



Financial Reporting Council
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By email to: AAT@frc.org.uk
For the attention of Mark Babington

27 September 2019

Dear Sir

Consultation on the proposed revisions to Providing Assurance on Client Assets to the Financial Conduct Authority

Thank you for the opportunity to provide feedback on the proposed revisions to the Client Asset (CASS) Assurance Standard (“the Standard”). This submission is made by PricewaterhouseCoopers LLP (PwC), the UK member firm of the PwC network. In the UK, we are the auditor of many financial services regulated firms and we report on their compliance with the CASS rules. We also have a team of dedicated specialists focusing on the impact that new regulatory developments have on the financial services sector. This letter is not intended to represent the views of the regulated firms we work with, but rather to identify and to comment on certain aspects of the Standard which we believe to have particular significance.

Based on our experience, we consider that the Standard has contributed to a significant improvement in the quality and consistency of CASS audits. We also believe that the application of the Standard has contributed to a significant improvement in the understanding and documentation of control processes within regulated firms. However, in order to provide a more effective framework to improve audit quality, to support CASS auditors and to underpin the disciplinary process, we believe the FRC should improve the clarity of some of the proposed requirements.

• Assurance on complete record of breaches (page 67, para 37)

- We have a concern that the requirement: *“The CASS auditor should also provide assurance to the FCA that the CASS firm’s own reporting of breaches that it has identified are a complete record”* goes beyond the current scope of a reasonable assurance CASS engagement. There is no explicit requirement within CASS regulations for a firm to maintain a breach register to enable an auditor to opine on the completeness of that record. It is unclear how an auditor would be able to provide assurance over the completeness of CASS firm reported breaches and minimise the risk of unknown, omitted breaches. Further issues would arise if a historical breach was identified as this would invalidate previous CASS audit reports in the future. We believe the assurance reporting over the completeness of breaches should focus on the controls surrounding the breach reporting process rather than an assurance on completeness as to the CASS firm’s breaches reported to its regulator. As a matter of principle, the CASS auditor should not have responsibilities that exceed those of management or confuse the role of auditor and management.
- The proposed wording *“The FCA requires all breaches identified by the CASS auditor to be reported to it”* is inconsistent with the SUP 3.10.9C G (1) requirement *“The FCA*

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*expects that the list of breaches will include every breach of a rule in CASS insofar as that rule is within the scope of the client assets report and is identified in the course of the auditor's review of the period covered by the report, whether **identified by the auditor or disclosed to it by the firm, or by any third party.***" Firstly, there is no requirement to report on breaches outside of the audit scope (e.g. CASS 10) and secondly the proposed wording implies that the auditor is only required to report to the FCA on those breaches identified by the auditor itself, and not those identified by the firm or other third party. In our experience, the majority of breaches identified by the firm or other third party are not considered to be of sufficient significance to be reported by the CASS firm to the FCA under the notification rules, and will therefore not be disclosed to the FCA unless included in the CASS audit report. The FRC should also consider how this proposed reporting requirement works with para 40(b), 115 and 116.

- ***Implication of applying an 'insolvency mindset' (page 16, para 41)***
 - We have a concern that the requirement for the CASS auditor to 'ensure' that the regulated firm's records of client assets are adequate to 'allow their return to the legal owner' goes beyond the current scope of a reasonable assurance CASS engagement on adequate records. We believe the responsibility to 'ensure' the ability to return assets to legal owners rests with the regulated firm, not auditors. The auditor's responsibility is to obtain reasonable assurance over the adequacy of the firm's systems and controls to enable it to comply with the rules.
 - The provisions requiring a firm to maintain records which would allow the timely return of client assets are contained in CASS 10, highlighted in CASS 10.1 2G. CASS 10 is not within the scope of the CASS audit.
 - This proposed amendment could significantly increase the scope of a CASS audit from assessing compliance with the rules in relation to record keeping, to considering the impact of a hypothetical future event and the effectiveness of the process that might then be followed.
 - In addition, we recognise the reference to 'without delay' in relation to client specific records mirrors the requirements within CASS 6.6.2 and CASS 7.15.2. Our understanding from the FCA is 'without delay' within these regulations is the expectation to provide all records within 48 hours (Per CASS 7.15.6G). We wish to confirm if similar timeframes are the expectations of this proposed requirement and if this can be clarified.
- ***Use of Internal audit and reliance on SOC reports (page 23 and 26 ; para 86, 106 and 108)***
 - We welcome the clarification on the use of internal audit and reliance on SOC reports, which is in line with our current interpretation of the FRC Standard. However, to ensure a consistent audit approach when using work performed by internal audit or reliance on SOC reports, we recommend the FRC to provide further guidance on considerations and procedures the auditor should perform before relying on these reports. Such guidance has been provided previously in ISA 315, ISA 610 and ISA 600.
- ***Extending the reporting requirements to those charged with governance (page 14, para 24)***



- We agree with extending the reporting requirements to those charged with governance. We would appreciate it if the FRC could provide further guidance and clarification on the expectation of the form of reporting and the matters to report.
- **Templates**
 - In regards to template 4 and the addition of CASS 11, we would like to confirm that it is correct to exclude CASS 6 from scope in relation to CASS 13 and CASS 11 reporting. We believe this is appropriate as it is consistent with CASS 5 scoping and reporting requirements.
 - While the other appendix templates have not been updated, we consider these should also be reviewed and updated in line with CASS standards. An example change to consider would be to include the ability to modify the nominee paragraph within appendix 4.
- **Allocation of EQCR to CASS Small firms (page 30, para 137)**
 - We request that the FRC considers the appropriateness of reducing the standard within this area, which deviates from the FRC's objective of improving the quality of the CASS audit.
- **Other comments:**
 - Page 12, Para 14 - the FRC should also remove "or controls" in the second part of the first sentence ".... and the firm claims that it holds **or controls** client assets" since reasonable assurance is not required where a firm only controls client assets.
 - Page 16, Para 39 - we welcome the inclusion of the requirement to consider the findings of the statutory audit of the financial statements as part of the planning procedure of a CASS audit. However, further clarification is needed from the FRC to clarify the definition of "where appropriate" in relation to the inclusion of findings. In addition, guidance should be provided where the CASS audit and statutory audit are completed by different audit firms and/or with different period ends.
 - Page 37, para 172 to 177 - Guidance on CASS 5.4.4 reporting. We recommend that the FRC considers revisiting the CASS audit requirement in this section and compare with other similar areas of reporting (e.g. Alternative approach in para 164 to 171). We believe the framework and approach of these two reports are similar and the requirement should be consistent. In particular, the requirement of "keep current" of the CASS 5.4.4 confirmation (paragraph 175) has no explicit guidance on how a firm keeps a letter 'current'. Will that mean the firm needs to obtain a letter every year or will the same approach as paragraph 169?

We hope that our response will be helpful to you and we would be pleased to discuss our comments further with you. If you would like to do so, please contact at the address in our footer or a

Yours faithfully

PricewaterhouseCoopers LLP