PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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

PCAOB Release No. 2023-005
August 10, 2023

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OVERVIEW

The Public Company Accounting Oversight Board (PCAOB), among its areas of statutory jurisdiction, has 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 financial statements subject to audit by a PCAOB-registered firm.[1] Overseeing the audits of SEC-registered broker-dealers that are subject to PCAOB review 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 2022 inspections approach;
- A summary of our 2022 inspections observations;
- A description of “good practices,” which include brief scenarios and possible procedures that may be effective to address those scenarios; and
- Recommended actions for firms.

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 that program.

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

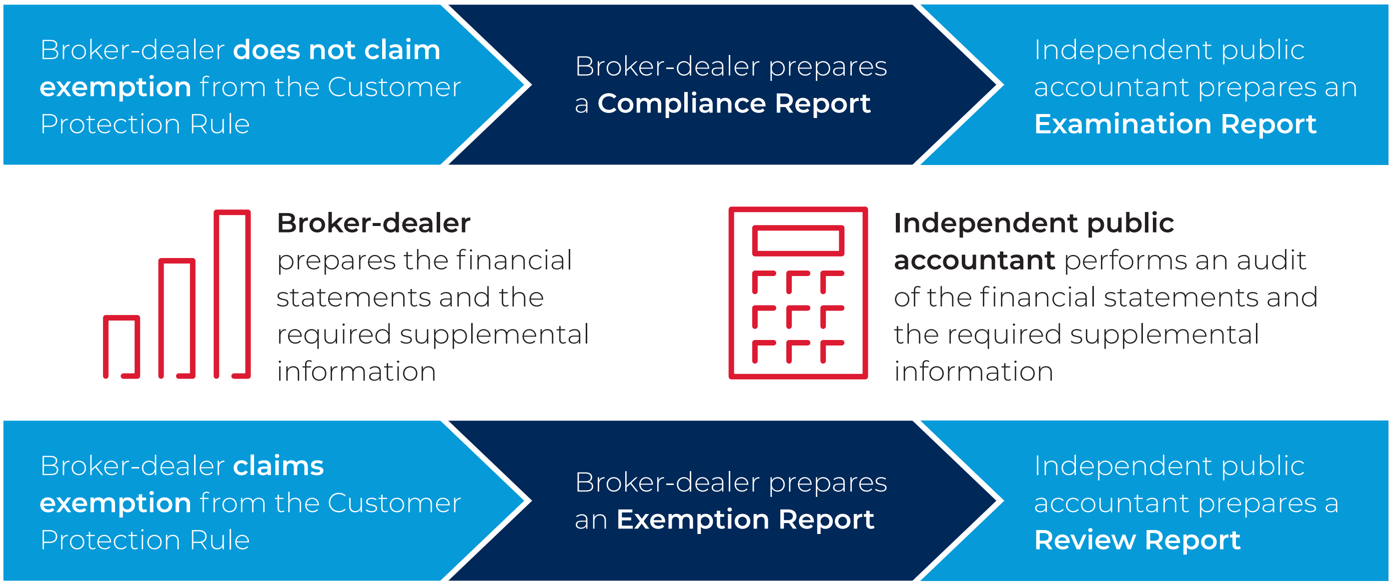
1. A financial report that includes financial statements and supporting schedules (referred to in this Annual Report as “supplemental information”);
2. Either a compliance report (if the broker-dealer did not claim it was exempt from Exchange Act Rule 15c3-3, *Customer Protection – Reserves and Custody of Securities* (“Customer Protection Rule”)) or an exemption report (if the broker-dealer claimed it was exempt from the Customer Protection Rule or was otherwise eligible under SEC rules to file an exemption report)[2]; and
3. Reports of an independent public accountant covering each of these required reports, as applicable.

The broker-dealer must engage an independent public accountant to prepare a report based on an examination of the financial report in accordance with PCAOB auditing standards (“audit engagement” or “audit”), and a report based on an examination of certain statements in the broker-dealer’s compliance report (“examination engagement”) or a report based on a review of the broker-dealer’s exemption report (“review engagement”). PCAOB attestation standards apply to examination engagements (AT No. 1) and review engagements (AT No. 2) (collectively, “attestation engagements”).

[1] The use of the term "broker-dealer" in this Annual Report refers to entities that are registered with the SEC as both a broker and a dealer and to entities that are registered as only one or the other.

[2] Broker-dealers that carry customer accounts, maintain custody or control of customer cash and securities, or clear securities transactions on behalf of customers, are among the broker-dealers that likely do not claim exemption from the Customer Protection Rule and therefore file compliance reports. The majority of broker-dealers, including introducing broker-dealers, do not perform these activities and generally 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.

In last year's Annual Report, we stated that the overall observed deficiency rates in broker-dealer engagements remained unacceptably high, despite the improvement in 2021 inspection results described in that report. With a few notable exceptions, deficiency rates observed in 2022 inspections generally increased or remained elevated across engagement types and areas. The 2022 inspection year marked our eighth year of inspections of firms that audit broker-dealers under the interim inspection program since broker-dealer audits and the related attestation engagements were required to be performed in accordance with PCAOB standards, and in that light these results are a cause for significant concern.

The key drivers of the high rate of deficiencies by engagement type are as follows:

- Audit engagements showed persistently high deficiencies related to revenue.
- Audit engagements showed increases in deficiencies related to net capital supplemental information, auditors' reports, and audit documentation.
- Review engagements showed increases in deficiencies related to the auditor's consideration of evidence that appeared to contradict statements (assertions) included in exemption reports.
- Review engagements showed increases in deficiencies related to review reports.

Notable exceptions to the overall trend of high deficiencies include the following:

- Audit engagements showed decreases in deficiencies related to customer protection supplemental information and going concern.

- Examination engagements showed a decrease in deficiencies related to testing internal control over compliance (ICOC).[3]

We also observed an increase in the percentage of firms inspected with deficiencies in quality control (QC) systems, including persistently high deficiencies associated with quality controls related to engagement performance, and, more specifically, engagement quality reviews.

Generally, the inspection results of firms that audited 100 or fewer broker-dealers continued to reflect higher percentages of audit engagements with deficiencies, compared to firms that audited more than 100 broker-dealers.

In addition to descriptions of deficiencies, this Annual Report highlights actions that we recommend firms take to improve broker-dealer audit quality, and we provide examples of good practices.[4] These recommended actions and good practices are focused on topics where deficiencies are persistently high or increasing.

Communicating information through this Annual Report helps to advance our strategic goal of enhancing PCAOB inspections, including related objectives of increasing transparency in reporting inspection results and delivering useful guidance to the audit profession. We hope this Annual Report is also helpful for other stakeholders, including management and audit committees of broker-dealers, as they engage with audit firms regarding audit quality and broker-dealer financial reporting.

[3] ICOC is defined in paragraph (d)(3)(ii) of Exchange Act Rule 17a-5 as internal controls that have the objective of providing the broker-dealer with reasonable assurance that non-compliance with (1) Exchange Act Rule 15c3-1, *Net Capital Requirements for Brokers or Dealers* ("Net Capital Rule"), (2) the Customer Protection Rule, (3) Exchange Act Rule 17a-13, *Quarterly Security Counts to be Made by Certain Exchange Members, Brokers and Dealers* ("Quarterly Security Counts Rule"), or (4) any rule of the designated examining authority of the broker-dealer that requires account statements to be sent to the customers of the broker-dealer (an "Account Statement Rule"), will be prevented or detected on a timely basis.

[4] Refer to page 13 for further discussion of good practices. Good practices are dependent upon the specific attendant facts and circumstances.

Selections Profile			
	2022	**2021**	**2020**
Total firms inspected	**50**	**50**	**65**
• **Firms that audited more than 100 broker-dealers and more than 100 issuers**	4 (8%)	4 (8%)	4 (6%)
• **Firms that audited more than 100 broker-dealers and 100 or fewer issuers**	1 (2%)	2 (4%)	0 (0%)
• **Firms that audited 100 or fewer broker-dealers**	45 (90%)	44 (88%)	61 (94%)
• **Firms that audited both broker-dealers and issuers**	32 (64%)	27 (54%)	34 (52%)
• **Firms that audited broker-dealers but not issuers**	18 (36%)	23 (46%)	31 (48%)
• **Firms that audited broker-dealers that filed compliance reports**	22 (44%)	25 (50%)	18 (28%)
• **Firms that audited broker-dealers that only filed exemption reports**	28 (56%)	25 (50%)	47 (72%)
Total audit engagements reviewed[5]	**92**	**92**	**105**
Total examination engagements reviewed	**34**	**33**	**21**
Total review engagements reviewed	**52**	**58**	**83**

[5] The sum of total examination engagements reviewed and total review engagements reviewed is lower than total audit engagements reviewed as a result of scoping decisions described on page 12.

Inspection Results Profile			
	2022	**2021**	**2020**
Firms with deficiencies in audit and/or attestation engagements	**45 (90%)**	**39 (78%)**	**51 (78%)**
Audit engagements with deficiencies	**53 (58%)**	**45 (49%)**	**64 (61%)**
In relation to the nature of the deficiencies:			
• **Involving the sufficiency and/or appropriateness of evidence obtained to support audit opinions**	46 (50%)	45 (49%)	62 (59%)
• **Involving non-compliance with other PCAOB standards and rules only**	7 (8%)	0 (0%)	2 (2%)
In relation to number of broker-dealers and issuers audited:			
• **By firms with more than 100 broker-dealers and more than 100 issuers**	11 (33%)	10 (30%)	12 (38%)
• **By other firms**	42 (71%)	35 (59%)	52 (71%)
In relation to attestation engagements:			
• **Audits with audit deficiencies and attestation deficiencies**	27 (29%)	27 (29%)	27 (26%)
• **Audits with only audit deficiencies but not attestation deficiencies**	26 (28%)	18 (20%)	37 (35%)
Examination engagements with deficiencies	**17 (50%)**	**21 (64%)**	**14 (67%)**
• **By firms with more than 100 broker-dealers and more than 100 issuers**	6 (32%)	7 (47%)	9 (56%)
• **By other firms**	11 (73%)	14 (78%)	5 (100%)
Review engagements with deficiencies	**21 (40%)**	**16 (28%)**	**19 (23%)**
• **By firms with more than 100 broker-dealers and more than 100 issuers**	2 (20%)	3 (16%)	3 (20%)
• **By other firms**	19 (45%)	13 (33%)	16 (24%)

2022 INSPECTIONS APPROACH

Under the interim inspection program, the PCAOB assesses audit firms' compliance with applicable laws, rules, and professional standards when performing audit and attestation engagements for broker-dealers. We also evaluate elements of firms' QC systems.

For our 2022 inspections, we selected PCAOB-registered firms that performed audits of broker-dealers with financial statement periods ended during the period from April 1, 2021, through March 31, 2022. The following table provides additional information about the population from which firms were selected for 2022 inspections.

Number of broker-dealer audits per firm	Number of firms	Total number of broker-dealer audits across all firms in this category
1	80	80
2 to 20	181	1,045
21 to 50	30	986
51 to 100	9	639
More than 100	5	650
Total	**305**	**3,400**

Of the 650 broker-dealers audited by firms in the "more than 100" category, 539 were audited by the four firms that also audited more than 100 issuers.

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 performed;
- Whether the firm conducted examination engagements;
- Whether the firm also issued audit reports for issuers;
- Results from previous inspections under the interim inspection program;
- The firm's or its personnel's experience with auditing broker-dealers; and
- The existence of disciplinary actions against the firm or associated persons by the SEC, PCAOB, or other regulatory authorities.

The mix of firms inspected under the interim inspection program is different each year, and our 2022 selections included nine firms inspected for the first time.

In selecting particular engagements for review, we made (1) random selections that provided an additional element of unpredictability and (2) risk-based selections that considered various broker-dealer characteristics, which included (among others):

- Whether the broker-dealer filed a compliance report with the SEC pursuant to Exchange Act Rule 17a-5;
- Whether the broker-dealer was a subsidiary of an issuer and, if so, the broker-dealer's respective significance to the consolidated financial statements of that issuer;
- Financial metrics, such as asset, revenue, and net capital levels;
- Whether the broker-dealer had changed auditors, and certain circumstances related to any such change;
- The nature of the broker-dealer's operations, such as whether the broker-dealer had custody of customer funds and securities and cleared customer transactions, the number and types of businesses in which the broker-dealer was authorized to participate, and whether it appeared that the broker-dealer engaged in activity related to digital assets; and
- The existence of disciplinary actions against the broker-dealer by the SEC, the Financial Industry Regulatory Authority (FINRA), or other regulatory authorities.

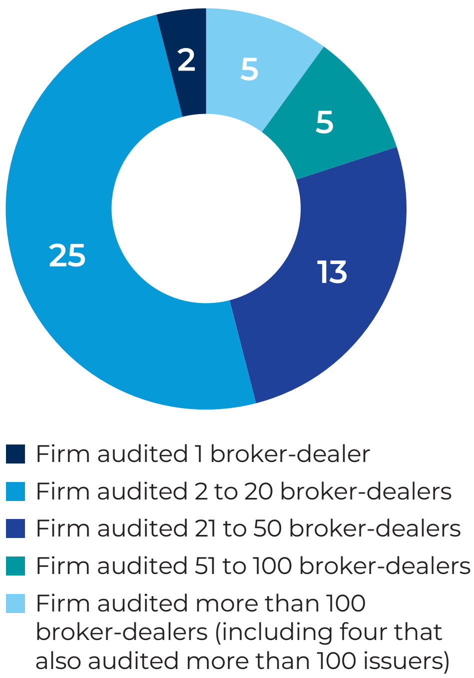
We did not review every aspect of the audit engagements we selected. Rather, we reviewed portions of those audits. We generally selected for review areas we believed to be of greater complexity and significance or areas that we believed could present a heightened risk of material misstatement to the broker-dealer's financial statements. We also selected areas, such as expenses and related accruals, on some audits in a manner designed to incorporate additional unpredictability. In addition, we reviewed certain areas relating to PCAOB standards or rules that did not affect the sufficiency or appropriateness of evidence firms obtained to support their audit opinions, such as auditor communications and audit documentation matters related to the assembly and retention of a complete and final set of audit documentation. The areas reviewed varied among audits, and the frequency with which we reviewed areas varied between years. The aspects of audit engagements we reviewed are collectively referred to as "audit areas" in this Annual Report.

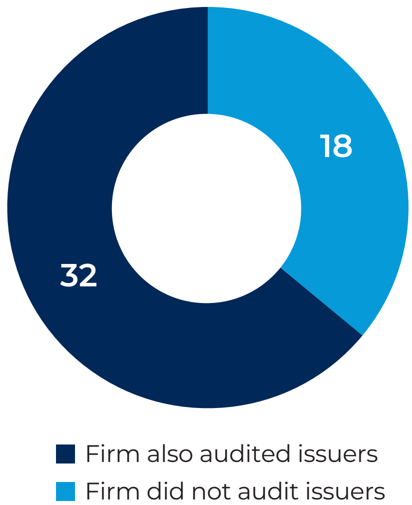
We generally focused our review of the selected attestation engagements on assertions made in broker-dealer compliance reports or exemption reports involving the protection of customer funds and securities. We also reviewed the applicable auditor's reports and engagement documentation for each selected attestation engagement.

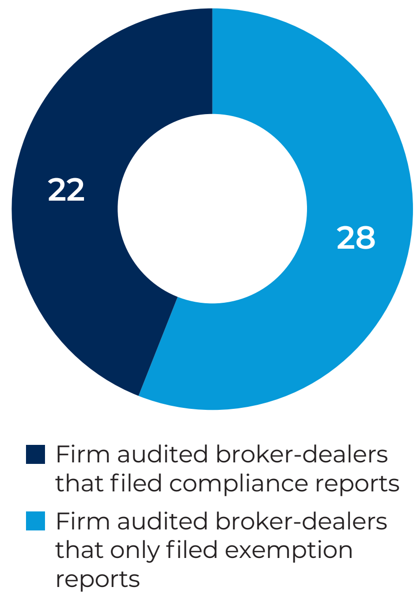
INFORMATION ABOUT SELECTED FIRMS AND ENGAGEMENTS

Firms

We selected 50 firms for inspection in 2022. The following charts depict the number of broker-dealer audits performed by those 50 firms (as determined at the time of the inspection), whether or not the firms also audited issuers, and whether the firms audited broker-dealers that filed compliance reports or audited broker-dealers that only filed exemption reports.





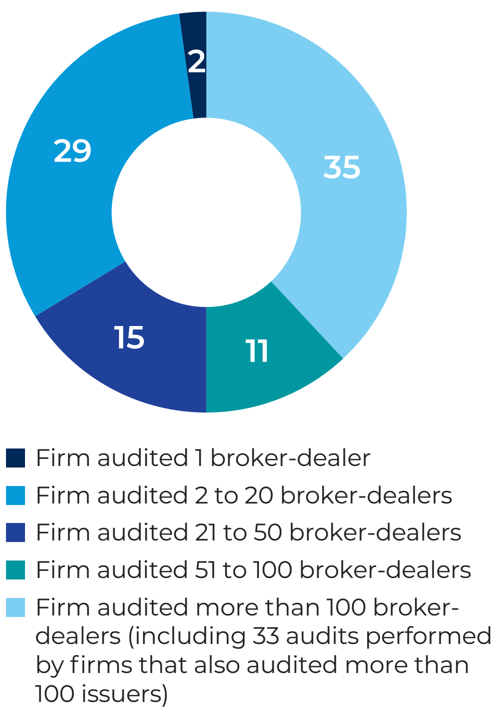


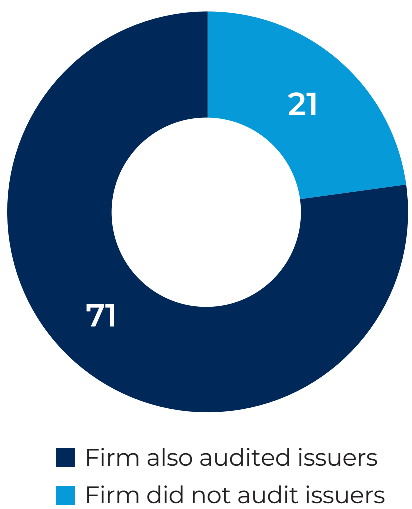
At the time of the 2022 inspections, of the 32 firms that audited issuers in addition to broker-dealers, four audited more than 100 issuers, and 28 audited 100 or fewer issuers.

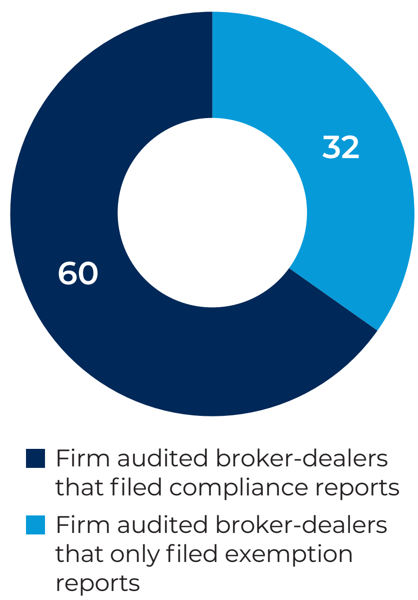
Engagements

We selected 92 financial statement audits of broker-dealers with financial statement periods that ended between April 1, 2021, and March 31, 2022, for our review during our 2022 inspections of the 50 selected audit firms.

The following charts provide information about the distribution of the 92 audits among the selected firms, using the same criteria as the corresponding firm charts.







The following table presents information about the minimum net capital requirements and actual net capital reported for the 92 broker-dealers whose audits were selected for review in 2022, stratified by whether the broker-dealer filed a compliance report or an exemption report.

Broker-Dealers	Number of audits	Range of minimum net capital requirements (Thousands)	Range of actual net capital reported at fiscal year-end (Thousands)
Compliance report filer	35	$250 - $4,500,000	$700 - $23,000,000
Exemption report filer	57	$5 - $17,000	$7 - $1,900,000
Total/Combined	**92**	**$5 - $4,500,000**	**$7 - $23,000,000**

Of the 92 selected audit engagements, we also reviewed the related attestation engagement in 86 of them. We assessed the risks associated with the remaining six engagements to not warrant review (five instances involving broker-dealers that filed exemption reports and one instance involving a broker-dealer with no customer activity that filed a compliance report).

Of the 92 selected audit engagements, 86 were risk-based selections, and six were random selections. The following table shows the percentage of audits, areas, and attestation engagements with deficiencies for the engagements selected on a risk basis and those selected at random.

Selection method	Number of audits	Percentage of audits with deficiencies	Percentage of audit areas with deficiencies	Percentage of examination engagements with deficiencies	Percentage of review engagements with deficiencies
Risk-based	86	58%	20%	50%	42%
Random	6	50%	17%	N/A	25%
Total	**92**	**58%**	**20%**	**50%**	**40%**

For four of the six broker-dealers selected randomly, we reviewed the audits of the broker-dealers and the related review engagements. We noted that the percentage of audits, audit areas, and review engagements with deficiencies was somewhat lower for random selections when compared to the risk-based selections.

Additional information about inspection results based on firm characteristics, broker-dealer characteristics, and inspection frequency is included in a supplement separate from this Annual Report.

Compared to 2020 and earlier years, in 2022 and 2021 we selected for review a greater number of engagements for broker-dealers that filed compliance reports. Broker-dealers that file compliance reports may hold customer funds, maintain control over customer securities, and provide account statements to customers, and as such may present a greater risk of loss or misappropriation of customer assets. Many broker-dealer auditors audit only broker-dealers that file exemption reports. Also, a relatively small proportion of broker-dealers file compliance reports. As such, our focus on audit and attestation engagements for broker-dealers that file compliance reports in 2022 narrowed the overall populations of both firms and broker-dealer engagements from which we made a greater proportion of our selections. In 2022, we also selected a greater percentage of audit engagements on a risk-basis, compared to engagements selected randomly. These changes are reflected in the 2022 inspection results presented in this Annual Report.

OBSERVATIONS FROM INSPECTIONS

Inspections under the interim inspection program include a review of portions of a selected firm's selected engagements and an evaluation of elements of that 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, review engagements, and audits of financial statements and supplemental information;
- Instances of potential noncompliance with SEC independence rules and instances of noncompliance with PCAOB rules related to maintaining independence (auditor independence findings); and
- Deficiencies in QC systems.

Our selections of firms for inspection and engagements for review do not constitute representative samples of the populations of firms that audit broker-dealers or broker-dealer 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 reviewed. References to deficiencies and independence findings 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 are not necessarily representative of the population of all firms that perform broker-dealer audits or of all broker-dealer audit and attestation engagements.

Throughout this section, we generally present observations within each area in order based on frequency of occurrence.

Good Practices and Recommended Actions for Firms

In this Annual Report, we highlight good practices that may be effective to address various scenarios. These good practices are provided as examples and do not modify or establish the PCAOB auditing or attestation standards, or the PCAOB rules. We also highlight recommended actions for firms that may be effective to address deficiencies that we more frequently encountered during 2022 inspections compared to recent years.

We encourage auditors to consider how these good practices and recommended actions may apply to their broker-dealer engagements and to implement changes to engagement procedures proactively where necessary to comply with PCAOB standards and rules.

Importantly, the good practices we highlight are dependent upon the specific attendant facts and circumstances.

Deficiencies in Examination Engagements

This section discusses instances in which firms did not perform – or did not sufficiently perform – certain required procedures, or otherwise comply with AT No. 1 in connection with their examinations of assertions made by broker-dealers in compliance reports. The deficiencies do not necessarily mean that the compliance reports are not fairly stated in all material respects. It is often not possible for us to reach a conclusion on that point based on our inspection because we have only the information in the broker-dealer's filings and the information the firm retained. We do not have access to the broker-dealer's management or direct access to its underlying books and records, and other information.

	2022			2021	2020
	Number of engagements reviewed	Number of engagements with deficiencies	Percentage	Percentage	Percentage
Examination engagements	34	17	50%	64%	67%

General Requirements

Firms did not obtain a sufficient understanding of the financial responsibility rules[6] that were relevant to the broker-dealer's assertions. (AT No. 1.06)

Firms did not assemble a complete and final set of examination documentation by the documentation completion date. (AT No. 1.06; AS 1215.15)

Planning the Examination Engagement

Firms did not obtain a sufficient understanding of broker-dealer processes, including relevant controls, regarding compliance with one or more financial responsibility rules. (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 Reserve Requirements Rule and the effectiveness of the broker-dealer's ICOC. (AT No. 1.10)

[6] 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."

Recommended Action for Firms: General Requirements and Planning the Examination Engagement

Enhance procedures to obtain an understanding of the broker-dealer financial responsibility rules and processes, including relevant controls, regarding compliance with the rules.

In 2022, there was an increase in deficiencies related to (1) obtaining an understanding of the financial responsibility rules relevant to the broker-dealer's assertions and (2) understanding processes, including relevant controls, regarding compliance with the financial responsibility rules.

We recommend that firms evaluate the applicability of each broker-dealer financial responsibility rule to each of their broker-dealer clients and challenge assertions that certain rules do not apply.

For example, auditors should challenge assertions that the Quarterly Security Counts Rule does not apply to a broker-dealer that maintains responsibility for custody of customer securities, or that the Account Statement Rule does not apply to a broker-dealer that maintains customer accounts.

We also remind firms to take into account the following factors in AT No. 1.09 when determining the nature, timing, and extent of procedures that are necessary to obtain an understanding of the broker-dealer's processes and controls: (1) the size and complexity of the broker-dealer, (2) the auditor's existing knowledge of the broker-dealer's processes and controls, (3) the degree to which the broker-dealer's compliance depends on the completeness and accuracy of the broker-dealer's internally-generated data, (4) the nature and extent of changes in the broker-dealer's systems and operations, if any, and (5) the nature of the broker-dealer's documentation of its processes and controls.

Testing Controls over Compliance

Deficiencies in testing ICOC continue to drive high deficiency rates in examination engagements. Many of the deficiencies relate to AT No. 1 requirements for auditors to obtain sufficient appropriate evidence about the operating effectiveness of controls important to the auditor's conclusion regarding the effectiveness of ICOC ("important controls").

Deficiency Focus

Testing Controls Over Compliance

The majority of examination engagement deficiencies related to testing the design and operating effectiveness of important controls over compliance with broker-dealer financial responsibility rules. (AT No. 1.11, .14, .16, and .20) The level of deficiencies overall declined from the prior year but remained high.

Where did firms fall short in testing important controls?

Firms did not test, or sufficiently test: (1) controls over the accuracy and completeness of information produced by the broker-dealer upon which the design and operating effectiveness of ICOC were dependent; and (2) 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 matters identified by management were resolved.

Specific deficiencies relating to four aspects of the financial responsibility rules are as follows:

1. For the Account Statement Rule, firms did not test, or sufficiently test, controls ensuring that all customers received their account statements either electronically or by mail. In addition, firms did not test, or sufficiently test, controls over customer consent to receive account statements electronically and whether those customers were able to access their account statements. Firms also did not test, or sufficiently test, controls over the completeness and accuracy of information in account statements.
2. For the Reserve Requirements Rule, firms did not sufficiently test controls related to the determination of credit balances reported within the customer reserve computation pursuant to Exhibit A of the Customer Protection Rule. Firms also did not test, or sufficiently test, controls over the broker-dealer's establishment and maintenance of a special reserve bank account for the exclusive benefit of its customers or for broker-dealers in accordance with the Reserve Requirements Rule.
3. For the possession or control requirements of the Customer Protection Rule, one firm did not sufficiently test controls over identification and resolution of deficits requiring action in the timeframe specified by the rule (for customers with multiple accounts under common ownership).
4. For the Quarterly Security Counts Rule, one firm did not test controls over the verification of securities that were subject to the broker-dealer's control or direction but not in the broker-dealer's physical possession, where such securities were in that status for more than 30 days (specifically, comparison of the verification results to the broker-dealer's records, and timely recording of all unresolved differences).

In other cases, firms did not test the design or operating effectiveness of any ICOC with one or more financial responsibility rules.

One firm did not obtain evidence regarding the design and operating effectiveness of a superseded control that operated during the period.

Good Practices: Account Statement Rule

Scenario: A broker-dealer provides all customers who consent to electronic delivery access to their account statements in electronic form. The broker-dealer generates the customer account statements using information obtained from its internal systems and maintains the application used to store the account statements and make them available to customers (the "portal"). The auditor determines controls over electronic delivery of account statements to be important to the auditor's conclusion about whether the broker-dealer maintained effective ICOC with the Account Statement Rule.

Good Practices:

In addition to testing the design and operating effectiveness of controls over the completeness and accuracy of information included in the account statements, the auditor tests the design and operating effectiveness of controls related to the following objectives associated with electronic delivery of account statements:

- Customer consent to electronic delivery;
- Completeness of the population of customers who are to receive account statements and reconciliation to the population of account statements generated;
- Timely notification to customers regarding the availability of their account statements; and
- Customer ability to access their account statements via the portal.

Performing Compliance Tests

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

- Testing the accuracy and completeness of the information used to prepare the computations required by the applicable rules and evaluating whether the balances reported within the computations were determined in accordance with the applicable rules;
- Determining whether the broker-dealer obtained written notification letters, and whether the written notification letter obtained by the broker-dealer included language required for accounts to qualify as special reserve bank accounts; and
- Determining whether, after a withdrawal, a special reserve bank account balance satisfied the required amount in accordance with the Reserve Requirements Rule. (AT No. 1.21)

One firm did not perform procedures to obtain evidence about the existence of customer securities. (AT No. 1.23)

Evaluating the Results of the Examination Procedures

One firm did not evaluate whether a notification the broker-dealer received that it did not appropriately establish its special reserve bank account contradicted the broker-dealer's assertions regarding the effectiveness of the broker-dealer's ICOC with respect to the Reserve Requirements Rule during the year. In addition, one firm did not evaluate whether a deficiency in ICOC that resulted in an instance of noncompliance with the Net Capital Rule and Reserve Requirements Rule during the year represented a material weakness. (AT No. 1.25 and .26)

Obtaining a Representation Letter

Firms did not obtain written representations from management of the broker-dealer. (AT No. 1.32)

Deficiencies in Review Engagements

This section discusses instances in which firms did not perform – or did not sufficiently perform – certain required procedures, or otherwise comply with AT No. 2 in connection with their reviews of assertions made by broker-dealers in exemption reports. The deficiencies do not necessarily mean that the exemption reports are not fairly stated in all material respects. It is often not possible for us to reach a conclusion on that point based on our inspection because we have only the information in the broker-dealer's filings and the information the firm retained. We do not have access to the broker-dealer's management or direct access to its underlying books and records and other information.

	2022			2021	2020
	Number of engagements reviewed	Number of engagements with deficiencies	Percentage	Percentage	Percentage
Review engagements	52	21	40%	28%	23%

General Requirements

One firm did not obtain a sufficient understanding of the conditions relevant to the broker-dealer's claim of exemption under paragraph (k)(1) of the Customer Protection Rule. (AT No. 2.05)

Firms did not assemble a complete and final set of review documentation by the documentation completion date or properly document additions to the work papers after the report release date. (AT No. 2.05; AS 1215.15 and.16)

One firm did not document its review procedures in a manner that would enable an experienced auditor, having no previous connection with the review engagements, to determine the person(s) who reviewed the work. (AT No. 2.05; AS 1215.06)

Review Procedures

Firms did not evaluate evidence obtained in the audit of the financial statements that contradicted broker-dealer assertions regarding compliance with the exemption provisions in exemption reports. Such evidence included, for broker-dealers that only claimed an exemption under paragraph (k)(2)(ii) of the Customer Protection Rule, evidence from broker-dealer books and records and financial statements that described customer securities businesses that were conducted outside of arrangements with clearing brokers. (AT 2.10)

Firms did not make required inquiries, including inquiries about controls in place to maintain compliance with the exemption provisions and those involving the nature, frequency, and results of related monitoring activities. (AT No. 2.10)

One firm did not perform procedures to determine whether customer checks received by the broker-dealer at branch locations and forwarded to the broker-dealer's home office were promptly transmitted. (AT 2.10)

Obtaining a Representation Letter

Firms did not obtain written representations from management of the broker-dealer. (AT No. 2.13)

Reporting on the Review Engagement

Firms did not accurately identify in their review reports assertions made by broker-dealers in their exemption reports, including:

- For broker-dealers that did not include in their exemption reports the required assertion that they met the identified exemption provision (or other bases for claiming exemption from the Customer Protection Rule) throughout the most recent fiscal year without exception, firm review reports nonetheless referred to such an assertion;
- For broker-dealers that filed exemption reports but did not claim an exemption under paragraph (k) of the Customer Protection Rule, firm review reports did not accurately describe the assertions made by broker-dealers regarding other bases for filing an exemption report; and
- Firm review reports that did not identify the broker-dealer's identified exemption provision. (AT No. 2.16)

Firms did not accurately identify, in their review reports, the broker-dealer's exemption report. (AT No. 2.16)

One firm, in its review report, did not include the required statement regarding management's responsibility for compliance with the identified exemption provisions throughout the fiscal year and for its assertions in its exemption report. (AT No. 2.16)

One firm dated its review report prior to the date on which it completed its review procedures. (AT No. 2.18)

Recommended Action for Firms: Reporting on the Review Engagement

Remind engagement teams and engagement quality reviewers of their obligation to perform their work with due professional care.

In 2022, deficiencies related to reporting on the review engagement increased. Many of these deficiencies involved firms that mischaracterized, in review reports, assertions made by broker-dealers in exemption reports. Deficiencies of this nature should be easily avoided if auditors performed their reviews with due professional care.

We recommend that auditors compare the assertions made in the broker-dealer's exemption report to references to assertions made by the broker-dealer in the firm's review report. We also recommend that auditors take into consideration the required elements of the review report in AT No. 2.16, the illustrative review report example in AT No. 2.17, and the broker-dealer's exemption report requirements in paragraph (d)(4) of SEC Rule 17a-5, when performing their review. When inconsistencies are identified, we recommend that auditors obtain an understanding of the reason for the inconsistency and determine whether one or both reports should be revised. If a broker-dealer omits statements required by SEC Rule 17a-5 from its exemption report, we recommend that auditors encourage the broker-dealer to revise its exemption report to include the required statements.

Deficiencies in Audits of Financial Statements and Supplemental Information

This section discusses instances in which firms did not perform – or did not sufficiently perform – certain required procedures, or otherwise comply with the applicable standards in connection with their audits of broker-dealer financial statements and of supplemental information accompanying broker-dealer financial statements. The deficiencies do not necessarily mean that the broker-dealer's financial statements and supplemental information are not fairly presented in all material respects. It is often not possible for us to reach a conclusion on those points based on our inspection because we have only the information in the broker-dealer's filings and the information the firm retained. We do not have access to the broker-dealer's management or direct access to its underlying books and records, and other information.

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	2022			2021	2020
	Number of audits	Number of audits with deficiencies	Percentage	Percentage	Percentage
Revenue	88	30	34%	33%	47%
Evaluating audit results	92	19	21%	17%	26%
Related party relationships and transactions	18	6	33%	22%	25%
Expenses and related accruals	14	4	29%	25%	N/A
Securities owned and securities sold, not yet purchased[7]	6	3	50%	23%	4%
Receivables and payables	15	2	13%	14%	22%
Post-audit matters	1	1	100%	0%	0%

Revenue

Many of the deficiencies in the revenue area relate to requirements for auditors to perform audit procedures to address assessed risks of material misstatement for all relevant assertions of each significant account and disclosure, plan appropriate audit samples, and obtain audit evidence that is sufficient and appropriate. Certain deficiencies described in the sections of this Annual Report entitled “Identifying and Assessing Risks of Material Misstatement” and “Evaluating Audit Results” also involve revenue.

[7] We renamed this area from Fair Value Measurements used in prior annual reports to appropriately reflect the deficiencies identified during 2022 inspections.

Deficiency Focus

Revenue – Responding to Risks of Material Misstatement

Most of the deficiencies in the revenue area related to firms that did not adequately respond to the risks of material misstatement for each relevant assertion of significant revenue accounts and disclosures. (AS 2301.08)

In many cases, firms either identified a fraud risk related to revenue or did not rebut the presumption of revenue recognition as a fraud risk. Accordingly, these firms should have addressed the risk of material misstatement through appropriate substantive procedures that included tests of details.

Where did firms fall short in responding to these risks?

Deficiencies in this area included instances of firms that did not perform any procedures for one or more significant revenue accounts, or did not perform procedures to address the assessed risks of material misstatement for one or more relevant assertions for one or more significant revenue accounts. More specifically, the following were deficiencies related to auditing common sources of broker-dealer revenue:

1. For commissions, firms did not sufficiently test whether the commission recorded by the broker-dealer was accurate based on the terms of the securities trade (including price and quantity) and the applicable commission or commission rate.
2. For investment advisory fees, firms did not sufficiently test the accuracy of the amount of assets under management, and whether fee rates were consistent with the terms of broker-dealer contracts with customers.
3. For trading gains and losses, firms did not test prices and quantities associated with broker-dealer security purchases and sales.
4. For investment banking fees, firms did not sufficiently test the amount of capital raised, the rate used to determine fees, whether the investment banking transactions had occurred, and whether the performance obligations were satisfied prior to revenue recognition.
5. For merger and acquisition and other advisory fees, firms did not sufficiently test whether the merger or acquisition transactions had occurred, or the advisory services had been provided.

In addition, for deficiencies in this area specific to significant disclosures, firms did not evaluate whether revenues, such as investment advisory fees, variable annuity trails, and 12b-1 fees, that were reported by the broker-dealer 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, pursuant to FASB ASC Topic 606, *Revenue from Contracts with Customers*. One firm did not test the accuracy of the customer concentration percentages and related revenue amounts disclosed by a broker-dealer in its financial statements.

Deficiencies in auditing revenue with dual citations to AS 2301.08 and another PCAOB standard are described elsewhere in the "Revenue" section of this Annual Report.

Recommended Action for Firms: Revenue

Enhance procedures to evaluate the presentation and disclosure of revenue.

In 2022, deficiencies related to the presentation and disclosure of revenue increased. We recommend that firms consider how revenue from contracts with customers is (1) presented, including taking into account how information about the broker-dealer's revenue was presented in its Financial and Operational Combined Uniform Single (FOCUS) report when evaluating the broker-dealer's selection of categories to use to disaggregate revenue; and (2) disclosed, including evaluating whether the broker-dealer disclosed information about its performance obligations for each of its business activities.

When planning a sample for a substantive test of details, firms did not consider tolerable misstatement, the allowable risk of incorrect acceptance, or the characteristics of the population. (AS 2315.16, .23, and .23A).

When selecting a sample for a substantive test of details, 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)

Firms used information produced by the broker-dealer as audit evidence, but did not test, or sufficiently test, the accuracy and completeness of that information, whether by testing controls, testing the information, or a combination of both. (AS 1105.10)

When establishing the extent of substantive procedures, firms did not take into account the materiality of the account or the assessed risk of material misstatement. (AS 2301.08, .37, and.42)

When performing substantive tests of details, one firm limited testing to revenue from one customer, did not test the remaining balance, and inappropriately projected the results of its procedures to the entire population. (AS 1105.27; AS 2301.08)

One firm performed substantive analytical procedures but did not perform tests of details that were specifically responsive to the assessed fraud risk of improper revenue recognition. (AS 2301.08 and .13)

Evaluating Audit Results

Firms did not sufficiently evaluate whether the presentation of broker-dealer financial statements, including disclosures, was in conformity with FASB ASC Topic 606, with respect to:

- Qualitative disclosures of information about performance obligations in contracts with customers;
- Underwriting revenue recognized prior to the satisfaction of the related performance obligation; and
- Principal trading gains presented net of clearing expenses and other trading fees. (AS 2810.30 and .31)

Firms did not detect that the broker-dealer's presentation of noncash transactions and restricted cash was not in conformity with FASB ASC Topic 230, *Statement of Cash Flows*. (AS 2810.30 and .31)

One firm did not sufficiently evaluate whether the broker-dealer's accrual of compensation liabilities was in conformity with FASB ASC Topic 710, *Compensation – General*. (AS 2810.30)

One firm did not detect an omitted disclosure of accounting policies for accounts receivable required by FASB ASC Topic 310, *Receivables*. (AS 2810.30 and .31)

One firm did not take into account relevant qualitative factors when evaluating the materiality of an uncorrected misstatement and omitted disclosures related to the presentation and disclosure of fractional share transactions with customers, in conformity with FASB ASC Topic 860, *Transfers and Servicing*. (AS 2810.17)

Refer to the sections of this Annual Report entitled "Related Party Relationships and Transactions" and "Securities Owned and Securities Sold, Not Yet Purchased" for descriptions of deficiencies related to evaluation of financial statement disclosures in those respective areas.

Related Party Relationships and Transactions

Firms did not test, or sufficiently test, the accuracy and completeness of data used to allocate expenses or revenues between broker-dealers and their affiliates. (AS 2301.08; AS 2410.11 and .12)

Firms did not identify omitted disclosures of information necessary to understand the effects of related party transactions on the broker-dealer's financial statements in accordance with FASB ASC Topic 850, *Related Party Disclosures*. (AS 2410.17; AS 2810.30 and .31)

One firm did not inquire of management regarding related party relationships and transactions and did not take into account information gathered during the audit in evaluating whether the broker-dealer had properly identified its related party relationships and transactions. (AS 2410.05, .14, and .17)

Expenses and Related Accruals

Firms did not test one or more relevant assertions for expense and related accrual accounts. (AS 2301.08)

One firm used information produced by the broker-dealer as audit evidence but did not sufficiently test the accuracy and completeness of that information because it did not test the information directly and its control testing was limited to design effectiveness procedures. (AS 1105.10)

When using substantive analytical procedures, one firm did not develop expectations that were sufficiently precise to identify material misstatements and did not corroborate the broker-dealer's management responses regarding significant unexpected differences with other evidential matter. (AS 2305.17 and .21)

Securities Owned and Securities Sold, Not Yet Purchased

One firm did not perform procedures to test the fair value of municipal bonds and their level 1 classification within the fair value hierarchy pursuant to FASB ASC Topic 820, *Fair Value Measurement*. (AS 2501.07)

One firm did not detect that the broker-dealer's level 1 classification of municipal bonds within the fair value hierarchy was not in accordance with FASB ASC Topic 820. (AS 2501.30; AS 2810.30 and .31)

One firm did not evaluate whether the broker-dealer's accounting for its fractional share transactions with its customers was in accordance with FASB ASC Topic 860. (AS 2301.08)

Receivables and Payables

One firm did not perform sufficient procedures to test the completeness of payables to customers, and used information produced by the broker-dealer as audit evidence in its substantive procedures to test valuation without testing the accuracy and completeness of that information. (AS 1105.10; AS 2301.08)

One firm did not perform sufficient alternative or other procedures for confirmation nonresponses over receivables from customers and correspondents. (AS 2310.33)

Post-Audit Matters

One firm did not identify that a broker-dealer's revised financial statements did not include a reason for the revision in the notes to the financial statements and the reason for the revision was not referred to in the auditor's report. (AS 2905.06)

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	2022			2021	2020
	Number of audits	Number of audits with deficiencies	Percentage	Percentage	Percentage
Net Capital Rule	41	11	27%	18%	31%
Customer Protection Rule	25	6	24%	46%	39%

Net Capital Rule

Firms did not perform, or sufficiently perform, procedures to evaluate whether the following aspects of net capital computations were determined in compliance with the Net Capital Rule:

- Allowable assets and assets not readily convertible into cash, including deposits with and receivables from clearing broker-dealers, commissions receivable, and deferred tax assets;
- Adjustments to net worth, specifically the addition of discretionary, subordinated, and deferred tax liabilities;
- Minimum net capital requirements, including exclusion of certain liabilities from aggregate indebtedness;
- Deductions with respect to excess fidelity bond coverage; and
- Securities haircuts. (AS 2701.04)

One firm did not identify the omission of a reconciliation and description of a material difference between the computation of net capital included as supplemental information in the broker-dealer's financial statements and the FOCUS report. (AS 2701.04)

Firms did not obtain written representations from management of the broker-dealer. (AS 2701.05)

Customer Protection Rule

Firms did not perform, or sufficiently perform, procedures to test the completeness and accuracy of information presented in customer and broker-dealer reserve computations, including information produced by the broker-dealers or the broker-dealers' service organizations used to prepare the computations. Firms also did not perform, or sufficiently perform, procedures to evaluate whether customer reserve computations were determined in compliance with the Reserve Requirements Rule, including whether accounts qualified as special reserve bank accounts. (AS 2701.04)

Firms did not perform, or sufficiently perform, procedures to test the completeness and accuracy of information relating to the possession or control requirements for customers. Firms also did not perform, or sufficiently perform, procedures to evaluate whether information relating to the possession or control requirements for customers was determined in compliance with the Customer Protection Rule, including whether instructions to reduce to possession or control were issued for fully paid securities and excess margin securities. (AS 2701.04)

Firms did not obtain written representations from management of the broker-dealer. (AS 2701.05)

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	2022			2021	2020
	Number of audits	Number of audits with deficiencies	Percentage	Percentage	Percentage
Auditors' reports on the financial statements and supplemental information	92	16	17%	1%	7%
Audit documentation	92	14	15%	3%	2%
Identifying and assessing risks of material misstatement	92	9	10%	5%	6%
Consideration of fraud in a financial statement audit[8]	9	2	22%	0%	0%
Auditor communications	92	2	2%	3%	2%

Auditors' Reports on the Financial Statements and Supplemental Information

Firms omitted or did not properly present required elements in the auditor's report in accordance with AS 3101, including:

- Title of the auditor's report; (AS 3101.06)
- Section title "Opinion on the Financial Statements" or required elements from the opinion on the financial statements section of the auditor's report; (AS 3101.08)

[8] We renamed this area from Risk of Material Misstatement Due to Fraud used in prior annual reports to align with the title of the related PCAOB standard, AS 2401. Other deficiencies related to fraud risks based on the requirements of other PCAOB standards are included in other areas in this Annual Report.

- Section title "Basis for Opinion" and required elements from the basis for opinion section of the auditor's report. (AS 3101.09); and
- Tenure for the firm. (AS 3101.10)

Firms omitted or did not properly present required elements in the auditor's report on supplemental information in accordance with AS 2701, including:

- Identification of the supplemental information, including a descriptive title of the supplemental information or reference to the page number and document where the supplemental information was located;
- Required statements, including a statement that the supplemental information has been subjected to audit procedures performed in conjunction with the audit of the financial statements; and
- An opinion on whether the supplemental information was fairly stated, in all material respects, in relation to the financial statements as a whole, or a disclaimer of opinion. (AS 2701.10)

One firm dated its auditor's report prior to completion of the audit procedures performed over the supplemental information. (AS 2701.12)

Recommended Action for Firms: Auditor's Reports

Remind engagement teams and engagement quality reviewers of their obligation to perform their work with due professional care.

In 2022, deficiencies related to the auditor's report on the financial statements and supplemental information increased. The example deficiencies in the chart below involve required elements in auditor's reports in accordance with AS 3101 and AS 2701. Deficiencies of this nature should be easily avoided if auditors performed their reviews with due professional care. We recommend that auditors take into consideration the illustrative example of an auditor's unqualified report in Appendix B of AS 3101 and the example of an auditor's report on supplemental information when included in the auditor's report on the financial statements in AS 2701.13, when performing their reviews.

<table>
<tr><th>PCAOB standard citations</th><th>Example deficiencies</th></tr>
<tr><td rowspan="5">AS 3101.08</td><td>Opinion section incorrectly identified broker-dealer financial statements. For example, referring to the:
“Statement of income and expenses” as “statement of operation”; and
“Statement of changes in stockholder’s equity” as the “statement of changes in members’ equity”.</td></tr>
<tr><td>Opinion section omitted reference to a financial statement (e.g., statement of changes in liabilities subordinated to claims of general creditors) included in the broker-dealer’s filing.</td></tr>
<tr><td>Opinion section referred to a financial statement that was not included in the broker-dealer’s filing.</td></tr>
<tr><td>Opinion section omitted a statement indicating that the related notes to the financial statements were audited.</td></tr>
<tr><td>Opinion section expressed an opinion on the broker-dealer’s financial statements for the incorrect year.</td></tr>
<tr><td>AS 3101.09</td><td>Basis for opinion section omitted the following statements:
PCAOB standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud;
The audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks; and
The auditor is a public accounting firm registered with the PCAOB (United States) and is required to be independent with respect to the broker-dealer in accordance with the U.S. federal securities laws and the applicable rules and regulations of the SEC and the PCAOB.</td></tr>
<tr><td>AS 2701.10</td><td>Auditor’s report on supplemental information incorrectly identified the notes to the financial statements and Form SIPC-7 as supplemental information subjected to audit procedures.</td></tr>
</table>

Audit Documentation

Firms did not assemble a complete and final set of audit documentation by the documentation completion date, or properly document additions to the audit work papers after the report release date. (AS 1215.15 and .16)

One firm did not document its audit procedures in a manner that would enable an experienced auditor, having no previous connection with the audit engagement, to determine the person(s) who reviewed the work. (AS 1215.06)

One firm did not include abstracts or copies of significant agreements in its documentation of audit procedures related to the inspection of those agreements. (AS 1215.10)

Identifying and Assessing Risks of Material Misstatement

Firms did not perform sufficient risk assessment procedures in certain areas of the financial statement audit, which contributed to deficiencies described in the sections of this Annual Report entitled "Revenue" and "Securities Owned and Securities Sold, Not Yet Purchased." Specifically, firms did not:

- Sufficiently evaluate qualitative and quantitative risk factors related to financial statement line items and disclosures or determine the likely sources of potential misstatements; (AS 2110.59, .60, and .61)
- Obtain a sufficient understanding of the broker-dealer's internal control over financial reporting, including information systems, business processes, and control activities, to identify and assess the risks of material misstatement and design further audit procedures; (AS 2110.18 and .28)
- Identify and assess the risks of material misstatement at the financial statement level or assertion level; (AS 2110.59) and
- Evaluate the design of broker-dealer controls intended to address an identified fraud risk and determine whether those controls had been implemented. (AS 2110.72)

One firm did not perform required inquiries regarding fraud risks. (AS 2110.54 and .56)

Consideration of Fraud in a Financial Statement Audit

Firms did not obtain a complete population of journal entries for identifying and selecting specific entries and other adjustments for testing. (AS 1105.10; AS 2401.61)

Good Practices: Management Override of Controls

Scenario: The auditor identified management override of controls to be a fraud risk. As part of obtaining an understanding of the broker-dealer's financial reporting process and controls over journal entries and other adjustments, the auditor learned that journal entries are not required to have descriptions. The auditor identified fraud risk factors in the journal entry population, including incomplete journal entry descriptions. The auditor performed procedures to test the completeness of the population of journal entries and observed journal entries with and without descriptions.

Good Practices:

- As part of its fraud inquiries, the auditor inquired of individuals involved in the broker-dealer's financial reporting process regarding any requests received to exclude descriptions, or to include inaccurate descriptions, from journal entries.
- The auditor selected several entries without descriptions from throughout the reporting period as part of its sample of entries to test, in addition to selecting entries that corresponded to other identified fraud risk factors.
- For entries without descriptions the auditor obtained supporting documentation, inquired of the preparer and approver regarding the nature and business purpose of each entry, and assessed whether the supporting documentation corroborated their responses.

Auditor Communications

One firm did not affirm in writing to the audit committee that the firm was independent with respect to the broker-dealer in compliance with PCAOB Rule 3520, as prescribed by PCAOB Rule 3526.

One firm's conclusion that an identified deficiency constituted a significant deficiency instead of a material weakness appeared to be contradicted by information in the audit work papers. (AS 1305.04)

Auditor Independence Findings

This section discusses instances of potential noncompliance with SEC rules or instances of noncompliance with PCAOB rules related to maintaining independence.[9] An instance of potential noncompliance with SEC rules or an instance of noncompliance with PCAOB rules does not necessarily mean that the Board has concluded the firms were not objective and impartial throughout the professional engagement period.

Area	2022			2021	2020
	Number of audits	Number of audits with findings	Percentage	Percentage	Percentage
Auditor independence	9	1	11%	0%	9%

One firm assisted in the preparation of the statement of cash flows included in the broker-dealer's financial statements, which appeared to impair its independence. Assistance by the auditor with the preparation of financial statements being audited is not a permissible service as under Rule 2-01(c)(4)(i) of the SEC's Regulation S-X.

Deficiencies in Quality Control Systems

This section of this Annual Report discusses instances of noncompliance with PCAOB QC standards. Our inspections indicate that 28 firm QC systems (out of 50 inspected) did not appear to provide reasonable assurance that firm personnel had complied with applicable professional standards in the areas of engagement performance, monitoring, and/or independence, integrity, and objectivity.

Area	2022			2021	2020
	Number of firms	Number of firms with QC deficiencies	Percentage	Percentage	Percentage
Engagement performance	50	27	54%	46%	66%
Monitoring	50	2	4%	0%	0%
Independence, integrity, and objectivity	50	1	2%	4%	0%

[9] Violations of SEC independence rules that firms have reported to the PCAOB, including vis-à-vis their broker-dealer clients, are addressed through a separate PCAOB inspection program, and, consequently, are not included in this Annual Report, consistent with prior years.

Engagement Performance

Firm policies and procedures did not provide reasonable assurance that:

- Engagement teams assembled a complete and final set of audit and attestation documentation for retention as of the documentation completion date in accordance with AS 1215. (QC 20.03, .17 through .19)
- Engagement teams documented their audit and attestation procedures in a manner that would enable an experienced auditor, having no previous connection with the engagement, to determine the person(s) who reviewed the work. (QC 20.03, .17 through .19)
- Engagement partners reviewed and supervised audit and attestation engagements with due professional care in accordance with AS 1201, which contributed to not identifying deficiencies in those engagements. (QC 20.03 and .17)

Firm policies and procedures did not provide reasonable assurance that engagement quality reviews for audit and attestation engagements were performed with due professional care in accordance with AS 1220. This contributed to engagement quality reviewers not identifying certain errors in, or the omission of certain required disclosures from, broker-dealer financial statements, documents containing broker-dealer management assertions, and engagement reports. It also contributed to engagement quality reviewers not identifying deficiencies in audit responses in areas of significant risks, including fraud risks. All of these areas were required to be reviewed by the engagement quality reviewer. (QC 20.03 and .17) In addition, other firms did not perform engagement quality reviews for broker-dealer audit and attestation engagements. (QC 20.03 and .17)

One firm did not establish policies and procedures regarding engagement quality reviews pursuant to AS 1220 for broker-dealer engagements. (QC 20.03 and .17)

The following table provides information about engagement quality review deficiencies by engagement type:

Engagement type	2022			2021	2020
	Number of engagements	Number of engagements with deficiencies	Percentage	Percentage	Percentage
Audit engagements	49	23	47%	47%	68%
Review engagements	21	14	67%	39%	74%
Examination engagements	15	3	20%	19%	14%

Monitoring

Firm policies and procedures for monitoring their accounting and auditing practice required the performance of internal inspection procedures; however, firms did not perform internal inspection procedures or alternative procedures for broker-dealer audit and attestation engagements. (QC 20.20; QC 30.03 through .09)

Independence, Integrity, and Objectivity

One firm did not establish policies and procedures to provide reasonable assurance that professional staff and external engagement quality reviewers complied with PCAOB and SEC independence rules and regulations. (QC 20.03, .09, and .10)

PCAOB STANDARDS AND RULES ASSOCIATED WITH INSPECTIONS OBSERVATIONS

AT No. 1	Examination Engagements Regarding Compliance Reports of Brokers and Dealers
AT No. 2	Review Engagements Regarding Exemption Reports of Brokers and Dealers
AS 1105	Audit Evidence
AS 1201	Supervision of the Audit Engagement
AS 1215	Audit Documentation
AS 1220	Engagement Quality Review
AS 1305	Communications About Control Deficiencies in an Audit of Financial Statements
AS 2110	Identifying and Assessing Risks of Material Misstatement
AS 2301	The Auditor’s Responses to the Risks of Material Misstatement
AS 2305	Substantive Analytical Procedures
AS 2310	The Confirmation Process
AS 2315	Audit Sampling
AS 2401	Consideration of Fraud in a Financial Statement Audit
AS 2410	Related Parties
AS 2501	Auditing Accounting Estimates, Including Fair Value Measurements
AS 2701	Auditing Supplemental Information Accompanying Audited Financial Statements
AS 2810	Evaluating Audit Results
AS 2905	Subsequent Discovery of Facts Existing at the Date of the Auditor’s Report
AS 3101	The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion
QC 20	System of Quality Control for a CPA Firm’s Accounting and Auditing Practice
QC 30	Monitoring a CPA Firm's Accounting and Auditing Practice
Rule 3520	Auditor Independence
Rule 3526	Communication with Audit Committees Concerning Independence

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