

INDIA LEGAL UPDATE

June 16, 2023

MCA strengthens the manner of keeping books of accounts in electronic mode by maintaining audit trail and enhances the list of matters to be included in the Board's Report

Notification Date:

March 24, 2021; April 1, 2021
and March 31, 2022

Effective Date:

April 1, 2023

Legal Framework:

Companies Act, 2013
Companies (Accounts) Rules,
2014

Government Authority:

Ministry of Corporate Affairs

Weblink:

[Companies \(Accounts\) Amendment Rules, 2021;](#)
[Companies \(Accounts\) Second Amendment Rules, 2021;](#)
[Companies \(Accounts\) Second Amendment Rules, 2022.](#)

LEGAL UPDATE

Manner of Books of Account to be Kept in Electronic Mode

- The Companies (Accounts) Amendment Rules, 2021 added a proviso stating that **w.e.f. April 1, 2021**, companies using accounting software for maintaining its books of account, shall use only such accounting software which:
 - has a feature of recording **audit trail** of each 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.

Matters to be included in the Board's Report

- With effect from **April 1, 2021**, following clauses are also added to the scope of the matters that should be included in the Board's Report:
 - the details of application made or any proceeding pending under the IBC, 2016 (Insolvency and Bankruptcy Code) during the year along with their status as at the end of the FY; and
 - the details of difference between amount of the valuation done at the time of one-time settlement and the valuation done while taking loan from the Banks or Financial Institutions along with the reasons thereof.

Companies (Accounts) Second Amendment Rules, 2021 – Extension of Time

Vide Notification dated April 1, 2021, the effective date for the implementation of the amendment introduced in the provisions relating to manner of books of accounts to be kept in electronic mode under the Companies (Accounts) Amendment Rules, 2021 is changed to **April 1, 2022** from April 1, 2021.

Companies (Accounts) Second Amendment Rules, 2022 – Further Extension of Time

Further, as per Notification dated March 31, 2022, the above-mentioned effective date is further extended; it shall become implemented from **April 1, 2023** instead of April 1, 2022.

Points to Remember

Particulars	Effective Date	Original Date
Audit Trail is to be compulsorily incorporated in Accounting Software.	April 1, 2023	April 1, 2022
Additional matters to be included in the board report.	April 1, 2021	-

KEY QUESTIONS

Is there any auditors' responsibility related to Audit Trail?

Rule 11(g) of the Companies (Audit and Auditors) Amendment Rules, 2021 casts responsibility on the auditor in terms of reporting on audit trail by making a specific assertion in the audit report under the section 'Report on Other Legal and Regulatory Requirements'. In addition to requiring auditor to comment on whether the company is using an accounting software which has a feature of recording audit trail, the auditor is expected to verify the following aspects:

- whether audit trail feature is configurable (i.e., if it can be disabled or tampered with);
- whether audit trail feature was enabled/operated throughout the year;
- whether all transactions recorded in software are covered in the audit trail feature; and
- whether the audit trail has been preserved as per statutory requirements for record retention.

Is there any penal consequence in case of failure?

As per Section 128 of the Companies Act, 2013, the person charged by the Board with a duty to comply with the above provisions, if in case contravenes these provisions, such person shall be punishable with a **minimum fine of Rs. 50,000 which may extend upto Rs. 5,00,000.**

CLOSING REMARKS

These Amendment Rules aimed at enabling businesses to track all financial activities with transparency and detect frauds in time.

Queries?

If you have any queries about this article, please reach out to our experts:



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