

December 2017

## B/D Alert #7: Financial Statement Presentation and Disclosure

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).<sup>1</sup>

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.<sup>2</sup>

### Developing and Performing Auditing Procedures

During performance of risk assessment procedures, auditors develop an expectation about the appropriate disclosures required to be included in the financial statements as part of obtaining an understanding of the company and its environment. The auditor is required to evaluate “as part of obtaining an understanding of the company’s selection and application of accounting principles, including related disclosures... whether the company’s selection and application of accounting principles are appropriate for its business and consistent with the applicable financial reporting framework and accounting principles used in the relevant industry. Also, to identify and assess risks of material misstatement related to omitted, incomplete, or inaccurate disclosures, the auditor should develop expectations about the disclosures that are necessary for the company’s financial statements to be presented fairly in conformity with the applicable financial reporting framework.”<sup>3</sup>

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<sup>1</sup> 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*.

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

<sup>3</sup> See AS 2110.12.

## Questions to Consider

Consider the following questions when developing and performing procedures in this area:

- Did the auditor develop an expectation of the required disclosures to be included in the broker's or dealer's financial statements?
- Has the auditor evaluated if the disclosures they would expect to be included are included? Was a disclosure check list completed by the auditor?
- Did the auditor consider the financial statement presentation disclosure requirements of SEC Rule 17A-5 applicable to the broker's or dealer's financial statements?

## Example Audit Deficiencies

The following are examples of audit deficiencies that have been identified in previous PCAOB inspections related to this area:<sup>4</sup>

- The auditor did not identify that required disclosures were missing from the broker's or dealer's financial statements or notes.<sup>5</sup>
- The auditors did not perform sufficient procedures to evaluate whether the broker's or dealer's financial statements were presented fairly in conformity with GAAP.<sup>6</sup>
- The auditors did not identify and appropriately address instances in which the broker's or dealer's financial statements were inconsistent with the requirements of SEC Form X-17A-5.<sup>7</sup>
- The auditor did not evaluate the broker's or dealer's classification of fair value measurements of certain assets and liabilities within the hierarchy required by FASB ASC Topic 820, *Fair Value Measurement*.

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<sup>4</sup> As of the date of this publication the most recent annual interim inspection report was published by the PCAOB on [August 18, 2017](#).

<sup>5</sup> See AS 3101.41-.44.

<sup>6</sup> See AS 2810.30-.31.

<sup>7</sup> See *Reports to Be Made by Certain Brokers and Dealers*, SEC Rule 17a-5.