

XBRL Tagging of Information in Audited Financial Statements - Guidance for Auditors

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BULLETIN

The Auditing Practices
Board

THE AUDITING PRACTICES BOARD

The Auditing Practices Board (APB), which is part of the Financial Reporting Council (FRC), prepares for use within the United Kingdom and the Republic of Ireland:

- Standards and guidance for auditing;
- Standards and guidance for reviews of interim financial information performed by the auditor of the entity;
- Standards and guidance for the work of reporting accountants in connection with investment circulars; and
- Standards and guidance for auditor's and reporting accountant's integrity, objectivity and independence

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THE AUDITING PRACTICES BOARD

XBRL TAGGING OF INFORMATION IN AUDITED FINANCIAL STATEMENTS – GUIDANCE FOR AUDITORS

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INTRODUCTION

1. XBRL tagging of UK statutory financial statements is required for tax purposes in 2011. This Bulletin :
 - Provides background information on the HM Revenue & Customs (HMRC) requirement and XBRL tagging,
 - Explains that currently XBRL tagging is not within the scope of an audit performed under ISAs (UK and Ireland), and
 - Provides guidance on the application of the APB's Ethical Standards for Auditors to non-audit services relating to XBRL tagging that auditors may be asked to perform. Particular threats to be considered include the 'management threat' and the 'self-review threat' as discussed below.
2. The use of XBRL is a developing area. Over time it is possible that XBRL will become integrated into accounting systems and will be used to generate the financial statements. The APB intends to keep its use by preparers of financial information, and the role of auditors in relation to it, under review and will issue updated guidance in the future as necessary to reflect changing circumstances.

HMRC requirement

3. In 2006 Lord Carter in his "Review of HMRC Online Services" recommended that all companies should be required to file their company tax returns online, using XBRL.
4. In September 2009, in a joint statement¹ issued with Companies House, HMRC announced that the Company Tax Return, including the supporting statutory accounts and tax computations showing the derivation from those accounts of the entries in the Company Tax Return, must be delivered electronically using the Inline XBRL (iXBRL) format. This will be mandatory when filing a Company Tax Return for accounting periods ending after 31 March 2010 and submitted to HMRC after 31 March 2011².
5. The HMRC requirement does not include a requirement for the auditor to provide assurance on the XBRL tagging of the information submitted. Indeed many of the companies that will be required to submit iXBRL financial statements will be below the audit exemption threshold and will not be subject to an audit.

1 Copies of the statement dated 1 September 2009 are available on the HMRC website at www.hmrc.gov.uk and the Companies House website at www.companieshouse.gov.uk.

2 The legal requirement for delivering company tax returns electronically in a means approved by HMRC is established in SI 2009/3218, "The Income and Corporation Taxes (Electronic Communications) (Amendment) Regulations 2009."

6. In order to reduce potential administrative burdens on business, Companies House has announced that it will accept company accounts in the iXBRL format³. In the short term it is not expected that Companies House will make available the data in XBRL form (although the financial statements themselves will be viewable). However, in the longer term Companies House will be disseminating XBRL data to facilitate its use by users of company information.

XBRL

7. XBRL, which stands for eXtensible Business Reporting Language, is a computer based language for the electronic communication of business data.
8. XBRL works through tagging individual items of information with machine-readable codes (e.g. for the individual numbers in a set of financial statements). The codes are drawn from a library of codes referred to as a 'taxonomy'; taxonomies are pre-prepared by various organisations and are freely available⁴.
9. The value of XBRL tagging is that it allows data to become more easily accessible, manipulable and reviewable. XBRL allows users to customise their analysis and presentation of tagged information using computer software tools.
10. Aspects of the tagging process may be automated but, in the case of financial statements, it is likely to be necessary for people to exercise judgement over the tag to be applied to a particular piece of information. Judgement will also be needed if the taxonomy does not cover all items of information that are disclosed in a set of financial statements. In such circumstances XBRL permits users to extend the taxonomy by creating new bespoke tags for data. This is why the word 'extensible' features in the name.
11. 'Inline XBRL' embeds XBRL tags within documents that can still be read by the human eye. When looked at on a computer screen the document looks like a normal document but the data will have underlying tags that can be revealed, for example by positioning the mouse cursor over the data.
12. There are a number of ways for entities to create financial statements using XBRL:

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- 3 Companies House stated they will add iXBRL software filing for unaudited full accounts to their service by the summer of 2010, and then continue to develop their iXBRL capability for all the main types of accounts they receive by summer 2011.
 - 4 The taxonomy for International Financial Reporting Standards (IFRS) is the responsibility of the International Accounting Standards Committee Foundation (IASCF), the oversight body of the International Accounting Standards Board (IASB). In the UK, XBRL UK has issued a 'UK IFRS' taxonomy, which takes the IASCF taxonomy and adds the extra tags needed by UK listed companies (e.g. to cover data that is required by company law in addition to the accounting standards) and a 'UK GAAP' taxonomy.

- After they have been finalised, financial statements can be mapped into XBRL either manually or using “bolt-on” applications which consist of software that compiles XBRL data from the traditional financial statements into XBRL format.
 - XBRL-aware accounting software products are becoming available which will support the export of data in XBRL form. These tools allow users to map charts of accounts and other structures to XBRL tags.
13. The route which an individual entity may take will depend on its requirements and the accounting software and systems it currently uses.
14. To help with the introduction of mandatory online filing for tax returns, HMRC will initially accept accounts with only some of the data needing to be tagged⁵. HMRC has already published ‘minimum tagging lists’ for the UK GAAP taxonomies and will be doing so for UK IFRS. These lists specify the items that must be tagged if they are present in any given set of accounts. Companies may choose to adopt full tagging immediately.

AUDIT

15. As described above, HMRC is requiring the financial statements supporting a company’s tax return to be transmitted to it using the iXBRL format. There is no requirement for an audit of the data or indeed the XBRL tagging.
16. With respect to the audit of financial statements, the current position is that ISAs (UK and Ireland) do not impose a general requirement on the auditor to check XBRL tagging of the financial statements as part of the audit. Furthermore, because the XBRL tagging is simply a machine-readable rendering of the data within the financial statements, rather than a discrete document, it does not constitute ‘other information’ as defined in ISA (UK and Ireland) 720 Section A. Accordingly the requirement of ISA (UK and Ireland) 720 Section A for the auditor to “read” the other information for the purpose of identifying material inconsistencies or material misstatements of fact is not applicable to XBRL tags.⁶
17. Whether management seeks to increase its confidence concerning the accuracy of its iXBRL tagging for HMRC through a service provided by the company’s auditors, or another accountancy firm, is a matter for management to determine. If management does seek such a service, the extent and nature of the engagement to provide it is a matter for agreement between management and the auditor or other accountancy firm.

5 Guidance on online filing is provided on the HMRC website (www.hmrc.gov.uk/ct/ct-online/file-return). This includes a guidance document “XBRL- when to tag, how to tag, what to tag” (<http://www.hmrc.gov.uk/ct/ct-online/file-return/online-xbrltag.pdf>).

6 This position is consistent with that set out in the Questions and Answers publication “XBRL: The Emerging Landscape,” issued by the staff of the International Auditing and Assurance Standards Board (IAASB) in January 2010, clarifying that the IAASB’s auditing pronouncements currently do not impose requirements on auditors with respect to XBRL-tagged data or the representation of this data.

18. As usage of XBRL evolves in the UK and Ireland the APB will consider the needs of users and the extent to which an audit of financial statements 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.

NON-AUDIT SERVICES AND POSSIBLE THREATS TO AUDITOR INDEPENDENCE

19. While auditors do not provide assurance as to the accuracy of the tagging in the context of an audit of financial statements, there may be a demand for non-audit services to be performed by audit/accountancy firms. These may include:
- Performing the tagging exercise;
 - Providing a service to the directors of the company as to accuracy of the tagging performed by management (e.g. by undertaking an agreed upon procedures engagement);
 - Providing advice on the selection of individual tags;
 - Supplying accounts preparation software that automates the tagging;
 - Training management in XBRL tagging.
20. Where non-audit services are provided by the company'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. The differing nature of possible non-audit services means that the associated requirements and guidance fall under different headings in APB's Ethical Standard (ES) 5 including:
- accounting services;
 - taxation services; and
 - information technology services.
21. The main threats addressed in these sections of ES5 relate to the management threat and the self-review threat.

Management threat

22. Unless they apply the provisions of ES – Provisions Available for Small Entities (ES-PASE)⁷ the APB Ethical Standards⁸ require audit firms to establish policies and

7 ES – Provisions Available for Small Entities allows auditors of Small Entities to take advantage of exemptions from certain of the requirements in APB Ethical Standards 1 to 5 and provides alternative provisions.

8 ES1 paragraph 30.

procedures which require partners and employees of the firm, including those providing non-audit services to an audited entity, not to take decisions that are the responsibility of the management of the audited entity.

23. Some non-audit services related to XBRL may give rise to a management threat. In particular performing the XBRL tagging can involve judgements, especially when a transaction or balance is not covered by the taxonomy, or when more than one item within a taxonomy initially appears to be suitable for application to a particular disclosure. In such circumstances the audit firm will need to ensure that management in the audited entity takes responsibility for making the management decisions and that the entity has informed management in place to help it do so.
24. Under ES – PASE an audit firm can provide non-audit services that involve the firm undertaking part of the role of management to small entities, provided that it discusses these services with those charged with governance, confirms that management accepts responsibility for any decisions taken and discloses the fact that ES – PASE has been applied in the auditor’s report.

Self-review threat

25. Some non-audit services related to XBRL may give rise to a self-review threat. A self-review threat exists when the results of a non-audit service are reflected in the amounts included or disclosed in the financial statements that are subject to audit. If the audit engagement partner identifies threats to the auditor’s independence the APB Ethical Standards⁹ require him to identify the effectiveness of the available safeguards and apply such safeguards as are sufficient to eliminate the threats or reduce them to an acceptable level¹⁰.
26. Whether a self-review threat exists in an XBRL tagging engagement depends on whether XBRL tagging is used to generate the financial statements and whether the tagging is covered in the scope of the audit.
27. In the short term, it is likely that the tagging will take place after the financial statements have been generated and the audit has been completed. Accordingly a self-review threat will not arise in relation to the audit of those financial statements. However tagging performed in ‘year one’ may provide the basis for the tagging in future years. If an audit requirement is established at some stage in the future a self-review threat may exist in

⁹ ES1 paragraph 38.

¹⁰ Where a small company is audited under ES – PASE the audit firm is not required to apply safeguards to address the self-review threat associated with non-audit services, as long as the audited entity has informed management and the audit firm extends the cyclical inspection of completed engagements that is performed for quality control purposes (ES – PASE, paragraph 7). In the absence of informed management, the firm needs to apply safeguards to address any self-review threat.

relation to this initial work. Because of this audit firms may wish to design an XBRL related non-audit service in a way that would avoid a potential future self-review threat.

28. In the longer term, if XBRL becomes integrated into accounting systems it may be difficult to separate XBRL tagging from accounting services. In such circumstances the provisions of ES 5 in relation to accounting services are likely to apply, including the prohibition in paragraph 127 that accounting services are not provided by audit firms to audited entities that are listed companies or significant affiliates of listed companies.

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