



Reporting Control deficiencies under the Client Assets Assurance Standard

ICAEW has written a letter about *Reporting Control deficiencies under the Client Assets Assurance Standard* to both the Financial Conduct Authority and the Financial Reporting Council on 24 February 2017, a copy of which is available as an Appendix to this document.

This letter of 24 February 2017 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.

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24 February 2017

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And

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Dear Richard and Melanie

Reporting Control deficiencies under the Client Assets Assurance Standard (the "Standard")

I am writing on behalf of the ICAEW to seek clarification on one specific requirement in the Standard in relation to the obligation on the CASS auditor to report control deficiencies to the FCA. We understand there may be different interpretations between CASS auditors of what is required of CASS auditors to discharge this responsibility, and so different approaches may be adopted. The ICAEW considers that it would be preferable to have a consistent approach between the CASS audit firms, and so are writing to propose a recommended approach to the FCA. We have also addressed this letter to the FRC to ensure our proposed approach is consistent with their expectations when drafting the Standard.

The Standard explicitly states, in paragraph 137, that control deficiencies to be reported to management and those charged with governance include deficiencies identified which do not give rise to a rule breach in the current period, but there is a risk that these will give rise to a reportable breach in the future.

137 During the CASS audit the CASS auditor may identify deficiencies in internal control that whilst not significant may be of sufficient importance to merit management's attention because the deficiencies may give rise to reportable breaches of the CASS Rules in future periods. Communicating deficiencies in internal control to management and those charged with governance does not remove the requirement to report to the FCA, where appropriate, deficiencies affecting the adequacy of the firm's systems, notwithstanding that a rule has not been breached.

The last sentence of paragraph 137 makes it clear that in addition to the reporting to management and those charged with governance, as described in paragraphs 138 and 139 of the Standard

respectively, there is an additional requirement to report certain control deficiencies to the FCA “where appropriate”, notwithstanding that a rule has not been breached.

The ICAEW CASS Working Party has carefully considered the options in relation to how such control deficiencies could be reported to the FCA and whether there was an intent, when drafting the Standard, to impose an additional reporting obligation over and above the existing obligations that were set out in the FRC Bulletins.

We have concluded that our interpretation of the wording used in paragraph 137 is that it is intended to act as a reminder to the CASS auditor that they may identify control deficiencies which, while they do not represent breaches of more specific rules, nonetheless represent a sufficiently serious breakdown in the overall control environment to warrant reporting to the FCA as a breach of organisational arrangements.

This would give continuity with previous practice when reporting under the FRC Bulletins, where similar breaches may often be reported as breaches of organisational arrangements, without placing a more onerous reporting requirement on the CASS auditor.

In reaching this conclusion we noted that under the FRC’s CASS Assurance Standard, the CASS auditor may identify many more control deficiencies which are reported to management and to those charged with governance in the form of an Internal Control Report (“ICR”) or equivalent. We have concluded that it was not the FRC’s intention to require that all such control deficiencies were reported to the FCA. We note that while the ICR may be provided to the FCA on request, this is not typical; however, should the FCA wish to be fully appraised of all control deficiencies identified by the CASS auditor pertaining to a particular firm they could request the ICR from the firm.

Accordingly, in order to provide certainty on this point, we request confirmation from both the FCA and the FRC that this approach is consistent with their respective expectations in relation to meeting the reporting requirements for auditors under SUP and the Standard respectively by 8 March 2017, in order that we can provide guidance to member firms in good time to meet the 30 April 2017 reporting deadline for 31 December year end firms.

If we do not receive confirmation by this date, we propose to proceed with giving guidance to Members on the lines described above.

We would, of course, be pleased to meet with representatives of the FRC and FCA to discuss this further if considered necessary.

Yours sincerely

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