

**NEWSFLASH**

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**What you ought to know  
about “Audit trail”**

### Who needs to maintain audit trail and from when?

- Every Company in India using accounting software
- No exception for SMCs, banks or NBFCs, foreign or section 8 companies
- Excludes where books are entirely maintained manually
- Applicable from April 1, 2023

### What salient features should an accounting software provide?

- Feature of audit trail is must
- Audit trail should not be disabled
- Records trail of each transaction
- Each and every change to a transaction should be logged
- Host may be in India or outside India
- Retain edit log for entire year
- Backups to be physically located in India
- Capture when, by who & what changed

### What aspects would auditors report?

- Whether feature can be tampered/ disabled?
- Whether trail was enabled throughout the year?
- Whether all transactions recorded in the software are covered?
- Whether trail is retained as per statutory requirements of eight years?

### Which softwares are covered?

- Any software that maintains records or transactions forming part of books
- Includes standalone software whose consolidated entries are recorded in financial software



### Which transactions are covered?

- 'Each and every' transaction forming part of books of accounts
- Includes addition or modification of entries
- Excludes transaction that does not change records of books (user creation)
- Changes at database levels that impacts books are covered
- Change in vendor master constitutes a transaction record hence covered
- Purchase/sales orders/contracts is included if it has a bearing/interface to the books of accounts
- PPE/intangible registers/End-user tools included if it has a direct auto feed
- Back-up workings/spreadsheets not leading to auto feed are not covered

### What controls should management ensure are in place?

- Identification of all software under use including functions outsourced to a service organisation
- Design and implementation of internal controls demonstrating functionality of audit trail throughout the year
- Ensure restricted administrative rights
- Ensure trail is not disabled or deactivated at any point of time
- Ensure User IDs are not shared
- Ensure software not only creates the edit log but also the user id and time
- Ensure periodic backups
- Availability of IS Audit reports like SOC2 where service organisations are involved

### What aspects would auditors report?

- Software configuration
- Access and changes to configurations
- Periodic review mechanism
- Completeness and accuracy of trail
- Management's approach regarding identification of accounting software
- Evaluating involvement of specialists or IT experts
- Reports of any testing by the management or internal auditors
- Preservation of audit trail logs
- Effectiveness of general IT controls that may pose risk on configurations or retention of records

### What may lead to a modified audit opinion on audit trail?

- Non-identification of all transactions
- Absence of audit trail on any software
- Disablement of audit trail at any point
- Non preservation of records
- Traces of tampering with the audit trail
- Shakiness on automated controls
- No exception for non-functionality of trail on account of technical glitches or loss of edit log due to transition

### Other key points on reporting by auditors

- Applicable for standalone as well as consolidated financial statements
- Test checks and concept of materiality for sample selection would apply
- Globally, no such reporting exist
- No reporting on details of trail logs or effective date of implementation
- Modified comment on audit trail may have consequential impact on reporting in relation to maintenance of books of accounts



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