

Linda Devonish-Mills, CPA, Editor

Updates on XBRL and SOX

Greetings again from the world of professional advocacy. I think 2007 is going to be an exciting year for management accountants, particularly because of developments that took place during December 2006 regarding interactive data and guidance issued for Sarbanes-Oxley (SOX) Section 404 implementation.

XBRL/Interactive Data

In December I attended the 14th XBRL International Conference in Philadelphia, Pa., where speakers gave an overview of XBRL (eXtensible Business Reporting Language) and updates about its progress. Although most of you are familiar with XBRL, let me just give you a brief recap as a frame of reference.

An offshoot of the Extensible Markup Language (XML), XBRL is a computer language designed to transfer and store financial and operational business data, including the complex hierarchies, data-processing rules, and descriptions that offer assistance with analysis and distribution. Before XBRL, reported data was little more than a photocopy, whether in online digital formats such as Web pages (e.g., HTML), or attachments (e.g., Adobe

PDF or Microsoft Word), or on paper. The data could be read by humans but couldn't be easily used by computers or other electronic media. XBRL makes data "machine readable" or "smart" and determines how information is stored and how software presents, manipulates, and exchanges that information using a set of standards and a family of taxonomies (dictionaries of terms). Therefore, recipients know the pertinent context of the data—for example, whether the information is segment information, part of an audited statement, or another type of business data. In essence, XBRL is "content with context" for more efficient and effective business reporting applications such as Securities & Exchange Commission (SEC) reporting or operational reporting.

Many conference attendees said

they find it hard to fully appreciate XBRL right now since it is still going through its development stage. But I can't see how it will fail once it's fully developed, mainly because of the support it's receiving from key personnel at regulatory bodies, such as SEC Chairman Christopher Cox, who was a keynote speaker. Also, strong representation was present among professional organizations that support the accounting profession: Ian Ball, CEO of the International Federation of Accountants (IFAC); Barry Melancon, president and CEO of the American Institute of Certified Public Accountants (AICPA); and Paul Sharman, IMA president and CEO.

As you probably know, IMA is one of the founding members of XBRL and has been an active supporter of its transformational capabilities, especially its potential for lowering the cost and improving the accuracy of internal financial and operational reporting. IMA's participation in such a major conference was a welcome opportunity for the management accounting profession. Paul Sharman's speech gave attendees insight about the



management accounting profession and the critical role that management accountants play in driving business performance within organizations (including enterprise business reporting). His keynote address served as an “entrée” for me to put on my advocacy hat during breaks to network and advocate for management accounting.

The conference consisted of presentations from keynote speakers, breakout sessions that focused on specific components of XBRL, and demonstrations from vendors that are planning to distribute and market XBRL products. The time I spent talking with the vendors was valuable. I spent some time talking with representatives from Ernst & Young since I am an alumnus of the firm. My discussions with them gave me insight into what research the firm has performed regarding XBRL’s potential to become an important tool to facilitate business reporting and communicate with stakeholders. I also talked with representatives from UBmatrix, which offers the industry’s leading software for exchanging semantic data. I was able to observe a live presentation of how XBRL can help a company manage the report

collection process and capture data for use by operational or analytic applications. The presentation increased my appreciation for how companies can benefit from using XBRL for both external and internal reporting.

IMA plans to continue to be involved with the development of XBRL, especially the taxonomies. It is working closely with a Taxonomy Advisory Council that was created in July 2006 by the Financial Accounting Foundation (FAF). The Advisory Council is working on a taxonomy development project to support SEC Chairman Christopher Cox’s vision for companies to fully adopt interactive data mechanisms such as XBRL.

In addition to this article and the monthly XBRL column in *Strategic Finance*, IMA is posting developments with interactive data on its website at www.imanet.org. Under Professional Development/Webinars & Live Events, you can find archived files of webinars that discuss developments with XBRL. You can also read more about the SEC’s and the FAF’s work with interactive data in the Professional Advocacy section of the website under External Relations.

SOX 404 Guidance

Since 2005, the SEC has conducted annual roundtables where constituents can express their views about their experiences complying with SOX Section 404, which requires public companies to conduct audits and to certify in writing the reliability of their internal control over financial reporting, financial statements, and notes disclosures. Over the past 18 months, IMA has expressed concern that guidance available for management’s assessment of internal control over financial reporting has been audit centric, costly, not risk based, and not scalable to smaller publicly traded companies. It has cited Auditing Standard 2 (AS2), issued by the Public Company Accounting Oversight Board (PCAOB), as an example. AS2 provides guidance for auditors to perform an assessment of the effectiveness of internal control over financial reporting. Because no practical assessment guidance has been issued specifically for management to assess the effectiveness of internal controls over financial reporting, the costly audit standard became the de facto standard for management as well.

An additional major concern

among IMA senior management and other constituents is that there has been limited guidance for smaller companies to efficiently and cost effectively comply with SOX 404, although some progress was made when the Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued guidance for smaller companies in July 2006.

As a result of the feedback received at their second roundtable, which took place May 10, 2006, it became clear to SEC staff that additional management guidance is desperately needed for companies of all sizes. On May 17, 2006, the SEC announced that a concept release would be issued in July 2006 and asked constituents to provide feedback on what specific issues should be addressed when it was considering additional guidance. Both IMA senior management and IMA's Financial Reporting Committee submitted comment letters. IMA's comment letter included a global assessment methodology document that describes the characteristics of what should be included in a top-down, risk-based approach when assessing the effectiveness of internal controls over financial reporting.

In December 2006, the SEC and PCAOB said they would make proposals to issue additional guidance that reflects feedback received from the SEC's concept release and other sources. The rollout of such guidance was almost like a drama waiting to unfold. The first phase took place December 13, when the SEC conducted an open meeting to propose their issuance of management assessment guidance. Although IMA senior management's preliminary assessment of the SEC guidance is that it's in line with expectations with regard

to a top-down, risk-based approach, we couldn't get excited until the PCAOB revised AS2, which it did in December. IMA's preliminary view of the revised AS2 is that it's in line with SEC guidance in that it promotes a top-down, risk-based approach. But there are concerns among IMA senior management that the guidance doesn't refer to or adequately explain the criteria that should be taken into consideration when applying such an approach when performing an assessment of internal controls over financial reporting.

You can find the guidance issued by the SEC at www.sec.gov under Internal Control Provisions and the guidance issued by the PCAOB at www.pcaobus.org under News & Events in a December 19, 2006, press release that discusses details of the proposal for issuing such guidance. IMA is planning to issue comment letters related to both documents.

You can find more information about IMA's position regarding SOX compliance on the website in the Professional Advocacy section.

As part of its initiative to expand efforts in the area of professional advocacy, IMA has met with local congressmen from the New York City and Northern New Jersey areas, who are quite interested in the organization's views on SOX and about how IMA has addressed concerns related to SOX 404 compliance. Meetings have also been held with the U.S. Chamber of Commerce. Such visibility with congressmen and on Capitol Hill is expected to continue for IMA this year.

I encourage you to contact me at lmills@imanet.org with your thoughts about the developments with XBRL and the guidance issued by the SEC and PCAOB related to

SOX 404 compliance. For example, do you think such guidance will allow companies of all sizes to economically obtain the benefits from performing the audit and assessing the effectiveness of internal controls over financial reporting as required for public companies under SOX 404? I also welcome feedback to determine what specific information you would like to see featured in future articles in relation to XBRL, SOX 404 compliance, and other topics that will enable you to be more successful in your career. ■