



Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Tel: + 44 20 7951 2000
Fax: + 44 20 7951 1345
ey.com

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

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By [email: AAT@frc.org.uk](mailto:AAT@frc.org.uk)

Dear Mr Babington,

Consultation on the proposed revisions to the Client Asset Assurance Standard

We welcome the opportunity to respond to the Financial Reporting Council's (FRC's) proposed revisions to the Client Asset Assurance Standard (CASS Standard).

We have set out in Appendix I our feedback on the proposed revisions to the CASS Standard. In our response to the FRC's previous (December 2018) [Post Implementation Review Providing Assurance on Client Assets to the FCA Call for Feedback](#) (the Call for Feedback), we put forward a number of points that we believe will enhance the CASS Standard. As these points, which we continue to believe are important, were not addressed specifically in the Feedback Statement, we would welcome an opportunity to discuss them in more detail with the FRC, to, amongst other things, understand why the FRC does not believe they are appropriate, and/or they cannot be taken forward at this time and explore how our proposals could be developed further.

We hope that you find our comments helpful. We would be happy to expand upon and discuss any of our points in more detail, so please do not hesitate to contact me if you would like further information.

Yours sincerely

Amarjit Singh
Partner, Ernst & Young LLP

APPENDIX I: Feedback on proposed changes to the CASS Standard

Materiality

We note that Paragraph 39 in Contextual Material to the CASS Standard, which related to the concept of materiality not being applicable to the auditor's risk assessment process, has been removed.

However, we also note that the concept and application of materiality in relation to a CASS audit has not been considered further. As discussed in our response to the FRC's previous Call for Feedback, we consider that the concept and application of materiality should be introduced into the CASS audit approach, including the scoping of systems and controls. A materiality framework should also be used when reporting findings to those charged with governance at the firm and the Financial Conduct Authority (FCA). This would enable those charged with governance at firms and the FCA to focus on the material breaches or control deficiencies. The process for determining the materiality should be clearly outlined to ensure that this is applied consistently across the audit firms.

Industry-led forum

We noted that the FRC would be happy to work with the industry to establish a forum which would discuss matters of CASS rule interpretation. This was raised in our response to the Call for Feedback and we would be happy to participate. We would suggest that the format should be similar to the IFRS Interpretations Committee, where regulators, firms, auditors and industry associations are included.

Communications with those charged with governance

We are supportive of the requirement to communicate deficiencies in internal control to those charged with governance.

In conducting our CASS audits, we communicate engagement acceptance and conclusions to those charged with governance at the audited firm. The format and method of these communications is driven by the needs of the audited firm.

We have noted that references to contents of communications to those charged with governance have been made in Paragraph 135 of the CASS Audit Standard. These references are in relation to the CASS auditor reporting those issues 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 would like guidance from the FRC to help auditors identify those issues which pose the most significant risk as the concept of materiality is unclear in the standard.

Technology and IT controls

We agree with the changes made in Paragraph 70 of the CASS Standard regarding the extent that the auditor should consider how IT supports the firm's application of the CASS rules as part of their inherent risk and control risk assessment.

However, as noted in our response to the Call for Feedback, we believe that the CASS Standard would benefit from cross referencing to financial statement audit standards (e.g. ISA 330 - The Auditor's Responses to Assessed Risks) which consider the steps an auditor is required to perform in relation to IT dependent controls.

As an audit firm we already consider this as a key component of the CASS audits we perform and expect it will continue to increase as CASS processes and controls become more automated. We, therefore, believe there is scope for the CASS Standard to go further by stating that the audit of IT dependent CASS controls and processes is a requirement. However, this requirement should make clear that the amount of audit work involved will vary dependent on the complexity of the IT dependent CASS controls and processes.

Third party administrators (TPAs)

We agree with the changes proposed to the CASS-related processes and controls that are performed on behalf of firms by TPAs. Changes made in Paragraph 106, for example, refer to assessing the effectiveness of governance at the TPA.

It would be helpful if the FRC could be more specific in respect of which areas of governance an auditor should review to meet this requirement, since the third-party administrator is not the regulated firm under audit.

We have also noted that amendments have been made to Paragraph 108 in relation to the provision of System and Organisation Control (SOC) Reports and how they can be used by CASS auditors. We think this is a very helpful change. However, we also think that more guidance will be needed to bring a consistent approach, and this should be discussed as a matter of priority at the FRC's proposed CASS Industry Forum.

Internal audit

We have noted that minor changes have been made in relation to internal audit in Paragraphs 56 and 86. We would like further clarity within these paragraphs on whether using the work of internal audit is permitted in performing a CASS audit. We note that this is permitted for financial statement audits under ISA 610 (Using the Work of Internal Auditors). However, we consider that if CASS auditors are permitted to use the work of internal audit, the CASS Standard should make it clear that the auditor will be required to make a proper assessment of scope, extent of the work and competence of the internal audit function performing the work. The auditor should document these assessments and reperform some of the work (e.g. on sample basis) as required by ISA 610.

Insolvency/compliance mindset and professional skepticism

We note that Paragraphs 35 – 38 in the CASS Standard Contextual Material have been removed. Some of the wording has been incorporated into Paragraph 40 and 41 in the main part of the Standard. However, we have noted that not all information in the Contextual material has been incorporated into the main standard. We consider that the information in the contextual material on the insolvency mindset to be useful to auditors and should be incorporated into the main part of the standard.

Forming the CASS audit opinion

We have noted that minor changes have been made to in Paragraph 116 of the CASS Standard in relation to the audit opinion.

In our previous response we suggested changes in relation to the format of the CASS audit opinion. As discussed, we believe that to fully meet the CASS Standard's objectives there needs to be changes to the format of the reporting of the CASS audit opinion. Since the CASS audit is controls-based, we

consider that the report should be prepared in a control reporting format similar to an ISAE 3000 report. This could provide better transparency and clarity on the controls and governance framework. This format would more clearly outline the scope of the audit, the controls which have been tested and the related exceptions.

Reporting Breaches to the Financial Conduct Authority

Paragraph 37 of the CASS Standard Contextual Material has been amended to state that the CASS auditor should also provide assurance to the FCA that a firm's own reporting of breaches that it has identified are a complete record. It is not clear to us at present what procedures can be performed by auditors to demonstrate that they have ensured the completeness of all breaches. In addition, this has the potential to significantly increase the workload of the CASS Auditor if indeed this were possible to be performed. Notwithstanding the establishment of new Forum, we believe that this is an issue that needs to be discussed between the industry, the FRC and the FCA at the earliest possible opportunity.

CASS Applicability

In our response to the Call for Feedback, we commented that the CASS Standard should include more guidance on the procedures the statutory and / or CASS auditor is expected to perform to understand the applicability of the FCA's CASS rules to a firm. We have noted that these changes have not been made and would like to understand why the FRC does not consider it necessary to include guidance around CASS applicability.

Risk and Control framework

As discussed in our previous response, to enhance quality we consider that the CASS Standard should articulate the minimum requirements of the CASS risk and control framework and, where appropriate, provide examples in an appendix.