

Mandatory Accounting Audit trail feature

Ensuring a compliant financial reporting framework

Overview of Proviso to Rule 3(1) of Companies (Accounts) Rules, 2014

With effect from 1 April 2023, the Ministry of Corporate Affairs (MCA) has made it mandatory for companies to maintain an audit trail throughout the year for transactions impacting books of accounts. While the circular dated 24 March 2021 laid out the requirement for management to enable the “audit trail feature”, this was deferred twice, with the requirement now finally being applicable with effect from 1 April 2023.

Proviso to Rule 3(1) of Companies (Accounts) Rules 2014 specifies the requirement for each company to use accounting software that can record the “audit trail” to capture change history, including the “who”, “what”, and “when” for relevant transactions impacting the books of accounts.

It is the responsibility of the management to ensure the effective implementation of an “audit trail” and ensure its operating effectiveness through the year. This requirement applies to all accounting software, irrespective of the hosting location and deployment model.



Applicability

- Financial year starting from 1 April 2023
- All class of companies incorporated in India, including Sec 8 (NPO) companies and foreign companies
- Companies that maintain their records in electronic form



Management's responsibility

- Identify relevant applications
- Identify relevant records and transactions
- Configure audit trail feature and ensure operating effectiveness throughout the year
- Report exceptions and periodic monitoring
- Restrict access and take periodic backup
- Retain records for eight years



Challenges that may arise

- Additional storage requirements and supporting infrastructure
- Renegotiation of complex contracts for third-party vendor support
- Managing log tables without editing or disabling it
- Control or oversight of admin privilege usage
- Analysis or regular monitoring based on logs



Auditors reporting

- applicable from 1 April 2022, will include the following:
- Reporting per sec. 143(3)(j) on other matters prescribed under Rule 11 of the companies (audit and auditor) rules, 2014
 - Logging relevant records and applications
 - Obtaining “management representation” for effective implementation of the Audit Trail requirements
 - Year-round availability of the “audit trail” feature

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