



CERTIFIED PUBLIC ACCOUNTANTS

14 Penn Plaza, Suite 1800

New York, NY 10122

F 212-613-0099

F 212-496-7502

WWW.METISGROUPLLC.COM | OFFICES: BASKING RIDGE, NJ • PLAINVIEW, NY • ARMONK, NY • BOSTON, MA • BOCA RATON, FL

September 2, 2011

VIA ELECTRONIC MAIL

Public Company Accounting Oversight Board  
Office of the Secretary  
1666 K Street, NW  
Washington, D.C. 20006

**Re: PCAOB Rulemaking Docket Matter No. 035 (Proposed Standards for Attestation Engagements Related to Broker and Dealer Compliance or Exemption Reports Required by The U.S. Securities and Exchange Commission and Related Amendments to PCAOB Standards)**

Dear PCOAB:

I appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) proposed rules, **Proposed Standards for Attestation Engagements Related to Broker and Dealer Compliance or Exemption Reports Required by The U.S. Securities and Exchange Commission and Related Amendments to PCAOB Standards**, which pertain to broker dealers. I am an auditor of referring broker dealers that are not public companies that have not previously been subject to PCAOB standards and rules. I believe my experience as a broker dealer auditor, as well as my experience as a bank auditor and committee member of the New York State Society of CPA's Banking and Stock Brokerage Committees allow me to bring a useful perspective. I have also worked on audits of public companies and their subsidiaries during my career.

Please note that all comments are those of the undersigned, Howard Gluckman, C.P.A., and do not represent any opinion of my firm or any other individual members or employees or consultants of my firm, Metis Group Certified Public Accountants LLC, nor of any of the New York State Society of CPA committees of which I am a member or any other committee member.

I support the Board's efforts in proposing these rules and I find them well thought out, well written and clear. I generally do not support additional clarifications, which could



limit the professional judgment necessary to comply with the standards and lead to unnecessarily increase in costs, especially to smaller broker dealers. Current auditing standards together with these proposed standards should suffice for any qualified auditor. I find, however, that some of the wording and a few of the points can cause problems that might lead to additional audit hours and costs to the broker dealer that would not add to the quality of the engagement or its conclusions.

I respectfully request the Board to consider the following suggestions before finalizing the rules.

1. Attestation Standard para. 13, Identifying Risks of Material Non-Compliance

- a. There is mention that the auditor should read all internal audit reports. But I believe the Board should discuss here the use of the broker dealer internal auditor for reliance on internal controls and testing of internal controls, if the broker dealer has an internal auditor. Proper use of internal auditor reports and work papers, and review of those internal auditor work papers can be very effective and often can reduce the amount of testing the external auditor would be required to perform.

Use of internal auditors is discussed in AICPA Standards AU Section 322.12 through 322.27.

2. Attestation Standard, Testing Controls over Compliance

- a. Para. 15: You state that “The auditor must obtain evidence that the controls over compliance selected for testing are designed effectively and operated during the entire fiscal year.” This implies that you would need evidence that the compliance operated every single day of the fiscal year (based upon the word “entire”). But the SEC Proposed Rule 17a-5 reference (paragraph (d)(3)(i)(B)(3)) uses the term “throughout the fiscal year”. This may be a small semantic question, but I believe the Board should use the SEC “throughout” and not the word “entire”. I believe a testing of multiple days could give you comfort for a conclusion throughout the year, but I see the “entire” year meaning every single day. To conclude about every single day, one would have to test every day.
- b. Para. 16: You state “As the risk associated with the control being tested increases, the evidence that the auditor should obtain also increases.” As risk increases with a control, the evidence becomes more important to the audit. But it does not necessarily increase in number of transactions to be tested or dollar amounts or the type of test. The auditor reaction to increased risk depends upon the circumstances. The word “increases” is unclear and should be changed. I would suggest stating that as the risk associated with the control tested increases, the evidence that the auditor

should obtain becomes more important; the auditor should takes appropriate steps so that the quality of the evidence matches the severity of the risk.

- c. Para. 17: As a factor that affects the risk associated with a control you include “the extent of use of part-time personnel to perform controls over compliance.” It may be true in large broker dealers that the use of part-time personnel is a risk factor, because large broker dealers do not generally use part-time personnel so that the use of part-time personnel might be an indication of not considering a procedure important. In a smaller organization it is not so unusual to use part-time personnel, because the amount of work at a high level might not be sufficient to employ a qualified full time employee. The question is the qualification of the individual and the integrity of the individual, and not whether they are full time or part time employees. The bullet before the one about part-time personnel already calls for evaluating the competence of the broker dealer personnel. I recommend the comment be changed to evaluate hiring and training procedures to prevent use of employees who are not qualified to perform their control procedure or have not been properly trained on the procedure’s requirements and importance.
- d. Para. 18: You state that the auditor should obtain evidence regarding design effectiveness of the selected controls before and after a change in policies and procedures or key personnel. A broker dealer may have numerous changes in its policies and procedures, and even in key personnel. To obtain evidence regarding design effectiveness for every such change before and after will require the auditor to literally be reading broker dealer committee meetings daily, especially to anticipate changes and test them before the change. The point here should not be for the auditor to obtain evidence of every such change before and after they occur. Rather the important issue is for the auditor to be cognizant of the fact that many, but not all, changes in key personnel and/or policies and procedures can lead to weaknesses in the effectiveness of controls. Therefore, the standard should require that the auditor determine with the broker dealer management what types of changes could materially affect control effectiveness. Management must monitor the changes, keep records of how they effect the control environment and report actions taken to maintain control effectiveness. The auditor must test and evaluate if proper actions have been taken by management at the right time, and whether the actions taken by management have been done in a manner to ensure continuing satisfactory control. If the auditor is not satisfied with the actions by management and believes any change may or may have affected controls significantly in the negative, then the auditor must test

the design effectiveness relevant to the change to determine if his work or report need to reflect that finding.

- e. Para. 20: The auditor is required to test the operating effectiveness of the selected controls over compliance by determining “whether each control” is operating as designed. To prevent confusion about the word “each” control, which might imply every control must be tested, I would suggest you change the wording to “each control selected for testing”.

### 3. Attestation Standard, Evaluating the Results of Examination Procedures

- a. Para. 30(c): States the “The auditor should evaluate the effect of any instance of non-compliance or identified control deficiency on the auditor’s assessed risks of material non-compliance.” Although I understand that even very minor instances of non-compliance or control deficiencies may be an indication of a material non-compliance, there are many broker dealer rules that are very minor. Some small instances of non-compliance might only be an indication an isolated case or some matter that could never be material. I believe you should leave it up to the judgment of the auditor as to when and how every instance of non-compliance or control deficiency will be evaluated. You can require that the auditor look at all instances of non-compliance/deficiencies of which he becomes aware, but that any evaluation or other steps be left to auditor’s judgment depending upon the circumstances rather than require every one be evaluated.

### 4. Attestation Standard, Communication Requirements

- a. Para. 37 requires the auditor to communicate to management identified instances of non-compliance, control deficiencies, and instances of information not derived from the broker dealer’s books and records. My problem is the lack of definition of “identified”. Is the instance “identified” as soon as the auditor becomes aware of its existence, or only if the auditor concludes it is some type of significant deficiency? The general rule in auditing is to inform your client in writing of all violations and deficiencies of which you become aware unless they are “clearly inconsequential”. I would recommend that type of wording with the addition of “unless they are clearly inconsequential” so that broker dealers and their auditors are not wasting time and costs on totally insignificant matters.

### 5. Proposed Amendments to PCAOB Standard No. 7, Engagement Quality Review

- a. The Board is recommending both an engagement quality review and a concurring approval of issuance for each audit engagement, each

engagement to review interim financial information, and each attestation engagement. The requirement for engagement quality review and engagement concurring approval is well documented and accepted for SEC filings of financial statements of public companies. The American Institute of Certified Public Accountants (AICPA) has not adopted this requirement for audits and attestation engagements of non-public companies. I have not studied the AICPA decision, but I believe it is based upon the fact that existing generally accepted auditing standards require that the work be properly supervised and reviewed and considered by the CPA before reaching a conclusion and issuing a report. It is up to the judgment of the CPA as to whether there is a need for additional audit work, consulting of a fellow professional in the firm, or seeking outside professional assistance for any review or release approval. In the case of most non-public companies there is simply no need for additional quality review or a concurring approval. The additional time and cost do not justify the risk and additional comfort that may be attained, if any.

Many broker dealers are small and do not have significant accounting or auditing issues that merit both additional quality review and a separate concurring approval. Many merit additional quality review, but not a concurring approval. The added costs for small broker dealers can be significant with little or no additional professional quality.

I strongly recommend the Board consider a capital size, gross income size, or amount of customer liability size as a cut off for requiring either one or both additional quality review and concurring approval. I would suggest, as a framework for discussion, a cutoff in the neighborhood of capital, gross income, and/or customer liability of \$10 million each.

I thank you again for the opportunity to offer my thoughts on the proposal. I would be happy to discuss any of these matters. You can reach me at 212-643-0099 extension 242 or by email at [hgluckman@metisgroupllc.com](mailto:hgluckman@metisgroupllc.com).

Respectfully submitted,



Howard Gluckman, C.P.A.