

Small Business and Broker-Dealer Auditor Forum

Jersey City
May 1, 2025

WELCOME AGENDA

- Disclaimer
- Learning Objectives and Course Description
- Forum Information
 - Evaluation
 - Polling
 - Q&A
 - CPE Codes

DISCLAIMER

One of the benefits of today's session is that you will hear firsthand from numerous PCAOB staff members. You should keep in mind, though, that the views we express are in our official capacity as PCAOB Board or staff members but are our own and do not necessarily reflect the views of the Board, other Board Members, or other members of the staff.

LEARNING OBJECTIVES

- To discuss important information concerning PCAOB activities with registered public accounting firms that audit the financial statements of public companies operating in the small business community or broker-dealers. The forum also provides an opportunity for Board members and PCAOB staff to hear comments, concerns and questions from auditors
- PCAOB presentations will include updates from the PCAOB's Standards and Enforcement groups. Additionally, staff from the PCAOB's Division of Registration and Inspections will provide an overview of inspections and discuss recent inspection findings
- In addition, staff from the Securities and Exchange Commission and FINRA will provide updates on topics of current interest

COURSE DESCRIPTION

The PCAOB Small Business and Broker-Dealer Forum is a one-day program that will offer attendees the opportunity to interact with the PCAOB and learn more about its programs and activities, including updates on current activities.

FORUM CHECK-IN

<https://pcaobext.cnf.io/>












FORUM CHECK IN

Sessions

2025 Jersey City Forum

9:00am - 5:30pm in Jersey City, NJ

 Alan Kerwin  Anthony Vinci  Duane Abel  George R. Botic  Lisa Calandriello
 Glenn Temprow  Sarah Kenny  Mark Ramler  Cynthia Leahy  Kathleen McGovern
 Linette Klinedinst

Check In To This Session

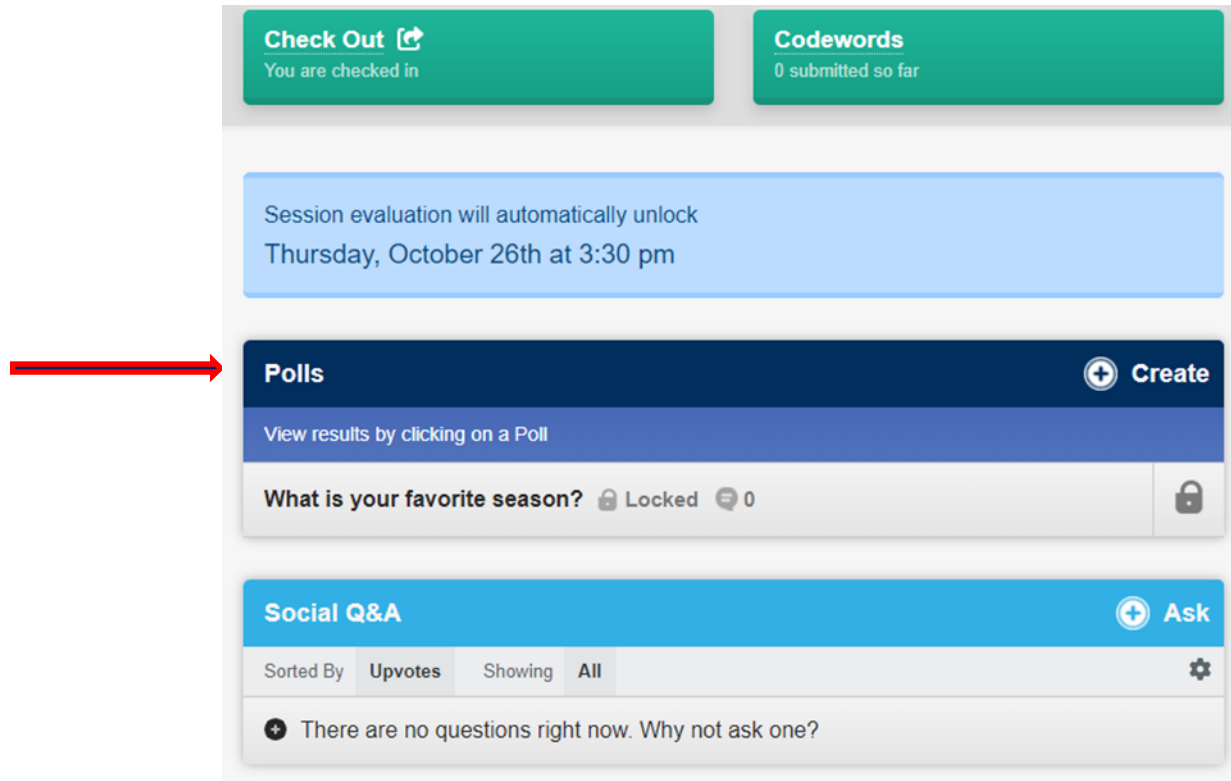
First Name

Last Name


Email Address

[Check In Now](#)

POLLING




The screenshot displays a web interface with a dark blue header. Below the header, there are two green buttons: 'Check Out' with a location pin icon and the text 'You are checked in', and 'Codewords' with the text '0 submitted so far'. A light blue notification box states: 'Session evaluation will automatically unlock Thursday, October 26th at 3:30 pm'. A red arrow points to the 'Polls' section, which has a dark blue header with a '+ Create' button. Below the header, a blue bar says 'View results by clicking on a Poll'. The main content area shows a poll question 'What is your favorite season?' with a lock icon, the text 'Locked', and '0' comments. Below the poll, there is a 'Social Q&A' section with a light blue header and a '+ Ask' button. It includes tabs for 'Sorted By' (Upvotes), 'Showing' (All), and a settings gear icon. The content area of the Q&A section says 'There are no questions right now. Why not ask one?'.



Check Out 
You are checked in


Codewords
0 submitted so far


Session evaluation will automatically unlock
Thursday, October 26th at 3:30 pm


Polls  **Create**

View results by clicking on a Poll

What is your favorite season?  Locked  0

Social Q&A  **Ask**

Sorted By **Upvotes** Showing **All** 

 There are no questions right now. Why not ask one?

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Q&A AND COMMENTS

The screenshot shows a social Q&A interface. At the top, there are two green buttons: "Check Out" with a location pin icon and "Codewords" with a text icon. Below these is a light blue notification bar stating "Session evaluation will automatically unlock Thursday, October 26th at 3:30 pm". The main section is titled "Polls" with a "+ Create" button. A poll question "What is your favorite season?" is shown with a "Locked" status and 0 comments. Below the polls is a "Social Q&A" section. A red arrow points to this section. In the "Social Q&A" header, the "+ Ask" button is circled in red. Below the header, the text "There are no questions right now. Why not ask one?" is displayed, with the "+ Ask" icon circled in red.

Check Out

You are checked in

Codewords

0 submitted so far

Session evaluation will automatically unlock
Thursday, October 26th at 3:30 pm

Polls **Create**

View results by clicking on a Poll

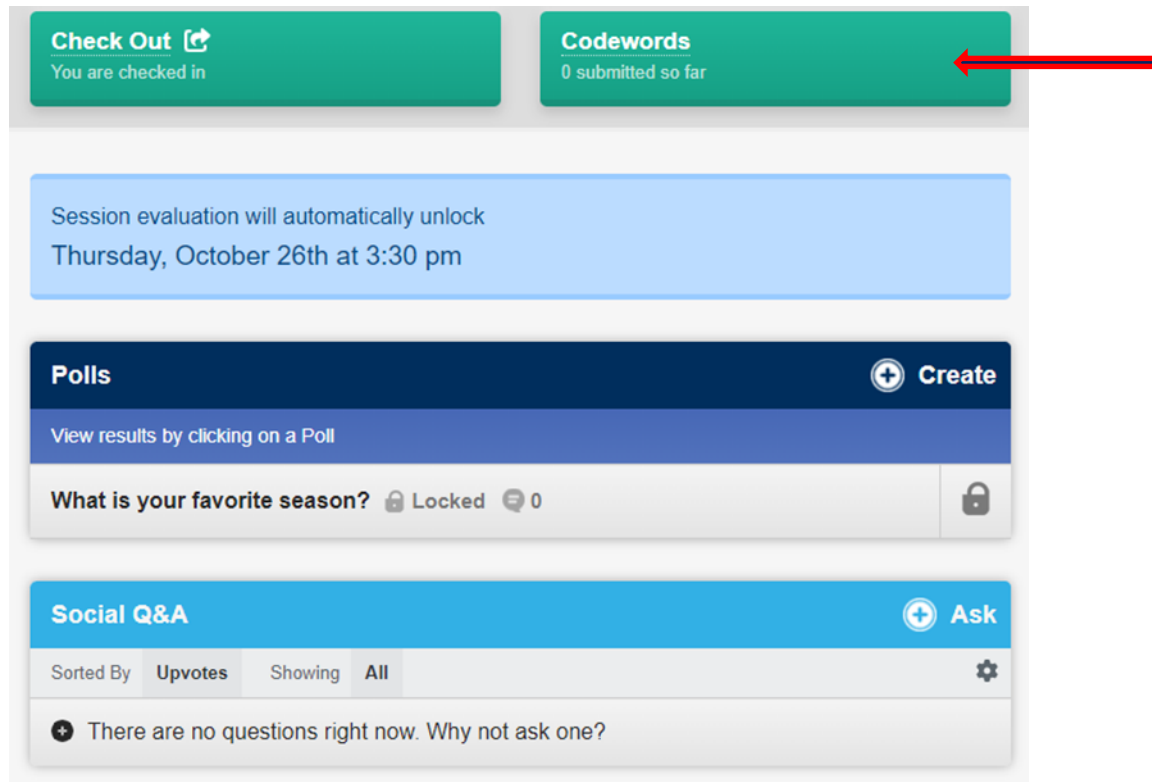
What is your favorite season? Locked 0

Social Q&A **Ask**


Sorted By Upvotes Showing All

There are no questions right now. Why not ask one?

CPE CREDIT




The screenshot displays a user interface for earning CPE credit. At the top, there are two green buttons: "Check Out" with a checkmark icon and "Codewords" with the text "0 submitted so far". A red arrow points to the "Codewords" button. Below these buttons is a light blue notification box stating: "Session evaluation will automatically unlock Thursday, October 26th at 3:30 pm". The main content area is divided into two sections. The first section is titled "Polls" and includes a "Create" button with a plus icon. Below the title, it says "View results by clicking on a Poll". A poll is listed with the question "What is your favorite season?", a "Locked" status with a lock icon, and "0" responses. The second section is titled "Social Q&A" and includes an "Ask" button with a plus icon. Below the title, it says "Sorted By Upvotes Showing All" with a settings gear icon. At the bottom of this section, it says "There are no questions right now. Why not ask one?" with a plus icon.




Check Out 
You are checked in


Codewords
0 submitted so far


Session evaluation will automatically unlock
Thursday, October 26th at 3:30 pm


Polls  **Create**

View results by clicking on a Poll

What is your favorite season?  Locked  0 


Social Q&A  **Ask**

Sorted By Upvotes Showing All 


 There are no questions right now. Why not ask one?


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EVALUATION





Session evaluation will automatically unlock
Thursday, May 1st at 4:30 pm

Polls  **Create**

 Create a Poll

Social Q&A  **Ask**

Sorted By **Upvotes** Showing **All** 

 There are no questions right now. Why not ask one?

Board Member Perspectives

GeorgeR. Botic, Board Member

Kent Bonham, Office of Communications and Engagement

May 1, 2025

PCAOB Inspections Overview and Illustrative Examples: Issuers

Duane Abel, Glenn Temprow, and Shirley Wee
Division of Registration and Inspections
May 1, 2025

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OBJECTIVES

At the end of this session participants will be able to:

- Understand our current 2025 inspection priorities
- Discuss some of the observations from the recent inspections
- Understand the remediation process
- Check your knowledge on past forum topics

2025 INSPECTIONS

- We will focus on:
 - Industries negatively impacted by economic and geopolitical uncertainties and volatility
 - Audit execution challenges
 - Use of technology, including AI
 - Compliance with quality controls standards
- We will continue to enhance to our inspection program:
 - Focus on root cause and firm's culture
 - Improving the timeliness of inspection reports



SPOTLIGHT

Staff Priorities for 2025
Inspections and Interactions
With Audit Committees

December 2024

This document represents the views of PCAOB staff ("we") and not necessarily those of the Board. It is not a rule, policy, or statement of the Board. The PCAOB does not set standards for, or provide authoritative guidance on, audit committee conduct.

2024 INSPECTIONS

- Excluding broker-dealer inspections, the PCAOB inspected approximately 171 audit firms, reviewing portions of over 800 public company audits that generally had fiscal years ended during 2023.
- We observed a tangible improvement in audit quality, in the aggregate, across a majority of inspected firms, excluding broker-dealer firms.
 - Overall, part I.A deficiency rates: for all inspected firms, part I.A deficiency rates decreased to an estimated 39% in 2024, down from 46% in 2023.
- We also specifically observed a substantial improvement, in the aggregate, among the largest firms we annually inspect.

SPOTLIGHTS AND AUDIT FOCUS

- Spotlights offer actionable recommendations and reminders for auditors and others and draw directly from our inspection teams
 - *Staff Update on 2024 Inspection Activities*
 - *Using the Work of Specialists*
 - *Insights on Culture and Audit Quality*
 - *Commercial Real Estate*
 - *Independence*
 - *Bank Financial Reporting Audits*
- New “Audit Focus” series for small audit firms

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NAVIGATING TO SPOTLIGHTS AND AUDIT FOCUS

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Driving improvement in audit quality to protect investors

The Public Company Accounting Oversight Board oversees the audits of public companies and SEC-registered brokers and dealers.

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Resources

[AuditorSearch](#)[Information for Auditors](#)[Information for Auditors of Broker-Dealers](#)[Information for Non-U.S. Firms](#)[Fraud Risk Resources](#)[Information for Investors](#)[Investor Advisories and Bulletins](#)[Meet the Investor Advocate](#)[Information for Audit Committees](#)[Resources for Audit Committees](#)[Information for Academics](#)[Publications and Working Papers](#)[Information for Smaller Firms](#)[Information for Preparers](#)[Other Research Projects](#)[Staff Publications](#)[Audit Focus: Critical Audit Matters](#)[Audit Focus: Audit Committee Communications](#)[Audit Focus: Journal Entries](#)[Audit Focus: Form AP](#)

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AREAS OF COMMON DEFICIENCIES

- **Financial Statement Areas**
 - Revenue and Related Accounts
 - Inventory
 - Business Combinations
 - Investment Securities
 - Long-lived Assets, Goodwill, and Intangible Assets
 - Allowance for Credit Losses

AREAS OF COMMON DEFICIENCIES

- **Other PCAOB Standards and Rules**
 - Audit Committee Communications
 - Fraud
 - Auditor's Reporting Model
 - Form AP
 - Independence

WORD CLOUD – QUALITY CONTROL



What one area in your
firm's system of quality
control does your firm
most need to work on?

AREAS OF COMMON DEFICIENCIES

- **System of Quality Control**
 - Testing Controls
 - Reliance on Data or Reports
 - Engagement Quality Review

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REMEDIATION FRAMEWORK

Section
104(g)(2) of
the Act

Board Rule
4009

2006 Board
Release

Staff
Guidance

Supplemental
Staff
Guidance



STAFF GUIDANCE CONCERNING THE REMEDIATION PROCESS

Five Criteria Used to Assess a Firm's Remedial Actions

1. Change
2. Relevance
3. Design
4. Implementation
5. Execution and Effectiveness

SUPPLEMENTAL STAFF GUIDANCE CONCERNING THE REMEDIATION PROCESS

- **The Remediation Period**
- **Pre-RPE (Remediation Period End) Communications with Inspections Staff**
- **Rule 4009(a) Submission**
 - Thorough Description of Actions, with Supporting Documentation
 - Evidence from a Firm's Monitoring Process
 - Repeated or Persistent Quality Control Criticisms (QCCs)
- **The Limits of Post-RPE Supplemental Submissions**

APPLYING THE GUIDANCE: NEW TEMPLATE OR PRACTICE AID

- **Examples of audit tools include new templates and practice aids**
- **Inspections staff considerations when evaluating design include:**
 - Whether the audit tool changes are responsive to the criticism
 - Whether use of the audit tool is mandatory
 - Whether use of the audit tool is reflected in the audit work papers
 - The review requirements for the audit tool
 - The timing for completion of the audit tool
- **Questions that firms may consider when designing actions involving new audit tools include:**
 - How is the audit tool designed to remediate the QCC?
 - Were expectations regarding the use of the audit tool communicated to the firm's professionals?
 - Is the completed audit tool required to be retained in the audit work papers?
 - Is the completed audit tool required to be reviewed by appropriate individuals involved in the audit?
 - Does the audit tool address the execution of audit procedures, when relevant?
 - Does the action include steps to reinforce effective use of the audit tool?

APPLYING THE GUIDANCE: TRAINING PROGRAMS - QUESTIONS FIRMS MAY CONSIDER



Overall

Does the target audience include all individuals reviewing and performing the relevant audit work?

Were required participation alternatives completed when applicable?

Does the evidence support the scope and depth of the training?



Methods and content

How are the methods and content meaningfully different from prior training efforts?

Is the training responsive to the scope of the QCC and tailored to the underlying deficiencies?

Does the training address how to apply the relevant rule or standard?

Does the training have reinforcing content (e.g., exercises, case studies, relevant firm tools)?

Is the training designed to generate meaningful interaction?



Post-training steps

Post-course assessment designed to test more than basic knowledge?

Monitoring of relevant work performed subsequent to the training?

Steps to refresh knowledge, if necessary?

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APPLYING THE GUIDANCE: ENGAGEMENT QUALITY REVIEW

- **Example EQR QCC**
 - The inspection results indicate that the firm's system of quality control does not provide reasonableness assurance that the review procedures performed by the firm's engagement quality review (EQR) partners will meet the requirements of AS 1220, *Engagement Quality Review*. In certain audits, the inspection team identified deficiencies in areas that the EQR partner was required to evaluate. In these audits, the EQR partner did not identify a deficiency in an area of significant risk.
- **Initial items to consider**
 - Scope of the QCC
 - Root causes of the QCC and underlying deficiencies
 - Whether the QCC is repeat or persistent

APPLYING THE GUIDANCE: ENGAGEMENT QUALITY REVIEW (CONT'D)

- **Actions a firm may consider related to our example EQR QCC include actions that:**
 - Monitor workloads and areas of expertise of EQR reviewers
 - Enhance the criteria for assigning EQR reviewers
 - Promote more timely and increased involvement of EQR reviewers for key audit milestones
 - Expand accountability for audit quality to EQR reviewers
 - Create or enhance EQR audit tools and guidance
 - Provide EQR training or coaching

APPLYING THE GUIDANCE: ENGAGEMENT QUALITY REVIEW (CONT'D)

Are the planned actions responsive to the scope of the QCC and any identified root causes?

- Address areas in which similar deficiencies could occur?
- Consideration of knowledge, experience, and objectivity?
- Consideration of other factors that might impede effective EQRs?
- Responsive to root causes individually and combination?

Do the actions involve meaningful changes to the firm's quality control system related to performing EQRs?

- Training, tools, or guidance: methods and/or content meaningfully different than prior training, tools, or guidance?
- New individuals performing EQRs: better qualified than prior EQR reviewers?
- Criteria for assigning EQRs or evaluating EQR performance: meaningfully different than prior criteria?

How are the actions designed to drive a more robust EQR?

- Address the depth of the EQR procedures?
- Audit tools: steps to reinforce effective use?
- Training: meaningful content on how to apply AS 1220?
- EQR coaching: (1) addresses performance of EQRs? (2) steps to ensure consistent and effective execution? (3) consideration of quality-related factors?

OTHER RESOURCES - REMEDIATION RESPONSE TEMPLATE

Remediation Response Template

- Purpose: To provide firms with a standard format to describe how each action taken by the firm to address the QCC, meets each of these five criteria included in the Staff Guidance.
- Includes an excel template for listing each action and mapping each action taken to the QCC and firm identified root causes
- Includes a word template in tabular format where the firm can not only list each action, but describe in detail how each action met the five criteria
- Template is available, but firm is not required to use



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QUESTIONS



Break

U.S. Securities and Exchange Commission

May 1, 2025

Division of Enforcement and Investigations Update

Kathleen McGovern

Division of Enforcement and Investigations

May 1, 2025

DISCLAIMER

The views I express are my own and do not necessarily reflect the views of the Board as a whole, any individual Board members, or other staff.

DIVISION OF ENFORCEMENT & INVESTIGATIONS

What we do.....



AGENDA

- Today I would like to discuss:
 - Enforcement program statistics for 2024 and so far in 2025
 - Range of potential sanctions and the effects of suspensions and bars and some consequences of allowing barred or suspended individuals to associate with registered firms
 - Current program outlook and priorities
 - Matters involving quality control violations and improper answer sharing on training exams
 - Coordination with the Securities and Exchange Commission and other regulators
 - PCAOB's international coordination on enforcement
 - Recent noteworthy settlements

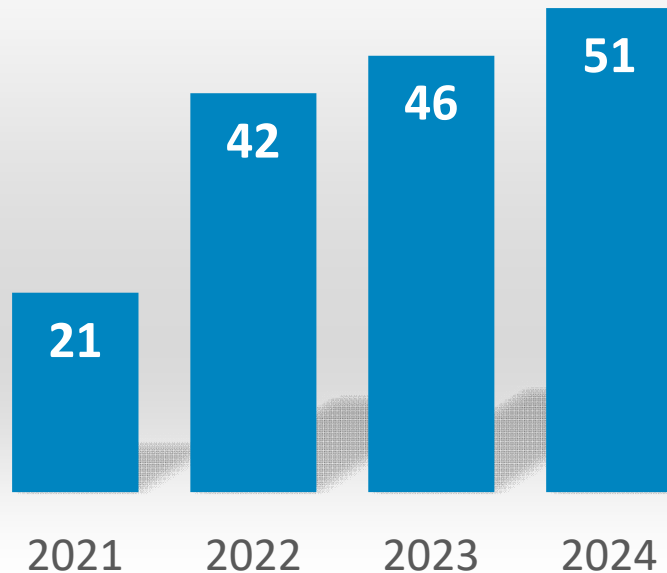
PROGRAM STATISTICS FOR 2024 AND 2025

- Overview of 2024 Public Enforcement Orders:
 - 51 public enforcement orders issued, a slight increase from 2023
 - Roughly 40% of the public enforcement orders issued in 2024 were against firms or associated persons outside the United States
 - Two orders (JTC Fair Song; and CHOI Chung Chuen, MA Hong Chao and DONG Chang Ling) involved China-based firms and associated Persons
 - Five orders involved firms and associated persons settling to charges related to exam misconduct in professional training or accreditation
- Through the end of March, 19 public enforcement orders have been issued in 2025, including one that involved exam misconduct

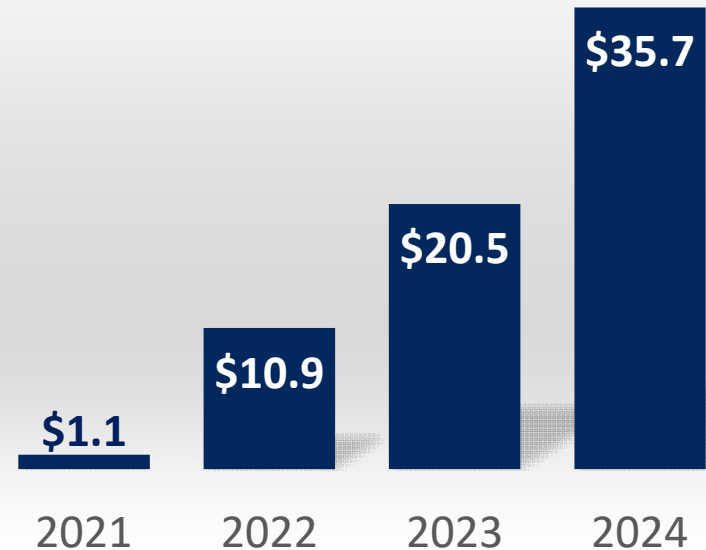


PROGRAM STATISTICS – ANNUAL TRENDS

Public Enforcement Orders



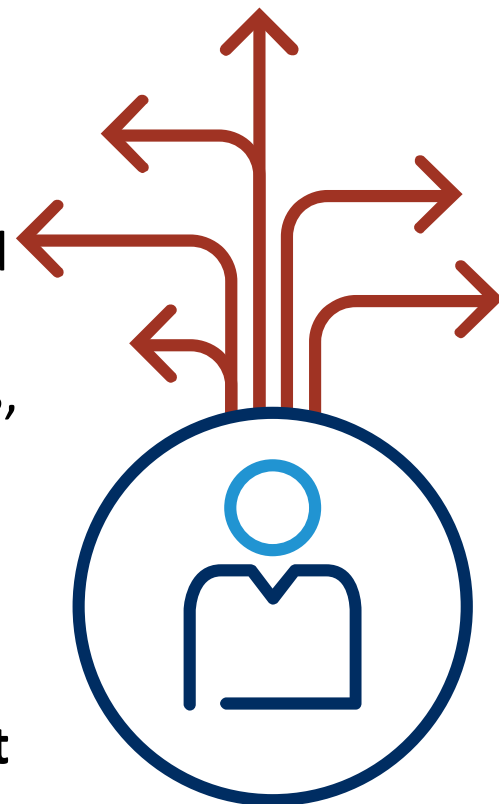
Total Monetary Penalties
(in millions)



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RANGE OF POSSIBLE SANCTIONS

- In a disciplinary proceeding, the Board may:
 - Impose a **civil monetary penalty**
 - **Temporarily or permanently revoke** a firm's registration
 - **Suspend, temporarily bar, or permanently bar** an individual from association with a registered public accounting firm
 - **temporarily or permanently limit** the activities, functions, or operations of a firm or person
 - require certain **undertakings**, such as additional professional education or training, changes to policies
 - appoint an **independent monitor or consultant**
 - impose a **censure**, and/or **any other sanction per Board rules**



Note: Temporary revocations and bars come with rights to petition the PCAOB for reinstatement, after expiration of the specified period

EFFECT OF SUSPENSIONS AND BARS

- It is unlawful for any person that is suspended or barred to become or remain associated with any registered firm or with any issuer, broker, or dealer in an accountancy or a financial management capacity
- It is unlawful for any registered firm, issuer, broker, or dealer that knew, or, in the exercise of reasonable care should have known, that a person is suspended or barred from association to permit such association



PROGRAM OUTLOOK

- The Division of Enforcement and Investigations continues to prioritize
 - Investigations involving significant audit violations presenting risks to investors
 - Matters threatening or eroding the integrity of the Board's regulatory oversight process
 - Significant auditor independence violations
- The Division is also focusing on
 - Matters relating to deficiencies in firm quality control policies and procedures



MATTERS INVOLVING DEFICIENCIES IN FIRM QUALITY CONTROLS

- Historically, the Division of Enforcement and Investigations has focused on matters involving deficiencies in firms' quality control policies and procedures
 - Firms have responsibilities to ensure their personnel comply with the professional standards applicable to their accounting and auditing practices
 - A system of quality control provides firms with reasonable assurance that their personnel comply with applicable professional standards and the firms' standards of quality
- During 2024 through the end of February 2025, the Board issued public orders involving violations of quality control standards by over forty U.S. and non-U.S. firms
 - These orders identified combinations of violations relating to quality control issues encompassing all five of the required elements of quality control

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MATTERS INVOLVING EXAM MISCONDUCT

- Through February 2025, the PCAOB issued 10 Public Enforcement Orders involving registered firms and two orders involving associated persons concerning exam misconduct in professional training or accreditation
 - All registered firms involved were foreign affiliates of global network firms, and the associated persons were senior management of such firms
 - In many cases, the misconduct occurred over multiple years and involved both staff and partners, and, in some cases, those involved in leading the firm's system of quality control
- The 2024 KPMG Netherlands and related Marc Hogeboom orders show particularly troubling misconduct, including multiple, uncorrected misrepresentations to the PCAOB for over one year
 - As a result, the monetary penalties totaled more than \$25 million for those two orders alone

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COORDINATION WITH OTHER REGULATORS

- PCAOB may share information with the SEC, DOJ, and other agencies enumerated in the Act
- Coordination with SEC Enforcement is a standard practice
 - Auditor investigations may be deferred from one to the other
 - May result in parallel investigations
- Coordination with foreign regulators through cooperative agreements
 - Facilitates evidence gathering and charging of registered firms and associated persons based in foreign jurisdictions
 - May result in parallel investigations



PCAOB'S INTERNATIONAL COOPERATION ON ENFORCEMENT

- Cooperative agreements are expressly between the PCAOB and its foreign counterparts
 - These cooperative agreements generally:
 - Have provisions for access to documents and information necessary in PCAOB investigations, including audit documentation and testimony
 - Include strict confidentiality provisions (in part to address confidential nature of PCAOB enforcement)
 - Help address unique non-U.S. legal requirements (including personal data protection laws, among others)
 - Provide a framework for resolving legal conflicts
- The PCAOB has entered into dozens of cooperative agreements across the globe
 - Includes most European countries, Canada, Japan and with Chinese authorities

Recent Noteworthy Settled Matters

IN THE MATTER OF HALPERIN ILANIT CPA AND ILANIT HALPERIN

(PCAOB RELEASE NO. 105-2024-012 – MARCH 19, 2024)

- Israel-based firm violated PCAOB rules and standards in five audits of three issuers clients
 - Firm's owner and only partner, directly and substantially contributed to violations
 - Also violated PCAOB rules and standards in her role as engagement partner on those audits, including
 - Failing to obtain engagement quality reviews
 - Failing to obtain sufficient appropriate audit evidence in auditing the valuation of significant accounts
 - Failing to make required audit committee communications
 - Failing to assemble a complete set of audit documentation
 - Failing to timely file Form 2s and Form APs

IN THE MATTER OF HALPERIN ILANIT CPA AND ILANIT HALPERIN

(PCAOB RELEASE NO. 105-2024-012 – MARCH 19, 2024)

- As reflected by the multitude of violations spanning several issuer audits, the firm's QC system failed to provide the firm with reasonable assurance that work performed by its personnel would meet applicable standards
- Sanctions included
 - \$200,000 joint civil money penalty
 - Revocation of firm registration (right to reapply after three years)
 - Bar for partner, with the right to reapply after three years

IN THE MATTER OF MALONEBAILEY, LLP

(PCAOB RELEASE NO. 105-2024-032 – MAY 24, 2024)

- From 2018 to 2021, PCAOB conducted three inspections of firm
- During each inspection, PCAOB notified firm of significant audit deficiencies that raised concerns about the firm's engagement performance
- Despite awareness of these deficiencies and concerns, firm failed to make effective changes to improve its QC system
- Sanctions included
 - Engagement of an independent consultant for three years to review and make recommendations concerning QC policies and procedures
 - \$400,000 civil money penalty
 - Training

IN THE MATTER OF NAVARRO AMPER & CO., & RELATED MATTER

(PCAOB RELEASE NO. 105-2024-025 – APRIL 10, 2024)

- From 2017 to 2019, audit partners and other personnel engaged in widespread answer sharing in connection with tests for mandatory firm training courses
- On at least six occasions, partner responsible for e-learning compliance shared answers to training assessments with other audit partners
- Misconduct revealed inappropriate tone at the top and a failure to effectively monitor QC systems
- Sanctions included
 - \$1 million civil money penalty for firm
 - Three year bar and \$10,000 civil money penalty for partner

Related Order: In the Matter of Wilfredo Baltazar (PCAOB Release No. 105-2024-026)

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IN THE MATTER OF RAINES & FISCHER LLP

(PCAOB RELEASE NO. 105-2024-049 – DECEMBER 3, 2024)

- In anticipation of 2020 and 2022 PCAOB inspections, firm personnel improperly created and modified numerous work papers after the applicable documentation completion date
 - Changed computer clocks and printed documents to PDF to conceal alterations of work papers provided to PCAOB inspectors
- Engagement partners of the respective audits inspected in 2020 and 2022 were principally responsible for work paper alterations
 - Neither partner informed inspectors of the work paper alterations despite participating in inspection meetings
- In both instances, firm Managing Partner was aware of work paper alterations but took no action; failed to prevent altered work papers from being provided to inspectors

IN THE MATTER OF RAINES & FISCHER LLP

(PCAOB RELEASE NO. 105-2024-049 – DECEMBER 3, 2024)

- Firm QC system was deficient, as evidenced by improper documentation practices and other violations
- Engagement partner of audit inspected in 2022 failed to comply with certain auditing and attestation standards in connection with the audit and examination of a carrying broker-dealer
- EQR of audit inspected in 2022 failed to perform adequate engagement quality reviews for seven broker-dealer audits
 - Also, directly and substantially contributing to the firm's noncooperation for both inspections
- Sanctions included
 - Permanent revocation of firm registration
 - Five-year bar for EP; Three-year bar for EQR and Managing Partner
 - Total of \$365,000 in civil money penalties for firm and individuals

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PCAOB CENTER FOR ENFORCEMENT TIPS, COMPLAINTS AND OTHER INFORMATION

E-mail: TIPS@pcaobus.org

Post: PCAOB Tip & Referral Center
1666 K Street, NW
Suite 300
Washington, DC 20006

Telephone: 800-741-3158

Website: <https://pcaobus.org/oversight/enforcement/tips-referrals>

QUESTIONS



Lunch



FINRA Perspectives

PCAOB Forum – Jersey City

Anthony Vinci, Senior Director - Office of Financial and Operational Risk

Policy
Mark Ramler, Director – Office of Financial and Operational Risk Policy

Sarah Kenny, Director - Office of Financial and Operational Risk Policy

May 1, 2025

AGENDA

- 01 | Hot Topics
- 02 | Recent Regulatory Guidance
- 03 | Regulatory Guidance on Exemption Reports
- 04 | FINRA Oversight Observations
- 05 | FINRA FAQs and Key Topic Pages



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Hot Topics

- SEC Daily 15c3-3 Computation Rule
- SEC Electronic Filing Rule
- Underwriting Syndicate Communications
- Segment Disclosures



Recent Regulatory Guidance

- Notices Related to Comments Requested Related to Modernizing FINRA Rules, Guidance and Processes
 - Regulatory Notice 26-07: Organization and Operation of Member Workplaces (due 6/13/2025)
 - Regulatory Notice 25-06: To Facilitate Capital Formation (due 5/19/2025)
 - Regulatory Notice 25-04: Member Firms and Associated Persons (due 5/12/2025)
- Regulatory Notice 25-05: FINRA Requests Comment on a Proposal to Reduce Unnecessary Burdens and Simplify Requirements Regarding Associated Persons' Outside Activities (due 5/13/2025)
- Regulatory Notice 24-18 – Unexpected Close of Securities Markets
- Information Notice 11/5/24 - 2025 and First Quarter 2026 Report Filing Due Dates
- Regulatory Notice 24-11 - FINRA Announces Publication of Updated Interpretations of FINRA's Margin Rule With Guide to the Updates
- Regulatory Notice 24-04 – FINRA Adopts Amendments to Conform its Rules to the T+1 Settlement Cycle

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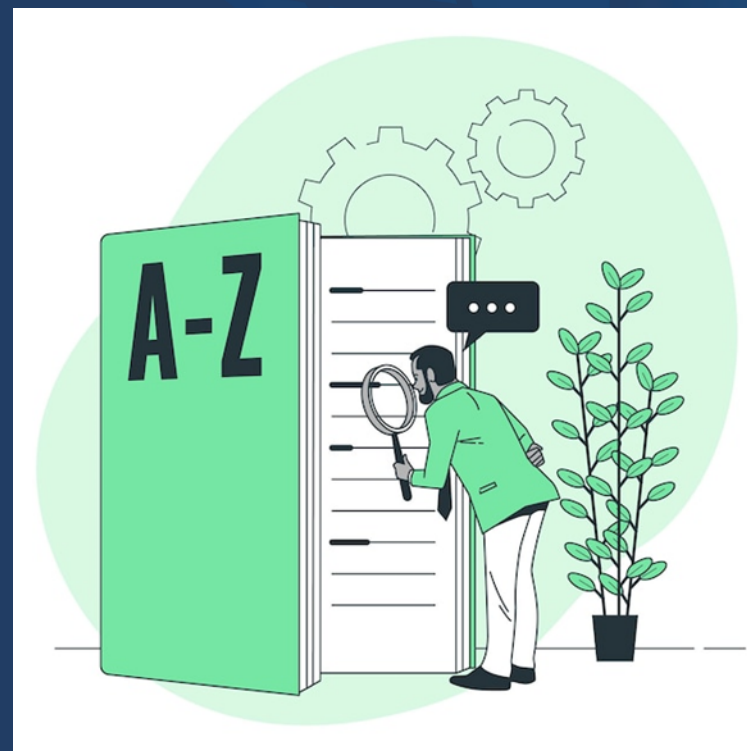
Regulatory Guidance on Exemption Reports

- Sources of Information about Exemption and Compliance Reporting:
 - [FAQs Concerning the July 30, 2013 Amendments to the Broker-Dealer Financial Reporting Rule](#)
 - [FAQs Concerning the Amendments to Certain Broker-Dealer Financial Responsibility Rules](#)
Reserve Formula Computation and Possession or Control: FAQ 18
 - [FAQs about Exemption Reporting Under SEA Rule 15c3-3\(k\) for Purposes of FOCUS Reporting and Updating of Membership Agreements](#)
FAQs 1, 2, and 3
- Exemption Report Considerations
 - Multiple Business Activities
 - Covered Firms-15c3-3(k)
 - Non-Covered Firms/Footnote 74

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FINRA Oversight Observations

- [2025 FINRA Annual Regulatory Oversight Report](#)
- Other Observations



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FINRA FAQs and Key Topic Pages

- [FINRA FAQs](#)
- [FINRA Key Topics](#)
 - [Annual Reports](#)
 - [Books and Records](#)
 - [Business Continuity Planning](#)
 - [Crypto Assets](#)
 - [Cybersecurity](#)
 - [FINRA Examination and Risk Monitoring Programs](#)
 - [FinTech](#)
 - [Funding and Liquidity](#)





Standard-Setting Update

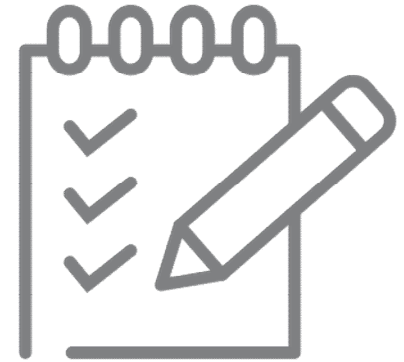
Lisa Calandriello and Linnette Klinedinst
Office of the Chief Auditor
May 1, 2025

DISCLAIMER

This presentation is provided in the speaker's official capacity as a PCAOB staff member, but the views expressed are those of the speaker and do not necessarily reflect the views of the Board, Board Members, or other members of the staff.

OVERVIEW

- Standard-Setting Activities
 - Standard-Setting Agenda
 - Recently Adopted Standards and Amendments – Reminders and Overview
- In depth: QC 1000, *A Firm's System of Quality Control*



STANDARDS-RELATED ACTIVITIES



Standard-Setting Process

Standard-Setting, Research, and
Rulemaking Projects

Implementation of PCAOB
Standards and Rules

Post-Implementation Review

Standard-related activities can be found at:
<https://pcaobus.org/oversight/standards>

STANDARD-SETTING AND RULEMAKING PROPOSALS

Designing and Performing Substantive Analytical Procedures



Standard-Setting, Research, and Rulemaking Projects:
<https://pcaobus.org/oversight/standards/research-standard-setting-projects>

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RECENTLY ADOPTED STANDARDS & AMENDMENTS

AS 2310, The Auditor's Use of Confirmation

- Effective for audits of financial statements for fiscal years ending on or after June 15, 2025



Standard-Setting Process

Standard-Setting, Research, and
Rulemaking Projects

Implementation of PCAOB
Standards and Rules

Post-Implementation Review

RECENTLY ADOPTED STANDARDS & AMENDMENTS

AS 1000, General Responsibilities of the Auditor in Conducting an Audit

- AS 1000 modernizes, clarifies, and streamlines the general principles and responsibilities of auditors
 - Reasonable assurance
 - Due professional care
 - Professional skepticism
 - Independence
 - Competence
 - Professional judgment



RECENTLY ADOPTED STANDARDS & AMENDMENTS

AS 1000, General Responsibilities of the Auditor in Conducting an Audit

- Amendments to other PCAOB standards:
 - Clarify the auditor's responsibility to evaluate whether the financial statements are "presented fairly" (AS 2810)
 - Clarify the engagement partner's responsibilities by adding specificity to certain supervision and review obligations (AS 1201 and AS 2101)
 - Accelerate the documentation completion date from 45 days to 14 days (AS 1215)

RECENTLY ADOPTED STANDARDS & AMENDMENTS

Reminder: Engagement partner responsibilities (AS 1201.05c):

Engagement partner must review documentation sufficient to determine:

- Engagement was performed as planned
- Significant judgments were appropriate; significant findings and issues were appropriately addressed
- Conclusions expressed in auditor's report are appropriate and supported by sufficient appropriate evidence
- Matters requiring communication are appropriately identified and communicated

Engagement partner's review should include review of documentation required to be reviewed by EQR

RECENTLY ADOPTED STANDARDS & AMENDMENTS

AS 1000, General Responsibilities of the Auditor in Conducting an Audit

- Effective dates
 - Audits of financial statements for fiscal years **beginning on or after December 15, 2024**, except for the 14-day documentation completion date requirement, which is as follows:
 - Effective dates for the 14-day documentation completion date requirement:
 - For firms that, during the calendar year ending 12/31/24, issued audit reports with respect to more than 100 issuers – effective for audits of financial statements for fiscal years beginning on or after 12/15/24; and
 - For all other firms – effective for audits of financial statements for fiscal years beginning on or after 12/15/25

RECENTLY ADOPTED STANDARDS & AMENDMENTS

Amendments Related to Aspects of Designing and Performing Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form

- Key Amendments to AS 1105, *Audit Evidence*:
 - Specify auditor responsibilities when using an audit procedure for more than one purpose
 - Specify auditor responsibilities for evaluating the reliability of certain audit evidence and emphasize the importance of appropriate disaggregation of information

RECENTLY ADOPTED STANDARDS & AMENDMENTS

AS 1105.10A: The company may provide to the auditor information in electronic form that the company received from one or more external sources.^{3B} When using such information as audit evidence, the auditor should evaluate whether the information is reliable for purposes of the audit by:

- a. Obtaining an understanding of (i) the source from which the company received the information; and (ii) the company's process by which such information was received, maintained, and, where applicable, processed, which includes understanding the nature of any modifications made to the information before it was provided to the auditor; and
- b. Testing the information to determine whether it has been modified by the company and evaluating the effect of those modifications; or testing controls over receiving, maintaining, and processing the information (including, where applicable, information technology general controls and automated application controls).

^{3B} Such information includes, for example, cash receipts, shipping documents, and purchase orders.

RECENTLY ADOPTED STANDARDS & AMENDMENTS

Amendments Related to Aspects of Designing and Performing Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form

- Amendments to AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*:
 - Specify the auditor's responsibilities when performing tests of details
- Effective date
 - Audits of financial statements for fiscal years **beginning** on or after December 15, 2025

RECENTLY ADOPTED STANDARDS & AMENDMENTS

- QC 1000, *A Firm's System of Quality Control*
 - Effective on December 15, 2025. For firms that are subject to applicable professional and legal requirements with respect to an engagement on the date that QC 1000 becomes effective, the reporting period for the first Form QC filing will be December 15, 2025, to September 30, 2026.
 - If a firm is required to perform an evaluation of its QC system as of September 30, 2026, the firm must file with the Board a report on such evaluation on Form QC not later than November 30, 2026.

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A Firm's System of Quality Control: An Overview of QC 1000

AGENDA

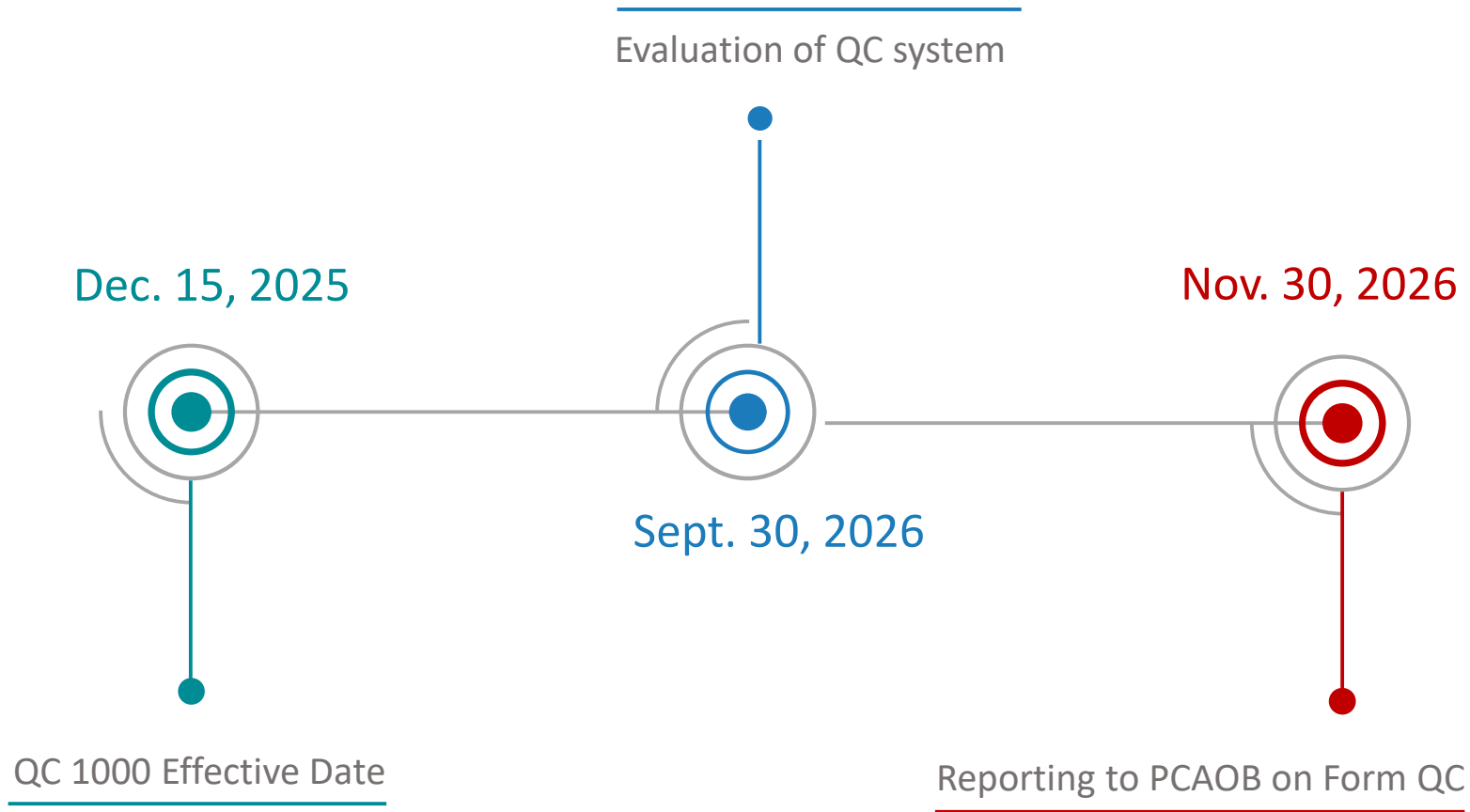
- Overview
- Applicability of QC 1000
- Objective of QC 1000
- Components of a Firm's QC System
- Roles and Responsibilities in a Firm's QC System
- The Firm's Risk Assessment Process
- The Monitoring and Remediation Process

OVERVIEW

QC 1000, *A Firm's System of Quality Control*, together with other amendments:

- Supersedes current PCAOB quality control standards and SEC Practice Section (SECPS) requirements
- Creates reporting requirements on quality control matters and a new, non-public reporting form, Form QC
- Expands the auditor's responsibility to respond to deficiencies on completed engagements under an amended and retitled AS 2901, *Responding to Engagement Deficiencies After Issuance of the Auditor's Report*, and related amendments to attestation standards for broker-dealer engagements
- Supersedes existing standard ET 102, *Integrity and Objectivity*, with a new standard, EI 1000, *Integrity and Objectivity*

OVERVIEW - QC 1000 TIMELINE



OVERVIEW - WHAT ARE THE KEY CHANGES?

- Emphasis on accountability, firm culture and the “tone at the top,” and firm governance
- A new risk-based approach
- A set of mandates, including required risk assessment, quality objectives, and specified quality responses
- New requirements that address changes in the audit practice environment, including the increasing participation of other firms and other outside resources, the role of firm networks, the evolving use of technology and other resources, and the increasing importance of internal and external firm communications
- Broader responsibilities for monitoring and remediation of deficiencies to create a more effective ongoing feedback loop driving continuous improvement
- Annual evaluation of the firm’s QC system and related reporting to the PCAOB, certified by key personnel

Applicability of QC 1000

Who is Affected?

- All registered firms are required to design a QC system that complies with QC 1000, including those that do not audit issuers or SEC-registered brokers and dealers.
- Firms that perform or have responsibilities with respect to **engagements** under PCAOB standards – for example, audit engagements for issuers or broker-dealers – are required to implement and operate their QC systems.

Any audit, attestation, review, or other engagement performed under PCAOB standards:

- Led by a firm; or
- In which a firm “play[s] a substantial role in the preparation or furnishing of an audit report” as defined in PCAOB Rule 1001(p)(ii). (see QC 1000, Appendix A – A3)

Scaled applicability

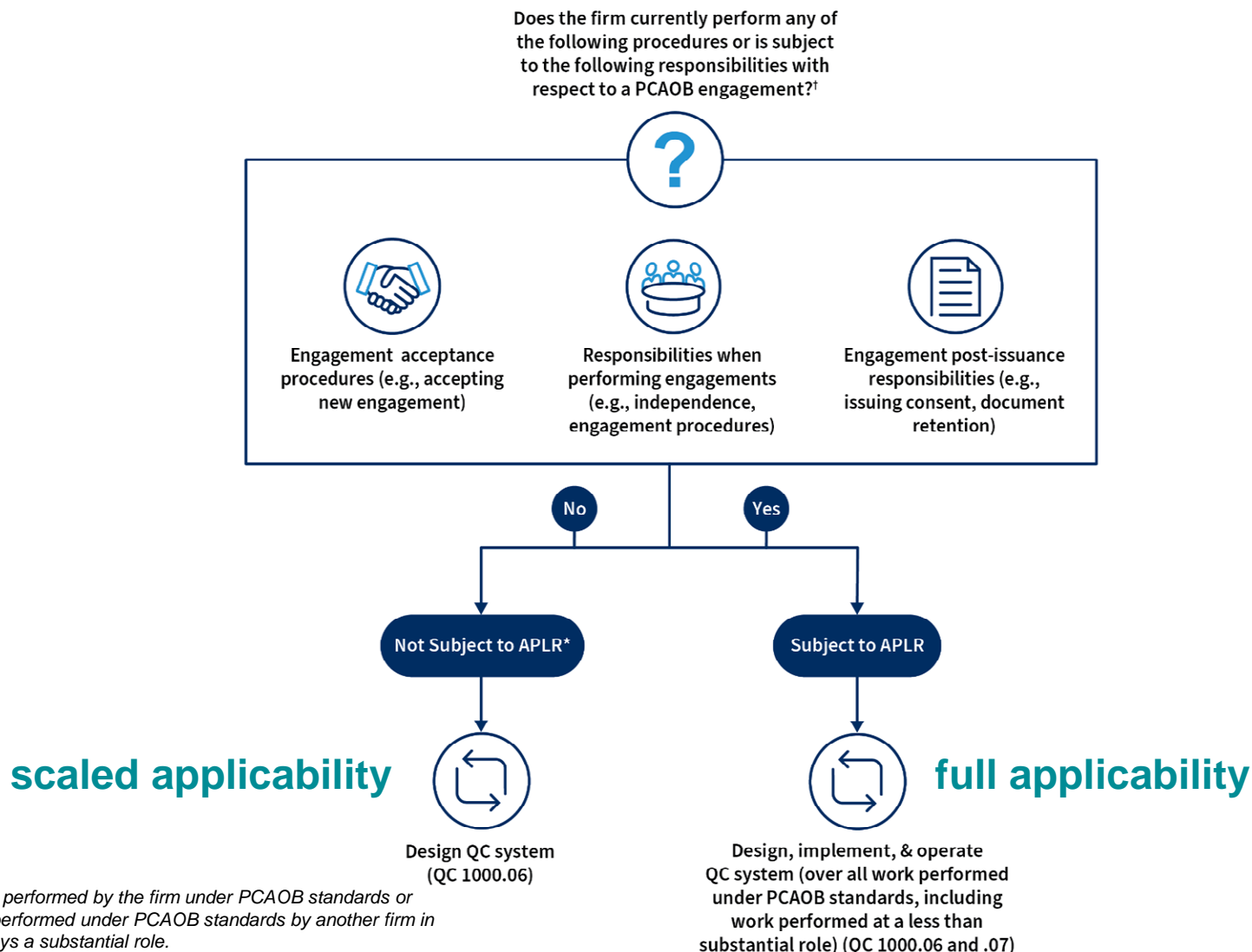
- Firms that do not have responsibilities with respect to engagements are only required to design a QC system.

Full applicability

- At all times that a firm is required to comply with **applicable professional and legal requirements (APLR)** with respect to any of the firm's engagements, the firm is required to design, implement, and operate an effective QC system (also referred to as full applicability).

- Professional standards, as defined in PCAOB Rule 1001(p)(vi);
- Rules of the PCAOB that are not professional standards; and
- To the extent related to the obligations and responsibilities of accountants or auditors in the conduct of engagements or in relation to the QC system, rules of the SEC, other provisions of U.S. federal securities law, ethics laws and regulations, and other applicable statutory, regulatory, and other legal requirements. (see QC 1000, Appendix A – A2)

Decision Tree for Requirements of QC System



Scaled applicability

All firms are required to design a QC system that complies with the standard. This entails:

- Assigning QC-related roles and responsibilities as provided in **QC 1000.10-.17**;
- Establishing quality objectives, annually identifying and assessing quality risks to the achievement of those objectives, and designing quality responses to address those risks, as provided in **QC 1000.18-.57**;
- Designing a monitoring and remediation process that, upon implementation, would comply with **QC 1000.58-.76**; and
- Documenting the design of the QC system as provided in **QC 1000.81-.86**.

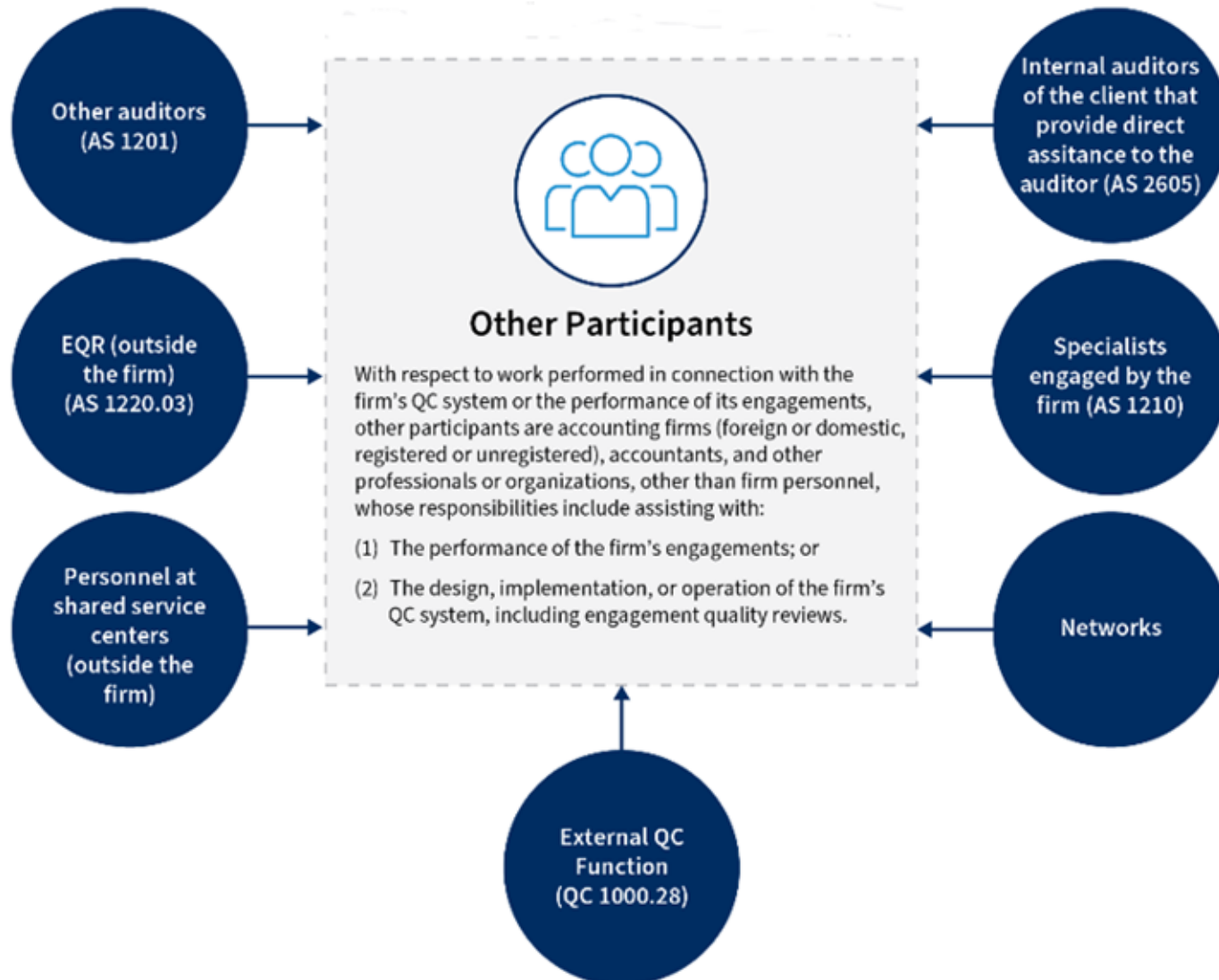
See Appendix A of QC 1000 for the definitions of quality objectives, quality risks, and quality responses.

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Objective of a Firm's QC System under QC 1000

- The objective of a firm's QC system is to achieve the **reasonable assurance objective**.
- The reasonable assurance objective is achieved when
 - The firm, each member of firm personnel, and each other participant conducts each of the firm's engagements and fulfills their other responsibilities that are part of or subject to the firm's QC system in accordance with applicable professional and legal requirements (or APLR); and
 - Each engagement report issued by the firm is in accordance with APLR.





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Components of a Firm's QC System under QC 1000

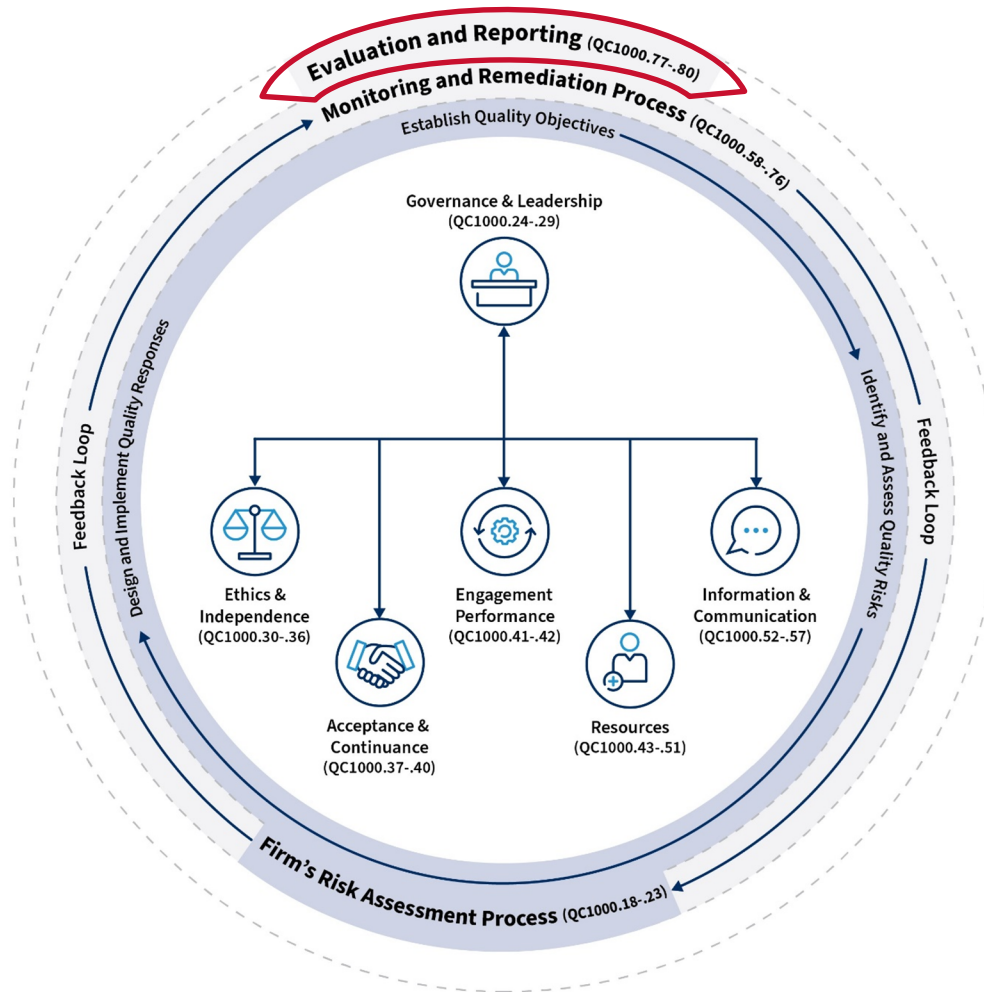
Two process components

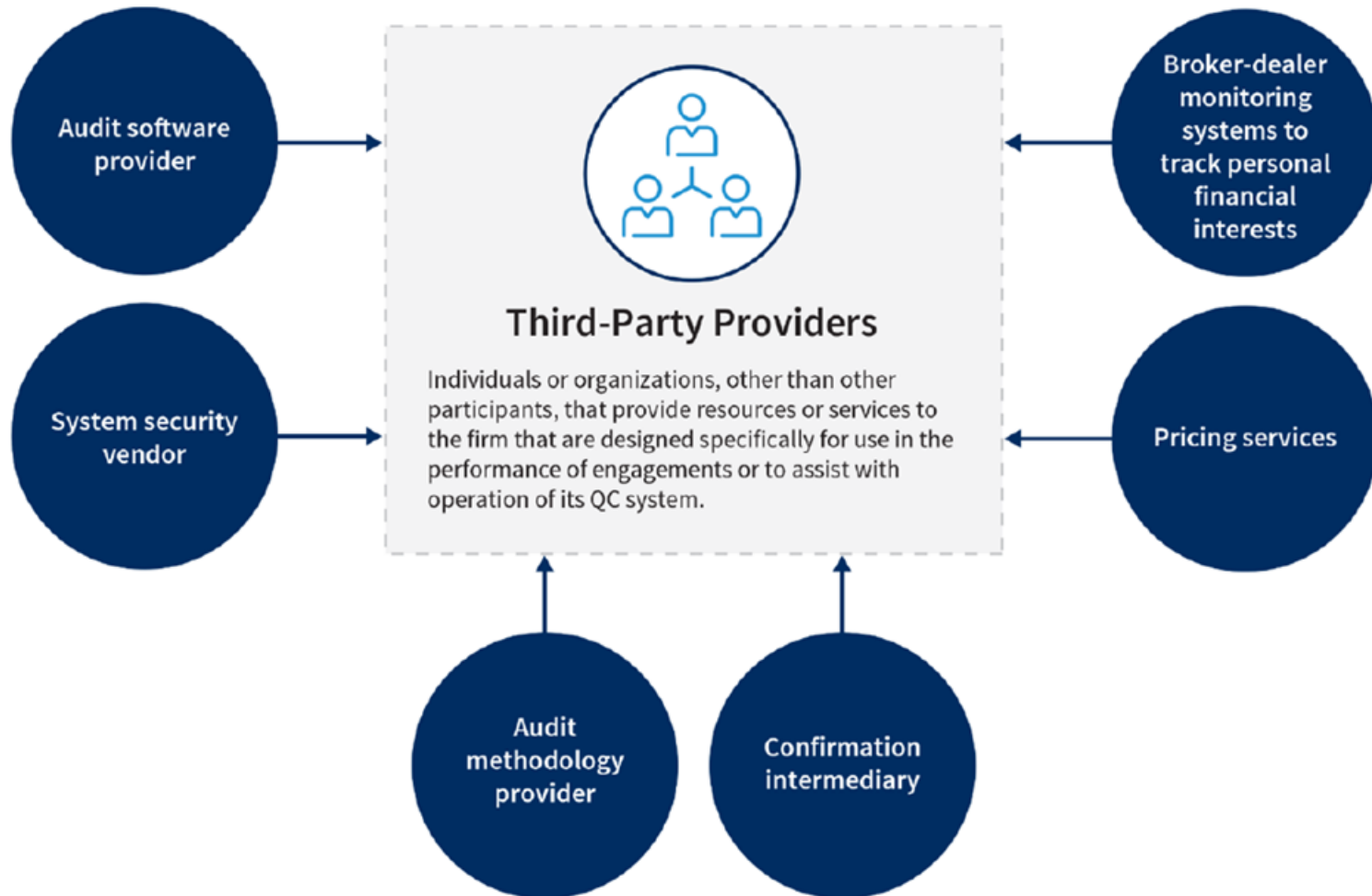
- The firm's risk assessment
- The monitoring and remediation

Six components

- Governance and leadership
- Ethics and independence
- Acceptance and continuance
- Engagement performance
- Resources
- Information and communication

Structure of the Firm's QC System

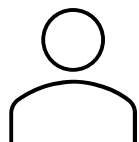




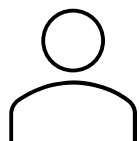
Roles and Responsibilities in a Firm's QC System

ROLES & RESPONSIBILITIES IN A FIRM'S QC SYSTEM

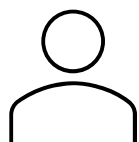
QC 1000.11-.17



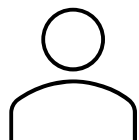
Ultimate responsibility and accountability for the QC system as a whole



Operational responsibility and accountability for the QC system as a whole



Operational responsibility for the firm's compliance with ethics and independence requirements



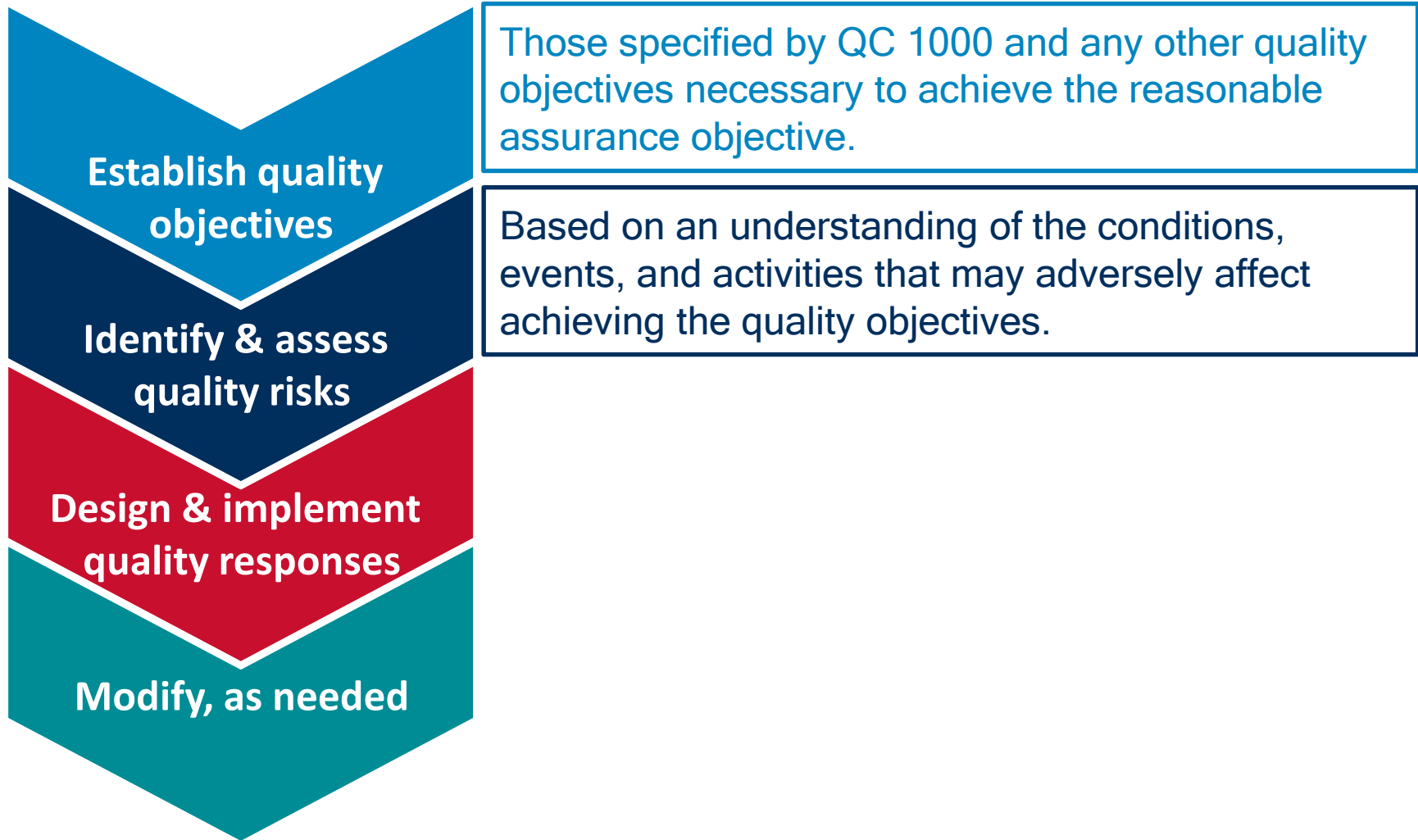
Operational responsibility for the monitoring and remediation process

Only firm personnel are permitted to fill the roles required by QC 1000

The Firm's Risk Assessment Process Under QC 1000

THE FIRM'S RISK ASSESSMENT PROCESS

QC 1000.18-.20



Scenario: A small-size audit firm has recently expanded its operations by opening a second office in a neighboring city. The firm has a simple management structure with two partners overseeing all engagements. Each office operates independently, with local managers making key operational decisions. In the past year, the firm took on a new client in an unfamiliar industry.

Task: Using Appendix B, identify examples that are relevant to obtaining an understanding of the nature and circumstances of the firm and its engagement for this scenario.

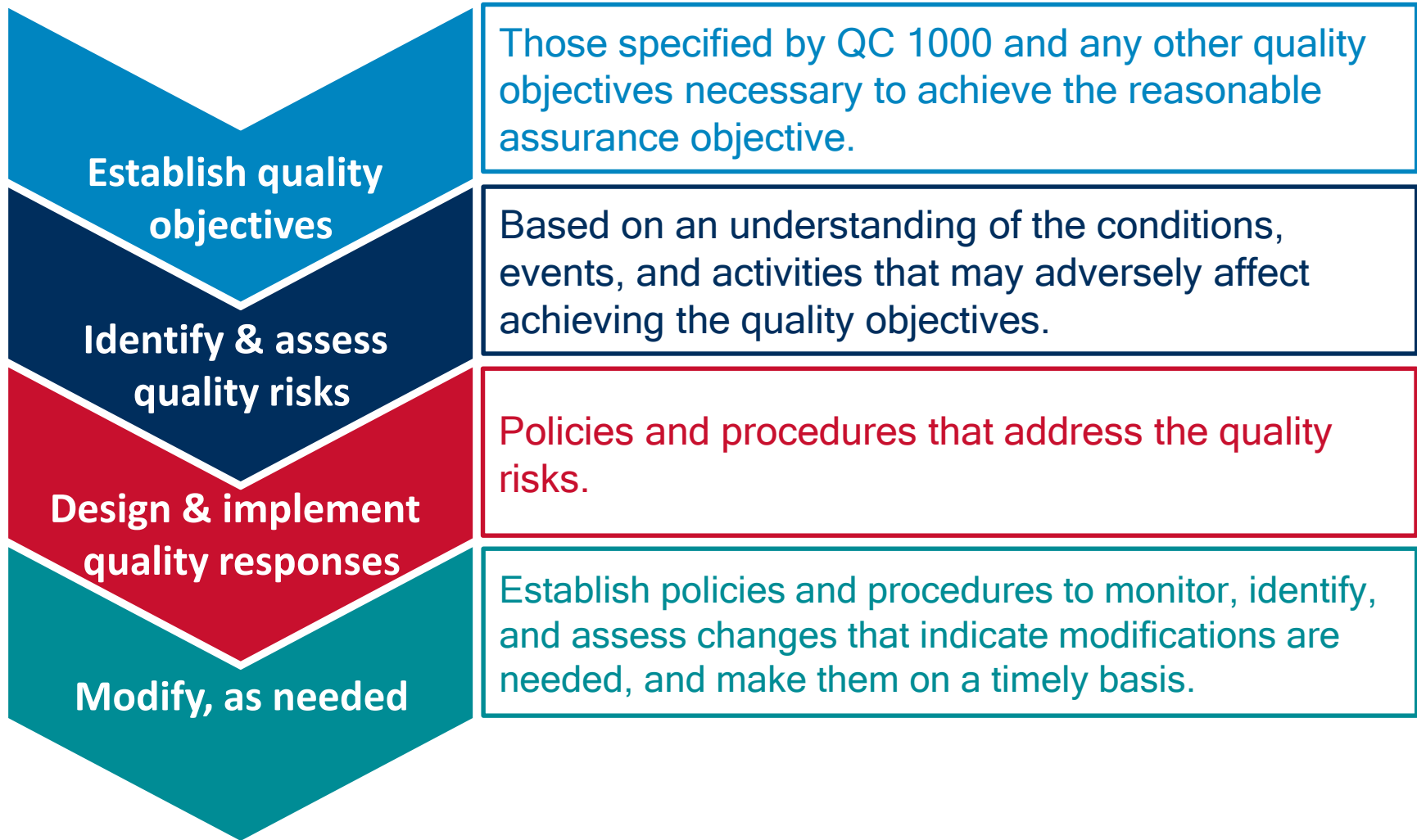
The Relationship Between Quality Responses
and Specified Quality Responses



Specified quality responses DO NOT represent the minimum set of quality responses a firm is required to design, implement, and operate.

THE FIRM'S RISK ASSESSMENT PROCESS

QC 1000.22-.23

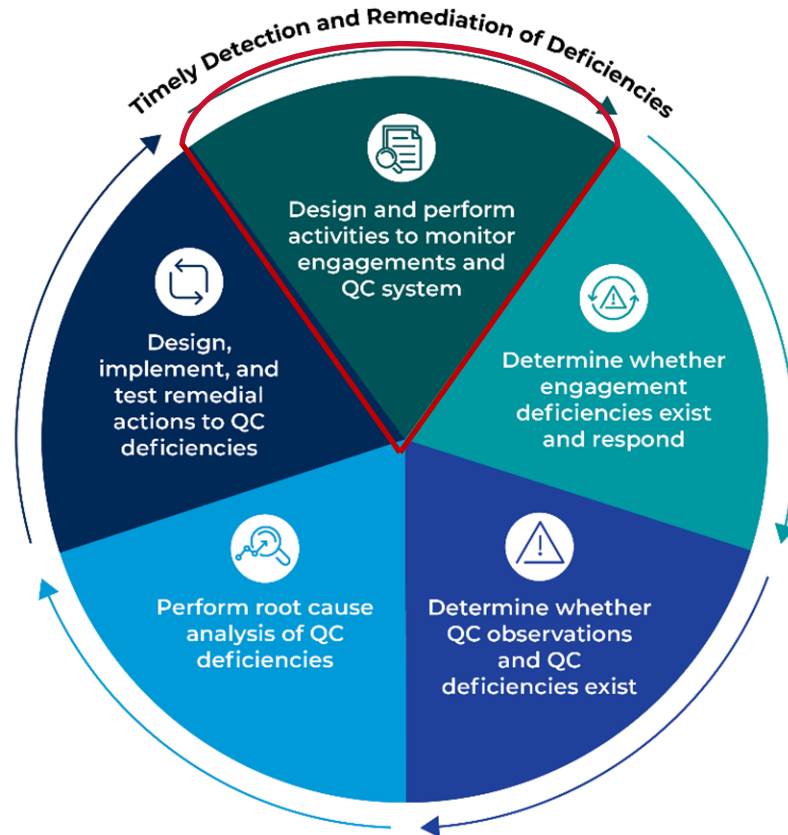


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The Monitoring and Remediation Process

OVERVIEW OF THE MONITORING AND REMEDIATION PROCESS

QC 1000.60



Maintain objectivity when performing monitoring activities. Individuals cannot perform monitoring activities over their own work because they would not be objective.

Monitor completed engagements

- All firms are required to perform

Monitor in-process engagements

- Firms with larger PCAOB audit practices are required to perform
- All other firms are required to consider performing

Monitor work performed at a level below a substantial role

- All firms are required to consider performing

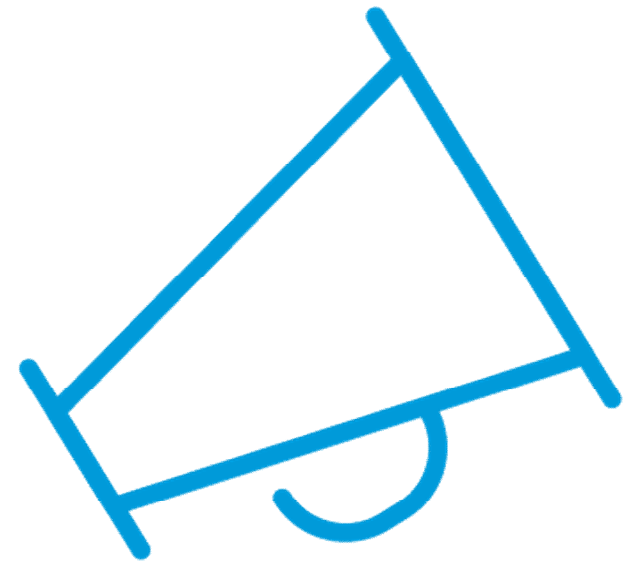
See **QC 1000.64** for factors to consider when determining engagement monitoring activities

ENGAGEMENT MONITORING ACTIVITIES (CONT'D)

QC 1000.61

Scalability consideration

A firm with five or fewer PCAOB engagements may include engagements not performed under PCAOB auditing standards in monitoring activities.

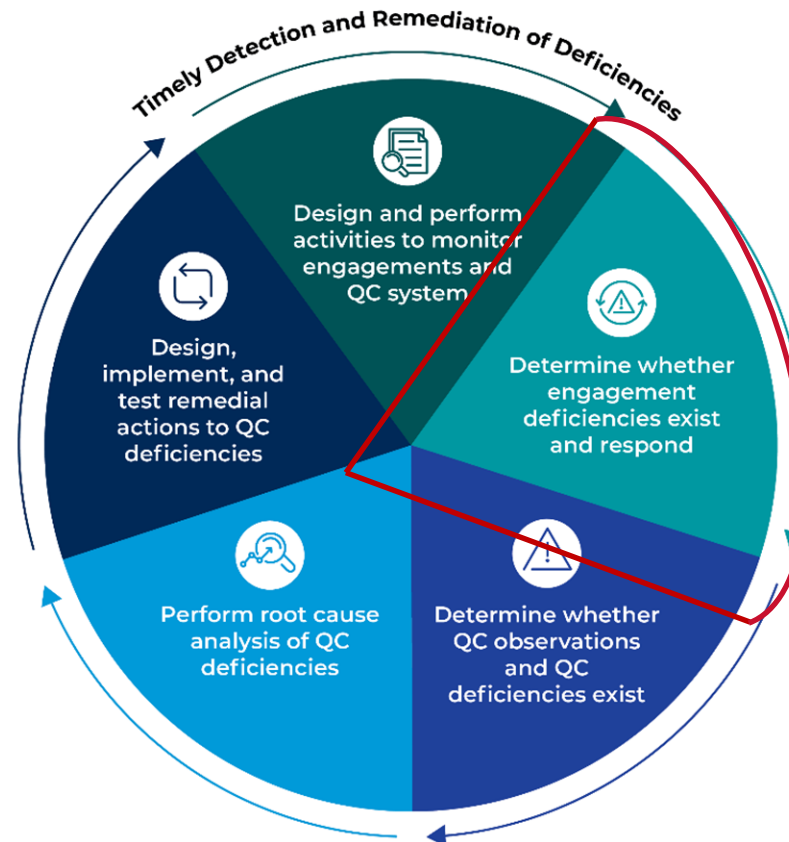


- QC System-level monitoring activities
 - Directed at the performance of activities under the requirements of QC 1000
 - See **QC 1000.65** for factors to consider when determining QC system-level monitoring activities
- Monitoring activities performed by a network
 - Request and, if provided, evaluate information about monitoring activities performed by the network, results of those monitoring activities, and planned remedial actions by the network
 - Determine and perform responsibilities in relation to the monitoring activities of the network
 - Adjust its monitoring activities as necessary

The firm is ultimately responsible for its QC system

IDENTIFY AND RESPOND TO ENGAGEMENT DEFICIENCIES

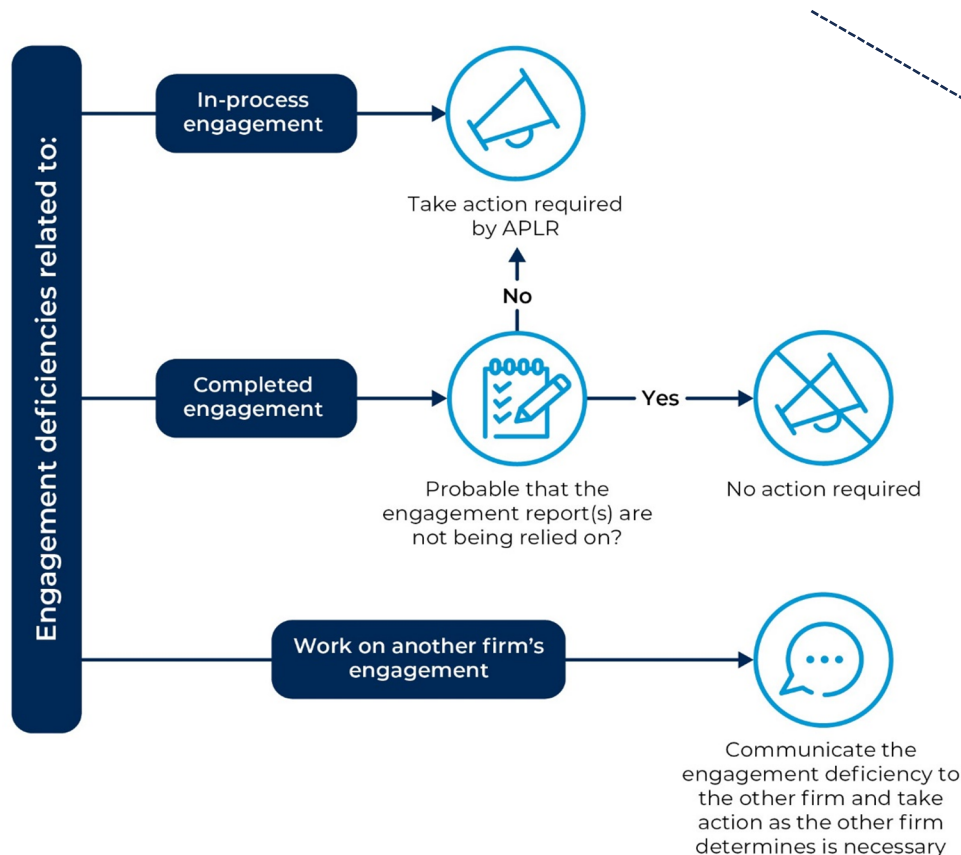
QC 1000.67-.68



IDENTIFY AND RESPOND TO ENGAGEMENT DEFICIENCIES

QC 1000.67-.68

- Evaluate, on a timely basis, certain information and determine whether **engagement deficiencies** exist and respond



An instance of noncompliance with APLR by the firm, firm personnel, or other participants with respect to an engagement of the firm, or by the firm or firm personnel with respect to an engagement of another firm.

EVALUATE WHETHER SIMILAR ENGAGEMENT DEFICIENCIES EXIST

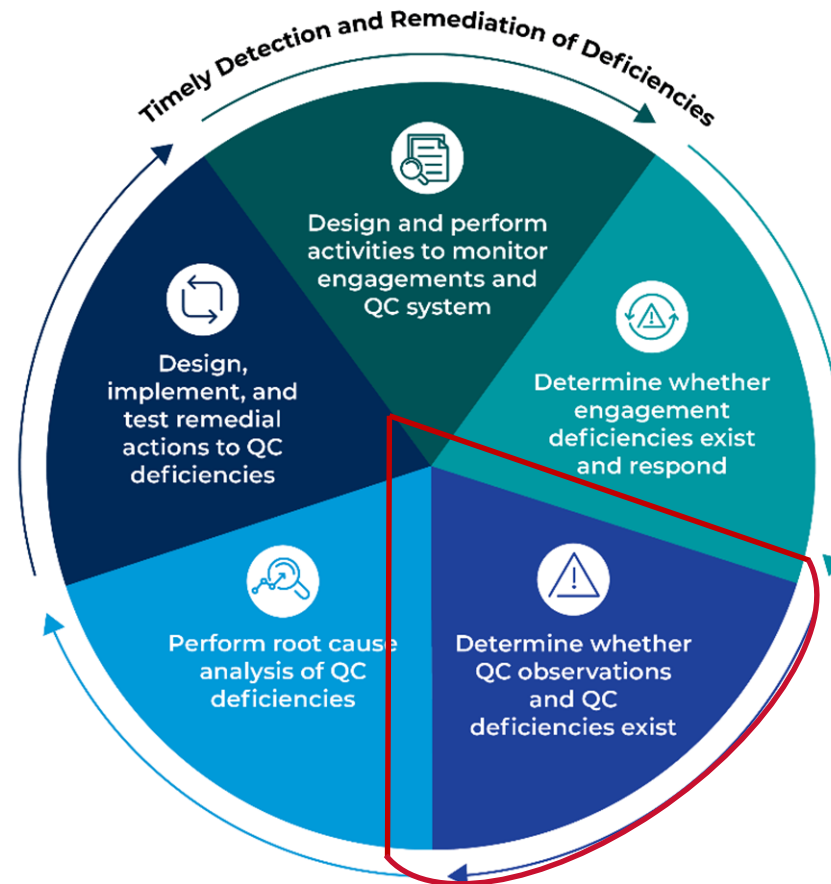
QC 1000.68-.69

- Evaluate whether similar engagement deficiencies exist on
 - Other in-process engagements, or would arise if remedial action is not taken
 - Other completed engagements (unless it's probable the engagement report(s) are not being relied upon)
 - Work performed by the firm on other firms' engagements
- Respond in the same manner as the firm would respond to other engagement deficiencies it may identify.

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IDENTIFY QC OBSERVATIONS AND QC DEFICIENCIES

QC 1000.71-.72



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DETERMINE WHETHER QC OBSERVATIONS EXIST

QC 1000.71

- On a timely basis, the auditor evaluates the following information to determine whether **QC observations** exist
 - Information from engagement monitoring activities and QC system-level monitoring activities
 - Information from oversight activities by regulators and other external inspections or reviews
 - Other relevant information of which the firm becomes aware.

(1) An engagement deficiency; or
(2) Any other observation about the design, implementation, or operation of the firm's QC system that may indicate one or more QC deficiencies exist.

All engagement deficiencies are QC observations

DETERMINE WHETHER QC DEFICIENCIES EXIST (CONT'D)

QC 1000.72

- On a timely basis, the auditor evaluates QC observations to determine whether **QC deficiencies** exist.
- The determination is based on:
 - The nature, severity, and pervasiveness of the matter(s) that gave rise to the QC observation, and
 - The likelihood that the matter(s) could affect other QC system components or other engagements and the severity of such an effect if it were to occur.

DETERMINE WHETHER QC DEFICIENCIES EXIST (CONT'D)

QC 1000.72

- On a timely basis, the auditor evaluates QC observations to determine whether QC deficiencies exist.
- The determination is based on:
 - The nature, severity, and pervasiveness of the matter(s) that gave rise to the QC observation, and

A QC observation that, based on the evaluation under paragraph .72, individually, or in combination with one or more other QC observations, evidences:

(1) That the likelihood of the firm not achieving the reasonable assurance objective or one or more quality objectives has not been reduced to an acceptably low level;

Note: The likelihood of not achieving the reasonable assurance objective or one or more quality objectives would be above an acceptably low level if, for example, a quality objective is not established, a quality risk is not properly identified or assessed, or a quality response is not properly designed or implemented or is not operating effectively.

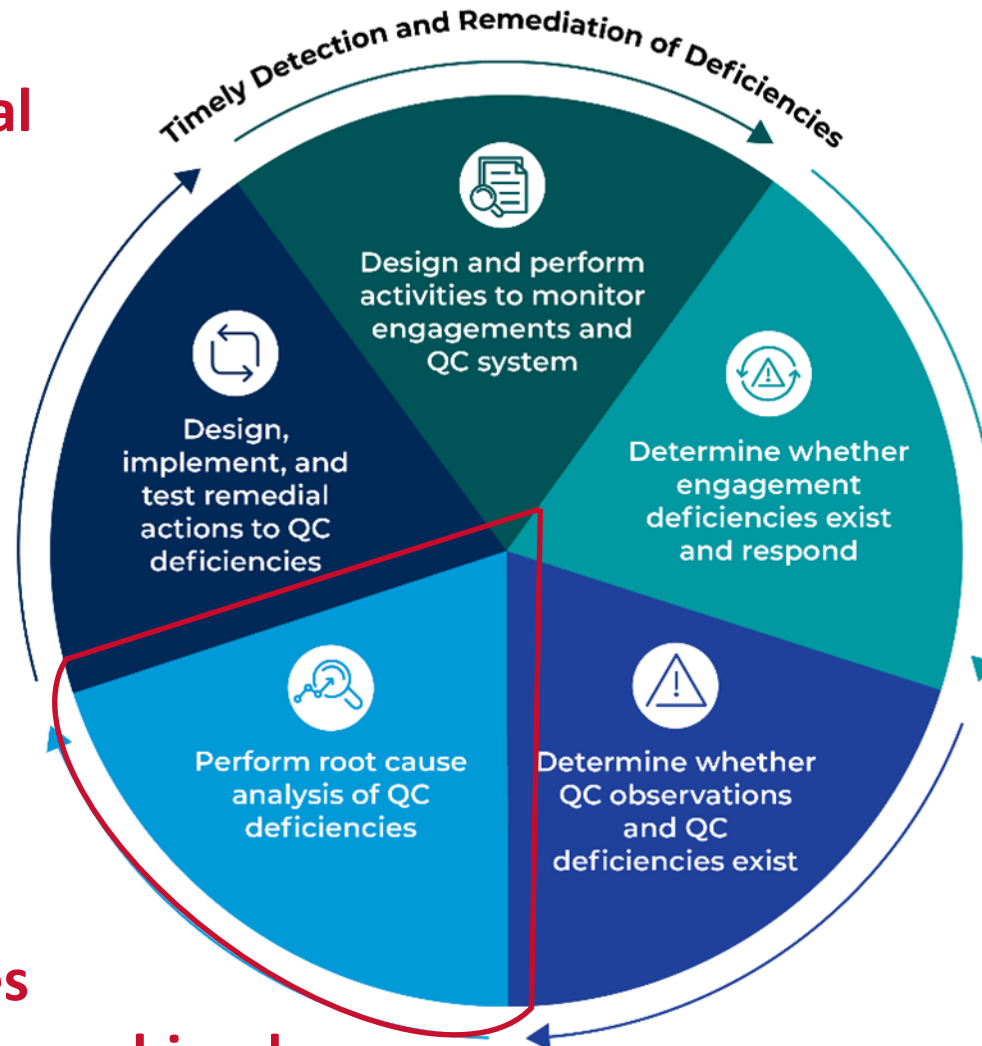
(2) Noncompliance with requirements of this standard, other than those under “Documentation”; or

(3) Noncompliance with requirements of this standard under “Documentation” that adversely affects the firm’s ability to comply with any of the other requirements of this standard.

PERFORM ROOT CAUSE ANALYSIS

QC 1000.73-.74

Identify and
evaluate causal
factors



Flexible
requirements

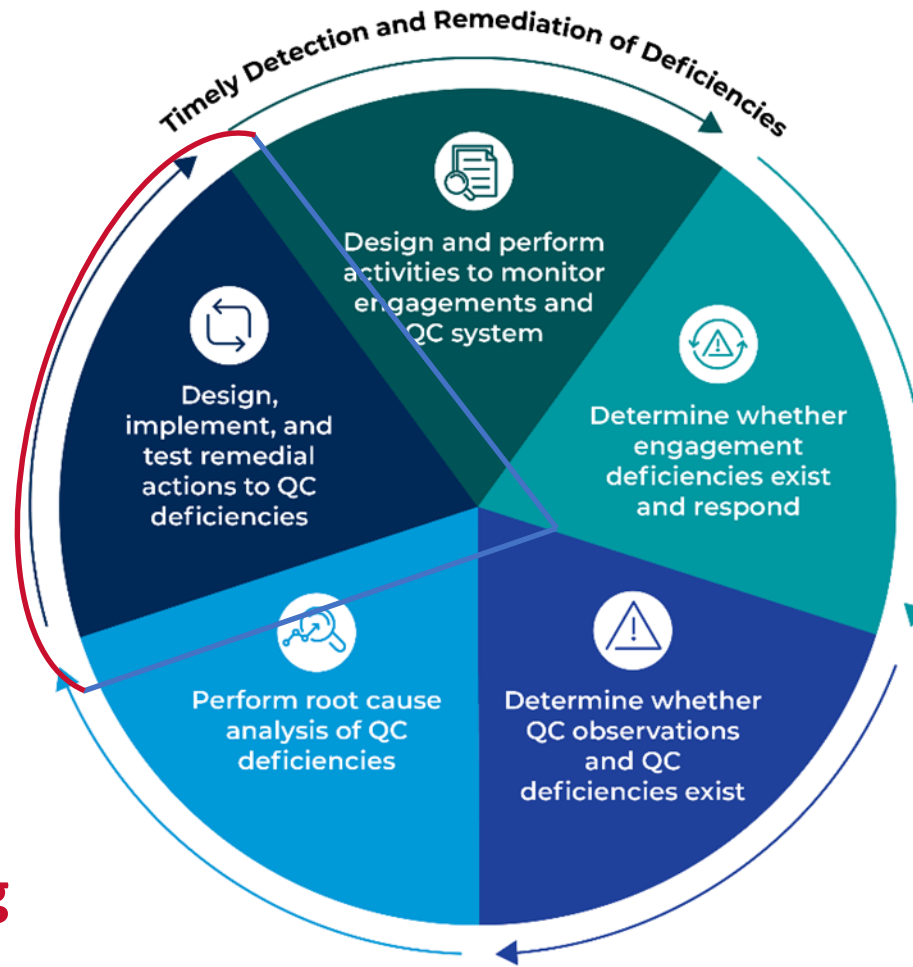
Perform over
QC deficiencies
individually or combined

DESIGN, IMPLEMENT, AND TEST REMEDIAL ACTIONS

QC 1000.75-.76

**Timing of
remedial
actions**

**Temporary
remedial
actions**

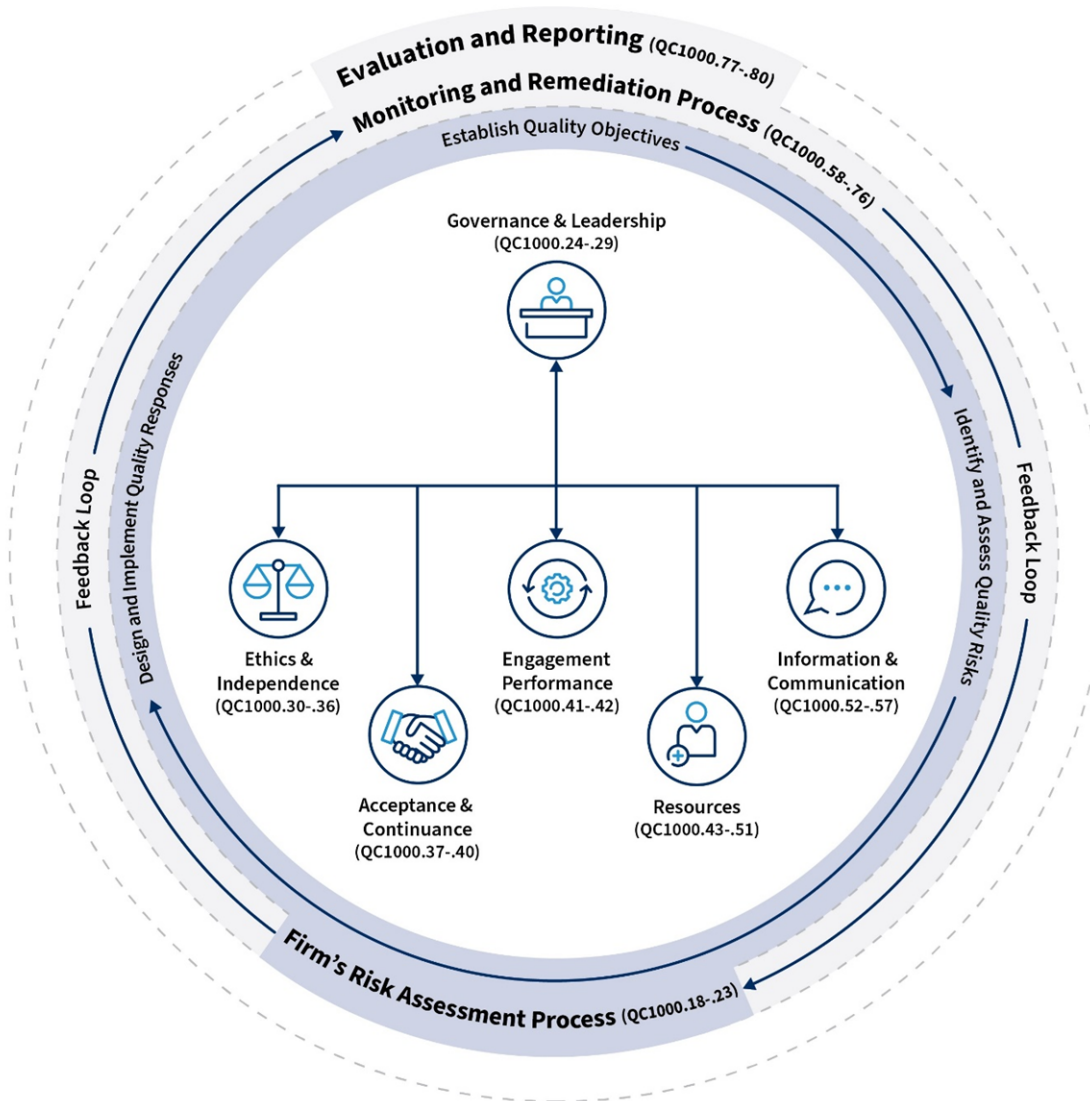


**Compensating
responses**

**Monitor
remedial actions**

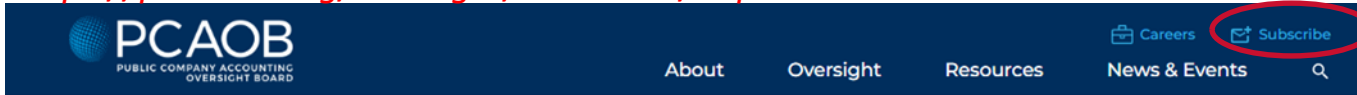
COMPONENTS OF A FIRM'S QC SYSTEM

Structure of the Firm's QC System



QC IMPLEMENTATION PAGE

<https://pcaobus.org/oversight/standards/implementation-resources-PCAOB-standards-rules/quality-control>



Home > Oversight > Standards > Implementation Resources for PCAOB Standards and Rules

Quality Control

(Updated February 13, 2025)

Sign up to follow project updates

OVERVIEW RESOURCES AND TOOLS CONTACT US

Resources and Tools for Implementation



Staff Guidance

The PCAOB staff provides guidance to help firms when implementing QC 1000 and AS 2901. Staff may update this guidance as needed.

- Staff Guidance – QC 1000: A Firm's System of Quality Control (Nov. 26, 2024) 
- Staff Guidance – AS 2901: Responding to Engagement Deficiencies After Issuance of the Auditor's Report (Nov. 26, 2024) 
- Practice Aid: Providing a High-Level Overview of Certain Features Unique to QC 1000, A Firm's System of Quality Control (Oct. 23, 2024) 
- Comparison of QC 1000 with ISQM 1 and SQMS 1 (Oct. 23, 2024) 

How Do I Contact the PCAOB?



Phone: (202) 591-4395

Form: [Contact Us](#)

Thank you!

Break

PCAOB Inspections Overview and Illustrative Examples: Broker-Dealers

Alan Kerwin, Greg MacCune, Cynthia Leahy
Division of Registration and Inspections
May 1, 2025

DISCLAIMER

The views we express are in our official capacity as members of DRI but are our own and do not necessarily reflect the views of the Board, any individual Board member, or other members of the staff.

OBJECTIVES

At the end of this session participants will understand:

- Relevant PCAOB publications for auditors of broker-dealers
- Selected observations from 2023 inspections and related requirements of PCAOB standards and illustrative examples
- Insights regarding recent inspection results
- Status of 2025 inspection activities

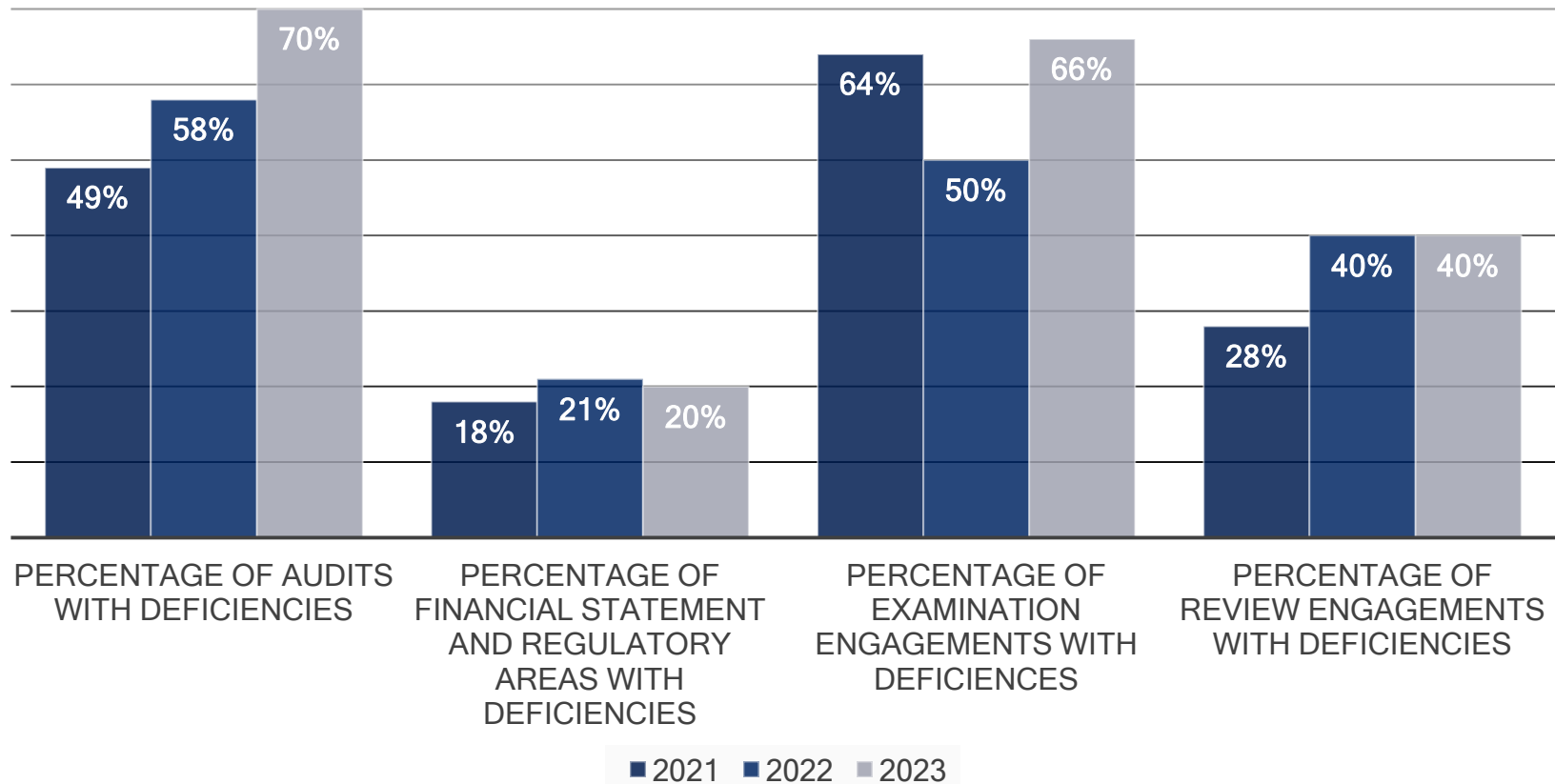
OVERVIEW OF RELEVANT PCAOB PUBLICATIONS

- Audit Focus Series: Journal Entries – January 2025; Audit Committee Communications – December 2024
- Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers (“4020T Annual Report”) – July 2024
- Supplementary Information Related to Audits of Brokers and Dealers – July 2024
- Spotlight: Insights Into the PCAOB’s Interim Inspection Program Related to Audits of Broker-Dealers – January 2024
- Staff Guidance for Auditors of SEC-Registered Brokers and Dealers – June 2014

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INSPECTION RESULTS 2021 – 2023

Inspection Results: 2021 - 2023



AS 2105.02 MATERIALITY IN THE CONTEXT OF AN AUDIT

- A fact is material if there is “a substantial likelihood that the . . . fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of information made available.”
- “Reasonable investor”
- “Total mix of information made available”

AS 2105.06 - ESTABLISHING A MATERIALITY LEVEL FOR THE FINANCIAL STATEMENTS AS A WHOLE

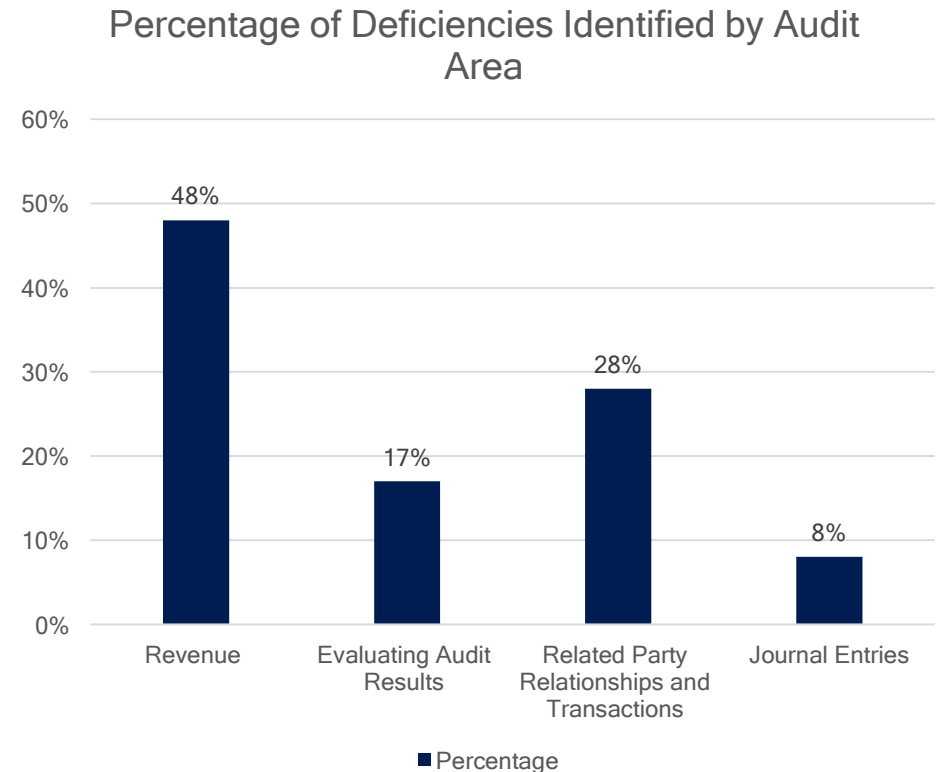
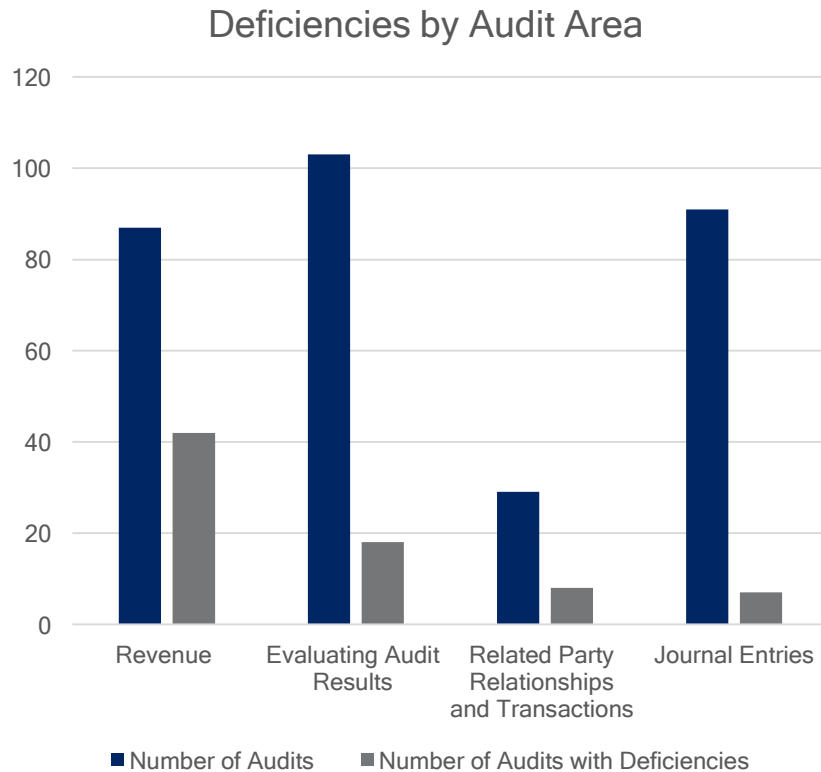
- The auditor should establish a materiality level for the financial statements as a whole that is appropriate in light of the particular circumstances.
- This includes consideration of the company's earnings and other relevant factors.
- Materiality established determines the extent of testing of the significant financial statement line items, including scoping of the audit, thresholds used in the performance of substantive analytical procedures, and sample sizes for tests of details.

MATERIALITY CONSIDERATIONS

- Consideration of earnings
 - Earnings are an important factor in the total mix of information available to an investor
 - Earnings may be gross, net
 - Earnings not required as a basis in all cases
- Consideration of other relevant factors
 - Total assets, total equity
 - Net capital, excess net capital

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FINANCIAL STATEMENT AREAS



RETAINER FEE SCENARIO

- A broker-dealer reported merger and acquisition advisory fees of \$10 million on its statement of income and disclosed the following:
 - *Merger and acquisition advisory fees were comprised of \$8 million of placement fees and \$2 million of retainer fees.*
 - *Retainer fees are earned on capital placement services and are recognized in accordance with the relevant contract. Retainers are non-refundable and off-settable against placement fees (i.e., they reduce placement fees) when placement fees are earned. Revenue from retainers is recognized when the broker-dealer has delivered the services as detailed in the contract.*

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12b-1 FEE SCENARIO

- An introducing broker offers mutual fund investments and uses a reputable clearing broker for trade processing. The clearing broker calculates and remits 12b-1 fees to the introducing broker based on net asset value (NAV) and the applicable fee rate and reports the 12b-1 fees to the introducing broker in monthly clearing statements.
- The engagement team determined that there was a fraud risk related to revenue recognition for 12b-1 fees and assessed the control risk for 12b-1 fees as high.
- For a sample of 12b-1 fees, the engagement team recalculated the monthly 12b-1 fees based on NAV and the fee rate obtained from the mutual fund's prospectus.

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EVALUATING AUDIT RESULTS

Deficiencies in this area often relate to potential GAAP departures associated with the following:

- Revenue (ASC Topic 606)
- Cash and Cash Equivalents / Statement of Cash Flows (ASC Topics 210 and 230)
- Securities Owned (ASC Topic 940)

SEGMENT REPORTING – ASC TOPIC 280

- ASU 2023-7 is effective for fiscal years beginning after 12/15/23
- Broker-dealers are public entities and therefore the ASU is applicable
- In many cases, broker-dealers might conclude that they are single segment entities
- New disclosures include:
 - Identification of the Chief Operating Decision Maker (CODM)
 - Narrative explanation of how the CODM uses reported measure of profit or loss in assessing performance and deciding how to allocate resources
 - Disclosure of significant expenses considered by the CODM.

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EXAMPLE DISCLOSURE – INTRODUCING BROKER

The BD is engaged in a single line of business as an introducing broker and generates revenue from clearing fees earned for executing trades for clients of an affiliate. The **BD's CODM is its President, who uses net income to evaluate the results of the business and manage the BD.** Additionally, the CODM **uses excess net capital**, which is not a measure of profit and loss, **to make operating decisions** while maintaining capital adequacy, such as distributing profits or reinvesting into the business. The BD's operations constitute a **single operating segment and therefore, a single reportable segment**, because the CODM manages the business activities using information of the BD as a whole. The accounting policies used to measure profit and loss of the segment are the same as those described in the summary of significant accounting policies. The BD derived 99 percent of its total revenues from a single customer in 2024, an affiliate of the BD. The BD's **segment revenue and expenses are in line with what is reported in the income statement** and includes all significant categories that the CODM reviews.

RELATED PARTY TRANSACTION SCENARIO

- The broker-dealer is a member of FINRA and subject to an intercompany expense sharing agreement with its parent and other affiliates where certain indirect expenses incurred by the parent are allocated to the broker-dealer and the other affiliates.
- Indirect expenses subject to allocation are initially recorded in the general ledger of the parent. The parent allocates these expenses to the broker-dealer based on the methodology per the agreement.
- The engagement team determined that there was a risk of material misstatement related to allocated expenses.

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JOURNAL ENTRY PROCEDURES

- Common Deficiencies
 - Not obtaining an understanding of financial reporting processes and controls
 - Not identifying and selecting entries for testing
 - Not testing the completeness of the population
 - Not testing journal entries meeting fraud criteria
 - Not evidencing an appropriate rationale
- Observed Good Practices
 - Use of IT specialists
 - Guidance with examples
 - Training
 - Journal entry practice aids
 - Structured templates
 - Review programs
 - Software audit tools

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AUDIT FOCUS: JOURNAL ENTRIES



REVIEW ENGAGEMENTS

2023 Inspection Results

Number of engagements
reviewed:

67

Number of engagements
reviewed with deficiencies:

27

Percentage of engagements
reviewed with deficiencies:

40%

REVIEW ENGAGEMENTS - REMINDERS

Perform Inquiries

- Remain aware of the inquiries to be performed when performing review procedures to ensure compliance with the requirements of AT No. 2.
- Inquiries should include inquiries about controls in place to maintain compliance with the exemption procedures, including inquiries regarding the nature of the controls, their frequency of operation, and the nature of the related monitoring activities.

REVIEW ENGAGEMENTS – REMINDERS (CONT'D))

Evaluate Evidence

- AT No. 2.10 requires the auditor to evaluate whether evidence obtained and the results of the procedures performed in the audit of the financial statements and the audit procedures performed on supplemental information corroborates or contradicts the broker-dealer's assertions regarding compliance with the exemption provisions.
- Audit procedures performed in the audit of the financial statements may provide evidence relevant to the broker-dealer's compliance with exemption provisions including testing of customer trades, special designated cash accounts, investment inventory, and trading transactions for a broker-dealer's own account, and reading the clearing agreement for testing commission revenues or expense.

REVIEW ENGAGEMENTS – REMINDERS (CONT'D)

Reporting on the Review Engagement

- The review report must include the required elements identified in the standard (AT No. 2.16).
- Ensure that the review report accurately identifies the broker-dealer's assertions.

AT NO. 2 REPORTING SCENARIO

- The broker-dealer disclosed in its financial statements that it cleared all customer securities transactions through an unaffiliated clearing broker on a fully disclosed basis and did not carry customer accounts or perform custodial functions related to customer securities.
- The broker-dealer included the following statements in its exemption report:
 - It claimed an exemption from 17 C.F.R. 240.15c3-3(k)(2)(ii), the "Exemption Provisions", and
 - It met the identified Exemption Provisions throughout the year, except in two instances when customer checks were not promptly transmitted to the clearing broker.

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EXAMINATION ENGAGEMENTS

2023 Inspection Results

Number of engagements
reviewed:

29

Number of engagements
reviewed with deficiencies:

19

Percentage of engagements
reviewed with deficiencies:

66%

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AT NO. 1 ICOC SCENARIO

- A broker-dealer used a service organization for trade processing and maintenance of customer account information and the broker-dealer's stock record. The service organization generated the securities deficit report that the broker-dealer used in the performance of controls related to its compliance with possession or control requirements. The auditor determined that the controls at the service organization were important to its conclusion about the broker-dealer's ICOC.
- The service organization's SOC 1 report provided evidence of the design and operating effectiveness of controls over the completeness and accuracy of the securities deficit report.
- The auditor determined to rely on the SOC 1 report for evidence regarding controls over the securities deficit report.

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SUPPLEMENTAL INFORMATION AREAS

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

NONCOMPLIANCE WITH PCAOB STANDARDS

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

AUDIT FOCUS: AUDIT COMMITTEE COMMUNICATIONS



SPOTLIGHT – INSIGHTS INTO THE INTERIM INSPECTION PROGRAM

- Provides insights regarding potential factors contributing to high deficiency rates in broker-dealer engagements



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POTENTIAL CONTRIBUTING FACTORS TO ENGAGEMENT DEFICIENCIES



Insufficient Understanding of the Industry

Lack of Professional Skepticism

Lack of Rigor in Risk Assessment

Overreliance on Standardized Audit Programs

Ineffective EQR

Inexperience with PCAOB Standards

Pace of Auditor Changes

Level of Audit Fees

2025 INSPECTIONS UPDATE

	2025 Inspections
Selections – Status	Completed
Selections – Extent	Comparable to 2024
Fieldwork – Status	Began in March
Fieldwork – Location	More Frequently In-Person
Reporting – Status	No Later than 12-Months After the 2024 Report is Published

QUESTIONS

