2021 Inspection Mazars USA LLP

(Headquartered in New York, New York)

September 15, 2022

PCAOB RELEASE NO. 104-2022-201

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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2021 INSPECTION

In the 2021 inspection of Mazars USA LLP, 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 two audits of issuers with fiscal years ending in 2020. For each 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	2019
Firm data		
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures	17	13
Total engagement partners on issuer audit work[1]	9	6
Audits reviewed		
Total audits reviewed[2]	2	2
Audits in which the firm was the principal auditor	2	2
Integrated audits of financial statements and internal control over financial reporting (ICFR)	2	1
Audits with Part I.A deficiencies	2	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 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.

[1] 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.

[2] 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.

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		2019	
Audit area	Audits reviewed	Audit area	Audits reviewed
An income statement account	1	**An income statement account**	1
Certain assets	1	**Certain assets**	1
A significant estimate	1	**Revenue and related accounts**	1
Certain liabilities	1	**Certain 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 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.

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 and ICFR audits related to an **Income Statement Account** and **Certain Assets**.

Description of the deficiencies identified

With respect to an **Income Statement Account**:

The firm did not identify and test any controls over the appropriateness of recognition for a portion of an income statement account. (AS 2201.39)

In addition, the firm selected for testing certain controls over the occurrence of another portion of this income statement account. The firm did not perform any procedures, beyond inquiry, to test the design and operating effectiveness of these controls. (AS 2201.42 and .44)

With respect to **Certain Assets**:

The issuer held certain assets at multiple locations. The following deficiencies were identified:

- The firm did not identify and test any controls over the valuation of certain assets. (AS 2201.39)
- The firm selected for testing a control that consisted of management's review of the existence of a portion of these assets. 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 selected for testing a control that consisted of the review of the existence of another portion of these assets. The firm did not sufficiently test this control because it did not evaluate whether the control, as designed, addressed the entire portion of these assets. (AS 2201.42 and .44)
- The firm selected for testing a control that consisted of the automated calculation of the recorded value for a portion of these assets and tested the control by reviewing a screenshot of the system configuration subsequent to year end. The firm did not test (1) whether the control had changed since year end and (2) the automated calculation beyond obtaining a screenshot of the system configuration. (AS 2201.42 and .44)
- The firm selected for testing a control that consisted of the automated calculation of the recorded value for another portion of these assets but did not perform procedures to test this control. (AS 2201.42 and .44)
- The firm did not perform any substantive procedures to test the recorded values for certain portions of these assets. (AS 2301.08)

Issuer B

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 firm selected for testing certain controls over the issuer's review of a significant estimate. 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 the data and reports that were used in the operation of these controls. (AS 2201.39)

The firm's approach for substantively testing this significant estimate was to test the issuer's process. The following deficiencies were identified:

- The firm did not test the accuracy and completeness of certain data the issuer used to determine a component of this significant estimate. (AS 1105.10)

- The firm did not test the accuracy of certain data it used to test a component of this significant estimate. (AS 1105.10)

- The firm did not evaluate whether the issuer had a reasonable basis for certain significant assumptions the issuer used to determine a component of this significant estimate. (AS 2501.16)

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(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 reviewed and include any 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 one of two audits reviewed, the firm did not include all relevant work papers in the final set of audit documentation it was required to assemble. In this instance, the firm was non-compliant with AS 1215, *Audit Documentation*.

- In the two audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to (1) all of the significant risks identified through its risk assessment procedures and (2) the names, locations, and planned responsibilities of other accounting firms or other persons, who were not employed by the auditor, that performed audit procedures in the audit. In one of two audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to (1) the nature and extent of specialized skill or knowledge needed to perform the planned audit procedures or evaluate the audit results related to a significant risk; (2) the extent to which the firm planned to use the work of internal auditors when performing an audit of ICFR; and (3) the firm's evaluation of the quality of the issuer's financial reporting. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of two audits reviewed, the engagement team performed procedures to determine whether or not matters were critical audit matters but did not include in those procedures certain matters that were communicated, or required to be communicated, to the issuer's audit committee and that related to accounts or disclosures that were material to the financial statements. 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*. This instance of non-compliance does not necessarily mean that other critical audit matters should have been communicated in the auditor's report.

- In one of two audits reviewed, the firm's report on Form AP contained inaccurate information related to the participation in the audit by an other accounting firm. 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.

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.

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.

Mazars USA LLP
135 West 50th Street
New York, New York 10020

Tel: 212.812.7000
www.mazars.us

July 15, 2022

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

Via Email: ResponsestoDraftReport@pcaobus.org

Re: Response to Part I of the Draft Report on the 2021 Inspection of Mazars USA LLP

Dear Mr. Botic:

We are pleased to provide our response to the Draft Report on the 2021 Inspection of Mazars USA LLP (the "Draft Report") of the Public Company Accounting Oversight Board (the "PCAOB" or the "Board"). We recognize that the PCAOB's inspection process provides a valuable opportunity to further enhance the quality of our audits. We continue to support the PCAOB in its mission and are committed to furthering the public interest through the preparation of informative, accurate, and independent audit reports.

Bringing value to the capital markets by consistently performing quality audits remains our top priority, including addressing the matters raised in the Draft Report in a thorough and thoughtful way. We have evaluated the observations identified by the Board's inspection team for each of the issuer audits described in Part I Inspection Observations of the Draft Report and understand our professional responsibilities in accordance with PCAOB standards and our Firm's policies and procedures, including all necessary steps to comply with AS 2901, *Consideration of Omitted Procedures After the Report Date*, and where applicable, AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report.*

We are committed to excellence in the execution of our audit engagements. We view the PCAOB's inspection process as critical in assessing our engagement performance and system of quality control. We take the comments received seriously, using the feedback to develop policies and procedures that will drive continuous improvement in our audit quality. We look forward to continuing to work collaboratively with the PCAOB to achieve our shared goals.

Respectfully submitted,

Mazars USA LLP

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