



ST. JAMES'S PLACE
WEALTH MANAGEMENT

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Mark Babington
Financial Reporting Council
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Dear Mr Babington

FRC: Providing Assurance on Client Assets to the Financial Conduct Authority

We are writing to provide you with feedback from St. James's Place plc on the above consultation.

By way of background, St. James's Place plc is a FTSE 100 company managing and advising on circa £55bn of assets for in excess of 460,000 clients, via our team of circa 2,200 appointed representatives with over 2,900 authorised advisers. We manufacture life and pension products and are the Authorised Fund Manager for four NURS, including a property fund, and twenty-nine UCITS unit trusts.

The consultation will impact on the Client Asset Assurance Reports prepared in respect of St. James's Place Unit Trust Group Limited and St. James's Place Investment Administration Limited being the SJP group companies with permissions to hold client money.

We are broadly supportive of the proposed Assurance Standard particularly the potential for the standard to provide clarity in the work that is performed by the CASS auditor and the proposed enhanced focus on the effectiveness of internal controls.

Appendix A contains our response to the specific questions posed in the consultation paper. We trust you will find our response useful and would be happy to discuss it further with you if required.

Yours sincerely

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Appendix A

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?

The primary purpose of the CASS regime is to ensure the effective safekeeping of client assets and client monies, the proposed Standard involves a more forward looking review of controls and system adequacy which is more consistent with this aim. A shift in the focus to system adequacy and away from simply reporting CASS compliance and breach schedule subject matter is a positive step and more likely to achieve the objective of the regulator.

The proposal goes some way to formalise the expectation of the nature and extent of work to be performed by the CASS auditor, this will be beneficial to the recipient of the reasonable assurance report and we believe that this should lead to an improvement in the quality and consistency of CASS audits. We agree that this will also support the perceived integrity of the UK Client Asset regime.

The end user of the CASS report remains the FCA, in this respect the impact of the Standard on the report in isolation in managing the expectations of firms holding client assets will be limited, and less so in respect of third party administrators. An opportunity however lies in a requirement to communicate deficiencies in internal controls to the firm in a manner similar to that followed in the financial statements audit.

The proposal recognises that a key component of the client money engagement is the considered, continued appraisal and review of the adequacy of internal systems and controls in the context of compliance with CASS. The obligation to document the judgments made by the engagement leader also helps draw the distinction between a financial statements audit and that of the CASS team, and will help provide a framework that supports the process and challenges the auditor to continually assess the effectiveness of the engagement approach.

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?

We believe that it would be appropriate to mandate the application of the reporting standard for reporting periods commencing before 1 January 2016. The Standard sets out a service level expectation of the CASS engagement team and potentially offers enhanced evidence of work effort through the reporting internal control deficiencies to management. As a beneficiary of the provisions of the Standard mandating to earlier periods would be preferred.



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?

We agree with the approach adopted by the FRC.

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.*

We agree that the extent of the requirements of proposed standard are proportionate to Client Asset Assurance Engagements which require a direct report to be made to the FCA.

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?*

In drawing the distinction between the concept of materiality applied in a financial statement audit and the more subjective measure of significance in a CASS engagement review, we agree that a requirement to perform engagement quality review throughout the CASS work is an effective means to test the judgments made by the audit leader. This will help ensure that the nature and extent of the work undertaken remains relevant and appropriate to achieve the audit objectives and prevent CASS assurance engagement risk of expression of an inappropriate opinion.

**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 the approach adopted by the FRC.

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?

Many of the training requirements set out in the proposed assurance standard can be considered to be reasonable expectations of a specialist CASS engagement team. It is difficult however to envisage how training requirements may be comprehensively covered within the standard.

The explicit requirements outlined in paragraph 36 refer to having experience that is relevant to a particular engagement, elsewhere the standard refers more to the need for the engagement team to approach the work with a different mind-set which implies a less rigid technical approach. The spirit of the standard is one of challenge and review, firms' business models and systems of internal controls are many and varied, for training to require prior knowledge of similar arrangements is both unrealistic and contrary to an approach where a compliance mind-set is required.

PS14/9 has significantly strengthened the CASS rulebook and clarified areas where there may previously have been scope for different interpretation by auditors and firms. In this respect a firm grounding and knowledge of CASS rules is clearly necessary. While there is a place for training we feel that achieving a broad and varied balance of experience across a CASS engagement team is a more important requirement than an explicit training approach that in reality may be difficult to achieve.



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?

Here we believe that there is real scope for a new Standard to raise expectations of both the firm and the third party administrator in the CASS engagement process. There is currently a lack of visibility to the firm of work performed by the CASS engagement team and the CASS assurance report is ultimately addressed to the regulator.

We believe that there is merit in adopting the requirements set out in paragraphs 137 and 138 in reporting to the firm areas of perceived control weakness. The remit of the CASS team is too narrow, with too much emphasis on the reporting of breaches either already identified by the firm or as part of the engagement. In improving the dialogue between the engagement team and the firm a better control framework may be developed as specialist knowledge is pooled.

The requirement to report significant deficiencies to the regulator (paragraphs 139 & 140) we feel is less pressing. Reporting significant control weaknesses to the regulator would serve to introduce a degree of subjectivity which the recent CASS rule changes have helped remove. Without a clear understanding of what is "significant" adding an extra layer potential regulatory notification would complicate an aspect of the CASS framework that currently functions well.

We feel that reporting control weaknesses to the firm is the correct order of control management, moving from a position of simply reporting actual breaches to full notification of issues deemed to be potentially significant is not. It does not feel like the purpose of the Standard is to increase the level of communication between the auditor and the regulator, rather the development of an engagement mechanism that enables a firm to improve its CASS system adequacy and as a result enables the regulator to derive a higher level of assurance from the resulting CASS assurance report.