RAAVI
ISSN:3108-253X
Volume - I, Issue - 1
June - 2026
An International Journal of Multidisciplinary Research
(Blind Peer Reviewed and Refereed Journal)

Promise or Peril? : An Analysis of AI in Accounting, Auditing, and Financial Reporting in Indian Context

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Abstract-

Artificial Intelligence (AI) is playing a growing role in accounting, auditing, and financial reporting in India. This change is driven by digital governance programs, regulatory changes, and the rapid increase in financial data. AI-based tools help with automated accounting, fraud detection, forensic audits, and real-time financial reporting, making processes faster, more accurate, and more compliant with regulations. At the same time, these technological developments raise important concerns. These include reduced use of professional judgment, ethical responsibility, readiness of regulators, lack of transparency in algorithms, and possible job losses. This paper examines AI as both an opportunity and a risk in the Indian accounting system. It argues that although AI improves efficiency and strengthens regulatory monitoring, excessive dependence on automated systems may weaken auditors' critical thinking, professional independence, and ethical responsibility. The study supports a balanced approach where AI is used with strong human involvement and adapted to India's legal, institutional, and professional conditions.

Keywords: Artificial Intelligence, Accounting and Auditing in India, Financial Reporting, Professional Ethics, Regulatory Challenges, Digital Governance

Objectives of the research paper

The present research paper aims to:

1. Examine the role of Artificial Intelligence in accounting, auditing, and financial reporting in India.
2. Analyze the impact of AI on professional practices and judgment in the Indian accounting sector.

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3. Identify ethical, institutional, and regulatory challenges associated with AI adoption.
4. Assess whether AI represents a promise or a risk for the Indian accounting profession.

Research Methodology

This study adopts a qualitative and analytical research methodology based on secondary sources, including scholarly articles, books, regulatory documents, and professional reports. Using critical content analysis, the paper evaluates the implications of Artificial Intelligence for accounting and auditing practices in the Indian context. The study is conceptual in nature and does not involve primary data collection. Emphasis is placed on interpretative analysis and contextualization rather than empirical generalization.

Introduction

In the last twenty years, accounting and auditing in India have changed a great deal. These changes are mainly due to economic reforms, globalization, and new laws and regulations. India has adopted international accounting standards, expanded its capital markets, attracted more foreign investment, and introduced digital systems for taxation and compliance. As a result, the amount of financial data and its complexity have increased significantly. In this changing situation, Artificial Intelligence (AI) has become an important tool that helps accountants and regulators improve speed, accuracy, and compliance (Kokina & Davenport 2017: 116).

Today, many Indian organizations use AI for tasks such as automated bookkeeping, detecting fraud, GST compliance, checking internal controls, and analyzing financial risks. Government initiatives promoting digital services and e-governance have further encouraged the use of AI in financial administration. However, accounting and auditing are not only technical tasks. They are closely connected with professional ethics, legal responsibility, and public trust. Therefore, the increasing use of AI systems raises serious concerns about who is responsible for decisions, how transparent these systems are, how much professional judgment is involved, and what role human experts will play in the future.

This paper critically studies the growing use of Artificial Intelligence in Indian accounting and auditing. It explores whether AI improves financial governance or whether it poses risks to the ethical values and professional standards of the field.

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AI in Indian Accounting Practices

In India, accounting work is increasingly being supported by AI-based automation tools. These tools take care of routine and repetitive tasks such as entering data, processing invoices, reconciling bank accounts, managing payroll, and classifying expenses. Indian businesses prefer these tools because they save costs, can be easily scaled, and can handle a large number of transactions with very little human effort. Both small and medium enterprises and large companies now depend on automated accounting software to meet legal deadlines and lower operating expenses.

Automation helps reduce human errors and speeds up the process of closing financial accounts, which is especially important for organizations with complex operations spread across different locations. AI systems learn from past data, become more accurate over time, and adjust to new transaction patterns. In India, where accounting and tax rules change frequently, this flexibility is very useful. In addition to automation, AI-based accounting systems also help in decision-making. By studying past financial data, they can predict cash flows, warn about possible cash shortages, and assess financial risks. This supports better management decisions and matches India's move toward digital systems and data-based governance.

However, experts warn that too much automation can reduce accountants' understanding of basic financial concepts. When professionals rely mainly on computer-generated results, accounting may turn into a routine activity rather than an analytical one. This can weaken accountants' critical thinking, ethical awareness, and professional skills, especially for beginners who need practical experience to develop their competence.

AI in Auditing and Assurance Services in India

Traditionally, auditing in India has depended on sample checking, periodic reviews, and examining records after transactions have taken place. Although these methods have been useful, they are becoming less effective due to the large volume, speed, and complexity of today's financial transactions. AI has introduced continuous auditing, which allows auditors to monitor transactions, internal controls, and compliance in real time. AI-based audit tools can examine complete datasets instead of small samples, which improves accuracy and reduces the chance of missing fraud. These systems can spot unusual transactions and

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abnormal patterns, helping auditors focus on areas with higher risk. In an environment where financial fraud is still a serious issue, this is a major improvement (119).

Forensic auditing has gained significant benefits from AI analytics. Machine learning tools can detect complex fraud by connecting information from financial records, emails, and behavioral data. This improves the ability to uncover hidden financial misconduct. However, Indian auditing standards strongly stress professional judgment, independence, and skepticism- qualities that machines cannot fully replace. AI works on programmed rules and learned patterns, but it does not understand context, ethics, or organizational behavior (Susskind and Susskind 47).

Relying too much on AI outputs may reduce auditors' questioning attitude, especially when AI systems work like "black boxes" that do not clearly explain how results are reached. The main risk is not that AI will replace auditors, but that auditors may depend too much on technology and lose their professional judgment. Preserving human interpretation is necessary to maintain audit quality, ethical responsibility, and public confidence.

AI and Financial Reporting in the Indian Regulatory Environment

Financial reporting in India follows a detailed set of rules that focus on openness, responsibility, and protecting public interest. With India aligning its reporting standards with international norms and increasing checks on corporate disclosures, companies are now expected to provide accurate and timely financial reports. Artificial Intelligence supports this process by allowing real-time collection of data, automatic preparation of disclosures, and uniform reporting across different systems (117).

AI-based reporting tools can combine information from various sources, reduce delays in matching accounts, and help organizations follow disclosure rules more easily. These features are especially useful in India's growing corporate sector and in government financial management, where timely and correct reporting is vital for good governance and accountability.

However, the use of AI in financial reporting also creates certain concerns. Regulators and stakeholders need to clearly understand how financial numbers are produced and verified. Many AI systems, however, use complex processes that are difficult to explain or audit. This creates a conflict between faster reporting through technology and the regulatory demand for transparency and traceability. If reporting becomes too automated, responsibility may become

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unclear between human accountants and computer systems. Therefore, a key challenge for Indian regulators and professionals is to ensure that AI-generated financial reports remain clear, reliable, easy to verify, and ethically sound (44).

Ethical and Professional Challenges in the Indian Context

Ethics is a fundamental part of accounting and auditing. Accountants and auditors are responsible for protecting public interest, maintaining honesty in financial reporting, and following professional standards. Artificial Intelligence, however, does not have moral understanding and cannot be held responsible for mistakes, bias, or wrongdoing. When errors in financial reporting occur because of AI-based decisions, it becomes difficult to decide who is responsible. The responsibility could lie with the software creators, the organizations using the technology, or the professionals who depend on AI results. This lack of clarity creates serious ethical issues within India's legal and professional system.

Data privacy is another major concern. AI systems depend on large amounts of financial and personal information, which raises issues related to user consent, data protection, and possible misuse. In India's fast-growing digital economy, ensuring strong data security and compliance with privacy rules remains challenging, especially since regulatory enforcement is still developing (Issa, Sun, and Vasarhelyi 2016: 12).

Automation also affects employment opportunities, particularly for junior accounting professionals who usually handle routine tasks. While AI increases the demand for advanced analytical and technical skills, it also threatens traditional accounting jobs. This makes reskilling and changes in professional education essential.

Impact on Professional Judgment and Auditor Skepticism

Professional judgment is the foundation of accounting and auditing. It requires understanding the situation, applying ethical reasoning, and interpreting complex financial information. Although AI is very effective in processing data and identifying patterns, it cannot replace human judgment in cases involving uncertainty or ethical concerns. Auditor skepticism- the habit of questioning and critically evaluating evidence- may weaken if professionals rely too heavily on AI-generated results. AI can point out unusual patterns, but it cannot judge intent, organizational culture, or ethical consequences.

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In India, audits often involve legal, cultural, and institutional complexities that require careful human judgment. Strong human oversight is therefore necessary to ensure that AI supports professionals rather than replacing their ethical responsibility and decision-making role.

Promise or Peril: An Indian Perspective

From the Indian point of view, Artificial Intelligence has both positive and negative sides. On one hand, it can bring major improvements, and on the other, it creates serious professional and ethical risks. India's accounting and auditing system functions in a large and diverse economy that is rapidly adopting digital technologies (Baldwin et al.,2019: 38). At the same time, institutions differ in their capacity, levels of technology use vary widely, and long-established professional practices still exist. Because of this, AI should not be seen as just a simple technological upgrade. Its impact must be understood in relation to governance systems, law enforcement, and professional culture.

On the positive side, AI offers many benefits that suit India's economic and administrative needs. The huge volume of financial transactions in India across companies, government organizations, and small and medium businesses creates challenges that traditional manual accounting and auditing methods cannot easily handle. AI systems improve efficiency by automating routine tasks, reducing human errors, and speeding up the preparation of financial reports. In auditing, AI improves fraud detection and risk analysis by examining complete datasets instead of small samples. This is especially important in India, where issues like corporate fraud, tax evasion, and inaccurate financial reporting have affected public trust and investor confidence.

AI also helps regulatory bodies by enabling real-time monitoring and compliance checks. In India's regulatory environment, where rules change frequently and disclosure requirements are complex, AI-based systems help organizations follow regulations more easily and reduce the workload on regulators. From this viewpoint, AI strengthens financial governance, increases transparency, and improves accountability- factors that are essential for maintaining economic growth and attracting global investors.

However, these advantages come with serious risks. If AI is adopted without proper regulation or critical evaluation, it can create ethical confusion and weaken institutions. One major concern is over-dependence on technology. When accountants and auditors rely too

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much on AI-generated results, professional judgment may become less important. Over time, this can reduce critical thinking and professional skepticism, turning professionals into system users rather than independent decision-makers. Since accounting and auditing are professions based on trust, independence, and ethical reasoning, such a shift is a serious concern (Susskind and Susskind 2015: 45).

Another serious risk of using AI is the problem of accountability and transparency. Many AI systems work like "black boxes," giving results without clearly explaining how those results were reached. In India, where laws, audit trails, and clear reasoning are very important, such unclear decision-making creates major compliance problems. When mistakes, bias, or wrong financial statements occur because of AI processes, it becomes difficult to decide who is responsible. This lack of clear responsibility can reduce public trust in financial reports and audit work.

Differences between institutions also make AI adoption more difficult. Large firms that have access to advanced technology and skilled experts gain more benefits, while smaller firms and individual practitioners find it hard to keep up. This technological gap can increase inequality within the profession and push out those who cannot afford AI tools or training. Job loss is another concern, especially for junior-level employees. In India, accounting has traditionally provided stable jobs and opportunities for career growth, so this displacement creates social and professional challenges.

Overall, AI in the Indian accounting profession is neither completely good nor entirely harmful. It should be seen as a conditional opportunityits success depends on strong governance systems, ethical protections, clear regulations, and continuous skill development. A balanced approach is necessary. AI should support human intelligence, not replace professional judgment or ethical responsibility. To strengthen India's financial system, AI must be used with transparency, accountability, and proper human supervision. Only with such careful use can AI promote progress while protecting the integrity, independence, and public trust that are essential to the accounting and auditing profession.

Conclusion

Artificial Intelligence plays an important role in changing accounting, auditing, and financial reporting in India. In this transformation, technology must work alongside professional ethics, legal responsibility, and public accountability. AI provides many benefits by automating routine accounting tasks, improving audit quality through advanced data

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analysis, supporting real-time financial reporting, and helping organizations follow regulations. These advantages are becoming increasingly necessary in India's growing and digitally driven financial system.

However, adopting AI is not just a technical choice; it is also an ethical and institutional decision. Problems such as lack of transparency in algorithms, reduced professional judgment, unclear responsibility, and ethical concerns create serious challenges, especially in a system with complex regulations and uneven enforcement. This paper concludes that AI should be used as a support tool rather than a replacement for human professionals. A balanced, people-focused approachbacked by clear regulations, strong ethical standards, and continuous skill developmentis essential to maintain public trust and strengthen financial governance in India.

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