

Changing Audit Regulations and the **Road to Greater Transparency in India**

Audits, especially Statutory Audits play an important role in building confidence in financial information of anyorganization. As per framework of accounting standards, the main objective of general-purpose financial statements(FS) should be to 'help user taking a decision'. Various stakeholders look at these FS from different perspective.While investors assess businesses, lenders want to make informed decisions and regulators need to ensureaccountability whereas management must evaluate performance and prepare action plan. As India's economyexpands and businesses become increasingly digital and interconnected, while increasing complexity of transactions,audit regulations must evolve to address emerging challenges while maintaining the credibility.

India's audit regulatory landscape has strengthened considerably in recent years, driven by reforms under theCompanies Act, 2013 and reinforced by the proactive oversight of the National Financial Reporting Authority(NFRA). Although the auditing standards prescribed by the Institute of Chartered Accountants of India (ICAI) arebroadly converged with international standards, some aspects remain subjective due to ongoing discussion andinterpretation. The prevailing regulatory direction in India, like any other jurisdiction in the world, underscores aclear emphasis on rigorous documentation and transparent reporting practices with clear accountability. Let usdiscuss latest developments, which are going to have significant impact on this profession of auditors.

Technology

The Companies Act 2013 and Rules therein have introduced a requirement for companies that use accountingsoftware to maintain an audit trail through an edit log that captures all modifications, including the date of eachchange. Importantly, this audit trail functionality must always remain enabled. Auditors need to report on compliancein their report. This example represents only a tip of the iceberg. As Artificial Intelligence becomes increasinglyembedded in finance, accounting, and business operations, auditors will face new and complex challenges.

Technological advancements will certainly and fundamentally reshape audit methodologies. To begin with and as anexample, while sampling has traditionally been a cornerstone of audit testing, modern data analytics toolsincreasingly enable the examination of entire populations of transactions, allowing auditors to focus their efforts onexceptions and high-risk areas. As a result, conventional approaches to sample-based testing may require re-evaluation in near future. Auditing of crypto currency transactions can be another example, and there are many.

While organizations must establish robust governance frameworks, implement effective controls, preserve theintegrity of records, and periodically review their accounting systems, the auditors must continue to fulfil theirfundamental responsibility of providing independent assurance keeping their ability to uphold the core principles ofindependence and professional skepticism.

To remain effective, auditors must develop a deep understanding of emerging technologies and leverage advancedtools and techniques to evaluate the reliability of AI-driven processes. This capability will be essential to obtainingsufficient and appropriate audit evidence in reaching audit conclusions and providing stakeholders with assurancewhether the FS present true and fair picture of performance and financial position besides changes therein.

Audit quality and oversight

NFRA has brought increased attention to audit quality and compliance with auditing standards. Some peoplequestion the way of working and intention of NFRA with example that how come all the cases picked up forinspection resulted in declaring auditors guilty and negligent. A few criticize sensation created though highlightingevery inspection report in public media; painting the whole profession in a poor light. Performance issues appear inother professions as well, they say. But not every mistake, intentional or unintentional, is getting published the way itis happening with auditors.

Having said that, the fact remains that quality of audit and importance of proper audit work papers cannot beundermined. Ultimately, whether it is directions and guidelines on audit file maintenance, archival or effectivecommunication with Those Charged with Governance, all these are quite relevant and had been existing since long,sitting somewhere deep in the auditing standards. These measures reinforce the need for auditors to maintain clearevidence supporting their conclusions and communicate significant audit matters to the appropriate stakeholders. Forcompanies, this means treating the audit process as an ongoing governance responsibility rather than an exerciseundertaken only at the end of the financial year.

Evolving standards

Auditing standards, guidance and regulation cannot remain static. ICAI's proposed transition from the existingStandard on Quality Control (SQC) 1 to the newer Standards on Quality Management (SQM) 1 and SQM 2 reflectsthe profession's movement towards a more structured approach to managing audit quality and conductingengagement quality reviews. Though ICAI deferred the mandatory effective date of SQM 1 and SQM 2 until furtherannouncement, SQC 1 continues to apply and that requires adequate training to the audit partners and team membersbesides other requirements at firm level. The audit firms must monitor regulatory updates carefully and distinguishbetween announced standards and requirements currently in force.

Next phase

As mentioned above, while businesses will adopt technology including artificial intelligence, automated accountingand data-driven decision-making, the auditors will also need to combine professional judgement with technologicalcapabilities. AI certification course of ICAI provides that facility to the auditors, besides other courses.

Small and medium-size audit firms will certainly need practical guidance and capacity-building support toeffectively adapt evolving regulatory requirements without creating unnecessary compliance or finance burden. Aclear communication from regulators, timely professional training and consistent implementation can help achievethis balance.

In the same breath, I would like to mention that regulatory change should not be viewed merely as an additionalcompliance obligation. Its real value lies in improving the quality of financial information, strengthening corporategovernance and protecting stakeholder interests. As India advances towards a more transparent and accountablebusiness environment, effective audit regulation, supported by capable professionals and responsible corporateleadership, will remain essential to sustaining trust in its financial ecosystem.

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