

1990

## Report on the internal control structure in audits of futures commission merchants: February 12, 1990, amendment to AICPA audit and accounting guide, Audits of brokers and dealers in securities

American Institute of Certified Public Accountants. Stockbrokerage and Investment Banking Committee

Follow this and additional works at: [https://egrove.olemiss.edu/aicpa\\_sop](https://egrove.olemiss.edu/aicpa_sop)

 Part of the [Accounting Commons](#), and the [Taxation Commons](#)

### Recommended Citation

American Institute of Certified Public Accountants. Stockbrokerage and Investment Banking Committee, "Report on the internal control structure in audits of futures commission merchants: February 12, 1990, amendment to AICPA audit and accounting guide, Audits of brokers and dealers in securities" (1990). *Statements of Position*. 196.  
[https://egrove.olemiss.edu/aicpa\\_sop/196](https://egrove.olemiss.edu/aicpa_sop/196)

This Article is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Statements of Position by an authorized administrator of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

# **Statement of Position**

**90-2**

## **Report on the Internal Control Structure in Audits of Futures Commission Merchants**

**February 12, 1990**

**Amendment to  
AICPA Audit and Accounting Guide  
*Audits of Brokers and Dealers in Securities***

**Prepared by the Stockbrokerage and Investment  
Banking Committee**

**American Institute of  
Certified Public Accountants**

***AICPA***

## NOTE

This statement of position presents the recommendations of the AICPA Stockbrokerage and Investment Banking Committee regarding the application of generally accepted auditing standards to reporting on the internal control structure in audits of futures commission merchants. It represents the considered opinion of the committee on the best auditing practice in the industry and has been reviewed by members of the AICPA Auditing Standards Board for consistency with existing auditing standards. AICPA members may have to justify departures from the recommendations in this statement if their work is challenged.

*Copyright © 1990 by the  
American Institute of Certified Public Accountants, Inc.  
1211 Avenue of the Americas, New York, N.Y. 10036-8775*

1 2 3 4 5 6 7 8 9 0 AccS 9 9 8 7 6 5 4 3 2 1 0

# Report on the Internal Control Structure in Audits of Futures Commission Merchants

## Introduction

1. In 1985, the audit and accounting guide *Audits of Brokers and Dealers in Securities* was issued. Exhibit K of the appendix to that guide illustrates a report on internal accounting control required by Regulation 1.16 of the Commodity Futures Trading Commission (CFTC).

2. In April 1988, the AICPA's Auditing Standards Board issued Statement on Auditing Standards (SAS) No. 60, *Communication of Internal Control Structure Related Matters Noted in an Audit*, which supersedes paragraphs 47 through 53 of SAS No. 30. Paragraphs 54 through 59 of SAS No. 30 remain in effect. This statement of position amends *Audits of Brokers and Dealers in Securities* in response to the changes required by SAS No. 60; the guidance in paragraph 3 of this statement supersedes exhibit K of the guide's appendix. It should be noted that the revised report on internal control presented in paragraph 3 does not change the independent auditor's responsibilities to detect or report material inadequacies as described in CFTC Regulation 1.16(d).

## Report on Internal Control Required by CFTC Regulation 1.16

3. The following is an illustration of the independent auditor's report on the internal control structure required by CFTC Regulation 1.16:

Board of Directors  
ABC Commodities Corporation

In planning and performing our audit of the consolidated financial statements of ABC Commodities Corporation (the "Corporation") for the year ended December 31, 19X1, we considered its internal control structure, including procedures for safeguarding customer and firm

assets, in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on the internal control structure.

Also, as required by Regulation 1.16 of the Commodity Futures Trading Commission, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by the Corporation that we considered relevant to the objectives stated in Regulation 1.16 in making (1) the periodic computations of minimum financial requirements pursuant to Regulation 1.17, (2) the daily computations of the segregation requirements of section 4d(2) of the Commodity Exchange Act and the regulations thereunder, and the segregation of funds based on such computations, and (3) the daily computations of the foreign futures and foreign options secured amount requirements pursuant to Regulation 30.7 of the Commission.

The management of the Corporation is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the Commission's above-mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Corporation has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Regulation 1.16 lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not

be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure, including procedures for safeguarding customer and firm assets, that we consider to be material weaknesses as defined above.<sup>1</sup>

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purposes in accordance with the Commodity Exchange Act and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Corporation's practices and procedures were adequate at December 31, 19X1, to meet the Commission's objectives.<sup>2</sup>

This report is intended solely for the use of management, the Commodity Futures Trading Commission, and other regulatory agencies that rely on Regulation 1.16 of the Commodity Futures Trading Commission and should not be used for any other purpose.

Accounting Firm  
New York, New York  
February 15, 19X2

## Effective Date

4. This statement is effective for reports issued on or after March 1, 1990, with early application permissible.

---

<sup>1</sup> If conditions believed to be material weaknesses are disclosed, the report should describe the weaknesses that have come to the auditor's attention and may state that these weaknesses do not affect the report on the financial statements. The last sentence of the fifth paragraph of the report should be modified as follows:

However, we noted the following matters involving the [(control environment, accounting system, control procedures, or procedures for safeguarding customer and firm assets)] and its [(their)] operation that we consider to be material weaknesses as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the consolidated financial statements of the Corporation for the year ended December 31, 19X1, and this report does not affect our report thereon dated February 15, 19X2. [*A description of the material weaknesses that have come to the auditor's attention and corrective action would follow.*]

<sup>2</sup> Whenever inadequacies are described, the report should include the last sentence of the fifth paragraph as modified in the note above. The report should also describe material inadequacies the auditor becomes aware of that existed during the period but were corrected prior to the end of the period unless management already has reported them to the CFTC.

**Stockbrokerage and Investment Banking Committee**  
(1989–1990)

EDWARD H. JONES,  
*Chairman*

J. KING BOURLAND

REGINA A. DOLAN

DENNIS E. FEENEY

G. VICTOR JOHNSON

MARTIN M. LILIENTHAL

THOMAS C. LOCKBURNER

DONALD H. MACNEAL

CARLOS ONIS

STUART STECKLER

LAWRENCE A. STOLER

CHARLES M. TRUNZ III

BARRY N. WINOGRAD

MARK S. ZEIDMAN

---

DAN M. GUY,

*Vice President, Auditing*

PATRICK L. MCNAMEE, *Director*  
*Audit and Accounting Guides*

ALBERT GOLL,

*Technical Manager*

*Accounting Standards*

014839