

# FAQs ON AUDIT TRAIL

## **1. What is Audit Trail?**

➤ An audit trail is a set of documents that validate the transactions we record in our accounting books. Audit trail helps to track and verify an accounting transactions to its source. Each record in an audit trail includes information about what the event was, who created the event, and the day/time the event happened. An audit trail allows an auditor to trace the financial data from the general ledger to the source document (invoice, receipt, voucher etc.) and view the full process of a given transaction.

## **2. When was the notification for Audit Trail issued by MCA?**

➤ The Ministry of Corporate affairs (MCA) notified on 24th March 2021, “that for the financial year commencing on or after the 1st day of April, 2021, that 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 books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled.”

➤ However, the applicability was deferred by 1 year by amending the same vide Companies (Accounts) Second Amendment Rules, 2021. The new date of applicability was 1st April, 2022. Yet again, the MCA has amended the proviso vide Companies (Accounts) Second Amendment Rules, 2022 and has deferred the applicability by 1 more year.

➤ Hence the provision of audit trail is now applicable w.e.f. **1st April, 2023**.

## **3. What are the type of companies who must adopt audit trail feature from 1st April, 2023?**

➤ As per the Companies Act 2013, the new amendment released by the MCA will be applicable to the following companies :

- All Public and Private Limited Companies.
- One Person Companies (OPCs).
- Companies owned and managed by Central or State Government.
- Not-for-Profit Companies/Organization.
- Nidhi Companies.

## **4. Which businesses are outside the purview of audit trail feature?**

➤ The following businesses don't fall under the purview of the audit trail rule:

- Individuals
- Proprietorship concerns
- Partnership firms
- LLP-Limited Liability Partnership

## 5. What are the immediate actions to be undertaken/ensured by the companies?

- Ensure that your **existing software provides or will provide the audit trail (edit log)** facility on or before 1st April 2023.
- Consider **switching to different software if the audit trail feature is not available** by the deployment date.
- Considering that it's an entirely new change, and as a business, you should be well-prepared beforehand, it would be better to get accustomed to the new changes within the **application before 1st April 2023.**

## 6. What will audit trail feature will comprise of?

- All the businesses that fall under the purview of MCA and are using accounting software for maintaining books of accounts should have an audit trail feature comprising of the following:
  - Create an edit log of each change made in the books of account,
  - Capture the date details when such changes (edits) are made,
  - Software to ensure that the edit log cannot be disabled.

## 7. What records shall be tracked by Audit Trail?

- Audit Trail shall enable to track comprehensive information regarding the key financial transactions such as:
  - Any **changes** involved in the transaction
  - The **person who partook** in the transaction
  - The **time at which the transaction** took place
  - The **time at which the modification or edit** took place
  - Any **access** made to the accounts and records
  - Any transactions **deleted** shall also be recorded.

### ➤ **Example :-**

Accounting software provides the ideal example for audit trails. Once you enter a transaction in the software, the software will maintain a record of it. Any further edits made to the details, such as a change in the amount or change in the name against which the entry is made, will also be tracked by the software along with the user who made the changes and the time it was changed. Even if some transaction were to be deleted, the software will track that as well and keep the record of everything since the original entry was made.

This means that every transaction can be checked from its entry to its deletion. This eliminates the chance of anyone making fraudulent changes that cannot be traced and reduces the stress on business owners.

## 8. What are the benefits of an audit trail?

- **Accountability:** There are several internal and external benefits of having a strong audit trail. It makes sure that everyone who is involved in transacting business has the details that their actions are being recorded. This draws a clear path to hold a user who may have undertaken a fraudulent or erroneous transaction.
- **Intrusion detection:** If someone is not authorized to perform a certain activity, that will also be recorded. It will help in detecting that an unwanted entity has access to information they should not and help bolster security.

- **Fool proof:** There is also the advantage of proving that the company books are clean and in a healthy state which gives a big boost in the valuation of the company as well as generating funds through loans or by raising capital.
- **Staying compliant:** There is the obvious advantage of staying compliant with the laws of the land as well as internal policies.

### **9. What are the features of Tally Prime Edit Log Release 2.1 ?**

- The latest release '**Tally Prime Edit Log Release 2.1**', is enhanced with the edit log feature that caters to the amendment released by the Ministry of Corporate Affairs (MCA). Following are the features of Tally Prime edit log release:
  - Track the edits for masters and every transaction
  - Capture the date details and username when such changes (edits) are made
  - Reports are enhanced to filter the edited transactions
  - Designed to ensure edit log feature will be enabled all the time to meet the MCA guidelines of 'Edit trail cannot be disabled.'

### **10. What is the implication of using the new audit trail feature?**

- Audit Trail feature shall maintain the edit log of every transaction right from recording to tracking the changes that may take place. Hence this new rule shall bring transparency and restrict or reduce data manipulation of companies.
- It is undeniable that having an end-to-end log of all financial events like purchases, sales, and expenses can be proven beneficial to back trace any anomalies in the system. The edit log would, further, enable businesses to analyse each activity, thereby helping in remaining compliant.

### **11. Whether Company who does not uses any accounting software for maintaining its books of accounts have to comply with audit trail rule issued by MCA?**

- No, as the Notification issued by MCA states "every company **which uses** accounting software for maintaining its books of accounts, 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 books of account along with the date when such changes were made and ensuring that the audit Trail cannot be disabled"

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## INSTRUCTIONS TO INSTALL EDIT LOG

1. Update Tally Prime to Tally Prime 2.1 from <https://tallysolutions.com/download/>
2. Install Tally Prime Edit Log 2.1

**Edit Log for Company :** The Edit Log report under Company consists of all the activities in the Company data that may affect the existing Edit Logs for transactions and masters. This report is not to view the changes made on the Company screen.

**Activities Affecting Edit Log report:** The report is similar in Tally Prime and Tally Prime Edit Log. However, the list of activities will have minor differences.

**To view the Activities Affecting Edit Log report:** Press Alt+K (Company) > Edit Log and press Enter.

**A sample report in Tally Prime appears as shown below.**

Activities Affecting Edit Log			
Name: National Enterprises - (from 1-Sep-21)			
Sl No.	Activity	Username	Date & Time
4	Edit Log enabled	Admin	10-Mar-22 20:17
3	Company Data split	Admin	10-Mar-22 20:14
2	Edit Log disabled	Admin	10-Mar-22 20:04
1	Company Data migrated from TallyPrime	Admin	10-Mar-22 20:02

**How to View Edit Log for Transactions and Masters in Tally Prime Release 2.1 Onwards**  
Release 2.1 [https://youtu.be/J5ayW\\_CA\\_Zk](https://youtu.be/J5ayW_CA_Zk)

