companies didn't just look at the lease contract but at the substance of control, so that only legitimate lease transactions are recognised on the books as assets and liabilities.

Bridging the User's Understanding Gap

We now reach the most challenging stage of the regulatory journey. A country can have perfect standards and maximum compliance, but if the users of the financial statement — such as an investor who is a pensioner, a newly graduated analyst, a cooperative-sector lender, or a rural supplier — cannot understand the language, the regulator has failed. This understanding gap is the regulator's final frontier. I would like to argue that this stage is most critical and that every participant in this ecosystem has a moral or legal obligation to address this last-mile challenge.

It is often said that accounting is the language of business, and accounting standards are the grammar that prevents that language from devolving into chaos and confusion. However, the challenge for an emerging economy like India is how many of our users of financial statements can read and comprehend this language? A sophisticated professional user may make use of every disclosure in the financial statement and arrive at informed decisions, while for the majority, non-sophisticated, ordinary users of our country, the 100s of pages of text and numbers may lead to information overload, and they may get lost in the decision-making process, ending up with wrong decisions.

There is also a direct correlation between a business's complexity and the complexity of its standard. However, there is an inverse correlation between complexity and understanding. Companies may provide 200-page annual reports filled with "Sensitivity Analyses" and "Fair Value Hierarchies." But to the common retail investor, this is often information smoke.

In the earlier examples of Olympus and Lease Accounting, it was the regulators' responsibility not only to ensure compliance by the preparers and auditors but also to ensure that users understand what fair value accounting means in substance and what a right-of-use asset and a lease liability signify.

Enron’s downfall wasn't that they didn't disclose their Special Purpose Vehicles; it was that they disclosed them in dense, impenetrable accounting-ease that even the brightest analysts missed the rot. They were compliant, but incomprehensible.

An effective regulator today must ask: Are we disclosing more but informing less? To bridge this gap, regulators are now pushing for plain-English summaries and integrated reporting that tells a story, not just a series of numbers. Leveraging Artificial Intelligence that traverses regional language barriers, reputable companies are now in a position to democratise annual reports so that even a school student can run Q&As over the ocean of technical information.

What, then, makes a financial sector regulator effective? It is not only the impact of deterrent regulatory actions taken, proactive preventive measures or the quality of regulations issued. An effective regulator also masters the three phases of implementation challenge by:

1. Ensuring the sectoral standards and regulations are robust and globally aligned yet locally relevant.
2. Ensuring auditors and preparers act as gatekeepers, not gate-openers.
3. Ensuring the disclosure results in actual actionable knowledge for all categories of users of financial statements.

An observed practice in NFRA orders, reports and circulars is that they are mostly free of jargon and readers of these communications can generally understand what is conveyed, regardless of their financial literacy. Making users understand financial language is an uphill task, but the path is clear. When it comes to Accounting Standards, the task is not entirely a local issue – it is a global playground.

Regulators are like a lighthouse on a seashore. It guides every seafarer safely to their intended destination. They are the guardians of a system where a rupee invested in Kochi is backed by the same or better standard of truth as a dollar invested in New York or a pound invested in London. Unless the User’s understanding Gap is addressed effectively, i.e., unless the grammar of business is intelligible to the last investor on the street, the regulator’s work remains unfinished.

Opinions expressed in this article are solely those of the author and do not represent the views of the organization.

NEED FOR A DILIGENT AUDIT APPROACH IN FAIR VALUE ASSESSMENT: A CASE STUDY

AMIT KUMAR JAIN | CGM, NFRA

In the previous edition, an attempt was made to introduce the concept of fair value and its application across various line items under Indian Accounting Standards (Ind AS). Building on that discussion, this article presents an illustrative case study to demonstrate how seemingly modest changes in key assumptions can significantly impact the financial statements of an entity.

A. CASE STUDY

This illustrative case pertains to the assessment of the recoverable value of an investment made by a holding company in its subsidiary, assessed as on 31.03.2024. The management performed a valuation based on Discounted Cash Flow (DCF) methodology using the Free Cash Flow to the Firm (FCFF) for the next six years, i.e. from the FY 2024-25 to FY 2029-30. The key assumptions underlying the valuation were as follows:

- Projection Period: 6 years
- Revenue Growth Rate considered for the cashflow: 11.1%
- Terminal Growth Rate: 4.5%
- Discount Rate: 16%

It was also noted that historical revenue growth rate of the subsidiary company was 4.3%. Based on these assumptions, the recoverable amount was computed, as summarised below.
In the interest of brevity, all the line items from revenue till arriving of FCFF, viz. expenses, EBITDA, working capital and capital expenditure requirements etc. have not been presented:

Table 1: Computation of Recoverable Amount (6-Years Model)

Values in Rs. Crores

Years	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Cash flow as per the management	21	41	17	127	73	205
Discount Factor @ 16%	0.862	0.743	0.641	0.552	0.476	0.41
Discounted cash flow	18.1	30.5	10.9	70.1	34.7	84.1

Therefore, total of discounted cash flow for 6 years was ₹ 248.4 Crores.

Terminal Value (TV) was calculated as per the Growth Model given below

$TV = (CF_n \times (1 + g)) / (r - g)$

Where:

- TV = Terminal Value
- CF_n = Cash flow in the last year (final forecast year)
- g = Terminal growth rate
- r = Discount rate

In six years model, cash flow of sixth year being the last year, was considered for calculation of terminal value i.e ₹ 205 crore, accordingly the terminal value becomes:

$$TV = \frac{205 \times (1 + 4.5\%)}{16\% - 4.5\%} = ₹1862.8 \text{ crore}$$

And, the discounted terminal value becomes = 1862.8 x 0.41 = 763.7 crore

Thus, recoverable amount = Total Discounted cash flow of 6 years + Discounted Terminal Value

= 248.4 + 763.7

= ₹1012.1 crore

B. CRITICAL ISSUES IDENTIFIED

Two key aspects warranted closer scrutiny in this case, that **whether consideration of six years model for projection of the cashflow was appropriate** and **whether assumed revenue growth rate could be more than the historical growth rate?** This has been dealt with in the subsequent paragraphs:

1. Appropriateness of Cashflow Projection Period

- **Para 33 (b) of Ind AS 36** stipulates that cash flow projections should ordinarily be based on a maximum period of **five years**, unless a longer period can be justified.
- **Para 35** further allows longer projections only if management can demonstrate the reliability of such estimates.

In this illustrative case:

- Rationale had to be provided by the management to justify the use of 6-years projection period, which was not done. It becomes further important considering that in the last year of the model, i.e. in the 6th year, FCFF values were loaded with high value of ₹205 crore, which significantly increased the terminal value.
- The Audit Team holds significant responsibility in such case to critically evaluate or challenge this assumption.

2. Reasonableness of Growth Assumptions

- The projected revenue growth rate was assumed to be **11.1%,** which significantly exceeded the **historical growth rate of 4.3%**.
- **Para 34 of Ind AS 36** requires that projections be based on reasonable and supportable assumptions consistent with **past performance.**

However:

- There was no evidence of challenge by the Engagement Team (ET) regarding the basis of this optimistic growth assumption. Longer period of six years than of required five years along with higher growth rate put compounding effect in increasing of the terminal FCFF values.
- Such projections not being benchmarked against historical trends, or otherwise explained by the management, were not as per the requirements of the Ind AS.

3.Sensitivity Analysis: Impact of Reducing Projection Period

- To assess the impact of using a more appropriate projection period, the recoverable amount was required to be recalculated using a **5-year model**, keeping other assumptions constant.

Table 2: Computation of Recoverable Amount (5-Years Model)

Values in Rs. Crores

Years	2024-25	2025-26	2026-27	2027-28	2028-29
Cash flow as per the management	21	41	17	127	73
Discount Factor @ 16%	0.862	0.743	0.641	0.552	0.476
Discounted cash flow	18.1	30.5	10.9	70.1	34.7

Total Discounted cash flow of 5 years is ₹ 164.3 crore

Terminal Value (5-Year Model):

In five years model, cash flow of fifth year needs to be considered for calculation of terminal value i.e was ₹73 crore, accordingly the terminal value becomes:

$$\text{TV} = \frac{73 \times (1 + 4.5\%)}{16\% - 4.5\%} = ₹663.35 \text{ crore}$$

And, the discounted terminal value becomes = 663.35 x 0.476 = 315.8 crore

Thus, recoverable amount = Total Discounted cash flow of 5 years + Discounted Terminal Value

= 164.3 + 315.8

= ₹480.1 crore

C. KEY OBSERVATIONS

- The recoverable amount decreases drastically from ₹1012.1 crore to ₹480.1 crore, i.e. by ₹532 crore when the projection period is reduced from 6 years to 5 years.
- This highlights the high sensitivity of valuation outcomes to key assumptions such as projection horizon and growth rate, which significantly affects the terminal value, and therefore the recoverable amount.
- In such cases, the Engagement Team could be in compliance with Ind AS 36 requirements and find this material difference in the recoverable amount by challenging the management regarding:
  - the appropriateness of the projection period, and
  - the consistency of growth assumptions with historical performance

D. CONCLUSION

It may be noted that how modest changes in key assumptions, i.e. taking six years model instead of five years model, and cumulative effect of consideration of growth rate of revenue as 11.1% rather than 4.3%, can significantly affect the recoverable amount and materially impact the financial statements of an entity. This case, therefore, underscores the critical importance of a diligent and questioning audit approach in fair value assessments.

In such cases, auditors need to:

- Exercise professional skepticism while evaluating management assumptions
- Ensure compliance with Ind AS 36, particularly regarding:
  - projection periods,
  - discount factors,
  - growth assumptions, and
  - supporting documentation.
- Perform sensitivity analysis to assess the robustness of valuation outcomes
- Adequately document the rationale for accepting any deviations from standard guidance

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ENGAGEMENTS WITH INTERNATIONAL ORGANISATIONS

IFIAR Plenary Meeting

Shri Nitin Gupta, Chairperson, NFRA and Ms. Vidhu Sood, Secretary, NFRA participated in 2026 International Forum of Independent Audit Regulators (IFIAR) Plenary Meeting held in Paris, France on 21st to 23rd April, 2026. The IFIAR Plenary Meeting touched upon several important topics related to audit oversight, such as audit firm governance, technology and sustainability assurance, as well as providing the attendee Members opportunity to share their experiences and developments in audit oversight with standard setters, global audit firm leadership, on important matters of audit quality.

IFIAR, Paris, France | Event Date 21st to 23rd April, 2026

Enforcement Working Group Meeting of IFIAR

NFRA as a member of International Forum of Independent Audit Regulators (IFIAR) participated in the IFIAR's Enforcement Working Group (EWG) 2026 Face-to-Face Meeting held on 27th to 28th May, 2026 in Tirana, Albania. The meeting provided a platform for enforcement professionals from IFIAR members to exchange experiences and best practices on audit enforcement and regulatory cooperation.

IFIAR's EWG 2026 | Event Date 27th to 28th May, 2026

PHD Conference on Trust, Transparency and Future of Governance

Shri Nitin Gupta, Chairperson, NFRA, addressed, as Chief Guest, the conference on "Trust, Transparency and Future of Governance" organised by the PHD Chamber of Commerce on 14th May, 2026 at PHD House, New Delhi.

PHD Chamber of Commerce Conference | Event Date 14th May, 2026

Training Programme for Peer Reviewers of ICAI

Shri P. Daniel, Full Time Member, NFRA, as Chief Guest attended "One day training programme for Peer Reviewers" organised by Peer Review Board of ICAI and hosted by Coimbatore Branch of SIRC of ICAI at Thudiyalur, Coimbatore on 18th April, 2026.

Training Programme for Peer Reviewers | Event Date 18th April, 2026

Accounting Standards Day Event by ICAI

Shri P. Daniel, Full Time Member, NFRA, as Speaker attended inaugural cum Leadership session of Accounting Standard Day event "Accounting Standards: The Backbone of Trust in Financial Reporting" organised by the Accounting Standards Board (ASB) of ICAI at Chennai on 25th April, 2026.

Accounting Standards | Event Date 25th April, 2026

CII’s Session For Independent Directors and Audit Committee Members

Shri Nitin Gupta, Chairperson, NFRA, delivered the keynote address at an “Interactive Session with NFRA” hosted by the Confederation of Indian Industry on 30th May, 2026 in Chennai for Independent Directors and Audit Committee Members. Ms. Vidhu Sood, Secretary, NFRA, also presented the potential of NFRA’s Audit Quality Inspections towards providing feedback to Audit Committees, with a view to strengthening corporate governance and audit quality.

CII’s Interactive Session | Event Date 30th May, 2026

ASSOCHAM's National Conclave

Shri Nitin Gupta, Chairperson, NFRA, as the Chief Guest, addressed ASSOCHAM's National Conclave on the theme "Future of Financial Governance", organised on 17th June 2026 in New Delhi.

ASSOCHAM's National Conclave | Event Date 17th June, 2026

Online Session with FICCI CFO Council

Shri Nitin Gupta, Chairperson NFRA, interacted virtually with the FICCI CFO Council on 13th May, 2026 on key developments in the regulatory landscape relating to financial reporting, auditing and compliance.

Mission Karamyogi - Sadhana Saptah

NFRA observed "Mission Karamyogi – Sadhana Saptah" from 2nd April to 10th April, 2026. Officers of NFRA participated in the programme and completed the prescribed learning hours and courses as part of the initiative.

Mission Karamyogi | Event Date: 2nd - 10th April, 2026

Data Intelligence and Generative AI

A session on “Data Intelligence and Generative AI” for NFRA employees was organised with Dr. Raghuram Bharadwaj, Assistant Professor, IIIT Bangaluru on 30th June, 2026.

Data Intelligence and Generative AI | Event Date:30th June, 2026

Kautilya Conclave 2026 लेखा-परीक्षा फर्म के निरीक्षण पर मंथन

NFRA hosted a two-day conclave for its officers and staff titled “Kautilya Conclave-2026 – लेखा-परीक्षा फर्म के निरीक्षण पर मंथन” on 17th -18th April 2026 at FICCI Federation House, New Delhi. The Conclave was inaugurated by Shri Nitin Gupta, Chairperson, NFRA, and symbolized NFRA’s continuous endeavour towards skilling, knowledge sharing, and the dissemination of best practices. Various technical sessions related to audit and inspection practices were conducted by the officers of NFRA, including sessions on “Inspection Report Drafting” by Shri P. Daniel, Full-Time Member, NFRA, and “Importance of Inspections in Improving Audit Quality” by Shri Sushil Kumar Jaiswal, Full-Time Member, NFRA.

The event also marked the publication of NFRA संवाद, Volume 2. This milestone marked not only the publication of the second volume of the newsletter but also reaffirmed NFRA’s continued commitment to strengthening public trust and financial reporting through dissemination of information about the working of regulator.

Kautilya Conclave | Event Date 17th- 18th April, 2026

Workshop on Responsible Regulation

Shri Amit Kumar Mittal, DGM and Shri Neelesh Inapakurti, AGM attended a Two-Day Workshop on Responsible Regulation - Regulatory Impact Assessments and Public Consultations, held on 08th and 09th May, 2026 at Vidyashilp University, Bengaluru. The workshop broadly covered Principles of Effective Regulation and Regulatory Governance, Public Consultation Mechanisms and other related topics.

Workshop on Responsible Regulation | Event Date: 8th - 9th May, 2026

Staff Achievements

During the quarter, Shri Shyam V. Tonk, Executive Director, NFRA, successfully completed his Master of Business Administration (MBA) from the University of Massachusetts Global, USA.

Shri Gaurav Saini, Manager, NFRA, successfully completed the Certified Information Systems Auditor (CISA) certification from the Information Systems Audit and Control Association (ISACA)

Miss Nitika Bansal, Young Professional, NFRA, successfully completed her Chartered Accountancy (CA) from the The Institute of Chartered Accountants of India (ICAI).

SNAPSHOT OF OFFICE EVENTS

International Yoga Day

NFRA celebrated International Yoga Day by organising a yoga session led by an external yoga expert, reinforcing the importance of physical and mental well-being among its officers and staff.

Yoga Day

Largest Online Yoga Session - Guinness World Record

NFRA employees participated in the Ministry of Ayush's Guinness World Record attempt for the largest simultaneous participation in an online Yoga Session on 14th June, 2026.

Largest Online Yoga Session | Event Date:14th June 2026

TB Mukt Bharat Abhiyaan

Shri Nitin Gupta, Chairperson, NFRA, administered the "TB-Free India" pledge to all officers and staff on 5th June 2026 in observance of the TB Mukt Bharat Abhiyaan.

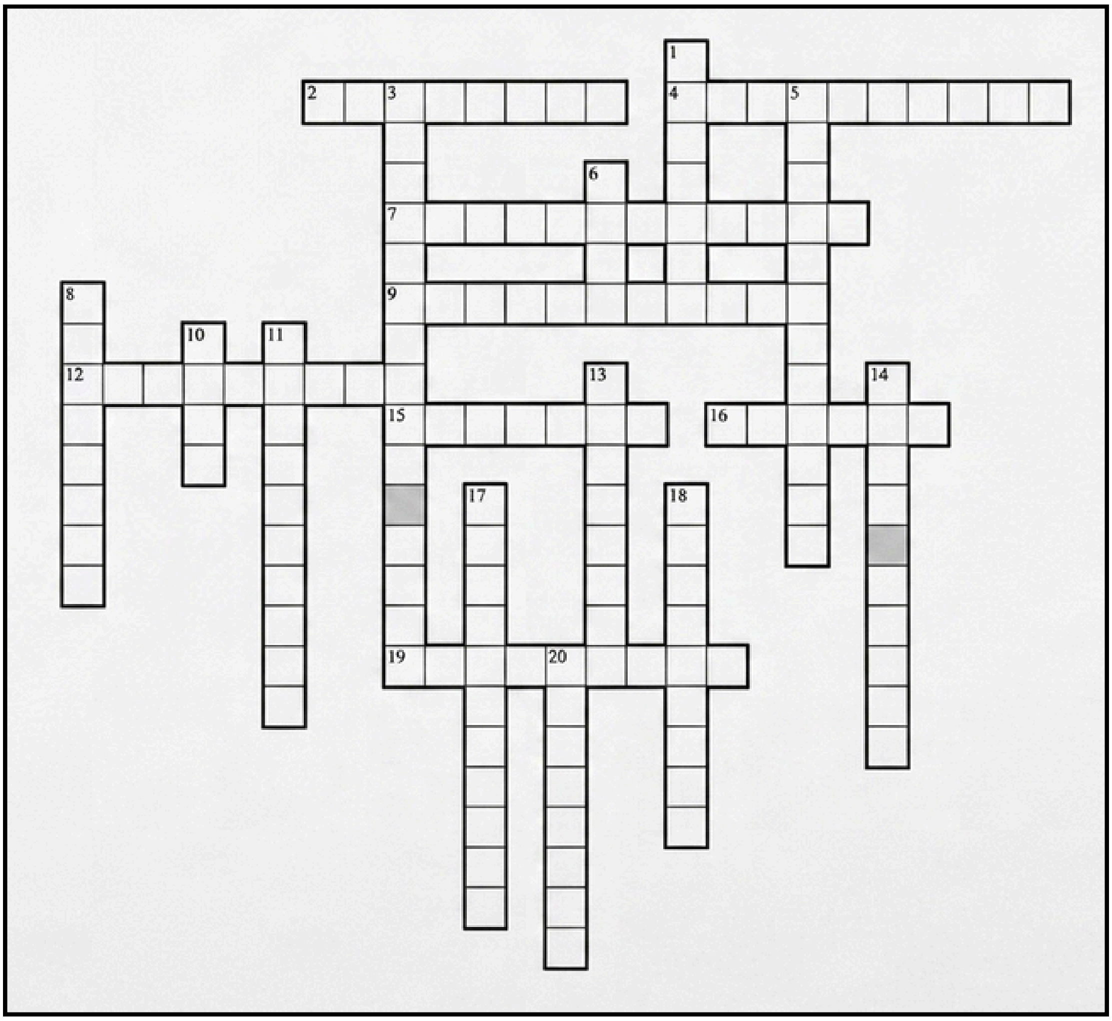
TB Mukt Bharat Abhiyaan | Event Date: 5th June, 2026

आधिकारिक भाषा कार्यान्वयन बैठक

राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण (NFRA) की विभागीय राजभाषा कार्यान्वयन समिति की त्रैमासिक बैठक 30th June, 2026 को आयोजित की गई थी।

CROSSWORD PUZZLE – N002

Based on Ind AS 36 - *Impairment of Assets*



Across

2. Under the expected cash flow approach, the result represents the ________ average of all possible outcomes. (8)

4. An impairment reversal is limited to the carrying amount that would have been determined (net of amortisation or depreciation) had no loss been ________ in prior years? (10)

7. Term generally used instead of depreciation for the systematic allocation of the depreciable amount of an intangible asset (12)

9. Higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use (11)

12. Which assets, other than goodwill, contribute to the future cash flows of both the cash-generating unit under review and other units? (9)

15. If a discount rate includes the effect of price increases due to general inflation, future cash flows are estimated in what terms? (7)

16. The discount rate used in measuring value in use (6)

19. Goodwill is allocated to cash-generating units that are expected to benefit from what specific result of a business combination? (9)

Down

1. After reducing goodwill, impairment losses are allocated to other assets of a unit on what basis? (7)

3. When an asset's carrying amount exceeds the amount to be recovered through its use or sale (15)

5. What internal source of information, alongside physical damage, suggests an asset may be impaired? (12)

6. Management's cash flow projections based on budgets or forecasts shall generally cover a maximum of how many years (4)

8. Future cash flows from a restructuring to which an entity is not yet committed (8)

10. Exchange rate is used to translate the present value of foreign currency future cash flows (4)

11. The reversal of an impairment loss for goodwill is what (10)

13. Amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses (8)

14. Price that would be received to sell an asset in an orderly transaction between market participants (10)

17. What type of assets are specifically excluded from the scope of Ind AS 36? (11)

18. What quality is essential for management to exercise when identifying an asset's cash-generating unit? (9)

20. Value subtracted from the cost of an asset to determine the depreciable amount (8)

Prepared by:

Nitika Bansal | Young Professional, NFRA

Refer to the subsequent pages for the answers.

N001 PUZZLE SOLUTIONS OF NFRA NEWSLETTER PUBLISHED IN APRIL 2026.

1. ICAI
2. REGULATION
3. INVESTIGATE
4. NONCOMPLIANCE
5. JURISDICTION
6. GOVERNANCE
7. OVERSIGHT
8. AUDIT
9. OPINION
10. ACCURACY
11. SANCTION
12. NFRA
13. TRANSPARENCY
14. ETHICS
15. SAS
16. ACCOUNTABILITY
17. TEN
18. COMPLIANCE
19. ASSESSOR
20. FS
21. INDAS
22. AUDITOR

N002 PUZZLE SOLUTIONS

1. PRORATA
2. WEIGHTED
3. IMPAIRMENT LOSS
4. RECOGNISED
5. OBSOLESCENCE
6. FIVE
7. AMORTISATION
8. EXCLUDED
9. RECOVERABLE
10. SPOT
11. PROHIBITED
12. CORPORATE
13. CARRYING
14. FAIR VALUE
15. NOMINAL
16. PRETAX
17. INVENTORIES
18. JUDGEMENT
19. SYNERGIES
20. RESIDUAL

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