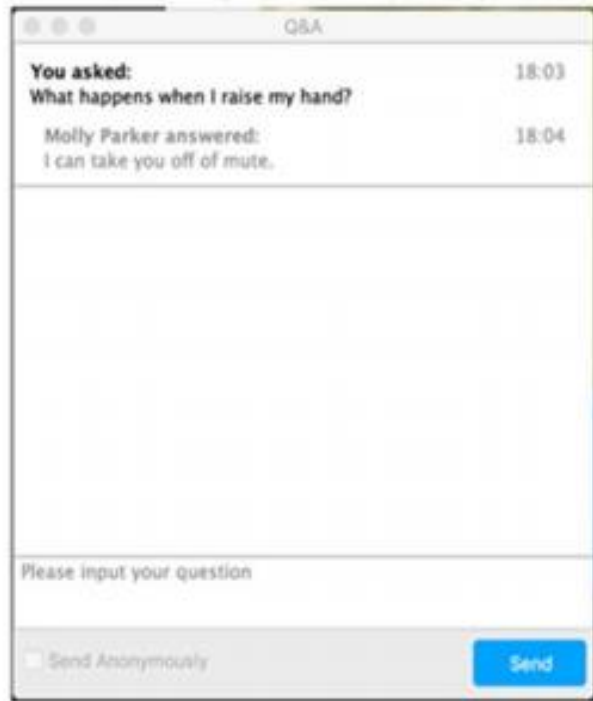




CASS 5 Audits 2024

17 October 2024

Ask a question



The screenshot shows a Q&A interface with the following elements:

- Header: Q&A
- Question: You asked: What happens when I raise my hand? 18:03
- Answer: Molly Parker answered: I can take you off of mute. 18:04
- Input field: Please input your question
- Checkbox: Send Anonymously
- Button: Send

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?

From 1 November 2023, 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 and 30 minutes 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](https://www.icaew.com/cpdchanges).



Speakers



**Paul
McIlrath, FCA**



**George
Williams, Deloitte**



**Nneka Crichlow,
EY**



**Sarah Oliver,
Acturis Ltd**



**Louise
Patrick, PwC**



**John Needham,
PKF**



**Edward Westrip,
Forvis Mazars**

Webinar overview

1. **Current CASS 5 landscape – Paul McIlrath, FCA**
2. **FY23 CASS 5 Reporting Trends – George Williams, Deloitte**
3. **IT Systems – Nneka Crichlow, EY; Louise Patrick, PwC; Mark Garner and Sarah Oliver, Acturis**
4. **Client Money Calculations “Deep Dive” – Edward Westrip, Forvis Mazars**
5. **CASS Governance – John Needham, PKF Littlejohn LLP**
6. **Q&A**





Current CASS 5 landscape



Paul McIlrath, FCA



FY23 CASS 5 Reporting Trends

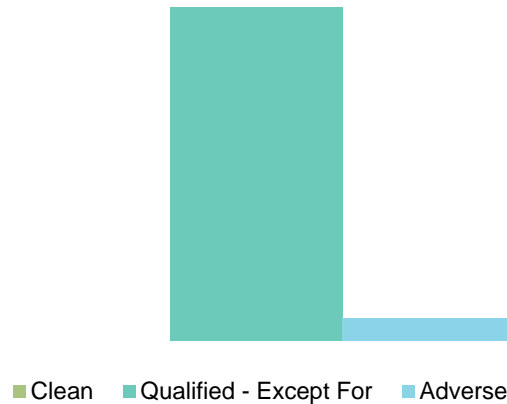


George Williams, Deloitte LLP

FY23 CASS 5 Reporting Trends



Types of opinions issued



In general there has been a reasonably consistent theme being reported in CASS 5 reports in FY23.

- “Qualified – except for opinions” – some breaches but not pervasive most common
- “Adverse” – pervasive non-compliance are rare
- “Clean” – no breaches are very rare

Where clean opinions are seen, it is quite common that these become adverse opinions upon the change of auditor.

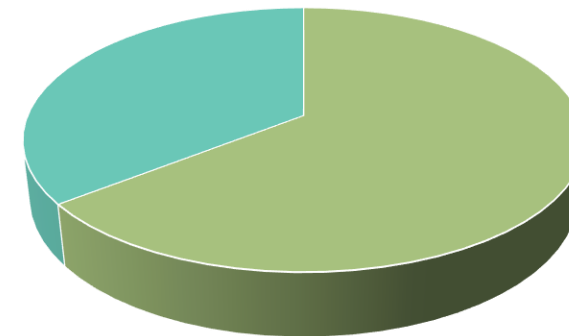
Common recurring breaches

Known industry challenge

- Commission / fee only receipts
- Incorrect entity receipts

Firms are generally improving the detective controls in respect of these breaches and focused on timely resolution.

Identifying party



■ Identified by the Firm ■ Identified by Auditor

FY23 CASS 5 Reporting Trends



Recurring breaches commonly identified by the auditor

Insurer TOBAs:

- Timing of commissions earned
- Inaccurate reference to type of bank account used
- Inconsistency and/or incomplete Risk Transfer terms (e.g. missing co-mingling and/or subordination terms)
- Incomplete cash flows referenced (e.g. premiums, returned premiums, claims, etc.)
- Used for entities that aren't party to the contract (common in groups)

Money Held with Third Parties:

- Firms not contacting third parties
- Firms not tracking money held at third parties
- Firms removing transactions from the balance prior to receiving confirmation from the third parties

Bank charges payments

- Payments being made out of the client money bank account

Increasing trend of breaches identified by the auditor

Bank acknowledgement letters and money market fund documentation:

- Signed documents obtained and retained by the firm
- Incorrect details (entity name, sort code, account number) included in the letter

Unallocated cash not being resolved in a timely basis

Funding / Bad debt provision adjustment to debtors

- Firms not having a policy that can be applied consistently
- Firms including provision for non-funded debtors (i.e. where there is no credit risk to the Trust)

FY23 CASS 5 Reporting Trends



Improving trends

Appointed representatives

- Improved oversight and due diligence
- Reduction in number of ARs holding money

Funding

- Improved controls and MI reporting
- Reduced levels

Mixed observations / experiences

Credit writebacks

Risk / Control matrices

Incorrect payments



IT Systems and CASS 5



Nneka Crichlow, EY

Louise Patrick, PwC

Mark Garner and Sarah Oliver, Acturis

Information technology and the CASS audit – what are the requirements?

Firms:

- Must assess the role of IT as part of their CASS risks, rules and controls mapping
- Are responsible for designing and operating controls many of which have IT elements
- May rely on IT systems across their business which impact the CASS and Financial statement audits e.g. IT can be used
 - to process transactions,
 - to keep records,
 - to calculate certain inputs of the client money calculation and
 - to perform client money reconciliations
- IT affects not just operations but also:
 - Customer experience
 - Regulatory compliance

Auditors:

- The FRC CASS Assurance Standard (paragraphs 70 and 85) specifically states that CASS auditors shall obtain an understanding of the firm's use of information technology and the automated procedures it uses relevant to its compliance with CASS rules in support of the two opinion statements issued i.e., those on
 - Adequacy of the systems and controls maintained by the firm to enable it to comply with the relevant CASS rules throughout the CASS audit period
 - The firm's compliance with the relevant CASS rules at the period end date
- To issue these opinions we design and execute tests of key controls including IT dependent and application controls

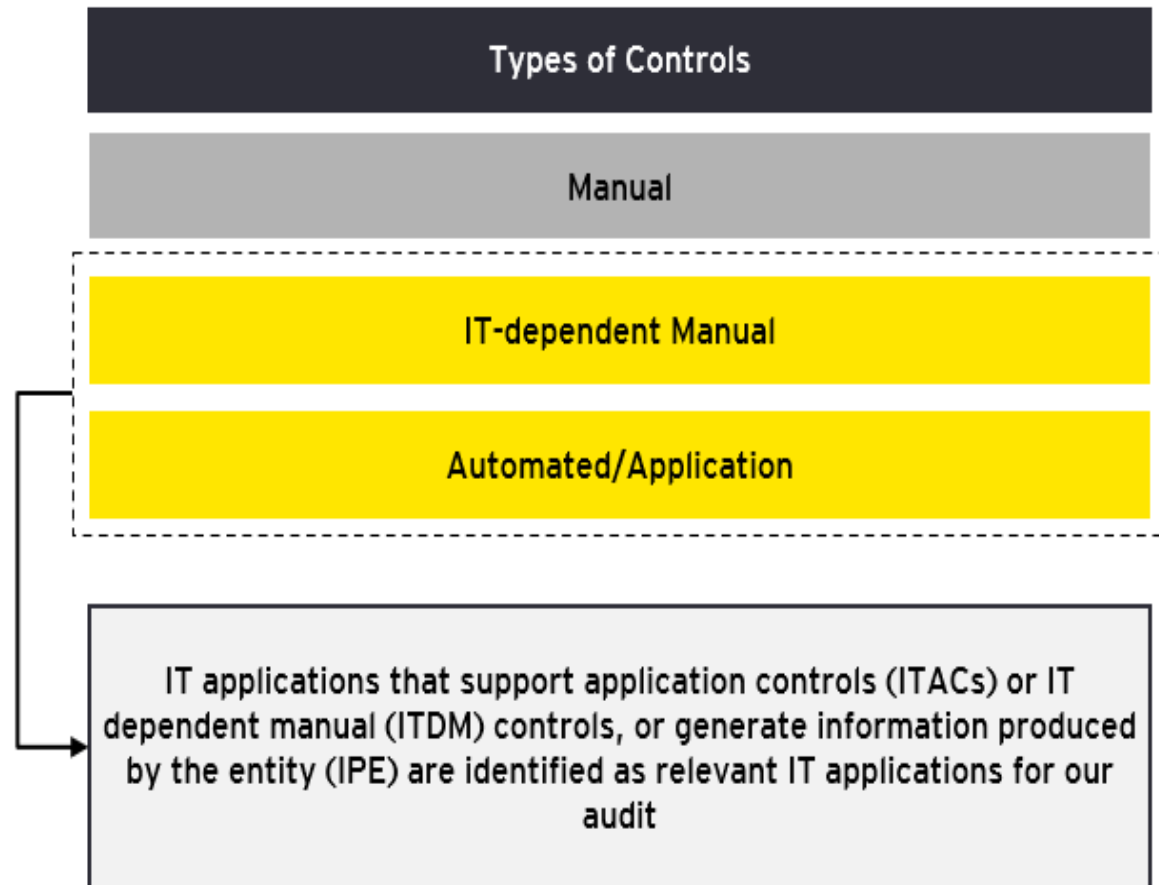
Understanding IT controls

IT General Controls

- ▶ Controls relate to
 - Managing Change** - Manages changes to IT applications, data used by IT applications made at the database level and supporting IT environment components such as operating systems and network software
 - Managing Access** - Manages access to IT applications, data and other IT environment components
 - Managing IT Operations** - Manages the operations of the IT environment components (e.g., monitors processing, defines what to backup and how frequently)
- ▶ Audit firms may leverage the testing performed for the statutory audit
- ▶ If an ITGC is ineffective, auditors consider the impact on our CASS audit opinion (and in some cases may raise a breach around adequate arrangements)
- ▶ Whilst practice on reporting may vary between audit firms, all firms require to factor ineffective ITGCs into risk assessments on whether the firm is at heightened risk of other specific CASS rules being breached

Understanding IT controls

Types of Controls



Application controls

- Are IT controls designed with a specific outcome in relation to either **input, processing or output**
- IT application controls can be specific to the CASS audit and so require testing by CASS auditors
- Examples include:
 - -Automated Controls to enforce certain data rules
 - -Automated Calculations, Interfaces and Reports
 - -System Enforced Security Controls

Is the IT service provider responsible for supporting the CASS audit?

No:

- It is important to understand that there are limitations to the service organisation's controls
- It is the firm, not the IT provider who is responsible for compliance with CASS rules
- IT providers do not look at how the system sits within the wider picture of the firm's control infrastructure

Why:

- Firms should seek to understand what they may be required to do to support the controls of the IT service organisation:

Providing timely access and termination requests as well as regular review of access to the service organisation services by their personnel and the firm's auditors	Protecting their physical equipment against infection by computer viruses, malicious codes and unauthorized software
Installing firewalls, VPN, intrusion detection and other protections within their environments	The performance of UAT testing on any requested change

An introduction to Acturis - Why are we here?

- **We provide:**
 - software as a service provision of a general insurance platform for brokers
 - tools to allow our customers to design auditable processes and controls which are compliant with the rules
- **We don't :**
 - Interpret legislation
 - Design your processes and controls for you
 - Provide compliance guidance - we are not CASS experts; you need to understand the controls of your software service providers and how they help achieve CASS compliance
- **Our aim today:**
 - Provide a summary of features we would expect any good system to have to support customers with compliance and auditing



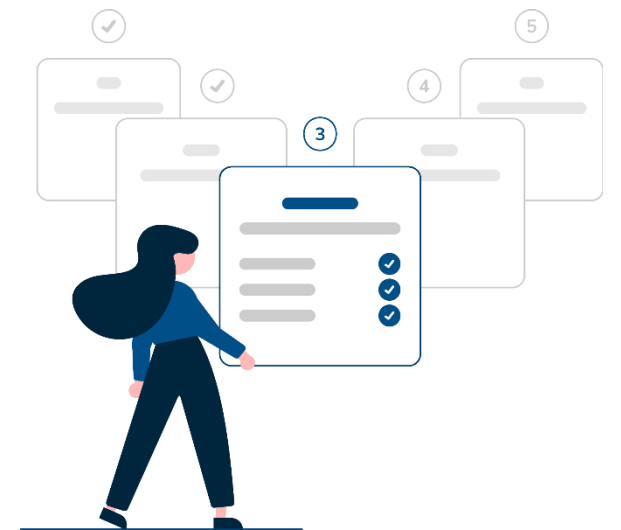


What to expect from a Software House/Platform (ITGCs)

Clients should expect a Software Platform to:

- Demonstrate Business Continuity Planning (E.g. ISO 22301)
- Perform assessments and/or audits to ensure the company is taking cybersecurity seriously (E.g. ISO 27001, or SOC 1 with IT and Security controls)
- Understand the regulations and standards in respect of IT functionality and infrastructure they need to abide by
 - Note – this is not the same as understanding the regulations you need to abide by but rather where we need to build IT general controls or system functionalities how those need to be managed by us.
 - An example is - if a system allows card payments then we should understand whether they should be Payment Card Industry Data Security Standard compliant but we then wouldn't assess whether using card payment providers (or the manner in which they are used) is CASS compliant
- Provide a UAT testing environment on which to test prospective changes
- Undergo annual audits on the above

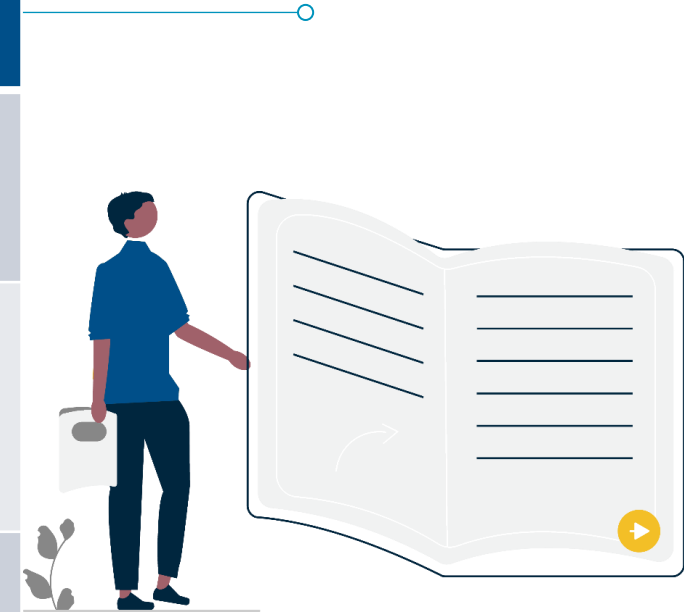
These ensure that your data has integrity, resiliency and availability.





SOC 1 Type II* Reports

Generic SOC 1 Report	Acturis SOC 1 Report
Covers internal controls of a service organisation	Covers internal controls of Acturis
Scoped as per service organisation's requirements	Scoped to focus on HR, IT, Security, Disaster Recovery (DR), and Compliance aspects of Acturis and the Acturis Platform
Assessed by qualified auditors	Assessed by an external (big four) qualified auditor
The full report is required to be useful	The full report is required to be useful
May require payment to receive a copy of a report	Requires a shared cost payment for a report



*Type I reports are “point in time” based assessments which test design;
 Type II reports are "period of time" based assessments which test design and operation.



IT application controls - System Enforced Security Controls over Access

Customise Access per user:

User Roles

- Block access to specific screens, system actions or folders within the Reporting suite
- Standard set of rules but also allow bespoke rules to be configured
- Observer User Role

User Data Access

- Restrict access to particular Offices or Accounting Entities
- Configured separately for the Core Application and Reporting suite
- Access levels should include:
 - No Access
 - Read Only
 - Full Access
- Audit record – Users should be unable to delete

Authorisation

- Dual authorisation controls
- Authorisation limits
- Adjustment reasons

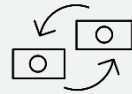
Examples of CASS IT configurations

CLIENT MONEY CONFIGURATION



Commission Extraction

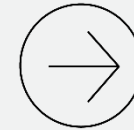
TOBA level rules determine when commission can be drawdown from the client money bank account to the office bank account



Funding

TOBA level rules determine whether Premium and Tax is settled before Income

Rules to determine whether payment should be blocked if funding would arise



Risk Transfer

Ability to flag Invoice Transactions as Risk Transfer



Third Party

Ability to flag Invoice Transactions as Third Party

Examples of System Generated Reports

Standard Reports:

- Bank Balance
- Debtor
- Creditor
- Income Unavailable for Drawdown
- Money with Third Parties
- Unallocated Cash

Healthcheck Reports:

- Pending Transactions
- Incomplete Invoices
- Funding



IT controls are useful tools but what can go wrong if they don't function as intended?

Risks

1. Basing decisions or reporting on inaccurate or incomplete data
2. Over completeness - using the wrong data cut off
3. Failing to mitigate the potential for error and to minimise the risk of fraud

Each risk creates potential breaches of CASS 5 and other regulations.

The below examples are not an exhaustive list

Inability to produce accurate client money calculations

Issues in payment processing or execution of mandates

Delayed allocation of client monies or resolution of reconciling items

Inaccurate client records and statements



Mitigating IT risk

Conduct User Acceptance Testing

Development of scenarios to test whether IT functions as intended

Why?

- Helps to validate user requirements
- Enhances user understanding of the process
- Improves documentation and training
- Identifies functional issues
- Reduces implementation risks
- Helps verify that the system has the necessary controls

How?

- Have clearly defined criteria for success
- Engage the right stakeholders
- Develop a comprehensive test plan
- Use a test environment that mirrors production
- Train your testers in how it is supposed to work
- Clearly document, escalate and track resolution of any issues (iterative tests)

Consider SOC1 report (and similar) exceptions

- **Impact on firm:** How could the issues potentially lead to breaches in CASS compliance?
- **Management Response:** Effective corrective actions or compensating controls may mitigate the risk associated with the exceptions.
- **Consider Complementary User Entity Controls:** Does your firm have other controls internally which offset the exceptions noted in the SOC 1 report?
- **Follow-Up Procedures:** Ensure that the service organisation has addressed the exceptions in subsequent periods.



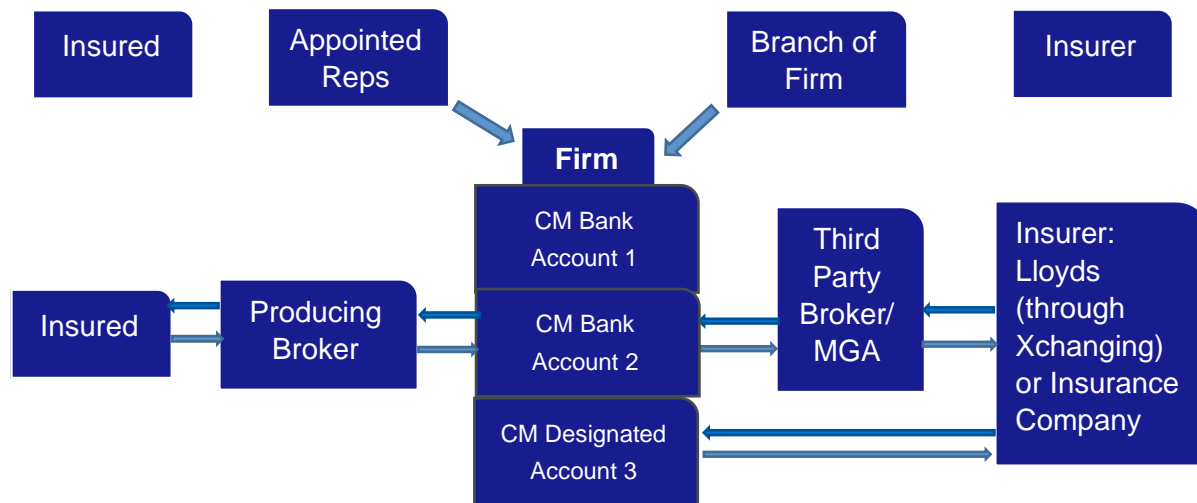
Client Money Calculations “Deep Dive”

Edward Westrip, ICAEW CASS 5 Webinar, 17 October 2024

Client Money Calculations “Deep Dive”

Before you start

Illustrative client money flows



CASS rules: CASS 5.5.18 R to 25 R, CASS 5.5.5 33G to 35 G,
CASS 5.5.65 R (4) to (6) & CASS 5.5.79 G to 83 R

Key messages

- Must understand the end-to-end client money flows and what the firm is responsible for until discharge
- Remain responsible for monies held at third parties until discharged (paid on to insurer or a person with risk transfer)
 - Chasing exercise (and include in calculation until discharge)
 - Overseas insurer ‘year and a day rule’ (steps to follow up and ultimately can exclude from the calculation)
- For uncleared cheques drawn must continue to treat the sum concerned as client money until presented and paid
- Responsible for appointed representatives and under 'periodic segregation' client monies must be held to cover reasonable estimate of monies these representatives hold

Client Money Calculations

“Deep Dive”

A snapshot

1) Perform CMC – compare client money resource to client money requirement.

2) Make any deficit good or transfer surplus out -

If **Resource > Requirement** pay the **surplus** out of the client money account.

If **Resource < Requirement** make **deficit** good from corporate account

On the **same business day** of performing **the CMC**.

3) Perform Bank reconciliations - Within **10 days of** carrying out a **CMC** reconcile the client money bank accounts to bank statements.

CASS rules: CASS 5.5.62 G (1) & CASS 5.5.63 R

Key messages

- Ensures sufficient monies in the trust
 - Cannot otherwise withdraw commission received as a mixed remittance
 - Don't withdraw monies if prudent margin required or if minimum sum required to maintain account
- Protects clients in the event of insolvency
- Conduct at least every 25 business days (i.e. monthly)
 - No 'interim' draw-downs of commission without performing a calculation
- Consider if sufficiently frequent given the business lines, scale and volume
- Where bank reconciliation reveals incorrect records consider performing new calculation

Client Money Calculations

“Deep Dive”

Methods allowed

- 1) Accruals method
- 2) Client balance method

A firm must within a reasonable period be able to match its client money resource to its requirement by reference to individual clients (such matching should be achieved for the majority of clients and transactions).

Note: A firm must choose one method, keep a record of the choice, and apply consistently throughout the financial year.

CASS rules: CASS 5.5.62 G (2), CASS 5.5.64 R & CASS 5.5.69 R

Key messages

- Most firms use the accruals method
 - Based on accounting records in the trial balance
- Can use a method to calculate based upon individual balances excluding negative balances
 - Based upon accounting flows
 - Not a common method
 - Should demonstrate at least annually to a high level
 - Resource - CASS 5.5.65 R (1), (4) to (6) & requirement - CASS 5.5.66 R & CASS 5.5.67 R
- Focussing on accruals method today

Client Money Calculations

“Deep Dive”

Calculating the resource (1)

- Client money resource =
- Aggregate of the balance on the firm’s client money bank accounts PLUS
- Monies held at third parties PLUS
- Insurance debtors PLUS
 - ST: insurance debtors (no prefunded items) or
 - **NST**: insurance debtors (including pre-funded items) due from insurance companies, clients and other persons, valued on a prudent and consistent basis

Continued...

CASS rules: CASS 5.5.65 R

Key messages

- Must use own internally generated independent records
 - Care with bank records
- Remain responsible for monies held at third parties until discharged
- Statutory trust (‘ST’) - pre-funded items excluded as does not permit such funding (payment before cleared funds received)
- Non-statutory trust (‘NST’) - bad debt policy for funded items expected to be developed for the calculation and not a simple reuse of the financial reporting

Client Money Calculations

“Deep Dive”

Calculating the resource (2)

Continued

- **NST** Where client monies held as designated investments valued on prudent and consistent basis PLUS
- **NST:** amount of any letter of credit or unconditional guarantee by an approved bank (restricted so as not to create a surplus)

Note: Ledger balances to be used for the calculation on day “n” are as at the previous business day (i.e., as at day ‘n-1’)

CASS rules: CASS 5.5.65 R

Key messages

- For designated investments may need permission to manage investments
 - Restrictions in CASS 5 Annex 1
 - Must meet shortfall
- Also show uncleared cheques drawn in resource (CASS 5.5.82 R)
- Note live ledgers require care

Client Money Calculations

“Deep Dive”

Calculating the requirement (accruals method)

- Client money requirement =
- All insurance creditors shown in the firm’s ledgers (due to insurance companies, clients and third parties) PLUS
- Unearned commission (accrued, but not due and payable) as at the date of the calculation (if the firm cannot provide an exact figure for this they can use a prudent estimate instead) PLUS
- Money held at third parties (equal to that included in the resource) PLUS
- Money with appointed representatives (under periodic segregation and for which monies are held within the client bank account)

CASS rules: CASS 5.5.68 R

Key messages

- Checking how the system is set up
- Unearned on cash basis for CASS and not policy inception under accounting
- Adjust for ‘pay as paid’ clauses where cannot take the commission until the premium is paid
 - Importance of agency management and control over TOBA logs and communication
- Adjust for cheques received not cleared - need cleared funds as cannot advance monies to the firm (ST & NST)
- Commission only remittances should be withdrawn when received
- Also show uncleared cheques in requirement (CASS 5.5.82 R)

Client Money Calculations “Deep Dive”

FSA guide to client money for general insurance intermediaries

Statutory trust (accruals method)

Non-statutory trust (accruals method)

Guide to Client Money for General Insurance Intermediaries	
Resource	
(1) Bank balances	
Client Statutory Trust Account 1	£36,502.45
Client Statutory Trust Account 2	£15,120.78
Client Statutory Trust Deposit Account	£25,000.00
Suspense Account (unreconciled items)	£350.07
Client currency account 1	£15,103.00
Client currency account 2	£ 0.00
Aggregate bank balances	£92,076.20
(2) Money held at third parties	
Intermediate broker 1	£7,550.75
Intermediate broker 2	£19,362.03
Overseas intermediate broker 1	£3,775.00
Overseas intermediate broker 2	£0.00
Aggregate of balances held with third parties	£30,687.78
(3) Insurance debtors (not including pre-funded items)	
Insurance debtors (due from clients)	£27,239.90
Insurance debtors (due from insurers)	£22,108.25
Total insurance debtors	£49,348.15
Resource available	£172,112.23
Requirement	
(4) Insurance creditors	
Insurance creditors (due to insurers)	£52,256.56
Insurance creditors (due to other persons)	£9,123.75
Insurance creditors (due to clients)	£17,149.39
Total insurance creditors	£78,529.70
Interest accrued	£66.25
(5) Unearned commission	£23,526.25
(2) Money held at third parties	£30,687.78
(6) Money with appointed representatives	£8,506.25
Requirement to cover	£141,615.23
Resource	£172,112.23
Surplus/deficit	£30,497.00
<small>In the example there is a surplus of funds in the client money account – most likely a result of accrued commission and interest which has not yet been withdrawn. This surplus must be removed from the client money account on the same day the calculation is done.</small>	
	21

Guide to Client Money for General Insurance Intermediaries	
Resource	
(1) Bank balances	
Client Non-Statutory Trust Account 1	£9,262.55
Client Non-Statutory Trust Account 2	£5,120.78
Client Non-Statutory Trust Deposit Account	£10,000.00
Suspense Account (unreconciled items)	£350.07
Client currency account 1	£15,103.00
Client currency account 2	£0.00
Aggregate bank balances	£39,836.40
(2) Money held at third parties	
Intermediate broker 1	£7,550.75
Intermediate broker 2	£19,362.03
Overseas intermediate broker 1	£3,775.00
Overseas intermediate broker 2	£0.00
Aggregate of balances held with third parties	£30,687.78
(3) Insurance debtors (including pre-funded items)	
Insurance debtors (due from clients)	£27,239.90
Insurance debtors (due from insurers)	£22,108.25
Total insurance debtors	£49,348.15
(7) Value of any designated investments	£0.00
(8) Amount of letter of credit or unconditional guarantee	£0.00
Resource available	£119,872.33
Requirement	
(4) Insurance creditors	
Insurance creditors (due to insurers)	£25,016.66
Insurance creditors (due to other persons)	£9,123.75
Insurance creditors (due to clients)	£7,149.39
Total insurance creditors	£41,289.80
Interest accrued (due to clients)	£66.25
(5) Unearned commission	£23,526.25
(2) Money held at third parties	£30,687.78
(6) Money with appointed representatives	£8,506.25
Requirement to cover	£104,925.33
Resource	£119,872.33
Surplus/deficit	£14,897.00
<small>In the example, premiums have been advanced to insurers before the client has paid the firm and claims money has been paid to clients before the firm has received it from the insurer. This is reflected in reduced balances in the client money trust accounts and insurance creditors (compared to the statutory trust example). The example shows there is a surplus of funds in the client money account – most likely a result of accrued commission and interest which has not yet been withdrawn. This surplus must be removed from the client money account on the same day the calculation is done.</small>	
	23

Key messages

- CASS 5 rules date from January 2005
- No major revisions
- Glossary definitions for type of client money account from CASS 7
- FSA guide produced in 2007 still available on FCA website
- Clear on client money calculations and layout
- Includes client balance method
- Care must be taken in using the guide as compliance has evolved (e.g. no interim draw-downs, full bank due diligence every time, showing uncleared cheques drawn)

Client Money Calculations

“Deep Dive”

Where firms go wrong (1)

Set-up

- Failure to check parameterisation/configuration of reports and set for cash basis rather than accounting
- Not a single aggregated calculation (done by currency and not translated and added line by line)
- Spreadsheet errors (not totalling or adding up)
- Inappropriate reliance upon bank statements
- Mis-managing different FX currencies (where a currency is translated into another within the ledger)
- Not capturing all aspects of the business including all client bank accounts and designated investments

Result of the calculation

- Late transfers (i.e. not the same day) or not fully transferred for currencies below minimum amount
- Not reconciling result to realised brokerage to identify discrepancies
- Not reconciling the cash book balance in the calculation or reconciling late or not all accounts (e.g. deposit)
- Not monitoring ageing of discrepancies and taking action to resolve and prevent unexpected discrepancies in calculation or reconciliation
- Not performing the individual client balance method or performing to a too low threshold of monies

Client Money Calculations

“Deep Dive”

Where firms go wrong (2)

Attention to detail

- Monies held at third parties not included or incorrectly included (contact exercise and confirmation)
- Not making adjustments for uncleared cash (and commission thereon) and presenting uncleared cheques drawn
- Not adjusting for timing of commission withdrawal - pay as paid clauses (communicate - agency management)
- Not adjusting drawdown for a prudent margin (“having regard to any unreconciled items in its business ledgers as at the date on which the calculations are performed”) (CASS 5.5.10 R & CASS 5.5.63 R (1)(b)(ii)
 - Prudent segregation requires a policy and not an arbitrary buffer but risk specific
- Fails to include suspense accounts (unreconciled items) in requirement so that monies remain held
- Insufficiently prudent policy for providing for funded items (NST)
- Failure to properly consider appointed representatives and identify where periodic segregation applies

And finally – there must be retention of evidence by the firm supporting the balances included and control evidence for preparer and reviewer relating to the calculation and transfer of result and follow up of discrepancies

Client Money Calculations

“Deep Dive”

Concluding remarks

- End to end flows must be understood to capture all client monies is responsible for in the calculation
- Firms must take action as a result of the discrepancies arising in the calculation and associated external bank reconciliation
- The calculation and associated reconciliation are detective controls and not a substitute for controls to prevent discrepancies
- Firms must follow the detail of the rules
- Auditors must identify poor compliance with the rules



CASS Governance



John Needham, PKF Littlejohn LLP

Importance of CASS Governance



- Encompasses operations and controls in relation to CASS
- Important for the firm to articulate how it operates its CASS environment
- Auditors need to consider as part of risk assessment and planning and ultimately for their opinion on controls
- Area that often warrants further attention

CASS Governance bulletin



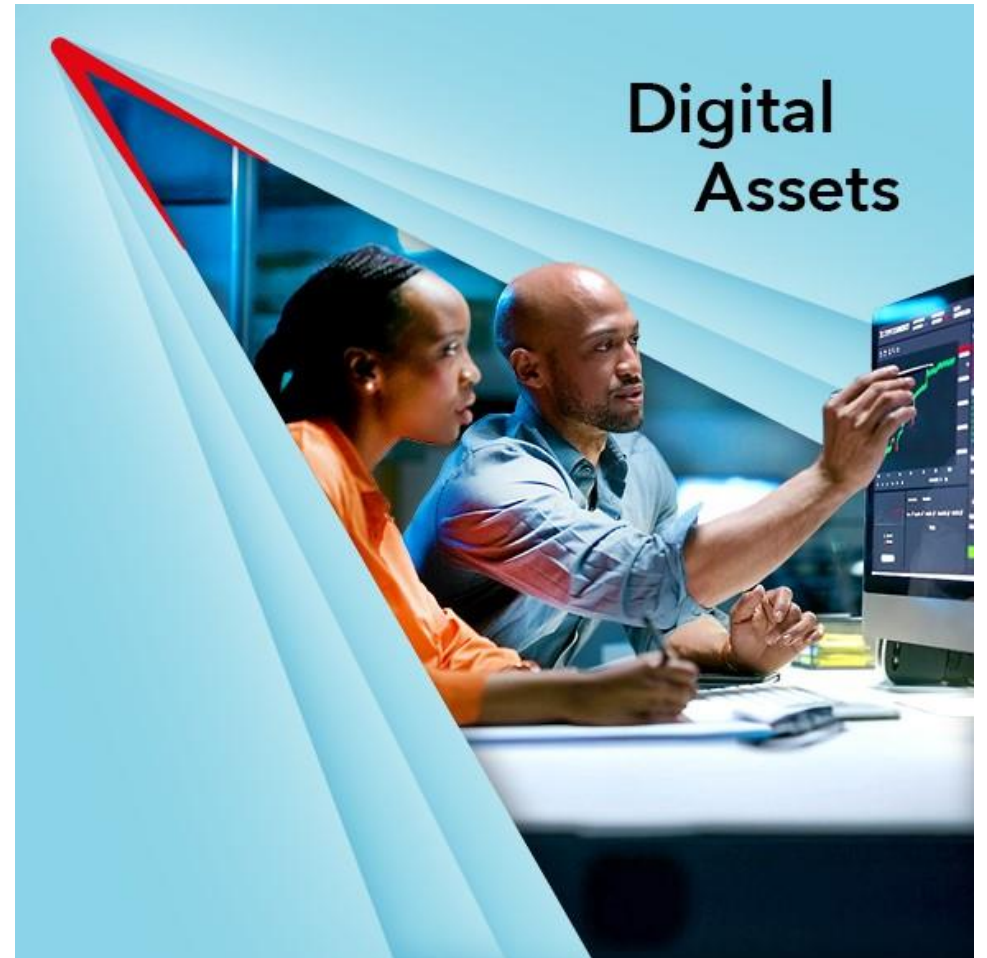
- How does CASS governance interact with the FCA handbook and FRC assurance standards
- Introduction to 3 lines model
- Discussion of some of key components of typical CASS governance structure
 - CASS Committee
 - CASS Risk and Control matrix
 - CASS Management information
- Key points for firms and auditors

Questions?

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