



## **Providing Assurance on Client Assets to the Financial Conduct Authority**

ICAEW welcomes the opportunity to comment on the *Providing Assurance on Client Assets to the Financial Conduct Authority* published by Financial Reporting Council on 14 May 2015, a copy of which is available from this [link](#).

This response of 31 July 2015 has been prepared on behalf of ICAEW by the Financial Services Faculty. As a leading centre for thought leadership on financial services, the Faculty brings together different interests and is responsible for representations on behalf of ICAEW on governance, regulation, risk management, auditing and reporting issues facing the financial services sector. The Faculty draws on the expertise of its members and more than 25,000 ICAEW members involved in financial services.

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 144,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

Our membership and those representatives that have contributed to drafting this response feel they have specialist skills and experience in this important area. A large number of our members in practice undertake roles as either CASS auditors or in the financial services industry in roles subject to the CASS requirements. We have leveraged that pool of expertise to produce this response.

Copyright © ICAEW 2015  
All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

For more information, please contact: [fsf@icaew.com](mailto:fsf@icaew.com)

[icaew.com](http://icaew.com)

## MAJOR POINTS

1. We support the FRC's work in publishing the draft Standard in respect of providing assurance on Client Assets to the Financial Conduct Authority. The development of this proposed Standard has been a significant undertaking as the FRC has sought to build on their previous Bulletin on Client Assets 'Providing Assurance on Client Assets to the Financial Services Authority' and Bulletin 3 'Providing Assurance on Client Assets to the Financial Services Authority (Supplement addressing the use of Third Party Administrators)'.
2. However, there is the risk that in moving from the current Bulletins to an Assurance Standard a significant body of useful material has either been deleted or been moved to the "Contextual material" accompanying the ED. As a result the proposed Standard, as drafted, may contain too little guidance and explanatory text for the CASS auditor. While this will affect the level of guidance available to all CASS auditors this will particularly limit the availability of important guidance for smaller CASS audit firms. This may present risks to objectives (b), (e) and (f).
3. In addition, we have fundamental concerns in a number of areas which we believe risk undermining the ability of the proposed Assurance Standard to meet its objectives.

### *Proportionality*

4. We are concerned, that as drafted, there is limited recognition of proportionality and limited scope for the CASS Auditor to adopt a risk based approach in terms of reliance on controls testing and materiality thresholds which would be used under other Assurance frameworks.
5. This is a theme throughout and we note the following areas below where there is scope to make improvements:
  - a. the general approach and provision of guidance as to how a CASS auditor designs a proportionate and risk based approach as they move from risk assessment to determining the assurance work necessary in light of the risks;
  - b. the significant number of bold "must do" paragraphs both in respect of CASS reasonable assurance engagements and CASS limited assurance engagements, some of which we believe would be more appropriate to reflect as guidance or examples rather than prescriptive steps;
  - c. the requirement to appoint an EQCR to all CASS reasonable assurance engagements;
  - d. the current definition of walkthrough testing;
  - e. the lack of clarity as to how to respond to the breaches schedules which for large firms can be lengthy and also contain non CASS related breaches; and
  - f. the proposed Standard does not make reference to the proportionate use of control reports to support the CASS auditor's opinion. The Standard should provide specific guidance on their use within the CASS audit.
6. We also think clarification is needed around what constitutes a "reasonable level of testing". In the Standard there are significant yet unstated assumptions in respect of reading across from financial statement auditing standards which may or may not be appropriate. We recommend that the drafting be more specific and clarify expectations on the level of testing. Unless there is an understanding between the regulator, the FRC and the CASS

auditors as to what is deemed to be a reasonable level of testing, there will be an expectation gap that will undermine the ability to give either limited or reasonable assurance that meets the needs of all parties.

### *Special reports*

7. The FCA has indicated they believe the FRC's assurance standards will enable the CASS auditor to give a reasonable assurance opinion on the alternative approach and non-standard methods of reconciliation in its current form. The proposed Standard lacks detail as to what the assurance practitioner is expected to do and therefore makes it very difficult for the practitioner to fulfil his duties in this area. Without further guidance in this area there is a risk that the Standard will not achieve its objectives.

### *Reporting format*

8. We expect to see a number of reports that would deviate from the FCA's template. While we appreciate that the FCA wants standardisation, there needs to be a mechanism in place for cases where the CASS auditor is unable to provide the standard opinion. There may be cases, for example, where the regulated firm started the year holding client assets but subsequently ended the year not holding client assets. The standard templates do not provide a format or guidance for such cases and mixed opinion reports. Paragraph 28 as drafted appears to give the FCA a veto right over alternative drafting. We do not think this is helpful for practical reasons and may lead to situations where a CASS auditor is unable to give an opinion.

## **RESPONSES TO SPECIFIC QUESTIONS**

### *Q1: Will the proposed Standard achieve its Objectives?*

**Do you believe that the proposed Standard will meet the objectives set out in paragraph 19 of the Introduction and, in particular, improve the quality of client asset assurance engagements? If not, why not?**

9. We do not believe that the proposed Standard will meet the objectives set out in paragraph 19. We note that while the Standard introduces greater consistency in the way of standardising the reporting process, a significant body of the original guidance helpfully included in the FRC's previous Bulletin on Client Assets has been removed from the proposed Standard, either in its entirety or being demoted to the section of "contextual material". As currently drafted, the purpose of separating this material is not clear.
10. We believe that this has diluted the usefulness of the proposed Standard particularly for smaller audit firms and that these elements should be moved into the main body of the Standard. This would be especially helpful to small CASS audit firms (performing 2-3 CASS audits a year) but equally large firms could benefit too.
11. We are uncertain whether the proposed Standard will achieve its objective to "enhance the degree of confidence of the FCA" in CASS audits. To be able to do this the FCA's confidence level would have to be known in advance and that might be variable from supervisor to supervisor. In some cases it may not enhance the confidence of the individual supervisor – for example if they had just had a detailed s166 report or carried out their own supervisory investigation.

### *Scope*

12. The guidance on the requirements applicable to Limited Assurance opinions needs to clarify the relationship between being the statutory auditor and the CASS auditor.

Paragraph 148 implies that in certain circumstances the statute is imposing the CASS audit requirement on the statutory auditor rather than imposing the requirement to appoint a CASS auditor on the regulated firm. We think the Standard should provide clarity on where the responsibility lies. This requirement also seems to be applied to just limited assurance reports.

13. Furthermore, paragraph 153 seems to set the expectations at a higher level for an assurance firm that is both statutory and CASS auditors than it does for a firm that is only the CASS auditor. There is the risk that this creates an uneven 'playing field'.

#### *Cash flow analysis*

14. The cash flow analysis set out as a requirement within the risk assessment section (paragraph 72) is an important but also significant undertaking. However, this receives limited additional explanation or guidance in the overall Standard. There is a risk that smaller firms may underestimate the amount of work needed around cash flows (as well as asset flows) and fail to drive this through the controls evaluation and testing elements of the work.

#### **Q2: Effective date**

**The proposed Standard is effective for reports to the FCA with respect to client assets covering periods commencing on or after 1 January 2016, with early adoption permitted. Do you believe that it would be appropriate to mandate the application of the Standard for earlier reporting periods to achieve the objectives set out in paragraph 19 for reporting periods commencing before 1 January 2016?**

15. It would not be appropriate to mandate early application of the Standard as in many cases planning and interim work has already been performed and is underway for CASS audits in respect of the year ending 31 December 2015. We agree that adoption for periods starting 1 January 2016 is acceptable but there is a concern about finalisation of the Standard. The Standard needs to be finalised before the period to which the audit relates starts. If the final version is not available by the end of the first quarter 2016, the question of effective date would need to be revisited. The timetable would need to leave sufficient time for CASS Auditors to make the significant changes brought about by the Standard, time to develop and deliver staff training and time to reschedule and rephrase the audit programmes accordingly.

#### **Q3: Content of proposed Standard**

**The proposed Standard includes within a single document requirements relating to:**

- a. Reasonable Assurance engagements;
- b. Limited Assurance engagements;
- c. Special Reports; and
- d. Non statutory Client Money Trusts.

**The FRC considered other possible approaches involving issuing a number of separate and shorter Standards. On balance, however, the FRC concluded that including all the requirements in a single document was likely to be the most helpful to practitioners and to mitigate the risk of practitioners, who perform relatively few engagements, from failing to select a relevant Standard to complete. Do you agree with including all requirements in a single Standard? If not, why not and what alternative structure for the Standards would you prefer?**

16. We agree that including all the requirements in one document is a sensible solution enabling easier referencing. However, as detailed above there is a need to ensure that the single Standard covers all industry sectors and aspects for which a CASS report is required.

17. We are concerned that very little attention is given to insurance intermediaries that are captured under CASS 5. The only time they are mentioned is in footnote 3 on page 15. We think redrafting the Standard to highlight the exemption for firms not holding more than £30,000 at any time earlier and expanding the text to set out how it will apply to CASS audits of those firms would be more helpful. Similarly, the Standard should more explicitly cover debt management firms captured by CASS11 requirements.
18. The detailed requirements for positive assurance, as drafted, apply only to 'client assets'. Therefore, the standard contains no provisions directly relevant to the audit of mandates or collateral. Given the responsibility on CASS auditors looking at firms claiming not to have mandates or collateral it would be helpful if there was guidance on these areas.
19. Paragraph 15 discusses the CASS auditor assessing whether the existence of all categories of client assets are being treated as client assets and reported by the firm to the FCA. This would appear to bring elements of the CMAR indirectly into the scope of the CASS audit. In the past the FCA has set out that the CMAR is not intended to be in the scope of the CASS audit. If the intention is different, additional scoping, planning, effort and cost implications will have to be considered. Clarity would also have to be provided as to where the CASS auditor's responsibilities start and stop in relation to the CMAR.

#### **Q4: Proportionality of requirements**

**The proposed Client Asset Assurance Standard contains a combination of requirements (basic principles and essential procedures indicated by paragraphs in bold type) and guidance (application and other explanatory material). Do you consider the extent of the requirements to be proportionate to Client Asset Assurance Engagements which require the CASS auditor to make a direct report to the Financial Conduct Authority rather than reporting on an assertion by management? If not, why not? Please specify any requirements you believe to be unnecessary and any additional requirements that you believe should be included? In both cases please provide your reasoning.**

#### *General observations*

20. In our opinion proportionality is the most significant issue running through the proposed Standard that needs to be addressed. There is very little recognition of proportionality and limited scope for the CASS auditor to adopt a risk based approach in terms of reliance on controls testing and materiality thresholds, similar to that which would be used under other assurance frameworks. While we understand that this is partly driven by the expectations from the FCA, we note that the Standard is prescriptive at times, contains a large number of mandatory steps (in bold) and may lead to duplicative effort (e.g. in relation to multiple walkthroughs). This will have significant cost implications for the performance of many CASS audits which will be of limited value and which will ultimately be borne by the regulated firms. On the other hand, many areas of the Standard lack sufficient detail to give clarity to the CASS auditor as to the expected level of work to support their assurance opinion.
21. Paragraph 69 sets out four different components of risk and paragraphs 72-79 set out procedures for the CASS auditor to assess the CASS Assurance Engagement Risk. However, the Standard includes no concept of materiality to inform the procedures that the CASS auditor should undertake in responding to that assessment in paragraphs 80 (and following). It would be helpful if the Standard provided greater clarity and direction on how the risk based model should be used in undertaking CASS audit work.
22. If the intention is indeed to not set materiality, the Standard should be explicit that it isn't possible to quantify materiality. The general principle should be that the auditors must identify every potential area of client money, however small, and walk it through, but

following that they can take a risk based approach to the amount of controls and substantive testing done for each area identified. Further guidance regarding the level of testing would be particularly helpful in making the Standard more effective.

23. In our view a risk based approach is important and we strongly endorse it. We recommend that the model and its principles should be carried through the whole document. In our view, the wording of the proposed Standard around risk assessment procedures is imprecise. We recommend it to be revisited and limit it to areas relevant to the CASS review.
24. We note that in giving a CASS audit reasonable assurance opinion, the CASS auditor does not, by definition, give absolute assurance. Accordingly, we believe that it would be helpful for the FRC to give further guidance as to how the CASS auditor should apply their judgement in taking a risk based approach in order that their CASS audit procedures are proportionate to the level of risk in the engagement. For example, this may include the implications where smaller regulated firms have not formally documented their own risk assessments, procedures or processes.

#### *Specific observations*

##### *Use of controls reports*

25. The proposed Standard does not make reference to the use of control reports (commonly referred to as SOC1, ISAE 3202, AAF01/06 or SSAE No.16 reports) to support the CASS auditor's opinion and specifically to what extent the FRC would expect the CASS auditor to use such reports – both from a business controls and IT controls perspective. We believe that these are important sources of assurance evidence and recommend that the FRC provides some guidance on their use and the appropriate use of testing within the CASS audit, including the use of ITGC testing.

##### *Walkthroughs*

26. The definition of walk-through in paragraph 10 uses the phrase “*a few transactions*”. While in some cases this may be necessary, it is not always the case. In many assurance engagements a single walkthrough can be used as a representative transaction in order to understand system, cash and asset flows through a product lifecycle. We believe that the current drafting may be inadvertent and recommend that the FRC amend the drafting of this definition. If the Standard remains as drafted this has the potential to significantly increase the amount of testing that CASS auditors may need to undertake with a consequent impact on costs for regulated firms.

##### *Evaluation of culture*

27. Paragraph 83 requires the CASS auditor to evaluate a regulated firm's management culture. This is a highly subjective area and we believe that the CASS auditor will need more guidance as to the benchmarks for the assessment of culture and how to use this analysis.
28. Furthermore, we would ask the FRC to provide more guidance as to how the CASS auditor is to report their findings in respect of the evaluation of culture.
29. In the extreme, poor culture and behaviour may lead to CASS breaches or other matters that properly the CASS auditor will bring to the attention of the FCA either through the CASS audit report and breaches schedule or in the most extreme cases under the CASS auditor's statutory duty to report to the regulator as set out in paragraphs 58-63. However, there are a number of credible scenarios where a firm sets out to comply with the CASS requirements (and gives rise to no breaches) but does so with the intention of complying

with the “bare minimum” or to “push the boundaries”. In this scenario, the assurance Standard would appear to establish a need for the CASS auditor to report to the FCA. However, there is no reporting mechanism to do so – given that the firm can demonstrate actual compliance with the detailed rules. This is an important area and we request that the FRC and FCA set it out more clearly and establish a mechanism to undertake what appears to be a third type of reporting.

#### *Appointment of EQCR (see also below)*

30. Paragraph 141 sets out that an EQCR is required to be appointed for all CASS Reasonable Assurance engagements. We believe that this is disproportionate and set out our views more fully in answer to the specific question on EQCR's below.

#### *Limited Assurance Engagements*

31. Paragraphs 154-160 set out a large number of prescriptive requirements for a Limited Assurance opinions (including arrangements around staff awareness of what constitutes client assets (para 154), review of client files (para 158). While for some CASS Limited Assurance engagements these steps may be needed, given the nature of a Limited Assurance engagement (i.e. where the firm asserts that it doesn't hold client money, custody assets or both), we do not believe that these steps would always be necessary for all firms. As drafted, it is possible for many CASS Limited Assurance engagements to be more onerous than some CASS Reasonable Assurance engagements where a CASS auditor can focus on specific systems, processes, controls and transactions.
32. The expectation from regulated firms is that a Limited Assurance opinion should be much less onerous than a Reasonable Assurance engagement. We believe that this is a view shared by both the FCA and FRC; however, if the CASS auditor is still required to perform a similar range of steps as for a Reasonable Assurance opinion, then this would suggest more effort and cost than is currently the case.
33. Accordingly, we recommend that the FRC revisit paragraphs 154-160 and consider whether some of these paragraphs should be moved to guidance (non-bold text) as suggestions rather than mandated steps.

#### *Special reports*

34. Relative to the prescriptive instructions described above the guidance supporting ‘special reports’ in para 168 seems insubstantial. By their nature special reports are more bespoke engagements giving an opinion as to the “equivalence” of non-standard approaches or methodologies. Specifically the template Reasonable Assurance opinions in Appendix 9, 10 and 11 reference only the FRC CASS Assurance Standard as the basis of the opinions. Without more substantial guidance set out in the Standard itself, it is unclear how there can be a common understanding of the basis of the opinion between the CASS auditor, the FCA and the regulated firm without the CASS auditor adopting an approach of setting out in a more detailed and prescriptive fashion in their opinion, the basis of their work.
35. We note that it is not the CASS auditor's role to set the legislative requirements or rules in this area. It is the FCA's mandate to establish the CASS requirements, the CASS auditor's role to assess and provide an opinion over a regulated firm's compliance with those requirements as required by the FCA and the role of the FRC to set the standards as to how the CASS auditor should perform this role. In respect of the areas of these special reports the FCA sets a requirement for the CASS auditor to give a reasonable assurance opinion over non-standard approaches undertaken by regulated firms as to the equivalence of their arrangements with the standard rules. However, the FCA sets out very limited guidance as to how to assess equivalence or the benchmarks that should be used in these areas.

36. In the absence of more detailed benchmarks established by the FCA, we believe it is necessary for the FRC to establish in more detail how the CASS auditor is to make assessments in the areas of the special reports and the relevant benchmarks. Otherwise without the ability to set out the detailed basis of the CASS auditor's opinion in the CASS opinion itself, it is not possible for there to be an agreed basis between the assurance provider, the FCA and the regulated firm – which is a necessary condition for an assurance opinion to be given.

#### **Q5: Engagement Quality Control Review**

**The proposed Standard requires Engagement Quality Control Review to form an integral part of all reasonable assurance engagements. The FRC is of the view that the CASS engagement leader will typically be required to make a number of important judgments concerning the nature, extent and timing of assurance procedures and that the CASS engagement leader should be subject to engagement quality control review throughout the course of the engagement. Do you agree?**

*How the EQCR role is discharged in an audit firm*

37. We believe the definition of “Engagement Quality Control Review” (EQCR) in paragraph 10 needs some clarification. The definition sets out that the EQCR is *“A partner, other person in the accounting firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgements the CASS engagement team made and the conclusions it reached in formulating the CASS auditor's report”*. Read in isolation there may be an implication that that the reviewer should be a partner or partner level individual to have the *“authority to objectively evaluate”*. If these requirements are applied in this way they may be onerous and may not be proportionate for all firms and CASS audit engagements, especially smaller ones.
38. We understand that the intention of the FRC is that the role of the EQCR on a CASS audit could be undertaken by an individual who although an experienced CASS SME may be more junior than the engagement leader but who has the authority within the firm's policies and procedures to challenge the engagement leader's judgement and escalate through appropriate channels if necessary. This is supported by paragraph 145 which sets out that the role of the EQCR can be performed following *“the CASS auditor's firm's policies and procedures for dealing with and resolving differences of opinion”*. However, while we would endorse this latter approach we believe that the FRC should make this clearer in both the definition (paragraph 10) and also at the outset of the description of the Engagement Quality Control Review in paragraph 141.

#### *Appointment of EQCR for all CASS Reasonable Assurance Engagements*

39. Paragraphs 141 and 143 set out that there should be Engagement Quality Control Reviews of “all” CASS Reasonable Assurance engagements. We believe that this would be disproportionate. Using the word “all” gives no flexibility or opportunity to use professional judgement. It is difficult to see that this would allow for scope for a proportional and structural approach particularly given the wide range and varied size and complexity of regulated firms that are subject to CASS audits.
40. Paragraphs 72-79 set out the process for assessing CASS assurance engagement risk and Paragraph 80 (and following) set out how the CASS auditor should respond to the assessment of assurance engagement risk. We consider that it would be more efficient, practicable and effective to use the risk assessment at the planning stage to assess the need of further involvement and different levels of review including the determination in accordance with the CASS audit firm's policies and procedures as to whether the nature,

size and complexity of the CASS audit of a firm requires an EQCR and / or the involvement of more specialised CASS subject matter experts. This approach would mirror that of statutory audits. In our view EQCRs are only warranted for large and medium-sized CASS firms, thus reflecting the firm types defined by FCA thresholds.

#### *In the public interest*

41. Paragraph 141 of the proposed Standard sets out that *“the effective segregation of client assets is in the public interest”*. This is true in that the requirements of CASS embody one of the FCA’s fundamental principles and derive from the FCA’s mandate under FSMA. We are concerned that the use of the phrase *“in the public interest”* together with the requirement to have an EQCR in this paragraph may be read to imply that all CASS audits are *“public interest engagements”* and the associated firms *“public interest entities”*. This could have significant implications for both the performance of the CASS audit but also importantly for statutory audits and the associated EQCR and independence requirements. The definition of a *“public interest entity”* for the purposes of statutory audit is defined in Article 2 point 13 of Directive 2014/56/EU. We do not think that the definition of public interest entity should be gold-plated and we support the minimum implementation of the definition of PIE. Accordingly we believe it would be helpful for the FRC to redraft paragraph 141 to remove the reference to *“in the public interest”* – a reference to the FCA’s objectives and statutory underpinning may be more appropriate – in order to reduce the risk of misinterpretation.
42. Furthermore, we note that CASS audit reports are private and in some cases (i.e. insurance intermediaries) there is no requirement for these to be sent to the FCA except in specific circumstances. As set out above, we believe the inference that “all” CASS audit engagements should be designated as “public interest engagements” and require the appointment of an EQCR goes too far given the wide range and varied size, complexity and potential market impact of the regulated firms over which such engagements are performed.

#### **Q6: Ethical requirements**

**The proposed Standard requires CASS auditors to comply with the FRC Ethical Standards for Auditors (concerning the integrity, objectivity and independence of the auditor) and the ethical pronouncements established by the CASS auditor’s professional body. Do you agree with this proposal? Please provide your reasoning whether you agree or disagree with the proposal.**

43. We disagree with the proposal to require the CASS auditors to comply with the FRC Ethical Standards for Auditors. The proposed CASS audit Standard is based on the framework set out in ISAE 3000 (Revised) which governs "Assurance engagements other than audits". This framework requires the CASS auditor to comply with the IESBA Code of Ethics. Indeed, the draft Standard (paragraph 24) acknowledges that the UK recognised supervisory bodies have in practice adopted the IESBA code.
44. Adopting the FRC Ethical Standards for Auditors brings in the more restrictive requirements on independence that statutory auditors are subject to (including the need for those in the chain of command above the audit team to be independent) and brings the CASS audit onto a similar basis as the statutory audit. Footnote 5 to paragraph 24 states that the "Exposure Draft is based on the presumption that the application of the FRC Ethical Standards for auditors is extended to the work of CASS auditors". Notwithstanding the use of the term "audit" in the context of CASS, the CASS auditor is providing a reasonable (or limited) assurance opinion not a true and fair opinion, and so extending the requirements to comply with the FRC Ethical Standards is more onerous, particularly in the case where it may be a non-audit assurance engagement for a non-audit client. The FRC standards were not designed for such engagements. There may therefore be the risk that requiring firm-

wide independence may be anti-competitive and restrict a regulated firm's ability to appoint a CASS auditor which is not the statutory auditor.

**Q7: Requirements relating to training of CASS auditors**

Paragraph 55 of the Contextual Material seeks to explain the implications for the training of CASS auditors of the mind-set required to complete CASS assurance engagements. The mind-set for performing a financial statement audit is different to the mind-set for performing a CASS engagement and, therefore, it may be dangerous to have audit staff perform a CASS engagement absent adequate training. The proposed Standard (see paragraph 36), therefore, includes explicit requirements for the CASS audit team to include staff who have received training in various aspects of CASS audits. Do you agree that the Standard should include requirements for staff training? If not, why not?

45. We agree with the requirement for specific relevant training for individuals in the CASS engagement team. We believe that there is a significant difference in the level, breadth and depth of training needed for a CASS engagement team performing a Reasonable Assurance engagement and a CASS engagement teams performing Limited Assurance engagements. We note that many smaller audit firms may only perform Limited Assurance engagements and larger audit firms may be structured so as to perform only one or the other in different divisions of their practice, leading to different levels of training. Accordingly, we recommend that the FRC be explicit in paragraph 36 in highlighting this distinction.
46. Paragraph 42 sets out that CASS auditors are required to adopt "an insolvency mind-set which evaluates the firm's client asset processes on the presumption that the firm may become insolvent". Although the contextual material does refer to principles of segregation and tracing, more detail is needed as to what depth of knowledge of "applicable trust and insolvency law" is required. We believe that the FRC intends this to be at a high level in order to frame a CASS auditor's mind-set rather than to develop a detailed knowledge of insolvency legislation which may not need to be applied during the course of the CASS audit. We recommend that FRC clarifies their intention in this area.

**Q8: Communicating deficiencies in internal control to management and the governing body**

In contrast to an auditor's report on financial statements a reasonable assurance CASS auditor's report is required (with some exceptions) to include a schedule of Rule Breaches. As a result of this requirement some contend that it is unnecessary for the CASS auditor to report deficiencies in internal control to both management of the firm and the firm's governing body both during the CASS audit and on its completion. The FRC, however, is of the view that matters may come to the CASS auditor's attention which whilst not being Rule Breaches per se are none the less of sufficient import to warrant reporting to both management and the firm's governing body. These requirements are set out in paragraphs 137 to 140 of the proposed Standard. Do you agree with the FRC's approach? If not, why not?

47. We agree in principle with reporting identified deficiencies to management and the firm's governing body which in the CASS auditor's judgement are deemed significant. In particular we note that where there is potential for differences in judgement in respect of the interpretation of Guidance paragraphs within the CASS rules, this provides a mechanism for the CASS auditor to highlight those areas to management and the firm's governing body.
48. While we support the idea of reporting deficiencies to management and the firm's governing body, we would like to point out that there can be difficulties for the CASS auditor in deciding what constitutes a deficiency of sufficient importance to warrant highlighting in a

separate report to management and the firm's governing body, which deficiencies fall beneath this threshold and where the division is. We would encourage the FRC to include further guidance – as to these distinctions to aid the CASS auditor in forming their judgements in these areas.