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# **THE IMPORTANCE OF AUDIT FOR BIG CORPORATE HOUSES IN INDIA**

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## **ABSTRACT**

This research paper investigates the importance of audit practices for multinational corporations operating in India. With India's economy growing rapidly and corporate operations becoming more complex, effective audit systems are critical to maintaining openness, accountability, and regulatory compliance. The article studies the influence of audits on company governance, risk management, and investor trust. It also explores the problems that auditors and corporate entities encounter when implementing robust audit systems and makes recommendations for improving auditing effectiveness in the Indian business sector.

The establishment of the National Financial Reporting Authority (NFRA) in India as an autonomous agency tasked with auditing auditors has reignited the discourse surrounding "independent review" and "peer review." Although independent control of auditors is the norm worldwide, the Institute of Chartered Accountants of India (ICAI), India's professional body representing auditors, is against the government's plan to designate an auditor regulator. This study looks at how Indian stakeholders, including auditors, see the process of auditing the auditors.

The study concludes that the current level of auditing in India is deemed unsatisfactory by all stakeholders, including professional public accountants. The establishment of the independent authority (NFRA) to audit the auditors is where there is a disagreement in opinion. Although chartered accountants in India think that the current system for self-regulation over auditors should be made more successful, many other stakeholders are in favor of the quasi-regulatory organization for an impartial assessment of audit services.

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**KEY WORDS-** Auditing profession, Risk Management, NFRA, Investigation, India, corporate governance, Compliance.

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## **INTRODUCTION**

The auditing profession is one of the professionalism categories that has undergone a considerable change during the past numerous decades. Since auditing has been called upon in countless situations to provide management consulting to the point where it has been involved in management decision making, the role of auditing in business has therefore undergone a significant development. As part of its examination, this study aims to investigate the value of auditing in India based corporate organizations. But this study will also focus on how organizational performance is included in auditing key role-plays.

The Institute of Auditors (IIA) has indicated that due to the recent rise in popularity, auditing rationale is now a crucial part of many business operations. Most business schools use the term "auditing" to refer to the methodical examination of organizational accounting by a typical independent entity. Considering this, it is still valid to claim that conducting internal or external audits is the corporate organization's first line of defense against theft. Furthermore, most studies have claimed that auditing tends to protect the confidentiality of most company workers and investors.

Since auditing has provided a solution for many business organizations suffering the same issue worldwide, it has gained popularity in response to the increased fraud in most organizations. Since the implementation of the Sarbanes-Oxley exposure law, there has been a noticeable increase in the number of executives and corporate sheets seeking confirmation from inside reviewers that the controls in place are adequate to mitigate potential risks to the association, the fund, and the accurate and comprehensive operational reports.

The National Financial Reporting Authority (NFRA), an independent review body over auditors and auditing firms, was established by the Indian government amid a heated debate about public accountant regulation in the wake of the over \$2 billion Punjab National Bank heist. The goal of the

NFR is to enhance audit quality while maintaining the professional body of auditors' self-regulation mechanism. The National Financial Reporting Authority (NFRA) is mandated under section 132(2) of the Indian Companies Act, 2013 to provide recommendations to the government for the development of accounting and auditing standards and policies.

The government-appointed head of NFRA will be joined by three full-time and nine part-time members, each of whom will serve a three-year term. By designating individuals as part-time members, various organizations, and regulators in the fields of accounting, auditing, law, and capital markets will be represented on NFRA, enabling it to become a widely recognized participating body. The NFRA's responsibilities include establishing standards, enforcing them, and keeping an eye on compliance, quality of service, and evaluation. The NFRA has been mandated to carry out an inquiry or a quality review of the audit for the following category of companies:

- Listed Companies
- Unlisted corporations with net worth equal or more than Indian Rupees (INR) 500 crores, paid-up capital equal or more than INR 500 crores, or yearly turnover equal or more than INR 1,000 crores as of March 31st of the immediately preceding fiscal year, or
- Companies having securities listed outside India.

The inherent regulatory role of ICAI shall continue in respect of its members in general and specifically with respect to audits of private companies and public unlisted companies below the threshold limit. Quality Review Board (QRB) will also continue to review the audits of private limited companies and public unlisted companies below prescribed threshold.

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## LITERATURE REVIEW

The significance of auditing for large business houses in India has been thoroughly researched in the literature, indicating its critical role in guaranteeing transparency, accountability, and integrity in the corporate sector. Scholars have emphasized the need of audits in improving corporate governance processes, especially in large businesses where the separation of ownership and management can result in agency conflicts. According to research, good audits help to lessen agency concerns by giving independent assurance on the integrity and reliability of financial reporting, protecting the interests of shareholders and other stakeholders.

Furthermore, scholarly research has focused on India's statutory framework for audits. Studies have looked at how regulatory agencies like the Institute of Chartered Accountants of India (ICAI) and the Securities and Exchange Board of India (SEBI) create standards and ensure auditing compliance. These investigations have shed light on the changing regulatory landscape and its implications for audit quality, business transparency, and investor trust. Furthermore, experts have examined the impact of recent legislative reforms, such as the implementation of obligatory audit firm rotation and greater disclosure requirements, on audit practices in large corporations.

In addition, the literature on the importance of audit for large corporate houses in India has addressed the obstacles and opportunities that audit processes present. Scholars have recognized a shortage of experienced auditors, resource restrictions, and the complexity of financial reporting regulations as major issues for auditors and business entities. However, research has shown that technical improvements like data analytics and artificial intelligence can improve audit effectiveness and efficiency. Overall, the literature emphasizes the importance of audits in establishing trust and confidence in India's business sector, as well as the necessity for continual improvement and adaptability to meet changing challenges and regulatory requirements.

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## OBJECTIVE OF STUDY

- To assess the impact of audits on corporate governance in large Indian corporations, particularly their role in ensuring openness, accountability, and financial reporting integrity.
- To evaluate the effectiveness of various types of audits (financial, operational, and compliance) in reducing risks and increasing operational efficiency inside large corporations.
- To investigate the regulatory framework that governs audit procedures in India and its impact on audit quality, standards, and compliance among large business entities.
- To identify the problems that auditors and business entities encounter when developing rigorous audit processes and complying with regulatory obligations in India's corporate landscape.
- To investigate potential tactics and recommendations for increasing audit effectiveness, corporate governance standards, and investor trust among India's major corporations.

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## METHODOLOGY

The methods used to create this work is characterized by:

- Content collecting and determination.
- Utilized Wikipedia and other web-based resources.
- Utilized papers and magazines to review audit reports.
- Data about the history of auditing and how audits are carried out in the actual world has been accumulated.
- Utilizes scholarly articles.

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## FINDINGS AND DISCUSSIONS

The study's findings highlight the need of audits in guaranteeing openness, accountability, and integrity inside India's large corporate entities. The comparison of audit procedures and corporate governance systems demonstrates that audits play an important role in improving corporate governance by giving independent assurance on the integrity and reliability of financial reporting. This serves to reduce agency conflicts and aligns shareholders' interests with those of management. Audits also play an important role in maintaining regulatory compliance and risk management, particularly compliance audits that check conformance to statutory rules, industry standards, and company policies. Furthermore, audits help to foster stakeholder confidence and protect investor interests by increasing the credibility of financial reporting and instilling trust in the reliability and accuracy of corporate disclosures among investors, creditors, and other stakeholders.

Despite their relevance, the report notes obstacles such as a lack of experienced auditors, limited resources, and the complexities of regulatory requirements. Recommendations include investing in auditors' ongoing professional development, utilizing technology to improve audit processes, enhancing regulatory monitoring, and boosting collaboration between auditors and corporate management. Overall, the findings highlight audits' critical role in improving corporate governance, guaranteeing regulatory compliance, preserving investor interests, and developing stakeholder confidence among India's major corporations. Addressing issues and adopting solutions can improve audit effectiveness in India's corporate landscape.

Finally, the data demonstrate that audits have a considerable influence on stakeholder confidence and investor protection. Audited financial statements give investors with accurate information to help them make informed investment decisions and safeguard their interests. Furthermore, audits help to maintain the credibility and accuracy of financial reporting, which is critical for attracting investors and accessing capital markets. Auditors contribute significantly to market integrity and financial stability by instilling investor confidence. Overall, the study's findings underline the importance of audits as a foundation for good governance, regulatory compliance, and investor protection in India's large business organizations.

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## CONCLUSION

In conclusion, the relevance of auditing for large corporate companies in India cannot be emphasized. Audits are a crucial component of corporate governance, assuring transparency, accountability, and integrity in financial reporting. Audits provide stakeholders with assurance about the integrity and reliability of financial information by conducting independent examinations of financial statements and internal controls, encouraging trust and confidence among shareholders, regulators, and other stakeholders. Furthermore, audits play an important role in assuring regulatory compliance and risk management inside large corporations. Auditors help mitigate legal and reputational risks by reviewing compliance with statutory requirements, industry standards, and company policies, so adding to these entities' overall resilience and sustainability in India's dynamic business scene.

Audits also play an important role in preserving investors' interests and boosting stakeholder confidence in India's major corporations. Audited financial statements offer investors with trustworthy information to make sound investment decisions, protecting their interests and supporting market integrity. Furthermore, audits help to maintain the credibility and accuracy of financial reporting, which is critical for attracting investors and accessing capital markets. Overall, the findings highlight audits' critical role as a cornerstone of good governance, regulatory compliance, and investor protection in the context of large Indian corporations, emphasizing the importance of continuous improvement and adherence to best practices in audit processes and corporate governance mechanisms.

Heading forward, large business firms in India must recognize the importance of audits and invest in rigorous audit processes to improve transparency, accountability, and regulatory compliance. Furthermore, regulatory authorities and policymakers should continue to strengthen regulatory oversight and enforcement procedures to assure audit compliance and foster market trust. Furthermore, auditors must continue their professional development and utilize technological innovations to improve audit effectiveness and efficiency. Addressing these difficulties and following solutions will allow large Indian corporations to strengthen their governance frameworks, manage risks, and boost stakeholder confidence, ultimately contributing to the Indian corporate sector's long-term growth and development.

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