The views expressed in these slides are solely the views of the Investor Advisory Group members who prepared them and do not necessarily reflect the views of the PCAOB, the members of the Board, or the Board’s staff. The PCAOB makes no representation as to the accuracy or completeness of this information.
Digital Financial Statements

- Like Non-GAAP Financial Measures, Digital Financial Statements –
  - Are Important to Investors, and
  - Should be Audited.
Technology is Driving Change in Financial Reporting

- Until recently, assumptions about the way users consumed financial statements were settled: *users would read them.*
- In reality, the majority\(^1\) of financial statement information is *now* *consumed digitally.* For many years this has been via data distributors who themselves convert paper to digital.
- SEC is one of many regulators around the world to *require a digitally tagged financial statement* – but it is a separate non-audited exhibit.
- SEC is shifting to *"Inline XBRL"* which embeds machine readable financial statements in a single document.
- The single human and machine readable financial statement will be the *only financial statement.*

*The Anomaly – Digital Aspects of the Financial Statements are Not Audited*
Investors Rightly Expect to Trust Digital Financials

- Stable financial markets rely on transparency and trust in a broad range of issuer disclosures.
- Audited financial statements have been the cornerstone of that trust.
- Financial statement information used for analysis has been and will continue to be sourced from digital filings.
- Investors are surprised when they learn financial statements delivered digitally are not audited.
- Indeed, 50% of CFA members surveyed in 2016 believe that digital information should be incorporated into the standard financial statement audit.²

A New Expectation Gap is Developing
SEC Now Accepts Inline XBRL

Each FS element has been tagged by the issuer.

This information is machine readable.

The tag includes a wealth of information about the data disclosed, such as the value, currency, reporting period and, as shown here, links to authoritative literature.

It can also contain an auditor imprimatur, a link to audit guidance and reference to reported Critical Audit Matters.
Currently - Only the Human Readable Layer is Audited

![Diagram of financial statements with highlighted 'Audited human readable layer' and 'Unaudited machine consumable layer']

**PART I**

**Item 1. Financial Statements**

**INLINE TESTING SAMPLE COMPANY**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

<table>
<thead>
<tr>
<th>September 30</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2015</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and equivalents</td>
<td>$288,783</td>
</tr>
<tr>
<td>Inventories, at cost</td>
<td>1,132,364</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>231,814</td>
</tr>
<tr>
<td>Other current assets</td>
<td>415,955</td>
</tr>
<tr>
<td>Property, plant and equipment, less allowance for depreciation (2016 - $733,383; 2015 - $683,676)</td>
<td>583,653</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>$7,149,513</td>
</tr>
</tbody>
</table>

**LIABILITIES AND EQUITY**

**CURRENT LIABILITIES**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$1,991,871</td>
<td>$1,513,710</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>525,506</td>
<td>225,000</td>
</tr>
<tr>
<td>Dividends payable</td>
<td>17,258</td>
<td>3,919</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>74,684</td>
<td>68,977</td>
</tr>
<tr>
<td><strong>TOTAL CURRENT LIABILITIES</strong></td>
<td>$2,593,723</td>
<td>$1,845,606</td>
</tr>
</tbody>
</table>

**LONG-TERM DEBT**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>225,000</td>
<td>225,000</td>
</tr>
</tbody>
</table>
Data provided directly by companies in a machine-consumable form are immediately usable.

Analysis can be carried out on a company-specific basis, or, as shown at right[^3], on the entire population of companies.

The Analytical Capability is Powerful

Source: Calcbench
The World View

- Inline XBRL will be the only financial statement language used in at least 32 countries within the next five years, including the US, Japan and the whole of the EU.
- The Netherlands is mandating audit of all XBRL filings for every private and public company.
- This question is not yet on the IAASB work program, but given developments in Europe, it is fair to assume that it will be considered soon.
- Audit firms in the UK and US are providing “agreed-upon” assurance as a private service for clients – and thus, should have a good idea of the cost.

The World is Moving Towards Audited Digital Financial Statements
Digital Financial Statements

Organizations Endorsing Assurance

- CFA Institute
- American Institute of CPAs
- Dutch SBR Programme
- Bloomberg
- Morningstar
- XBRL International

Users Want Independent Assurance Over Digital Financial Statements
Digital Financial Statements

Digital Financial Statements Should be Audited

- Digital financial statements allow users to consume information directly and with consistency of definitions across issuers.
- Digital financial statements facilitate analysis.
- Digital financial statements will be the only financial statements.
- Digital financial statements could contain errors in translation from the paper version - which could be minimized with auditor involvement.
- Investors expect both the human readable layer AND the machine readable layer to be audited.

Relevancy of the Audit is Reduced if Not Applied to Digital Information
Digital Financial Statements

Reference Links


2. See “Data and Technology: Transforming the Financial Information Landscape” published by the CFA Institute, June 2016.

3. Calcbench Research Report – Common Stock Repurchases June 2017