



**International Federation of Accountants**

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## Agenda Item

# Q

**Committee:** IAASB Consultative Advisory Group

**Meeting Location:** London

**Meeting Date:** September 14–15, 2010

### **XBRL—Report Back and Project Update**

#### **Objectives of Agenda Item**

1. The Objectives of this Agenda Item are:
  - (a) To provide a report back on proposals of the Representatives on this project as discussed at the March 2010 CAG Meeting.
  - (b) To obtain the Representatives' views on key issues discussed by the IAASB at its June 2010 meeting.

#### **Papers to Be Referred to during Discussion**

2. The discussion on this topic will follow the structure of this CAG Paper.
3. Hyperlinks presented at the end of this CAG Paper to Agenda Item 8-A of the June 2010 IAASB meeting are for reference only.

#### **Project Status and Timeline**

4. The Appendix to this paper provides a project history, including links to the relevant CAG documentation.

#### **Background**

5. At its December 2009 meeting, the IAASB determined a targeted consultation process to assist it in defining a way forward on XBRL. The IAASB's June 2010 discussions noted that the planned needs analysis to inform the determination of IAASB action on the project had been progressing more slowly than anticipated, an indication that stakeholders may not yet be ready to prioritize the topic on their respective agendas. Jurisdictions appear to be progressing at different speeds in relation to XBRL filing requirements and, as a result, standard-setting activities in this area are hindered.
6. Formal consultations have taken place with:
  - Institute of Chartered Accountants of England and Wales (ICAEW) XBRL Assurance Working Group
  - Fédération des Experts Comptables Européens (FEE)
  - IAASB Consultative Advisory Group (CAG)

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- IFAC Small and Medium Practices (SMP) Committee
- American Institute of Certified Public Accountants (AICPA) XBRL Task Force
- XBRL International Assurance Committee (AC) (formerly known as the XBRL International Assurance Working Group)

#### March 1-2, 2010 CAG Discussion

7. Below are extracts from the draft minutes of the March 2010 CAG meeting,<sup>1</sup> and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

#### Report Back

Representatives' Comments	Task Force/IAASB Response
Mr. Koltvedgaard suggested an emphasis on preparer and user needs would be appropriate. In his view, many SMEs are unsure of whether they will be able to prepare XBRL-tagged data and may request the auditor to do so on their behalf. He recognized this may have implications under the IESBA Code, but noted auditors in Denmark are assisting clients with XBRL. Mr. Johnson agreed, noting education and training of preparers is important, in particular in relation to which taxonomies to use and whether extensions to these taxonomies are appropriate. He also noted that auditors in the UK dealing with the mandatory filing of their clients' tax returns are exploring what services they can provide. Mr. Krantz also noted that he had been in touch with the IASB to understand the software technologies available to preparers.	Point taken into account. At its June 2010 meeting, the IAASB noted that the IESBA has been asked to consider the matter of auditors' independence in the context of their involvement in assisting management in developing an appropriate approach to XBRL tagging.  The Task Force is of the view that education and training of preparers is not the role of the IAASB directly, however, the IAASB agreed it should continue to focus effort on communication with stakeholders.
Mr. Koltvedgaard questioned what financial statements would be presented at the general assembly when XBRL is used. Mr. Johnson noted that, to the best of his knowledge, current uses of XBRL are in addition to paper-based financial statements, on which the auditor reports. In his view, this is likely to continue for the foreseeable future, although there is an increasing demand for financial information presented in a different	<b><i>Point taken into account. See discussion in paragraphs 8 and 16 below.</i></b>

<sup>1</sup> The minutes will be approved at the September 2010 IAASB CAG meeting.

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Representatives' Comments	Task Force/IAASB Response
way that might affect the environment in the next 4-5 years. Mr. Verkruijsse described an assurance report issued on XBRL financial statements in the Netherlands, noted it raised questions about what form and level of assurance users might demand in the future.	
Mr. Gutterman expressed a concern that users of financial information would lose important context as the amount of data they can separately access expands. In his view, the meaning of the interactions between financial statement items should not be lost. Mr. Damant noted the importance of educating users of XBRL-tagged data about the limits of its use.	Point taken into account. While the Task Force agrees with Mr. Gutterman's observation, this is a function of the nature of XBRL. The IAASB agreed, however, that this disaggregation of financial statement information may have implications as regards the auditor's association. <b>See discussion in paragraph 10 below</b> . In addition, work of the research team may also provide further information in this regard ( <b>see paragraph 14</b> ).

### Matters for CAG Consideration

#### Key Themes Arising from the Consultations to Date

8. The Task Force has identified a number of key themes for the IAASB to consider in determining a way forward:
  - While the number of jurisdictions requiring regulatory and other filings in XBRL is expanding, there does not seem to be a consensus as to whether XBRL will replace traditional paper-based financial statements as the primary means of filing financial statements in the near future. There was acknowledgement that this could happen, and therefore it is important to ensure that the IAASB is in a position to respond to the environment should it change rapidly in one or more jurisdictions.
  - Those jurisdictions that do require XBRL for regulatory filings have not indicated any intent to change current practice relative to auditor involvement—that is, no required auditor association with XBRL filings.
  - The risk emerging in practice is that preparers are not adequately equipped with the skills or training necessary to properly tag financial information and disclosures to meet regulatory and other filing requirements.
  - This deficiency has, in certain jurisdictions, resulted in preparers' reliance on third-party service providers, and a question regarding how auditors can assist preparers in meeting their XBRL filing requirements. The phase out of limited liability provisions for accelerated filers in the U.S. also may lead to increased requests for auditor

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association with XBRL filings (to date, such requests have been minimal, and ordinarily do not involve the expression of an opinion).

- National standard setters and other interested parties, such as IFAC Member Bodies, may develop solutions to meet jurisdiction-specific needs – while doing so has its advantages; it also can lead to divergence in practice and widening of the expectation gap.
- Due to the time necessary for the IAASB to develop authoritative pronouncements, it is important that the IAASB be in a position to respond as practitioner needs evolve, and the IAASB should initially consider which services practitioners may be requested to provide on a voluntary basis.

The key issues discussed by the IAASB about how to move the project forward are highlighted below.

#### A. Auditor Association with XBRL Data

9. The IAASB's initial discussions on the issue of auditor association in the latter part of 2010 led to the development of the January 2010 IAASB Staff Questions and Answers (Q&A) publication on XBRL.<sup>2</sup> Despite awareness of the issue being raised through the Q&A, however, discussions with stakeholders continue to indicate inconsistent understanding of the issue around the world. Thus, the question that has arisen is whether the IAASB could do more to emphasize that, unless otherwise so stated, auditors are not providing any assurance on XBRL data. Amongst the options that the Task Force had been considering in this regard is advocating the use of an Other Matter paragraph in the auditor's report.
10. During the June 2010 meeting, the following points were noted:
  - While some organizations have issued guidance regarding the fact that auditors are not associated with XBRL data, such guidance generally is not available to users. It was therefore suggested that it would be beneficial if auditors could have a means to better acknowledge that they have no responsibilities in relation to XBRL data, and if regulators could, perhaps, similarly recognize this in their filing requirements.
  - Using the auditor's report to include the appropriate caveat may not be effective, as users tend to access the XBRL data directly through their software tools and assume that the data had been audited without looking at the auditor's report. It also was noted that, in addition to the risk of inconsistent reporting and confusion arising through giving auditors the option of using their reports to communicate the matter, auditors generally have preferred to exclude from the auditor's report information that is not required.

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<sup>2</sup> [IAASB Staff Q&A, XBRL: The Emerging Landscape](#)

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- The Staff Q&A is a good resource to raise awareness of the issue and more could be done to increase its visibility. In this regard, it was noted that the key challenge is communicating messages to stakeholders. It was noted that, while discussions at the IAASB CAG are an effective mechanism for this purpose and national auditing standard setters have been encouraged to raise awareness of XBRL at the national level, the IAASB should continue to focus effort on communication with stakeholders.
- There may be a public interest need for the IAASB to explore whether an appropriate caveat could be attached to each piece of XBRL-tagged information, as users would otherwise be left to seek their own sources of information as to whether or not the data have been audited. In this regard, it was questioned whether an ‘infrastructural’ issue should be considered pertaining to whether audit ‘flags’ could be built into the XBRL taxonomy at the individual data level to indicate whether each tagged item and the related tagging process have been audited. The IAASB agreed that this type of functionality relative to XBRL taxonomies should be explored further with XBRL International.

#### Matter for CAG Consideration

1. Do Representatives have a view as to how the IAASB could better communicate to users that, unless otherwise stated, the auditor is not associated with XBRL data. For example, do Representatives agree that regulators may be able to assist in this regard?

#### B. Needs Analysis

##### B.1 Agreed-Upon Procedures Standard

11. At its June 2010 meeting, the IAASB considered the merits of developing an Agreed-Upon Procedures (AUP) standard to respond to near-term needs of users for some level of assurance regarding XBRL data, recognizing that reports generated pursuant to these engagements would not be general use in nature. It was suggested that guidance issued by the AICPA’s Auditing Standards Board in April 2009 addressing the performance of AUP procedures with respect to XBRL data, Statement of Position (SOP) 09-1,<sup>3</sup> could be leveraged to that effect, as such guidance has been well received in the U.S. Nevertheless, it was noted that there are a number of other considerations that increase the complexity of the issue, including, amongst others, the fact that the SOP 09-1 is a guidance document and not a standard, and whether there would be merit in developing an umbrella standard for different types of AUP services. Accordingly, time would be needed to thoroughly consider the issue.
12. The IAASB had mixed views on the topic, as follows:

<sup>3</sup> SOP 09-1, *Performing Agreed-Upon Procedures Engagements that Address the Completeness, Accuracy, or Consistency of XBRL-Tagged Data*

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- The advantages of developing an AUP standard may outweigh the disadvantages, as such a standard could help explain the complexities involved with XBRL data, including the auditor association issue.
- However, an AUP standard may not be of sufficient help to users given the key question of what the practitioner would be reporting on relative to what users generally expect from the auditor in terms of an opinion on the financial statements as a whole.
- Longer term needs regarding assurance on the tagging process may be of greater importance than the short-term need for an AUP. It was suggested that the AICPA's SOP 09-1 may be sufficient to meet present needs and that before any IAASB resources are committed to pursuing the development of an AUP standard, IFAC could investigate whether such guidance could be adopted in other countries in one form or another.

#### *B.2 Other Standard-Setting Activities*

13. The IAASB asked the Task Force to study the matter further, particularly from a cost-benefit perspective, and to present more concrete proposals for the IAASB's consideration in due course. Doing so will allow the IAASB to gain more information to determine where the Board can make the most meaningful impact in anticipation of much greater usage of XBRL in the future. For example:
  - Several IAASB members suggested that, if an XBRL assurance standard was developed, this could raise users' awareness of the possibility of assurance engagements on XBRL data. In this regard, it was noted that the development by the American Institute of Certified Public Accountants (AICPA) of an assurance standard on reporting on internal control in the 1990s for voluntary engagements, before the enactment of any regulatory requirement for such reporting in the U.S., had helped accelerate the development of assurance services in this area when such a requirement did materialize subsequently in the Sarbanes-Oxley Act. Accordingly, it was suggested that the availability of an assurance standard on XBRL could similarly spur regulatory demand for assurance on XBRL data.
  - In this regard, Prof. Schilder noted that meetings with the International Organization of Securities Commissions' (IOSCO) Standing Committee No. 1 and the International Forum of Independent Audit Regulators (IFIAR) would present opportunities to discuss the issue with regulatory stakeholders. While recognizing that IOSCO and IFIAR may not have a mandate to set regulatory requirements regarding assurance on XBRL data, the IAASB agreed that such meetings with regulatory stakeholders are important fora through which key messages on XBRL could be communicated. In addition, these meetings would enable the IAASB to promote further consideration of the issues on IOSCO's and IFIAR's agendas on an ongoing basis, and help them to raise awareness of the issues to their respective constituents.

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- Consideration may also need to be given to whether, as its use evolves, XBRL would be considered part of an entity's internal control over financial reporting.<sup>4</sup> For example, the U.S. Securities and Exchange Commission (SEC) rules state: "As the technology associated with interactive data improves, issuers may integrate interactive data technology into their business information processing, and such integration may have implications regarding internal control over financial reporting no different than any other controls or procedures related to the preparation of financial statements. If this integration occurs, the preparation of financial statements may become interdependent with the interactive data tagging process and an issuer and its auditor should evaluate these changes in the context of their reporting on internal control over financial reporting."
- As the usage of XBRL involves, in particular when:
  - XBRL tags are included within financial statements being subjected to an audit (which could be the case with some inline XBRL filings required by UK tax authorities, depending on the chosen method of preparation); or
  - Financial statements to be audited are produced by XBRL rendering (i.e., XBRL is used at the transactional level and in effect becomes part of internal controls over financial reporting);

regulators and other users of the financial statements may infer that an auditor has involvement with the processes over XBRL reporting because they view XBRL as a component of internal control.<sup>5</sup>

- This also may be the case when financial statements are filed for a special purpose, such as the tax authority scenario in the UK, and the XBRL statements are the only representation of that financial information. The ICAEW discussions highlighted that to the extent that companies use XBRL tagging as an element of their financial reporting process and/or controls, there may be ways for the auditor to support the existing audit processes by performing audit procedures on any such processes or controls.

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<sup>4</sup> An alert by the U.S. Center for Audit Quality notes: "Based on experience to date [in the U.S.], XBRL tagging is expected to be performed separately from the process of a company's preparation of its financial statements. Typically, tagging is not currently part of a company's internal control over financial reporting."

<sup>5</sup> Paragraph 18 of ISA 315, *Identifying and Assessing the Risks of material Misstatement through Understanding the Entity and Its Environment*, requires the auditor to obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the financial reporting process used to prepare the entity's financial statements. While the argument could be made that when entities use a bolt-on system to do their tagging after finalizing the traditional paper-based financial statements this is outside the scope of the ISAs, it is less clear that an auditor would not be required to understand the XBRL processes when XBRL is used as part of an entity's consolidation process or, in the most sophisticated scenario, at the transactional level.

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##### *B.3 Research Team*

14. As discussed at the March 2010 CAG meeting, a research team was put in place to explore implications on the financial statement audit of the use of XBRL. This team is currently developing an end-user oriented experiment to be applied to participants in the Netherlands and the U.S. The primary research question is how stakeholders perceive varying levels of assurance on XBRL versions of annual corporate reports.
15. An update from the research team is expected in November 2010. The IAASB believes that this research is an important means of gathering input from users of XBRL-tagged data, and the results of this research will further help to inform its views going forward.

##### *B.4 Further Obtaining the Views of Key Stakeholders*

1. At its June 2010 meeting, the IAASB considered the Task Force's proposal for the establishment of a Project Advisory Panel (PAP) to solicit views from key stakeholders, particularly members of IOSCO and IFIAR that are already facing, or will face in the near future, XBRL filing requirements. Whilst a few IAASB members felt that the idea of a PAP had some merit, there was concern that it may be over-ambitious, as participating regulators may have different objectives and the issues that the PAP would address are unclear. It was suggested that a roundtable may be a more appropriate next step as it would help initiate debate on the topic without committing the IAASB to creating a long-term infrastructure along the lines of a PAP.
2. Subject to resource availability, the IAASB broadly supported consideration of roundtables with particular involvement of regulators, as a precursor to determining whether there would be benefit in setting up a PAP on a longer-term basis. In this regard, the need to involve stakeholders who have jurisdiction over the filing requirements in the discussions, without whom effective solutions may not be reached, was highlighted.

#### **Matters for CAG Consideration**

2. Do Representatives support the proposal to further consider future needs relative to assurance on XBRL-tagged data rather than developing guidance on AUP engagements?
3. Based on their knowledge of developments of regulatory requirements in their particular jurisdiction, Representatives are asked for their views regarding how practice might evolve, in particular over the longer term.
4. Do Representatives have preliminary views on whether it would be preferable for the IAASB to focus on:
  - (a) Separate assurance on XBRL reporting; or
  - (b) XBRL as part of internal control over financial reporting.



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**Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY**

Agenda Item 8-A of the June 2010 IAASB Meeting – XBRL—Issues and IAASB Task Force Proposals <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5445>

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### Appendix

#### Project History

**Project: XBRL**

##### Summary

	CAG Meeting	IAASB Meeting
Project Commencement	March 2009	March 2009
Development of Proposed International Pronouncement (up to Exposure)	September 2009  March 2010  September 2010	September 2009  December 2009  June 2010

##### CAG Discussions: Detailed References

<b>Project Commencement</b>	<u>March 2009</u>  See IAASB CAG meeting material: <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4600">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4600</a>  See CAG meeting minutes (in Agenda Item M of the following material): <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5589">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5589</a>  See report back on March 2009 CAG meeting (in paragraph 7 of the following material): <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5254">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5254</a>
<b>Development of Proposed International Pronouncement (Up to Exposure)</b>	<u>March 2010</u>  See IAASB CAG meeting material: <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5254">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5254</a>  See CAG meeting minutes (in Agenda Item G of the following material):  See draft March 2010 CAG meeting minutes at Agenda Item B.  See report back on March 2010 CAG meeting in paragraph 7 of this CAG paper.