



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

AAPG 5
July 2018

Audit and Assurance Practice Guide 5

Client Asset Report for Fund Management Companies

AUDIT AND ASSURANCE PRACTICE GUIDE 5

Client Asset Report for Fund Management Companies

EFFECTIVE FOR FINANCIAL PERIODS ENDING ON OR AFTER 31 JULY 2018

Foreword

The Malaysian Institute of Accountants (Institute) has approved this Audit and Assurance Practice Guide (AAPG) for issuance to members for guidance.

This AAPG shall be read in conjunction with the Preface to the Malaysian Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements.

AAPG 5, *Client Asset Report for Fund Management Companies* contains an illustration of a report of factual findings in connection with compliance of Fund Management Companies' (FMCs) to client asset requirements as stipulated in the Capital Markets and Services Act 2007 and the Guidelines on Compliance Function for Fund Management Companies.

As part of Securities Commission Malaysia's (SC's) enhancement of client asset protection measures, SC introduced the "Auditors' Report on Client Assets" ("Client Asset Report").

The frequency for the preparation of the Client Asset Report is on an annual basis. FMCs are required to submit the Client Asset Report to the SC within 3 months subsequent to the financial year end.

Circulars 10/2013 and MF 4/2013 on *Auditor's Report on Client Assets for Fund Management Companies* which were issued on 30 January 2013 contain an illustration of a report of factual findings in connection with FMCs' compliance to client asset requirements as stipulated in the Capital Markets and Services Act 2007 and the Guidelines on Compliance Function for Fund Management Companies.

Arising from communication between the SC and the Institute, the illustration has been reviewed and updated where necessary.

The auditor shall carry out the procedures in the illustration which have been agreed to between the SC and the Institute and describe the auditor's factual findings including sufficient details of errors and exceptions found.

ILLUSTRATION OF A CLIENT ASSET REPORT FOR FUND MANAGEMENT COMPANIES

REPORT OF FACTUAL FINDINGS

To the Board of Directors of ABC Sdn Bhd

AGREED-UPON PROCEDURES IN RELATION TO CLIENT ASSET REQUIREMENTS UNDER THE CAPITAL MARKETS AND SERVICES ACT 2007 AND THE GUIDELINES ON COMPLIANCE FUNCTION FOR FUND MANAGEMENT COMPANIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 20XX FOR ABC SDN BHD (“THE COMPANY”)

We have performed the procedures agreed with you and enumerated below, solely to assist you with respect to comply with the client asset requirements under the Capital Markets and Services Act 2007 and the Guidelines on Compliance Function for Fund Management Companies. Our engagement was undertaken in accordance with the Malaysian Approved Standards on Related Services, ISRS 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*. Our procedures performed and factual findings are limited to the requirements under the Capital Markets and Services Act 2007 and the Guidelines on Compliance Function for Fund Management Companies of which we have adequate knowledge and reasonable criteria exist on which to base our findings. Our report is solely for the purpose set forth above and for submission by the Company to the Securities Commission Malaysia.

The procedures performed are summarised as follows:

1. We selected XX [Note 1] clients’ monies and property from the list of trust accounts as at the end of financial period/year and agreed the following:
 - (i) Names of custodians or the Company for the trust accounts to the bank / investment statements and/or certificates;
 - (ii) End-beneficiary or unique identifier of client as stated in the trust account name to the respective client; and
 - (iii) For trust accounts under an omnibus structure:
 - a) Client assets in trust account to custodian’s books for segregation which enable attribution and repatriation of assets to respective clients; and
 - b) The word “clients’ account” or “clients’ trust account” is maintained in substitution of end-beneficiary’s name or unique identifier of client.

For the selected sample clients above, we checked that custodians appointed are eligible under section 121 of the Capital Markets and Services Act 2007.

2. We selected XX [Note 1] clients’ monies and property made by clients to their trust accounts from the transaction report for the financial period/year and checked that

these transactions are paid into the trust accounts not later than the next banking day by agreeing to the bank trust accounts statements.

3. We selected XX [Note 1] withdrawals of clients' monies and property from their trust accounts from the transaction report for the financial period/year and checked that payment for withdrawal is made directly to the client and not to a third party.
4. We selected XX [Note 1] deductions of clients' monies and property from their trust accounts from the transaction report for the financial period/year and checked that these deductions are approved in accordance with the client's mandate; and not otherwise.
5. We selected XX [Note 1] clients' written consent for the appointment of the custodian of clients' monies and property for the financial period/year and checked that the date of consent is earlier than the date of appointment of the custodian.
6. We selected XX [Note 1] fund management agreements for new clients for the financial period/year and checked that the date of the fund management agreement is not later than the date of the first transaction in the client's account.
7. We selected XX [Note 1] clients' investment transactions for the financial period/year and checked that the investments are executed in accordance with the clients' mandates and investment objectives; and agreed the amounts and dates of the investment transactions to the trade placement or withdrawal confirmations.
8. We selected XX [Note 1] investments and determined the corporate actions for the financial period/year such as bonus issue, rights issue, dividends declared or others from announcements made on Bursa or the applicable Exchange(s) for foreign investments ("Announcements") [*to list the name of the source of document being referred to, in addition to the Announcements, if any*]. We compared the effective dates of corporate actions to the dates of clients' transactions.
9. We selected XX items of [Note 1] interest and other income due for the financial period/year from [*state the source document*]. We compared the amount of interest and other income as recorded in the [*source document*] to the respective client transactions.

In addition, for the samples selected, we checked that all proceeds and revenue generated from investment transactions, dividends and income received (items 7 – 9 above) are credited into respective client's accounts.

10. We selected XX [Note 1] monthly reconciliations of XX clients, agreed the closing amount in the client ledger to the trust accounts or custodian statements and agreed all the reconciling items to the relevant supporting documents.

11. We sighted the license granted [or renewed] under the Capital Markets and Services Act 2007 to carry on the business of fund management.

We also sighted the correspondences from SC to the Company from [beginning of financial period/year] to [end of financial period/year] as provided by the management. From the list of correspondences, we identified the conditions and/or restrictions imposed by SC to the Company and performed procedures in response to the conditions and restrictions.

[Based on the correspondences sighted the following procedures have been carried out to check:

- 1.
- 2.
3.]

12. We selected XX [Note 1] agreements with the custodians and checked that these agreements stipulate the responsibilities of a custodian as required by the Guidelines on Compliance Function of Fund Management Companies as follows:

- (i) Maintenance of records that would enable identification of assets to respective clients.
- (ii) Conducting reconciliation of clients' accounts on daily basis against third party records.
- (iii) Delivery of clients' transactions statement, at least on a quarterly basis, directly to the respective clients.
- (iv) Verifying any instructions to transfer assets and notifies the client of such transfer of assets.

13. We selected XX [Note 1] custodians and sighted documents evidencing that the Company has performed at least an annual evaluation of the appointed custodians on the following areas:

- (i) Performance of custodial services by the custodian.
- (ii) Policies and procedures that the custodian has in place in custodising clients' assets.
- (iii) Assessment of market conditions of the country (other than Malaysia) where the custodian operates in and its potential impact on the custodian in undertaking the custodial function.

14. We selected XX [Note 1] clients from the list of clients as at the end of financial period/year and checked the mailing records that the client's statement as at the end of financial period/year stating client's portfolio position, fees and charges payable by the client was provided to the client.

Using the same samples, we agreed the client address from the client's mandate or notification of change of address to the client statement.

We checked to the policies and procedures of the fund management company that a statement relating to the client's portfolio was provided to the client at least on a monthly basis.

15. We selected XX [Note 1] samples from the list of custodians appointed directly by client maintained by the fund management company and checked that there is issuance of written notification to the client by the fund management company of such custodial arrangement.
16. We selected XX [Note 1] samples of written notification by the fund management company to the client in relation to appointment of custodians and checked that written notification consists of the following matters in accordance with the policy of fund management company:
 - (i) Custodian's details.
 - (ii) Sub-custodian's details
 - (iii) Changes made to the custodial arrangements thereafter.
 - (iv) Notified client that assets received or held outside Malaysia are subject to regulations of the foreign jurisdiction and may not be subject to the same protection as that conferred on client asset received or held in Malaysia.
17. We checked to the policies/procedures ("policies") of the fund management company and noted that the policies/procedures have the following requisites:
 - (i) The custodian has controls in place either via the custodian agreement and evaluation on custodian or custodian's policies/procedures to safeguard client's assets from conversion or inappropriate use by its employees.
 - (ii) The custodian has controls in place either via the custodian agreement and evaluation on custodian or custodian's policies/procedures for all sub-delegation of custodial role, in particular that the sub-custodian is licensed or authorised to provide custodian services in the sub-custodian's jurisdiction and such sub-delegation will not affect the custodian in carrying its obligations as stated in procedure 12.

We report our findings below:

- a. With respect to item 1, we have selected XX clients' monies and property from the list of trust accounts as at the end of financial period/year and found the following:
 - (i) Names of custodians or the Company for the trust accounts are in agreement with the bank/investment statements and/or certificates;
 - (ii) End-beneficiary or unique identifier of client as stated in the trust account name are in agreement to the respective client;
 - (iii) For trust accounts under an omnibus structure:

- a) Client assets in trust account are segregated in custodian's books to the respective client; and
- b) The word "clients' account" or "clients' trust account" is maintained in substitution of end-beneficiary's name or unique identifier of client.

For the selected sample clients above, we found that custodians appointed are eligible under section 121 of the Capital Markets and Services Act 2007.

- b. With respect to item 2, we have selected XX clients' monies and property made by clients to their trust accounts from the transaction report for the financial period/year and found that these transactions are paid into the trust accounts not later than the next banking day by agreeing to the bank trust accounts statements.
- c. With respect to item 3, we have selected XX withdrawals of clients' monies and property from their trust account from the transaction report for the financial period/year and found that the payment for withdrawal is made directly to the client and not to a third party.
- d. With respect to item 4, we have selected XX deductions of clients' monies and property from their trust accounts from the transaction report for the financial period/year and found that these deductions are approved in accordance with the client's mandate; and not otherwise.
- e. With respect to item 5, we have selected XX clients' written consent for the appointment of the custodian of clients' monies and property for the financial period/year and found that the date of consent is earlier than the date of appointment of the custodian.
- f. With respect to item 6, we have selected XX fund management agreements for new clients for the financial period/year and found that the date of the fund management agreement is not later than the date of the first transaction in the client's account.
- g. With respect to item 7, we have selected XX clients' investment transactions for the financial period/year and found that the investments are executed in accordance with the clients' mandates and investment objectives; and that the amounts and dates of the investment transactions are in agreement with the trade placement or withdrawal confirmations.
- h. With respect to item 8, we have selected XX investments and determined the corporate actions for the financial period/year such as bonus issue, rights issue, dividends declared or others from announcements made on Bursa or the applicable Exchange(s) for foreign investments ("Announcements") [*to list the name of the source of document being referred to, in addition to the Announcements, if any*].

We compared the effective dates of corporate actions to the dates of clients' transactions and found them to be in agreement.

- i. With respect to item 9, we have selected XX items of interest and other income due for the financial period/year from [state the source document].

We compared the amount of interest and other income as recorded in the [source document] to the respective client’s transactions and found them to be in agreement.

For proceeds and revenue generated from investment transactions, dividends and income received (with respect to items 7 to 9), we found that these are credited into respective client’s accounts.

- j. With respect to item 10, for the selected XX monthly reconciliations of XX clients, we found that the closing amount of the client ledger is in agreement with the trust accounts or custodian statements and the reconciling items are properly supported by relevant documentations.
- k. With respect to item 11, we have sighted the licence granted [or renewed] under Capital Markets and Services Act 2007 to carry on the business of fund management for the period from [] to [].

We have sighted the following correspondences from SC to the Company from [beginning of financial period/year] to [end of financial period/year]:

- (i) [Date of correspondence - Title of correspondence]
- (ii) [Date of correspondence - Title of correspondence]
- (iii) [Date of correspondence - Title of correspondence]

From the list of correspondences, we identified the conditions and/or restrictions imposed by SC to the Company and performed procedures as tabulated below in response to the conditions and restrictions.

No.	[Description of conditions or restriction imposed]	[Description of procedure performed]	[Factual findings]
1.	E.g.: The Company is not allowed to solicit new injections of capital (i.e. AUM) effective from the date of letter from SC dated DD MM YYYY.	E.g.: We have sighted to the clients’ monies and property made by clients to their trust accounts from the transaction report for the financial year.	E.g.: The clients’ monies and property made by clients to their trust accounts from the transaction report on the beginning of the financial year to the date of SC’s letter is RMXXXX; and from the date of SC’s letter to the financial year end is nil.

- I. With respect to item 12, we have selected XX agreements with the custodians and found that these agreements stipulate the responsibilities of a custodian as required by the Guidelines on Compliance Function of Fund Management Companies as follows:
- (i) Records were maintained to enable identification of assets to the respective clients.
 - (ii) Reconciliations of clients' accounts on daily basis against third party records were conducted.
 - (iii) Clients' transactions statements were delivered directly to the client on quarterly basis.
 - (iv) Instructions of transfer of assets and notification to client of such transfer of assets were verified.
- m. With respect to item 13, we have selected XX custodians and found that the Company have performed at least an annual evaluation of the appointed custodians on the following areas:
- (i) Performance of custodial services by the custodian.
 - (ii) Policies and procedures that the custodian has in place in custodising clients' assets.
 - (iii) Assessment of market conditions of the country (other than Malaysia) where the custodian operates in and its potential impact on the custodian in undertaking the custodial function.
- n. With respect to item 14, we have selected XX clients from the list of clients and found that a statement relating to the client's portfolio including the client's actual portfolio position and fees and charges payable by the client was mailed to the client at least on a monthly basis. Using the same samples, we have also agreed the client address from the client's mandate or notification of change of address to the client statement.

We have checked to the policies and procedures of the fund management company. The following statement was included in the said policies and procedures:

Item X of the policies and procedures:

[State the policy that has the effect that the statement relating to the client's portfolio is provided to the client at least on a monthly basis]

- o. With respect of item 15, we have selected XX samples from the list of custodians appointed directly by client maintained by the fund management company and traced the issuance of the written notification to the client by the fund management company of such custodial arrangement.
- p. With respect to item 16, we have selected XX samples of written notification by fund management company to the client in relation to appointment of custodians. The written notification selected consists of the following matters in accordance with the policy of fund management company:

- (i) Custodian's details.
 - (ii) Sub-custodian's details.
 - (iii) Changes made to the custodial arrangements thereafter.
 - (iv) Notified client that assets received or held outside Malaysia are subject to regulations of the foreign jurisdiction and may not be subject to the same protection as that conferred on client asset received or held in Malaysia.
- q. With respect of item 17, we have checked to the policies/procedures ("policies") of the fund management company. Included in the policies are:
- (i) The custodian has controls in place either via the custodian agreement and evaluation on custodian or custodian's policies/procedures to safeguard client's assets from conversion or inappropriate use by its employees.
 - (ii) The custodian has controls in place either via the custodian agreement and evaluation on custodian or custodian's policies/procedures for all sub-delegation of custodial role, in particular that the sub-custodian is licensed or authorised to provide custodian services in the sub-custodian's jurisdiction and such sub-delegation will not affect the custodian in carrying its obligations as stated in finding (I).

Because the above procedures do not constitute either an audit or a review made in accordance with the Malaysian Approved Standards on Auditing or Malaysian Approved Standards on Review Engagements, we do not express any assurance on the compliance with the client asset requirements under the Capital Markets and Services Act 2007 and the Guidelines on Compliance Function for Fund Management Companies.

Had we performed additional procedures or had we performed an audit or review in accordance with Malaysian Approved Standards on Auditing or Malaysian Approved Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the use of the Company for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties. This report related only to the items specified above and does not extend to any financial statements of the Company taken as a whole.

[Auditors' signature]
[Date of the report]
[Auditor's address]

Note to the Illustration**Note 1 - Minimum sample selection**

Population	Sample size
1	1
2 - 4	2
5 - 12	3
13 - 52	5
53 - 250	20
> 250	25

Population of transactions or bank and investment accounts depends on the frequency of occurrence, for example, if the fund management company has 10 mandates and each mandate has 2 bank accounts for which bank reconciliation is performed monthly, population should be $10 \times 2 \times 12 = 240$, and therefore samples size should be 20.



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