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Issues with the communication and integrity of audit reports when financial reporting shifts to an information-centric paradigm ☆

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ABSTRACT

A core application of XBRL is to facilitate the flow of tagged financial statements and annual reports, from companies and other entities directly to the databases, web sites, and computers of regulators, stakeholders and other information consumers. Increasingly, XBRL provides the technological foundation for the communication of financial information where there is independent assurance. This XBRL-based assurance may be on the financial statements (i.e., an electronically consumable form of today's standard PDF or HTML audit report) or focus on the quality of the XBRL exhibit (i.e., the instance document). Regardless of the type of XBRL assurance report, maintenance of the security and integrity of the instance document is paramount. This conceptual paper identifies and discusses the communication, security challenges and relevant research issues when there is independent assurance on financial statements formatted in XBRL. Successful electronic communication of assurance to information consumers should clearly distinguish the responsibilities of management (i.e., the financial statements) and the auditor (i.e., the audit report). It is important to have an integrated approach where the assurance report, financial statements and other reports in which facts in the financial statements are incorporated are inextricably tied at the level of automated data consumption. Further, as much as possible, human interaction should be accommodated.

The paper sets out a range of alternatives for maintenance of security on the assurance report.

1. Introduction

Electronic consumption across devices and platforms has changed how information consumers find and use financial and other business performance reports. Increasingly, XBRL (Extensible Business Reporting Language) provides the technological foundation for the communication of information by entities to stakeholders where that information may be the subject of assurance by an assurance service provider. There are several international reporting domains where assurance on a variety of XBRL-formatted reports is either on track to mandatory status, or made on a voluntary basis. Countries that are moving to mandatory XBRL-formatted assurance include India, the Netherlands, and South Africa. The first mandate for assurance on XBRL-formatted financial statements is in India where the Ministry of Corporate Affairs (MCA) requires certification of XBRL filings (MCA, 2011a). Interestingly, the MCA does not require the statutory auditor to perform audit procedures on the XBRL-based report as part of the financial statement audit. This means that the auditor's opinion on the financial statements does not cover internal controls surrounding the XBRL production process or the XBRL report (instance document[1]) (ICAI, 2011). However, this appears to be only a subtle distinction because the MCA does require that the XBRL filing instance document be certified by the statutory auditor (MCA, 2011a), a Practicing Chartered Accountant or a Company Secretary (MCA, 2011b).

The technology for communicating financial information has moved forward but important issues remain in respect of communication of the aforementioned assurance. How do information consumers find the auditor's report that accompanies a financial statement, a GRI (Global Reporting Initiative) report or any other assured statement? How do information consumers know which parts of the assured statement are subject to independent assurance, and which are not? Is the assurance report correctly associated with the assured XBRL-formatted financial statements? Are the auditor's report and original audited financial statements unchanged from the date on which the audit opinion was issued? Is the auditor's report authentic and secure?

One of the first demands for secure and authentic auditor assurance on XBRL is in the Netherlands, where the Royal NBA (Dutch Institute of Chartered Accountants), the Standard Business Reporting (SBR) effort and the auditor community have been working to develop a solution for audited XBRL annual accounts entirely represented in XBRL (Geijtenbeek and Lucassen, 2013). Preparing for Phase 3 of the SBR mandate, calling for audited annual accounts for 2015 and forward, the SBR Assurance effort requires digitally readable versions of the auditor's report to be electronically associated with the SBR annual accounts in XBRL format (SBR Prorgramma, 2013). The effort permits hybrid forms of assurance, and explicitly indicates what might be covered by the auditor's opinion (e.g., annual accounts) and what content in the client XBRL is not covered by the audit opinion (e.g., integrated reporting or tax control frameworks). A solution is in place for voluntary use in early pilots. This example shows that the technological issues associated with the electronic reporting is on the international standards agenda.

Methods for communicating and providing security on reporting assurance on financial statements communicated in an electronic format have been a matter of concern for some years (Debreceny and Gray, 1999; Boritz and No, 2005, 2009; Srivastava and Kogan, 2010). The Auditor's Report as a "stand alone", written document, bound together with the reporting entity's EDGAR filings to the United States (US) Securities and Exchange Commission (SEC) and annual reports by the reporting entity, has been pushed to its limits, first by the Web and now by the emerging world of XBRL. Early in the history of XBRL, a first consideration was to better demonstrate the scope of the *original* assurance on the viewable, XBRL-formatted financial statements (Boritz and No, 2009). To date there have been only limited examples of assurance on XBRL instance documents, which have followed the detached, but in some way associated (i.e., on the same webpage, the audit report references the instance document) method. Those

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[1] Unless explicitly stated, we use the term instance document as a collective term for a set of XBRL instance documents and the Discoverable Taxonomy Set (DTS). The DTS includes the taxonomy schema and linkbases.