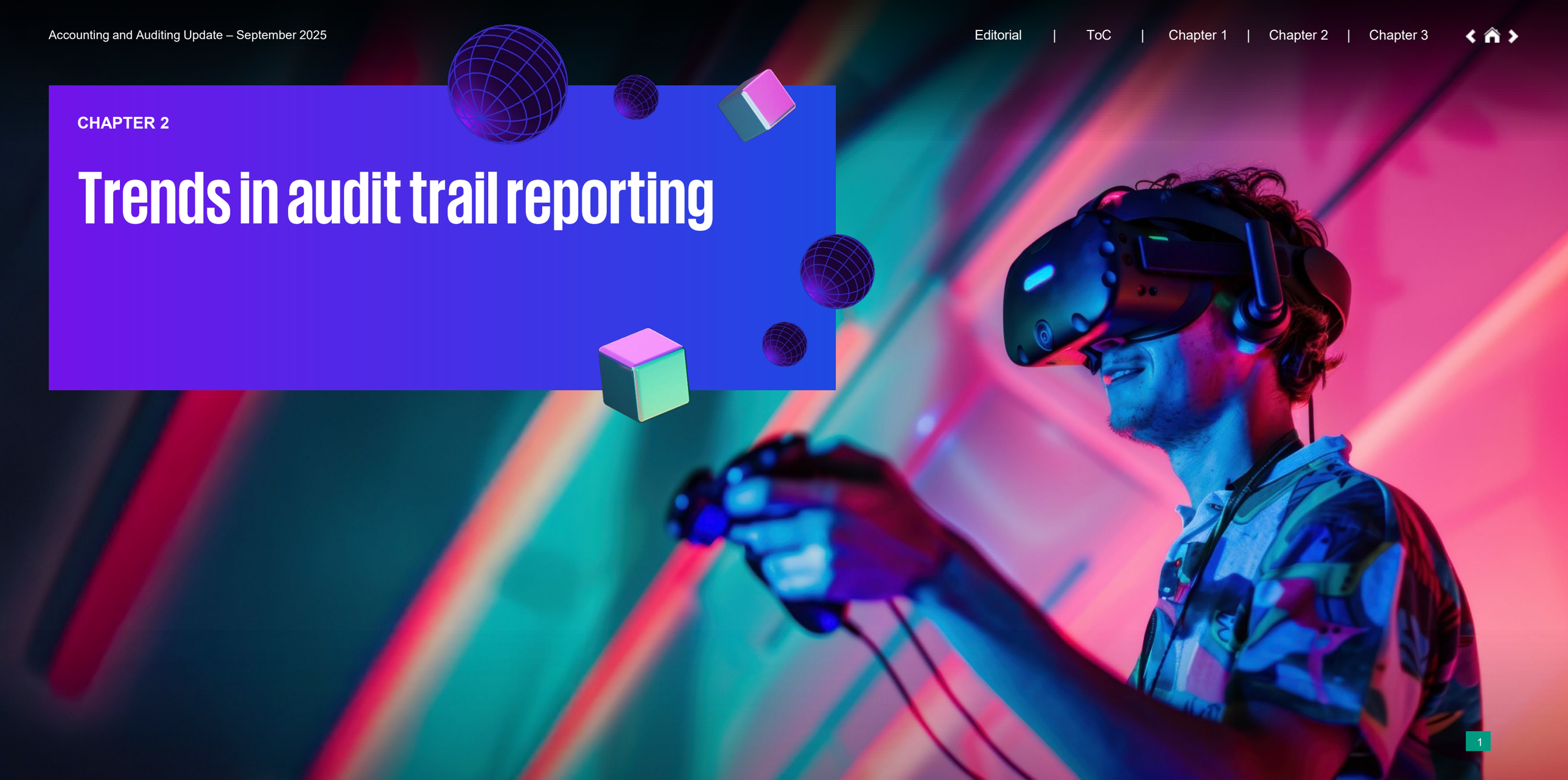
CHAPTER 2

Trends in audit trail reporting



In today's increasingly digitised corporate landscape, transparency and accountability are key pillars of financial governance. In keeping with this trend, the Ministry of Corporate Affairs (MCA) introduced a regulatory change effective 1 April 2023, mandating the Indian corporates to use only such accounting softwares which have an audit trail feature.

An audit trail is a system generated log that records every transaction and tracks changes made to the books of account, including the date, time and nature of each modification. This mechanism is essential for ensuring data integrity, traceability and fraud prevention. India's mandate for audit trail reporting underscores its global leadership in embedding digital controls directly into statutory financial reporting. Unlike other jurisdictions that encourage audit trails for internal controls, fraud prevention, or regulatory compliance purposes, India distinguishes itself by adding a formal reporting requirement on audit trail feature.

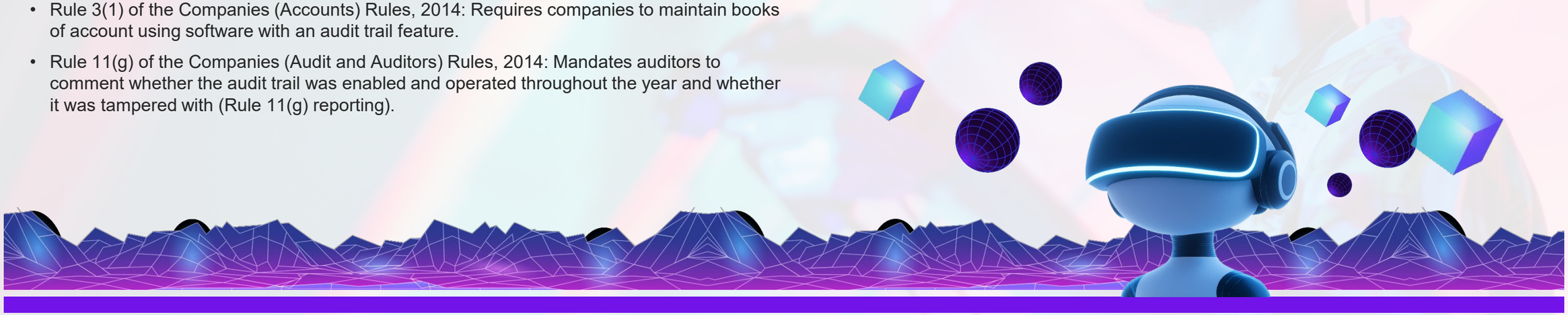
To operationalise these objectives, the MCA has set out specific responsibilities for both companies and auditors through two key rules under the Companies Act, 2013 (the 2013 Act):

- Rule 3(1) of the Companies (Accounts) Rules, 2014: Requires companies to maintain books of account using software with an audit trail feature.
- Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014: Mandates auditors to comment whether the audit trail was enabled and operated throughout the year and whether it was tampered with (Rule 11(g) reporting).

Financial Year 2023-24 (FY 24) marked the first year of applicability, while Financial Year 2024-25 (FY 25) introduced enhanced obligations requiring auditors to comment on preservation of audit trail for the prior year(s). This requirement mandates that companies preserve audit trail records without any alteration and retain them for a minimum period of 8 years from 1 April 2023 onwards.

The Institute of Chartered Accountants of India (ICAI) had also issued an Implementation Guide on Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014 (Implementation Guide), offering practical guidance on this new reporting requirement. It outlines management and auditor responsibilities, recommended audit approaches, Frequently Asked Questions on common issues, and the possible implications of modified reporting of Rule 11(g) on the reporting under Sections 143(3)(b) and 143(3)(h) of the 2013 Act.

This article focuses on reporting trends in the implementation of audit trail feature.



Profile of companies covered

This analysis focuses on audit trail reporting by auditors in the standalone financial statements of the top 100 listed companies on the National Stock Exchange (NSE) based on market capitalisation[1] from Nifty 500 Index dated 5 August 2025. The review primarily covers financial years ended 31 March 2025 (FY 25) and 31 March 2024 (FY 24).

Of the 100 companies covered:

- three companies follow a financial year-end other than 31 March and their most recent annual reports were not published at the time of this analysis;
- four companies are public sector banks, where auditors are not required to comment on compliance with the audit trail requirements.

Accordingly, these seven companies were excluded from this analysis. Consequently, the focus of the analysis is on trends observed across remaining 93 companies (subsequently referred to as covered companies).

The objective of this analysis is to evaluate how the auditors have reported on compliance with audit trail as part of Rule 11(g) reporting for the covered companies. The analysis specifically focuses on:

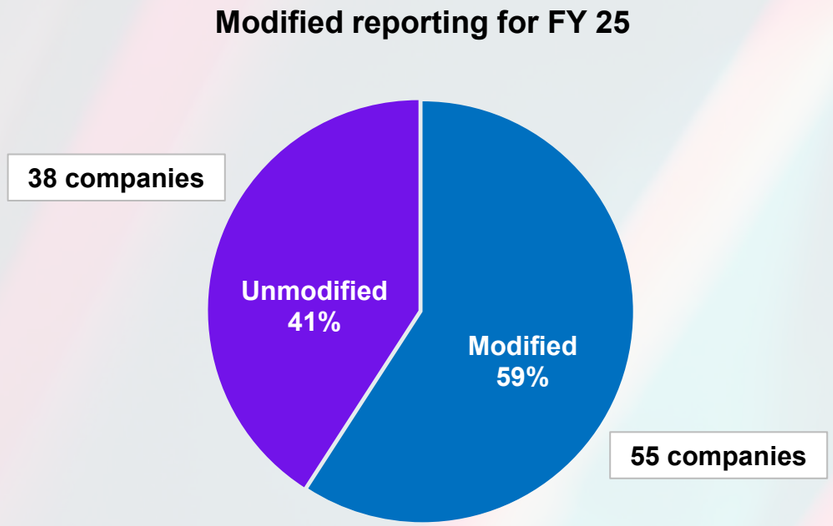
- the number of modifications in audit trail reporting for FY 25;
- the nature of exceptions reported; and
- a year-on-year comparison of audit trail reporting for FY 25 and FY 24.

1. List extracted from NSE Website > Products & Services > Capital Market > Indices > Broad Market Indices > Nifty 100 Index as on 5 August 2025.

Overview of number of modifications in audit trail reporting for FY 25

This section presents a snapshot of how auditors have reported on audit trail compliance for FY 25 across the covered companies.

The chart below summarises the number of modified Rule 11(g) reporting in FY 25.



(Source: KPMG in India's analysis, 2025 based on the primary data gathered for covered companies)

Our analysis

Out of the 93 companies analysed, 38 (41%) companies had unmodified audit trail reporting, indicating full compliance or no exceptions, while 55 companies (59%) had modified audit trail reporting in FY 25. These modifications indicate exceptions or observations related to the audit trail feature including tampering and/or preservation of audit trail.

In case of 48 out of the 55 modified reports, the modification also impacted auditor reporting under:

- Section 143(3)(b) of the 2013 Act – relating to maintenance of proper books of account as required by law; and
- Section 143(3)(h) of the 2013 Act – on qualification, adverse remarks or reservation relating to the maintenance of accounts and other matters connected therewith.

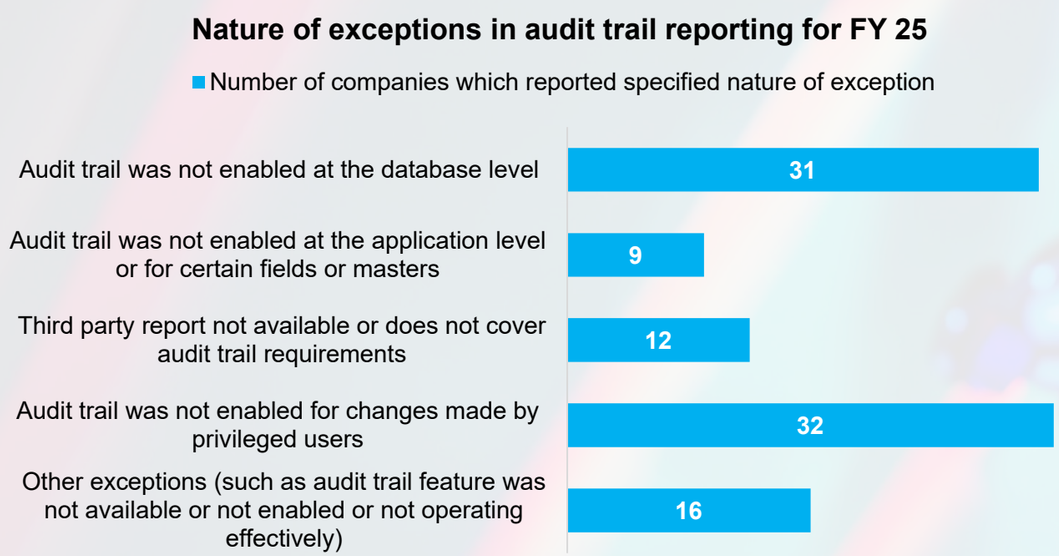
Notably, for all 55 companies with modified reporting on audit trail, the respective statutory auditors did not identify any material weakness in relation to the respective companies' internal financial controls with reference to financial statements. It is relevant to note that the Implementation Guide requires auditors to evaluate the impact of any exceptions noted in audit trail on the internal financial controls with reference to financial statements.

The high proportion of modified reports suggests initial implementation challenges that the companies are facing in complying with the new audit trail requirements and indicating that full compliance is still a work in progress.

Nature of exceptions reported in FY 25

This section explores the nature of exceptions reported by auditors, excluding those specifically related to the reporting on preservation of audit trail. It offers insights into the possible challenges companies are facing. The chart below highlights the types of exceptions observed across 55 companies where audit trail reporting was modified during FY 25.

While some exceptions had consequential references to tampering with the audit trail feature, no distinct exceptions solely attributable to tampering were noted. Therefore, exceptions related to tampering have not been considered separately in the below chart.



(Source: KPMG in India's analysis, 2025 based on the primary data gathered for covered companies)

Our analysis: The chart highlights recurring themes identified across 55 companies, noting that individual companies may exhibit more than one audit trail related exception. These exceptions have been grouped into five broad categories based on the source of exception, providing insights into the nature of implementation challenges companies are facing:

- Database level: Audit trail feature was not enabled at database level.
- Application-level: Audit trail feature was not enabled at application level or for certain fields or master data.
- Privileged user access: Audit trail feature was not enabled for changes made by privileged users.
- Third party report: Unavailability of reports or reports from third-party service providers that do not include information on audit trail reporting.
- Other exceptions: These include a range of issues such as absence of an audit trail feature, audit trail feature not being enabled at the software level, operating ineffectiveness of audit trail feature or situations where the auditor was unable to test or comment on audit trail feature.

The most prevalent issue noted was the audit trail feature not being enabled for changes made by privileged users at both database and application levels. This was followed by instances where the audit trail feature not enabled at database level. Less common exceptions included audit trail feature not being enabled at application level, or for specific fields or master data, as well as incomplete reports or absence of reports from third-party service providers. A small number of modified reports cited issues such as absence or ineffectiveness of the audit trail feature, audit trail feature not being enabled at software level, or situations where auditors were unable to test the audit trail functionality.

Nature of exceptions reported in FY 25 (Contd.)

When compared to FY 24, it was noted that the nature of exceptions reported in FY 25 remained largely consistent, suggesting that companies continue to face similar challenges in fully implementing and maintaining audit trail functionality in line with regulatory expectations.

Furthermore, the table below presents a quantitative analysis of number of companies in which auditors reported distinct audit trail exceptions across the 55 modified reports for FY 25.

Number of distinct exceptions reported in audit report for FY 25	Count of companies
1	17
2 to 3	26
More than 3	5

(Source: KPMG in India's analysis, 2025 based on the primary data gathered for covered companies)

Our analysis:

Of the 55 companies with modified audit trail reporting in FY 25, 7 companies did not report any exception on audit trail reporting other than related to preservation of audit trail, which is excluded from this analysis.

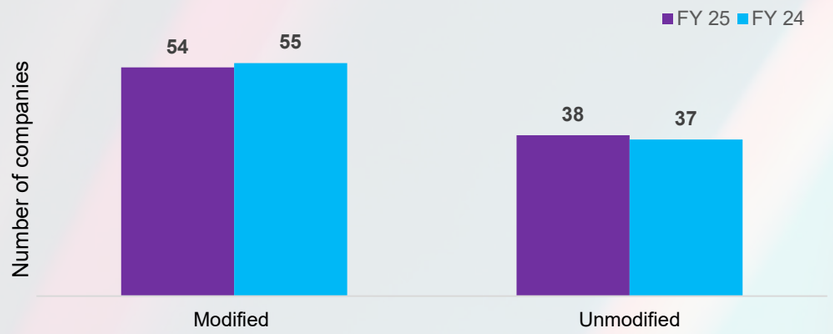
Out of the remaining 48 companies, 17 companies reported a single exception suggesting isolated gaps. In contrast, approximately 65 per cent (31 out of 48) of the companies had multiple exceptions noted in their audit reports.

It is important to note that the number of exceptions reported for companies should not be viewed as directly proportional to the number of softwares or systems in use by such companies. The nature of exceptions reflects how effectively these systems enable audit trail feature rather than how many systems are used by these companies.

Year-on-year comparison of modified reports on audit trail: FY 25 compared with FY 24

A year-on-year comparison of audit trail reporting provides valuable insight into both progress and persistent challenges in achieving compliance. Analysing the pattern of modified and unmodified audit reports on audit trail across FY 24 and FY 25, one can assess how much regulatory emphasis and digital enablement efforts are translating into improved outcomes.

Audit trail reporting - FY 25 Vs FY 24



(Source: KPMG in India's analysis, 2025 based on the primary data gathered for covered companies)

Our analysis:

Audit trail reporting across the 92 companies (out of the 93 covered companies, Rule 11(g) reporting was not applicable to one company in FY 24. Accordingly, it has been excluded for the purposes of year-on-year comparative analysis) shows a consistent pattern of modifications year over year. In FY 25, 54 companies had modified reporting on audit trail, while 38 companies had unmodified reports. This closely mirrors FY 24, where 55 companies had modified reporting and 37 were unmodified.

Although the net movement is just one company, the composition of the companies has changed. Notably, three companies fully addressed all prior-year exceptions related to audit trail requirements. Conversely, two companies that previously had unmodified reporting experienced new exceptions in FY 25, highlighting the evolving and complex nature of audit trail risks.

This steady level of modified reporting is not necessarily a sign of stagnation. Instead, it reflects the practical constraints companies face due to their reliance on software service providers. Until systems are upgraded or replaced, fully addressing audit trail gaps may remain challenging. These limitations should hence be considered within the broader context of each company's ongoing digital transformation journey.

Shifting compliance landscape

Audit trail reporting is ushering in a new phase in India's compliance landscape, reflecting a growing maturity in digital financial governance. Companies are no longer dealing with just the basics, they're now facing more advanced challenges like tracking changes at database level, managing privileged access, and ensuring long-term preservation of audit trail.

A comparative analysis of FY 24 and FY 25 audit reports reveals that implementation challenges persist. Despite regulatory mandates, a significant number of companies continue to have exception reporting in relation to audit trail. While audit trail non-compliance doesn't automatically impact internal financial controls, its implications must be critically evaluated. Access controls, which are central to General IT Controls (GITCs), are often affected by audit trail exceptions making it essential for companies to assess how these gaps influence their overall control environment. Companies should not overlook the fact that audit trail lapses especially those involving privileged access or ineffective logging can undermine the reliability of financial data and the strength of GITCs.

To address these issues, finance teams should proactively disseminate audit trail requirements to IT teams, ensuring that compliance is considered during system upgrades or new software acquisitions. However, remediation is often not straightforward. Since audit trail functionality is typically embedded deep within the software architecture, resolving exceptions may require replacing the software entirely or upgrading to a compliant version.

This makes cross-functional collaboration critical. Procurement and contracting teams should be aligned with IT and finance teams to ensure that future acquisitions or upgrades meet audit trail requirements from the outset. Early engagement with vendors and clear contractual expectations can help eliminate recurring exceptions and reduce compliance risk.

Finally, companies should recognise that audit trail compliance is not a one-time fix, but a continuous journey. Companies that act early, align teams, and embed audit trail into their governance and technology frameworks will reduce compliance risks and build lasting trust with regulators and stakeholders.