



# BEYOND THE BALANCE SHEET

---

*Let's Audit*

NFRA Observations • Standards on Auditing • Regulatory Landscape

Presented at ICAI Ernakulam on 19<sup>th</sup> May 2026

# NFRA – Role, Powers & Key Observations

*Understanding the Regulator | Audit Quality | Enforcement Actions*

# National Financial Reporting Authority (NFRA) – Overview

*Established under Section 132 of the Companies Act, 2013 | Operational since October 2018*

## MANDATE

Recommend accounting & auditing policies/standards to Central Govt.  
Monitor & enforce compliance with standards.

## JURISDICTION

Listed companies (BSE/NSE), unlisted public companies with paid-up capital  $\geq$  ₹500 Cr or turnover  $\geq$  ₹1,000 Cr, and banking / insurance / electricity entities.

## POWERS

Investigate auditors; impose penalties; debar auditors from practice for up to 10 years; recommend prosecution.

## ANNUAL AUDIT QUALITY REVIEW

NFRA conducts Audit Quality Reviews (AQRs) of audit firms and issues Annual Inspection Reports with findings.

# NFRA – Role and Significance

## ROLE & SIGNIFICANCE

---

- Ensures audit quality & independence
- Strengthens public trust in financial reporting
- Aligns Indian audit practices with global standards
- Acts as a deterrent against professional negligence

## WHY THE FEAR

---

- Stringent Enforcement
  - Investigate, penalize, and debar auditors for lapses
  - NFRA's orders are public, detailed, and punitive, creating reputational risk.
- Audit Failures Exposed
  - Highlighted systemic weaknesses—poor documentation, lack of skepticism, and compromised independence.
- Public Nature of Orders
  - Orders online, making failures visible to clients, investors, and regulators.
- Shift in Professional Culture
  - Auditors are used to ICAI's peer-driven disciplinary approach.

# NFRA – Major Observation

- 
- Delay in reporting fraud, poor documentation**
  - Inadequate audit procedures**
  - Abdicated responsibility inappropriate conclusions**
  - Audit lapses, failure to detect fraud indicators**
  - Lack of independence**

# NFRA – What we need to do

- 
- Strengthen audit documentation**
  - Maintain independence**
  - Enhance fraud detection procedures**
  - Continuous training**
  - Culture of accountability**

# NFRA – Key Observations: Audit Documentation & Independence

## DOCUMENTATION DEFICIENCIES

---

- Absence of sufficient audit evidence in working papers
- Failure to document assessment of significant risks
- Lack of engagement quality control review (EQCR) evidence
- Non-documentation of professional skepticism exercised
- Missing linkage between audit program and conclusions

## INDEPENDENCE VIOLATIONS

---

- Long association of audit partners beyond rotation norms
- Non-compliance with cooling-off period requirements
- Undisclosed financial interests in auditee entities
- Providing prohibited non-audit services (SA 620 conflicts)
- Inadequate safeguards against familiarity threat

# NFRA – Key Observations: Professional Skepticism & Going Concern

*Recurring themes across NFRA inspection reports (2020–2024)*

## 01 Professional Skepticism

- Blind reliance on management representations
- Failure to corroborate with independent evidence
- Weak challenge to accounting estimates

## 02 Going Concern Assessment

- Incomplete analysis of liquidity indicators
- Overlooking defaults on borrowings
- Not disclosing material uncertainty

## 03 Fraud Risk Procedures

- Inadequate response to fraud risk factors
- Overreliance on internal controls without testing
- Non-reporting of suspected fraud (SA 240/260)

## 04 Related Party Transactions

- Incomplete identification of related parties
- No independent verification of RPT disclosures
- Failure to assess arm's length nature

# NFRA – Notable Enforcement Actions & Penalty Orders

*NFRA has issued several landmark penalty orders. Key takeaways for auditors:*

Entity / Context	Key Violation Found	SA Breached	Outcome
Infrastructure / EPC Co.	Failure to report misstatement; inadequate audit evidence on RPTs	SA 240, SA 550	Debarment 5 yrs + penalty
NBFC / Fin. Services Co.	Non-identification of NPA provisions; going concern not flagged	SA 570, SA 700	Debarment 3 yrs + penalty
Real Estate Group	Overreliance on management certificates; no physical verification	SA 501, SA 580	Monetary penalty + reprimand
Telecom Co.	Revenue recognition not challenged; fictitious entries not detected	SA 240, SA 315	Penalty + show-cause issued
Infrastructure SPV	Audit documentation inadequate; EQCR not performed properly	SA 220, SA 230	Monetary penalty

# Standards we need to hold on

*Understanding the Regulator | Audit Quality | Enforcement Actions*

# SA 700 Series – Overview of Key Reporting Standards

## SA 700

### Forming an Opinion & Reporting on FS

Forms the backbone – requires auditor to express opinion on whether FS present true & fair view in accordance with applicable framework.

## SA 701

### Communicating Key Audit Matters (KAM)

Mandatory for listed entities – auditor communicates matters of most significance in the audit. Enhances transparency to stakeholders.

## SA 705

### Modifications to the Auditor's Opinion

Governs Qualified, Adverse and Disclaimer of Opinion. Understanding threshold of materiality and pervasiveness is critical.

## SA 706

### Emphasis of Matter & Other Matter

EOM – draws attention to FS disclosure. OM – relates to matters not presented in FS but relevant to users. Not a substitute for modified opinion.

# SA 700 – Forming an Opinion: Step-by-Step Process



## Step 1: Evaluate Sufficiency of Evidence

Assess whether sufficient appropriate audit evidence has been obtained to reduce audit risk to acceptably low level.

## Step 2: Assess Accounting Policies

Evaluate whether accounting policies are appropriate, consistently applied, and disclosed in accordance with applicable GAAP.

## Step 3: Review Estimates & Disclosures

Evaluate reasonableness of accounting estimates. Assess completeness and appropriateness of FS disclosures.

## Step 4: Evaluate Overall FS Presentation

Consider whether FS as a whole present true & fair view and are free from material misstatement.

## Step 5: Form & Express Opinion

Issue Unmodified (clean) or Modified opinion (qualified/adverse/disclaimer) with appropriate basis paragraph.

# SA 701 – Key Audit Matters (KAM): What, Why & How

KAMs are matters that, in the auditor's professional judgment, were of MOST SIGNIFICANCE in the audit of the FS – communicated to TCWG but NOW disclosed in the audit report.

## SELECTION CRITERIA

- Significant auditor judgments relating to areas of significant management judgment including accounting estimates
- Significant audit difficulties encountered
- Areas of significant risk or requiring special consideration
- Significant transactions during the year

## TYPICAL KAMs IN PRACTICE

- Revenue recognition (cutoff, estimates, variable consideration)
- Impairment of goodwill/intangibles/investments
- Valuation of financial instruments at fair value
- Tax positions and deferred tax assets
- Going concern assessment
- Fraud risk areas

## COMMON ERRORS BY AUDITORS

- Generic/boilerplate KAM descriptions
- Not tailoring KAMs to entity-specific risks
- Confusing KAM with EOM/OM paragraphs
- Insufficient description of how KAM was addressed
- Missing KAMs where significant risks exist

# SA 705 & SA 706 – Modified Opinions, EOM & OM Paragraphs

## SA 705 – Modified Opinions

### QUALIFIED OPINION

*Basis: Material but NOT Pervasive*

E.g.: Single line item misstated; scope limitation in one area

### ADVERSE OPINION

*Basis: Material AND Pervasive*

E.g.: FS do not present true & fair view; multiple material misstatements

### DISCLAIMER OF OPINION

*Basis: Scope limitation is material & pervasive*

E.g.: Auditor unable to obtain sufficient appropriate audit evidence

## SA 706 – EOM & OM

### EMPHASIS OF MATTER (EOM)

- Properly presented and disclosed in FS
- Fundamental to understanding FS
- E.g.: Going concern uncertainty (disclosed), litigation, regulatory investigations

---

### OTHER MATTER (OM)

- Not presented/disclosed in FS
- Relevant to users' understanding of audit/auditor's responsibilities
- E.g.: Prior year audited by another auditor, comparative FS

# SA 315 & SA 240 – Risk Assessment & Auditor's Responsibility on Fraud

## SA 315 – Identifying & Assessing Risk of Material Misstatement

### Entity & Environment

Industry, regulatory, business strategy, objectives, performance measures

### Internal Controls

Design & implementation of relevant controls including IT general controls

### Significant Risks

Fraud risk, significant management judgment, unusual/complex transactions

### Revised Assessment

Update RoMM assessment throughout audit based on evidence gathered

## SA 240 – Auditor's Responsibility to Consider Fraud in an Audit

### FRAUD RISK FACTORS

- Incentive/pressure on management
- Opportunity due to weak controls
- Rationalization by perpetrators (Fraud Triangle)

### AUDITOR'S RESPONSE

- Discuss within engagement team
- Unpredictable audit procedures
- Element of surprise; override skepticism

### REPORTING OBLIGATIONS

- Report to TCWG if fraud identified
- Report to regulators/NFRA if required
- Consider withdrawal if management involved

# SA 550, SA 570 & SA 580 – Related Parties, Going Concern & Written Representations

## SA 550

### Related Parties

- Identify all related parties (Sec 2(76) + AS 18 / Ind AS 24)
- Assess completeness of RPT disclosures
- Evaluate whether RPTs are at arm's length
- NFRA flag: Auditors often miss RPTs routed through intermediaries
- Inquire about undisclosed related parties

## SA 570

### Going Concern

- Assess management's going concern evaluation
- Indicators: Net worth erosion, defaults, loss of key customers, adverse litigation
- If material uncertainty exists → disclose in EOM (if disclosed in FS)
- If FS basis is not appropriate → Adverse Opinion
- Period: Minimum 12 months from reporting date

## SA 580

### Written Representations

- Management responsibility for FS preparation
- Completeness of information provided to auditor
- NOT a substitute for other evidence
- Specific representations: RPTs, subsequent events, contingencies, fraud
- Refusal to provide = scope limitation → consider modified opinion

# SA 220 & SA 230 – Quality Control & Audit Documentation

*Two SAs at the heart of every NFRA inspection finding*

## SA 220 – Quality Control for Audit Engagements

<b>Engagement Partner:</b>	Overall responsibility; leadership by example
<b>Acceptance &amp; Continuance:</b>	Assess competence, independence, integrity of client
<b>Assignment of Team:</b>	Ensure appropriate skills and experience assigned
<b>Supervision &amp; Review:</b>	Direction of work; senior review of working papers
<b>EQCR:</b>	Engagement Quality Control Review – mandatory for listed entities
<b>Consultation:</b>	Document matters requiring consultation and conclusions

## SA 230 – Audit Documentation

<b>Assembly Period:</b>	60 days from audit report date – final assembly
<b>Retention:</b>	7 years minimum after audit report date (SQC 1)
<b>Experienced Auditor Test:</b>	Would another experienced auditor understand the work?
<b>Verbatim:</b>	Working papers should be contemporaneous – not backdated
<b>WP Completeness:</b>	Identify & assess RoMM, procedures, conclusions
<b>NFRA Finding:</b>	Absence of WPs often treated as evidence work not done

# SA 500 Series – Audit Evidence, Confirmations & Inventory

## SA 500

### Audit Evidence

- Sufficient (quantity) and appropriate (quality/relevance)
- External evidence > Internal; Obtained directly > Indirectly
- Evaluate contradictory evidence; don't ignore
- NFRA: Overreliance on management representations

## SA 501

### Specific Audit Procedures

- Physical verification of inventory mandatory (attendance)
- Exception: alternative procedures if attendance impracticable
- Litigation & claims – consult legal counsel
- Segment information – verify consistency with FS

## SA 505

### External Confirmations

- Bank confirmations – standard procedure
- Debtors/creditors confirmation – positive vs negative
- Handle non-responses carefully; alternative procedures
- Never allow management to restrict confirmation process

## SA 520

### Analytical Procedures

- Use at planning, detailed testing, and conclusion stage
- Expectation vs actual comparison; investigate differences
- Plausibility test on revenue, margins, ratios
- Effective tool to detect unusual trends / misstatements

# Other Key Standards on Auditing – Quick Reference

## SA 260

### Communication with TCWG

Communicate audit scope, findings, independence. Listed entities: written communication mandatory.

## SA 265

### Communicating Deficiencies in IC

Report significant deficiencies in internal controls to management and TCWG.

## SA 300

### Planning an Audit

Develop overall audit strategy and detailed audit plan. Update as engagement progresses.

## SA 320

### Materiality in Planning

Set performance materiality. Reassess during audit. Document basis for materiality judgments.

## SA 402

### Audit of Entities using Service Orgs.

Understand impact of service organization. Obtain SOC reports or perform direct procedures.

## SA 540

### Auditing Accounting Estimates

Identify RoMM. Evaluate reasonableness; check for management bias in estimates.

## SA 560

### Subsequent Events

Evaluate events after reporting date. Adjust FS or disclose as required.

## SA 600

### Using Work of Component Auditors

Evaluate competence. Issue instructions; review component audit work and communications.

## SA 620

### Using Work of an Expert

Evaluate competence, capability, objectivity. Auditor remains solely responsible for opinion.

# Top 10 Takeaways for Every Auditor

01

Document everything – if it's not documented, NFRA will assume it wasn't done.

02

Professional skepticism is non-negotiable. Challenge, corroborate, do not just accept.

03

KAMs must be entity-specific – banish generic, boilerplate language.

04

Going concern needs independent corroboration – don't rely solely on management plans.

05

RPT audit trail is critical – trace transactions and verify arm's length nature.

06

EQCR for listed entities is mandatory – treat it as a quality gate, not formality.

07

Fraud risk assessment must be tailored. Journal entry testing is a must.

08

Revenue recognition: always perform cut-off tests and debtor confirmations.

09

Independence violations are treated seriously – maintain strict compliance year-round.

10

Audit report is a public document – users and regulators read it. Make it meaningful.

# THANK YOU

*Questions & Discussions Welcome*

## CA G Rengarajan

### Resources

- NFRA: [www.nfra.gov.in](http://www.nfra.gov.in) – Inspection Reports, Penalty Orders, Annual Reports
- ICAI: Standards on Auditing (SA 200–SA 810) – [www.icaai.org](http://www.icaai.org)
- MCA: Companies Act 2013 – Sec 132-140 (NFRA & Auditor Provisions)
- SEBI LODR: Audit Committee & Auditor Independence requirements for Listed Entities

