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Dear Mark,

**Consultation — Providing Assurance on Client Assets to the Financial Conduct Authority**

**Introduction**

We welcome the opportunity to comment on your consultation Providing Assurance on Client Assets to the Financial Conduct Authority issued on 1 August 2019.

Our detailed comments are set out below.

If you would like to discuss our response with us please do not hesitate to contact.

Yours faithfully

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## Feedback on Consultation — Providing Assurance on Client Assets to the Financial Conduct Authority

The matters highlighted below are arranged in the order in which they first occur in the proposed revised Standard and the paragraph references are those contained in the draft unless otherwise indicated.

### Scope of Reasonable Assurance

Paragraph 14 remains inconsistent with SUP 3.10 through its continued reference to a claim that a firm 'controls client assets'. Reasonable assurance on control (CASS 8) only applies when providing reasonable assurance on holding.

We recommend that the paragraph is amended to start with "Where the scope of the firm's permissions includes the holding of client assets then, unless the firm makes a claim that it did not hold client assets, the CASS auditor shall provide a reasonable assurance...".

### Reporting to Those Charged with Governance

#### (i) Scope

Paragraph's 24c., 37, 53 and 95 now include 'reporting to the FCA and those charged with governance'

Our report is addressed to the FCA and there is a risk that adding reference to reporting to those charged with governance ('TCWG') could be misconstrued to require additional formalities of communication which is established for statutory audit by ISA 260 (noting ISA 260 is referenced in a foot note to the definition of TCWG). .

Currently the only specific duties of communication with TCWG arise in respect of deficiencies as set out in paragraphs 134 to 136 and where the CASS auditor becomes aware of categories of client assets that are not being treated as client assets as set out in paragraph 15. If the wording in paragraph 24c. 37, 53 and 95 is retained in its current format it should either cross reference the relevant paragraphs or include an explicit statement that "The duties of reporting to those charged with governance do not extend beyond those requirements explicitly set out in this Standard".

#### (ii) Deficiencies

We welcome that the reporting duty to management and TCWG is now combined. However, we think that paragraph 135 should make it clear that there is no requirement to report upon deficiencies where, in the auditor's judgement, the matter is adequately addressed by the wording of a reported breach and the management response together.

### Insolvency mind set

We welcome the clarification of the insolvency mind set in paragraph 41 in terms of a standard of record keeping required to facilitate return to the owner.



Firstly, whilst this draws on CASS 6 and 7, the reference to the two specific rules should be removed as this could engender a view that there is a lesser standard of record keeping under other chapters of CASS.

Secondly, in our previous feedback as part of your post implementation review we expressed this clarification more broadly. Consideration should be given as to whether this paragraph 41 should include mitigation of loss through appropriate identification, trust and segregation and also possibly reconciliations. In our view, this would align better with the three areas highlighted in paragraph 125 which might give rise to an adverse opinion. Our suggested wording is:

"An insolvency mind set does not require a 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 because they enable each client's entitlements to client assets to be identified; and the reconciliations are prepared in accordance with the rules so that records are up-to-date and the client assets held are sufficient to cover the clients' entitlements. These are also relevant to the particular areas the CASS auditor considers which might give rise to an adverse opinion as set out in paragraph 125."

### **Resource Planning**

The use of 'will be deployed' is too strong as resource plans are subject to change. This could be better 'are planned to be deployed'.

### **Reliance upon the Work of Others**

We welcome that paragraph 86 appears to remove the prohibition on reliance upon the work of the firm's internal audit and compliance monitoring.

However, the retention of the word "however" appears to qualify this by linking it to risk assessment, which is, of course, one use of such work. We think that you should remove this "however" and make it clear that reliance can be placed upon such reports for risk assessment when the conditions of ISA 315 are met.

We also think that you should make it clear that, in the CASS auditor's judgement and dependent upon the risk of a breach of the CASS rules, the work of an internal audit function can in principle be used as evidence supporting the required reporting to the FCA when the conditions of ISA 610 are met.

We welcome that paragraph 108 now explicitly permits reliance upon SOC reports. This should also reference the auditor's judgement and dependency upon the risk of a breach of the CASS rules. The paragraph sets out certain other conditions, but could also reference ISA 402.

Making use as evidence conditional on the auditor's judgement and risk assessment is not simply a matter of semantics. In both instances the Standard should not create any expectation of reliance with firms as reliance, for example, on a SOC report may well be appropriate for many IT general controls but this is unlikely to be the case in respect of controls with direct impact upon the opinion. This distinction was highlighted in our previous feedback and remains pertinent.

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We also noted that paragraph 106 uses the words "all necessary information available to the auditor" to assess the adequacy and effectiveness of governance, operations and controls at a TPA. The meaning of this is unclear. Perhaps "sufficient information to enable the auditor" would be more appropriate.

### **Compliance mind set**

Paragraph 39 in the contextual material of the existing standard, which made it clear that the financial statement concept of materiality in monetary terms did not apply to CASS engagements, has been deleted. This should be reinstated to continue to reinforce the distinction between the different mind sets.

### **Reporting Firm Identified Breaches**

Paragraph 37 of the contextual material now states that auditors "should also provide assurance to the FCA that the CASS firms own reporting of breaches that it has identified are a complete record". However, in the feedback statement you refer to this as "just report to confirm the completeness and accuracy of the [firm's] breaches reported".

We welcome the intention to reduce the burden on auditors and costs to firms arising from reporting breaches already identified by the firm.

Notwithstanding this difference in wording, we would interpret this as meaning that the CASS auditor's duties would not extend beyond simply including an extract from the register of breaches maintained by the firm with limited further duties. However, this is not clear from the wording and as currently worded it could imply a higher standard than reasonable assurance in respect of accuracy and completeness.

Moreover, as we stated in our previous feedback the FCA has an interest in this. This could require the FCA to change their rules including changing the format of the report (itself also a rule) to include a specific statement on this matter in 'Other matters' (even where there were breaches only identified by the auditor or, exceptionally, a clean opinion).

This would better be dealt with by consultation between auditors, their professional bodies, the FRC and the FCA outside of the revision of the proposed revised Standard. The contextual material could simply retain the existing wording, with the addition of the word 'currently' and, in place of the proposed change, stating that the auditors and firms should follow the requirements on breach reporting where this has been amended by the FCA rules.