

# Maintenance of Audit Trail

April 2023

These are some of the key considerations appearing in the “Implementation Guide on the Reporting under Rule 11(g) of the Companies Act (Audit and Auditors) Rules, 2014” issued by ICAI.



# The Rule...

## Text of Proviso to Rule 3(1) of Companies (Account) Rules, 2014

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

## Text to Rule 11(g) of Companies (Audit and Auditors) Rules 2014

Whether the company in respect of financial years commencing on or **after the 1<sup>st</sup> April 2022** has used such **accounting software** for maintaining its books of account which has **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 feature has been preserved by the company as per the statutory requirements for **record retention**.

### Applicability –

- Its applicability has been deferred two times and the requirement is finally applicable from April 1, 2023.
- Audit reporting will be triggered for financial years commencing on or after April 1, 2022 however the applicability of account rules will commence on or after April 1, 2023. For FY 2022-23, in absence of compliance requirement for the companies, auditors may not be able to report under the Audit Rules

# Management's Responsibility

## It is the management who is primarily responsible to –

1. Identify the records and transactions that form a part of books of account as defined in section 2(13) of The Companies Act
2. Identify the accounting software that used to create and maintain books of accounts – IT environment including applications, web-portals, databases, interfaces, data warehouse, data lakes, cloud or any IT component used for processing and or storing data for creation and maintenance of books of account
3. Ensure such accounting software has the feature of audit trail
4. Ensure audit trail is always enabled
5. Records an 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 – “Who, When, What”
6. Review such edit log periodically for the changes made to the transactions, and review of those changes made to the transactions
7. Audit trail is not tampered with
8. Audit trail is retained as per statutory record requirements for record retention (effective from the date of applicability of Account Rules i.e. from April 1, 2023)

## Any software used to maintain books of accounts will be covered within the ambit of this Rule. Few examples apart from the financial application may be –

- Payroll processing done on a stand-alone software and the entries are passed at the month-end in the GL software or
- Sales recorded in a stand-alone software and consolidated entries passed in the GL software

## The accounting software –

- May be hosted and maintained in India or outside India
- May on-premise or hosted on cloud or
- Subscribed to a Software-as-a-Service (SaaS model)
- Maintained by service organization. E.g: Payroll processing is done by a service provider on their system

Illustrative list of internal controls has been provided in the Implementation Guide

**Requirement** of accounting software having **feature of audit trail** have been prescribed **only in context of books of account** – the accounting software should be capable of creating an edit log of “**each change made in books of account**”.

# Auditor's Responsibility

## Audit approach –

- Assess management's identification of records and transactions that constitute books of accounts
- Evaluate management's approach regarding identification of accounting software considered for the purpose of maintenance of audit trail
- Verify whether the audit trail has been configured and enabled for the identified accounting software
- Audit trail includes details of 'who', 'when' and 'what' with respect to the change made to books of account including all changes and not just limited to the last change
- Audit trail has been implemented and was not disabled, and hence operating effectively throughout the reporting period
- Assess management's evaluation of the Audit trail (or edit log) and the changes made to the transactions at different points of time during the audit period
- Inquire with the management how they have evaluated the changes required for maintenance of audit trail or upgrades to the accounting software
- In case accounting software is supported by service providers, SOC1 / SOC2 report may be used for compliance of audit trail requirements. Such SOC reports to specifically cover the maintenance of audit trail in line with the requirements of the Act.
- Evaluate management policies for maintenance of configuration of audit trail – restricted access, monitoring changes to configurations
- Any testing management has performed to assess the completeness and accuracy of audit trail
- In respect of preservation of audit trails, inquiries with management and review on a sample basis the audit trail records maintained by management for each applicable year – effective from the date of applicability of the Account Rules (April 1, 2023 onwards)

**Any changes to the audit trail configuration** to be reviewed during the financial year and, also from the date of financial statements but before the date of auditor's report

# Reporting

**Specific assertion in the audit report** under the section 'Report on Other Legal and Regulatory Requirements' –

- Comment on whether the company is using an accounting software which has a feature of recording audit trail –
  - Whether the audit trail is configurable (i.e. 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

**Rule 11 (g)** requires the auditor to report that the feature of recording audit trail (edit log) facility has **"operated throughout the year for all transactions recorded in the accounting software"**.

Following are likely to be expected scenarios –

1. Management may maintain adequate audit trail as required by Account Rules
2. Management may not have identified all records/transactions for which audit trail should be maintained
3. The accounting software does not have the feature to maintain audit trail or it was not enabled throughout the audit period

Scenarios (2) and (3) mentioned above would result in a modified / adverse reporting against this clause.

Para 52 of **"Guidance Note on Audit of Internal Financial Controls Over Financial Reporting"** uses expression "audit trail" to describe the control activities in relation to policies and procedures related to information processing system that may be relevant to an audit. However, the Guidance Note does not entail any detailed audit procedures in respect of reporting against Rule 11(g)

It should be noted that mere **non-availability of audit trail** [in scenarios (2) and (3) as above] does not necessarily imply failure or material weakness in the operating effectiveness of internal financial controls over financial reporting



# Thank You

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