

# Implementation of Audit Trail (Edit Log)

Applicable from 01/04/2023

Raga Consulting LLP

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# Regulatory Requirement

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## **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, 2023, 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

## **Rule 3(1) of Companies (Accounts) Rules, 2014**

Whether the company, in respect of financial years commencing on or after the 1st April, 2023, 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

# Regulatory requirement

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## **Books of Accounts**

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 this purpose.

"books of account" includes records maintained in respect of

- 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

The term 'all transactions recorded in the software' would refer to all transactions that result in change to the books of account

# Reporting Requirement

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## Other Points

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 (transactions which have been recorded in the accounting software and subsequent changes made to those 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

Where the books of account are entirely maintained manually - No reporting responsibilities exist.

Applicable for Consolidated financial statement also unless components included in the consolidated financial statements are (a) either not companies under the Act, or (b) some components are incorporated outside India

Ensure that internal controls predominately IT controls related to design and implementation for audit trail features are included in the process documentation and tested

# Points to consider for Implementation

## Other

Use only such accounting software which has the following features:

- 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; and
- Ensuring that audit trail is not disabled.

Applicable for accounting software

- hosted and maintained in India or outside India or may be on premise or on cloud or subscribed to as Software as a Service (SaaS) software.
- which is maintained at a service organisation

Accounting software supported by service providers – Obtain Service Organisation Control Type 2 (SOC 2)

Various business data maintained in excel like fixed asset register, inventory records, production records, inventory valuation records, etc.

What constitutes accounting software only direct software will get covered or even peripheral software's also covered? -Any software used to maintain books of account will be covered within the ambit of this Rule.

# Points to consider for Implementation

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## **Approach**

1. Identify the records and transactions that constitute books of account
2. Identify the software used for processing and or storing data for creation and maintenance of books of account
3. Ensure such software have the audit trail feature
4. Ensure that the audit trail captures changes to each and every transaction of books of account i.e. When Changes were made, Who made those changes, what data was changed.
5. Ensure that the audit trail feature is always enabled (not disabled) including at the database level (if applicable)
6. Ensure that the audit trail is appropriately protected from any modification
7. Ensure that the audit trail is retained as per statutory requirements for record retention – eight years
8. Ensure that controls over maintenance and monitoring of audit trail and its feature are designed and operating effectively throughout the period of reporting
9. Ensures that the administrative access to the audit trail is restricted to authorized representatives