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Standard Business Reporting and XBRL: Information for Audit and Assurance Practitioners

Introduction

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.¹

In Australia, Standard Business Reporting (SBR), which uses XBRL as the underlying, harmonized reporting language, will be available from 1 July 2010.

Audit and assurance practitioners need to be aware of the implementation of SBR and XBRL and how it may impact their work.

This Bulletin aims to increase audit and assurance practitioner awareness through:

- (a) discussing the background to the development of SBR in Australia;
- (b) providing information on XBRL;
- (c) explaining that Australian Auditing Standards currently do not require the auditor to perform procedures or provide assurance on XBRL tagged data in the context of an audit or review of a financial report;
- (d) providing examples of non-audit services that may be performed by the auditor or assurance practitioner; and
- (e) highlighting the ethical considerations, including independence issues, that may arise when an audit or assurance practitioner undertakes non-audit services related to the use of XBRL.

SBR in Australia

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.²

¹ See Appendix 1 for highlights about how XBRL is being adopted in other jurisdictions.

Standard Business Reporting and XBRL: Information for Audit and Assurance Practitioners

The Government has chosen to use XBRL to represent the harmonised reporting language on which SBR is based.

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.

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).³

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 XBRL?

XBRL is a computer based language for the communication of business and financial data, promoted by XBRL International⁴, an international non-profit consortium of companies, organisations and government agencies. It is an open standard, free of licence fees.

Why use XBRL?

XBRL technology arose from the need for more reliable, timely and efficient business reporting by Governments, regulators, businesses, investors, analysts and financial institutions.

Current disparate reporting technologies create 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.

Financial information is usually presented in a static format, such as paper, 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.

² See www.sbr.gov.au for further information regarding the development of SBR in Australia.

³ See www.sbr.gov.au for a full list of forms in scope for SBR.

⁴ For more information, see www.xbrl.org/jurisdictions.aspx

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 interpreted by users within the context of the report they are reading, often leading to interpretive and/or transposition errors;
- (c) Data must be copied and pasted, or re-keyed, to enable further analysis or presentation in a different form;
- (d) Comparative analysis may require users 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;
- (e) Manual manipulation and re-work of financial information is error-prone, time-consuming and expensive.

Therefore, solutions were sought to make financial and other business information dynamic, or interactive, to enable users to easily interact with the relevant data population, improve the quality of information and reduce usage costs.

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?

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 to each data item so that electronically each individual item of data is uniquely identifiable.

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 tags

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. The meanings of the tags are included in a relevant taxonomy (defined below) interpreted by computer programs, like an electronic dictionary.

XBRL taxonomies

The library of tags required for any particular purpose is referred to as a taxonomy⁵. A taxonomy is essentially a collection of concepts, similar to a dictionary. Individual tags are known as taxonomy elements.

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 Australian Government agencies.

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 Australian Government agencies for each of the forms included in the scope of the SBR project. Duplicate items with disparate names were harmonised under one label. Similarly, items with the same name, but disparate definitions, were identified and uniquely labelled.

The SBR Taxonomy has just under 4,000 elements and may be regarded as a definitional taxonomy. Other taxonomies developed in Australia for specific purposes are created using elements from the SBR Taxonomy. For example, a taxonomy may be created to enable the lodgement of company tax returns.

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.

The SBR Taxonomy is being used by software developers to build and test SBR/XBRL enabled products for specific purposes.

Extending a taxonomy

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 financial results, cash flows and financial position of a reporting entity can be presented fairly for any given accounting framework.

The Australian SBR Taxonomy contains all the elements required to enable a reporting entity to meet the minimum standards to create a valid financial report. However, as no two businesses are the same, no two financial statements are likely to be the same. It is therefore highly unlikely that any taxonomy can be created that contains all the various elements any given population of reporting entities may require to tag up their financial reports. 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 Australian Accounting Standards. In addition there may be entity specific information, for example, analysis of sales by product line that would be unique to the reporting entity.

⁵ Taxonomies are pre-prepared by various organisations and are freely available.

The 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.

The SBR Program provides guidance on the development and publication of industry based extensions, however the assurance and accuracy of such extensions is the accountability of the creator.

XBRL Specification

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 Specification⁶ 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

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 its financial report the resulting computer file containing the tagged information is called an XBRL instance document.

Instance documents are not meant to be read by users of financial statements; they are written in computer code created for interpretation by computers, comparable to the html coding that is behind many internet pages.

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.

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 ATO 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).

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.

⁶ The XBRL Specification has been established by the XBRL International Consortium. For the IT technical details, see www.xbrl.org/Specifications.

Inline XBRL (iXBRL)

iXBRL is a new solution that uses web browser technology (html or xhtml) to provide web browser presentations of instance documents. This new solution provides a mechanism taking XBRL fragments in financial and business information in html and adding to it hidden metadata or tags 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.

Preparing financial reports in XBRL format

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 being developed, will allow users to map charts of accounts and other structures to XBRL, thereby supporting the export of data in XBRL form.

The method which an entity adopts will depend on its requirements and the accounting software and systems it uses.⁷

While standardised taxonomies exist,⁸ tagging financial reports can require a significant amount of judgement on the part of the preparer. Judgement may be required where:

- (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.

Taxonomies are periodically revised and updated and, accordingly, preparers need to ensure that the appropriate taxonomy has been used to tag the financial report.

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.

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

Lodging financial reports under SBR

From 1 July 2010 entities required to lodge financial reports with ASIC and APRA, will be able to do so in XBRL format, using SBR-enabled software. Forms that will be available from that date include:⁹

- (a) ASIC Forms
 - (i) Form 388 Copy of financial Statements and Reports
 - (ii) FS70 Profit and Loss Statement and Balance Sheet
 - (iii) 7051 Notification of half Yearly Reports
 - (iv) FINRPT Financial Reports and Statements
- (b) APRA Forms
 - (i) Statement of Financial Performance; and
 - (ii) Statement of Financial Position.

At this stage, lodging a financial report with ASIC in XBRL format using SBR is voluntary and does not replace an entity's obligation to lodge the financial report in the required paper or pdf format.

Audit requirements

No jurisdiction to date has mandated the audit of financial reports prepared in XBRL format

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.

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*.¹⁰ Accordingly the requirement of ASA 720 for the auditor to "read" the other

⁸ At this stage, the XBRL taxonomy for Australian financial reports is being managed by ASIC, in consultation the Australian Accounting Standards Board, accounting firms and software developers.

⁹ 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.

¹⁰ See ASA 720, paragraph 5(a).

information for the purpose of identifying material inconsistencies or material misstatements of fact¹¹ is not applicable to XBRL instances.

Similarly, the auditor's report in accordance with the Australian Auditing Standards does not currently apply to the process by which information is tagged for XBRL purposes or to the XBRL-tagged data that results from the tagging process, and no assurance is given on any representation of the XBRL-tagged data.

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 paragraph¹² in the report.

As the use of XBRL evolves in Australia, it is possible that assurance may be required on XBRL-tagged data by regulators or requested by preparers, or by investors or other financial report users.

Non-audit services

The auditor or firm, or an assurance practitioner, 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; and
- (d) Other assurance engagements (for example, assurance on the accuracy of the XBRL tagging performed by management, to assist the audit committee in its oversight role; or assurance on the controls related to the XBRL tagging process).

ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* requires the auditor and assurance practitioners to comply with relevant ethical requirements, including those pertaining to independence, when performing audits, reviews and other assurance engagements.¹³ 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.

¹¹ See ASA 720, paragraphs 8 and 14.

¹² See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

¹³ See ASA 102 paragraph 5.

Potential implications of XBRL for audit and assurance

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. Accountants, auditors, regulators and academia are beginning to consider what the implications for audit and assurance might be.

In part, the way in which XBRL is used for financial reporting will determine the nature of the assurance provided on that information. For example, XBRL may be applied after the financial report has been completed, such that there is both a human readable report and an XBRL report, or it may be applied at the chart of accounts, or data, level, such that the end product is a computer readable, XBRL, report only. In the first instance, the current audit model may continue to apply. This model provides for the expression of an opinion by the auditor on whether the financial report, as a whole, presents fairly in all material respects the financial position and results of an entity. Assurance on the XBRL report, in the first instance, is likely to involve referencing the equivalent human readable report. However, in the second instance, new audit methodologies may be required, as the current audit model does not provide for assurance to be given at the data level.

XBRL will enable dynamic information to be provided to the market, allowing users to extract and re-use only those elements of an XBRL financial report that are relevant to their enquiry. An issue therefore arises about assurance at the disaggregated, rather than report, level. Will users assume that the disaggregated XBRL information has been audited? Will users demand assurance at that level? What level of assurance will be required and is it possible to provide assurance at that level at a reasonable cost?

To assist standard-setters, policy makers and regulators understand and prepare for the changes to audit and assurance practice, research is being undertaken in many jurisdictions by academic institutions. Some of the areas being examined include:

- (a) The implications of XBRL for audits of, or other assurance services on, financial statements;¹⁴
- (b) 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;¹⁵ and
- (c) The applicability of traditional audit concepts such as materiality, error and sampling in a data-centric, XBRL environment.¹⁶

IAASB work in relation to XBRL

The International Auditing and Assurance Standards Board (IAASB) has commissioned a research project on the implications of XBRL for the financial statement audit and is undertaking a consultation process to determine the needs of preparers and users of XBRL-tagged data to assist the IAASB in

¹⁴ See www.ifac.org/MediaCenter for the IAASB media release regarding this new research project.

¹⁵ For example, see Srivastava, Rajendra P. and Kogan, Alex, *Assurance on XBRL Instance Document: A Conceptual Framework of Assertions* (September 2009)

¹⁶ For example, Plumlee, R. David and Plumlee, Marlene A., *Assurance on XBRL for Financial Reporting* (September 2008)

assessing whether it is necessary and in the public interest to develop a pronouncement addressing association with and/or assurance on XBRL-tagged data.¹⁷

AUASB work in relation to XBRL

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 academia.

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 for financial reporting in Australia.

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¹⁷ See www.ifac.org/IAASB/ProjectHistory.

What is happening in other countries?

XBRL and standard business reporting are being adopted to varying degrees, and for different purposes, 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, certain highlights are provided to give the reader a sense of the adoption of XBRL world-wide.

United States of America

From December 2008, the top 500 public companies have been required to file their financial statements with the Securities and Exchange Commission (SEC) in both text and “interactive”¹⁸ format.

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 15 per cent of their compliance reporting costs. 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 Her Majesty’s Revenue and Customs (HMRC) each year.

Germany

In January 2010, the Federal Ministry of Finance issued a Tax Deregulation Act mandating the standardised submission of financial statements in XBRL format for fiscal periods beginning on or after 31 December 2010. This legislation is a key part of a ministerial initiative to reduce the tax reporting burden. It is being co-ordinated through the federal CONSENSUS (Co-ordinated new software development for electronic tax administration) project.

Spain

In March 2010, the Spanish Business Registry announced the availability of annual financial statements in XBRL format for users of its online portal, www.registradores.org. To date there have been over 600,000 submissions to the Business Registry in XBRL. This follows the publication of *Order BOE*

¹⁸ The term “interactive” is commonly used in the United States, rather than the acronym “XBRL”.

JUST/206/2009 in the official journal of the Spanish government in February 2009, mandating the use of XBRL in the presentation of annual financial statements.

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.

China

China pioneered the adoption of XBRL reporting in 2003 with a pilot program under which 118 annual reports were filed in XBRL format with the Shanghai Stock Exchange (SSE). In April 2010, 864 companies listed on SSE successfully lodged annual reports (for 2008) in XBRL format.

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WEB RESOURCES

There are numerous websites which provide information about XBRL and demonstrations of how XBRL can be used. The following websites provide examples of the types of XBRL, and SBR, information available on the internet and useful starting points to learn more about XBRL. There are, however, many more websites and tools which are available and this list provides only a few examples.

www.sbr.gov.au This is the Australian Government website for the SBR initiative, developed over a number of years, which provides for the commencement of reporting to Government in XBRL format from 1 July 2010. The website provides extensive information on the SBR Program in Australia, as well as information about XBRL, including learning programs tailored for business, reporting professionals, software developers and the public.

www.xbrl.org This is the main website for XBRL International. It provides extensive information about the development of XBRL globally and links to other websites.

www.iasb.org/xbrl This is the International Accounting Standards Board XBRL website. It provides a short summary describing XBRL and details of how it works.

usgaap.xbrl.us This is the website of the US jurisdiction of XBRL International, a separate non-profit organisation. It provides useful information about XBRL in the US, as well as case studies, white papers and fact sheets.

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