PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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

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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 with the SEC 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 2024 inspections approach;
- A summary of our 2024 inspections observations; 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.

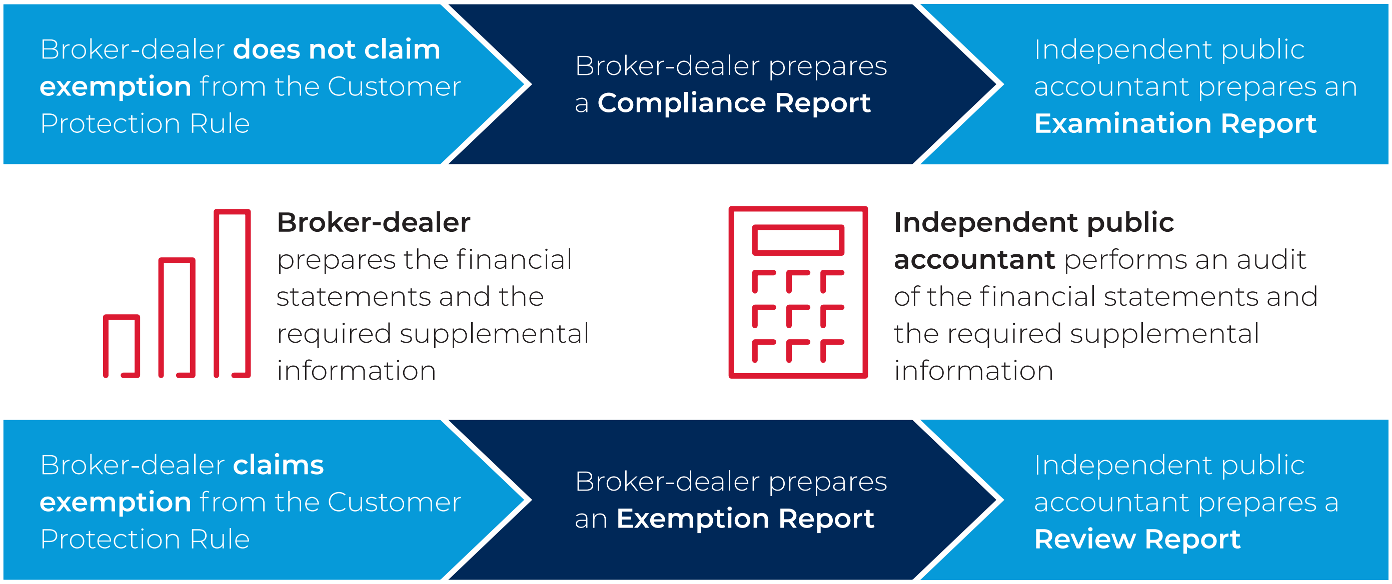
Under Rule 17a-5 of the Securities Exchange Act of 1934 ("Exchange Act"), broker-dealers registered with the SEC are generally required to file the following documents annually with the SEC:

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") 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."

[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.

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 2024 INSPECTIONS RESULTS

The 2024 inspection year marked our 10th year of inspections of firms that are required to audit broker-dealers in accordance with PCAOB standards. During 2024, we inspected 60 firms and reviewed 102 broker-dealer audits, numbers that closely resemble those of the 2023 inspection year, as shown more fully below. Our 2024 inspections included review of 31 broker-dealer audits performed by four firms that each audited more than 100 broker-dealers and more than 100 issuers[3] during the inspection period (the "largest audit firms"), with the remaining 71 audits selected from firms of different sizes and characteristics (the "remaining audit firms").

Overall, in 2024 we continued to observe high deficiency rates in examination, review, and audit engagements, which continue to be a cause for significant concern.

Examination Engagements – Slight Improvement Across Firms

In our review of 29 examination engagements on broker-dealer compliance reports, we identified at least one deficiency in 17 (59%), a decrease of two from 2023. The largest audit firms performed 15 of the examination engagements reviewed in 2024, and deficiencies were identified in six, a decrease of one from 2023. The remaining audit firms performed the other 14 examination engagements reviewed, and deficiencies were identified in 11, also a decrease in one from 2023.

Firms continued to struggle with procedures to examine assertions made by broker-dealers relating to internal control over compliance (ICOC) with the various rules covered by Exchange Act Rule 17a-5, including controls with a review element, controls over information used by broker-dealers, and information technology general controls.

Review Engagements – Results Consistent Across Firms

In our review of 64 review engagements on broker-dealer exemption reports, we identified at least one deficiency in 27 (42%), generally consistent with the results in 2023 across 67 review engagements. The largest audit firms performed 15 of the review engagements reviewed in 2024, and deficiencies were identified on two, which is the same as in 2023. In contrast, the remaining audit firms performed 49 of the review engagements, and deficiencies were identified in 25, also the same as in 2023. Of those 49 engagements, 13 were performed by firms not inspected since PCAOB standards became applicable for broker-dealer audits, with 10 of those found to contain at least one deficiency.

The deficiencies identified in these engagements were due, in part, to firms that did not obtain a sufficient understanding of the broker-dealer activities relevant to the exemptions claimed under the Customer Protection Rule and did not make required inquiries about controls and related monitoring activities over compliance with exemptions claimed. In addition, the independent accountant's review reports prepared by firms contained errors.

Audit Engagements – Deficiencies Increased Across Firms

We identified at least one deficiency regarding the sufficiency or appropriateness of evidence that firms obtained to support their audit opinions in 68 (66%) of the 102 audit engagements on broker-dealer

[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.

financial reports that we reviewed during 2024, an increase of 10 from 2023. The largest audit firms performed 31 of these audit engagements, and at least one deficiency was identified in 13 (42%), an increase of three from 2023. The remaining audit firms performed the other 71 of these audit engagements reviewed, and at least one deficiency was identified in 55 (77%), an increase of seven from 2023.

The areas where we identified the most deficiencies were revenue, journal entries, and evaluating audit results. Deficiencies in revenue procedures were found across a variety of broker-dealer business activities and included cases in which firms did not sufficiently test whether recorded revenues were accurate, performance obligations were satisfied, and disclosure requirements were met. For journal entries, firms did not consider the characteristics of potentially fraudulent journal entries when identifying and selecting entries for testing or did not perform any journal entry procedures. For evaluating audit results, firms did not sufficiently evaluate whether the broker-dealer financial statements were presented fairly in conformity with Generally Accepted Accounting Principles (GAAP).

To make the information in this Annual Report more useful, the report provides firms with reminders of requirements of certain PCAOB standards, focusing on new standards and certain standards where deficiencies are persistently high or increasing.

This Annual Report is intended 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 work with audit firms regarding audit quality and broker-dealer financial reporting.

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

Selections Profile			
	2024	**2023**	**2022**
Total firms inspected			
Total firms inspected	**60**	**60**	**50**
Inspection frequency			
Previously inspected firms	45	42	41
Firms inspected for the first time	15	18	9
Total firms inspected	**60**	**60**	**50**
Total audits reviewed			
Total audits reviewed	**102**	**103**	**92**
Selection method			
Risk-based selections	96	97	86
Random selections	6	6	6
Total audits reviewed	**102**	**103**	**92**
Type of report filed by the broker-dealer			
Compliance report	30	31	35
Exemption report	72	72	57
Total audits reviewed	**102**	**103**	**92**
Total attestation engagements reviewed			
Examination engagements	29	29	34
Review engagements	64	67	52
Total attestation engagements reviewed	**93**	**96**	**86**

We reviewed the attestation engagement for 93 of the 102 audits reviewed in 2024. For the nine remaining audits, we assessed the risks associated with the attestation engagements to not warrant review. Therefore, our review was limited to the audit engagements for those nine audits. This group included eight audits of broker-dealers that filed exemption reports and one audit involving a broker-dealer with limited customer activity that filed a compliance report.

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

Inspection Results Profile[4]			
	2024	**2023**	**2022**
Audit engagements with deficiencies	**78 (76%)**	**72 (70%)**	**53 (58%)**
In relation to the nature of the deficiencies:			
• **Involving the sufficiency and/or appropriateness of evidence obtained to support audit opinions**	68 (66%)	58 (56%)	46 (50%)
– **By firms that audited more than 100 broker-dealers and more than 100 issuers[5]**	13 (42%)	10 (29%)	9 (27%)
– **By other firms**	55 (77%)	48 (70%)	37 (63%)
• **Involving noncompliance with other PCAOB standards and rules only**	10 (10%)	14 (14%)	7 (8%)
Examination engagements with deficiencies	**17 (59%)**	**19 (66%)**	**17 (50%)**
• **By firms that audited more than 100 broker-dealers and more than 100 issuers**	6 (40%)	7 (47%)	6 (32%)
• **By other firms**	11 (79%)	12 (86%)	11 (73%)
Review engagements with deficiencies	**27 (42%)**	**27 (40%)**	**21 (40%)**
• **By firms that audited more than 100 broker-dealers and more than 100 issuers**	2 (13%)	2 (13%)	2 (20%)
• **By other firms**	25 (51%)	25 (49%)	19 (45%)

[4] The deficiencies summarized in this table were identified across 57 firm inspections in 2024, 53 firm inspections in 2023, and 45 firm inspections in 2022.

[5] Also referred to herein as the "largest audit firms."

2024 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 2024 inspections, we selected PCAOB-registered firms that performed audits of broker-dealers with financial statement periods ended during the period from April 1, 2023, through March 31, 2024. The following table provides additional information about the population of firms that audit broker-dealers, from which firms were selected for 2024 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	75	75
2 to 20	137	917
21 to 50	24	834
51 to 100	11	688
More than 100	6	782
Total	**253**	**3,296**

The 782 broker-dealers noted in the table above include 537 broker-dealers audited by the largest audit firms.

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 a firm performed;
- Whether the firm conducted examination engagements;
- Whether the firm also audited issuers;
- Results from previous inspections of the firm 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. Our 2024 selections included 15 firms not inspected since PCAOB standards became applicable for broker-dealer audits.

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):

- 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 the broker-dealer had material digital asset holdings and significant transactions related to digital assets;
- 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 relative significance to the consolidated financial statements of that issuer;
- Financial metrics, such as the broker-dealer's asset, revenue, and net capital levels;
- Whether the broker-dealer had changed auditors, and certain circumstances related to any such change; and
- The existence of disciplinary actions against the broker-dealer by the SEC, the Financial Industry Regulatory Authority (FINRA), or other regulatory authorities.

This risk-based 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.

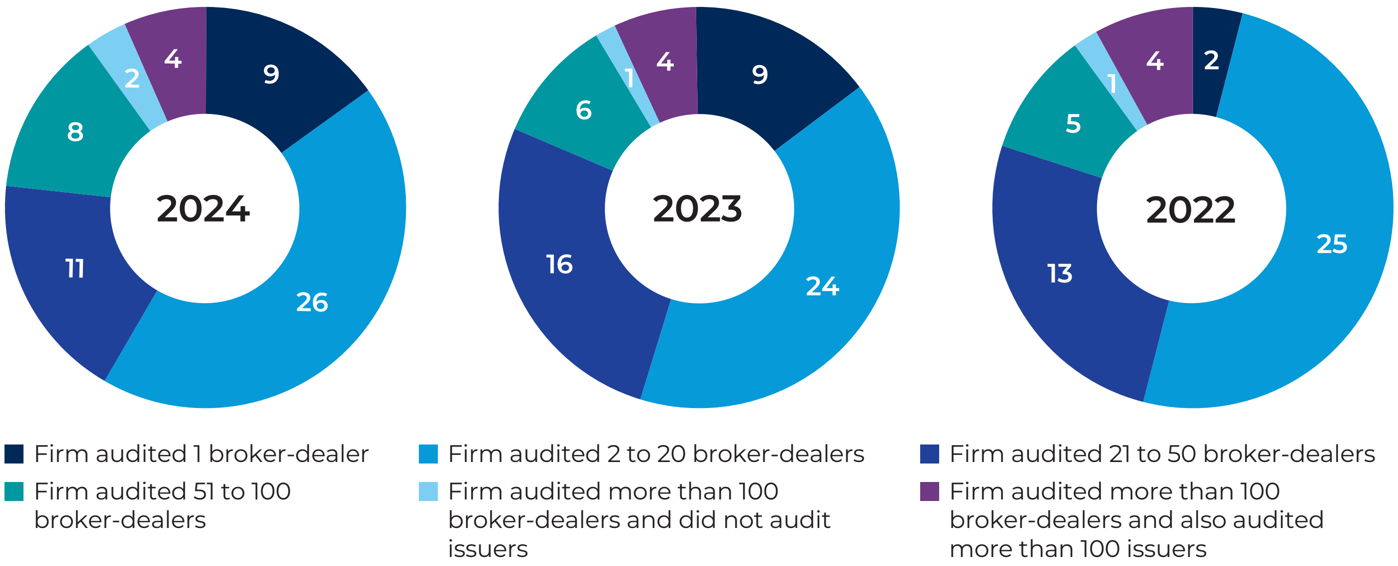
We did not review every aspect of the audit engagements we selected. Rather, we reviewed portions of those audits. Generally, we selected for review financial statement and regulatory areas we believed to be of greater complexity and significance or areas that we believed could present a heightened risk of material misstatement to the broker-dealer's financial statements and supplemental information. Examples of financial statement areas included revenue and related party relationships and transactions. We also selected financial statement areas, such as expenses and related accruals, on some audits in a manner designed to incorporate additional unpredictability. The regulatory areas were the Net Capital Rule and the Customer Protection Rule. In addition, we reviewed certain other 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.

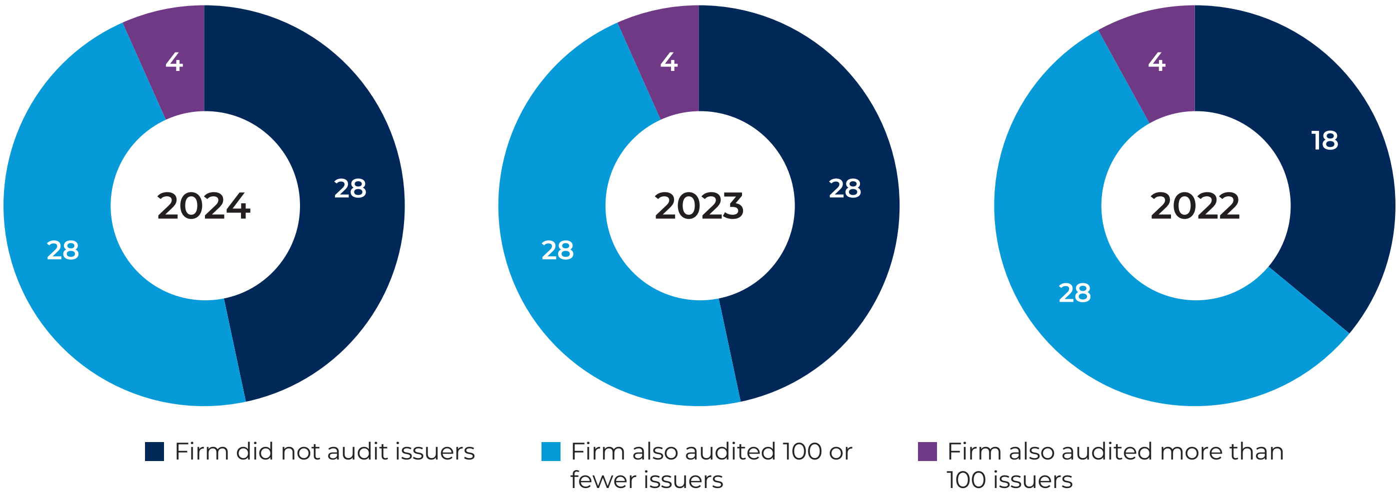
INFORMATION ABOUT SELECTED FIRMS AND ENGAGEMENTS

Firms

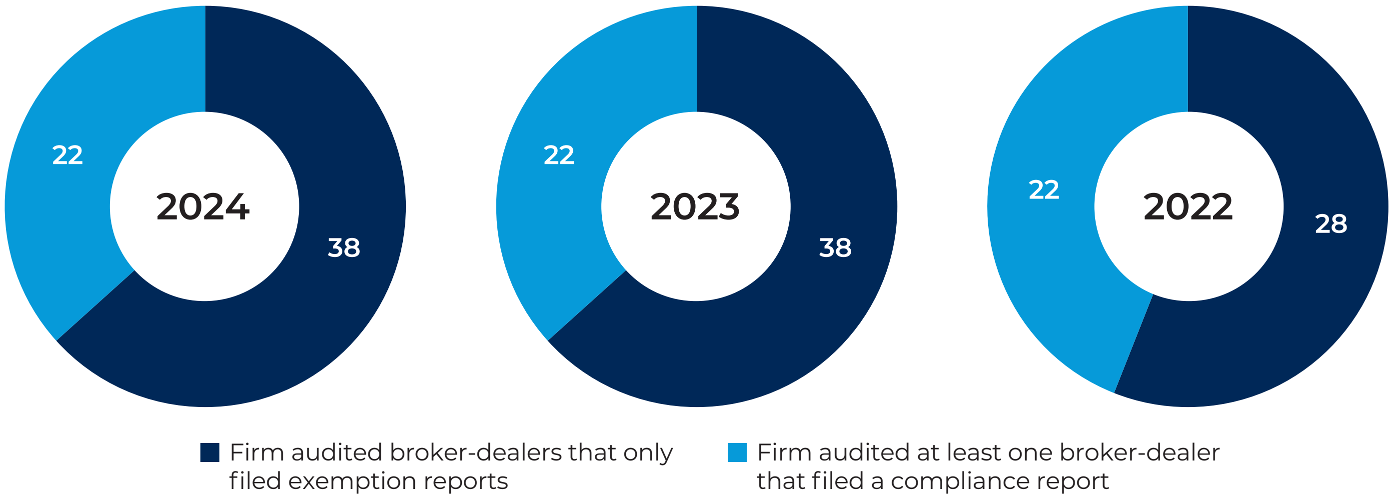
We selected 60 firms for inspection in both 2024 and 2023 and 50 firms for inspection in 2022. The following charts depict the number of broker-dealer audits performed by inspected firms, for each of the last three years, as determined at the time of their inspection. For firms that audited more than 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.



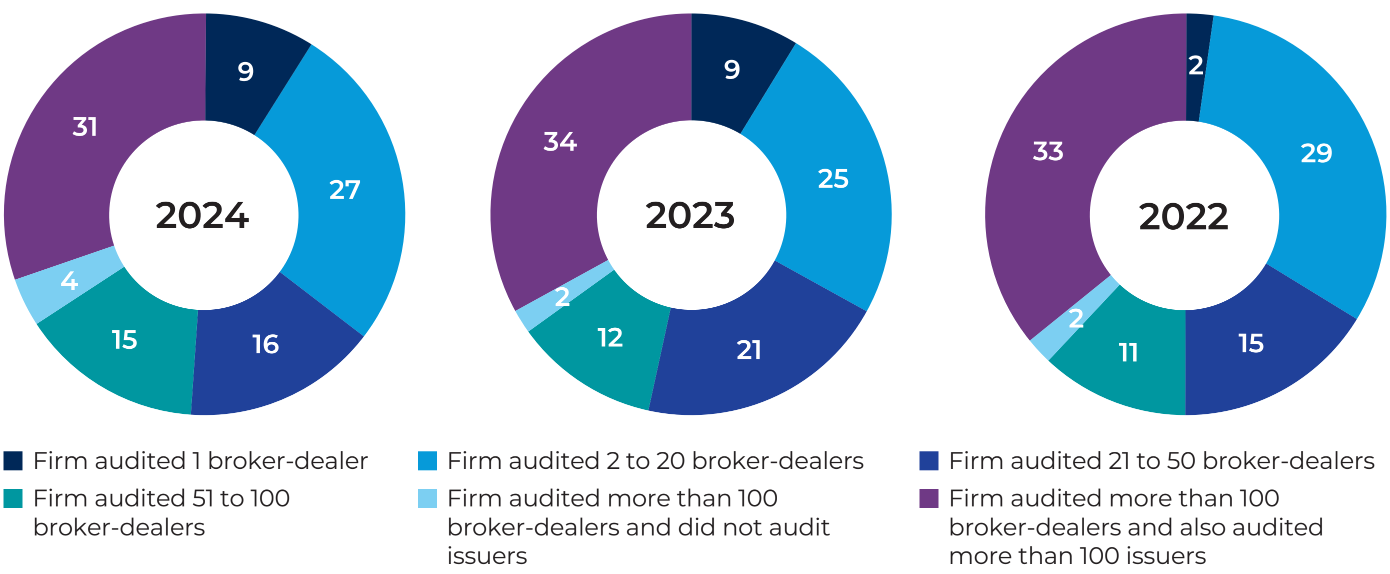
The following charts depict whether inspected firms audited broker-dealers that filed compliance reports or audited broker-dealers that only filed exemption reports, for each of the last three years, as determined at the time of their inspection.



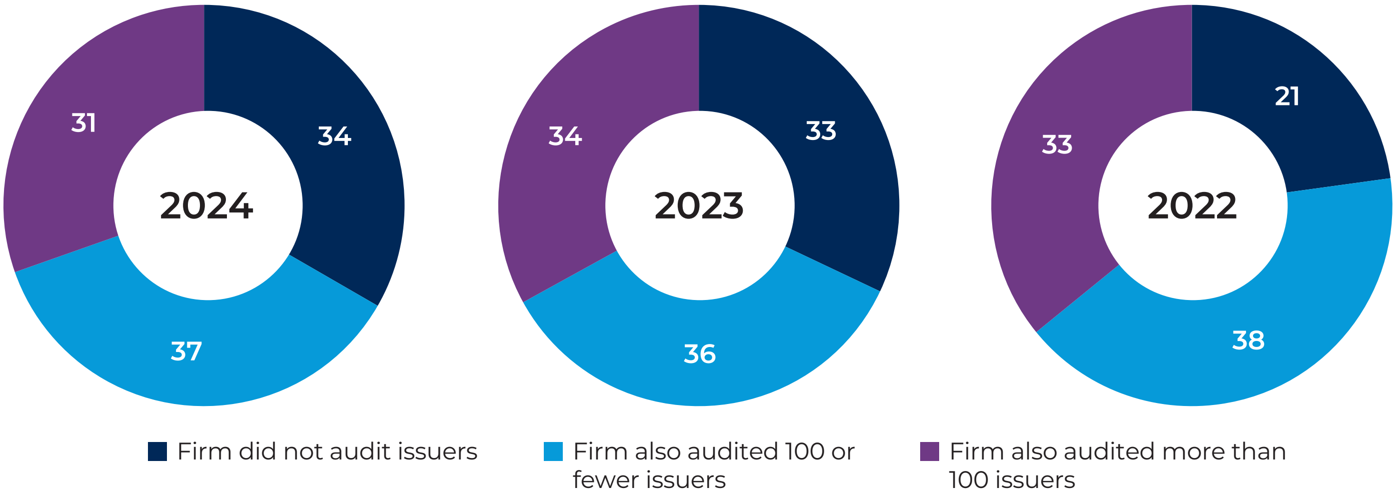
Engagements

During our 2024 inspections of 60 audit firms, we selected for review 102 financial statement audits of broker-dealers with financial statement periods that ended between April 1, 2023, and March 31, 2024. We selected 103 and 92 financial statement audits for review in 2023 and 2022, respectively.

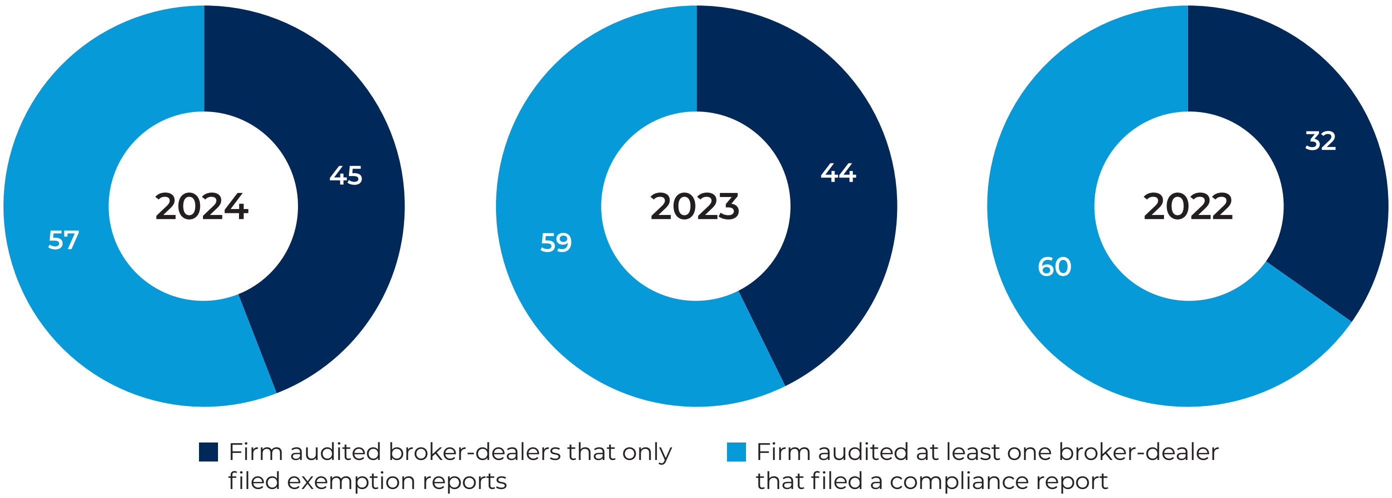
The following charts provide information about the distribution of selected audits among the firms selected for inspection, based on the number of broker-dealer audits each firm performed during the respective inspection period.



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;[6] and
- Deficiencies in QC systems.

Our selections of firms for inspection and engagements for review are primarily risk-based and 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 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.

Reminders for Firms

In this Annual Report, we highlight reminders for firms of the requirements of certain PCAOB standards, focusing on new standards and certain standards where deficiencies are persistently high or increasing.

[6] 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 under, 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.

	2024			2023	2022
	Number of engagements reviewed	Number of engagements with deficiencies	Percentage of engagements with deficiencies	Percentage of engagements with deficiencies	Percentage of engagements with deficiencies
Examination engagements	29	17	59%	66%	50%

General Requirements

Firms did not assemble a complete set of examination documentation for retention within 45 days following the report release date. (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.[7] (AT No. 1.09)

Reminder for Firms – AS 1215: Audit Documentation

AS 1215, *Audit Documentation*, was amended to accelerate, from 45 days to 14 days, the date to assemble a complete and final set of audit documentation for retention. The amendments are effective for PCAOB registered firms that, during the calendar year ending December 31, 2024, issued audit reports with respect to more than 100 issuers, for audits of financial statements for fiscal years beginning on or after December 15, 2024. For all other PCAOB registered firms, the amendments are effective for audits of financial statements for fiscal years beginning on or after December 15, 2025.

[7] 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."

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 about the effectiveness of ICOC for financial responsibility rules ("important controls"). (AT No. 1.11, .14, and .16)

The following table presents the number of examination engagements reviewed in which certain deficiencies related to testing important controls were identified, categorized by the financial responsibility rules associated with the deficiencies.

Deficiency area	Number of ICOC deficiencies identified by financial responsibility rule				
	Reserve Requirements Rule	Possession or control requirements of the Customer Protection Rule	Account Statement Rule	Quarterly Security Counts Rule	Net Capital Rule
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	3	1	2	1	1
Testing controls over the completeness and accuracy of information produced by the broker-dealer or service organization used in the performance of other important controls	3	4	2	1	
Testing information technology general controls, upon which the effectiveness of other important controls relied	1	1	1		
Testing the design and operating effectiveness of any important controls		1	1	1	

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 and debit balances reported in the customer reserve computation, including those determined through a stock record allocation • Maintenance of special reserve bank accounts for the exclusive benefit of customers
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 • Identification and resolution of deficits that require action by the broker-dealer within the specified timeframe • Issuance of instructions to reduce securities to possession or control
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, including ensuring that notifications were received and that customers were able 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

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 broker-dealer's fiscal year end, including:

- Testing the accuracy and completeness of the stock record allocation reports and other information used to prepare the customer reserve computation;
- Determining whether the broker-dealer obtained written bank notification letters for special reserve bank accounts; and
- Determining whether, after a withdrawal, a special reserve bank account balance still met the requirement of the Reserve Requirements Rule. (AT No. 1.21)

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

Evaluating the Results of the Examination Procedures

One firm did not sufficiently evaluate an identified deficiency to determine whether a material weakness in ICOC existed. (AT No. 1.25 and .26)

One firm did not evaluate whether sufficient appropriate evidence was obtained to support the broker-dealer's assertion that ICOC was effective throughout the most recent fiscal year, when the broker-dealer did not perform customer reserve computations throughout the year. (AT 1.27)

Obtaining a Representation Letter

Firms did not obtain certain required written representations or any required written representations at all from the management of the broker-dealer, including representations stating that the broker-dealer's assertions included in the compliance report are the responsibility of management. (AT No. 1.32)

Reporting on the Examination Engagement

One firm did not express an opinion on the effectiveness of the broker-dealer's ICOC with the Net Capital Rule during the year and the broker-dealer's compliance with that rule as of its fiscal year end. In addition, one firm referred to an assertion by the broker-dealer that its ICOC was effective as of its fiscal year end when the broker-dealer omitted that assertion from its compliance report. (AT No. 1.36)

Firms did not modify their examination reports to express an adverse opinion on the broker-dealer's ICOC when material weaknesses in ICOC existed. (AT No. 1.36; Appendix .C1, and Appendix .C2)

One firm dated its examination report prior to the date on which it obtained sufficient appropriate evidence to support its opinion. (AT No. 1.38)

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.

	2024			2023	2022
	Number of engagements reviewed	Number of engagements with deficiencies	Percentage of engagements with deficiencies	Percentage of engagements with deficiencies	Percentage of engagements with deficiencies
Review engagements	64	27	42%	40%	40%

General Requirements

Firms 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

Firms did not sufficiently evaluate evidence that the identified exemption provisions in broker-dealer exemption reports were inaccurate. (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 or financial statements 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 identified exemption provisions, and controls involving the nature, frequency, and results of related monitoring activities. (AT No. 2.10)

Firms did not sufficiently perform procedures to determine whether customer checks received by the broker-dealer were promptly transmitted. (AT 2.10)

Obtaining a Representation Letter

One firm did not obtain certain required written representations from the management of the broker-dealer, including representations acknowledging management's responsibility for compliance with the identified exemption provisions throughout the fiscal year and those stating that management has made available to the auditor all records and other information relevant to the broker-dealer's assertions.

Additionally, one firm obtained a written representation that was inconsistent with an assertion in the broker-dealer's exemption report. (AT No. 2.13)

Reporting on the Review Engagement

One firm, in its review report, omitted required assertions included in the broker-dealer's exemption report. (AT No. 2.16)

Firms, in their review reports, referenced assertions not included in the broker-dealer's exemption report. (AT No. 2.16)

Firms, in their review reports, did not include the required statement that management is responsible for compliance with the identified exemption provisions throughout the fiscal year and for its assertions in its 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.

Audits of Financial Statements

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	2024			2023	2022
	Number of audits	Number of audits with deficiencies	Percentage of audits with deficiencies	Percentage of audits with deficiencies	Percentage of audits with deficiencies
Revenue	97	47	48%	48%	34%
Journal entries	102	18	18%	8%	22%
Evaluating audit results	102	16	16%	17%	21%
Related party relationships and transactions	28	10	36%	28%	33%
Expenses and related accruals	17	9	53%	19%	29%
Receivables and payables	23	4	17%	36%	13%
Securities owned and securities sold, not yet purchased[8]	14	3	21%	10%	50%
Consideration of an entity's ability to continue as a going concern	5	2	40%	33%	0%

8 Securities sold, not yet purchased are also described as short sales of securities.

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 presents the number of audit engagements reviewed in which certain deficiencies were identified, categorized by the revenue source associated with the deficiencies.

Deficiency area	Number of AS 2301.08 deficiencies identified by revenue source				
	Commissions	Investment advisory fees	12b-1 fees	Merger and acquisition and other advisory fees	Other revenues
Testing whether revenue recorded was accurate, including components that determine revenue	9	4	3	3	8
Testing whether performance obligations were distinct and satisfied prior to revenue recognition				6	1
Testing the accuracy and completeness of information produced by a service organization, used in substantive testing			1		1
Evaluation of whether revenue sources presented in a single category should have been disaggregated in conformity with the requirements of ASC 606	8				5
Evaluation of whether revenues were appropriately classified	2			1	
Evaluation of whether the broker-dealer disclosed required information about its performance obligations in conformity with the requirements of ASC 606		1			2

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

Revenue source	Examples of AS 2301.08 deficiencies
Commissions	• Firms did not test whether securities trade amounts and commission rates were accurate. • Firms did not evaluate whether revenues, such as variable annuity trail commissions and 12b-1 fees, that were reported as commissions revenue, should have been disaggregated into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. • One firm did not evaluate whether the classification of interest income as commissions revenue was appropriate.
Investment advisory fees	• Firms did not test whether assets under management and fee rates were accurate. • One firm did not evaluate whether appropriate qualitative information about the performance obligations was disclosed, including the timing and nature of the services rendered and the satisfaction of performance obligations.
12b-1 fees	• Firms did not test whether mutual fund net asset values and contract rates were accurate. • One firm used information from reports produced by a clearing broker when performing substantive tests of details but did not test whether those reports were accurate.
Merger and acquisition and other advisory fees	• Firms did not test whether gross proceeds of completed mergers or acquisitions were accurate. • Firms did not test whether performance obligations associated with retainer fees were distinct from other performance obligations in advisory contracts, and whether any such performance obligations were satisfied prior to recognition of the fees.
Other revenues	• Firms did not test whether customer sweep account balances and contract rates used to determine bank sweep fees were accurate.

The following table provides examples of deficiencies in auditing revenue with citations to PCAOB standards other than AS 2301.08, some of which include dual citations to AS 2301.08.

Deficiency area	Example of deficiencies with associated citation to PCAOB standards
Audit sampling	• Firms did not take into account characteristics of different types of revenue tested as a single population, and, as a result, an appropriate number of items was not selected from each type. (AS 2315.16) • Firms did not take into account tolerable misstatement, the allowable risk of incorrect acceptance, and 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) • One firm selected sample items from a source that was not representative of the revenue recorded during the year. (AS 2315.17) • One firm used a sample size in substantive testing of revenue that was too small to provide sufficient appropriate audit evidence, because its procedures were designed based on a level of reliance on a substantive analytical procedure that was not supported due to deficiencies in the substantive analytical procedure. (AS 2305.16; AS 2315.19, .23, and .23A) • Firms did not select sample items in such a way that the sample could be expected to be representative of the population. (AS 2315.24) • One firm did not project the misstatement results of the sample to the items from which the sample was selected. (AS 2315.26 and .27) • One firm performed its substantive procedures using the sample size it determined for its control testing, and this sample size was too small to provide sufficient appropriate audit evidence because the firm did not use the larger of the samples that would otherwise have been designed for the two separate purposes. (AS 2315.44)
Use of information produced by the broker-dealer	• Firms used information produced by the broker-dealer as audit evidence when performing substantive tests of details over revenue 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)
Substantive analytical procedures	• One firm did not establish that there were plausible and predictable relationships in the data, develop expectations that were sufficiently precise to identify misstatements, and determine the amount of differences from expectations that could be accepted without further explanation. (AS 2305.13, .14, .17, and .20) • One firm did not test, or test controls over, the completeness and accuracy of the data used to develop its expectations. (AS 2305.16)
Tests of details	• 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)
Control reliance that was not supported	• One firm 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 the firm's tests of controls. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A) • One firm, when testing a control, did not evaluate the review procedures that the control owner performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2301.19 and .21) • One firm did not determine whether the specific test of controls and results in the service auditor's report were relevant to the assertions for which the firm assessed control risk at less than the maximum. (AS 2601.16)

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

Reminder for Firms – AS 2105: Consideration of Materiality in Planning and Performing an Audit

Enhance focus on other relevant factors when establishing a materiality level for the financial statements.

Auditors should establish a materiality level for the financial statements as a whole that is appropriate in light of the particular circumstances. This includes consideration of the broker-dealer's earnings and other relevant factors.

Other relevant factors for auditors to consider include the broker-dealer's ownership structure, the nature of its operations, and compliance with laws and regulations. Auditors are expected to consider relevant quantitative and qualitative factors in establishing materiality when planning and performing audit procedures to detect misstatements that could be material.

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 select journal entries and other adjustments for testing;
- Did not consider the characteristics of potentially fraudulent journal entries when identifying and selecting entries for testing;
- Excluded certain journal entries identified for selection from its testing without having an appropriate rationale;
- Selected journal entries that met specified fraud criteria but did not examine the underlying support; and
- Examined the underlying support for only certain selected journal entries, without having an appropriate rationale for limiting testing to those journal entries. (AS 2401.61)

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, 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 GAAP matter.

ASC Topic	GAAP matter
FASB ASC Topic 210, *Balance Sheet*	• Classification of an investment with an original maturity greater than three months • Classification of assets in a classified balance sheet when collectible in the ordinary course of business within a year
FASB ASC Topic 230, *Statement of Cash Flows*	• Classification of cash flows as operating, investing, or financing activities
FASB ASC Topic 280, *Segment Reporting*	• Disclosures of information about the extent of a broker-dealer’s reliance on its major customers
FASB ASC Topic 350, *Intangibles – Goodwill and Other*	• Disclosures of information related to a recognized impairment loss on intangible assets
FASB ASC Topic 606, *Revenue from Contracts with Customers*	• Qualitative disclosures of information about performance obligations • Separate disclosure of revenue recognized from contracts with customers and revenues from other sources • Gross or net presentation of reimbursed expenses
FASB ASC Topic 820, *Fair Value Measurements*	• Measuring securities owned at fair value on a recurring basis and related disclosures
FASB ASC Topic 850, *Related Party Disclosures*	• Disclosures of related party transaction information (refer also to the “Related Party Relationships and Transactions” section)
FASB ASC Topic 940, *Financial Services – Broker and Dealers*	• Classification of proprietary securities transactions • Presentation of unrealized losses on securities owned

Related Party Relationships and Transactions

Regarding allocation of revenues and expenses between broker-dealers and their affiliates, firms did not perform procedures to:

- Test, or sufficiently test, allocations of revenues and expenses, including the accuracy and completeness of data used in the allocations;
- Test, or sufficiently test, the accuracy of disclosures about allocated expenses; and

- Evaluate whether allocated revenues or expenses were consistent with the terms of the written agreements between the related entities. (AS 2410.11 and .12)

One firm did not evaluate the financial capability of the broker-dealer's affiliates to satisfy a significant uncollected balance. (AS 2410.11 and .12)

Firms did not identify omitted 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)

Refer to the section of this Annual Report entitled "Auditor Communications" for descriptions of deficiencies related to communications with broker-dealer audit committees regarding related parties.

Expenses and Related Accruals

Firms did not test, or sufficiently test, one or more relevant assertions for expense accounts, including the accuracy of components that determine commission expense. (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)

Firms used information produced by the broker-dealer as audit evidence when performing substantive tests of details 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)

One firm used a sample size in substantive testing of an expense that was 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 the absence of tests of controls over the expense. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

When using substantive analytical procedures, one firm did not (1) establish that there were plausible and predictable relationships in the data, (2) test, or test controls over, the completeness and accuracy of the data used to develop its expectations, and (3) determine the amount of difference from expectations that could be accepted without further explanation. (AS 2305.13, .14, .16, and .20)

Receivables and Payables

One firm did not identify that the terms of notes receivable that were disclosed in the broker-dealer's notes to the financial statements did not agree with the terms of the respective agreements. (AS 2301.08)

One firm did not reconcile payable balances presented in the broker-dealer's financial statements with the underlying accounting records. (AS 2301.08 and .41)

When using substantive analytical procedures, firms did not establish that there was a plausible relationship in the data and test, or test controls over, the completeness and accuracy of the data used to develop its expectations. (AS 2305.13, .14, and .16)

Reminder for Firms – New Standard: The Auditor's Use of Confirmation

AS 2310, *The Auditor's Use of Confirmation*, establishes principles-based requirements designed to stay relevant as technology evolves by applying to all methods of confirmation, including electronic and paper-based communications. This new standard is effective for audits of financial statements for fiscal years ending on or after June 15, 2025.

Securities Owned and Securities Sold, Not Yet Purchased

One firm did not perform procedures beyond inquiry to test the existence of securities owned. (AS 2301.08)

One firm's sample size used to test securities owned was too small to provide sufficient appropriate audit evidence because it did not take into account tolerable misstatement when determining the number of items to be selected in the sample. (AS 2315.16, .23, and .23A)

One firm did not perform procedures to evaluate the reasonableness of the significant assumptions related to the valuation of securities owned classified as Level 3 within the fair value hierarchy, beyond obtaining and reading the reports prepared by the broker-dealer's specialist. Further, the firm did not perform any procedures with respect to its use of the work of the broker-dealer's specialist as audit evidence. (AS 1105.A1-. A10; AS 2501.16)

One firm did not evaluate the relevance and reliability of the pricing information provided by a pricing service and used by a broker-dealer to determine fair value of securities owned. (AS 2501.20, .A2, .A4 and .A5)

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

One firm did not evaluate negative trends present at the broker-dealer, including recurring operating losses and negative cash flows from operating activities, that indicated that there could be substantial doubt about the broker-dealer's ability to continue as a going concern. (AS 2415.03)

One firm identified conditions that indicated there could be substantial doubt about the broker-dealer's ability to continue as a going concern but did not obtain appropriate evidence to support financial information that the firm expected would mitigate the effect of the identified conditions. (AS 2415.03)

Audits of Supplemental 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 supplemental information accompanying broker-dealer financial statements.

Area	2024			2023	2022
	Number of audits	Number of audits with deficiencies	Percentage of audits with deficiencies	Percentage of audits with deficiencies	Percentage of audits with deficiencies
Net Capital Rule	40	10	25%	32%	27%
Customer Protection Rule	22	9	41%	30%	24%

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 deposits with clearing organizations, commissions receivable, 12b-1 fees receivable, and annuity trail commissions receivable;
- Deductions related to securities subject to marketplace blockage;
- Operational charges and other deductions, including those related to failed securities transactions and open underwriting contractual commitments; and
- Securities haircuts. (AS 2701.04)

Firms did not identify that the statement regarding differences between the net capital supplemental information and the corresponding computation in the broker-dealer's Financial and Operational Combined Uniform Single (FOCUS) Report did not refer to the most recently filed FOCUS Report. (AS 2701.04)

One firm did not evaluate whether uncorrected misstatements in the computation of the broker-dealer's net capital requirement in its supplemental information were material. (AS 2701.08)

Customer Protection Rule

Firms did not perform, or sufficiently perform, procedures to test the completeness and accuracy of information used by the broker-dealer to prepare the customer reserve computations, including stock record allocation reports and other information produced by the broker-dealers or the broker-dealer's service organizations. (AS 2701.04)

One firm did not determine that qualified securities on deposit in a special reserve bank account included in the customer reserve computation reconciled to the broker-dealer's underlying records or the financial statements. (AS 2701.04)

One firm did not sufficiently evaluate whether the classification of certain credit and debit balances reported in the customer reserve computation was carried out in accordance with the Reserve Requirements Rule. (AS 2701.04)

Firms did not perform, or sufficiently perform, procedures to test the completeness and accuracy of information produced by the broker-dealers to determine its possession or control requirements, including security deficit reports. (AS 2701.04)

Firms did not evaluate, or sufficiently evaluate, whether information relating to the possession or control requirements complied with the Customer Protection Rule, including whether custodial accounts were maintained free of any right, charge, security interest, lien, or claim and whether the form and content of the supplemental information complied with the requirements of the Exchange Act Rule 17a-5. (AS 2701.04)

Other Audit Areas

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	2024			2023	2022
	Number of audits	Number of audits with deficiencies	Percentage of audits with deficiencies	Percentage of audits with deficiencies	Percentage of audits with deficiencies
Auditor independence[9]	102	7	7%	13%	11%
Identifying and assessing risks of material misstatement	102	19	19%	1%	10%
Consideration of fraud in a financial statement audit	102	5	5%	2%	0%
Auditor communications	102	21	21%	13%	1%
Audit documentation	102	11	11%	16%	15%
Engagement quality review of an audit engagement[10]	102	4	4%	0%	8%
Auditors' reports on the financial statements and supplemental information	102	10	10%	13%	17%

[9] This area includes deficiencies related to required independence procedures (e.g., PCAOB Rule 3526 communications). We identified no instances of potential noncompliance with SEC rules or instances of noncompliance with PCAOB rules related to maintaining independence in 2024.

[10] Engagement quality review deficiencies are presented as another audit area for the first time in 2024. These deficiencies were previously included in the "Deficiencies in Quality Control Systems" in last year's annual report. The 2023 and 2022 inspection results have been updated in this table from prior annual reports to conform to the 2024 presentation. The deficiencies regarding qualifications of engagement quality reviewers also relate to the corresponding attestation engagements performed pursuant to AT No. 1 or AT No. 2, as applicable, based on the provisions of AS 1220.18A,.18B, and .18C.

Auditor Independence

In two audits, firms did not provide broker-dealer audit committees (or their equivalents)[11] the required independence communications. In these instances, the firms were non-compliant with PCAOB Rule 3526.

In two audits, firms affirmed to broker-dealer audit committees, in writing, that they were independent in compliance with PCAOB Rule 3520; however, those affirmations were as of a date other than the date of the written communication. In these instances, the firms were non-compliant with PCAOB Rule 3526.

In three audits, firms 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 firms were non-compliant with AS 2101.

Identifying and Assessing Risks of Material Misstatement

In one audit, the firm did not discuss with the key engagement team members the potential for material misstatement due to fraud. In this instance, the firm was non-compliant with AS 2110.

In 14 audits, firms did not make certain inquiries, or any inquiries at all, of management, the broker-dealer's audit committee, the broker-dealer's internal audit function, or others within the broker-dealer about the risks of material misstatement, including fraud risks. In these instances, the firms were non-compliant with AS 2110.

In three audits, firms did not evaluate certain risk factors or likely sources of potential misstatements that would cause the financial statements to be materially misstated, when assessing the risks of material misstatement related to certain significant accounts. In these instances, the firms were non-compliant with AS 2110.

In one audit, the firm did not evaluate the design of the broker-dealer's controls to address an identified fraud risk. In this instance, the firm was non-compliant with AS 2110.

In two audits, firms did not revise their risk assessment in response to information obtained during the audit that contradicted the audit evidence upon which they based their initial risk assessment. In these instances, the firms were non-compliant with AS 2110.

[11] 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." See also 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.

Reminder for Firms – AS 2110: Inquiries of Others

Enhance focus on inquiries of others within the broker-dealer about the risks of material misstatement.

In 2024, we observed an increase in deficiencies related to inquiries within a broker-dealer about the risks of material misstatement, including inquiries regarding fraud risks.

As part of identifying and assessing risks of material misstatement, auditors should inquire of the audit committee, management, the internal audit function, and others within the broker-dealer who might reasonably be expected to have information that is important to the identification and assessment of risks of material misstatement.

Auditors should also identify other individuals within the broker-dealer to whom inquiries should be directed and determine the extent of such inquiries by considering whether others in the broker-dealer might have additional knowledge about fraud, alleged fraud, or suspected fraud or might be able to corroborate fraud risks identified in discussions with the broker-dealer's management or audit committee.

Depending on the nature and complexity of the broker-dealer, the auditor should consider whether inquiries should be made of registered representatives, compliance personnel, or in-house legal counsel.

Consideration of Fraud in a Financial Statement Audit

In four audits, firms, when testing journal entries for evidence of possible material misstatement due to fraud, did not perform sufficient procedures to determine whether the journal entry population from which it made its selections was complete. In these instances, the firms were non-compliant with AS 1105.

In two audits, firms, 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. In these instances, the firms were non-compliant with AS 2401.

Auditor Communications[12]

In nine audits, firms did not make certain required communications to the broker-dealers' audit committees related to an overview of the overall audit strategy. In two of these audits, firms did not make a required communication to the broker-dealers' audit committees related to the nature and extent of specialized skill or knowledge needed to perform the planned audit procedures or evaluate the audit results related to significant risks. In these instances, the firms were non-compliant with AS 1301.

[12] PCAOB Rule 3526 communications deficiencies are included in the "auditor independence" area. See note 9.

In 12 audits, 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 nine audits, firms did not make a required communication to the broker-dealers' audit committees related to the results of the audits, including the auditor's evaluation of the quality of the broker-dealer's financial reporting, material written communications between the firm and management, the draft auditor's report, and uncorrected misstatements. In these instances, the firms were non-compliant with AS 1301.

In one audit, 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 audit, the firm did not make certain required communications to the broker-dealer's audit committee prior to the issuance of the auditor's report. In this instance, the firm was non-compliant with AS 1301.

In one audit, the firm did not provide to the broker-dealer's audit committee the required communication in writing of a significant deficiency identified during the audit. In this instance, the firm was non-compliant with AS 1305.

In five audits, firms did not make certain required communications to the broker-dealers' audit committees related to its evaluation of the broker-dealer's identification of, accounting for, and disclosure of, its relationships and transactions with related parties. In these instances, the firms were non-compliant with AS 2410.

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

Audit Documentation

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

In one audit, the firm did not identify all significant findings or issues in an engagement completion document. In this instance, the firm was non-compliant with AS 1215.

In one audit, the firm inspected significant agreements to complete certain audit procedures, but it did not retain abstracts or copies of those agreements. In this instance, the firm was non-compliant with AS 1215.

Engagement Quality Review of an Audit Engagement

In two audits, the individual who performed the engagement quality review was an employee of the firm who was not a partner or an individual in an equivalent position. In these instances, the firms were non-compliant with AS 1220.

In one audit, the engagement quality reviewer in the prior year's audit served as the engagement partner during the two audits that preceded that assignment as engagement quality reviewer. In this instance, the firm was non-compliant with AS 1220.

In one audit, the engagement quality reviewer did not evaluate the engagement team's audit responses to certain significant risks identified by the engagement team. In this instance, the firm was non-compliant with AS 1220.

Auditors' Reports on the Financial Statements and Supplemental Information

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

In one audit, the firm's audit report referred to a financial statement that was not included in the broker-dealer's filing. In this instance, the firm was non-compliant with AS 3101.

In one audit, 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 two audits, the firm dated its audit reports prior to obtaining sufficient appropriate evidence to support its opinions on the broker-dealers' financial statements and supplemental information. In these instances, the firm was non-compliant with AS 3110 and AS 2701.

In six audits, the firms' audit reports did not properly identify, express an opinion, or disclaim an opinion on certain supplemental information, even though this supplemental information was subject to audit procedures. In these instances, the firms were non-compliant with AS 2701.

Reminder for Firms – AS 1000: General Responsibilities of the Auditor in Conducting an Audit

AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*, replaces a group of standards originally developed by the American Institute of Certified Public Accountants and adopted on an interim basis by the PCAOB in 2003. The new auditing standard addresses the general responsibilities of the auditor, such as due professional care and professional skepticism, when conducting an audit in accordance with the standards of the PCAOB. This new standard is effective for audits of financial statements for fiscal years beginning on or after December 15, 2024.

Deficiencies in Quality Control Systems

This section of the Annual Report discusses instances of noncompliance with PCAOB QC standards.

Our inspections indicated that 35 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 independence, integrity, and objectivity.

Quality control area	2024			2023	2022
	Number of firms	Number of firms with QC deficiencies	Percentage of firms with QC deficiencies	Percentage of firms with QC deficiencies	Percentage of firms with QC deficiencies
Engagement performance	60	35	58%	48%	54%
Monitoring	60	2	3%	5%	4%
Independence, integrity, and objectivity	60	1	2%	3%	2%

Engagement Performance

Firms' policies and procedures did not provide reasonable assurance that 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 their not identifying deficiencies in those engagements. (QC 20.03 and .17)
- At some firms, policies and procedures did not provide reasonable assurance that the individual who performed the engagement quality review was an employee of the firm who was a partner or an individual in an equivalent position, as required by AS 1220. (QC 20.03 and .17)
- One firm's policies and procedures did not provide reasonable assurance that persons who serve as the engagement partner during either of the two audits preceding the audit subject to the engagement quality review were not the engagement quality reviewer required by AS 1220. (QC 20.03 and .17)
- One firm's policies and procedures did not provide reasonable assurance that the firm's personnel would comply with the audit documentation and retention requirements required by AS 1215. (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	2024			2023	2022
	Number of engagements	Number of engagements with deficiencies	Percentage of engagements with deficiencies	Percentage of engagements with deficiencies	Percentage of engagements with deficiencies
Audit engagements	102	32	31%	27%	40%
Review engagements	64	8	13%	21%	67%
Examination engagements	29	6	21%	18%	20%

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)

Independence, Integrity, and Objectivity

One firm's policy and procedures did not provide reasonable assurance that its personnel would comply with firm policy to confirm their independence. (QC 20.03, .09, and .10)

Reminder for Firms – New Standard: A Firm's System of Quality Control

QC 1000, *A Firm's System of Quality Control*, requires all PCAOB registered firms to identify their specific quality risks and design a quality control system that includes policies and procedures to guard against those risks. This new standard is effective on December 15, 2025.

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 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
AS 3110	Dating of the Independent Auditor's Report
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 3520	Auditor Independence
Rule 3526	Communication with Audit Committees Concerning Independence

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