

March 18, 2015

The Honorable Mary Jo White
Chair
U. S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

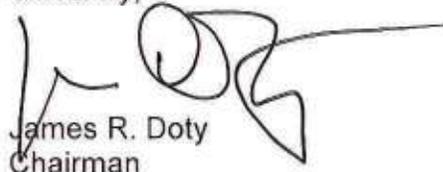
Dear Chair White:

I am pleased to transmit to you a summary of the Public Company Accounting Oversight Board's most recent performance review, titled Review of the Public Company Accounting Oversight Board's Broker Dealer Inspection Program. The Board's Office of Internal Oversight and Performance Assurance (IOPA) conducted this performance review. The Board formed IOPA to provide the Board, the Securities and Exchange Commission, and others assurance that the PCAOB is achieving the objectives of Title I of the Sarbanes-Oxley Act in an effective manner. IOPA conducts its reviews in conformance with Government Auditing Standards issued by the Comptroller General of the United States.

IOPA undertook this review to determine the progress of the Division of Registration and Inspections (DRI) in building an interim inspections program for auditors of brokers and dealers. IOPA concluded that DRI had made significant progress in building an interim inspections program for auditors of brokers and dealers that would (1) assist the Board in making informed judgments about the scope of a permanent program and (2) prepare the infrastructure to execute that program once adopted. IOPA's report also noted a number of areas that will require sustained attention as the PCAOB prepares to transition to a permanent broker-dealer inspection program. Both the Director of DRI and the Chief Administrative Officer provided a written response to IOPA's draft of this report and agreed with the recommendations.

The Board intends to publish the attached summary on the PCAOB's Web site on or about March 27, 2015. You and your staff should feel free to contact me or the Director of IOPA, Peter Schleck (202-207-9085), if you have any questions or would like any additional information about the review.

Sincerely,



James R. Doty
Chairman

Enclosure: Review of the Public Company Accounting Oversight Board's Broker Dealer Inspection Program (IOPA-2015-003), March 17, 2015

cc: The Honorable Luis A. Aguilar
The Honorable Daniel M. Gallagher
The Honorable Kara M. Stein
The Honorable Michael S. Piwowar

PERFORMANCE REVIEW

REVIEW OF THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD'S BROKER DEALER INSPECTION PROGRAM (IOPA-2015-003)

INTERNAL OVERSIGHT AND PERFORMANCE ASSURANCE
MARCH 17, 2015

BACKGROUND AND OBJECTIVE

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank) expanded the Public Company Accounting Oversight Board's (PCAOB) oversight responsibilities to include audits of brokers^{1/} and dealers.^{2/} Under the Act, the PCAOB is to conduct inspections of audits of brokers and dealers registered with the Securities and Exchange Commission (SEC). The Act also provides the PCAOB with enforcement and standard-setting authority over these audits.

While the Act requires that the Board establish, by rule, an inspections program for auditors of brokers and dealers, it does not stipulate such details as the scope of the program or the frequency of inspections. Further, it does not establish any timeframes for implementation. These decisions are left to the Board's discretion, subject to the approval of the SEC.

On June 14, 2011, the Board adopted a temporary rule (Rule 4020T^{3/}) for an interim-inspections program to allow the Board to consider the scope and other elements of a permanent program. The SEC approved the rule on August 18, 2011. At the time the Board adopted the temporary rule, the release indicated that the Board expected to propose rules for a permanent program in 2013.

^{1/} Any person engaged in the business of effecting transactions in securities for the account of others.

^{2/} Any person engaged in the business of buying and selling securities for his own account, through a broker or otherwise.

^{3/} PCAOB Rule 4020T: Temporary Rule for an Interim Program of Inspection Related to Audits of Brokers and Dealers (June 14, 2011).

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PCAOB's Division of Registration and Inspections (DRI) began conducting inspections under the interim program in late 2011 and has continued since. As part of the interim program, the Board issues annual progress reports on the program and any significant issues identified. Firm-specific reports will likely not be issued until inspections are conducted under a permanent program. The Board issued progress reports in August 2012, August 2013 and August 2014.

The most recent progress report, issued in August 2014,^{4/} reported a universe of 790 registered firms that audited brokers and dealers and 4,302 brokers and dealers that filed audited annual financial statement with the SEC.^{5/} It also noted that since the inception of the interim inspection program through the end of 2013, the Board had inspected 101 firms,^{6/} covering portions of 173 audits. Observations (audit deficiencies and independence findings) were identified in portions of 151, or approximately 87 percent, of the 173 audits selected for inspection.

When the interim program commenced, audits of broker-dealers were conducted under AICPA^{7/} standards. However, beginning with audits of broker-dealers with year-ends of June 1, 2014, auditors are required to conduct audits under PCAOB standards.^{8/}

The Office of Internal Oversight and Performance Assurance (IOPA) conducted this review to determine DRI's progress in building an interim inspections program for auditors of brokers and dealers.^{9/}

^{4/} Third Report on the Progress of the Interim Inspection Program Related to Audits of Brokers and Dealers (Aug. 18, 2014)

^{5/} For fiscal years ended during the period from July 1, 2012 through June 30, 2013.

^{6/} Nine firms had been inspected more than once.

^{7/} American Institute of Certified Public Accountants

^{8/} On July 30, 2013, the SEC amended Rule 17a-5 to require, in part, that audits of broker-dealers' financial statements and supplemental information, and examinations of broker-dealers' compliance reports, and reviews of broker-dealers' exemption reports be conducted by firms registered with the PCAOB and in accordance with PCAOB standards.

^{9/} This is a public summary of the report. The full report, prepared in accordance with Government Auditing Standards, has been issued to the Board. The full report includes a detailed discussion of the review objective, scope, and methodology.

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RESULTS IN BRIEF

DRI has made significant progress in building an interim inspections program for auditors of brokers and dealers that will (1) assist the Board in making informed judgments about the scope of a permanent program and (2) prepare the infrastructure to execute that program once adopted. Since its inception in 2011, the broker-dealer firm group (BDF) led by a Program Leader who reports to the Director of DRI has grown to more than 60 inspectors. These inspectors come from diverse backgrounds and include individuals with expertise in auditing, inspecting, and/or regulating the broker-dealer industry. Inspectors within BDF spoke very highly of the Program Leader as well as of their peers.

By the end of 2014, BDF planned to have completed 179 inspections of auditors of brokers and dealers registered with the SEC. These inspections will have covered portions of 291 audits. PCAOB has communicated the results of inspections to the public in accordance with PCAOB Rule 4020T. While not identifying the firms inspected, these annual reports describe and summarize audit deficiencies and independence findings noted during inspections for the most recent inspections cycle. The 2014 report also provided a summary of inspections performed since the inception of the interim program through the end of 2013.

In addition, BDF has developed an Interim Inspection Program Handbook, various tailored inspection guides, templates, and internal training. BDF leaders and staff have consulted with and learned from other programs within DRI while developing the interim program. BDF uses DRI's Inspections Information System to document the results of its inspections. BDF has also formed good working relationships and regular channels of communication with the Office of Research and Analysis (ORA), Office of Chief Auditor (OCA), Division of Enforcement and Investigations (DEI), and Office of General Counsel (OGC).

While operations appear to be running smoothly under the interim program, IOPA noted a number of areas that will require sustained attention as the PCAOB prepares to transition to a permanent broker-dealer inspection program. Specifically, DRI will need to:

- Continue to build a well-qualified staff with expertise related to brokers and dealers. BDF has struggled with recruiting from a limited pool of candidates and was unable to meet hiring goals despite an increased employee referral bonus and use of agency finder's fees. BDF also needs to continue to train and retain staff once on board.
- Continue to focus on developing and proposing a permanent program. In order to fully evaluate the scope and frequency of the permanent program, BDF must provide the Board with thoroughly developed and analyzed alternative solutions. This process requires continued efforts to collect and analyze non-public data on brokers and dealers,

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evaluate inspection results, and incorporate economic analysis into the proposed solutions.

- Prepare for the addition of firm-specific report writing and remediation under the permanent program. BDF has limited experience with both report writing and remediation. In addition, establishing an efficient process will take time and require additional resources.
- Establish a schedule for rule proposal for the permanent program. BDF has yet to establish a formal timeline with the Board pertaining to steps in the rule proposal process. Formulating a sensible timeline to propose a permanent program will more clearly establish the PCAOB's progress in establishing such a program.

Based on this review, IOPA made recommendations to the Director of DRI and the Chief Administrative Officer (CAO) to help facilitate the PCAOB's transition to a permanent broker-dealer inspection program. Both the Director of DRI and the CAO provided a written response to IOPA's draft of this report and agreed with each of the recommendations. Management's planned actions are responsive to the recommendations.