

Your reference:

Our reference: 128/350

31 July 2015

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For the attention of: Mr Mark Babington

Dear Sir,

Consultation on a new assurance standard: - Providing Assurance on Client Assets to the Financial Conduct Authority

Moore Stephens LLP is pleased to respond to the FRC's consultation document on the proposed revision to providing assurance on Client Assets to the Financial Conduct Authority.

We are supportive of the FRC publishing the draft standard and, in general, the proposed amendments. However, we feel that more guidance as to how the rules should be applied in practice needs to be issued. In addition, further consideration needs to be given as to how the rules are to be applied proportionately to Firms that hold lower levels of client assets. The rules as currently proposed are not proportionate and do not allow the CASS auditor to adopt a risk based approach, in a number of areas.

Attached to this letter you will find Appendix 1 with our comments to the specific questions and general comments raised in the consultation paper.

If you wish to discuss any matters raised in this letter, please contact Lorraine Bay, Partner (+44(0) 207 651 1405) or Kelly Sheppard, Partner (+44(0) 207 651 1336).

Yours faithfully

Moore Stephens LLP

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Appendix 1**Response to the consultation paper on providing Assurance on Client Assets to the Financial Conduct Authority****Question 4: Engagement Quality Control Review**

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 judgements 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 do not agree with this. It is not clear from the consultation as to how this is being applied on a proportionate basis, given that a number of clients could hold minimal assets and would still fall within the requirement for an ECQR. This is not proportionate to the client risk or judgements being made by the CASS engagement leader. A question should be raised as to whether this requirement should only be applicable to those entities that are considered to be Public Interest Entities (PIE's) within the meaning of the EU Audit Directive.

Question 6: Requirements relating to the training of CASS auditors

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 requirement for staff training? If not, why not?

In general we agree with this requirement and the need for CASS audit teams to be trained. However, Paragraph 42 of the Contextual material states that 'in planning and performing the engagement, the CASS auditor shall also adopt an insolvency mind-set which evaluates the firm's client asset processes on the presumption that the firm may become insolvent'. Further guidance should be given in relation to the depth of knowledge required. Does this mean that the CASS auditor would require a working knowledge of Insolvency law? If this is the case, we do not agree with this aspect of the requirement.

Other comments

1. Paragraph 50 of the contextual material states that the CASS auditor shall leave all superseded papers on the file suitably marked up to indicate that they have been superseded and cross referring to the papers that replace them. It is not clear as to why this is required and what the benefit would be to have these on the file. In addition this is not a requirement under International Standards of Auditing so it seems onerous and unnecessary to be included in the requirements for the CASS audit.
2. Paragraph 70(b) states that the CASS auditor will also consider 'other relevant FCA rules contained in other FCA sourcebooks that are applicable to the firm' when assessing their opinion on a Reasonable Assurance report. This requirement seems incredibly wide and covers much more than the CASS rules and we would question that this should only be in respect of the CASS rules.

3. Paragraph 73 states that the CASS auditor shall discuss with management the operation of the business to seek to understand what the firm has done to mitigate risk, and read relevant management information such as 'The firm's documentation of systems and controls'. This seems excessive and we question whether this should be clarified and be limited to the CASS systems and controls as the current wording is very wide and could be applicable to the whole of the firms systems and controls.
4. Paragraph 76 requires the CASS auditor to read the firm's CMAR submissions and assess their consistency with its knowledge of the firm's business and for any inconsistencies to understand the reasons for the inconsistencies. Based on the wording, this is implying that the CASS auditor will need to physically verify the information in the CMAR returns back to source data. Further guidance needs to be issued to clarify if this is what is meant by this rule and what work is required to address this requirement.
5. Paragraph 83(a) states that 'the CASS auditor will evaluate whether management seeks to maintain a culture of honesty and ethical behaviour towards the beneficial owners of client assets'. Further guidance as to how this would be evaluated and what is expected by the FRC of the CASS team to evaluate culture and evidence that is required as this is a very subjective area. Further guidance is also required as to how the CASS auditor is to report this as the proposed CASS audit reports do not address this.
6. Paragraph 88 states that the CASS auditor cannot rely on the work of internal audit or compliance. This seems unreasonable and disproportionate if the CASS auditor has assessed that the internal audit function is independent and therefore could provide appropriate evidence which could be taken into consideration.
7. Paragraph 89 & 90 states that the CASS auditor shall obtain an understanding of the sources of the information used in the firms monitoring activities, and the basis upon which management considered the information to be sufficiently reliable for the purpose. Paragraph 90 goes on to give guidance in saying that much of the information used in monitoring may be produced by the firm's information systems. Does this mean that a separate IT audit is required in order for the CASS auditor to be able to understand the sources of the information used in the firm's monitoring activities and to be able to place reliance on it? Further guidance as to the practical application of the requirement is required.
8. Paragraph 148 appears to contradict paragraph 6 which states that the CASS auditor does not need to be the statutory auditor.