



FACTSHEET: SAFEGUARDING AUDITS FOR FCA REGULATED FIRMS

FACTSHEET

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Factsheet: Safeguarding audits for FCA regulated firms

This factsheet considers some of the questions and next steps regulated firms and auditors/consultants may wish to consider in fulfilling the requirements set out in the Financial Conduct Authority's guidance for payment services and e-money firms. Following a further consultation that closed in April 2021, further guidance is expected from the FCA later this year.

Key regulations for this factsheet

This factsheet includes links and references to key regulations. There's a summary of the links, and guidance on how to use them, on page 2.

Section 1

Overview

Following a consultation in May 2020, the FCA released additional guidance for payment and e-money firms on 9 July 2020 in respect of safeguarding customers' funds. The guidance reminds authorised payment institutions or small payment institutions (collectively – PIs) and authorised e-money institutions or small e-money institutions (collectively – EMIs), that the conditions of authorisation require them to satisfy the FCA, that they have adequate internal control mechanisms and clarifies that, as part of satisfying this requirement the FCA “... **expect the firm to arrange specific annual audits of its compliance with the safeguarding requirements under the PSRs/EMRs**”.

In January 2021 the FCA released a further consultation which reaffirmed that the conditions of authorisation for PIs and EMIs require them to satisfy to the FCA that they have robust governance arrangements.

As part of satisfying the FCA that these regulated institutions have such arrangements, the FCA expect firms that need to arrange audits of their annual accounts under the Companies Act 2006 to arrange specific annual audits of their compliance with the safeguarding requirements under the PSRs/EMRs.

(Note: We have referred to this assurance engagement as a 'safeguarding audit' throughout this factsheet to keep it consistent with the terminology used by the FCA).

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Section 2

Links to regulations

Regulations and guidance

Key standards for this factsheet

[Payment Services and Electronic Money – Our Approach The FCA's role under the Payment Services Regulations 2017 and the Electronic Money Regulations 2011 June 2019 \(version 4\)](#)

[Feedback Statement FS20/10: Coronavirus and safeguarding customers' funds: guidance for payment and emoney firms 9 July 2020](#)

[Safeguarding reminder sent to firms in December 2019 \(page 325\)](#)

[ICAEW webpage on the new International Standard on Assurance Engagements \(UK\) 3000 \(July 2020\): Assurance Engagements Other Than Audits Or Reviews Of Historical Financial Information published by the Financial Reporting Council \(FRC\) in July 2020.](#)

Section 3

Timing

Q1

When is the first safeguarding audit report due by and what period should it cover?

The FCA guidance published on 9 July 2020 and the consultations of 28 January 2021 did not specify the timing of the reports. Furthermore, it did not provide details of the period the assurance opinion should cover but did state the FCA expect that some firms may wish to align the period with their accounting year end.

However, we might expect to see reporting dates within 12 months of the original date of 9 July 2020, when this requirement came into place.

Regulated institutions were asked to provide an attestation to the FCA that they meet the relevant rules in 2019 so the expectation is that firms would be able to demonstrate compliance with the requirements, having already attested to the FCA before, subject to any non-compliance or exceptions report by institutions. In the absence of prescribed timelines, it is the responsibility of the regulated firms to satisfy the FCA in respect of demonstrating compliance with the requirements and meeting these expectations.

The July 2020 guidance stated that institutions “should ensure this work is completed as soon as reasonably practicable” and should take steps to meet these expectations. Regulated Institutions should engage with the necessary parties, including the FCA, to determine an appropriate timeline and raise concerns if they are struggling to satisfy these expectations.

The FCA also expect firms to arrange audits of their compliance with safeguarding arrangements whenever there are any changes to their business model that would materially affect their safeguarding arrangements.

Q2

Is there a deadline for this audit report - is it similar to CASS audit in being 4 months following period end?

Neither the temporary guidance published on 9 July 2020 or the consultation on 28 January 2021 set out the timing of the reports including a deadline of when the reports should be submitted. Similar to Client Asset (CASS) reports, it may be reasonable for opinions to be submitted within 4 months of the period end date to mirror the CASS regime requirements. In absence of clear guidance, it is the responsibility of regulated institutions to satisfy the FCA requirements and these firms should engage with the necessary parties to determine the timelines as soon as reasonably practicable.

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Section 4

Assurance Framework

Q3

Is there an assurance framework for this audit?

The guidance refers to this engagement as an 'audit'. The FCA expect the auditor to provide an opinion addressed to the regulated institution on whether the firm has maintained organisational arrangements adequate to enable it to meet the FCA's expectations of its compliance with the safeguarding provisions of the EMRs/PSRs throughout the audit period and whether the firm met those expectations as at the audit period end date.

As this engagement provides an opinion on compliance with the FCA "expectations", and not an opinion on "historical financial information", it cannot be performed in accordance with auditing standards, so would not constitute an "audit" but would instead be considered an "assurance engagement". We have referred to this assurance engagement as a 'safeguarding audit' throughout this factsheet to keep it consistent with the terminology used by the FCA.

There is currently no specific framework or assurance standard for the safeguarding "audit" required for payment services and e-money firms. No specific guidance has been included in either the July 2020 guidance or subsequent FCA consultations as to the appropriate standard that should be used when carrying out these engagements.

In the absence of a specific assurance standard, auditors and consultants should consider the most appropriate professional standard, which may be ISAE (UK) 3000. The International Standard on Assurance Engagements (ISAE (UK) 3000) looks at assurance engagements other than audits or reviews of historical financial information and can be applied to a relevant subject matter including the safeguarding requirements in the EMR and PSR regulations and FCA guidance.

Section 5

Scope and Approach

Q4

In reference to identification of specific rules or guidance - what is the scope of this audit? Are the FCA's expectations in relation to compliance with safeguarding requirements defined?

The FCA consultations and guidance states that the FCA expect the "auditor" to provide an opinion addressed to the regulated institution on:

- whether the firm has maintained organisational arrangements adequate **to enable it to meet our expectations** of its compliance with the safeguarding provisions of the EMRs/PSRs throughout the audit period, and
- whether the firm met those expectations as at the audit period end date

What constitutes these "expectations" is not further defined but the requirements relate to an institution's compliance with the safeguarding provisions of the EMRs/PSRs as set out in chapter 10 of the FCA Approach Document.

Any audits will need to consider how an institution is meeting the specific requirements set out in chapter 10.

Institutions should also consider further guidance supporting chapter 10 released by the FCA including the Safeguarding reminder sent to firms in December 2019 and the additional guidance published in July 2020 (which included the requirement for institutions to obtain these opinions).

Section 6

Reporting

Q5

Would the audit approach be on a sample basis covering the full period, and what is being reported on in the opinion?

There is currently no specific framework or assurance standard for the safeguarding audit required for payment and e-money firms. As a result, there is no standardised reporting framework, form of opinion or pro-forma currently defined.

The guidance provided by the FCA states that institutions need to obtain an audit opinion (addressed to the institution) on:

- whether the firm has maintained organisational arrangements adequate to enable it to meet the FCA's expectations of its compliance with the safeguarding provisions of the EMRs/PSRs (as set out in chapter 10 of our Approach Document), throughout the audit period, and
- whether the firm met those expectations as at the audit period end date.

As a result, any opinion would need to cover a full period and period end. The guidance refers to regulated institutions having organisational arrangement adequate to meet the provisions set out in chapter 10 and this is generally considered to be controls. Where institutions rely on technology and business controls, the opinion is expected to cover both. As detailed above, there is currently no framework defined by the FCA for this type of work but based on the requirements, it is expected that the report would consider controls throughout the period and at period end. In the absence of a specific assurance standard and therefore pro-forma, auditors and consultants may consider the most appropriate professional standard, which may be ISAE (UK) 3000 and report under this type of engagement.

As noted above, regulated institutions should have already attested in 2019 that they have or have not met regulatory expectations. The regulator is likely to seek a continuation of an ongoing assurance that their rules are being met. We would expect to see reports covering compliance over a period (Type 2) and not reports on controls at a particular date (Type 1). In rare cases it may be the case that a regulated institution can make the argument that a Type 1 report is warranted.

Q7

Would Auditors/Consultants provide a 'clean' report or any form of report if there are no breaches or findings noted that require reporting? Is there an agreed format of the report to be issued?

As detailed under question 3 above, there is currently no specific framework or assurance standard for the safeguarding audit required for payment and e-money firms. As a result, there is no standardised reporting framework, form of opinion or pro-forma currently defined. However, the FCA guidance states that regulated institutions need to obtain an audit opinion (addressed to the institution) on whether the firm has maintained organisational arrangements throughout the audit period and whether the firm met those expectations as at the audit period end date. Any report is expected to be delivered to the regulated institutions and not directly to the FCA (unlike the majority of Client Asset reports). Where auditors and consultants complete these reviews under ISAE (UK) 3000 (as considered above), a report will be issued to the institution even where no issues are noted. It is expected that any opinion is documented and provides either a clean opinion or comment on any control deficiencies/areas of non-compliance identified. It is expected that copies of the opinion will likely be requested via supervisory engagements by the FCA.

Q8

If Auditors / Consultants find breaches/areas of non-compliance, do they report direct to the FCA or do they report to Regulated Institutions and is it their responsibility to report to FCA?

As detailed above, the requirements set out in the FCA guidance are for regulated institutions to obtain an audit opinion (addressed to the institution). Therefore, the report will not be sent directly to the FCA. However, there are considerations in the guidance of matters that may be immediately reportable to the FCA directly. See question 6 for further details.

Section 7

What do firms need to do now?

It is over a year from 9 July 2020, when the FCA communicated in their guidance that they expect regulated institutions to arrange specific annual audits of their compliance with the safeguarding requirements under the PSRs/EMRs. Firms should be considering the following points and next steps, if not already done so, in order to meet the FCA requirements and expectations.

- Determine if the regulated institution is in scope of a safeguarding audit. Consider audit requirements under the Companies Act 2006
- Articulate what business lines/activities are in scope of the audit. Consider all payment services and electronic money activities
- Agree on the period to be audited and period end date
- Undertake appropriate reviews and a gap analysis of proposed requirements. Consider any remediation plan/actions required
- Assess readiness for audit. Are the policies, systems and controls well articulated and documented?
- Select and appoint a firm to carry out the audit, exercising due skill, care and diligence

Contacts and further help

Factsheets for faculty members

This factsheet is part of a series designed to provide practical help for Financial Services Faculty members in exercising their professional judgement.

The faculty cannot offer interpretations of standards or give views on the application of standards to particular companies or transactions.

Helpsheets

Topics covered by other helpsheets include:

- Libor Transition
- Regulatory Returns
- Client Assets

A complete list of helpsheets can be found here:

<https://www.icaew.com/technical/financial-services/fs-helpsheets>

Factsheet comments and suggestions

To comment on factsheets, helpsheets, or to suggest topics that you'd like to see covered by factsheets, email us at fsf@icaew.com

The Financial Services Faculty

The faculty aims to help members keep up to date with the implications of new standards, regulations and practice in financial reporting.

Our international community of financial services professionals also contribute to the ICAEW's work in influencing the development of financial services concepts, standards and regulation.

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