



DRIVEN TO MAKE
POSITIVE DIFFERENCE

AUDIT TRAIL

(Mandatory from 01.04.2023)



- By E. A. Patil & Associates LLP
- For Internal Circulation Only

Introduction

- The Ministry of Corporate Affairs (MCA) vide its notification No. GSR 206(E) dated March 24, 2021, has issued the 'Companies (Audit and Auditors) Amendment Rules, 2021', introducing new rule 11(g).
- The Auditors of all class of companies including section 8 companies and foreign companies, would be required to report on these matters.
- The auditor is required to comment on the above matters both in case of standalone financial statements and consolidated financial statements.
- Rule 11(g) : "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."



Important Elements of Rule 11(g)

Audit Trail

- The companies to maintain software for accounting which has a *feature of recording audit trail* (edit log) facility and the accounting software should be capable of creating an edit log of “each change made in books of account.”
- Records maintained as audit trail may include the following information:
 - when changes were made i.e., date and time
 - who made the change i.e., User Id
 - what data was changed i.e., data/transaction reference; success/failure

Operating Effectiveness of Audit Trail

- The audit trail has been operated throughout the year for all transactions recorded in the software.



- **Tampered Proof**

- The audit trail *feature has not been tampered with*, means that the audit trail is not disabled during the year. In case of changes, the audit trails should be able to identify it.
- The *audit trail has been preserved* by the company as per the statutory requirements for record retention. This indicates that the companies are required to maintain audit trail (edit log) for each change made in the books of account.
- Considering the requirement of Section 128(5) of the Act, which requires books of account to be preserved by companies for a minimum period of eight years, the company would need to retain audit trail for a minimum period of eight years effective from the date of applicability of the Account Rules (i.e., currently April 1, 2023, onwards).

- **Audit Trail to be effective from :1st April,2023**



Responsibility of implementation of this Rule

1. Management responsibility

- Management of the Company has responsibility to ensure above highlighted points are followed in the Company.

2. 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'.
- Auditor is expected to comment on both stand alone as well as consolidated financial statements.
- These responsibility does not requires auditor to assess the appropriateness of audit trial of previous year and the assessment shall be only for prospective year.





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Thank
you

OUR TEAM

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E. A. Patil & Associates LLP, Chartered Accountants is in the field of auditing for more than 40 years. The firm is registered under The Chartered Accountancy Act, 1949 of India. The firm was converted in to a Limited Liability Partnership in 2015.

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