Trust in Numbers: Why High-Quality Audits Matter for India's Market Maturity

Vishesh C.Chandiok
Chief Executive Officer
Grant Thornton Bharat

Does audit quality matter?

This might seem like a rhetorical question with an obvious answer. In the Indian context, however, it carries a multi layered and fundamental significance. India has firmly established itself as one of the world's most dynamic capital markets, with a capitalisation of approximately USD 5.33 trillion, an increase of nearly USD 1 trillion since March 2025, ranking it fifth globally. What sets India apart is the pace of this ascent—its market cap has surged by over 21% in this period, the highest increase among the world's top 10 equity markets. Germany followed with a 14% rise, trailed by Canada (11%), Hong Kong (over 9%), and Japan and the UK (around 8% each).

This growth reflects the country's robust economic fundamentals, the deepening participation of retail investors, the rise of digital trading platforms, and sustained policy support for strategically critical sectors. High-quality audits become a non-negotiable essential in the context of such expansion in both scale and complexity of India's capital markets. Efficient markets thrive on investor confidence and trust in the markets. Auditors contribute to this, ensuring transparency, comparability, and accountability in corporate reporting.

The Indian government is also paying attention to this critical component of capital markets with its call to develop globally competitive domestic professional services firms. The Indian audit market has long been fragmented with more than 750 audit firms auditing a single listed entity at one end of the spectrum and approximately only 85 firms auditing 5 or more listed companies each. This raises several concerns on the availability of resources, technical and technological robustness and more significantly on auditor independence, all of which have a bearing on audit quality. By strengthening the country's audit capacity and capabilities and aligning them with global standards, India can brace itself to face the challenges thrown up by its vibrant capital market.

High-quality audits and capital markets

High-quality auditing plays a pivotal role in preparing companies for Initial Public Offerings (IPOs) and attracting Foreign Portfolio Investors (FPIs), both of which rely heavily on transparency, governance, and financial integrity. For IPO-bound firms, rigorous audits provide credibility to financial statements, validate internal controls, and uncover potential red flags, creating a foundation of trust with regulators and institutional investors.

SEBI (Securities and Exchange Board of India) has been making consistent reforms in the area of corporate reporting, whether it is by enhancing disclosure requirements through changes in the SEBI listing regulations, introducing the Business Responsibility and Sustainability Reporting (BRSR) reporting along with the need for auditors to provide reasonable assurance which was a global first or its latest mandate on significantly enhancing disclosures related to related party transactions being submitted to audit committees and shareholders for approval. All these indicators are focused on enhancing the integrity of information and accountability of stakeholders.

Likewise, FPIs view robust audit practices as signals of mature governance and reduced investment risk, especially in emerging markets like India. The presence of high-quality audits, especially those conducted by firms with proven methodologies, peer review mechanisms, and quality control systems, not only ensure compliance but also instills confidence in the long-term viability of a company's operations. India has already benchmarked it accounting and auditing standards with their global counterparts. What needs to demonstrate its efficacy and robustness in implementation.

Whilst regulatory requirements largely try to reduce information asymmetry, high-quality corporate reporting can be achieved only when all components of the ecosystem work optimally, whether it is management, boards, rating agencies, internal or external statutory auditors. Millions of investment decisions are made each day by individuals and institutions based on the financial reporting done by corporates that auditors' vet. In this context, the role of statutory auditors in enhancing financial statement reliability and comparability cannot be emphasised enough.

India's audit landscape and its challenges

India is currently on the brink of major reforms in the audit space. The first wave of these changes was brought in by the Companies Act, 2013, by way of mandatory firm rotation, extending reporting to include internal financial controls, setting up of National Financial Reporting Authority (NFRA) and revamping auditor liabilities. Some of these changes have had a positive impact, for example, the mandatory rotation norms have opened access to some of the corporates for small and medium-sized audit firms. Having said that, as mentioned earlier, there is significant market fragmentation. The concerns around audit concentration that exist globally also holds true in India.

There is also regulatory fragmentation given that auditors are subject to requirements primarily from SEBI , NFRA and Institute of Chartered Accountants of India (ICAI). There has been significant activity from NFRA over the last 5 years, particularly with over 80 chartered accountants having been debarred from practicing for between 1 and 10 years along with varied penalties. It has also commenced periodic firm inspections towards enhancing audit quality, a welcome initiative needing further refinement.

Apart from the multiplicity of regulators, there is also an issue of stringent norms imposed on the profession including those related to restrictions on who Chartered Accountant (CAs) can partner with (for example they cannot take on partners who are cyber specialists or valuation experts). This limits the avenues from where capital can be sought, restricts building capabilities and affects scalability. There are also restrictions on brand building, advertising, etc., which do not compare with global norms.

Another aspect that needs immediate attention is that the profession remains attractive to younger talent and ensures that the senior talent does not move away from audits. One is unlikely to hear about a fantastic audit, but audit failures surely get the spotlight. Regulatory implications, low fee structures, demanding hours and limited public recognition have created an environment where auditors often face high responsibility with relatively low reward.

Need for reforms

Widening the ambit of multi-disciplinary partnerships: Currently, CAs can partner with professionals across disciplines to enhance capabilities. However, to truly have an impact, the scope needs to be widened considerably to enable MBAs (Master of Business Administration), cyber experts, valuation experts, engineers, and others to collaborate to provide comprehensive services. One needs to appreciate that the complexity and scale of Indian corporates going global are only increasing, and audit firms will need to keep pace with them to provide high-quality assurance on their financial reporting. This will also enhance the ability of audit firms to obtain capital from sources other than the traditional means of partner contributions.

Advertising and display of brand affiliations: Global norms promote a principles-based approach for advertising, which is flexible but requires professional accountants to uphold the fundamental principles, in particular, integrity, objectivity, and professional behaviour, in all forms of communication. A similar approach in India will go a long way in establishing recognition of firms in the financial ecosystem. With the growth and visibility of multiple firms within the country, boards will have a wider range of choices based on their specific needs rather than zeroing in on the handful of known firms.

Regulation balanced with options for settlement and remediation: The advent of NFRA has truly paved the way for Indian firms to measure up to the globally accepted norms of maintaining quality. However, this needs to be balanced with introducing alternative settlement mechanisms to avoid protracted proceedings. More importantly, as with its global counterparts, there needs to be a mechanism of remediation that provides specific inputs to firms to better their quality control mechanisms with an oversight in terms of results and timelines. This will surely help build audit firms that focus on both scaling up and scaling right.

Technology in audits: This is perhaps one of the most critical components that needs attention since it addresses several issues. Whilst technology is currently used at varying degrees across Indian audit firms, it is only the tip of the iceberg that has been explored, and there is a vast amount of innovation that needs to be researched and implemented across the board. We have no dearth of talent available in this area, and it is only up to the senior leadership and management of audit firms to ensure that this becomes a non-negotiable component of their firm strategy.

The way ahead

Looking ahead, high-quality auditing will play an increasingly transformative role in determining the resilience and depth of capital markets. As financial ecosystems evolve with complex instruments, digital assets, and sustainability-linked disclosures, auditors will not just provide assurance on information of the past but also highlight emerging risks. Audits will need to highlight systemic vulnerabilities in order to reinforce investor confidence and support prudent capital allocation. As the Indian market expands and integrates with global financial networks, high-quality audits must act as a trust multiplier, facilitating cross-border listings, attracting long-term foreign capital, and enabling transparent governance. The convergence of audit innovation with policy reform and talent development will determine whether capital markets can operate efficiently, equitably, and sustainably.

The vision of large Indian firms is not just about scale; it needs to focus on building global best-in-class capabilities and resources, both technological and otherwise. Regulatory reforms and support towards capacity building, innovation and technology adoption, etc., can go a long way in encouraging firms to scale up both in size and capabilities. Summing up, high-quality auditing will be an essential foundation in contributing towards the sustained growth of the Indian capital market and achieving the goal of Viksit Bharat.

Sources

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