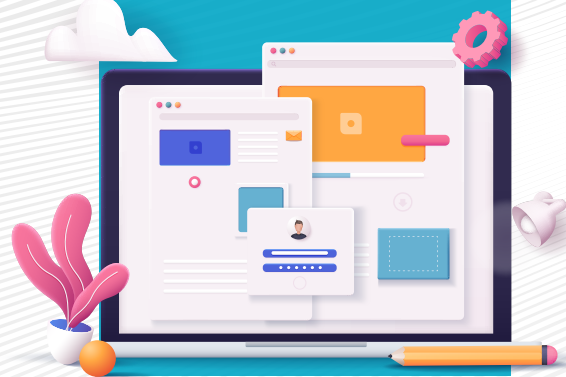


Companies maintaining their books in electronic form | New compliance requirements starting 01 April 2023



In a move to enhance accessibility, the Ministry of Corporate Affairs in August 2022 tasked companies with ensuring that their system for storage, retrieval, display and print-outs is locally backed-up on a daily basis. The Ministry also imposed certain other requirements on companies effective 1 April 2023. These requirements, intended to encourage transparency and accountability, are discussed below. In addition to inviting fines, non-compliance with these requirements may also bring companies' other data handling activities into the spotlight and have wider implications under India's anticipated data protection regime.

1. Keeping accounts transparent

Companies using accounting software to maintain their books of accounts can only use software that (i) Keeps a record of every transaction; (ii) Creates an edit log with timestamps; and (iii) Does not allow the audit trail to be disabled.

2. Ensuring accessibility

Any company using a foreign service provider to maintain its books of accounts and books and papers in electronic form must specify in its annual financial statement the details of a person physically based in India who can access these records.

3. Avoiding penalties

Failing to comply with these requirements can result in financial penalties ranging from INR 50,000 to INR 5,00,000. These penalties can be imposed on the managing director, whole-time director in charge of finance, Chief Financial Officer, or any other designated person by a company's board to comply with electronic storage requirements.

TO-DOs

1. Ensure accounts are accessible in India and that the appropriate Indian employees are granted access to such accounts.

2. Check if your existing accounting software:

- A. Records every transaction;
- B. Has an edit log feature that captures timestamps for each edit; and
- C. Ensures that the audit trail cannot be disabled.

If it does not have these features, work with your service provider to customise your existing software or transition to accounting software that does.