2023 Inspection BKR - LOPES, MACHADO AUDITORES

(Headquartered in Rio de Janeiro, Brazil)

August 22, 2024

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

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

PCAOB RELEASE NO. 104-2024-126

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2023 INSPECTION

In the 2023 inspection of BKR - LOPES, MACHADO AUDITORES, 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 2021. For the issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2023 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 2023 INSPECTION

The following information provides an overview of our 2023 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

	2023
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	0
Total engagement partners on issuer audit work[1]	1
Audits reviewed	
Total audits reviewed	1
Audits in which the firm was the principal auditor	1
Integrated audits of financial statements and internal control over financial reporting (ICFR)	1
Audits with Part I.A deficiencies	1
Percentage of audits with Part I.A deficiencies	100%

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*) or for the firm's role in an issuer audit during the twelve-month period preceding 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 2023 inspection. For the issuer audit 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.

2023	
Audit area	**Audits reviewed**
Revenue and related accounts	1
Long-lived assets	1
Cash and cash equivalents	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(s) on the issuer's financial statements and/or ICFR.

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). 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 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(s) on the issuer's financial statements and/or ICFR.

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 – Consumer Discretionary

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

The issuer used an information technology (IT) system to initiate, process, and/or record transactions related to revenue and related accounts and long-lived assets. In its testing of controls over revenue and related accounts, as well as long-lived assets, the firm tested various IT-dependent controls that used data and reports generated or maintained by this IT system. The firm selected for testing a change management control over this IT system that consisted of the documentation, review, testing, and approval of changes in a ticketing system prior to their migration into production. The firm did not perform procedures to test the operating effectiveness of this control, beyond inquiries of management and obtaining a list of all changes that occurred during the year. (AS 2201.44) As a result of this deficiency in the firm's testing of an IT general control (ITGC), the firm's testing of these IT-dependent controls was not sufficient. (AS 2201.46)

With respect to **Revenue and Related Accounts**, for which the firm identified a fraud risk:

For revenue and related accounts, which were affected by the deficiencies discussed above, the following additional deficiencies related to the firm's testing of controls were identified:

- The firm selected for testing a control related to a revenue reconciliation. The firm did not perform procedures, beyond inquiry, to evaluate whether this control could effectively prevent or detect material misstatements. (AS 2201.42 and .44)

- The firm used the work of the issuer's internal audit as evidence of the operating effectiveness of certain controls selected for testing over revenue and related accounts. The firm, or the issuer's internal audit, did not perform procedures, beyond inquiry, to evaluate whether these controls could effectively prevent or detect material misstatements. Further, the issuer's internal audit tested certain of these controls through an interim date, but the firm did not perform any procedures to update the results of the testing from that interim date to year end. (AS 2201.42, .44, and .55) In addition, the firm's use of the work of internal audit did not provide sufficient appropriate audit evidence that controls related to estimating costs to complete were operating as designed given the significant amount of subjectivity and judgment involved in these controls. (AS 2201.19; AS 2605.20 and .21)

The firm performed tests of details over a sample of revenue and related accounts transactions. The firm did not perform procedures to test, or test any controls over, the completeness of certain system-generated reports from which it made its selections for testing. (AS 1105.10)

As a result of the firm's ITGC testing deficiency discussed above, the firm did not perform sufficient substantive procedures to test revenue and related accounts because it did not test, or sufficiently test controls over, the accuracy and completeness of certain system-generated data that it used to substantively test these account balances. (AS 1105.10)

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

For long-lived assets, which were affected by the deficiencies discussed above, the following additional deficiencies related to the firm's testing of controls were identified:

- The firm selected for testing a control related to performing an impairment analysis on land. The firm did not perform procedures, beyond inquiry, to evaluate whether this control could effectively prevent or detect material misstatements. (AS 2201.42 and .44)

- The firm used the work of the issuer's internal audit as evidence of the operating effectiveness of certain controls selected for testing over long-lived assets. The firm, or the issuer's internal audit, did not perform procedures, beyond inquiry, to evaluate whether these controls could effectively prevent or detect material misstatements. Further, the issuer's internal audit tested these controls through an interim date, but the firm did not perform any procedures to update the results of that testing from that interim date to year end. (AS 2201.42, .44, and .55)

To substantively test long-lived assets, the firm selected additions to, and disposals of, long-lived assets that exceeded a monetary threshold. The firm did not perform any procedures to test the remaining population of additions and disposals. (AS 1105.27; AS 2301.08)

As a result of the firm's ITGC testing deficiency discussed above, the firm did not perform sufficient substantive procedures to test long-lived assets because it did not test, or sufficiently test controls over, the accuracy and completeness of certain system-generated data that it used to substantively test these account balances. (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). 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. 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 the audit reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not perform sufficient procedures to determine whether the journal entry population from which it made its selections was complete. In this instance, the firm was non-compliant with AS 1105, *Audit Evidence*.

- In the 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 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 the audit reviewed, the firm did not file its report on Form AP by the relevant deadline. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

PART I.C: INDEPENDENCE

In the 2023 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.

Lopes, Machado
Auditors, Tax, Consultants & Business Advisers

Independent Member of BKR International

July 1st, 2024

Via Electronic Mail

Ms. Christine Gunia
Acting Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street NW Washington, DC 20006
United States of America

Re: Draft Report of Inspection

Dear Ms. Gunia,

We are pleased to submit our response to the Public Company Accounting Oversight Board's ("PCAOB") draft report dated May 30, 2024, on the 2021 inspection of a certain engagement of BKR – LOPES MACHADO AUDITORES ("Firm" or "we"). We continue to support the PCAOB's goal of improving audit quality in order to protect Investors and promote public trust through promoting informative, accurate, and independent audit reports.

We conducted a thorough evaluation of the matters identified in the draft report. Considering all the facts and circumstances related to certain findings, we believe the engagement team has obtained sufficient appropriate audit evidence, and any contrary conclusion is patently erroneous. After careful analysis we respectfully have conveyed our disagreements with the PCAOB's conclusions as outlined in Attachment 1 (public portion) and Attachment 2 (non-public portion).

Our firm continues to be steadfast in our dedication to making audit quality our top priority. We appreciate the PCAOB's inspection process as it aids in enhancing the audit performance and improving the Internal quality control systems, including monitoring compliance with independence rules. We look forward to continuing working with the PCAOB regarding the most effective means of achieving these objectives.

Yours sincerely

BKR – LOPES MACHADO AUDITORES

By: Mario V. Lopes
BKR – Lopes, Machado Auditores
Name: Mario Vieira Lopes
Title: Partner

APPENDIX A: FIRM'S RESPONSE TO THE DRAFT INSPECTION REPORT

Attachment 1 – Public Portion

Issuer A

<u>Considerations related to PCAOB approach</u>

Before addressing each finding of the inspection draft report in detail, we would like to highlight some important observations, as follows:

a) Small Firm considerations

During the meetings with the inspection team, we presented the supporting documentation received from the client, as well as manual papers, complete working papers files, emails and evidence from video calls where we demonstrated that we obtained sufficient information necessary for our conclusions. However, being a small firm, our audit and archiving systems are adequately scaled to the size of the Firm without compromising the quality of the work performed. It does not seem to us that this characteristic was reasonably considered, according to the premise described in QC 20.24, which describes that "*documentation of established quality control policies and procedures would generally be expected to be more extensive in a large firm than in a small firm and in a multi-office firm than in a single-office firm*".

b) Sector Classification

We note that the PCAOB incorrectly classified the issuer's sector as Consumer Discretionary, while SEC considers it as General Building Contractors - Residential Buildings, as demonstrated in Attachment 2. We emphasize that this fact impacts professional judgment regarding the understanding of the issuer's business and operation, how its activities affect the accounting treatment and, consequently, the design of audit procedures necessary to obtain sufficient appropriate evidence to support an opinion on internal controls and financial statements.

c) Assets classification

We further note that the PCAOB erroneously classified certain inventory assets as long-lived assets. This classification directly impacts professional judgment regarding the understanding of the issuer's operation, how activities affect the accounting treatment and, consequently, the design of audit procedures necessary to obtain sufficient appropriate evidence to support an opinion on internal controls and financial statements.

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We kindly request the PCAOB Staff to re-evaluate each finding of the draft inspection report considering above.

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Part I.A

With respect to Change management control over IT system:

We respectfully disagree that the Firm did not perform procedures to test the operating effectiveness of the referred control. As previously clarified during the inspection meetings and in the response to the Comment Form, regarding this control: a) We observed real-time the extraction of the list of the ERP transports for the tested period, to ensure the integrity of the base used for tests; b) Analyzed the total events, and verified that the changes were submitted and approved by users with the necessary authority to do so; c) Checked the segregation of duties and the parameterization of these authorities, during the video call where those responsible for control presented the evidence.

Since analyzing the authority of all users, we tested 100% of the events, and for that reason we believe it is incorrect to affirm that we did not sufficiently test the referred control. We understand that there are no other procedures that would provide us greater test coverage.

The above is described at the steps of test, made available and explained during the field work inspection meetings. As documented at the planning phase, we selected all IT controls for testing in the period and we did not find any exceptions. Considering our responsibility is to express an opinion on the company's internal control over financial reporting overall (AS 2201.46) and not obtaining sufficient evidence to support an opinion about the effectiveness of each individual control, additionally, to address ITGC as a whole, we performed an IT assessment.

Accordingly, we kindly request the PCAOB to reconsider these findings and exclude them in the final inspection report.

With respect to Revenue and Related Accounts:

We respectfully disagree that the Firm did not perform procedures, beyond inquiry, to evaluate whether any controls could effectively prevent or detect material misstatements.

As presented during inspection meetings and in our response to the comment forms and once again described at the non-public attachment, we understand that there are no other procedures that would provide us greater test coverage.

We tested the main controls for sales, reviewing the Issuer's invoicing process, inventory write-off, register of the contract and the receivable title in the ERP, commissions paid and all the accounting correspondences according to the proper policy, without identifying exceptions.

It is important to remember that the inspected project was an Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements. Our procedures were planned under AS 2201 .06-08 guidelines. And for this reason, the team responsible for carrying out the control tests worked well aligned with the team responsible for carrying out the accounting balance tests, to identify issues and its possible effects for both approaches, as documented in our WPs (planning and conclusion memos).

Procedures to test design effectiveness include a mix of inquiry of appropriate personnel, observation of the company's operations, and inspection of relevant documentation. Walkthroughs that include these procedures ordinarily are sufficient to evaluate design effectiveness, as documented at the planning memo.

In addition to performing test of controls for the main revenue controls, we observed the results of the substantive tests as an indicator of the operational effectiveness of the referred control. Thence, it is also important to consider the substantive procedures, described in detail at the non-public portion.

Concerning the use of internal auditors' work, the Firm evaluated the extent to which we used the work of others to reduce our work considering competence and objectivity of the third parties involved and the risk associated with the controls tested under this strategy. We considered the following points:

- Reinforcement of the internal audit team, with the hiring of one more person;
- We did not identify material weaknesses in the previous year's assessment;
- We test all relevant controls for preparing financial reports, without identifying exceptions;
- There is no expectation (ours or the internal audit) of control failure or other distortions;
- The Audit Committee is active, with independent members, with direct communication with the audit team.

We documented properly our evaluation on review and supervision of internal audit work, competency, objectivity, methodology and other aspects.

According to AS 2201.43, procedures to test design effectiveness include a mix of inquiry of appropriate personnel, observation of the company's operations, and inspection of relevant documentation. Walkthroughs that include these procedures ordinarily are sufficient to evaluate design effectiveness, as properly documented.

Our documentation, includes an excel spreadsheet by area (e.g. Entity Level Controls, IT, Controllership), which contains at least one sheet for each tested control. In this WP´s, we documented information about the control (e.g. BPO - Business Process Owner, process, type, frequency), objective and description (which are validated according to AS 2201.43 orientations), all the steps performed to test effectiveness for each control (designed according to each control) and the conclusion of the test. It is important to highlight if the control fails at the design effectiveness procedures, the engagement team does not advance to the operating effectiveness test. Our WP´s evidence that we performed, based on our planning test for controls, procedures as: inspection, observation, inquiry, confirmation, recalculation, reperformance and/or other needed analytical procedures, without any findings.

In view of the above, we believe it is incorrect to affirm that we did not perform any procedures to test the design effectiveness of the mentioned controls.

Accordingly, we kindly request the PCAOB to reconsider these findings and exclude them in the final inspection report.

<u>With respect to Long-Lived Assets:</u>

We respectfully disagree that the Firm did not perform procedures, beyond inquiry, to evaluate whether any controls could effectively prevent or detect material misstatements.

We tested a specific control for impairment, reviewing the Company's monthly recalculation, reconciliation and review by Management of impairment accounting according to the proper policy, without identifying exceptions.

It is important to remember that the inspected project was an Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements. Our procedures were planned under AS 2201 .06-08 guidelines. And for this reason, the team responsible for carrying out the control tests worked well aligned with the team responsible for carrying out the accounting balance tests, to identify issues and its possible effects for both approaches, as documented in our working papers (planning and conclusion memorandums).

Procedures to test design effectiveness include a mix of inquiry of appropriate personnel, observation of the company's operations, and inspection of relevant documentation. Walkthroughs that include these procedures ordinarily are sufficient to evaluate design effectiveness, as documented at the planning memorandum.

In addition to performing test of controls for the main impairment control, we observed the results of the substantive tests as an indicator of the operational effectiveness of the referred control. Thence, it is also important to consider the substantive procedures, described in detail at the non-public portion. We understand that there are no other procedures that would provide us greater test coverage.

Accordingly, we kindly request the PCAOB to reconsider these findings and exclude them in the final inspection report.

Part I.B

Related to journal entries, we demonstrated exhaustively during the meetings, we tested the integrity and completion of the general ledger, thorough observation of the extraction of the general ledger (via videocall), importing SAP extractions to ASD (international audit system certified by Independent Audit Institute of Brazil) and running automated tests such as counting of debits and credits, comparison between journal entries and balances and beyond, ensuring that not only the total of events but also the theirs values were correct and therefore, the population of the GL was complete.

We made available ASD manuals that show how such procedures are performed. These verifications identified some discrepancies, immediately reported to client, and conciliated (as e-mails presented during the inspection period and made available.

Like most ERPs, SAP is built as modules (e.g. Materials Management; Fixed Asset Management; Sales and Distribution; Warehouse Management) that communicate sending and receiving data. The events at the management modules generate journal entries at the account module. Once we performed procedures to guarantee the accounting base – GL – the associated modules were also tested.

Additionally, our tax specialists performed reconciliations and recalculations of the tax calculation bases archived at the Brazilian Federal Revenue Office (RFB), which were compared with the very same file used in our procedures. These procedures are documented and were made available.

Once the GL was free of errors, we performed the following analyses:

2021's GL

- Identify/analyze large expense reimbursements (Set up a table by employee, if you have the names)
- Identify/analyze cash payments
- Identify/analyze payments to accounts outside the country
- Identify/analyze payment descriptions with high-risk keywords such as "acceleration fee", "facilitation payment" or government names, etc.
- Identify/analyze payments made for excessive travel, charitable donations, gifts and entertainment.
- Identify/analyze vague or suspicious accounts where inappropriate payments may be spent, such as "miscellaneous expenses", "special expenses", etc.
- Identify/analyze payments to unique suppliers
- Identify/analyze atypical commission payments
- Identify/analyze reversal entries
- Cross payments to suppliers with the supplier register
- Identify/analyze atypical movements in discount accounts (obtained and granted)
- Identify/analyze round entries
- Identify/analyze releases on weekends
- Identify/analyze releases with names of key people
- Identify/analyze entries that have the words by error, correct, clean, delete, write, write, adjust, defraud, help, reverse, CEO, CFO, correct, amend, restate, or variance.
- Analyze whether there was an atypical transaction volume on specific days
- List users who made manual entries and verify that they are accounting employees.
- List rarely used accounts and review entries
- Identify/analyze adjustments and reversals, mainly made for annual closing
- Identify/analyze entries in estimate accounts
- Identify/analyze intercompany releases

Q1 2022's GL (subsequent events):

- Provision reversals
- Sales cancellations
- 2021 Accrual Expense Entries
- 2021 Accrual Expense Reimbursements
- Analyze adjustments and reversals

Is also important to highlight that other audit substantive procedures are also completeness test for journal entries since they verify the existence of the balance/result elements. With all that in mind, we believe it is incorrect to affirm that we did not perform sufficient procedures to determine whether the journal entry population from which it made its selections was complete.

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Related to critical audit matters, we highlight that, in the presentation made to the Audit Committee the PAA´s (CAMs - Critical Audit Matters) and RPs (other audit subjects) were listed, and the latter was linked to areas that would demand participation of specialists from our firm, including its descriptions and plans of action. In this way, it is important to highlight that the elements previously mentioned defined as other audit subjects, did not represent any subject considered by the engagement team as a risk of fraud or significant account with high risk of audit, as properly documented.

Both, the PAA´s (CAMs - Critical Audit Matters) and the RPs (other audit subjects), communicated to the Audit Committee, were dully documented in our audit planning, as available in our working papers, in compliance with rule AS 3101.

For each item listed above and communicated to the audit committee, we performed all procedures from AS 3101, 12, as detailed in the table presented at the relevant Comment Form and described in detail at the non-public portion.

Accordingly, we kindly request the PCAOB to reconsider these findings and exclude them in the final inspection report.

Related to filling the Form AP, we would like to note that one day delay was not intentional and due to certain administrative oversight. We also would like the PCAOB to consider that this was our Firm's first and only PCAOB audit that required filing Form AP and we believe there was no damage whatsoever to the protection of investors for one day delay.

Accordingly, we kindly request the PCAOB to reconsider these findings and exclude them in the final inspection report.