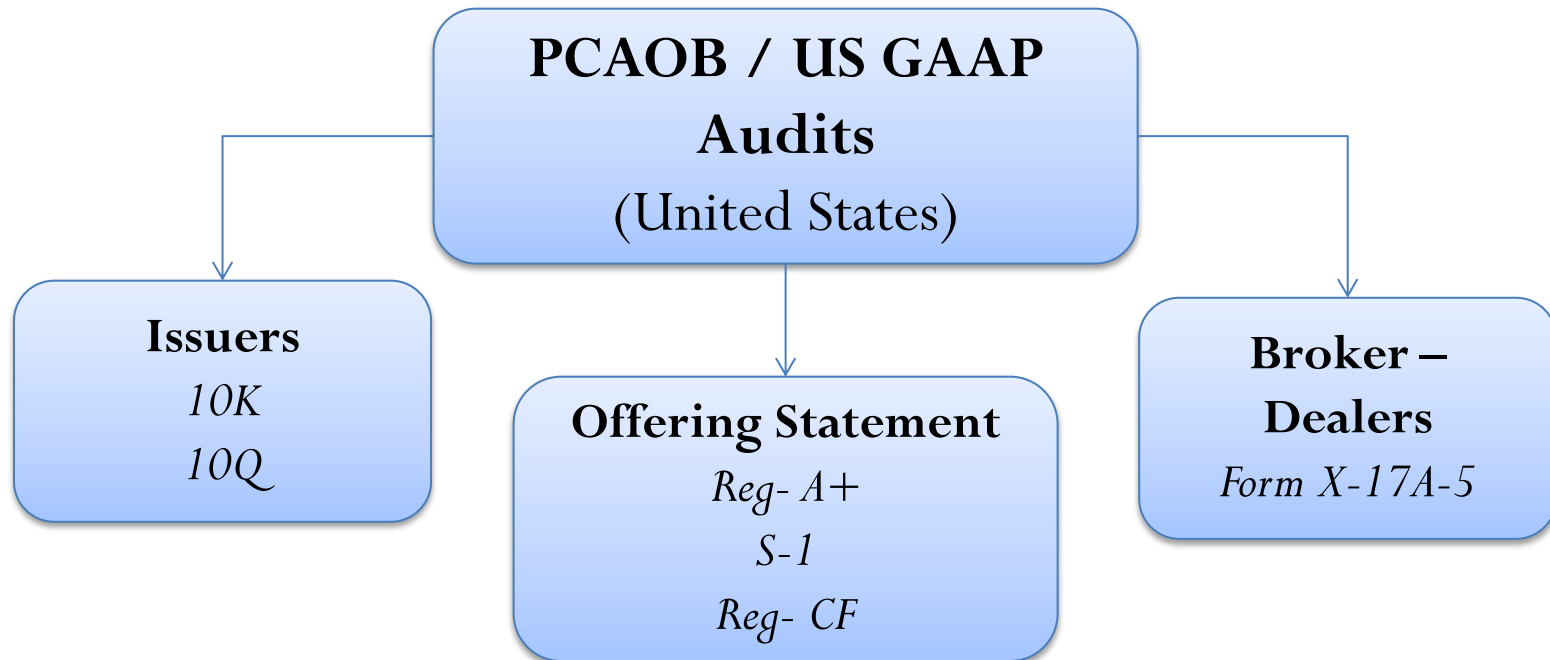


# Audits of Brokers - Dealers



# Introduction



# Pre - requisites of an audit

1. A signed engagement letter
2. Firm's independence to Audit Committee / Management
3. Declaration of employee's independence
4. Communication with predecessor auditor
5. Initial audit checklists
  - i. Basic client information
  - ii. Client inquiries
  - iii. Fraud questions
  - iv. General inquiries
  - v. Related party inquiries



# Introduction to Broker - Dealers

# Broker - Dealers

- ✓ Broker-dealer engages in the business of trading securities for its own account or on behalf of its customers
- ✓ It is a natural person, company or other organization (LLP, LLC, partnership)
- ✓ In the United States, all broker-dealers are regulated under the Securities Exchange Act of 1934 by the *Securities and Exchange Commission (SEC)*
- ✓ Every broker that sells securities to the public must be licensed and registered by *Financial Industry Regulatory Authority (FINRA)*, a self-regulatory organization
- ✓ All brokers and dealers registered with the SEC are required to be members of the *Securities Investor Protection Corporation (SIPC)*
- ✓ Many states also regulate broker-dealers under separate state securities laws (called "blue sky laws")

# Compliances and procedures

# Compliances

- ❑ **Form BD:** To register a broker-dealer (BD) firm with the SEC, self-regulatory organizations and jurisdictions
- ❑ **Form BR:** Enables firms to register its branch office
- ❑ **Form U4 & U5:** To update / terminate individual's registration
- ❑ **Compliance programs**
  - Anti-money laundering (AML)
  - Written supervisory procedures manual (WSP)
  - Business continuity planning (BCP)
- ❑ **Regulatory filings:**
  - e – focus: Quarterly Focus Report - Part II / IIA
  - Annual audits
- ❑ **IRS – K1 / Schedule C:** Informative income tax return to be filed with IRS

# Compliances

- ❑ **AML audits:** Annual audits by FINRA to ensure the firm detects and reports suspicious activity
- ❑ **FINRA routine cycle exam:** All firms are examined no less than once every four years
- ❑ **Custody Form:** Containing information about whether and how it maintains custody of its customers securities and cash
- ❑ **SIPC- 3:** Certification of exclusion from membership
- ❑ **SIPC- 6:** General Assessment Payment Form
- ❑ **SIPC- 7:** General Assessment Reconciliation Form





# Audit procedures

- Engagement Letter
- Independence Letter
- Predecessor communication
- Work paper access of prior years
- Assess previous years' SEC / FINRA filings
- Share information requirement list (IRL) + initial checklists + balance confirmations (AR / AP, RP, cash & bank)
- Work on the engagement
- Obtain Management Representation Letter (MRL)
- Issue Audit Reports



# Initial information request

# E-mail for initial information

Message Information Request List.xlsx (28 KB) 1. Basic Information.xlsx (5 MB) 2. Related Party Inquiries.doc (46 KB)  
3. Fraud Questions.doc (45 KB) 4. General Inquiries.doc (49 KB) 5. Client Inquiries.doc (229 KB)  
6. Cash Certificate.docx (26 KB) 7. Balance Confirmation- Receivables or Payables.docx (27 KB) 8. Bank Request Letter.doc (68 KB)

Hi Jed

Please find attached list of information required for initiating the audit for the year ending December 31, 2018. Request you to please share the information enlisted there in and add your remarks to the list for our reference.

The details of other attachment are as follows:

- **Checklists (Attachment 1-5):** Kindly provide the completed and signed checklists.
- **Cash Certificate (Attachment 6):** Kindly provide the completed confirmation. It is required for cash held as on December 31, 2018. Please confirm if the Company holds any cash in hand.
- **Balance Confirmations- Receivables/ Payables (Attachment 7):** Kindly share completed confirmation with receivables and payables of the Company to obtain their confirmation on outstanding balances, if any.
- **Balance Confirmations- Bank (Attachment 8):** Kindly complete and forward the Bank Request Letter on your letterhead along with the Annexure to your bankers. The Bank Manager shall duly fill the annexure confirming the balance in bank accounts held by the Company.

Please let us know if you need any further clarifications.

# Format of IRL

S.No.	Category	Description
1	General	Business profile of the Company describing its business activities
2	General	Bylaws and Charter of the Company (Company Constitution) including Articles of Organization and Certificate of Formation
3	General	FINRA registration certificate i.e. Form - BD, BR
	General	Other Forms filed by the Company / Firm i.e. Form U-4, U-5, etc.
4	General	Other business licenses held by the Company, if any
5	General	Manuals for BCP, AML & WSP
6	General	Quarterly FOCUS report filed
7	General	Form SIPC - 6 for the half year ended
8	General	Form SIPC - 7 for the current audit year and last year
9	General	All agreements entered by company such as lease agreement, employee, vendor agreements, agreements with members etc. (if any)
10	General	Details of employees including their pay-outs, if any
11	General	Minutes of any meetings held by members wherein any decisions are taken by them
12	General	Basic Client Information (Refer Attachment- 1)
13	General	Fraud Questions (Refer Attachment- 2)
14	General	Related Party Inquires (Refer Attachment- 3)
15	General	General Inquiries (Refer Attachment- 4)
16	General	Client Inquiries (Refer Attachment- 5)
17	General	Draft letter on management's assertion regarding exemption provision
18	General	Report of latest AML audit of the Company
19	General	Disposition letter for a routine cycle exam by FINRA
20	General	Contact details (e-mail) for Communicating with predecessor auditor

S.No.	Category	Description
21	Financials	Access to accounting software in which books of accounts of the Company has been maintained for the year ended.
22	Financials	Audit pack of Company's / Firm's financial statements for last 2 years
23	Financials	Draft financial statements and notes to accounts for the period as per USGAAP
24	Financials	Draft computation of net capital
25	Financials	Draft statement of general assessment reconciliation, if applicable.
26	Cash	Cash certificate for the cash held (Refer Attachment- 6)
27	Bank	Bank statements for the year under audit
28	Bank	Bank Reconciliation Statement (if any)
29	Bank	Bank balance confirmation for the balances (Refer Attachment- 8)
30	Receivables / Payables	Balance Confirmation- Receivables and related party (Refer Attachment- 7)
31	Unearned Revenue	List of accruals and pre-payments
32	Revenue	Agreements executed by the Company along with the invoices raised to it's clients / dealers
33	Expenses	Agreements and invoices for the expenses incurred by the Company
34	Expenses	FINRA flex / CRD statements for the year under audit
35	Employee compensation	Monthly payroll sheets and offering letters of all employees, if any
36	Taxes	Latest income tax return filed by the Company with IRS (K-1 issued to its members, if S-corp)
37	Taxes	Documents evidencing payment of any statutory dues to IRS, if any
38	Legal	Details of any on-going litigations claims or assessments, if any

# Standard Checklist

# Standard checklist

<b>S.No.</b>	<b>Particulars</b>
1	Audit plans
2	Client acceptance / continuance checklist
3	Initial audit engagement activities
4	Risk assessment
5	Materiality
6	Variance analysis
7	Summary of adjusted and unadjusted differences
8	Quality Partner Review
9	PCAOB auditing standard checklist
10	US GAAP accounting disclosure checklist
11	QC- 20
12	QC-30
13	Communication to audit committee
14	Conclusion & Reporting
15	Engagement completeness checklist
16	Post-audit review



# Audit Pack

# Audit Pack

## ❖ Set of financials

- Statement of Financial Condition
- Statement of Operations
- Statement of Changes in Member's Equity
- Statement of Cash Flows
- Notes to the Financial Statements

## ❖ Supplementary information

- I - Computation of Net Capital Pursuant to Rule 15c3-1 of the SEC
- Other Information
  - II - Computation for Determination of the Reserve Requirements Under Rule 15c3-3 of the SEC
  - III – Information Relating to the Possession and Control Requirements Under Rule 15c3-3 of the SEC



# Audit Reports

- Types of audit reports
  - Report of Independent registered public accounting firm
  - Report of Exemption under 15c3-3(k)
  - Independent Accountant Agreed-Upon Procedures Report on Schedule of Assessment and Payment (SIPC)



# Audit Documentation

# Audit Documentation

- AS 3: A complete and final set of audit documentation should be assembled for retention as of a date not more than *45 days* after the report release date
- All documents obtained during the course of audit shall form part of audit documentation
- Prepare
  - ✓ A permanent file (at the time of first engagement)
  - ✓ All audit checklists (signed by respective engagement partner)
  - ✓ Mapping of annual filing with supporting information
  - ✓ Soft client folders and move it to the dropbox
- Scanning and archiving

Thank  
You



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# Thank You!!

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