XBRL

By Kristine Brands, CMA

XBRL and Auditing

With its standardized data structure, eXtensible Business Reporting Language (XBRL) is suitable for a company's assurance needs. This column examines several of these opportunities, including the status of auditing XBRL-tagged financial statements filed under the Securities & Exchange Commission (SEC) XBRL Reporting Mandate of 2009 and internal and external auditing using XBRL.

No SEC Mandate Audit Requirement—Yet

The SEC mandate's final rules don't require a company's auditors to audit XBRL-tagged financial statements or to participate in the tagging process. This is in sharp contrast to the position described in the Sarbanes-Oxley Act of 2002 (SOX) in which the SEC was to require an external audit of a company's internal control system—a requirement that frustrated filers. In a 2005 Q&A for AT Section 101, "Attest Engagements," the Public Company Accounting Oversight Board (PCAOB) said it permits third-party assurance of tagged statements because tagging is an element of disclosure controls and procedures. This is strictly voluntary, but filers need to monitor a key provision of the mandate—the modified liability provision. This provision gives filers limited liability for data XBRL submissions for 24 months after a company's initial compliance with the mandate or by October 15, 2014, whichever is earlier. This means that as long as a filer submitted its financial statements with tags that were chosen in good faith and corrected errors promptly, the filer wouldn't face SEC liability penalties for filing errors. The provision was adopted because of the developmental state of the initial U.S. Generally Accepted Accounting Principles (GAAP) taxonomies and the lack of tools available to evaluate the accuracy of the tags and the tagging process, issues that have been addressed since the mandate's effective date.

The key language in the provision is that the company's interactive data is considered *furnished*, not *filed*. The SEC hasn't issued a statement about postponing the provision's expiration date. Expiration of the provision means that the statements' status changes from *furnished* to *filed*, making them subject to the same liability that applies to filing of related documents under the Securities Act of 1934 that could lead to civil and criminal penalties. Filers must recognize that, sometime in the future, the SEC may require an auditor's attestation report for XBRL data. When and if this becomes a requirement, the PCAOB would likely need to develop standards and add this requirement to its oversight activity.

Despite the absence of an audit requirement, companies need to be diligent about the quality of XBRL-tagged data.

Despite the absence of an audit requirement, companies need to be diligent about the quality of XBRL-tagged data. The SEC evaluates all inbound XBRL filings to identify outlier data, and SEC XBRL viewer tools (tools that read an SEC filing's tagged data and render it as a financial statement) are readily available that allow the public to access filings. This means that a company's filings can be used to generate SEC comment letters and that the filings are readily accessible through the Internet. The mandate has achieved transparency of

SEC XBRL-filed financial statements, one of its main objectives. Companies whose filings aren't high quality face increased scrutiny from their stakeholders and the SEC.

Now let's turn to how a company's XBRL-tagged data can be leveraged for internal and external auditing.

Internal and External Auditing with XBRL

Two XBRL tools that can facilitate internal and external auditing are the XBRL-GL (Global Ledger) and continuous auditing (CA). The XBRL-GL is a taxonomy that defines financial and business information used in a general ledger to enable a company to embed XBRL at the transaction level in its enterprise resource planning (ERP) system. The value of this framework is that it allows an organization to assign XBRL tags to its financial and business transactions, account balances, and data master files. It's also a tool that multinational companies can use to standardize their general ledgers, which facilitates the internal and external audit functions because of information comparability. If an organization's business reporting supply chain has XBRL-enabled systems, audit requirements can be met with XBRL-GL information such as the annual financial statement audit. Continuous auditing is a tool that organizations can use to achieve that objective.

CA is a technology model that audits accounting data in real-time or soon after recording transactions. Accounts can be audited directly from within the company's ERP system with an embedded auditing module or by transferring the data from the company to the database of the company's auditor. The company can map and tag its accounts to taxonomies that auditors also use, such as the U.S. GAAP taxonomy and XBRL-GL. There are several advantages to this approach. Auditors can use tools that are standardized on a recognized XBRL taxonomy to reduce the time and cost of the audit analysis because it's unnecessary to customize audit analytical and testing tools for each client. There's also a higher degree of reliability for audit evidence because it's automatically generated from the company's data source—the company's ERP database. Conventional auditing approaches rely heavily on document photocopies and manually prepared spreadsheets, processes that lengthen data gathering and are prone to error. Additional XBRL taxonomies needed to facilitate auditing are audit schedules, work papers, and audit opinions. If external stakeholders, such as banks and suppliers, have XBRL-based systems, data sharing and transfer can be performed continuously between the company and these parties to meet audit requirements.

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What's the Outlook?

XBRL reporting is gaining traction and acceptance. Leveraging it for the assurance function is another example of how it can be used to streamline business processes to help companies save time and money and improve the quality of financial reporting. **SF**

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