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Dear Mr Mark Babington,

**New Assurance Standard: Providing Assurance on Client Assets to the Financial Conduct Authority**

Thank you for your email. MAH, Chartered Accountants welcome the opportunity to make a response to your consultation document on a new Assurance Standard: Providing Assurance on Client Assets to the Financial Conduct Authority.

Please find our responses to your questions below:

***Will the proposed Standard achieve its Objectives?***

*1) 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?*

We believe the proposed Standard will meet the objectives in paragraph 19, in particular, we like the greater focus on assessing risks and the requirements for training. This should raise the bar for CASS auditors and ensure that clients and other stakeholders such as investors and the FCA can expect high quality audits.

However, we feel that there may possibly be some useful content from Bulletin 2011/2 which may not have been included. For example, there may have been greater guidance on issuing the actual CASS audit report and what constituted a breach eg paragraph 180 and additional testing procedures. Also, we couldn't seem to find something similar to Appendix 1 of Bulletin 2011/2 (APB) which we found quite useful when completing CASS audits. If not already included, would it be possible to include similar information as an appendix to save us having to refer to another, older document?

***Effective date***

*2) 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?*

The proposed date would give us sufficient time to familiarise ourselves with the new Standard and we may not have enough time to prepare for audits if the effective date was earlier.

### **Content of proposed Standard**

3) *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?*

As a small practice, in our opinion, a single Standard would be easier and more efficient to deal with. If there were separate Standards we'd probably have to flip back and forth to see if things are the same or to check for differences. Whereas in one Standard, its easier to see how our work would change for the different types of engagements and it is very useful to start with one common set of work required for all engagements (11-66).

### **Proportionality of requirements**

4) *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.*

For reasonable assurance opinions, the main focus appears to be on risks and internal controls and this seems to be quite comprehensive and proportional.

### **Engagement Quality Control Review**

4) *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 judgments 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?*

We agree with this.

### **Ethical requirements**

5) *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.*

We agree with this proposal. If an auditor is not independent, they could be under pressure to omit problems from the Breaches Schedule or issue a clean report when this is not acceptable.

This would also be a clearer and more efficient situation than at present as it would make sense for us to refer to same source of ethical standards as for the audits of financial statements, rather than having to check ICAEW's Code of Ethics for CASS audits as at present.

**Requirements relating to training of CASS auditors**

6) 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?

This may be a change from the APB Bulletin 2011/2 which mentioned that “the CASS assurance engagement team is **likely** to need training”.

We agree with this requirement as it would be dangerous for audit staff without adequate training to perform CASS engagements as it could result in low quality CASS audits and problems being missed. This could then negatively impact upon the image of CASS auditors in general.

In an ideal situation the FRC would perhaps work with or give their seal of approval to training providers/courses as some training providers seem to offer few explanations or guidance above materials which have already been produced by standard setters.

**Communicating deficiencies in internal control to management and the governing body**

7) 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 import 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?

We have currently been reporting any deficiencies in internal controls, and we also agree with this approach as the full management team and governing body may be unaware of deficiencies in internal controls if they were not involved in the CASS audit themselves.

Thank you for taking the time to read our response and please do not hesitate to get in touch if you require further information.

Yours sincerely,



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