

Update: Interim Inspection Program Related to Audits of Brokers and Dealers

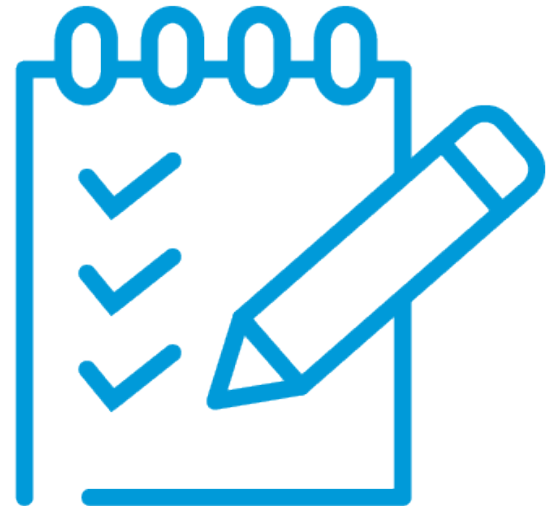
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Division of Registration and Inspections
October 19, 2020

DISCLAIMER

Any views expressed are my own and do not necessarily reflect the views of the Board as a whole, any individual Board Members, or other staff.

AGENDA

- Inspection Program Objectives
- 2019 Inspections Results
- 2020 Inspections Status
- Looking Ahead to 2021



INSPECTION PROGRAM OBJECTIVES

- Assess compliance with applicable Board and Commission rules and PCAOB standards
- Help inform the Board's eventual determinations about the scope and elements of a permanent inspection program
- Assist in the development of the approach to inspections under a permanent inspection program

FIRMS AUDITING BROKER-DEALERS

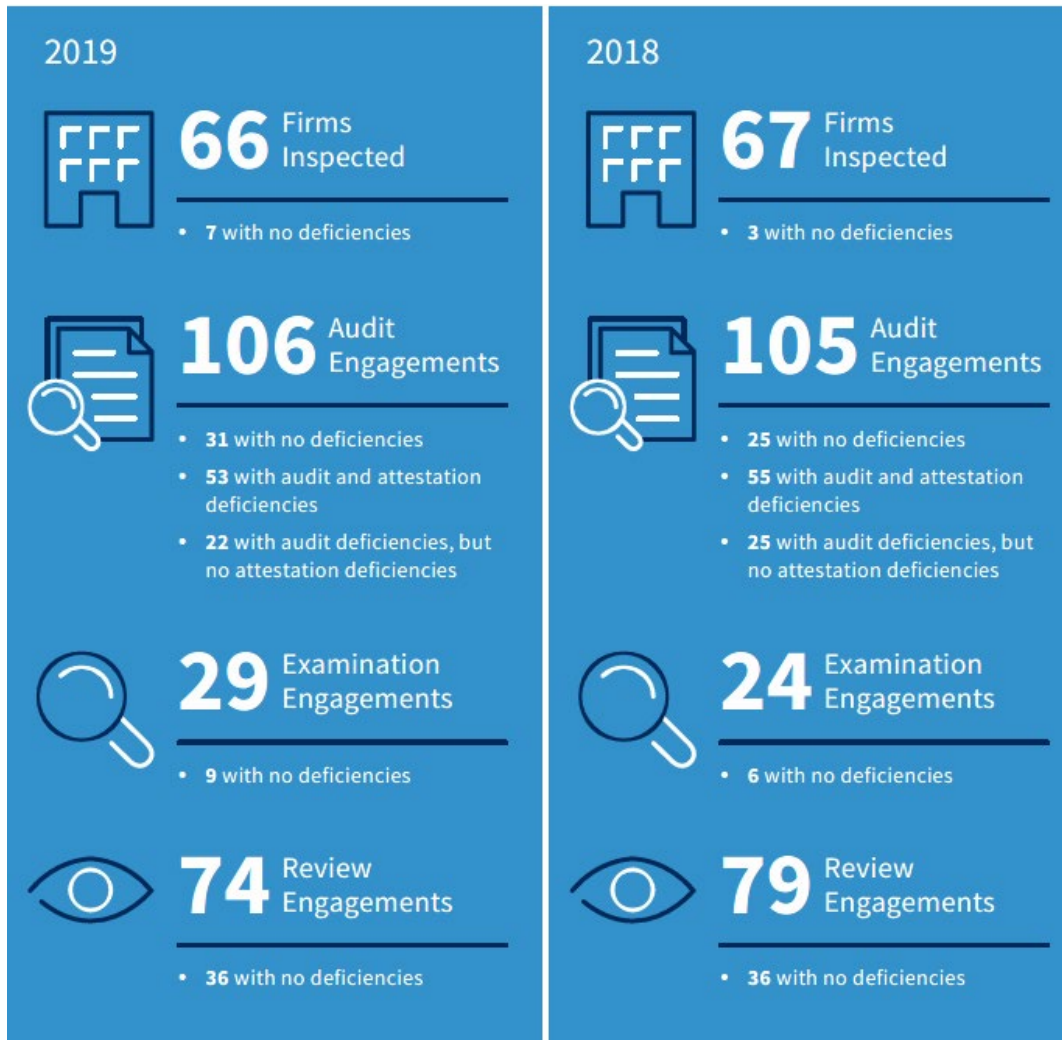
Broker-Dealer Audits per Firm	Number of Firms - 2019	Number of Broker-Dealer Audits - 2019	Number of Firms - 2018	Number of Broker-Dealer Audits - 2018
1	123	123	140	140
2 to 20	245	1,287	257	1,443
21 to 50	27	822	24	758
51 to 100	12	810	9	641
More than 100	4	579	5	727
Total	411	3,621	435	3,709

Source: Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers, August 20, 2020 and August 20, 2019

INSPECTION RESULTS

- Inspections are not an assessment of all work performed by the firms selected for inspection or all of the procedures performed for the engagements reviewed
- The selection of firms for inspection and engagements for review do not constitute representative samples of the population of firms that audit broker-dealers or the engagements completed by those firms

INSPECTIONS BY THE NUMBERS



Source: Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers, August 20, 2020.

INSPECTION RESULTS BY CATEGORY – 2019

	Audits	Examination Engagements	Review Engagements	Auditor Independence
Applicable Engagements Reviewed	106	29	74	29
Percentage of Engagements with Deficiencies	71%	69%	51%	17%

Source: Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers, August 20, 2020.

INSPECTION RESULTS BY AUDITS PER FIRM – 2019

Broker-Dealer Audits per Firm	Number of Firms Inspected	Audits with Audit and Other Deficiencies	Areas with Audit and Other Deficiencies	Examinations with Attestation and Other Deficiencies	Reviews with Attestation and Other Deficiencies
1	10	90%	48%	N/A	67%
2 to 20	32	82%	35%	60%	70%
21 to 50	14	84%	31%	83%	69%
51 to 100	6	83%	31%	100%	22%
More than 100	4	41%	8%	63%	13%
Total	66	71%	27%	69%	51%

Source: Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers, August 20, 2020.

INSPECTION RESULTS BY AREA – 2019

	Applicable Engagements with Deficiencies	Applicable Engagements with Deficiencies
Attestation Procedures		
Review Engagements	36	49%
Examination Engagements	20	69%
Auditing Supporting Schedules		
Net Capital Rule	20	31%
Auditing Financial Statements		
Revenue	52	54%
Financial Statement Presentation and Disclosure	39	37%

Source: Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers, August 20, 2020.

REVIEW ENGAGEMENTS

- Inquiries
- Understanding exemption provisions
- Evaluation of evidence from the audit and the results of the review procedures

Applicable Engagements Reviewed	74
Engagements with Deficiencies	38
Percentage	51%

EXAMINATION ENGAGEMENTS

- Testing of Internal Control over Compliance (ICOC)
 - Management review controls
 - Controls over the accuracy and completeness of information
 - Information technology controls and automated application controls
- Performing compliance tests

Applicable Engagements Reviewed	29
Engagements with Deficiencies	20
Percentage	69%

NET CAPITAL RULE – SUPPORTING SCHEDULE

- Adjustments to net worth
 - Addition of discretionary and subordinated liabilities
- Allowable assets and assets not readily convertible to cash
 - Commissions and concessions receivable
- Haircuts for securities positions and undue concentration charges
- Operational charges and other deductions
 - Failed security transactions

Applicable Engagements Reviewed	65
Engagements with Deficiencies	20
Percentage	31%

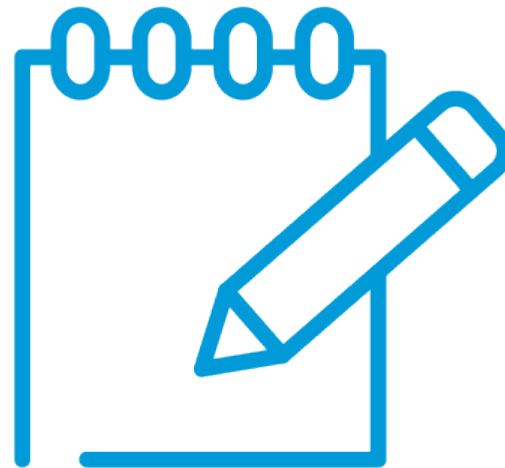
REVENUE

- Information produced by the broker-dealer used as audit evidence
- Relevant assertions
- Audit sampling

Applicable Engagements Reviewed	97
Engagements with Deficiencies	51
Percentage	53%

PRESENTATION AND DISCLOSURE

- Revenue
- Related parties
- Going concern



2020 INSPECTIONS STATUS

- Selection of firms and broker-dealer audits
- Remote inspections
- Inspection focus
 - Systems of quality control
 - Audits of the financial statements and supporting schedules
 - Examination and review engagements
 - Application of SEC staff guidance



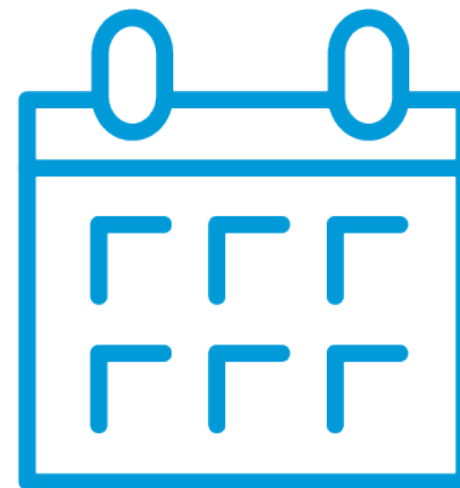
LOOKING AHEAD TO 2021

- Financial responsibility rule developments
 - Temporary relief
 - Updated SEC staff and FINRA guidance
- Financial statement audit risks
 - Fraud risks
 - Specific accounts and disclosures
 - Securities owned
 - Going concern
 - Risks and uncertainties
 - Subsequent events
 - Net capital



LOOKING AHEAD TO 2021

- Areas of potential impact from COVID-19
 - Changes in processes and controls at broker-dealers
 - Changes in processes and controls at service organizations
 - Relevance and reliability of audit evidence
 - Required communications with audit committees (or equivalents)



LOOKING AHEAD TO 2021

- New and amended auditing standards effective for fiscal years ending on or after December 15, 2020 include:
 - *AS 1105: Audit Evidence*
 - *AS 1201: Supervision of the Audit Engagement*
 - *AS 1210: Using the Work of an Auditor-Engaged Specialist*
 - *AS 2501: Auditing Accounting Estimates, Including Fair Value Measurements*



CONCLUSION

- Consider how to proactively implement improvements in the following areas:
 - Systems of quality control
 - Testing the design and operating effectiveness of ICOC
 - Consideration of relevant evidence from the audit during review engagements
 - Identification and assessment of the risks of material misstatement



QUESTIONS

Please submit any questions or feedback you might have on this presentation to forum@pcaobus.org.

