

27 September 2019

Mark Babington
Financial Reporting Council
8th Floor
125 London Wall
EC2Y 5AS

By email only to: AAT@frc.org.uk

Dear Mr Babington

Providing Assurance on Client Assets to the Financial Conduct Authority – August 2019 consultation

Thank you for the opportunity to comment on the FRC's proposed revised standard – Providing Assurance on Client Assets to the Financial Conduct Authority ("the CASS Standard"). Our comments on the proposed revision are set out in Appendix 1 to this letter. Save as set out below, our comments are based on whether we believe your proposed revisions achieve the proposed actions which you set out in the accompanying Feedback Statement and Impact Assessment and we have not sought to re-open the debate on the questions you asked in your earlier Call for Feedback.

Non-statutory trust confirmations

In our feedback to the initial consultation, we proposed a change to the Standard in relation to the written confirmation from the auditor to a CASS firm making use of a non-statutory trust (the confirmation). These proposals would have addressed our concerns with the current requirements, which are summarised below, each of which could lead to an expectation gap between the CASS auditor and the user of the confirmation and inconsistent practice across CASS auditors:

1. *The nature of the confirmation* - The confirmation required by the CASS Standard is a statement of fact, contrasting with, for example, a reasonable assurance opinion. Whilst the CASS Standard describes factors that should be considered in preparing the letter, it is not clear what level of work is required to provide such a confirmation, whether it is appropriate to rely on work performed in preparing a reasonable assurance opinion or whether a confirmation can be provided as a standalone document. We are concerned that the current form of the letter infers a greater level of assurance to the FCA and to firms than it may actually represent. It differs from the approach taken in other professional literature when an auditor is asked to report on the effectiveness of the design of controls, for example, ISAE 3402 and the PCAOB's standards on internal control over financial reporting – in particular, it asks for the firm to confirm that systems and controls are adequate to "ensure" something, implying absolute assurance.
2. *The applicable time period* - The confirmation required by the CASS Standard is not restricted to a period or a reference date but refers to firms 'having and maintaining' adequate systems.
3. *The frequency of issue* - The CASS Standard does not provide guidance over the frequency with which the letter should be issued by the CASS auditor or the scenarios in which it should be re-issued.

4. *The impact of breaches or controls failures* - The CASS Standard does not include any guidance over the treatment of breaches reported in the client assets audit opinion or controls weaknesses reported in the management letter when preparing the confirmation letter.

The revised CASS Standard proposed by the FRC has not addressed these

concerns. *Use of System and Organisation Control Reports by CASS auditors*

We note the FRC's proposal to allow the CASS auditor to place reliance on System and Organisation Control (SOC) Reports with respect to a third party administrator ("TPA") in Paragraph 108 of the Revised CASS Standard. The revision does not include guidance or requirements to the CASS auditor when assessing when it is appropriate to rely on the work of a service auditor. This may could result in divergence of approach across the sector. We believe that including material mirroring (or a cross-reference to) paragraphs 13-14 and A21-A23 of ISA (UK) 402 would promote consistency and quality; in particular, an equivalent of paragraph 14(c) would be helpful, requiring the auditor to consider whether complementary controls at the firm are needed, and if so to obtain evidence about the design and operation of these controls. It will often be the case that the efficacy of controls operated by a TPA will depend on such complementary controls (e.g. controls over authorising who at the firm can instruct the TPA to do certain things).

We would welcome the chance to participate in an industry-led forum to encourage greater consistency of interpretation and approach across the sector.

If you would like to discuss any of our responses in more detail, please do not hesitate to contact Mike Williams

Yours faithfully

Deloitte LLP

Appendix 1 – Detailed drafting comments

Paragraphs 37 and 53 of the Standard

“audit evidence” should be “evidence”

Paragraph 41

In the explanation of an insolvency mindset, the standard requires the CASS auditor to “ensure that records are adequate...”. This is wrong on two grounds:

- It is the responsibility of the firm’s management to maintain adequate records; the auditor’s role is to provide assurance on that record-keeping.
- A reasonable assurance engagement cannot “ensure” anything – to “ensure” something would require a 100% test to be performed.

We suggest that better drafting might be “...auditor to consider whether, were an unexpected insolvency event to occur tomorrow, the records maintained by a regulated entity...”.

Paragraph 48

This refers to a requirement in paragraph A21 of ISA (UK) 230. Paragraph A21 of ISA (UK) 230 is technically application material, rather than a requirement. We suggest that this be changed to simply say “and, in any case, within no longer than 60 days.”

Paragraph 56

The first sentence is very long, and the first “or” should be an “and/or” to mirror the later reference. We suggest the paragraph would be clearer as:

“A firm may have an internal audit function and/or compliance function that is required to review the firm’s compliance with the CASS rules. If so, the CASS auditor shall:

- a) obtain an understanding of the activities of the function(s) with respect to Client Assets, considering their competence and resourcing;
- b) consider the findings of the function(s), including findings in respect of such breaches; and
- c) take (a) and (b) into account in their own risk assessment.”

Paragraphs 72, 93 of the standard and paragraph 30 of the contextual material

These refer to a CF10a or a senior manager allocated overall responsibility for the firm’s compliance with CASS. As the new Senior Managers and Certification Regime applies from 9 December 2019, before the effective date of this new standard, we suggest references to CF10a can be deleted.

Paragraph 37 of the Contextual Material

The FRC has proposed the following additional sentence: “The CASS auditor should also provide assurance to the FCA that the CASS firms own reporting of breaches that it has identified are a complete record.”

We believe that this could be read in several different ways:

- It could mean that the CASS auditor should give an absolute confirmation on completeness. We recognise that whilst absolute confirmation could be implied from the proposed revision in the Contextual Material, this would be inconsistent with paragraph 117 of the Standard itself. If an absolute confirmation is the intention, there should be a requirement in the body of the standard and in the example reports. We question whether such an absolute confirmation could be given, as it could require a review of every single record in a firm to identify a breach, irrespective of whether or not management of the firm knew there was a breach.
- A more proportionate response would be for the CASS auditor to look at the controls in place within the organisation to check that
 - i. management are made aware of breaches found by their employees and any TPAs; and
 - ii. the material breaches of which management are aware are notified to the FCA on a timely basis.

This could be coupled with an opinion as to whether management's own breach notifications are a complete list of the material breaches in management's own breach log.

- Alternatively, the CASS auditor could confirm in the Breaches Schedule that it includes all the breaches included in management's own breach log, but without confirming itself that that log is complete.

We believe that clarifying this expectation is likely to require changes to the standard itself, rather than just to the contextual material.