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FROM COMPLIANCE TO ALGORITHMIC GOVERNANCE: THE FUTURE OF AI-DRIVEN CORPORATE REGULATION UNDER INDIAN COMPANY LAW

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I. ABSTRACT

The rapidly advancing integration of artificial intelligence into corporate decision-making processes offers both transformative opportunities and fundamental regulatory challenges to the existing company law framework in India. While existing literature has largely focused on questions of legal personhood and its implications on corporate liability, a far more critical and pertinent concern has received limited attention: how existing architecture for corporate compliance under the Companies Act, 2013, can be reconceptualized to accommodate, regulate, and hold accountable AI-driven systems of corporate governance that already exist across Indian corporations. This paper contends that India is currently at a critical juncture in its corporate law regulation, wherein a passive model of corporate compliance grounded on human agency and reactive enforcement is gradually being supplanted by an emerging model of algorithmic governance, wherein AI systems conduct audits, monitor transactions, and undertake risk assessments autonomously. In this regard, this research, drawing on the doctrinal research on the Companies Act, 2013, SEBI regulations, and the national AI policy space, and informed by a comparative analysis of the EU, UK, and Singaporean regimes, seeks to develop a normative framework on AI-driven corporate regulation in India, and in this regard, argues that accountability in algorithmic governance must be rethought in terms of three key pillars: the mandatory explainability of AI systems in governance roles, a recrafted duty of care for directors in AI-driven decision-making, and the AI audit mechanism in corporate compliance law.

II. KEYWORDS

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Algorithmic governance, Companies Act 2013, AI compliance, AI audit, regulatory technology (RegTech).

III. INTRODUCTION

The relationship between law and technology has always been an evolving one. However, it is unlikely that any technology has ever required a normative response as expeditiously as artificial intelligence. Within the sphere of corporate law, technology is no longer merely an aid to operational efficiencies but a component of governance itself. Indian corporations, whether publicly or privately owned, are using technology to assist in managing regulatory filings, conducting internal audits, identifying suspicious transactions under the Prevention of Money Laundering Act, and even in strategic decision-making for boards. The Indian securities exchange regulator, SEBI, itself uses AI-based systems to detect market manipulation.²

Yet, despite this technological transformation of corporate governance in practice, the underlying legal framework for Indian companies, as reflected in the Companies Act, 2013, among other statutes, is institutionally grounded on a compliance model that is pre-algorithmic in nature³. This model is based on the premise that compliance is facilitated by identifiable human actors, such as directors, officers, auditors, and company secretaries, who can be held accountable for their actions. This model of corporate governance is based on a chain of human agency, where liability is determined by subjective standards of fault that presume human behaviour. The existence of AI-based governance systems, which can potentially facilitate decisions of material corporate consequence with increasing speed, scale, and autonomy, stretches this model of corporate governance to its limits.

² SEBI, 'AI/ML Governance Framework for Intermediaries' (Circular, 15 July 2025), <https://www.sebi.gov.in/legal/circulars/jul-2025/ai-ml-governance-framework-for-intermediaries.html> accessed 24 February 2026.

³ Companies Act 2013, ss 134(5), 166, https://www.indiacode.nic.in/handle/123456789/2114?sam_handle=123456789/1362 accessed 24 February 2026.

The basic question that the current paper seeks to address is the one of immediate applicability: the current structure of the compliance regime under the Companies Act of 2013 was not framed in a world where companies engage in governance decisions, and the distance between the legal world and the technological world is growing ever wider. If an AI system opines that a transaction between related parties is complying, if a board analytics system advises the structure of executive compensation, if an internal audit system certifies the accuracy of the accounts; what duty of care applies? What recourse is available when such systems fail? The answer to such questions is not one that the current statute appears to answer in an obvious fashion.

Furthermore, the problem is exacerbated by the absence of a specific national AI regulatory framework within India. While India has enacted the Digital Personal Data Protection Act, 2023, which governs the processing of personal data and imposes obligations on data fiduciaries that are relevant to AI systems relying on such data, it does not constitute a comprehensive framework for AI governance. For example, whereas the European Union has adopted the AI Act, which entered into force on 1 August 2024, with its high-risk AI system obligations scheduled to apply from 2 August 2026, and whereas the United Kingdom has chosen to adopt a sector-specific, risk-based approach, India, as of the date of this paper, has otherwise implemented primarily a series of policy documents, including the National Strategy for Artificial Intelligence, proposed by NITI Aayog in 2018, and the Report of the Committee on Non-Personal Data Governance Framework, without enacting AI-specific legislation. As such, the regulation of AI within corporate settings is governed by the general provisions of the Companies Act, which, by their nature, are not designed for such purposes.

Existing literature on AI and Indian company law has largely taken a path of either exploring the legal personality of AI and its implications on attribution of liabilities or exploring the role and potential of AI systems used by regulators for market surveillance

and enforcement⁴. The dimension of governance, or how AI systems used for corporate governance functions in Indian companies can be regulated, has received scant attention. This paper attempts to fill this lacuna by exploring AI governance systems and their integration with the existing normative framework of Indian company law.

A. Research Objectives

This paper seeks to achieve the following objectives:

1. To examine the limitations of the existing corporate compliance framework under the Companies Act, 2013 in the context of AI-driven governance systems.
2. To analyse the implications of algorithmic decision-making for directors' duties, particularly the duty of care under Section 166 of the Companies Act, 2013.
3. To evaluate the adequacy of existing regulatory and policy frameworks in India in addressing governance risks arising from AI deployment in corporate settings.
4. To undertake a comparative analysis of AI governance approaches in the European Union, the United Kingdom, and Singapore.

B. Research Questions

This paper is guided by the following research questions:

1. How does the current compliance framework under the Companies Act, 2013 respond to the integration of AI systems in corporate governance functions?
2. What are the implications of AI-assisted decision-making for the scope and application of directors' duty of care under Indian company law?

⁴ Institute of Company Secretaries of India, 'Artificial Intelligence (AI) in Corporate Governance' (Chartered Secretary Journal, August 2024).

3. To what extent are existing Indian regulatory and policy instruments adequate to govern AI-driven corporate compliance systems?
4. What lessons can be drawn from comparative jurisdictions to inform the development of an AI governance framework within Indian company law?

C. Literature Review

1. **AI and Corporate Governance: Emerging Scholarship** The intersection of AI and corporate governance has spawned a rich international body of scholarship. Fenwick, Kaal, and Vermeulen have posited that emerging technologies, including AI and digital platforms, are reshaping corporate governance into more dynamic and data-driven models that operate at a speed and level of complexity beyond traditional human oversight, thereby necessitating corresponding forms of 'regulatory innovation.'⁵ Armour and Sako have examined the implications of AI-enabled business models in legal services, noting that the automation of compliance and advisory functions gives rise to new questions of professional accountability within existing regulatory and disciplinary frameworks.⁶ In the context of India, it has been acknowledged by the NITI Aayog's framework on Responsible AI and the subsequent discussion paper on AI governance that guidelines are required on a sectoral basis, though the corporate law aspect has not been touched upon.⁷
2. **Directors' Duties and Algorithmic Decision-Making:** The question of delegation of governance responsibilities to AI systems has significant implications for the duty of directors, and this has been a subject of increasing interest in comparative corporate law. Although the UK Law Commission has

⁵ M Fenwick, W Kaal and EPM Vermeulen, 'Legal Education in the Blockchain Revolution' (2017) 19 *Vanderbilt Journal of Entertainment & Technology Law* 351.

⁶ J Armour and others, *The Anatomy of Corporate Law: A Comparative and Functional Approach* (3rd edn, Oxford University Press 2017).

⁷ Roy A and Sarkar A, 'Towards Responsible #aiforall in India' (World Economic Forum, 2020) <https://www.weforum.org/stories/2020/08/towards-responsible-aiforall-in-india-artificial-intelligence-ethics> accessed 26 February 2026

not formally examined directors' duties in AI contexts under the Companies Act 2006, scholarly discourse questions whether the duty of care and skill (section 174) sufficiently addresses reliance on opaque AI recommendations. Moreover, commentators contend that "the classic model of directorial accountability presupposes a deliberative, information-processing human actor, and this model, in turn, requires doctrinal modification to survive in the world of machine learning-assisted governance⁸." In India, the duty of care applicable to directors is addressed under Sections 149, 166, and 177 of the Companies Act, 2013⁹, but these provisions have not been judicially interpreted in the context of AI-assisted decision-making; experts urge enhanced disclosures to mitigate algorithmic risks.

- 3. Regulatory Technology and Compliance Automation:** The phenomenon of "regulatory technology," commonly termed "RegTech," has garnered significant attention among scholars and policymakers alike. Arner, Barberis, and Buckley have written on the evolution of RegTech, which, according to them, "the extensive use of RegTech by regulated entities raises new meta-regulatory questions for how such entities should be regulated, since regulators must now effectively regulate not only the primary regulated conduct of the regulated entities, but also the technology employed for their compliance¹⁰." The use of automated compliance management systems has been noted in various industries, including the banking sector (through RBI's regulatory framework), securities markets (through SEBI's reporting requirements), and corporate filings (through the Ministry of Corporate

⁸ Zhao J, 'Promoting more accountable AI in the boardroom through smart regulation' (2024) 52 CL&SR 106047 <https://doi.org/10.1016/j.clsr.2024.106047> accessed 26 February 2026

⁹ *Companies Act, 2013*, §§ 166, 177, No. 18 of 2013, INDIA.

¹⁰ Arner DW, Barberis J & Buckley RP, 'FinTech, RegTech, and the Reconceptualization of Financial Regulation' (2017) 37 *Northwestern Journal of International Law & Business* 371, <https://scholarlycommons.law.northwestern.edu/njilb/vol37/iss3/2> accessed 26 February 2026

Affairs' MCA21 online portal)¹¹. The legal effect of automated compliance, i.e., whether such compliance has the same effect as human-certified compliance, remains unclear.

- 4. Comparative Regulatory Frameworks:** At the international level, the most ambitious effort to control AI systems used for governance-critical purposes can be seen in the European Union's AI Act, which sets up a system of AI system classification based on risk, where AI used for critical infrastructure, education, employment, and financial services is classified as high-risk AI, which is subject to mandatory conformity, transparency, and human oversight requirements. The Singapore Model AI Governance Framework, revised in 2020, offers voluntary guidelines for businesses that use AI for decision-making purposes, focusing on explainability, accountability, and human oversight¹². The UK has taken a decentralized approach by instructing existing sectoral regulators to apply existing principles of AI governance in a risk-based manner in their respective areas without establishing a single AI regulatory body¹³. However, none of these frameworks has been implemented in corporate law legislation, providing India with an opportunity to develop one that suits its company law framework.
- 5. How the Present Paper Builds on and Differs from the Literature:** The current paper may be distinguished from the existing literature in the following three aspects:

¹¹ MCA 21 Version 3.0: Digital Corporate Compliance Portal, DRISHTI IAS, <https://www.drishtias.com/daily-news-analysis/mca-21-version-3-0-digital-corporate-compliance-portal> (last visited Mar. 13, 2026).

¹² Regulation (EU) 2024/1689 of the European Parliament and of the Council of 13 June 2024 laying down harmonised rules on artificial intelligence (Artificial Intelligence Act), arts 6, 13 OJ L/1689 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32024R1689> accessed 27 February 2026

¹³ Department for Science, Innovation and Technology, A Pro-Innovation Approach to AI Regulation (White Paper, CP 581, March 2023) <https://www.gov.uk/government/publications/ai-regulation-a-pro-innovation-approach/white-paper> accessed 27 February 2026.

- The existing literature has dealt with the governance of AI from the perspective of financial regulation, data protection, and administrative law in general, whereas the current paper seeks to conduct the analysis in the context of the Companies Act, 2013.
- The existing literature has generally looked to the EU AI Act as the reference point for comparative analysis in the field, whereas the current paper also seeks to look to the Singaporean and UK regimes to develop a model that is appropriate to the mixed tradition of financial regulation in India, where both a rule-based statute and the grant of delegated regulatory powers exist in combination.
- The current paper seeks to go beyond the level of descriptive analysis to propose actual amendments that can be introduced to the Companies Act or the rules framed thereunder.

D. Methodology

1. **Doctrinal Analysis:** The primary methodological approach in this study will be doctrinal, and this will involve the in-depth analysis of the relevant provisions of the Companies Act, 2013, the Securities and Exchange Board of India Act, 1992, and the rules and regulations framed under these enactments. The key provisions of these enactments will include Section 134, Section 149, Section 166, Section 177, Section 204, Section 143, and Section 447 of the Companies Act, 2013, relating to the duties of directors, audit, secretarial audit, and fraud, respectively. The primary method of inquiry will be interpretive, and this will involve an examination of how these provisions can be interpreted to incorporate AI governance systems and how they, in turn, create irreducible friction in relation to the reality of algorithmic decision-making. This will be in keeping with the established methodology of doctrinal legal research, as explained by Terry Hutchinson, which involves the identification,

classification, and systematization of the relevant legal materials in relation to the question, and their critical evaluation.¹⁴

2. **Comparative Analysis:** The above analysis is supplemented by a brief comparison of the regulatory approaches to AI governance in corporate contexts in three jurisdictions: the European Union, Singapore, and the United Kingdom. The method of comparison used in this paper is functionalist in nature. Rather than attempting to map equivalences between different regulatory provisions, the paper asks what function each regulatory framework is intended to perform. This allows for effective comparison with regulatory frameworks that are structurally dissimilar to the Indian company law framework but similar in regulatory purpose. The comparative element also plays a role in the prescriptive elements of the paper.
3. **Policy Analysis:** The paper also relies on policy papers and reports developed by NITI Aayog, the Ministry of Corporate Affairs, the Reserve Bank of India, as well as international organizations such as the OECD and the Financial Stability Board. These texts are not cited as authority but as indicative of the policy path that the regulatory system is likely to take in the future, as well as providing empirically based information on the level of AI adoption in different corporate governance systems in India.
4. **Scope and Limitations:** The scope of this paper is limited to the AI systems employed in the corporate governance departments of companies that fall under the umbrella of the Companies Act, 2013. It does not discuss the implications of AI systems in the financial services industry, the implications of AI systems in the field of securities regulation, or the implications of AI systems in the field of data protection laws, except as it relates to corporate

¹⁴ T Hutchinson, *Researching and Writing in Law* (4th edn, Lawbook Co 2018) ch3 <https://www.thomsonreuters.com.au/researching-and-writing-in-law-4th-edition> accessed 27 February 2026.

governance. It also does not engage in primary research, i.e., it does not conduct surveys, interviews, or case studies of companies, and is normative in nature.

IV. THE ARCHITECTURE OF COMPLIANCE UNDER THE COMPANIES ACT, 2013: A PRE-ALGORITHMIC FRAMEWORK

A. The Human-Agency Premise of Current Compliance Law

The Companies Act of 2013 outlines a structure of compliance that is underpinned by the accountability of human agents. The directors are required to sign the financial statements individually under Section 134 of the Act, and the liability of the directors for misstatements in the financial statements is provided under Section 447 of the Act. The liability of the statutory auditors is provided under Section 143 of the Act, where the auditors are required to sign the report individually. The secretarial auditors have the responsibility of signing the secretarial audit report under Section 204 of the Act.

The Audit Committee that is required to be constituted under Section 177 of the Act is required to comprise directors, where the committee is required to discuss the independence of the auditors, the effectiveness of the internal financial controls, and the appropriateness of the transactions entered by the companies with the directors. The entire structure of the Act is premised on the assumption that human agents exist to take decisions, discuss, and sign documents, where the human agents have the capacity to act intentionally and can thus be held liable for the decisions that they take.

This concept of human agency is hardly peripheral to the scheme of the legislation; it is essential to it. The legislative purpose behind the Companies Act, 2013, as set out in the Report of the Standing Committee on Finance¹⁵ and debates in Parliament on the Companies Bill, was to take Indian company law in a direction that would be more

¹⁵ Standing Committee on Finance (India), 236th Report on the Companies Bill 2011 (Lok Sabha Secretariat, December 2012)
https://prsindia.org/files/bills_acts/bills_parliament/2011/Companies_Bill_SC_Report_2012.pdf
accessed 28 February 2026.

accountability-focused and disclosure-focused in response to corporate governance failure in India in 2009 in the Satyam Computers scandal¹⁶. The accountability-focused model is one in which directors and officers are held to account personally, rather than the company itself.

B. Where AI Governance Systems Enter the Frame

Despite this statutory basis, AI governance systems today are performing roles that the statute requires human actors to perform. For example, AI-based Enterprise Resource Planning systems can produce financial disclosures on their own, while AI-based compliance systems can monitor transactions in real time, certifying compliance with anti-money laundering regulations, among other requirements. AI-based board advisory tools, which use natural language processing and machine learning, can analyse corporate contracts, regulatory requirements, financial data, etc., and provide recommendations on corporate governance, which boards of directors may accept without further analysis. Corporate secretarial management software for publicly listed companies can now automate much of the secretarial audit process¹⁷.

The legal position of such AI output is uncertain. If a director signs a financial statement produced by an AI system, it vests responsibility on the director by his or her signature; but it does not deal with the legal uncertainty of whether the director has fulfilled his or her duty of care by relying on the output of the AI system without checking its validity. And if an internal audit function is largely carried out by AI systems, it raises the legal uncertainty of what level of human intervention is required to meet the statutory purpose of an audit obligation.

V. RECONCEIVING DIRECTORS' DUTY OF CARE IN THE AGE OF ALGORITHMIC GOVERNANCE

¹⁶ Ministry of Corporate Affairs (India), Report of the Kotak Committee on Corporate Governance (February 2017) <https://www.nfcg.in/KOTAKCOMMITTEREPORT.pdf> accessed 28 February 2026.

¹⁷ Institute of Company Secretaries of India, 'AI-Driven Digital Transformation in Corporate Governance' (CSJ, October 2025) https://www.icsi.edu/media/webmodules/CSJ/October_2025/20.pdf accessed 28 February 2026.

A. The Existing Standard and Its Foundations

The duty of care owed by a director under Indian company law is set out by Section 166(3) of the Companies Act 2013, which states that a director must act with due and reasonable care, skill, and diligence. This duty of care has been developed through judicial interpretation, historically reflected in the subjective standard articulated in *Re City Equitable Fire Insurance Co Ltd* [1925] Ch 407, which assessed a director's conduct based on their personal knowledge and experience.

However, this position has since been superseded by the evolution of a more objective or hybrid standard, particularly reflected in modern company law jurisprudence and statutory formulations, including the approach adopted under Section 166(3) of the Companies Act, 2013, which requires directors to exercise due and reasonable care, skill, and diligence.¹⁸ While the business judgment rule is not codified under the Companies Act, 2013, it has been accepted and followed in India as a qualified safe harbour principle for directors in arriving at business decisions in good faith, on an informed basis, and in a reasonable belief that the decision is in the interest of the company¹⁹.

What constitutes an 'informed basis' when the information comes from an AI system, and whether such reliance on an AI system constitutes the exercise of 'due and reasonable care,' are questions that are not addressed by existing jurisprudence or regulatory guidance. This is not an abstract or theoretical query, as if a director relies on an audit report generated by an AI system that turns out to be substantially incorrect, his or her potential legal liability depends entirely on a standard of reasonableness that has not yet been articulated by law.

B. The Delegation Problem and Proposed Doctrinal Adjustment

¹⁸ *Re City Equitable Fire Insurance Co Ltd* Ch 407 (CA), <https://lawprof.co/company/director-duties-cases/re-city-equitable-fire-insurance-co-ltd-1925-ch-407/> accessed 28 February 2026.

¹⁹ Ministry of Corporate Affairs (India), Report of the Committee on Corporate Governance (SEBI Kotak Committee, 5 October 2017, MCA response February 2018) https://www.sebi.gov.in/reports/reports/oct-2017/report-of-the-committee-on-corporate-governance_36177.html accessed 1 March 2026.

The common law has long acknowledged that fiduciaries can delegate ministerial but not discretionary duties, and company law has followed this approach in governing the delegation of directors' duties²⁰. The implementation of AI governance systems does not fit well in the delegation paradigm, since the AI system is not a human entity to whom delegation of power takes place, but rather an AI decision support or decision-making tool. However, the underlying governance concern in the non-delegation principle, which requires that key governance decisions be subject to genuine human deliberation, is immediately implicated.

This paper argues that Section 166 of the Companies Act should be interpreted or supplemented by delegated legislation to provide that directors relying on AI-generated outputs in the performance of their duty must comply with three conditions in order to benefit from the BJR: first, that the directors must have been reasonable in taking steps to ensure that the AI system used is fit for the purpose for which it is used in the governance context; second, that the directors must be able to show that there is human oversight of the output of the AI system at a level that is commensurate with the level of significance of the decision in issue in the governance context; and third, that the directors must be able to show, if challenged, that they are able to understand the basis on which the AI system has reached its output, a requirement that is functionally similar to the explainability requirements that are imposed on AI system deployers under the EU AI Act on high-risk AI systems.²¹

VI. EXPLAINABILITY AS A LEGAL REQUIREMENT: IMPORTING A REGULATORY CONCEPT INTO COMPANY LAW

A. The Concept of Explainability in AI Governance

²⁰CompaniesAct2013(India),s179, https://www.indiacode.nic.in/handle/123456789/2114?sam_handle=123456789/1362 accessed 1 March 2026.

²¹ Aduitiya Jha, 'Beyond Fiduciary Duty: The Artificial Intelligence (AI) Judgement Rule and the Corporate Governance' (IJIRT, January 2026) https://ijirt.org/publishedpaper/IJIRT191757_PAPER.pdf accessed 1 March 2026

Explainability; the ability of AI to offer understandable reasons for its decisions also termed “explainability” has emerged as one of the key principles in AI governance globally. The EU AI Act has emphasized that high-risk AI systems should be designed with “appropriately transparent design to enable understanding and verification of the output by deployers and persons affected²².” The OECD AI Principles²³, which were introduced in 2019 and have been adopted by India, emphasize that “Transparency and Explainability” are two key principles that should be followed to develop trustworthy AI. In corporate governance, “explainability” assumes considerable importance, because if the board does not understand why an AI system has recommended a particular course of action, it cannot meaningfully deliberate upon or be said to have taken responsibility for a decision taken in reliance on the AI’s recommendation.

B. Applying Explainability to Corporate AI Governance under Indian Law

The existing framework of the Companies Act, 2013 does not include an explainability requirement for any technology system used in corporate governance²⁴. However, the transparency requirements under the Companies Act, 2013, as evidenced by the disclosure requirements under Section 134, reporting requirements for related party transactions under Section 188, and internal financial controls requirements under Section 149(8), can be used as a normative base to create an explainability requirement²⁵.

The current paper proposes that the Ministry of Corporate Affairs, as a rule-making authority under Section 469 of the Companies Act, should introduce guidelines in the form of rules requiring companies above a certain threshold of size or scale in other words, those companies that are currently required to constitute an Audit Committee

²² Regulation (EU) 2024/1689 of the European Parliament and of the Council of 13 June 2024 laying down harmonised rules on artificial intelligence (Artificial Intelligence Act), art 13 OJ L/1689 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32024R1689> accessed 2 March 2026.

²³ OECD, 'Recommendation of the Council on Artificial Intelligence' (22 May 2019) OECD/LEGAL/0449 <https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0449> accessed 1 March 2026.

²⁴ CompaniesAct2013(India),ss134,149(8),177,188,469, https://www.indiacode.nic.in/handle/123456789/2114?sam_handle=123456789/1362 accessed 2 March 2026.

²⁵ CompaniesAct2013(India),s134(3)(m), https://www.indiacode.nic.in/handle/123456789/2114?sam_handle=123456789/1362 accessed 2 March 2026.

under Section 177 of the Companies Act to maintain and disclose a list of AI systems used for governance-critical functions.²⁶

This list shall include information on purpose, decision logic used for decision-making, types of training data used for each AI system, accuracy measures, and human oversight mechanisms²⁷. This is analogous to a 'Data Protection Impact Assessment' under the General Data Protection Regulation of the EU but adapted for corporate governance²⁸. Disclosure of this list to the Audit Committee and a summary thereof in the Report under Section 134 of the Companies Act provides a governance trail of accountability without requiring 'technical' transparency, which is not always possible given the limits of 'explainability' of certain AI systems.²⁹

VII. AI AUDIT AS A NEW DIMENSION OF STATUTORY AUDIT: STRUCTURAL PROPOSALS

A. The Current Audit Framework and Its AI-Blindness

The Companies Act of 2013 outlines an entire system of audits that comprises the statutory financial audit under Sections 139 to 148, internal audits under Section 138, and secretarial audits under Section 204 for different classes of companies³⁰. Cost audits under Section 148 of the Act cover different products³¹. Each of the systems of audits aims

²⁶ Companies Act 2013 (India), s 469, https://www.indiacode.nic.in/handle/123456789/2114?sam_handle=123456789/1362 accessed 2 March 2026.

²⁷ Institute of Company Secretaries of India, 'AI Bias, Liability and Corporate Accountability: A Governance Perspective' (CSJ, October 2025) https://www.icsi.edu/media/webmodules/CSJ/October_2025/22.pdf accessed 2 March 2026.

²⁸ Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data (General Data Protection Regulation) OJ L119/1, art 35 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32016R0679> accessed 3 March 2026.

²⁹ Adutiya Jha, 'Beyond Fiduciary Duty: The Artificial Intelligence (AI) Judgement Rule and the Corporate Governance' (IJIRT, January 2026) https://ijirt.org/publishedpaper/IJIRT191757_PAPER.pdf accessed 3 March 2026

³⁰ Companies Act 2013 (India), ss 138, 139-148, 204, https://www.indiacode.nic.in/handle/123456789/2114?sam_handle=123456789/1362 accessed 3 March 2026.

³¹ Companies Act 2013 (India), s148, https://www.indiacode.nic.in/handle/123456789/2114?sam_handle=123456789/1362 accessed 3 March 2026.

to offer independent assurance on different categories of corporate information, and each of the systems of audits is based on the professional opinion of a human professional of suitable calibre, such as a chartered accountant, a company secretary, or a cost accountant.

None of the above mechanisms is designed to test the sufficiency, precision, or governance implications of AI systems in operation in the organization. A financial auditor examining accounts that were largely produced by an AI system has no statutory responsibility to test the AI system itself, merely the accounts it produces.

This creates a logical disconnect: the auditor has verified the output, but not the integrity of the underlying process by which the output was achieved. In the pre-algorithmic world, the disconnect was not significant because the 'process' was one of human judgment, to which the same professional standards applied. In the algorithmic world, the process is a technological system that may have underlying biases, data quality problems, or other flaws that a financial auditor has no training to recognize.

B. Proposal for an AI Systems Audit Mechanism

This paper suggests the introduction of an AI Systems Audit as an optional but, for large and listed companies, mandatory element of the existing secretarial audit process. The AI Systems Audit will be carried out by a new type of certified professional, possibly one that is jointly certified by company secretaries or chartered accountants who have acquired special certification in AI governance, like the new certifications that are now being developed for cybersecurity audits.

The proposed AI Systems Audit will examine the following aspects: the effectiveness of the governance register as described in the above section; the human oversight systems for AI systems for the governance of the company; the accuracy and fairness attributes of AI systems used for critical aspects of the company's governance; the effectiveness of the incident response systems for failures of the AI systems; and the compliance of the AI systems with any relevant national guidelines on AI.

This would be submitted to the Audit Committee and included in the Annual Report. This model does not involve the establishment of a new regulatory body and can be accommodated under the existing corporate law regime, leveraging the existing infrastructure of professional disciplinary mechanisms of ICAI and ICSI. This model is also proportional and scalable, in that smaller companies are exempt from the obligation, and the class of companies that are obligated can be incrementally expanded.

VIII. COMPARATIVE LESSONS AND THEIR APPLICABILITY TO THE INDIAN CONTEXT

A. The European Union: Risk-Based Regulation and Its Lessons

The biggest contribution of the EU AI Act to the field of AI governance methodology is its risk classification and its calibration to the stakes of AI governance³². The EU AI Act requires high-risk AI systems, including those in critical infrastructure and financial services, to undertake conformity assessments, register in an EU database, and be subject to monitoring³³. In the case of India, the risk-based structure of the EU Act can be seen as a workable model, provided that the cost of compliance may not be disproportionate to the resources available to the companies in India, especially in the MSME sector.³⁴

The proper application of the EU model in the context of India can be achieved by the application of the threshold-based structure of AI governance in proportion to the size of the companies, as has been provided in the differential treatment of the provisions of the

³² Regulation (EU) 2024/1689 of the European Parliament and of the Council of 13 June 2024 laying down harmonised rules on artificial intelligence (Artificial Intelligence Act), Annex III OJ L/1689 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32024R1689> accessed 4 March 2026

³³ Regulation (EU) 2024/1689, arts 6, 43, 48, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32024R1689> accessed 4 March 2026.

³⁴ Institute of Company Secretaries of India, 'Artificial Intelligence: Significance for Governance Professionals' (CSJ, October 2025) https://www.icsi.edu/media/webmodules/CSJ/October_2025/18.pdf accessed 5 March 2026.

Companies Act regarding the aspects of audit, the formation of the Audit Committee, and the appointment of directors.³⁵

B. Singapore: Voluntary Frameworks and Their Limits

The Model AI Governance Framework, developed in Singapore, has been recognized globally for its practical and principled approach, avoiding overly prescriptive measures while providing adequate guidance to companies³⁶. However, in its updated version, the Singaporean government itself has recognized that voluntary codes are not effective in achieving widespread adoption in a particular industry sector, especially if the cost of compliance is deemed higher than the potential benefits in terms of reputation in the near term³⁷. The Indian approach to company law has traditionally favoured a regime of legal obligation rather than voluntary compliance in matters that are deemed critical to investor protection, such as the case with the introduction of the requirement for an Audit Committee under Clause 49 of the Listing Agreement.³⁸

Thus, while the Singaporean Model AI Governance Framework is useful from a content perspective in defining the scope of AI governance obligations, the Indian context favours a legally binding document rather than a voluntary code.

C. The United Kingdom: Sector-Specific and Principles-Based Regulation

The advantage of the UK's approach to AI governance, which relies on existing sector regulators' use of cross-cutting AI principles in their sectors, is that it leverages the expertise of the existing sector regulators. However, as the UK's own AI White Paper has

³⁵ Companies Act 2013 (India), ss 138(1), 177(1), https://www.indiacode.nic.in/handle/123456789/2114?sam_handle=123456789/1362 accessed 5 March 2026.

³⁶ Infocomm Media Development Authority (Singapore), Model AI Governance Framework (Second Edition) (21 January 2020) <https://www.pdpc.gov.sg/-/media/files/pdpc/pdf-files/resource-for-organisation/ai/sgmodelaigovframework2.pdf> accessed 5 March 2026.

³⁷ Infocomm Media Development Authority (Singapore), Model AI Governance Framework for Generative AI (May 2024) <https://aiverifyfoundation.sg/wp-content/uploads/2024/05/Model-AI-Governance-Framework-for-Generative-AI-May> accessed 6 March 2026

³⁸ Securities and Exchange Board of India, Clause 49 of the Listing Agreement (consolidated 2000, amended 2014, now LODR Reg 18) https://www.sebi.gov.in/legal/circulars/jun-2010/clause-49-of-listing-agreement-2_10728.html accessed 6 March 2026

conceded, this approach can result in gaps in the regulation of the interfaces between sectors, as well as not providing any unified framework of accountability for AI systems that operate across the interfaces of different sectors. In the field of corporate governance, the UK's Financial Reporting Council has taken the first steps towards developing guidance on the impact of AI on audit quality. However, this is at an early stage and has not yet resulted in the creation of any binding standards. In contrast, the Indian company law framework is governed by a unified framework of laws, which makes it more appropriate for the introduction of cross-cutting AI governance requirements within the corporate sector.

IX. SUGGESTIONS AND RECOMMENDATIONS

This paper proposes a series of pragmatic and incremental regulatory measures to address the challenges posed by AI-driven corporate governance under Indian company law.

1. The duty of care under Section 166 of the Companies Act, 2013 should be refined, either through judicial interpretation or delegated legislation, to clarify that reliance on AI systems is permissible only where such systems are demonstrably fit for purpose, subject to human oversight proportionate to the significance of the decision, and capable of providing understandable reasoning for their outputs.
2. The Ministry of Corporate Affairs should exercise its rule-making powers under Section 469 of the Companies Act, 2013 to mandate the maintenance of “AI governance registers” by companies above a specified threshold. These registers should document the purpose, decision logic, training data, performance metrics, and oversight mechanisms of AI systems used in governance-critical functions and should be subject to Audit Committee review and disclosure in Board Reports.
3. An AI Systems Audit mechanism should be incorporated into the existing secretarial audit framework for large and listed companies. Such audits, conducted by appropriately qualified professionals, should assess the integrity,

fairness, accountability, and risk management systems associated with AI deployment in corporate governance.

X. CONCLUSION

India's corporate governance system under the Companies Act, 2013 is caught in an inherent paradox, as it is grounded in human involvement in compliance, decision-making, and audits, while AI systems increasingly operate within financial reporting, transaction monitoring, risk management, and board advisory functions in Indian companies. This paper has identified structural limitations within the existing legal framework through a critical analysis of statutory provisions and comparative insights drawn from global regimes, including the European Union, Singapore, and the United Kingdom.

These considerations underscore that India's corporate law framework must evolve in a manner that preserves its foundational emphasis on accountability while adapting to the realities of algorithmic governance. The comparative analysis demonstrates that while regulatory approaches differ in form, the underlying emphasis on transparency, oversight, and calibrated risk regulation remains consistent across jurisdictions. In this context, the transition from a purely human-centric compliance model to a hybrid governance structure incorporating AI systems necessitates both doctrinal clarification and institutional adaptation.

Ultimately, embedding principles of explainability, meaningful human supervision, and auditability within the corporate governance framework will be essential to sustaining investor trust and ensuring that technological advancement remains aligned with the normative objectives of Indian company law.

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