

December 2017

B/D Alert #1: Auditor Independence

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

Bookkeeping Services Are Prohibited

As a reminder, PCAOB and SEC rules prohibit providing bookkeeping services to an audit client,³ including preparing financial statements; maintaining or preparing clients' accounting records; and preparing or originating source data underlying the audit client's financial statements. These restrictions also apply to assisting audit clients in the preparation of the broker's or dealer's compliance and exemption reports. CAQ Alert No. 2014-11, *SEC/PCAOB Independence Rules for Non-Issuer Audit and Attestation Engagements* provides an overview of the independence rules of the SEC and PCAOB applicable to audit and attestation engagements for brokers and dealers and other covered entities.

Communications with Audit Committees

We also remind auditors of brokers and dealers that *PCAOB Rule 3526, Communications with Audit Committees Concerning Independence*, requires, among other things, the auditor to describe, in writing, to the audit committee of the audit client, or their equivalent,⁴ all relationships between the registered public accounting firm or any affiliates of the firm and the broker or dealer or persons in financial reporting oversight roles at the broker or dealer that, as of the date of the communication, may reasonably be thought to bear on independence. If no such committee or board of directors (or equivalent body) exists with respect to the broker or dealer, then the communication should be addressed to the person(s) who oversee the accounting and financial reporting process of the company and audits of the financial statements of the company.⁵

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 SEC Rule 2-01(f) of S-X and PCAOB *Rule 3501 Definitions of Termed Employed in Section 3, Part 5 of the Rules*, (a)(iv) define "audit client" as the entity whose financial statements or other information is being audited, reviewed, or attested and any affiliates of the audit client.

⁴ See *Rule 3501 Definitions of Termed Employed in Section 3, Part 5 of the Rules*, (a)(v) Audit Committee and footnote 12 of the 2016 PCAOB Brokers and Dealers Annual Report.

⁵ *Ibid.*