AI in Audit: Disruption, Detection, and Due Diligence in the Age of Algorithms

As artificial intelligence shifts audit from hindsight to foresight, Company Secretaries (CS) aren't just navigating laws—they are interpreting logic, engineering trust, and safeguarding the invisible architectures of data ethics. The profession is not being disrupted; it's being redefined—and in 2025, Practicing Company Secretaries (PCSs) and professionals stand not at the edge of innovation, but at its ethical core.

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INTRODUCTION: REIMAGINING AUDIT IN THE AGE OF COGNITION

The audit room is no longer dimly lit with files and fluorescent lights—it hums with neural networks and predictive heatmaps. In today's India, the auditor's pen has morphed into an algorithmic lens, and materiality thresholds are recalibrated in machine language. As artificial intelligence shifts audit from hindsight to foresight, Company Secretaries (CS) aren't just navigating laws—they are interpreting logic, engineering trust, and safeguarding the invisible architectures of data ethics. The profession is not being disrupted; it's being redefined—and in 2025, Practicing Company Secretaries (PCSs) and professionals stand not at the edge of innovation, but at its ethical core.

Why India, Why Now?

India is rapidly becoming a global hub for AI deployment, with over 59% of Indian enterprises adopting AI across core operations in 2025, the highest rate among G20 economies (as per a Nasscom–BCG joint report). The MeitY-led IndiaAI Mission, launched in 2024, is backed by a strategic outlay of ₹10,372 crore and a computing infrastructure of 10,000+ GPUs, accelerating AI democratization. Adding to this momentum, the AI Safety Institute—tasked with ensuring ethical deployment and risk governance—officially commenced operations in January 2025, positioning India not just as an AI adopter, but as a thought leader in algorithmic accountability.

On the regulatory front:

- SEBI and MCA are actively developing mandatory AI audit trails.

- NFRA is consulting on "digital audit evidence", including AI explainability.

- 69% of companies report delaying AI adoption until governance systems are vetted—a clear opening for PCS to lead.

The audit committee is no longer a static backroom. It is a nerve center—algorithmically alert, digitally dexterous, and strategically proactive. In 2025, Artificial Intelligence (AI) has firmly rooted itself in boardrooms across India, transforming the audit landscape from passive oversight into intelligent, predictive governance. For PCSs, this is not merely an era of change—it is a decisive shift in the DNA of corporate compliance and leadership. According to a 2025 executive survey by pkcindia.com, over 92% of corporate leaders plan to increase their AI investments, with more than half anticipating a minimum 10% rise in AI budgets, much of it directed towards audit and compliance enhancement. India, in particular, is emerging as a testbed for innovation, with forward-looking firms piloting AI Readiness Indices—comprehensive assessments of board maturity, AI adoption, and reporting efficacy.

Auditing in India is undergoing a radical reinvention. Once rooted in the ledger-and-logics paradigm, the audit profession now finds itself operating in an algorithmic era. For PCS, artificial intelligence is not just an emerging tool—it is an evolving partner in governance. The year 2025 marks a pivotal juncture, with AI reshaping audit from retrospective compliance to proactive strategic foresight. Initiatives such as the IndiaAI Mission Phase II, the Digital Personal Data Protection Act (DPDP), 2023, and evolving proposals from regulatory bodies like SEBI, MCA, and NITI Aayog are collectively sculpting India's digital audit architecture.

But 2025 has also brought with it several game-changing developments that are now fundamentally altering the compliance canvas. The introduction of the National AI Assurance Framework (NAAF), the MCA's AI Risk Disclosure Format (AIRDF), and IRDAI's directive for AI-integrated internal audits mark a new shift—one that integrates ethics, legal stewardship, and algorithmic

accountability into the very spine of audit. Moreover, with the launch of NFRA's proposals on digital audit standards, CS are now expected not only to ensure compliance, but to architect the ethical frameworks within which these technologies operate.

Let us explore how AI is transforming audit in three interconnected dimensions: "Disruption", "Detection", and "Due Diligence". It further unpacks India's shifting regulatory stance, comparative global standards, and emerging leadership responsibilities for PCS, who are now not merely legal interpreters but algorithmic stewards.

DISRUPTION: RECONSTRUCTING THE INDIAN AUDIT DNA

In 2025, AI is no longer experimental in Indian audit—it is elemental. The Government's "IndiaAI Mission Phase II" has added significant momentum, with RegTech and AuditTech startups receiving direct institutional support. The establishment of an "AI Safety Institute" and a sector-specific focus on audit automation have catalysed the development of tools for governance risk scoring, AI policy testing, and intelligent compliance verification.

Furthermore, SEBI's 2025 draft on "Mandatory AI Audit Trails" for listed companies introduces a new layer of disclosure. Any deployment of AI in investor advisory, algorithmic trading, or regulatory filings must now maintain verifiable trails of model evolution and decision-making logic. For CS, this means taking active charge of algorithmic accountability, not merely corporate compliance.

This shift is being institutionalised with the launch of the "National AI Assurance Framework (NAAF)" by MeitY (Ministry of Electronics and Information Technology) in May 2025. NAAF provides a risk-tiered classification of AI systems and establishes comprehensive assurance protocols. This framework makes it mandatory for AI tools deployed in regulated sectors to undergo third-party audits that assess not just functionality, but fairness, explainability, and stakeholder impact. It includes technical parameters for algorithmic validation, stakeholder consent documentation, and mandatory disclosures for AI-generated decisions. The NAAF places CS's in the centre of a complex new compliance web where algorithmic fairness and regulatory interpretation now go hand in hand.

To build further upon this, the Ministry of Corporate Affairs (MCA) introduced the "AI Risk Disclosure Format (AIRDF)" in 2025, a mandated section in Board Reports under the Companies Act, 2013. AIRDF obliges corporates to disclose the purpose, scope, vendors, risk categories, and mitigation measures of any AI tools deployed in core decision-making. PCS are now responsible for vetting and curating these disclosures—making them both comprehensive and legally defensible. This addition elevates the secretarial audit into the digital domain, turning PCS into legal architects of AI transparency.

The shift is evident: the checklist auditor is giving way to the algorithmic interpreter. The PCS must now decode the DNA of AI models embedded within corporate systems, questioning their purpose, probing their parameters, and ensuring they remain just, transparent and explainable.

DETECTION: FROM SAMPLE CHECKS TO SYNAPTIC SURVEILLANCE

The traditional sampling methodology in audit is fast becoming obsolete. AI tools such as MindBridge, CaseWare IDEA, and ACL Robotics, now enable synaptic-scale surveillance—examining vast transactional universes for anomalies, behavioural deviations, and unstructured inconsistencies.

In India, the financial services sector is leading the way. The RBI, in collaboration with fintech watchdogs, has pushed for "AI-integrated fraud risk monitoring", where models detect patterns from biometrics, sentiment analytics, and digital footprints. Deepfake impersonation, synthetic voice fraud, and real-time phishing simulations are now part of audit risk maps.

PCS on audit committees are expected to understand federated learning models, used to detect fraud without compromising data privacy. This calls for enhanced proficiency not just in understanding audit trails but in interpreting machine learning outcomes and alert signals.

PCSs stand at the frontline of this transformation. Leading professionals are:

- Embedding sentiment analysis into board meeting minutes to detect early governance stress points.

- Deploying predictive compliance alerts that pre-empt regulatory violations.

- Curating AI-enhanced agendas, synthesizing historical data and model-driven foresight to guide board discussions.

Also emerging in 2025 is the concept of "GenAI Risk Audits", necessitated by the widespread usage of AI tools and indigenous clones in compliance drafting, financial summarisation and employee assessments. PCS must now ensure that such generative AI outputs are accurate, secure, and free from regulatory vulnerabilities.

Audit detection is no longer about what slipped through; it is about how we detect intent. For a PCS, the focus is now on building systems that observe, interpret, and warn—before breaches crystallise.

DUE DILIGENCE: ALGORITHMIC INTELLIGENCE IN STRATEGIC ASSESSMENT

The 2025 lens of due diligence is sharper, broader, and faster. What was once a box-ticking compliance scan has become an enterprise-wide strategic diagnostic exercise. AI is instrumental in this evolution.

Modern due diligence platforms now ingest structured and unstructured data across news channels, litigation databases, corporate registries, ESG ratings, social media, and whistleblower reports. Tools like "Kira Systems", "Luminance", and India-developed NLP engines are providing PCS a 360-degree risk radar.

What's more, AI is being used to pre-emptively assess a company's vulnerability to technological displacement— an emerging practice called "AI Disruption Audits". CS are now tasked with advising boards on algorithmic obsolescence. Is the service replicable by a generative model? Are competitors automating cost centres? This is due diligence redefined for digital survival.

In the ESG space, the rollout of "SEBI's BRSR Core" has encouraged companies to automate their sustainability reporting. AI-generated ESG disclosures are now commonplace, and PCS must scrutinise whether these auto-generated metrics are consistent, ethical, and auditable.

Building further, "NFRA's Consultation Paper on Digital Audit Guidelines (2025)" proposes admissibility of AI-derived audit evidence, model explainability scores, and threshold-based materiality disclosures. PCS must now align traditional due diligence norms with these tech-centric proposals, enhancing the fiduciary integrity of digital audits.

Legal due diligence is being upended by AI platforms like RAVN and Kira, which scan millions of legal clauses in seconds, surfacing red flags for class-action exposure and regulatory misalignments. The days of post-facto legal cleanups are over—now, compliance is a continuously monitored phenomenon.

PCSs with legal acumen can fortify their services by:

- Integrating contract-redlining tools that flag deviations from standard clauses.

- Leveraging litigation risk scoring engines powered by global case law patterns.

- Embedding AI in forensic readiness protocols, ensuring audit trails are tamper-proof, discoverable, and legally admissible.

Moreover, with the "live AI compliance dashboards linked to MCA21 V3", PCS can now interface directly with regulatory APIs. Real-time compliance heatmaps, red-flag visualisations, and AI-generated deviation summaries are accessible to regulators and boards alike, creating a system of continuous, visible compliance.

The due diligence canvas is expanding from legal vetting to holistic algorithmic viability analysis. PCS must respond not just as lawyers, but as data navigators, ethics custodians, and ecosystem advisors.

Case Features: Learnings from Real and Hypothetical Frontlines.

Integrating short "case-in-point" narratives into governance reports can help to contextualize AI's audit value:

- **SEBI AI-Trail Test in a Mid-Cap:** PCS enforced algo-trading audit trails, enabling real-time decision traceability for the board.

- **AI-Driven Layoff Decision:** PCS reviewed ethical vetting before AI-influenced workforce reductions.

- **Japanese Benchmark:** A Japanese company aligned its AI governance audit with Indian PCS-led frameworks, setting a new global standard.

REGULATORY AND ETHICAL GOVERNANCE: FROM COMPLIANCE TO ALGORITHMIC ACCOUNTABILITY

India's regulatory bodies are in transition mode. The Digital Personal Data Protection Act, 2023, although foundational, is now supported by proposed updates in 2025 that deal specifically with AI lifecycle documentation, stakeholder consent, and explainability norms. SEBI's AI audit trail requirements and MCA's draft amendment to the "Companies (Audit and Auditors) Rules, 2016" mark a clear move towards AI-integrated disclosure standards.

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Globally, India is aligning with frameworks such as the "EU Artificial Intelligence Act", which mandates strict governance of high-risk AI systems. Meanwhile, NITI Aayog's "White Paper on AI in Governance" (2025) introduces sandbox frameworks for AI deployment in public audits and PSU accountability mechanisms.

As AI tools begin operating across jurisdictions, PCS must evolve into cross-border audit strategists. Key challenges include:

- Navigating conflicting rules such as India's DPDP Act, Europe's GDPR, and the EU AI Act.

- Understanding jurisdiction-specific AI risk tiering and disclosure norms.

- Leading federated AI audits, ensuring global data is handled within local legal bounds.

PCS are also witnessing a rise in AI Governance Boards within companies. These cross-functional bodies, inclusive of CS, CIOs, and ethicists, are tasked with setting internal policies, monitoring algorithmic impact, and ensuring stakeholder transparency. CS's must play a lead role in defining these roles, ensuring that AI systems remain interpretable, auditable, and equitable.

As AI enters the audit arena, a crucial ethical and legal question looms large: *Who bears the burden when AI fails?* Jurisdictions like the EU have begun delineating responsibility between human judgment and black-box algorithms. India will soon follow.

PCSs must now make critical decisions:

- Should they co-sign AI-generated audit conclusions, or define their liability boundaries?

- Can new indemnity insurance clauses be structured to cover algorithmic errors?

- How do they build oversight protocols that keep AI subordinate to human governance?

This is not just risk management—it is ethical architecture.

AI brings not just efficiency but potential harm—bias, opacity, and exclusion. As part of the Audit With Purpose 2025 (AWP-2025) initiative, PCS leaders are crafting ethical response systems that include:

- Escalation protocols to triage, anonymize, and report AI-generated harms.

- Quarterly governance reviews incorporating fairness assessments, bias audits, and stakeholder engagements.

- AI Governance Calendars to stress-test policies, ensuring continuous ethical compliance.

PCSs are becoming not just ethical auditors—but architects of trust.

Certification like "ISACA's AI Auditor" offer PCS a structured path to acquire these new competencies. The AIGAC program, launched in mid-2025, is designed to impart nuanced understanding of black-box AI models, audit sandbox participation, and ethics-by-design frameworks. In 2025, the ethical compass is as vital as the legal code.

STRATEGIC ROADMAP: THE PCS AS THE ALGORITHMIC STEWARD

The AI audit ecosystem is not a threat to the profession; it is an invitation to evolve. For PCS with deep experience, this is not merely a call for adaptation—it is a moment of professional ascension.

Their leadership in 2025 must manifest through the following core mandates:

- **AI Governance Councils:** Create and lead internal structures that formulate, review, and update AI ethics and compliance charters.

- **Tool-Embedded Governance:** Use AI platforms to develop live regulatory heat maps, board effectiveness dashboards, and compliance visualisations.

PCS can no longer afford to stay at the periphery of AI discourse. They must architect policies that enable innovation while upholding trust. To institutionalize trust, audit itself must evolve from a procedural formality to a data-driven validation of algorithmic ethics. In 2025, the audit profession's credibility will hinge on its ability to measure AI impact—not just adopt it. PCS professionals are expected to redefine audit KPIs, incorporating algorithmic metrics such as:

- Explainability scores, model drift rates, and false-positive percentages.

- Risk heatmaps integrated into Secretarial Reports.

- Audit maturity frameworks that track AI's contribution to traceability, fairness, and compliance.

This is no longer about ticking boxes. It's about proving transparency through data. But while these metrics are critical in large enterprises, the true frontier of AI-led governance may lie in India's fragmented startup and MSME landscape.

For PCS advising startups and MSMEs, AI presents an unmatched opportunity to standardize chaos. These sectors often struggle with fragmented data, informal compliance structures, and unpredictable disclosure practices. Veteran PCS leaders can drive grassroots transformation by:

- Using AI to structure unorganized financial data into audit-ready formats.

- Preparing clients for upcoming initiatives such as the Startup Governance Index 2025 and Udyam Compliance Frameworks.

- Integrating fraud-detection systems linked to DPI (Digital Public Infrastructure), anticipating future statutory expectations.

PCSs must keep one eye firmly on the horizon. Emerging disruptors include:

- Quantum auditing and blockchain-based smart contract reviews (2026–27).

- Behavioural risk profiling through AI analytics of board sentiment and whistleblower activity.

- Regulatory sandboxes launched by SEBI and MCA to experiment with GenAI in governance environments.

The future isn't approaching—it's integrating.

CONCLUSION: FROM LEDGERS TO LEARNING LOOPS

AI is no longer just a tool—it is a force reshaping the soul of corporate governance. For PCS professionals, the challenge is no longer whether to adopt AI—it is how to guide it, govern it, and ensure its ethical deployment.

PCS are no longer mere auditors. They are algorithmic stewards, navigating legal landscapes, building ethical frameworks, and embedding transparency into systems that think for themselves. In this new age, PCS signatures does more than certify—it safeguards the future. CS's have transitioned from auditing numbers to auditing narratives; from tracking ledgers to interpreting learning loops. AI is not just reconfiguring audit tools—it is transforming the very identity of auditing.

In this cognitive shift, CS's are the sentinels of interpretability. They are the human filters through which ethical discernment, regulatory intent, and stakeholder trust must pass. Data is powerful, but context is sovereign. In this evolving algorithmic age, it is the PCS who brings that sovereign context to life.

In an era where algorithms command trust, the audit profession's transformation is far beyond digital— it's deeply philosophical. Auditors, now algorithmic stewards, hold the delicate balance between innovation and integrity, embedding foresight into the very fabric of governance. As CS decode the silent poetry of predictive analytics, their vigilance ensures not just compliance, but consciousness. In 2025, the pulse of auditing beats to the rhythm of logic and ethics intertwined, securing trust in a world increasingly written in code.

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