

XBRL Comes of Age

**As support for the
extensible business
reporting language grows
worldwide, auditors
need to understand the
standard's many uses.**

BY RAQUEL FILIPEK

ALTHOUGH THE BENEFITS AND USES of XBRL — short for extensible business reporting language — have been well documented, many internal auditors are unaware of what the standard is and how it can benefit their organization. As a result, auditors may hesitate to try XBRL, missing out on the many data integration and end-reporting benefits it has to offer.

“XBRL is an Internet-based information standard that enables a seamless flow of information within the entire business reporting supply chain, both for private and public organizations and for internal and external reporting,” explains Mike Willis, a partner with PricewaterhouseCoopers (PwC) in Tampa, Fla., and founding chairman of XBRL International, a consortium of more than 500 companies and agencies worldwide that build XBRL and promote its adoption. More specifically, XBRL is a business standard for using extensible markup language (XML) — a language that enables information to be exchanged by the use of tags. It allows organizations to exchange information using a specific set of taxonomies (i.e., documents that describe key data elements to be included in an XBRL document) and instance documents (i.e., a collection of data elements that are included in those taxonomies), says Eric E. Cohen, XBRL technical leader for PwC in Rochester, N.Y., and one of the founders of the specification. To date, several taxonomies have been issued, including the XBRL Global Ledger (GL) — a single, holistic framework of taxonomies that represent data fields in a typical enterprise resource planning (ERP) system.

In addition, XBRL can help overcome many of today's audit and control problems, reducing the risks associated with

manual entry and re-entry of information, increasing integration, and permitting the use of centralized and standardized rules and tests. “With XBRL GL, auditors can pull information from disparate systems in a single standardized form, potentially in real-time, simplifying the audit process and enabling auditors to review more data in more detail, more frequently,” Cohen explains.

XBRL IN ACTION

XBRL was created to help companies save costs and streamline their processes for collecting and reporting financial information. “XBRL was developed because it was too hard — actually it was nearly impossible — to take information from a financial report and reuse it,” says XBRL co-creator Charles Hoffman, director of industry solutions and financial reporting for XBRL software provider UBmatrix in Kirkland, Wash. “By getting global agreement on the different taxonomies, XBRL enables organizations to exchange financial information without any problems.”

In the United States, XBRL has been championed by Securities and Exchange Commission (SEC) Chairman Christopher Cox. In September 2006, the SEC allocated US \$54 million to upgrade the agency's public company disclosure system from a form-based electronic filing cabinet to a dynamic, real-time search tool with interactive XBRL capabilities. Although companies are using XBRL on a voluntary basis to report financial information to the SEC, the commission may mandate that companies file their financial statements using XBRL in the future. The Federal Deposit Insurance Corp., the Federal Reserve, and the Comptroller of the Currency already mandate the use of XBRL. As of 2006, more than 8,200 U.S. financial institutions were



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using XBRL to submit quarterly reports to banking regulators.

Financial regulators in many industrialized countries are implementing similar projects. For instance, the Bank of Spain, which oversees the country's banking systems, developed an XBRL-based Financial Information Exchange System that is used by more than 400 banks. The introduction of XBRL for this reporting has enabled automatic data validation and better quality of data.

However, XBRL can be used for more than just financial reporting. "A lot of the use of XBRL has been regulator-driven by the finance sector," Hoffman emphasizes, "but there's just as much of a business case for organizations to use XBRL for internal purposes. As the name implies, XBRL can be used for all kinds of business reporting." For instance, many companies, particularly those that grew through acquisitions or mergers, need to exchange information from application to application easily. "By tagging data, XBRL allows this exchange of information to become seamless," explains Glen Gray, a professor in the Accounting and Information Systems Department at California State University at Northridge. "Therefore, if the entire organization tags its information in the same way, it becomes a lot easier to find this information, download it, and use it."

One early adopter was apparel manufacturer Wacoal Corp. in Kyoto, Japan, which implemented XBRL in 2001 to improve the quality of financial data available to key decision-makers. A key goal of the Wacoal Accounting Reengineering Project (WARP) was to streamline the financial reporting cycle by connecting the company's 32 independent legacy business and financial systems, many of which were more than 10 years old. In addition, Wacoal needed a consolidated accounting management system to integrate its 36 subsidiaries around the world for real-time cash management, decision support, reduction of indirect accounting management costs, and compliance with worldwide accounting standards.

According to *Strategic Finance* magazine, the WARP system enabled Wacoal to completely automate data flow from the business systems to the financial systems, a process that previously had been error prone because most data had to

be input manually. XBRL GL standardized the presentation of its financial data and improved the quality of information available to decision-makers. The system provided up-to-date financial information to management and gathered financial reporting data in real time from different business systems. Wacoal was able to save money on data integration costs because XBRL is an open standard, free of licensing fees. Moreover, XBRL GL reduced implementation time significantly when compared to other technologies, such as

within the organization, while applying transparent rules and formulas to a wide range of analytical models, rather than developing individual rules for different audit analyses. In addition, XBRL automates audit trails, drill-down information searches, and access to different applications, as well as uses more explicit relationships between testing concepts and related compliance policy.

Furthermore, XBRL enables internal and external auditors to review business information from remote locations.

XBRL allows auditors to conduct continuous compliance assessments and analyses, Willis notes, which pave the way for the use of continuous auditing within the organization.

installing a single ERP system. Finally, users can extract data using standard queries without special training because the system tags the data in XBRL GL and moves this information to the new financial system automatically.

ENHANCING AUDIT WORK

According to Willis and Cohen, XBRL is intended to enhance the flow of information throughout the business reporting supply chain. "There are many pervasive supply chain problems that exist today due to the lack of an open information standard and the reliance on proprietary formats to exchange information between parties," Willis says. These problems include the distortion and omission of information, high data access and analysis costs, untimely reporting and analysis processes, poor information quality, and lack of implicit relationships between reported concepts and relevant resources. "XBRL enhances the work of internal auditors by addressing these information problems and enabling them to do more at a lower cost," he adds.

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"Imagine that you are an auditor working for the Federal Deposit Insurance Corp., which regulates banks all across the United States, and you get a report that states something is wrong with a bank," Hoffman says. "Instead of sending the auditor on a plane ride, he or she could simply get more information about the report online by accessing the information electronically."

AUDIT CONCERNS

Although XBRL has the potential to improve data analysis, accelerate the use of continuous auditing, reduce the proliferation of spreadsheets throughout the information supply chain, and enhance two-way audit trails, internal auditors interested in the use of XBRL need to be cognizant of the different challenges associated with its use.

"The good news about XBRL is that it allows organizations to create, publish, and consume detailed business information through the use of clear text and standardized tags," comments Cohen. "The bad news is the good news — that XBRL data is easy to create, publish, and consume, thanks to the use of clear text and standardized tags." According to Cohen, this is because XBRL could be used



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for industrial espionage or other nefarious purposes unless appropriate security measures are implemented such as XML signatures and encryption. "Although this is a temporary challenge, it is a challenge nonetheless," Cohen adds.

Auditors also need to pay close attention to the taxonomies used in the report. This is important because if the right taxonomy is not chosen, the auditor may be unaware there is an error in the reported data. To verify whether XBRL documents conform to applicable taxonomies, the American Institute of Certified Public Accountants and the U.S. Public Company Accounting Oversight Board recommend that organizations render the report by converting the XBRL tags used in a final report back into human-readable form and comparing the two documents for missing data. Any missing data usually indicates a problem with the chosen taxonomy.

Furthermore, the use of extension taxonomies may pose problems when creating XBRL tags. An extension taxonomy is created by an organization or XBRL user to cover information that is

not included in an approved or acknowledged taxonomy. For example, an XBRL user may start applying a taxonomy to a specific financial statement and discover there's a line item that's not covered by

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the taxonomy. The organization will then create its own specialized dictionary or extension taxonomy for those line items that are not in the main dictionary.

Other issues pertain to the risks organizations may face in using XBRL. In 2002, the Canadian Institute of Chartered Accountants (CICA) published *Audit and Control: Implications of XBRL*, which describes three kinds of risks organizations may face when using XBRL for

financial reporting — risks of errors, control issues, and assurance issues. Although the CICA describes these risks as part of the financial reporting process, they can affect other kinds of business reporting as well.

Finally, XBRL should be used only if it will help improve an organization's reporting process. As a result, auditors should first try the standard to determine if it can be beneficial to their work. As Hoffman explains, "XBRL is a business tool. There is no reason why an internal audit department can't experiment with new prototypes. That's how people check things out and see if they are worthwhile."

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