



CASS Audits 2025

An overview of all you need to know for auditors and firms planning for their CASS audits as well as for practitioners preparing their clients

Ask a question



The screenshot shows a mobile application window titled 'Q&A'. It displays a question 'What happens when I raise my hand?' asked at 18:03, and an answer 'I can take you off of mute.' by Molly Parker at 18:04. Below the answer is a large text input field with the placeholder 'Please input your question'. At the bottom, there is a checkbox labeled 'Send Anonymously' and a blue 'Send' button. An arrow points from the 'NOTE' text to the 'Send' button.

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 landscape and CASS | Tom Hoar, FCA |
| 2 | Lessons learned from recent regulatory actions | Oliver Hawes, PKF |
| 3 | Change management | Poppy Proborespati, ForvisMazars |
| 4 | Breach trends | Shermeen Kazmi, GT |
| 5 | Governance | Gillian Boston, Johnston Carmichael |
| 6 | Insolvency perspective | Mduduzi Mswabuki, EY |
| 7 | Q&A | |

Speakers



Tom Hoar,
FCA



Oliver Hawes,
PKF



Poppy
Proborespati,
ForvisMazars



Shermeen
Kazimi, GT



Gillian
Boston,
Johnston
Carmichael



Mduduzi
Mswabuki, EY

Regulatory Landscape and CASS

- **FCA Update**
- **Tom Hoar**
- Technical Specialist, FCA

September 2025

Learnings from recent regulatory actions

Oliver Hawes
Financial Services Director



Recent regulator actions

June 2024

FCA censures audit firm

Past 12 months

Insolvencies of regulated entities

Past 12 months

Increase of FCA letters to firms regarding CASS reports



FCA censures audit firm

- FCA place significant reliance on CASS audit reports submitted by auditors
- These are a valuable source of data for the FCA on the compliance with the CASS rules
- Emphasis of importance of firms ensuring their auditor has the competence, ability to understand business models, and identify breaches
- Breaches need to be reported by firms themselves and included on a breaches log
- These should include all breaches identified even if resolved promptly
- Ensure regular training provided to all CASS staff, including those who may come into contact with client money
- Ensure annual review of:
 - Resolution pack
 - Acknowledgement letters



Recent insolvencies

A CASS audit will always have an insolvency mindset – remember that going concern of the company will be considered.

ICARA requirements should include wind down plans – FCA will expect these to cover a severe but plausible downward scenario.

01

03

02

04

Firms need to remember the importance of capital requirements – breaches of these should be reported to the FCA and communicated to the auditor early.

This is particularly important where prepared on a group basis, or where there is reliance on support from related parties.

FCA letters to firms

- Increase in letters to firms following CASS report submissions

- Remember that FCA review all CASS reports received

- Ensure that prior year breaches that are rolled forward have been resolved

- If they cannot be resolved ensure that a plan is in place for resolving these

- Early communication with your auditors is key to ensure these can be cleared off

- Consider interim visit for contentious issues



Change Management in CASS

Poppy Proborespati, Partner

Financial Services Audit

Client Assets Protection Practice Lead

**forv/s
mazars**

What is Change Management?



Definition: A formal approach to transitioning systems, processes, or policies



Includes: IT system changes, business process updates, policy amendments



Goal: Manage risk, ensure continuity, and avoid regulatory breaches

Why Change Management is Critical in a CASS Environment



CASS rules are
precise and
unforgiving



Small changes can
create large breaches



Regulatory
expectation of
embedded
governance over
changes



Material change =
potential impact on
client asset
protection

FCA view on Change management



FCA's view – Portfolio Letter (Our Custody and Fund Services Supervision Strategy, Dec 2024)

- Our view of the risk: Technological transformation is affecting this sector and ultimately influencing client and consumer outcomes along the value chain.
- Firms are updating obsolete technology, increasing utilisation of automation and considering use cases for artificial intelligence (AI).
- These firms are having to balance the changes against other demands such as digital assets innovation and DLT, regulatory developments (such as settlement cycle changes) and market changes (notably growth of private markets).
- Poor change management practices could result in firms failing to adequately address critical and changing operational demands.
- We are concerned that, where firms are unable to cope with these challenges, there is potential for operational and other issues to adversely affect consumers and market integrity.
- What we will do: We will seek to assess the change management frameworks in a selection of firms.
- What we expect of you: We suggest that you consider these best practices appropriately in your framework.
- We also encourage you to seek early dialogue with us in the planning phases of any major firm initiatives or strategy change that may have significant impact on your business model(s), operations (especially your important business services) and/or the broader market.

Change management in CASS – what does effective look like



CASS must be high on the firms agenda.



There must be robust controls in place to ensure that any change is picked up and looked at from a CASS lens.



Strong CASS training and understanding across the wider business to ensure nothing falls through the gaps.



Strong risk management – those who manage risk as part of their day to day project management should see more success.



Using technology to trace impacts on policies, controls and risks.



CASS footprint document providing clear view of all the business activities.



Updated CASS resolution packs and mapping documents to keep abreast of changes.

Change management in CASS – what does effective look like

1. Integrated CASS impact assessment in change governance.
2. Controlled rollout with parallel CASS monitoring
3. Formalised change freezes around key CASS activities (CMAR reporting, year end audits or large corporate events).
4. Involvement of CASS oversight officer in change board
5. Post implementation reviews with CASS focus
6. CASS change register with MI reporting



Change Management in CASS – IT

Firms are consistently using a number of systems for books and records and reconciliations.

Application and infrastructure change is a major risk area from a CASS perspective.

Understanding of the systems and how they work is paramount.

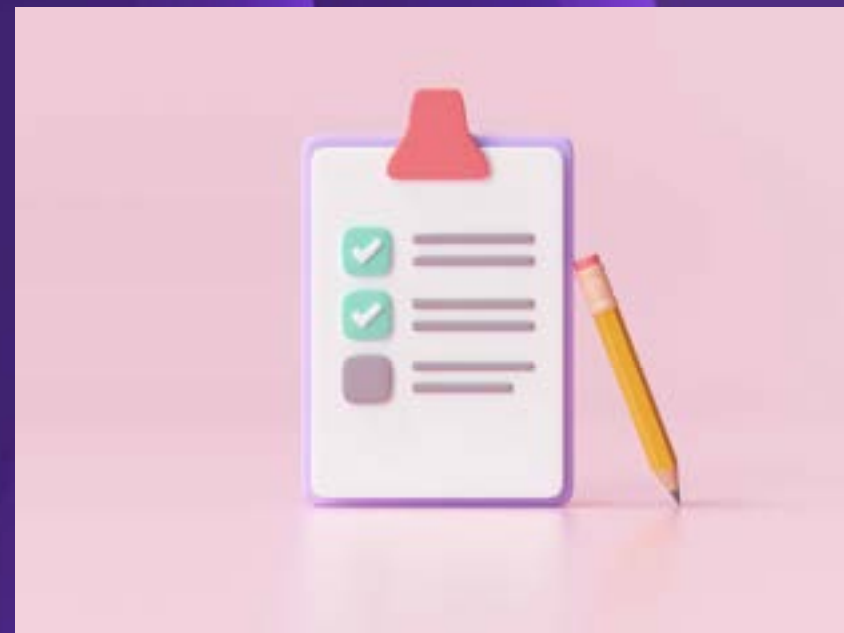
The appropriate controls and segregation of duties is critical to ensuring that any changes are logged and performed to ensure CASS compliance.

It is important to make smaller more frequent releases to have a higher chance of successful change management.

CASS must be hardwired in to the change management procedures and this is even more important when considering IT change.

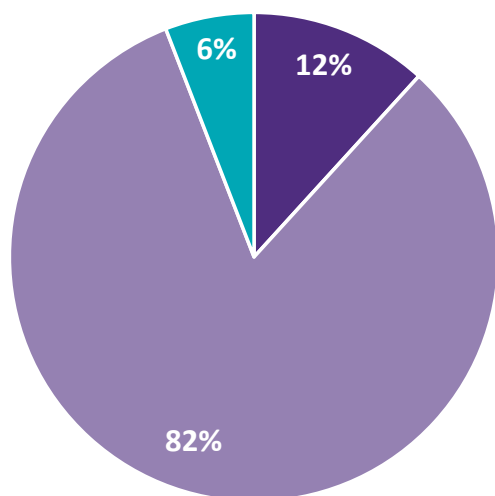
Breach Trends

Shermeen Kazmi
Partner, FS Audit



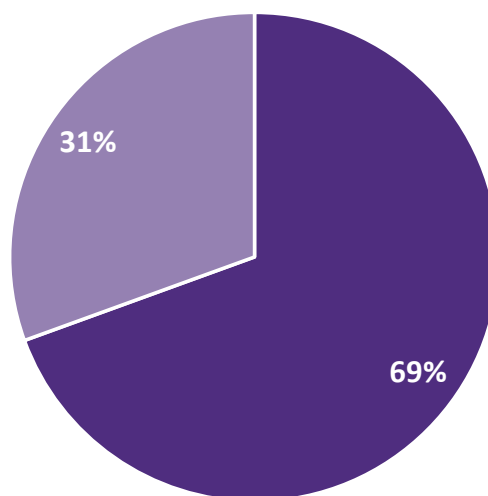
Trend analysis – opinions over the last 12 months

Reasonable assurance opinions



■ Adverse ■ Qualified ■ Unmodified

Limited assurance opinions



■ Unmodified ■ Modified

Trends in reasonable assurance:

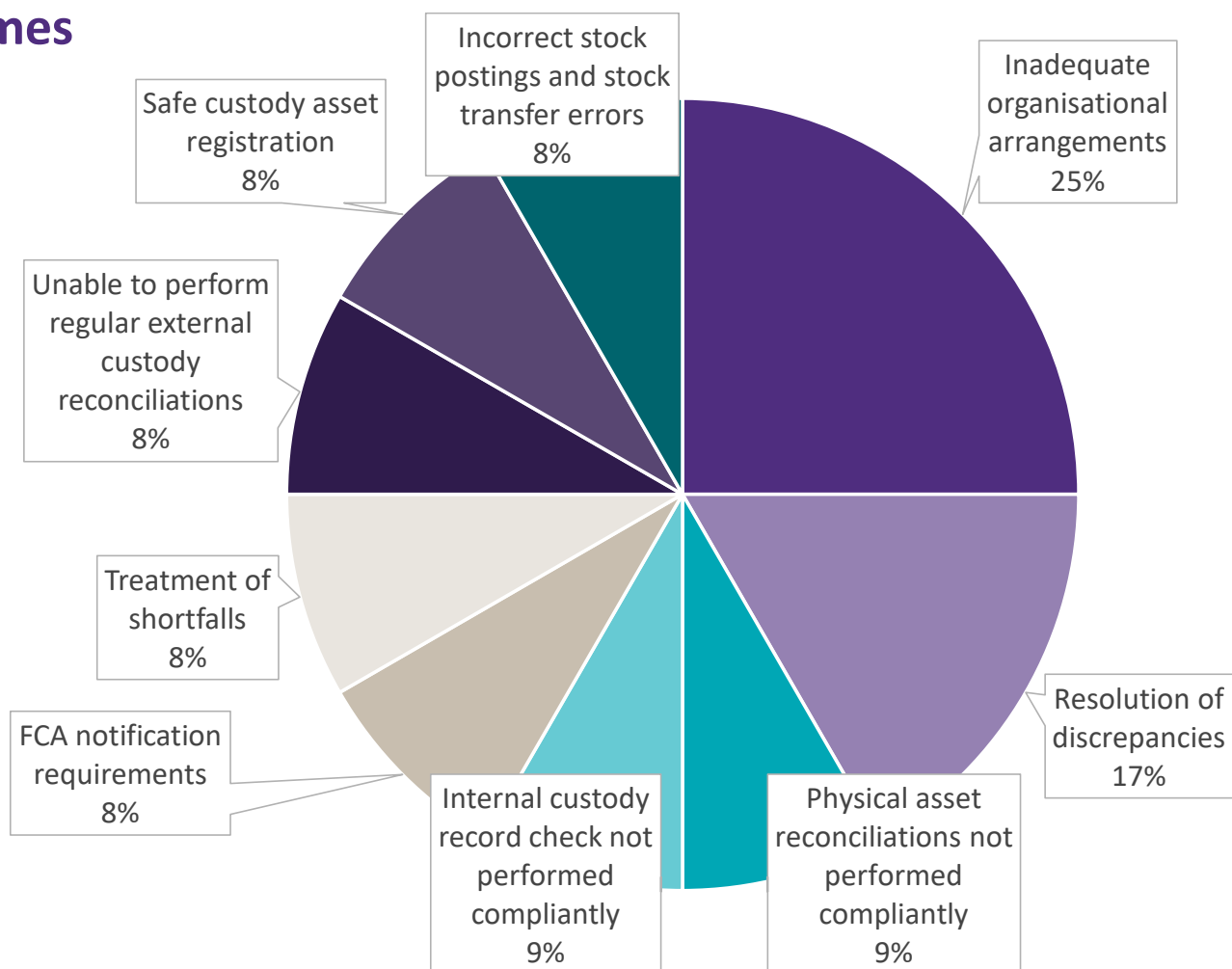
- Opinions moved from adverse during the period to qualified at period end
- Unmodified opinion related to firms with minimal business activity
- Adverse opinions related to:
 - non-performance of reconciliations
 - lack of shortfall funding or excesses not being withdrawn from the client bank account
 - client money not being segregated
 - inadequate CASS governance

Reasons for modification (limited assurance):

- Overpayments or duplicate payments made by clients
- Client money received in error, e.g., due to incorrect billing, or by the wrong entity

CASS 6 - Custody

Common themes



In more detail...

Inadequate organisational arrangements

- Inadequate breach identification and escalation process
- Incomplete or inadequate CASS rules mapping and controls document
- Inadequate training of staff including weak oversight

Inadequate resolution of discrepancies

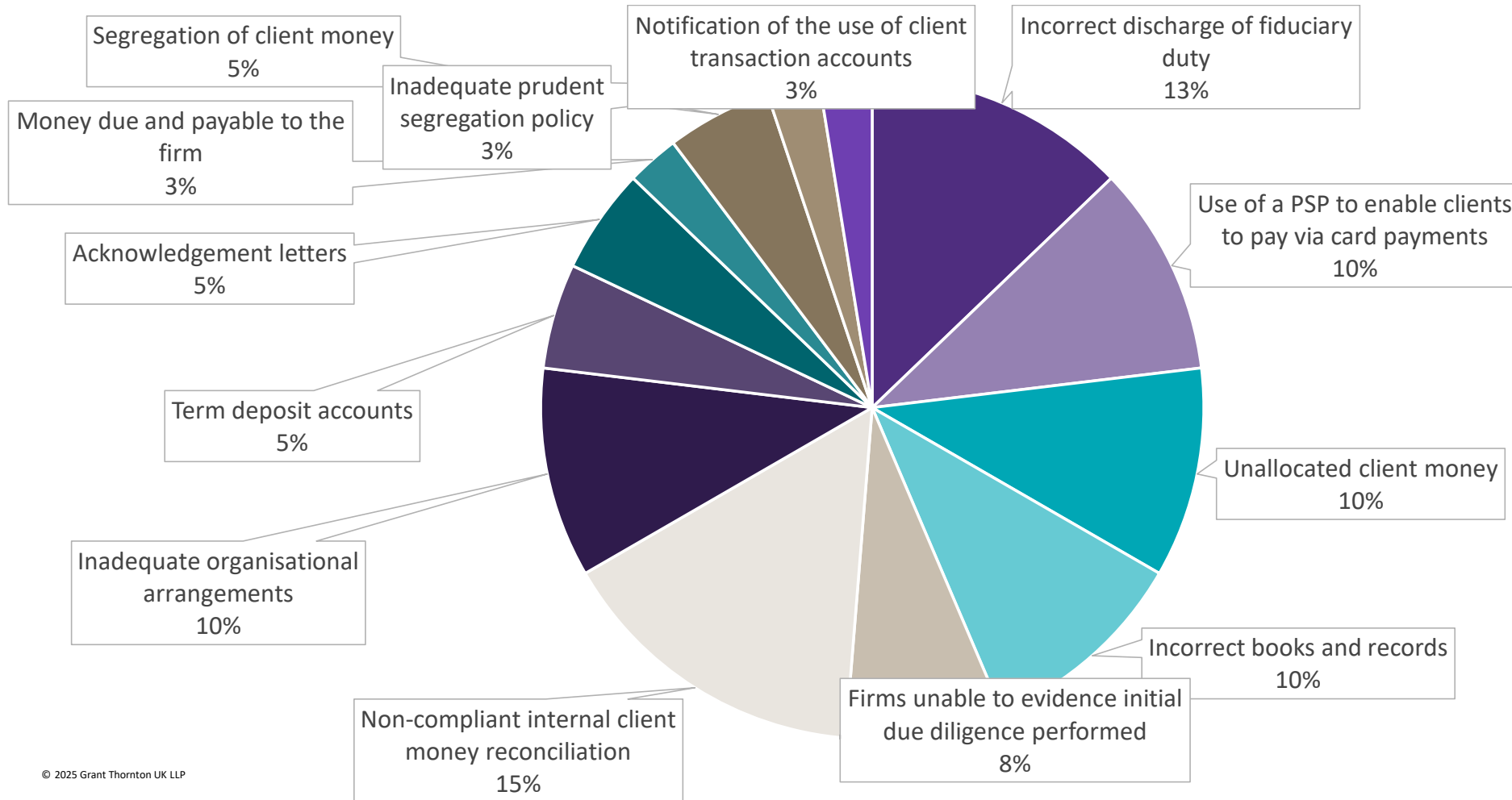
- Reasons for discrepancies not promptly investigated
- Actions taken to resolve discrepancies not clearly documented
- The discrepancy not resolved without undue delay

Failure to perform compliant reconciliations

- Reconciling transactions as opposed to holdings
- Inadequate ISEM – attestation instead of evaluation
- External custody reconciliations not performed at least monthly due to delay in statements
- External reconciliation not done daily where client assets are held electronically with a CSD

CASS 7 – Client money

Common themes



In more detail...

Non-compliant internal client money reconciliation

Errors in respect of:

- Use of external data
- Adjustments to CM resource
- Errors in manual spreadsheets/calculations
- Incorrect treatment of client transaction accounts

Incorrect discharge of fiduciary duty

Incorrect or delay in discharge of fiduciary duty of client money e.g., when it is:

- Paid out to the client
- Paid out to a third party on the instruction of the client
- Due and payable to the firm

Use of a PSP to receive client money

- Breach of the normal approach to segregation as the PSP is not a credit institution.
- Firms may use prudent segregation to mitigate the risks involved.

Inadequate organisational arrangements

- Inadequate CM policies, controls mapping
- Acting on uncleared funds
- Breaches arising from IT system changes/weak change management processes

CASS Governance

25 September 2025



CASS Governance

1. Key components
2. Operational structure
3. Challenges
4. Common breaches

23% of CASS audit reports in 2023/2024 were qualified or adverse. ho1

Slide 26

ho1

Where does this data come from? From the audits conducted by Johnston Carmichael?

holly.dwyer@uk.gt.com, 2025-09-09T09:17:24.620

CASS Governance

Key components

Oversight
Framework
Policies & procedures
Internal controls
Compliance monitoring
Risk management
Escalation

Operational structure

Lines of defence
CASS committee
Daily operations
Monitoring & controls
Client communication
Audit trails
CASS training

Challenges

Rule application
New products
Data integrity
System limitations
Oversight & accountability
Resource constraints
Outsourcing

Common breaches

Segregation failures
Inaccurate records
Use of client funds
Delayed refunding
Outsourcing oversight
Failure to report



Gillian Boston

Head of CASS

Gillian.Boston@jcca.co.uk

07442 495 640

Johnston Carmichael

20 Birchin Lane, London EC3V 9DU

7-11 Melville Street, Edinburgh EH3 7PE

227 West George Street, Glasgow G2 2ND

Where sharp minds meet



jcca.co.uk



This document has been prepared for information purposes only by Johnston Carmichael Chartered Accountants and Business Advisers ("JCCA"). The information contained in this document represents JCCA's interpretation of current legislation and HMRC practice at the date of this document. The contents of this document are not a substitute for specific tax, legal or professional advice and readers should seek tax advice based upon their own particular circumstances.

Johnston Carmichael is an independent member firm of Moore Global Network Limited and does not accept any responsibility or liability for the action or inactions on the part of any other individual member or correspondent firm or firms.

Insolvency Perspective

ICAEW CASS audits 2025 webinar



The better the question. The better the answer. The better the world works.



Shape the future
with confidence

01

Notable
insolvencies in
banking and
financial sector
from 2008

02

CASS
Principles

03

FRC CASS
Assurance
Standard
Requirements

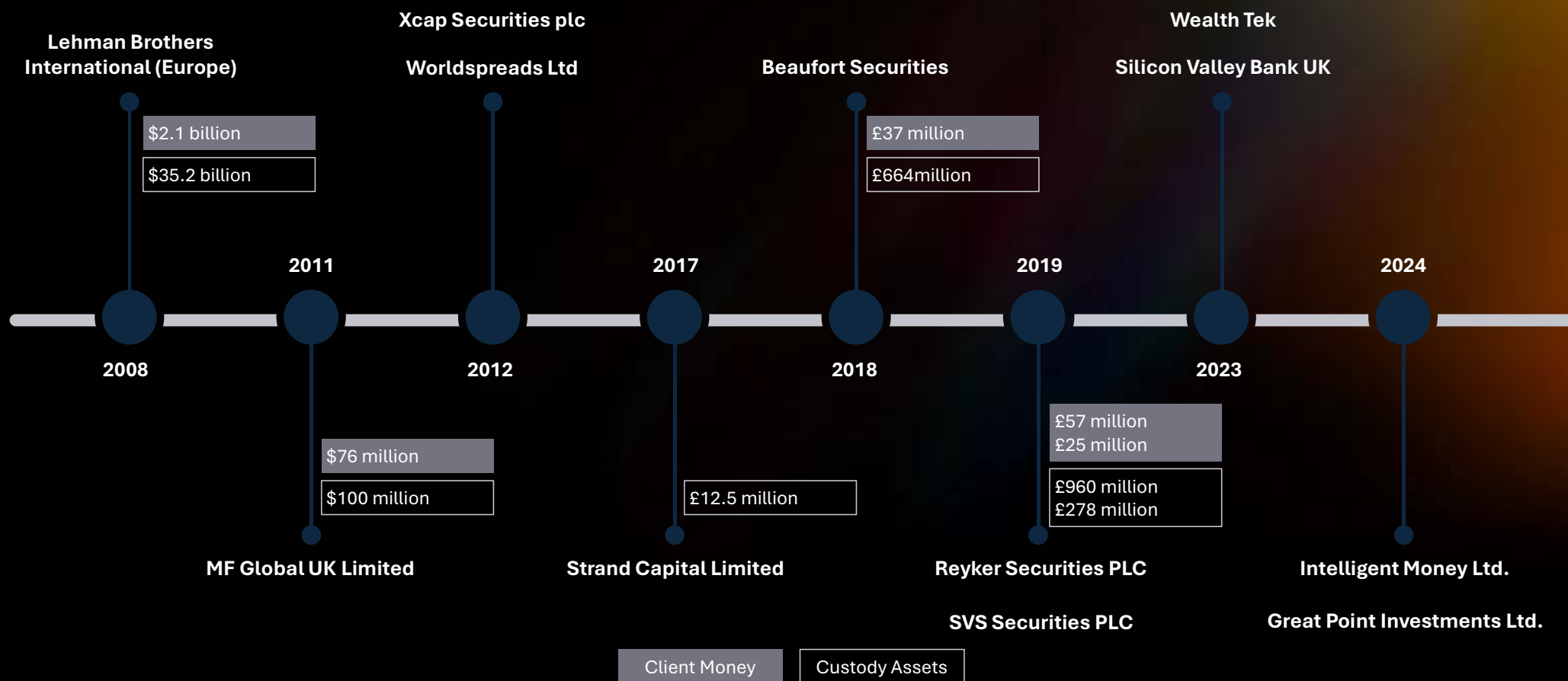
04

Key areas
where
Insolvency
perspective is
crucial

05

Key
considerations
to determine
whether to
issue an
adverse or
qualified
opinion

Timeline of failures in the UK insurance and financial sector from 2008



Insolvency Perspective

FCA Principle 10 for Businesses is:

Clients' Assets — A firm must arrange adequate protection for clients' assets when it is responsible for them.

The fundamental requirement to protect client assets is set out in CASS 6.2.1R with respect to safe custody assets and in CASS 7.12.2R with respect to client money. These CASS rules are as follows:

CASS 6.2.1R A firm must, when holding safe custody assets belonging to clients, make adequate arrangements so as to safeguard clients' ownership rights, especially in the event of the firm's **insolvency**, and to prevent the use of safe custody assets belonging to a client on the firm's own account except with the client's express consent.

CASS 7.12.2R A firm must introduce adequate organisational arrangements to minimise the risk of the loss or diminution of client money, or of rights in connection with client money, as a result of misuse of client money, fraud, poor administration, inadequate record-keeping or negligence.

Fundamental CASS Requirements

| No. | Requirement | Description | FCA Rule Reference |
|-----|---|--|--------------------------------|
| 1 | Adequate Arrangements for Client Money and Custody Assets | The requirements to protect clients' assets give rise to requirements for CASS firms to have adequate organisational arrangements. | CASS 6.2.1 R/CASS 7.12.2 R |
| 2 | Custody Asset Registration | Firms must effect appropriate registration or recording of legal title to a safe custody asset belonging to a client. | CASS 6.2.3 R |
| 3 | Daily Reconciliations | Firms must reconcile client money and custody assets daily to ensure accuracy and completeness. | CASS 6.6 & CASS 7.15 |
| 4 | Segregation of Client Money and Custody Assets | Firms should hold client money and custody assets separately from their own | CASS 6.1 & CASS 7.13 |
| 5 | CASS Resolution Pack (CASS RP) | Firms must maintain a pack of key documents to assist insolvency practitioners in returning client assets quickly. Documents must be retrievable within 48 hours of insolvency practitioner appointment. | CASS 10.1.2 G CASS 10.1.7 R |

Insolvency Requirements | Insolvency Mindset

“

In planning and performing the engagement, the CASS auditor shall also adopt an insolvency mind-set which evaluates the firm's client asset processes including trust status, segregation, record-keeping and reconciliations on the presumption that the firm may become insolvent.

An insolvency mindset in the context of CASS engagements requires the auditor to provide assurance that the records maintained by a firm are adequate to identify client assets at any time and without delay to allow their return to the legal owner (CASS 6.6.2 and 7.15.2).

The CASS auditor shall also consider in planning their audit whether the firm holds client assets that may be subject to loss, diminution or delay in being returned to their legal owner in the event of insolvency.

INSOLVENCY MINDSET (PAR 41)

Paragraphs 37-38 of the Contextual material to the FRC CASS Assurance Standard

Awareness of insolvency and trust law

CASS auditor is expected to have an understanding of how the CASS rules seek to effectively segregate client assets within the context of applicable trust and insolvency law.

The CASS Resolution Pack (CASS 10) is a key compliance tool that supports governance and helps Insolvency Practitioners efficiently return client money and assets in the event of a firm's insolvency. It contains essential business information and documentation required under the FCA's custody asset rules.

Requirements | Key areas where

Key Area

Why Insolvency Mindset Matters

Trust Status

In insolvency, assets held in trust are legally protected from being used to pay the firm's debts. If trust status is unclear or undocumented, client assets may be at risk.

Trust/Legal title is one of the four fundamental principles that underlie the CASS requirement (paragraph 8 of the Contextual Material), requiring **firms to establish and obtain acknowledgement of the trust status over client money and legal title to custody assets.**

Segregation

Proper segregation ensures that client assets are physically and legally separate, allowing administrators to quickly identify and return them in insolvency.

Segregation/Safeguarding is one of the four fundamental principles that underlie the CASS requirement which requires **the firm to segregate client monies and safeguard custody assets in a manner that is likely to be legally effective such that in the event of the insolvency of the firm client assets will be returned on a timely basis to their beneficial owners.**

Prudent segregation:

Under normal approach, if it is prudent to do so to prevent a shortfall in client money on the occurrence of a primary pooling event, a firm may pay money of its own into a client bank account and subsequently retain that money in the client bank account (CASS 7.13.41R).

Under alternative approach, a mandatory buffer, known as the prudent segregation amount, must be maintained during the day to ensure sufficient protection in case of insolvency (CASS 7.13.65R).

Record Keeping

Clear records are essential for tracing ownership and proving that assets belong to clients. Poor records can delay or prevent recovery in insolvency.

Paragraph 41 of the Standard states that an insolvency mindset in the context of CASS engagements requires the auditor to provide assurance that the records maintained by a firm are adequate to identify client assets at any time and without delay to allow their return to the legal owner (CASS 6.6.2 and 7.15.2).

Reconciliation

Accurate reconciliations help verify holdings. In insolvency, unresolved discrepancies can lead to confusion or loss of client assets.

Reconciliation is one of the four fundamental principles that underlie the CASS requirement which requires **the firm to perform internal and external reconciliations at the frequency required by the rules.**

What factors should the auditor consider when determining whether to issue an adverse or qualified

Paragraph 125 of the Standard outlines specific areas that the CASS auditor should consider that could result in an adverse opinion. The following questions/considerations have been derived from this guidance:

- — 1 Is there a risk that clients could lose their money or assets if the company were to become insolvent today?
- — 2 Could the return of client money or custody assets be significantly delayed, adversely affecting clients and market stability?
- — 3 Are there circumstances where client assets might be commingled or misclassified, possibly leading to loss or recovery delays?
- — 4 Are client entitlement records maintained accurately, clearly, and in a timely manner?
- — 5 Are historical records kept and readily accessible to support asset tracing?
- — 6 Are internal and external reconciliations completed promptly with only a reasonable number of discrepancies?
- — 7 Are the company's systems and controls robust enough to protect client assets, even during periods of stress?
- — 8 Do client agreements and disclosures offer sufficient legal protection for their assets?

Appendix

Requirements | References

| FRC CASS Assurance Standard | Summary |
|--|---|
| Par 20 | The fundamental requirement to protect client assets is set out in CASS 6.2.1R with respect to safe custody assets and in CASS 7.12.1R with respect to client money. |
| Par 35 | The CASS engagement team have received training, e.g., on how the CASS rules seek to effectively segregate client assets within the context of applicable trust and insolvency law |
| Par 41 | In planning and performing the engagement, the CASS auditor shall also adopt an insolvency mind-set |
| Par 125 | Highlights key issues that may lead to an adverse CASS audit opinion, including: risk of client asset loss during a breach, failure to maintain proper records, and significant errors or omissions in required reconciliations. |
| Appendix 9 | Under alternative approach, a mandatory buffer, known as the prudent segregation amount, must be maintained during the day to ensure sufficient protection in case of insolvency. |
| Contextual material to the Standard | |
| Par 2 | Requires firms to keep client money and custody assets separate from their own to reduce client loss risk if the firm becomes insolvent. Other FCA rules, like the Supervisory (SUP) rules, may also apply to CASS auditors. |
| Par 4 | The fundamental requirement to protect client assets is set out in CASS 6.2.1R with respect to safe custody assets and in CASS 7.12.1R with respect to client money. |
| Par 5 | Although MiFID and FCA CASS rules aim to protect client assets, operational risks like poor record-keeping and legal complexities can expose these assets. As a result, clients may face the risk of sharing losses with unrelated clients if the firm becomes insolvent. |
| Par 8 | Outlines the four fundamental principles that underlie the CASS requirements: Identification, Segregation/Safeguarding, Reconciliation, Trust/Legal Title. |
| Par 37-38 | Awareness of insolvency and trust law The CASS auditor should understand how CASS rules segregate client assets under trust and insolvency law to assess the effectiveness of the firm's protections if insolvency occurs. |
| Par 49 | Auditors need specific training, including understanding insolvency and trust law to recognise how segregation and tracing safeguard client assets if a firm becomes insolvent. |
| Par 51 | The CASS auditor must understand the CASS Rules in relation to trust and insolvency law well enough to be sceptical whether the firm's procedures effectively protect client assets in case of insolvency. |

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multidisciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2025 Ernst & Young LLP. Published in the UK.

All Rights Reserved.

UKC-040593 (UK) 08/25. Artwork by Creative UK.

ED None

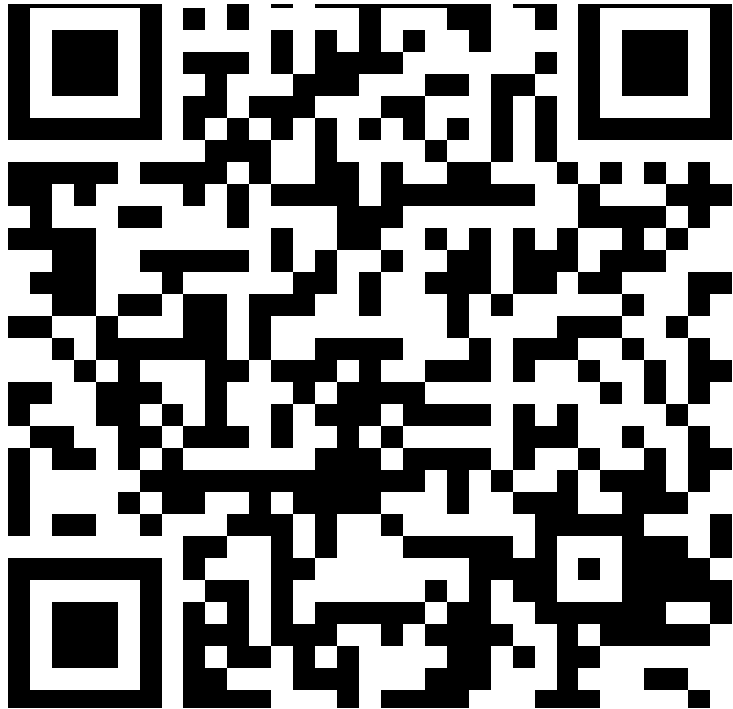
Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

ey.com/uk



Q&A

Next Faculty webinar



CASS 5 Audits 2025

16 October 10-11:30



icaew.com