



**PROVIDING ASSURANCE ON CLIENT ASSETS TO THE
FINANCIAL CONDUCT AUTHORITY**

CONSULTATION ON A NEW ASSURANCE STANDARD

RESPONSE FROM ICAS TO THE FRC

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Background

ICAS welcomes the opportunity to comment on the FRC's *Consultation on a new Assurance Standard: Providing assurance on client assets to the Financial Conduct Authority*.

Our CA qualification is internationally recognised and respected. We are a professional body for over 20,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK's and the world's great companies.

Our Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

General comments

ICAS supports the FRC's proposal to issue a new Assurance Standard for auditors providing assurance on client assets to the Financial Conduct Authority (FCA). In our view, the proposals will formalise the work already being undertaken by many firms preparing client asset reports. We do not anticipate that the proposed new requirements will lead to a significant compliance burden as many of them are already required under existing professional and ethical standards.

Comments on the specific matters in the consultation document are listed below:

Question 1

Will the proposed Standard achieve its Objectives?

Do you believe that the proposed Standard will meet the objectives set out in paragraph 19 of the introduction and, in particular, improve the quality of client asset assurance engagements? If not, why not?

Response

We believe that the proposed Standard will meet the specified objectives (as set out in paragraph 19 of the introduction to the Standard) and help to improve the quality of client asset assurance engagements.

Question 2

Effective date

The proposed Standard is effective for reports to the FCA with respect to client assets covering periods commencing on or after 1 January 2016, with early adoption permitted. Do you believe that it would be appropriate to mandate the application of the Standard for earlier reporting periods to achieve the objectives set out in paragraph 19 for reporting periods commencing before 1 January 2016?

Response

We believe that the Standard should be effective for accounting periods commencing on or after 1 January 2016, with early adoption permitted.

Question 3

Content of proposed Standard

The proposed Standard includes within a single document requirements relating to:

- a. Reasonable assurance engagements;*
- b. Limited assurance engagements;*
- c. Special reports; and*
- d. Non statutory Client Money Trusts.*

The FRC considered other possible approaches involving issuing a number of separate and shorter Standards. On balance, however, the FRC concluded that including all the requirements in a single document was likely to be the most helpful to practitioners and to mitigate the risk of practitioners, who perform relatively few engagements, from failing to select a relevant Standard to complete. Do you agree with including all requirements in a single Standard? If not, why not and what alternative structure for the Standards would you prefer?

Response

We agree with the FRC's proposed approach that it is sensible to include all the requirements within a single Standard, thus providing practitioners with a single, comprehensive source of requirements and related guidance.

However, although paragraphs 8 to 12 of the introduction set out when a reasonable assurance client assets report is required and likewise when a limited assurance client assets report may be required, it would be useful to set this out diagrammatically in the form of a table or flowchart within the main body of the Standard, possibly as an appendix.

Question 4

Proportionality of requirements

The proposed Client Asset Assurance Standard contains a combination of requirements (basic principles and essential procedures indicated by paragraphs in bold type) and guidance (application and other explanatory material). Do you consider the extent of the requirements to be proportionate to Client Asset Assurance Engagements which require the CASS auditor to make a direct report to the Financial Conduct Authority rather than reporting on an assertion by management? If not, why not? Please specify any requirements you believe to be unnecessary and any additional requirements that you believe should be included? In both cases please provide your reasoning.

Response

We consider the extent of the requirements in the Standard to be proportionate to Client Asset Assurance Engagements which require the CASS auditor to make a direct report to the Financial Conduct Authority rather than reporting on an assertion by management as these formalise much of the work already being undertaken by the assurance firms in this area.

We would however highlight the following observations:

- The requirement contained in paragraph 36 deals with the training competencies of the engagement team. However, we would suggest that it would be beneficial as part of the second bullet point of this paragraph (training on the firm's business model) for this to be appropriately cross referenced to the 'knowledge of business model' requirement contained at paragraph 11.
- Paragraph 40 of the contextual material suggests replacing the concept of 'materiality' with an assessment of the 'significance' of a failure to comply with a CASS rule. We agree that materiality would not be appropriate in this context, as it is more generally associated with a monetary threshold. However, we believe that some further guidance would be useful to help the auditor determine what might be considered of 'significance' to his/her opinion on whether the client assets have been dealt with in accordance with the CASS rules.

Question 5

Engagement Quality Control Review

The proposed Standard requires Engagement Quality Control Review to form an integral part of all reasonable assurance engagements. The FRC is of the view that the CASS engagement leader will typically be required to make a number of important judgements concerning the nature, extent and timing of assurance procedures and that the CASS engagement leader should be subject to engagement quality control review throughout the course of the engagement. Do you agree?

Response

We are supportive of the stance adopted in the proposed Standard that Engagement Quality Control Review should form an integral part of all reasonable assurance engagements. We therefore agree that the CASS engagement leader should be subject to engagement quality control review throughout the course of the engagement as a consequence of them being required to make a number of important judgements concerning the nature, extent and timing of assurance procedures.

Question 6

Ethical requirements

The proposed Standard requires CASS auditors to comply with the FRC Ethical Standards for Auditors (concerning the integrity, objectivity and independence of the auditor) and the ethical pronouncements established by the CASS auditor's professional body. Do you agree with this proposal? Please provide your reasoning whether you agree or disagree with the proposal.

Response

We agree with the proposal for CASS auditors to have to comply with the FRC Ethical Standards for Auditors (concerning the integrity, objectivity and independence of the auditor) and the ethical pronouncements established by the CASS auditor's professional body. We believe that both of these ethical pronouncements are relevant and appropriate for auditors undertaking a CASS engagement.

Question 7

Requirements relating to training of CASS auditors

Paragraph 55 of the Contextual Material seeks to explain the implications for the training of CASS auditors of the mind-set required to complete CASS assurance engagements. The mind-set for performing a financial statement audit is different to the mind-set for performing a CASS engagement and, therefore, it may be dangerous to have audit staff perform a CASS engagement absent adequate training. The proposed Standard (see paragraph 36), therefore, includes explicit requirements for the CASS audit team to include staff who have received training in various aspects of CASS audits. Do you agree that the Standard should include requirements for staff training? If not, why not?

Response

We believe that it is important that the Standard includes requirements for training staff in various aspects of CASS audits to ensure that the engagement team is sufficiently equipped and skilled to perform this type of work. However, as most of this particular content is included within paragraph 55 of the contextual material, we would suggest that it would be helpful to signpost this material via the inclusion of specific references at paragraphs 25 and 36 of the main body of the Standard.

Question 8

Communicating deficiencies in internal control to management and the governing body

In contrast to an auditor's report on financial statements a reasonable assurance CASS auditor's reports is required (with some exceptions) to include a schedule of Rule Breaches. As a result of this requirement some contend that it is unnecessary for the CASS auditor to report deficiencies in internal control to both management of the firm and the firm's governing body both during the CASS audit and on its completion. The FRC, however, is of the view that matters may come to the CASS auditor's attention which whilst not being Rule Breaches per se are none the less of sufficient importance to warrant reporting to both management and the firm's governing body. These requirements are set out in paragraphs 137 to 140 of the proposed Standard. Do you agree with the FRC's approach? If not, why not?

Response

We are supportive of the FRC's approach, as set out in paragraphs 137 to 140 of the proposed Standard on the reporting of internal control deficiencies.