International Journal of Advance and Applied Research
www.ijaar.co.in
ISSN – 2347-7075 Impact Factor – 8.141
Peer Reviewed Bi-Monthly
Vol. 6 No. 42 November - December - 2025

Strengthening Trust: Modernising Auditing Standards For Public Limited Companies In India — A Practical Roadmap For Improving Audit Quality

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DOI - 10.5281/zenodo.17910419

Abstract:

This paper examines the role and effectiveness of Standards on Auditing (SAs) in improving audit quality for public limited companies in India. It reviews recent updates to auditing standards, regulatory reforms, and debates (including auditor rotation and technology-assisted audit techniques), and synthesises empirical and practitioner literature to identify gaps between standards and practice. The study proposes a creative, implementable research contribution — an ***Audit Quality Improvement Framework (AQIF)*** *— combining (a) automated risk-analytics, (b) partner-disclosure & expertise indexing, and (c) an audit quality scorecard for audit committees and regulators. The paper uses a mixed-method approach: desk review of standards and literature, content analysis of regulatory updates and guidance, and an illustrative secondary-data example to demonstrate how AQIF could flag higher-risk areas for audit attention. The recommendations are practical for auditors, audit committees, regulators, and policymakers and aim to make audits more reliable, transparent and useful for stakeholders in the Indian corporate environment.*

Keywords: Standards on Auditing, Audit Quality, Public Limited Companies, ICAI, ISA/ISA Convergence, Auditor Independence, Technology-Assisted Audit, Audit Rotation, India.

Introduction:

Audits are central to the credibility of financial reporting. For public limited companies — with dispersed shareholders and public accountability — the quality of the audit directly affects investor trust, cost of capital and market stability. Auditing standards (both international and national versions) are designed to guide auditors to perform consistent, reliable and independent audits. In recent years India has seen important updates to Standards on Auditing, new guidance from the Institute of Chartered Accountants of India (ICAI), regulatory discussion about mandatory auditor rotation, and accelerated adoption of technology in audit procedures. These developments create both opportunities and challenges for improving audit quality in practice. This paper explains those changes, reviews the literature, and proposes an actionable framework that auditors and audit committees can use to translate standards into better audit outcomes.

Research objectives

- To summarise recent and important changes in auditing standards and guidance that affect audits of public limited companies in India.
- To review evidence on how standards, auditor independence mechanisms (e.g., rotation), and technology impact audit quality.

- To propose a practical, evidence-based Audit Quality Improvement Framework (AQIF) that auditors and audit committees can adopt to strengthen audit effectiveness.
- To illustrate, using a conceptual data-analysis example, how AQIF would detect audit risk signals and support real-world auditing decisions.
- To provide policy and practice recommendations for regulators, ICAI, audit firms and company audit committees.

Research Methodology:

This study adopts a **mixed-methods** approach:

- **Document and standards review:** Identification and review of recent Standards on Auditing issued by ICAI, international changes (ISA revisions) and regulatory notices (ICAI guidance notes, PCAOB and IAASB updates). This provides the normative baseline for audit practice in India. Key regulatory updates were taken from ICAI notices and international standard-setting announcements. (ICAI)
- **Literature review:** Academic and practitioner literature relevant to audit quality, auditor independence (including rotation), audit committee effects, and technology- assisted audit procedures were reviewed using academic databases and practitioner releases. Representative studies (including audit quality reviews and recent research on partner expertise and audit quality) were used to identify empirical patterns and research gaps.
- **Policy and media scan:** Recent media and policy articles (audit rotation news, ICAI proposals, enforcement cases internationally) were scanned for practical developments shaping audit markets and incentives.
- **Conceptual data analysis (illustrative):** An illustrative secondary-data demonstration shows how a simple risk-analytics scoring (part of AQIF) could work using commonly available financial ratios and audit indicators. The intent is to show feasibility, not to perform exhaustive empirical testing.

Limitations:

The study relies primarily on published literature, standards and public domain reports. No primary field survey was conducted for this paper, so further empirical testing of AQIF is recommended.

Literature Review and Regulatory Updates:

Standards Updates and Guidance (India & International):

ICAI has issued revised engagement standards and announcements relevant to auditor responsibilities; examples include revisions to certain SAs applicable from financial year 2024-25 onward. These revisions aim to update auditor reporting and specific engagement procedures for modern audit contexts. (ICAI)

Internationally, the IAASB and other standard-setters have updated key standards — for example, revisions to auditor responsibilities relating to fraud were introduced to sharpen auditor risk assessment and responses. These international changes influence national standard setters and encourage alignment.

PCAOB has also clarified auditor responsibilities when using technology-assisted analysis — signalling that regulators expect auditors to both leverage technology and maintain professional scepticism and documentation when doing so. This is relevant for Indian audits that increasingly use data analytics.

Audit Quality Reviews and Enforcement Signals:

ICAI's audit quality review reports and observations point to recurring issues: compliance with SAs, documentation gaps, and the need for stronger quality control at firm level. Enforcement cases internationally (for example, FRC actions in the UK) show the consequences of audit failures and the global trend toward stricter oversight. These signals push Indian regulators and firms to prioritise audit quality enhancements.

Auditor Independence and Rotation:

Auditor independence remains an active debate. Empirical studies suggest rotation can improve independence and scepticism but may reduce accumulated industry expertise benefits. In India, mandatory rotation cycles affect many large companies in coming years, creating capacity and market-structure implications for audit supply.

Audit Committees and Governance:

Research indicates audit committee characteristics (independence, financial expertise, meeting frequency) influence audit quality and timeliness. Strengthening audit committee capabilities is frequently recommended to close the gap between standard-setting and practice.

Technology in Auditing:

The adoption of technology-assisted procedures — analytics, automated testing, AI-assisted anomaly detection — is transforming audit work. Regulators emphasise that auditors must understand, validate, and document technology-assisted analyses to ensure audit evidence remains reliable. The move creates both effectiveness gains and new risks (model bias, insufficient validation

Creative Research Contribution — AuditQuality Improvement Framework (AQIF):

Motivation:

Standards provide the ―what (requirements) but often lack concrete, standardised tools for consistent implementation at firm and client level. AQIF is designed as a pragmatic bridge: a policy-neutral, implementable toolkit that operationalises key SAs into measurable controls and analytics usable by auditors, audit committees and regulators.

Components of AQIF:

AQIF has four modular components:

- **Risk-Analytics Engine (RAE)** — a set of automated analytics using public and client data (financial ratios, unusual related-party transactions, revenue-growth vs receivables patterns, cash-flow anomalies). RAE produces a *risk heat score* by audit area (revenue, inventory, loans/receivables, related parties, going concern).
- **Partner-Expertise & Disclosure Index (PEDI)** — a simple index that records signing partner experience by industry, tenure, and recent rotation history. PEDI proposes transparent disclosure to audit committees: partner name, cumulative industry years, recent continuity with client, to balance experience vs independence concerns.
- **Audit Quality Scorecard (AQS)** — a dashboard for audit committees and regulators showing key audit quality indicators (KQIs): documentation completeness, restatement frequency, timeliness of audits, proportion of firm resources allocated to quality control, use of specialists, fraud-red-flag occurrences, and RAE's risk mapping coverage.
- **Technology Governance Checklist (TGC)** — an operational checklist auditors must complete when using

technology-assisted procedures: model validation, input data lineage, sensitivity analysis, human-review checkpoints, and documentation. The checklist supports compliance with standards requiring documentation and professional judgement.

How AQIF links to Standards and Real-Life Improvement:

- The **RAE** helps auditors satisfy SA requirements on risk assessment and substantive testing planning by highlighting where to allocate audit effort.
- **PEDI** addresses the trade-off between auditor familiarity and expertise—supporting standards' emphasis on independence and competence.
- **AQS** provides audit committees evidence to enforce quality control obligations under corporate governance codes.
- **TGC** operationalises regulator guidance (e.g., PCAOB's clarifications) on technology use.

Illustrative data analysis — how AQIF Works:

Below is an illustrative demonstration using hypothetical but realistic indicators to show how the RAE and AQS could operate for a public limited company.

Inputs to the Risk-Analytics Engine (examples):

- Revenue growth vs cash-flow growth (3-year trend)
- Debtor days change vs industry median
- Related-party transaction amount as % of revenue
- Gross margin volatility vs industry peers
- Unusual journal entries around year-end (count)
- Audit committee independence score (1–5)
- External signal: regulatory enforcement, whistleblower complaints (binary)

Scoring Mechanism (simple weighted example):

Assign weights (illustrative): revenue/cash-flow mismatch (20%), debtor days deviation (15%), related-party exposure (20%), margin volatility (15%), unusual journals (20%), audit committee score (10%). Scores normalised 0–100, with higher numbers indicating higher risk.

Example (hypothetical company X)

- Revenue growth: +40% but cash flow from operations: +2% → high mismatch → score 18/20
- Debtor days jumped 60% vs industry median 10% → score 12/15
- Related-party transactions = 8% of revenue (sector average 1.2%) → score 18/20
- Margin volatility high → 10/15
- Year-end unusual journals high → 18/20
- Audit committee score = 2/5 → contributes 4/10 (higher risk)
- Total risk score = 18+12+18+10+18+4 = 80/100 → **High risk**

How auditors respond (under AQIF):

A high RAE score triggers:

- Expanded substantive testing on revenue recognition and receivables.
- Forensic-style sampling of related-party transactions and review of approvals.
- Engage valuation or forensic specialists as needed.
- Increased partner review and documentation per TGC.
- Audit committee receives AQS showing why audit scope expanded.

This simple example shows how standards' requirements (risk assessment, documentation, professional judgement) are made actionable and consistently repeatable across audits.

Findings (synthesis of literature, standards and AQIF demonstration):

- **Standards are evolving to address fraud, technology and auditor responsibilities** — both ICAI and international bodies have updated SAs/ISAs and guidance; India has also issued engagement-specific revisions. These updates require auditors to be more explicit in risk assessment and in documenting responses. (ICAI)
- **Technology-assisted audits are necessary but must be governed** — regulators (e.g., PCAOB) require auditors to validate and document technology usage; AQIF's TGC addresses this by providing an operational checklist.
- **Auditor rotation and independence debates are active** — rotation may increase independence but can reduce accumulated audit-partner expertise; PEDI in AQIF attempts to make partner expertise transparent so audit committees can balance continuity and independence. (Allied Business Academies)
- **Audit committees are key to translating standards into practice** — firms with stronger, informed audit committees show better audit quality outcomes. AQS provides committees with measurable KQIs to discharge oversight responsibilities.
- **Practical analytics can prioritise audit effort** — a simple RAE using financial and governance indicators can flag higher-risk audits and areas within the audit, improving resource allocation and potentially detecting issues earlier.

Recommendations and Suggestions (Practical, For Immediate Implementation):

For Audit Firms:

- Pilot an AQIF implementation on a sample of public company audits for one year. Use a small RAE and the TGC checklist in parallel with existing audit programs.
- Require partner-level PEDI disclosure internally and to audit committees (private disclosure), balancing privacy and transparency.
- Strengthen firm-level quality control documentation for technology-assisted procedures and require model validation logs.

For Audit Committees (Public Limited Companies):

- Request an AQS with at least quarterly updates during the audit cycle. Ensure at least one member has financial reporting expertise.
- Use PEDI to assess if retaining the signing partner is appropriate given rotation rules and sector complexity.

For ICAI and Regulators:

- Consider issuing a practical guidance note or module on implementing risk-analytics engines and required documentation standards for technology use (similar to PCAOB clarifications).
- Promote pilot programs that allow audit firms to test AQIF-like dashboards and share anonymised learnings in ICAI quality-review reports. (Taxmann)

For Researchers:

- Empirically test AQIF's predictive validity using historical restatement and enforcement datasets in India. Examine trade-offs between partner experience and rotation on long-term audit outcomes. (SSRN)

Conclusion:

Auditing standards remain the backbone of trustworthy financial reporting, but standards alone cannot guarantee audit quality. Recent regulatory updates, technology adoption, and governance debates create a window of opportunity to translate standards into measurable practice improvements. This paper proposed AQIF — a practical, modular toolkit that operationalises SAs into risk analytics, partner expertise transparency, audit quality scorecards, and technology governance checklists. The illustrative example shows AQIF's potential to prioritise audit effort and provide audit committees with actionable intelligence. For India's public limited companies, adopting such pragmatic mechanisms—supported by ICAI guidance and regulatory encouragement—can materially improve audit outcomes, strengthen market trust, and reduce audit failures.

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