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## Ind-As 8's Influence: Accounting Policies, Changes In Accounting Estimates And Errors, And Caro 2020 Disclosures In Preventing Frauds And Irregularities Using Artificial Intelligence In Real Estate Firms

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### Abstract

The real estate industry has been exposed to unethical practices like cash transactions, syphoning of funds, etc.. This study examines efforts to enhance fraud detections and prevention among real estate companies in the Mumbai through the implementation of Ind-AS 8 and CARO 2020. Artificial Intelligence (AI) tools have been applied to evaluate the effectiveness of these standards and also can be used by the auditors to identify abnormal patterns specially in companies with high volume of transactions. This would help in identifying problems and anomalies well in advance which help in boosting the investor confidence and place trust in the sector which has always been prone to frauds.

### Keywords

Ind-AS 8, CARO 2020, Fraud Prevention, Real Estate in Mumbai Metropolitan Region, AI in Financial Reporting

### 1. Introduction

India's real estate market has been rapidly growing over the years, but it continues to face challenges related to fraudulent reporting specifically to few frauds and ultimately collapsing of few major real estate players like HDIL and Unitech which has impacted the image of the real estate sector negatively. The objective of implementation of Ind-AS and CARO 2020 was to have greater transparency and accountability of audit firms in. This paper evaluates how these frameworks help reduce fraud risks, with a specific focus on companies operating within the MMR. Additionally, the paper explores how Artificial Intelligence of major turnover in the real estate and how effectively the same can be used to detect financial frauds well in advance to avoid future negative impact.

### Artificial Intelligence (AI) in Fraud Detection and Financial Analytics

Technologies such as Machine Learning (ML), Natural Language Processing (NLP), etc. can be used by the audit firms during the course of audit to identify abnormal patterns in high volume of data, comparing CARO 2020 reports of the other real estate companies so as identify the high risks.

According to research from KPMG (2022) and ICAI's Digital Accounting Board, AI is effective in:

- Spotting anomalies in journal entries and identifying abnormal patterns,
- Identifying contradictions in accounting policies and comparing them with other companies from the sector

- Reviewing CARO disclosures specifically to reporting on title deeds of immovable properties which is very useful to statutory bodies, buyers of the property and investors.
- Utilizing NLP to identify patterns in audit qualifications  
Despite all of it, problems still exist, especially with regard to real estate companies.

## 2. Literature Review

- The Impact of Generative AI on Accounting Standards and Indian Accounting Standards Financial Reporting: The article deals with usage of generative AI for Ind-As showcasing its importance in financial reporting. – **Rajnikant Patel – LinkedIn-2<sup>nd</sup> July 2024**

Few usage of Ind-As are below:

1. Compliance with global standards: Companies use Ind-As to prepare their financial statements and generative AI helps in aligning with IFRS thereby enhancing their credibility on global image.
2. Automating Note Generation: Generative AI can help in generating notes, ensuring consistency and standardization across the financial statements.
3. Automating Financial Statement preparation: AI algorithms extract financial data from trial balance and other financial documents accurately recording all relevant information

He has concluded that generative AI is revolutionizing the domain by automating the preparation of financial statements and notes. AI ensures compliance with Indian Accounting Standards which offers reliable, trustworthy and approach to financial reporting.

- **Artificial Intelligence: It's impact on accounting – A review work – NSOU Journal (Vol. 7 No.1) January 2024: ISSN: 2581-5415:** Emergence of AI in accounting is an opportunity not a challenge for accountant and auditors. Accountants should welcome AI technology, they should improve their knowledge about it and should produce maximum output. Sufficient training and skill development techniques to be implemented by the organization so that they can go with the existing resources.
- **Accounting Tech: Revolutionizing Indian Accounting Landscape with AI & ML:- Entera Global: 2<sup>nd</sup> February 2024:** The future of accounting in India with AI and ML appears to be promising. As technology continues to evolve, Indian accountants must stay abreast of these changes, embracing new tools and techniques to remain competitive and provide exceptional service. The conclusion is that AI and ML are powerful tools that can be used in achieving greater efficiency, accuracy, and strategic impact in world of accounting.
- **AI is reshaping the accounting profession: Alok Kumar Singh – LinkedIn – 22<sup>nd</sup> January 2025:** AI adoption in India is accelerating and accounting professionals must evolve to remain indispensable. AI won't replace accountants but will amplify their capabilities, enabling them to deliver insights that drive growth in India's competitive markets. By embracing AI tools, investing in skill development and fostering ethical AI practices, Indian accounting professionals can lead to transformation of accounting industry in India.
- **AI in accounting: Transforming Financial Analysis and Reporting - Kirtane & Pandit Chartered Accountants – 3<sup>rd</sup> January 2025:** AI is just not a passing trend, but it's a powerful tool that is transforming the accounting industry. AI is helping CA firms more value to their clients by automating routine tasks, improving financial analysis, and enabling real time reporting. For CA firms in India, adopting AI is no longer optional; its essential to stay ahead in competitive market. Firms can evolve from traditional number crunchers into strategic business advisors by embracing this technology.
- **The role of AI in Auditing: current applications and future prospects – Harshini Srinivas – ISSN: 2456-4184 – International Journal of Novel Research and Development:** AI can automate various tasks, human judgement and expertise remain essential in interpreting results, understanding business context and making informed decisions. Auditors should possess a good understanding of AI tools to effectively utilize them and ensure the integrity of the audit process. As AI technology progresses, its role in auditing will only grow, shaping the future of financial oversight and accountability.
- **Navigating the new era of auditing with AI technology: Meet Audit Intelligence Analyze – 4<sup>th</sup> November 2024-thomsonreuter.com:** The integration of AI-powered technology in auditing is not just a trend but a significant evolution in the field. For audit firms and professionals, embracing this technology means not only keeping up with industry standards but also improving their operational efficiency, audit quality and overall client satisfaction.
- **Audit in AI era – Amol Dethé – cfo.economicstimes.indiatimes.com – 6<sup>th</sup> September 2024:** The role of AI in auditing represents transformative shift that offers significant benefits while also posing challenges. By integrating AI thoughtfully and addressing the associated concerns, the auditing profession can leverage these advancements to improve accuracy, efficiency and overall value. The

successful adoption of AI will depend on auditors ability to adapt, upskill and navigate this evolving trend with a blend of technological proficiency and professional acumen.

- **Artificial Intelligence in audit – Anna Karmanska – Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu - 2022 – ISSN: 2392-0041:** AI is beneficial in automation of repetitive processes especially in phases that performance required the performance of rules-based and time-consuming tasks and extract information from unstructured data such as contacts, emails, and social media. AI can enhance communication and provide better service for clients.

The use of AI does not eliminate the need to exercise professional judgement and scepticism. AI is unlikely to replace professional scepticism and judgement because they require a great extent of the human element. Furthermore, due to adoption of AI and access to more information from a wide array of data and varying sources, the auditor's ability to critically assess audit evidence audit evidence can be improved.

### 3. Research Objectives

- To evaluate how Ind-AS 8 impact the financial statements
- To evaluate auditor's role in CARO 2020's role reporting in fraud detection and prevention.
- To determine the effectiveness of Artificial Intelligence in identifying abnormal anomalies and usage of AI tools to identify such complicated reporting's and disclosures.

### 4. Research Methodology

- **Research Design:** A research design has been constructed combining both qualitative perceptions and reckonable analysis.
- **Data Collection:**
  - **Primary Data:** The structured questionnaire was prepared and sent out to professionals like chartered accountants, company secretaries in Mumbai Metropolitan region, various consultancy firms like Price Water House Coopers, Chaturvedi & Shah, and real estate companies like The Phoenix Mills Limited etc.
  - **Secondary Data:** Articles published by several authors in NSOU journal, LinkedIn, taxguru.com, Journals of ICAI etc.
- **Sampling Method:** Simple random sampling method has been selected for conducting the research.
- **Selection of sample size:** A purposive sampling technique was used to select the respondents. We have collected a sample of 25 respondents to derive our results.
- **Selection Criteria:** Real estate companies and consultancy firms were chosen based on their market presence and location since significant market presence and regional focus gives u relevance and impact. This helps us ensure that the sample is representative of real estate sector.
- **Types of AI:** Mostly used are two types of AI which are as mentioned hereunder:
  - ❖ **Narrow AI:** Voice Assistants like Siri or Alexa are types of AI which are designed for a specific task or narrow range of tasks.
  - ❖ **General AI:** General AI like ChatGPT, Gemini etc that displays human like intelligence and can apply automated knowledge across different domains.
- **AI Tools that can be used in the real estate sector:**
  - ❖ **Anomaly detection technique:** It helps for identifying commission payouts to real estate brokers via automation:
 

Anomaly detection techniques can be used by the real estate companies to identify the commission payable to the brokers as per the contracts entered with them. The tool helps in identifying mismatches between calculation payable as per manual workings and as per the tool. The tool also identifies material mismatches and highlight the same.
  - ❖ **ChatGPT:** It helps in generating journal entries for typical transactions basis Ind-As like entries for fair valuation of Financial Instruments like Preference Shares, Debentures etc. It also helps in analysing financial statements and cash flow of the companies and compute critical ratios and historical trends. ChatGPT also helps the auditors in drafting auditors report required under CARO 2020. It also helps the auditors drafting the audit working papers as per the firm's requirement.

❖ **Auditor’s Log Tool:** Auditor’s log tool is an emerging tool that can be used by the audit firms to streamline the audit procedures in statutory audit. However, the auditor’s log tool has not been recommended or suggested by the Ministry of Corporate Affairs

Auditor’s Log Tool is a digital checklist which can be used by the audit firms to create audit plan, record audit observations, documenting audit proofs and evidences, adhering to audit timelines as per audit plan and also supporting in preparing CARO 2020 disclosures. Nowadays many software like Tally, CaseWare, Excel-based template) have started using this Auditor Log Tool.

Example of few CARO 2020 clauses where Auditor’s Log Tool can be a game changer.

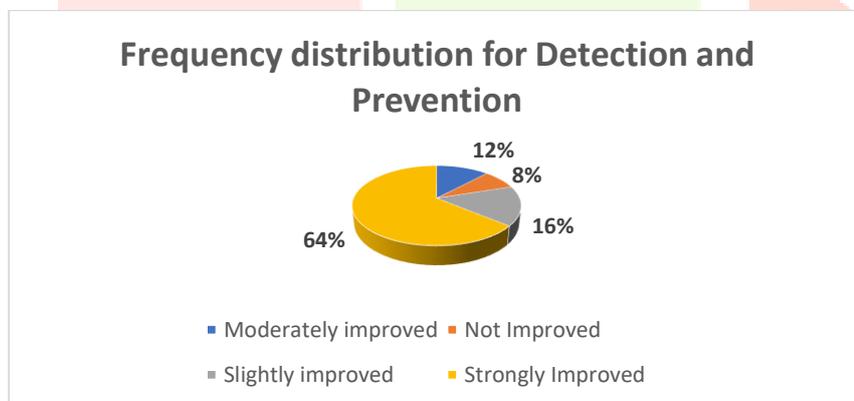
clause	description	role of alt
3(i)	title deeds of immovable properties	verification of title deeds, ownership and recording anomalies
3(ii)	inventories	method of physical verification and reconciliation between books and physical stock
3(vii)	delay in payment of statutory dues	recording and capturing due dates for delay in payment of tds, pf, esic, gst, etc. and recording the reasons for the same
3(ix)	loan repayments and defaults	log of repayment schedule of loans and reviewing the loan agreements for covenants which needs to be complied and reported

### 5. Data Analysis & Interpretation

How according to you has Ind-AS reporting helped in detection and prevention of fraud in real estate financial statements?

- ✓ Moderately improved
- ✓ Not improved
- ✓ Slightly improved
- ✓ Strongly Improved

Ind-As requires structured data, this structured data can be used in AI models like anomaly detection.

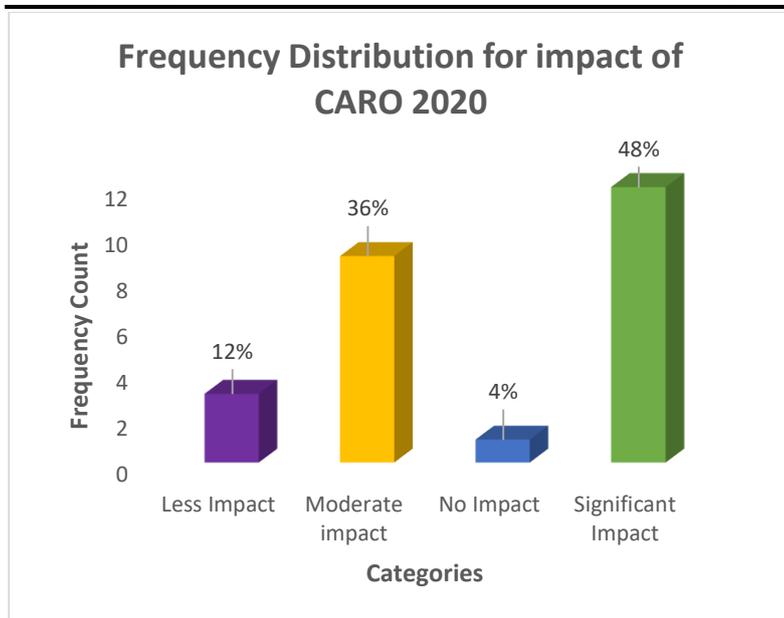


Interpretation: 64% of the total population thinks that implementation of CARO 2020 has strongly improved detection and prevention of frauds. Additionally AI tools can help in identifying potential risks and avoid future anomalies.

What impact does Ind-AS and CARO 2020 after being implied has on fraud prevention in your organization using AI?

- ✓ Less Impact
- ✓ No Impact
- ✓ Moderate impact
- ✓ Significant Impact

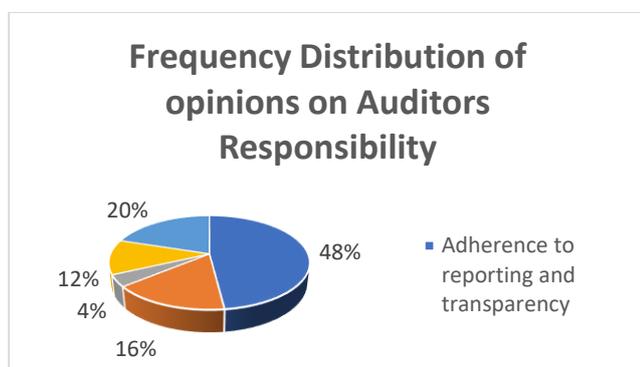
Compliance patterns can be tracked by AI models when we combine or integrate them



Interpretation: 48% of the total population thinks that CARO 2020 have a very significant impact in fraud detection. AI tools like anomaly detecting technique can be used for identifying abnormal patterns.

To prevent real estate fraud, what according to you is the most important responsibility auditors under Ind-AS have?

- ✓ Adherence to reporting and transparency
- ✓ Revenue recognition under Ind- AS 115
- ✓ Fair value assessment
- ✓ Performance obligations review
- ✓ Identify lack of transparency
- ✓ Auditor's log can be used to flag improper justification using AI models



Interpretation: 48% of the total population thinks that Adherence to reporting and transparency is one of the most important responsibility auditors have under CARO 2020.

## 6. Hypothesis

*Main Hypothesis:*

**H1:** The implementation of Ind-AS 8 and CARO 2020 significantly improves fraud detection and financial transparency in real estate firms in the Mumbai Metropolitan Region.

*Sub-Hypothesis:*

**H2:** The implementation of Ind-AS leads to increased reliability and transparency in financial reporting practices in real estate firms.

**H3:** The implementation of CARO 2020 enhances the effectiveness of auditors in detecting financial irregularities and fraudulent practices.

**H4:** The use of Artificial Intelligence (AI) tools significantly improves the ability to detect financial anomalies and audit risks in the real estate sector.

**H5:** The combined application of regulatory frameworks (Ind-AS 8 & CARO 2020) and AI technologies creates a more robust system for financial fraud detection prevention and identify anomalies well in advance.

## 7. Conclusions

This research establishes concentrates more on regulatory compliance i.e. CARO 2020 requirements, Artificial Intelligence, and fraud detection and prevention techniques within the real estate sector, with a particular focus on real estate companies located in the Mumbai Metropolitan Region (MMR).

The implementation of Ind-AS has significantly improved the reliability and transparency of financial statements of the company. By assigning clear disclosures on accounting policies, estimates, and the correction of errors, the standard reduces the scope for forging the financial data which in turn would strengthen the investor confidence.

Conversely, CARO 2020 has raised the role of auditors by ensuring detailed scrutiny into company's financials, operations and management. With its more detailed and complicated reporting requirements—especially concerning fraud detection and internal controls—the role of accountability comes into the picture wherein the auditors would be held responsible in such a scenario.

The integration of Artificial Intelligence (AI) into financial reporting introduces a deep dive analysis. AI techniques such as machine learning and natural language processing can detect anomalies, hidden patterns, and inconsistent disclosures—areas where traditional auditing may fall short. These technologies also offer abnormal patterns or inconsistency in the financial data. However, the biggest risk associated is risk of confidentiality of data i.e. leak of confidentiality of information.

Also the biggest challenge is with regards to trained professionals for understanding technical usage of Artificial Intelligence.

### Suggestions:

- (a) **Involvement of Regulatory Bodies:** Regulatory bodies like ROC, Income Tax GST, etc. should update compliance guidelines and few of them also started using AI, like income tax has already started issuing notices to assessee basis abnormal transactions detected. to include AI-powered tools, ensuring a balance between automation and accountability.
- (b) **Arranging Training on usage of Artificial Intelligence:** Audit firms and real estate companies—should organize AI training and skill development programs to their team as well as staff specially for developing a robust internal control process in the organization in order to identify anomalies well in advance.
- (c) **Data Governance relating to data protection and confidentiality:** The organization needs to develop a strong internal data protection policy in order to protect leakage of confidential data and financial information.
- (d) **Coordinative approach:** There has to be strong coordinative approach by the real estate sector, audit firms and Information Technology companies to integrate AI solutions customized for the real estate industry which would help the industry in developing investor confidence and trust.
- (e) **Use of CARO 2020 for proactive fraud detection:** AI driven analytics help identify patterns and potential fraud which strengthens the overall environment.
- (f) **AI for enhancing fraud detection:** It is a powerful tool to prevent and detect fraud. Tools like predictive analysis, anomaly analysis technique, ChatGPT can be used for identifying anomalies and checking historical trends.

In conclusion, Ind-AS and CARO 2020, when strategically accompanied by AI, can create a robust framework and policy for fraud detection & its thereby prevention and financial veracity.

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