

Ministry of Corporate Affairs Notification

Implementation date: April 01, 2023



- With effect from 1st April 2023, all companies must ensure that the accounting software shall have the built-in mechanism to record audit trail of every transaction, creating an edit log of each change made in the books of account along with the date when such changes are made.
- Company must ensure that the audit trail shall not be disabled at any point of time.
- All companies comprises big or small, including not-for-profit companies licensed under Section 8 of the Indian Companies Act 2013. **It is not mandatory yet for public charitable trusts or for societies registered under the Act of 1860. It is not mandatory for Limited liability Partnership (LLP) Firms either.**



Content:

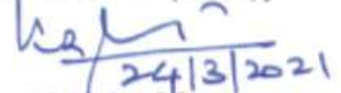
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**GOVERNMENT OF INDIA
MINISTRY OF CORPORATE AFFAIRS
Notification**

New Delhi, the 24 March, 2021

(g) Whether the company 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.”.

[F. No.1/33/2013.CL-V (Part)]


24/3/2021

K.V.R. Murty,

Joint Secretary to the Government of India



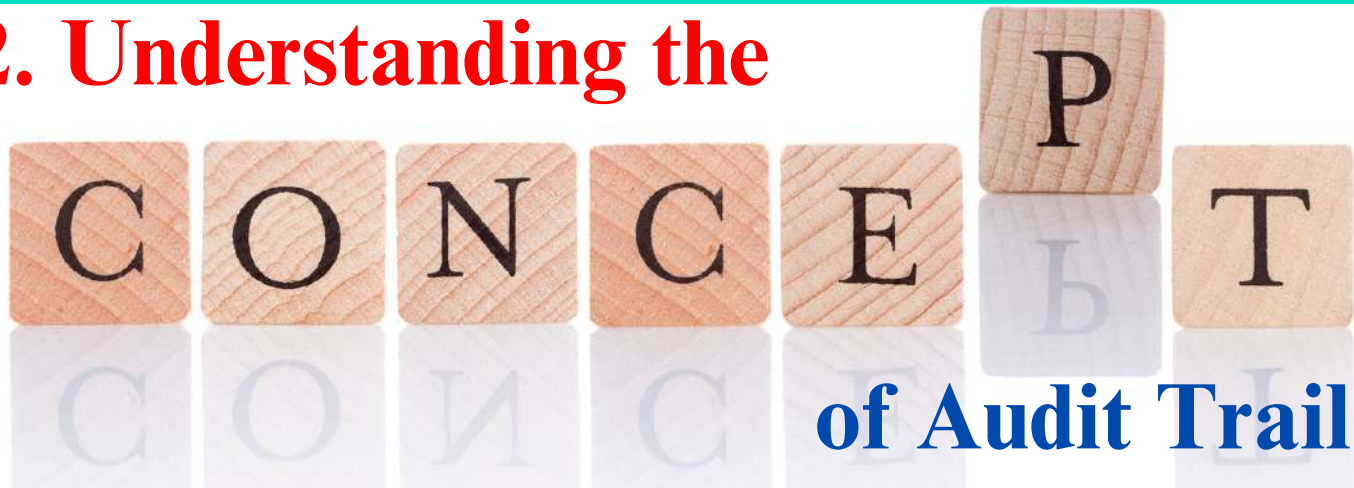
1. Legal Provision

- **Companies (Accounts) Rules 2014** requires that w.e.f. 1st April 2023 every company which uses accounting software for maintaining books of accounts shall use such accounting software which has:
 1. the feature of recording audit trail of each, and every transaction;
 2. creating an edit log of each change made in books of accounts along with date when such change was made and
 3. ensure that the audit trail cannot be disabled.
- **Companies (Accounts) Rules, 2014** also require that:
 1. the books of accounts shall remain accessible in India at all times;
 2. that the back-up of the books of account and other books and papers of the company maintained in electronic mode, including at a place outside India, if any, shall be kept in servers physically located in India on a daily basis.

Companies (Audit and Auditors) Rules, 2014 was amended on **24th March 2021** whereby an **additional reporting point must be incorporated in the Auditors report**, i.e., *“Whether the company has used such accounting software for maintaining its books of accounts 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 statutory record for record retention.”* This additional clause was initially made applicable from 1st April 2021, then postponed to 1st April 2022. However, it is now finally applicable from 1st April 2023.

This clause puts an **additional responsibility on statutory auditors of all companies** to ensure that the company records entries in their electronic books of accounts (from 1st April 2023) in such a way that details of transactions along with who recorded the entry and when (date and time) is implemented and preserved. If the transactions undergo modification or deletion, such details along with date and time of such action needs to be preserved chronologically.

2. Understanding the



Audit Trail is a detailed, chronological record where accounting, project details, and other financial data are tracked and traced. It is advisable to have an audit trail as it would verify and track all kinds of transactions, work processes, accounting details, trades in brokerage accounts and likes, especially now that the MCA has made it mandatory.

Audit Trail to include	Feature Requisite of Accounting Software
Details of all authorization for transactions and changes made to the books of accounts, including the names of the persons who authorized them.	The audit log should be preserved until the accounting records are no longer valid. A timeline stamp must be included in the accounting program.
Details of every change made to the books of accounts, including the date and nature of the change.	On a date-by-date basis, the audit trail (edit log) should maintain track of all operations performed using the software.
Details of all approvals and rejections of transactions and changes made to the books of accounts, including the names of the person who approved or rejected them.	The software must track all the transactional changes. The software should offer a function which allows you to record user information.
Details of all access to the books of accounts, including the date and time of access, and the name of the person who accessed them.	The accounting software should track and monitor all changes to the transaction, which should then be reported in the audit log (from the establishment of the transaction to its modification and deletion).
Details of all backup and restoration activities related to the books of accounts.	The software should offer a function which allows you to record user information.

3. Importance of Audit Trail



4. Challenges

Why Audit Trail is crucial to any entity?

- Compliance
- Fraud Prevention
- Restructuring of incidences/ events
- User Accountability
- Data Security

Challenges in implementing Audit Trail

- **Reinstall newer version** of the software that have an Audit Trail if the accounting software provider builds one.
- **Database Storage Architecture:** Long-term maintenance of audit logs can prove challenging for many organizations because it can occupy extensive storage space that may not be readily available in desktop applications.
- **Existing software might not be able to support it:** Foreign companies must adhere to the financial authority's local jurisdiction rules.
- **Interlinkages of transactions:** Front-end transactions like invoices, billing, and inventory management will need to be accounted for & automatic transactions like Exchange gain or loss, Adjustments also need to be accounted for.
- **Location and back up:** Ensure audit trail information is stored in a secure location and backed up regularly.

5. BEST PRACTICE

1. Determine the scope and purpose of the audit trail
2. Choose the right audit trail solution
3. Define clear policies and procedures
4. Train users on how to use the audit trail
5. Regularly review and analyze the data
6. Implement security measures
7. Regularly maintain and update the audit trail

Retention of Audit Trail Record

The audit trail must be maintained for **at least eight years** from the end of the financial year for which it pertains.



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6. Global Trend on Audit Trail

- **United States:** The Sarbanes-Oxley Act (SOX) of 2002 requires publicly-traded companies to maintain accurate financial records and to have internal controls in place to ensure the accuracy of those records. The Act does not explicitly require mandatory audit trails in accounting software, but it does require companies to be able to track changes to their financial records.
- **Canada:** The Canadian Institute of Chartered Accountants (CICA) Handbook – Assurance includes guidelines for auditors related to computer-assisted auditing techniques (CAATs), which may include audit trails.
- **European Union:** The EU General Data Protection Regulation (GDPR) requires companies to maintain accurate and secure records of personal data, and to be able to track changes to those records. While this is not specific to accounting software, it may require companies to implement mandatory audit trails in their accounting systems.
- **Australia:** There was no specific requirement for mandatory audit trail features in accounting software in Australia. However, the Australian Taxation Office (ATO) does have guidelines related to record-keeping and the use of accounting software, which may include requirements for maintaining accurate and complete records of financial transactions and being able to produce those records for inspection upon request. While these guidelines do not explicitly require mandatory audit trails, they do emphasise the importance of accurate record-keeping. They suggest that audit trails may be a useful tool for ensuring the accuracy of financial records.



FINAL THOUGHTS

Government of India effort to stay a step ahead of the globe is appreciable. In order to surge its benefits, industry will have to be transformed in a secured manner. Mandate of Audit Trail is the first step. Going forward, we shall not be taken aback if the Systems audit get compulsory for the business.

For this article, accountants should record every entry in the electronic books of account very carefully and accurately. Any subsequent modification/deletion will leave an audit trail scar for the accountant to answer.

**"Let us explore and Enjoy the
new horizon of Audit Trail"**