

# Corporate India Reimagined:
## Reflecting on a Balanced Approach to Audit Exemptions for Certain Private Companies

**The Corporate Laws (Amendment) Bill, 2026 was introduced in Lok Sabha on March 23, 2026. It seeks to amendthe Companies Act, 2013 and the Limited Liability Partnership (LLP) Act, 2008. The Bill has now been referred to aJoint Parliamentary Committee ("JPC") for examination. It seeks to strengthen India's corporate law frameworksince the Companies (Amendment) Act, 2017 brought in various reforms.**

While much attention has been focused on merger simplification, expanded small company thresholds, CSRrelaxations and enhanced regulatory powers, one proposal which has generated considerable debate among corporatestakeholders, regulators and professionals is on the proposed framework, under which prescribed classes of privatecompanies may be exempted from the requirement of appointing a statutory auditor.

Under the current Companies Act, statutory audit is mandatory for all companies in India, even smaller ones likeOne Person and Dormant Companies, though they enjoy certain compliance relaxations. The JPC has recommendedlimiting this exemption to prescribed classes of private companies, balancing ease of doing business withaccountability and stakeholder confidence.

At first glance, the proposal appears sensible. After all, if a company is small, closely held and has limited operations, why should it bear the cost and effort of anannual audit? Why not allow entrepreneurs to focus on growing their businesses instead of spending time and moneyon compliance?

In an environment where "ease of doing business" is a key policy objective, reducing unnecessary regulatory burdenis certainly a step in the right direction.

However, before celebrating the idea of audit exemptions, it is worth pausing to ask a more important question:

What exactly are we giving up in return for that compliance relief?

A clear, visible benefit or argument in favour of the proposed amendment is that the proposed framework couldreduce audit and compliance costs for qualifying private companies. Surely, the actual beneficiaries will depend onthe classes and conditions prescribed once the framework is implemented.

Let us look at reasons why such assurance is required. Under India's accounting framework, one of the keycharacteristics of financial statements is reliability. Financial statements must be true and fair. In many ways, an

audit is not merely about checking numbers. It is about building trust.

The framework currently provides comfort through assurance from an independent, qualified chartered accountanton the true and fair view of the financial statements, which the company prepares to depict

performance andfinancial position to all stakeholders. Stakeholders include management, investors, shareholders, employees, andvarious direct and indirect tax regulators, as well as society at large.

Let us look at another dimension. We are looking at more complex transactions in light of globalisation, technologygrowth and start-up culture. For example, the valuation of small or large companies depends on intangible assets likea list of customers, an idea for a tool or software under development, or goodwill in the market. These transactionsintroduce significant subjectivity. Without a qualified person responsible for reporting these financials, how wouldthose assets be accounted for, aside from revenue recognition under the proportionate completion method or theaccrual vs. cash system of accounting? It will be quite difficult for anybody to rely on self-certified accounts, even ifprepared by a qualified person. Without an independent auditor reviewing the accounting and financial statements,reliability will always be in question.

Let us take an example to understand the gravity of the situation. Consider a very small operation run by a smallentrepreneur, where an audit exemption applies. This person might not know how to account for expected creditlosses, how to make a provision for gratuity, or how to recognise deferred revenue.

Another argument against the proposal is that impact assessment is often assumed to be small. It may be felt thatcorporate fraud generally occurs when the stakes are high. Once a window opens for sailing through without auditscrutiny, fraudsters will certainly try to use it by creating companies that fall under such exemption provisions. In therecent past, we have seen a network of dormant companies used by various businesspeople to route transactions.

Another important factor to consider is whether stakeholders would be comfortable relying on unaudited financialstatements. Banks generally prefer audited financial statements before approving credit facilities. Similarly, investorsoften expect audited financials before making investment decisions. Private equity and venture capital firms alsocarry out detailed due diligence, regardless of how relaxed the statutory requirements may be. As a result, manygrowing businesses may still need to get their financial statements audited, even if it is no longer a legal requirement.

In such cases, the actual benefit of reducing compliance requirements may be much smaller than expected.

And how much cost will be saved, and by whom? Do you really think small business people are spending a bombtowards statutory audits? In any case, they will be required to maintain books of account and prepare financialstatements. That's the requirement of the Companies Act. Why not have a thin layer of protection? With improvedawareness and fear of regulators, auditors can convey to management the necessity of these procedures.

As policymakers deliberate on the final shape of the law, the focus should perhaps not be on eliminating auditsaltogether, but on making assurance requirements more proportionate, efficient, and risk-based. Because whilecompliance can be simplified, confidence cannot be compromised.

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