KIRTANE & PANDIT

APPLICABILITY OF AUDIT TRAIL, ITS IMPACTS AND REPORTING BY AUDITORS

KIRTANE & PANDIT

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- CA Akshay has led many engagements on due diligence, implementation of ICFR.
- CA Akshay is a regular speaker on various forums on Companies Act, ICFR, Audit and Financial Reporting matters.
- He was invited as technical expert on a talk show for 'Start up India' scheme on National television.

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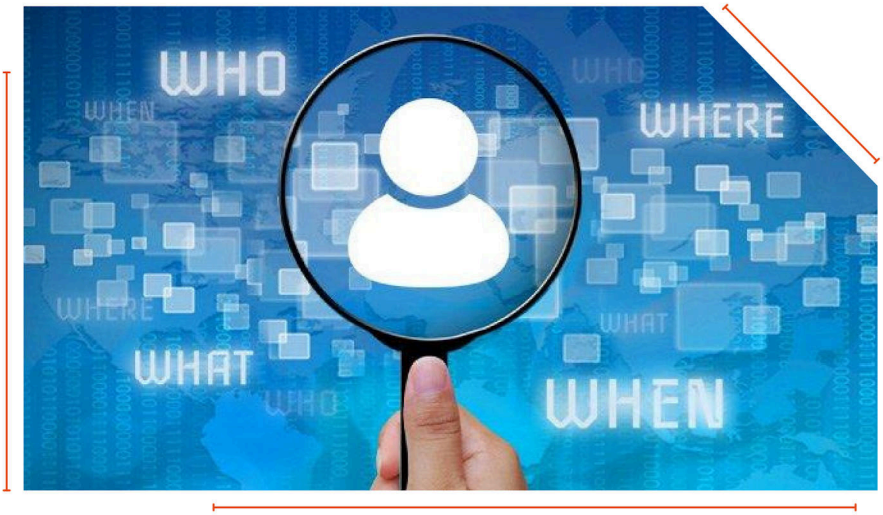
Background

The Audit Trail requirement which is applicable from April 1, 2023 is expected to facilitate the management, auditors, regulators to check the flow of transactions in books of accounts and verify if its tampered or manipulated. The government is constantly trying to bring more transparency which would enable various authorities to detect the motive of the change where red flag is raised.

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' (hereinafter referred as "the Audit Rules") read with sub-section 3 of Section 143 of the Companies Act, 2013 (hereinafter referred as "the Act") introducing new Rule 11(e), new Rule 11(f) and new Rule 11(g) and deleting Rule 11(d).

Globally, there is no similar reporting obligation exists for the external auditors. Recently the Institute of Chartered Accountants of India issued 'Implementation Guide on Reporting under Rule 11 (g) of the Companies (Audit and Auditors) Rules, 2014' on this new reporting requirement covering various aspects.



Applicability of Audit Trail

As per said notification this rule is applicable to all the Companies which uses accounting software for maintaining books of accounts. The requirement was initially made applicable for the financial year commencing on or after the 1st day of April 2021 vide notification G.S.R. 206(E) dated March 24, 2021. However the applicability was deferred to financial year commencing on or after April 1, 2022, vide MCA notification G.S.R. 248(E) dated April 1, 2021.

What is Audit Trail?

Audit trails (edit logs) are a chronological record of the changes that have been made to the data. Any change to data including creating new data, editing or updating or deleting data that must be recorded. It is a log of evidence enabling one to trace information contained in statements or reports back to the original input source.

Management' Responsibility

- Use accounting software from 1st April 2023 which has feature of recording Audit Trail for each and every transactions
- Audit Trail should have edit logs of each change
- Ensure that audit trail is not disabled
- Preserve the records including audit trail for a period of 8 financial years

Auditor's Responsibility

- Report on audit trail by making specific assertions under 'Report on Other Legal and Regulatory Requirements'
- Check whether audit trail feature can be disabled or tampered
- Check whether the audit trail feature is enabled throughout the year
- Check whether audit trail has been preserved for a minimum period of 8 financial years
- Check whether other tools/ software used has audit trail feature as well
- Check whether IT controls are established w.r.t Audit Trails for testing of internal controls and ICFR

Important aspects to be considered

- For FY2022-23 in absence of compliance requirements, auditors may not be able to report on appropriateness of audit trail since as per the Rules it will commence prospectively from 1st April, 2023.
- These rules are applicable to Foreign companies and Section 8 as well.
- For Companies maintaining accounting records manually, these provisions are not applicable.
- For Consolidated Financial Statements, Auditors need to report on this Rule on the basis of the reports of the Statutory Auditors of subsidiaries, associates, joint ventures
- Since most of the globally used ERPs have this feature of 'edit log'/ 'access control matrix' feature inbuilt, many Indian accounting software companies need to bring in this feature within their infrastructure.
- Companies using third party tools apart from Accounting software for payroll, fixed assets management, etc. need to ensure the compliance of these Rules for such tools as well.

As a Management responsibility, Companies need to check and ensure the audit trail feature for their Accounting software is working properly from 1stday of FY2022-23 and make one time assessment of other third party tools whether they are impacted by these Rules as well.

The MCA had already deferred this rule twice to give Companies sufficient time to make necessary changes in their accounting software. Considering the requirements detailed above, the accounting software should have necessary functional attributes and parameters which would make it compliant with the Accounting Rules. The managing director, CFO, whole time director in charge of finance function or officer in charge shall be responsible. The non compliance will attract fine which shall not be less than fifty thousand rupees and may extend to five lakh rupees.

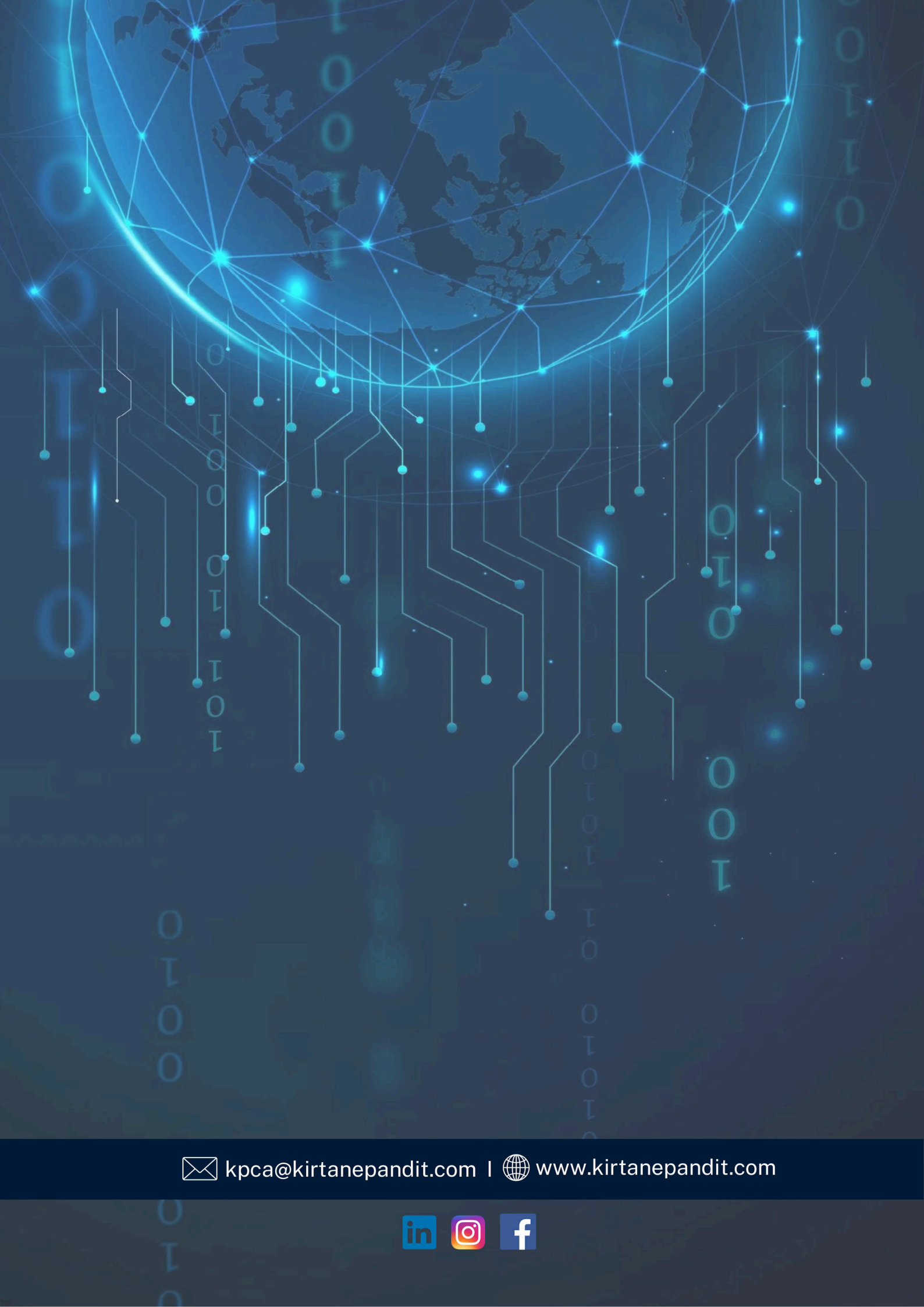
Overview of Kirtane & Pandit LLP

Kirtane & Pandit LLP, Chartered Accountants (KPCA) is an Accounting, Auditing & Consulting firm with a widespread established network of financial experts across India. With the "Step ahead, Always" motto, we partner your growth journey with the delivery of sound financial solutions & value added approach.

With an extensive experience of 65+ years, we deliver a wide range of professional services in the areas of Assurance, Accounting & Advisory to listed & reputed companies from varied industries across the globe.

We are registered member of PCAOB, SEC, USA & feature as an A category firm of RBI and C&AG.

- 6 decades of Experience
- Operating across India with 7 Offices
- 33 Partners
- 700+ Team of Professionals & experts
- Client spread across 30+ Industries
- Multinational Clientele parented from 17+ countries



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