

Broker-Dealer Engagements: Peer Review Implications

Due to the SEC Rule regarding broker-dealers and the correlating PCAOB standards adoptions, which were adopted in 2014, the AICPA Peer Review Board clarified the Peer Review Standards with respect to the inclusion of broker-dealer engagements in the scope of a peer review and confirmed firms that perform these engagements are required to have their peer reviews administered by the National Peer Review Committee (NPRC).

Changing Environment

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.

On October 10, 2013, the PCAOB adopted attestation standards for the purposes of performing the examination of the Compliance Report and the review of the Exemption Report ([PCAOB Release No. 2013-007: Final Rule](#)). They also adopted an auditing standard applicable when auditors are engaged to perform audit procedures and report on supplemental information that broker-dealers and others file with the SEC and related amendments to other PCAOB standards ([PCAOB Release No. 2013-008: Final Rule](#)).

Audits of all non-SEC issuer broker-dealers are currently subject to inspection by the PCAOB under an interim inspection program. The PCAOB anticipates presenting a rule proposal for a permanent inspection program in 2014 or later.

Peer Review Implications

- **Inclusion of Broker-Dealers Engagements in Peer Review** – The Peer Review Standards cover engagements that are not subject to permanent inspection by the PCAOB. During an interim inspection period, such as that currently underway with audits of broker-dealers, such engagements are **not** deemed to be inspected by the PCAOB for purposes of peer review. Therefore, the engagements would still be included in the scope of peer review until such time that a permanent inspection is adopted by the PCAOB. As a result, it is possible that the same broker-dealer engagement would be selected for review by both the PCAOB and your peer reviewer. Refer to Table 1 for help in determining if your broker-dealer engagements are in scope for peer review.
- **National Peer Review Committee (NPRC) Administration** – Firms that perform engagements using PCAOB standards are required to have their peer reviews administered by the NPRC. This rule applies regardless of whether the engagements are included in a permanent PCAOB inspection program. Thus, should audits of broker-dealers become part of a permanent PCAOB inspection program, even though they would not be included in your peer review, because those audits are performed using PCAOB standards, your firm's peer review will still be administered by the NPRC. The

reason for this requirement is to ensure that peer reviewers, technical reviewers and committee members considering the peer review reports have the applicable expertise to do so. Your firm would be subject to the [current NPRC administrative fee structure](#). This would also require that at least one owner of the firm be a member of the AICPA. Refer to Table 1 for help in determining if your firm is required to have its peer review administered by the NPRC. **If you have questions about your firm's peer review administration, please contact the Peer Review Team at (919) 402-4502.**

- **Common Matters Identified During Peer Reviews** – The AICPA has been collecting data identified and reported on Matter for Further Consideration (MFC) forms for peer reviews of AICPA member firms since July 2013. Note that while all of the following items may contribute to an engagement being deemed nonconforming, the failure to comply with SEC independence rules or to update audit reports to comply with the clarified audit standards as stand-alone issues would result in nonconforming engagements. The most common matters related to audits of broker-dealers performed using GAAS identified in peer review are as follows.
 - Failure to comply with SEC independence rules. Consistent with the [PCAOB interim inspection results](#), peer reviewers are regularly identifying audits where the firm failed to comply with SEC independence rules by preparing the firm's financial statements. **In a peer review, this will be considered a nonconforming engagement and depending upon the underlying systemic cause, may result in a pass with deficiencies or fail peer review report.**
 - Failure to comply with SEC Independence Rules, including not preparing financial statements for clients
 - Failure to perform sufficient revenue testing by placing too much reliance on a SOC 1 report
 - Failure to make or document the required communications with the audit committee (or board)
 - Failure to obtain a concurring review as required by PCAOB Standards

If you have questions or would like more information on the peer review implications of performing broker-dealer engagements, please contact the Peer Review Team at (919) 402-4502 or at prsupport@aicpa.org.

The chart below summarizes the impact of broker-dealer engagements on the scope and administration of a firm's peer review.

Table 1

Engagement type	PCAOB permanent inspection scope	Peer review scope	Triggers NPRC administration of firm's peer review
Broker-dealer engagements under PCAOB standards, before effective date of PCAOB permanent inspection program	No	Yes	Yes
Broker-dealer engagements under PCAOB standards, upon effective date of PCAOB permanent inspection program	Yes	No	Yes
Engagements of non-issuers under PCAOB standards, not covered by PCAOB permanent inspection	No	Yes	Yes
Engagements for SEC issuers under Government Auditing Standards (e.g. IPISA of CMR), not covered by PCAOB permanent inspection program	No	Yes	No
Engagements under SASs, SSARS, SSAEs, Government Auditing Standards, not covered by PCAOB permanent inspection program	No	Yes	No