# Pierag

## Audit Trail

# Financial Integrity and Accountability

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# Introduction

Rapid adoption and development of technology solutions has been one of the key enablers for India Inc.'s journey toward global prominence. This digital transformation journey was essential as India's business landscape is dynamic and complex, which spans traditional businesses to global conglomerates. As businesses modernized and expanded both in domestic and international markets, it also set into motion digitization of the accounting domain. While large corporations moved towards industry standard Enterprise Resource Management (ERP) solutions, traditional and mid-sized businesses adopted to several off-the shelf accounting solutions. SaaS based accounting solutions, catering to business of all sizes bridged the gap for business of any scale. The shift was not merely about efficiency; it was a proactive response to addressing the complexities of a globalized company and the push for digitization within the country as well.

The evolution of business and technology necessitated a corresponding overhaul of audit procedures by firms. Initially, the focus was on evaluating the general IT environment and business controls. However, as digital accounting matured, the demand for greater transparency and accountability intensified. This led to a crucial development: the logging functionality within these digital tools, previously either absent or disabled due to performance concerns and impact on IT infrastructure, tried to provide an answer in the form of detailed audit trails.

Comprehensive Audit trails have emerged as a new cornerstone for accountability as a result of the integration of business processes and technology. The audit trails are expected to function as a deterrent to financial misconduct. Robust corporate governance supported by technologically advanced accounting system will be critical to enhancing India Inc.'s expansion and enhancing its standing as a transparent and reliable business partner.

# Strategic Value of Audit Trails

An audit trail serves as a digital record of every financial transaction, including details about who performed the action, what action was performed, when it happened and how it happened. The comprehensive nature of such logging provides transparent and verifiable records, which enhance the reliability of financial data.

Audit trails aim to provide a greater degree of transparency and reliability as they are expected to record every change to books of accounts. Audit trails are already a legal requirement in India since April 01, 2023.

# Regulatory Framework

The push for audit trail comes from the Companies (Accounts) Rules 2014, where Rule 3(1) says any organization using accounting software must have a permanent audit trail that can't be turned off. It's got to automatically track every change in details with a timestamp, and keep those records on hand for audits.

Meanwhile, auditors, under Rule 11(g) of the companies (Audit and Auditors) Rules 2014, must verify that this feature was enabled all year and wasn't tampered with.

This rule isn't just for large organizations - it applies to every Indian Organization. Whether it's nonprofits under Section 08 or foreign entities, and covers everything from standalone to consolidated financial statements.
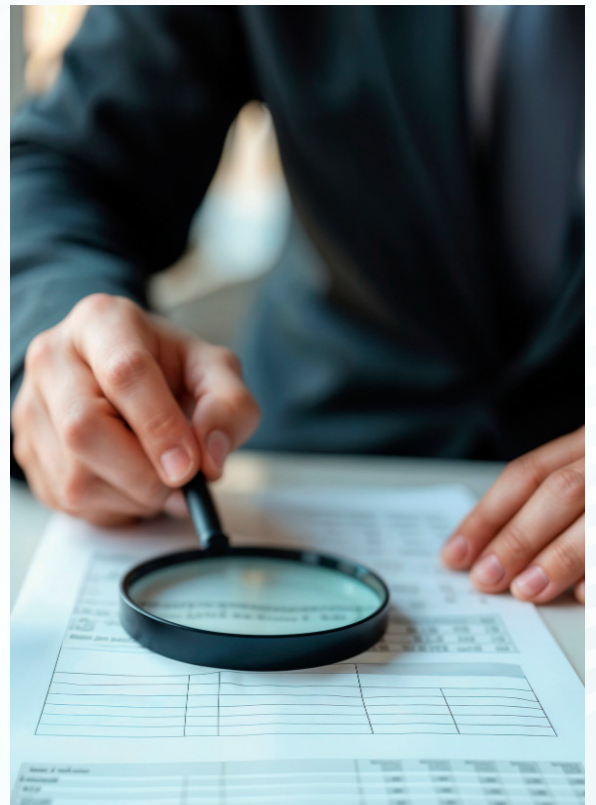
# Implementation Considerations

## Legacy System

Organizations have implemented systems in the past to address scalability and efficiency requirements, but those same systems weren't always designed with audit trails in mind. These systems often lack the flexibility or functionality to support robust audit trails.

## Complex IT Landscape

Complex IT landscapes, multi-cloud platforms, and legacy systems all add to the complex IT landscape, and identifying and managing audit trails within this environment can be challenging.

## Diverse Transaction Sources

With multiple systems across an organization's landscape, each supporting critical tasks such as payroll, invoicing etc. the number of data sources may significantly complicate the aggregation of information required to construct a comprehensive and robust audit trail.

## Dispersed Log Sources

While multiple information sources adds to the complexity of a comprehensive audit trail, so do dispersed log sources. The required information isn't missing - it could be scattered across servers, local storage, cloud environment, which means teams must put in extra efforts to gather it all and ensure no detail is unnoticed.

# Audit Trails: Off by Default & Easily Disabled

Modern applications which do provide audit trail features generally have this disabled right out of the box to lighten the load on performance or simplify things for basic users, but it shifts the onus onto System Administrators to manually enable them. System Administrators by themselves may not have all the required input from a regulatory lens to determine which aspects to enable for audit trails. Further, disabling the log feature was also adopted as a practice to reduce impact on system efficiency and backup data volume.



# Challenges with Third Parties

A lot of organizations turn to third parties—such as Business Process Outsourcing (BPO) providers or technology service providers—to manage critical aspects of their operations. But a majority of these third parties do not give full access to audit logs due to either technological restrictions or other constraints. Irrespective of such restrictions may also result in adequate logging not being enabled.

# Cost Factor

Audit trails may generate a large volume of data, capturing every action, edit, time-stamp and preserving them for extended periods as per regulatory requirements may results in investing in bigger servers, more storage and backup systems. For smaller companies or those already running lean, this expense can feel like a heavy lift.

# Making It Work:
# A Grounded,
# Practical Approach

Organizations require a practical strategy, not theoretical frameworks, to establish and maintain successful audit trails. Organizations may consider the below points as they navigate through this journey:

## 01 Planning and Scoping

Organizations should first sketch out the broad picture to build a strong basis of efficient audit trail and for this, they should deliberate on :

- **Scope:** Which systems and data should be covered for tracking financial activities and form the Books of Accounts.
- **System Capability:** Can the current systems support audit trail.
- **Log Attributes:** Who did what, when, where, and the depth of logging available.
- **Retention and Security:** How best to ensure audit trail records stay easily available over time and are kept securely while maintaining their integrity.



## 02 Implementation and Configuration

Organizations should translate their strategy into an operational audit trail system:

- **Audit Trail Tool:** Which audit trail tools (e.g., native logging) best match with the organization's requirements and help comply with regulatory requirements.
- **Audit Trail Configuration:** Have audit trails been enabled and configured to meet the necessary requirements.
- **Secure Log Storage:** What measures are in place to ensure the confidentiality, integrity, and availability of audit logs.
- **Alerting and Monitoring:** What kinds of unauthorized activity should trigger alert? What process should be in place to notify the relevant personnel in the event of a breach?

## 03 Evaluating Audit Trail Effectiveness

To ensure an audit trail remains efficient and reliable, organizations should focus on :

- **Training Personnel:** Conduct trainings that helps IT administrators, security teams, and Business functions to develop a clear understanding of audit trail policies, procedures, and tools.
- **Periodic Review:** Define the best way to carry out regular reviews of the audit trail to identify operational problems, policy flaws, or security breaches.



## 04 Ongoing Monitoring and Improvement

To keep the audit trail effective organizations should consider the following:

- **Review Audit Trail Policy and Procedures:** Periodic reviews of audit trail feature, configuration to ensure the required features are working as expected.
- **Improve:** Track changes to business processes and data points to align with audit trail requirements.

# Conclusion

While Audit Trail are a legal requirements, they are also an opportunity for organizations exhibit greater transparency, accountability and integrity in financial reporting resulting in increased trust of its stakeholders, regulations and auditors.

Audit Trail further the cause of building confidence in digital transaction and corporate governance.

In today's rapidly changing business environment, an organization that is agile, compliant, focused on ongoing improvements, and fosters stakeholder trust will not only be better prepared to deal with complicated business settings, including regulatory demands, but will likely do so while maintaining sustainable and resilient operations.

# Pierag Consulting

Pierag Consulting was founded in February 2021 by Abhishek Gupta, Thomas Raffa and Pierian Services as a unique business model to serve clients globally by blending domestic proficiency with global expertise. Since then, we have been serving prominent clients across the US, SEA, India and UK in the field of Assurance, Accounting & Transactions Advisory, Business Risk, Technology Risk Advisory and ESG Services.

With more than 300+ team members and offices across India (Gurugram, Jaipur, Chandigarh, Mumbai and Bengaluru), US and Singapore, we are fueled by our purpose of 'Inspiring people to do things that inspires them' and our values of 'Excellence, Equity & Empathy'.

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