

The FRC client assets assurance standard: Are you ready?

The Financial Reporting Council "FRC" has issued a new assurance standard to assist auditors undertaking client asset audits. The new standard is applicable for periods commencing on or after 1 January 2016 and will therefore impact FCA regulated firms this year. Whilst the CASS rules have not changed, the new standard will have a significant impact on regulated firms.

Some of the key requirements are:

Key change	Firm impact	Auditor impact
CASS rule application		
Firms will be required to document all CASS rules (including the ones that do not apply) explaining why the rule, does or does not apply to them.	Firms should maintain a document detailing all CASS rules that are both in and out of scope, with supporting explanations and have these clearly mapped to each business area. Best practice would also be to include a risk category, documenting the firm's risk assessment of compliance with the rules.	Auditors will be required to consider the CASS rules 'universe' and ensure that the firm's assessment of the rules applicable is reasonable.
Flow of client assets		
Firms will be required to document their understanding of how client assets enter and leave the business and the systems and controls which support the safeguarding of those client assets.	Firms should have detailed process maps for client assets and cash-flows that clearly identify where and how client money and assets are held and recorded at each stage of the client assets process.	Auditors will be required to review this document and considers its validity. There will also be increased testing with auditors following assets through the process, supporting the firms assessment.
Governance, culture & senior management oversight		
Firm culture, governance structure and senior management oversight will now be subject to considerable focus by auditors.	Firms must consider whether they are able to support this review and where necessary take appropriate steps to ensure the right governance and culture is in place and fully documented. The Internal audit / compliance function should assess CASS compliance on a regular basis.	Auditors will adopt a more holistic approach around the CASS Risk & Governance Framework, considering its effectiveness. There will also be more substantive testing considering training logs, completeness of breaches register etc.
Third party providers		
Third party arrangements will have an increased focus from auditors as they are now viewed as an integral part of the firm.	Firms must ensure they understand the relationship with all third party providers and have appropriate oversight in place. This should all be documented and revised regularly.	Auditors will consider the appropriateness in oversight of third party arrangements and will test their effectiveness.

Key change	Firm impact	Auditor impact
Increased audit scoping requirements		
The auditor is now required to formally consider the CASS engagement separately. Firms will be required to spend more time upfront and on completion of the engagement.	Firms should be prepared to spend more time with their auditors both prior to commencement of the engagement but also at the completion stage.	Auditors will be required to spend considerably more time planning the engagement prior to undertaking the detailed review. Auditors are now required to formally communicate all CASS related management letter points.
Increases in audit testing to support opinion		
Firms will note that there are significant increases in testing of controls, the key processes and interaction with the CASS rules.	Firms should have all processes and controls which are CASS specific documented. This should include details of the process owner, its operational effectiveness and details of when it was last tested.	Auditors will be required to test all controls safeguarding client assets and firms can expect increases in sample sizes. Previously a more risk based approach was typically adopted.

The enhanced requirements reinforce the need for in-depth CASS advice and regulated firms will need to satisfy themselves that their professional advisors can provide the necessary specialist support.

How we can help

Our Edinburgh based CASS team can help you ensure compliance with the new standard. We undertake a range of CASS audits and offer specialist bespoke advice.



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