

# AUASB Bulletin

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**Australian Government**

**Auditing and Assurance Standards Board**

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## **Standard Business Reporting and XBRL: Information for Auditors**

### **Introduction**

1. eXtensible Business Reporting Language (XBRL) is changing the basis of business reporting around the world and there is increasing momentum for its adoption in all major developed countries.
2. Auditors need to be aware of how the implementation of XBRL may impact them.
3. In Australia, Standard Business reporting (SBR), which uses XBRL as the underlying, harmonized reporting language, will be available from 1 July 2010.
4. This Bulletin aims to increase auditor awareness through:
  - (a) Discussing the background to the development of SBR in Australia;
  - (b) Providing information on eXtensible Business Reporting Language (XBRL);
  - (c) Explaining that Australian Auditing Standards currently do not require auditors to perform procedures or provide assurance on XBRL tagged data in the context of an audit or review of a financial report; and
  - (d) Highlighting the ethical considerations that may arise when an auditor undertakes non-audit services related to the use of XBRL.

### **SBR in Australia**

5. SBR is an Australian Government initiative to reduce the business-to-government reporting burden by:
  - (a) simplifying government forms by removing unnecessary or duplicated information from forms;
  - (b) adopting a common, or harmonised, reporting language, based on international standards and best practice;

- (c) using accounting software to pre-fill forms automatically; and
  - (d) introducing a single, secure sign-on for all participating agencies.<sup>1</sup>
6. The Government has chosen to use XBRL to represent the harmonised reporting language on which SBR is based.
7. The SBR project is led by the Australian Treasury and participating agencies are the Australian Taxation Office (ATO), the Australian Securities and Investments Commission (ASIC), the Australian Prudential Regulation Authority (APRA), all State and Territory Government revenue offices (ROs) and the Australian Bureau of Statistics (ABS). It is being developed in partnership with software developers, business and their accountants, bookkeepers, tax agents and payroll professionals.
8. Examples of reports that will be available in SBR format include business activity statements, company income tax returns and FBT returns (ATO), financial reports and notification of half yearly reports (ASIC), financial statements (APRA), payroll tax returns (ROs) and the quarterly business indicators survey (ABS).<sup>2</sup>
9. SBR has not presently been mandated in Australia, however, the Australian Government anticipates that SBR will become the preferred method of reporting to Government because it will be cheaper, faster and easier to use.

### **What is happening in other countries?**

10. XBRL and standard business reporting are being adopted to varying degrees in many countries, including Belgium, Canada, China, Denmark, France, Germany, Hong Kong, India, Israel, Italy, Japan, Korea, the Netherlands, Singapore, Spain, Sweden, Thailand, the United States of America and the United Kingdom. Developments in these countries are too extensive to describe in this Bulletin, however, a few highlights are provided to give the reader a sense of the status of the XBRL movement world-wide.
- (a) United States of America

From December 2008, the top 500 public companies have been required to file their financial statements with the

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<sup>1</sup> See [www.sbr.gov.au](http://www.sbr.gov.au) for further information regarding the development of SBR in Australia.

<sup>2</sup> See [www.sbr.gov.au](http://www.sbr.gov.au) for a full list of forms in scope for SBR.

Securities and Exchange Commission (SEC) in both text and XBRL format.

(b) United Kingdom

The online filing of all Company Tax Returns using Inline XBRL will be mandatory from 1 April 2011, which will result in over 2 million returns being processed by the Her Majesty's Revenue and Customs (HMRC) each year.

(c) Belgium

The filing of registered companies' annual reports to the National Bank of Belgium in XBRL format was made mandatory in April 2007. Since then, over 98% of the 235,000 registered, unlisted, non-financial companies in Belgium have filed reports in XBRL format.

(d) Netherlands

The Netherlands was the first country to embark on a standard business reporting program and the Australian SBR program is based on their approach. Since January 2007, Dutch businesses have been able to map their financial data in a common XBRL language and send reports directly from their software to the relevant government agency. Businesses who use the facilities of the Dutch SBR program have estimated they save up to 25 per cent of their compliance reporting costs.

(e) China

In April 2010, 864 companies listed on the Shanghai Stock Exchange successfully lodged annual reports (for 2008) in XBRL format.

### **What is XBRL?**

11. XBRL is a computer based language for the communication of business and financial data, promoted by XBRL International<sup>3</sup>, an international non-profit consortium of companies, organisations and government agencies. It is an open standard, free of licence fees.

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<sup>3</sup> For more information, see [www.xbrl.org/jurisdictions.aspx](http://www.xbrl.org/jurisdictions.aspx)

### **Why use XBRL?**

12. XBRL technology arose from the need for more reliable, timely and efficient business reporting by Governments, regulators, businesses, investors, analysts and financial institutions.
13. Current reporting technology creates administrative burdens for businesses world-wide. Often businesses have to tailor and duplicate the same information, and supply it to domestic and international government agencies, regulators and parent or subsidiary companies in various forms.
14. Financial information is usually presented in a static format, such as pdf or html, the universal language for web browsers. The use of pdf and html increased the ability of users to access relevant information easily, regardless of physical location. However, pdf and html are static formats and do not enable electronic data interchange of financial information, other than through basic “copy and paste” functionality.
15. Static formats for financial information create the following issues:
  - (a) Users are required to access a single file and read the information page by page;
  - (b) Data must be copied and pasted, or re-keyed, to enable further analysis or presentation in a different form;
  - (c) Comparative analysis may require the user to access several files. For example, to compare the income of ten companies for a period of ten years, an analyst may be required to access 100 discrete files, search in each one for required information and then, if found, extract the relevant information;
  - (d) Manual manipulation and re-work of financial information is error-prone, time-consuming and expensive.
16. Therefore, solutions were sought to make financial and other business information dynamic, to enable users to automatically interact with the relevant data population, improve the quality of information and reduce usage costs.
17. XBRL eliminates the need for repeated data inputting, comparison, transferral and submission, thus streamlining the processes for collecting and reporting financial and other business information.

Consumers of financial information, including Governments, regulators, investors, analysts and financial institutions, can receive, find, compare and analyse data much more rapidly and efficiently if it is in XBRL format.

### **How does XBRL work?**

18. Instead of treating financial information as a block of text, as in a standard internet page or a printed document, XBRL provides a computer readable tag similar to a bar code so that electronically each individual item of data is uniquely identifiable.

### **XBRL tags**

19. The tag assigned to a specific figure in the financial information identifies certain characteristics that allow the information to be read, understood and manipulated by a computer program that can recognise the tag.
20. XBRL enables the automated processing of business information by computer software. Computers can treat the data “intelligently”: they can recognise the information, select it, analyse it, store it, exchange it with other computers and present it automatically in a variety of ways for users. In this way, XBRL greatly increases the speed of handling of financial data, reduces the chance of error and permits automatic checking of information.

### **XBRL taxonomies**

21. The library of tags required for any particular purpose is referred to as a taxonomy<sup>4</sup>. A taxonomy is essentially a collection of concepts, similar to a dictionary. Individual tags are known as taxonomy elements.
22. In the SBR context, the taxonomy is a collection of reportable terms and their association with accounting and related concepts. It is the language used to enable business software to send reports to government agencies.
23. The SBR Taxonomy is based on international standards and best practice. In developing the taxonomy, participating agencies undertook a process of rationalisation/harmonisation. The process identified, defined and labelled every element of data that is reported to agencies for each of the forms in scope. Duplicate items with

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<sup>4</sup> Taxonomies are pre-prepared by various organisations and are freely available.

disparate names were harmonised under one label. Similarly, items with the same name, but disparate definitions, were identified and uniquely labelled.

24. The SBR Taxonomy has over 4,000 elements and may be regarded as a definitional taxonomy. Other taxonomies for specific purposes are created using elements from the SBR taxonomy. For example, a reporting taxonomy may be created to enable financial reports to be mapped and lodged in XBRL format, or a taxonomy may be created to enable the lodgement of company tax returns.
25. Each new taxonomy created in Australia must reference the SBR Taxonomy and must be approved through a centralised change control process. In this way, variations in the application of harmonised elements within taxonomies are minimised.
26. The SBR Taxonomy is being used by software developers to build and test of SBR/XBRL enabled products for specific purposes.

#### **Extending a taxonomy**

27. The “X” in XBRL stands for “extensible” and accordingly XBRL is flexible, enabling a reporting entity to create specific elements by way of “extensions” to a given taxonomy. Such flexibility supports the adaptability required to ensure that the results, cash flows and financial position of a reporting entity can be presented fairly for any given accounting framework
28. No two businesses are the same and as a consequence no two financial statements are likely to be the same. It is therefore highly unlikely that a taxonomy can be created that contains all the various elements any given population of reporting entities may require to tag up their financial report. For example, the tags a bank might need for its financial statements or annual report will likely differ from those required by a manufacturing company even though both may use the same reporting framework such as IFRS. In addition there may be entity specific information, for example, analysis of sales by product line that would be unique to the reporting entity.
29. Use of extensions requires care to ensure that comparability with other reports using the same taxonomy is not unduly hindered. Accordingly it is important that extensions are used appropriately. Comparability is clearly enhanced when commonly used extensions are separately codified into the appropriate taxonomy to the extent possible.

### **XBRL Specification**

30. XBRL enabled information can be created and accepted by any computer, similar to the way that emails can be transmitted and received worldwide. These rules, or IT standards, are called the XBRL Specification<sup>5</sup> and they have universal acceptance. The Specification sets out rules as to the information that is required to create valid XBRL instance documents, taxonomies and extensions thereto. In the same way that users do not need to understand what makes E-mail work, users do not need to understand the technical details of the XBRL Specification.

### **XBRL instance**

31. An XBRL instance is a computer file containing the XBRL tags for a given set of financial information. For example if a reporting entity tagged up its financial report the resulting computer file containing the tagged information is called an XBRL instance document.
32. Instance documents are not meant to be read by users of financial statements; they are written in computer code, comparable to the html coding that is behind many internet pages.
33. Computer applications convert instance documents into human-readable reporting formats, in much the same way that a web browser converts html code into the internet pages that we see.
34. An XBRL instance is prepared once but is capable of use many times and this flexibility allows a variety of user needs to be met. For example, an instance document could be used by an investor to extract data for analysis; by the Australian Taxation Office to extract the information needed for tax return purposes; by a bank for credit control purposes and so forth. In each case the user applies its particular computer application to the instance to extract the required data (if these tagged data are available in the instance document).
35. The value of XBRL tagging is that it allows computers to recognise, select, store and exchange information quickly and effectively, so that data is more easily accessible, manipulable and reviewable. XBRL allows users to customise their analysis and presentation of tagged information.

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<sup>5</sup> The XBRL Specification has been established by the XBRL International Consortium. For the IT technical details, see [www.xbrl.org/Specifications](http://www.xbrl.org/Specifications).

**Inline XBRL (iXBRL)**

36. iXBRL is a new solution that uses web browser technology (html or xhtml) to handle instance document styles. This new solution provides a mechanism taking XBRL fragments in financial and business information in html and adding to it hidden metadata which can be used to construct a machine-readable copy of the same information. The objective is to provide documents which can be viewed in a web browser while making use of XBRL tags which can be processed automatically by consuming applications.

**Lodging financial reports in XBRL format**

37. From 1 July 2010, entities required to lodge financial reports with ASIC will be able to do so in XBRL format using SBR-enabled software.<sup>6</sup> This is a voluntary option and does not replace an entity's obligation to lodge the report pdf format.

**Preparing financial reports in XBRL format**

38. There are a number of ways for entities to prepare financial reports for SBR purposes using XBRL:
- (a) The financial report can be mapped into XBRL after it has been finalised, either manually or by using "bolt-on" applications which consist of software that compiles XBRL data from the traditional financial report into XBRL format; or
  - (b) XBRL-aware accounting software products may be used. Such products, which are becoming available, will allow users to map charts of accounts and other structures to XBRL, thereby supporting the export of data in XBRL form.
39. The method which an individual entity adopts will depend on its requirements and the accounting software and systems it uses.<sup>7</sup>
40. While standardised taxonomies exist,<sup>8</sup> tagging financial reports can require a significant amount of judgement on the part of the preparer. Judgement may be required where:

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<sup>6</sup> Other reports will also be able to be lodged with other regulators directly from SBR-enabled software from 1 July 2010. For example, the Business Activity Statement will be able to be lodged from SBR-enabled software directly with the Australian Taxation Office.

<sup>7</sup> It is anticipated that, initially, most Australian entities will map financial reports into XBRL after completion.

- (a) There are multiple tags that could be seen as applicable to a particular financial statement line item;
  - (b) When the taxonomy does not cover all items of information to be disclosed and it is necessary to create new tags for those items; or
  - (c) When preparers are not well-acquainted with the taxonomy and create extensions to the taxonomy when they are not needed.
41. Taxonomies are periodically revised and updated and, accordingly, preparers need to ensure that the appropriate taxonomy has been used to tag the financial report.
42. While SBR is expected to improve the communication and use of financial data, the information provided in XBRL documents is only as reliable as the underlying financial data used and the accuracy and completeness of the tagging applied to that data in creating the XBRL documents.
- Audit**
43. Australian Auditing Standards do not currently require auditors to perform procedures or provide assurance on XBRL tagged data in the context of an audit or review of a financial report.
44. Furthermore, because the XBRL tagging is simply a machine-readable rendering of the data within the financial report, rather than a discrete document, it does not constitute ‘other information’ as defined in ASA 720 *The Auditor’s Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report*.<sup>9</sup> Accordingly the requirement of ASA 720 for the auditor to ‘read’ the other information for the purpose of identifying material inconsistencies or material misstatements of fact<sup>10</sup> is not applicable to XBRL tags.
45. Similarly, the auditor’s report in accordance with the Australian Auditing Standards does not currently cover the process by which XBRL data is tagged or the XBRL-tagged data that results from the

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<sup>8</sup> At this stage, the XBRL taxonomy for Australian financial reports is being co-ordinated by ASIC, in consultation the Accounting Standards Board, accounting firms and software developers.

<sup>9</sup> See ASA 720, paragraph 5(a).

<sup>10</sup> See ASA 720, paragraphs 8 and 14.

process, and no assurance is given on any representation of XBRL-tagged data itself.

46. Australian Auditing Standards do not preclude the auditor from clarifying the auditor's association with XBRL-tagged data in the auditor's report, if considered necessary. This may be done, for example, by identifying what financial information is covered by the auditor's report, or including an Other Matter paragraph<sup>11</sup> in the report.
47. As usage of XBRL evolves in Australia, the AUASB will consider the needs of users and the extent to which an audit or review of a financial report should be expected to provide assurance on the accuracy of the tagging process. It is also possible that regulators may require auditors to provide assurance on XBRL-tagged data at some stage in the future.

**International developments relating to the audit of XBRL data**

48. Currently, no jurisdiction has mandated that financial reports prepared in XBRL format must be audited and limited guidance exists for auditors about the assurance of XBRL documents.
49. The International Auditing and Assurance Standards Board (IAASB) is undertaking a consultation process to determine the needs of preparers and users of XBRL-tagged data to assist the IAASB in assessing whether it is necessary and in the public interest to develop a pronouncement addressing association with and/or assurance on XBRL-tagged data.
50. Research is being undertaken to determine the nature of assurance that could be given over XBRL documents and the processes that might be involved in providing such assurance. Some of the areas being examined include:
  - (a) The need for a conceptual framework for providing assurance on XBRL instance documents and a set of assertions similar to the management assertions for financial audits;<sup>12</sup> and

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<sup>11</sup> See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

<sup>12</sup> Srivastava, Rajendra P. and Kogan, Alex, *Assurance on XBRL Instance Document: A Conceptual Framework of Assertions* (September 2009)

- (b) The applicability of traditional audit concepts such as materiality, error and sampling in a data-centric, XBRL environment.<sup>13</sup>

### **Non-audit services**

- 51. The auditor or firm may be asked to provide non-audit services relating to an entity's use of XBRL. Examples of non-audit services may include:
  - (a) Advising on the implementation of XBRL, where not prohibited by relevant independence requirements;
  - (b) Assisting with or performing the XBRL tagging, where not prohibited by relevant independence requirements;
  - (c) Training management and staff in XBRL tagging;
  - (d) Agreed upon procedures engagements (for example, on the accuracy of the XBRL tagging performed by management, to assist the audit committee in its oversight role); and
  - (e) Assurance engagements (for example, assurance on the controls related to the XBRL tagging process).
- 52. *ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* requires the auditor to comply with relevant ethical requirements, including those pertaining to independence, when performing audits, reviews and other assurance engagements.<sup>14</sup> Accordingly, where non-audit services are provided by the entity's auditor, the auditor considers possible threats to independence and objectivity and whether it is appropriate to accept the engagement and, if so, whether to apply appropriate safeguards.

### **AUASB work in relation to XBRL**

- 53. The AUASB is closely monitoring local and international developments in the XBRL area with a view to determining whether it is in the public interest to issue a pronouncement to assist audit and assurance practitioners. In particular, the AUASB is monitoring the work being done by the IAASB, the Australian Treasury, ASIC, APRA and academics.

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<sup>13</sup> Plumlee, R. David and Plumlee, Marlene A., *Assurance on XBRL for Financial Reporting* (September 2008)

<sup>14</sup> See ASA 102 paragraph 5.

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54. The commencement of voluntary lodgement of financial reports in XBRL format with ASIC from 1 July 2010 will be closely watched by the AUASB as an indicator of the take-up of the technology.
55. As the adoption of XBRL increases and users begin to interact with the XBRL data available to them, the demand for audit of that data is likely to increase. The AUASB is therefore preparing for this eventuality by considering the implications of XBRL reporting on the traditional audit model.

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