

# **Implications of XBRL for the Financial Statement Audit**

**A Research Study Funded by the ACCA/IAAER  
Research Program to support the work of the IAASB**

## **Focus Groups on the sidelines of the IAASB CAG Meeting, Barcelona: Overview and FAQ**

Roger Debreceeny, PhD, FCPA, CGEIT  
Shidler College Distinguished Professor of Accounting  
School of Accountancy-Shidler College of Business  
University of Hawai'i at Mānoa  
rogersd@hawaii.edu

Stephanie Farewell, PhD, CPA  
Associate Professor  
Department of Accounting  
University of Arkansas at Little Rock  
smfarewell@ualr.edu

Hans Verkruijsse, PhD, RE, RA  
Professor of Accounting Information Systems  
Tilburg University, Netherlands  
hans.verkruijsse@nl.ey.com

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### **We seek your participation!**

XBRL is increasingly used around the world as a foundation for automated financial reporting. As you know, there are *many* open questions about the role that audit and assurance will play in this process. We are conducting professionally oriented research on these questions, as an input to the work of the IAASB and to inform other stakeholders. Your opinion is a valuable input into this research. We believe this research is relevant and valuable to the CAG and the Board.

We need you to participate in *one* of three identical focus groups that we are running on the sidelines of the CAG (Sunday at 6pm, Monday at 6pm and Tuesday at 5:30pm). Each focus group will take exactly one hour and will cover the same ground-you only need to come to one session. *No* knowledge of XBRL is required. All issues will be at strategic, audit and assurance levels. During the focus group we will provide a brief overview of XBRL, you will be able to share your opinions and here the opinions of other constituents. You will likely leave the focus group with a better understanding of XBRL and XBRL assurance.

### **Overview**

The eXtensible Business Reporting Language (XBRL) plays an increasingly important role in nearly twenty countries. Many of these countries use XBRL as the primary, or sole, communication method for the transmission of audited financial statements to regulators and capital market exchanges and other information to intermediaries and consumers -- or are planning to move in that direction. XBRL is not monolithic. XBRL provides a toolkit for the construction of automated information value chains. There are many, many choices in how those automated information value chains are created. Some involve the distribution of financial statements – many do not. Some allow significant entity-level variation – many do not. Some value chains are built by regulators, others by stock exchanges and other parties.

XBRL is straightforward to understand at a nontechnical level. XBRL is a computer-based method for encoding accounting and other information in a way that computers can read and understand. When companies report their financial information, they tag individual facts or blocks of text against a standard dictionary or taxonomy. For example, if a company reports *cash and cash equivalents* on the face of the financial statements, the company officers will line

that fact up against the equivalent element in the dictionary. So when a computer reads off the financial statements, the computer interprets the fact as *cash and cash equivalents*. It does not matter whether the fact was reported in English, Spanish, Portuguese or Chinese or whether the label was *cash*, *cash and current cash equivalents*, *cash with banks* or any of the many other variants found in the real world.

There is considerable judgment involved in the production of XBRL reports. Entities have to line up their reports with a standard dictionary or taxonomy. Many of these taxonomies are large, complex and difficult to understand. How or whether a particular disclosure in a company's report lines up often requires considerable assessment of alternative courses of action. For example, several items may seem quite similar or it may be difficult to find a definition because of the sheer number of entries in the taxonomy. Does the company align their reporting to the standard taxonomy? Or, should it create additional company-specific tags? In addition, there are other more technical aspects of the reporting process that can be complex and involve judgment within the company.

## **The Research**

Our research project is to understand the implications of XBRL for the financial statement audit. The project runs alongside the current XBRL project of the IAASB. It is designed to inform and assist that process as well as enlighten the audit profession, regulators, XBRL community and academic researchers.

When XBRL becomes a primary method for communicating the financial statements, there are many questions as to how XBRL will affect the financial statement audit. At present, the IAASB and other auditing standards setters see XBRL as ancillary to financial statements presented in traditional paper or electronic paper formats such as Adobe Acrobat and therefore not part of the audit. When XBRL replaces paper or is equal to paper, this may change. If so, how? How does distribution of financial data in XBRL impact the extent and form of the audit? Should XBRL be part of the financial statement audit? Should there be separate forms of assurance on XBRL? Alternatively, should both options be available? What might an audit of an XBRL report include?

What are stakeholder and user needs and perceptions? What are users' perceptions of the reliability of financial information elements filed in XBRL format? How are these perceptions affected by users' assumptions about the nature of auditor involvement with that information? What is the interaction between international and national auditing standards and national XBRL implementations? What are users' longer-term expectations regarding the nature of assurance that will attach to XBRL data? How does the level of assurance (i.e., data level, report level or both) provided on XBRL data affect users' perceptions of information reliability? How does this vary across background (e.g., capital markets, credit markets etc.)? How does the provision of user extensions affect users' perceptions of information reliability?

What is the impact of XBRL on the work of the auditor? What are the major challenges faced in connection with auditing XBRL instance documents? How do these challenges differ according to factors such as size of firm, size of clients serviced, and whether the auditor practices in a developed versus developing country. What are the tool requirements? How does XBRL change the balance between controls testing, analytical procedures and substantive, data-oriented substantive testing? What are the implications of the implications of XBRL for the external audit function? How would assurance on XBRL be integrated into audit methodologies and programs? What are the implications for the education of auditors? How does XBRL impact auditor understanding of and involvement with the audit of underlying automated systems?

While the IAASB set global standards, they are implemented locally under local laws and regulation. The way XBRL is introduced can vary widely. In some jurisdictions, XBRL is supplementary to more traditional distribution methods. In others, they have equal standing. In others, we see that XBRL will be the *sole* method of reporting to regulators. We need to study the impact of these variations on the need for and nature of assurance on XBRL instance document and document production at the national level in order to inform global decision making. We will do this by focus groups and structured interviews with stakeholders and a subsequent survey of stakeholders. We will also draw on the body of literature on XBRL, the XBRL community and our own XBRL research program.

### **Frequently Asked Questions**

*Q: The IAASB has an active XBRL project. How does your project relate to theirs?*

**A:** We are in close contact with the IAASB XBRL Task Force and project manager, Kathy Healy. We aim to complement, supplement and extend their work.

*Q: Who is funding the project?*

**A:** Funding is provided by the Association of Chartered Certified Accountants (ACCA) and International Association of Accounting Education and Research (IAEER).

*Q: Where will you publish the research?*

**A:** In monographs, conference papers and professional and academic journal articles.

*Q: Will I be identified in the published or presented research?*

**A:** No. All results will be consolidated and summarized.

*Q: When will the results be available?*

**A:** The first results of the study will be available in late 2010.

*Q: Do I need to understand the details of XBRL to participate?*

**A:** No, most of the issues we will consider are strategic, legal, cultural and audit related.

**Q:** *What is the level of experience of the research team?*

**A:** The members of the research team collectively have 25 years of experience with XBRL and prior involvement in areas of IT that impact the audit process including IT audit, ERP, EDI, e-commerce and IT governance and controls.

**Q:** *Is this only an academic research or is there also a link to the profession?*

**A:** The research is primarily designed to meet professional needs with academic outcomes secondary. One of the members of the research team is also a partner in a Big Four professional services firm.

**Q:** *What is in it for us?*

**A:** A lot. We are at the start of realizing win-win efficiency in organizations. Organizations will have the possibility to exchange data in the most efficient way. In addition, it opens the possibility to work with tagged data within the organizations. Re-keying data into automated systems will be history.

## **Research Team**

**Roger Debreceeny** is the Shidler College Distinguished Professor of Accounting, School of Accountancy, Shidler College of Business at the University of Hawai'i at Mānoa. Roger has been involved with XBRL since its inception. Roger is a former member of the International Steering Committee of XBRL International and has co-authored two recent books on XBRL. Over the last five years, together with colleague Skip White, he has run a residential boot-camp on XBRL for the American Accounting Association.

Contact details:

Email: roger@debreceeny.com

Skype: rogerd99

Google chat: roger@debreceeny.com

Phone: +1 (513) 393 9393

**Stephanie Farewell** is an Associate Professor of Accounting at the University of Arkansas at Little Rock. Involved with XBRL since 2003, Stephanie continues to serve as a judge for the annual XBRL Academic Competition. Stephanie researches and publishes XBRL from a pedagogical and behavioural decision making perspective.

Contact details:

Email: stephanie.farewell@gmail.com

Skype: stephanie.farewell

Google chat: stephanie.farewell@gmail.com  
Phone: +1 (501) 291 1696

**Hans Verkruijsse** is an Accounting Information Systems professor at the Tilburg University. Hans is involved in a variety of XBRL task forces including IAASB, FEE, NIVRA (Chair), and XBRL International. Hans is a partner at Ernst & Young Accountants LLP in the Netherlands responsible for the Professional Practice Department section Assurance Services and in that capacity responsible for the XBRL implementation in Ernst & Young Netherlands. Hans also holds a position as chair of the Ethical Committee of the NOREA (Dutch Institute of Information Systems Auditors). For eight years he was technical advisor of the Dutch member of the IAASB and for nine years chair of the Dutch Auditing and Assurance Standards Board of the NIVRA.

Contact details:

Email: Hans.Verkruijsse@nl.ey.com  
Skype: hansverkruijsse  
Phone: +31 (0)6 53 354 957