

# Auditor's Reporting for Audit Trail



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## Namaste

Proviso to Rule 3(1) of the Companies (Accounts) Rules 2014 provides 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 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.

This document contains only a few wordings (based on situations) of the reporting requirements by an auditor, which he may use after complying with the audit procedures related to giving his opinion on company's audit trail compliance.

To have a report on compliance of this provision by the companies, there are 3 reporting requirements apart from internal financial control for financial reporting (IFCoFR), if any, which may require reporting for the audit trail by the auditor in this report. These are:

1. Rule 11(g) of the Companies (Audit and Auditor) Rules 2014 - *“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.”*
2. Section 143(3)(b) of the Companies Act 2013 - *“whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him.”*
3. Section 143(3)(h) of the Companies Act 2013 - *“any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith.”*

## Unmodified Reporting

In case a company is maintaining its books in an accounting software, where audit trail requirements are maintained adequately, an auditor should report for Rule 11(g) in his audit report as under:

“Based on our examination which included test checks, the company has used an accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has operated throughout the year

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for all relevant transactions recorded in the software. Further, during the course of our audit we did not come across any instance of audit trail feature being tampered with.”

As regards reporting on preservation of the edit log, the same may or may not be reported, as this being the 1<sup>st</sup> year to maintain the audit log, so preservation thereof, would apply from next year. In case an auditor wishes to report, he may report in a separate para as:

“As the proviso to Rule 3(1) of the Companies (Accounts) Rules 2014 is applicable from 1<sup>st</sup> April 2023, reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules 2014 on preservation of audit trail as per statutory requirements for record retention is not applicable for the financial year ending 31<sup>st</sup> March 2024.”

In case a company is maintaining its books of accounts manually (i.e., not electronically through any accounting software), then there would be no requirement on the company to comply with audit trail provisions. In such case reporting for Rule 11(g) may be as under:

“The Company is maintaining its books of account manually during the year. Consequently, the company is not required to comply with the provisions related to audit trail and reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules 2014 is not applicable.”

In case of unmodified reporting, there would not be any further reporting requirement in the audit report for audit trail under section 143(3)(b) and section 143(3)(h).

### Modified Reporting

There could be situations which may require modified reporting for audit trail. Few situations, and their reporting wordings are given in a chart below:

S. No.	Situation	Reporting provision	Reporting
1	Audit trail feature was disabled / not enabled for one of the books of account / records or for an accounting	R. 11(g)	Based on our examination which included test checks, except for the instance mentioned below, the Company has used accounting softwares for maintaining its books of account, which have a feature of recording audit trail (edit log) facility and the same has operated throughout the year for all relevant transactions recorded in the respective software:

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	software e.g., PPE software did not have audit trail feature		<ul style="list-style-type: none"> <li>The PPE (Property, Plant, and Equipment) software used by the company did not have an audit trail feature enabled, consequently, there was no audit trail maintained for transactions recorded within this particular software for the whole year.</li> </ul> <p>Further, for the periods where audit trail (edit log) facility was enabled and operated throughout the year for the respective accounting software, we did not come across any instance of the audit trail feature being tampered with during the course of our audit.</p>
		S. 143(3)(b)	In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books, except for the matters stated in the paragraph ..... below, on reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014
		S. 143(3)(h)	The modifications relating to the maintenance of accounts and other matters connected therewith are as stated in the paragraph ..... above on reporting under section 143(3)(b) of the Act and paragraph ..... below on reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014.
2	Audit trail was not enabled at all.	R. 11(g)	Based on our examination which included test checks and information given to us, the Company has used accounting softwares for maintaining its books of account, which did not have a feature of recording audit trail (edit log) facility throughout the year for all relevant transactions recorded in the respective softwares, hence we are unable to comment on audit trail feature of the said software.
		S. 143(3)(b)	In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books, except for the matters stated in the paragraph ..... below, on reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014
		S. 143(3)(h)	The modifications relating to the maintenance of accounts and other matters connected therewith are

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			as stated in the paragraph ..... above on reporting under section 143(3)(b) of the Act and paragraph ..... below on reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014.
3	Audit trail was not enabled throughout the audit period.	R. 11(g)	Based on our examination which included test checks, the Company has used accounting softwares for maintaining its books of account, which have a feature of recording audit trail (edit log) facility, however the same has not operated throughout the year for all relevant transactions recorded in the respective software but only from 1 <sup>st</sup> June 2023 to 31 <sup>st</sup> March 2024.  Further, from 1 <sup>st</sup> June 2023 to 31 <sup>st</sup> March 2024 where audit trail (edit log) facility was enabled, we did not come across any instance of the audit trail feature being tampered with during the course of our audit.
		S. 143(3)(b)	In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books, except for the matters stated in the paragraph ..... below, on reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014
		S. 143(3)(h)	The modifications relating to the maintenance of accounts and other matters connected therewith are as stated in the paragraph ..... above on reporting under section 143(3)(b) of the Act and paragraph ..... below on reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014.
4	Audit trail was not enabled for part of the audit period for certain transactions.	R. 11(g)	Based on our examination which included test checks, except for the instances mentioned below, the Company has used accounting softwares for maintaining its books of account, which have a feature of recording audit trail (edit log) facility, however the same has not operated throughout the year for all relevant transactions recorded in the respective software:  <ul style="list-style-type: none"> <li>• The feature of recording audit trail (edit log) facility was not enabled: <ul style="list-style-type: none"> <li>○ At database level to log any direct data</li> </ul> </li> </ul>

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			<p>changes for the accounting softwares used for maintaining the books of account relating to payroll and certain non-editable fields / tables of the accounting software used for maintaining general ledger;</p> <ul style="list-style-type: none"> <li>○ At application layer of the accounting softwares relating to revenue, trade receivables and general ledger for the period 1<sup>st</sup> April 2023 to 20<sup>th</sup> August 2023; and</li> <li>○ Relating to Property, Plant and Equipment for the period 1<sup>st</sup> April 2023 to 12<sup>th</sup> July 2023.</li> </ul> <p>Further, for the periods where audit trail (edit log) facility was enabled and operated throughout the year for the respective accounting software, we did not come across any instance of the audit trail feature being tampered with during the course of our audit.</p>
		S. 143(3)(b)	In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books, except for the matters stated in the paragraph ..... below, on reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014
		S. 143(3)(h)	The modifications relating to the maintenance of accounts and other matters connected therewith are as stated in the paragraph ..... above on reporting under section 143(3)(b) of the Act and paragraph ..... below on reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014.
5	Audit trail feature is not operating effectively during the reporting period	R. 11(g)	Based on our examination, which included test checks, we observed that the company has used accounting software for maintaining its books of account. Although this software has a feature for recording an audit trail (edit log), we found that the audit trail feature was not operating effectively during the reporting period for all relevant transactions recorded in the software. Consequently, we were unable to verify the

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			<p>integrity of the audit trail throughout the year.</p> <p>Furthermore, during the course of our audit, we identified various instances where the audit trail feature appeared to be tampered with.</p>
		S. 143(3)(b)	In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books, except for the matters stated in the paragraph ..... below, on reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014
		S. 143(3)(h)	The modifications relating to the maintenance of accounts and other matters connected therewith are as stated in the paragraph ..... above on reporting under section 143(3)(b) of the Act and paragraph ..... below on reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014.
6	Accounting software is maintained by third party and auditor is unable to assess whether audit trail feature can be disabled during the reporting period.	R. 11(g)	Based on our examination, the company, has used an accounting software which is operated by a third party software service provider, for maintaining its books of account and in absence of [state the type of control report] we are unable to comment whether audit trail feature of the said software was enabled and operated throughout the year for all relevant transactions recorded in the software or whether there were any instances of the audit trail feature been tampered with.
		S. 143(3)(b)	In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books, except for the matters stated in the paragraph ..... below, on reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014
		S. 143(3)(h)	The modifications relating to the maintenance of accounts and other matters connected therewith are as stated in the paragraph ..... above on reporting under section 143(3)(b) of the Act and paragraph ..... below on reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014.
7	Migration from one software to	R. 11(g)	The Company has migrated to [name of the software] from [old software / manual] during the

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	the other happened during the year or higher version of software installed and auditor is unable to obtain sufficient and appropriate evidence		year and is in the process of establishing necessary controls and documentations regarding audit trail. Consequently, we are unable to comment on audit trail feature of the said software.
		S. 143(3)(b)	In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books, except for the matters stated in the paragraph .... below, on reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014
		S. 143(3)(h)	The modifications relating to the maintenance of accounts and other matters connected therewith are as stated in the paragraph ..... above on reporting under section 143(3)(b) of the Act and paragraph ..... below on reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014.
8	Audit trail was tampered with.	R. 11(g)	Based on our examination which included test checks, the company has used an accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has operated throughout the year for all relevant transactions recorded in the software. Further, during the course of our audit we did not come across any instance of audit trail feature being tampered with except in case of five instances of audit trail feature being tampered in case in PPE (Property, Plant, and Equipment) software used by the company
		S. 143(3)(b)	In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books, except for the matters stated in the paragraph .... below, on reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014
		S. 143(3)(h)	The modifications relating to the maintenance of accounts and other matters connected therewith are as stated in the paragraph ..... above on reporting under section 143(3)(b) of the Act and paragraph ..... below on reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014.

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There could be few other situations too. An auditor should report on case-to-case basis depending on the level of the compliance of audit trail requirements by the company and amend his wordings accordingly.

An auditor should follow the audit procedures while reporting for audit trail as provided in the "Implementation Guide on Reporting on Audit Trail under Rule 11(g) of the Companies (Audit and Auditors) Rules 2014 (Revised 2024 Edition)" issued by ICAI.

I hope this document is of use to you. I thank Mr. Sanyam Chhabra for in assisting me to compile this document. Your suggestions and comments would be highly appreciated.

Best Regards

CA. PRAMOD JAIN

23<sup>rd</sup> May 2024

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**(Disclaimer:** Though full efforts have been made to state the interpretations correctly, yet the author is not responsible / liable for any loss or damage caused to anyone due to any mistake / error / omissions)

### ABOUT CA. PRAMOD JAIN

He is a commerce graduate [B. Com (H)] from Shri Ram College of Commerce (SRCC). He is a fellow member of the Institute of Chartered Accountants of India (FCA). He is a fellow member of the Institute of Companies Secretaries of India (FCS). He is a fellow member of the Institute of Cost Accountants of India (FCMA). He is a Bachelor of Law (LL. B). He has



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qualified Information System Auditor [DISA (ICAI)]. He is also a member of All India Management Association (MIMA). He is also an Insolvency Professional (IP). He has also passed the Certificate Course on CSR of ICAI. He has also passed the Proficiency Self-Assessment Test for Independent Director's Databank. He has passed certification course NCFM of National Stock Exchange of India (NSE). He has also done certification course CAAT and post qualification certificate course on Valuation of ICAI.

He is elected as Central Council Member of ICAI for the period 2019 to 2022 and from 2022 to 2025. Apart from being member in more than 25 committees / groups / directorates of ICAI, and other Bodies he is / was:

- Chairman of Accounting Standards Board (ASB) of ICAI for 2022-23, 2023-24 and 2024-25
- Deputy Convenor of Centre for Audit Quality Directorate (CAQD) for 2024-25
- Convenor - Members & Students (Grievances Handling & e-Sahayata) Directorate for 2023-24
- Chairman of Accounting & Finance Services Sectional Committee SSD-12 under the Services Sector Division Council (SSDC) of Bureau of Indian Standards (BIS) for 2023-24
- Chairman of Expert Advisory Committee (EAC) of ICAI for Year 2022-23
- Co-Chairman of Corporate Affairs Committee of PHDCCI for the year 2022-23
- Chairman of Committee on International Taxation (CITAX) of ICAI for 2021-22
- Chairman of Taxation Audit Quality Review Board (TAQRB) of ICAI for the year 2021-22.
- Member of Quality Review Board (QRB) from 2020 to 2023 and again from 2023 to 2026.
- Member of the SME Implementation Group (SMEIG) of IFRS Foundation, UK for 3 years from 2023 to 2026.
- Chairman of Valuation Standards Board (VSB) of ICAI for the year 2020-21.
- Chairman of CSR Committee of ICAI for year 2020-21.
- Vice-Chairman of Committee on MSME & Start-up of ICAI for the year 2021-22.
- Vice-Chairman of Women Members Empowerment Committee (WMEC) of ICAI for 2021-22.
- Vice-Chairman of Direct Tax Committee (DTC) of ICAI for year 2019-20 and 2020-21.
- Vice-Chairman of Committee on International Taxation (CITAX) of ICAI for Year 2019-20.
- Member of ICAI Disciplinary Committee for the year 2020-21.

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He is the conceptualizer of the portal [www.expertspanel.in](http://www.expertspanel.in) which is a one stop solution for all professional queries which has given more than 36000 answers since its launch in mid of year 2018.

He has delivered more than 1700 lectures and articles on various topics of Income Tax, Corporate Laws, LLP, Audits, Peer Review, Quality Review, etc. at more than 200 forums throughout the country. Most of his presentations and articles since 2013 are available for free download from [www.lunawat.com](http://www.lunawat.com) and from 2018 at [www.expertspanel.in](http://www.expertspanel.in) also.

He is Senior Partner of M/s LUNAWAT & CO., Chartered Accountants. He is president, founder convener and member of various Boards, Directorate, Committees, Study Circles, etc. of ICAI, ICSI and other prestigious bodies and associations. He has been a Technical Reviewer with FFRB and Quality Review Board (QRB) and Peer Reviewer with Peer Review Board (PRB).

He has authored books on “Chartered Accountant’s Documentation and Compliance for Audits and Reviews”, *Limited liability Partnership – A Complete Resource Book*”, “Chartered Accountant’s Documentation and Compliance for Audits and Reviews”, “Importance of LLP after Companies Act, 2013”, “Chartered Accountant’s Documentation and compliance under Companies Act 2013, Peer Review and Quality Review”, “Limited Liability Partnership – Law, Procedures and Taxation”, “Documentation for Chartered Accountants”, “Limited Liability Partnership – Law and Procedures with Ready Reckoner”, “Fringe Benefit Tax & Banking Cash Transaction Tax”, “Documentation for Audits” and “Accounting Standards and CARO”.

He has written various articles on taxation, company law and audit in various journals. He has a vast practical experience in income tax, audit, corporate laws and LLP.