



CAQ Alert #2009-55 – June 1, 2009

## DEAR CENTER MEMBERS

### Potential Audit Firm Service Implications Raised by the SEC Final Rule on XBRL

This Alert is intended to raise the level of awareness of registered public accounting firm auditors regarding the implications of the Securities and Exchange Commission (SEC) Final Rule entitled, “Interactive Data to Improve Financial Reporting” (the SEC Rules). [CAQ Alert #2009-19](#) provides an overview of the SEC Rules. This Alert addresses potential services that auditors may be asked to provide with respect to financial data in eXtensible Business Reporting Language (XBRL), a language for the electronic communication of business and financial data, and certain XBRL-related matters that auditors should be aware of in connection with audits of public companies. This Alert is non-authoritative and does not set standards for the performance of audits, attestation engagements, or advisory services.

*This document is not a substitute for the authoritative technical literature (including the SEC Rules) and users are urged to refer directly to applicable authoritative pronouncements for the text of the technical standards. The information that is the subject of this document may change in material respects, and the CAQ is under no obligation to update such information.*

This Alert addresses the following areas:

- Potential Services Audit Firms May be Asked to Provide:
  - Advisory Services
  - Assurance Services
  - Agreed-upon Procedures
  - Examination of an Assertion About XBRL-Tagged Data
  - Examination of Controls Over the Preparation of the XBRL-Tagged Data
  - AT Section 601, *Compliance Attestation*
  - Review of an Assertion About XBRL-Tagged Data
- Other Considerations Related to XBRL-Tagged Data:
  - Effect of Submission of XBRL-Tagged Data on the Independent Auditor’s Report on the Financial Statements

- Reference to Other Forms of Reports

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## ***Potential Services Audit Firms May be Asked to Provide***

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The SEC Rules do not require any auditor involvement regarding the submission of the interactive data provided as an exhibit to an issuer's periodic reports or registration statements. The SEC has stated that it expects preparers of tagged data to take the initiative to develop practices to promote accurate and consistent tagging. Issuers may voluntarily seek auditor involvement as they deem appropriate.

For various reasons, such as their limited experience with XBRL, the evolving nature of the software and their desire for confidence in the reliability of XBRL-tagged data, issuers may express interest in engaging a firm to perform various services. For example, such services may include, advising management in adopting the SEC Rules or performing assurance services related to the completeness, accuracy and consistency of XBRL-tagged data. Audit committee pre-approval requirements would need to be satisfied for permissible services to SEC audit clients and their affiliates. The services that may be requested are discussed below.

### ***Advisory Services***

Permissible services are determined based on individual facts and circumstances. Activities that may be appropriate for an audit firm to perform for an SEC audit client<sup>1</sup> or its affiliates include:

- Assisting management in obtaining an understanding of XBRL, relevant requirements, implementation processes, and timetable;
- Providing observations and recommendations to management on its XBRL project management plan, implementation process or supporting documentation prepared by the client;
- Providing comments on the client's mapping of its financial statements to the XBRL US GAAP Taxonomy.

Conversely, an independent audit firm may not perform a management function, audit the firm's own work, or design or implement a significant process, system or internal control over financial reporting for an SEC audit client or its affiliates. Specifically, the following activities are inappropriate under the independence rules for an audit firm to perform for an SEC audit client or its affiliates:

- Performing project management of the XBRL implementation project;
- Selecting or recommending a specific software product for the client to use;
- Mapping the client's financial statements to the XBRL US GAAP Taxonomy;
- Designing a plan for the client to implement, or designing controls over that process;
- Preparing a prototype of the client's financial statements using XBRL;
- Providing ongoing support to management in tagging financial statements.

### ***Assurance Services***

Under the SEC Rules, an issuer's independent auditor is not required to have any involvement with the interactive data file included in the XBRL exhibit to the filing (Exhibit 101 or the "XBRL Exhibit"). That is, the auditor is not required to apply any of the following auditing standards to the XBRL Exhibit or the related viewable interactive data:

- [AU section 550](#), *Other Information in Documents Containing Audited Financial Statements*, (i.e., there is no auditor requirement to 'read' the XBRL-tagged data included in the XBRL Exhibit, while AU section 550 does require the auditor to 'read' Management's Discussion and Analysis)
- [AU section 722](#), *Interim Financial Information*
- [AU section 711](#), *Filings under Federal Securities Statutes*

In addition, the SEC Rules do not require an issuer's independent auditor to provide any form of assurance on the XBRL-tagged data itself.

Nonetheless, some companies may voluntarily request audit firms to perform procedures or report on the XBRL-tagged data. The following paragraphs provide information about some of the likely services an issuer might ask an audit firm to provide.

### ***Agreed-upon Procedures***

An agreed-upon procedures engagement can be useful in assisting management in its evaluation of the XBRL-tagged data and the audit committee in its oversight role. In an XBRL agreed-upon procedures engagement, an audit firm is engaged to perform procedures agreed upon by the client (e.g., management, audit committee) and the audit firm (and other specified parties, if any). The audit firm's report identifies the procedures performed and the results of those procedures. The agreed-upon procedures report does not express an opinion and states that the audit firm makes no representations regarding the sufficiency of the procedures. Use of the report is restricted to the client and the named specified parties who have agreed to the procedures and accepted responsibility for the sufficiency for their purposes. Therefore, to avoid misunderstanding, it is not appropriate for companies to refer to services obtained from an audit firm in connection with an agreed-upon procedures engagement in a publicly available document (e.g., annual report on Form 10-K, quarterly report on Form 10-Q, registration statement).

The AICPA has issued Statement of Position ([SOP](#) 09-1, "Performing Agreed-Upon Procedures Engagements That Address the Completeness, Accuracy, or Consistency of XBRL-Tagged Data," which is applicable for an XBRL-related agreed-upon procedures engagement.

### ***Examination of an Assertion About XBRL-Tagged Data***

Although the SEC Rules do not require auditor assurance on XBRL-tagged data, an audit firm can perform an examination of such data if an issuer requests such services. The SEC noted in the SEC Rules that issuers can obtain third-party assurance under the Public Company Accounting Oversight Board (PCAOB) Interim Attestation Standards, [AT section 101](#) <sup>2</sup>.

There are a number of over-arching matters to consider related to examination engagements, including the scope of the engagement, identification of suitable criteria based on the scope (e.g., whether technical specifications are within the scope of the engagement), criteria for the use of extensions and materiality, which are discussed below:

- To perform an examination under AT section 101, criteria to be used need to be suitable and available. Preparers may identify certain aspects of the SEC Rules and the [XBRL US GAAP Taxonomy Preparers Guide](#) as the criteria that they used for preparing their XBRL Exhibit; however, suitability will need to be evaluated for the engagement. For example, the SEC Rules and the [XBRL US GAAP Taxonomy Preparers Guide](#) provide guidance on creating extensions. The SEC Rules limit the use of extensions to circumstances where the appropriate financial statement element does not exist in the standard list of tags (i.e., US GAAP Taxonomy). The decision to create an extension sometimes may require the use of judgment.
- XBRL technical specifications include extensive, often highly-technical guidance. XBRL technical specifications often relate to the development and deployment of XBRL compliant tools and processes. Some aspects of these specifications have limited applicability to the preparer in tagging the financial statements. Further, assessing compliance with such standards may require significant effort. Accordingly, it may be advisable for auditors to carefully consider whether compliance with XBRL technical specifications should be included within the scope of the engagement.
- An examination focuses on the XBRL-tagged data taken as a whole. Materiality may be assessed in a similar manner to the approach taken in an audit of financial statements (i.e., in relation to the interactive data file taken as a whole). In addition, similar to a financial statement audit, all known and likely misstatements in the XBRL-tagged data that were aggregated by the auditor ordinarily would be communicated on a timely basis to management and the audit committee.
- Although comparing the financial statements to the rendered XBRL-tagged data would provide some evidence of the completeness, accuracy, and presentation of the XBRL-tagged data, this procedure alone does not sufficiently address the risk that errors could exist in the tagged financial information. Tagging errors that could affect the accuracy of the electronic information provided to users may exist and not be visible in a rendered document (e.g., an incorrect tag could be selected for a financial concept; however, the label could be changed to agree to the financial statements).

### ***Examination of Controls Over the Preparation of the XBRL-Tagged Data***

In an examination of controls over the preparation of XBRL-tagged data, the auditor expresses an opinion on the effectiveness of the controls; however, such an examination performed without other services (e.g., examination of, or agreed-upon procedures applied to, the XBRL-tagged data itself) does not address whether the underlying financial statements have been appropriately tagged. At the present time, we anticipate that companies are likely to be more focused on the accuracy and completeness of the XBRL-tagged data, and their processes and procedures are likely to develop and evolve. Based on experience to date, 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>3</sup>.

## **AT Section 601, Compliance Attestation**

[AT section 601](#) (adopted as a PCAOB Interim Attestation Standard) provides guidance on performing an examination or agreed-upon procedures engagement related to (a) an entity's compliance with the requirements of specified laws, regulations, rules, contracts, or grants or (b) the effectiveness of an entity's internal control over compliance with specified requirements.

It may be possible for AT section 601 engagements to be performed because issuers are required by SEC regulation to provide information in XBRL format. Further, [Rule 405 of Regulation S-T](#) imposes certain content, format, submission and posting requirements that an entity's compliance could be evaluated against. However, considering the extent of the requirements, including compliance with the [EDGAR Filer Manual](#), which includes highly detailed, technical information of which auditors may not have necessary technical expertise, audit firms should consider carefully whether to perform such services.

### ***Review of an Assertion About XBRL-Tagged Data***

Review engagements generally consist of the performance of inquiries and analytical procedures designed to provide a moderate level of assurance (i.e., negative assurance). However, an audit firm probably could not perform meaningful analytical procedures on XBRL-tagged data sufficient to achieve this level of assurance and it is uncertain what other procedures could be identified that, when combined with inquiry procedures, could form the basis for a review engagement. Accordingly, the feasibility of a review engagement related to XBRL tagging is uncertain. If a review engagement could be developed, it would be important for the review report to communicate its limitations to users.

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### ***Other Considerations Related to XBRL-Tagged Data***

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#### ***Effect of Submission of XBRL-Tagged Data on the Independent Auditor's Report on the Financial Statements***

The SEC indicated that the auditor need not be involved or associated with the submission of XBRL-tagged data. Further, Rule 405(b) states that the submissions would include only the financial statements (including notes) and the schedules, "no more no less." Accordingly, audit reports would not be part of the tagged data included in the XBRL Exhibit. However, to avoid possible confusion on the auditor's involvement with the tagged data, the auditor might consider more specifically identifying in the auditor's report what financial information is covered. For example, the introductory paragraph of the independent auditor's report could be modified to read as follows:

We have audited the accompanying consolidated balance sheets of [FILER] and its subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 as included in Item 8 of Form 10-K.

## **Reference to Other Forms of Reports**

It is not appropriate to include or reference an agreed-upon procedures or other restricted use (e.g., general advisory services) report in an SEC filing that results from services obtained voluntarily from an independent auditor.

1 Practitioners should look to both the relevant SEC and PCAOB independence rules.

2 In 2005, the PCAOB issued Staff Q&As related to the SEC's Voluntary Financial Reporting Program (Attest Engagements Regarding XBRL Financial Information Furnished under the XBRL Voluntary Financial Reporting Program).

3 The 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."

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