

Statement on Attestation Standards for Broker-Dealer Audits and Auditing Standard on Auditing Supplemental Information

DATE: Oct. 10, 2013
SPEAKER: James R. Doty, Chairman
EVENT: PCAOB Open Board Meeting
LOCATION: Washington, DC

RELATED INFORMATION

- [Event Details and Documents](#)

I am pleased to support adoption of the new standards before the Board today. These standards are designed to address the SEC's requirements that brokers and dealers file with the SEC annual financial reports, including supporting schedules, that are audited in accordance with PCAOB standards, as well as file one of two new reports — either a compliance report or an exemption report — and the related auditor's report.

The SEC adopted amendments to SEC Rule 17a-5 on July 30, 2013. The SEC's new audit and reporting requirements for brokers and dealers and their auditors will apply for annual reports filed with the SEC for fiscal years ending on or after June 1, 2014. Those reports include the broker-dealer's audited financial statements and supporting schedules as well as assertions of compliance with or exemption from key financial responsibility rules under the Exchange Act. The rule also requires that brokers and dealers file an audit report on the financial statements and supporting schedules as well as an examination or review report issued by their auditor on the brokers' or dealer's compliance or exemption report.

After careful consideration of the public comment and the SEC's final amendments to Rule 17a-5, I am pleased that we are in a position today to adopt final audit and attest standards. Of course, as with all PCAOB rules, these standards are subject to SEC approval as well.

Examination of Compliance Reports

The SEC rule requires an examination by an independent public accountant of the assertions made in a broker's or dealer's compliance report. The attestation standard before the Board today sets forth the requirements for such examinations.

The attestation standard is risk-based. It will require auditors to use judgment to identify and focus on matters that are most important to the customer-protection objectives of these engagements. The standard is also designed to provide for examinations that are *scaled* to the size and complexity of the broker's or dealer's business. And it will require *coordination* with the financial statement audit in order to eliminate duplication of procedures and promote appropriate use of evidence obtained and more effective audit work overall.

Reviews of Exemption Reports

The SEC rule also requires a new exemption report, for brokers and dealers that claim exemption from the SEC's Rule 15c-3 on Customer Protection — Reserves and Custody of Securities. The SEC's rule requires a broker-dealer filing an exemption report to undergo a review by an independent public accountant of the assertions of the broker-dealer in that report.

Many so-called introducing brokers are small operations. As I said when we proposed this standard, it is intended to take the size and complexity of the broker into account. The extent of inquiries to make and materials to review will naturally be less for a small, uncomplicated broker. These are not audits. But similar to the compliance examinations, the auditor should take advantage of evidence obtained in the financial statement audit to identify risks without duplicating effort.

Auditing Supplemental Information

Finally, we also consider today an auditing standard that will apply when the auditor is engaged to perform audit procedures and report on supplemental information that accompanies the audited financial statements of a broker, dealer or issuer.

The standard on auditing supplemental information provides that the extent of testing of the supplemental information is based, in part, on the extent of the risk of material misstatement of the information. Moreover, if the supplemental information was already tested as part of the audit of the financial statements, as would be the case in some situations, the standard does not require additional testing.

The final standards before the Board today have benefited considerably from the insights and suggestions of commenters. The intent is to promote meaningful protection of customer assets and not to cause wasteful effort. I believe the standards will do so.

I must note, though, that we have seen significant compliance problems even under the profession's existing standards, through our interim broker-dealer auditor inspection program.

The purpose of our interim inspection program is to gather information about the manifold differences in the activities of the spectrum of brokers and dealers whose audits could be subject to PCAOB inspections, to determine the scope and elements of a permanent inspection program.

Whether or not certain firms are ultimately exempted from the PCAOB's inspection requirement, because of the nature of their broker-dealer clients, it is clear today that many firms will need to significantly improve their work, under any set of standards, to meet the SEC's requirements and the public's expectations.

I want to thank the SEC staff for their assistance with this project. The proposal benefits from extensive consultation and discussion with the SEC staff, and their insights were invaluable.

I would also like to thank the PCAOB's Chief Auditor, Marty Baumann, for developing the recommendation before the Board today. He is backed up by a talented staff, including Keith Wilson, Barbara Vanich, Nick Grillo and Karen Burgess, as well as one of the newer additions to Marty's team, our economist John Powers, who gives us new depth in the standards-setting office to bring economic tools and insights to bear in our rulemaking, as well as Saad Siddiqui in our Office of Research and Analysis.

Finally, we are always well served and advised by our General Counsel, Gordon Seymour, and his staff, in particular Jennifer Williams.

© Copyright 2003 - 2013 Public Company Accounting Oversight Board. All Rights Reserved.