

INTERNATIONAL JOURNAL OF LEGAL AFFAIRS AND EXPLORATION

Volume 3 | Issue 1

2025

Website: www.ijlae.com

Email: editor@ijlae.com

REGULATORY FRAMEWORK GOVERNING DIGITAL AUDITING

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INTRODUCTION

In accordance with a rapid digital transformation, India's auditing environment has evolved drastically to allow new technology and data-driven techniques. Rising complexity and volume of financial data make digital auditing—using tools of information technology to automate and improve the auditing process—more and more relevant. As businesses transition to digital platforms, a solid legislative framework supervising the running of digital audits and the responsibilities of auditors in this new context is progressively needed. Under this legislative framework in India, laws, professional standards, and guidelines defined by many controlling authorities taken together guarantee accuracy, openness, and honesty in digital audits. Since it defines the legal responsibilities for audit processes and auditor functions, the Companies Act, 2013 is the basic legislation overseeing auditing in India. Under this Act, several kinds of statutory audits are mandated and different kinds of firms and auditors are obliged to follow particular rules and ethical requirements. As digital auditing develops to fit digital evidence, automation technologies, and electronic data management systems, the sections of the Companies Act are becoming more called for. The legislative system depends also quite much on the set of rules released by the Institute of Chartered Accountants of India (ICAI), the principal professional body for chartered accountants in India. Standards of Behaviour Notes addressing the technological aspects of auditing and various auditing standards have been published by the ICAI. These needs underscore in a digital environment the importance of audit

planning, risk analysis, and data analytics. ¹Moreover, the ICAI keeps updating its systems to incorporate global best practices and the increasing relevance of technologies including artificial intelligence (AI), blockchain, and cloud computing in audit processes. The Information Technology Act, 2000 also substantially helps to control digital audits by allowing electronic records and digital signatures legal validity. This Act lets to accept proof of digital audits and assures the authenticity and security of digital communications. Moreover stated industry-specific guidelines by regulators including the Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI), which auditors in restricted areas including banking and capital markets have to follow. Taken together, these legal clauses and professional standards provide a whole regulatory framework that not only controls digital auditing processes in India but also guarantees that auditors maintain the highest standards of integrity, independence, and competency in an always digital company environment.

DUTIES AND RESPONSIBILITIES OF STATUTORY AUDITOR

Auditing is an essential component of every organization's compliance initiatives. Confirming that a business's financial records and documentation are accurate and adhere to all relevant tax and financial requirements is a standard aspect of this process. The financial records and transactions of a corporation may be subjected to an audit to verify their accuracy. Investors and stakeholders in the organisation cultivate trust owing to the assurance of transparency it offers. We must ascertain who is accountable for auditing the company's financial statements, as this is a critical responsibility. ²The evident solution is to appoint an auditor, as stipulated in section 139 of the Companies Act of 2013. Only chartered accountants or accounting companies specialising in chartered accounting are permitted to act as statutory auditors for a company. The functions and duties of an auditor require additional scrutiny. An auditor is a professional who examines and evaluates financial records and statements for accuracy and compliance with established standards. An auditor is an independent entity that validates the precision of a company's financial statements by a thorough examination of the accounting records. This assessment guarantees the accuracy and legitimacy of the financial data reported in the accounts. An auditor's responsibilities encompass doing an examination and delivering an impartial assessment to the firm's board concerning the financial status of the enterprise.

¹ *A Comparative Study of Companies Act, 2013 & Companies Act, 1956* (Taxmann Publications (P.) Ltd., New Delhi, 2015).

² K.D. Raju, *Company Directors: Fiduciary Duties and Liabilities under the Indian Company Law* (Eastern Law House, Kolkata, 2013).

Only Certified Public Accountants or a firm of full-time Chartered Accountants may act as auditors for a company, as previously stated. Auditors must not get any benefits or compensation from the company beyond the remuneration for the audit, as they are regarded as independent entities. Alongside membership in the ICAI and designation as a chartered accountant, auditors must uphold a current and valid certificate of practice (COP). Full-time employment as a chartered accountant is mandatory. must possess appropriate qualifications and a background in auditing or accounting. A comprehensive understanding of accounting principles and concepts, including IFRS and GAAP, is important. The auditor must maintain independence and impartiality throughout the audit process. Maintaining an objective perspective while delivering a perceptive yet biased evaluation of the company's financial reporting is essentially what it entails. The responsibilities of an auditor An examination of Section 143 of the 2013 Companies Act delineates the responsibilities that auditors are required to perform. This is merely a limited enumeration of the auditor's responsibilities; the Act provides a clear and concise delineation of all of them. Compile a report outlining your audit. The financial status of a corporation is encapsulated in an audit report. To generate a preliminary audit report, auditors require access to the company's financial statements. He guarantees that the financial records are managed and preserved in compliance with all relevant laws and regulations. The auditor is responsible for ensuring that the business's financial accounts comply with all applicable requirements, including the Companies Act of 2013 and pertinent accounting standards. It is essential to verify that the financial records appropriately represent the business's financial condition. Initiate enquiries: Auditors are obligated to investigate matters, particularly when deemed essential. The subsequent instances illustrate questions, while numerous further enquiries exist: Equitable terms and sufficient collateral exist for security-based loans and advances. All expenses unrelated to the business are allocated to the Revenue Account. ³All advances and loans, regardless of their status, are classified as deposits. If the financial accounts comply with the applicable accounting standards All audits must comply with the subsequent standards: Auditing standards are formulated in conjunction with the Central Government and the National Financial Reporting Authority (NFRA). These guidelines enhance and streamline the auditor's auditing process. The auditor's principal obligation is to adhere to these standards, so augmenting his output. Reporting suspected fraud: During their work, auditors may harbour suspicions of potential fraud within the organisation,

³ Madan Pal Singh, *Company Law as an Instrument for the Protection of Public Interest* (Allahabad Law Agency, Faridabad, 2010).

particularly if they encounter data or financial statements that are erroneous or otherwise undesirable. Auditors shall promptly notify the Central Government upon becoming aware of this circumstance, in accordance with the Act. Adhere to the standards of conduct and ethics for professionals: Auditors bear a distinct obligation to maintain the standards defined in the Code of Ethics and the Code of Professional Conduct. Confidentiality and task-orientedness are fundamental principles of professional conduct and ethical standards. A crucial component is professional skepticism. The auditor's critical thinking abilities are equally essential as their capacity to identify errors, fraud, and other discrepancies in the company's financial records. Facilitate the scrutiny: The auditor is required to assist the executives and investment consortium of the entity undergoing scrutiny. Auditors, in accordance with professional responsibilities and ethics, assist with the investigation. Auditors serve a crucial role in maintaining the company's financial integrity and ensuring compliance with policies. An audit of a company's financial statements enhances its reputation and promotes transparency within the business environment. A corporation is significantly influenced by the several auditor responsibilities previously outlined. The multitude of laws and regulations that all firms must adhere to renders business ownership a formidable challenge. The company depends on auditors' efforts as sustaining this level of consistency is essential. The principal duty of a corporate auditor is to guarantee efficiency and effectiveness. A company's financial statements must undergo an audit annually. Examining all resources is mandated by the Companies Act of 2013 (Sections 139–142). However, as evidenced in Sections 128–132, the agreements align with the organization's records.⁴ The Companies Act of 2013 confers certain obligations, powers, and benefits to inspectors. The subsequent content is a comprehensive course outline detailing the auditor's obligations in accordance with Indian corporate laws and regulations. What are the definitions of audits and auditing? A financial audit is an objective assessment of an organization's financial records performed in compliance with generally accepted accounting principles. An audit is a third-party examination of financial records to verify the accuracy and completeness of the transactions they encompass. Auditing denotes the methodical evaluation of financial documentation, encompassing invoices, records, and account statements. It is also utilised to evaluate whether the financial accounts accurately represent the organisation. A company's accounting records must adhere to all relevant laws to be deemed compliant. What is the definition of an auditor? In accounting, a company's auditor is responsible for verifying the correctness and dependability of the financial records and

⁴ Kamal Gupta, C.R. Dutta on *Company Law* (Lexis Nexis Butterworths Wadwa, Nagpur, 6th edn., 2008).

statements. An auditor is an individual who examines a company's financial and operational records to ensure their accuracy. Publicly traded companies frequently undergo financial audits conducted by a public accounting company. There are two categories of auditors: internal auditors, whose main responsibility is to perform audits within the company, and external auditors, who operate independently from the firm. Auditors are generally engaged by auditing firms that oversee the financial records and statements of various clients. To function as an auditor, one must obtain certification from the governing body of accounting and auditing or meet specific criteria. For the purpose of discussion, let us assume that the company intends to engage an external auditor. If that is the case, the appropriate authority should issue a certificate attesting to the auditor's competence. Signing the balance sheet is a prerequisite for the auditor to legally endorse the accounting through the audit report. Upon completion of the audit, the auditors are required to sign and date the report.⁵ The auditor's report must be disseminated to all members of a private firm. Additionally, the financial accounts, along with the auditor's report, must be filed to Companies House no later than nine months following the conclusion of the pertinent financial period. An auditor's responsibility includes locating pertinent financial documents and records to confirm their accuracy and adherence to governmental and corporate standards. His responsibilities include calculating the business's tax liabilities, preparing requisite tax documents, and ensuring the prompt payment of all taxes. All accounting operations necessitate the maintenance of current, utilised, and accepted financial documents, including books and records. They must organise and handle all financial documents for the business. The auditor must evaluate all financial actions concerning the suggestions and determine the most suitable course of action. They must devise a range of strategies to enhance sales, reduce expenses, and increase profitability for the enterprise. What is the process for a corporation to select an auditor? In several instances, a "unqualified" report may be issued by the auditor of the company subsequent to their examination and endorsement of all requisite financial statements. A "qualified" report will indicate the auditor's suspicion of fraud, disagreement with the company on a critical issue, or inability to get all pertinent information, thereby informing readers of the financial statements, including shareholders. Annually, a corporation is required to select an auditor. Nevertheless, if the board of directors concludes that audited accounts are superfluous, they may choose not to engage an auditor. This prudent decision should have been made by every business owner. The board of directors must evaluate the effect of the absence of audited records on the company's capacity to obtain

⁵ M.C. Kuchhal, *Modern Indian Company Law* (Shree Mahavir Book Depot, Delhi, 27th edn., 2012).

bank financing. The board may appoint an auditor at the discretion of the directors. If the board cannot appoint an auditor, the corporation's members may do so via ordinary resolution. To conclude This addresses the essential rights, obligations, and responsibilities of auditors in their role as corporate auditors. The auditor is one of the most significant individuals engaged in the company's financial operations. An auditor oversees a company's financial health and operational procedures. Nonetheless, they ought to suggest alternative strategies to reduce expenses and enhance the company's revenue. The auditor of a firm is the sole member of the accounting team tasked with ensuring the correctness and trustworthiness of the company's financial records and statements. The accounting department of a corporation or organisation depends on him significantly.

JUDICIAL PRONOUNCEMENTS

Devas Antrix Case⁶

Particularly with reference to the execution of foreign arbitral rulings and the applicability of Bilateral Investment Treaties in cases where the claimant company is directed to be winding up on grounds of fraud—a development unique in Indian jurisprudence—the recent decision of the Supreme Court of India in *Devas Multimedia Private Limited v. Antrix Corporation Limited* raises major legal and policy questions. First pointing "fraud" as a reasonable basis for corporate winding-up, the decision also looks at how Section 271(c) of the Companies Act, 2013 can be interpreted. One of the primary issues the Court looks at is whether such a decision by India's highest court could affect the ongoing application of arbitral rulings in other countries like the USA, Canada, and France are one of the main ones. Signatories to the New York Convention, these countries have Article V power to either accept or reject enforcement, therefore generating a possibility of differing legal outcomes. The consideration of the evidential objective of audit reports—especially in situations of fraud found following such audits—also influences the choice in great relevance.⁷ This is particularly relevant considering the increasing focus auditors are under on several recent corporate scandals and the more general debate on their duties and duty. Background of the Conflict in Antrix-Devas Built as a joint venture between Antrix (ISRO's commercial division) and Forge Advisors LLC, Devas Multimedia seeks to provide satellite-based multimedia and information services.⁸ ISRO and

⁶ *Devas Multimedia Private Limited v. Antrix Corporation Limited* Civil Appeal No. 5766 of 2021

⁷ *Re Kingston Cotton Mills*, (1896) 2 Ch 279 at 288, UK Court of Appeal.

⁸ *Re: P*, an Advocate AIR 1963 SC 313 [7]

Antrix were intended to rent one functional S-Band satellite and related equipment under the 2005 agreements.⁹ Devas acquired the necessary government licenses and made investments in the business totalling over ₹579 crore. But in 2011 Antrix broke the agreements under a force majeure clause after government opted to save S-Band spectrum for non-commercial use. Devas then launched international arbitration processes and got favourable rulings. Indian authorities began investigating while this was under progress; the CBI said Antrix staff members had collaborated illegally with Devas without the necessary technical or financial background. Under Section 271(c) of the Ministry of Corporate Affairs in January 2021 Antrix asked authorisation to start winding-up processes against Devas under grounds of fraud; this was granted. After deciding in Antrix's favour and noting multiple fraud cases, the National Company Law Tribunal (NCLT) mandated winding-up. Maintaining this decision, the National Company Law Appellate Tribunal (NCLAT) asked Devas to appeal to the Supreme Court under Section 423 of the Act. Key Legal Question: Auditor Reports' Value and Objective Devas stated before the Supreme Court that Antrix shouldn't be able to accuse fraud as their annual reports had always shown no irregularities. Furthermore lacking were the results of Antrix's own auditors. The Supreme Court reacted by stating that even if the audit records no evidence of fraud, this does not legally estop Antrix from later bringing such a claim. The Court noted that audit reports are typically organised using qualifying language such "based on information and explanations provided," thus they cannot be regarded as conclusive proof of the absence of fraud.¹⁰ This point of view has more broad consequences, particularly with relation to how courts handle auditor findings in corporate litigation.¹¹ The ruling can inadvertently lower the evidentiary value of audit reports, therefore destroying public and shareholder confidence in the auditing system. Auditor Responsibility and Regulatory Monitoring The ruling of the Supreme Court also influences Section 143(12) of the Companies Act, 2013, which mandates relevant authorities contacted by auditors of suspected fraud. The decision makes abundantly evident that auditors, who are financial professionals rather than legal or technical experts, would not be equipped to identify all sorts of fraud, especially those involving specialist subject matter.¹² It also underlines, meanwhile, how carefully and professionally sceptically auditors should work. While it may shield auditors from some responsibilities, the Court's Antrix ruling carries the risk of reversing earlier efforts to hold the auditing profession more responsible.

⁹ Consolidated Engineering Enterprises v Principal Secretary, [2008] 7 SCC 169 [31].

¹⁰ Jacob Mathew v State of Punjab [2006] 5 SCC 1

¹¹ T.A. Kathiru v Jacob Mathai [2017] 5 SCC 755

¹² Dr. Suresh Gupta v NCT of Delhi & Anr. [2004] 6 SCC 422;

Leniency could undermine public confidence in auditors, the Court ruled in *ICAI v. Mukesh Gang*¹³ when sentencing an auditor for egregious negligence and disregard of professional standards. Regulation improvements aiming at tightening control and lowering dishonest corporate practices include the Companies (Auditor's Report) Order, 2020 (CARO 2020), therefore extending the scope of themes auditors must mention in their reports. Especially SA 240, auditing rules also demand of auditors to maintain a high degree of scepticism, question management decisions, and search for red flags. The Supreme Court has noted in earlier rulings such *ICAI v. P.K. Mukherjee*¹⁴ and *Hindustan Lever Employees' Union v. Hindustan Lever Ltd.*¹⁵, auditors are fiduciaries representing shareholders and have to assure accurate and honest financial disclosures. In essence, there is a fine balance. Although the Supreme Court's *Antrix-Devas* decision generates a new precedent in several spheres, it also sparks interesting debates.¹⁶ The verdict underlines once more how auditors are not technical specialists or criminal investigators, but it could unintentionally restrict the expected value of their results in revealing fraud. Given politicians and investors depending increasingly on audit findings, this can create uncertainty. Simultaneously, the choice underlines the necessity of a more realistic and sophisticated awareness of the auditor's role. Auditors might not be "bloodhounds," as asserted in the classic *Re Kingston Cotton Mills*, even if they are intended to be guardians of public confidence. The auditing field must thus keep evolving in favour of more openness, responsibility, and public interest responsiveness.¹⁷

THE DEVELOPMENT OF THE AUDITOR IN THE DIGITAL AGE

Technology is transforming the auditor's future by altering both the processes and the requisite skill set. The security and transparency of monetary systems rely on digital trust. To remain pertinent in financial oversight, auditors must adapt to the growing intricacy of digital technologies and automation. To adapt to evolving circumstances, specialists must remain informed about technical advancements and data-driven insights. Technological advancements have prompted alterations in financial supervision. The significance of controls in sustaining a system of continuous audits and monitoring is increasing. To ensure accuracy and compliance in digital audits, auditors must possess expertise in reporting and data-driven insights.

¹³ *ICAI v. Mukesh Gang* 2016 (6) ALT 606.

¹⁴ *Institute of Chartered Accountants v P.K. Mukherjee* AIR 1968 SC 1104

¹⁵ *Hindustan Lever Employees' Union v Hindustan Lever Ltd* (1995) 83 Com Cases 30

¹⁶ *Registrar of Companies v P. Arunjatai* [1962] SCC OnLine Mad 118

¹⁷ *Secretary, Council of the Chartered Accountants of India v B. Shataram Rao* [1977] SCC OnLine Kar 44

Maintaining stringent audit standards necessitates these competencies. An unqualified opinion from auditors is attainable when the financial statements meet all criteria. What is the significance of digital transformation for auditors? In the realm of auditing digital processes, technology is transitioning from a supportive role to an essential one. The auditors of the future will differ due to the digital revolution. The prominence of AI is particularly visible in digital insurance and healthcare. To stay relevant, auditors must obtain additional competencies in risk assessment, information security, and continuous controls monitoring (CCM). The responsibilities of both internal and external auditors have significantly increased in recent years. Today, their tasks encompass not just maintaining regulatory compliance but also supervising control procedures, safeguarding data integrity, and enhancing cyber resilience. A disclaimer of opinion is less probable when data is effectively managed. It ensures the availability of precise and comprehensive data for auditors. AI is revolutionizing the analysis of financial statements. Artificial intelligence (AI) systems can evaluate extensive information, identify significant discrepancies, and improve the accuracy of audit outcomes. However, audit management technologies enhance real-time monitoring. They ensure compliance with generally accepted accounting standards (GAAP) and assist organizations in reducing the probability of negative evaluations. How has the auditing profession evolved throughout the years? The role of the financial auditor has evolved considerably during the past fifty years. Historically, individuals mostly focused on conventional financial statements. The growing intricacy of business models has become IT audits an increasingly urgent concern. By the end of the century, researchers had determined the essential technical abilities necessary for financial audits. Digital audits and data analytics are incorporated into university curricula. Rob Fijneman stated that this modification modernised the frameworks for corporate governance and compliance. The demand for both internal and external auditors is increasing currently. Consulting firms seek specialists in risk management, compliance reporting, and audit management software. To ensure transparency and comply with international standards, these expertises are essential.¹⁸ Critical moments during the auditing process Over the past fifty years, technology-driven assurance has entirely supplanted manual auditing methods. Contemporary information technology audits focus on the controls integrated within financial systems to guarantee compliance, alongside security and IT general controls (ITGCs). The introduction of real-time fraud detection and validation of financial reporting through advanced

¹⁸ Subhash Chandra Das, *Corporate Governance in India* (PHI Learning Private Limited, New Delhi, 3rd edn., 2012).

data analytics significantly enhanced external audits starting in 2015. AI-powered platforms enhanced audit reports by reducing error rates and ensuring informed decision-making. In 2020, ongoing surveillance became standard practice. This enables auditors to detect possible problems before their escalation. Furthermore, it assists auditors in adhering to international standards. By 2023, there was a demand for expert digital auditors specialising in algorithmic risk assessment and audit management. This improvement aligns with the objectives of the Society Economic Forum's Digital Trust by promoting transparency and accountability in a progressively digital society. Is the future of auditing promising? The profession's role is rapidly transforming due to legislative changes, technology innovations, and new economic hazards. A significant transformation in auditing has occurred due to the emergence of digital technologies, artificial intelligence-driven analytics, and real-time data monitoring. These advances facilitate enhanced financial control and prompt problem discovery. Human judgement remains essential for assessing complex issues and ensuring transparency, notwithstanding these advancements. Businesses are progressively adopting continuous auditing, necessitating auditors to develop new competencies to remain relevant. The demand for expertise in environmental and governance risk assessment is increasing due to ESG reporting. The examination of corporate filings has intensified owing to the proliferation of social media. Moreover, the heightened rigour of regulations necessitates a profound understanding of compliance. To maintain a competitive edge, auditors must adapt to emerging technologies and evolving frameworks. Organizations risk falling behind competitors in the current data-driven economy if they do not adapt. Although automation enhances productivity, the discipline must evolve to maintain its legitimacy and role in corporate governance. The analytical skills and technical expertise of auditors will remain essential. Auditing will always be an essential element in maintaining financial integrity because of its ability to evaluate data, provide unbiased assessments, and mitigate emerging risks.¹⁹

SUMMARY

The field of auditing in India has been drastically changed by the growth of digital technology; consequently, a strong regulatory framework is needed to govern digital auditing methods and guarantee the validity and accuracy of financial reporting. Digital auditing is the use of knowledge of information technology into the audit process such that auditors may review vast

¹⁹ Jayanti Sarkar & Subrata Sarkar, *Corporate Governance in India* (Sage Publications India Pvt. Ltd., New Delhi, 1st edn., 2012).

amounts of data more quickly and precisely. Updated legislation, standards, and monitoring technologies are needed in this transition to let auditors negotiate the digital environment. Focussing on the Companies Act, 2013, this legislative framework addresses the legal basis for audit procedures including the requirements, duties, and liabilities of auditors. Though their comments represent the reality of modern society, they are observed in view of digital technologies—previously meant for manual audit processes. The Institute of Chartered Accountants of India (ICAI) strongly influences by means of recommendations on audits (SAs) and advisory notes combining digital tools, data analytics, and risk-based approach. ICAI also wants to equip professionals for future challenges and match Indian audit methods with global norms by way of training and up-skill development. Digital audits are made possible by legal acceptance of digital fingerprints for electronic documents made possible by the Information Technology Act, 2000. It also attends to issues with data integrity, cybersecurity, and digital evidence admissibility. By applying sector-specific audit criteria, authorities such SEBI, RBI, and others also assure responsibility and openness in sectors including finance, banking, and insurance. Digital audits in India reflect data privacy issues, cybersecurity risks, and the need of more all-encompassing digital audit criteria despite a sound basis. Still, India is gradually creating a future-ready regulatory framework encouraging accuracy, efficiency, and integrity in digital audits by means of constant changes and technical innovations.²⁰

²⁰ R.K. Sonkar, *Composition, Powers and Functions of the CLB* (Anubhav Publishing House, Allahabad, 1st edn., 2009).