



RESERVE BANK OF AUSTRALIA



APRA

RESPONSE TO SUBMISSIONS

Economic and financial statistics
data quality framework

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Glossary

ABS	Australian Bureau of Statistics
ADI	Authorised deposit-taking institution
Agencies	The ABS and the RBA
ANZSIC	Australian and New Zealand standard industrial classification
APRA	Australian Prudential Regulation Authority
EFS	Economic and financial statistics
RBA	Reserve Bank of Australia
Reporting entity	An ADI or RFC required to report under the EFS collection.
RFC	Registered financial corporation – the common term for ‘registered entity’ as defined in the <i>Financial Sector (Collection of Data) Act 2001</i>
RPG 701.0	<i>Reporting Practice Guide 701.0 ABS/RBA Reporting Concepts for the EFS Collection</i>
RPG 702.0	<i>Reporting Practice Guide 701.0 ABS/RBA Reporting Concepts for the EFS Collection</i>
RRS 710.0	<i>Reporting Standard 710.0 ABS/RBA Audit Requirements for Registered Financial Corporations</i>

Chapter 1 – Introduction

1.1 Background

In January 2017, the Australian Prudential Regulation Authority (APRA), and the Australian Bureau of Statistics and the Reserve Bank of Australia (RBA) (the agencies), commenced public consultation on proposals for a revised economic and financial statistics (EFS) data collection¹. This collection consists of data submitted by authorised deposit-taking institutions (ADIs) and some unregulated entities known as Registered Financial Corporations (RFCs) for publication and policy making use by the agencies.

Included in the package was a proposal for a new data quality reporting standard and guidance that would apply specifically to the EFS data collection. These documents established accuracy thresholds setting out expected levels of data quality and assurance.

In August 2017, in response to feedback, the agencies and APRA undertook a further round of consultation² on the proposed framework. The most significant changes were to:

- remove the audit requirements from the proposed data quality reporting standard, with requirements for ADIs to be met by the existing *Prudential Standard APS 310 Audit and Related Matters* (APS 310) and those for RFCs to be moved to a new *Reporting Standard RRS 710.0 ABA/RBA Audit requirements for Registered Financial Corporations* (RRS 710.0);
- replace the proposed data quality reporting standard with Reporting Practice Guide RPG 702.0 ABS/RBA Data Quality for the EFS Collection (RPG 702.0);
- more closely align the framework with the principles-based approach of *Prudential Practice Guide CPG 235 Managing Data Risk* (CPG 235) in RPG 702.0; and
- remove the expectation that institutions should have a specified level of confidence that their data are within the data quality thresholds.

The revised framework retained the data quality thresholds (renamed benchmarks), as indicators of the level of accuracy expected by the agencies for specified data items.

This paper responds to submissions received on the revised proposals.

1.2 Submissions received

APRA and the agencies received 11 submissions from reporting entities, auditors and an industry association. Most feedback related to the data quality benchmarks to be applied to the EFS collection and the relationship between the proposed framework and existing assurance requirements under APS 310. Submissions also sought clarification about the

¹ The documents relating to this consultation are available at:

<http://www.apra.gov.au/adi/PrudentialFramework/Pages/EFS-collection-formal-consultation-Jan17.aspx>

² The documents relating to this consultation are available at:

<http://www.apra.gov.au/adi/PrudentialFramework/Pages/EFS-collection-response-Aug17.aspx>

purpose of the benchmarks and how they should be applied. Other feedback concerned wording in both RPG 702.0 and RRS 710.0.

One submission related to the broader EFS collection and sought advice on the data items that APRA intends to publicly disclose. APRA confirms that it will consult on changes to its statistical publications arising from the proposed changes to the EFS collection and, where necessary, will consult on confidentiality further to section 57 of the *Australian Prudential Regulation Authority Act 1998*. Consultation on changes to statistical publications is expected to take place later in 2018 and will cover the data items intended to be included in publications.

A number of submissions raised issues unrelated to RPG 702.0 and RRS 710.0. Responses to these issues will be provided on the EFS frequently asked questions (FAQ) page of APRA's website³ or directly to the entity in question as relevant.

APRA and the agencies' responses to comments related to RPG 702.0 and RRS 710.0 received in submissions are set out in this paper; chapter 2 addresses feedback about RPG 702.0 while chapter 3 relates to RRS 710.0.

1.3 The finalised EFS data quality framework

Accompanying this paper are a revised RPG 702.0 and RRS 710.0 that incorporate the amendments set out in this paper. These changes seek to balance the cost to reporting entities of the data quality framework against the requirements of the agencies for relevant, timely and accurate data to be used in analysis, for publication and for policy-making purposes.

The revised RPG 702.0 contains some important changes made in response to feedback received, including:

- clarifying that the purpose of the data quality benchmarks is to provide an indication of the size of misreporting that may affect the agencies' use of the data (referred to as a reporting error);
- clarifying that reporting errors should be notified to APRA as soon as they are identified, but that the need for resubmissions will be determined by APRA and the agencies on a case-by-case basis. Reporting institutions are also encouraged to take the information in the data quality benchmarks and any identified reporting errors into account when designing and/or updating processes and controls around these data. However, the guidance has been amended to make it clear that it is left to the reporting entity to determine what form these take, consistent with their risk appetite and existing guidance such as CPG 235; and
- maintaining data quality benchmarks on 'total' or 'subtotal' data items, but allowing for judgement to be used to identify reporting errors on many component items identified as having 'standard' priority. A greater role for judgement has also been provided for balances close to zero and for volatile flow data.

³ The FAQ page is available at: <http://www.apra.gov.au/adi/ReportingFramework/Pages/EFS-FAQs.aspx>

The agencies expect that entities would take account of RPG 702.0 in all reporting on the EFS collection from the point of commencement. However, the agencies recognise that achieving appropriate classification of the existing data stock is likely to be a particular challenge for some data items during the early stages of the new collection. If an entity is unable to provide data consistent with the agencies' expectations and/or the reporting entity's risk appetite from the commencement of reporting, then the reporting entity is encouraged to develop a data improvement program specifying target metrics and timeframes for resolving data quality shortcomings. The agencies expect that the entities would consult with APRA when determining the details of any data improvement program. More broadly, the agencies acknowledge that data quality improvement is a continuous process and efforts to improve data quality should not be expected to stop with the introduction of the new collection.

The revised RRS 710.0 incorporates some minor drafting changes in response to feedback received. RRS 710.0 will commence on 1 July 2019.

The final revised RPG 702.0 and RRS 710.0 are available [here](#)⁴.

⁴ <http://www.apra.gov.au/adi/PrudentialFramework/Pages/EFS-data-quality-response-Mar18.aspx>

Chapter 2 – Response to submissions on *Reporting Practice Guide RPG 702.0 Data Quality for the EFS Collection*

In the January 2017 consultation, the agencies proposed a reporting standard with quantitative benchmarks for data quality with the aim of setting out the level of accuracy required by the agencies along with the relative priority attached by the agencies to the accuracy of different series. A proposed guidance document set out the expectation that entities should have systems, process and controls to provide at least 99 per cent confidence that reported data were within the specified data accuracy thresholds.

In response to industry concerns, in August 2017 the agencies and APRA consulted on revisions to the framework. They proposed replacing the proposed prudential standard with a new guidance document, RPG 702.0, and removing the 99 per cent confidence expectation from the guidance. This guidance would retain, with some adjustments, the data accuracy thresholds previously proposed, which were renamed 'data quality benchmarks' and were designed to represent the agencies' expectations of the level of data accuracy for specified data items.

2.1 Benchmark purpose and design

Comments received

A number of submissions supported incorporating the data quality framework in guidance rather than a new reporting standard and two noted that the data quality benchmarks had some merits. However, many raised concerns with the data quality benchmarks and requested that they be adjusted or removed altogether. Despite the removal of the 99 per cent confidence guidance, respondents remained of the view that these benchmarks imposed prescriptive requirements that potentially conflicted with APRA's principles-based approach to other reporting and risk management requirements.

Several respondents submitted that embedding the benchmarks into existing controls and processes would be difficult and costly. It was submitted that it would require the design of separate controls and processes for EFS statistical data that varied from the organisation's risk appetite and approach to data under CPG 235.

Various submissions suggested that, if the benchmarks were retained, RPG 702.0 should clearly describe their purpose and remove uncertainty or ambiguity about their application. Some respondents sought confirmation that they were not intended to replace existing risk management frameworks, including those adopting the approach outlined in CPG 235.

A number of submissions requested clarification on whether the proposed benchmarks would drive decisions about materiality for audit purposes. Three submissions noted that, because the data quality benchmarks are indicative of the needs of the data user, they could be seen as indicating materiality for assurance purposes. If so, auditors would need to test to a lower level of materiality than in APS 310 or under financial statement audit requirements.

Another submission queried whether auditors should also use the CPG 235 framework when auditing reporting entities' compliance with EFS data collection requirements.

Response

The intention of the benchmarks is to provide a clear indication of the prioritisation of data items by the agencies and their expectations for data quality as inputs into a reporting entity's data quality risk management. The intention is not to require reporting entities to embed them into their controls or employ extensive use of data sampling techniques if this does not accord with the entity's risk appetite and approach to managing data risk. Nor are the benchmarks intended to override or replace risk management requirements. RPG 702.0 has been amended to more clearly reflect the agencies' intention and to more closely align with the approach taken in CPG 235. The agencies consider that RPG 702.0, inclusive of the data quality benchmarks, provides further clarification of the expected application of CPG 235 to a particular data collection—the EFS collection.

APRA also confirms that the benchmarks do not establish new requirements for materiality for audit purposes relating to the EFS data collection. Notwithstanding this, as a general rule, APRA expects that auditors would take account of guidance that is included in the prudential and reporting framework as part of its auditing of reporting entities, which would include CPG 235 and RPG 702.0. It is also open to an auditor to form the view that other audit requirements apply to audit work relating to the EFS collection.

Based on the benchmark changes and the application of judgement to the newly created 'standard' priority data items as outlined in section 2.3, the agencies are confident that the revised RPG 702.0 will reduce the impact of proposed changes on the scope and cost of audit work. The agencies have attempted to direct audit efforts (under APS 310 or RRS 710.0) to the areas of greatest value to the agencies and to strike an appropriate balance between clarifying the expectations of the agencies while allowing sufficient flexibility to reporting entities and audit firms to determine how they meet these expectations.

2.2 Exceeding the benchmarks

Comments received

Several respondents proposed alternatives to the definition of the difference between the reported amount and the correct amount for a data item as "errors", submitting that the terminology was pejorative and/or inappropriate in view of the stringency of the benchmarks.

Respondents also asked for clarification on action that should be taken if data items are outside the benchmarks. For example, respondents asked whether the data should automatically be resubmitted or whether audit reports should be qualified.

Response

The agencies have redefined an 'error' as a 'reporting error' and clarified in RPG 702 that only misreporting of data items that fall outside agency expectations for data quality constitute 'reporting errors'.

The agencies confirm that reporting entities that identify reporting errors do not automatically need to resubmit the data. Their expectation is that the reporting entity would, however, notify APRA, which will, after consultation with the agencies, consider whether the

reporting error warrants resubmission. In making this decision, the agencies will consider a number of factors, including the size of the reporting error, the impact of this error on the interpretation of the industry-wide series for that item and the impact of an unrevised series on the agencies' use of an individual institution's data for internal analysis. RPG 702.0 has been updated to clarify this approach.

The revised RPG 702.0 notes that frequent or large reporting errors would be viewed as indicative of potential shortcomings in the reporting entity's broader data control framework and would likely prompt a discussion with APRA and the agencies about the entity's overall approach to data quality. RPG 702.0 has also been revised to clarify that one possible response to data quality gaps could be to establish a data improvement program to remediate issues over time.

As with other audit work, the decision over whether or not to provide a qualification rests with the auditor. As noted in section 2.3 the data quality benchmarks provide information on the requirements of the data users and the requirements of the data users are expected to be a consideration when determining materiality for the purposes of audit or review under APS 310 or RRS 710.0. However, RPG 702.0 serves as guidance rather than a reporting standard and, as such, the appointed auditor retains discretion.

Feedback from audit firms has indicated that an increased volume of data qualifications would be expected with the introduction of the new collection, and that some data items that rely on a reclassification of existing stocks are particularly likely to be affected by qualifications. The agencies acknowledge that reclassifying the back-book will be a challenge and, in *Reporting Guidance RPG 701.0 ABS/RBA Reporting Concepts for the EFS Collection* (RPG 701.0), have provided several examples of touchpoints that reporting entities are encouraged to use in order to appropriately reclassify existing counterparties. In addition, RPG 701.0 provides several proxies that can be used to classify existing loans. Notwithstanding these suggestions, the agencies acknowledge that qualifications are likely to increase with the introduction of the new collection, and would expect to see these decrease over time as further improvements are made to data quality.

In addition, the agencies note that APRA has previously recommended the use of a 'General and specific observations index' to highlight material internal control weaknesses and other reporting issues that are not current year qualifications and to update APRA on the status of previous qualifications and observations⁵. The agencies strongly encourage appointed auditors to consider the use of such an index to highlight concerns of data quality that do not warrant a qualification in the current year, or to advise on progress in addressing previously raised qualifications and/or observations.

⁵ See: <http://www.apra.gov.au/adi/Publications/Pages/Letter-to-ADIs-APS-310-reports.aspx>

2.3 Operation of the benchmarks

Comments received

Three submissions referred to challenges in ensuring that data not used for statutory reporting purposes (non-financial data) are reported to the level of accuracy represented by the data quality benchmarks.

Submissions also noted that the benchmarks would, in some cases, be more stringent than metrics for materiality of errors currently employed by external auditors under APS 310 or in relation to financial statement reports; and/or that the application of data quality benchmarks to individual cells was more demanding than the form-level approach currently taken by external assurance firms in relation to APS 310. Further, feedback noted that this could result in additional substantive procedures and re-scoping of financial statement audit to deliver a reasonable and/or limited assurance opinion over data items under APS 310 (although it was noted that the number of forms subject to these opinions are limited) and would involve significant amount of incremental procedures on upstream data quality controls and downstream review-type controls for auditors to arrive at an opinion on the adequacy of controls around these data.

Some submissions requested that the agencies reconsider the list of 'very high' priority items. Two submissions identified some inconsistencies in the list of 'very high' priority items. Another asked that the number of 'very high' priority items on *Reporting Standard ARS 747.0 ABS/RBA Deposits Stocks, Flows and Interest Rates (ARS 747.0)* be reduced.

Other concerns related to the impact of applying different benchmarks to inter-related data items. Several submissions were concerned that where individual data items are viewed as the intersection of several underlying data dimensions, achieving the data quality benchmarks for the data item would require a lower tolerance for error to be applied to the underlying data elements, creating challenges and increasing cost.

Submissions noted that the application of data quality benchmarks to totals and component items resulted in significantly different absolute dollar equivalents of materiality thresholds being applied to all data items that are subject to the same underlying end-to-end data process. This would likely result in the most restrictive constraint being applied to all balances. Similarly, feedback indicated concerns that the different data quality benchmarks for standard items (typically components of a total) and for very high priority items (typically totals) could lead to inconsistencies.

Wording and formatting changes were also requested to clarify how to apply the benchmarks, such as to alleviate potential confusion regarding the application of absolute dollar values to data expressed as a count or proportion.

A further submission requested that the data quality benchmarks be subject to periodic review.

Response

Data with 'non-financial' elements or dimensions is often of very high importance to the agencies. The agencies have considered the submissions suggesting amendments to the 'very high priority' data items but remain of the view that they are of particular importance to

the compilation of statistics and/or the analysis conducted. The agencies propose to retain the 'very high priority' items, other than minor amendments to correct labelling errors.

The existing 'standard' priority category has—for data items expressed as a dollar value, a count or a proportion—been further divided into a 'high' priority category and a revised 'standard' priority category. The 'high' priority category retains the same benchmarks while the standard priority category relies on the use of judgement of the reporting entity in assessing whether misreporting of these items constitutes a reporting error. This application of judgement to 'standard' priority data items expressed as a dollar value, a count or a proportion, rather than the application of specific benchmarks to all data items within the EFS data collection, reduces the number of data items where entities would be expected to apply a quantitative benchmark when determining appropriate levels of data accuracy. RPG 702.0 has been amended to indicate that it would be good practice for a reporting entity to have policies and procedures in place that determine how judgement is to be applied to any misreporting in these data items. As the data items to which the quantitative benchmarks no longer apply are typically components (rather than 'totals' or 'subtotals') this will also help to address feedback relating to the implementation of quantitative benchmarks for total and component items.

Where the data items are reported as the intersection of several underlying data dimensions, applying more stringent benchmarks to the underlying data elements may be appropriate. This is to ensure that data items that are of particular importance to the agencies are reported with an appropriate level of accuracy as set out in RPG 702.0. Decisions regarding the means of achieving the level of accuracy targeted for the underlying data elements would remain a decision for the entity, informed by data quality benchmarks for reported items, other guidance provided in RPG 702.0 and the processes, controls and risk appetite of the reporting entity.

The benchmark tables and the guidance in RPG 702.0 have been revised to clarify that absolute dollar benchmarks are not applied to data that are expressed as a count or proportion, and to improve ease of reading the benchmark tables.

As noted in the EFS discussion paper released on 23 August 2017, the agencies stated their intention to review the effectiveness of RPG 702.0 after it has been in operation for an appropriate amount of time. This review would determine whether RPG 702.0 is achieving the intended outcome and whether it needs to be amended.

2.4 Calibration

Comments received

Feedback noted industry concerns about how the quantitative benchmarks had been derived. Submissions suggested various possible changes to the calibration of the benchmarks in RPG 702.0 such as:

- increasing the benchmarks for some or all entities on the basis that one or more entities exceeding these benchmarks would have an immaterial impact on the aggregate series;
- increasing the benchmarks for data derived from non-accounting records; and

- increasing or removing absolute dollar floor benchmarks, potentially expressing these as a percentage of total assets;
- removing benchmarks for data expressed as a count or proportion; and
- changes to specified benchmarks, such as an increase in the benchmarks for 'Very High' priority data items.

Some submissions noted that the control framework will need to be sufficiently dynamic to adjust the (equivalent) absolute dollar level of precision necessary to comply with benchmark requirements specified as percentages as the balance changes over time. Another noted that implementing controls around benchmarks for data items that are flows will be challenging due to seasonal volatility.

One submission requested clarity on the application of the benchmarks where the reported balance is at or very close to zero.

Response

The data submitted in the EFS collection is used to compile industry aggregates as well as to analyse changes in aggregate and individual data series. The benchmarks applied to very high priority items have been calibrated both with regard to the effect that misreporting could have on the aggregate values in a given period and changes in values between periods (e.g. growth rates). Given the importance of the data to the agencies, and the changes that have been made in response to feedback, the agencies intend to retain the benchmark levels to ensure that data reported under the EFS data collection meets their needs.

The benchmark tables have been updated to remove the floor benchmarks. Many of the subcomponent items now rely on judgement rather than quantitative benchmarks to identify reporting errors, and further guidance has been added regarding the application of quantitative benchmarks to series with zero or near-zero value.

The agencies are of the view that the changes to RPG 702.0, primarily the benchmark tables, and the addition of the 'standard' priority items supporting the use of judgement by entities (for data expressed as a value, proportion or count), along with the clarity provided on the application of the guidance, will reduce the difficulties entities face establishing a control framework to support its operation.

RPG 702.0 has also been updated to include guidance on the calculation of reporting errors for volatile flow data series and on the application of benchmarks to series with zero value or near-zero value.

Chapter 3 – Response to submissions on *Reporting Standard RRS 710.0 ABS/RBA Audit requirements for Registered Financial Corporations*

The January 2017 consultation proposed new audit requirements for RFCs in respect of the EFS collection, in a reporting standard that also contained the data quality benchmarks. In response to feedback on that consultation, the audit requirements were separated from the benchmark guidance. In turn, RRS 710.0 was created to segregate the RFC audit requirements.

Comments received

Five submissions were received relating to RRS 710.0, covering the following:

- a number of the submissions suggested that RFCs be exempt from all audit requirements, noting the relative unimportance of RFCs to the overall provision of finance. Feedback also noted that the significant cost impacts to implement the requirements should warrant a reconsideration of RFC audit requirements;
- feedback questioned why requirements place onus on the RFC when the requirements target the auditor and would be the responsibility of the auditor; and
- a number of drafting suggestions were made to clarify the requirements.

Response

A reporting RFC's ultimate obligation to report the EFS data collection arises under the *Financial Sector (Collection of Data) Act 2001*. It is therefore the RFC's responsibility to ensure that the data it is reporting meets relevant quality control requirements, as with all other data collections under this Act. Given the importance of the data being reported and in the interests of consistency and accuracy, the agencies are of the view that both RFC and ADI data should be audited. Although the ADI sector is considerably larger in terms of total assets, RFCs form an important part of some market segments; therefore RFCs should be subject to audit requirements that are equivalent to those of similar-sized ADIs for the EFS collection. While the agencies recognise that there might be significant cost impacts, these are expected to vary relative to the size of the entity. With this in mind, and due to the need for reliable data, the agencies decided to retain RRS 710.0 which is in principle equivalent to APS 310.

The agencies have made some minor changes in response to suggested clarifications and these are reflected in a revised RRS 710.0 released with this paper. RRS 710.0 is intended to operate in a manner similar to the existing ADI audit requirements set out in APS 310. Where any suggested changes to RRS 710.0 did not deviate from this operation they have been incorporated in the revised version released with this paper. This includes revised drafting to reflect that RRS 710.0 places the onus on the RFC to ensure that the auditor fulfils his or her responsibilities as outlined in the standard.



 **APRA**