
2022 Inspection BDO RCS Auditores Independentes Sociedade Simples Ltda.

(Headquartered in Sao Paulo, Federative Republic
of Brazil)

November 16, 2023

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

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105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002



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2022 INSPECTION

In the 2022 inspection of BDO RCS Auditores Independentes Sociedade Simples Ltda., 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 three audits of issuers with fiscal years generally ending in 2021. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2022 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 or 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 2022 INSPECTION

The following information provides an overview of our 2022 inspection, which was our first inspection of this firm. 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

	2022
Firm data	
Total issuer audit clients in which the firm was the principal auditor	1
Total issuer audits in which the firm was not the principal auditor	3
Total engagement partners on issuer audit work ¹	4
Audits reviewed	
Total audits reviewed ²	3
Audits in which the firm was the principal auditor	1
Audits in which the firm was not the principal auditor	2
Integrated audits of financial statements and internal control over financial reporting (ICFR)	2
Audits with Part I.A deficiencies	2
Percentage of audits with Part I.A deficiencies	67%

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*) or for the firm's role in an issuer audit during the twelve-month period preceding the outset of the inspection.

² 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.

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.

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 2022 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.

2022	
Audit area	Audits reviewed
Revenue and related accounts	3
Cash and cash equivalents	2
Long-lived assets	1
Inventory	1
Income taxes	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, (1) at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) 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 certain deficiencies, if any, that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s) or fulfill the objectives of its role in the audit(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Part I.C discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules, if any, related to maintaining independence.

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 audits 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 audits 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 audits 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 audits 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 audits 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 (1) supporting the firm's opinion(s) on the issuer's financial statements and/or ICFR and (2) in audit(s) in which it was not the principal auditor, to fulfill the objectives of its role in the audit.

We identify each issuer by a letter (e.g., Issuer A) and industry sector. Each deficiency could relate to several auditing standards, but we reference the PCAOB standard 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 – Communication Services

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue**, **Long-Lived Assets**, and **Journal Entries**. The firm's internal inspection program inspected this audit and reviewed these areas but did not identify the deficiencies below.

Description of the deficiencies identified

With respect to **Revenue**, for which the firm identified a significant risk:

The issuer used multiple information-technology (IT) systems to initiate, process, and record transactions related to revenue. In its testing of controls over revenue, the firm tested various automated and IT-dependent manual controls that used data and reports generated or maintained by the IT systems that depended on effective IT general controls (ITGCs). As a result of the following deficiencies in the firm's testing of ITGCs, the firm's testing of these automated and IT-dependent manual controls was not sufficient. (AS 2201.46)

With respect to change management:

The firm selected for testing a change management control over certain IT systems that consisted of the recording of non-emergency changes in the issuer's ticketing system and the review and approval of such changes. The firm did not perform procedures to test, or test any controls over, the completeness of the population of changes from which it made its selections for testing. (AS 1105.10)

With respect to developer access:

The firm did not identify and test any controls over the ability of developers to develop and migrate changes to the production environment for certain IT systems. (AS 2201.39)

With respect to the firm's testing of other controls, including automated and IT-dependent manual controls, over the recognition of certain revenue, which were affected by the audit deficiencies discussed above related to change management and developer access, the following additional deficiencies were identified:

- For certain controls, the firm did not identify and test any controls over the accuracy and completeness of data and reports generated by various IT systems that the control owners used in the operation of the controls. (AS 2201.39)
- For certain controls, the firm did not perform procedures to test, or test any controls over, the completeness of the populations from which it made its selections for testing. (AS 1105.10)
- For certain controls, the firm did not test controls over the completeness of data and reports generated by various IT systems that were used in the operation of the controls beyond comparing information from these reports to data from the same reports and/or reviewing emails retained by the control owners. (AS 2201.42 and .44)

The firm used system-generated data to substantively test certain revenue but did not test, or (as discussed above) sufficiently test controls over, the accuracy and completeness of this data. (AS 1105.10)

With respect to **Long-Lived Assets**, for which the firm identified a significant risk:

The firm's approach for substantively testing the valuation of long-lived assets was to test the issuer's process. The firm did not perform procedures, beyond inquiry of management, to evaluate the reasonableness of the significant assumptions used by the issuer to evaluate long-lived assets for impairment. (AS 2501.16)

With respect to **Journal Entries**, for which the firm identified a fraud risk:

The firm identified manual journal entries that met certain fraud criteria. The firm did not select any of the manual journal entries and other adjustments for testing that met the identified fraud criteria. (AS 2401.61)

Issuer B – Materials

Type of audit and related areas affected

In our review of an audit in which the firm played a role but was not the principal auditor, we identified deficiencies in connection with the firm's role in the financial statement audit related to **Accounts Receivable** and **Inventory**.

Description of the deficiencies identified

With respect to **Accounts Receivable**:

The firm did not perform sufficient substantive procedures to test the existence of accounts receivable because, for certain receivables selected for testing, the firm limited its procedures to comparing the customer's name, date, and amount of the receivable to the corresponding tax invoice, which was based on sales data provided by the component. (AS 2301.08) In addition, the firm did not request the confirmation of accounts receivable or document how it overcame the presumption to perform confirmation procedures. (AS 2310.34 and .35)

With respect to **Inventory**:

The component relied on a specialist that it employed for the measurement of the density of certain inventory and engaged an external specialist to assist in the measurement of the stock volume of certain inventory, which were used to calculate the inventory quantity. To test the existence of inventory, the firm observed the component's physical inventory counts at select locations and performed procedures to test the rollforward of inventory from the dates in which the inventory was physically counted to year-end using a system-generated report provided by the component. To test the valuation of inventory, the firm used certain other system generated reports provided by the component. The following deficiencies were identified:

- The firm's observation procedures at the selected locations were not suitable because the firm did not perform any substantive procedures to (1) investigate certain variances identified between the firm's test counts and the component's inventory records; (2) compare certain quantities of inventory measured by the firm to the component's inventory records; and (3) test inventory cut-off at one location. Therefore, these observations did not provide sufficient evidence of the quantity of inventory at these locations. (AS 2510.09) In addition, the firm did not perform substantive procedures to test the density and volume conversion factors used to determine the inventory quantity for certain items selected for testing, beyond obtaining the factors from the company's specialists. Further, the firm did not perform any procedures to use the work of the company's specialists as audit evidence. (AS 1105.A1 - .A10; AS 2510.09)

- To test intervening transactions between the dates of its observation procedures and year-end, the firm selected a sample of transactions related to the purchase and sale of inventory, which represented approximately 86% and 28% of total inflows and outflows, respectively, of the total inventory movement. The samples the firm used to test the inventory movement did not provide sufficient appropriate audit evidence because, in planning the samples, the firm did not consider the characteristics of the entire population of inventory inflows and outflows and how differences in those characteristics would affect the determination of the number of separate inflow and outflow samples. (AS 2315.16, .23, and .23A)
- The firm did not perform sufficient substantive procedures to test the intervening transactions it selected for testing because the firm's procedures were limited to agreeing certain information related to the transactions to data provided by the component. (AS 2510.12)
- The firm did not perform any procedures to reconcile the quantities of certain inventory items counted at one location to the quantities of those items in the inventory schedule used to roll the results of the firm's observation procedures forward to year-end. (AS 2510.12)
- The firm did not perform any substantive procedures to test the existence of inventory held at a third-party warehouse. (AS 2510.14)
- The firm did not perform any substantive procedures to test the cost of raw materials inventory. (AS 2301.08)
- The firm did not perform any procedures to test, or test any controls over, the completeness and/or accuracy of certain data or reports used in its substantive testing of inventory. (AS 1105.10)

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 certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s) or fulfill the objectives of its role in the audit(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

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 three 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 one audit reviewed, the firm did not establish an understanding of the terms of the audit engagement with the audit committee, record such understanding in an engagement letter, and determine that the audit committee acknowledged and agreed to the terms of the engagement. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one audit reviewed, the engagement team performed procedures to determine whether or not matters were critical audit matters but, in performing those procedures, did not include certain matters that were 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.

PART I.C: INDEPENDENCE

In the 2022 inspection, we did not identify, and the firm did not bring to our attention, any instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence. Although this section does not include any instances of potential non-compliance that we identified or the firm brought to our attention, there may be instances of non-compliance with SEC or PCAOB rules related to independence that were not identified through our procedures or the firm's monitoring activities.

While the firm did not bring to our attention any instances of potential non-compliance, the number, large or small, of firm-identified instances of potential non-compliance may be reflective of the size of the firm, including the number of associated firms; the design and effectiveness of the firm's independence monitoring activities; and the size and/or complexity of the issuers it audits, including the number of affiliates of those issuers. Therefore, we caution against making any comparison of firm-identified instances of potential non-compliance across firms.

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.



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RESPONSE TO THE DRAFT INSPECTION REPORT ON THE 2022 INSPECTION OF BDO RCS AUDITORES INDEPENDENTES SOCIEDADE SIMPLES LTDA.

Dear Mr. George R. Botic
Director
PCAOB - Division of Registration and Inspection

We are pleased to provide our response to the draft inspection report (the Report) from the **Public Company Accounting Oversight Board (the Board or PCAOB)** pertaining to the 2022 inspection of BDO RCS Auditores Independentes Sociedade Simples Ltda.

We respect the PCAOB's inspection process and understand that judgments are involved in performing audits, as well as in subsequent inspections of those audits. We have thoroughly evaluated all matters described in Part I, *Inspection Procedures and Certain Observations of the Report*, and have taken actions, where appropriate, in accordance with PCAOB standards and our policies. These actions did not change our original audit conclusion, nor did the actions affect our reports on the issuer's financial statements. We have reviewed the remainder of the Report and have no further comments.

We will continue to work with the Acting Director of the Division of Registration and Inspections and his staff over the twelve-month period following the issuance of the final inspection report. We are committed to working with the PCAOB to continue to strengthen our audit quality control system.

We appreciate the opportunity to provide our response to the Report and look forward to continuing to work with the PCAOB on matters of interest to our U.S. SEC issuer auditing practice.

With all our respect, we submit.

Celso Luiz da Costa Lobo
BDO Brasil Auditores Independentes Sociedade Simples Ltda.
Audit Partner - Head of Audit and Assurance Quality Management

São Paulo, October 06th, 2023.

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