

**NANGIA & CO LLP**



**ASSURANCE GAZETTE**

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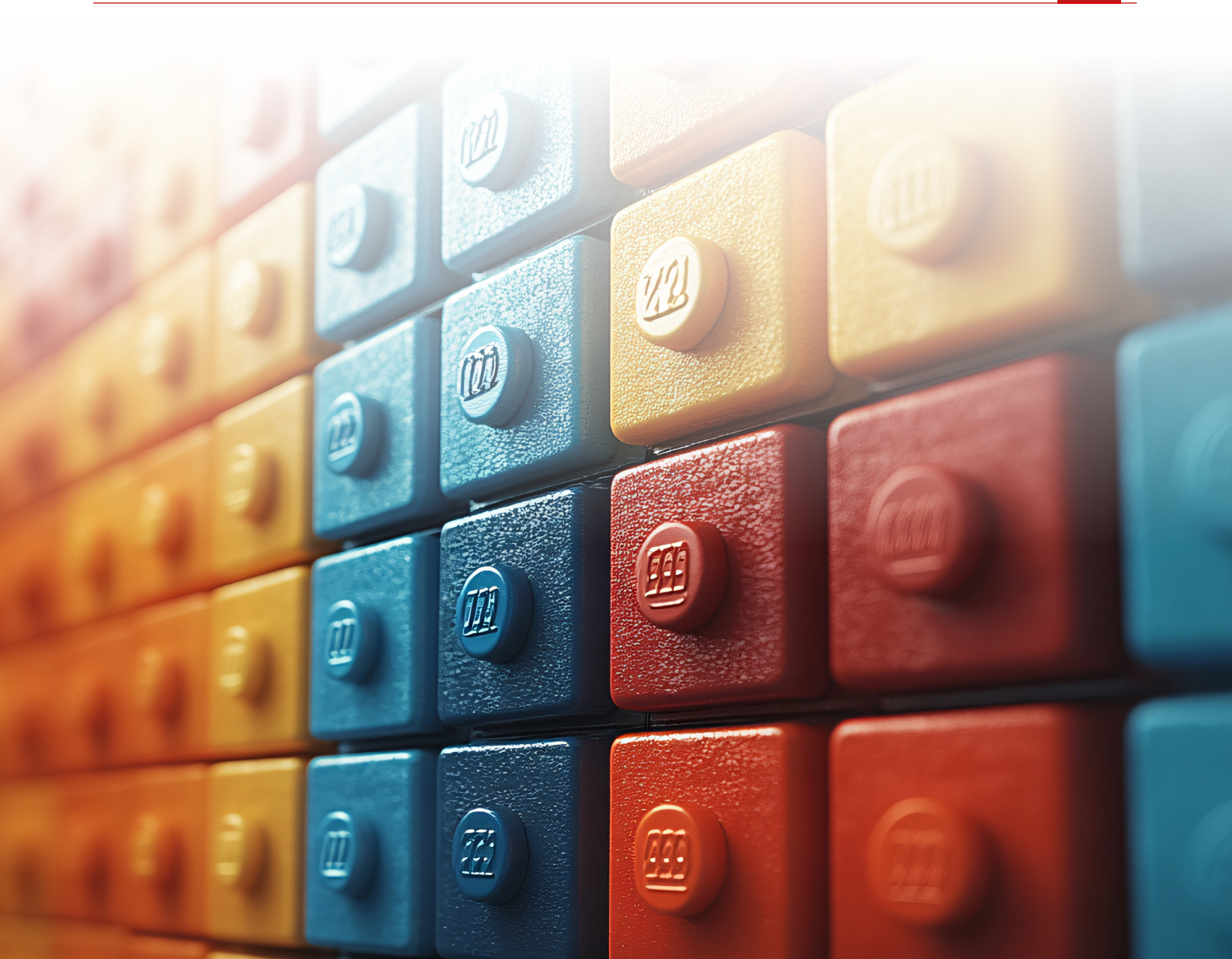
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# Foreword

*“Welcome to the Assurance Gazette for April 2026 Edition.*”

This edition presents IRDAI’s mandate to adopt Ind AS reporting, including Ind AS 117, from 1 April 2026 represents a significant transformation in financial reporting for Indian insurers. With revised regulations and the clarificatory circular issued on the same date, the sector transitions from transaction-based accounting to a more transparent, forward-looking framework aligned with global standards. After years of preparation through trial financials, system upgrades, and cross-functional collaboration, Ind AS statements in Schedule IIA format will become the primary statutory accounts from FY 2026–27, supported by two years of parallel reporting and an optional one-year forbearance for eligible insurers.

This edition also shares an article that provides practical insights for finance professionals and auditors dealing with complex, phased infrastructure projects, ensuring alignment between accounting treatment and underlying commercial reality. Determining the timing of capitalisation in large infrastructure projects often requires careful judgment, particularly where assets are constructed in phases but become operational only upon full completion. This also explores such a scenario under Ind AS 16 and Ind AS 23, in the context of the North-East Gas Grid (NEGG) project.”

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## IRDAI Mandates Ind AS Financial Reporting and Ind AS 117 for Insurers w.e.f. 1 April 2026

### Regulatory update for Insurance sector:

Over the past few years, IRDAI has gradually intended to move the insurance industry towards global accounting standards to improve transparency and comparability, without disrupting regulatory stability.

This transition was formally completed in April 2026, when IRDAI amended its regulations to require insurers to prepare financial statements under Indian Accounting Standards (Ind AS) from 1 April 2026 and IRDAI has also issued a **clarificatory circular dated 1 April 2026** on the implementation of Ind AS (referred to as the “Circular”).

The change was well planned. From FY 2023–24, insurers prepared Ind AS financials on a trial basis to understand the impact, fix data and system gaps, and improve coordination across teams. These trial numbers were not used for statutory reporting.

Until FY 2025–26, insurers continued to publish statutory accounts using existing IRDAI formats. From FY 2026–27, Ind AS financial statements becomes the main statutory accounts, prepared in the prescribed Schedule IIA formats and parallel reporting of financial information prepared under the old framework is required for two years from the date of implementation and this financial information shall be subject to limited review.

To support the transition, IRDAI has allowed a possible one year forbearance, subject to Board approval and applications must include a detailed implementation roadmap with monthly milestones, system and data readiness timelines, preparedness of actuarial and finance functions, and the governance framework for overseeing the transition. During the forbearance period, insurers must prepare **Ind AS pro forma financial information** in accordance with Schedule IIA and these are also subject to **quarterly limited reviews**.

Solvency calculations, actuarial valuations, and surplus determination remain unchanged, and profits reported under Ind AS cannot be distributed, this emphasises that the change of framework applies only to statutory financial reporting.

In accordance with the Circular, all insurers are required to apply Ind AS.. For the insurance sector, the new framework is driven primarily by **Ind AS 117 (Insurance Contracts)**, read together with **Ind AS 109 (Financial Instruments)**. Ind AS 117 introduces a fundamental shift to a **forward looking, service based accounting model**, requiring insurers to assess insurance contracts over their entire coverage period.

Under Ind AS 117, insurers must first identify **groups of insurance contracts** with similar risks and rewards and form cohorts based on nature, risk, tenure, and returns. Measurement of these groups depends on contract type and duration, using one of three models:

- **General Measurement Model (GMM)** – mainly for long term contracts such as life insurance
- **Premium Allocation Approach (PAA)** – a simplified approach for most short term general and health insurance contracts
- **Variable Fee Approach (VFA)** – applicable to participating and unit linked products where returns are shared with policyholders

The Ind AS framework is expected to **significantly impact accounting treatment** and key differences between existing IRDAI framework and Ind AS framework are as follows:



Area	Pre Ind AS (IRDAI Framework)	Post Ind AS (Ind AS 117)
Premium recognition	Recognised when premium becomes due/received; general and health insurers defer part through unearned premium reserve.	Treated as expected cash flows; revenue recognised over the coverage period as insurance service is provided.
Commission/ acquisition costs	Expensed upfront at policy issuance, irrespective of policy duration.	Deferred and recognised over the coverage period in line with revenue.
Claims measurement	Based on reported claims and outstanding estimates (including IBNR), largely backward looking.	Measured using expected future cash outflows, including claims not yet incurred.
Loss making contracts	Identified over time based on adverse experience.	Assessed at inception; expected losses recognised immediately.
Profit recognition	Often front loaded, with earlier recognition of profit.	Spread over contract life, with profits emerging as services are delivered.

As a result, financial outcomes under Ind AS are significantly more sensitive to actuarial assumptions, experience variances and economic factors, leading to increased transparency—but also greater volatility—in reported results.

### Auditor's perspective:

From an audit standpoint, the transition to Ind AS shifts the emphasis from verification of historical transactions to the evaluation of management judgement, estimates and forward looking assumptions. Auditors will have to place particular focus on:

- largely actuarial models and key assumptions;
- robustness of governance over assumption setting, review and change;
- clear and auditable linkages between actuarial outputs and accounting records;
- appropriate identification and measurement of loss making contracts and contract groupings; and
- completeness and clarity of enhanced disclosures prescribed under Schedule IIA.

The requirement for quarterly Ind AS based reporting and limited reviews further reinforces the need for strong systems, disciplined processes, comprehensive documentation and effective internal controls



### Nangia's Take

The transition to Ind AS financial reporting, as clarified through the IRDAI circular, marks a significant shift in insurance accounting, from transaction driven outcomes to expectation driven measurement. Reported performance will increasingly depend on the quality of actuarial assumptions, robustness of data and effectiveness of governance across actuarial, finance and systems. Insurers that embed disciplined controls, clear ownership and strong cross functional alignment are better positioned to achieve consistent reporting, smoother assurance outcomes and enhanced confidence among regulators, Boards and other stakeholders.



# Timing of capitalisation of partly completed gas pipeline (Phase I) under Ind AS framework

## A. Facts of the Case

The case is about the planning and building of the North-East Gas Grid (NEGG), a strategic infrastructure project that the Indian government came up with to improve natural gas connectivity in the North-Eastern region.

The Ministry of Petroleum and Natural Gas (MoP&NG) set up a committee in March 2015 to come up with the Hydrocarbon Vision 2030 for North-East India. The goal of the vision was to make better use of the region’s hydrocarbon resources, make it easier to get clean energy, make petroleum products more available, and boost economic growth in eight states.

Later, in 2016, a subcommittee looked over the phased implementation of a natural gas pipeline network, which helped finalize the NEGG development plan. In December 2017, MoP&NG worked with public sector undertakings (PSUs) to get the project up and running. The plan called for a pipeline grid to connect Guwahati to major cities.

NITI Aayog gave the green light for the project to go ahead, and a Joint Venture Company (JVC) was set up in August 2018. The Petroleum and Natural Gas Regulatory Board (PNGRB) gave the company permission to build and run the pipeline network in November 2020.

The project was split into three phases based on how easy it would be to do because of the complicated geography and rules, like getting permission to clear forests and wildlife, dealing with difficult terrain, and figuring out who has the right of way. Phase I was on relatively flat land that was easy to get to, Phase II was on hilly land that needed environmental clearances, and Phase III was on very difficult land that was limited by infrastructure issues like highway expansion.

According to the Detailed Feasibility Report (DFR), the project would cost ₹9,265 crore in total. There were two types of funding: 60%

viability gap funding from the Government of India and the rest from a mix of debt and equity. The original deadline for finishing the project was pushed back. The new deadline for all phases is now around March 2025, but it will be changed again after that.

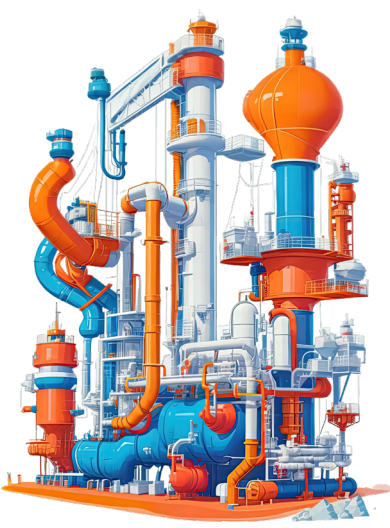
By March 2025, about half of this section of the pipeline had been built with machines, and the necessary infrastructure had been put in place and partially checked by the appropriate authorities. But the rest was still being built and was expected to be done later. It’s important to note that the pipeline can’t be put into service or used in parts. The only way to achieve the goal of moving gas from Guwahati to Numaligarh is to finish the whole stretch.

The company has spent a lot of money on Phase I, especially on the Guwahati–Numaligarh section. These costs have been recorded as Capital Work-in-Progress (CWIP) in line with its accounting policies and the rules that apply. Even though some of the work is done, commercial operations depend on the entire pipeline section being fully built and put into service.

In general, the case is about a big infrastructure project that the government is backing and that is being built in phases under difficult conditions. **The main focus is on the status and treatment of pipeline assets that are only partially finished and are not yet ready for full operation.**

## B. Query

The Company has asked the Expert Advisory Committee for their thoughts on when capitalisation should happen under the current accounting rules. Specifically, the question is whether costs incurred so far, including interest on loans, for



a partially finished part (195.898 km) of the Guwahati–Numaligarh pipeline should be recorded as Property, Plant, and Equipment.

The worry comes from the fact that this part has been mechanically finished along with some supporting infrastructure, but it is not yet ready for its intended use according to the original project plan. The pipeline can't work on its own because it needs the whole length to move natural gas to the end user (Numaligarh Refinery). As a result, business operations have not yet begun.

In this case, the main question is whether a section of the pipeline that is partially finished and ready to be used mechanically is enough to justify capitalizing it, or whether capitalizing it should wait until the whole section is finished and ready to work as planned by management.

### C. Case under Consideration

The matter revolves around the **timing of capitalisation** under **Ind AS 16 (Property, Plant and Equipment)** and **Ind AS 23 (Borrowing Costs)**.

Ind AS 16 provides that an asset should be recognised as PPE only when:

- It is probable that future economic benefits will flow to the entity; and
- The asset is in a condition and location ready for its intended use.

Further, capitalisation of costs ceases when the asset is capable of operating in the manner intended by management.

Ind AS 23 states that borrowing costs should be capitalised for qualifying assets until **substantially all activities necessary to prepare the asset for its intended use are complete**. However, if a project consists of separable components that can operate independently, capitalisation may cease for those components once they are ready for use.

In the present case, although a portion of the pipeline has been physically completed and certified, the following factors are critical:

- The pipeline is designed as an **integrated system**, not as independent segments.
- The completed portion cannot transport gas to the intended end-user (Numaligarh Refinery) without completion of the remaining stretch.
- There is **no alternate commercial use** of the completed portion in isolation.
- The project's intended use (gas transmission from Guwahati to Numaligarh) can only be achieved upon full completion.

Thus, the partially completed section does not meet the condition of being "ready for intended use."

### D. Opinion

Based on the above analysis, the following conclusions emerge:

- 1. Capitalisation of PPE (Ind AS 16):** The completed portion of 195.9 km, although mechanically finished, cannot be capitalised as PPE since it is not yet capable of operating in the manner intended by management. The pipeline derives its utility only when the entire stretch is operational. Therefore, the asset is not in a "ready for use" condition as required under Ind AS 16.
- 2. Treatment as CWIP:** The expenditure incurred on the partially completed pipeline should continue to be recognised as Capital Work-in-Progress (CWIP) until the full pipeline is completed and commissioned.
- 3. Borrowing Costs (Ind AS 23):** Since the pipeline qualifies as a qualifying asset and is not yet ready for intended use, borrowing costs should continue to be capitalised. Capitalisation should cease only when substantially all activities required to make the entire pipeline operational are complete.



## Nangia's Take

In substance, even though a portion of the pipeline is physically complete, economic functionality and intended use remain unachieved until the entire system is operational. Accordingly, both the asset cost and related borrowing costs should continue to be accumulated under CWIP until full commissioning.

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