

# Electronic Books of Accounts

**- KEY HIGHLIGHTS**





### OVERVIEW FOR MAINTAINING BOOKS OF ACCOUNTS

- Section 128 of the Companies Act, 2013 (“Act”) requires every company to prepare and keep the books of account, other relevant books and papers and financial statements for every financial year which gives a true and fair view of the state of the affairs of the company (including its branches) at its registered office.
- A company is permitted to keep its books of account or other relevant papers in an electronic mode subject to the requirements prescribed under Rule 3 of the Companies (Accounts) Rules, 2014 (“Accounts Rules”).
- The Ministry of Corporate Affairs (“MCA”) has issued the Rules to amend provisions under Rule 3 of the Accounts Rules relating to the manner in which books of accounts are to be kept in an electronic form.
- With this, Indian government authorities seek to always have access to books of accounts of Indian companies, even if such books are maintained in electronic form in servers located outside India.



### KEY POINTS FOR MAINTAINING BOOKS OF ACCOUNTS IN ELECTRONIC MODE

- The key points for consideration in maintaining books of accounts electronically after the amendments to Rule 3 of the Accounts Rules are as under:
  - **Accessibility at all times:** The books of account and other relevant books and papers shall remain accessible in India, at all times.
  - **Legibility:** The information in the electronic record of the document shall be capable of being displayed in a legible form.
  - **Un-editable audit trail facility for every transaction:** For the financial year commencing on or after the 1st April, 2023, every company using an accounting software for maintaining its books of account, shall use only such accounting software which has a feature of recording audit trail facility 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.
  - **Retention:** The books of account and other relevant books and papers are retained completely in the format in which they were originally generated, sent or received, or in a format which shall present accurately the information generated, sent or received and the information contained in the electronic records shall remain complete and unaltered.



### KEY POINTS FOR MAINTAINING BOOKS OF ACCOUNTS IN ELECTRONIC MODE

- **Details from branch offices:** The information received from branch offices shall not be altered and shall be kept in a manner where it shall depict what was originally received from the branches.
- **Backup:** Backup of the books of account and other books and papers of the company maintained in electronic mode, including at a place outside India, if any, shall be kept in servers physically located in India on a daily basis.
- **Storage & Retrieval:** Proper system for storage, retrieval, display or printout of the electronic records as the Audit Committee, if any, or the Board may deem appropriate must be available. These records shall not be disposed of or rendered unusable, unless permitted by law
- **Disclosure to ROC:** At the time of filing of annual financial statement to Registrar, the company shall intimate:
  - 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
  - where the service provider is located outside India, the name and address of the person in control of the books of account and other books and papers in India



## CRITICAL ACTIONS BY ENTITIES

- Consequent to the amendments, the critical actions required by the entities are as under:
  - Books of account and other relevant books and papers maintained electronically are now required to remain accessible in India at all times so as to be usable for subsequent reference.
  - Financial year commencing on or after the 1st April, 2023 accounting software should have un-editable audit trail facility at transaction level.
  - Backup of the books of account and other relevant books and papers maintained electronically (whether in or outside India) are now required to be kept in servers physically located in India on a daily basis, instead of periodic basis.
  - Additional disclosure will be required to ROC pertaining to the name and address of the person in control of the books of account and other books and papers maintained electronically in India, in cases where the service provider is located outside India.



### CONCLUSION

- These amendments will increase the degree of compliance for maintaining books of accounts in the electronic mode permitting an enhanced level of scrutiny and access by Indian authorities.
- Additionally, these requirements are likely to increase the compliance cost of maintaining backups in India.
- Further, the auditor will also have to report on the audit trail functionality implemented by the entity.
- To ensure compliance with these requirements, entities need to undertake required steps on priority.

‘न चोर हार्यं न च राज हार्यं न भात्रू  
भाज्यं न च भारकारि  
व्ययं कृते वर्धत एव नित्यं  
विद्याधनं सर्वधनप्रधानम्’

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**Knowledge** is the **Wealth** that:  
The **Thief** cannot **Steal**,  
The **King** cannot **Acquire**,  
The **Brothers** cannot **Share**,  
**Does not Weigh** on You,  
**Grows Forever** as you **share** ,  
Truly, **Knowledge** is the **Greatest Wealth**.

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