

Information for Firms that Perform Broker-Dealer Audits or Attestation Engagements

On July 31, 2013, the SEC finalized its [Broker-Dealer Rule](#). The final rule requires audits of all broker-dealers to be performed under PCAOB Standards. It also requires a new Compliance Report for carrying broker-dealers and an Exemption Report for non-carrying broker-dealers. An independent accountant is required to perform an examination of the Compliance Report and a review of the Exemption Report; both are to be performed using PCAOB Standards. These requirements are effective for fiscal years ending on or after June 1, 2014.

To assist you with performing broker-dealer audit and attestation engagements, refer to the links below.

[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](#)
The AICPA and the CAQ have issued an [alert](#) outlining regulatory changes that are applicable to audits and attestation engagements of brokers and dealers and futures commission merchants, including those entities that are dually-registered. The alert is intended to highlight for audit firms 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). This alert also highlights related resources and programs, including the PCAOB's Inspection Program and Forums on Auditing Smaller Broker-Dealers, AICPA's Peer Review Program, and the AICPA's Stockbrokerage and Investment Banking Expert Panel.

Comparison of AICPA Clarified Auditing Standards and PCAOB Standards

As the use of PCAOB standards is required for ALL broker-dealer audits and attestation engagements with fiscal years ending on or after June 1, 2014, refer to the [mapping of the AICPA's clarified auditing standards and PCAOB standards](#) posted on the AICPA Financial Reporting Center.

PCAOB Forum on Auditing Smaller Broker-Dealers

- [SEC Presentation](#) - this presentation by SEC staff includes an overview of SEC broker-dealer rules, new broker-dealer FAQs, and an overview of SEC independence requirements applicable to broker-dealer audits.
- [Future Forums](#) - The PCAOB will hold a forum on auditing broker-dealers on September 24, October 28, and December 1, 2015. Register for the forum and find other broker-dealer related meetings on [pcaobus.org](#).

PCAOB Inspections and Peer Review

- PCAOB Inspections - the PCAOB has yet to announce its permanent inspection scope for broker-dealer audits and attestation engagements. For the interim inspection period, audits of all broker-dealers are subject to inspection. Refer to the "[Fourth Report on the Progress of the Interim Inspection Program Related to Audits of Brokers and Dealers](#)" for the latest information on inspection findings. The PCAOB continues to find a significant number of firms that are violating SEC independence rules. The PCAOB is also finding a significant number of firms that are not complying with general auditing standards stating "The most frequent audit deficiencies were noted in financial statement audit areas, including auditing revenue recognition, the auditor's response to the risk of material misstatement due to fraud, and audit procedures to rely on records and reports

from service organizations, as well as areas specific to the audits of broker-dealers, including auditing the net capital computation and the audit work performed for the auditor's report on material inadequacies.”

- In a speech given by PCAOB Board Member Jeanette M. Franzel at a recent PCAOB Broker-Dealer Auditing Form, she noted the following matters were identified based on annual reports filed by broker-dealers with *fiscal years ended on June 30, 2014*:
 - Many annual reports did not include the new broker-dealer compliance report or exemption report. However, there was an auditor examination or review report. As stated by the PCAOB, in other words, the auditors reported on something that was not included in the broker-dealer’s filing.
 - Some filings included the outdated auditor’s supplemental report required under GAAS (concerning material inadequacies in a broker-dealer’s internal and other controls)
 - Some audit reports stated the audit had been conducted in accordance with GAAS instead of PCAOB standards.
- Robert Maday, PCAOB Deputy Director of the Division of Registration and Inspections and Program Leader of the Broker-Dealer Audit Firm Inspection Program, was quoted as saying "We have been urging firms that audit broker-dealers to re-examine their audit approaches due to ongoing issues identified during inspections."
- Peer Review - The Peer Review Board (PRB) has determined that engagements performed under PCAOB standards that are NOT subject to permanent inspection by the PCAOB will remain in scope for the AICPA Peer Review Standards. Therefore, until the PCAOB announces its permanent inspection scope, all broker-dealer audits and attestation engagements will remain subject to peer review. Further, the PRB has confirmed that performance of any engagements under PCAOB standards (whether or not permanently inspected by the PCAOB) would require the firm to have its peer review administered by the National Peer Review Committee. Refer to [Broker-Dealer Engagements: Peer Review Implications](#) for more information.
- Independence - Violation of SEC independence rules continues to be identified during peer review and PCAOB inspections. As a reminder, auditors should not provide typing and word processing services nor financial statement templates that are not publicly available to broker-dealer clients.

SEC/PCAOB Independence Rules for Non-Issuer Audit and Attestation Engagements

The Center for Audit Quality (CAQ) and the AICPA released a joint [Independence Alert](#) intended to provide audit firms with an overview of the independence rules of the SEC and PCAOB applicable to financial statement audit and attestation engagements for the following non-issuers:

- Non-issuer broker-dealers that are registered with the SEC as a broker or dealer; and
- Where the engagement(s) is subject to the requirements of SEC Rule 206(4)-2 (17 CFR 275.206(4)-2) (“Custody Rule”), SEC-registered and state registered investment advisers, related party custodians, or private funds (e.g., pooled investment vehicles).

Refer to the [Independence Alert](#) for more information.

2015 Interim Inspection Plan

The PCAOB indicated that they plan to increase the number of engagements selected review by 14% in 2015. Additionally, the PCAOB is working on a permanent inspection program and staff plans to present it to the Board in 2016.

Resources

- Refer to the [Stockbrokerage and Investment Banking Expert Panel](#) website for the latest information related to broker-dealer audits and attestation engagements.
- Refer to [Staff Guidance for Auditors of SEC Registered Brokers and Dealers](#). Per the PCAOB, "...the staff guidance highlights relevant requirements for SEC-registered broker-dealer audits and attestation engagements, and provides guidance on the application of PCAOB standards to these engagements, particularly for audits of smaller broker-dealers with less complex operations. Additionally, the publication highlights some of the significant provisions of SEC Rule 17a-5 and PCAOB standards and rules applicable to audits of broker-dealers."
- For technical questions about these engagements, please call the AICPA technical hotline at (877) 242-7212. However, questions about the PCAOB standards should be directed to the PCAOB at (202) 591-4395.
- For questions about peer review implications, please call the peer review hotline at (919) 402-4502.