



**Grant Thornton**

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Dear Mr Babington

**Feedback Statement and Impact Assessment – FRC Client Asset Assurance Standard**

Grant Thornton UK LLP (Grant Thornton) welcomes the opportunity to provide feedback on the Impact assessment and proposed changes to the FRC Client Asset Assurance Standard.

We set out in the Appendix A to this letter our comments and feedback on the Impact Assessment. Further, we have some observations and comments on the proposed changes to the Standard, which we have set out in the Appendix B.

If you have any questions on our response, or wish us to expand on our comments, please contact me, Marcus Swales or Shermeen Kazmi ( ),

Yours sincerely

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## **Comments on Impact Assessment**

### **i. Independence requirements of the FRC Ethical Standard to CASS Audits**

#### **Comments**

We note that there is no proposed change to the application of independence requirements for CASS audits. Whilst we acknowledge that auditor independence is important to support stakeholder confidence, application of the FRC Ethical Standard to the CASS audits can prove to be restrictive and illogical.

The Ethical Standard has been drafted from the perspective of balancing the independence of financial statement audits and therefore the relevance of parts of the ethical standard to CASS audits (for example in areas such as tax and valuation services where the intent is to prevent the financial statement auditor from providing services to areas which will then be subject to audit) is restrictive with no corresponding benefit.

We have seen that the level of independence required has also in some cases restricted the choice for clients who may wish to appoint an auditor for the CASS audit separate from their statutory audit. The application of the ethical standard in the way currently envisaged may hamper competition without a corresponding benefit.

### **ii. Additional areas of guidance**

#### **Comments**

Whilst we appreciate that the Standard is principles based, it is our view that in areas including materiality, proportionality, level and extent of testing, additional guidance would be beneficial to further enhance the effectiveness of the FRC Standard.

A consistent interpretation of rules also remains a challenge for the firms. Additional guidance from the FCA on areas where they are varying interpretations would not only support the delivery of FCA's objectives for the CASS regime but would also assist in meeting the objectives of the Standard.

We support the development of a forum with representation from all stakeholders; FRC, FCA, Auditors and Firms, which would enable additional guidance to be debated, developed and communicated.

### **iii. FRC's audit inspection and monitoring approach**

#### **Comments**

We recognize that a monitoring regime can offer a means of collecting greater evidence about quality of CASS audits and also provide basis for future enhancements to the Standard. However, it is still our view that the Standard lacks the detail of the framework provided by the ISAs and therefore it is highly likely that there is variability in terms of how firms implement the requirements.

For a monitoring regime to be effective there needs to be a standardization of approach and much more structured criteria against which firms will be assessed. At present, due to the lack of standardization and varying levels of interpretation in the industry in terms of the way

CASS audits are carried out, we believe it will be difficult to monitor firms against consistent criteria.

We suggest that the points noted above and the potential impact on costs for the audit firms be considered when developing such a monitoring regime. We would appreciate some level of detail and clarity on the proposed pilot of CASS audit inspections in terms of timing and scope.

**iv. Increase in value of CASS audit to those entities that are subject to the regime**

**Comments**

We acknowledge the need for CASS audit to provide better value to regulated firms. The current position is not helped by the requirement that the auditor reports all breaches identified by the audit and the firm and absence of the concept of materiality in the reporting framework. In our opinion reporting better focussed on the significant CASS risks would enhance value.

We have concerns about the proposed amendment to the Standard (para 37 of contextual material) in respect of breaches identified by the firm. The current FCA rules do not have a requirement for a CASS auditor to provide assurance on the completeness and accuracy of firm identified breaches. This would lead to a change in the scope of the CASS audit and would have an impact on the audit opinion itself. We are unclear as to what level of assurance is required in this respect and how this interacts with the current requirements of the FCA rules and standard CASS audit opinion. We also believe the requirement, as proposed, cannot be met within the context of a reasonable assurance engagement, that we carry out.

**v. Formation of an industry led forum**

**Comments**

We welcome the formation of an industry led forum with all stakeholders involved, as noted above and would be pleased to work with the FRC to establish and participate in such a forum.

## Comments on proposed changes to the Standard

### Key points

#### 1) Reporting breaches to FCA (para 37 of Contextual material)

Paragraph 37 of contextual material includes a requirement for 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. We have concerns about the proposed amendment to the Standard in respect of breaches identified by the firm. The current FCA rules do not have a requirement for a CASS auditor to provide assurance on the completeness and accuracy of firm identified breaches. This would lead to a change in the scope of the CASS audit and potentially have an impact on the audit opinion itself. We are unclear as to what level of assurance is required in this respect and how this interacts with the current requirements of the FCA rules and standard CASS audit opinion.

#### 2) Communicating deficiencies in internal control to management and those charged with governance (para 135)

This paragraph refers to the CASS auditor reporting those issues to those charged with governance, which in the CASS auditor's professional judgement pose the most significant risk of non-compliance with the CASS rules, and which require the most urgent resolution. We recommend that additional guidance and clarification is provided as to the type and nature of issues that would fall within this category. Is the intention to screen out issues that fit within this category, based on auditor judgement, and only report these to management and those charged with governance? We would welcome clarification on this point.

### Additional comments

#### 3) Professional Scepticism, Professional Judgement, and requisite mind-sets (para 39)

The proposed change in paragraph 39 refers to the engagement team's consideration, where appropriate, of the plausibility of information and explanations provided by those charged with governance and management, with reference to other areas of work including the statutory audit of financial statements. We seek further clarification as to the reason why statutory audits in particular have been referred to in this context when there could other types of engagements which could also qualify in this regard. It is also pertinent to note that this doesn't align fully to the guidance and requirement for a CASS audit to be a stand alone and separate engagement, one that requires specialist knowledge and skill. This proposed change has the potential of discouraging regulated firms from separating their CASS audit from the statutory audit.

#### 4) Compliance and insolvency mindset (para 41)

The proposed change refers to the auditor ensuring that 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 note that the requirement of CASS 6.6.2 and CASS 7.15.2 are expanded by other rules and the standard would benefit from a clarification of how the requirements 'at any time and without delay' are required to be implemented by regulated entities. We are not sure what level of assurance and testing is being suggested here as the work we carry out includes testing of and consideration of adequacy of books and records in light of the relevant CASS rules. Also, only CASS 6 and CASS 7 are referred to here without reference to the other CASS rules in respect of books and records (for example CASS 5 and CASS 11). We recommend that the wording here is clarified to provide guidance

to the auditor in respect of the work to be carried out, if any additional is intended and required. Reference to gone concern would perhaps sit better here than requiring assurance on adequacy of records. The use of words like 'ensure' need to be re-considered here, in context of a reasonable assurance engagement.

**5) Outsourced services to a TPA (para 106)**

The proposed change refers to assessing the adequacy and effectiveness of governance, operations and control in place at the TPA. Clarification is required whether there is an extension in scope to assessing and reporting on the governance at the TPA, in addition to what is already required under the existing Standard. We also recommend consideration and clarification of use of words 'necessary' and 'available' in the proposed change as it is not clear how an auditor could assess these matters.

**6) Reliance on internal control reports (para 108)**

The proposed changes give flexibility to the auditor to place reliance on any internal controls report for the outsourced body. In the absence of additional guidance and a framework, this can lead to variability in the audit firms' approaches and also the extent of reliance placed by various audit firms on such reports. We recommend additional clarification and guidance is provided in this respect.

**7) Requisite mind-sets, professional scepticism and materiality (paras 35-39 of Contextual material)**

In the proposed changes, paragraphs 35-39 in the Contextual material (Requisite mind sets, Attitude to professional scepticism and concept of materiality) have been deleted. In our view these are useful guidance and clarification to the Standard and therefore should not be deleted.

