

December 2017

B/D Alert #4: Review Engagements

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

While the alert highlights certain areas and questions for consideration, it 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. The questions posed in this alert are a mixture of (1) questions applicable to all audits of brokers and dealers and (2) questions that may require further action if certain circumstances are present at the broker or dealer.

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

Developing and Performing Review Procedures

[Attestation Standard 2, Review Engagements Regarding Exemption Reports of Brokers and Dealers \(AT 2\)](#) establishes the requirements for auditor review of the statements in the exemption reports of certain brokers and dealers, including review procedures to identify exceptions to the exemption provisions of SEC Rule 15c3-3. [AS 1220, Engagement Quality Review \(AS 1220\)](#) also applies to attestation engagements conducted pursuant to AT 2.

Questions to Consider

Consider the following questions when planning and performing the review engagement:

- Under what provision(s) does the broker or dealer claim exemption from SEC Rule 15c3-3, and why is this exemption(s) being elected?

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>.

- To whom will inquiries be directed to further understand the conditions under which the broker or dealer is claiming an exemption, and the processes and controls the broker or dealer has in place to maintain compliance with the exemption?³ Were those inquiries performed and documented?
- What if the broker or dealer has not held customer securities or funds during the fiscal year but does not fit into one of the exemptive provisions? How has this been reflected?⁴
- Has the nature of the broker or dealer business changed since the last review? (Exemption needs to address all types of businesses of the broker or dealer.)
- What is management's process for identifying and reporting exceptions?
- Have there been exceptions to the broker's or dealer's compliance with the claimed exemption during the period?

Example Deficiencies

The following are examples of deficiencies that have been identified in previous PCAOB inspections related to this area:⁵

- Auditor did not gain an understanding of the broker's or dealer's exemption conditions and did not consider certain risk factors in performing necessary inquiries and other review procedures.
- Auditor did not make all required inquiries as described by paragraphs 10(c) and 10(d) of AT No. 2.⁶
- Auditor did not consider the broker's or dealer's history of instances of noncompliance with the exemption provisions and perform other procedures as necessary.⁷
- Inspections staff also had observations related to the auditors' review reports, such as the following:
 - The report did not identify or incorrectly identified the provision in paragraph (k) of Rule 15c3-3 that the broker or dealer claimed as the basis for its exemption from Rule 15c3-3.
 - The report indicated that the broker or dealer met the identified exemption provisions throughout the period without exception, when the broker or dealer listed in its exemption report exceptions it had during the period.
- Auditor did not evaluate whether information had come to their attention during the audit that caused them to believe that one or more of the broker's or dealer's assertions are not fairly stated.

³ See PCAOB AT No. 2.5(b) and AT No. 2.10(c)(1).

⁴ See Question and Answer number six of the SEC's release [Frequently Asked Questions Concerning the July 30, 2013 Amendments to the Broker-Dealer Financial Reporting Rule](#).

⁵ As of the date of this publication the most recent annual interim inspection report was published by the PCAOB on [August 18, 2017](#).

⁶ AT No. 2 requires that the auditor's procedures related to the broker's or dealer's statements in the exemption report should include inquiries of individuals responsible for the broker or dealer complying with applicable rules, and other procedures sufficient to obtain moderate assurance about whether the statements made by the brokers and dealers in their exemption reports are fairly stated, in all material respects.

⁷ See paragraph 10(h) of AT No. 2.