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# 2019 Inspection KPMG Auditores Independentes

(Headquartered in São Paulo, Federative Republic of Brazil)

July 6, 2021

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## 2019 Inspection

During the Public Company Accounting Oversight Board (“PCAOB”)’s 2019 inspection of KPMG Auditores Independentes, we assessed the firm’s compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review three audits of issuers with fiscal years 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.

### 2019 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make 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. In certain situations we may select all of the firm’s issuer audits for review.

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 inspection in 2019 of the firm's issuer audits as well as data from the previous inspection. We use a risk-based method 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 inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

## Firm Data and Audits Reviewed

	2019	2016
<b>Firm Data</b>		
<b>Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures</b>	10	7
<b>Total issuer audits in which the firm was not the principal auditor</b>	46	59
<b>Total engagement partners on issuer audit work<sup>1</sup></b>	48	39
<b>Audits Reviewed</b>		
<b>Total audits reviewed<sup>2</sup></b>	3	3
<b>Audits in which the firm was the principal auditor</b>	2	2
<b>Audits in which the firm was not the principal auditor</b>	1	1
<b>Integrated audits of financial statements and internal control over financial reporting ("ICFR")</b>	3	3
<b>Audits with Part I.A deficiencies</b>	2	0

<sup>1</sup> The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201) or for the firm's role in an issuer audit during the twelve-month period preceding the outset of the inspection.

<sup>2</sup> The population from which audits are selected for review includes both audits for which the firm was the principal auditor and those where the firm was not the principal auditor but played a role in the audit. The population of issuer audits from which audits are selected for review may differ from the issuer audits at the outset of the inspection procedures due to variations such as new issuer audit clients for which the firm has not yet issued an opinion or issuer audit clients lost prior to the outset of the inspection.

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 may include 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.

## Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2019 inspection and the previous inspection. 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		2016	
Audit area	Audits reviewed	Audit area	Audits reviewed
Cash and cash equivalents	3	Revenue and related accounts	3
Revenue and related accounts	2	Inventory	2
Inventory	1	Cash and cash equivalents	2
Long-lived assets	1	Long-lived assets	2
Significant estimate	1	Goodwill and intangibles	2

# Part I: Inspection Observations

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, (1) 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 or (2) in audit(s) in which it was not the principal auditor, had not obtained sufficient appropriate audit evidence to fulfill the objectives of its role in the audit. Part I.B discusses deficiencies, if any, that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) or fulfill the objectives of its role in the audit(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. Consistent with the Sarbanes-Oxley Act ("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. Section 104(g)(2) of 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.

## 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.

## 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

##### Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to a **Significant Estimate**.

##### Description of the deficiencies identified

The issuer used various models and assumptions to determine the estimate. The following deficiencies were identified:

- The firm selected for testing controls that consisted of the review and approval of certain assumptions used to determine the estimate. The firm did not identify and test any controls over the accuracy and completeness of data used in the operation of these controls. (AS 2201.39)
- The firm did not identify and test any controls over the monitoring of the models to determine whether the models remained suitable for their intended purpose or if revisions to the models were necessary. (AS 2201.39)
- The firm selected for testing controls that consisted of annual reviews and approvals of (1) the methodologies, (2) new and revised models, and (3) certain key inputs and assumptions used by the issuer to determine a portion of the estimate. Certain annual reviews and approvals of the methodologies and new and revised models did not operate during the current year and the firm tested instances of these controls which operated in the prior year. The firm's testing of these controls did not provide sufficient appropriate audit evidence of the controls' operating effectiveness as of the date of management's assessment of ICFR due to the (1) length of time that had passed between the instances of the controls the firm tested and the date of management's assessment, (2) higher risk associated with the controls, and (3) sensitivity and

complexity of the models covered by the controls. (AS 2201.46 and .52) In addition, for certain of the controls over the methodologies, new and revised models, and certain key inputs and assumptions, the firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

- The firm selected for testing two other controls that consisted of the review and approval of certain assumptions or data supporting the assumptions used by the issuer to determine another portion of the estimate. For one of these controls, the firm did not test an aspect of the control related to an annual update of the assumptions. Further, the firm did not sufficiently test the completeness of the report from which it selected its samples to test the design and operating effectiveness of the control because the firm did not agree the report data to the source system. For the other control, the firm did not test an aspect of the control related to an annual update of the data supporting the assumptions. (AS 2201.42 and .44)
- The firm's approach for substantively testing the estimate was to review and test management's process. The firm did not sufficiently evaluate the reasonableness of the estimate because the firm did not (1) obtain an understanding of the issuer's process for determining certain assumptions and (2) perform procedures to test certain factors and assumptions used by the issuer to determine the estimate. (AS 2501.09, .10, and .11)
- The sample sizes the firm used in certain of its substantive procedures to test the estimate were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

## Issuer B – Materials

### Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue and Related Accounts** and **Long-Lived Assets**.

### Description of the deficiencies identified

With respect to **Revenue and Related Accounts**:

The firm did not identify and test any controls over the (1) approval of prices, (2) entry of customer orders for both domestic and export sales into the general ledger, (3) accuracy of the bills of lading information entered into the general ledger used to initially recognize revenue for export sales, and (4) deferral of revenue at year end related to certain export sales. (AS 2201.39)

At the end of each year, the issuer calculated and recorded an adjustment to defer a portion of revenue related to domestic and certain export sales for which the revenue recognition criteria had not been met. The firm did not identify and test any controls over the accuracy and completeness of the reports used by the issuer to identify sales transactions related to domestic and certain other export sales for which the revenue recognition criteria had not been met. (AS 2201.39)

The sample sizes the firm used in certain of its substantive procedures to test revenue and accounts receivable were too small to provide sufficient appropriate audit evidence because these procedures were

designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

With respect to **Long-Lived Assets**:

The firm did not identify and test any controls over the (1) recording of additions and disposals of long-lived assets, including whether these were recorded in the correct period, (2) classification of long-lived assets and whether these were depreciated over the appropriate useful lives, and (3) configuration of the system responsible for the calculation of depreciation expense. (AS 2201.39)

The sample sizes the firm used in certain of its substantive procedures to test long-lived assets were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A) In addition, the firm did not test whether (1) long-lived assets were appropriately classified to ensure that these assets were depreciated over the appropriate useful lives and (2) all disposals of long-lived assets were recorded by the issuer. (AS 2301.08)

## Audits with a Single Deficiency

None

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

In the 2019 inspection, we did not identify any deficiencies related to other instances of non-compliance with PCAOB standards or rules.

## 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.

# 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.



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April 22, 2021

Mr. George Botic  
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**Response to Part I of Public Company Accounting Oversight Board Draft Report on March 23, 2021 Inspection of KPMG Auditores Independentes**

Dear Mr. Botic,

We are pleased to provide our response to Part I of the Public Company Accounting Oversight Board's ("PCAOB") DRAFT Report on the 2019 Inspection of KPMG Auditores Independentes, dated March 23, 2021 ("Draft Report").

Consistently executing high-quality audits is our top priority. We take the findings from the PCAOB inspection process seriously and believe the inspection process serves to assist us in identifying areas where we can continue to improve our performance and strengthen our system of audit quality control. We remain committed to full cooperation with the PCAOB, appreciate the professionalism and commitment of the PCAOB staff, and value the important role the PCAOB plays in improving audit quality.

We conducted a thorough evaluation of the matters identified in Part I of the Draft Report and have taken appropriate actions to address the engagement-specific findings in a manner consistent with PCAOB auditing standards and KPMG policies and procedures.

We remain dedicated to evaluating and improving our system of quality control, including monitoring audit quality and implementing changes to our policies and practices in order to enhance audit quality. We understand our responsibility to investors and other participants in the capital markets and are committed to work constructively with the PCAOB to improve audit quality and build confidence in the auditing profession.

Yours sincerely,

KPMG Auditores Independentes, uma sociedade simples brasileira e firma-membro da rede KPMG de firmas-membro independentes e afiliadas à KPMG International Cooperative ("KPMG International"), uma entidade suíça.

KPMG Auditores Independentes, a Brazilian entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



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