
2021 Inspection S D Mayer & Associates

(Headquartered in San Francisco, California)

August 31, 2022

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. 104-2022-190A

(Includes portions of Part II and Appendix A of the full report that were not included in PCAOB Release No. 104-2022-190)



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2021 INSPECTION

In the 2021 inspection of S D Mayer & Associates, the Public Company Accounting Oversight Board (PCAOB) assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review one audit of an issuer with a fiscal year ending in 2018. For the issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2021 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 necessarily 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 2021 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2021 inspection 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 Selected for Review

	2021	2018
Firm data		
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures ¹	0	3
Total engagement partners on issuer audit work ²	1	1
Audits reviewed		
Total audits reviewed ³	1	2
Audits in which the firm was the principal auditor	1	2
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0	0
Audits with Part I.A deficiencies	1	2

If we include a deficiency 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 deficiency was identified. Depending on the circumstances, remedial actions may include performing additional

¹ Although the firm had no issuer audit clients at the outset of the inspection, the firm had issued at least one audit report with respect to an issuer since the previous inspection.

² 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, *Supervision of the Audit Engagement*) during the twelve-month period preceding the outset of the inspection or, in cases where the firm has not issued an audit report in that period, since the prior inspection or since the firm's registration with the PCAOB.

³ 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 audit report or issuer audit clients lost prior to the outset of the inspection.

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.

If we include a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it 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 2021 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.

2021		2018	
Audit area	Audits reviewed	Audit area	Audits reviewed
Revenue and related accounts	1	Revenue and related accounts	2
Business combinations	1	Debt	1
		Derivatives	1
		Equity and equity-related transactions	1
		Accruals and other liabilities	1

PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies, if any, 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, if any, 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 Sarbanes-Oxley Act ("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. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding 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 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 revised 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. We include any deficiencies identified in connection with our reviews of these audits 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.

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.

We present issuer audits 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 areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue** and a **Business Combination**.

Description of the deficiencies identified

With respect to **Revenue**:

For certain revenue, the firm did not perform any procedures to evaluate (1) the issuer's identification of its performance obligations and (2) whether such obligations were satisfied before revenue was recognized. (AS 2301.08)

For certain other revenue, the firm did not perform any procedures to evaluate the relevance and reliability of information used in its substantive procedures to test revenue. (AS 1105.04 and .06)

The firm did not identify, and appropriately address, a departure from GAAP related to the issuer's disclosures about its revenue recognition policy. (AS 2810.30 and .31)

With respect to a **Business Combination**:

During the year, the issuer acquired a business. The firm did not perform any procedures to test the fair value of the purchase consideration. (AS 2502.15) In addition, the firm did not perform any procedures to test the fair value of certain acquired assets. (AS 2502.15)

With respect to certain other acquired assets, the firm did not obtain an understanding of and evaluate whether the valuation method the issuer used to develop its fair value estimate was appropriate in the circumstances. (AS 2502.09 and .18) The firm's approach for testing the fair value of these assets was to develop an independent fair value estimate using certain of the issuer's assumptions. The following deficiencies were identified:

- The firm did not evaluate the reasonableness of the issuer's assumptions that the firm used in developing an independent fair value estimate. (AS 2502.40)
- The firm also did not evaluate differences between the firm's estimated fair value and the issuer's recorded fair value. (AS 2502.47; AS 2810.13)

In addition, the firm did not perform any procedures to evaluate whether the issuer's adjustment to the fair value estimate for these assets was in conformity with FASB ASC Topic 805, *Business Combinations*. (AS 2810.30)

Audits with a Single Deficiency

None

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 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. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not reviewed and include any instances of non-compliance below.

We identified the following deficiencies:

In the audit reviewed and one other audit, the firm's audit report did not include explanatory language about the firm's responsibilities with respect to ICFR in a non-integrated audit. In these instances, the firm was non-compliant with AS 3105, *Departures from Unqualified Opinions and Other Reporting Circumstances*.

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.

We include deficiencies 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.

This report does not reflect changes or improvements to the firm's system of quality control that the firm may have made subsequent to the period covered by our inspection. The Board does consider such changes or improvements in assessing whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. 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, we will make public any such deficiency.

Testing Revenue

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 revenue will meet the requirements of AS 1105 [and] AS 2301 * * * *. (QC 20.03 and .17)

In one audit,⁴ which is included in Part I.A, the inspection team identified deficiencies related to the firm's substantive testing of revenue.

* * * *

⁴ Issuer A

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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June 30, 2022

George Botic
Director
Division of Registration and Inspections
PCAOB
1666 K Street NW
Washington DC 20006

Re: Firm ID #: 5797 Response to Draft Inspection Report dated May 31, 2022 of SD Mayer & Associates, LLP

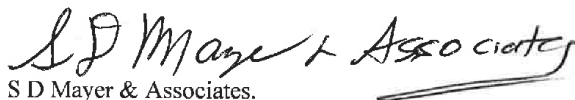
Dear Mr. Botic:

We are pleased to provide our response to Part I of the Public Company Accounting Oversight Board's ("PCAOB") Draft Report on the 2021 inspection of SD Mayer & Associates, LLP. We continue to support the PCAOB's goal of improving audit quality in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports.

We have evaluated each of the matters described in Part I.A and Part I.B of the Draft Report and have taken appropriate actions under both PCAOB standards and our policies, including all necessary steps to comply with 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. These actions included performing additional procedures and including additional documentation in our files. Such procedures have not resulted in modification to our original conclusions with respect to the issuer, which we believe supports our audit opinion.

We remain committed in making audit quality our top priority. The PCAOB's inspection process assists us in improving our audit performance and our underlying quality control systems. We look forward to continuing to work with the PCAOB on the most effective means of achieving this objective.

Respectfully submitted,


S D Mayer & Associates.

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June 30, 2022

George Botic
Director
Division of Registration and Inspections
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THIS IS THE NON PUBLIC PORTION OF OUR RESPONSE

Re: Firm ID #: 5797 Response to Draft Inspection Report dated May 31, 2022 of S D Mayer & Associates, LLP (SDM)

Dear Mr. Botic:

We are pleased to provide our response to Part II of the Public Company Accounting Oversight Board's ("PCAOB") Draft Report on the 2021 inspection of S D Mayer & Associates, LLP. We continue to support the PCAOB's goal of improving audit quality in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports.

We are evaluating the quality control criticisms and the matters described in Part I.A and Part I.B of the Draft Report and have taken appropriate actions under both PCAOB standards including all necessary steps to comply with 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 have also evaluated our policies and procedures in determining the causes of the criticisms and we will design and implement necessary remedial actions to eliminate the recurrence of the criticisms. These actions included performing additional procedures and including additional documentation in our files. Such procedures have not resulted in modification to our original conclusions with respect to the issuer, which we believe supports our audit opinion.

SDM remains committed in making audit quality our top priority. The PCAOB's inspection process assists us in improving our audit performance and our underlying quality control systems. It gives us an opportunity to discuss these findings with our staff, it enables us to be more focused on selecting our continuing education for member of the professional staff and it provides us with clear guidance on how to improve. We look forward to continuing to work with the PCAOB on the most effective means of achieving improving our audit quality.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Stephen D. Mayer', with a long horizontal flourish extending to the right.

S D Mayer & Associates,
by Stephen D. Mayer, Partner

