



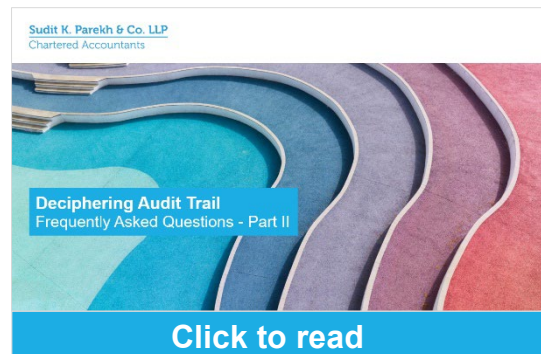
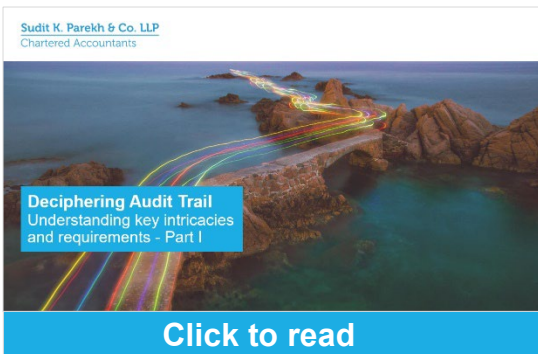
**Deciphering Audit Trail**  
Frequently Asked Questions - Part III

## Audit Trail

In our previous two articles on audit trail, we discussed the amendments brought in by the Ministry of Corporate Affairs (MCA) to mandate the use of accounting software with the audit trail feature. It discussed the responsibilities cast on management and the auditors, how it affects the other stakeholders. It also covered the frequently asked questions related to the use of accounting software in audit trail.

India is the first country to implement the requirements relating to audit trail, which is a novel reporting requirement, hence, nuances and challenges are expected. To assist the stakeholders, the Institute of Chartered Accountants of India (ICAI) issued a revised edition of its Implementation Guide titled 'Implementation Guide on Reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014 (Revised 2024 Edition)' (Implementation Guide or Guide). To apprise, this Guide clarifies certain additional aspects by way of frequently asked questions. Through this article, we discuss those aspects where the Guide provides further clarity.

### Read our previous articles on Audit Trail





## Frequently Asked Questions

### Audit trail reporting in limited review report

The Guide clarifies that the requirement to report on the audit trail is pursuant to section 143 of the Companies Act, 2013, which applies to the audit financial statements for the annual general meeting. Presently, in the absence of any specific requirement under the Companies Act, 2013 or any SEBI regulations, the requirement to report on the audit trail is not applicable for limited review reports.

### Applicability to accounting software that does not allow the transactions to be edited

Some accounting software does not allow any changes to the accounting entries posted in the software. However, the Guide clarifies that the audit trail requirement will apply to this software as well.

### Impact of General IT controls on audit trail

General IT controls are controls that apply pervasively rather than to a particular software. If the auditor concludes that General IT controls do not exist or are found to be not operating effectively, then the auditor needs to assess the impact that this will have on the configuration of the audit trail and its preservation. Auditors may use the work of an IT expert and need to conclude based on sufficient and appropriate evidence before doing a fact-based reporting on the audit trail.

### Use of service organizations

Some organizations outsource a part of their work to a service organization, for example, outsourcing of a payroll function. However, an audit trail requirement will apply in this scenario as well. Auditors would generally ask for a report on the internal controls at the service organization, commonly the Service Organization Control Type 2 (SOC 2) report or Standards on Assurance Engagement (SAE 3402), 'Assurance Reports on Controls at a Service

Organization report.' The ultimate responsibility for reporting on the audit trail lies with the statutory auditor. This report should cover the entire period under audit. In some cases, the service organization auditor may provide a report, for instance, up to 31 December 2024, whereas company's financial year ends on 31 March 2025. In such cases, the auditor may modify his reporting on the audit trail.

### Auditor's reporting on audit trail in case nothing adverse is found pursuant to checking of accounting records

The primary objective of the auditor is to express an opinion on the financial statements. An additional responsibility is to report on the audit trail. Nothing adverse is found pursuant to checking of accounting records will not be sufficient basis to report on requirements relating to the audit trail. An audit trail is fact-based reporting, and the auditor needs to evaluate separately whether the accounting software used by the company has the feature of the audit trail.

### Audit trail at database level

Some software retains only the last/latest changes to the transactions/events rather than retaining a log of each change. This will entail adverse reporting from the auditor since it will not constitute a proper audit trail as required by law.

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## Frequently Asked Questions

### Retaining Audit trail on servers physically located in India

Companies Act, 2013 requires that books of account of the company to remain accessible on servers physically located in India by way of a daily backup. This requirement of daily backup on servers physically located in India will also apply to records of the audit trail since these constitute the books of account.

### Reports that will constitute record of audit trail

What report will constitute a record of the audit trail will depend on the facts and circumstances of each case, including the accounting software used. However, alternative reports, such as voucher listing or other similar reports that provide a listing of all the transactions, will generally not serve as a record for the audit trail. These reports do not provide the details of the changes that were made to the transaction, the person making the changes, and when these changes were made.

### Impact of modified reporting on audit trail to other aspects of auditor's report

A modified reporting on the audit trail will trigger modification on other matters where reporting is required by the auditor. This will specifically be the case where the auditor is commenting on the existence of proper books of accounts and any reservations on maintenance of books of accounts pursuant to Section 143(3)(b) and section 143(3)(h) of the Companies Act, 2013.

The auditor will also consider the impact of such a modification when expressing an opinion on the financial statements. However, a modification to the audit trail reporting need not necessarily lead to a modification of the opinion on the financial statements.

### Use of spreadsheets

One of the common concerns amongst the companies was whether requirements of audit trail would apply to the spreadsheets, which are very commonly used as a part of the accounting process. The Guide clarifies that the audit trail will apply only in those situations where the spreadsheet provides direct and auto feed to the accounting software.

Spreadsheets may also be used for preparing calculations for example, calculation of depreciation or for the purpose of recording an entry in the books of account. In such cases, accounting entries are generally not auto-posted directly to the accounting software, and hence, the requirements of an audit trail do not apply.



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