PRACTICAL RESOURCE FOR INTRODUCING BROKER-DEALERS

# FINOP and Audit Readiness Checklist

A structured review of books and records, net capital, FOCUS reporting, annual-audit support, and the operating controls behind each filing.

> **Designed for practical use**
>
> Use this checklist with management, accounting, compliance, the firm's FINOP, and the independent auditor to identify missing inputs, unclear ownership, and work that should be completed before a filing or audit becomes urgent.


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# How to Use This Checklist

Work through the checklist before the annual audit, during a FINOP transition, when establishing a new introducing broker-dealer, or as part of a recurring monthly and quarterly readiness review. Assign an owner and due date to every unchecked item.

- [ ] Confirm the checklist scope matches the firm's business model, clearing arrangement, registration category, and minimum net capital requirement.
- [ ] Identify the person responsible for preparing each record and the person responsible for reviewing it.
- [ ] Record where each schedule, reconciliation, workpaper, filing confirmation, and approval is retained.
- [ ] Escalate unresolved discrepancies, capital concerns, late inputs, and filing risks before the applicable deadline.

> **Important limitation**
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> This is a general readiness tool, not legal, accounting, or regulatory advice. Requirements vary by firm. Confirm the applicable rules, filing instructions, due dates, exemptions, and registration obligations with qualified professionals for the specific broker-dealer.

# 1. Financial Books and Records

The financial records should be current, internally consistent, and capable of supporting the firm's regulatory reports without extensive reconstruction.

- [ ] The general ledger is current through the review date, and all material accounts have an identified owner.
- [ ] Bank statements, clearing statements, payroll records, credit-card activity, and other cash activity are complete and retained.
- [ ] Cash and bank accounts are reconciled, with stale or unusual reconciling items investigated and documented.
- [ ] Revenue, commissions, clearing charges, professional fees, payroll, and other material expenses are recorded in the correct period.
- [ ] Receivables, payables, prepaid expenses, fixed assets, accrued liabilities, and related-party balances are supported by schedules.
- [ ] Capital contributions, withdrawals, distributions, subordinated borrowings, and ownership activity are documented and properly recorded.
- [ ] The trial balance agrees to the financial statements and to schedules used in FOCUS and net capital reporting.
- [ ] Material journal entries include support, a clear business purpose, preparer identification, and evidence of review.

# 2. Net Capital and Liquidity

Net capital should be monitored from current records and with enough lead time to evaluate planned expenses, revenue changes, withdrawals, or other capital events.

- [ ] The firm's minimum net capital requirement and computational method have been confirmed for its current activities.
- [ ] The net capital computation uses a trial balance that agrees to the underlying general ledger and reconciliations.
- [ ] Nonallowable assets, haircuts, aggregate indebtedness, operational charges, and other applicable adjustments are supported.
- [ ] Excess net capital and any internal early-warning threshold are monitored at a cadence appropriate to the firm.
- [ ] Management receives timely notice of material changes, unusual deductions, or reduced capital cushion.
- [ ] Planned distributions, owner withdrawals, hiring, vendor commitments, and other major expenditures are evaluated before approval.
- [ ] Potential capital infusions and supporting documentation can be coordinated promptly if needed.
- [ ] Required early-warning or other notices have an owner, escalation path, and documented decision process.

# 3. FOCUS and Regulatory Reporting

A FOCUS filing should be the output of reconciled records and a documented review process, not a separate set of numbers assembled at the deadline.

- [ ] The firm's filing calendar identifies the applicable FOCUS report, reporting period, due date, preparer, reviewer, and submission owner.
- [ ] The FOCUS balance sheet, income statement, and capital schedules agree to the reviewed financial records.
- [ ] Current FINRA and SEC forms, instructions, and applicable amendments have been reviewed before preparation.
- [ ] Material period-over-period changes and unusual line items have written explanations and supporting schedules.
- [ ] The FINOP has sufficient time and access to perform the required review before submission.
- [ ] Validation errors, warnings, explanatory text, and amendments are resolved and documented.
- [ ] Submission confirmations, final filed reports, supporting workpapers, and approval evidence are retained together.

# 4. Annual Audit Preparation

Audit readiness is strongest when the firm maintains a year-round process and resolves open items before year-end rather than rebuilding records after the close.

- [ ] The independent auditor's engagement, PCAOB registration, requested timeline, and deliverable list have been confirmed.
- [ ] Management, the FINOP, accounting personnel, compliance, and the auditor agree on responsibilities and communication channels.
- [ ] The year-end close calendar provides time for reconciliations, adjustments, FINOP review, management review, and auditor fieldwork.
- [ ] The prepared-by-client request list has an owner and target date for every item.
- [ ] Cash, clearing, receivable, payable, fixed-asset, accrued-expense, capital, and related-party schedules tie to the final trial balance.
- [ ] The annual financial report and applicable compliance or exemption report are prepared for the firm's specific status.
- [ ] FOCUS schedules, net capital computations, and other regulatory reports reconcile to the audited financial information.
- [ ] Prior-year audit adjustments, management-letter points, examination findings, and recurring questions have been addressed.
- [ ] Filing, distribution, and retention responsibilities for the completed annual reports are documented.

# 5. Controls, Documentation, and Examination Readiness

A reviewer should be able to understand what was prepared, who reviewed it, what exceptions were identified, and how each exception was resolved.

- [ ] Monthly and quarterly close procedures are written, current, and assigned to specific people.
- [ ] The review process leaves evidence, including dates, approvals, questions, resolutions, and retained final versions.
- [ ] Access to banking, accounting, clearing, filing, and document systems is current and appropriately restricted.
- [ ] Key-person and backup coverage is documented for accounting, FINOP, compliance, and filing responsibilities.
- [ ] Regulatory requests can be matched quickly to organized records, workpapers, and filing confirmations.
- [ ] Material discrepancies and late inputs have a documented escalation route to management and the FINOP.
- [ ] Books and records retention practices reflect applicable SEC, FINRA, and firm-specific requirements, and the firm's actual practices remain consistent with its written procedures and regulatory representations.

# A 30-Day Readiness Plan

If the review identifies a significant backlog, use this sequence to turn the checklist into an operating plan.

| Timing | Primary objective | Expected output |
|---|---|---|
| Days 1-5 | Define scope, owners, deadlines, system access, and missing records. | Responsibility matrix and open-items list |
| Days 6-12 | Complete core reconciliations and support material balance-sheet accounts. | Reconciled trial balance and schedules |
| Days 13-20 | Update net capital, validate regulatory-reporting inputs, and resolve exceptions. | Reviewed computation and filing workpapers |
| Days 21-26 | Assemble audit support, prior-year follow-up, and management explanations. | Audit-ready support package |
| Days 27-30 | Perform final FINOP and management review and document the recurring cadence. | Approved close package and future calendar |

# Questions to Resolve Before Sign-Off

- [ ] Which items remain open, who owns them, and when will they be resolved?
- [ ] Do the financial statements, net capital computation, FOCUS report, and audit schedules all use the same reviewed records?
- [ ] Has management evaluated any planned transaction or expense that could affect capital or liquidity?
- [ ] Can the firm reproduce the final workpapers, approvals, and filing confirmations promptly?
- [ ] What recurring process change will prevent the same issue from returning next period?

# Primary Regulatory Resources

FINRA Rule 1220 - Registration Categories and FINOP Duties
Official source: finra.org

FINRA eFOCUS - Filing System, Guidance, and Templates
Official source: finra.org

SEC Broker-Dealer Net Capital and Books and Records Guidance
Official source: sec.gov

SEC Guide to Broker-Dealer Registration - Financial Responsibility
Official source: sec.gov

SEC Broker-Dealer Reports - Annual Reports and Audit Requirements
Official source: sec.gov

> **Keep the checklist current**
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> FINRA and SEC forms, instructions, filing systems, and requirements can change. Review current primary guidance before each reporting cycle and revise the firm's internal checklist when its activities, personnel, systems, or regulatory profile change.

# Need help establishing the operating cadence?

Eirik Nordgaard provides outsourced and fractional Series 28 FINOP support for introducing broker-dealers, including books and records oversight, net capital monitoring, FOCUS reporting, annual-audit coordination, and regulatory response support.

## Learn more: eiriknordgaard.com/fractional-finop/

Schedule a confidential conversation: calendly.com/eirik-nordgaard/30min