

Updates to the Economic and Financial Statistics Collection

Background

On 8 March 2018, the Australian Prudential Regulation Authority (APRA), Reserve Bank of Australia (RBA) and Australian Bureau of Statistics (ABS) (together, the Agencies) responded to industry feedback for the Economic and Financial Statistics (EFS) collection, applicable to both ADIs and RFCs resulting in the finalisation of the data quality guidance, and also the RFC audit requirements.

Data Quality Guidance

The updated *RPG 702.0 Data Quality for the EFS Collection* (RPG 702.0) further emphasised the link to *CPG 235 Managing Data Risk* (CPG 235) and introduced a **three-tiered priority categorisation** structure and revision to the benchmarks, enabling the **use of judgement** in specific lower priority areas.

Key changes

Terminology



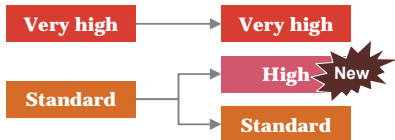
An 'error' is now known as a 'reporting error'

Reporting Error Identification



Reporting errors are identified through the application of benchmarks or judgement depending on priority category

Priority Categorising



To mitigate initial challenges in appropriately classifying existing data stock for organisations, the Agencies encourage reporting entities to develop a **data improvement program**, which aligns with the entity's broader data governance including processes, controls and risk appetite. This program should understand the current state of data quality, and where necessary, specify target metrics and timeframes for resolving data quality issues in accordance with the RPG 702.0 benchmarks.

Benchmarks

The Agencies have reduced the number of data points where a strict data benchmark is required, by allowing judgement to be applied for 'standard' priority data points and removing the floor for reporting data errors. The remaining benchmarks which apply to up to 292 'very high' priority data points and up to 924 'high' priority data points continue to **differ based on entity size** to account for the proportional impact of reporting errors on industry-level data.

Further clarification has been provided for:

- **Volatile flow data items:** Allowing the use of 3 or 6 month averages of series when assessing magnitude of errors for volatile flow (P&L) items
- **Balances with zero or near-zero value:** As percentage benchmarks are unlikely to be very informative for balances close to zero, further guidance has been provided for applying quantitative benchmarks, while also allowing for a greater level of judgement
- **Inter-related data items:** More precise benchmarks may be needed for individual data dimensions that influence higher priority data items

With the move towards a greater use of judgement in identifying reporting errors, reporting entities are expected to have **policies and procedures** in place to determine how judgement is to be applied. If a reporting error occurs, reporting entities will **not be required to automatically resubmit**. Instead, reporting entities will be required to **notify APRA**, which will consider whether the reporting error warrants resubmission through consultation with the Agencies.

	Priority	Benchmark for a large institution		Benchmark for an ADI or RFC that is not a large institution	
		% of series	As absolute dollar value	% of series	As absolute dollar value
Stock	Very high	0.50	\$2 billion	2.00	\$500 million
	High	5.00		10.00	
	Standard	Judgement		Judgement	
Flow	Very high	5.00	\$250 million	10.00	\$100 million
	High	10.00		20.00	
	Standard	Judgement		Judgement	

It is evident that the Agencies have been receptive to industry feedback, introducing practical ways to apply benchmarks and judgement to items which are of lower priority to the users of the data, and reducing the burden on organisations to establish control frameworks. That being said, frequent or large reporting errors may be indicative of limitations within the broader data control framework and warrant additional focus.

Audit Requirements

Whilst the requirements are not prescriptive on additional work required for ADI auditors, the Agencies have referenced APS 310 which continues to require auditors to consider the **design effectiveness of controls** in respect of reliability of data. Auditors will need to consider the precision and granularity of controls implemented by management, and the appropriateness of policies and procedures around the application of judgement. Amendments to RPG 702.0 have been made to better reflect the Agencies' intention of using benchmarks to indicate their expectation for data quality as inputs into a reporting entity's data quality risk management, not as a basis of materiality for assurance purposes.

The Agencies have also strongly encouraged auditors to adopt APRA's previous recommendation of including a **'General and Specific Observation' index** with specific mention of:

- Concerns of data quality that do not warrant a qualification in the current year
- Progress regarding addressing previously raised qualifications and/or observations.

Reporting entities should develop **data quality metrics** in relation to EFS to enable measurement of progress addressing previously identified data quality issues and ensure any auditor-reported qualifications and/or observations are effectively monitored and managed. This will allow for accurate and reliable data that can be used both internally and externally, and will be relevant for APS 310 long-form reporting.

The Agencies acknowledge that the implementation of EFS will have significant implications for the back book, and recognise that an increase in audit qualifications after roll-out are inevitable, and intend on reviewing the effectiveness of RPG 702.0 over time.



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RFC Requirements

RRS 710.0 Registered Financial Corporations Audit for the EFS Collection (RRS 710.0) will commence on **1 July 2019**, requiring an annual auditor's report to be submitted within the required timeframe providing:

- **reasonable assurance** over accounting data included in specified forms listed in RRS 710.0 Appendix A (Specified Forms),
- **limited assurance** over non-accounting data included in Specified Forms
- **limited assurance** over the design and operating effectiveness of the RFC's systems, processes and internal controls throughout the data life cycle.

In order to meet the RRS 710.0 requirements, RFC's must ensure the auditor's report is submitted to the RFC's Board within either four months of financial year-end or by 30 April of the subsequent calendar year depending on the balance sheet size and applicable reporting forms.

Who is impacted?

The data quality changes announced for EFS maintains the focus whilst bringing a more pragmatic approach to improving data quality for both ADIs and RFCs who are required to submit data to APRA. The burden for readiness by March 2019 continues to be a challenge for many however there has been emphasis on the ongoing data quality journey with opportunities for additional engagement between industry and the Agencies.

How can PwC help?

PwC can help work with you to:

- Provide you with a readiness assessment and gap analysis considering your current systems, processes and controls
- Consider and assess the likely impacts of the new requirements on your portfolio and reporting processes
- Assess your readiness to meet the requirements of the new reporting standards and data quality expectations
- Implement the new standards, requirements and data expectations in line with RPG 702.0 and the relevant data governance foundations from CPG 235
- Work with you to define or optimise a tailored regulatory reporting operating model for your organisation including a data improvement program