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Journey of the Audit Profession

Chartered Accountants are the ambassadors of our country's economic system, occupying an important role and serving as an interface between the government, tax-paying companies, and individuals. Their professional responsibilities reach far beyond the preparation and certification of books of accounts. They are instrumental in upholding accountability, transparency and trust in the economic framework of the country.

As recognised by the Hon'ble Prime Minister of India, Shri Narendra Modi, during ICAI's Foundation Day celebrations in 2017, the signature of a Chartered Accountant holds far greater significance and responsibility, reflecting the trust and confidence reposed in the profession by the Government. It places an immense responsibility on CAs, entrusting them to maintain the highest standards of integrity, objectivity and ethical conduct in the discharge of their professional duties.

Introduction

Audit as a process is as old as Accounting. It is believed that Pope Nicholas III entrusted national notaries with accounting responsibilities, reflecting the importance of financial accountability. Luca Pacioli, though a mathematician, was the first to systematically document the principles of double-entry accounting, thereby laying the foundation of modern accounting practices. The significance of verifying cash balance & inventory was determined as the most important elements of the accuracy of accounting data. During the cultural movement, the Medici family introduced controls over the use of raw materials by linking consumption at each stage of production. These developments demonstrate that concerns over fraud, errors, and accountability are always central to financial governance.

Personal Experience

As a former Director Finance & CFO of HAL, the largest defence aerospace company of our Motherland, I had

the opportunity to witness several audits of financial statements, such as system audit, internal audit, statutory audit, concurrent CAG audit & supplementary audit. However, my professional journey and the experience I've garnered through it have shown that despite multiple audit mechanisms being in place, they do not, by themselves, ensure the detection or prevention of fraud.

Over the course of my career, spanning 1983 to January 2016, I worked as a CFO in various State & Central Government organisations, except for the 3 years when I was CFO of the project cell of a CPSU and a large manufacturing unit. During the various assignments that I undertook, I encountered several instances of fraud and financial irregularities ranging from anomalies involving a few thousand rupees to those of a few crores. My modus operandi was fairly simple – to conduct discreet inspections and scrutinise some unnoticed functions, rather than being solely dependent on standard

audits. As CFO, it is important to be observant, interact with individuals working at the grassroots levels, and gain a profound understanding of the organisation beyond formal and established channels.

In several cases, deviations were brought forth through such investigations and observations, although they had not been detected through the existing audit and vigilance mechanisms. The nature of these inconsistencies was also diverse. In one instance, a thorough evaluation of manually maintained cash records disclosed a fault in the balancing of accounts, which, upon deeper analysis, led to the uncovering of a financial defalcation. In another case, concerns originating from observations outside the formal work environment instigated a review of cash and bank transactions. The ensuing examination unveiled manipulation of vouchers and diversion of funds.

Another instance involved a small office handling logs of provident fund, an

area that could simply avoid notice as senior management commonly focuses on larger and more leading offices. An evaluation of individual ledger accounts brought to light the anomalous credits being made to an employee's account by transferring the monthly contributions of other individuals. Although the particulars encircling the conduct implied personal financial difficulties and the employee otherwise held a good reputation, the matter was managed suitably by reversing the entries and a warning being given rather than the matter being pursued further.

A further case comprised remittance to an external party in a critical manufacturing facility. A system audit, started with a precise focus on such payments, uncovered periodic payments unsupported by the necessary documents and involving considerable amassed amounts. Further probe led to identifying the individuals who were involved, and the matter was directed to the competent authorities. The investigation also exposed inadequacies in the banking process, including payments being released against a single signature despite the organisation's requirement for dual authorisation. The bank thereafter took measures against some of its employees and remunerated approximately the total amount to the organisation.

These experiences strengthened my belief that fraud may remain unnoticed despite the existence of several layers of audit and monitoring frameworks. Audit processes are fundamental safeguards, but they cannot replace the attentiveness and discernment of those accountable for the administration of an organisation. In my experience, the capacity of higher management to discover uncommon patterns, question discrepancies and act upon a reasoned intuition can play an instrumental role in bringing hidden abnormalities to light.

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My experience also demonstrated that not every irregularity necessarily warrants an expensive technological or systemic intervention. In one instance, issues detected during a study could be resolved through strengthened HR and inventory controls at a fraction of the proposed cost, leading to the rejection of a ₹250 crore expenditure.

The underlying lesson from these experiences is that effective fraud prevention and detection require more than the existence of formal audit structures or sophisticated systems. A combination of professional scepticism, management oversight, direct engagement with the organisation, timely scrutiny and sound judgement is often necessary to identify what routine processes may overlook. Audits provide an important line of defence, but an alert and responsible management remains an equally critical component of the overall control framework.

Analysis of Selected Research Publications

1. Article on “The Current State and Future of Audit Profession”¹

The article mentions that audit is independent in nature and based on historical data. Stakeholders may not rely on this data in their decision-making due to a large time gap between data generation and information assurance. However, they get assurance about the authenticity of the data after the audit.

The article states that information technology provides users with a plethora of information as compared to traditional financial statements. Thus, the current audit profession is becoming less relevant to investors, creditors and financial analysts. As far as the current state of audit is concerned, audit models reflect continuous audit of the entire business process and associate, analysing the issues adequately, thereby providing assurance on historical data. The current technology and automation tools use quantitative analysis such as probability evaluation, and spend more time reviewing, analysing and interpreting results to determine the desired course of action.

Accounting education is also changing with the incorporation of technology, analytics, fraud detection, risk analysis, forensics and International Financial Reporting Standards, etc. The CA curriculum in India widely encompasses, as per my evaluation, risk assessment and internal control, digital audit, strategic changes through digital transformation, Ind-AS, audit evidence, digital auditing and assurance, etc.

Auditing is judgemental in nature. Automation can support the judgement process and can't replace it. The article also points out that internal auditors will take over some functions from external auditors in the future, and external auditors will depend upon ledger scrutiny & internal journal entry analysis. The burden for low-risk areas regarding assurance on the quality of data should go to internal auditors, and high-risk areas must remain the responsibility of external/statutory auditors because of independence issues.

¹ Lazarus Elad Foteh and Johan Ingemar Lorentzon, “The Impact of Digitalization on Future Audits,” *Journal of Emerging Technologies in Accounting*, Vol. 18, No. 2 (2021), pp. 77–97, <https://doi.org/10.2308/JETA-2020-063>

2. Article on “The Impact of Digitalization on Future Audits”²

The article observes that audit firms have started developing and incorporating cutting-edge technologies into the audit process. It specifies the following potential areas where digitization may impact future audits:

1. Audit Users’ Perception of Future Audit
2. Changes in the auditor-client relationship
3. Audit Regulatory Changes
4. Structural changes in Auditing
5. Procedural Audit Changes
6. Change in Auditors’ Professional Profile
7. Audit Quality and Culture of Innovation

The article suggests the adoption of a new matrix, capabilities, skills and a new business model to cover digital technologies. It points out that technological breakthroughs will have a significant impact on auditing, as numerous labour-intensive and tedious manual tasks are being eliminated and routine audit processes are being automated, which will result in predictive and intelligent audit, thus enhancing the reputation of auditors.

It states that audit involves substantial subjectivity that includes auditors’ professional judgements and social intelligence for bringing value to the audit. Thus, human judgement will not be substituted by the technology entirely but will be a part and parcel of the automated audit process.

The digital transparency will smoothen the auditor-client relationship. Both parties have to

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trust and rely on this technology and will have to keep in mind that it will not replace personal communication and collaboration between the auditors and auditee.

3. Article on “The Future of Auditing: An interview with Robert Elliott”³

The article covers the status of the current audit profession, such as shrinking revenues, increased competition, broader sources of information, more reliable accounting in software and greater online access to databases. It deals with evolving regulations, while regulators are not at the forefront of cutting-edge innovation but are typically interested in establishing best practices and developing standards. It discusses the impact of Big Data and Artificial Intelligence on the audit profession for creating value for businesses and investors. The article gives thrust in the areas

on the value of auditing, the importance of information, the impact of information technology, and future changes in the audit profession resulting from emerging technological tools.

It states that with the growing technology and data collection through various data acquisition equipment like RFID, GPS and Sensor Chips, information acquisition is easily getting integrated with ERP (Enterprise Resource Planning) systems and used for decision-making. However, accounting systems are still based on the 12th-century Venetian merchant business model. Quarterly, half-yearly, and annual reporting of financial statements is not providing sufficient and timely information to stakeholders and investors.

Information technology has become one of the most important methods of auditing. IT-enabled audit solutions displace human auditors; they could produce greater information probability at a lower cost. Audit firms need to use advanced technology tools to enhance the authenticity of audit procedures and improve audit quality at the earliest. The time has come when a skill set required of future auditors is changing, and the audit profession no longer requires auditors to perform a tick-and-tie task, but also to possess statistical inference and technological skills.

Future of the Audit Profession

A few inputs on the Indian data centre reveal that its current market size as of 2025 stands at \$10.11 billion dollars, and the projected market size (2030) is approximately \$21.80 billion with a forecasted CAGR (2025-2030) of 16.61%. The major contributory factors

² Huijue Kelly Duan, “The Future of Auditing: An Interview with Robert Elliott,” *Journal of Emerging Technologies in Accounting*, Vol. 19, No. 2 (2022), pp. 23–27, <https://doi.org/10.2308/JETA-10823>

³ Danielle R. Lombardi, Rebecca Bloch and Miklos A. Vasarhelyi, “The Current State and Future of the Audit Profession,” *Current Issues in Auditing*, Vol. 9, No. 1 (2015), pp. 10–16, <https://doi.org/10.2308/ciia-50988>

are rising OTT & 5G, cloud investments, mandatory data localisation rules, improved submarine cable capacity & AI workloads, etc. NASSCOM pointed out that India's data centre industry was expected to receive, on average, an annual investment of \$5B by 2025. These advancements will have a significant impact on the accounting and auditing industry.

One of the most important changes is the increasing reliance on technology-driven audits. Businesses today undertake complex cross-border transactions and operate under multiple regulatory frameworks. Traditional audit techniques alone may not be sufficient to handle the volume and complexity of such transactions. Auditors will increasingly use advanced technological tools to analyse data, assess risks, and provide assurance. The growing emphasis on Environmental, Social and Governance (ESG) reporting requires auditors to verify non-financial disclosures and ensure their reliability and compliance with applicable standards.

The widespread adoption of cloud-based systems is another significant development. It enables remote access to records, real-time collaboration, and efficient data management. While it improves audit efficiency, it also requires auditors to gain expertise in cybersecurity, data protection, and privacy regulations to safeguard confidential client information.

Blockchain technology is also emerging as an important tool in sectors such as finance, healthcare, and supply chain management. Its decentralised and tamper-resistant nature enhances transparency, traceability, and trust in transactions. Auditors will need to understand different blockchain models, including public, private, consortium, and hybrid blockchains, to effectively evaluate controls and verify transaction records.

Similarly, Big Data Analytics is revolutionising the audit process. By analysing large volumes of structured

and unstructured data, auditors can identify unusual patterns, detect potential fraud, and improve risk assessment. Data analytics enables more comprehensive audits and enhances the quality of audit conclusions.

Despite these technological advancements, human judgement will remain at the core of the audit function. Technology can assist in processing information and identifying exceptions, but risk evaluation and decision-making will require the expertise of auditors.

While discussing with my colleagues, both at the professional level as a Chartered Accountant and at the academic level with the faculty of Law and Management, I was told to consider the impact of the growth of digitalisation on future audits. It has been observed that researchers have argued that current financial reporting is losing its relevance to investors, and accounting usefulness is decreasing.

To bridge the emerging talent gap, technological concepts should be incorporated into the CA curriculum, while practising professionals must continuously upgrade their skills through training and refresher programs. Regulators and professional bodies should also modernise auditing standards and practices to align with technological developments.

The future of auditing will therefore require a combination of technological competence, professional judgement, and ethical conduct. Auditors who adapt to these changes will be better positioned to deliver high-quality assurance services in an increasingly digital and complex business environment. The time has come when auditors need to shift their focus to evaluate risks rather than focusing on transactional data.

Summary, Conclusion & Recommendations

Before the internet, financial statements were the primary source of information about a company

for investors, regulators and CAG (wherever applicable). With the advent of cloud-based audit tools, blockchain, and big data analytics, companies can now provide real-time information to stakeholders. The audit profession is adapting to these advances and becoming more sensitive to global economic changes. In the coming decades, greater use of AI and machine learning will shift the focus from transaction testing to risk evaluation.

Traditional paper & pencil checklists are already being replaced by automated decision aids, interactive checklists, and analytical software. Customised audit plans and XBRL reporting enhance auditors' efficiency in fieldwork. Future auditing may involve automation of judgments, modernised procedures, inclusion of ICT professionals in audit teams, reliance on internal audit functions, and changes in statutory audit frequency. Statutory auditors may increasingly depend on internal auditors, releasing time to address complex issues such as data privacy, security laws, and regulatory compliance. There is no doubt that the audit profession will significantly evolve over the next decade to remain relevant and competitive.

Let us not resist new advancements in technological requirements but equip ourselves with emerging technologies to ensure that audited financial statements, including audit reports, continue to be accepted as the gold standard, while meeting the standards set by our Hon'ble Prime Minister, Shri Narendra Modi. This requires our Mother Institute, ICAI, to evolve appropriate training modules for small & medium-size CA firms, even at no cost, to assist a large number of colleagues for future audits. This is essential; otherwise, traditional audit practices may become obsolete, much like many bookstores that failed to adapt to the digital revolution and were displaced by tablets, e-books, and smart devices.

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