The Small Business Audit Correction Act
Overview

Background

The Small Business Audit Correction Act, introduced by Senator Tom Cotton (R-AR), would request a specific exemption for privately-held, non-custodial brokers and dealers from the requirement to use a Public Company Accounting Oversight Board (PCAOB) registered audit firm and follow their guidelines in an annual audit.

Investment industry FINRA-member Broker/Dealers are required to have an annual audit that produces audited financial statements. Prior to Sarbanes-Oxley Act, and as amended by Dodd-Frank Act, Broker/Dealers were required to hire AICPA registered auditors who followed Generally Accepted Accounting Standards (GAAS) in the performance of conducting Broker/Dealer annual audits. Following the enactment of the two Acts, Broker/Dealers large and small are now required to hire a Public Company Accounting Oversight Board-registered auditor who follows the PCAOB-defined set of audit standards, which are markedly different and significantly more complex than GAAS.

The PCAOB audit requirement makes complete sense for public companies and Broker/Dealers that carry customer funds or securities, because the investing public and markets are potentially at much greater risk from these companies. The PCAOB is the right fit for public companies. Conversely, the PCAOB audit requirements do not make sense for privately-held, non-custodial, typically small business-type firms. The one-size-fits-all PCAOB audit standards that were designed for public companies, and are priced accordingly, have inflicted substantial harm to small businesses around the country in both the investment and accounting industries.