

# FRC Assurance Standards: Changes to CASS audits

21 July 2016

# Today's agenda



- A new approach to assurance
- Limited assurance engagements
- Reasonable assurance engagements
- Practical implications
- An insolvency mind set

# A new approach to assurance



- Effective for periods commencing 1 January 2016
- Replaces the APB Bulletin 2011.2 and Bulletin 3 issued in 2011 and 2013
- Emphasis on documented systems and controls in place at regulated firms to ensure safeguarding of client assets and money
- Controls based audit approach resulting in larger sample sizes for tests
- Continuing CASS failures have resulted in a tightening of CASS audit standards

# Limited assurance engagements



- New standard is applicable to all limited assurance engagements
- The firm must demonstrate that it has considered areas where client money or assets might arise, including:
  - nature of services provided to clients
  - how it is remunerated for these services
  - the sources and destinations of cash and other asset flows
  - the role of sub-custodians and third party administrators

# Limited assurance engagements



- Other key points to note for limited assurance engagements:
  - documented evidence of periodic reviews by internal audit or compliance function of how a firm has considered whether client money or assets will be applicable
  - document the arrangements to ensure staff are aware of what constitutes client assets
  - document the procedures in place to be followed when or if client assets are identified
  - written representations to the CASS auditors confirming that no client money or assets held

# Reasonable assurance engagements



- The requirements for limited assurance engagements also apply to reasonable assurance engagements
- Firms will be required to prepare their own CASS risk assessments, covering all CASS rules
- Systems of internal control must be documented, with key controls highlighted
- Firms must demonstrate a culture of honesty and ethical behaviour
- Use of Third Part Administrators (“TPAs”)
- Engagement Quality Control Reviews

# CASS risk assessments



- To cover all applicable CASS rules
- Risk assessment procedures to be conducted to cover both through the period and the period end
- CASS auditor will need to review these assessments and so these will need to be fully documented by firms

# Ethical and honest culture



- Management must demonstrate a culture of honesty and ethical behaviour:
  - involvement of senior management
  - communication of ethical values
  - training and competence of staff



# Third party administrators



- understanding a firm's arrangements with the third party administrator ("TPA")
- understanding the firm's cash and asset flows with the TPA
- TPAs will be treated as an integral part of the firm
- CASS audit engagement letters to stipulate that CASS auditors will have right of access to TPAs records as necessary

# Engagement quality control reviews



- Engagement quality control reviews will be required for all reasonable assurance engagements.
- An additional level of review by senior member of the accounting firm.
- This will have implications for both the timetable of the audit and the cost.

# Practical implications



- Timetable – consideration of interim audits
- Rule mapping
- Breach reporting- breaches of assurance standard as well as CASS breaches
- Costs
- Documentation!

# CASS and Insolvency



- CASS 7A and the Special Administration Regime work together to ensure that client monies are returned as soon and intact as possible following the failure of an investment firm
- The CASS auditor shall adopt an **insolvency mind-set** which evaluates the firm's client asset processes on the presumption that the firm may become insolvent
- Our Licensed Insolvency Practitioners are undertaking training sessions with our audit team to ensure an insolvency mind set is adopted
- But what is an insolvency mind set?

# What is an insolvency mind set?



- Impact of Insolvency/trust law on group:
  - segregation and tracing
  - insolvency legislation applies at individual entity level
  - claims of general creditors
  - automatic set off
- Practical issues:
  - accurate record keeping
  - daily maintenance
- Solutions
  - simulated insolvency to test CASS Resolution Pack
  - simulated FCA visit

**Questions?**



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