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

PCAOB Release No. 2026-003

June 11, 2026

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# CONTENTS

Introduction	3
Overview of 2025 Inspections Results	5
2025 Inspections Approach	9
Information About Selected Firms and Engagements	11
Observations From Inspections	14
PCAOB Standards and Rules Associated With Inspection Observations	34
Learn More	35

# 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. Overseeing the audits of these SEC-registered broker-dealers<sup>1</sup> 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 2025 inspections approach; and
- A summary of our 2025 inspections observations.

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;<sup>2</sup> and
- 3. Independent Public Accountant Reports:** An independent public accountant’s audit report and, based on the broker-dealer’s status, either:
  - An examination report on the broker-dealer’s compliance report, performed pursuant to PCAOB attestation standard No. 1, or
  - A review report on the broker-dealer’s exemption report, performed pursuant to PCAOB attestation standard No. 2.

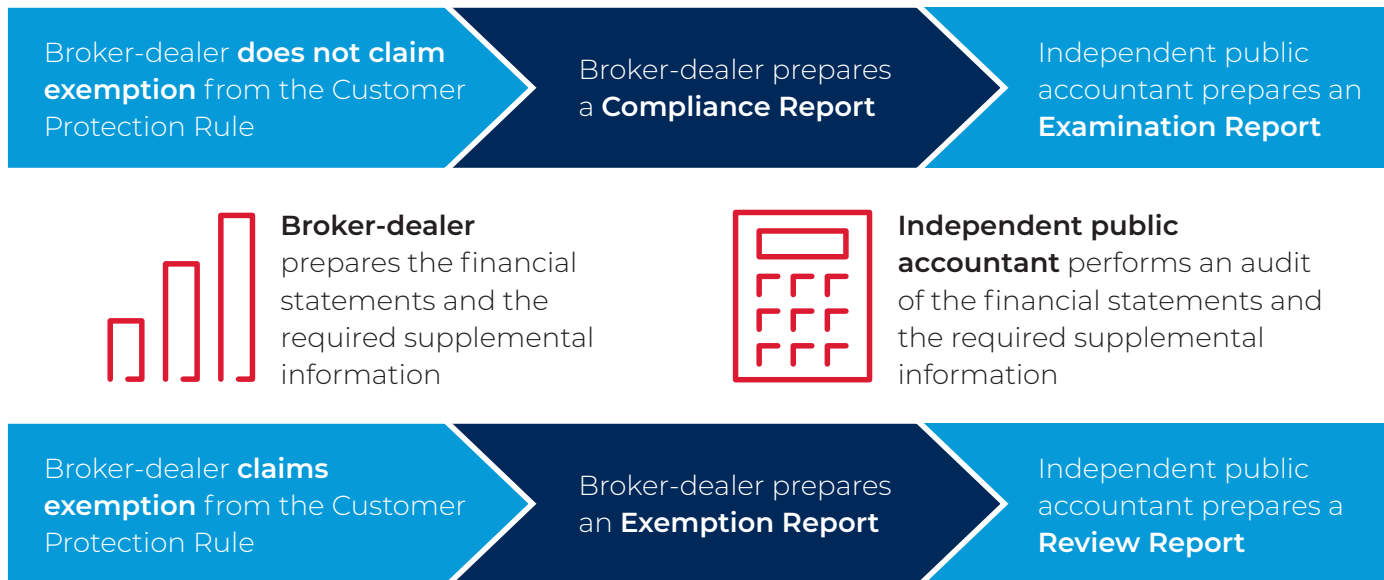
Collectively, AT No. 1 examination engagements and AT No. 2 review engagements are referred to as “attestation engagements.”

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<sup>1</sup> 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.

<sup>2</sup> 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.

The inclusion of a deficiency in this Annual Report reflects information communicated to the Board by the inspection team and is not a determination by the Board as to whether the firm has engaged in conduct for which it could be sanctioned through the Board’s disciplinary process.

Broker-dealer audit attestation engagements can involve professional judgments in a complex regulatory environment, and inspection results may vary from year to year based on the firms inspected, the engagements selected for review, and the specific areas of inspection focus. In addition, firms vary in terms of the types of broker-dealer engagements performed, the number of broker-dealer audits per firm, and the frequency with which firms have been inspected under the interim inspection program. Information regarding our inspection results by each of these firm characteristics can be found in our companion document, *Supplementary Information Related to Audit of Brokers and Dealers*, PCAOB Release No. 2026-004 (June 11, 2026).

# OVERVIEW OF 2025 INSPECTIONS RESULTS

The 2025 inspection year marked our 11th year of inspections of firms that are required to audit broker-dealers in accordance with PCAOB standards. During 2025, we inspected 61 firms and reviewed 103 broker-dealer audits, numbers that closely resemble those of the 2024 inspection year, as shown more fully below. Our 2025 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<sup>3</sup> during the inspection period (the “largest audit firms”), with the remaining 72 audits selected from firms of different sizes and characteristics (the “remaining audit firms”).

Overall, in 2025 we observed a decrease in deficiency rates in examination, review, and audit engagements; however, the deficiency rates indicate opportunities for continued improvement by audit firms.<sup>4</sup>

## Examination Engagements – Improvement at the Largest Audit Firms

In our review of 25 examination engagements on broker-dealer compliance reports, we identified at least one deficiency in 10 (40%), a decrease from 17 (59%) in 2024 across 29 examination engagements. Of those 10 engagements, nine included one or more deficiencies related to internal control over compliance (ICOC), compliance procedures, or a combination of both, a decrease of four from 2024. The largest audit firms performed 15 of the examination engagements reviewed in 2025, and deficiencies were identified in two (13%), a decrease from six (40%) in 2024 across 15 engagements. The remaining audit firms performed the other 10 examination engagements reviewed with the percentage of engagements with at least one deficiency (80%) generally consistent compared to 2024 (79%) across 14 engagements.

Results From Reviews of Examination Engagements			
	2025	2024	2023
Examination engagements reviewed	25	29	29
Examination engagements reviewed with deficiencies	10 (40%)	17 (59%)	19 (66%)
• By the largest audit firms	2 (13%)	6 (40%)	7 (47%)
• By the remaining audit firms	8 (80%)	11 (79%)	12 (86%)

As seen in previous years, some firms did not perform sufficient procedures to examine assertions made by broker-dealers relating to 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. We also observed an increase in instances where firms did not test any important controls over one or more financial responsibility rules.<sup>5</sup>

<sup>3</sup> An “issuer” is a public company or similar entity whose audits are subject to the jurisdiction of the Board under the Sarbanes-Oxley Act.

<sup>4</sup> The deficiencies summarized in the tables in this section were identified across 52 firm inspections in 2025, 57 firm inspections in 2024, and 53 firm inspections in 2023.

<sup>5</sup> 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.”

## Review Engagements – Results Across Firm Categories Consistent With Prior Year

In our review of 66 review engagements on broker-dealer exemption reports, we identified at least one deficiency in 27 (41%), generally consistent with 2024 results (42%). The largest audit firms performed 14 of the review engagements reviewed in 2025, and deficiencies were identified in one (7%), a decrease from two (13%) in 2024 across 15 review engagements. The remaining audit firms performed 52 of the review engagements with the percentage of engagements with at least one deficiency (50%) generally consistent compared to 2024 (51%) across 49 engagements. Of those 52 engagements, nine were performed by firms not inspected since PCAOB standards became applicable for broker-dealer audits, and six of those engagements included at least one deficiency.

Results From Reviews of Review Engagements			
	2025	2024	2023
Review engagements reviewed	66	64	67
Review engagements reviewed with deficiencies	27 (41%)	27 (42%)	27 (40%)
• By the largest audit firms	1 (7%)	2 (13%)	2 (13%)
• By the remaining audit firms	26 (50%)	25 (51%)	25 (49%)

The deficiencies identified in these engagements primarily related to instances in which firms did not obtain a sufficient understanding of the broker-dealer activities relevant to the exemptions claimed under the Customer Protection Rule or did not perform required inquiries regarding controls and related monitoring activities. In addition, certain review reports prepared by the independent accountant did not meet the reporting requirements of AT No. 2.

## Audit Engagements – Improvement Across Firms

In 2025, we identified at least one deficiency relating to the sufficiency or appropriateness of evidence supporting audit opinions in 58 of the 103 audit engagements (56%), a decrease from 68 of 102 engagements (66%) in 2024. The largest audit firms performed 31 of these audit engagements, and at least one deficiency regarding the sufficiency or appropriateness of evidence supporting audit opinions was identified in nine (29%), compared to 13 of 31 engagements (42%) in 2024. The remaining audit firms performed 72 of the audit engagements reviewed, and at least one such deficiency was identified in 49 (68%), compared to 55 of 71 engagements (77%) in 2024.

<b>Results From Reviews of Audit Engagements</b>			
	<b>2025</b>	<b>2024</b>	<b>2023</b>
<b>Audit engagements reviewed</b>	<b>103</b>	<b>102</b>	<b>103</b>
<b>Audit engagements reviewed with deficiencies</b>	<b>68</b> <b>(66%)</b>	<b>78</b> <b>(76%)</b>	<b>72</b> <b>(70%)</b>
<b>In relation to the nature of the deficiencies:</b>			
• <b>Involving the sufficiency and/or appropriateness of evidence obtained to support audit opinions</b> <sup>6,7</sup>	58 (56%)	68 (66%)	58 (56%)
– <b>By the largest audit firms</b>	9 (29%)	13 (42%)	10 (29%)
– <b>By the remaining audit firms</b>	49 (68%)	55 (77%)	48 (70%)
• <b>Involving noncompliance with other PCAOB standards and rules only</b>	10 (10%)	10 (10%)	14 (14%)

Audit procedures with the highest number of identified deficiencies were in the areas of revenue, evaluating audit results, and journal entries. In the revenue area, deficiencies were observed across a variety of broker-dealer business activities and generally involved insufficient testing of revenue accuracy, the satisfaction of performance obligations, and related disclosure requirements. For evaluating audit results, some firms did not consistently assess whether the broker-dealer financial statements were fairly presented in accordance with Generally Accepted Accounting Principles (GAAP). For journal entries, some firms did not consider fraud risk characteristics when identifying journal entries for testing or did not have an appropriate rationale for excluding certain journal entries from their testing.

This Annual Report is intended to support the PCAOB's goal of improving audit quality and enhancing transparency in the reporting of inspection results. It is also designed to provide useful insights for stakeholders, including broker-dealer management and audit committees, as they engage with audit firms on financial reporting and audit quality considerations.

<sup>6</sup> Includes five, four, and six engagements in 2025, 2024, and 2023, respectively, in which the identified deficiencies related solely to GAAP presentation and disclosure matters.

<sup>7</sup> The identified deficiencies varied in nature and underlying facts. Although each deficiency reflected an instance of noncompliance with applicable PCAOB standards or rules, these inspection results should not be read to mean that the broker-dealer's financial statements and supplemental information are materially misstated, or that there are broader issues with the firm's system of quality control.

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

<b>Selections Profile</b>			
	<b>2025</b>	<b>2024</b>	<b>2023</b>
<b>Total firms inspected</b>			
<b>Total firms inspected</b>	<b>61</b>	<b>60</b>	<b>60</b>
<b>Inspection frequency</b>			
<b>Previously inspected firms</b>	49	45	42
<b>Firms inspected for the first time</b>	12	15	18
<b>Total firms inspected</b>	<b>61</b>	<b>60</b>	<b>60</b>
<b>Total audits reviewed</b>			
<b>Total audits reviewed</b>	<b>103</b>	<b>102</b>	<b>103</b>
<b>Selection method</b>			
<b>Risk-based selections</b>	99	96	97
<b>Random selections</b>	4	6	6
<b>Total audits reviewed</b>	<b>103</b>	<b>102</b>	<b>103</b>
<b>Type of report filed by the broker-dealer</b>			
<b>Compliance report</b>	25	30	31
<b>Exemption report</b>	78	72	72
<b>Total audits reviewed</b>	<b>103</b>	<b>102</b>	<b>103</b>
<b>Total attestation engagements reviewed</b>			
<b>Examination engagements</b>	25	29	29
<b>Review engagements</b>	66	64	67
<b>Total attestation engagements reviewed</b>	<b>91</b>	<b>93</b>	<b>96</b>

We reviewed the associated attestation engagements for 91 of the 103 audits reviewed in 2025. For the remaining 12 audits, the associated attestation engagements were assessed as lower risk, and, accordingly, were not selected for review. As a result, our review was limited to the audit of the financial statements and supplemental information. Each of these broker-dealers filed an exemption report.

## 2025 INSPECTIONS APPROACH

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

For our 2025 inspections, we selected PCAOB-registered firms that performed audits of broker-dealers with financial statement periods ended during the period April 1, 2024, through March 31, 2025. The following table provides additional information about the population of firms that audit broker-dealers, from which firms were selected for 2025 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	Total number of broker-dealers that filed a compliance report across all firms in this category
1	64	64	3
2 to 20	115	759	24
21 to 50	23	772	21
51 to 100	13	809	18
More than 100	6	801	93
<b>Total</b>	<b>221</b>	<b>3,205</b>	<b>159</b>

The 3,205 broker-dealers noted in the table above include 530 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 professional staff'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 2025 selections included 12 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 carried customer accounts and received or held customer funds or 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 reported 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;
- Financial metrics, such as the broker-dealer's asset, revenue, and net capital levels;
- Whether the broker-dealer had changed auditors; and
- The existence of disciplinary actions against the broker-dealer by the SEC, the Financial Industry Regulatory Authority (FINRA), or other regulatory authorities.

Risk-based selections accounted for 96% of the total of the engagements, while the remaining 4% were selected randomly to introduce an element of unpredictability into the inspection process.

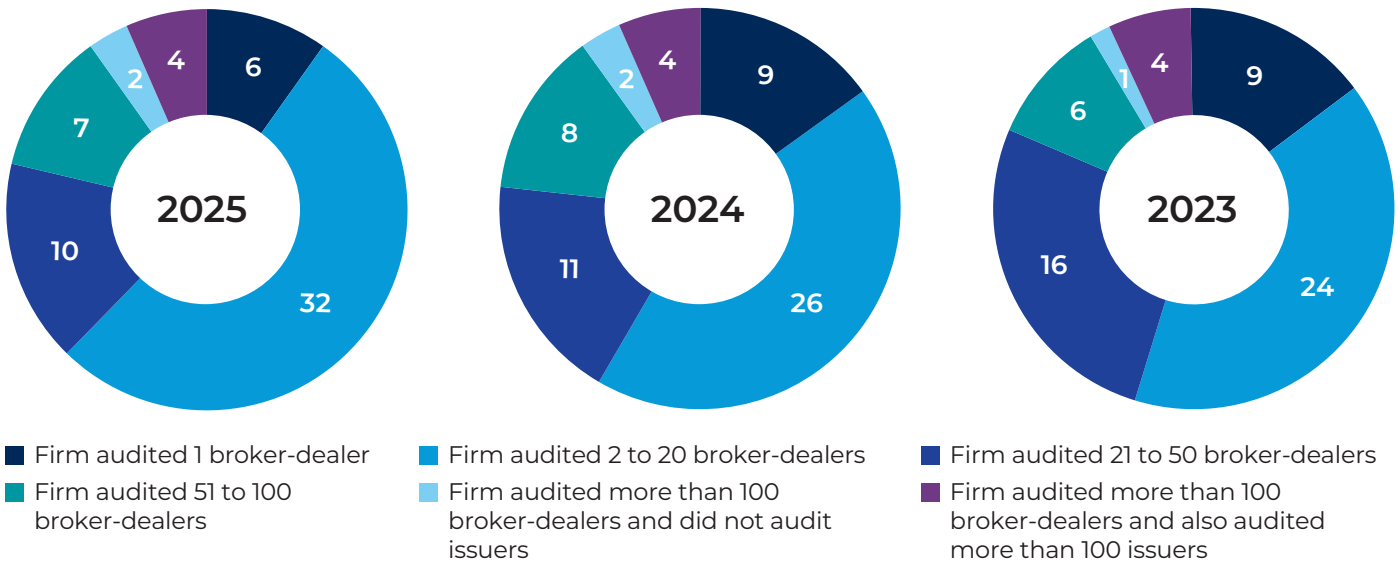
We did not review every aspect of the selected audit engagements; instead, we focused on portions. Generally, we selected financial statement and regulatory areas that we considered to be of greater complexity, significance, or potential for risk of material misstatement to the broker-dealer's financial statements and supplemental information. Financial statement areas reviewed included revenue and related party relationships and transactions. In some cases, areas such as expenses and related accruals were selected to incorporate an element of unpredictability. The regulatory areas reviewed included the Net Capital Rule and the Customer Protection Rule. In addition, we reviewed certain areas related 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 specific areas reviewed, as well as the frequency of their review, varied across engagements and 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.

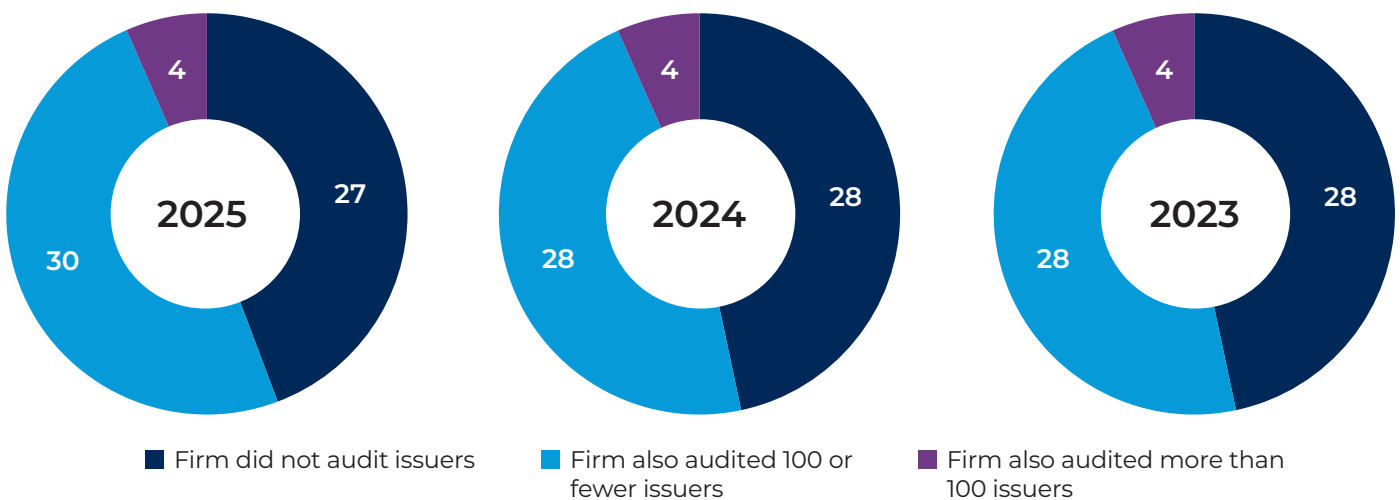
# INFORMATION ABOUT SELECTED FIRMS AND ENGAGEMENTS

## Firms

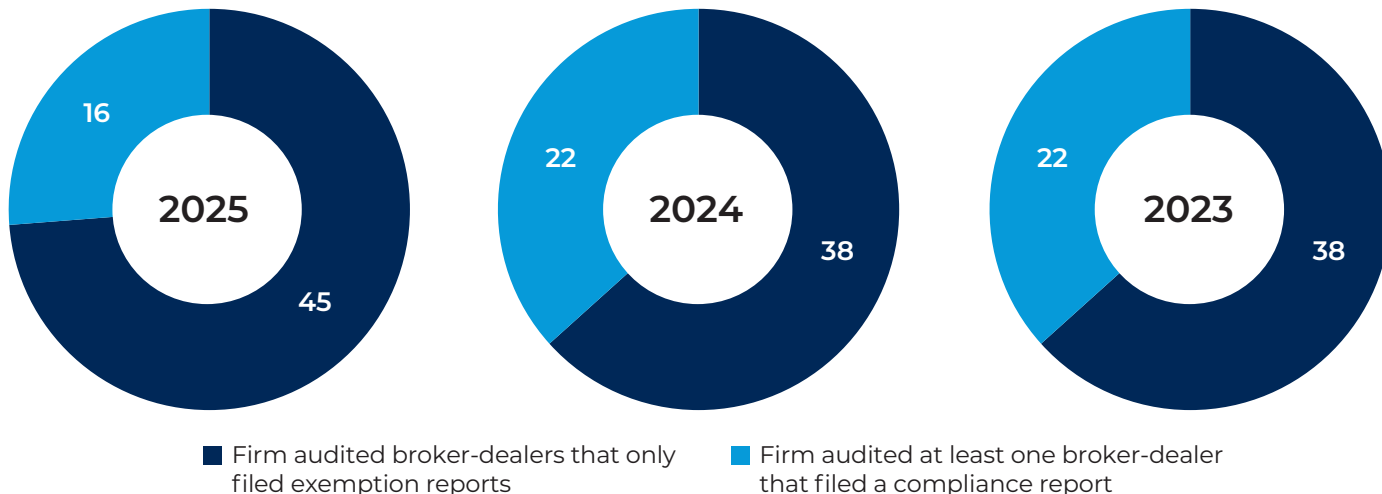
We selected 61 firms for inspection in 2025 and 60 firms for both 2024 and 2023. The following charts depict the number of broker-dealer audits performed by inspected firms, for each of the last three years, as determined at the time of their inspection. For firms that audited more than 100 broker-dealers, 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.



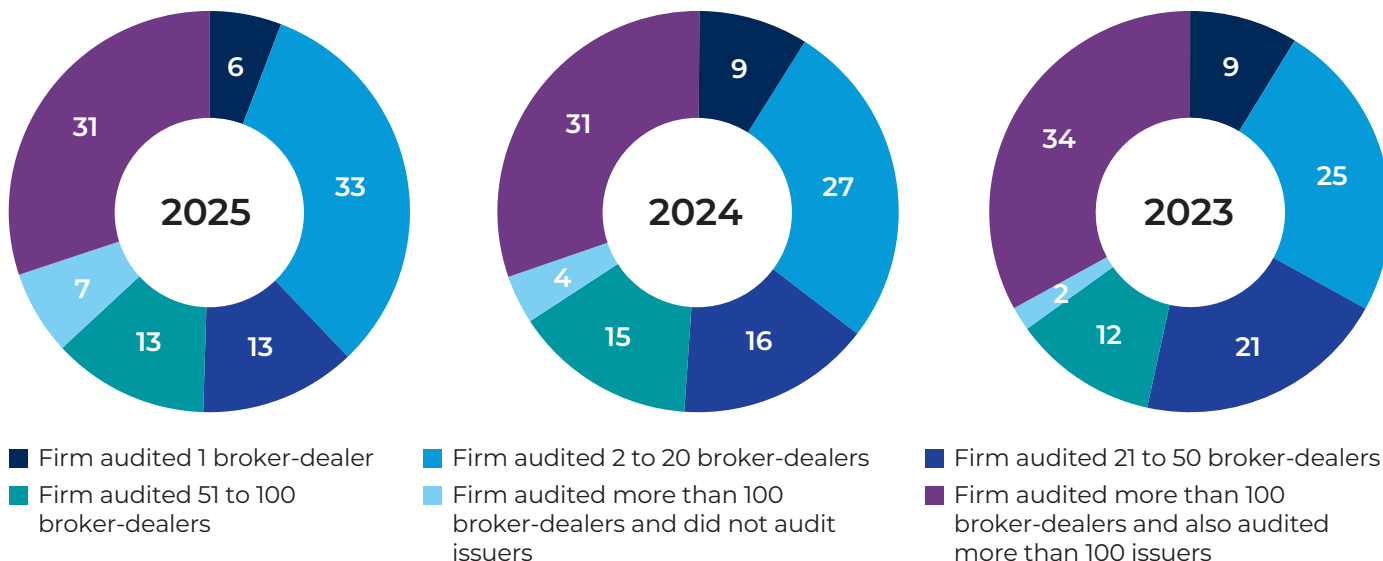
The following charts depict whether inspected firms audited broker-dealers that filed compliance reports or audited broker-dealers that only filed exemption reports, for each of the last three years, as determined at the time of their inspection.



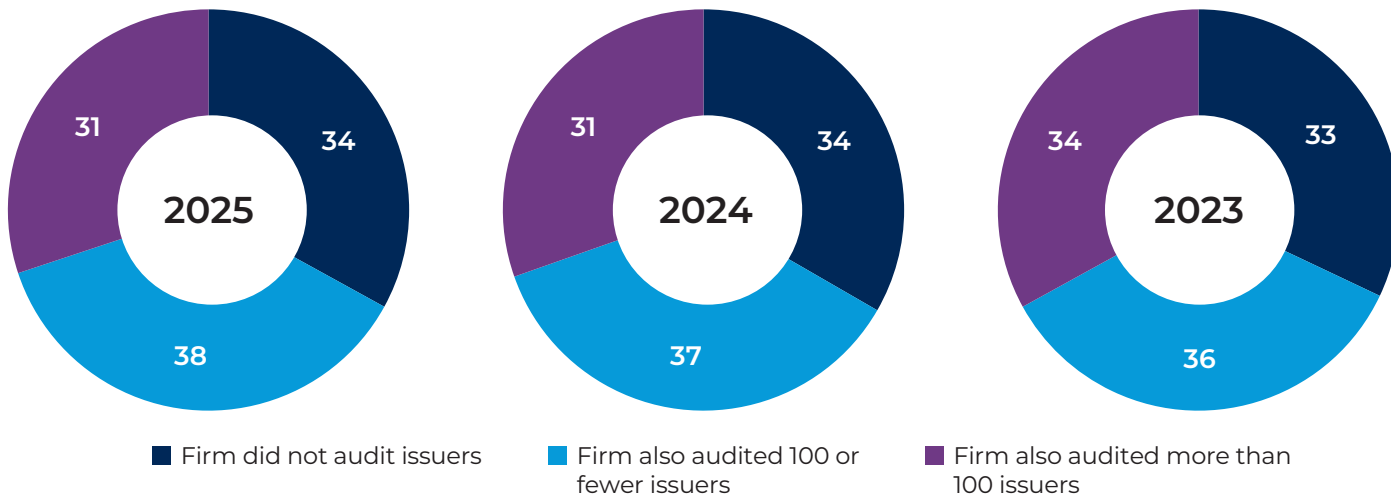
## Engagements

During our 2025 inspections of 61 audit firms, we reviewed 103 broker-dealer financial statement audits with financial statement periods ending during the period from April 1, 2024, through March 31, 2025. We reviewed 102 and 103 financial statement audits in 2024 and 2023, respectively.

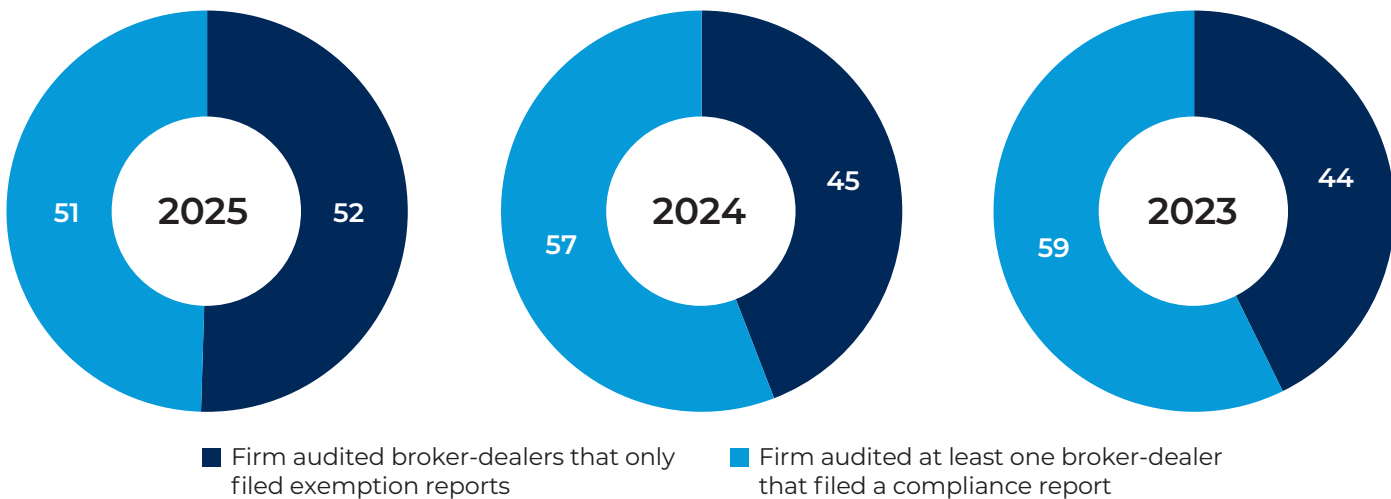
The following charts provide information about the distribution of selected audits among the firms selected for inspection, based on the number of broker-dealer audits each firm performed during the respective inspection period.



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;<sup>8</sup> and
- Deficiencies in QC systems.

Firm and engagement selections 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.

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<sup>8</sup> 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 describes 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 examinations of broker-dealer assertions in compliance reports. The deficiencies do not necessarily mean that the assertions in 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 procedures and related findings because, for example, we have only the information that the auditor retained and the broker-dealer’s filings. We do not have direct access to the broker-dealer’s management, underlying books and records, and other information.

	2025			2024	2023
	Number of engagements reviewed	Number of engagements with deficiencies	Percentage of engagements with deficiencies	Percentage of engagements with deficiencies	Percentage of engagements with deficiencies
<b>Examination engagements</b>	25	10	40%	59%	66%

### General Requirements

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

One firm 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

Two 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)

One firm did not read the correspondence regarding noncompliance that the broker-dealer received from its designated examining authority that was relevant to the broker-dealer’s assertions. (AT No. 1.09)

One firm did not assess the risk of fraud, including the risk of misappropriation of customer assets, relevant to compliance with the Net Capital Rule and the Reserve Requirements Rule and the effectiveness of the broker-dealer’s ICOC. (AT No. 1.10)

Testing Controls Over Compliance

## Deficiency Focus on Testing Controls Over Compliance

Deficiencies on nine examination engagements across nine firms 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 relating to testing important controls were identified, categorized by the financial responsibility rules associated with the deficiencies.

Number of ICOC deficiencies identified by financial responsibility rule					
Deficiency area	Net Capital Rule	Reserve Requirements Rule	Possession or control requirements of the Customer Protection Rule	Quarterly Security Counts Rule	Account Statement 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	2	2	2	1	1
Testing the design and operating effectiveness of any important controls	1	2	2	2	3
Testing controls over the completeness and accuracy of information produced by the broker-dealer’s service organization used in the performance of other important controls		1	1	1	
Testing information technology general controls, upon which the effectiveness of other important controls relied	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
<b>Reserve Requirements Rule</b>	<ul style="list-style-type: none"> <li>• Determination of credit and debit balances reported in the customer reserve computation, including those determined through a stock record allocation</li> <li>• Notification requirements with respect to sweep program changes</li> </ul>
<b>Possession or control requirements of the Customer Protection Rule</b>	<ul style="list-style-type: none"> <li>• Maintenance of custodial accounts free of any right, charge, security interest, lien, or claim</li> <li>• Identification and resolution of deficits that require action by the broker-dealer within the specified timeframe</li> <li>• Maintenance of fully-paid security lending program written agreements</li> </ul>
<b>Quarterly Security Counts Rule</b>	<ul style="list-style-type: none"> <li>• Accounting for all securities transactions 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</li> </ul>
<b>Account Statement Rule</b>	<ul style="list-style-type: none"> <li>• Completeness of the population of account statements to be produced and delivered</li> <li>• Completeness and accuracy of information in account statements</li> <li>• Notification to customers of availability of electronic account statements</li> </ul>

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

### Performing Compliance Tests

One firm did not sufficiently perform tests of compliance with the Reserve Requirements Rule or Net Capital Rule as of the broker-dealer's fiscal year end, including:

- Evaluating whether the amounts in the schedules were determined in accordance with the applicable rules;
- Testing the accuracy and completeness of the information in the schedules;
- Determining whether the broker-dealer obtained written bank notification letters for special reserve bank accounts;
- Determining whether, after a withdrawal, special reserve bank account balances still met the requirement of the Reserve Requirements Rule; and
- Determining whether the information in the schedules was derived from the broker-dealer's books and records. (AT No. 1.21)

Three 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

One firm did not identify that the broker-dealer's compliance report did not include a required statement as to whether the ICOC of the broker-dealer was effective as of the end of the most recent fiscal year. (AT No. 1.25)

Three firms did not evaluate, or sufficiently evaluate, identified deficiencies to determine whether material weaknesses in ICOC existed. (AT No. 1.25 and .26)

### Obtaining a Representation Letter

Three firms did not obtain certain or any required written representations 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

Three firms, in their examination reports, referenced assertions not included in the broker-dealer's compliance report. (AT No. 1.36)

One firm, in its examination report, did not include identification of the assertion that the broker-dealer was in compliance with the Net Capital Rule and the Reserve Requirements Rule as of the end of the most recent fiscal year that the broker-dealer included in its compliance report. (AT No. 1.36)

One firm, in its examination report, did not include the required statement that management is responsible for establishing and maintaining a system of internal control that has the objective of providing the broker-dealer with reasonable assurance that any instances of noncompliance with the Net Capital Rule will be prevented or detected on a timely basis. (AT No. 1.36)

## Deficiencies in Review Engagements of Exemption Reports

This section described 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 review of broker-dealer assertions in exemption reports. The deficiencies do not necessarily mean that the assertions in 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 procedures and related findings because, for example, we have only the information that the firm retained and the broker-dealer’s filings. We do not have direct access to the broker-dealer’s management, underlying books and records, and other information.

	2025			2024	2023
	Number of engagements reviewed	Number of engagements with deficiencies	Percentage of engagements with deficiencies	Percentage of engagements with deficiencies	Percentage of engagements with deficiencies
<b>Review engagements</b>	66	27	41%	42%	40%

### General Requirements

Two 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 or other bases for filing an exemption report. (AT No. 2.05)

Four 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 identify that the broker-dealer’s exemption report referred to the incorrect fiscal year end. (AT No. 2.08)

One firm did not sufficiently evaluate evidence that the identified exemption provision in the broker-dealer’s exemption report was inaccurate. (AT No. 2.08)

Seven 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)

Four 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 carrying and clearing broker-dealers. (AT No. 2.10)

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

## Evaluating the Results of the Review Procedures

One firm did not sufficiently evaluate information that came to its attention that the broker-dealer engaged in activities that were not permitted under the broker-dealer's claimed exemption of paragraph (k)(1) of the Customer Protection Rule. (AT No. 2.11)

## Obtaining a Representation Letter

Two firms did not obtain any required written representations from the management of the broker-dealer. (AT No. 2.13)

## Reporting on the Review Engagement

Three firms, in their review reports, omitted required assertions included in the broker-dealer's exemption report. (AT No. 2.16)

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

Six 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)

## 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 materially misstated. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the firm retained and the broker-dealer's filings. We do not have direct access to the broker-dealer's management, 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	2025			2024	2023
	Number of audits	Number of audits with deficiencies	Percentage of audits with deficiencies	Percentage of audits with deficiencies	Percentage of audits with deficiencies
Revenue	102	38	37%	48%	48%
Evaluating audit results	103	27	26%	16%	17%
Journal entries	103	15	15%	18%	8%
Related party relationships and transactions	30	5	17%	36%	28%
Consideration of an entity's ability to continue as a going concern	7	3	43%	40%	33%
Expenses and related accruals	8	3	38%	53%	19%
Securities owned and securities sold, not yet purchased <sup>9</sup>	9	3	33%	21%	10%
Receivables and payables	22	1	5%	17%	36%

<sup>9</sup> 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

Deficiencies in the revenue area were identified across 32 firms and relate to instances in which firms did not adequately respond to the risks of material misstatement for relevant assertions identified for 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 associated revenue source.

Number of AS 2301.08 deficiencies identified by revenue source					
Deficiency area	Commissions	Underwriting fees	12b-1 fees	Merger and acquisition and other advisory fees	Other revenues
Testing whether revenue recorded was accurate, including components that determine revenue	7	4	4		11
Testing whether performance obligations were distinct and satisfied prior to revenue recognition		2		2	3
Testing the accuracy and completeness of information produced by a service organization, used in substantive testing	1	2	1		2
Performing any procedures over one or more significant revenue accounts			2		5
Evaluation of whether revenue sources presented in a single category should have been disaggregated in conformity with the requirements of ASC 606	5			1	8
Evaluation of whether revenues were appropriately presented gross or net of expenses in conformity with the requirements of ASC 606		2			1

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
<b>Commissions</b>	<ul style="list-style-type: none"> <li>• Seven firms did not test whether security trade amounts and commission rates were accurate.</li> <li>• Five firms did not evaluate whether revenues, such as margin interest 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.</li> </ul>
<b>Underwriting fees</b>	<ul style="list-style-type: none"> <li>• Four firms did not test whether the amounts of capital raised and fee rates were accurate.</li> <li>• Two firms did not obtain evidence that the securities offerings had been executed prior to revenue recognition.</li> <li>• Two firms did not evaluate whether revenues and expenses should have been presented on a gross or net basis, as determined by principal or agent considerations.</li> </ul>
<b>12b-1 fees</b>	<ul style="list-style-type: none"> <li>• Four firms did not test whether mutual fund net asset values and contract rates were accurate.</li> <li>• One firm used statements produced by a carrying and clearing broker-dealer when performing substantive tests of details but did not test whether those statements were complete and accurate.</li> </ul>
<b>Merger and acquisition and other advisory fees</b>	<ul style="list-style-type: none"> <li>• Two 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 retainer fees.</li> </ul>

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
<b>Audit sampling</b>	<ul style="list-style-type: none"> <li>• One firm 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)</li> <li>• Five firms did not take into account the relationship of the sample to the relevant audit objective, tolerable misstatement, or the allowable risk of incorrect acceptance 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)</li> <li>• Two firms used sample sizes for substantive testing that were too small because the level of detection risk related to substantive analytical procedures or other relevant substantive tests assumed in their sample designs was not supported. (AS 2315.19, .23, and .23A)</li> <li>• One firm did not select sample items in such a way that the sample could be expected to be representative of the population. (AS 2315.24)</li> </ul>
<b>Use of information produced by the broker-dealer</b>	<ul style="list-style-type: none"> <li>• Six 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)</li> </ul>
<b>Substantive analytical procedures</b>	<ul style="list-style-type: none"> <li>• Two firms did not establish plausible and predictable relationships in the data; test, or test controls over, the completeness and accuracy of the data used to develop their expectations; develop expectations that were sufficiently precise to identify misstatements; or determine the amount of differences from expectations that could be accepted without further investigation. (AS 2305.13, .14, .16, .17, and .20)</li> </ul>
<b>Tests of details</b>	<ul style="list-style-type: none"> <li>• One firm tested key items in certain revenue accounts but did not test the remaining balances and inappropriately projected the results of its procedures to the entire population. (AS 1105.27; AS 2301.08)</li> <li>• Two firms 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)</li> <li>• One firm sent confirmation requests that did not indicate that the amounts represented revenue to the broker-dealer or the period covered and inappropriately directed a confirmation request to the broker-dealer and not a third party. (AS 2310.16 and .26)</li> </ul>
<b>Reliance on controls at the broker-dealer that was not supported</b>	<ul style="list-style-type: none"> <li>• Two firms, when testing a control, did not evaluate the review procedures that the control owner performed, including procedures to identify items for follow up and procedures to determine whether those items were appropriately resolved. (AS 2301.19 and .21)</li> </ul>
<b>Reliance on controls at a service organization that was not supported</b>	<ul style="list-style-type: none"> <li>• Three firms did not test the design and operating effectiveness of complementary user entity controls at the broker-dealer, as specified in the service auditor's report. (AS 2601.14)</li> <li>• Four firms did not determine whether the specific tests 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)</li> </ul>

## Evaluating Audit Results

Deficiencies in this area were identified in 23 firms' audits and relate to instances in which firms did not sufficiently evaluate whether broker-dealer financial statements were presented fairly in conformity with GAAP, including whether the financial statements contained the information essential for a fair presentation. In these instances, accounting errors, as well as omitted or inaccurate disclosures, were not detected. (AS 2810.30 and .31) Certain deficiencies described in this section also involve revenue.

The following table categorizes these deficiencies based on the ASC Topic and the associated GAAP matter(s).

ASC Topic	GAAP matter(s) associated with the deficiencies (number of firms associated with the deficiencies)
<b>FASB ASC Topic 230, <i>Statement of Cash Flows</i></b>	<ul style="list-style-type: none"> <li>Presentation of cash and restricted cash (2)</li> </ul>
<b>FASB ASC Topic 250, <i>Accounting Changes and Error Corrections</i></b>	<ul style="list-style-type: none"> <li>Corrections and disclosures related to the errors in previously issued financial statements (2)</li> </ul>
<b>FASB ASC Topic 280, <i>Segment Reporting</i></b>	<ul style="list-style-type: none"> <li>Amended segment reporting disclosures as required under Accounting Standards Update 2023-07 <i>Improvements to Reportable Segment Disclosures</i> (2)</li> </ul>
<b>FASB ASC Topic 606, <i>Revenue from Contracts with Customers</i></b>	<ul style="list-style-type: none"> <li>Qualitative disclosures of information about performance obligations (16)</li> <li>Separate disclosure of revenue recognized from contracts with customers and other sources of revenue (1)</li> <li>Measurement of estimated fair value of non-cash consideration (1)</li> </ul>
<b>FASB ASC Topic 740, <i>Income Taxes</i></b>	<ul style="list-style-type: none"> <li>Presentation and disclosure of current and deferred income tax expense, and associated balance sheet accounts (1)</li> </ul>
<b>FASB ASC Topic 820, <i>Fair Value Measurements</i></b>	<ul style="list-style-type: none"> <li>Reconciliation of opening and closing balances of assets classified as level 3 in the fair value hierarchy (1)</li> </ul>
<b>FASB ASC Topic 850, <i>Related Party Disclosures</i></b>	<ul style="list-style-type: none"> <li>Disclosure of related party transaction information (refer also to the "Related Party Relationships and Transactions" section) (1)</li> </ul>
<b>FASB ASC Topic 860, <i>Transfers and Servicing</i></b>	<ul style="list-style-type: none"> <li>Disclosures of information about the use of collateral received in connection with repurchase agreements (1)</li> </ul>
<b>FASB ASC Topic 940, <i>Financial Services –Broker and Dealers</i></b>	<ul style="list-style-type: none"> <li>Accounting for changes in the value relating to proprietary transactions on a trade-date basis (1)</li> </ul>

In addition, one firm did not communicate accumulated misstatements to management of the broker-dealer and did not evaluate whether uncorrected misstatements in combination were material. (AS 2810.15 and .17)

## Journal Entries

Three 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)

Three 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)

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

- Four of these firms did not consider the characteristics of potentially fraudulent journal entries when identifying and selecting entries for testing;
- Four of these firms excluded certain journal entries identified for selection from their testing without having an appropriate rationale;
- Three of these firms selected journal entries that had specified characteristics but did not examine the underlying support; and
- One of these firms reviewed a listing of all journal entries but did not select journal entries and other adjustments for testing. (AS 2401.61)

## Related Party Relationships and Transactions

Two firms did not perform sufficient procedures regarding allocation of revenues and expenses between broker-dealers and their affiliates. Specifically:

- Both of these firms did not test, or sufficiently test, allocations of revenues and expenses, including the accuracy and completeness of data used in the allocations; and
- One of these firms did not evaluate whether allocated expenses were consistent with the terms of the written agreements between the related entities. (AS 2410.11 and .12)

In particular, one of these firms did not design its confirmation requests to obtain evidence that reported related party revenues and expenses were accurately calculated in accordance with the written agreement between the related entities. (AS 2310.16)

Further, one of these firms did not perform procedures to test the allocation percentages of allocated expenses between the broker-dealer and its affiliate, beyond inquiring of and confirming the amount with the individual responsible for developing the allocation percentages. (AS 2501.07)

One firm 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.

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

Two firms did not perform procedures to obtain evidential matter about the ability of the broker-dealer's parent to provide financial support to the broker-dealer, which was a significant element of management's plans to overcome the adverse effects of the conditions and events identified by the auditors that indicated substantial doubt. (AS 2415.03 and .08)

One firm did not sufficiently evaluate negative trends, 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)

### Expenses and Related Accruals

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)

One firm did not modify its planned substantive procedures to test an expense account to obtain more persuasive audit evidence due to an identified cybersecurity incident associated with the account. (AS 2301.08)

One firm, when performing substantive analytical procedures, did not develop expectations that were sufficiently precise to identify misstatements and determine the amount of difference from expectations that could be accepted without further investigation. (AS 2305.17 and .20)

### Securities Owned and Securities Sold, Not Yet Purchased

One firm 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 did not sufficiently test certain relevant assertions for securities owned, including whether securities were properly classified as Level 2 within the fair value hierarchy. (AS 2301.08)

One firm sent a confirmation request but did not evaluate whether the recipient was knowledgeable about the information to be confirmed and did not evaluate the exception identified in the returned confirmation. (AS 2310.26 and .33)

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

### Receivables and Payables

One firm 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 did not test, or sufficiently test, one or more relevant assertions for customer and non-customer receivables and payables. (AS 2301.08)

## 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	2025			2024	2023
	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	45	10	22%	25%	32%
Customer Protection Rule	18	6	33%	41%	30%

### Net Capital Rule

Deficiencies in this area include instances where nine firms did not perform, or sufficiently perform, procedures to evaluate whether net capital computations were determined in compliance with the Net Capital Rule. The following table categorizes these deficiencies based on the Net Capital Rule topic and matter. (AS 2701.04)

Net Capital Rule topic	Net Capital Rule matter(s) associated with the deficiencies (number of firms associated with the deficiencies)	Net Capital Rule citation
Additions to net worth	<ul style="list-style-type: none"> <li>Discretionary liabilities (1)</li> <li>Subordinated liabilities (1)</li> </ul>	<ul style="list-style-type: none"> <li>15c3-1(c)(2)</li> <li>15c3-1(c)(2)(ii)</li> </ul>
Assets not readily convertible into cash	<ul style="list-style-type: none"> <li>Commissions receivable and advisory fees receivable (2)</li> <li>Clearing deposits of introducing brokers (1)</li> </ul>	<ul style="list-style-type: none"> <li>15c3-1(c)(2)(iv)(C)</li> <li>15c3-1(c)(2)(iv)(E)</li> </ul>
Securities haircuts	<ul style="list-style-type: none"> <li>Haircuts on securities guaranteed by the United States (1)</li> <li>Haircuts on preferred stock (1)</li> <li>Marketability of nonconvertible debt securities which are not highly rated (1)</li> </ul>	<ul style="list-style-type: none"> <li>15c3-1(c)(2)(vi)(A)</li> <li>15c3-1(c)(2)(vi)(H)</li> <li>15c3-1(c)(2)(vii)</li> </ul>
Charges	<ul style="list-style-type: none"> <li>Failed foreign securities transactions (1)</li> <li>Open contractual commitments (2)</li> </ul>	<ul style="list-style-type: none"> <li>15c3-1(c)(2)</li> <li>15c3-1(c)(2)(viii)</li> </ul>
Minimum net capital requirements	<ul style="list-style-type: none"> <li>Exclusions from aggregate indebtedness (1)</li> </ul>	<ul style="list-style-type: none"> <li>15c3-1(c)(1)</li> </ul>

The following deficiencies relate to net capital but are not specific to testing compliance with the Net Capital Rule.

One firm did not perform procedures to test the completeness and accuracy of information presented in the net capital computation that was not tested as part of the audit of the financial statements. (AS 2701.04)

One firm did not identify an error in the reconciliation between the computation of net capital included as supplemental information in the broker-dealer's financial statements and net capital per the broker-dealer's Financial and Operational Combined Uniform Single (FOCUS) report. (AS 2701.04)

One firm did not obtain certain required written representations from management of the broker-dealer, including representations stating that management acknowledges its responsibility for the form and content of the net capital computation, in conformity with relevant regulatory requirements and stating that management believes the net capital computation, including its form and content, is fairly stated, in all material respects. (AS 2701.05)

### Customer Protection Rule

Three firms did not perform, or sufficiently perform, procedures to test the completeness and accuracy of the information presented in the customer reserve computation or proprietary accounts of broker-dealers (PAB) reserve computation. One of these firms did not test information produced by the broker-dealer's service organization and credit and debit balances determined through a stock record allocation. (AS 2701.04)

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

Three firms did not perform, or sufficiently perform, procedures to test the completeness and accuracy of the information relating to possession or control requirements. Two of these firms did not test the completeness and accuracy of security deficit reports produced by the broker-dealer's service organizations. (AS 2701.04)

Four firms did not evaluate, or sufficiently evaluate, whether information relating to the possession or control requirements complied with the Customer Protection Rule. Three of these firms did not sufficiently evaluate whether custodial accounts were maintained free of any right, charge, security interest, lien, or claim and one firm did not sufficiently evaluate 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	2025			2024	2023
	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 <sup>10</sup>	103	10	10%	7%	13%
Identifying and assessing risks of material misstatement	103	12	12%	19%	1%
Consideration of fraud in a financial statement audit	103	1	1%	5%	2%
Auditor communications	103	19	18%	21%	13%
Audit documentation	103	8	8%	11%	16%
Engagement quality review of an audit engagement	103	3	3%	4%	0%
Auditors' reports on the financial statements and supplemental information	103	8	8%	10%	13%

### Auditor Independence

In three audits, firms did not provide broker-dealer audit committees (or their equivalents)<sup>11</sup> any required independence communications. In these instances, the firms were noncompliant with PCAOB Rule 3526.

In three audits, firms provided written communications to the broker-dealer audit committees, yet the firms did not affirm that they were independent in compliance with PCAOB Rule 3520. In two of these audits, the communications of the relationships that may reasonably be thought to bear on independence were as of a date other than the date of the written communications. In another audit, the firm did not describe a relationship that as of the date of its written communication may reasonably have been thought to bear on independence of the firm. In these instances, the firms were noncompliant with PCAOB Rule 3526.

<sup>10</sup> 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 2025.

<sup>11</sup> 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.

In three audits, 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 noncompliant with AS 2101.

### Identifying and Assessing Risks of Material Misstatement

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

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

In three 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 noncompliant with AS 2110.

### Consideration of Fraud in a Financial Statement Audit

In one audit, the firm, 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 this instance, the firm was noncompliant with AS 1105.

### Auditor Communications<sup>12</sup>

In 10 audits, firms did not make certain or any required communications to the broker-dealers' audit committees related to (1) an overview of the overall audit strategy or (2) significant changes to the planned audit strategy. In three of these audits, firms did not make required communications to the audit committees related to the name, location, and planned responsibilities of another accounting firm or other persons not employed by the firm that performed audit procedures in the audit. In these instances, the firms were noncompliant with AS 1301.

In 12 audits, firms did not communicate to the broker-dealers' audit committees all the significant risks identified during their risk assessment procedures. In these instances, the firms were noncompliant with AS 1301.

In six audits, firms did not make required communications 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 and uncorrected misstatements. In these instances, the firms were noncompliant with AS 1301.

In three audits, firms did not make certain required communications to the broker-dealers' audit committees prior to the issuance of the auditor's report. In these instances, the firms were noncompliant with AS 1301.

In two audits, firms did not provide, or did not provide prior to issuance of its auditor's report, the broker-dealers' audit committees with the required communication in writing of significant deficiencies and

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<sup>12</sup> PCAOB Rule 3526 communications deficiencies are included in the "auditor independence" area. See note 9.

material weaknesses identified during the audit. In these instances, the firms were noncompliant with AS 1305.

In three audits, firms did not make certain required communications to the broker-dealers' audit committees related to their 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 noncompliant with AS 2410.

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

### Audit Documentation

In eight audits, firms did not assemble a complete and final set of audit documentation for retention within 45 days following the report release date. In six 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 noncompliant with AS 1215.

In two audits, the firm added documentation to the audit workpapers after the report release date but did not indicate the date the information was added, the name of the person who prepared the additional documentation, and the reason for adding it. In these instances, the firm was noncompliant with AS 1215.

### Engagement Quality Review of an Audit Engagement

In two audits, the firm did not have engagement quality reviews performed. In these instances, the firm was noncompliant with AS 1220.

In one audit, 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 this instance, the firm was noncompliant with AS 1220.

### Auditors' Reports on the Financial Statements and Supplemental Information

In one audit, the firm's audit report was not addressed to all required addressees. In this instance, the firm was noncompliant with AS 3101.

In two audits, firms' audit reports did not identify a financial statement as having been audited. In these instances, the firms were noncompliant with AS 3101.

In one audit, the firm's audit report statement identifying each financial statement and any related schedules that has been audited included reference to the broker-dealer's exemption report, which was not subject to audit procedures. In this instance, the firm was noncompliant with AS 3101.

In three audits, the audit reports' description of the year the firm began serving consecutively as the broker-dealer's auditor was incorrect. In these instances, the firms were noncompliant with AS 3101.

In two 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 noncompliant with AS 2701.

## Deficiencies in Quality Control Systems

This section of the Annual Report discusses observations related to PCAOB QC standards from our inspections.

We observed the following during inspection procedures performed to evaluate elements of firm QC systems. These instances indicate that those systems did not appear to provide reasonable assurance that firms complied with applicable PCAOB QC standards.

- At one firm, engagement quality reviews were not performed for broker-dealer audit and attestation engagements, as required by AS 1220. In addition, although this firm's policies and procedures for monitoring its accounting and auditing practice required the performance of internal inspections, the firm did not perform annual internal inspections or alternative procedures for broker-dealer audit and attestation engagements as those policies and procedures mandated. (QC 20.03, .17, and .20; QC 30.03 through .09)
- At one firm, the individual who performed the engagement quality reviewer was not 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)

We also observed that results of engagement review procedures at other firms indicated that their QC systems did not appear to provide reasonable assurance that firm personnel complied with applicable PCAOB standards related to engagement performance. Specifically:

- At one firm, engagement partners did not review and supervise audit 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)
- Engagement quality reviews for audit and attestation engagements were not 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. These observations were identified across 21 audits, 13 review engagements, and one examination engagement reviewed as part of our inspection of 18 firms. (QC 20.03 and .17)

Of these 18 firms, nine audited between 1 and 20 broker-dealers, five audited between 21 and 50 broker-dealers, two audited between 51 and 100 broker-dealers, and two audited more than 100 broker-dealers. Nine of the 18 firms also audited issuers.

# PCAOB STANDARDS AND RULES ASSOCIATED WITH INSPECTION OBSERVATIONS

<b>AT No. 1</b>	Examination Engagements Regarding Compliance Reports of Brokers and Dealers
<b>AT No. 2</b>	Review Engagements Regarding Exemption Reports of Brokers and Dealers
<b>AS 1105</b>	Audit Evidence
<b>AS 1201</b>	Supervision of the Audit Engagement
<b>AS 1215</b>	Audit Documentation
<b>AS 1220</b>	Engagement Quality Review
<b>AS 1301</b>	Communications with Audit Committees
<b>AS 1305</b>	Communications About Control Deficiencies in an Audit of Financial Statements
<b>AS 2101</b>	Audit Planning
<b>AS 2110</b>	Identifying and Assessing Risks of Material Misstatement
<b>AS 2301</b>	The Auditor's Responses to the Risks of Material Misstatement
<b>AS 2305</b>	Substantive Analytical Procedures
<b>AS 2310<sup>13</sup></b>	The Confirmation Process
<b>AS 2315</b>	Audit Sampling
<b>AS 2401</b>	Consideration of Fraud in a Financial Statement Audit
<b>AS 2410</b>	Related Parties
<b>AS 2415</b>	Consideration of an Entity's Ability to Continue as a Going Concern
<b>AS 2501</b>	Auditing Accounting Estimates, Including Fair Value Measurements
<b>AS 2601</b>	Consideration of an Entity's Use of a Service Organization
<b>AS 2701</b>	Auditing Supplemental Information Accompanying Audited Financial Statements
<b>AS 2810</b>	Evaluating Audit Results
<b>AS 3101</b>	The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion
<b>QC 20</b>	System of Quality Control for a CPA Firm's Accounting and Auditing Practice
<b>QC 30</b>	Monitoring a CPA Firm's Accounting and Auditing Practice
<b>Rule 3520</b>	Auditor Independence
<b>Rule 3526</b>	Communication with Audit Committees Concerning Independence

<sup>13</sup> The audits covered by this report used the version of AS 2310 effective for audits of fiscal years ended on or before June 14, 2025, which was subsequently amended. AS 2310, *The Auditor's Use of Confirmation*, is effective for audits of financial statements for fiscal years ending on or after June 15, 2025.

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