

December 2017

B/D Alert #10: Engagement Quality Review

This alert is intended to provide certain auditing considerations that may be relevant for audit and attestation engagements for brokers and dealers registered with the US Securities and Exchange Commission (SEC).

The alert discusses some of the more judgmental or complex areas of the audit and attestation engagements, including some of those identified by the Public Company Accounting Oversight Board (PCAOB).¹ This alert should not be relied upon as definitive or all-inclusive, and should be read in conjunction with applicable rules, standards, and guidance in their entirety.

Please see previously issued CAQ Alert #2017-05, *Select Auditing Considerations for the 2017 Audit Cycle for Brokers and Dealers* where additional areas of the audit and attestation engagements are highlighted for consideration.²

Importance of Engagement Quality Reviews

Engagement quality reviews can serve as safeguards against insufficiently supported audit opinions or inappropriate conclusions expressed in an attestation report because they can identify and correct engagement deficiencies before the auditor's reports are issued. An engagement quality review and concurring approval of issuance are required for the following engagements conducted pursuant to the standards of the PCAOB: (a) an audit engagement; (b) a review of interim financial information; and (c) an attestation engagement performed pursuant to Attestation Standard No. 1, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers*, or Attestation Standard No. 2, *Review Engagements Regarding Exemption Reports of Brokers and Dealers*.³ AS 1220 requires that a qualified engagement quality reviewer perform an evaluation of the significant judgments made by the engagement team, and the related conclusions reached in forming the overall conclusion on the engagement prior to the issuance of the auditor's reports. Please see AS 1220 for specific requirements.

¹ See PCAOB Staff Inspection Brief: *Information about 2017 Inspection of Auditors of Brokers and Dealers* and PCAOB Staff Inspection Brief: *Preview of Observations from 2016 Inspections of Auditors of Brokers and Dealers*.

² CAQ Alert #2017-05 is available at <http://www.thecaq.org/caq-alert-2017-05-select-auditing-considerations-2017-audit-cycle-brokers-and-dealers>.

³ See AS 1220.01.

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Example Deficiencies

The following are examples of deficiencies that have been identified in previous PCAOB inspections related to this area:

- Engagement quality reviews were not performed prior to the issuance of the related audit and review reports.
- Engagement quality reviewer did not sufficiently evaluate the significant judgments and conclusions reached by the engagement team.