
2019 Inspection Marcum LLP

(Headquartered in Melville, New York)

December 17, 2020

PCAOB

Public Company Accounting Oversight Board

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

PCAOB RELEASE NO. 104-2021-010A

(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2021-010)

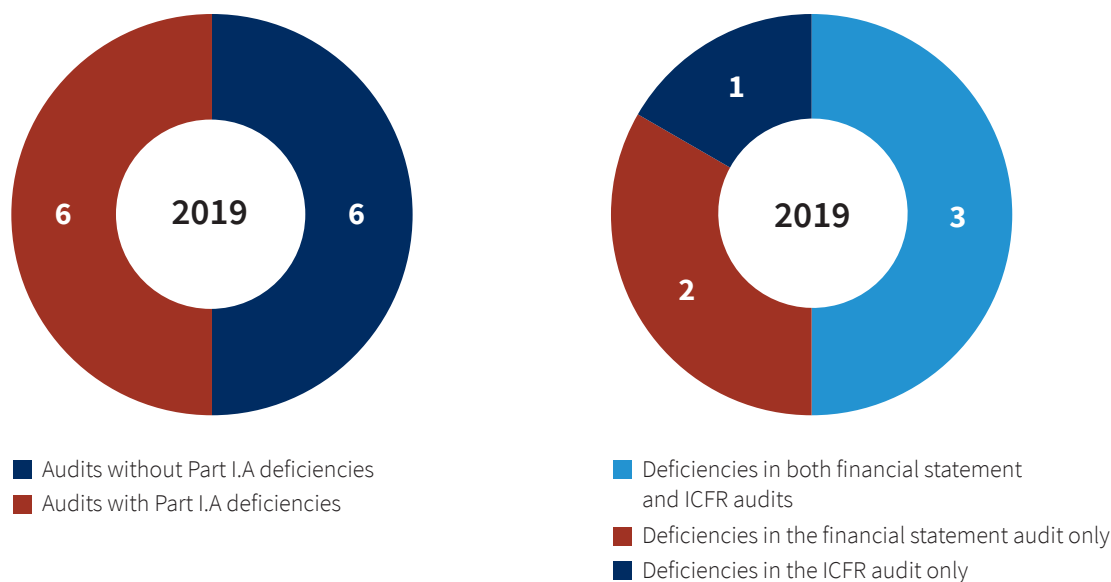
Executive Summary

Our 2019 inspection report on Marcum LLP provides information on our inspection to assess the firm’s compliance with Public Company Accounting Oversight Board (“PCAOB”) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of: (1) Part I.A of the report, which discusses deficiencies (“Part I.A deficiencies”) in certain issuer audits that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer’s financial statements and/or internal control over financial reporting (“ICFR”), and (2) Part I.B of the report, which discusses deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

The fact that we have included a deficiency in this report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — does not necessarily mean that the issuer’s financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. If a deficiency is included in Part I.A or Part I.B of this report, it does not necessarily mean that the firm has not addressed the deficiency.

Overview of the 2019 Deficiencies Included in Part I

Six of the 12 issuer audits we reviewed in 2019 are included in Part I.A of this report due to the significance of the deficiencies identified. The identified deficiencies primarily related to the firm’s testing of controls over and/or substantive testing of revenue and related accounts.



The most common Part I.A deficiencies in 2019 related to performing substantive testing to address a risk of material misstatement, substantively testing the accuracy and completeness of data or reports, testing the design or operating effectiveness of controls selected for testing, and identifying controls related to a significant account or relevant assertion.

Other deficiencies identified during the 2019 inspection that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s), which appear in Part I.B, related to audit committee communications, the firm’s audit report, and Form AP.

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2019 Inspection

During the PCAOB's 2019 inspection of Marcum LLP, we assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review 12 audits of issuers with fiscal years generally ending in 2018. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2019 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.
- **Part I – Inspection Observations:**
 - o Part I.A: Deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR.
 - o Part I.B: Deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.
- **Part II – Observations Related to Quality Control:** Criticisms of, or potential defects in, the firm's system of quality control. Section 104(g)(2) of the Sarbanes-Oxley Act ("the Act") restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.
- **Appendix A – Firm's Response to the Draft Inspection Report:** The firm's response to a draft of this report, excluding any portion granted confidential treatment.

2019 Inspection Approach

In selecting issuer audits for review, we use both risk-based and random methods of selection. We make most selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. We select the remaining audits randomly to provide an element of unpredictability.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed.

View the details on the [scope of our inspections and our inspections procedures](#).

Overview of the 2019 Inspection and Historical Data by Inspection Year

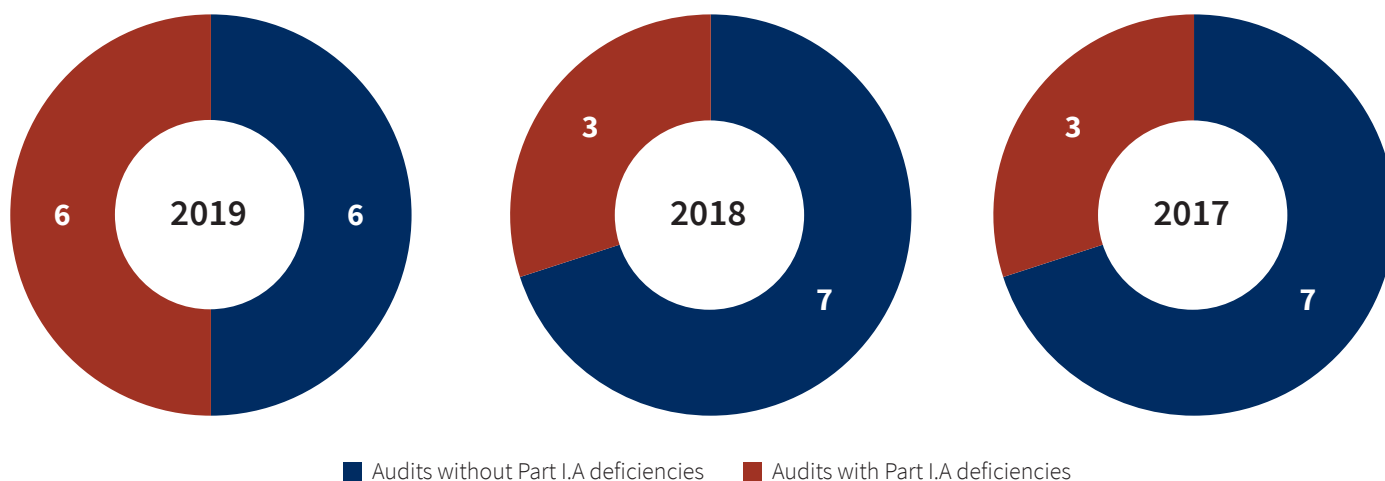
The following information provides an overview of our 2019 inspection as well as data from the previous two inspections. We use a combination of risk-based and random methods to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from year to year and firm to firm. As a result of this variation, we caution that our inspection results are not necessarily comparable over time or among firms.

Audits Reviewed

	2019	2018	2017
Total audits reviewed	12	10	10
Audits in which the firm was the principal auditor	12	10	10
Integrated audits of financial statements and ICFR	7	3	4
Risk-based selections	10	10	10
Random selections	2	0	0

Part I.A Deficiencies in Audits Reviewed

In 2019, four of the six audits appearing in Part I.A were selected for review using risk-based criteria. In both 2018 and 2017, all audits appearing in Part I.A were selected for review using risk-based criteria.

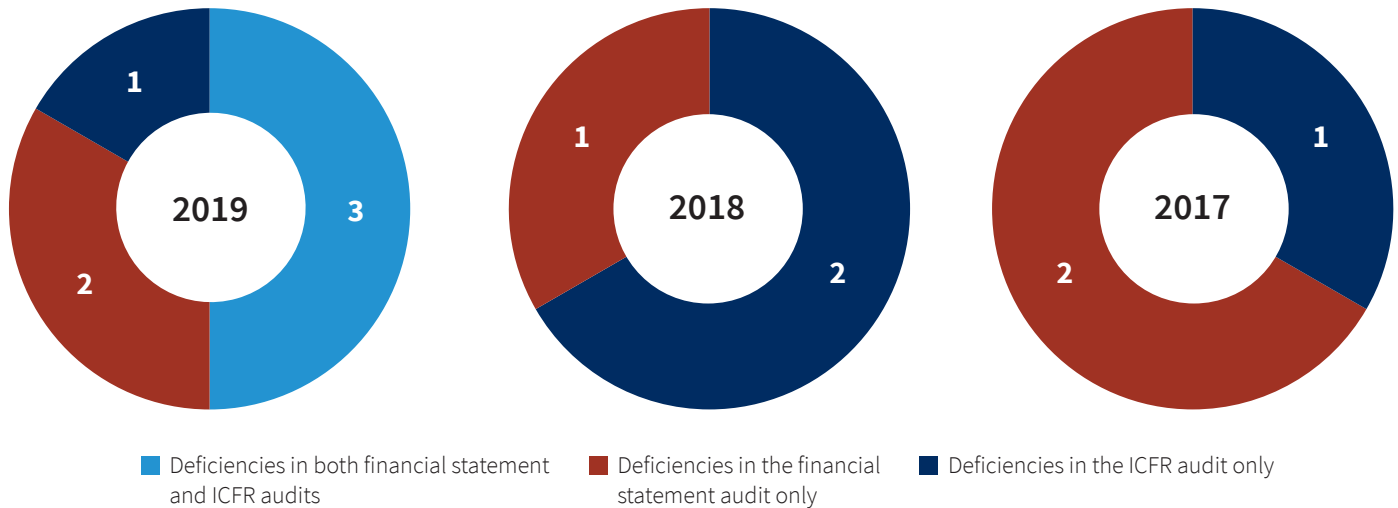


If a deficiency is included in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the issue was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports. Our inspection normally includes a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection.

If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

The fact that we have included a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — does not necessarily mean that the issuer’s financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer’s public disclosures. We do not have direct access to the issuer’s management, underlying books and records, and other information.

Audits Affected by the Deficiencies Identified in Part I.A



The following tables and graphs summarize inspection-related information, by inspection year, for 2019 and the previous two inspections. We caution against making any comparison of the data provided without reading the descriptions of the underlying deficiencies in each respective inspection report.

Most Frequently Identified Part I.A Deficiencies

Deficiencies in audits of financial statements	Audits with Part I.A deficiencies		
	2019	2018	2017
Did not perform sufficient testing related to an account or significant portion of an account or to address an identified risk	3	0	0
Did not perform sufficient testing of the accuracy and completeness of data and reports used in the firm's substantive testing	3	1	1
Did not sufficiently evaluate the appropriateness of the issuer's accounting method or disclosure for one or more transactions or accounts	1	0	1
Did not sufficiently evaluate significant assumptions or data that the issuer used in developing an estimate	1	0	1

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2019	2018	2017
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	3	2	0
Did not identify and test any controls related to a significant account or relevant assertion	3	1	1
Did not identify and/or sufficiently test controls over the accuracy and completeness of data or reports that the issuer used in the operation of controls	2	1	0

Audit Areas Most Frequently Reviewed

This table reflects the four audit areas we have selected most frequently for review in each inspection year (and the related Part I.A deficiencies). For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2019			2018			2017		
Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies
Revenue and related accounts	11	5	Revenue and related accounts	8	3	Revenue and related accounts	8	2
Inventory	4	0	Business combinations	3	1	Equity and equity-related transactions	3	1
Long-lived assets	3	1	Income taxes	2	1	Business combinations	2	0
Equity and equity-related transactions	2	1	Investment securities	2	1	Income taxes	1	0

Audit Areas with Frequent Part I.A Deficiencies

This table reflects the audit areas with the most frequently identified Part I.A deficiencies in each inspection year with the corresponding results for the other two years presented.

Audit area	2019		2018		2017	
	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed
Revenue and related accounts	5	11	3	8	2	8
Equity and equity-related transactions	1	2	0	2	1	3
Income taxes	1	1	1	2	0	1
Investment securities	1	1	1	2	0	0
Business combinations	0	1	1	3	0	2

Revenue and related accounts: The deficiencies in 2019 primarily related to substantive testing of, and testing controls over, revenue. The deficiencies in 2018 and 2017 related to testing the accuracy and completeness of data or reports used in substantive testing and testing controls over revenue.

Equity and equity-related transactions: The deficiencies in 2019 related to testing controls over stock-based compensation. The deficiencies in 2017 related to evaluating the accounting for equity instruments and evaluating assumptions that the issuer used in developing an estimate.

Income taxes: The deficiencies in 2019 and 2018 related to testing controls over income tax provisions and related accounts.

Investment securities: The deficiencies in 2019 related to substantive testing of, and testing controls over, investment securities. The deficiencies in 2018 related to testing controls over the valuation and existence of investment securities.

Business combinations: The deficiency in 2018 related to testing controls over the valuation of assets acquired and liabilities assumed.

Auditing Standards Associated with Identified Part I.A Deficiencies

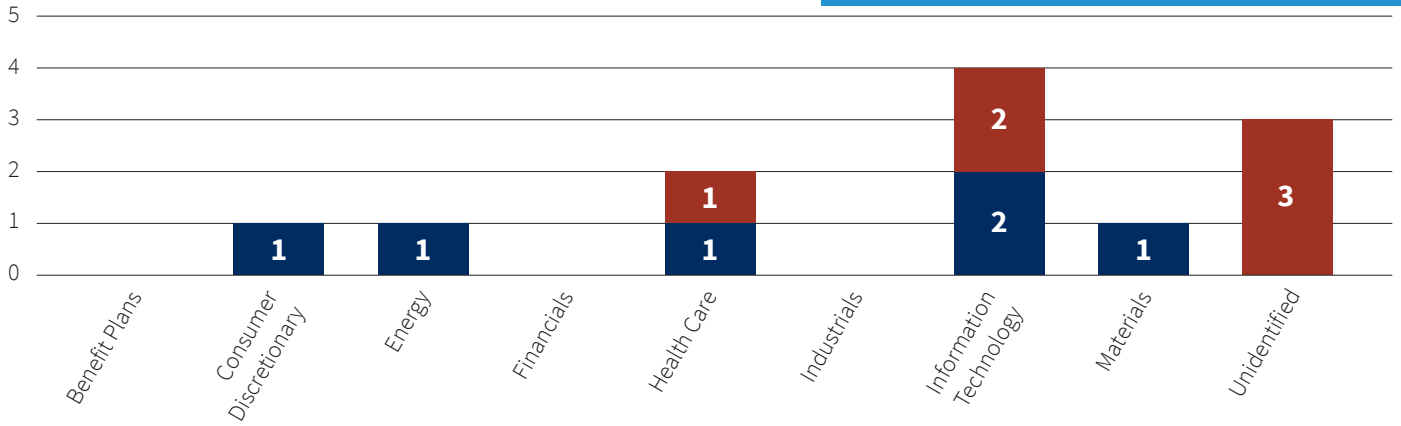
The following lists the auditing standards referenced in Part I.A of the 2019 and the previous two inspection reports and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2019	2018	2017
<i>AS 1105, Audit Evidence</i>	4	1	1
<i>AS 2201, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i>	18	13	1
<i>AS 2301, The Auditor's Responses to the Risks of Material Misstatement</i>	2	0	2
<i>AS 2310, The Confirmation Process</i>	0	1	0
<i>AS 2502, Auditing Fair Value Measurements and Disclosures</i>	1	0	1
<i>AS 2810, Evaluating Audit Results</i>	2	0	1

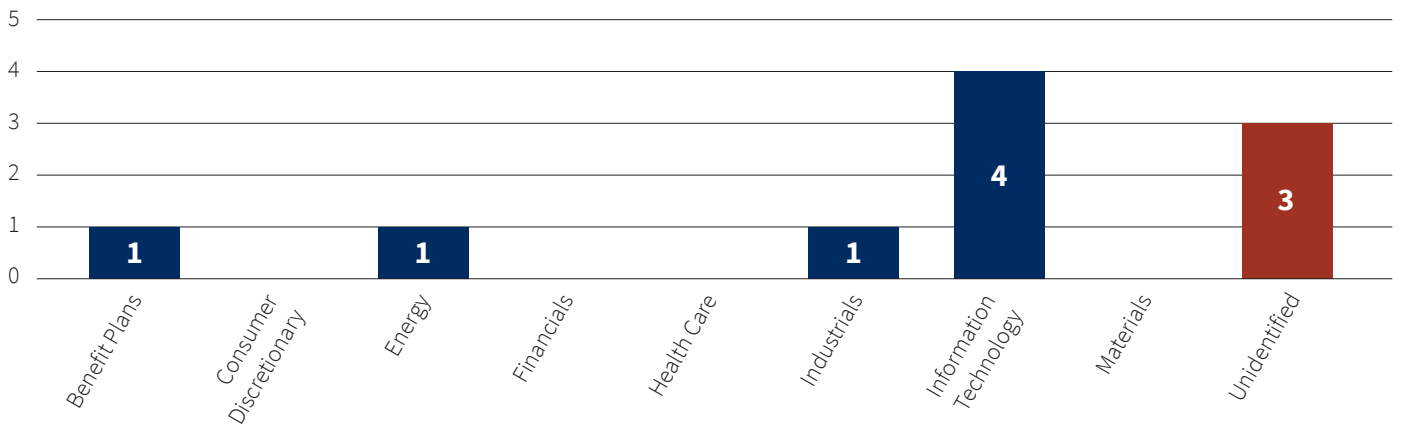
Inspection Results by Issuer Industry Sector

The majority of industry sector data is based on Global Industry Classification Standard ("GICS") data obtained from Standard & Poor's ("S&P"). In instances where GICS data for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data. In instances where classifying an issuer using its industry sector could make an issuer identifiable, we have instead classified such issuer(s) as "unidentified."

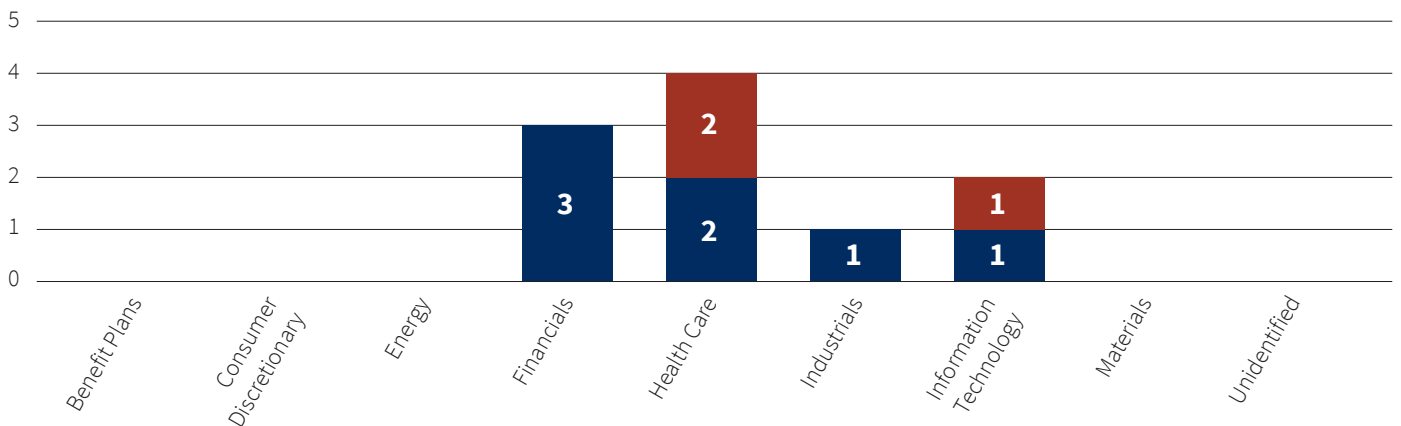
2019



2018



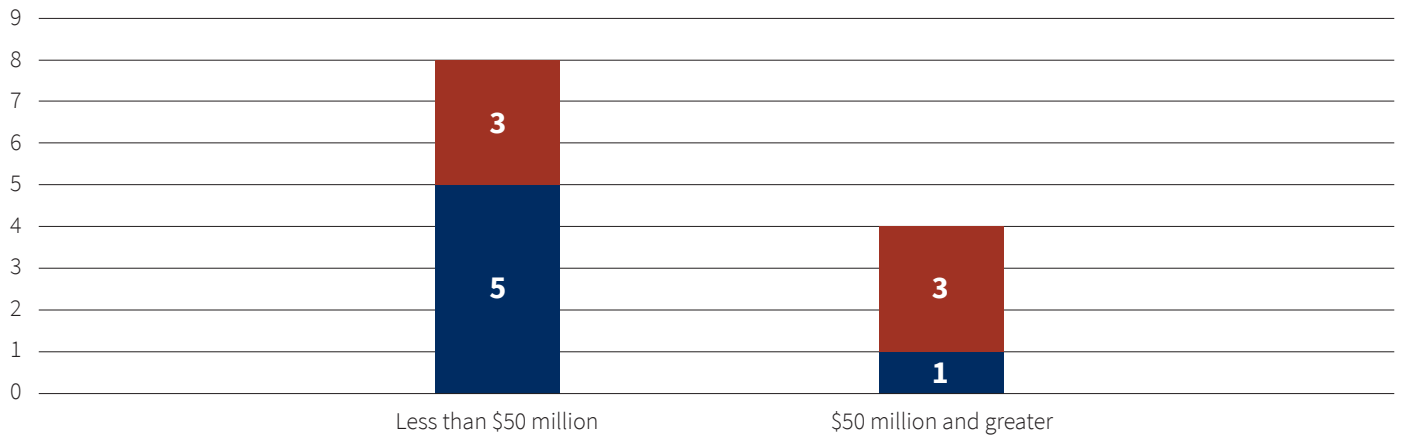
2017



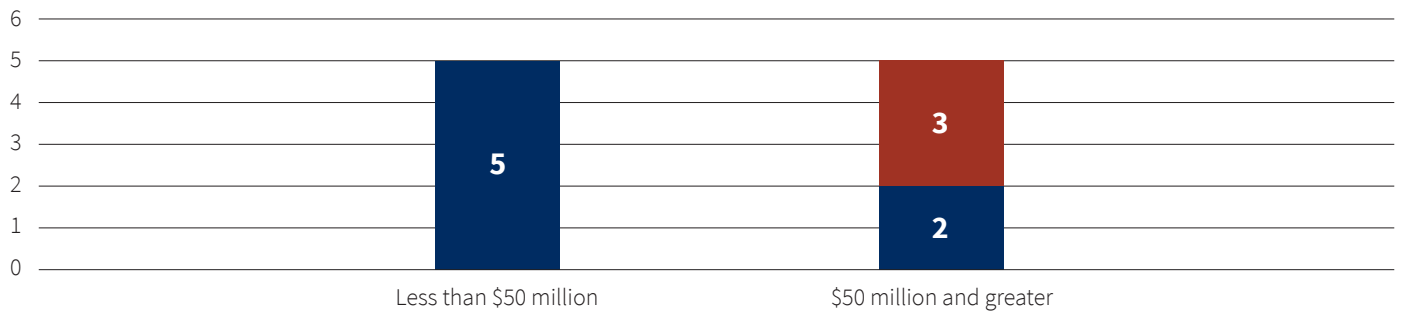
■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

Inspection Results by Issuer Revenue Range

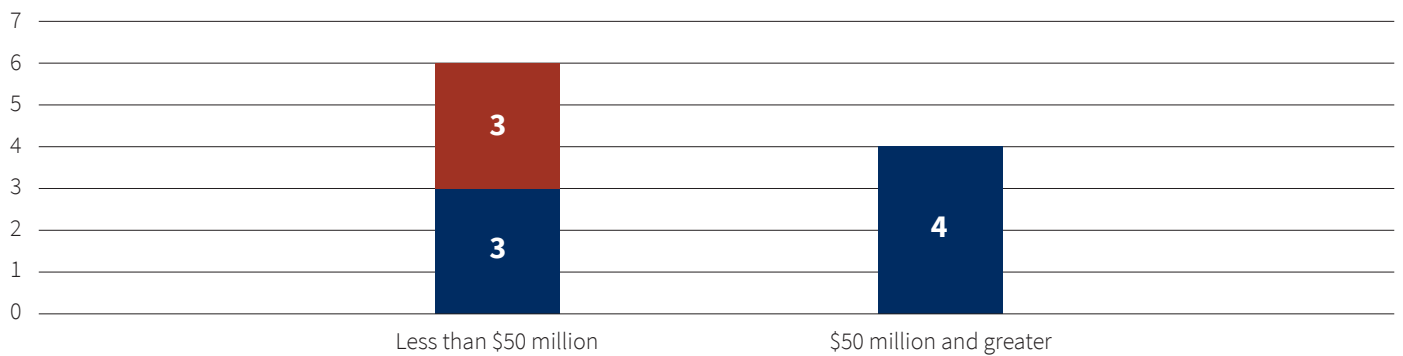
2019



2018



2017



■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The sole purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or modified its report, on ICFR. This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. Any deficiencies identified in connection with our reviews of these audits would be included in the audits with multiple deficiencies or audits with a single deficiency classification below.

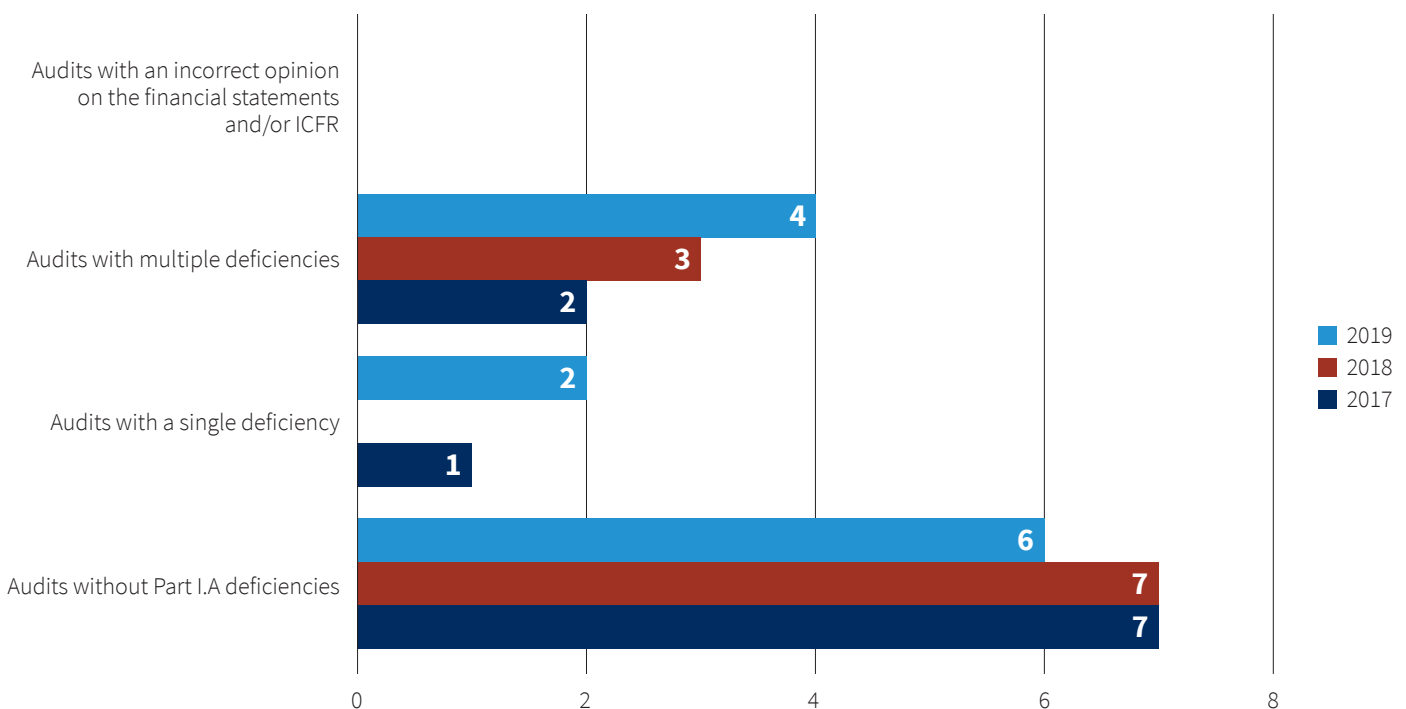
Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

Number of Audits in Each Category



Part I: Inspection Observations

Part I.A of our report discusses deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR. Part I.B discusses deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. Consistent with the Act, it is the Board's assessment that nothing in Part I of this report deals with a criticism of or potential defect in the firm's quality control system. Any such criticisms or potential defects are discussed in Part II. Further, you should not infer from any Part I deficiency or combination of deficiencies that a quality control finding is identified in Part II.

Part I.A: Audits with Unsupported Opinions

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion on the issuer's financial statements and/or ICFR.

We identify each issuer by a letter (e.g., Issuer A). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard(s) that most directly relates to the requirement with which the firm did not comply.

Issuer audits are presented below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

Audits with Multiple Deficiencies

Issuer A – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue** and an **Investment**.

Description of the deficiencies identified

With respect to **Revenue**:

The firm did not perform any procedures to evaluate (1) the terms and conditions of an arrangement under which the issuer recorded revenue, and which involved other participants and a counterparty, including the method used by the counterparty to allocate consideration to the issuer and other participants, and (2) whether the revenue the issuer recognized under this arrangement was in conformity with FASB ASC Topic 606, *Revenue from Contracts with Customers*. (AS 2810.30)

The firm used certain information obtained from the issuer and from outside sources in its substantive testing of revenue but did not perform any procedures to evaluate whether this information was reliable, accurate, and complete. (AS 1105.04, .06, and .10)

With respect to an **Investment**:

To evaluate an investment for potential impairment, the firm used information related to transactions involving the investee's stock. The firm did not perform any procedures, beyond inquiring of management of the investee, to test

whether this information was reliable and accurate. Further, when determining whether the issuer's conclusion that the investment was not impaired was reasonable, the firm did not evaluate potential impairment indicators, including (1) the investee's negative operating results, unsuccessful attempt to raise capital, and workforce reduction shortly after year end and (2) a significant decline in the value of certain assets that were important to the issuer's and the investee's operations. (AS 2301.08; AS 2810.03)

Issuer B

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue, Accounts Receivable, and Income Taxes**.

Description of the deficiencies identified

With respect to **Revenue**:

For one type of revenue, the issuer's system generated customer invoices and recorded revenue once the issuer processed invoices from the manufacturer of its products indicating that customer orders had been completed and shipped. The following deficiencies were identified:

- The firm selected for testing a control that consisted of the issuer's review of support for revenue transactions. In testing the operating effectiveness of this control, the firm did not test the aspect related to whether the manufacturer's invoices processed by the issuer were consistent with the customers' orders. (AS 2201.44)
- The firm selected for testing an automated control over the generation of a customer invoice and the recording of revenue once the manufacturer's invoice was processed in the issuer's system. The firm did not obtain an understanding of how the issuer's system was configured to initiate, process, and record revenue transactions. As a result, the firm did not test the configuration of this control or perform other procedures that would have provided sufficient appropriate audit evidence that the control was designed and operating effectively. (AS 2201.34, .42, and .44)
- The firm selected for testing a control over manually recorded period-end adjustments to reverse revenue for shipped products that had not been delivered to the issuer's customers by the end of the period. The firm did not identify and test any controls over the accuracy and completeness of the delivery dates obtained from the manufacturer that the control owners used to determine whether adjustments were necessary. (AS 2201.39)

For two other types of revenue, the issuer recognized revenue monthly based on sales reported by external parties. The firm selected for testing controls that consisted of the issuer's reviews of the reasonableness of the sales reported by these external parties. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

The firm used the sales reported by the external parties in its substantive testing of this revenue but did not perform any procedures to test, or (as discussed above) sufficiently test controls over, the accuracy and completeness of this information. (AS 1105.10)

With respect to **Accounts Receivable**:

The firm selected for testing controls that consisted of the issuer's reviews of the allowance for doubtful accounts. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy and completeness of certain data used in the performance of these controls. (AS 2201.39)

With respect to **Income Taxes**:

The firm selected for testing controls that consisted of the issuer's review of income tax accounts. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

Issuer C

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue, Deferred Revenue, and Property and Equipment ("P&E")**.

Description of the deficiencies identified

With respect to **Revenue and Deferred Revenue**:

The firm did not identify and test any controls over information that the issuer manually entered into the revenue systems and used to record service revenue and deferred revenue. (AS 2201.39)

The firm identified control deficiencies related to controls over the review and approval of program changes for one of the issuer's revenue systems but did not evaluate the severity of these deficiencies. (AS 2201.62)

The firm selected for testing controls over the issuer's reviews of transaction reports and the resulting monthly journal entries used to record service revenue and deferred revenue. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

The firm used the information manually entered into the revenue systems in its substantive testing of this revenue but did not perform any procedures to test, or (as discussed above) sufficiently test controls over, the accuracy and completeness of this information. (AS 1105.10)

With respect to **P&E**:

The firm selected for testing a control that consisted of the issuer's review of cash disbursements, including whether those disbursements met the criteria to be capitalized. The firm did not perform any procedures, beyond inquiring of management, to test the aspect of this control related to the control owner's evaluation of whether disbursements were properly capitalized. (AS 2201.42 and .44)

To substantively test P&E additions, the firm selected for testing additions that exceeded a monetary threshold. The firm did not perform any procedures to test the remaining population of P&E additions. (AS 1105.27)

Issuer D – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Investment Securities and Stock-Based Compensation**.

Description of the deficiencies identified

With respect to **Investment Securities**:

The issuer used two service organizations for custody, recordkeeping, and the processing of investment transactions, and those service organizations used sub-service organizations for certain functions. The service auditors' reports did not address the controls over the sub-service organizations. The firm did not obtain an understanding of, and test, any controls at the sub-service organizations that were relevant to the issuer. (AS 2201.39 and .B19)

The firm selected for testing a complementary user control that consisted of monthly cash and investment reconciliations but did not test the aspect of this control related to investments. (AS 2201.B22) In addition, the firm selected for testing a complementary user control that consisted of monthly balance sheet reconciliations. The firm did not identify and test any controls over the accuracy and completeness of the investment statements from the sub-service organizations that the control owners used in the performance of this control. (AS 2201.39 and .B19)

The firm did not perform any substantive procedures to test the valuation of investments. (AS 2502.15)

With respect to **Stock-Based Compensation**:

The issuer granted stock options as payment for services and, during the year, changed service organizations that it used to value the options. One of the service organizations developed certain assumptions that it used in the valuation of certain options. The firm did not identify and test any controls over the reasonableness of these assumptions. (AS 2201.39)

The firm selected for testing controls that consisted of the issuer's reviews of (1) journal entries to record certain stock-based compensation expense, (2) quarterly adjustments to certain stock-based compensation expense, and (3) disclosures regarding the assumptions used to determine the fair value of certain stock options. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

An individual involved in the operation of each of the controls discussed above, either as a preparer or control owner, had privileged access to the service organizations' systems that provided this individual with the ability to make changes to data in those systems. The firm did not identify and evaluate the effect of this individual's access on its conclusions that the relevant controls were designed and operating effectively. (AS 2201.42 and .44)

Audits with a Single Deficiency

Issuer E

Type of audit and related area affected

In our review, we identified a deficiency in the ICFR audit related to **Revenue**.

Description of the deficiency identified

The firm did not identify and test any controls, other than certain cut-off controls, over the issuer's revenue transactions for certain types of revenue. (AS 2201.39)

Issuer F – Information Technology

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Revenue**.

Description of the deficiency identified

The issuer recognized revenue from a contract with a new customer. The firm did not sufficiently evaluate whether collectability of substantially all of the consideration was probable at contract inception because its procedures were limited to inquiring of management and reading an issuer-prepared memorandum. (AS 2301.08)

Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules

This section of our report discusses any deficiencies we identified that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not otherwise selected for review and may include instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In six of 12 audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to the significant risks identified through its risk assessment procedures. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 12 audits reviewed, the firm did not make a required communication to the issuer's audit committee related to uncorrected misstatements. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 12 audits reviewed, the firm did not make a required communication to the issuer's audit committee related to a draft of the firm's audit report. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 12 audits reviewed, the firm's audit report contained inaccurate information for the year the firm began serving consecutively as the issuer's auditor. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.
- In one of 12 audits reviewed, the firm did not file its report on Form AP by the relevant deadline. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

Part II: Observations Related To Quality Control

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

Deficiencies are included in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

Any changes or improvements to its system of quality control that the firm may have brought to the Board's attention may not be reflected in this report, but are taken into account during the Board's assessment of whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

Criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified, are nonpublic when the reports are issued. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, any such deficiency will be made public.

Testing Controls

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the work performed by the firm's personnel with respect to testing controls will meet the requirements of AS 2201. (QC 20.03 and .17)

The inspection team identified deficiencies in the firm's testing of controls in four audits,¹ all of which are included in Part I.A, in the following areas: (1) identifying and testing controls that address risks of material misstatement, (2) testing controls that include a review element, (3) testing the design and operating effectiveness of controls, and (4) identifying and testing controls over the accuracy and completeness of data or reports.

Addressing the concerns and monitoring the effects of the actions taken regarding testing controls are critical because the results of these procedures are used to support the firm's opinion on the effectiveness of ICFR.

Identifying and Testing Controls that Addressed Risks of Material Misstatement

In three audits,² all of which are included in Part I.A, the firm did not identify and test controls that sufficiently addressed the risks of material misstatement related to relevant assertions of certain significant accounts.

Testing Controls that Include a Review Element

In three audits,³ all of which are included in Part I.A, the firm did not sufficiently evaluate whether controls that it selected for testing that included a review element operated at a level of precision that would prevent or detect material misstatements because the firm did not evaluate the review procedures that the control owners performed, including instances in which the firm did not evaluate the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved.

¹ Issuers B, C, D, and E

² Issuers C, D, and E

³ Issuers B, C, and D

Testing the Design and Operating Effectiveness of Controls

In three audits,⁴ all of which are included in Part I.A, the firm did not sufficiently test, or test certain aspects of, the design and/or operating effectiveness of controls.

Identifying and Testing Controls Over Data or Reports

In two audits,⁵ both of which are included in Part I.A, the firm did not identify and test controls over, or test aspects of certain controls that addressed, the accuracy and/or completeness of data or reports that the issuer used in the operation of controls that the firm tested.

Supervision of the Audit

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the supervisory activities, including reviews of audit work, performed by the firm's engagement partners will meet the requirements of AS 1201. (QC 20.03 and .17)

In six audits,⁶ all of which are included in Part I.A, the inspection team identified one or more deficiencies that the engagement partner should have identified and appropriately addressed but did not. In all of these audits, the engagement team had identified a significant risk, including in some cases a fraud risk, in the area in which a deficiency was identified.

Engagement Quality Review

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the review procedures performed by the firm's engagement quality review ("EQR") partners will meet the requirements of AS 1220. (QC 20.03 and .17)

In six audits,⁷ all of which are included in Part I.A, the inspection team identified one or more deficiencies in an area that the EQR partner was required to evaluate. In all of these audits, the EQR partner did not identify a deficiency in an area of significant risk, including in some cases a fraud risk.

Communications with Audit Committees

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm's personnel will comply with the requirements of AS 1301. (QC 20.03 and .17)

*** the firm did not make certain required communications to the issuer's audit committee. *** In one audit,⁸ the firm did not communicate the uncorrected misstatements, and in one other audit,⁹ the firm did not provide to and discuss with the audit committee a draft of the audit report.

⁴ Issuers B, C, and D

⁵ Issuers B and D

⁶ Issuers A, B, C, D, E, and F

⁷ Issuers A, B, C, D, E, and F

⁸ Issuer B

⁹ Issuer F

Appendix A: Firm's Response to the Draft Inspection Report

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the firm's response, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available.

In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.



December 1, 2020

Mr. George Botic
Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006

Re: Response to the Draft Report on 2019 Inspection of Marcum LLP

Dear Mr. Botic:

Marcum LLP (the "Firm") is pleased to provide this response to the Public Company Accounting Oversight Board's (the "PCAOB") draft report on the 2019 inspection of Marcum LLP (the "Draft Report").

The Firm respects the inspection process and we believe that, through formal communications and through interactions with PCAOB staff, it has led to improved audit quality. As we have after every inspection, we carefully considered the matters brought to our attention in connection with the 2019 inspection, and have taken actions to enhance our policies and procedures as part of our commitment to the highest standards of audit quality.

We have also thoroughly evaluated the matters described in Part I.A of the Draft Report and have taken steps to fulfil our responsibilities under AS 2901, *Consideration of Omitted Procedures after the Report Date* and AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*.

We appreciate the opportunity to respond to the Draft Report and welcome the opportunity discuss our response in particular and improved audit quality in general.

Very truly yours,

A handwritten signature in black ink that reads "Marcum LLP".

Marcum LLP



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