

**GOVERNMENT OF INDIA
MINISTRY OF CORPORATE AFFAIRS
LOK SABHA
UNSTARRED QUESTION NO. 2684
ANSWERED ON MONDAY, MARCH 09, 2026/ 18 PHALGUNA, 1947 (SAKA)**

Revenue Recognition Risk Identified by NFRA

QUESTION

2684. Shri Sasikanth Senthil:

Will the Minister of CORPORATE AFFAIRS

be pleased to state:

- (a) whether the Government has taken note of observations made by the National Financial Reporting Authority (NFRA) that revenue recognition continues to be a high-risk area for material misstatement in statutory audits, if so, the details thereof;**
- (b) the number of audit inspections conducted by NFRA during the last three years in which deficiencies relating to revenue recognition were observed and the steps taken to address such deficiencies;**
- (c) the measure taken by the Government and NFRA to strengthen compliance with Standards on Auditing, including SA 240 and SA 315, and to improve audit quality in respect of revenue recognition; and**
- (d) the impact of such audit deficiencies on corporate governance, investor confidence and the overall ease of doing business in the country?**

ANSWER

**MINISTER OF STATE IN THE MINISTRY OF CORPORATE AFFAIRS AND
MINISTER OF STATE IN THE MINISTRY OF ROAD TRANSPORT AND
HIGHWAYS.**

(SHRI HARSH MALHOTRA)

(a) & (b) National Financial Reporting Authority (NFRA) is aligned with the international standards. Steps are taken by the Government to keep the Accounting Standards, including those that have a bearing on revenue recognition, updated and aligned with international standards. 12 Audit Quality Inspections have been undertaken by NFRA during the last three years, of which deficiencies related to revenue recognition were observed in 6 firms. Firms were asked to remediate the deficiencies in the audit and follow up on remedial actions has been taken during subsequent inspections. Inspections reports are also published to enable wider learning of the issues. Further, a series of workshops and webinars have been organized to educate the professionals.

(c) The measures undertaken to strengthen compliance with Standards on Auditing, including SA 240 and SA 315, and to improve audit quality in respect of revenue recognition are at Annexure.

(d) Audit deficiencies may lead to audit/corporate failures, which may result in adverse impact on corporate governance and investor confidence. Audit Quality inspections are intended to identify areas and opportunities for improvement in the audit firm's system of quality control and in their planning, conduct and reporting of audits. Inspection work provides an opportunity for an audit firm to improve auditing procedures and remediate lapses. The publication of the inspection reports enables dissemination amongst the stakeholders, facilitating improvement in corporate governance practices including financial integrity of financial statements. This in turn leads to enhancement in investor confidence and contributes to building a stronger ecosystem of trust among stakeholders and supports the broader objective of enhancing the ease of doing business in India.

Annexure

- (i) Auditing Standards: A set of 40 revised high-quality globally comparable & updated Standards on Auditing including SA 315, 240, Standard on Group Audits and Standards on Quality Management has been recommended by NFRA, which are under consideration of the Ministry**
- (ii) 12 audit quality inspection reports have been published on NFRA website.**
- (iii) NFRA has issued 94 disciplinary orders, out of these 79 orders are published, and 15 orders are not published due to court directions. The published orders act as a major deterrent by highlighting the consequences of audit lapses thereby sensitising the audit profession regarding their responsibility in law and accounting and auditing standards. Learnings from NFRA orders has been published by the profession itself.**
- (iv) NFRA has also undertaken several initiatives to support better audit quality practices. NFRA has commenced issuing Audit-Practice Toolkits to enhance awareness and audit quality.**
- (v) NFRA has also issued circulars, reiterating provisions in law and standards, with a view to prevent recurrence of non-compliances and bring in systemic improvement in the quality of financial reporting in India, towards advising and guiding various stakeholders.**
- (vi) In 2025-26, NFRA also launched a series of outreach programmes across the country to deepen engagement with audit firms towards supporting audit quality, especially focussed upon small and medium sized audit firms. Four such outreach programmes have been held in Hyderabad, Indore, Bangalore and Kolkata.**
- (vii) Continuing its practices for education on audit areas, NFRA periodically organised webinar series with assistance from experts and professionals. NFRA also held webinar on SA 315.**