# Is your EFS reporting process audit-proof?

## Preparing for APS 310/RRS 710

With the vast majority of the EFS return implementation deadlines behind us, reporting teams are shifting their focus away from the implementation of the regulatory returns towards preparation activities for their annual APS 310 or RRS 710 audit.

For reporting entities with March or June Year-End, the auditors will be required to provide Part A/B opinion (reasonable & limited assurance) on specified forms (ARF 720.0, 720.1, 720.2) as well as Part C opinion (limited assurance covering controls assessment) on most of the submissions. While APS310 audits are not new for Banks (ADI's), Registered Financial Corporations (RFC's) will be subject to RRS 710 for the first time in 2020.

With heightened expectations from regulators, audit firms are in turn increasing the scrutiny on ADI's and RFC's to inform their APS 310 and RRS 710 audit opinions. Clean APS 310 audit opinions in previous years are by no means a guarantee for a clean audit opinion on EFS forms. This document outlines the key focus areas identified for entities to become audit-ready.

## Focus Area 1 – Governance

The modernisation of the EFS reporting regime entails the collection of very detailed data on all activities of ADI's and RFC's to serve the regulatory agencies (APRA, ABS & RBA). Many reporting entities have been caught off guard by the complexity of the requirements and the granularity of the new data submissions. APRA has been engaging with reporting entities to better understand the levels of process & data maturity attained by reporting entities in submitting valid and accurate reports. Such enquiries have sometimes also led to re-submission requests of certain forms by APRA over previous reporting cycles.

Financial organisations are expected to formalise their data and reporting process to ensure robust governance and accountability requirements. Driving responsibility, are executives who will be held to account under BEAR (Banking Executive Accountability Regime).

A fit for purpose governance framework for APRA EFS reporting is an essential component to compliance with APRA reporting standards, as it informs responsibilities and ultimate accountabilities at each step of the reporting process.

The APRA EFS governance initiative must be setup with the goal of ensuring error free reporting enabled by adequately controlled processes across the end-to-end process and data lifecycle. The EFS governance framework is expected to be aligned with CPG-235 Managing Data Risk for establishing accountability and responsibility on the data lifecycle.

Auditors have increasingly been of the view that a formally established EFS governance committee which comprises representation from key departments (finance, risk, business and technology) must design and implement a governance framework to not only ensure error free reporting but also clear any roadblocks in the way of achieving regulatory goals.

> *With heightened expectations from regulators, audit firms are in turn increasing the scrutiny on ADI's and RFC's to inform their APS310 and RRS 710 audit opinions.*

## Focus Area 2 - Data Quality

Improving Data Quality is one of the key drivers of the EFS reform and auditors expect reporting entities to provide evidence of the implementation of data quality measurement and ongoing monitoring of data quality in line with RPG 702.

This has resulted in financial institutions being expected to take a structured approach towards managing the quality of their data. While establishing an enterprise wide quality framework is advisable for every reporting entity; in the context of APS310 and RRS710, auditors expect complying entities to manage the data quality of their Critical Data Elements (CDEs) for APRA reporting. Auditors will expect entities to be able to provide data lineage on the CDE's from source system(s) through to their data stores or spreadsheets through to the submitted APRA returns.

## APRA EFS Reporting Checklist

| Governance | • **EFS governance Framework**<br>• EFS Governance/Steering Committee<br>• Risk & Controls Matrix<br>• Assurance (Internal Audit) |
|---|---|
| **Data Quality** | • **Adherence to Data Quality Benchmark (RPG 702):**<br>   o Based on APRA priority items (CDEs)<br>   o Based on Size of Reporting Entity |
| **Controls & Validation** | • Process Mapping & Ownership<br>• Business Approvals & Sign-offs<br>• Control Attestation |
| **Data & Systems Management** | • Implement EFS Reporting Solution<br>• System Configuration, Technical Specifications<br>• Production Support & BAU Transition |
| **Key Artefacts** | • Business & Functional Specifications, UAT evidence<br>• Traceability Matrix, Usage of Proxies, CDE Shortlist<br>• Business Rules & Reporting Logics |

Auditors will also expect entities to illustrate how the entities' definition of CDE's aligns to APRA's reporting standards, APRA's detailed guidance outlined in RPG701 and the Frequently Asked Questions are published on APRA's website. Management will be required to evidence that data quality of CDE's is within the error-free benchmarks as set out in RPG 702.

Considering the depth and breadth of data reporting required under the APRA EFS regime, we have observed various entities starting to assign full or part time data stewardship roles across the key data sourcing units to ensure close oversight and timely resolution of data issues as close to the point of capture as possible.

## Focus Area 3 - Controls & Validation

The appointed auditor must provide (limited) assurance that the ADI has controls that are designed to ensure that the ADI has complied with all applicable prudential requirements and has provided reliable data to APRA in the reporting forms prepared under the FSCODA. The appointed auditor must also provide assurance that these controls have operated effectively throughout the financial year.

To inform their audit opinion, Auditors will expect reporting entities to identify risks and controls across the end-to-end reporting process. Management will be expected to provide evidence of the effectiveness of these controls and/or attestation by the respective control owners. Moreover, entities are expected to design and implement controls throughout the data lifecycle – including data capture, processing, retention, preparation and submission of reports – to ensure that the source as well as submitted data are reliable and accurate.

*Clean APS 310 audit opinions in previous years are by no means a guarantee for a clean audit opinion on EFS returns.*

## Focus Area 4 – Data & Systems Management

To date, auditors and APRA have no clear requirement to use automated systems as opposed to manually achieving the task of reports preparation. However, manual processes provide a bigger challenge from an assurance point of view. Most of the manual processes can only be controlled by manual controls which could never surpass the risk mitigation offered by purpose built automated solutions. Moreover, spreadsheet solutions carry inherent operational risks. This leads to key person and manual error which are difficult or costly to mitigate underneath the reporting layer specifically for the regulatory process.

Therefore, it is advisable for those entities which have resorted to spreadsheet solutions, to consider creating a roadmap for process automation through internal builds or external vendor solutions for APRA EFS reporting purposes. Externally built solutions have been found to fortify the process further by ensuring inherent & explicit controls are implemented on the process.

Auditors have also been keenly observing the maturity levels of reporting entities in managing their data. With enhanced expectations to be able to review metadata management practices. This includes identifying critical data elements (CDE's), building business glossary, data dictionary, data lineage, and assignment of data specific roles & responsibilities.

*Reporting entities are encouraged to engage with their external auditor early, in order to avoid surprises during the APS 310 or RRS 710 Audit.*

## Focus Area 5 – Key Artefacts

It is important for the audited entity to furnish supporting documentation which demonstrates its capability to consistently prepare accurate and valid APRA EFS reports. Ensuring material which is generated by high quality data and adequately controlled processes is paramount. These artefacts not only assist the internal governance committee and assurance team in identifying the areas of improvements, but also act as key evidence for auditors in forming their overall opinion. Such key artefacts can include:

- Regulatory Reporting Governance Framework
- Regulatory Traceability Matrix
- Risk and Control Matrix
- Data Lineage
- Business Glossary
- Critical Data Element Register
- Return generation checklist
- Analytical Review Pack
- Return Validation checklist

RegCentric supports an increasing number of Banks, Credit Unions, RFC's, and others to cope with APRA reporting requirements. Our team of APRA reporting SME's combine deep knowledge of APRA's regulation with hands-on experience in building end-to-end reporting solutions that have been subjected to stringent internal and external audit requirements.

## How RegCentric can assist you

### APS 310 Readiness

- Conduct gap analysis and proxy determination.
- Ensure fit-for-purpose governance framework and risk and controls environment.
- Data governance and data quality management framework in line with CPG-235 and RPG702.
- Determining Critical Data Elements and data lineage.
- Uplift existing processes documentation.

### Implementation of APRA reporting solutions

- Review Current State/Target Operating Model.
- Provide business case and support for buy versus build decision. Support RFx process.
- Implementation of vendor solutions.
- Optimisation of the end-to-end reporting process.
- Roll out of Data Lineage Solutions.
- Data Quality Management.

# About RegCentric

## Technology and Business Consulting

**RegCentric** is a Sydney-based consulting company, specialised in transformation in Data Management, Finance, Risk Management and Regulatory Reporting in the financial services industry. The RegCentric team consists of highly experienced business and technology consultants who are passionate about assisting Australian financial services companies leverage technology to drive efficiencies, deliver insight and ensure regulatory compliance. We differentiate ourselves by combining deep domain expertise with technical know-how and a hands-on approach.

Our consultants come from various backgrounds: APRA, the financial services industry and international software vendors. What has brought us together is our passion to design and implement optimal solutions to improve business processes and deliver insights whilst ensuring regulatory compliance.

## Combining Technology and Subject-Matter Expertise

The Australian Financial Services industry is undergoing constant change fueled by changing regulations and by technological advancement. RegCentric combines deep knowledge of the Australian regulatory environment with a strong technology background to assist organisations assess the impact of these changes and to design and implement the optimal strategy and solutions. We assist our clients to manage complexity and to leverage regulatory and technology change as catalysts to improve their infrastructure, processes, governance and operating models.

## Advisory and Implementation

From strategic planning to delivery, our end-to-end consulting services span the complete data and implementation life-cycle, from strategy and design through to implementation and support.

We are pragmatic. Because we understand the business, technology, and commercial challenges and opportunities, we can deliver real benefit, not just presentations and frameworks.
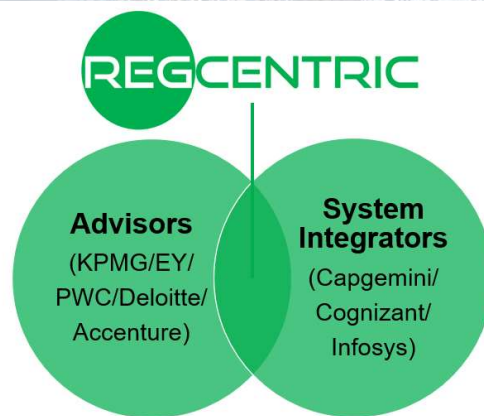


## Our Areas of Expertise

- Australian regulatory requirements – APRA/ASIC/AUSTRAC
- Regulatory Reporting
- Capital Management – Basel II/III
- International Financial Reporting Standards (IFRS)
- Finance, Accounting, Product Control
- Performance management, budgeting, forecasting
- Data Governance
- Data integration, standardisation, publication
- Integrated Finance and Risk
- Enterprise Risk Management (ERM)
- Governance, Risk and Compliance (GRC)

info@regcentric.com
02 8091 7187
www.regcentric.com
Level 24 Three International Towers
300 Barangaroo Avenue
Sydney, NSW 2000