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Ministry of Corporate Affairs defers mandatory audit trail rule by a year

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Chennai: The ministry of corporate affairs (MCA) has deferred by a year's time its week-old order requiring companies to use only accounting software that have 'audit trail' and other specified features.

Earlier on March 24, the MCA had notified that starting April 1, 2021, companies must only use such accounting software that has a feature of recording audit trail for transactions, create logs of changes made to the books, and ensure that the audit trail feature cannot be disabled.

However, in a notification on Thursday, the government said that this rule will only be applicable for transactions pertaining to the fiscal year beginning April 1, 2022. The deferment follows concerns voiced by small businesses and industry associations that while this helps curb fraud and bring in sound corporate governance, the timeline for implementation was going to be a compliance burden and disrupt ease of doing business.

While welcoming the extension of time, industry watchers also counted this move among a series of U-turns by the govt agencies recently including the reversal of the reduction in savings rate, deferment of the new labour code, and giving more time for Pan-Aadhaar linking. "It is a pragmatic decision to defer this, otherwise this was going to be another case of a great initiative but bad execution on the government's part, a CA, who wished to not be named," said. Tally Solutions, one of the most widely used software with 75% market share, has a facility of disabling audit trail, and faces impact from the new rule.Tejas Goenka, MD of Tally Solutions told TOI that the deferment provides time to understand the requirement and implement appropriately. Over the next few weeks, we would be consulting with MCA, CAs, and other industry members to easily apply the terms of the notification from a practical standpoint to act in the best interests of MSME business owners, he added.

"Businesses of all sizes require the time to review their operations, upgrade their systems if required, to be compliant. So, delaying the implementation by one more year surely helps, as it reduces the burden on compliance to the new transparent system that requires a mindset change as well, Kumar Vembu, founder and CEO of software firm GoFrugal said.