



September 9, 2011

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

RE: 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

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the TSCPA. The PSC has been authorized by the TSCPA Board of Directors to submit comments on matters of interest to the PSC membership. The views expressed in this letter have not been approved by the TSCPA's Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the TSCPA.

In our discussion of the above referenced exposure draft (ED), we considered each of the 35 questions posed by the PCAOB in Appendix 4. Our response to each question is indicated below.

Question 1: Are the general requirements included in the proposed examination standard sufficiently clear?

Yes, the general requirements are clear and understandable.

Question 2: Are there additional general requirements that the Board should include for an examination engagement?

We believe the general requirements are sufficient as stated.

Question 3: In what other way could the Board promote coordination of the examination engagement with the audit of the financial statements and supplemental information?

We believe the best way to promote coordination of the examination engagement with the audit of the financial statements and supplemental information would be to require the auditor of the financial statements to be the one to issue the examination report.

Question 4: Are the matters that the auditor should take into account in determining the extent of the examination procedures to be performed at selected divisions or branches adequate? Are there other matters that the auditor should take into account?

The matters that the auditor should take into account determining the extent of the examination procedures to be performed at selected divisions or branches are adequate and no other matters appear to be necessary.

Question 5: When a broker or dealer has multiple divisions or branches, do situations exist in which the auditor that is engaged to perform the examination engagement uses the work of other auditors? If so, should the proposed examination standard establish requirements that govern the use of the work of other auditors?

We believe there could be situations in which the auditor engaged to perform the examination may use the work of other auditors. However, in such situations we believe the existing standards related to using the work of other auditors is sufficient and no need exists for establishing additional requirements.

Question 6: Is a risk-based approach to the examination engagement appropriate? What alternative approaches should the Board consider and why?

The risk-based approach appears to be an appropriate approach to use in the examination engagement. However, we can envision the possibility that unique circumstances may call for an alternative approach to the performance of the examination engagement. We believe such situations would be rare and unique. Thus, we suggest that the Board recognize the possibility that such circumstances may arise and allow the auditor to exercise his or her professional judgment in determining the best approach to use in such situations.

Question 7: Are the procedures required by the proposed examination standard to identify and assess risks of material non-compliance sufficiently clear? Are there additional procedures that the Board should require?

The procedures required by the proposed examination standard to identify and assess risks of material non-compliance are sufficiently clear. While there may be the need to apply additional procedures in certain circumstances, we do not believe the Board should expand the list of required procedures. Rather, the Board should acknowledge the possibility that additional procedures may be necessary and should encourage auditors to exercise professional judgment to develop and apply the additional procedures they believe are necessary to assess the risk of material non-compliance.

Question 8: Are the requirements in the proposed examination standard for testing controls over compliance sufficiently clear?

We believe the requirements in the proposed examination standard for testing controls over compliance are sufficiently clear.

Question 9: Are there additional factors that should be considered in assessing the risk associated with a control?

We believe there is a high probability that individual client situations may arise where additional factors should be considered in assessing the risk associated with a control. However, it would be most difficult, if not impossible, to identify a generic list of such factors. Thus, we suggest that the Board indicate the possibility that unique factors may arise in testing compliance over controls, and when such factors arise, the auditor should give appropriate consideration to these factors in assessing the risk associated with the particular control in question.

Question 10: Are the principles in the proposed examination standard for performing compliance tests sufficiently clear? Should the standard include specific procedures that should always be performed?

We believe the principles in the proposed examination standard for performing compliance tests are sufficiently clear. However, we do not support the development of a list of specific procedures that should always be performed. We strongly encourage allowing auditors to exercise their professional judgment in designing the procedures to be used in performing compliance tests.

Question 11: Are the requirements in the proposed examination standard for evaluating identified instances of non-compliance, instances in which the information used to assert compliance with the specified Financial Responsibility Rules was not derived from the broker's or dealer's books and records, and deficiencies in internal control over compliance, sufficiently clear?

We believe the requirements for all three areas addressed in this question are sufficiently clear.

Question 12: Should the proposed examination standard require additional procedures to identify subsequent events relevant to the auditor's opinion on the assertions made by a broker or dealer in a compliance report?

The requirements in paragraph 33 appear sufficient for their intended purpose. To the extent that additional procedures are applied to identify subsequent events relevant to the auditor's opinion, they should be based on the auditor's judgment. We believe developing a list of generic procedures that may be applicable in some situations is confusing and dysfunctional to the application of the guidance in the resulting standard.

Question 13: Are the representations the auditor is required to obtain from management necessary for the auditor to express an opinion on whether the assertions made by a broker or dealer in a compliance report are fairly stated, in all material respects?

While we believe there are limitations associated with the competence of management representations, we support the requirement to obtain such representations as a necessary part of the auditor's ability to express an opinion on whether the assertions made by a broker or dealer in a compliance report are fairly stated, in all material respects.

Question 14: Are there other matters related to the examination that the auditor should communicate to the broker's or dealer's audit committee?

We believe the requirement to notify the SEC within one day of identifying an event of material non-compliance is somewhat unrealistic. We encourage the Board to consider giving the auditor more time to make the notification. When considering the current literature regarding communications with the SEC, AU 317 requires the auditor to first communicate to those charged with governance. If those parties do not take appropriate remedial action, the Company is subject to a reportable disagreement on Form 8-K. Also, the proposed standard is unclear regarding the form (e.g., Form 8-K) in which the auditor is required to report non-compliance with the Financial Responsibility Rules.

Question 15: Do the required elements of the auditor's examination report clearly communicate the auditor's responsibilities for the examination engagement?

We believe the required elements of the examination report clearly communicate the auditor's responsibilities for the examination engagement.

Question 16: What changes, if any, should be made to the format or content of the report as described in the proposed examination standard? Are there additional auditor representations or other information that should be included in the auditor's report?

The content of the report for the proposed examination standard appears to mirror the audit report presented for companies subject to the requirements under Section 404(b) of the Sarbanes-Oxley Act. The standard audit report as set forth by COSO contains the following limitation paragraph:

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changed conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We recommend the Board consider including a "limitation" paragraph in the standard examination report similar to the paragraph contained in the audit report on internal controls.

Question 17: What changes, if any, should be made to the format or content of the report modifications described in the proposed examination standard?

Regarding modifications of the examination report relating to an adverse opinion in one or more, but not all, assertions, the opinion paragraph should be separated into multiple opinion and explanatory paragraphs. Such an approach would provide users with direct information regarding the broker's or dealer's material non-compliance, material weaknesses in internal control, or material deviation from books and records. This separation will allow users to differentiate between areas of compliance and non-compliance with Financial Responsibility Rules.

Question 18: Should the standard include examples of modified examination reports? If so, what specific examples should be provided?

Yes, we believe the standard should include examples of modified examination reports. Examples of scope limitations, adverse opinions of one or more assertions, and disclaimers of opinion for one or more assertions should be included. We further recommend examples of explanatory paragraphs for scope limitations and adverse opinions on assertions.

Question 19: Is the concept of non-compliance requiring modifications clear?

We believe the concept of non-compliance is clear.

Question 20: Are the general requirements included in the proposed review standard sufficiently clear?

The general requirements are sufficiently clear.

Question 21: Are there additional general requirements that should be included for a review engagement?

We do not believe that additional general requirements should be included for a review engagement.

Question 22: Are there any other sources of relevant evidence obtained in the audit of the financial statements and supplemental information that the auditor should take into account when planning and performing the review engagement that should be included in the standard?

As written, the standard requires the same level of understanding by the accountant performing the review as that required by the auditor issuing the audit report. Thus, the proposed standard implies that all the information obtained in the audit of the financial statements and supplemental information should already have been taken into account.

Question 23: Are the factors that may increase the nature, timing, and extent of the necessary inquiries and other review procedures appropriate?

We believe these factors are appropriate.

Question 24: Are there other specific review procedures that the proposed review standard should require? If so, should the procedures be based on the various exemption conditions?

We are not aware of any additional specific review procedures that the proposed review standard should require.

Question 25: Are there alternative procedures that are equally or more effective than the procedures required by the proposed review standard that should replace specific procedures required by the proposed review standard?

We have no suggestions for alternative procedures that are equally or more effective than the procedures required by the proposed review standard.

Question 26: Regardless of the level of assurance obtained in a review, are there other procedures that the auditor should be required to perform to enhance customer protection?

Deciding what procedures would enhance customer protection is a difficult consideration. Customers differ in their desires regarding information and what they believe constitutes comfort and protection in relying on financial statements and an accountant's report. Thus, we believe the procedures indicated in the proposed standard are adequate and the Board should not attempt to expand procedures in an attempt to "enhance customer protection."

Question 27: Are the requirements of the proposed review standard for evaluating identified instances of non-compliance sufficiently clear?

We have no problem with the clarity of the requirements in the proposed review standard.

Question 28: Are the representations the auditor is required to obtain from management necessary for the auditor to conclude whether, based upon the results of the review procedures, the auditor is aware of any material modifications that should be made to the broker's or dealer's assertion for it to be fairly stated, in all material respects?

We believe the auditor should obtain management representations as a necessary basis for concluding whether there may be any material modifications that should be made to the broker's or dealer's assertions. Whether the required representations constitute an adequate list is impossible to determine. Thus, we would assume that the auditor could request additional representations should he or she consider such additional representations necessary in a particular situation.

Question 29: Are there other matters related to the review that the auditor should communicate to the audit committee?

We have no recommendations for other matters that the auditor should communicate to the audit committee. However, we assume that based on the auditor's judgment, he or she could communicate anything that would be considered necessary to communicate based on the circumstances of the engagement.

Question 30: Do the required elements of the auditor's review report clearly communicate the auditor's responsibilities?

We believe the auditor's responsibilities are clearly communicated by the required elements of the auditor's report.

Question 31: What changes, if any, should be made to the format or content of the review report as described in the proposed review standard? Are there additional auditor representations or other information that should be included in the auditor's review report?

We have no suggestions for any changes to the format or content of the review report as described in the proposed review standard. Also, we have no suggestions for additional auditor representations or other information that should be included in the auditor's review report.

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Question 32: Do other conditions exist that should be included in the standard that would result in a modification of the report on the review engagement?

We do not have suggestions for other considerations that would result in report modifications. However, our lack of specific suggestions does not mean that other conditions that could result in a report modification would never arise. Thus, as we have stated in previous responses, we believe that practitioners should be encouraged to exercise professional judgment in determining whether a condition exists in a particular situation that requires a report modification. When such conditions exist, the practitioner should use his or her judgment in drafting an appropriate modification of the report on the review engagement.

Question 33: Besides alignment with effective dates of the SEC Proposed Rule 17a-5 what other factors, if any, should the Board consider in determining the effective date for adopting final attestation standards?

We suggest that the Board use its discretion in adopting an effective date for attestation standards that allows practitioners a reasonable amount of time to train personnel who will be responsible for implementing the guidance in the proposed standard. Consideration should also be given to the business entities that will be required to also comply with the requirements of the new standard.

Question 34: Are any other proposed amendments to Auditing Standard No. 3 necessary to clearly describe the auditor's responsibilities regarding documentation when conducting attestation engagements related to brokers and dealers in accordance with the standards of the PCAOB?

The proposed amendment sufficiently describes the auditor's responsibilities regarding documentation. No additional amendments appear to be necessary.

Question 35: Are the proposed amendments to Auditing Standard No. 7 clear? Do auditors need more extensive requirements regarding the engagement quality review of these attestation engagements?

We find the proposed amendments to be sufficiently clear and have no suggestions for additional requirements.

We appreciate the opportunity to provide input into the standard-setting process.

Sincerely,



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Texas Society of Certified Public Accountants