

Mark Babington
Acting Director of UK Auditing Standards and Competition
Financial Reporting Council
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27 September 2019

Dear Mr Babington

Consultation on the proposed revisions to the Standard on providing assurance on client assets to the Financial Conduct Authority

We welcome the opportunity to provide feedback on the FRC's proposed revisions to the Standard on providing assurance on client assets to the Financial Conduct Authority (the 'Standard') following the post implementation review held in February / March 2019.

BDO LLP is an award winning UK member firm of BDO International, the world's fifth largest accountancy network, with more than 1,600 offices in more than 162 countries. One of BDO LLP's core areas of expertise is focused on offering services to clients that operate in the financial services sector. The Financial Services Audit team principally focuses on externally auditing PRA and FCA regulated entities, along with providing advice to regulated entities operating within the Financial Services sector. We undertake a significant number of client money and assets ('CASS') audits in respect of a range of investment firms and insurance intermediaries.

We are encouraged that the FRC has reflected some of the comments made by our firm and other industry participants in response to the post-implementation review. In particular, we welcome the inclusion of further clarification regarding the importance of IT in the CASS audit, the role of internal audit and the recognition that it may be possible to use 'SOC' reports in the CASS audit, although we are of the view that further guidance should be provided in these areas. However, it is our view that some of the proposed amendments to the Standard may have unintended consequences or may not be possible to implement. In particular, we note that paragraph 37 in the Contextual Material requires the CASS auditor to provide assurance to the FCA that the CASS firm's own reporting of breaches that it has identified are a complete record. This is a significant change and is not consistent with the FCA rules regarding breach reporting. We also have concerns regarding the proposed amendments in respect of the application of the 'insolvency mind-set'.

We have provided our comments on the above points and on other proposed revisions to the Standard in the ensuing pages.

If you have any queries in relation to our above response, please contact Peter Smith

Yours sincerely

BDO LLP

BDO comments on the proposed revisions to the Standard

Paragraph reference	BDO comment
14	The amendment correctly removes the words "or controlling" in respect of the firm's scope of permissions. In the same sentence the subsequent wording "...or controls..." should also be deleted.
24(c)	<p>The extension to include those charged with governance is welcome. However, we recommend that it is clarified that this reporting refers to the communication described in paragraph 135 of the Standard, otherwise it could be inferred that the auditor's responsibilities in respect of the CASS audit opinion are extended to those charged with governance.</p> <p>This is also relevant to paragraph 95 to clarify that it is the reporting to those charged with governance described in paragraph 135.</p>
41	<p>We are of the view that the wording added to paragraph 41 does not adequately set out the concept of an insolvency mind-set without further context. In that respect, we consider that the original paragraph 36 of the contextual material provides important information regarding the insolvency mind-set and the auditor's responsibilities and should not have been removed.</p> <p>In addition we note that the proposed wording amendment states that "An insolvency mind-set in the context of CASS engagements requires the auditor to ensure that the records maintained by a regulated entity are adequate to identify client assets at any time and without delay to allow their return to the legal owner (CASS 6.6.2 and 7.15.2)". We do not consider it appropriate or possible to require the auditor to "ensure" the records maintained by a regulated entity are adequate. This responsibility rests with management. We recommend that the words "ensure that" is changed to "assess whether".</p>
48	The file assembly timeline has been amended to refer to ISA (UK) 230. Whilst we agree with the objective, this appears to be the only direct reference to an ISA in the Standard, and instead we would recommend referring specifically to the required time period.
70	<p>We welcome the reference made to information technology ("IT") and automation, particularly at the inherent and control risk assessment stage.</p> <p>We are of the view that the Standard would benefit from having additional guidance in respect of this aspect. The guidance should cover matters such as the considerations to be had by the auditor when assessing the IT environment and IT controls; the approach towards assessing the design and effectiveness testing of IT controls; and specialist involvement. We are also of the view that the Standard should include the impact that the regulated firm's IT infrastructure and automation has on audit execution.</p>
72	<p>Paragraph 72 has been modified to add reference to 'the senior manager allocated with overall responsibility for the Firm's compliance with CASS' to be in line with the SMCR regime. We are of the view that the correct terminology should refer to 'the person with overall responsibility for oversight of operational CASS compliance'.</p> <p>This comment also applies to paragraph 93a to describe the role as "the person with overall responsibility for oversight of operational CASS compliance."</p>

86	<p>Whilst we agree that the “CASS auditor is likely to find the work and findings of the internal audit or compliance function useful in making its risk assessment”, we note that the deletion of the subsequent clarification regarding the use of internal audit could create confusion regarding how this work could be used. We recommend that additional guidance is included in the Standard, as set out in existing ISAs (ISA (UK) 315 and ISA (UK) 610).</p>
108	<p>We welcome the explicit reference to SOC reports in the Standard and the inference that a CASS auditor may place reliance on such reports and we consider this is appropriate in principle. However, we would caution that many SOC 1 reports as currently prepared may not be suitable for reliance for the purposes of the CASS audit, specifically because the scope of the work performed may not have directly covered any client-specific arrangements or had a direct focus on CASS processes and controls. We would recommend that further guidance is provided in the Standard in respect of the ability to rely on such reports.</p> <p>As a point of detail, the additional wording states “This may include the provision of System and Organisation Control (SOC) Reports”. In the context of the assurance procedures performed by the CASS auditor, we do not consider that “provision” is the correct terminology.</p>
135	<p>The additional wording in this paragraph clarifies that the reporting to management and those charged with governance should include those items that “...pose the most significant risk of non-compliance with the CASS rules, and which required the most urgent resolution.” It is not clear what is meant by the “most significant” and “most urgent” and we would recommend that further guidance is provided.</p>
137	<p>We query whether the removal of the requirement to include an EQCR for the audits of small CASS firms is consistent with the FRC’s overall objective of the Standard to “Support high quality CASS audits”.</p>
Contextual material para 37	<p>As noted in our covering letter, we recommend that this paragraph is not amended in the way proposed. The extension of the requirement of the CASS auditor to provide assurance to the FCA that the CASS firm’s own reporting of breaches that it has identified is a complete record, is a significant change in scope and would appear to be an attempt to provide absolute, rather than reasonable assurance. Furthermore, this would require subsequent amendments to the FCA’s rules regarding breach reporting and to the format of the auditor’s CASS report to the FCA, which is itself set out in the FCA’s rules.</p>
Contextual material-former paras 35-39	<p>We consider that these paragraphs provided useful and important context and should not be deleted.</p>