From:	suzanne shatto
To:	undisclosed-recipients
Subject:	audit deficiencies and comment on PCAOB docket 030
Date:	Friday, January 20, 2012 4:37:55 AM

oh my.
the big 4 had audit deficiencies, by PCAOB standards. PCAOB is the association of auditing professionals. they are the people putting standards in place.
we cannot see the names of the companies that had deficient audits, just the names of the auditors and the PCAOB concerns.
http://pcaobus.org/News/Releases/Pages/10172011_DeloitteReportStatement.aspx

they have 12 months to cure the deficiencies found in their auditing procedures. i think that if a deficiency is found, appropriate action with the company's financial statements need to be taken. this appropriate action might be re-verifying balances, reporting to the SEC, reporting to the audit committee of the company that suffered from a deficient audit.

http://pcaobus.org/Inspections/Reports/Pages/default.aspx

i simply put them in date order by clicking on the column.
Deloitte & Touche LLP Dec. 7, 2011
Ernst & Young LLP Nov. 30, 2011
KPMG LLP Nov. 8, 2011
PricewaterhouseCoopers LLP Nov. 8, 2011

this is my comment to: Docket 030 : Proposed Auditing Standard on Communications with Audit Committees and Related Amendments to PCAOB Standards

i am quite concerned that auditors do not know what unusual transactions are, or know enough about the securities business to be able to tell when counterfeit stock has been submitted for sale or to clear a short sale, when reserve stock has been submitted for sale. then there is the practice of brokers allowing another broker to hold securities in lieu of settling short sales.

i think auditors should be very concerned to make sure that brokers have segregated their customers' portfolios. IOU's such as options or derivatives or ETFs do not substitute for stock because there is counterparty risk.

particular care should be taken with "penny stocks", a favorite of shortsellers because the size of the profit is greater.

from my review of financials of public brokers, customers owe the brokers significant $. most financials report a net figure, subtracting a certain percentage for "bad debt" from the gross amount. it may be informative to the stockholders of public brokerages to know the percentage allowed.

auditors should make sure that anti-money laundering procedures are being followed and that the brokers know the identity of their customer. recently, brokers
http://www.finra.org/Industry/Issues/AML/P123857

http://www.sec.gov/about/offices/ocie/riskalert-mastersubaccounts.pdf
http://www.sec.gov/news/press/2011/2011-198.htm

Suspense Accounts Could Be Killers
http://www.securitiestechnologymonitor.com/blogs/garaventa-morgan-stanley-lessons-to-learn-29702-1.html

FINRA Case
#2010021779801
http://www.finra.org/Industry/Enforcement/DisciplinaryActions/
there are multiple companies fined for major problems.
search for any term in the online database.

auditors might want to receive the information in this SEC compliance seminar:
http://www.sec.gov/news/press/2011/2011-256.htm
to be webcast january 31, 2012.

further, there seems to be an increasing amount of debt that the broker owes the customer. i find it hard to believe that either of these two categories describe the trading within the last two days, before settlement. rather, the amounts appear so large as to overwhelm their customer portfolios.

if a broker is allowing significant trading to delay settlement past three days, this would be a "significant" problem. while brokers have been allowed up to 13 days to "fix" transactions, it is illegal to postpone settlement because either the broker or the shortseller didn't want to settle on time.

all transactions should settle within 3 days. shortselling transactions should have borrowed stock so that imaginary short shares do not inflate the # of shares on the market. all outstanding shortselling should be covered by these borrowed shares. the borrowed shares should be shares of customers who have margin accounts that have borrowed broker funds in order to purchase those shares. it cannot be assumed that all margin customers have loans outstanding on their account. if the transaction cannot settle within 3 days, the broker must make every effort to settle the transaction for their client or buy in the position themselves.

therefore, these outstanding balances should be trading that is less than 3 days past the trade date.

auditors represent an objective opinion, to the stockholders, to the prospective stockholder, and to the market in general.

it is important to verify that customers own their stock, with complete rights of title. counterfeit stock certificates do not deliver title to the customer. imaginary stock certificates do not deliver title to the customer. margin customers also have a right to title, even if they owe some $ to the broker because they wanted to buy the title. brokers have a fiduciary duty to their clients to control and maintain custody of their customers' purchases. if a customer purchases stock, they should be able to vote, they should be able to sell that stock, and they should be able to hold that stock.

if the buying broker does not deliver stock that was purchased by settlement, the investor's broker should buy that position in. the fact that a counterparty owes the broker's customer means that the broker should take every opportunity to acquire the stock, including buying in the position. the broker's customer is not in a position to assess the financial position of the owing broker. but the customer's broker can take action to make sure that their customer does not suffer because of a prolonged debt. there is a mechanism that the customer's broker can take, and i think that it should be mandatory that the broker represent their customer well. further, simplying filling the position on a spreadsheet is insufficient to guarantee that their customer has title to real shares.

brokers do not own their customers' portfolios. there appears to be a confusion in the industry about title. however, if you rent a car, you cannot sell that car. if you buy a car, you want the car you purchased, not the promise of the car some time in the future. customers should be able to vote their shares or not vote at all.

brokers should not allow their clients (which includes correspondent brokers) to short stock without borrowing shares. at the end of every trading day, there should be no short shares that are imaginary. all short trades should have borrowed shares to make sure that the available shares of the company are not increased. this borrowing should occur on a daily basis until the transaction is settled. if no shares are available to borrow, the shares must be bought in. the selling broker has a responsibility to borrow shares or buy in, but if the selling broker does not do this, the buying broker must.

in my opinion, it is the responsibility of the auditor to make sure that these procedures are in place and followed. the operation of the stock market is part of national security.

the broker-audit rule is not new. it was just suffering from lax enforcement.

if an auditing deficiency is found, appropriate action with the company's financial statements need to be taken. this appropriate action might be re-verifying balances, reporting to the SEC, reporting to the audit committee.

people don't have a great deal of faith in the financial statement process. this is why investors are buying less stock. it is the auditor's position to restore faith in the financial position of companies. if you think this is unimportant, just think how great it would be to live in a country where the best investment would be under your mattress. money would stop flowing, disposable income would shrink, and we may have a new unelected government based on the fact that a few shortsellers and traders would have the majority of the $ and the people who earn $ by working would be poverty-stricken. if you think i am exaggerating, this would be the result of the black swan event brought on by flooding the market with imaginary shares and taking the investors' $. the stock market is barely forming capital now and the trend has been downward for a year. i think we are already having an emergency.

delay in implementing appropriate audit procedures risks such a black swan event.

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