

Rules pertaining to manner of maintaining books of accounts in electronic mode by companies amended

Section 128 of the Companies Act, 2013 states that every company should prepare and keep at its registered office books of account and other relevant books and papers and financial statement for every financial year which give a true and fair view of the state of the affairs of the company. Also, the company may keep such books of account or other relevant papers in electronic mode in such manner as may be prescribed in the Companies (Accounts) Rules, 2014.

The Ministry of Corporate Affairs (MCA) has notified the Companies (Accounts) 4th Amendment Rules, 2022 on 5th August 2022 by amending Rule 3 - *Manner of Books of Account to be kept in Electronic Mode* of the Companies (Accounts) Rules, 2014 .

Amended Rule 3 states the following:

- ▲ The books of account and other relevant books and papers maintained in electronic mode by the company should be accessible in India **at all times** so as to be usable for subsequent reference.

For financial year commencing on or after the 1st April 2023 (*earlier 1st April 2022*) every company which uses accounting software for maintaining its books of account, should 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.

- ▲ The books of account and other relevant books and papers referred to above should be retained completely in the format in which they were originally generated, sent or received, or in a format which will present accurately the information generated, sent or received and the information contained in the electronic records should remain complete and unaltered.
- ▲ The information received from branch offices should not be altered and should be kept in a manner where it will depict what was originally received from the branches.
- ▲ The information in the electronic record of the document should be capable of being displayed in a legible form.
- ▲ There should be a proper system for storage, retrieval, display or printout of the electronic records as the Audit Committee, if any, or the Board may deem appropriate and such records should not be disposed of or rendered unusable, unless permitted by law.
- ▲ The company is required to keep a back-up of books of accounts and other books and papers which are in electronic mode, including at a place outside India, in servers physically located in India on a **daily basis** (*earlier periodic basis*) .

- ▲ At the time of filing of financial statement , the company is required to intimate to the Registrar on an annual basis,
 - the name of the service provider;
 - the internet protocol address of service provider;
 - the location of the service provider (wherever applicable);
 - where the books of account and other books and papers are maintained on cloud, such address as provided by the service provider.
 - **the name and address of the person in control of the book of accounts and other books and papers in India, where the service provider is located outside India.**

Emphasis added on the amendment

*Auditor Reporting on Audit Trail

As per Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014, following should be included in the Auditors Report:

Whether the company, in respect of financial years commencing on or after the 1st April 2023, 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.

CNK Comments

- ▲ *All companies registered under the Companies Act, multinational companies operating in India including foreign entities like airlines, etc., who have to maintain books of account and submit financial statements for their Indian operations, will have to make available of back up of their books on daily basis (on servers located in India) and also maintain an audit trail of all transactions.*
- ▲ *Auditors will also need to report on the adherence of the above requirements.*
- ▲ *Companies will have to ensure to have robust technology mechanisms in place to comply with these MCA requirements.*

Disclaimer and Statutory Notice

This e-publication is published by CNK & Associates, LLP, Chartered Accountants, India, solely for the purposes of providing necessary information to employees, clients and other business associates. Whilst every care has been taken in the preparation of this publication, it may contain inadvertent errors for which we shall not be held responsible.

This document is a proprietary material created and compiled by CNK & Associates LLP. All rights reserved. This newsletter or any portion thereof may not be reproduced or sold in any manner whatsoever without the consent of the publisher.

This publication is not intended for advertisement and/or for solicitation of work.

MUMBAI

3rd Floor, Mistry Bhavan, Dinshaw Vachha Road,
Churchgate, Mumbai. 400 020, India.
Tel: +91 22 6623 0600

501/502, Narain Chambers, M.G. Road,
Vile Parle (East), Mumbai 400 057, India.
Tel: +91 22 6250 7600

www.cnkindia.com

Bengaluru: +91 80 2535 1353

Chennai: +91 44 3500 3458

Vadodara: +91 265 234 3483

Ahmedabad: +91 79 2630 6530

GIFT City: +91 79 2630 6530

Delhi: +91 11 2735 7350

Pune: +91 020 2998 0865

Dubai: +971 4 3559533