

A Case Study Examining the Indian Ministry of Corporate Affairs XBRL Implementation

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ABSTRACT

EXtensible Business Reporting Language (XBRL) represents an electronic reporting standard that has gained global prominence within the past few years. US regulators (i.e. the Securities and Exchange Commission [SEC], Federal Financial Institutions Examination Council [FFIEC], and Federal Deposit Insurance Corporation [FDIC]) have mandated XBRL to improve business processes, increase data transparency or efficiency. Relative to the plethora of US-based XBRL academic articles, there has been little academic research on international, regulator-based XBRL implementations and how those implementations have directly impacted the accounting profession. This case study describes India's Ministry of Corporate Affairs (MCA) E-governance initiative and XBRL implementation. The MCA case is unique, because it is the first known mandatory XBRL implementation that also requires auditor certification.

We examine the motivation behind the MCA's E-governance and XBRL implementation, summarize benefits achieved from the E-governance and XBRL filings, and report certain errors in XBRL filings after comparing a sample of XBRL filings with their corresponding audited financial statements in the traditional format. The issues encountered and the insights gained from the MCA's implementation may serve as important lessons to other XBRL implementations.

Key Words: XBRL implementation, India, MCA21, Errors

Data Availability: Data used are proprietary.

INTRODUCTION

EXtensible Business Reporting Language (XBRL) is a fast-growing reporting standard for disseminating financial information (Securities and Exchange Commission [SEC] 2009; Kim et al. 2012). XBRL is designed to increase information transparency by improving information accessibility, usefulness, and comparability (SEC 2009). Global XBRL implementations are ongoing (Kenan 2008), with the majority of the implementations focusing on regulatory reporting in capital markets. Yet, as Srivastava and Liu (2012, 100) point out, almost all of the academic XBRL research has focused on the US market and, therefore, there is a need to see how non-US countries have implemented XBRL. We respond to Srivastava and Liu's research call by summarizing the Indian Ministry of Corporate Affairs' (MCA) XBRL implementation in a case study format. In addition to being a recent example of XBRL implementation in a leading global economy, the Indian implementation is unique, because it is the first known example requiring auditor certification on XBRL filings. Thus, our case study has implications for auditors in global networks, as well as for firms who operate in India and in countries whose regulator is considering a similar XBRL implementation plan (e.g., The Netherlands).

The MCA's XBRL adoption began with the MCA's E-governance Project. In keeping with the rapid growth in information technology, the MCA decided to adopt an E-governance system that would transform the government agency into a modern, paperless, customer-centric organization delivering high-quality service in an efficient manner. As part of the E-governance project, The MCA mandated XBRL implementation as the financial reporting standard beginning with large companies.

Our investigation concludes that the MCA's XBRL implementation achieved immediate benefits for Indian companies in terms of a more efficient means to file incorporation documents

online and a simplified mode to filing of returns and forms. The benefits to Indian capital market participants included easy access to public information for users at anytime and from anywhere, which may have increased information transparency. All was not positive, however. Significant errors or discrepancies were identified in XBRL filings. Comparing the audited financial statements of 15 listed companies and their XBRL instance documents indicated significant errors in XBRL instance documents, which could adversely affect the quality of the company's financial data. Other taxonomy-related problems were noted. The MCA adopted the SEC's method of improving the effectiveness of the process by publicly reporting common errors made (in the aggregate) and encouraging 100% accuracy.

In deference to auditing, though the MCA mandates certification over XBRL documents, it does not require additional audit procedures to verify the completeness and accuracy of information provided by management; therefore, the credibility of XBRL certification in India has been questioned. In aggregate, the issues encountered by the MCA during the XBRL implementation provide valuable insights for other countries considering a future XBRL implementation.

Our paper is organized as follows. A brief history of India's financial reporting structure is next, which is followed by XBRL implementation information and identifiable results. We conclude with a brief summary of findings.

A BRIEF HISTORY OF INDIA'S FINANCIAL REPORTING

Historically, all Companies in India were required to file a number of documents with the Registrar of Companies (ROC) in compliance with the statutory provisions of the Companies Act of 1956 to incorporate. Although most states have one local office of ROC, they only

provide limited services and access point to the filers.¹ As a result, thousands of company representatives were required to visit the office of ROC in the state for filing of documents and other forms, while the ROC's manual collection and verification process was extremely slow and inefficient.

Meanwhile, with the rapid economic growth in India, the number of companies has grown rapidly in the past five decades. In 1956, there were about 20,000 companies. The number of companies had increased to 725,000 by March 31, 2006. Around 100,000 new companies are formed every year. Consequently, there were consistently, long queues waiting to file incorporation documents at the local office of ROC. The situation became un-manageable during the peak filing season from October to December, when documents relating to annual filings by companies are filed during this period of time. As the result, the ROC was under extreme pressure to process an exorbitant amount of data. In addition, with the total of sixty million pages of filing documents maintained at the MCA, sorting, storage, and retrieval of such a large volume of data has been cumbersome and extremely difficult. Further, it was time-consuming for the public to obtain access to the information they desired.

In order to promote prompt and efficient services to all filers and provide the public with more efficient access to financial data, the MCA launched a project called the “MCA21 E-Governance Project” in 2006 (see Appendix A for E-Governance timeline). Essentially, this project was designed to fully automate all processes related to the enforcement and compliance of legal requirements under the Companies Act of 1956, and to help the business community to file statutory documents quickly and easily. The E-governance project enabled the MCA to build a secure portal that allows companies to file their incorporation documents online and offer more

¹ There are 28 States and 7 Union Territories in India.

convenient public access to corporate information from anywhere at any time.² In addition, it transferred the formerly plain-text filing format and manual business processes within the ROC to XBRL platform. The XBRL implementation does not change any existing requirements relating to financial reporting, but merely changes the manner and format in which the financial statements will be transmitted to the regulators. The next section more fully describes both the E-Governance project and consequent XBRL implementation process.

XBRL IMPLEMENTATION PROCESS

On March 1, 2005, the MCA started the “MCA21 E-governance Project” by signing a contract with Ms. Data Consultancy Services Limited (TCS), an IT services and outsourcing organization. The project was launched by way of two pilot tests, one at Coimbatore (February 18, 2006) and the other at Delhi (March 18, 2006). As part of the E-governance project, the MCA mandated the e-filing of all documents on September 16, 2006.³

Similar to the SEC’s XBRL mandate, the MCA decided on a phase-in strategy for its filers. In the first phase-in period, the MCA mandated certain large firms to file their financial statements in XBRL format for the year ending, on and after March 31, 2011. Specifically, all large companies and their subsidiaries listed in India with a paid-up capital of 50 million Rupees (approximately \$897,000 as of August 18, 2012) and above or a sales turnover of 1 billion Rupees and above are subject to the XBRL mandate. Consequently, about 28,000 listed and

² Prior to XBRL, public access to the documents filed was limited to only at the ROC office and during office hours only.

³ This is when MCA mandate e-filing of documents in PDF format; the use of XBRL was mandated on March 31, 2011.

unlisted companies started filing their Balance Sheet and Profit and Loss Statement in XBRL format with the MCA.⁴

Filers have the option to create their own XBRL documents in house or to convert their financial statements into XBRL format through outsourcing. Regardless of which approach, the first step is to tag each financial element to the published XBRL taxonomy so that accounting information can be converted into XBRL format. In order to find the appropriate tag, filers need to engage in the mapping process (i.e., the process of comparing the concepts in the financial statements to the elements in the published taxonomy, assigning a taxonomy element to each accounting concept published by the company [MCA 2012]). The XBRL document created is referred to as the instance document.

Validation of XBRL Instance Documents

Once XBRL instance documents are created for all required financial statements (i.e., Balance Sheet, Profit & Loss Account Statement), filers need to validate the instance documents before filing the statements on MCA portal. XBRL filers are required to carry out two kinds of validation for XBRL instance documents before uploading to the MCA portal: off-line validation and online validation. First, filers are required to validate XBRL instance documents for business rules⁵ using the MCA off-line tool. The MCA released Validation Tool 1.0 on July 27, 2011, for validation of business rules. Consequent to the release of the tool, the MCA made it mandatory to the following three documents: “Basis of Presentation” in Notes to Accounts, Directors'

⁴ All companies registered in India (listed & unlisted) are required to submit Annual Report (financial statements) and other documents with ROC. These documents are available for public inspection. However, Profit and Loss Statement from unlisted companies is not available for inspection.

⁵ This refers to the general and firm-specific rules used when mapping financial statement elements with XBRL taxonomy. For example, business rules for the item “Date of start of reporting period” is that this date “should be greater than or equal to the date of incorporation in the case of an Indian company or date of establishment of place of business in the case of foreign company. It should be less than or equal to system date” (www.mca.gov.in/xbml).

Report, and Auditors' Report. All three documents are validated against the MCA's taxonomy and business rules framed by MCA to ensure proper tags are being applied.

Second, MCA has also introduced an online validation of XBRL instance document called "Pre-scrutiny," which validates XBRL instance data available on the MCA server (e.g. corporate identification number, director identification number, name of company, name of directors etc.) A working internet connection is required for this step. An XBRL filer's instance documents are uploaded and validated from the MCA21 system (MCA 2012).

Assurance on XBRL Instance Documents

Starting on May 18, 2011, the MCA required that XBRL-formatted financial statements be certified by a Chartered Accountant, Company Secretary or Cost Accountant (see Appendix B).⁶ Certification assures that the XBRL instance documents fairly represent, in all material aspects, the audited financial statements of the company in a traditional format in accordance with the XBRL taxonomy, and, that all required information including additional information required to be submitted in XBRL format is provided by the filer. The significance of this certification requirement is unique such that India became the first country to mandate XBRL certification by auditors.

Accordingly, XBRL filers are required to assure that the XBRL-formatted financial statements are generated in accordance with the published taxonomy. The Institute of Chartered Accountants of India (ICAI) has been associated with the MCA21 project and provided technical support since the conceptualization of the project. For example, after the MCA mandated certification of XBRL documents on May 18, 2011, the ICAI issued a Guidance Note on

⁶ A Company Secretary in India is not a clerical or secretarial position, but rather is a senior officer as defined by the Company Act of 1956. It is an important position to interact, coordinate, and cooperate with various other functional heads to ensure the efficient management of the corporate sector.

certification of XBRL financial statements on October 12, 2011. It specifies four principles for certifying the quality of XBRL data: completeness, accuracy, mapping and structure. For instance, completeness refers to all required information being formatted at the required levels as defined by the filer's reporting environment; whereas, mapping requires that elements selected be consistent with the meaning of the associated concepts in the source information (MCA 2012).

RESULTS ACHIEVED

Benefit of XBRL: Cost Savings, Accuracy of Data, Ease of Access to Data

The MCA identified the following benefits from the MCA21 project and XBRL implementation. First, for the business community, XBRL enabled companies to file incorporation documents online quickly and easily, and company representatives did not need to be physically present at the office of ROC. Additionally, XBRL simplified and streamlined the method of filing financial statements and other information. XBRL is computer readable. Once the financial elements are tagged, financial information can be transmitted electronically (firms do not need to re-key the information, which reduces data processing costs).⁷

Second, for regulators, XBRL significantly improved the efficiency and effectiveness of government agencies like the MCA and increased compliance management. Both the E-governance project and XBRL implementation enabled the MCA to automatically process regulatory filings for registration, validation, inspection, and verification of documents and forms anytime and from anywhere. Additionally, the MCA21 project and XBRL implementations have enhanced service-level fulfillment and improved customer relationships (Bhaskar 2011).

⁷ More detailed information is available at http://www.mca.gov.in/XBRL/Benefits_of_XBRL.html

Finally, for public investors and information users, the MCA contends that the XBRL implementation has improved information transparency.

What Went Wrong?

The MCA's XBRL implementation appeared on the surface to be relatively smooth; however, the adoption process was far from perfect. First, its taxonomy contained architectural deficiencies. On April 18, 2011, MCA released the draft of XBRL taxonomy for public comments.⁸ Prior to the draft, the ICAI had published a general purpose taxonomy for Commercial & Industrial Companies on June 30, 2009, (which was "acknowledged" by XBRL International); however, this draft taxonomy did not have any sector-specific taxonomy elements for banks, insurance companies, power companies and non-banking financial companies that were also covered under the MCA's XBRL mandate. Additionally, the Indian taxonomy is a closed taxonomy (i.e., no extensions allowed – all tags must be part of the prescribed taxonomy). Thus, it has been difficult for non-Indian subsidiaries (who were also under the XBRL mandate) who used unique general ledger accounts to convert their financial statements consistent with the taxonomy.

Second, the credibility of the independent XBRL certification process can be questioned. Even though the ICAI has issued some guidance on the process, there has been no official (MCA) guidance or up-to-date standard to regulate the certification. The ICAI's guidance neither requires practitioners to perform additional procedures to verify the completeness and accuracy of information provided by management, nor does it require practitioners to perform procedures that would enable them to express an opinion on the truth and fairness of XBRL financial

⁸ The draft taxonomy was a general-purpose taxonomy for Commercial & Industrial Companies only, based on the format of financial statements prescribed in Schedule VI of Company Act of 1956.

statements. Consequently, company stakeholders may question how auditors certify that the XBRL documents fairly present the audited financial statements if they do not perform procedures to verify the completeness and accuracy of information provided by the management in the XBRL instance document.

Third, XBRL filings, in general, have contained various errors or discrepancies. For example, in order to check the completeness and accuracy of XBRL filings by listed companies, we selected a random sample of 15 listed companies from MCA portal and compared them with their audited financial statements in traditional paper format. We found significant errors in the XBRL instance documents and concluded that these errors could realistically occur via the automated consumption of the various companies' instance documents.

More specifically, we found financial information that appeared in the traditional paper format was missing in the XBRL instance document in one case. For example, the cash flow statement for FY 2010-2011 was available in the audited financial statements (PDF file); however, the same information was not tagged in XBRL instance document filed with MCA portal (Table 1). Certain footnotes in the Schedule of Loans or Schedule of Fixed Assets, information about subsidiaries or information about related party transactions in the Annual Report, were also commonly missing in the XBRL filings. In some cases, footnotes were incorrectly used for the Auditors' Report, Significant Accounting Policies, Unsecured Loan, Current Liabilities, etc.

We also observed that in some cases data in tables was not properly rendered and was illegible. Yet, analogous to the SEC's XBRL experience with US filers, the most common error was tagging a line item with a wrong element in the taxonomy. For example, in one sample firm,

Salaries, Wages & Bonus was tagged as zero, while the correct amount should be Rs 92,539,039 (Table 2). In another case, Deferred Tax Liability was incorrectly tagged as Net Deferred Tax Assets.

SUMMARY AND CONCLUSIONS

This case study reports on the mandatory XBRL implementation by the MCA in India. The MCA adoption is unique in that it is the first mandatory XBRL implementation that also requires certification over XBRL filings. All financial statements filed with the MCA in XBRL format are required to be certified by Chartered Accounts, Company Secretaries, or Cost Accountants. The MCA's E-governance and XBRL implementation achieved immediate benefits in terms of more efficient means to file incorporation documents online, simplified method to file returns and forms, as well as easier access to public information for users at any time and from anywhere, increasing the transparency of information.

Nevertheless, significant errors or discrepancies were identified in XBRL filings. The issues the MCA encountered during XBRL implementation may shed some insights for future XBRL implementation. First, the Indian taxonomy contains architectural deficiencies; it does not have taxonomy for specific sectors like banks, insurance companies, power companies, etc. Moreover, the Indian taxonomy is closed taxonomy, which is difficult for non-Indian subsidiaries to convert their financial statements. Second, although the MCA mandated certification over XBRL documents, it has not required specific audit procedures to verify the completeness and accuracy of information provided by management; therefore, the credibility of XBRL certification in India has been questioned. Third, an examination of a sample of 15 listed companies and the comparison with their audited financial statements in traditional format indicated significant

errors in XBRL instance documents, which could adversely affect the automated analysis of various companies' data. The issues and insights gained from MCA's experience may serve as important lessons to other countries and agencies that are considering adopting XBRL.

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APPENDIX A
TIME LINE

Date	Events
03/01/2005	MCA started the “MCA21 E-governance Project” by signing a contract with Ms. TCS limited.
02/18/2006	The E-filing operations were launched at the ROC.
06/30/2009	ICAI had published a general-purpose taxonomy for Commercial & Industrial Companies, which has been “acknowledged” by XBRL International.
03/31/2011	In the first phase-in period, the MCA mandated large firms (listed companies with a paid-up capital of Rs. 5 Crores and above, or a turnover of Rs. 100 Crores and above) to file their financial statements in XBRL format for the year ending on and after March 31, 2011.
04/18/2011	MCA released the draft of XBRL taxonomy for public comments.
05/18/2011	MCA mandates the certification of XBRL financial statements by Chartered Accountants, Company Secretaries & Cost Accountants. India became the first country to mandate XBRL assurance.
05/29/2011	MCA released the final taxonomy and business rules.
10/12/2011	ICAI published a Guidance Note on Certification of XBRL financial statements.

APPENDIX B
Assurance on XBRL Instance Documents

MCA mandates assurance over XBRL filings by Chartered Accountants, Company Secretaries, and Cost Accountings, who are required to digitally sign the following certificate:

Certificate

* It is hereby certified that I have verified the above particulars (including attachment(s)) from the audited financial statements of

and that all required attachment(s) have been completely attached to this form. It is further certified that the attached XBRL document(s) fairly present, in all material respects, the audited financial statements of the company, in accordance with the XBRL taxonomy as notified under Companies (Filing of documents and forms in eXtensible Business Reporting Language) Rules, 2011.

* It is confirmed that the attached XBRL document(s) are the XBRL converted copy(s) of the duly signed Profit and Loss account and all other documents which are required to be annexed or attached to the Profit and Loss account as required under Section 220 of the Companies Act, 1956.

Chartered accountant (in whole-time practice) or Cost accountant (in whole-time practice) or

Company secretary (in whole-time practice)

*Whether associate or fellow Associate Fellow

*Membership number or certificate of practice number

Table 1
General Errors in XBRL Filings Reported by NextGen

	Errors	Observations
1	Cash Flow Statement not tagged	The Cash Flow Statement for FY 2010-2011 is available in the Audited Financial Statements (FDF file). However, the same has not been tagged in XBRL financial statements filed at MCA portal.
2	Information of all subsidiaries not provided in XBRL financial statements	Information about one subsidiary has been tagged in XBRL financial statements, whereas the company had nine subsidiaries.
3	Information of all related party transactions not provided in XBRL financial statements	Related party disclosures have not been tagged in XBRL financial statements.
4	Different presentation in PDF and XBRL filings	In the PDF form of Annual Report, the figures were presented in Rs Thousands, whereas in the XBRL documents the figures were provided in Rs Lakhs.
5	Parenthetical (additional disclosures) information not tagged in XBRL financial statements	Aggregate market value of investments was not provided in the way of footnote. Additional information on issued, subscribed & paid-up share capital was not explained by way of footnote in XBRL filings.
6	Footnotes not tagged in XBRL financial statements	Footnotes on share capital, secured loan, reserve and surplus, unsecured loan-fixed deposits, investments, fixed assets, security deposit, etc. have not been tagged, footnote on "Investments" has not been provided.
7	Incorrect usage of footnote	Director's Report was provided by way of footnote. Similarly, footnote has been incorrectly used for Auditors' Report, significant accounting policies, unsecured loan, current liabilities, etc.

Table 2
Incorrect tagging/inaccurate disclosures

Line item	Tag used	Correct tag	Remarks
Stock differential-(Decrease)/Increase	Not tagged separately	Increase decrease inventories	Clubbed with 'Other expenditure'
Salaries, Wages & Bonus	Tagged as zero	Amount is 92,539,039	It is a mandatory tag. Clubbed with 'Other expenditure'
Power, Fuel, Water & Gas	Tagged as zero	Amount is 248,737,864	Clubbed with 'Other expenditure'
Manufacturing cost	Tagged as zero		Clubbed with 'Other expenditure'
Raw Materials Consumed Opening Stock	Not tagged	Stock of Raw Materials, Opening Balance	Given as part of footnote to 'Raw Materials Consumed'
Raw Materials Consumed Add: Purchases	Not tagged	Purchase raw materials during year	
Raw Materials Consumed Less: Closing Stock	Not tagged	Stock of Raw Materials, Closing Balance	
Deferred Tax Liability (net)	Net Deferred Tax Assets	Deferred Tax Liability	Tagged with negative sign
Deferred Tax Liabilities	Deferred tax liability depreciation	Deferred tax asset other, deferred tax asset VRS payment, Deferred tax asset provision for doubtful debts, etc.	Disaggregated disclosures all consolidated into 'Deferred tax liability depreciation'