



## PROVIDING ASSURANCE ON CLIENT ASSETS TO THE FINANCIAL CONDUCT AUTHORITY

Issued 27 September 2019

ICAEW welcomes the opportunity to comment on Providing assurance on client assets to the Financial Conduct Authority published by Financial Reporting Council (FRC) on 1 August 2019, a copy of which is available from this [link](#).

We commend the FRC for carrying out the post-implementation review, including the considerable outreach activities preceding the issuance of this consultation. While we agree with the FRC that the Standard has had a positive impact on the quality of audit we draw attention to a few issues.

We have a number of observations regarding the proposed amendments. In our response we provide further detail on paragraph 37 of the Contextual material, on insolvency mind-set and on reliance on SOC reports among other issues.

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1. We commend the FRC for carrying out the post-implementation review, including the considerable outreach activities preceding the issuance of this consultation. In general, we believe the proposals improve the Standard. We have noted some areas that should be given further consideration by the FRC, which would improve the quality of assurance and simplify application.
2. While we agree with the FRC that the Standard has had a positive impact on the quality of audit we draw attention to a few issues listed below. We recommend a limited number of enhancements that would further improve compliance with the Standard.

## KEY POINTS

### COMPLETENESS OF THE BREACHES SCHEDULE

3. Paragraph 37 in the Contextual material requires the CASS auditor to provide assurance to the FCA that the CASS firms own reporting of the breaches that it has identified are a complete record. This is a significant amendment to the previous version of the Standard, one that for compliance, would require the FCA changing its rules around breaches reporting. Furthermore it is difficult to determine – both conceptually and practically – what type of assurance processes would be needed to achieve completeness and accuracy. Accordingly we recommend that the FRC does not make this change.

### INSOLVENCY MIND SET

4. We recommend that in paragraph 41 the amendments proposed by the FRC are replaced with the following:  
“An insolvency mind set does not require detailed knowledge of insolvency law, rather an appreciation of how compliance with the CASS rules supports the task of an insolvency practitioner in identifying and distributing the client assets held by each legal entity individually being reported upon and distinct from any other. As such, an insolvency mind set places an emphasis on whether the client assets are identified and not at risk of loss due to properly established trust status and segregation; the record keeping facilitates return of client assets enabling each client’s entitlements to be accurately identified; and the reconciliations are properly prepared.”
5. Paragraphs 35-39 in the Contextual material (Requisite mind sets, Attitude to professional scepticism and concept of materiality) were providing useful addition and important clarification to the standard and therefore should not be deleted.

### RELIANCE ON SOC REPORTS

6. We welcome the FRC’s recognition of the potential use of SOC or similar reports in a CASS audit. However, we believe further guidance is needed to enable CASS auditors to use this approach in a consistent manner.

### USING INTERNAL AUDIT IN THE RISK ASSESSMENT PROCEDURES

7. In paragraph 86 the FRC allows for the CASS auditor finding the work of internal auditors useful in the risk assessment process. However, as the Standard currently drafted, there is uncertainty on the circumstances of such work and the reliance a CASS auditor may place on the internal auditors’ work. We recommend that the final Standard uses the wording of ISA 315 (UK) and ISA 610 (UK) which provide a robust framework for assessing the circumstances, the relevant limitations and safeguards, and the auditor’s responsibilities.

## INDUSTRY-LED CASS FORUM

8. In the Feedback Statement & Impact Assessment the FRC believes that an industry-led forum would be beneficial to resolving issues which give rise to market inconsistency and offers its support. We are of the same opinion but would recommend that any such forum would encompass a range of stakeholders including firms, auditors, regulators and industry associations.

## OTHER ISSUES

9. We recognise the importance of reporting to those charged with governance. We understand that this refers to the management letter as required by paragraph 135. We would appreciate if clarification from the FRC would confirm that this is the intention of the change to paragraphs 24 c.
10. Similarly, in paragraph 135 we support the notion of reporting to those charged with governance but believe that the proposed addition of “the most significant risk” is not specific enough. We request that the FRC provides more guidance on this proposed change.
11. Currently paragraph 14 states, that “Where the scope of the firm’s permissions includes the holding of client assets and the firm claims that it holds or controls client assets, the CASS auditor shall provide a reasonable assurance Client Assets Report .....”  
We recommend that “...or controls..” is removed from the paragraph as it suggests that if a firm can ‘control’ client assets (and not hold it), a reasonable assurance report is required.
12. In paragraph 42 b. we recommend changing the wording to “...including the resources that are planned to be deployed.”