



REPORTING ON AUDIT TRAIL

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INTRODUCTION

1. The Ministry of Corporate Affairs (MCA) in its endeavour to enhance the integrity of Financial reporting had amended the Companies (Accounts) Rules 2014 and Companies (Audit and Auditors) Rules 2014.
2. The Following is the Text of Proviso to Rule 3(1) of Companies (Accounts) Rules 2014

INTRODUCTION

- Provided that for the financial year commencing on or after the 1st day of April 2023, every company which uses accounting software for maintaining its books of account, shall use only such accounting software which has a feature of recording audit trail of each and every transaction, creating an edit log of each change made in the books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled.

INTRODUCTION

3. The following is the Text of Proviso to Rule 11(g) of Companies (Audit and Auditors) Rules 2014

Whether the company, in respect of financial years commencing on or after the 1st April 2022, has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention .

4.Applicability

The MCA has notified that the aforesaid amendments will be effective from April 1, 2023, which implies that the accounting software employed by companies will need to be compliant with the Accounts Rules from FY 2023-24 onwards. The requirement was initially made applicable was deferred to the financial year commencing on or after April 1,2022 and thereafter to April 1,2023.

5. On which companies audit trail requirement is applicable?

1. All Public and Private Limited companies (Including small company)
2. One person companies (OPCs)
3. Companies owned by government of India or State Government
4. Section 8 Companies
5. Nidhi Companies
6. Banking Companies
7. NBFC's
8. Insurance Companies

6. What is Books of Account for Audit Trail?

Section 2(13) of the Companies Act 2013 defines Books of Account as below:

Books of account includes records maintained in respect of

- i) all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;
- ii) all sales and purchases of goods and services by the company;

6. What is Books of Account for Audit Trail?

- iii) the assets and liabilities of the company; and
- iv) the items of cost as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section

It is a very broad definition which encompasses every record maintained in respect of financial statements. So, inventory records, production records, expense records, asset records etc. would be part of books of account and would need to be covered and for which audit trail would need to be maintained.

7. What is Audit Trail?



An audit trail is a chronological, date and time – stamped record of a specific transaction from the time its entry is made in the accounting software through various changes to it until its deletion which is a built in feature of the accounting software used.

8. What is “Accounting Software”?

Accounting software is a computer program or system that enables the recording, maintenance and reporting of books of account and relevant ecosystems applicable to business requirements.



9. What are the features of an Audit Trail?

- a) When you enter a transaction in the accounting software, it will maintain a record by creating an edit log/ audit log.
- b) The Software will also record any further edits made to the details, such as a change in the name against which the entry is made, along with the user who made the changes and the time it was changed, by creating an edit log.
- c) If a transaction is deleted, the software will also track that by creating an edit log.

10. What are Audit Trail Inclusion and Exclusions?

Inclusions:

The Rules do not specify the fields or data sets for which audit trails are required to be maintained. In relation to a transaction, data would comprise two types:

- transactional data (e.g., amount, accounting date, ledger accounts, narration for the transaction)
- data pertaining to the recording of the transaction (e.g., the identity of the user accounting for the transaction or the time on which the transaction was posted)

10. What are Audit Trail Inclusion and Exclusions?

Exclusions:

The following do not qualify as “audit trail”:

- ❖ Back- ups
- ❖ Voucher listings – A mere voucher listing is not an audit trail.
- ❖ Error Logs

10. What are Audit Trail Inclusion and Exclusions?

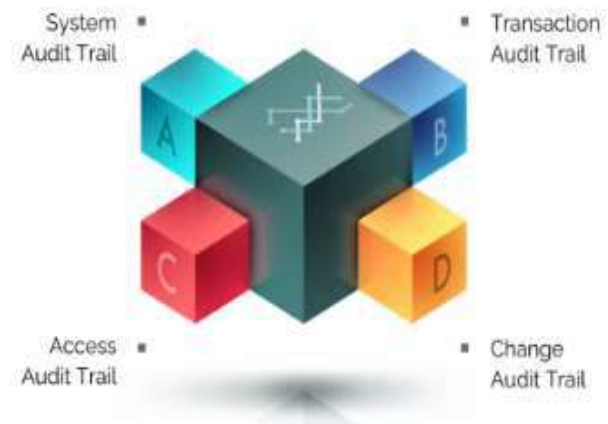
Exclusions:

- ❖ Features in accounting software that does not allow subsequent modification to the transactions/journal entries posted initially
- ❖ The log of the last/latest changes is only maintained and the log of the entire chain of changes is not maintained.

11. What are the different types of Audit Trail?

- System Audit Trail
- Transaction Audit Trail
- Access Audit Trail
- Change Audit Trail

Types of Audit Trails



12. What are the management responsibility relating Audit Trail?

The Management will be responsible for compliance with the requirement of the rules including to :


- Identify the records and transactions that constitute books of account under section 2(13) of the act.
- Identify the software i.e., IT environment (including applications, web portals, databases; Interfaces or any other IT component used for processing and or storing data for the creation and maintenance books of accounts
- Ensure such software have the audit trail feature;

12. What are the management responsibility relating Audit Trail?

- Ensure the audit trail captures changes to each and every transaction recorded in the books of account;
- Ensure that the audit trail features is always enabled (not disabled);
- Ensure that the audit trail is appropriately protected from any modification; and

12. What are the management responsibility relating Audit Trail?

- Ensure that the audit trail is retained as per statutory record retention requirements.
- Ensure that controls over maintenance and monitoring of the audit trail and its feature are designed and operating effectively throughout the period of reporting.



13. How an auditor can ensure that management assumes the primary responsibilities relating to Audit Trail?

The auditor can make the Management of the company aware of their responsibilities by incorporating them in an Audit Engagement Letter (AEL) or in an update / revision to the AEL issued by him to the Company.



14. What is Management Responsibility in case if the company outsources its maintenance of Books of Accounts?

The above responsibilities of management apply regardless of whether books of account are maintained in-house by the company using accounting software or are outsourced to a service organisation, and accounting software is used by the service organisation to maintain the company's books of account.

15. Can the auditor simply rely on written representation from management for reporting under Rule 11(g)?

- No, the auditor cannot simply rely on written representation from the management as the basis for his reporting under rule 11(g).
- SA 580 written representations provides clearly that written representation do not provide sufficient appropriate audit evidence on their deal.

16. What are the audit procedures to be followed by an auditor?

- Identify the records and transactions that constitute the books of account under section 2(13) of the act.
- Identify the software i.e., IT Environment including applications, web – Portal, Databases, Interfaces, Data warehouses, Data Lakes, Cloud infrastructure, or any other IT Component used for processing and or storing data for creation and maintenance of books of accounts

16. What are the audit procedures to be followed by an auditor?

- Ensure such software have the audit trail feature
- Ensure that the audit trail captures changes to each and every transaction of books of account ; information that needs to be captured may include the following
 - *When changes were made,
 - *Who made those changes,
 - *When data was changed,

16. What are the audit procedures to be followed by an auditor?

- Ensure that the audit trail feature is always enabled (not disabled);
- Ensure that the audit trail is enabled at the database level (if applicable) for logging any direct data changes;
- Ensure that the audit trail is appropriately protected from any modification;

16. What are the audit procedures to be followed by an auditor?

Audit Procedures



- Ensure that the audit trail is retained as per statutory requirements for record retention;
- Ensure that controls over maintenance and monitoring of audit trail and its feature are designed and operating effectively throughout the period of reporting.

17. Can an auditor use an IT expert or specialist while auditing and reporting on audit trail feature?

a) The auditor can consider involving a specialist or expert in information technology to assist in evaluating management controls and configurations in the accounting software regarding the audit trail. While doing so, he must factor the following points:

* The auditor must comply with SA 620 “Using the work of an Auditor’s Expert”.

b) However, notwithstanding the auditor’s reliance on the work of the expert/ specialist, the ultimate responsibility for reporting on the audit trail feature lies with the auditor only.

18. Is there any working paper format for recording the detail of accounting software used by the company?

Name of the accounting software	Records maintained (Books of Account)	Hosting Location	Maintained In house or outsourced	Database	Operating system	Audit trail enabled
Eg., XYZ	Journal entries, sub ledgers and general ledger	Company data centre , Bangalore	In house	XYZ	Windows 10	Yes
Eg., PQR	Sales invoices , inventory, customer ledger	SaaS/ On cloud	Outsourced maintained by ABC Corp	PQR	Windows 10	Yes

18. Is there any working paper format for recording the detail of accounting software used by the company?

Name of the accountin g software	Records maintained (Books of Account)	Hosting Location	Maintained In house or outsourced	Database	Operatin g system	Audit trail enable d
Eg.,ABC	Manufacturin g cost records	Company data center, Bangalore	In house	ABC	Windows 10	Yes

19. What audit documentation to be maintained ?

The work performed on the audit trail must be documented by the auditor as under:

- a) Documentation should be prepared contemporaneously while doing the work.
- b) Documentation on work on the audit trail must provide a sufficient and appropriate record of the basis for the auditor's reporting under Rule 11(g); and

19. What audit documentation to be maintained ?

- c) Documentation must provide evidence that the audit was planned and performed in accordance with the implementation guide on audit trail, applicable Standards on Auditing and applicable legal and regulatory requirements.
- d) The auditor must comply with the requirements of SA 230, “Audit documentation” to the extent applicable.
- e) The audit documentation on the audit trail work should speak for itself.

20. How long the audit trails are to be preserved?


Section 128 (5) of the Act requires books of accounts to be preserved by the companies for a minimum period of Eight years. Since the requirement of an audit trail has been made effective from April 1, 2023, it seems that the provision of audit trail retention will apply from April 1, 2023, onwards.

21. What is the reporting requirement in case of software which does not allow modification?

Irrespective of the fact whether the already posted journal entry could be edited or not, accounting software used by the company is required to have an audit trail feature. In case, the audit trail feature is not present, then Rule 3(1) of the Companies (Accounts) Rules, 2014 is not complied with.

22. How to report in case of Technical glitches in accounting software?

- If a company encounters technical glitches / limitations in the accounting software during any part of the financial year due to which audit trail feature remains non-functional or is not able to function properly, this does not give any exemption to the management regarding the aforesaid responsibility.
- In case audit trail feature remains non-functional during any part of the year or is not able to function properly, the auditor would need to appropriately modify the comment while reporting under Rule 11(g).



23. An auditor has completed 100% checking of records and nothing is found adverse. However the accounting software of the company is not audit trail enabled. How to report under Rule 11(g)?

Reporting on Audit trail is independent of any adverse findings regarding financial statements. If audit trail as required by Rule 3(1) of the companies (Accounts) Rules, 2014 is not maintained, the auditor would need to appropriately modify the comment while reporting under Rule 11(g) even if nothing adverse regarding financial statement is found.

24. Whether materiality concept be considered while reporting under Rule 11(g)?

No. The Audit trail requirements for the reporting under Rule 3(l) and Rule 11(g) will apply to all transactions irrespective of the amount involved.



25. Is there requirement for the auditor to report about effective date of Audit Trail implementation in the company?

There is no requirement of reporting about effective date of audit trail implementation in the company as per Rule 11(g). However, if the audit trail does not operate throughout the relevant reporting period, the auditor would need to appropriately modify the comment while reporting under Rule 11(g).

26. Are auditors required to comment on details of audit trail logs?



There is no requirement for auditors to comment on the details of audit trail logs.


27. What about companies where the books of accounts are maintained manually?

- The requirements of audit trail are applicable to the extent a company maintains its records in electronic mode by using accounting software. Thus where the books of accounts are entirely maintained manually- the assessment and reporting responsibility under Rule 11(g) will not be applicable and accordingly, same would need to be reported as statement of fact by the auditor against this clause.



REPORTING



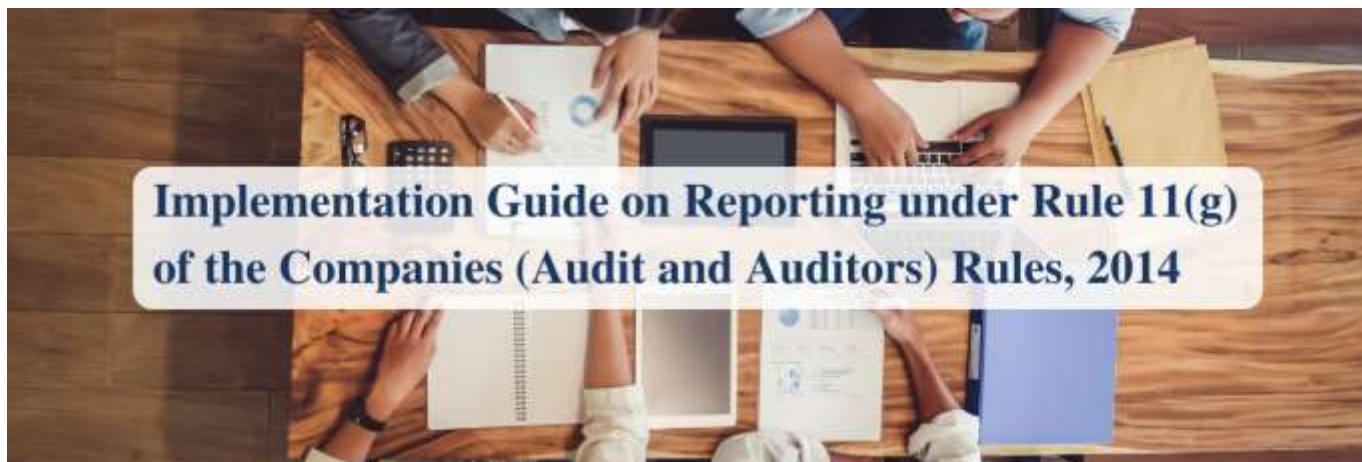


28. In which section of the audit report is the statutory auditor of a company required to make his comments under Rule 11(g) as regards the audit trail?

The comment regarding the audit trail is to be made in the audit report under the section ‘Report on other Legal and Regulatory Requirements’

29 When is the auditor required to give unmodified opinion while reporting in the Audit trail under Rule 11(g)?

When the management is maintaining an adequate audit trail required by the Account Rules.



30. When is the auditor required to give modified/ adverse opinion while reporting on the audit trail under Rule 11(g)

In the following scenarios modified/ adverse reporting should be given:-

- Management may not have identified all records / transactions for which audit trail should be maintained.
- The accounting software does not have the feature to maintain an audit trail, or it was not enabled throughout the audit period.

31. Illustrative unmodified Remarks under Rule 11(g) in respect of standalone financial statements.

“ Based on our examination carried out in accordance with the Implementation Guidance on Reporting on Audit Trail under Rule 11(g) of the companies (Audit and Auditors) Rules,2014(Revised 2024 Edition) issued by the Institute of Chartered Accountants of India, which included test checks, we report that the company has used an accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has operated throughout the year for all relevant transactions recorded in the software .

31. Illustrative unmodified Remarks under Rule 11(g) in respect of standalone financial statements.

Further, during the course of audit we did not come across any instance of audit trail feature being tampered with. Our examination of the audit trail was in the context audit of financial statements carried out in accordance with the Standard of Auditing and only to the extent of required by Rule 11(g) of the companies (Audit and Auditors) rules 2014. We have not carried out any audit or examination of the audit trail beyond the matters required by the aforesaid Rule 11(g) nor have we carried out any standalone audit or examination of the audit trail.”

32. Illustrative modified Remarks under Rule 11(g) in respect of standalone financial statements.

It may be noted that the reporting under this Rule requires factual reporting. In case a company has exceptions in complying to the account rules, the auditor may use the language as given in examples below.

Examples of such circumstances where exceptions would need to be reported.

Nature of Exception

1. Audit Trail feature was disabled for one of the books of account/ records or for an accounting software – (e.g., Property, Plant and equipment software did not have audit trail feature)

Illustrative wordings

“ Based on our examination, the company, has used accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility except in respect of maintenance of property, plant and equipment records wherein the accounting software did not have the audit trail feature enabled through out the year. Further, the audit trail facility has been operating throughout the year for all relevant transactions recorded in the software except for the instances reported below.....

Further, during the course of our audit we did not come across any instance of audit trail feature being tampered with.”

Examples of such circumstances where exceptions would need to be reported.

Nature of Exception	Illustrative wordings
2. Audit Trail feature is not operating effectively during the reporting period	<p>“..... Except that the audit trail feature of YYY software used by the company to maintain payroll records did not operate throughout the year....”</p> <p>“..... except that no audit trail enabled at the database level for accounting software AAA (database SQL) and BBB(database db2) to log any direct data changes.....”</p>
3. Accounting software is maintained by third party and auditor is unable to assess whether audit trail feature can be disabled during the reporting period	<p>“ Based on our examination, the company, has used an accounting software ABC which is operated by a third party software service provider, for maintaining its books of account and in absence of [state the type of control report] we are unable to comment whether audit trail feature of the said software has enabled and operated throughout the year for all relevant transactions recorded in the software or whether there were any instances of the audit trail feature been tampered with.”</p>

33. Is there any effect in reporting U/S 143(3)(b) or 143(3)(h) if modified report is given under Rule 11(g) ?

- **Illustrative wordings U/S 143(3)(b)**

“ In our opinion , proper books of accounts as required by law have been kept by the company so far as it appears from our examination of those books [and proper returns adequate for the purposes of our audit have been received from the branches not visited by us] except for the matters stated in the paragraph(...) below on reporting under Rule 11(g)”

- **Illustrative wordings U/S 143(3)(h)**

“ The qualification relating to the maintenance of accounts and other matters connected therewith are as stated in paragraph(...) above on reporting under section 143(3)(b) and paragraph (...) below on reporting under Rule 11(g)”.

34. Is there any effect in CARO Reporting if modified Report is given under Rule 11(g)?

Yes. The following is the illustrative reporting for Clause No.3(i)(a)(A) of CARO

“ Except for the matter stated by us in Paras,and ... in the “ section – Report on Other Legal and Regulatory Requirements” of our Independent Auditor’s Report, we report that the company has maintained proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment Assets”

35. Will Audit Trail prevent fraud?

Audit Trails cannot prevent fraud. However a lack of audit trails can result in fraud remaining undetected for long periods of time. No system of Internal financial control is fool-proof and every system of Internal control is prone to violation or breach. Lack of audit trails can be a huge risk factor.



*Thank
you*

