Audit Quality at BDO

A Leadership Update

MARCH 2026

At BDO, we remain focused on the horizon—anticipating what's next for our profession, our clients, and the capital markets. In this brief update to our prior Audit Quality Report that follows, we highlight that our sustained focus and investment in our strategy is having a direct and positive impact on our system of quality management. We expect our 2025 Public Company Accounting Oversight Board (PCAOB) Part IA inspection deficiency rate to decline to an anticipated 34%, representing a meaningful improvement over prior years.

Our 2025 inspection results will be among the strongest we've achieved. While these results are encouraging, we remain focused on continued improvement as we execute and deliver on our strategic goals.

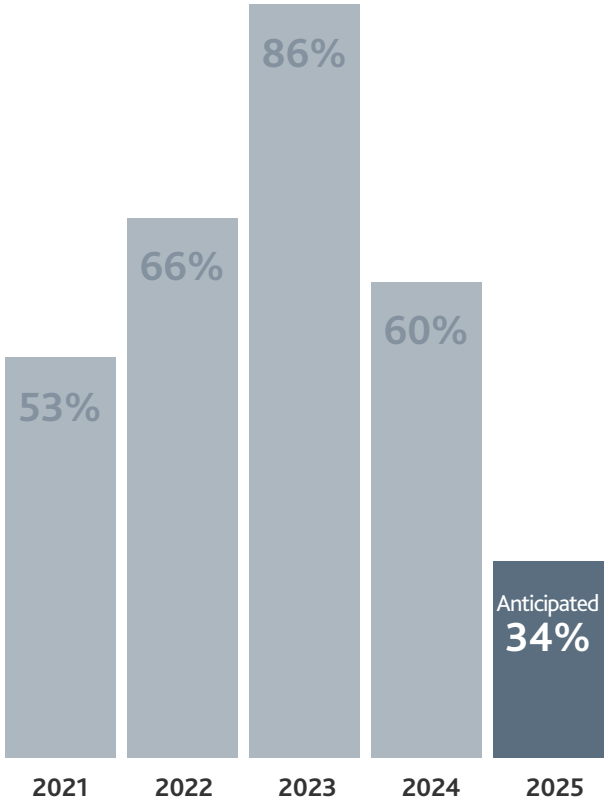
WAYNE BERSON
CEO

DEMETRIOS FRANGISKATOS
Assurance National Managing Principal

LILLIAN CEYNOWA
Assurance National Managing Principal, Audit Quality

MIKE STEVENSON
Assurance National Managing Principal, Professional Practice and Audit

2025 Part 1 A Deficiency Rate Improvement



This leadership message was added March 2026. The remainder of this report reflects BDO's Audit Quality Report originally issued in summer 2025.

2025 Audit Quality Report Update

AUGUST 2025

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A Message to Stakeholders

At a time when disruption is the norm and uncertainty abounds, independent audits build a foundation of trust that instills investor confidence in the reliability and integrity of financial statements. At BDO, we understand and embrace the vital role that trust plays in powering the U.S. capital markets, supporting a growth-ready economy.

We take pride in the role our firm and professionals play in promoting a vibrant business ecosystem through the insights and judgments we provide. To foster trust in audits, investors and other stakeholders expect auditors to keep quality at the core of every decision, investment, and judgment made.

In this update to our previous **Audit Quality Report**, we share several significant focal points of our long-term strategy that are driving consistent improvement in our performance as a high-quality team. These efforts have led to sustained and notable progress in our PCAOB inspection results, surpassing results from the last two years. The comprehensive, multiyear actions driving this progress include learning; audit phasing and project management; reimagining our technology, tools, and guidance; and objective monitoring through our action effectiveness program.

Quality is a balance of complementary parts: state of mind, design, and execution. Through this update, we will share how we achieve this balance by:

- Maintaining a culture of continuous learning, supervision, review, and consultation.
- Fiercely challenging assumptions and exercising professional skepticism.
- Leveraging the ingenuity of our people to build on and lean into technological advancements.
- Fostering an environment that expects professional commitment and pride in consistently delivering our best work.
- Continuously strengthening our quality management system to achieve lasting and impactful results.

Our commitment to enhancing audit quality is steadfast, and we expect continued improvements as we execute and deliver on our strategic goals. Dynamic market conditions, technological advancements, and an informed understanding of risk underscore our thinking as we focus on a proactive approach to delivering high-quality audits.

We appreciate the opportunity to share this update, and we invite you to explore how we are progressing in our delivery of exceptional audit quality.

WAYNE BERSON
CEO

DEMETRIOS FRANGISKATOS
Assurance National Managing Principal

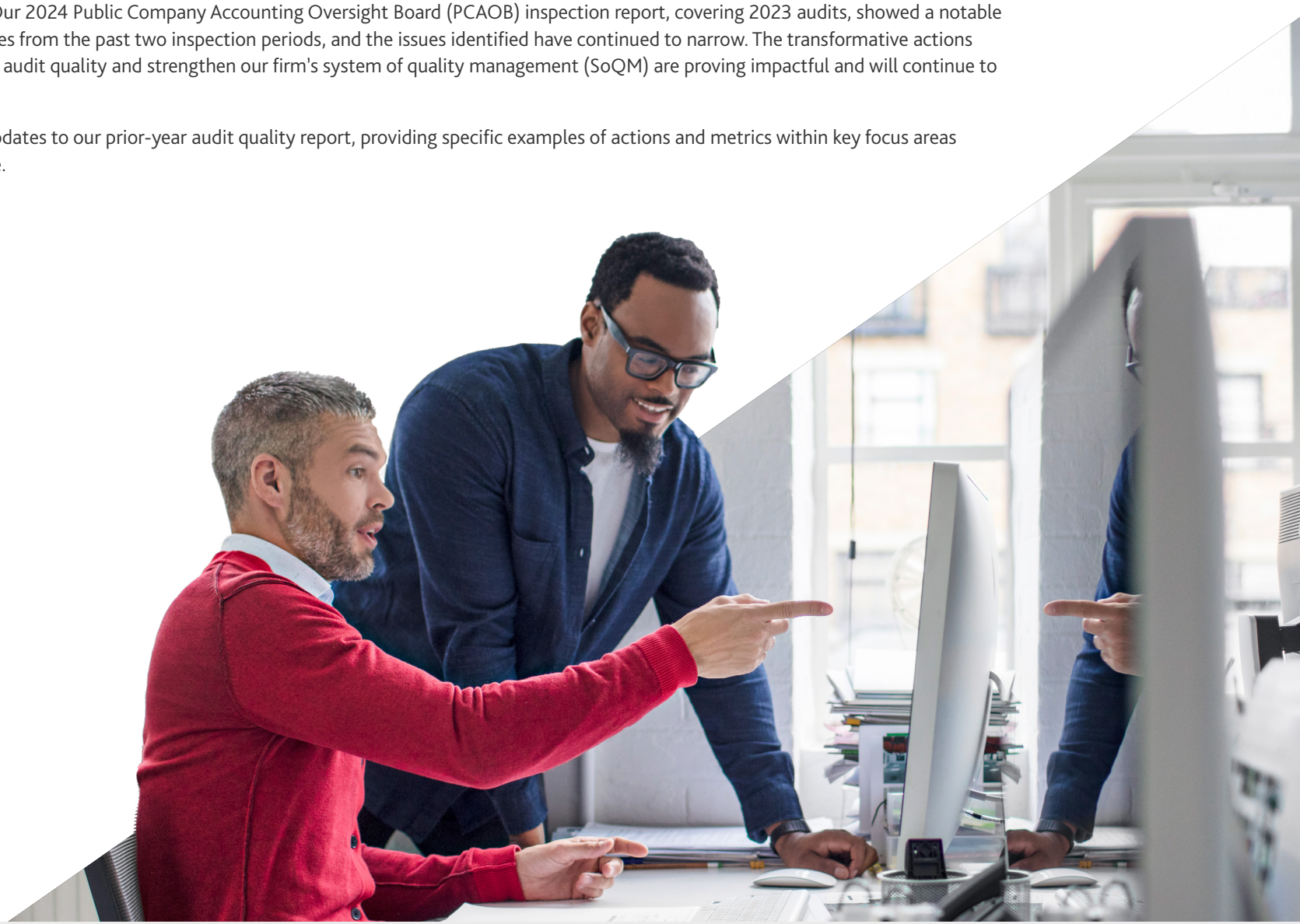
LILLIAN CEYNOWA
Assurance National Managing Principal,
Audit Quality

MIKE STEVENSON
Assurance National Managing Principal,
Professional Practice and Audit

Enabling Quality Through a Holistic Approach

Within our assurance practice, we have taken an intentional, systematic approach to enhancing policies, processes, and controls, which is having a positive impact on our inspection results. Our 2024 Public Company Accounting Oversight Board (PCAOB) inspection report, covering 2023 audits, showed a notable improvement in Part 1.A deficiencies from the past two inspection periods, and the issues identified have continued to narrow. The transformative actions we have recently taken to improve audit quality and strengthen our firm's system of quality management (SoQM) are proving impactful and will continue to drive progress.

The following section highlights updates to our prior-year audit quality report, providing specific examples of actions and metrics within key focus areas that are driving meaningful change.



PEOPLE, CULTURE, AND VALUES

We are deeply committed to BDO's core purpose of helping people thrive every day. We believe this purpose is foundationally tied to our objective to develop the best professionals in the market.

We invest in our people through active listening, mentoring, and coaching, with an emphasis on prioritizing professional growth and fulfillment. We believe that investing in each individual's success will make a career at BDO a defining chapter in their work life and enhances our retention of highly skilled professionals.

Key areas of focus from 2024 and into 2025 include:

- **High-performance teams:** Our approach encourages engagement teams to intentionally identify and plan for opportunities throughout the audit to be in person to enhance collaboration and problem-solving. It also prioritizes clear, timely communication and feedback; provides tailored coaching and mentoring opportunities; and identifies areas to increase the impact and contributions of individual team members.
- **Career development:** We are realigning performance evaluations, advancement, and compensation with updated job-specific skills and core competencies to drive specific actions and expected behaviors that consistently result in high-quality audits.
- **Beneficial ownership:** BDO's ESOP, which extends beneficial ownership in our firm broadly to our professionals, was a defining moment in our firm's history. An ownership mindset cultivates a deeper embrace of BDO's core values — particularly choosing accountability and being exceptional every day. Our assurance practitioners have embraced an ownership mindset and recognize that the sustainable success of our firm and each individual's share in that success fully depend on our professionals' commitment to placing quality at the center of everything we do. BDO's ESOP has become a distinguishing factor in how we attract, incentivize, and retain top talent.

BDO's Core Values

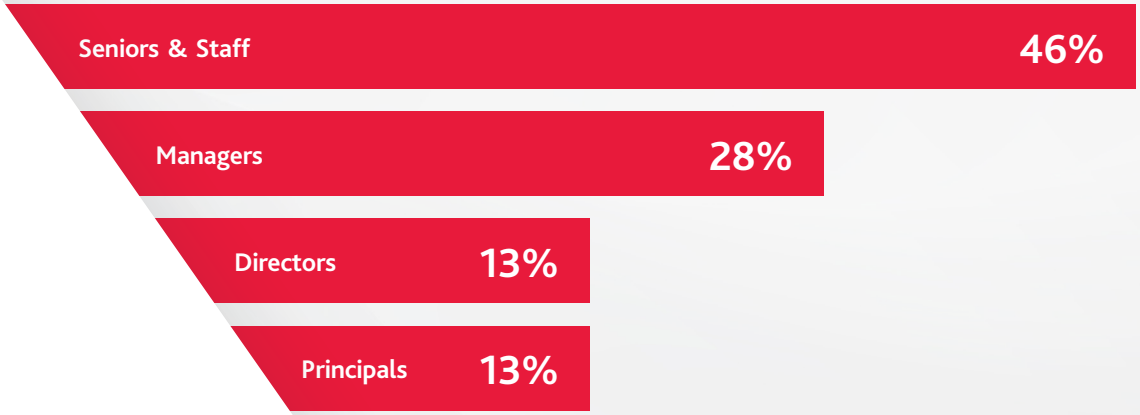
OUR ASSURANCE PRACTICE*

44%
of all U.S. client-facing professionals are assurance professionals

45%
of assurance professionals are women

39%
of assurance professionals self-identify as racially/ethnically diverse

3,300+ client-facing assurance professionals composed of:

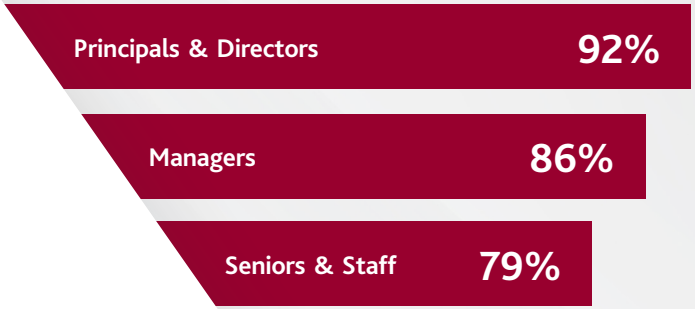


Client-facing staff leverage ratios

1 to 7
Principals to all other assurance professionals

1 to 14
Professional Practice, Quality Management, Inspections, and Independence professionals to client-facing assurance professionals

Average 2024 assurance retention rates



Nearly **500,000** audit quality hours were contributed by Professional Practice, Quality Management, Independence, Inspection, and **BDO*ADVANTAGE*** professionals.

*Our metrics reflect our U.S. assurance practice.

INNOVATION AND GROWTH THROUGH TECHNOLOGY, LEARNING, AND ENABLEMENT

We are committed to enhancing professional behaviors that lead to high-quality work and fostering a culture of continuous learning. Backed by professional curiosity and strong technical acumen, our auditors embrace innovation that helps surface timely and valuable insights and can provide greater data accuracy and completeness. This approach is supported by a seamless integration of technology and analytics, along with an in-depth understanding of and compliance with professional standards.

Key areas of focus from 2024 and into 2025 include:

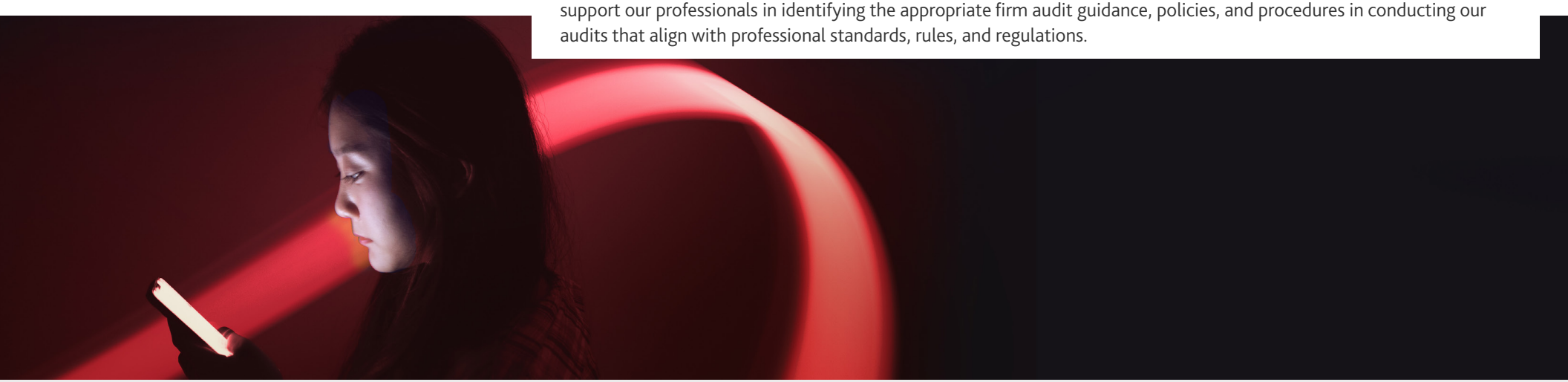
Technology

Through the expansion of ***BDOADVANTAGE*** — our suite of digital audit technology solutions — we're constantly seeking to optimize the audit. As we continue to incorporate automation, data analytics, and machine learning specific to the client and its industry, we can perform deeper risk assessments and quickly identify anomalies and/or unexpected trends that warrant further attention. This enables our professionals to focus more time on higher value tasks such as risk evaluation and trend analysis.

Existing tools like BDO *Harmony* — our proprietary, in-house extraction, transformation, and loading software — and BDO Global Portal — our secure project management site used by domestic and global clients and BDO professionals — allow us to:

- Surface business insights, risks, and control matters in real time throughout the audit.
- Inform and strengthen client management and audit committee oversight of financial reporting.
- Safeguard sharing of our clients' data.

Our auditors are further leveraging internal generative artificial intelligence (AI) tools to enhance their productivity, creativity, and overall experience. From AI-powered assistants like Microsoft Copilot™ to Chat BDO — a secure, closed platform built on the foundation of ChatGPT — these tools are transforming the way our professionals approach audit work. For instance, constructed on the model of Chat BDO, BDO's Audit Manual Chat persona has been developed to support our professionals in identifying the appropriate firm audit guidance, policies, and procedures in conducting our audits that align with professional standards, rules, and regulations.



BDO is advancing its development and use of purpose-driven tools and resources by backing its strategy with a global investment of more than $1 billion in AI over a period of five years.

$1 billion +
global investment in AI

An example includes our current evaluation of a tool designed as an AI risk assessment coach to review documentation and provide actionable feedback to our professionals. Rooted in firm guidance and regulatory standards, this tool will be used to improve the quality of risk assessments conducted throughout the audit process.

To help our professionals embrace this transformational shift, we have and are continuing to invest in learning and development opportunities and robust communications programs to empower our people to understand, engage, and adopt AI responsibly. Key elements of our approach include:

- **AI Ambassadors:** Professionals across practices who champion our AI solutions and initiatives. Through hands-on workshops and education, they engage with their peers to encourage AI adoption while supporting change management and partnering with our Data and AI team to develop business-specific use cases and tools. Feedback mechanisms are in place to continuously improve AI tools and training based on user experience.
- **AI Literacy:** Grounded in our culture of innovation, our AI upskilling program teaches professionals how to use specific tools as well as AI best practices, trends, and ethical considerations. The training includes customizable AI workshops for beginners and advanced users.

Such powerful tools, along with intentional support mechanisms, are enabling our teams to find information, analyze limitless populations of data, automate repetitive tasks, and enhance learning and collaboration while functioning in a controlled environment to safeguard privileged information.

> *Embracing change is part of our DNA. AI is improving and transforming how we do business, as well as how we serve our clients. It enhances our productivity while unlocking the inherent ingenuity of our people. We are committed to helping shape a world where technological responsibly delivers value.*

WAYNE BERSON
CEO

Learning

We've reimagined our professional-level curricula, focusing on a dynamic, skills-based approach to learning, application-based design, coaching, and reinforcement on the job. In 2024, we also renewed our commitment to an in-person learning environment and focused on learning updates to areas that continue to challenge the audit profession, including workflows related to risk assessments, evaluating internal controls, and auditing estimates. These face-to-face experiences are being expanded in 2025.

We are intentionally adjusting our active learning to enhance our professionals' acumen in technical and industry proficiencies to meet an evolving regulatory environment and a changing technology and business landscape. We are integrating technology into the development and delivery of certain 2025 learning offerings to enable:

- More efficient development and delivery of targeted microlearning and other learning assets to provide just-in-time learning at the point of need.
- Continual updates to training modules to incorporate examples that make use of various audit data analytical (ADA) tools being produced by our **BDO*ADVANTAGE*** team.
- Immersive real-word scenarios provided via high-quality, video-based, avatar-led simulations.

Our learning model incorporates modern teaching methodologies and engaging learning experiences, making it more agile and adaptable to evolving audit needs and requirements. We continue to offer learning in a variety of formats, including short-form lessons that are easily absorbed, along with self-paced learning that can be taken as needed, accompanied by live events where our people can discuss, scenario plan, and problem solve alongside seasoned practitioners. These provide our professionals with the practical ability to apply high standards in their response to the challenges within their audits, fueling professional competence and growth. It further supports a well-prepared workforce that is engaged in the delivery of high-quality work and insights that underpin the value of the audit.

Enablement

Assurance leadership strives to create an environment that enables our professionals to deliver their best work consistently. To that end, we have established a team within our assurance practice whose purpose is to create and promote the full adoption of our audit resources. These professionals work in tandem with our developers and project management office professionals to support and educate engagement teams on their use of data analytics, automations, and AI capabilities to further promote audit quality and continuous learning. Through this process, the enablement team is able to gather feedback regarding what can be improved and then works to implement those improvements within our audit tools, resources, and guidance.

This two-way communication between the practice and the national office helps to create a consistent, uniform experience in our audits by providing our teams with access to enhanced standardized resources, including processes, guidance, tools, templates, and a global audit methodology.

Another important aspect of empowering our professionals is providing them with a phased audit methodology paired with a disciplined project management approach through our Phasing and Project Management Tool (PM Tool). Together, these strategies alleviate stress and pressure often associated with compression that historically occurred at the end of the audit, enabling teams to promptly and thoroughly respond to risks, refine planning, and assign tasks.

QUALITY AT THE CENTER OF EVERYTHING WE DO

We are committed to placing quality at the center of everything we do. We do this by employing a deliberate approach to continuously enhancing all elements in our SoQM, including the standardization of our audit policies, processes, and controls. Grounded in surpassing established professional standards, this transformation is driven by data and leading-edge technology, forming the basis of our initiatives. It underscores our unwavering commitment to effectively managing and monitoring current and emerging risks while ensuring consistency, reliability, and high quality across all our audits.

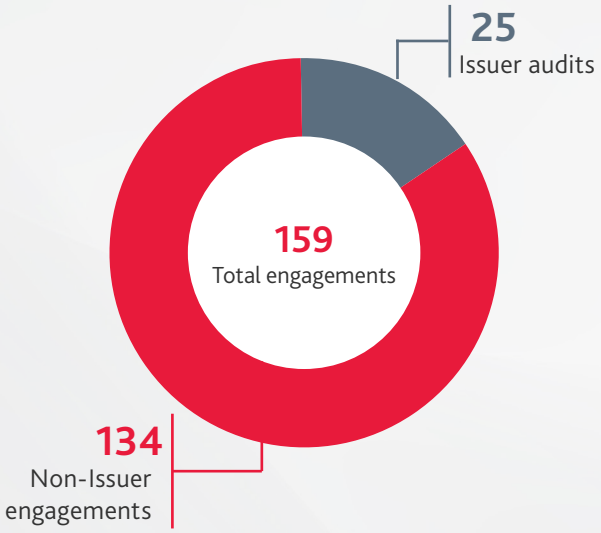
Key areas of focus from 2024 and into 2025 include:

- Enhancing our objective quality management program to improve action effectiveness, including pre-issuance reviews and evaluations of corrective actions for continuous improvement.
- Leveraging insights from our internal and external inspection programs to improve our audit planning and execution processes and better allocate resources to meet audit quality objectives.
- Performing annual evaluations of our SoQM and identifying any additional areas where further improvements may be needed.

Internal Inspection Overview for 2024 Cycle

During 2024, we inspected **49%** of principals across all three geographies and our 14 markets:

REPRESENTING



COVERING

18 industry groups

89% of practices

ENGAGEMENTS INSPECTED REPRESENTED

~5.7% of all assurance hours for the year ending 3/31/2024

External Inspection Programs - PCAOB Inspections

PCAOB inspections of issuer audits with fiscal years generally ending in:	2023	2022	2021
# Issuer audits inspected	30	29	29
# Financial statement restatements resulting from the inspection findings	0	1	1
# Revised ICFR reports issued resulting from the inspection findings	1	1	1
Part 1.A deficiency finding rate	60%	86%	66%

Note: Our PCAOB inspection reports can be found **here**. A listing of registered companies audited by BDO can be viewed **here**.

External Inspection Programs - AICPA Triennial Peer Review

As a member of the American Institute of Certified Public Accountants (AICPA), we participate in a triennial external peer review of our accounting and assurance practice. Our most recently accepted peer review report was issued in November 2024 and included **75** engagements reviewed by a peer firm.

Conclusions reached:

- The system of quality control for our firm was suitably designed.
- Our firm complied with our own quality control guidelines.
- The system of quality control provided our firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

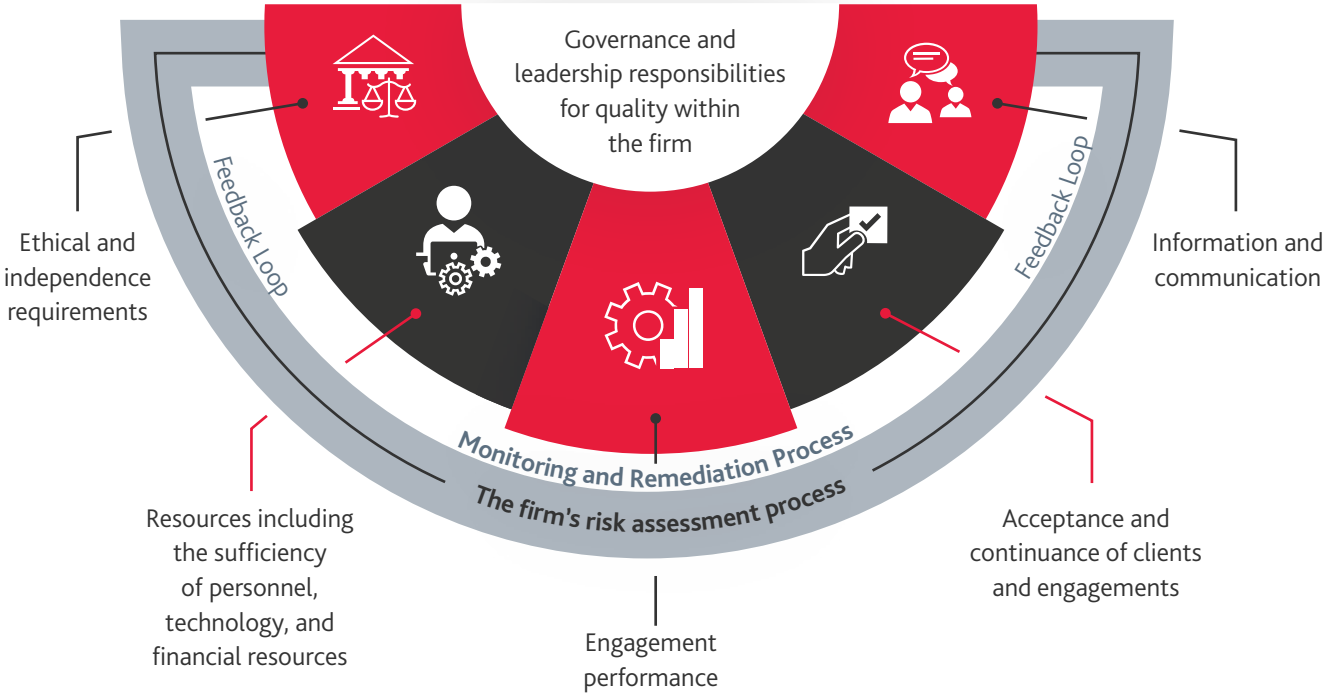
Note: Our 2024 peer review report and the related AICPA Acceptance Letter can be found **here**.

Looking Forward

Audits play a vital role in ensuring the smooth operation of the U.S. capital markets by delivering accurate and trustworthy insights into the financial health of a business. As auditors, we are deeply committed to safeguarding the integrity of the U.S. capital markets by preparing informative, accurate, and independent audit reports. Our firm translates this responsibility into concrete actions that enable and empower our professionals to deliver exceptional audit quality.

Consistent delivery of high-quality audit work is dependent on a high functioning SoQM. We establish quality objectives that represent the desired outcomes of our firm's SoQM for audits and other assurance engagements so they are conducted in accordance with applicable professional standards and legal requirements. The firm has designed, implemented, and is operating a SoQM that identifies and addresses quality objectives, quality risks, and quality responses that are annually evaluated and reported on.

Our SoQM encompasses the following components and processes:



As an essential element of our monitoring and remediation efforts, our SoQM incorporates a feedback loop designed to enhance the firm's risk assessment process. This mechanism drives continuous improvement and equips our firm with valuable insights into the operational effectiveness of the quality management system.

As a part of the BDO Global network of firms, we have implemented the requirements of the International Audit and Assurance Standards Board's (IAASB) International Standard on Quality Management (ISQM) 1, *Quality Management for Firms That Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which focuses on quality management for firms conducting audits, reviews, or other assurance-related engagements. We are also advancing our readiness to meet the requirements and report on the effectiveness of our SoQM in accordance with both PCAOB QC 1000, *A Firm's System of Quality Control and Other Amendments to PCAOB Standards, Rules, and Forms* and the AICPA Statement on Quality Management Standards (SQMS) No. 1, *A Firm's System of Quality Management*.

Our success is tied to the collective knowledge, skills, and experience of every BDO professional. The quality of our audits stems from the technical proficiency demonstrated by our engagement teams, complemented by the comprehensive support from our broader assurance ecosystem. This ecosystem encompasses the strategic vision and rigor established by leadership; the depth of knowledge, skills, and experience of our professional practice and quality groups; the specialized insights of subject matter specialists; and other collaborators who shape the quality of our audits.

While demanding, our approach to audit quality is intentional and data driven. It commits us to:

Fostering a culture of continuous learning, accountability, and innovation, supported by seamless integration of technology and analyses, along with in-depth understanding of and compliance with professional standards.

Utilizing a consistent audit approach, delivered by experienced professionals who exercise objective judgment and skepticism while maintaining an independent perspective.

Empowering our engagement teams through a collaboration model tailored to developing high-performance teams as well as enhancements to the resources and tools that enable our work.

Maintaining effective, real-time monitoring processes that perpetually foster timely and continuous improvement.

Prioritizing working with clients who share our values and who value our approach to audit quality.

Remaining cognizant of the changing environment in which we conduct our audits and continually enhancing our approach to address the evolving needs of those who rely upon those audits.

In these ways, we contribute directly to the trust and confidence in our U.S. capital markets and the investor communities' reliance on high-quality audits.

As we continue to refine and enhance how we approach our audits, tools, and resources to meet the evolving demands of our role, we remain dedicated to sharing the new and ongoing activities that continue to define our firm's commitment to quality. These efforts are woven into our daily work, fostering a culture of engagement, adaptation, and excellence that drives our success forward.

Transformative Actions Driving High-quality Audits

- **Audit Methodology Enablement:** Assembled a team within our assurance practice to create and drive full adoption of our audit process tools, templates, and related guidance while gathering feedback to continuously enhance these same resources. This enablement helps create a consistent, uniform audit experience and enhances our professionals' ability to not only comply with professional requirements but to perform their work with high standards.
- **Action Effectiveness Monitoring:** Real-time evaluation of remedial actions aimed at enhancing and sustaining audit quality into the future. This includes broadening the scope of pre-issuance reviews to more timely evaluate the effectiveness of the firm's actions. The approach also ensures engagement teams receive timely feedback, enabling continuous improvement in audit execution prior to issuance of the audit report.
- **Assurance Learning:** Reimagined our professional-level curriculums, focusing on a dynamic, skills-based approach to learning, application-based design, coaching, and on the job reinforcement.
- **Audit Phasing and Project Management:** Implemented a disciplined approach to audit phasing and project management, utilizing our PM Tool to assist teams in:
  - Phasing and assigning audit tasks to address risks promptly and accountably.
  - Managing a year-round plan to alleviate compression and enable thoughtful evaluations.
- **Assurance Practice Restructure:** Restructured assurance practice leadership for more effective engagement resourcing, decision-making, consistent communications, and accountability.
- **Audit Quality Coalition:** Created a guiding group of assurance directors and managers to help solidify a culture of outstanding audit quality.
- **Quality Management Investments:** Integrated experienced hires, many from the PCAOB, as part of a rigorous approach to identify opportunities to improve quality across the assurance practice.
- **Audit Quality Advisory Council (AQAC):** Established the AQAC, which includes an independent council member, to directly advise our CEO and Board of Directors on audit quality matters.
- **Enhanced Accountability Frameworks:** Implemented new performance measures focused on quality and established required mandatory audit quality goals as part of performance management and compensation decisions. Additionally, refreshed job-level competencies in a manner that drives accountability for audit quality.
- **Workload Assessments:** Enhanced workload assessments to facilitate proper audit phasing to allow for adequate time for the most critical aspects of the audit and appropriate application of professional skepticism throughout.
- **Client Acceptance and Continuance:** Continuously analyze our client acceptance and continuance policies to enable the firm to audit companies that reflect similar values and put quality first.
- **Centralization of Assurance Quality Review Functions:** Centralized, under national leadership, various assurance practice functions — e.g., information systems assurance and engagement quality reviews.
- **Auditor Independence:** Strengthened firm independence policies, monitoring, and education through new training, tools, and resources for BDO's investment tracking system; transitioned independence affirmations to a technology-enabled automated system; strengthened compliance sanctioning guidelines; and reinforced with leadership messaging.

HAVE QUESTIONS OR WANT TO LEARN MORE? **CONTACT US!**

Our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes and value for our people, our clients and our communities. BDO is proud to be an ESOP company, reflecting a culture that puts people first. BDO professionals provide assurance, tax and advisory services for a diverse range of clients across the U.S. and in over 160 countries through our global organization.

BDO is the brand name for the BDO network and for each of the BDO Member Firms. BDO USA, P.C., a Virginia professional corporation, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. For more information, please visit: www.bdo.com.

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