XBRL Requirements in India

- As per MCA directives, following class of companies (except Banking, Insurance, Power and NBFCs) have to file the financial statements in XBRL form from FY 2010–11:
  - All companies listed in India and their Indian Subsidiaries;
  - All companies having a paid-up capital of Rs. 50 Millions and above; and
  - All companies having a turnover of Rs. 1,000 Millions and above.

- Form AOC-4, [Erstwhile Form 23AC (Balance Sheet) and 23ACA (P&L Account)], issued by MCA requires certification by practitioner 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 Xtsensible Business Reporting Language) Rules.

- In India, the Taxonomy has been developed by MCA, based on the requirements of:
  - Schedule III of the Companies Act (Erstwhile Schedule VI);
  - Accounting Standards issued by Board; and
  - Listing Requirements of SEBI
XBRL – Abstract

- XBRL (eXtensible Business Reporting Language), is an XML based computer language for reporting Business Information.

- XBRL requires that all individual items disclosed in the financial statements be assigned unique, electronically readable tags, which in turn are mapped to taxonomies issued by MCA, and are available in public domain.

- XBRL makes the data readable with the help of two documents – the Taxonomy and the Instance Document.

- Taxonomies are dictionaries that contain the terms used in the financial statements and their corresponding XBRL tag.

- Instance Document is a file that contains business reporting information and represents a collection of financial facts and report.
“Assurance Engagement” means an engagement in which a practitioner expresses a conclusion to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

As the scope (e.g. content, depth and frequency) of financial and business reporting grows, the scope of assurance also grow as well. The users of additional information provided by companies often require some form of assurance on that information.

Assurance on General Purpose Financial Reporting focuses on the annual and sometimes the Interim Financial Reporting. Assurance is not provided directly on the content of the annual report other than the financial statements, although the auditors of the financial statements included in an annual report responsible to determine that the financial statements are fairly produced and the other content of the report is also consistent with the audited financial statements.
XBRL – How to create Instance Document?

- Obtain Audited Financial Statements from Management MS Excel and/or MS Word format
- Preparation of the Source Document based on Financials for XBRL Conversion
- Mapping the Source Document to the Target Taxonomy as mandated by MCA
- Validating the Mapped Document to create Instance Document
- Eliminating Errors arising out of Validation based on Error Logs
- Approval of Instances and Mapping by the Management/Board of Directors before creating XBRL Instance Document.
- Creation of XBRL Instance Document in XML format
- Validation of the XBRL Instance Document by the Management using the Validation Tool provided by the MCA before filing with the Office of the ROC.
Completeness – Omissions of relevant data from the traditional format documents. For example, if the audited financial statement provides the amount of accounts receivable, but the XBRL instance document omits this data, this will constitute a material deficiency making the XBRL instance document inconsistent with the traditional format filing.

Existence - Insertions of data not present in the traditional format documents. For example, if the XBRL instance document contains the amount of accounts receivable due more than six months, while the audited financial statement does not provide it, this will constitute a material deficiency making the XBRL instance document inconsistent with the traditional format filing.

Accuracy - Erroneous element values and/or attribute values (such as context, unit, etc.). For example, if the XBRL instance document describing the amount due more than six months of accounts receivable as Rs. 9 millions, while the audited financial statement showing this amount to be Rs. 9.9 millions. This assertion would have two components; one would deal with the accuracy of the value of the element (Element Accuracy) and the other would deal with the accuracy of the attributes’ values (Attribute Accuracy).
XBRL – Mark-up Deficiencies in XBRL

- **Well-formedness** – Erroneous tagging of data that violates XML syntax rules. For example, a missing closing tag such as `<AccountsReceivable>` would make the XBRL instance document severely deficient and likely make it unusable for computer application.

- **Validity** - Erroneous tagging of data that violates XML Schema. This includes non-compliance with either the standard XBRL taxonomies or taxonomy extensions used by the filer. An example of such deficiency would be an element with a missing required attribute such as unit. Such document would cause processing problems for XBRL software because of lack of crucial substantive information.

- **Proper Representation** - Inappropriate choice of XBRL elements to tag traditional format document data. For example, if the audited financial statement provides the amount of accounts receivable, but the XBRL instance document tags this data using the element `<CurrentAssets>`, this will constitute a material deficiency making the XBRL instance document inconsistent with the traditional financial statements.
It is the responsibility of the Management to ensure that the Instance Document generated in the XBRL format based on Audited Financial Statements are in accordance with the prescribed taxonomy defined by MCA.

Accordingly, the management needs to exercise appropriate controls over the following three areas to manage risks associated with generation of XBRL financial statements:

- **Selecting, maintaining, and testing the taxonomy;** – One of the most important task in XBRL Implementation, Need to take time to review and understand the applicable taxonomy and ensure usage of most appropriate version

- **Accurately mapping and tagging data elements to XBRL reports; and** – Control required to review by appropriate personnel to approve completeness, accuracy and consistency

- **Enforcing Change Management Procedures for XBRL processes** – Change Management Procedure by adding a tagging step adds complexity specially when uses an outside service provider
When financial statements or regulatory filings are prepared using XBRL, the usual risks of misstatement related to financial statements apply, but there are additional risks related to the accurate mapping of the accounts to the tags, and the use of the appropriate taxonomies.

The accurate mapping of the tags will ensure that the data retrieved is the intended data.

If financial information were to be streamed in real time, the risk of misstatement in the financial statements could become higher, depending on the controls in place over any changes in that data, and the controls in place over changes in the mapping of data to tags.

In this case, there would be an additional risk that the data being picked up through the tags might change, and that the changes will contain errors or be unaudited. This would indicate a need for additional controls to ensure that the data retain their integrity.
XBRL – Benefits for Data Purpose

- Cuts down on data manipulation
- Facilitates paper-less financial reporting
- Conforms to industry-accepted methods
- Can reduce time required to perform various accounting tasks – Ratios, Analysis etc.
- Major Software Vendors will/can incorporate XBRL
- Permits interchangeability of Data
- Analysis of multiple company financial information improves
XBRL – Benefits to Potential Users

- XBRL can be applied to a very wide range of business and financial data. Among other things, it can handle:
  - Company Internal and External Financial and Business Reporting;
  - Business Reporting and Exchange Information within all types of regulators, including tax and financial authorities, banks and government;
  - Filing of Loan Reports and Applications;
  - Credit Risk Assessments

- By using XBRL, companies and other producers of financial data and business reports can automate the processes for data collection.
- XBRL will streamline the preparation of business and financial reports for internal and external decision making.
- XBRL will significantly improve published financial information to investors, regulators, analysts, lenders and other key stakeholders.
- XBRL drives transparency and improves the efficiency of capital markets by helping analysts and other users of financial and business information to find relevant facts.
XBRL – Flexibility: Key Challenge

- Financial Statements:
  - Are governed by Accounting Standards;
  - Contain Specific Types of Information;
  - Are influenced by norms and habits within Industries; and
  - Are extremely Flexible – Organisations can and will have dramatically different reports.

Flexibility is what makes creating digital versions of paper financial statements a complex challenge.
  - Accounting Standards ▶ Significant Choices for Accounting Professionals.
  - Different Companies can report very different things, even peers or competitors.
  - Aggregate subtotals in different ways / Disaggregate in the ways they choose.
  - Move individual components of financial statements around
  - Choices are governed by the judgement of accounting team involved
**XBRL – Procedure for Certification**

- **Examination** of Source Document with the XBRL rendered document using relevant document reader in human readable form.
- **Validation** for errors using the MCA tool.
- Examination of **Error Logs** at Mapping and Tagging Stage, and also the Error logs generated while carrying out validating using the MCA Tool.
- In case the XBRL financial statements have been generated by a **Third Party Service Provider**, the practitioner can rely on the report given by the former and may specifically request for following areas such as completeness, mapping, accuracy and structure.
- Running the formatted XBRL information using **relevant reader to satisfy** that no changes have been made after validation before filing.
- Notifying the management of any exceptions observed during the **certification**.
- Using the relevant reader, satisfying that no changes have been made after validation but before filing.
- Any exceptions observed during this process have to be brought to the **notice of the management**. If the exceptions are significant, they should be communicated to the management immediately for necessary rectification. In case, it is not possible to rectify these exceptions or the management refuses to take necessary corrective action, these exceptions should be reported by practitioner in his certificate giving reasons and whether it would affect the XBRL filing as a whole.
The Members of the Institute may be engaged to perform an assurance or an agreed upon procedures engagement in respect of XBRL financial statements. MCA has required that besides signing by signatories, an practitioner has to certify the financial statements prepared in XBRL mode for filing on MCA-21 portal.

Currently Statutory Auditors don’t perform procedures on XBRL data as part of the audit of financial statements. Accordingly, the auditor’s report issued on the financial statements in accordance with these Standards on Audit does not cover the process by which XBRL data is tagged or the XBRL data that results from this process.

Responsibility of the practitioner in carrying out a certification of XBRL financial statements in terms of MCA, is to certify that the said XBRL financial statements fairly present, in all material respects, the Audited Financial Statements of the Company from which such XBRL financial statements have been prepared, in accordance with the taxonomy prescribed by MCA.
The process of conversion of audited financial statements into XBRL financial statements requires application of judgment, including, in matters of mapping the financial statement items to the appropriate tags in the taxonomy.

Many financial statement items/account heads in certain industry sectors may not have exact corresponding tags in the taxonomy. In such cases, judgement is required to be exercised by the management, having regard to factors such as the nature of the financial statement item/account head to ensure selection of the most appropriate tag to represent that financial statement item/account head.

In such circumstances, a practitioner can, at best, only certify that the XBRL financial statements fairly present, in all material respects, the audited financial statements of the Company from which such XBRL financial statements have been prepared, in accordance with the taxonomy prescribed by MCA.
Scope of the Engagement Comprises:

- Conversion of audited financial statements of the Company to XBRL mode financial statements in accordance with the taxonomy prescribed by MCA.
- Certification of the fact that the XBRL financial statements fairly present, in all material respects, the audited financial statements of the Company in accordance with the MCA’s taxonomy.

The fact that, as a part of the certification engagement, the practitioner would request written representations from the management.
Thank you!