

Implementation Guide on Reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Reporting under Rule 11(g) of the Companies
(Audit and Auditors) Rules, 2014**



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Foreword

The Ministry of Corporate Affairs (MCA) issued the Companies (Audit and Auditors) Amendment Rules, 2021 on March 24, 2021 introducing *inter alia* new Rules 11(e), 11(f) and 11(g) in the Companies (Audit and Auditors) Rules, 2014. The Rule 11(g) deals with reporting on the use of accounting software by a company for maintaining its books of accounts which has a feature of recording audit trail. This Rule cast onerous responsibility on the auditors as scope of reporting under this Rule is very wide.

I am happy to note that the Auditing and Assurance Standards Board (AASB) of ICAI has brought out this “**Implementation Guide on Reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014**” on this new reporting requirement. The Implementation Guide provides detailed guidance on various aspects so that they can discharge their duties more efficiently and effectively. The Implementation Guide specifies various scenarios for better understanding of the members and enables them to deal with the practical situations which may be faced by them while reporting under this Rule.

I compliment CA. (Dr.) Sanjeev Kumar Singhal, Chairman, CA. Vishal Doshi, Vice-Chairman and other members of the Auditing and Assurance Standards Board for their efforts in bringing out this Implementation Guide for the benefit of the members at large.

I am confident that the members and other interested readers would find this Implementation Guide immensely useful.

March 6, 2023
New Delhi

CA. Aniket Sunil Talati
President, ICAI

Preface

Section 143(3) of the Companies Act, 2013 prescribes various matters on which auditors are required to report in their auditor's report. Section 143(3)(j) states that auditor's report shall also state such other matters as may be prescribed. Rule 11 of the Companies (Audit and Auditors) Rules, 2014 specifies such other matters that are to be reported by auditors. The Ministry of Corporate Affairs vide notification dated March 24, 2021 issued the Companies (Audit and Auditors) Amendment Rules, 2021 which made various changes in Rule 11 of the Companies (Audit and Auditors) Rules, 2014. These changes include new Rule 11(g) which has prescribed a new reporting requirement for auditors. The Rule 11(g) requires auditors to report on the use of accounting software by company for maintaining its books of account which has a feature of recording audit trail. The Auditing and Assurance Standards Board (AASB) of ICAI decided to develop an Implementation Guide for providing appropriate guidance to the members on this new reporting requirement so that the members can discharge their responsibilities in an effective manner.

It gives us immense pleasure to place in hands of the members, this **"Implementation Guide on Reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014"** brought out by the Auditing and Assurance Standards Board. The Implementation Guide was initially developed by a study group constituted by the Board for this purpose and thereafter it was finalised with the contribution of the Board members. The Implementation Guide contains detailed guidance on various aspects of reporting under Rule 11(g) including the various audit procedures to be performed. The Implementation Guide will enable auditors of companies to comply with the reporting requirement under this Rule effectively.

We are extremely grateful to all members of the study group viz. CA. Shriniwas Y. Joshi, CA. Deepa Agarwal, CA. Sanjay Parekh, CA. Lalit Kumar, CA. Pritesh Amin, CA. Pranav Jain and CA. Ridhima Dubey for sparing time out of their other preoccupations to write this Implementation Guide. We express our sincere thanks to Shri K T Saravanabhava for his contribution in finalizing this Implementation Guide.

We would like to thank CA. Aniket Sunil Talati, Honourable President, ICAI, CA. Ranjeet Kumar Agarwal, Honourable Vice-President, ICAI and CA. Debashis Mitra, Honourable immediate Past President, ICAI for their guidance and support in various endeavours of the Board.

We wish to place on record high appreciation of all members of the Board for their active contribution in finalising this Implementation Guide. We appreciate the contribution made by CA. Megha Saxena, Secretary, AASB, CA. Devender Pandey, Consultant and other staff of AASB in finalising this Implementation Guide.

We are confident that the Implementation Guide would be well received by the members and other interested readers.

CA. Vishal Doshi
Vice Chairman, AASB

CA. (Dr.) Sanjeev Kumar Singhal
Chairman, AASB

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Introduction to Amendments to Rule 11(g) of Companies (Audit and Auditors) Rules, 2014

1. Section 143(3) of the Companies Act, 2013 provides various matters on which auditors are required to report in their auditor's report. Clause (j) of Section 143(3) states that auditor's report shall also state such other matters as may be prescribed. Rule 11 of the Companies (Audit and Auditors) Rules, 2014 specifies such other matters that are to be reported by the auditor.

2. 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).

Rule 11(g) is reproduced below:

"Whether the company, in respect of financial years commencing on or after the 1st April, 2022, 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."

3. 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. It may be noted that a new requirement for companies has been prescribed under the proviso to Rule 3(1) of the Companies (Accounts) Rules, 2014 requiring companies, which use accounting software for maintaining their books of

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account, to use only such accounting software which has audit trail feature. This requirement for companies was initially made applicable for financial year commencing on or after April 1, 2021. However, its applicability has been deferred two times and this requirement is finally applicable from April 1, 2023.

Text of Proviso to Rule 3(1) of Companies (Accounts) Rules, 2014	Text of Rule 11(g) of Companies (Audit and Auditors) Rules, 2014
Provided that for the financial year commencing on or after the 1st 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 the books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled.	Whether the company, in respect of financial years commencing on or after the 1st April, 2022, 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.

Introduction and Scope of the Implementation Guide

4. The purpose of this Implementation Guide is to enable the auditors to comply with the reporting requirements of Rule 11(g). It should be noted that this Implementation Guide provides the principle based guidance for reporting under the aforesaid Audit

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Rules and auditors are expected to exercise their professional judgement while reporting on such matters.

5. Globally, no similar reporting obligation exists for the auditors and accordingly there is no international guidance available on the subject to prescribe specific guidance to enable the auditor to obtain reasonable assurance and report accordingly under this clause. The auditor is expected to perform procedures in accordance with Standards on Auditing (which includes inquiry, observation, and examination, as applicable).

6. In the above backdrop, this Implementation Guide has been developed to provide detailed guidance for the auditors to enable compliance with reporting requirement under Rule 11(g).

A. Management's Responsibility

7. Proviso to Rule 3(1) of the Companies (Accounts) Rules, 2014¹ (hereinafter referred as “**the Account Rules**”) states that *for the financial year commencing on or after the 1st 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 the books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled.*

8. The amendments require every company that uses an accounting software to use such software that has a feature of audit trail which cannot be disabled. The management has a responsibility for effective implementation of the requirements prescribed by account rules i.e., every company which uses an accounting software for maintaining its books of account, should

¹ Inserted by the Companies (Accounts) Amendment Rules 2021 vide notification G.S.R. 205(E) dated 24th March 2021 w.e.f. 1st April 2021. Substituted for 1st day of April 2022 by the Companies (Account) Second Amendment Rules 2021 vide notification G.S.R. 247(E) dated 1st April 2021 and again substituted for “1st day of April 2023” by the Companies (Account) Second Amendment Rules, 2022 vide notification G.S.R. 235(E) dated 31st March 2022.

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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.

Thus, it is the management, who is primarily responsible for ensuring selection of the appropriate accounting software for ensuring compliance with applicable laws and regulations (including those related to retention of audit logs).

9. It should be noted that the accounting software may be 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. Further, a company may be using a software which is maintained at a service organisation. For example, the company may have outsourced its payroll processing with a shared service centre and the shared service centre may use its own software to process payroll for the company.

B. Auditor's Responsibility

10. Rule 11(g) casts responsibility on the auditor in terms of reporting on audit trail by making a specific assertion in the audit report under the section 'Report on Other Legal and Regulatory Requirements'. This has been explained in the paragraph below.

11. To elaborate, in addition to requiring auditor to comment on whether the company is using an accounting software which has a feature of recording audit trail, 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?

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- whether all transactions² 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?

It may be noted that any software used to maintain books of account will be covered within the ambit of this Rule. For e.g., if sales are recorded in a standalone software and only consolidated entries are recorded monthly into the software used to maintain the general ledger, the sales software should also have the audit trail feature since sales invoices would be covered under Books of Account as defined under section 2(13) of the Act. Auditors would need to evaluate whether management has also considered such software in their compliance to the Account Rules. Accordingly, 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.

12. It may be noted that the requirement of the accounting software having a feature of audit trail has been incorporated as a proviso to Rule 3(1) of the Account Rules and have been prescribed only in the context of books of account. This is evidenced by the fact that as per the proviso to the Rule, the accounting software should be capable of creating an edit log of ***“each change made in books of account.”***

However, Rule 11(g) requires the auditor to comment as to 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

² Proviso to Rule 3(1) of Companies (Accounts) Rules 2014 prescribes requirement of audit trail only in the context of books of account by stating that accounting software should be capable of creating an edit log of ***“each change made in books of account.”*** The auditors responsibilities have been prescribed for ***“all transactions recorded in the software”***

Accordingly, the auditor's responsibility under the Audit Rules is restricted to transactions which have been recorded in the accounting software and subsequent changes made to those transactions (which is demonstrated through rectification/ additional entries).

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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.

By reading of the Account Rules, it may be noted that companies are required to maintain audit trail (edit log) for each change made in the books of account. Accordingly, the term 'all transactions recorded in the software' would refer to all transactions that result in change to the books of account.

For example, creation of a user in the accounting software may be construed as a transaction in the software. However, creating a user account in the accounting software would not change the records of books of account as defined in Section 2(13) of the Act whereas adding a new journal entry or changing an existing journal entry will be construed as a change made in books of account.

13. Giving due cognizance to the definition of "books of account" as envisaged under Section 2(13) of the Act and Rule 3 of the Account Rules which provides for the management responsibilities for maintenance of books of account and other relevant books and papers maintained in electronic mode, the auditor would be expected to check whether the audit trail is enabled for such transactions which result in a change to the books of account.

C. Applicability

14. Considering the applicability date of the amended audit rules, it implies that the auditor is not required to assess appropriateness of audit trail of previous years and the assessment will be only for prospective financial years. As per the requirements as mentioned in paragraph 3 above, audit reporting will be triggered for financial years commencing on or after April 1, 2022, however, the applicability of the Account Rules will commence on or after April 1, 2023. Thus, there is likely to be a

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scenario for the financial year 2022-23 where in absence of compliance requirement for the companies, auditors would not be able to report under the Audit Rules.

15. The reporting requirements have been prescribed for audit of financial statements prepared under the Act. Accordingly, auditors of all class of companies including section 8 companies would be required to report on these matters. As per the Companies (Registration of Foreign Companies) Rules, 2014, the provisions of “Chapter X of the Act: Audit and Auditors” and Rules made there under apply, mutatis mutandis, to a foreign company as defined in the Act. Accordingly, the above reporting requirements would be applicable to the auditors of foreign companies as well.

16. The requirements of audit trail are applicable to the extent a company maintains its records in the electronic form by using an accounting software. Thus, where the books of account are entirely maintained manually – the assessment and reporting responsibility under Rule 11(g) will not be applicable and accordingly, same would need to be reported as statement of fact by the auditor against this clause.

17. The auditor is required to comment on the above matters both in case of standalone financial statements and consolidated financial statements. However, while reporting on consolidated financial statements, the auditor may observe that certain components included in the consolidated financial statements are (a) either not companies under the Act, or (b) some components are incorporated outside India. The auditors of such components are not required to report on these matters since the provisions of the Act do not apply to them.

18. It may be noted that section 129(4) of the Act which prescribes the requirements for consolidated financial statements including its audits has specifically stated that the provisions of the Act shall, mutatis mutandis, apply to the consolidated financial

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statements implying that necessary changes are required to be made to interpret the requirements in respect of consolidated financial statements and their audit. Accordingly, in line with the approach adopted in case of reporting on the consolidated financial statements on the clauses of section 143(3) of the Act, the reporting on compliance with Rule 11(g) would also be on the basis of the reports of the statutory auditors of subsidiaries, associates and joint ventures that are companies defined under the Act. The auditors of the parent company should apply professional judgment and comply with applicable Standards on Auditing, in particular, SA 600, "Using the Work of Another Auditor" while assessing the matters reported by the auditors of subsidiaries, associates and joint ventures that are Indian companies.

D. Preservation of Audit Trails

19. The auditor is required to comment whether 'the audit trail has been preserved by the company as per the statutory requirements for record retention'. Considering the requirement of Section 128(5) of the Act, which requires books of account to be preserved by companies for a minimum period of eight years, the company would need to retain audit trail for a minimum period of eight years³ i.e., effective from the date of applicability of the Account Rules (i.e., currently April 1, 2023, onwards).

E. Audit Approach

20. As part of the audit approach, the auditor would need to ensure that the management assumes the primary responsibility to:

- identify the records and transactions that constitute books of account under section 2(13) of the Act;
- identify the software i.e., IT environment including applications, web-portals, databases, Interfaces, Data

³ Year would imply 'Financial Year'.

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Warehouses, data lakes, cloud infrastructure, or any other IT component used for processing and or storing data for creation and maintenance of books of account;

- ensure such software have the audit trail feature;
- ensure that the audit trail captures changes to each and every transaction of books of account; information that needs to be captured may include the following:
 - when changes were made,
 - who made those changes,
 - what data was changed,
- ensure that the audit trail feature is always enabled (not disabled);
- ensure that the audit trail is enabled at the database level (if applicable) for logging any direct data changes;
- ensure that the audit trail is appropriately protected from any modification;
- ensure that the audit trail is retained as per statutory requirements for record retention;
- ensure that controls over maintenance and monitoring of audit trail and its feature are designed and operating effectively throughout the period of reporting.

In order to demonstrate that the audit trail feature was functional, operated and was not disabled, a company would have to design and implement specific internal controls (predominantly IT controls) which in turn, would be evaluated by the auditors, as appropriate. An illustrative list of internal controls which may be required to be implemented and operated are given below:

- Controls to ensure that the audit trail feature has not been disabled or deactivated.

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- Controls to ensure that User IDs are assigned to each individual and that User IDs are not shared.
- Controls to ensure that changes to the configurations of the audit trail are authorized and logs of such changes are maintained.
- Controls to ensure that access to the audit trail (and backups) is disabled or restricted and access logs, whenever the audit trails have been accessed, are maintained.
- Controls to ensure that periodic backups of the audit trails are taken and archived as per the statutory period specified under Section 128 of the Act.

21. In respect of identification of relevant transactions in context of maintenance of books of account, the auditor may consider performing the following procedures:

- Assess management's identification of records and transactions where audit trail needs to be captured and verify, on a test basis, whether the audit trail has been configured and enabled for the identified accounting software.
- Evaluate the management's approach regarding identification of accounting software which have been considered for the purposes of maintenance of audit trail. Refer **Appendix I** for an illustrative table.
- Inquire with the management on how they evaluated changes that are required for the maintenance of audit trail as part of changes or upgrades to the accounting software.
- Where applicable, consider involvement of specialists or experts in the field of Information Technology to assist in evaluation of management controls and configurations in the accounting software with regard to audit trail.

22. In case of accounting software supported by service providers, the company's management and the auditor may

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consider using independent auditor's report of service organisation (e.g., Service Organisation Control Type 2 (SOC 2)/SAE 3402, "Assurance Reports on Controls At a Service Organization") for compliance with audit trail requirements. The independent auditor's report should specifically cover the maintenance of audit trail in line with the requirements of the Act.

23. Most of the commonly used accounting software, including Enterprise Resource Planning (ERP) software, have an audit trail feature that can be enabled or disabled at the discretion of the company. The management of the company may have put in place certain controls such as restricting access to the administrators and monitoring changes to configurations that may impact the audit trail. Auditors are accordingly expected to evaluate management's policies in this regard and test such controls to determine whether the feature of audit trails have been implemented and operating effectively throughout the reporting period.

24. It is expected that management ensures that the administrative access to the audit trail is restricted to authorized representatives.

25. In this regard, the auditor may take into consideration the following aspects for every accounting software which is used in maintaining the "books of account" for the purpose of reporting:

- i. the software configuration that controls enabling or disabling of the audit trail and whether audit trail was enabled throughout the period.
- ii. the access to such configurations.
- iii. any changes to the audit trail configuration during the period of audit (during the financial year and also from the date of financial statements but before the date of auditor's report).
- iv. the periodic review mechanism implemented and operated by management for any changes to the audit trail configuration.

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- v. the completeness and accuracy of audit trail or edit logs that are generated through the software functionalities or directly recorded in the underlying database i.e., whether it captures the user ID that made the change, the date and time of change and what fields were changed by reviewing the reports or trails generated, on a test basis, to capture the required information or when the audit trail feature was disabled, etc.
- vi. any testing management has performed to assess the completeness and accuracy of the audit trail.

26. In respect of preservation of audit trails, inquire with management to understand the procedures implemented by the company to preserve the records as per the statutory record retention period. The auditor may review, on a sample basis, the audit trail records maintained by management for each applicable year and evaluate management controls for maintenance of such records without any alteration and retrievability of logs maintained for the required period of retention.

27. Unlike reporting on internal financial controls over financial reporting, Rule 11(g) requires the auditor to report that the feature of recording audit trail (edit log) facility has “operated throughout the year for all transactions recorded in the accounting software”.

Based on procedures performed, the auditor is expected to evaluate the reporting implications specifically giving due consideration to SA 250, “Consideration of Laws and Regulations in an Audit of Financial Statements”.

In respect of audit trail, following are likely to be expected scenarios:

- i. Management may maintain adequate audit trail as required by the Account Rules.
- ii. Management may not have identified all records/transactions for which audit trail should be maintained.

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- iii. The accounting software does not have the feature to maintain audit trail, or it was not enabled throughout the audit period.

Scenarios (ii) and (iii) mentioned above would result in a modified /adverse reporting against this clause.

Illustrative Wordings for Reporting

Illustrative reporting in case of Standalone Financial Statements

28. 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. [Additionally, the audit trail has been preserved by the company as per the statutory requirements for record retention.]⁴

Illustrative reporting in case of Consolidated Financial Statements

Unmodified reporting

29. Based on our examination which included test checks and that performed by the respective auditors of the subsidiaries, associates and joint ventures/joint operations which are companies incorporated in India whose financial statements have been audited under the Act, the company, subsidiaries, associates and joint ventures/joint operations have 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

⁴ This reporting would be relevant from the second year. In the first year of applicability, this sentence would not be reported upon.

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across any instance of audit trail feature being tampered with. [Additionally, the audit trail has been preserved by the company as per the statutory requirements for record retention.]⁵

Modified reporting

30. Based on our examination, which included test checks, and that performed by the respective auditors of the subsidiaries, associates and joint ventures/joint operations which are companies incorporated in India whose financial statements have been audited under the Act, except for the instances mentioned below, the company, subsidiaries, associates and joint ventures/joint operations have 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 and respective auditors of the above referred subsidiaries, associates and joint ventures/joint operations did not come across any instance of audit trail feature being tampered with. [Additionally, the audit trail has been preserved by the Holding Company and above referred subsidiaries, associates and joint ventures/joint operations as per the statutory requirements for record retention]⁶

Instances of accounting software for maintaining its books of account which did not had a feature of recording audit trail (edit log) facility and the same was not operated throughout the year for all relevant transactions recorded in the software	No of instances without mentioning name of the components. Example <i>"In respect of [...] of subsidiaries"</i>
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⁵ This reporting would be relevant from the second year. In the first year of applicability, this sentence would not be reported upon.

⁶ This reporting would be relevant from the second year. In the first year of applicability, this sentence would not be reported upon.

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Instances of audit trail feature being tampered with	
Instances of non-preservation of the audit trail	

In respect of financial year 2022-23, where management has not been mandated to use the accounting software with requisite audit trail facility, the reporting against this clause can be as illustrated below:

As proviso to rule 3(1) of the Companies (Accounts) Rules, 2014 is applicable for the company only w.e.f. April 1, 2023, reporting under this clause is not applicable.

Illustrative wordings for modified reporting

31. It may be noted that the reporting under this Rule requires factual reporting. In case a company has exceptions in complying to Account Rules, the auditor may use the language as given in examples below.

Examples of such circumstances where exceptions would need to be reported.

Nature of exception	Illustrative wordings
1. Audit trail feature was disabled for one of the books of account/ records or for an accounting software - (e.g., fixed asset software did not have audit trail)	"Based on our examination, the company, has used accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility except in respect of maintenance of fixed asset records wherein the accounting software did not have the audit trail feature enabled throughout the year. Further, the audit trail facility has been operating throughout the year for all relevant transactions recorded in the

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	software except for the instances reported below..... Further, during the course of our audit we did not come across any instance of audit trail feature being tampered with..
2. Audit Trail feature is not operating effectively during the reporting period	“.....except that the audit trail feature of YYY software used by the company to maintain payroll records did not operate throughout the year.....” “.....except that no audit trail enabled at the database level for accounting software AAA (database SQL) and BBB (database db2) to log any direct data changes.....”
3. Accounting software is maintained by third party and auditor is unable to assess whether audit trail feature can be disabled during the reporting period	“Based on our examination, the company, has used an accounting software ABC 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.”
4. The audit trail has not been preserved by the company as per the	“.....the audit trail has not been preserved by the company as per the statutory requirements for record

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statutory requirements for record retention.	retention” Note: This illustration is relevant from 2 nd year of reporting and onwards
5. Migration from one software to the other happened during the year or higher version of software installed and auditor is unable to obtain sufficient and appropriate evidence	The Company has migrated to [name of the software] from [old software/manual] during the 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.

Where the feature of audit trail has not operated throughout the year, the auditor would need to appropriately modify the comment while reporting under this clause and evaluate implication on the Other Legal and Regulatory reporting requirements, and the main audit opinion issued under SA 700, “Forming an Opinion and Reporting on Financial Statements”.

Special Consideration in case of Fraud Scenarios

32. An auditor may come across a scenario where occurrence of an error or fraud could not be established due to lack of maintenance, availability or retrievability of audit trails.

In evaluating the severity of a deficiency for such instances specifically in cases of fraud, the auditor should primarily consider two factors (a) the likelihood that the deficiency will result in a material misstatement, and (b) the magnitude of such an outcome.

In a nutshell, this scenario would, in essence, call for performing an assessment of risk of material misstatements due to fraud and would consider both qualitative and quantitative factors in assessing a deficiency or combination of deficiencies as a significant deficiency or material weakness and would accordingly

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require application of professional judgement while linking the reporting against Rule 11(g) and section 143(12) of the Act/clause (x) of the Companies (Auditor's Report) Order 2020 (as the case may be).

Reporting under Rule 11(g) vis-à-vis Reporting under Section 143(3)(i)

33. Section 143(3)(i) of the Act, where applicable under the provisions of the Act, requires the auditor to state in his audit report whether the company has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls. Guidance in this regard has been prescribed vide "Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the Guidance Note) issued by ICAI.

Paragraph 52 of the Guidance Note uses expression 'audit trail' to describe the control activities in relation to policies and procedures related to information processing system that may be relevant to an audit. However, the Guidance Note does not entail any detailed audit procedures in respect of reporting against Rule 11(g).

Accordingly, where the feature of audit trail has not operated throughout the year, the auditor may need to appropriately modify his comment while reporting under Rule 11(g) depending upon the further testing/examination as may be required to conclude the wider impact on the reporting implication.

Given below is an example of a scenario wherein management is unable to rely on the automated controls in an accounting software:

[This scenario presupposes a modified IFCoFR report due to inability of management to rely on the automated controls, where reporting under Section 143(3)(i) is applicable for the company]

"The company has used an accounting software for maintaining its books of account however for the reasons stated in [refer the reporting of IFCoFR] management is unable to rely on automated controls related to financial reporting in the accounting software

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and consequently we are unable to comment on audit trail requirements of the said software as envisaged under Rule 11(g).”

However, it should be noted that mere non-availability of audit trail does not necessarily imply failure or material weakness in the operating effectiveness of internal financial controls over financial reporting.

Obtaining Written Representations

34. The auditor shall obtain written representations from management on the following aspects:

- Acknowledging management's responsibility for establishing and maintaining adequate controls for identifying, maintaining, controlling, and monitoring of audit trails as per the requirements on a consistent basis.
- Stating that management has performed an evaluation and assessed the adequacy and effectiveness of the company's procedures for complying to the requirements prescribed for audit trails.
- Stating management's conclusion, as set forth in its assessment, about the adequacy and effectiveness of the company's procedures in relation to audit trails.
- Stating that management has disclosed to the auditor all deficiencies in the design or operation of controls maintained for audit trails identified as part of management's evaluation.
- Describing instances where identification of fraud, if any, resulting in a material misstatement to the company's financial statements is identified while reviewing and testing the samples related to the disablement of audit trail facility of the accounting software.
- Stating whether control deficiencies identified and communicated to the audit committee in relation to audit trail during previous engagements have been resolved, and specifically identifying any deficiency that have not been resolved.

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SA 580, “Written Representations” explains matters such as who may sign the letter, the period to be covered by the letter, and when to obtain an updated letter. Inability to obtain written representations from management including management's refusal to furnish them, constitutes a limitation on the scope of the audit. When the scope of the audit is limited, the auditor may either disclaim the audit opinion or resign from the engagement in accordance with Standards on Auditing.

Since the primary responsibility for establishing and maintaining audit trails is that of the management and the board of directors of the company, the management should ensure that the board of directors approving the financial statements of the company also takes on record the policies and procedures as laid down by the management in respect of assertion and conclusion on the adequacy and operating effectiveness of audit trails. Additionally, the board should also take on record the deficiencies, significant deficiencies and material weaknesses identified by the management, internal auditors, and the auditor.

Refer **Appendix II** for an illustrative Management Representation Letter.

Audit Documentation

35. The auditor may document the work performed on audit trail such that it provides:

- (a) a sufficient and appropriate record of the basis for the auditor's reporting under Rule 11(g); and
- (b) evidence that the audit was planned and performed in accordance with this Implementation Guide, applicable Standards on Auditing and applicable legal and regulatory requirements.

In this regard, the auditor may comply with the requirements of SA 230, “Audit Documentation” to the extent applicable.

Glossary of Terms

Audit Trail⁷ (or Edit Log) is a visible trail of evidence enabling one to trace information contained in statements or reports back to the original input source.

Audit trails are a chronological record of the changes that have been made to the data. Any change to data including creating new data, updating or deleting data that must be recorded.

Records maintained as audit trail may include the following information:

- **when** changes were made i.e., date and time (timestamp)
- **who** made the change i.e., User Id
- **what** data was changed i.e., data/transaction reference; success/failure

Audit trails may be enabled at the accounting software level depending on the features available in such software or same may be captured directly in the database underlying such accounting software.

Accounting Software is a computer program or system that enables recording, maintenance and reporting of books of account and relevant ecosystem applicable to business requirements. The functionality of such accounting software differs from product to product. Every organization today employs multiple software for accounting, its operations and other requirements like consolidation, collection of data. For the purposes of this Implementation Guide, only the accounting software which is relevant for maintaining books of account should be considered for enabling of audit trail.

"Books of Account" as per Section 2(13) of the Act includes records maintained in respect of—

⁷ Terms Audit Trail, Edit Log or Audit Log are used interchangeably and to carry the same meaning for the purposes of this Implementation Guide.

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- (i) all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;
- (ii) all sales and purchases of goods and services by the company;
- (iii) the assets and liabilities of the company; and
- (iv) 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;

Service Provider – An organization supplying services to one or more (internal or external) Customers.

Software as a Service a method of software delivery using licensing arrangements in which software is accessed online via a subscription, rather than bought and installed on individual computers.

Appendix I

Illustrative table showing the accounting software used by the Company

Name of the Accounting Software	Records maintained (Books of account)	Hosting Location	Maintained In-house or Outsourced	Data-base	Operating System	Audit Trail enabled
e.g., XYZ	Journal entries, sub-ledgers and general ledger	Company Data Center, Bangalore	In-house	XYZ	Windows 10	Yes
e.g., PQR	Sales Invoices, Inventory, Customer Ledger	SaaS / On Cloud	Outsourced Maintained by ABC Corp	PQR	Windows 10	Yes
e.g., ABC	Manufacturing Cost Records	Company Data Center, Bangalore	In-house	ABC	Windows 10	Yes

Appendix II

Illustrative Management Representation Letter

The following illustrative letter includes written representations that are required by this Implementation Guide, SA 580, “Written Representations” and other Standards on Auditing as applicable. It is assumed in this illustration that the relevant accounting software meets the essential characteristics as specified by the Account Rules; and that there are no exceptions to the requested written representations. If there are exceptions, the representations would need to be modified to reflect the exceptions.

(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in conjunction with your audit of the standalone/ consolidated financial statements of the Company for the year ended March 31, 20XX, for the purpose of reporting as to whether the accounting software used by the Company for maintaining its books of account, has a feature of recording 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 the audit trail cannot be disabled.

We confirm that to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

1. We are responsible for establishing and maintaining adequate and effective controls based on [mention control criteria] in respect of use of accounting software that entails the requisite features as specified by Account Rules.

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2. We have performed an evaluation and made an assessment of the adequacy and effectiveness of the company's accounting software in term of recording audit trail of each and every transaction.

3. We have not used the procedures performed by you during the audit as part of the basis for our assessment of the effectiveness of audit trails of accounting software.

4. Based on the assessment carried out by us and the evaluation of the results of the assessment, we conclude that the Company uses accounting software for maintaining its books of account which has a feature of recording 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 the audit trail cannot be disabled and the audit trail been preserved by the company as per the statutory requirements for record retention except for the below mentioned exceptions noted during our assessment and evaluation.

a. (brief of deficiencies)

b. (brief of the impact)

5. We have disclosed to you all deficiencies identified as part of management's evaluation, including separately disclosing to you all such deficiencies that we believe to be significant deficiencies or would lead to material weaknesses in internal financial controls.

6. There were no instances of fraud resulting in a material misstatement to the company's financial statements and any other fraud that does not result in a material misstatement to the company's financial statements but involves senior management or management or other employees who have a significant role in the company's internal financial controls. (or)
The following instances of fraud that resulted in material

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misstatement of financial statements in earlier years and frauds involving senior management or management or other employees who have a significant role in the company's internal financial controls were noted: (list instances and amounts involved).

7. The deficiencies identified in the previous engagement and communicated to the Company and those charged with governance have been remediated, except for the following: (.....) (This issue is not applicable in the first year)

8. There have been no communications from regulatory agencies concerning non-compliance with or deficiencies in accounting software.

9. We have provided you with:

- All information, such as records (including SOC report) and documentation, and other matters that are relevant to your assessment of accounting software;
- Additional information that you have requested from us;
- Unrestricted access to those within the entity.
- Audit reports of the component auditors, including their report under Section 143(3)(i) of the Act for the following subsidiary companies, jointly controlled companies and associate companies to whom reporting under Section 143(3)(i) is applicable.
- There are no other subsidiary companies, jointly controlled companies and associate companies of the company to whom reporting under Section 143(3)(i) is applicable and whose auditors have not issued their report under Section 143(3)(i) of the Act.
- In the case of the following subsidiary companies, jointly controlled companies and associate companies of the company to whom reporting under Section 143(3)(i) is

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applicable, the respective component's year end is other than that of the Company:

With respect to these components, we have provided to you the audit reports of the component auditors, including their report under Section 143(3)(i) of the Act for their respective financial year under the Act that has been considered in the preparation of the consolidated financial statements of the Company.

10. There are no changes in the accounting software from March 31, 20XX [balance sheet date] till the date of this representation letter. (or) The following changes have been made to the accounting software since March 31, 20XX [balance sheet date] and the date of this letter: (list changes and reason for the change).

11. These changes include corrective actions taken by us with regard to significant deficiencies with respect to the following: (list significant deficiencies).

12. The following changes to accounting software have been proposed as on date of this representation letter but have not yet been implemented: (list proposed changes and reason for the proposed change).

13. The changes to the accounting software since March 31, 20XX [balance sheet date] and the proposed changes that are under consideration by the Company do not impact our assessment, evaluation and conclusion of the accounting software as at March 31, 20XX [balance sheet date]

14. [Any other matters that the auditor may consider appropriate.]

For and on behalf of ABC Company Limited

.....

(Signature)
Name and Designation

(Signature)
Name and Designation