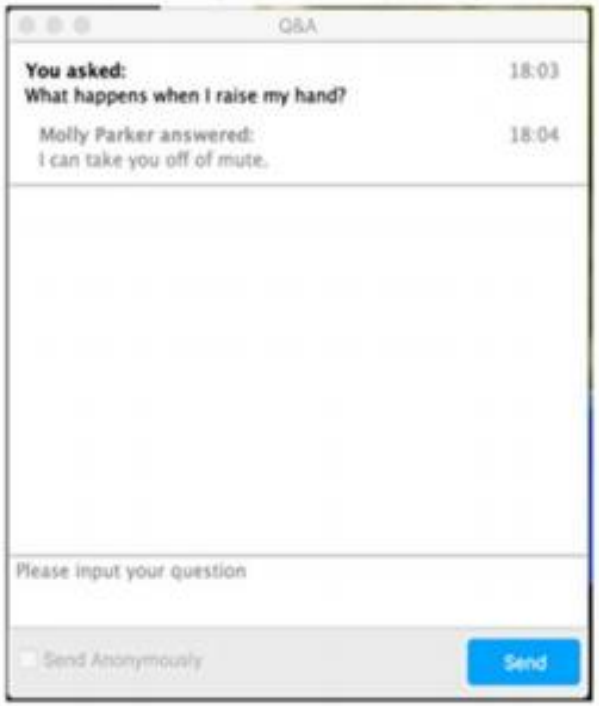
Preparing for CASS Audits in 2027

Key regulatory updates, technical insights, and practical guidance for auditors and regulated firms.

Ask a question



To ask a question

Click on the **Q&A** button in the bottom toolbar to open the submit question prompt.

Type your question and click send

NOTE: If you wish to ask your question anonymously check the **send anonymously** box shown on the illustration.

Did you know?

ICAEW's revised Continuing Professional Development (CPD) Regulations brought in new CPD requirements, including a minimum number of hours and an ethics requirement.

This webinar could contribute to up to 1 hour of verifiable CPD, so long as you can demonstrate that the content is relevant to your role.

Find out more about how these changes affect you at icaew.com/cpdchanges.

Agenda

	Topic	Presenter
1	Regulatory Developments Shaping the CASS Environment	Rory Hanly, FCA
2	Reasonable Assurance Audits: Common Challenges and Detecting Complex Breaches	Nicola Geraghty, PwC
3	Limited Assurance Audits: Expectations, Risks and Good Practice	David Roberts, KPMG
4	Emerging Breach Trends and Reporting Considerations	James Edwards, Deloitte
5	FCA Handbook Notice 142: CASS 6 and CASS 7 changes and firm impact and audit implications	Shermeen Kazmi, GT
6	Q&A	All

Speakers

Rory Hanly, FCA

Nicola Geraghty, PwC

David Roberts, KPMG

James Edwards, Deloitte

Shermeen Kazmi, GT

Regulatory Developments Shaping the CASS Environment

Rory Hanly, FCA

FCA Agenda (ICAEW Webinar)

1. Introduction
2. Developments in the CASS Regime
3. Innovation and changes in how firms operate
4. Growth
5. Common and emerging themes
6. The implication of external events
7. Self-invested personal pensions
8. Audit quality
9. Conclusion

Reasonable Assurance

Nicola Geraghty, PwC

What is a reasonable assurance audit?

Definition from the FRC CASS Assurance Standard: *"A Client Assets Report providing a high but not absolute level of assurance, which is obtained when the CASS auditor has obtained sufficient appropriate assurance evidence to reduce assurance engagement risk to an acceptably low level in the circumstances of the engagement as the basis for a positive form of expression of the CASS auditor's conclusion".*

CASS 7 Client money	CASS 6 Custody assets	CASS 3 Collateral	CASS 8 Mandates

1 Whether, in the auditors opinion, the firm has maintained **systems adequate** to enable it to comply with the [custody rules, collateral rules, mandate rules and client money rules] **throughout the period** since the last date at which a report was made.

Controls testing

2 Whether, in the auditors opinion, the firm was **in compliance** with the [custody rules, collateral rules, the mandate rules and the client money rules] as at the **period end date.**

Substantive testing

Common challenges when delivering a reasonable assurance audit

Understanding ALL products offered by the entity

CASS and non-CASS

Cash and asset flows

Determining key CASS controls

Assessing design

IT dependencies

Detective vs Preventative

IT systems

Reliance on third parties

More complex or judgemental breaches

Organisational arrangements	Discharge of fiduciary duty	Books and records	Application of policies
Examples to consider: • Individual significant breaches • Combination of multiples breaches • Broader observations of the control environment • IT issues	**Examples to consider:** • End to end cash flows, including intra-day • Use of third parties and intermediaries	**Examples to consider:** • Make up of books and records • Timing • Breaks in reconciliations	**Examples to consider:** • Excess collateral • Funding of shortfalls • Resolution of discrepancies

Documentation of judgements, with direct reference to the rules is important!

Limited Assurance

David Roberts, KPMG

Limited Assurance Engagements: Auditor Expectations

Limited Assurance Landscape

Broad number of investment firms require limited assurance audits.

FCA receives more of these than any other opinion type.

Scope: Audit Requirement

Where could money or assets arise?

MIFID or DIB

Scope: What activities am I doing and who are my clients?

Exemptions

Limited Assurance Engagements: Risks

Has anything come to our attention that….

Simple question which doesn't always have a simple answer

Negative assurance, not reasonable assurance

- Invalid exemptions
- Legacy client agreements
- Documentation
- Third party error
- Exemptions
- Fees

Limited Assurance Engagements: Good Practice

One size does not fit all

Landscape here is vast and firms need to think about proportionality to address any risks.

Documentation is key

Clarity in terms and conditions

Governance

Good relationships

Training

Emerging Breach Trends and Reporting Considerations

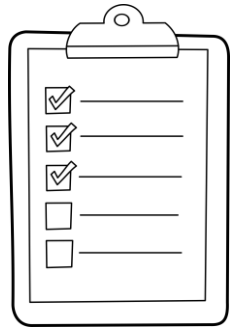
James Edwards, Deloitte

Breach Reporting – Reporting 101

1. SUP3.10 sets out the duties of auditors: notification and report on client assets

2. Providing Assurance on Client Assets to the Financial Conduct Authority (November 2019)

> **115. The CASS auditor is required to report all breaches identified by it or identified to it by any other party including the firm. Although a breach may be of minor significance, this is not a relevant consideration when determining if a CASS rule has been breached. The reporting of any breach of a CASS rules shall result in the CASS auditor expressing a modified opinion regarding the adequacy of systems during the period. The reporting of breaches may also result in the need for the CASS auditor to express a modified opinion regarding compliance with the CASS rules at the period-end date. In forming their opinion, the CASS auditor considers the impact of all identified breaches, and the effect they would have on the effective operation of the CASS regime as required by the CASS rules.**



3. The form of the client assets report can be found in SUP 3 Annex 1, referred to under SUP 3.10.5AR

☆ **SUP 3 Annex 1 | 01/04/2014 | R**

Auditor's client assets report - SUP 3 Annex 1

4. The FRC assurance standard also contains illustrative examples of the form of a client assets report from Appendix 2 onwards

Breach Reporting – The Breaches Schedule

Example 1

Column A	Column B	Column C	Column D	Column E
Item No.	**Rule Reference(s)**	**Identifying Party**	**Breach Identified**	**Firm's Comment**
1	6.5.5G	Firm	Due to a system outage the firm failed to maintain accurate books and records for its clients.	This incident has now been remediated with a tactical fix.
…				

DISCUSSION PROMPTS

1. **Is this a well written breach?**
2. **Is the Rule Reference correct?**
3. **Does it give enough information to the FCA on the nature, timing and impact of the breach?**
4. **What do you think of the firm response?**

Breach Reporting – The Breaches Schedule (cont.)

Example 2

Column A	Column B	Column C	Column D	Column E
Item No.	**Rule Reference(s)**	**Identifying Party**	**Breach Identified**	**Firm's Comment**
1	CASS 6.6.3R	Firm	Due to an area wide power cut a client subledger called CASSLAND which feeds the firms main client books and records system experienced a system outage on 4th September 2025 to 5th September 2025. This affected 100 clients for 1,000 lines of client safe custody assets with a total value of £1m. The issue was resolved on 5th September 2025 when the system came back online.	On 4th September we notified the FCA of this incident and our inability to maintain accurate records for the day. Since this we have implemented additional back-up sites and servers to support business continuity which will prevent this issue going forward.
…				

Breach Reporting – What to include?

SUP3.10 does not give specific details on the content of the breaches schedule, however SUP 3A does give some interesting insights:

☆ SUP 3A Annex 1.2 | 07/05/2026 | R

Part 2: Identified breaches of the relevant funds regime that occurred during the period

[*Institution name*], firm reference number [*number*], for the period started [*dd/mm/yyyy*] and ended [*dd/mm/yyyy*]

In accordance with SUP 3A.9.13R, Columns A to D are to be completed by and are the responsibility of the auditor. In accordance with SUP 3A.10.1G, Column E should be completed by the institution. The auditor has no responsibility for the content of Column E.

Column A	Column B	Column C	Column D	Column E
Item No.	Regulation or Rule Reference(s)	Identifying party	Breach Identified	Institution's Comment
1				
...				

Instructions for Part 2:
In Columns A to D of the above schedule, the auditor is to set out all the breaches of the relevant funds regime by the institution that occurred during the period subject to the auditor's report. These must include the breaches the auditor has identified through its work (such as in the sample testing of reconciliations) and breaches identified by the institution or any other party (such as those included in the institution's breaches register or identified by the FCA). In Column B, the auditor must specify the provision(s) in the Electronic Money Regulations 2011 or Payment Services Regulations 2017, and/or rule(s) in CASS 15 the breach relates to.
In relation to any breach identified, the auditor must provide in column D any information that it has as respects the severity and duration of the breach identified including, where relevant:
(1) the number of times the breach occurred; (2) the longest duration of a single instance of the breach and the value of that instance; (3) the highest value of a single instance of the breach and the duration of that instance; (4) the average value of instances of the breach; and (5) the average duration of instances of the breach.
The value of a breach is the amount of any shortfall caused by the breach, or the amount of any relevant funds affected or put at risk by the breach.
The auditor must provide a 'nil' return for this part of the report where no breach of the relevant funds regime has been identified.
In Column E, the institution should set out any remedial actions taken (if any) associated with the breaches cited, together with an explanation of the circumstances that gave rise to the breach in question.

Breach Reporting - Common Themes

Four recurring themes to consider when assessing breaches

01

IT Breaches

02

Human Error

03

Change Management

04

Mandates

Breach Reporting – Quick Facts

Three points to keep front of mind

1

The CASS auditor is responsible for the **whole client asset report**

- **Excepting Column E which is the firm's responsibility**

2

ALL CASS breaches must be included that occurred in the period under review

- This includes any breaches open at the end of the previous period, and carried into the current period
- Remember that there is no concept of materiality in CASS – so even a £0.01 breach needs reporting.

3

Include information that helps the reader understand the **nature, timing and severity** of breaches

- Avoid overly technical or firm specific jargon and acronyms

FCA Handbook Notice 142

CASS 6 and CASS 7 changes: firm impact and audit implications

Shermeen Kazmi

Why the FCA acted

Handbook Notice 142 makes seven targeted changes to CASS 6 (custody assets) and CASS 7 (client money).

The FCA committed in FS25/2 to amend CASS where it could cut administrative burden while holding the same standard of protection for client money and custody assets.

It focused on the areas giving rise to:

- recurring rule breaches
- operational complexity
- inconsistent application across firms and auditors.

Published

26 June 2026

Consultation

CP25/37

Instrument

Targeted Clarifications of Handbook Materials Instrument 2026 (FCA 2026/33)

In force

25 June 2026

Instrument made by the FCA Board

26 June 2026

Most CASS provisions in force
Due diligence retention, reconciliation source/frequency, Consumer Duty clarifications, interest treatment.

27 July 2026

Targeted provisions come into force
Annex H parts 2, 4 and 6 in force

25 September 2026

Final tranche of CASS changes take effect
Annex N in force – full compliance deadline

Record retention and settlement activity

Due diligence record retention

CASS 6.3/CASS 7.13

What's changing

Keep records on third parties holding client assets for five years from creation or last modification, not from the end of the relationship.

Impact on firms

Fewer technical breaches on legacy relationships, and a simpler retention policy.

Audit implications

Test against record dates, not relationship-end dates and assess any existing breaches on this area.

Settlement activity carve-out

CASS 6.4

What's changing

The prohibition on otherwise using retail safe custody assets does not catch ordinary settlement through commercial or omnibus systems, including temporary intraday use.

Impact on firms

Removes unintended risk to normal settlement, in line with the FCA's PS17/14 position.

Audit implications

When testing CASS 6.4, separate permitted settlement flows from other uses, which remain restricted.

Custody sources and reconciliation frequency

Recognised custody record source

CASS 6.6

What's changing

Firms may use Euroclear UK & International's IFS System Record for external custody reconciliations, subject to ongoing conditions.

Impact on firms

Regularises practice already used under individual waivers. Daily reconciliation remains best practice.

Audit implications

Verify that CASS 6.6.35AR conditions are met before accepting IFS as a valid source.

Reconciliation frequency exemption

CASS 6.6

What's changing

Reconciling less often than monthly is allowed only where a third party fails or refuses for reasons inherent to the assets (insolvency, delisting) and no alternative is practicable.

Impact on firms

Narrow, conditions based relief, not a general easement. Needs evidence of endeavours and an annual review.

Audit implications

Exemption reliance is testable: check endeavour records, annual reviews, and that it wasn't used for unrelated operational failures or delays caused by system outages (still a breach).

Consumer Duty, carved out of the audit

CASS 6.4 / 7.11 and SUP 3.10

What's changing

The Duty applies when firms retain retail client money interest or use retail safe custody assets in securities financing transactions. The section 138D private right of action is removed for these CASS references.

Impact on firms

Confirms existing Duty obligations without expanding them.

Audit implications

SUP 3.10 is amended: CASS auditors are not expected to assess Consumer Duty compliance in the client assets report – the biggest audit-scope change in Handbook Notice 142.

Statutory reporting is unchanged

The duty to report to the FCA under FSMA sections 342(5) and 343(5) still applies.

Interest

Interest received early

CASS 7.10/7.11 /7.13

What's changing

Firms may elect to treat interest received before its due date as unallocated client money, then allocate and remove any firm portion by the next business day.

Impact on firms

Removes breaches from timing mismatches between bank remittance and due dates. The election can be firm-wide or scoped.

Audit implications

Confirm the election is documented, applied consistently, and allocation/removal deadlines met.

Firm-owed interest in client bank accounts

CASS 7.13

What's changing

Firm-owed interest may land in a client bank account in limited circumstances, provided the bank has been asked once to redirect it and the sum is removed within one business day.

Impact on firms

Reduces breaches from bank constraints outside firms' control, while preserving segregation.

Audit implications

New control point: test evidence of the one-off bank request and same/next business day removal.

Implications for firms and auditors

Firms

The changes are largely permissive and clarificatory, not new obligations. CASS policies, procedures and management information should be updated by 25 September 2026.

01 **Update retention policies**

Reflect the five-years-from-creation rule for due diligence records.

02 **Review reconciliation evidence**

Document the conditions for using the Euroclear IFS source or the frequency exemption.

03 **Confirm client notifications**

Check Duty assessments for interest retention and safe custody asset use.

04 **Implement interest controls**

Build or update elections and same/next business day removal processes.

Audit teams

SUP 3.10 is the key governance change: Consumer Duty compliance sits outside the client assets report, while the FSMA duty to report [FSMA s 342(5)/343(5)] to the FCA still applies.

- **Testing basis**

  Test due diligence records against creation and modification dates, not relationship-end dates.

- **New control points to test**

  IFS source conditions, reconciliation exemption evidence and annual reviews, interest elections, and firm-owed interest removal timeframes.

- **Methodology refresh**

  Update CASS audit methodology and testing programmes ahead of 25 September 2026.

Full text: fca.org.uk/publication/handbook/handbook-notice-142.pdf

Q&A

Next Faculty webinar

CASS 5 Audits 2026

14 October 2026

Digital Assets Conference

13 November 2026

Chartered Accountants' Hall

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