

To the Point

AICPA issues criteria for describing a set of data and evaluating its integrity

An entity's ability to make informed decisions depends on the quality of the data it uses.

What you need to know

- ▶ The AICPA issued criteria that management, boards of directors, internal auditors and other stakeholders, such as suppliers, can use to evaluate the integrity of data relied upon to make decisions.
- ▶ A company that provides data to stakeholders also can engage an independent public accountant to use the criteria to perform attestation procedures and provide a report on the integrity of the information.
- ▶ The criteria focus on whether a description of the set of data accurately presents the contents of the set and provides users of the data with the context that will enable them to understand the data and make informed decisions based on the data.

Overview

The Assurance Services Executive Committee (ASEC) of the American Institute of Certified Public Accountants (AICPA) issued criteria that management, boards of directors, internal auditors and other stakeholders, such as suppliers, can use to evaluate the integrity of data used in decision making.

In doing so, the ASEC was responding to concerns stakeholders have raised about the precision, completeness and accuracy of data that companies and their stakeholders use to make decisions. The criteria can be used to evaluate information sold by data providers, information used to support transactions, and information used to evidence compliance with agreements or regulatory requirements, among other uses.

The criteria are intended to enhance users' understanding of the data they receive and increase their confidence in decisions they make based on that data.

Companies that provide data to stakeholders can also engage an independent public accountant to use the criteria to evaluate their data and their descriptions of the data to enhance a user's confidence in the information. That is, an independent public accountant can use the criteria in an attestation engagement to issue either:

- ▶ An opinion or conclusion about whether management's description presents the set of data in accordance with the criteria
- ▶ An agreed-upon procedures report to assist users in assessing whether management's description presents the set of data in accordance with the criteria

The criteria focus on the description of the set of data and whether it accurately presents the contents of the set and whether it provides users of the data with the context that will enable them to understand the data and make informed decisions based on the data.

Key considerations

The AICPA established the following criteria for a description of data:

- ▶ The description includes the purpose of the data.
- ▶ The description is complete and accurate, and includes the following:
 - ▶ The population of events or instances included in the data
 - ▶ The nature of each element (field) of the data (i.e., the event or instance to which the data element relates)
 - ▶ The sources of the data
 - ▶ The units of measurement of data elements
 - ▶ The accuracy, correctness or precision of measurement
 - ▶ The uncertainty or confidence interval inherent in each data element and in the population of those elements
 - ▶ The time periods over which the data was measured or the period of time during which the events to which the data relate occurred
 - ▶ The factors in addition to date or period of time that were used to determine whether to include or exclude items
- ▶ The description identifies any other information that is necessary to understand each data element and the population (e.g., in a set of data about crude oil inventories, the description refers to the American Petroleum Institute's gravity definitions of each grade held).

The AICPA also issued implementation guidance that provides factors for entities and independent accountants to consider regarding the nature and extent of what should be included in the description for each of the criterion.

How we see it

- ▶ The criteria provide a framework that entities and independent public accountants can use to increase a user's confidence in a set of data used to make key decisions.
- ▶ The criteria are expected to be especially helpful for entities in the financial services, technology and life sciences industries, which often provide or use large and complex data.

The criteria are expected to be most useful in evaluating large and complex sets of data that are:

- ▶ Provided by one entity to be used by another entity to calculate amounts to be recorded as a result of a transaction (e.g., computation of reinsurance reserves)
- ▶ Provided by an outside party for use in valuing assets for financial reporting purposes
- ▶ Used to evidence compliance with an agreement or regulation
- ▶ Purchased by an entity from a data provider and used for any purpose

The following examples show how the criteria may be used.¹

The criteria provide a framework that entities and independent public accountants can use to increase a user's confidence in a set of data.

Illustration 1 – Company uses criteria to facilitate sale of data to customers

Company A provides a comprehensive, cloud-based information system for independent tire retailers. Company A would like to offer these customers benchmark statistics based on the data in its system. Company A believes that the tire retailers could use these statistics to make better pricing, marketing and inventory decisions. However, Company A believes that the tire retailers will not be willing to purchase the information unless they have a high degree of confidence in the data.

To facilitate the sale of the statistics to its customers, Company A uses the Data Integrity criteria to prepare a description of the benchmarks that gives the tire retailers confidence in the data.

Illustration 2 – Company engages independent accountant to report on data that supports a lower reinsurance premium

Company B wants to enter into a portfolio reinsurance transaction with Company C. Company C has questions about the integrity of the policyholder data supporting the portfolio and proposes charging a higher reinsurance premium than Company B believes is warranted.

Company B engages an independent accountant to perform an examination engagement on the policyholder data using the Data Integrity criteria. Company B then uses the report to persuade Company C to lower the premium.

Endnote:

¹ The AICPA also issued a [document](#) describing how the criteria may be used.