PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers

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CONTENTS

INTRODUCTION

The Public Company Accounting Oversight Board (PCAOB or Board) has, among its areas of statutory jurisdiction, registration, inspection, standard-setting, and disciplinary authority over the auditors of brokers and dealers registered with the U.S. Securities and Exchange Commission (SEC) that are obligated to file financial statements subject to audit by a PCAOB-registered firm.[1] Overseeing the audits of these SEC-registered broker-dealers is a key component of our mission to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

This *Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers* ("Annual Report") provides:

- Information about our 2023 inspections approach;
- A summary of our 2023 inspections observations;
- A description of "good practices," which include brief scenarios and possible procedures that may be effective to address those scenarios; and
- Reminders for firms of the requirements of certain PCAOB standards.

The information in this Annual Report is provided under the requirements of PCAOB Rule 4020T, *Interim Inspection Program Related to Audits of Brokers and Dealers*, which addresses, among other things, reporting under the interim inspection program.

Under Rule 17a-5 of the Securities Exchange Act of 1934 ("Exchange Act"), broker-dealers registered with the SEC are generally required to file with the SEC the following documents annually:

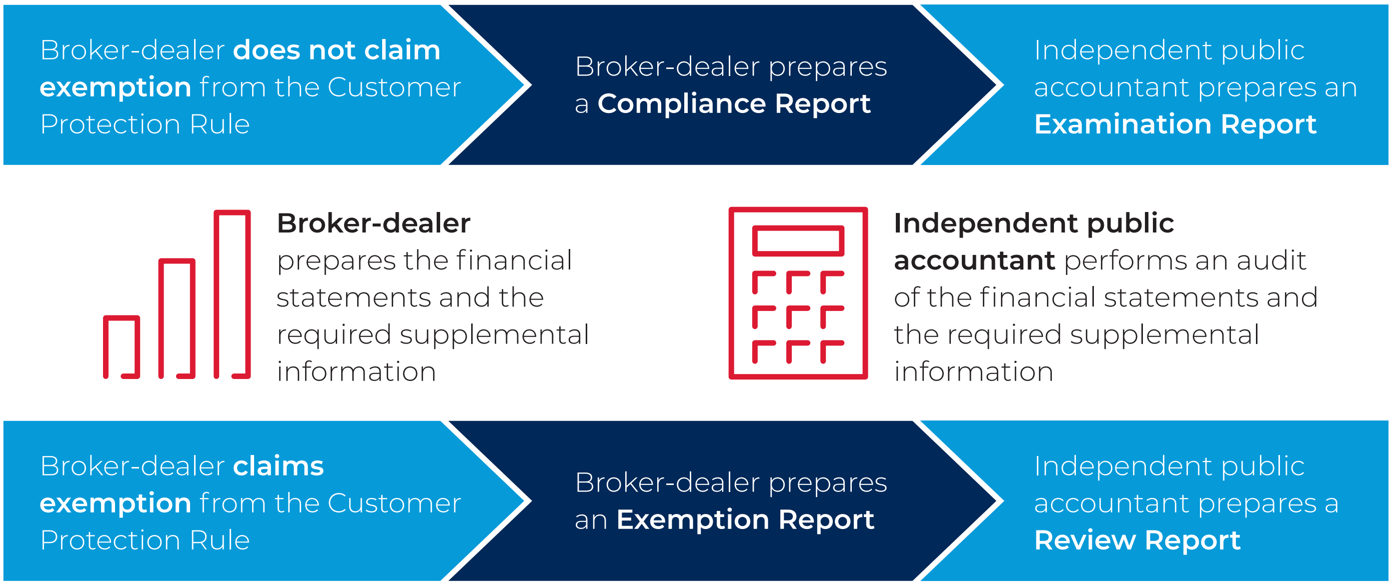
1. **Financial Report:** A financial report includes financial statements and supporting schedules ("supplemental information");
2. **Compliance or Exemption Report:**
    - A compliance report is required if the broker-dealer did not claim it was exempt from Exchange Act Rule 15c3-3, *Customer Protection – Reserves and Custody of Securities* ("Customer Protection Rule"), or
    - An exemption report is required if the broker-dealer did claim it was exempt from the Customer Protection Rule or was otherwise eligible under SEC rules to file an exemption report;[2] and
3. **Independent Public Accountant Reports:** Reports prepared by an independent public accountant are required to encompass the financial report and, based on the broker-dealer's status, either the compliance report or the exemption report. The accountant's audit of the financial report ("audit engagement" or "audit") must be performed under PCAOB auditing standards. The accountant's examination of a compliance report ("examination engagement") must be performed under PCAOB attestation standard AT No. 1. The accountant's review of an exemption report ("review engagement")

[1] The use of the term "broker-dealer" in this Annual Report refers to entities that are registered with the SEC as both a broker and a dealer and to entities that are registered as only one or the other.

[2] Broker-dealers that carry customer accounts, maintain custody or control of customer cash and securities, or clear securities transactions on behalf of customers, typically do not qualify for an exemption under the Customer Protection Rule. As a result, these broker-dealers are required to file compliance reports. Conversely, most broker-dealers, including those that act solely as introducing broker-dealers, file exemption reports.

must be performed under PCAOB attestation standard AT No. 2. Collectively, AT No. 1 and AT No. 2 engagements are referred to as “attestation engagements.”

The graphic below depicts certain broker-dealer annual reporting requirements and related auditor responsibilities.



This graphic is provided as an example; it is not intended to, and does not, cover all instances where a broker-dealer may be eligible to file an exemption report.

OVERVIEW OF 2023 INSPECTIONS RESULTS

The 2023 inspection year marked our ninth year of inspections of firms that audit broker-dealers in accordance with PCAOB standards. During 2023, we inspected 60 firms and reviewed 103 broker-dealer audits, an increase from the figures for the 2022 inspection year, as shown more fully below. Our 2023 inspections included review of 34 broker-dealer audits performed by four firms that audited more than 100 broker-dealers and more than 100 issuers[3] in the 2021, 2022, and 2023 inspection periods (the "largest audit firms").

Overall, in 2023 we observed high deficiency rates in examination, review, and audit engagements. These high deficiency rates across engagement types are a cause for significant concern.

In our review of 29 examination engagements on broker-dealer compliance reports, we found that 66% had at least one deficiency compared to 50% in 2022. The largest audit firms performed 15 of the examination engagements reviewed in 2023, and deficiencies at these firms increased to 47% in 2023 from 32% in 2022. The remaining audit firms performed the other 14 examination engagements reviewed, and deficiencies at these firms increased to 86% in 2023 from 73% in 2022. Most examination engagement deficiencies related to the testing of internal control over compliance (ICOC), which are internal controls that have the objective of providing the broker-dealer with reasonable assurance that noncompliance with the broker-dealer financial responsibility rules[4] will be prevented or detected on a timely basis.

> Overall, in 2023 we observed high deficiency rates in examination, review, and audit engagements. These high deficiency rates across engagement types are a cause for significant concern.

In our review of 67 review engagements on broker-dealer exemption reports, we found that 40% contained at least one deficiency, consistent with the 2022 deficiency rate. The deficiency rate on review engagements for the largest firms decreased from 2022; however, this was offset by a 68% deficiency rate from 19 review engagements from the inspections of 18 firms not previously inspected under the interim inspection program. While we continued to observe deficiencies related to the review procedures required by AT No. 2 during 2023, the increase in deficiencies on review engagements in recent years primarily involves errors in the auditor's review report itself and not deficiencies related to the performance of review procedures.

[3] An "issuer" is a public company or similar entity whose audits are subject to the jurisdiction of the Board under the Sarbanes-Oxley Act.

[4] The term "financial responsibility rules" refers to the same rules cited in Exchange Act Rule 17a-5 paragraph (d)(3)(ii) and footnote 10 of AT No. 1, namely, the Net Capital Rule, Customer Protection Rule, Quarterly Security Counts Rule, and Account Statement Rule. Paragraph (e) of the Customer Protection Rule, specifically, is referred to as the "Reserve Requirements Rule."

We identified at least one deficiency in 70% of the 103 audit engagements on broker-dealer financial reports we reviewed during 2023, an increase from 58% in 2022. The increase in deficiencies is primarily attributable to two factors. First, an increase in the number of inspections performed of firms that have not been previously inspected. These inspections have typically resulted in high deficiency rates throughout the history of the interim inspection program. In 2023, we inspected 18 firms that had not previously been inspected, compared to nine in 2022. In 2023, 90% of audits reviewed during those inspections had at least one deficiency, compared to 89% in 2022. Second, an increase in deficient audit engagements at the largest audit firms to 59% in 2023 from 33% in 2022.

We identified deficiencies involving the sufficiency or appropriateness of evidence that firms obtained to support their audit opinions in 56% of audits reviewed, an increase from 50% in 2022. The areas where we identified the highest numbers of deficiencies were, in order: revenue; evaluating audit results (which primarily concerns the presentation and disclosure of broker-dealer financial statements); net capital; and related party relationships and transactions.

In our assessment of audit engagements for noncompliance with other PCAOB standards and rules, the areas where we identified the highest numbers of deficiencies were, in order: audit documentation; auditor communications; auditors' reports on the financial statements and supplemental information; and auditor independence. We identified deficiencies that solely involved noncompliance with other PCAOB standards and rules in 14% of audits reviewed, an increase from 8% in 2022.

In addition to descriptions of deficiencies, this Annual Report provides firms with examples of good practices[5] and reminders of requirements of certain PCAOB standards. These good practices and reminders to firms are focused on topics where deficiencies are persistently high or increasing.

Communicating information through this Annual Report helps to advance our goal of driving improvement in audit quality to protect investors and increase transparency in reporting inspection results and delivering useful guidance to the audit profession. We hope this Annual Report is also helpful for other stakeholders, including management and audit committees of broker-dealers, as they engage with audit firms regarding audit quality and broker-dealer financial reporting.

[5] Refer to page 14 for further discussion of good practices.

The following table summarizes our selections of firms inspected and engagements reviewed, for the three most recent inspection years.

Selections Profile			
	2023	**2022**	**2021**
Total firms inspected			
Total firms inspected	**60**	**50**	**50**
Inspection frequency			
Previously inspected firms	42	41	40
Firms inspected for the first time	18	9	10
Total firms inspected	**60**	**50**	**50**
Total audits reviewed			
Total audits reviewed	**103**	**92**	**92**
Selection method			
Risk-based selections	97	86	72
Random selections	6	6	20
Total audits reviewed	**103**	**92**	**92**
Type of report filed by the broker-dealer			
Compliance report	31	35	34[6]
Exemption report	72	57	58
Total audits reviewed	**103**	**92**	**92**
Total attestation engagements reviewed			
Examination engagements	29	34	33
Review engagements	67	52	58
Total attestation engagements reviewed	**96**	**86**	**91**

We reviewed the related attestation engagement for 96 of the 103 audits reviewed in 2023. We assessed the risks associated with the remaining seven attestation engagements to not warrant review. These included five instances involving broker-dealers that filed exemption reports, and two instances involving broker-dealers with no customer activity that filed compliance reports.

[6] One broker-dealer classified as a compliance report filer in this table filed both a compliance report and an exemption report.

The following table summarizes our inspection results for the three most recent inspection years.

Inspection Results Profile			
	2023	**2022**	**2021**
Firms with deficiencies in audit and/or attestation engagements	**53 (88%)**	**45 (90%)**	**39 (78%)**
Audit engagements with deficiencies	**72 (70%)**	**53 (58%)**	**45 (49%)**
In relation to the nature of the deficiencies:			
• **Involving the sufficiency and/or appropriateness of evidence obtained to support audit opinions**	58 (56%)	46 (50%)	45 (49%)
• **Involving noncompliance with other PCAOB standards and rules only**	14 (14%)	7 (8%)	0 (0%)
In relation to number of broker-dealers and issuers audited:			
• **By firms that audited more than 100 broker-dealers and more than 100 issuers**	20 (59%)	11 (33%)	10 (30%)
• **By other firms**	52 (75%)	42 (71%)	35 (59%)
In relation to attestation engagements:			
• **Audits with audit deficiencies and attestation deficiencies**	37 (36%)	27 (29%)	27 (29%)
• **Audits with only audit deficiencies**	35 (34%)	26 (28%)	18 (20%)
Examination engagements with deficiencies	**19 (66%)**	**17 (50%)**	**21 (64%)**
• **By firms that audited more than 100 broker-dealers and more than 100 issuers**	7 (47%)	6 (32%)	7 (47%)
• **By other firms**	12 (86%)	11 (73%)	14 (78%)
Review engagements with deficiencies	**27 (40%)**	**21 (40%)**	**16 (28%)**
• **By firms that audited more than 100 broker-dealers and more than 100 issuers**	2 (13%)	2 (20%)	3 (16%)
• **By other firms**	25 (49%)	19 (45%)	13 (33%)

2023 INSPECTIONS APPROACH

Under the interim inspection program, the PCAOB assesses audit firms' compliance with applicable laws, rules, and professional standards when performing audit and attestation engagements for broker-dealers. We also evaluate elements of firms' quality control (QC) systems.

For our 2023 inspections, we selected PCAOB-registered firms that performed audits of broker-dealers with financial statement periods ended during the period from April 1, 2022, through March 31, 2023. The following table provides additional information about the population from which firms were selected for 2023 inspections. Data about the audits selected for inspection appears below, on page 12.

Number of broker-dealer audits per firm	Number of firms	Total number of broker-dealer audits across all firms in this category
1	79	79
2 to 20	153	887
21 to 50	33	1,093
51 to 100	10	647
More than 100	5	649[7]
Total	**280**	**3,355**

In selecting firms to inspect, we made risk-based selections that considered certain firm characteristics, which included, among others:

- The number of broker-dealer audits performed;
- Whether the firm conducted examination engagements;
- Whether the firm also audited issuers;
- Results from previous inspections under the interim inspection program;
- The firm's or its personnel's experience with auditing broker-dealers; and
- The existence of disciplinary actions against the firm or associated persons by the SEC, PCAOB, or other regulatory authorities.

The mix of firms inspected under the interim inspection program is different each year. We selected an additional 10 firms to inspect in 2023 compared to 2022. The selection of these additional firms, and the corresponding engagements to review, was risk-based, focusing on firms that solely audit broker-dealers that filed exemption reports and had not been previously inspected.

[7] Of these 649 broker-dealers, 531 were audited by four firms that audited more than 100 broker-dealers and audited more than 100 issuers. A fifth firm audited the remaining 118 broker-dealers and did not audit issuers.

In selecting particular engagements for review, we predominantly made risk-based selections that considered various characteristics of the broker dealers involved, which included (among others):

- Whether the broker-dealer filed a compliance report with the SEC pursuant to Exchange Act Rule 17a-5;
- Whether the broker-dealer was a subsidiary of an issuer and, if so, the broker-dealer's respective significance to the consolidated financial statements of that issuer;
- Financial metrics, such as asset, revenue, and net capital levels;
- Whether the broker-dealer had changed auditors, and certain circumstances related to any such change;
- The nature of the broker-dealer's operations, including whether the broker-dealer had custody of customer funds and securities and cleared customer transactions, the number and types of businesses in which the broker-dealer was authorized to participate, and whether it appeared that the broker-dealer engaged in activity related to digital assets; and
- The existence of disciplinary actions against the broker-dealer by the SEC, the Financial Industry Regulatory Authority (FINRA), or other regulatory authorities.

This approach accounted for 94% of the total of the engagements selected. Additionally, to introduce an element of unpredictability into the inspection process, we randomly selected engagements for review, which accounted for 6% of the total.

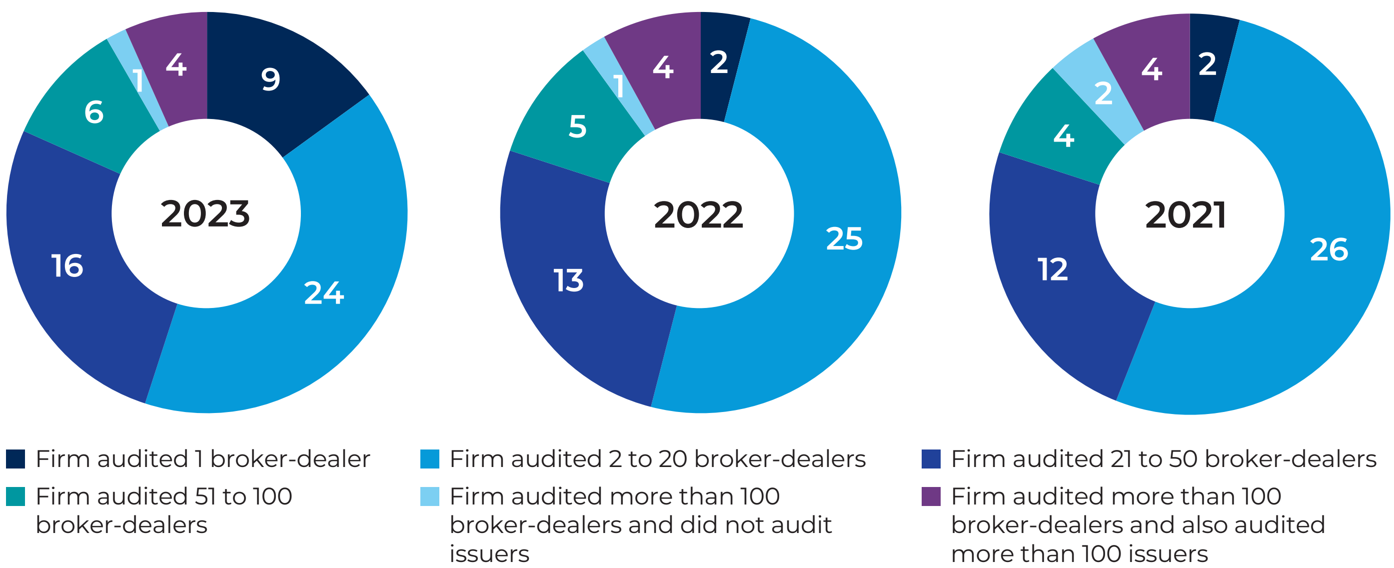
We did not review every aspect of the audit engagements on the broker-dealer financial reports we selected. Rather, we reviewed portions of those audits. Generally, we selected for review areas we believed to be of greater complexity and significance or areas that we believed could present a heightened risk of material misstatement to the broker-dealer's financial statements. We also selected areas, such as expenses and related accruals, on some audits in a manner designed to incorporate additional unpredictability. In addition, we reviewed certain areas relating to PCAOB standards or rules that did not affect the sufficiency or appropriateness of the evidence firms obtained to support their audit opinions, such as auditor communications and the assembly and retention of a complete and final set of audit documentation. The areas reviewed varied among audits, and the frequency with which we reviewed these areas varied between inspection years.

We generally focused our review of the selected attestation engagements on assertions made in broker-dealer compliance reports or exemption reports involving the protection of customer funds and securities. We also reviewed the applicable auditor's reports and engagement documentation for each selected attestation engagement.

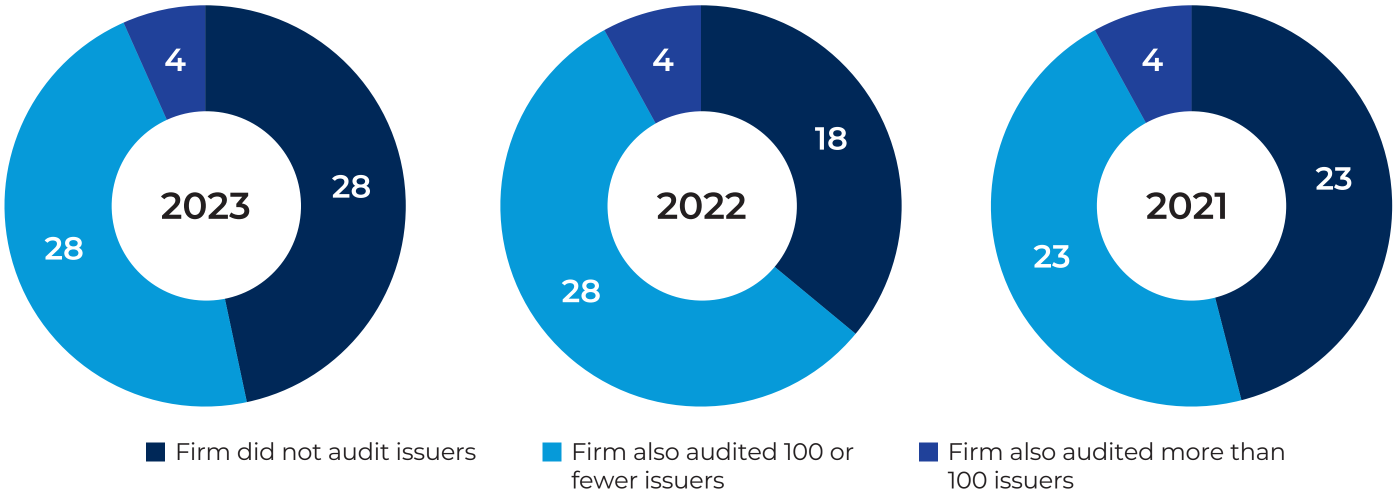
INFORMATION ABOUT SELECTED FIRMS AND ENGAGEMENTS

Firms

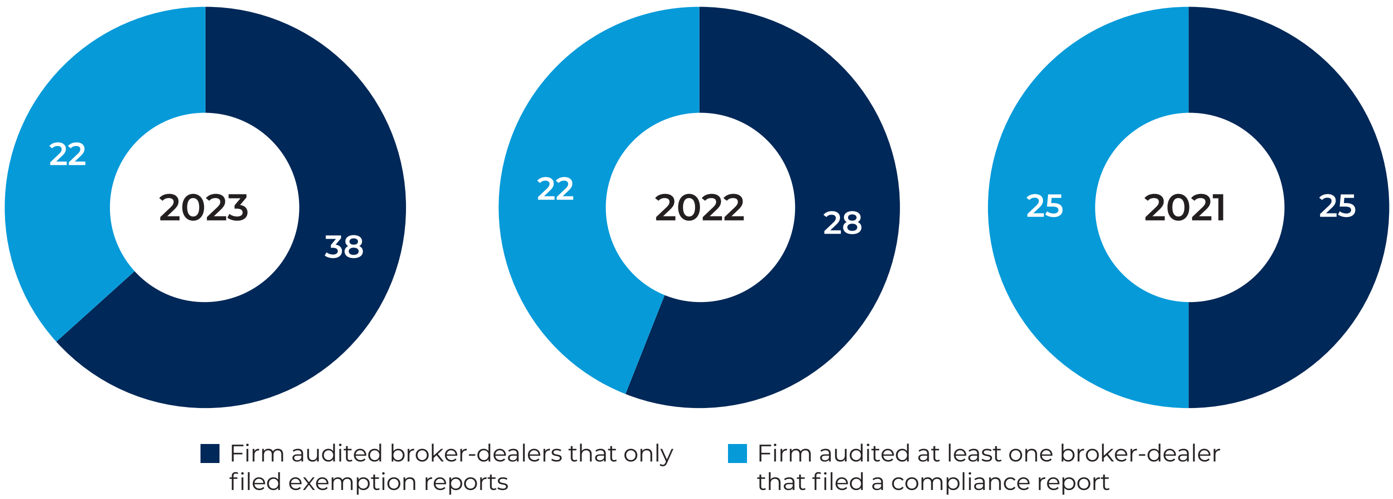
We selected 60 firms for inspection in 2023 and 50 firms for inspection in both 2022 and 2021. The following charts depict the number of broker-dealer audits performed by inspected firms (as determined at the time of their inspection), for each of the last three years. For firms that audited more than 100 broker-dealers, the charts also depict whether those firms also audited more than 100 issuers.



The following charts depict whether inspected firms also audited issuers, for each of the last three years, as determined at the time of their inspection. The charts also depict whether firms that also audited issuers audited more than 100 issuers.



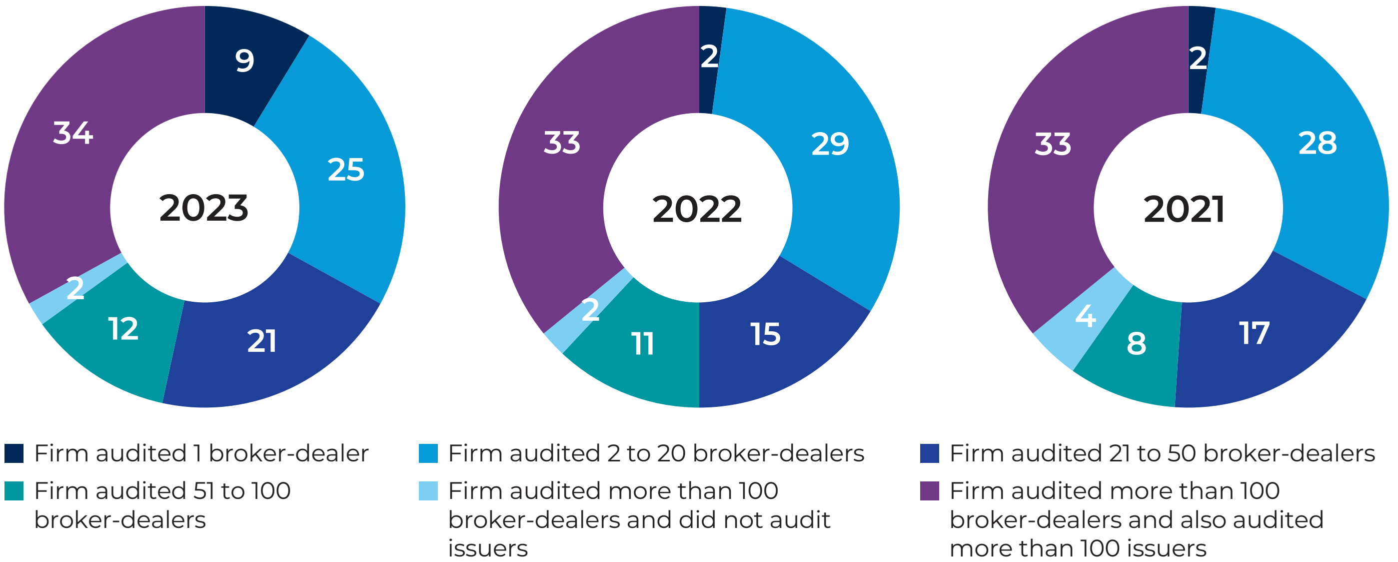
The following charts depict whether inspected firms audited broker-dealers that filed compliance reports or audited broker-dealers that only filed exemption reports, for each of the last three years, as determined at the time of their inspection.



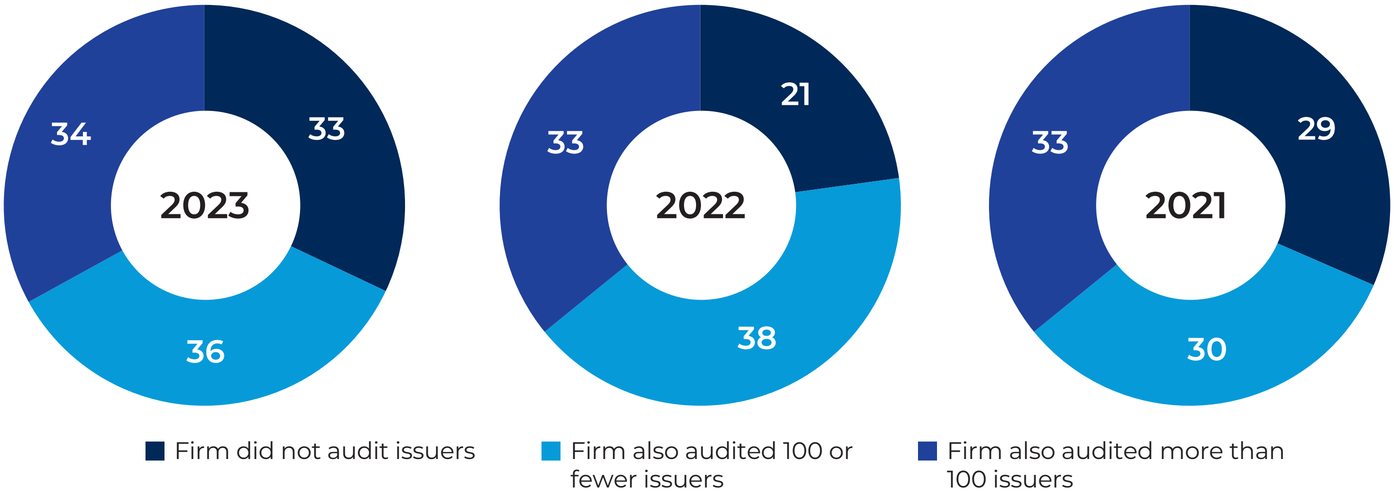
Engagements

During our 2023 inspections of 60 audit firms, we selected for review 103 financial statement audits of broker-dealers with financial statement periods that ended between April 1, 2022, and March 31, 2023. We selected 92 financial statement audits for review in both 2022 and 2021.

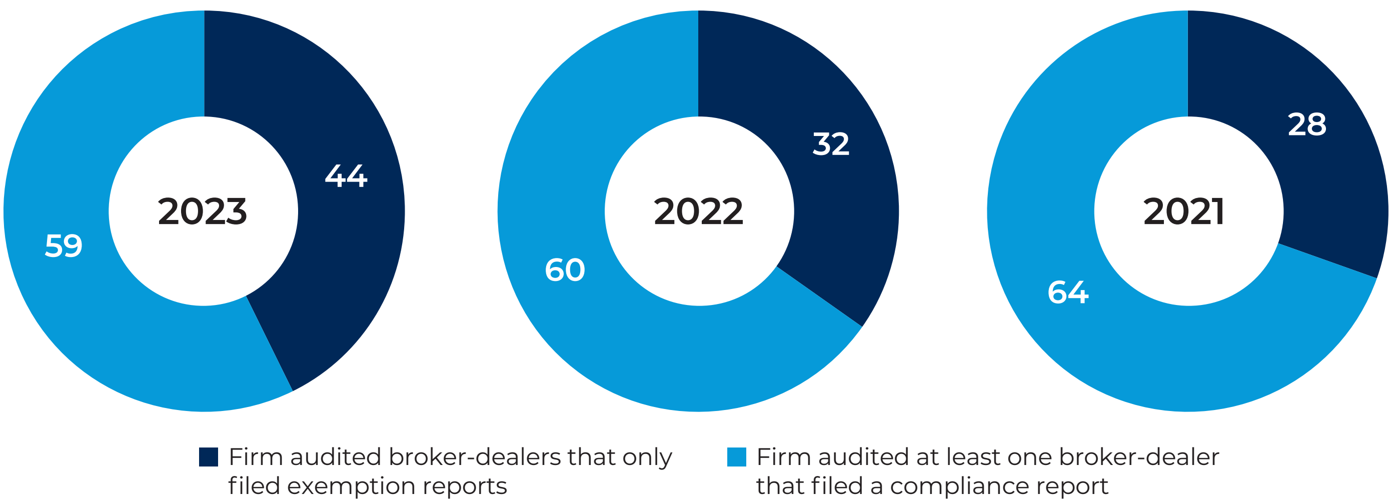
The following charts provide information about the distribution of selected audits among the firms selected for inspection, based on the number of broker-dealer audits each firm performed during the respective inspection period.



The following charts provide information about the distribution of selected audits among the firms selected for inspection, based on whether the inspected firms also performed issuer audits, as determined at the time of their inspection.



The following charts provide information about the distribution of selected audits among the firms selected for inspection, based on whether the inspected firms audited broker-dealers that filed compliance reports or solely audited broker-dealers that filed exemption reports, as determined at the time of their inspection.



OBSERVATIONS FROM INSPECTIONS

Inspections under the interim inspection program include a review of portions of selected engagements of the inspected firm and an evaluation of elements of the firm's QC system. Substantially all observations that were communicated to inspected firms have been included in this Annual Report, presented as follows:

- Deficiencies in examination engagements of compliance reports, review engagements of exemption reports, and audits of financial statements and supplemental information;[8]
- Instances of potential noncompliance with SEC independence rules and instances of noncompliance with PCAOB rules related to maintaining independence ("auditor independence findings"); and
- Deficiencies in QC systems.

Our selections of firms for inspection and engagements for review do not constitute representative samples of the populations of firms that audit broker-dealers or of all broker-dealer audit and attestation engagements. Additionally, our inspection findings are specific to the particular portions of the engagements reviewed. They are not an assessment of all work performed by the firms selected for inspection or of all procedures performed in the engagements involved. References to deficiencies and independence findings throughout this Annual Report refer to those identified through the PCAOB inspection process and may not represent all such instances that exist in the engagements and QC systems reviewed. Further, the populations of firms and broker-dealers are not homogeneous. Therefore, the observations in this Annual Report do not necessarily apply to the population of all firms that perform broker-dealer audits or of all broker-dealer audit and attestation engagements.

Good Practices and Reminders for Firms

In this Annual Report, we highlight good practices that may be effective in addressing various scenarios. These good practices are provided as illustrative examples and do not modify or establish PCAOB auditing or attestation standards, nor do they change PCAOB rules. We also remind firms of the requirements of certain PCAOB standards in some areas where we more frequently identified deficiencies during our 2023 inspections than in previous years.

We encourage auditors to consider how these good practices may apply to their broker-dealer engagements, and to proactively implement changes to engagement procedures where necessary to comply with PCAOB standards and rules.

Importantly, the effectiveness of the good practices we highlight is based upon the specific facts and circumstances at hand.

8 Deficiencies in attestation engagements are presented first due to the risks to customer protection associated with those engagements.

Deficiencies in Examination Engagements of Compliance Reports

This section discusses instances in which firms did not perform, or did not sufficiently perform, certain required procedures, or otherwise comply with AT No. 1, in connection with their examinations of assertions made by broker-dealers in compliance reports. The deficiencies do not necessarily mean that the compliance reports are not fairly stated in all material respects. It is often not possible for us to reach a conclusion on that point based on our inspection, because we have only the information in the broker-dealer's filings and the information the firm retained. We do not have access to the broker-dealer's management, or direct access to its underlying books and records, and other information.

	2023			2022	2021
	Number of engagements reviewed	Number of engagements with deficiencies	Percentage	Percentage	Percentage
Examination engagements	29	19	66%	50%	64%

General Requirements

Firms did not obtain a sufficient understanding of one or more financial responsibility rules that were relevant to the broker-dealer's assertions. (AT No. 1.06)

One firm assembled a set of examination documentation for retention within 45 days following the report release date that was not complete. (AT No. 1.06; AS 1215.15)

Planning the Examination Engagement

Firms did not obtain a sufficient understanding of broker-dealer processes, including relevant controls, regarding compliance with one or more financial responsibility rules. (AT No. 1.09)

Testing Controls Over Compliance

Deficiency Focus on Testing Controls Over Compliance

Most of the deficiencies on examination engagements related to testing the design and operating effectiveness of controls important to the auditor's conclusion regarding the effectiveness of ICOC for financial responsibility rules ("important controls"). (AT No. 1.11, .14, and .16)

The following table depicts certain deficiencies related to testing important controls, categorized by the financial responsibility rules associated with the deficiencies.

Deficiency area	Where ICOC deficiencies were identified by financial responsibility rule[9]			
	Reserve Requirements Rule	Possession or control requirements of the Customer Protection Rule	Account Statement Rule	Quarterly Security Counts Rule
Testing controls over the completeness and accuracy of information produced by broker-dealer or service organization used in the performance of other important controls	X	X	X	X
Not testing the design and operating effectiveness of any important controls	X	X	X	X
Testing information technology general controls upon which the effectiveness of other important controls relied		X		X
Testing controls with a review element, particularly the nature and extent of management's review, including criteria used by management to identify matters for investigation and how such matters were resolved	X	X		
Testing important controls throughout the year	X			

[9] No deficiencies were identified related to testing ICOC for the Net Capital Rule; however, deficiencies were identified related to the audit of supplemental information required by the Net Capital Rule. Refer to "Net Capital Rule" in the financial statement audit section of this Annual Report.

The following table provides examples of deficiencies in testing the design and operating effectiveness of important controls by financial responsibility rule.

Financial responsibility rule	Aspects of the rule associated with deficiencies in testing important controls
Reserve Requirements Rule	• Determination of credit balances reported in the customer reserve computation, including the treatment of customer balances that were transferred into another product using a sweep program • Maintenance of special reserve bank accounts for the exclusive benefit of its customers or for broker-dealers, including timing of deposits
Possession or control requirements of the Customer Protection Rule	• Maintenance of custodial accounts free of any right, charge, security interest, lien, or claim • Determination of excess margin securities subject to segregation requirements • Resolution of deficits that require action by the broker-dealer within a required timeframe
Account Statement Rule	• Completeness of the population of account statements to be produced and delivered • Completeness and accuracy of information in account statements • Notification to customers of availability of electronic account statements and ability of customers to access those statements
Quarterly Security Counts Rule	• Accounting for and verifying all securities transactions aged greater than 30 days subject to the broker-dealer's control or direction, but not in the broker-dealer's physical possession

Good Practices – Service Organizations Related to Possession or Control

Scenario: A broker-dealer used a service organization to support its business operations, including trade processing, maintenance of customer account information, and maintenance of the broker-dealer's stock record. The service organization generated the securities deficit and the hypothecation reports that the broker-dealer used in the performance of controls related to its compliance with the possession or control requirements of the Customer Protection Rule. The auditor determined that the controls at the service organization were important to the auditor's conclusion about whether the broker-dealer maintained effective ICOC with respect to this financial responsibility rule.

The service organization engaged a service auditor to prepare a SOC 1 report, which provided evidence of the design and operating effectiveness of certain controls at the service organization, including controls over the completeness and accuracy of the securities deficit reports used by the broker-dealer. The SOC 1 report covered a substantial portion of the period covered by the auditor's examination report and included an unqualified opinion.

Good practices:

- The auditor inquired of the broker-dealer to understand whether the broker-dealer had assessed the service auditor's SOC 1 report, and whether there were any implications of this report for the broker-dealer's assertions regarding the effectiveness of its ICOC based on that assessment. In addition, the auditor inquired of the broker-dealer regarding the degree to which the control objectives included in the SOC 1 report were relevant to the broker-dealer's use of the service organization.
- The auditor reviewed the service auditor's SOC 1 report and evaluated the scope of services covered. The auditor found that it did not provide evidence on the effectiveness of controls over the completeness and accuracy of the hypothecation report used by the broker-dealer. In response, the auditor tested the broker-dealer's own controls over the completeness and accuracy of the hypothecation report.
- The auditor determined to rely on the evidence in the SOC 1 report regarding the effectiveness of controls over the completeness and accuracy of the securities deficit reports used by the broker-dealer. Accordingly, the auditor tested the design and operating effectiveness of controls at the broker-dealer that correspond to the complementary user entity controls in the SOC 1 report.
- The auditor referred to AS 2601 for other considerations regarding the assessment of control risk at the broker-dealer and the auditor's use of a service auditor's report.

The following is a description of other deficiencies identified related to examination engagements.

Performing Compliance Tests

Firms did not perform, or sufficiently perform, tests of compliance with the Reserve Requirements Rule as of the end of the broker-dealer's fiscal year, including testing the accuracy and completeness of the stock record allocation reports and other information used to prepare the customer reserve computation. (AT No. 1.21)

Firms did not perform, or sufficiently perform, procedures to obtain evidence about the existence of customer funds or of securities held for customers. (AT No. 1.23)

Evaluating the Results of the Examination Procedures

Firms did not sufficiently evaluate identified deficiencies to determine whether a material weakness in ICOC existed. (AT No. 1.25 and .26)

Obtaining a Representation Letter

One firm did not obtain certain required written representations from the management of the broker-dealer. (AT No. 1.32)

Reporting on the Examination Engagement

One firm did not correctly identify, in its examination report, the applicable financial responsibility rule that required account statements to be sent to customers of the broker-dealer. (AT No. 1.36)

One firm did not modify its examination report to express an adverse opinion on the broker-dealer's ICOC when a material weakness in ICOC existed. (AT No. 1.36; Appendix .C1, and Appendix .C2)

Deficiencies in Review Engagements of Exemption Reports

This section discusses instances in which firms did not perform, or did not sufficiently perform, certain required procedures, or otherwise comply with AT No. 2, in connection with their reviews of assertions made by broker-dealers in exemption reports. The deficiencies do not necessarily mean that the exemption reports are not fairly stated in all material respects. It is often not possible for us to reach a conclusion on that point based on our inspection because we have only the information in the broker-dealer's filings and the information the firm retained. We do not have access to the broker-dealer's management or direct access to its underlying books and records and other information.

	2023			2022	2021
	Number of engagements reviewed	Number of engagements with deficiencies	Percentage	Percentage	Percentage
Review engagements	67	27	40%	40%	28%

General Requirements

One firm did not obtain a sufficient understanding of the conditions relevant to the broker-dealer's claim of exemption under paragraph (k)(2)(ii) of the Customer Protection Rule. (AT No. 2.05)

Firms did not assemble a complete and final set of review documentation for retention within 45 days following the report release date. (AT No. 2.05; AS 1215.15)

Review Procedures

One firm did not perform inquiries or other review procedures to identify exceptions to the exemption provisions during the year under review. (AT No. 2.08)

Firms did not evaluate evidence obtained in the audit of the financial statements that contradicted broker-dealer assertions in exemption reports regarding compliance with the provisions of paragraph (k)(2)(ii) of the Customer Protection Rule. Such evidence included indications from broker-dealer books and records, financial statements, or Financial and Operational Combined Uniform Single (FOCUS) reports that customer securities businesses were conducted outside of arrangements with clearing brokers. (AT No. 2.10)

Firms did not make required inquiries about controls in place to maintain compliance with the exemption provisions, and those involving the nature, frequency, and results of related monitoring activities. (AT No. 2.10)

Firms did not evaluate whether the broker-dealer established special accounts for the exclusive benefit of customers, and whether the broker-dealer effectuated all financial transactions between the broker-dealer and its customers through such accounts, in accordance with paragraph (k)(2)(i) of the Customer Protection Rule. (AT No. 2.10)

One firm did not obtain and read the broker-dealer's documentation regarding the exceptions to the exemption provisions and did not compare it to the information included in the broker-dealer's exemption report. (AT No. 2.10)

Obtaining a Representation Letter

Firms did not obtain one or more required written representations from the management of the broker-dealer, including representations stating the broker-dealer's assertions and confirming that such assertions are the responsibility of management. Additionally, firms obtained written representations regarding the broker-dealer's assertions that were inconsistent with the assertions in the broker-dealer's exemption report. (AT No. 2.13)

Reporting on the Review Engagement

For broker-dealers that filed exemption reports but did not claim an exemption under paragraph (k) of the Customer Protection Rule, firm review reports:

- Did not accurately describe the assertions made by the broker-dealer regarding other bases for filing an exemption report instead of a compliance report; and
- Referred to assertions that the broker-dealer met other bases for filing an exemption report without exception throughout the most recent fiscal year, although the exemption report did not include an assertion regarding exceptions. (AT No. 2.16)

One firm, in its review report, referred to a basis for claiming an exemption from the Customer Protection Rule that was not included in the broker-dealer's exemption report. (AT No. 2.16)

One firm did not accurately identify, in its review report, the broker-dealer's exemption report. (AT No. 2.16)

Firms dated their review reports prior to the date on which they completed their review procedures. (AT No. 2.18)

Deficiencies in Audits of Financial Statements and Supplemental Information

This section discusses instances in which firms did not perform, or did not sufficiently perform, certain required procedures, or otherwise comply with the applicable standards in connection with their audits of broker-dealer financial statements and of supplemental information accompanying broker-dealer financial statements. The deficiencies do not necessarily mean that the broker-dealer's financial statements and supplemental information are not fairly presented in all material respects. It is often not possible for us to reach a conclusion on those points based on our inspection because we have only the information in the broker-dealer's filings and the information the firm retained. We do not have access to the broker-dealer's management or direct access to its underlying books and records, and other information.

The table below summarizes instances of noncompliance with PCAOB standards that relate to the sufficiency or appropriateness of evidence firms obtained to support their opinions on broker-dealer financial statements.

Area	2023			2022	2021
	Number of audits	Number of audits with deficiencies	Percentage	Percentage	Percentage
Revenue	87	42	48%	34%	33%
Evaluating audit results	103	18	17%	21%	17%
Related party relationships and transactions	29	8	28%	33%	22%
Journal entries[10]	91	7	8%	22%	0%
Receivables and payables	14	5	36%	13%	14%
Expenses and related accruals	16	3	19%	29%	25%
Consideration of an entity's ability to continue as a going concern	6	2	33%	0%	27%
Securities owned and securities sold, not yet purchased	10	1	10%	50%	23%

[10] Journal entry deficiencies are presented as a separate category in this table for the first time in 2023. The deficiencies in this area were previously included in the "consideration of fraud in a financial statement audit" area in last year's annual report. The 2022 and 2021 inspection results have been updated in this table from prior annual reports to conform to this presentation.

Revenue

Deficiency Focus on Responding to Risks of Material Misstatement for Revenue

Most of the deficiencies in the revenue area related to firms that did not adequately respond to the risks of material misstatement for each relevant assertion of significant revenue accounts and disclosures. (AS 2301.08)

The following table categorizes these deficiencies based on the nature of the deficiencies and the revenue sources to which they relate.

Deficiency area	Where AS 2301.08 deficiencies were identified by revenue source			
	Commissions	Investment advisory fees	Merger and acquisition and other advisory fees	Other revenues
Testing the accuracy of the amount of revenue recorded, including accuracy of inputs that determine revenue	X	X	X	X
Testing whether performance obligations were distinct and satisfied prior to revenue recognition			X	X
Testing the accuracy and completeness of information produced by a service organization, used in substantive testing		X		X
Evaluation of whether revenue sources presented in a single category should have been disaggregated in conformity with the requirements of ASC 606	X		X	X
Evaluation of whether the broker-dealer disclosed required information about its performance obligations in conformity with the requirements of ASC 606			X	X

The following table provides examples of specific AS 2301.08 deficiencies included in the previous table, by revenue sources.

Revenue source	Examples of AS 2301.08 deficiencies
Commissions	• Firms did not test, or sufficiently test, one or more of the following: security trade amount, commission rate, and commission amount.
Investment advisory fees	• One firm did not test the accuracy of customer securities positions used by the broker-dealer to determine the asset value upon which the investment advisory fees were based. • Firms used assets under management information from reports produced by a clearing broker when performing substantive tests of details but did not test the accuracy and completeness of those reports.
Merger and acquisition and other advisory fees	• One firm did not test whether the amount of advisory fees recorded was consistent with the contract and acquisition terms. • Firms did not obtain evidence that the acquisitions had closed prior to recognition of advisory fees. • Firms did not test whether performance obligations associated with retainer fees were distinct from those associated with success fees, and whether such performance obligations were satisfied prior to recognition of retainer fees.
Other revenues	• One firm did not test the principal amount and rate used to determine rebate interest on securities borrowed transactions. • One firm did not obtain evidence that investment banking transactions had occurred, and whether investment banking revenue associated with transactions occurring near year end was recorded in the correct period. • One firm used clearing broker statements when performing substantive tests of details for mutual fund distribution fees but did not test the accuracy and completeness of the underlying data in those statements.

The following paragraphs describe deficiencies in auditing revenue with citations to other PCAOB standards, including dual citations to AS 2301.08 and other PCAOB standards.

When applying audit sampling in substantive test of details, firms did not:

- Take into account tolerable misstatement, the allowable risk of incorrect acceptance, or the characteristics of the population when determining the number of items to be selected in the sample and, as a result, the samples were too small; (AS 2315.16, .23, and .23A)
- Take into account characteristics of different groups of revenue transactions tested as a single population and, as a result, an appropriate number of items was not selected from each group; and (AS 2315.16)
- Apply the planned audit procedures to all selected sample items and project the misstatement results of the sample to the items from which the sample was selected. (AS 2315.25 and .26)

Firms used information produced by the broker-dealer as audit evidence when performing substantive tests of details over revenue and related receivables but did not test the accuracy and completeness of that information, whether by testing controls, testing the information, or a combination of both. (AS 1105.10)

When using substantive analytical procedures, firms did not test, or test controls over, the completeness and accuracy of the data used to develop their expectations, determine the amount of difference from expectations that could be accepted without further investigation, or corroborate management's explanations for significant unexpected differences. (AS 2305.16, .20, and .21)

When performing substantive tests of details, one firm limited testing to certain time periods, did not test the remaining balance, and inappropriately projected the results of its procedures to the entire population. (AS 1105.27; AS 2301.08)

One firm did not perform substantive tests of details that were specifically responsive to the identified fraud risk of improper revenue recognition. (AS 2301.08 and .13)

Firms used sample sizes in substantive testing of revenue that were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to deficiencies in their tests of controls. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

One firm modified the extent of its substantive procedures for revenue based on reliance on controls at a service organization but did not perform procedures to evaluate the operating effectiveness of controls at the service organization during the period not covered by the service auditor's report. (AS 2601.14 and .16)

Certain deficiencies described in the section of this Annual Report entitled "Evaluating Audit Results" also involve revenue.

Good Practice – Testing Investment Advisory Fees

Scenario: An introducing broker-dealer earned investment advisory fee revenue for providing asset management services to customers. A clearing broker-dealer executed customer transactions on behalf of the introducing broker-dealer's fully-disclosed customers. In addition, the clearing broker-dealer calculated the investment advisory fee revenue applicable to each customer on a quarterly basis based on the contractual rate per the customer's agreement with the introducing broker-dealer and the value of the customer's assets under management (AUM). The clearing broker-dealer also produced and sent account statements to the introducing broker-dealer's customers, which included AUM balances. The introducing broker-dealer received quarterly information from the clearing broker-dealer, which detailed the investment advisory fee revenue allocable to each customer.

Good practices:

To test the valuation or allocation of investment advisory fee revenue, the auditor:

- Obtained an understanding of the clearing broker's processes and controls relevant to the calculation of investment advisory fee revenue, through review of a service auditor's report.
- Reconciled the investment advisory fee revenue information provided quarterly by the clearing broker-dealer to the total revenue recorded on the introducing broker-dealer's general ledger for the year.
- Selected a sample of investment advisory fee revenue applicable to individual customers from the quarterly information provided throughout the year.
- Recalculated the investment advisory fee revenue for each selection, using AUM as reported in the customer's account statements and the contractual rate specified in the customer's agreement.

Evaluating Audit Results

Deficiencies in this area related to instances where firms did not sufficiently evaluate whether broker-dealer financial statements were presented fairly in conformity with generally accepted accounting principles (GAAP), including whether the financial statements contained the information essential for a fair presentation. In these instances, firms did not detect accounting errors and did not detect omitted or inaccurate disclosures. (AS 2810.30 and .31)

The following table categorizes these deficiencies based on the ASC Topic and the nature of the related GAAP requirement.

ASC Topic	GAAP requirement
FASB ASC Topic 210, *Balance Sheet*	• Classification of an investment with an original maturity greater than three months • Quantitative disclosures of information regarding derivative assets and liabilities
FASB ASC Topic 230, *Statement of Cash Flows*	• Classification of cash flows as operating, investing, or financing activities • Presentation of noncash transactions • Presentation of restricted cash
FASB ASC Topic 505, *Equity*	• Recognition of a capital contribution with a corresponding uncollected receivable
FASB ASC Topic 606, *Revenue from Contracts with Customers*	• Qualitative disclosures of information about performance obligations • Revenue recognition when or as a performance obligation is satisfied • Gross or net presentation of revenues and reimbursed expenses
FASB ASC Topic 855, *Subsequent Events*	• Recognition of a liability related to conditions that existed at the balance sheet date • Disclosure of information related to a nonrecognized subsequent event

Refer to the sections of this Annual Report entitled “Related Party Relationships and Transactions” and “Consideration of an Entity’s Ability to Continue as a Going Concern” for descriptions of deficiencies related to evaluation of financial statement disclosures in those respective areas.

Related Party Relationships and Transactions

Firms did not test, or sufficiently test, the allocation of expenses between broker-dealers and their affiliates. (AS 2410.11 and .12)

Firms did not perform procedures to evaluate:

- Whether allocated revenues or expenses were consistent with the terms of the written agreements between the related entities; and
- The financial capability of the broker-dealer’s affiliate to satisfy a significant uncollected balance. (AS 2410.11 and .12)

Firms did not identify omitted or inaccurate disclosures of information necessary to understand the effects of related party transactions on the broker-dealer’s financial statements, in accordance with FASB ASC Topic 850, *Related Party Disclosures*. (AS 2410.17; AS 2810.30 and .31)

One firm did not perform procedures to test the estimate of expenses allocated between the broker-dealer and its affiliate beyond inquiry and review of information provided by the broker-dealer. (AS 2501.07)

Journal Entries

Firms did not identify and select journal entries and other adjustments for testing to address the potential for material misstatement due to fraud. (AS 2401.58)

Firms did not test the completeness of the journal entry population and accordingly did not design sufficient procedures to address the potential for material misstatement due to fraud. (AS 1105.10)

Firms did not perform sufficient procedures to test journal entries. Specifically, firms:

- Reviewed a listing of all journal entries but did not identify and select journal entries and other adjustments for testing;
- Examined the underlying support for only certain selected journal entries, without having an appropriate rationale for limiting their testing to those journal entries; and
- Did not consider the characteristics of potentially fraudulent journal entries when identifying and selecting entries for testing. (AS 2401.61)

Reminder for Firms – Addressing the Risk of Management Override of Controls

Enhance procedures for examining journal entries and other adjustments for evidence of possible material misstatement due to fraud.

In 2023, we observed an increase in deficiencies related to the testing of journal entries and other adjustments ("journal entries").

We remind auditors that as part of their responses that address fraud risks, they should examine journal entries for evidence of possible material misstatement due to fraud. Auditors should use professional judgment in determining the nature, timing, and extent of the testing of journal entries.

We also remind auditors to consider the following from AS 2401.61. When determining the nature, timing, and extent of the testing of journal entries the auditor should consider: (1) the auditor's assessment of the fraud risk, (2) the effectiveness of controls that have been implemented over journal entries, (3) the broker-dealer's financial reporting process and the nature of the evidence that can be examined, (4) the characteristics of fraudulent journal entries, (5) the nature and complexity of the accounts, and (6) journal entries processed outside the normal course of business. It is important that auditors carefully consider fraud risks associated with journal entries processed through automated systems, as the risk of management override of controls is not limited to journal entries processed manually.

Receivables and Payables

When performing substantive procedures to test the valuation of customer and non-customer receivables and payables, firms used customer account statements as audit evidence without sufficiently testing the accuracy and completeness of those statements. (AS 2301.08)

When performing substantive tests of details of receivables from customers and payables to customers, one firm limited testing to items with the largest balances and did not test the remaining population. (AS 1105.27; AS 2301.08)

One firm did not perform sufficient alternative procedures for confirmation nonresponses over securities loaned because it traced the balances to the same source used to prepare the confirmation requests. (AS 2310.31)

Deficiencies related to receivables associated with revenue are described in the revenue section above, on page 24.

Expenses and Related Accruals

Firms did not sufficiently test one or more relevant assertions for expense accounts. (AS 2301.08)

One firm used information produced by a service organization as audit evidence in its substantive procedures but did not test the accuracy and completeness of that information. (AS 2301.08)

When using substantive analytical procedures, one firm did not test, or test controls over, the completeness and accuracy of the data used to develop its expectations, develop expectations that were sufficiently precise to identify material misstatements, and determine the amount of difference from expectations that could be accepted without further investigation. (AS 2305.16, .17, and .20)

Consideration of an Entity's Ability to Continue as a Going Concern

Firms did not perform sufficient procedures to obtain evidential matter about the ability of the broker-dealer to obtain financial support from other parties, which was a significant element of managements' plans to overcome the adverse effects of the conditions and events that indicated substantial doubt. (AS 2415.03 and .08)

One firm did not detect that the broker-dealer omitted the disclosures required by FASB ASC Topic 205, *Presentation of Financial Statements*, when substantial doubt about the broker-dealer's ability to continue as a going concern was initially raised but alleviated by management's plan. (AS 2415.11; AS 2810.30 and .31)

Securities Owned and Securities Sold, Not Yet Purchased

One firm did not test whether debt securities owned and classified as Level 1 within the fair value hierarchy were classified in conformity with FASB ASC Topic 820, *Fair Value Measurement*. (AS 2301.08)

The table below summarizes instances of noncompliance with PCAOB standards that relate to the sufficiency or appropriateness of evidence firms obtained to support their opinions on supplemental information accompanying broker-dealer financial statements.

Area	2023			2022	2021
	Number of audits	Number of audits with deficiencies	Percentage	Percentage	Percentage
Net Capital Rule	28	9	32%	27%	18%
Customer Protection Rule	23	7	30%	24%	46%

Net Capital Rule

Firms did not perform, or sufficiently perform, procedures to evaluate whether the following aspects of net capital computations were determined in compliance with the Net Capital Rule:

- Allowable assets and assets not readily convertible into cash, including commissions receivable and cash equivalents held in a securities account with a clearing broker-dealer;
- Deductions related to non-marketable securities subject to marketplace blockage;
- Operational charges related to failed securities transactions;
- Deductions from net worth for liabilities and expenses, related to the broker-dealer's business, for which a third party has assumed responsibility; and
- Minimum net capital requirements. (AS 2701.04)

One firm did not identify the omission of a reconciliation and description of a material difference between the computation of net capital included as supplemental information in the broker-dealer's financial statements and the FOCUS report. (AS 2701.04)

Customer Protection Rule

Firms did not perform, or sufficiently perform, procedures to evaluate whether fully-paid securities and excess margin securities were maintained in custodian accounts that were free of any charge, lien, or claim, pursuant to the possession or control requirements of the Customer Protection Rule. (AS 2701.04)

One firm did not sufficiently perform procedures to test the completeness and accuracy of the stock record report used by the broker-dealer to determine its possession or control requirements for customer fully-paid and excess margin securities. One firm did not evaluate whether the broker-dealer took prompt steps to obtain physical possession or control of securities that were maintained on the broker-dealer's books or records as "failed to receive over 30 calendar days." (AS 2701.04)

Firms did not perform, or sufficiently perform, procedures to test the completeness and accuracy of information from third parties used by the broker-dealer to prepare the customer reserve computations, including stock record allocations and information related to operational charges. (AS 2701.04)

The table below summarizes instances of noncompliance with PCAOB standards that do not relate directly to the sufficiency or appropriateness of evidence firms obtained to support their audit opinions.

Area	2023			2022	2021
	Number of audits	Number of audits with deficiencies	Percentage	Percentage	Percentage
Auditor independence[11]	87	11	13%	11%	15%
Identifying and assessing risks of material misstatement	103	1	1%	10%	5%
Consideration of fraud in a financial statement audit	91	2	2%	0%	0%
Audit findings	103	4	4%	0%	0%
Auditor communications	103	13	13%	1%	2%
Audit documentation	103	16	16%	15%	3%
Auditors' reports on the financial statements and supplemental information	103	13	13%	17%	1%

Auditor Independence

In seven of the 87 audits reviewed, firms did not provide audit committees (or their equivalents)[12] the required independence communications. In these instances, firms were non-compliant with PCAOB Rule 3526.

In two of the 87 audits reviewed, firms' independence communications with the audit committee inaccurately described the professional standards related to required communications. In these instances, firms were non-compliant with PCAOB Rule 3526.

In two of the 87 audits reviewed, the firm did not perform procedures to determine whether all individuals who participated in the audit were in compliance with the applicable independence requirements. In these instances, the firm was non-compliant with AS 2101.

[11] Auditor independence is presented as a separate category in this table for the first time in 2023. This area includes deficiencies related to required independence procedures (e.g., PCAOB Rule 3526 communications deficiencies). In prior annual reports, PCAOB Rule 3526 communications were included in the "auditor communications" area. The 2022 and 2021 inspection results in this table have been updated from prior annual reports to conform to this presentation. Instances of potential noncompliance with SEC rules or instances of noncompliance with PCAOB rules related to maintaining independence are classified as "independence findings" elsewhere in this Annual Report.

[12] AS 1301 defines the audit committee as "a committee (or equivalent body) established by and among the board of directors of a company for the purpose of overseeing the accounting and financial reporting processes of the company and audits of the financial statements of the company; if no such committee exists with respect to the company, the entire board of directors of the company. For audits of non-issuers, if no such committee or board of directors (or equivalent body) exists with respect to the company, the person(s) who oversee the accounting and financial reporting processes of the company and audits of the financial statements of the company." PCAOB Rule 3501(a)(v). As most broker-dealers are non-issuers, auditors generally need to apply this definition when determining the appropriate audience for required communications to the audit committee. For purposes of this Annual Report, references to communications to the audit committee also include to the equivalent body, where applicable, as described in this note.

Identifying and Assessing Risks of Material Misstatement

In one of the 103 audits reviewed, the firm did not revise its risk assessment in response to information obtained during the audit that contradicted the audit evidence upon which it based its initial risk assessment. In this instance, the firm was non-compliant with AS 2110.

Consideration of Fraud in a Financial Statement Audit

In one of the 91 audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not appropriately consider the characteristics of potentially fraudulent journal entries when identifying and selecting entries for testing. In this instance, the firm was non-compliant with AS 2401.

In one of the 91 audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not have an appropriate rationale for limiting its testing of the entries it identified as having certain fraud risk characteristics to certain entries. In this instance, the firm was non-compliant with AS 2401.

Audit Findings

In three of the 103 audits reviewed, firms relied on certain controls and did not evaluate the severity of the control deficiencies identified in these controls and the effect on their control risk assessments. In these instances, the firms were non-compliant with AS 2301.

In one of the 103 audits reviewed, the firm did not evaluate whether the current-year effects of an uncorrected misstatement detected in the prior year were material, individually or in combination with other misstatements, in the current year. In this instance, the firm was non-compliant with AS 2810.

Auditor Communications[13]

In five of the 103 audits reviewed, firms did not make certain required communications to the broker-dealers' audit committees related to an overview of the overall audit strategy. In these instances, the firms were non-compliant with AS 1301.

In nine of the 103 audits reviewed, firms did not communicate to the broker-dealers' audit committees all of the significant risks identified during their risk assessment procedures. In these instances, the firms were non-compliant with AS 1301.

In two of the 103 audits reviewed, firms did not make a required communication to the broker-dealers' audit committees related to the results of the audits. In these instances, the firms were non-compliant with AS 1301.

In one of 103 audits reviewed, the firm did not document in its work papers required communications made orally to the broker-dealer's audit committee. In this instance, the firm was non-compliant with AS 1301.

In one of the 103 audits reviewed, the firm did not provide to management the required communication in writing of all significant deficiencies identified during the audit. In one additional audit reviewed, another firm made these required communications to management subsequent to the issuance of its audit report. In these instances, the firms were non-compliant with AS 1305.

[13] PCAOB Rule 3526 communications deficiencies are included in the "auditor independence" area. See note 11.

In one of the 103 audits reviewed, the firm did not make a required communication to management related to accumulated misstatements. In this instance, the firm was non-compliant with AS 2810.

Refer to the section "Auditor Independence" for description of deficiencies related to auditor independence communications.

Reminder for Firms – Auditor Communications

Enhance focus on required communications to the broker-dealer's audit committee (or equivalent) and management.

In 2023, we observed an increase in deficiencies related to auditor communications. Many of the deficiencies involved firms not communicating to the audit committee (or its equivalent) an overview of the audit's overall strategy and the significant risks identified during risk assessment procedures.

We remind auditors that AS 1301 requires that auditors should make communications in a timely manner and prior to the issuance of the auditor's report. The appropriate timing of a particular communication to the audit committee depends on factors such as the significance of the matters to be communicated and corrective or follow-up action needed, unless other timing requirements are specified by PCAOB rules or standards or the securities laws. It is important for auditors to make timely communications to provide time for the audit committee and management to act on the communication, for example, to remediate internal control deficiencies or to correct accounting errors. In addition, we remind auditors to remain focused on their communication responsibilities throughout the audit process.

Also, it is important for auditors to carefully evaluate how they use standardized tools and templates to assist with required communications. These tools and templates often need to be tailored to the specific facts and circumstances of the engagement.

We remind firms that they must document the occurrence of required audit committee communications in their work papers, whether such communications took place orally or in writing. In addition, we remind firms that several PCAOB standards and rules establish communication requirements, including AS 1301, AS 1305, AS 2410, AS 2810, and PCAOB Rule 3526.

Audit Documentation

In nine of the 103 audits reviewed, firms did not assemble a complete and final set of audit documentation for retention within 45 days following the report release date. In eight instances, the archived file did not contain all relevant audit documentation, while in one instance the firm archived the documentation after the 45-day deadline. In these instances, the firms were non-compliant with AS 1215.

In one of the 103 audits reviewed, the firm did not properly document additions to the audit work papers after the report release date. In this instance, the firm was non-compliant with AS 1215.

In six of the 103 audits reviewed, the work papers did not contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached. In these instances, the firm was non-compliant with AS 1215.

Auditors' Reports on the Financial Statements and Supplemental Information

In five of 103 audits reviewed, firms' audit reports were not addressed to all required addressees. In these instances, the firms were non-compliant with AS 3101.

In two of 103 audits reviewed, the firm's audit report did not properly identify a financial statement that had been audited. In addition, in these two audits, the audit report did not include a statement indicating that the financial statements, including the related notes, identified and collectively referred to the financial statements, were audited. In these instances, the firm was non-compliant with AS 3101.

In one of 103 audits reviewed, the audit report's description of the year the firm began serving consecutively as the broker-dealer's auditor was incorrect. In this instance, the firm was non-compliant with AS 3101.

In one of 103 audits reviewed, the firm dated its audit report prior to completion of certain audit procedures performed on the broker-dealer's financial statements and supplemental information. In this instance, the firm was non-compliant with AS 3110 and AS 2701.

In seven of 103 audits reviewed, the firms' audit reports did not properly identify or express an opinion on certain supplemental information accompanying the broker-dealer's financial statements, even though this supplemental information was subject to audit procedures. In these instances, the firms were non-compliant with AS 2701.

Auditor Independence Findings

This section discusses instances of potential noncompliance with SEC rules, or instances of noncompliance with PCAOB rules, related to maintaining independence.[14] An instance of potential noncompliance with SEC rules or an instance of noncompliance with PCAOB rules does not necessarily mean that the Board has concluded the firms were not objective and impartial throughout the professional engagement period.

Area	2023			2022	2021
	Number of audits	Number of audits with findings	Percentage	Percentage	Percentage
Auditor independence findings	87	1	1%	11%	0%

[14] Independence impairments that are identified by firms and reported to the PCAOB, including impairments related to their broker-dealer audit clients, are not addressed in this Annual Report. Instead, these firm-identified independence impairments are addressed through a separate PCAOB inspection program, consistent with the approach taken in prior years.

Under Rule 2-01(c)(4)(i) of Regulation S-X, an accountant is not independent if it provides certain non-audit services, including bookkeeping or other services related to the accounting records or financial statements of the audit client. In our review of 87 audits, we identified one instance where a firm appeared to have provided such services to one broker-dealer audit client.

Deficiencies in Quality Control Systems

This section of the Annual Report discusses instances of noncompliance with PCAOB QC standards. Our inspections indicated that 31 firm QC systems (out of 60 inspected) did not appear to provide reasonable assurance that firm personnel complied with applicable professional standards in the areas of engagement performance, monitoring, and/or independence, integrity, and objectivity.

Quality control area	2023			2022	2021
	Number of firms	Number of firms with QC deficiencies	Percentage	Percentage	Percentage
Engagement performance	60	29	48%	54%	46%
Monitoring	60	3	5%	4%	0%
Independence, integrity, and objectivity	60	2	3%	2%	4%

Engagement Performance

Firms' policies and procedures did not provide reasonable assurance that the firms complied with PCAOB QC Standards. Specifically:

- At some firms, engagement partners did not review and supervise audit and attestation engagements with due professional care in accordance with AS 1201, which contributed to not identifying deficiencies in those engagements. (QC 20.03 and .17)
- One firm's policies and procedures did not address the requirement that a complete and final set of audit documentation be assembled for retention within 45 days following the report release date; instead, the firm's policy included a 60-day requirement. (QC 20.03 and .17)
- One firm's processes to enhance the knowledge and application of auditing standards and firm methodologies were ineffective, leading to work performed by the firm's personnel that did not meet the requirements of PCAOB standards. (QC 20.03 and .17)
- At some firms, policies and procedures did not provide reasonable assurance that engagement quality reviews for audit and attestation engagements were performed with due professional care in accordance with AS 1220. At these firms, engagement quality reviewers did not identify certain errors in, or the omission of certain required disclosures from, broker-dealer financial statements, documents containing broker-dealer management assertions, and engagement reports. Engagement quality reviewers also did not identify deficiencies in audit responses in areas of significant risks, including fraud risks. All of these areas were required to be reviewed by the engagement quality reviewer. (QC 20.03 and .17)

The following table provides information about engagement quality review deficiencies by engagement type:

Engagement type	2023			2022	2021
	Number of engagements	Number of engagements with deficiencies	Percentage	Percentage	Percentage
Audit engagements	97	26	27%	47%	47%
Review engagements	62	13	21%	67%	39%
Examination engagements	28	5	18%	20%	19%

Monitoring

Although some firms' policies and procedures for monitoring their accounting and auditing practice required the performance of internal inspections, the firms did not perform annual internal inspections or alternative procedures for broker-dealer audit and attestation engagements as those policies and procedures mandated. (QC 20.20; QC 30.03 through .09)

One firm's policies and procedures for monitoring its accounting and auditing practice required the performance of a postissuance review of its audits of broker-dealer audit clients; however, this review was limited to balance sheet accounts, and was not sufficiently comprehensive to enable the firm to assess compliance with all applicable professional standards and the firm's QC policies and procedures. (QC 20.20; QC 30.08)

Independence, Integrity, and Objectivity

One firm did not establish policies and procedures to provide reasonable assurance that personnel would refrain from providing prohibited non-audit services under Rule 2-01(c)(4) of Regulation S-X. (QC 20.03, .09, and .10); and

One firm did not establish policies and procedures to provide reasonable assurance that personnel performed procedures to determine whether all individuals who participated in the audit were in compliance with PCAOB standards and rules and SEC rules with respect to independence requirements. (QC 20.03, .09, and .10)

PCAOB STANDARDS AND RULES ASSOCIATED WITH INSPECTION OBSERVATIONS

AT No. 1	Examination Engagements Regarding Compliance Reports of Brokers and Dealers
AT No. 2	Review Engagements Regarding Exemption Reports of Brokers and Dealers
AS 1105	Audit Evidence
AS 1201	Supervision of the Audit Engagement
AS 1215	Audit Documentation
AS 1220	Engagement Quality Review
AS 1301	Communications with Audit Committees
AS 1305	Communications About Control Deficiencies in an Audit of Financial Statements
AS 2101	Audit Planning
AS 2110	Identifying and Assessing Risks of Material Misstatement
AS 2301	The Auditor's Responses to the Risks of Material Misstatement
AS 2305	Substantive Analytical Procedures
AS 2310	The Confirmation Process
AS 2315	Audit Sampling
AS 2401	Consideration of Fraud in a Financial Statement Audit
AS 2410	Related Parties
AS 2415	Consideration of an Entity's Ability to Continue as a Going Concern
AS 2501	Auditing Accounting Estimates, Including Fair Value Measurements
AS 2601	Consideration of an Entity's Use of a Service Organization
AS 2701	Auditing Supplemental Information Accompanying Audited Financial Statements
AS 2810	Evaluating Audit Results
AS 3101	The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion
QC 20	System of Quality Control for a CPA Firm's Accounting and Auditing Practice
QC 30	Monitoring a CPA Firm's Accounting and Auditing Practice
Rule 3526	Communication with Audit Committees Concerning Independence

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