Recent developments in Accounting and Auditing - corporate and non-corporate entities relevant to FY 2025-26

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Agenda

- Companies Act 2013
- Accounting Standards
- MSME
- SEBI
- New Labour Codes
- ICAI
- Other Relevant Points
- NFRA

Contents

Contents …

ICAI

- Guidance Note on Financial Statements of Non-corporate Entities
- EAC Opinions (select)
- UDIN Updates
- Pronouncements/Publications

Other relevant points

- Income Tax
- Export Benefits
- FEMA
- GST 2.0
- Impact of Geo-political developments and Tariffs

NFRA

Companies Act, 2013

Small Company

The MCA has **revised the criteria for classifying "Small Company effective from 1st December 2025**.

Criteria	Revised (Rs)	Earlier (Rs)
Paid up Share Capital **AND**	10 crores	4 crores
Turnover	100 crores	40 crores

- **Both the conditions to be satisfied**
- Exemption from CARO
- Only 2 Board Meetings per year

- Cash Flow Statement not required
- No IFCoFR Reporting
- Auditor Rotation not applicable

Other key Amendments …

Mandatory disclosure in the Board's report

Following additional disclosures to be given in the Board's report:
a) The number of complaints of sexual harassment received in the year.
b) The number of complaints disposed off during the year.

c) The number of cases pending for more than 90 days.

d) A statement confirming compliance with the Maternity Benefit Act, 1961.

Forms ADT-1, 2, 3 and 4

- Forms ADT-1, 2, 3 and 4 used for appointment of auditors, removal of auditors, intimation to RoC, Reporting on Fraud have been revised.
- Requirement of reporting fraud on the letterhead of the auditor has been removed.
- Reporting of fraud by the auditor is required to be filed electronically in Form ADT-4 which was earlier filed physically

Accounting Standards update

Applicability of Accounting Standards

Indian Accounting Standards (MCA)	Accounting Standards (MCA)	Accounting Standards (ICAI)
Corporate Entities		Non-corporate Entities

How many Accounting Standards?

Indian Accounting Standards (MCA)	Accounting Standards (MCA)	Accounting Standards (ICAI)
40 Ind AS standards	27 Accounting Standards	27 Accounting Standards

Accounting Standards: Corporate Entities

Applicability to Corporate Entities

Accounting Standards	Indian Accounting Standards	
To all entities whose NETWORTH is less than Rs. 250 crores in the immediately preceding financial year	To all listed entities (or in process of listing)	Other entities whose NETWORTH > Rs. 250 crores in the immediately preceding financial year

Accounting Standards: Non-Corporate Entities

Applicability to Non–Corporate Entities

Accounting Standards issued by ICAI

MSME	Large Entity
Selective Accounting Standards applicable with some relaxations	All Accounting Standards are applicable

Indian Accounting Standards (Ind AS)- Key Amendments for FY 2025-26

Ind AS 21 : The Effects of Changes in Foreign Exchange Rates

The amendments are applicable for annual reporting periods beginning on or after 1st April 2025.

Two step approach:

The amendments provide a two-step approach to determine the exchange rate to be applied when translating a foreign currency transaction, as given in the figure below:

Is the currency exchangeable into the other currency at the measurement date for the specified purpose?

Yes

Apply the applicable requirements in Ind AS 21

Step 1: Assessing whether a currency is exchangeable

No

At the measurement date, estimate the spot exchange rate that meets the objective of Ind AS 21 by either using:

(a) An observable exchange rate without adjustment or

(b) Another estimation technique

Step 2: Estimating the spot exchange rate when a currency is not exchangeable

Step 1: Is the currency exchangeable

Key considerations

- Normal administrative delay* is permitted
- Ability to obtain the currency is essential and not the intent
- Currency is exchangeable at measurement date for specified purpose
- Exchange transaction should create enforceable rights and obligations
- Ability to obtain more than insignificant amounts

*Normal Administrative delay will depend on facts and circumstances
Enforceability is a matter of law and depends on facts and circumstances.

Step 2: Estimating the spot exchange rate

When a currency is not exchangeable, a company needs to estimate a spot rate. A company's objective when estimating a spot rate is only that it reflects the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments does not contain any specific requirements for estimating a spot rate. A company should consider the below for estimating a spot rate:

Use an observable exchange rate without adjustment

Examples include:	Using an observable exchange rate for another purpose	Using the first subsequent exchange rate

Use another estimation technique

This includes using rates from exchange transactions in markets or exchange mechanisms that do not create enforceable rights and obligations and adjust them

Disclosures Required:

The new disclosures might include the following:

- The nature and financial impacts the currency not being exchangeable into the other currency
- The spot exchange rate(s) used
- The estimation process
- The risks to which the company is exposed because of the currency not being exchangeable into the other currency

Ind AS 1 *Presentation of Financial Statements*

Classification of Liabilities as Current or Non-current

The amendment aims at providing guidance in relation to the classification of certain liabilities as current or non-current. In addition, new disclosures for liabilities which are subject to covenant will be required.

Earlier	Revised
An entity should classify a liability as current when it does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.	An entity should classify a liability as current when it does not have the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period.

The amendment has removed the requirement for a right to be unconditional

The amendment has added that a right to defer settlement must exist at the reporting date and that right must have substance

This requirement is applicable for annual reporting periods beginning on or after 1st April 2025.

Ind AS 1 *Presentation of Financial Statements …*

Classification of Liability with Covenants

- A company will classify a liability as non-current if it has a right to defer settlement for at least 12 months after the reporting date. This right may be subject to a company complying with conditions (covenants) specified in a loan arrangement. Only covenants with which a company must **comply on or before the reporting date** affect the classification of a liability as current or non-current.

- Covenants with which the company must comply after the reporting date (i.e., future covenants) do not affect a liability's classification at the reporting date.

- However, when non-current liabilities are subject to future covenants, companies will **now need to disclose** information to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date.

Scenario

ABC Ltd. has a bank loan of Rs. **80 crores**.

- Loan tenure: **5 years** (repayable in 2029)
- Reporting date: **31st March 2026**

The loan agreement contains a **financial covenant**:

- Current ratio must be **at least 1.4 on 31st March 2026** and **at least 1.5 on 30th September 2026**.

Option I: As on **31st March 2026**, the ratio is **1.35 and is expected to be 1.6 as on 30th Sept 2026**

Option II: As on **31st March 2026**, the ratio is **1.55 and is expected to be 1.45 as on 30th Sept 2026**

Classification under Ind AS 1 (Amended) as on 31st March 2026

Option I: Current Liability

Option II: Non Current Liability – Even though the covenant must be complied with **within 12 months after the reporting date**, the company **has the right at the reporting date to defer settlement for more than 12 months.**

Ind AS 1 *Presentation of Financial Statements …*

Covenant Breach Clarification

- If an entity breaches a covenant of a long-term loan on or before the reporting date, making the liability payable on demand, the liability must be classified as current.

  Even if the lender grants a waiver after the reporting date, the classification does not change because the entity did not have the right to defer settlement at the reporting date.

- If the breach is rectified after the reporting date, it is treated as a non-adjusting event as per Ind AS 10 *Events After the Reporting Period.*

- This requirement is **applicable for annual reporting periods beginning on or after 1st April 2026**.

Ind AS 1 – Breach of Covenant of Long-term Loan

Lender agrees not to demand repayment **(after the reporting date but before the FS signed)**

Till 31st March 2026 – Liability is classified as non-current ***(Carve out remains)***

From 1st April 2026 – Liability will be classified as current ***(Carve out removed)***

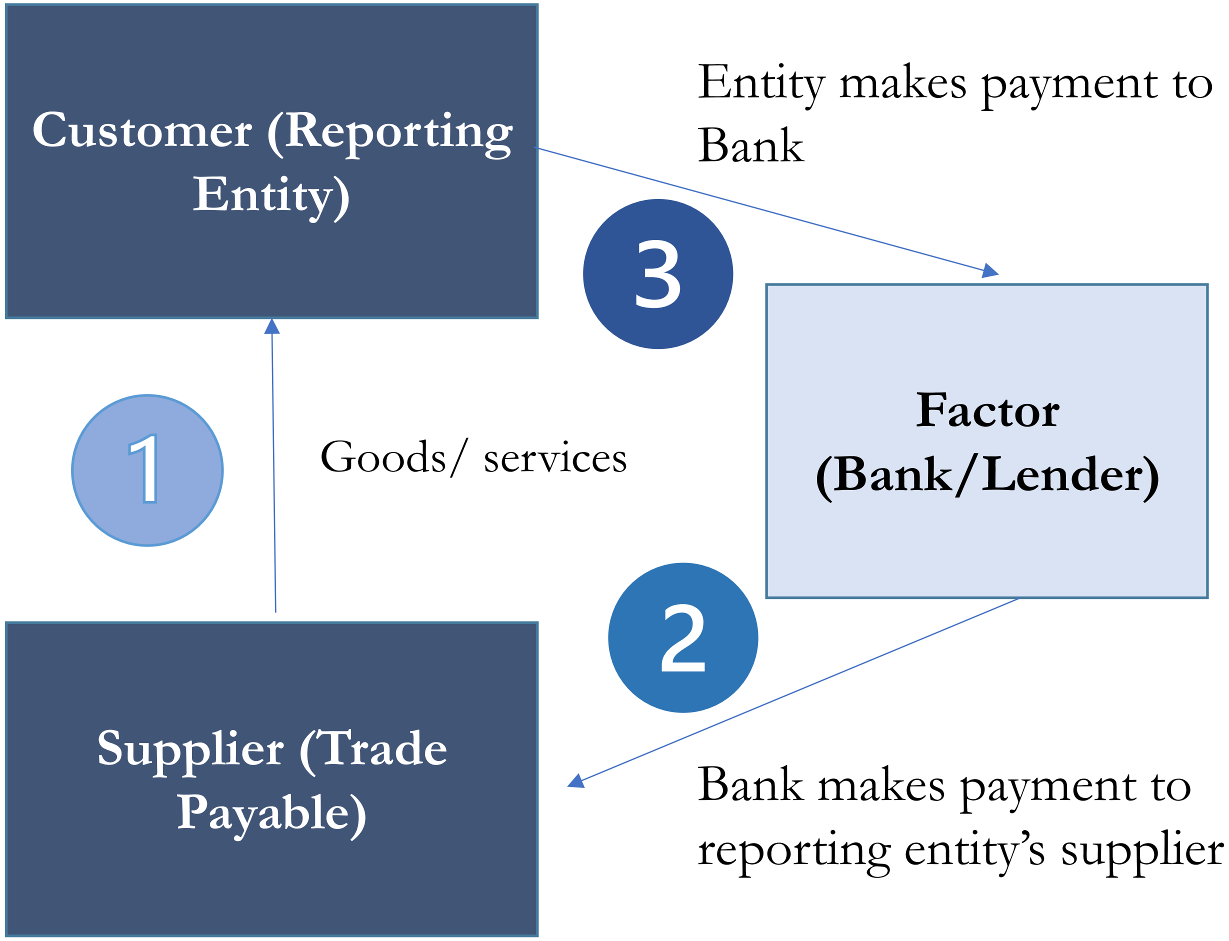
In comparative period of FY 25-26 (in FY of 26-27) this requirement will be applicable retrospectively, Ind AS 8 to become applicable

Lender agrees by the reporting date to provide a grace period of at least 12 months **(after the reporting date)**

Liability is classified as non- current

Ind AS 107 *Financial Instruments Disclosures* and Ind AS 7 *Statement of Cash Flows - Supplier Finance Arrangements (SFA)/ Supply Chain Finance (SCF)*

- In SFA, one or more factors (lenders) agrees to pay amounts to a supplier in respect of invoices that the entity (borrower/customer) owes to the supplier, the entity (borrower/customer) agrees to pay to the factors (lenders) on the same date or at the later date.
- Compared to the original invoice due date, this arrangement provide an entity with the extended terms or benefit the supplier with early payment.
- Often referred to as reverse factoring.
- SFA usually involves 3 parties i.e., a customer, a factor and a supplier.



Ind AS 107 / Ind AS 7 …

Scope of Amendments (Ind AS 7)

The revised requirements introduce additional disclosures for entities entering into supplier financing arrangements that meet **all of the following conditions**:

- A factor (Bank) settles amounts owed by the entity (purchaser) to its suppliers.
- The reporting entity commits to repay the financing party based on agreed terms, either on the same date as supplier payment or at a later point in time.
- The arrangement results in either extended payment timelines for the entity or enables suppliers to receive payment earlier than the original invoice due date.

These amendments are not applicable to arrangements involving the financing of receivables or inventory

Ind AS 107 / Ind AS 7 …

Scope of Amendments (Ind AS 7)

Additional disclosures introduced for companies that enter into supplier finance arrangements. These include:

- Terms and conditions
- Carrying amount and associated line items.
- Range of payment due dates for financial liabilities disclosed under supplier finance arrangements and comparable payables that are not part of such arrangements.
- Exposure to liquidity risk.

Refer BCAJ June 2026 for disclosures by select companies

Ind AS 12 *Income Taxes*

International tax reform—Pillar Two model rules@

- The amendment introduces a temporary exception for accounting of deferred tax related to Pillar Two income taxes.
- Entities should not recognise or disclose deferred tax assets or liabilities arising from Pillar Two income taxes.
- Entities must disclose that the deferred tax exception has been applied in the financial statements.
- Entities should separately disclose the current tax expense or income related to Pillar Two income taxes.
- The objective is to avoid complexity and uncertainty in measuring deferred tax impacts of the global minimum tax rules.

@ Pillar Two Rules ensures businesses with consolidated revenues above €750 million pay a minimum effective tax rate (ETR) on income in each jurisdiction in which they operate.
It imposes a 'Top-Up Tax' on profits arising in jurisdictions where the ETR is below 15%.

Disclosure Requirements

Applicability

- Required for annual periods starting **on or after 1st April 2025**

Before Top-up Tax Becomes Effective

- Objective is to enable users to understand exposure to Pillar Two taxes

What to disclose:

Qualitative Information

- How the entity is impacted
- Jurisdictions where exposure arises
- Where top-up tax may be triggered

Quantitative Information

- % of profits subject to Pillar Two
- Average effective tax rate on such profits
- Impact on ETR if Pillar Two were applicable

Accounting Standards (AS) – Key Amendments for FY 2025-26

AS 22 *Accounting for Taxes on Income*

AS 22 now explicitly applies to applies to taxes on income arising from Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD), including tax law that implements Qualified Domestic Minimum Top-Up Taxes.

Mandatory Deferred Tax Exception

Entities are required to disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

Applicable immediately (i.e. 10th March 2026) and retrospectively

AS 22 *Accounting for Taxes on Income …*

New disclosure requirements

- Entities are required to disclose separately its current tax expense or income related to Pillar Two income taxes.

- **@** In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an enterprise should disclose known or reasonably estimable information. For e.g:
  - Qualitative information (jurisdictions impacted, how the rules affect the entity)
  - Quantitative information (profit proportions subject to Pillar Two income taxes , estimated impact on effective tax rate)

  @ This is not applicable to Small and Medium-sized Company

Applicable for annual reporting periods beginning on or after 1st April 2025.

Micro, Small and Medium Enterprises (MSME) Updates

Applicability	Only specified companies which are having payments pending to any MSMEs for more than 45 days from the date of acceptance or deemed acceptance of goods or services required to furnish MSME Form 1
New Disclosures	**Revised MSME Form 1** **Comprehensive disclosures with respect to amounts due to MSMEs along with ageing of dues**

The central government has notified revised criteria for classification MSMEs. (**from 1st April 2025).** Changes in the criteria are given below **(Rs. in crores) (both** investment and turnover to be satisfied)

Type of Enterprise	Investment in Plant and Machinery / Equipment		Turnover	
	Revised	Earlier	Revised	Earlier
Micro	**2.50**	1.00	**10.00**	5.00
Small	**25.00**	10.00	**100.00**	50.00
Medium	**125.00**	50.00	**500.00**	250.00

MSME …

Submission of half yearly return to the Ministry of Corporate Affairs

All companies who get supplies of goods or services from micro and small enterprises and whose payments to micro and small enterprise suppliers exceed 45 days from the date of acceptance or the date of deemed acceptance of the goods or services as per the provisions of the MSME Act, should submit a half yearly return (due date 30th April and 31st October) to the Ministry of Corporate Affairs stating the following:

- the amounts of payments due; and
- the reasons of the delay.
- Suppliers Detail (Name & PAN No)
- Date of Outstanding
- Number of Days Delay

Auditors need to examine the above reporting by companies – will have implications on:

- **Process for identifying and reporting dues to MSMEs**
- **Provision for 'mandatory interest'**
- **Disclosures as per Schedule III**
- **Tax provisions [disallowance u/s 43B(h)]**

Securities and Exchange Board of India (SEBI)

Overview of SEBI Amendments

Related Party Transactions

Environment, Social and Governance (ESG) Disclosures

Related Party Transactions

SEBI LODR amendments

SEBI, on 18th November 2025, notified the 5th amendment to SEBI LODR. The key amendments are:

- **Scale-based thresholds for determination of Material RPTs: [Regulation 23(1)-Schedule XII]**

✓ As per amendment, a transaction with a RP would be considered material, if the transaction(s) to be entered individually or taken together with previous transactions during a F.Y. exceeds the following:

Annual Consolidated Turnover of Listed Entity as per last audited FS	Materiality Threshold for RPTs
Up to Rs. 20,000 crores	10% of the annual consolidated turnover of the listed entity
Between Rs.20,000 crores - Rs. 40,000 crores	Rs. 2,000 crores + 5% of the annual consolidated turnover of the listed entity above Rs. 20,000 crores
More than Rs. 40,000 crores	Rs. 3,000 crores + 2.5% of the annual consolidated turnover of the listed entity above Rs. 40,000 crores or Rs.5,000 crores, whichever is lower

✓ Earlier, RPT which exceeded Rs. 1,000 crores or 10% of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity, whichever is lower was considered material and required shareholders' approval.

- **Revised Threshold for prior approval of audit committee of listed entity for subsidiary's RPT :[Regulation 23(2)(b) and (c)]**

RPTs of a subsidiary above Rs. 1 crore to which the **listed entity is not a party** will require prior approval of the Audit Committee of the listed entity if the value of the transaction, whether entered into individually or taken together with previous transactions, exceeds the lower of the following:

✓ **When audited financial statements of subsidiaries are available:**
  - 10% of the annual standalone turnover of the subsidiary as per the last audited financial statements of the subsidiary; or
  - the materiality threshold of the listed entity (as explained in the previous slide).

✓ **When audited financial statements of subsidiaries are not available for at least 1 year:**
  - 10% of the aggregate value of paid-up share capital and securities premium account of the subsidiary; or
  - the materiality threshold of the listed entity (as explained in the previous slide).

Note:
The aggregate value of paid-up share capital and securities premium account of the subsidiary should be taken as on a date not older than 3 months prior to the date of seeking approval of the Audit Committee.

- **Validity of omnibus approval for RPTs granted by the shareholders: :[Regulation 23(4)]**

  ✓ Omnibus approval granted by the shareholders for material RPT in an AGM will be valid till the date of the next AGM or up to 15 months whichever is earlier.

  ✓ In case omnibus approvals are granted in general meetings other than AGM, the validity of such omnibus approvals will be up to 1 year.

RPT Industry Standards

- In accordance with the provisions of Regulation 23(2), (3) and (4) of the LODR Regulations, **prior approval of the Audit Committee and shareholders**, as the case may be, is required for the **RPTs**.

- SEBI has issued revised RPT Industry Standards on 26th June 2025 to **specify the minimum information required to be provided to audit committees and shareholders for review and approval of RPTs**, effective from 1st September 2025.

- Consequential amendments made to the "Master Circular for compliance with the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 by listed entities" have been explained in the subsequent slides.

- Also, refer to FAQs issued by NSE and BSE on RPT Industry Standards

Applicability of RPT Industry Standards

Applicable to:

RPT Industry Standards shall be applicable for **all RPTs placed for review and approval by the Audit Committee** of the listed entity, in terms of Regulation 23(2) and 23(3) of the LODR Regulations.

RPT Industry Standards shall apply in case of **material RPTs** as defined under Regulation 23(1) & 23(1A) of the LODR Regulations, **placed for approval of both the Audit Committee and the shareholders.**

Not applicable to:

- Transactions exempted under Regulation 23(5) of the LODR Regulations
- Quarterly review of RPTs by the Audit Committee with regard to each omnibus approval
- Transaction(s) with a related party to be entered into individually or taken together with previous transactions during a F.Y. (including which are approved by way of ratification) **do not exceed Rs. 1 Crore**.

Environment, Social and Governance (ESG) Disclosures

Measures to facilitate ease of doing business with respect to framework for assurance or assessment, ESG disclosures for value chain, and introduction of voluntary disclosure on green credits

SEBI revised various provisions regarding ESG disclosures for value chain, provide an option to undertake 'assessment' or 'assurance' for Business Responsibility and Sustainability Report (BRSR) Core and ESG disclosures for value chain, and introduce disclosure on green credits. The provisions of SEBI LODR Regulations, 2015 have been amended vide Notification dated 28th March 2025.

Green Credits

In Principle 6 of BRSR, an additional leadership indicator (i.e., an 8th leadership indicator) will be included seeking disclosures on green credits in the following format-

How many Green Credits have been generated or procured:

a. By the listed entity
b. By the top 10 (in terms of value of purchases and sales, respectively) value chain partners

The provisions under this Section will be applicable for BRSR disclosures for FY 2024-25 and onwards.

- **Assessment or Assurance**

  Listed entities should mandatorily undertake assessment or assurance of the BRSR Core, as per the glide path specified in the following table:

F.Y.	Applicability of BRSR Core to top listed entities (by market capitalization)
2023 – 24	Top 150 listed entities
2024 – 25	Top 250 listed entities
2025 – 26	**Top 500 listed entities**
2026 – 27	Top 1,000 listed entities

Assessment or Assurance Provider

- The Board of the listed entity should ensure that the assessment or assurance provider of the BRSR Core has the necessary expertise, for undertaking assessment or assurance.
- The listed entity should ensure that there is no conflict of interest with the assessment or assurance provider appointed for assessing or assuring the BRSR Core.

ESG Disclosures for Value Chain

- ✓ ESG disclosures for the value chain will be applicable to the top 250 listed entities (by market capitalization), on a voluntary basis from FY 2025-26.
- ✓ The assessment or assurance of the above will be applicable on a voluntary basis from FY 2026-27.
- ✓ For the 1st year of reporting ESG disclosures for value chain, reporting of previous year numbers will be voluntary i.e. for value chain disclosures of F.Y. 2025-26, reporting of previous year data (i.e., data for F.Y. 2024-25) will be voluntary.
- ✓ If a listed entity provides ESG disclosures for value chain, then it should disclose the percentage of total sales and purchases covered by the value chain partners, respectively, for which ESG disclosure are provided.

Also, refer **FAQs on SEBI (LODR) Regulations 2015 dated 23rd April 2025 -** Section – V- Business Responsibility and Sustainability Report (BRSR) Core

New Labour Codes

Introduction

The Code on Wages (2019)

The Industrial Relations Code (2020)

The Code on Social Security (2020)

The Occupational Safety, Health and Working Conditions Code (2020)

Effective from 21st November 2025

29 existing labour laws codified into 4 labour codes

Rules notified and came into force on 8th May 2026 i.e. the date of their publication in the Official Gazette

Key Implications

Key Implication
Employer

- Higher statutory cost due to **uniform wage definition**
- **Increased compliance** and documentation requirements
- **Mandatory PF/ESI** coverage across wider workforce
- Greater **accountability** for workplace safety & welfare
- **Significant penalties** for any non-compliance
- **Structured processes** for layoffs, retrenchment & closure

Key Implication
Employee

- **More transparent and stable** social security benefits
- **Timely wage payment** and stronger financial protection
- **Wider coverage:** gig, platform & unorganised workers
- **Fixed-term employees** gain benefits equal to permanent staff
- **Regulated strikes**/lockouts ensure income stability

Moving Forward
Organisation Actions

- Conduct **internal compliance** & HR/payroll audit
- Align **salary structures** with 50% "wages" norm
- **Upgrade systems** for new reporting obligations
- Update employee **documents & HR policies**
- **Assess increased PF/gratuity/bonus liabilities**
- Train HR/payroll teams & validate compliance with legal experts

Key Accounting Implications

Gratuity liability increase

- Minimum 50% of total remuneration must comprise Basic Pay, DA, and Retaining Allowance.
- Higher gratuity liability arises and is recognized as past services cost under Ind AS 19.
- Resulting increase is expensed in the Statement of Profit and Loss

Salary Structure Changes

- If only the pay structure changes (no salary increase), the rise in gratuity and leave encashment is treated as past service cost.
- If salaries increase along with restructuring, the impact splits into actuarial gain/loss (from revised salary estimates) and past service cost (from plan amendment).
- Entities must separately identify these two components.

Leave Obligations

- Any change in leave obligation arising from the New Labour Codes is recognized as an expense in the Statement of Profit and Loss immediately as past service cost

Illustration

Impact on Salary before and after implementation of the new Labour Codes

Particulars	Before (Rs.)	After (Rs.)
CTC (Monthly)	50,000	50,000
Basic Pay	15,000 (30%)	25,000 (50%)
HRA / Other Allowances	25,000	15,000
Employee PF (12% of Basic)	1,800	3,000
Employer PF (12% of Basic)	1,800	3,000
Take-Home Salary (approx.)	45,800	42,800
Change in Take-Home	-	2,200 less per month

- **Basic Pay** increased from 30% to 50% of CTC.
- **PF deduction** (employee share) increased because it's a percentage of basic pay (from Rs. 1,800 to Rs.3,000).
- **Allowances** reduced to fit the new basic requirement — allowances are often the part most spendable each month.
- **Monthly in-hand** salary drops even though CTC remains Rs.50,000

Key Accounting Implications …

Exceptional Items

- As the impact is non-recurring, entities may assess whether the additional expense arising from increased gratuity or leave obligations due to the new Labour Codes qualifies for separate presentation.
- Depending on materiality, such additional expense may be presented as an exceptional item in the statement of PL.

Tax Implications

- Impact on current tax- The amount of increase in obligation to the extent deductible as business expense in the current year impacts current tax measurement for the year.
- Impact on deferred tax- the amount of increase in obligation to the extent will be deductible in future years results in a deductible temporary difference under Ind AS 12.

Additional disclosures

- Detailed disclosures on financial impact of labour code across PL, balance sheet and cash flows.
- Transparent communication with auditors to avoid last-minute adjustments.
- Entities should highlight assumptions, actuarial impacts and restructuring decisions.

Guidance on New Labour Code by the ICAI (including FAQs)

ICAI has issued the above which aims to provide practical guidance to auditors on key auditing considerations arising from the implementation of the new Labour Codes. (dated February 2026)

Auditors Responsibility

Auditor must:

- Evaluate impact of Labour Codes on: Recognition, Measurement, Presentation and Disclosure
- Obtain sufficient appropriate audit evidence on compliance
- Assess management's recognition of liabilities
- Verify adequacy of disclosures

Applicable SAs

- Should be guided by principles in SA 250
- Auditor must obtain sufficient appropriate audit evidence of compliance, Assess impact on employee benefit expenses & liabilities
- Also consider other SAs – SA 260/265, 300, 315, 330, 402, 200, 540, 580, 700, 701, 705/706, 720

Guidance …

Understanding the Entity

Auditor must understand: Locations of operations, Categories of workforce, Terms of Employment, Payroll structure & wage components, HR policies & benefit policies

Understanding Management Actions

Evaluate whether management has: Assessed applicability of each Code, Interpreted revised "wage" definition correctly, Modified payroll systems appropriately, Updated actuarial valuations, Revised Internal Financial Controls (IFC), Adopted proper accounting treatment

Identification of ROMM

- Possible ROMMs include- Incorrect interpretation and application of wage definition, incorrect actuarial inputs, inadequate disclosures etc.
- Review Board/ Audit Committee minutes to identify discussions relating to Labour Codes implementation

Control Procedures

Evaluate: Payroll configuration approvals, Reconciliation of HR master vs payroll, Process adopted to calculate wages in accordance with the revised wage definition, Inclusion of all employee categories Statutory contribution reconciliation. If payroll is outsourced- SA 402 applies

Guidance …

Substantive Procedures

- Detailed analytical review (allowances ratio, contribution ratios)
- Recalculate wages as per revised definition
- Test statutory contributions (PF, ESI, etc.)
- Year-end payroll cut-off testing
- Substantive testing of actuarial valuation inputs

Legal Opinion Review

If management obtained legal opinion, Auditor should assess:

- Competence & independence of counsel
- Consistency with public notifications
- Whether alternate views exist
- Need for auditor's own expert

Management Representations

Specific representations should include:

- Compliance responsibility
- Impact assessment performed
- Accounting treatment adopted
- Completeness of data provided to actuary
- No contradictory legal opinions withheld

Communication with TCWG

Discuss:

- Impact assessment status
- Increased ROMM due to complexity
- Effect on gratuity & actuarial liabilities
- Control deficiencies
- Significant judgements

Guidance …

Audit Reporting

Nature of matter giving rise to the modification	Auditor's judgment about the pervasiveness of the effects or possible effects on the financial statements	
	Material but not pervasive	**Material and pervasive**
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

May consider:

- Emphasis of Matter (if appropriately disclosed)
- CARO implications (payment of statutory liabilities)
- IFC reporting impact

Professional judgement must be documented (SA 230)

Publications by the Ministry of Labour and Employment

FAQs on Labour Codes
FAQs on Code on Wages, 2019
FAQ on Myths and Realities of Industrial Relation (IR) Code 2020
FAQs on Occupational Safety, Health and Working Conditions (OSH) Code, 2020 (dated 19th December 2025)
FAQs on Social Security Code
FAQ on OSH&WC Code, 2020 dated 13th March 2026
Additional FAQs on Labour Codes dated 16th March 2026
Compliance Handbook for Employers Under the Four Labour Codes

ICAI

Definition of MSME as per ICAI

MSME means a Non-company entity:

- Whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- Which is not a bank, financial institution or an insurance company;
- Whose turnover (excluding other income) does not exceed Rs. 250 crores in the immediately preceding year;
- Which does not have borrowings in excess of Rs. 50 crores at any time during the immediately preceding accounting year; and
- Which is not a holding or subsidiary of an entity which is not a micro, small and medium sized entity.

LARGE ENTITIES are Non-company entities which are not MSME

AS applicable to Large entities

Accounting Standards issued by ICAI	
AS 1 – Disclosure of Accounting Policies	AS 17 – Segment Reporting
AS 2 – Valuation of Inventories	AS 18 – Related Party Transactions
AS 3 – Cash Flow Statements	AS 19 – Leases
AS 4 – Contingencies and Events Occurring after the Balance Sheet Date	AS 20 – Earnings Per Share
AS 5 – Net profit or loss for the period, prior period items and Changes in Accounting Policies	AS 21 – Consolidated Financial Statements
AS 7 – Construction Contracts	AS 22 – Accounting for Taxes on Income
AS 9 – Revenue Recognition	AS 23 – Accounting for Investments in Associates in Consolidated Financial Statements
AS 10 – Property, plant and Equipment	AS 24 – Discontinuing Operations
AS 11 – The Effects of Changes in Foreign Exchange Rates	AS 25 – Interim Financial Reporting
AS 12 – Accounting for Government Grants	AS 26 – Intangible Assets
AS 13 – Accounting for Investments	AS 27 – Financial Reporting of Interests in Joint Ventures
AS 14 – Accounting for Amalgamations	AS 28 – Impairment of Assets
AS 15 – Employee Benefits	AS 29 – Provisions, Contingent Liabilities and Contingent Assets
AS 16 – Borrowing Costs	

AS not applicable and relaxations to MSME

AS not applicable	AS 3 – Cash Flow Statements
	AS 17 – Segment Reporting
	AS 24 – Discontinued Operations
	AS 18 – Related Party Disclosures
	AS 28 – Impairment of Assets
Relaxations given	AS 10 – PPE selective disclosures need not be given
	AS 11 – Effect of Changes in Foreign Exchange Rates selective disclosures need not be given
	AS 15 – Employee Benefits selective paragraphs need not to be complied
	AS 19 – Leases selective disclosures need not be given
	AS 22 – Incomes taxes selective paragraphs on recognition and measurement need not be followed
	AS 26 – Intangible assets selective disclosures need not be given
	AS 28 – Impairment of Assets PV technique and selective disclosures are exempt
	AS 29 – Provisions selective disclosures need not be given

Guidance Note on Financial Statements of Non-Corporate Entities

Guidance Note on FS of NCEs

- As per ICAI Announcement dated 31st March 2026, Guidance Note on FS of Non-NCEs is applicable in a phased manner.

Phase	Accounting periods beginning on or after	Applicability
Phase I	1st April 2025 (FY 2025-26)	Non-corporate entities with **turnover exceeding ₹5 crore**
Phase II	1st April 2026	**All non-corporate entities**, irrespective of turnover

- FY 2024–25: Adoption was optional.
- This phased implementation applies similarly to the **Guidance Note on Financial Statements of LLPs**, based on the same ICAI announcement.

Guidance Note on FS of NCEs …

Applicability

To all Business or Professional Entities, other than Companies incorporated under Companies Act and LLPs incorporated under LLP Act.

- Sole proprietorship firms
- Hindu Undivided Family
- Partnership Firms (registered and unregistered)
- Association of Persons (Partnership firms not covered above, Body of Individuals, Resident welfare Associations)

Guidance Note on FS of NCEs …

- Society registered under any law for the time being in force
- Trusts (private or public) registered under any law for the time being in force or unregistered
- Statutory Corporations, Autonomous bodies and Authorities
- Any form of organisation that is engaged fully or partially in any Business or Professional activities

Guidance Note on FS of NCEs …

- Applicable for the purpose of preparation of the financial statements of NCEs **except** where:
  - Formats/principles are specifically prescribed by the relevant Statute or Regulator or any Authority;
  - Autonomous Bodies under Government of India are required to compile their accounts in a uniform format of accounts as prescribed by Government of India, Ministry of Finance; or
  - Guidance has been specifically given by ICAI (e.g., Educational Institutions, Political Parties, Not-for Profit Entities, etc.).
- Guidance Note intends to specifically prescribe the formats for financial statements as the presentation format for the categories of entities to which it applies.
- Technical Guide on Financial Statements of NCEs superseded

Format of FS for NCEs

Balance Sheet for NCE

Particular	Note No.	Current Year	Previous Year
OWNER'S FUNDS AND LIABILITIES			
(I) Owner's Fund			
a) Owner's/ Partners capital Account			
b) Owner's/ Partners current account			
(II) Reserves and Surplus			
(III) Non-current liabilities			
a) Long-term borrowings			
b) Deferred tax liabilities			
c) Other long-term liabilities			
d) Long term provisions			
(IV) Current liabilities			
a) Short-term borrowings			
b) Trade payables			
c) Other current liabilities			
d) Short term provision			

Balance Sheet for NCE …

Particular	Note No.	Current Year	Previous Year
ASSETS			
(I) Non-current assets			
a) Property, plant and equipment			
b) Intangible assets			
c) Capital work in progress			
d) Intangible assets under development			
e) Non-current investments			
f) Deferred tax assets (net)			
g) Long-term loans and advances			
h) Other non-current assets			
(II) Current assets			
a) Current investments			
b) Inventories			
c) Trade receivables			
d) Cash and bank balances			
e) Short term loans and advances			
f) Other current assets			

Disclosure for Owner's/ Partner's Funds

- Opening balance
- Capital introduced/ contributed during the year
- Remuneration for the year
- Interest for the year
- Withdrawals during the year
- Share of profit or loss for the year
- Closing balance

Statement of Profit and Loss for NCE

Particular	Note No.	Current Year	Previous Year
Revenue from operations			
Other Income			
Total Income			
Cost of Material consumed			
Purchases of stock-in-trade			
Changes in inventories of finished goods			
Work in progress and stock-in-trade			
Employee benefit expenses			
Depreciation and amortization			
Finance costs			
Other expenses			
Total expenses			

Statement of Profit and Loss for NCE …

Particular	Note No.	Current Year	Previous Year
Profit before exceptional and extraordinary items, partner's remuneration and tax			
Exceptional items			
Profit before extraordinary items, partner's remuneration and tax			
Extraordinary items			
Profit before partner's remuneration and tax			
Partner's remuneration			
Profit before tax			
Tax expense			
Profit after tax			
Profit from continued and discontinued operations			

Classification of Current and Non-current

An asset shall be classified as current when it satisfies any of the following criteria:

- It is expected to be realized in, or is intended for sale or consumption in, the company's normal operating cycle;
- It is held primarily for purpose of being traded;
- It is expected to be realized within 12 months after the reporting date; or
- It is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets shall be classified as Non-Current

Classification of Current and Non-current …

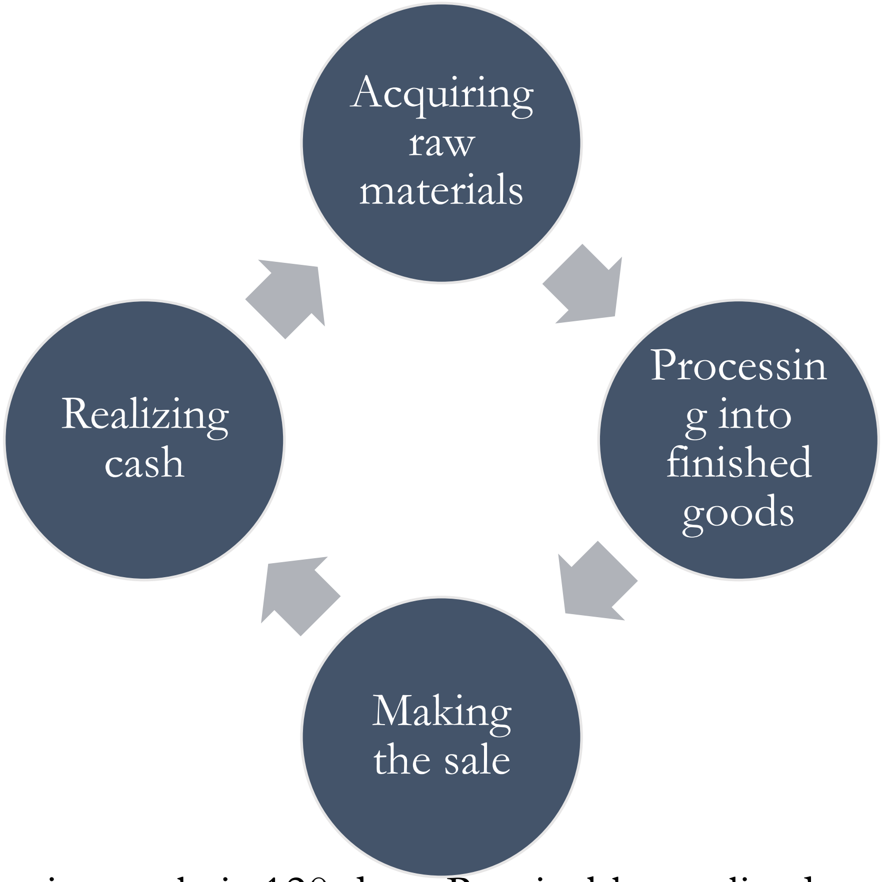
An liability shall be classified as current when it satisfies any of the following criteria:

- It is expected to be settled in the company's normal operating cycle
- It is held primarily for purpose of being traded;
- It is due to be settled within 12 months after the reporting date;
- The entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date

All other liabilities shall be classified as Non-Current

Operating Cycle

Operating Cycle is lead time to acquire raw materials + raw materials holding period + Work in process period + Finished goods holding period + Receivable Collection period.



For example, if a company's operating cycle is 120 days, Receivables realized = realized within 120 days from the date of recognition of inventories = consumed with 120 days from date of purchase.

Rounding Off and Comparatives

Depending on the TOTAL INCOME of the Entity (Corporate and Non-corporate), the figures appearing the Financial Statements **may be rounded off** as given below:

Total income	Rounding off
(a) Less than Rs. 100 crores rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof
(b) Rs. 100 crores rupees or more	To the nearest lakhs, millions or crores or decimals thereof
Once a unit of measurement is used, it should be used uniformly in the Financial Statements	

- *For Corporate entities SHALL be rounded off*

Except in case of First Financial Statements prepared by the Corporate or Non-corporate entity (after its date of incorporation) the corresponding amounts (comparatives) for the immediately preceding reporting period for ALL items shown in the Financial Statements including notes shall also be given.

Disclosure Trade Payables - MSME

The following details relating to Micro, Small and Medium Enterprises shall be disclosed in the notes –

- The principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier at the end of each accounting year;
- The amount of interest paid by the buyer in terms of section 16 of the MSME Act, 2006, along with the amount of the payment made to the supplier beyond the appointed day during each accounting year;
- The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the MSME Act, 2006
- The amount of interest accrued and remaining unpaid at the end of each accounting year; and
- The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise, for the purpose of disallowance of deductible expenditure under Section 23 of MSME, Act 2006.

Disclosure Trade receivables–NCE

i. Aggregate amount of trade receivables outstanding for a period exceeding six months from the date they are due for receipt shall be stated separately

ii. Trade receivables should be sub-classified as:
- Secured,
- Unsecured and
- Doubtful

iii. Allowance for bad and doubtful debts shall be disclosed separately.

Additional Disclosures : NCE

i. Employee benefit expenses showing separately (a) Salaries and wages, (b) Contribution to provident and other funds (c) Staff welfare expenses

ii. Any item of income or expenditure which exceeds 1% of the revenue from operations or Rs. 1,00,000 whichever is higher

iii. Adjustments to the carrying amounts of investments

iv. Net gain or loss on foreign currency transaction and translation (other than considered as finance costs)

v. Details of exceptional and extraordinary items

vi. Prior period items

Additional Disclosures : NCE …

vii. Expenditure incurred on each of the following items, separately for each item –

- Consumption of stores and spare parts
- Power and fuel
- Rent
- Repairs to buildings
- Repairs to machinery
- Insurance
- Rates and taxes, excluding taxes on income
- Miscellaneous expenses

Disclosure of Exceptional Items

- Exceptional items have not been defined in AS and Ind AS.

- As per Ind AS and AS, generally when the income or expense are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise.

- Following are some examples of exceptional items:
  - Write down of inventories
  - Restructuring activities
  - Disposal of PPE
  - Discontinued operations
  - Impairment of assets
  - Litigation settlements etc.

Disclosure of Extraordinary Items

- Extraordinary Items is defined in Accounting Standard 5, Net profit or loss for the period, prior period items and Changes in Accounting Policies

- *Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.*

- **No separate disclosure allowed for this in Corporate Entities**

- **However, the same can be possible in Non-corporate Entities**

Summary of Disclosures

Corporate Entities		Non-Corporate Entities
Schedule III – Division I, II and III		As per Guidance Note for Financial Statements for Non-Corporate Entities issued by ICAI As per Guidance Note for Financial Statements for Limited Liability Partnership Firms issued by ICAI
As per specific sections of the Companies Act, 2013 – section 186(4), etc.		
As per applicable Accounting Standards		As per applicable Accounting Standards
As per MSME Act		As per MSME Act
As per other applicable Statutes: - Reserve Bank of India - IRDA - SEBI		Disclosure for the exemptions/ relaxations availed by the entity

EAC Opinions (select)

Accounting for GST component paid on lease payment under Ind AS 116, 'Leases'.

Case	A government-owned power generation company leased office premises paying rent plus 18% GST. Since electricity sales are GST-exempt, the company cannot claim input tax credit, making the GST amount non-recoverable. Following Ind AS 116, the company treated the arrangement as a lease and recognised a right-of-use asset and lease liability by discounting the total lease payments, including the GST component.
Issue	Whether non-recoverable GST qualifies as "lease payments" under Ind AS 116 and should be included when measuring lease liability.
Conclusion	▪ GST should not be included in measuring the lease liability or RoU asset, regardless of whether it is recoverable. GST is a government levy, not a payment for using the leased asset, and therefore does not qualify as a lease payment under Ind AS 116. ▪ The GST amount should be expensed in Statement of PL when incurred. The company's practice of capitalising GST was found inconsistent with Ind AS 116.

Recent Key EAC Opinions …

Accounting treatment and classification of sales bills discounting, under Ind AS framework	
Case	The Company is engaged in the business of mining of lignite and coal and generation of power. It supplies power to state DISCOMs (Distribution Companies).Each of the DISCOMs is bound by power purchase agreement entered into with the Company and given a credit period of 45 days. The customers (DISCOMs) and the Company have the option to settle dues by opting the sales bill discounting (SBD) through banker. **SBD arrangement is nature of recourse lying with the Company**. The company is **treating the SBD as realisation of debtors on receipt of proceeds**, however, considering the future events, due to the recourse condition of SBD, contingent liability has been created.
Issue	Whether the accounting treatment of the Company in the given case is correct?
Conclusion	▪ The Company should continue to recognise and present the trade receivables in entirety and also recognise a financial liability for the consideration received from the Bank on discounting of the receivables, under an appropriate head as per the requirements of Schedule III to the Companies Act, 2013 ▪ In case Bill Discounting in the nature of recourse, no Trade Receivable should be derecognised as risk and rewards is not transferred and Financial liability should be recognized for the proceeds received from banker towards bill discounting.

Recent Key EAC Opinions …

Recognition of windmill plant as a property, plant and equipment or as Right of Use Assets

Case	The company operates a wind power plant supplying its entire output which is transmitted at stipulated traction of sub station of Indian Railways in terms of Power Purchase agreement (PPA) for a period of 25 year. Initially, the plant and one time land lease charges were recognised as PPE, with depreciation on straight line basis. Afte the introduction of Ind AS 116, the leased land cost was recognised as right of use asset (ROU). The CAG observed that since Indian Railways controls the plant's output, the right to direct its use rests with them, suggesting that the plant should be classified as a finance lease rather than a PPE.
Issue	Whether recognition of windmill plant as PPE as per Ind AS 16 is appropriate or the same should be considered as a finance lease of the asset?
Conclusion	▪ EAC evaluated Ind AS 116 to determine if the agreement qualifies as a Lease by assessing whether decisions on how and what purpose the plant is used are predetermined in the contract. ▪ The company makes all operational decisions about the plant during its use. ▪ Indian Railways has rights similar to a regular customer, without controlling how the plant is used. ▪ The customer did not design the plant and only provided broad guidelines. ▪ Therefore , the plant is not a leased agreement under Ind AS 116 and should be recognised as as PPE as per Ind AS 16 .

Recent Key EAC Opinions …

Accounting Treatment of Salary paid to Company Secretary of the Company having single unit project under construction

Case	A Government Company under the Department of Atomic Energy, established to build and operate Fast Breeder Reactors for power generation. It is currently commissioning a 500 MWe Prototype Fast Breeder Reactor (PFBR). As per the accounting policy all residual indirect costs relating to project are taken to 'Expenditure During Construction (EDC) and on pro rata basis to the assets capitalised on commencement of commercial operation. Salary paid to the Company Secretary working at corporate office is debited to EDC Account. Company secretary is taking care of all secretarial works of Company.
Issue	Whether the accounting treatment followed by the Company on capitalisation of salary paid to Company Secretary of a single unit project is consistent with the Ind AS?
Conclusion	• Salary paid to Company secretary cannot be capitalised along with the cost of the Project/ PFBR; rather, it should be charged to the Statement of Profit and Loss as and when incurred. • Employee benefit costs arising directly from the construction or acquisition of the Project/PPE should be considered as directly attributable costs and capitalized as cost of Project/PPE

Recent Key EAC Opinions …

Consolidation of a Section 8 Company with its Sponsor Company under Ind AS 110 *Consolidated Financial Statements*

Case	A listed company incorporated a wholly owned Section 8 Company to undertake its CSR activities. The Sponsor Company **(SC)** had been consolidating the Section 8 Company in its CFS until FY 2022-23.The company sought clarification on whether consolidation is actually required, arguing that: (i) A Section 8 Company cannot distribute profits or dividends. (ii) On liquidation, assets must be transferred to another not-for-profit entity. (iii) Therefore, the Sponsor Company has no exposure to variable returns, and hence no "control" under Ind AS 110.
Issue	Whether a listed company is required to consolidate the FS of its wholly owned Section 8 Company under Ind AS 110.
Conclusion	▪ The SC controls the Section 8 Company. (it is 100% owned by the SC, one of the directors is also the CEO of the SC, the SC effectively has the right to appoint/remove directors.) ▪ Returns are not limited to financial profits. Although dividends are prohibited, the SC is still exposed to variable economic and non-economic returns. ▪ The SC must consolidate the FS of the Section 8 Company. ▪ There is no exemption from consolidation merely because the subsidiary is a Section 8 company.

Recent Key EAC Opinions …

Classification of 'Provision of doubtful debts no longer required written back'

Case	The Company had made a provision of doubtful debts amounting to Rs. 94.89 crore in earlier year(s) against which it realized a sum of Rs. 18.23 crore from the customers during financial year 2022-23. The balance amount of Rs. 76.66 crore was considered as 'Bad debt' and charged to PL and entire provision for doubtful debts amounting to Rs. 94.89 crore was credited to PL under the head 'Other Income'.
Issue	Since trade receivable is the amount to be realized from customer in the normal course of operation, should the writing back of provision against trade receivable be shown under 'Other operating revenues' or 'Other income'?
Conclusion	The Committee notes that the impairment loss including reversals of impairment losses or gains, determined in accordance with Section 5.5 of Ind AS 109, should be presented separately on the face of the Statement of Profit or Loss. Further, ICAI Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013 (Revised January, 2022 Edition) also provides that separate line item should be included in the

Recent Key EAC Opinions …

Classification of 'Provision of doubtful debts no longer required written back'…

Conclusion …	profit or loss section of the Statement of Profit and Loss to present the impairment losses (including impairment gains or reversals of impairment losses) determined as per Ind AS 109, Section 5.5, in line with paragraph 82 of Ind AS 1. On the basis of above, the Committee opined that reversal of impairment loss (viz., Rs. 18.23 crore) should be presented in the Statement of Profit and Loss under the line item 'Impairment Losses', as discussed in paragraph 10 above. Therefore, the question of presenting the aforesaid amount as 'other income' or 'other operating revenue' does not arise, as discussed in paragraph 10 above.

Recent Key EAC Opinions …

Classification and Presentation of accrued wages and salaries to employees

Case/Issue	Trade Payables under 'Current Liabilities' includes accrued wages and salaries of employees – should the same been shown under 'Provisions (Current)' or 'Trade Payables'?
Conclusion	The Committee notes that paragraph 7.4 of the Guidance Note acknowledges trade payables and employee salaries payable as two separate items under current liabilities. Further, paragraphs 54 (k) and (l) of Ind AS 1, 'Presentation of Financial Statements' read with paragraph 70 thereof also indicate that accruals or payables for employee are to be presented separately from 'provisions' and 'trade payables'. The Committee was of the opinion on the issue raised in paragraph 6 above that accrued wages and salaries should not be classified and presented under 'Trade Payables' or under 'Provisions'. **The Company should present accrued wages and salaries of employees under the head 'other current liabilities'** or any other appropriate separate head created for this purpose (when such presentation is relevant to an understanding of the Company's financial position) under 'Current Liabilities' in the balance sheet of the Company, as per the requirements of Division II - Ind AS Schedule III to the Companies Act, 2013.

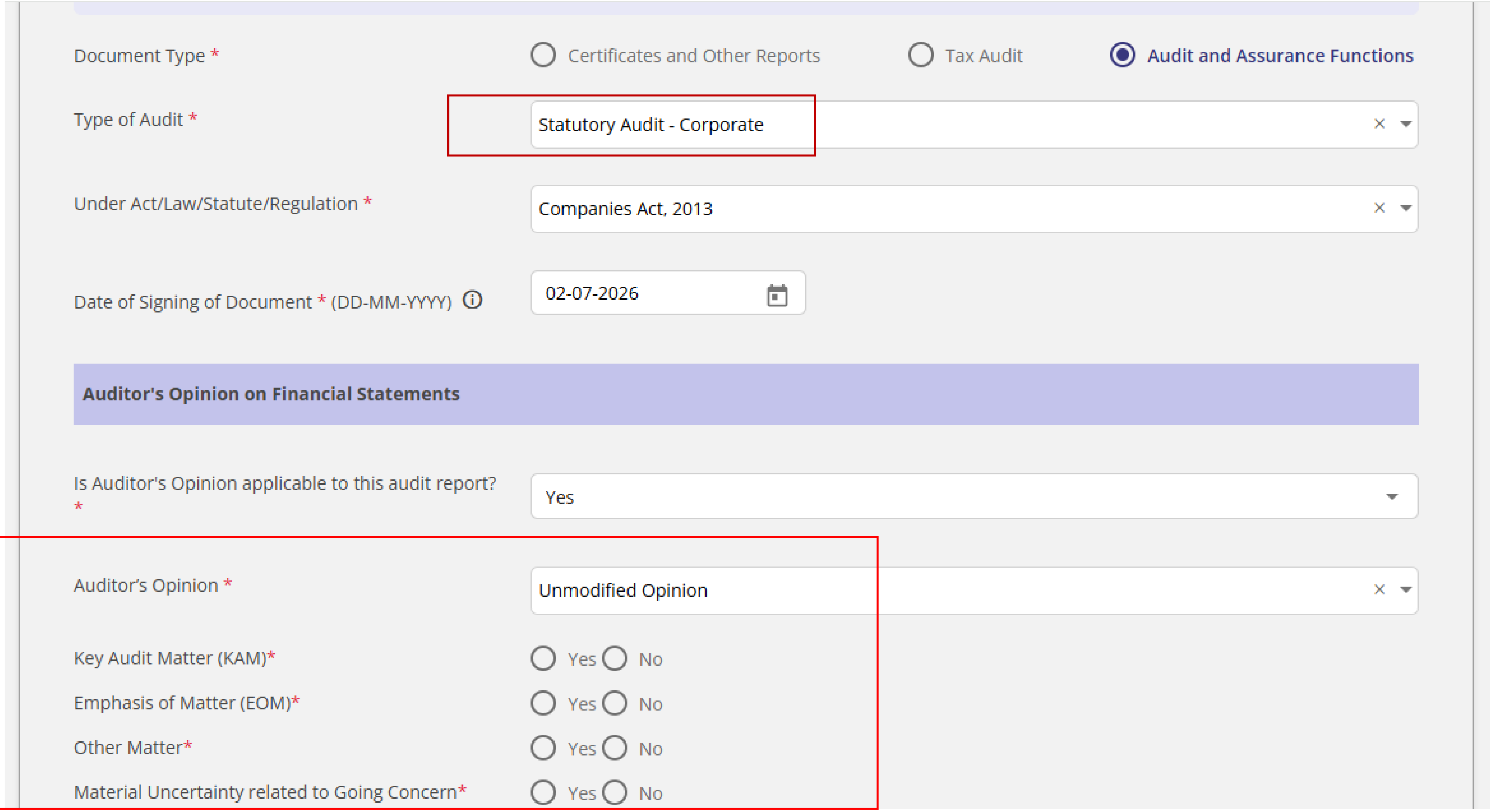
Recent Key EAC Opinions …

Classification of Bank Fixed Deposits held under Lien as Current or Non Current Assets under Ind AS framework

Case	The Company obtains BG and LC facilities from banks through 2 types of arrangements: (i) General Lien Arrangement: and (ii) Specific Deposit-backed Arrangement. The FDs are primarily placed with original maturities of less than 12 months, irrespective of whether they are under lien or free from any encumbrance.
Issue	• Whether bank FDs with an original maturity of less than 12 months, but pledged under lien against BGs, LCs, or borrowings extending beyond 12 months, should be classified as Current Assets or Non-Current Assets. • Whether classification should be based on the deposit's original maturity or the duration of the underlying lien arrangement. • The appropriate accounting treatment for deposits held under general lien arrangements, where they cannot be specifically linked to individual BGs or LCs.
Conclusion	• Such bank deposits should be presented as 'financial assets' under 'current assets' with a separate disclosure for the same in the financial statements (including the notes), provided such bank deposits despite the restrictions due to lien arrangements still meet the definition of a 'current asset'. • The classification of an asset may not be based solely on contractual maturity but should also consider the substance or economic reality regarding expectation of realisation at the reporting date.

UDIN updates

Additional information required during UDIN generation under GST & Tax Audit and Audit & Assurance Functions Categories (20th June 2025)



Document Type * ◯ Certificates and Other Reports ◯ Tax Audit ◉ Audit and Assurance Functions

Type of Audit * Statutory Audit - Corporate

Under Act/Law/Statute/Regulation * Companies Act, 2013

Date of Signing of Document * (DD-MM-YYYY) 02-07-2026

Auditor's Opinion on Financial Statements

Is Auditor's Opinion applicable to this audit report? * Yes

Auditor's Opinion * Unmodified Opinion

Key Audit Matter (KAM)* ◯ Yes ◯ No

Emphasis of Matter (EOM)* ◯ Yes ◯ No

Other Matter* ◯ Yes ◯ No

Material Uncertainty related to Going Concern* ◯ Yes ◯ No

Document Type * ○ Certificates and Other Reports ○ Tax Audit ◉ Audit and Assurance Functions

Type of Audit * Statutory Audit - Non Corporate

Under Act/Law/Statute/Regulation * Companies Act, 2013

Date of Signing of Document * (DD-MM-YYYY) 02-07-2026

Auditor's Opinion on Financial Statements

Is Auditor's Opinion applicable to this audit report? * Yes

Auditor's Opinion * Unmodified Opinion

Key Audit Matter (KAM)* ○ Yes ○ No

Emphasis of Matter (EOM)* ○ Yes ○ No

Other Matter* ○ Yes ○ No

Material Uncertainty related to Going Concern* ○ Yes ○ No

UDIN updates …

Details of the preceding year's audit is now a standard requirement in the statutory audit of both corporate and non-corporate entities.

Entity Type*	Non-Listed Entity
Type of Non-Listed Entity*	Private Company

Details of Preceding year's of Audit

Is capturing details of the preceding auditor applicable to this audit/form? *	Yes
Have you issued the audit report to the client previous/last year? *	Yes
Enter the UDIN of the audit report generated for the previous year *	UDIN Enter UDIN

Validation of UDINs on the e-Filing Portal Based on 5 Parameters instead of 4 (20th December 2025)

PAN of the assessees will now be a mandatory field for UDIN generation under the 'GST & Tax Audit' category on the UDIN Portal.

Henceforth, UDINs will be validated based on the following 5 parameters at the e- Filing Portal of CBDT:

- MRN;
- UDIN;
- AY/FY;
- Form No; and
- PAN/TAN of the assessee

The information to be provided at the UDIN portal regarding PAN of the assessee will be mandatory and will not be visible to any third-party verifier.

UDIN updates …

Ceiling on the maximum number of UDINs that can be generated (11th February 2026)

- Prescribed limit of 60 Tax Audits with effect from 1st April 2026

- Ceiling applicable for the following sub- categories:.
  - ✓ Form 3CA - 3rd proviso to section 44AB
  - ✓ Form 3CB - Section 44AB(a)
  - ✓ Form 3CB - Section 44AB(b)
  - ✓ Form 3CB (Combined) under section 44AB

Change in Taxonomies/categories on the UDIN Portal (8th June 2026)

ICAI approved the revision in the classification of categories/sub-categories on the UDIN Portal

Accordingly, the following changes have been made in the categories available on the UDIN Portal:

- **"Certificates"** has been renamed as **"Certificates and Other Reports"**.
- **"GST & Tax Audit"** has been renamed as **"Tax Audit"**.
- The **"Audit & Assurance Functions"** category shall continue without any change.

Pronouncements/Publications

ICAI Pronouncements / Publications

- Certificates by Chartered Accountants: Comprehensive Checklist & Formats
- Key Compliances and Exemptions for Private Limited Company under the Companies Act, 2013

Ind AS Compendium (2025–26)

A Study of Accounting Policies of Life and Non-Life Insurance Sector under IFRS 17

FAQs
- FAQs on Management Representation Letter
- FAQs on Section 8 Companies under the Companies Act, 2013

Educational Materials
- Ind AS 24 Related Party Disclosures
- Ind AS 36 Impairment of Assets

Liquidation Accounting by ICAI

Technical Guide on Accounting for Expenditure on CSR Activities (Revised July 2025 Edition)

Accounting Standards: Quick Referencer (As on 1st April 2025)

Practitioner's Guide on Drafting of Modified Opinions in Independent Auditor's Reports

Other relevant points for preparation and audit of Financial Statements

- **Verify the status of demands, etc. on the portal**
  - Compare with Contingent Liabilities
- **Compare Form 26AS for TDS and other credits**
  - Reconciliation with corresponding income booked (interest, revenue from services, labour jobs, etc)
- **Compare the Annual Information Statement (AIS) / Tax Information Summary (TIS)**
  - Business Receipts
  - GST Turnover / Purchases
  - Interest and Dividends
  - Properties acquired / sold
  - Tax payments (incl TDS, TCS)
  - Investments in FDs, MFs, Securities, etc.
  - Corporate Credit Card payments

Export Benefits

- Verify all online applications filed for refunds / RoDTEP / drawback
- Whether the export benefits are recorded on accrual basis or cash basis
- How is it presented in the financial statements (i.e. as other operating revenue or other income)

- Ensuring whether transactions fall in automatic route (through AD) or appropriate authorizations have been taken

- Whether foreign exchange management Act forms have been duly filed with the Bank -- ODI, APR, etc.

- Realisation of exports within prescribed period?

- Whether any SCN or orders / penalties have been levied?

Effective 22nd September 2025, the government has introduced GST 2.0 resulting in Rationalization of a four-tiered tax rate structure into a two-tiered rate structure with a standard rate of 18% and a merit rate of 5%. A special de-merit rate of 40% applies for a select few goods and services.

Key Amendments are :

Certain goods/services have moved from taxable to exempt/ NIL rate category (for e.g. ultra high temperature (UHT) milk, life / health insurance, certain life saving drugs and machines	• <u>Financial Reporting Implication</u> Under GST, no ITC can be claimed on inputs or services used for exempt or nil rated supplies (except exports/SEZ). Hence, if inputs are used for both taxable and exempt supplies, the proportionate ITC , based on the value of respective supplies, must be reversed
ITC availed on capital assets initially used in the manufacture of taxable goods and such goods are subsequently exempted	• <u>Financial Reporting Implication</u> Under GST, all capital assets are considered to have a 60-month useful life. Hence, If such assets were used for taxable supplies and later shift to exempt supplies, ITC must be reversed proportionately for the remaining useful life.
Goods/ services will be taxed at a lower rate going forward and inputs continue at higher rate of GST	• <u>Financial Reporting Implication</u> If goods/services move to a lower tax rate, ITC is still allowed, but its utilization may become difficult due to lower output tax. Refund of unutilized ITC under the inverted tax structure is not available for GST paid on input services.

Financial Reporting Implication

If there is a need to reverse / write off ITC

Whether the amount can be added to cost of inventory or PPE

In the absence of specific guidance, both views are supportable, and whichever approach is chosen should be applied consistently

Whether the amount should be charged to PL

View 1

- Ind AS 2 and Ind AS 16 – cost includes taxes non-refundable taxes.
- ICAI Guidance in VAT (conceptually relevant)
  If ITC reversable relates to Input still in stock / PPE – add to cost
  If assets / goods no longer exist – Charge to PL

Conclusion

Non-Refundable ITC – Add to cost
In case of PPE, Depreciate Prospectively.

View 2

The cost of inventory or PPE is determined at procurement and does not alter the original acquisition cost of the underlying asset

Conclusion

Since the event occurs after procurement and is unrelated to asset acquisition – charge to PL

Impact of Geo-political Developments and Tariffs

Impact of Geo - political developments

Background

On 28th February 2026, USA and Israel launched a strike on Iran. Iran launched hundreds of missiles and drones at Israeli cities, U.S. regional bases and Gulf states. This in turn, led to the closure of Strait of Hormuz.

Closure of Strait of Hormuz has triggered global energy crisis, market turbulence and geo-political instability.

Impact on Financial Reporting

Entities with operations or interests in Iran, Israel, Lebanon, or affected Gulf states may face reporting implications if they possess:

Financial & Counterparty Risks: Other significant relationships or exposures, including direct/indirect banking exposures to parties within the affected regions.

Significant Operations: Subsidiaries, branches, or physical operations located in regions impacted by strikes, conflict, or general geopolitical instability.

Supply Chain & Customer Dependencies: Critical supplier or customer relationships tied to entities or infrastructure currently disrupted within these jurisdictions.

Parent Company Exposure: A direct or indirect parent company located in affected areas or one that relies heavily on regional supply chains.

Impact of Geo - political developments …

Business Risks for Entities

Operational Threats :
Missile strikes and political unrest threaten offices and factories in UAE, Kuwait, Qatar, KSA, etc.

Maritime Disruptions :
Severe logistical disruptions in the Strait of Hormuz, resulting from naval threats and prohibitive insurance premiums.

Contractual Arrangements :
Increased risk of contractual defaults (Force Majeure) and infrastructure damage across the broader Gulf region.

Costs:
Fluctuating oil prices and unstable exchange rates are driving up expenses.

Management Representation Letter should be taken to confirm that this does not have any material impact on the financial statements.

Impact of Geo - political developments …

Evaluating the accounting, reporting and auditing implications of Geo-political developments

Key financial impacts

- Impairment
- Expected credit losses /collectability
- Inventory valuation
- Going concern
- Additional disclosures
- Accelerated amortization
- Recoverability of deferred tax assets
- Effects of increase in interest rates on long term liabilities
- Effects of circumstances on key contracts and agreements
- Provisions

Impact of Tariffs

Tariffs are increasingly used as geopolitical and economic tools, leading to supply-chain disruptions, higher costs and volatile market conditions. Below are the key considerations applicable to company impacted by

Critical areas	Key Considerations
Asset Impairment (Ind AS 36)	Requires testing goodwill, indefinite-lived intangibles, and other assets for impairment when indicators arise. Rising tariffs, higher import costs, or limited ability to pass costs to customers may signal unrecoverable values, requiring updated assumptions and potential impairment recognition.
Inventory (Ind AS 2)	Requires inventories to be measured at the lower of cost or NRV, leading to potential write-downs, Supply-chain disruptions or lower production levels may also require expensing abnormal overheads instead of capitalizing them into inventory.
Revenue (Ind AS 115)	Tariffs, though paid by importers, can affect sellers if contracts require tariff cost absorption or price renegotiation, triggering variable consideration or contract modification and impacting revenue, progress measures, and credit risk.
Going Concern	Management needs to reassess going concern by reviewing liquidity, updating its financial forecasts and ensure disclosures reflect increased uncertainty.

Impact of Tariffs ...

Critical areas	Key Considerartions
Provisions and Contingent Liabilities (Ind AS 37)	Companies must recognize a provision or contingent liability if increased tariffs make a contract “onerous” by driving costs above expected benefits.
Financial Statement disclosures (Ind AS 1)	Financial statement disclosures should clearly reflect the extent to which tariffs and broader economic conditions impact the entity’s financial position and performance. Entities are required to disclose key judgements, assumptions, and areas of estimation uncertainty that may materially affect the carrying amounts of assets and liabilities in future periods.

Management Representation Letter should be taken to confirm that this does not have any material impact on the financial statements.

NFRA- Key Updates

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Audit Committee Series

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Auditor – Audit Committee Series

Audit Committee Interaction Series

Series No.	Particulars
1 – Part 1	Audit of Accounting Estimates and Judgments Part 1 – Expected Credit Losses – Ind AS 109
1 –Part 2	Audit of Accounting Estimates and Judgments Part 2 – Income Taxes - Ind AS 12
2	Audit Strategy and Audit Plan – SA 300 etc.
3	Audit of Related Parties – Ind AS 24, AS 18 & SA 550
4	Audit of Accounting Estimates and Judgements Impairment of Non-financial Assets- Ind AS 36, SA 540 etc.
5	Audit of Provisions, Contingent Liabilities & Contingent Assets – Ind AS 37, SA 540, and SA 501

Audit of Provisions, Contingent Liabilities, and Contingent Assets

What do Companies Act 2013 (CA 2013) / SEBI (LODR) require from Audit Committee / Board of Directors?

Particulars	Circular on
Section 134(5) of CA 2013	Directors' Responsibility: • Board of Directors is responsible for the Directors' Responsibility Statement in the Annual Report • Appropriate accounting policies are selected • Accounting policies are applied consistently • Judgements and estimates are made on a reasonable and prudent basis • Financial statements present a true and fair view of the Company's affairs
Schedule IV to CA 2013	Independent Directors to satisfy themselves with the integrity of financial information and that financial controls and the system of risk management are robust and defensible.
SEBI LODR	Audit Committee Role: • Reviews major accounting entries involving significant estimates and management judgment • Oversees the use of key assumptions and judgments in financial reporting • Plays an active role in matters covered under the Directors' Responsibility Statement in the Board's Report

Audit of Provisions, Contingent Liabilities, and Contingent Assets …

Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets , SA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures , and SA 501 Audit Evidence – Specific Considerations for Selected Items :

Potential questions that Auditors may expect from the Audit Committees:

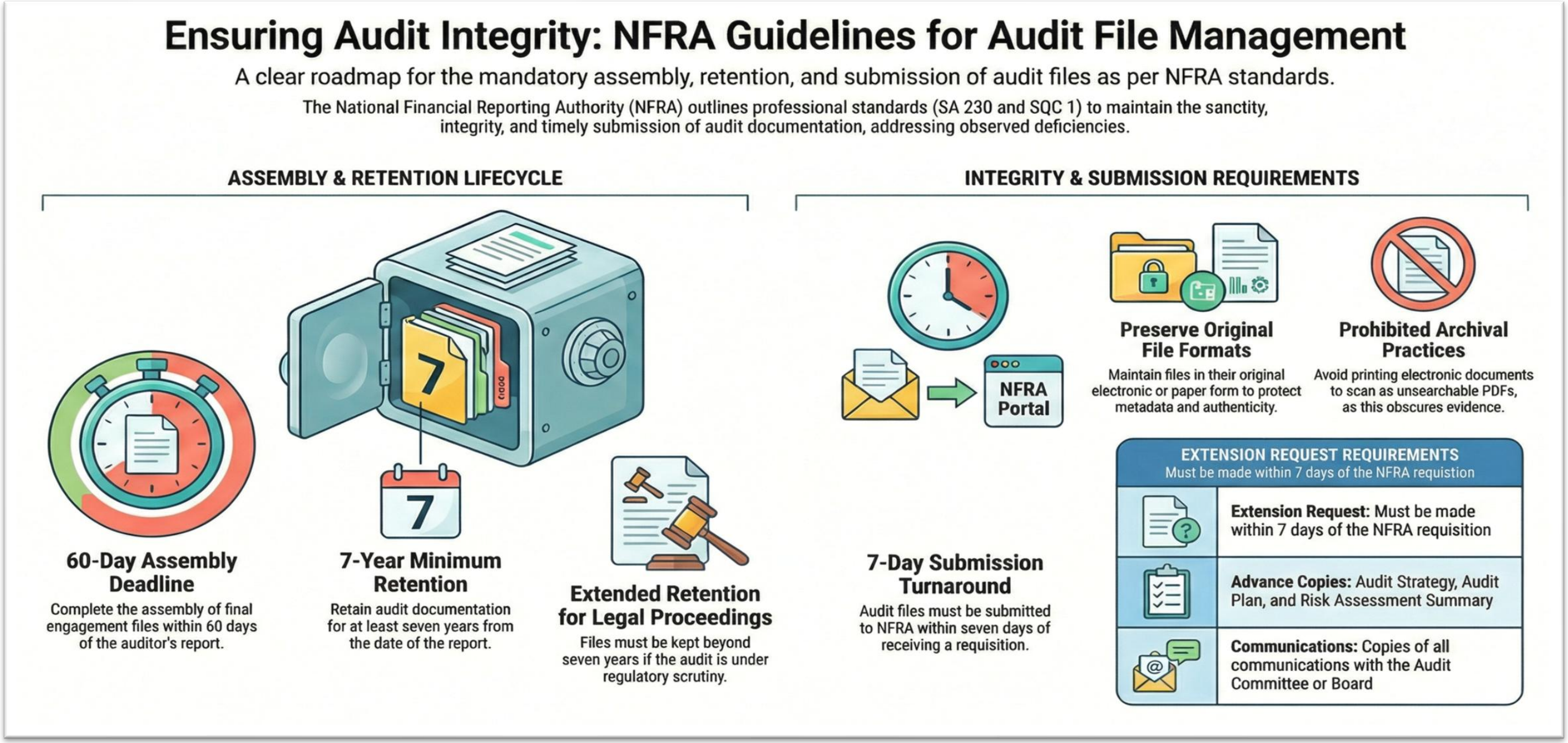
- Fundamental areas and Internal controls
- Best estimate of cash outflows
- Reimbursements
- Onerous contracts
- Restructuring
- Decommissioning, Environmental Restoration Rehabilitation Funds (Restoration & Rehabilitation Fund)
- Liabilities for waste management under EU Directive on Waste Electrical & Electronic Equipment
- Extended Producer Responsibility (EPR Liability) under Plastic Management Rules 2016, Waste E-Waste (Management) Rules, 2022, Battery Waste Management Rules, 2022 or similar laws and rules.
- Disclosures

NFRA - Circulars

NFRA Circulars

Sr. No.	Topic	Date of Circular
1	Non-Accrual of interest on borrowings by the companies in violation of Indian Accounting Standards	20-10-2022
2	Non-compliance with Accounting Policies for measurement of Revenue from Contracts with Customers and Trade Receivables	29-03-2023
3	Statutory Auditors' responsibilities in relation to Fraud in a Company	26-06-2023
4	Responsibilities of Principal Auditor and Other Auditors in Group Audits	03-10-2024
5	Maintenance, archival and submission of Audit File to NFRA	16-12-2025
6	Effective Communication Between Statutory Auditors and Those Charged with Governance, Including Audit Committees	07-01-2026

Maintenance, archival and submission of Audit File



Effective Communication Between Statutory Auditors and TCWG

NFRA has observed gaps in communication between Statutory Auditors and Those Charged with Governance ('TCWG'), including Audit Committees. The circular stresses the need for stronger, timely, and well-documented two-way communication. Improving these interactions is essential for audit quality and effective financial reporting oversight.

Non-Compliances observed		
Incorrect Identification of TCWG	**Superficial or Last-Minute Engagements With Audit Committee**	**Non-Communication of Non-Compliance With Laws and Regulations**
Incomplete or Poorly Documented Communication	**Lack of Proper Documentation of Communication**	**Lack of Reporting on Related Party Transaction Issues**
Confusion Between Management Meetings and TCWG	**Failure to Report Significant Unusual Transactions**	**Failure to Communicate Deficiencies in Internal Controls**

Effective Communication Between Statutory Auditors and TCWG …

In the view of the above, the following provisions of the SAs prescribed under the CA 2013, other requirements of the CA 2013 and relevant Rules thereof are reiterated for the attention of Statutory Auditors and Management / TCWG / ACs of the Companies that fall within the purview of NFRA

Requirement		
Responsibility for effective Two Way Communication	**Appropriate form of communication by Auditors with TCWG & its Documentation**	**Establishing robust two-way communication process**
Determining & Documenting TCWG	**Timeliness of Communication**	

Agenda and matters to be communicated with TCWG

Requirement		
Audit Strategy & Key Risk Areas	**Audit Progress – Status & Significant Findings**	**Independence & Ethical Compliance**

Audit Toolkits

Audit Practice Toolkits

This toolkits has been developed to enhance awareness and understanding of audit strategy formulation and assessment of risks of material misstatement (ROMM) in accordance with the Standards on Auditing. It focuses on how the auditor's overall audit strategy under SA 300 and risk assessment under SA 315 together establish the foundation for a risk-based, quality-driven audit, including the linkage from assessed risks to planned audit responses. This intended to support consistent documentation, robust professional judgment, and effective execution of audit procedures in line with applicable standards.

Till now, NFRA issued 2 toolkits for Audit Practice:

Sr. No.	Particulars	Date of Issue
1	Audit-Practice Toolkits Audit Strategy Memorandum	03-11-2025
2	Audit-Practice Toolkits - ROMM for Revenue	01-01-2026

Inspection of Audit Firms

Inspection of Audit Firms

NFRA selects few audit firms for Inspection. The process covers:

- Quality validation – SQC1, SOQM, etc.
- Applies to all verticals in the firm
- Audit methodology and documentation for select files
- Both On-site and On-line interactions
- Follow-on inspections are also conducted

The final reports are available on NFRA website and offers good insight on quality.

Any Questions ?

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