Management Assertions about Financial Statements: Are they Sufficient in the Interactive Data Environment?

Ken Dalton, The University of Kansas
Rajendra Srivastava, The University of Kansas

ABSTRACT

The process of creating XBRL-formatted financial statements under the SEC's interactive data filing requirements is not trivial. Managers exercise considerable judgment while tagging financial statements and the related footnotes, and they may not realize how seemingly innocuous decisions, such as negating a value for presentation purposes, could have unintended consequences for information consumers. The EDGAR Filer Manual repeatedly warns registrants that failure to follow its syntax and semantic rules for XBRL instances, schemas and linkbases could distort the communication of "assertions as they were intended." Presumably, this reference to management assertions is akin to the financial statement assertions that auditors use to guide their selection of procedures in an integrated audit (as articulated in AICPA Statement on Auditing Standards No. 31 and subsequently adopted in PCAOB Auditing Standard No. 15.), not the assertions *implied by the XBRL documents themselves*.

In anticipation of a future assurance requirement over the XBRL tagging process, Srivastava and Kogan (2010) developed the first conceptual framework of assertions to preemptively address shortcomings in existing guidance (e.g., AICPA Statement of Position 09-1) and promote the efficiency and effectiveness of an assertions-based approach to providing assurance services. However, their analysis focuses on reconciling XBRL-formatted statements with traditional "paper-based" (i.e., ASCII or HTML) statements in the current reporting paradigm and does not consider how assertions will evolve when traditional statements are ultimately phased out, leaving XBRL as the sole reporting format. The current paper takes a fresh look at the implications of "interactive" data and builds a case for the appropriateness of using standalone XBRL assertions to incrementally guide assurance efforts, whether voluntary or mandatory, once the transition to XBRL is stable. Management's responsibility to tag financial statement facts with a standardized taxonomy or a justifiable extension taxonomy, in a manner that is both human-readable (once rendered) *and* reliably interpreted by computers without human intervention, is supposed to reduce ambiguity faced by information consumers and increase transparency and accountability. It paradoxically follows that the atomic, multidimensional nature of XBRL introduces unique risks of material misstatement (above and beyond those found in the paper paradigm), unique sources of information risk for stakeholders and, in turn, unique sources of litigation risk for auditors that could be mitigated through reference to a comprehensive framework of assertions. Our re-conceptualized assertions focus on achieving the mutually exclusive benefits of XBRL technology described above and avoiding its unintended consequences. Example violations of these assertions from the Next-Generation EDGAR system are presented and discussed.