

November 2019

PROVDING ASSURANCE ON CLIENT ASSETS TO THE FINANCIAL CONDUCT AUTHORITY

Feedback Statement and Impact Assessment

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1 Executive Summary

1. This paper sets out the Financial Reporting Council's proposed revisions to the 2015 Standard, developed to support auditors providing assurance to the Financial Conduct Authority (FCA) in respect of Client Assets (hereinafter referred to as CASS Audits). These revisions are the result of our Post Implementation Review of the efficacy of these standard, a process which included a Call for Feedback in December 2018, and a consultation on detailed revisions issued in August 2019. In addition to the formal submissions received from our Call for Feedback, we have engaged in a process of ongoing outreach to a wide range of stakeholders, including investor representatives, and held a series of round table meetings to understand the issues which are of greatest concern to the sector.
2. When we issued the CASS Standard in 2015, it was a significant change for the sector. With the support of the FCA, audit moved from a process that was supported only by best practice guidance, to one where auditors have to comply with mandatory requirements and are supported in doing so through the provision of application guidance. At the time the Standard was developed, there had been a number of significant failings in the CASS regime that had not been identified or report by auditor and the standard was intended to address that.
3. It is pleasing, therefore, that there is broad agreement that the standard has had a positive impact, and that the quality of audit had improved since the standard was adopted, and that greater rigour in the audit process had also resulted in CASS entities being better prepared for audit as a result.
4. In proposing changes to the standard, we take account of the FCA's needs as the sector regulator, as the standard supports the FRC's regulatory objectives. While the standard has had a positive impact, the CASS audit market is a diverse one, in which the largest audit firms participate along with a large number of smaller providers. We know that it is important to the FCA that the standard becomes fully embedded in the sector and as a result, the changes that we have made are not substantial, and are focused instead on clarifying the standard, making it easier to use, and removing duplication between the requirements and the contextual material. In this respect, we are grateful to the respondents to the consultation who provided constructive proposals which we have largely reflected in the revised document.
5. Some responses to the consultation suggested changes that would either require amendments to the FCA's CASS Rules (which is a matter for the FCA and not the FRC), or proposed the inclusion of significant additional application material which would contradict the FRC's principles-based approach to the development of Codes, Standards and Guidance. However, as we noted in the August 2019 Consultation, if there is merit in developing guidance to support high quality and consistent market practice, then the sector may want to consider whether it develops an industry-led stakeholder forum including CASS firms, CASS auditors, with input from regulators in an observer capacity.
6. A revised standard has been issued along with this Feedback Statement.

2 Impact Assessment

1. The FRC is a principles-based regulator and is committed to issuing proportionate Standards and Guidance that support the provision of high-quality, independent audit. The requirements proposed in this Exposure Draft have been developed in response to feedback in the post implementation review, stakeholder outreach and an ongoing dialogue with the FCA.
2. In making these revisions we have had regard to the FRC's 'Principles for the development of Codes, Standards and Guidance which include:
 - there is a clearly defined issue relevant to the FRC's mission and responsibilities;
 - the change is the most appropriate way to address the issue;
 - one or more of the following conditions is met:
 - a change is necessary to comply or align with a legal requirement; or
 - a change is required in the light of developments in international standards or in legislation or regulation; or
 - the risks to the public interest of not acting are significant, for example, a risk of systemic and/or market failure; or
 - it is possible to eliminate or significantly simplify a current requirement; or
 - it is necessary to clarify a current requirement; or
 - it is possible to create significant additional benefits in the public interest; or
 - a change is necessary to underpin the effectiveness of the FRC's enforcement and disciplinary activities;
 - the anticipated benefits of the change outweigh the costs.
3. As the standard has been developed to support the FCA's policy objectives, we have not prepared a separate impact assessment of costs and benefits. However, we note the sensitivity of the industry to the fact that ultimately, they bear the costs of the audit regime. Given that we are proposing no changes to audit scope in this consultation, any costs will be limited the annual update and training round carried out by audit firms. As an indicator of costs, there are some 3,500 CASS audit engagements carried out each year, and we believe a one-off cost of an additional 2 hours of work effort in familiarisation per engagement, at a blended rate would mean additional estimated costs of £1.5 million for the sector. Benefits will continue to accrue from the further embedding of a standard that drives consistently high-quality audit in the sector.
4. The revisions we have proposed, and the benefits to stakeholder confidence from having a rigorous audit framework in place, in support of the FCA's regulatory objectives are significant but unquantifiable.

3 Analysis of consultation responses and proposed revisions to the standard.

In the consultation, we asked for feedback on a series of minor editorial revisions to the standard, we also asked for feedback in respect of proposals to carry out quality monitoring of CASS audits, and also to support the work of an industry-led stakeholder forum.

Having received 28 responses to the post implementation review consultation, which preceded the revisions, we received 13 responses to the technical consultation. The consultation did not pose a series of detailed questions, given that we had already asked those in the earlier post implementation review. We did, however, encourage general feedback, and a number of respondents proposed constructive changes to clarify particular aspects of the standard.

The distribution of those responses was as follows:

- 9 responses came from audit firms and professional bodies;
- 1 response from an individual; and
- 3 responses from industry groups.

All of the responses received have been posted on our website.

Having considered the responses carefully, the main actions we have taken are set out in ***bold italic text*** below.

- ***Where proposals made by respondents would require action by the FCA, or changes to the FCA Rulebook, then we have not made amendments to the Standard as it would be inappropriate for us to anticipate changes that the FCA would need to decide and consult on. However, if the FCA does make future revisions to the rule that impact on CASS assurance engagements, we will update the Standard to reflect this.***
- ***Where respondents made drafting suggestions, which clarify the application of the requirements and contextual material we have included, where possible, amendments to the text.***
- ***We will work with the industry and the FCA to determine whether we can develop on a pilot basis, a proportionate way of testing engagement quality, recognising that it would need to reflect the diverse nature of the CASS audit market. We will also engage constructively with an industry forum should one be established.***
- ***We received some specific requests about whether it is appropriate to remove the requirement for an engagement quality control review on small CASS entity engagements. Respondents raised the importance of high-quality audit operating throughout the market. However, the requirement, as drafted, does not remove the need for such a review for small entities. The CASS auditor is instead required in those circumstances to consult within the firm and make a risk-based assessment as to whether such a review is needed, and to document that on the audit file.***

- ***Given the limited nature of the changes that we have made to the Standard, it will apply to CASS engagements of periods commencing on or after 1 January 2020.***

Financial Reporting Council

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Respondents to the Consultation

BDO LLP

Deloitte LLP

Emily Buchanan

EY LLP

Grant Thornton UK LLP

Institute of Chartered Accountants in England and Wales

KPMG LLP

Mazars LLP

PWC LLP

RSM UK Audit LLP

The Investing and Saving Alliance

The TA Forum

UK Finance



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