

The background features a dark blue gradient with faint, light blue technical diagrams. On the left side, there is a large circular scale with numerical markings from 140 to 260 in increments of 10. Several circular diagrams with arrows and partial arcs are scattered across the background, suggesting a technical or engineering theme.

# AUDIT TRAIL

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# LEGAL REQUIREMENT

- The MCA vide its notification dated 24th March, 2021 had introduced the concept of audit trails by inserting proviso to rule 3(1) of the Companies (Accounts) Rules, 2014.
- However, the applicability was deferred by 1 year by amending the same vide Companies (Accounts) Second Amendment Rules, 2021. The new date of applicability was 1st April, 2022.
- The MCA vide notification dated 31.03.2022 again extended Implementation of Audit Trail software to financial year commencing on or after the April 1, 2023
- It was provided that “for the F.Y. commencing on or after 1st April, 2021, 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 books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled.”

# LET'S UNDERSTAND WHAT IT SAYS !!!

- “for the F.Y. commencing on or after 1st April, 2021, **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 books of account along with the date when such changes were made and **ensuring that the audit trail cannot be disabled.**”

# EVERY COMPANY?

- What is company is defined under Sec.2(20) of the Companies Act
- According to Section 2 (20) of the Company Act 2013 "Company means a company incorporated under this Act or any previous Company Law."
- SO it includes all...
- PUBLIC or PRIVATE
- BIG or SMALL
- SERVICE or PRODUCTION
- PROFIT or NOT FOR PROFIT
- FOREIGN COMPANIES

**NO LLP / FIRM/ TRUST/ PROPRIETORSHIP (as of now 😊)**

# ACCOUNTING SOFTWARE ?

- Accounting software is a **computer program** that assists bookkeepers and accountants in recording and reporting a firm's financial transactions. The functionality of accounting software differs from product to product. **Larger firms may choose to implement a customized solution** that integrates a vast amount of data from many different departments. **Small firms often choose an off-the-shelf product.**
- (Also important is where or how the accounting software is deployed: on-premises, hosted as software-as-a-service (SaaS), or in the cloud)
- **SO if accounting and record-keeping is done manually with printed books of accounts, IT IS NOT APPLICABLE ..**

# BOOKS OF ACCOUNTS ?

- Every company shall prepare and keep its **books of accounts** and **financial statement** for every financial year which give a true and fair view of the state of the affairs of the company and explain the transactions and the accounts shall be kept on accrual basis on double entry system of accounting.
- **As per Section 2(13) of Companies Act, "books of account" includes records maintained in relation to:**
- all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;
- all sales and purchases of goods and services by the company;
- the assets and liabilities of the company; and
- 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;

- Any software that maintains records or transactions that fall under the definition of Books of Account as per the section 2(13) of the Act will be considered as accounting software for purpose of Rule 11(g). For e.g., if sales are recorded in a standalone software and only consolidated entries are recorded monthly into the software used to maintain the general ledger, the sales software should also have the audit trail feature since sales invoices would be covered under Books of Account as defined under section 2(13) of the Act.

# FREQUENCY / PERIODICITY FOR MAINTAINING BOOKS?

- A company is required to maintain its books of account and vouchers for a period of 8 years immediately preceding the current year.
- A S. 25 company is required to maintain its books of account and vouchers for a period of not less than 4 years.
- The books and papers of the Amalgamated/Transferor Company must not be disposed of without the prior permission of the Central Government.
- The books and papers of a company which has been wound-up and of its liquidator shall not be destroyed for a period of 5 years from the date of its dissolution. They may be destroyed earlier with prior Central Government permission.
- Every Company (not being an NBFC) accepting public deposits must maintain a Register of deposits for 8 calendar years from the financial year in which the latest entry is made in the Register.
- The Register and Index of Members must be maintained permanently.
- The Register and Index of debenture-holders must be maintained for 15 years after the redemption of debentures.
- The copies of all Annual Returns and Certificates annexed thereto must be maintained for 8 years from date of filing with the ROC.
- **ICAI – COUNCIL'S DECISION OF 1957**
- **CAs should preserve records relating to audit and other work done by them, routine correspondence and other papers for a minimum period of 10 years**



# WHAT DOES AUDIT TRAIL MEAN?

- Audit Trail (also called audit log) is a security-relevant chronological record, set of records, and/or destination and source of records that provide documentary evidence of the sequence of activities that have affected at any time a specific operation, procedure, event, or device.
- An audit trail is defined as ***a step-by-step sequential record which provides evidence of the documented history of financial transactions to its source.***
- It is an **detailed chronological record where accounting ,financial data and other details are tracked and traced** .It tracks all kinds of transactions work processes, accounting details and changes made there within
- An auditor can trace the financial data of a particular transaction right from the general ledger to its source document with the help of the audit trail.

# KEY TAKEAWAYS

- An audit trail is a sequential record detailing the history and events related to a specific transaction or ledger entry.
- Maintaining an audit trail is often a regulatory requirement in many financial domains, as well as an accounting best practice.
- Audit trails provide evidence and information for regulators in cases of suspected fraud or illegal financial activity.
- The use of audit trails helps to stabilize the overall economy by confirming the information corporations release to the public.
- Regulatory institutions will use audit trails for the explicit reconstruction of trades when there are questions as to the validity or accuracy of trade data.

# AUDIT LOG AND AUDIT TRAIL

- A series of audit logs is called an audit trail because it shows a sequential record of all the activity on a specific system. By reviewing audit logs, systems administrators can track user activity, and security teams can investigate breaches and ensure compliance with regulatory requirements.
- **An audit trail is a recording of all user actions.** A log is a recording of what happens on a system
- **Transaction Log - captures all changes to data caused by end users, rules or processes. Audit Log - captures changes to metadata, security, logon information and other system activity detail.**
- Whereas regular system logs are designed to help developers troubleshoot errors, audit logs help organizations document a historical record of activity for compliance purposes and other business policy enforcement.

# WHAT IS EDIT LOG ?

- Edit Log is a view-only (display) report that maintains track of all activities with your vouchers and masters, like creation, alteration, deletion and so on, without the need for any additional controls to restrict the access.
- **IT MUST BE** creating an **edit log** of each change made in books of account along with the date when such changes were made

# IMPACT ????

- TRACKING OF BACK DATES ENTRIES
- CASH BALANCES CHANGES
- STOCK VALUATION CHANGES
- ADJUSTMENT IN BOOKS/ENTRIES
- USE BY OTHER ENFORSEMENT AGANCIES
- MANY MORE.....

# WHAT IS THE RESPONSIBILITY OF MANAGEMENT ?

- IDENTIFY the records and transactions that constitute books of accounts as per Sec. 2(13)
- IDENTIFY the software used for processing and or storing of data and for creation of books of accounts.
- ENSURE such software have audit trail feature
- ENSURE audit trail captures all the transaction
- ENSURE that it can be disabled..
- ENSURE that edit log is read only
- ENSURE control over maintenance and monitoring of audit trail and its features are designed and operating effectively.

# AUDITORS RESPONSIBILITY

- The Companies Act, 2013 mandates auditors to report on various matters in their auditor's report, and Section 143(3)(j) requires them to state any other prescribed matters. Rule 11 of the Companies (Audit and Auditors) Rules, 2014 specifies these additional matters. Recently, the Ministry of Corporate Affairs made changes to Rule 11 with the Companies (Audit and Auditors) Amendment Rules, 2021, including a new reporting requirement (Rule 11(g)) that compels auditors to report on the use of accounting software by companies for bookkeeping with a feature that records an audit trail.
- The new Rule 11(g) requires auditors to report on the use of accounting software by the company for maintaining its books of account which has a feature of recording an audit trail. This Rule casts an onerous responsibility on auditors as the scope of reporting under this Rule is very wide. To provide guidance to the members on this new reporting requirement, the Auditing and Assurance Standards Board (AASB) of the Institute of Chartered Accountants of India (ICAI) has issued an "Implementation Guide on Reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014."

# AUDITORS RESPONSIBILITY

- Rule 11(g) casts responsibility on the auditor in terms of reporting on audit trail by making a specific assertion in the audit report under the section '**Report on Other Legal and Regulatory Requirements**'. In addition to requiring auditor to comment on whether the company is using an accounting software which has a feature of recording audit trail, the auditor is expected to verify the following aspects:
  - **Whether the audit trail feature is configurable (i.e., if it can be disabled or tampered with)?**
  - **Whether the audit trail feature was enabled/operated throughout the year?**
  - **Whether all transactions recorded in the software are covered in the audit trail feature?**
  - **Whether the audit trail has been preserved as per statutory requirements for record retention?**



# AUDIT REPORTING

- In respect of audit trail, following are likely to be expected scenarios:
  - i. Management may maintain adequate audit trail as required by the Account Rules.
  - ii. Management may not have identified all records/transactions for which audit trail should be maintained.
  - iii. The accounting software does not have the feature to maintain audit trail, or it was not enabled throughout the audit period.

**Scenarios (ii) and (iii) mentioned above would result in a modified /adverse reporting against this clause.**

# OBTAINING MRL :

1. for establishing and maintaining adequate controls for identifying, maintaining, controlling, and monitoring of audit trails on a consistent basis.
2. Stating that management has performed an evaluation and assessed the adequacy and effectiveness of the company's procedures for complying to the requirements prescribed for audit trails.
3. Stating management's conclusion, as set forth in its assessment, about the adequacy and effectiveness of the company's procedures w.r.t. audit trails.
4. Stating that management has disclosed to the auditor all deficiencies in the design or operation of controls maintained for audit trails identified as part of management's evaluation. whether control deficiencies identified and communicated to the audit committee in relation to audit trail during previous engagements have been resolved, and specifically identifying any deficiency that have not been resolved.
5. Describing instances where identification of fraud, if any, resulting in a material misstatement to the company's financial statements is identified while reviewing and testing the samples related to the disablement of audit trail facility of the accounting software.

# AUDIT DOCUMENTATION

- Auditor may document the work performed on audit trail such that it provides:
  1. A sufficient and appropriate record of basis for auditor's reporting under Rule 11(g); and
  2. Evidence that audit was planned and performed in accordance with this Implementation Guide, applicable Standards on Auditing and applicable legal and regulatory requirements.
  3. In this regard, auditor may comply with requirements of SA 230, "Audit Documentation" to the extent applicable.

THANK YOU !!!!

