

## **Updates to SEC and CFTC Regulations and Related Audit and Attestation Reports of Brokers and Dealers and Futures Commission Merchants, Including Those That Are Dually-Registered**

This Alert, issued jointly by the Center for Audit Quality (CAQ) and the American Institute of Certified Public Accountants (AICPA), is intended to remind audit firms of certain auditing considerations in response to regulatory changes set forth by the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC), as well as related guidance and standards issued by the Public Company Accounting Oversight Board (PCAOB). The changes identified in this Alert are applicable to audits and attestation engagements of brokers and dealers (broker-dealers) and futures commission merchants (FCMs), including those entities that are dually-registered. While the Alert highlights significant areas of change, it should not be relied upon as definitive or all-inclusive, and should be read together with the applicable rules, regulatory updates, standards, and guidance in their entirety. Further, auditors should discuss these changes with their broker-dealer and FCM clients and assess which changes are applicable based on the operations of the entity being audited and the regulatory agencies with which the entity is registered. The new rules addressed below are generally effective for audits and attestation engagements of broker-dealers and FCMs with fiscal years ending on or after June 1, 2014. Other changes in the rules have effective dates prior or subsequent to June 1, 2014;<sup>1</sup> however, this Alert is intended to address the major changes effective on June 1, 2014.

This Alert addresses the following:

1. SEC Amendments to Rule 17a-5 and PCAOB Attestation Standards No.1 and No. 2
  - a. The Compliance Report and Related Examination Report Under PCAOB Attestation Standard No. 1
  - b. The Exemption Report and Related Review Report Under PCAOB Attestation Standard No. 2
  - c. SEC Custody Rule Considerations
  - d. Notification Requirements
  - e. Communication Requirements
  - f. Statement Regarding Independent Accountant
  - g. Independence Considerations
2. PCAOB Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements*
3. CFTC Customer Protection Rules for FCMs
4. CFTC-Registered Introducing Brokers
5. PCAOB's Inspection Program and Smaller Broker-Dealer Forums
  - a. Progress Reports of the Interim Inspection Program Related to Audits of Broker-Dealers
  - b. Forums on Auditing Smaller Broker-Dealers
6. AICPA's Peer Review Program
7. AICPA's Stockbrokerage and Investment Banking Expert Panel

In conjunction with the amendments to Rule 17a-5, the SEC also adopted amendments to the net capital, customer protection, books and records, and notification rules for broker-dealers. In December 2013, the PCAOB also adopted amendments, as well as certain updates and clarifications, to tailor certain of its rules and standards to the audits and attestation engagements of non-issuer broker-dealers.

### 1. SEC Amendments to Rule 17a-5 and PCAOB Attestation Standards No. 1 and No. 2

On July 30, 2013, the SEC released amendments to [Rule 17a-5](#), which include amendments to certain broker-dealer reporting, audit, and notification requirements, including those related to the annual audit, effective for fiscal years ending on or after June 1, 2014. Further, on April 4, 2014, the SEC staff issued [Frequently Asked Questions Concerning the July 30, 2013 Amendments to the Broker-Dealer Financial Reporting Rule](#) (FAQ), which addresses certain implementation matters. Additional details over the amendments to Rule 17a-5 and the PCAOB's attestation standards, including the compliance and exemption reports and the related reports issued

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<sup>1</sup> For instance, if a broker-dealer is a member of the Securities Investor Protection Corporation (SIPC), the annual reports must be filed with SIPC effective December 31, 2013.

by the independent public accounting firm registered with the PCAOB (independent accountant) are summarized below:

- Financial statement audits of broker-dealers must be performed in accordance with the standards of the PCAOB. Notably, independent accountants of broker-dealers must comply with the PCAOB's [Auditing Standard No. 3, Audit Documentation](#); [Auditing Standard No. 7, Engagement Quality Review](#); PCAOB's suite of [Risk Assessment Standards, Auditing Standards Nos. 8–15](#); [Auditing Standard No. 16, Communications with Audit Committees](#) (AS 16) and [Auditing Standard No. 17, Auditing Supplemental Information Accompanying Audited Financial Statement](#) (AS 17). Historically, broker-dealer audits were generally performed under Generally Accepted Auditing Standards (GAAS) established by the AICPA.
- The amended reporting requirements eliminate the report of independent auditors on internal control (commonly known as the material inadequacies [MI] letter) for all broker-dealer entities as previously required by Rule 17a-5(g)(1). Broker-dealers who do not claim exemption from Rule 15c3-3 throughout the year will be required to file an annual compliance report in conjunction with the filing of its annual audited financial statements in accordance with Rule 17a-5(d)(2) (financial report). Broker-dealers who claim exemption from Rule 15c3-3 throughout the year (or certain broker-dealers that meet one or more of the three criteria as clarified by the SEC staff in question 6 of its FAQ) will be required to file an exemption report in conjunction with the filing of its financial report.
- Broker-dealers must engage an independent accountant to perform an examination over certain statements contained in its compliance report or a review of the statements contained in its exemption report, performed in accordance with [PCAOB Attestation Standard No. 1, Examination Engagements Regarding Compliance Reports of Brokers and Dealers \(AT 1\)](#) or [PCAOB Attestation Standard 2, Review Engagements Regarding Exemption Reports of Brokers and Dealers \(AT 2\)](#), respectively. The independent accountant engaged for the examination or review must be the same as the independent accountant performing the audit of the financial report.
- The PCAOB's attestation standards incorporate coordination of the examination or review engagement with the audit of financial statements and audit procedures performed on the supplemental schedules required under Rule 17a-5.
- Broker-dealers that clear transactions or carry customer accounts must consent to allow the SEC and the broker-dealer's designated examination authority (DEA) access to the audit workpapers of the broker-dealer's independent accountant and access to the broker-dealer's independent accountant, if requested in writing. This requirement is intended to facilitate examinations of clearing broker-dealers by the SEC and DEA examination staff. To facilitate this access, broker-dealers that clear transactions or carry customer accounts must include a specific representation in their statement regarding their independent public accountant under Rule 17a-5 (f)(2) allowing for such access. This statement must be filed no later than December 10<sup>th</sup> of each year (also see *Statement Regarding Independent Accountant* in 1.f, as clarified by the SEC staff in question 4 of its FAQ).

a. *The Compliance Report and Related Examination Report Under PCAOB Attestation Standard No.1*

Broker-dealers that maintain custody of customer funds or securities will be required to file a compliance report and a related examination report, which expresses an opinion of an independent accountant over certain statements contained in the broker-dealer's compliance report, with the SEC and DEA on or before the 60<sup>th</sup> calendar day following the broker-dealer's fiscal year-end. The compliance report will contain the following five statements made by the broker-dealer with respect to specific financial responsibility rules (i.e., Rule 15c3-1, Rule 15c3-3, Rule 17a-13 and the Account Statement Rule), as defined in Rule 17a-5:

- (1) The broker-dealer has established and maintained internal control over compliance;
- (2) The internal control over compliance of the broker-dealer was effective during the most recent fiscal year;
- (3) The internal control over compliance of the broker-dealer was effective as of the end of the most recent fiscal year;
- (4) The broker-dealer was in compliance with Rule 15c3-1 and paragraph (e) of Rule 15c3-3 as of the end of the most recent fiscal year; and
- (5) The information the broker-dealer used to state whether it was in compliance with Rule 15c3-1 and paragraph (e) of Rule 15c3-3 was derived from the books and records of the broker-dealer.

The compliance report is required to describe each identified material weakness, as defined in Rule 17a-5(d)(3)(iii), in internal control over compliance, during and as of the end of the fiscal year, and any instance of non-compliance with Rule 15c3-1 or paragraph (e) of Rule 15c3-3 as of the end of the most recent fiscal year. Independent accountants of broker-dealers will be engaged to provide an examination report that includes an opinion as to whether certain management assertions [(2)-(5) above] are fairly stated, in all material respects. Procedures for this report must be performed in accordance with AT 1. Further, AT 1 details examination procedures an independent accountant should perform, which include obtaining an understanding of a broker-dealer's controls regarding compliance with the financial responsibility rules, assessing that the controls have been appropriately designed and implemented and that those controls are operating effectively as of the fiscal year-end and during the year then ended. AT 1 also incorporates consideration of fraud risks, including the risk of misappropriation of customer assets.

b. *The Exemption Report and Related Review Report Under PCAOB Attestation Standard No. 2*

Broker-dealers that have claimed an exemption from the requirements of Rule 15c3-3 throughout the most recent fiscal year will be required to prepare an exemption report, rather than a compliance report. This requirement will also apply to broker-dealers that do not hold customer securities or funds during the fiscal year, but do not fit one of the exemption provisions of Rule 15c3-3 (as further clarified by the SEC staff in question 6 of its FAQ). The exemption report must contain the following statements:

- A statement that identifies the provisions in paragraph (k) of Rule 15c3-3 under which the broker-dealer claimed an exemption;
- A statement that the broker-dealer has met the identified exemption provisions in paragraph (k) of Rule 15c3-3 throughout the most recent fiscal year either without exception or that it met the identified exemption provisions in paragraph (k) of Rule 15c3-3 throughout the most recent fiscal year, except as described in the exemption report; and
- If applicable, a statement that identifies each exception, including a brief description of the nature of each exception and the approximate date(s) on which the exception existed.

Independent accountants of broker-dealers filing an exemption report will be engaged to provide a review report, in accordance with AT 2. The review report will not include an opinion on internal control over compliance with the financial responsibility rules. Further, the review report requires the independent accountant to state whether, based upon the results of the review procedures, the independent accountant is aware of any material modifications that should be made to the broker-dealer's assertions for the assertions to be fairly stated, in all material respects. These procedures include, amongst others, performing inquiries of management, reading internal audit reports, reading regulatory findings, and considering the results of audit procedures performed in connection with the audit of the financial statements.

c. *SEC Custody Rule Considerations*

Broker-dealers that are also registered as investment advisers under the Investment Advisers Act of 1940 (1940 Act) may be subject to the internal control report requirements of the SEC's Rule 206(4)-2 of the 1940 Act (custody rule) to obtain an internal control report over internal control for safekeeping of customer assets. In conjunction with the amendments to Rule 17a-5, an independent accountant's examination report may be used to satisfy the requirements of the internal control report requirements of the custody rule. In question 2 of its FAQ, the SEC staff has clarified that to satisfy the custody rule there can be no gaps in the periods covered by a previously issued internal controls report under the custody rule and the examination report. The SEC staff also clarified that the independent accountant's examination report will not satisfy any other requirement under the custody rule (e.g., the annual surprise examination).

d. *Notification Requirements*

The amendments to Rule 17a-5 also modified the notification provisions applicable to audits of broker-dealers. Independent accountants are required to immediately notify the broker-dealer's chief financial officer (CFO) when the independent accountant determines that the broker-dealer is not in compliance with any of the financial responsibility rules. The broker-dealer is required to notify the SEC and the DEA of these instances only

if the notice provided by the independent accountant concerns an instance of non-compliance that requires the broker-dealer to provide notification under Rule 15c3-1, Rule 15c3-3, or Rule 17a-11. When the broker-dealer determines that such notification is required, the broker-dealer must furnish the independent accountant with the notice. However, if the independent accountant fails to receive the notice or if the independent accountant disagrees with any statements contained in the notice, the independent accountant is required to inform the SEC and DEA (and the CFTC where relevant) within 24 hours, in accordance with Rule 17a-11.

The SEC also requires that if a material weakness in internal control over compliance is identified during the course of preparing the independent accountant's examination report or as a result of other procedures, the independent accountant must immediately report it to the broker-dealer's CFO. The broker-dealer is required to notify the SEC and the DEA of the material weakness in internal control over compliance and, among other things, indicate what the broker-dealer has done or is doing to correct the situation, and furnish the independent accountant with a copy of the notice. However, if the independent accountant fails to receive the notice or if the independent accountant disagrees with any statements contained in the notice, the independent accountant is required to inform the SEC and DEA (and the CFTC where relevant) within 24 hours, in accordance with Rule 17a-11.

e. *Communication Requirements*

AT 1 requires that the independent accountant communicate to management all identified deficiencies in internal control over compliance and also requires that the independent accountant communicate to management and the audit committee (as defined in AS 16) identified instances of non-compliance with the financial responsibility rules, identified material weaknesses in internal control over compliance, and identified instances in which information used to determine compliance with the net capital rule or the reserve requirements rule was not derived, in all material respects, from the broker-dealer's books and records.

AT 2 requires that the independent accountant communicate to management and the audit committee any exceptions to the exemption provisions identified by the independent accountant that cause the broker-dealer's assertions about the exemption provisions not to be fairly stated, in all material respects.

Furthermore, AS 16 requires the independent accountant to communicate to management and the audit committee all significant deficiencies and material weaknesses in internal control over financial reporting (as defined in [AU Section 325, Communications About Control Deficiencies in an Audit of Financial Statements](#)) identified during the audit of the financial statements.

f. *Statement Regarding Independent Accountant*

For broker-dealers with a fiscal year ending between June and December 2014, a new statement [Rule 17a-5(f)(2)] must be filed on or before the 10th day of the month in which the broker-dealer's fiscal year ends, to address the work that the independent accountant will perform with respect to the broker-dealer's annual reports. This is applicable for fiscal year audits ending in 2014, even if the independent accountant is not new. For broker-dealers that clear transactions or carry customer accounts, as noted previously, this statement must include a specific representation allowing the SEC and the broker-dealer's DEA access to the audit workpapers of the broker-dealer's independent accountant and access to the broker-dealer's independent accountant, if requested in writing. Broker-dealers that file their new statement between June and December 2014 for their 2014 fiscal year annual audit do not need to file a new statement for their 2015 fiscal year if the contractual commitment between the broker-dealer and the independent accountant is of a continuing nature.

g. *Independence Considerations*

As noted previously, the amendments to Rule 17a-5 require that the audits and attestation engagements of broker-dealers must be performed pursuant to PCAOB standards effective for fiscal years ending on or after June 1, 2014. Therefore, in addition to being required to be independent under SEC rules (i.e., 17 CFR 210.2-01 of Regulation S-X, *Qualifications of Accountants*), the independent accountant will also be subject to applicable PCAOB independence rules and standards. Further, Rule 2-01 of Regulation S-X sets forth a non-exclusive

specification of circumstances that the independent accountant is prohibited from providing, among others, to an audit client:

- Bookkeeping or other services related to the accounting records or financial statements of the audit client
- Financial information systems design and implementation
- Management functions or human resources

With respect to bookkeeping or other services related to the accounting records or financial statements of the audit client, Rule 2-01(c)(4)(i) of Regulation S-X specifies that these services include:

- (1) Maintaining or preparing the audit client's accounting records
- (2) Preparing financial statements that are filed with the SEC or the information that forms the basis of financial statements filed with the SEC
- (3) Preparing or originating source data underlying the audit client's financial statements

It should be noted there have been no changes to existing SEC independence rules applicable to non-issuer broker-dealers. Specifically, independent accountants of broker-dealers are not subject to the partner rotation requirements or the compensation requirements of the SEC's independence rules because the statute mandating those requirements is limited to issuers. Additionally, independent accountants of broker-dealers are not subject to the audit committee pre-approval requirements or the cooling-off period requirements for employment because those requirements only reference issuers.

In response to the SEC's new reporting requirements, the PCAOB adopted amendments, as well as certain updates and clarifications, to tailor certain of its rules and standards to the audits and attestation engagements of non-issuer broker-dealers. These amendments will specifically identify those rules that will be applicable to engagements of non-issuer broker-dealers. In those amendments, the PCAOB identified certain rules and standards that will become applicable on June 1, 2014 for audit and attestation engagements of non-issuer broker-dealers covering fiscal years ending on or after June 1, 2014. These are as follows:

- Rule 3520, *Auditor Independence*
- Rule 3521, *Contingent Fees*
- Rule 3522, *Tax Transactions*
- Rule 3526, *Communication with Audit Committees Concerning Independence*
- Interim Independence Standards (including Independence Standard Board Standard No. 3, *Employment with Audit Clients*)

In their amendments, the PCAOB also specified three rules that would not be applicable to engagements of non-issuer broker-dealers, as follows:

- Rule 3523, *Tax Services for Persons in Financial Reporting Oversight Roles*
- Rule 3524, *Audit Committee Pre-approval of Certain Tax Services*
- Rule 3525, *Audit Committee Pre-approval of Non-audit Services Related to Internal Control Over Financial Reporting*

Furthermore, incremental to annual independence communications, Rule 3526 also requires that certain independence matters be communicated to the audit committee (or those charged with overseeing the accounting and financial reporting process, if no audit committee is established), when an audit is to be performed under PCAOB standards for the first time. As described in Rule 3526, paragraph (a), independent accountants of broker-dealers will be required to:

- (1) Describe in writing, with the audit committee, all relationships between the registered public accounting firm or any affiliates of the firm and the potential audit client or persons in financial reporting oversight roles at the potential audit client that, as of the date of the communication, may reasonably be thought to bear on independence;

- (2) Discuss with the audit committee the potential effects of the relationships described in the written communication on the independence of the registered public accounting firm, should the auditor be appointed; and
- (3) Document the substance of its discussion with the audit committee.

These communications must be completed prior to June 1, 2014 or prior to being engaged to perform the first PCAOB audit, whichever comes later. In subsequent years, only an annual 3526 independence communication will be required.

## 2. PCAOB Auditing Standard 17, Auditing Supplemental Information Accompanying Audited Financial Statements

On October 10, 2013, the PCAOB adopted [AS 17](#), which is effective for fiscal years ending on or after June 1, 2014. This standard sets forth the independent accountant's responsibilities when the auditor of the financial statements is engaged to perform audit procedures and report on whether supplemental information accompanying the financial statements is fairly stated, in all material respects, in relation to the financial statements as a whole. The standard incorporates coordination with the attestation engagements related to compliance or exemption reports. This standard will be applicable to supplemental schedules to the financial statements of broker-dealers, FCMs, and entities that are dually-registered. The standard includes provisions that require the auditor to perform the following procedures, amongst others:

- Determine that the supplemental information reconciles to the underlying accounting and other records or the financial statements, as applicable.
- Test the completeness and accuracy of the supplemental information, to the extent it was not tested as part of the audit of the financial statements.
- Evaluate whether the supplemental information, including its form and content, complies with relevant regulatory requirements or other applicable criteria, if any.

It should also be noted that the SEC's amendments to Rule 15c3-3 require broker-dealers carrying proprietary accounts of broker-dealers (PAB) to perform a separate reserve computation for PAB accounts and, as clarified in question 5 of the SEC staff's FAQ, a supplemental schedule containing the PAB calculation will have to be included in the financial report. For audits of broker-dealers with fiscal years ending on or after June 1, 2014, this required supplemental schedule will be required to be audited in accordance with AS 17.

## 3. CFTC Customer Protection Rules for FCMs

On November 14, 2013, the CFTC published [Enhancing Protections Afforded Customers and Customer Funds Held by Futures Commission Merchants and Derivatives Clearing Organizations](#), which outlines final regulations requiring enhanced customer protections for FCMs holding customer funds, including risk management programs, internal monitoring and controls, capital and liquidity standards, customer disclosures, as well as auditing and examination programs. Subsequent to the release of this final regulation, the CFTC issued CFTC Letter No. 14-40, "[Interpretation of Commission Regulation 1.16 Auditor Independence Standards for Audits of Futures Commission Merchants](#)," dated March 28, 2014, which provides clarification over FCM auditor independence requirements. In combination, these CFTC releases will impact audits of FCMs and those dually-registered as FCMs and broker-dealers for fiscal years ending on or after June 1, 2014, as summarized here:

- The CFTC revised Regulation 1.16(c)(2) (the revised regulation) to mandate that independent accountants conduct their audits of FCMs in accordance with the standards of the PCAOB. Today, such audits are conducted in accordance with AICPA standards, including AICPA independence standards. Additionally, auditors of FCMs must be registered with the PCAOB, effective June 1, 2014. The requirement that auditors of FCMs must have undergone an inspection by the PCAOB will be effective December 31, 2015.
- In its interpretation letter described previously, the CFTC confirmed that FCMs and their auditors would be deemed to be in compliance with CFTC Regulation 1.16(c)(2), if they comply with the auditor independence requirements of Rule 17a-5. Therefore, the broker-dealer independence considerations discussed previously would also be relevant for audits of FCMs for fiscal years ending on or after June 1, 2014.

- The revised regulation also mandates that the FCM's governing body<sup>2</sup> ensure that a public accountant engaged to conduct an examination of a FCM is duly qualified to perform the audit.

Though certain amendments were made to CFTC Regulation 1.16, there have been no changes to the requirement that the auditor issue a Report of Internal Control disclosing any material inadequacies existing at the date of the audit. As discussed above, the amendments to Rule 17a-5 replace the requirement for the MI letter to be issued by auditors of broker-dealers. However, this requirement currently remains in place for audits of FCMs (including those dually-registered as FCMs and broker-dealers) subject to CFTC regulation (i.e., CFTC Regulation 1.16). Auditors of dually-registered FCMs and broker-dealers will be required to issue both an MI letter, as required by CFTC Regulation 1.16, and either an examination or review report, in accordance with Rule 17a-5.

#### 4. CFTC-Registered Introducing Brokers

Amendments to CFTC Regulation 1.10 did not change the auditing standard for introducing brokers solely registered with the CFTC. Therefore, the requirement that audits of entities solely registered with CFTC as introducing brokers be performed under AICPA standards, including AICPA independence standards, remains.

#### 5. PCAOB's Broker-Dealer Inspection Program and Smaller Broker-Dealer Forums

The Dodd-Frank Wall Street Reform and Consumer Protection Act authorized the PCAOB to establish, by rule, a program of inspection of auditors of broker-dealers. A temporary rule was adopted by the PCAOB on June 14, 2011, and provides for an interim inspection program while the PCAOB considers the scope and other elements of a permanent inspection program. Under the temporary rule, the PCAOB is inspecting audits of broker-dealers, and addressing with the registered firms any significant issues identified in those inspected audits.

##### a. *Progress Reports of the Interim Inspection Program Related to Audits of Broker-Dealers*

During the interim inspection program, the PCAOB has provided two public reports on the progress of the program and significant issues identified throughout. A summary of the report's findings are detailed below:

- **First Progress Report** - On August 20, 2012, the PCAOB [released](#) its first report on the progress of the interim inspection program for audits of broker-dealers, providing an overview of the program and the audit deficiencies identified in the initial group of broker-dealer audits inspected. The PCAOB's inspection staff identified deficiencies related to the following areas:
  - *Customer Protection and Net Capital Rules*
    - Accountant's Supplemental Report on Material Inadequacies
    - Exemption from Provisions of the Customer Protection Rule
    - Customer Protection Rule
    - Net Capital Rule
  - *Financial Statement Audit*
    - Consideration of Risks of Material Misstatement Due to Fraud
    - Related Party Transactions
    - Revenue Recognition
    - Establishing a Basis for Reliance on Records and Reports
    - Fair Value Measurements
    - Evaluation of Control Deficiencies
    - Financial Statement Disclosures
  - *Independence Requirements* - Inspections found instances where two firms failed to maintain independence in accordance with the SEC's independence rules. In each case, the failure resulted from the firm preparing, or assisting in the preparation of, the financial statements that were being audited.

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<sup>2</sup> Form of governing body is not defined within the Revised Regulation and will be specific to each FCM.

- **Second Progress Report** - On August 19, 2013, the PCAOB [released](#) its second progress report on its interim inspection program for audits of broker-dealers. In addition to the themes described in the first progress report, the second report describes additional audit deficiencies most frequently related to:
  - Audit procedures related to the computations of the customer reserve and net capital requirements, compliance with the conditions of the exemption claimed by the broker-dealer, and the accountant's supplemental report on material inadequacies. Deficiencies in at least one of these areas were noted in more than one-third of the audits selected for inspection.
  - Audit procedures related to financial statement areas, including procedures regarding tests of revenue, related parties, fair value measurements, and the risk of material misstatement due to fraud. Deficiencies in at least one of these areas were noted in more than one-third of the audits selected for inspection.
  - *Independence Requirements* - PCAOB inspection staff also found that, contrary to the requirements of SEC independence rules, some independent accountants were involved in the preparation of the financial statements that they audited. PCAOB inspection staff identified non-compliance with independence rules in 22 of 60 audits selected for inspection, and in approximately 80 percent of the audits selected for inspection that were performed by firms that audited broker-dealers, but did not audit issuers.

b. *Forums on Auditing Smaller Broker-Dealers*

The PCAOB is holding one-day forums designed to share important information about the PCAOB's activities with independent accountants that audit smaller broker-dealers that are registered with the SEC. Forum discussion topics include:

- Amendments to PCAOB rules, including independence rules related to performing tax services
- Guidance for applying PCAOB auditing standards to audits of broker-dealers
- Inspection findings and case studies

The forums also include presentations from the staff of the SEC and the Financial Industry Regulatory Authority, as well as a broader regulatory panel discussion. Additional information on the forums, including dates and locations, can be found on the PCAOB's [website](#).

6. AICPA's Peer Review Program

Peer reviews performed under the AICPA Peer Review Standards include engagements performed under Statements on Auditing Standards (SASs), Statements on Standards for Accounting and Review Services (SSARs), Statements on Standards for Attestation Engagements (SSAEs), *Government Auditing Standards* (the Yellow Book) issued by the U.S. Government Accountability Office, and PCAOB standards. Engagements that are subject to *permanent* inspection by the PCAOB are excluded from the scope of the AICPA peer review program. As described above, audits of broker-dealers are currently included in an *interim* inspection program by the PCAOB. Until such time that the PCAOB announces the scope of their *permanent* broker-dealer inspection program, audits of broker-dealers will be subject to both PCAOB inspection and the AICPA peer review program. For additional information regarding the implications of the changes discussed above to the AICPA's peer review program, please refer to the AICPA's [Broker-Dealer Engagements: Peer Review Implications](#).

Historically, peer reviewers have identified the following matters related to audits of broker-dealers:

- Violation of the SEC's independence rules by auditors assisting in the preparation of financial statements.
- Use of outdated internally developed or purchased practice aids, or practice aids not specifically developed for audits of broker-dealers, resulting in missed procedures and documentation.

- Incorrectly prepared engagement letters, management representation letters, and auditor’s reports. Matters identified included references to the independent accountant assisting with the financial statement preparation in the engagement letter, missing management representations and reference to the incorrect auditing standards in the auditor’s reports (e.g., report referenced PCAOB auditing standards when SAS was used).

Matters such as violating SEC independence rules will result in a nonconforming engagement and, depending upon the nature and pervasiveness of the underlying systemic cause, may result in a pass with deficiencies or fail peer review report.

#### 7. AICPA’s Stockbrokerage and Investment Banking Expert Panel

The AICPA’s Stockbrokerage and Investment Banking Expert Panel represents and addresses the public interest and the needs of AICPA members in the areas of financial reporting, audit and attest services, and regulatory matters from the broker-dealer industry perspective. For information about the activities of the AICPA Stockbrokerage and Investment Banking Expert Panel, visit the panel’s [webpage](#).

#### Conclusion

The new amendments highlighted in this Alert represent significant areas of change relating to the annual reporting requirements of broker-dealers and FCMs, including entities that are dually-registered as FCMs and broker-dealers. We encourage audit firms to discuss the potential ramifications of these amendments with their broker-dealer and FCM clients as soon as practicable, and assess the changes that are applicable based on the operations of the entity being audited and the regulatory agencies with which the entity is registered.