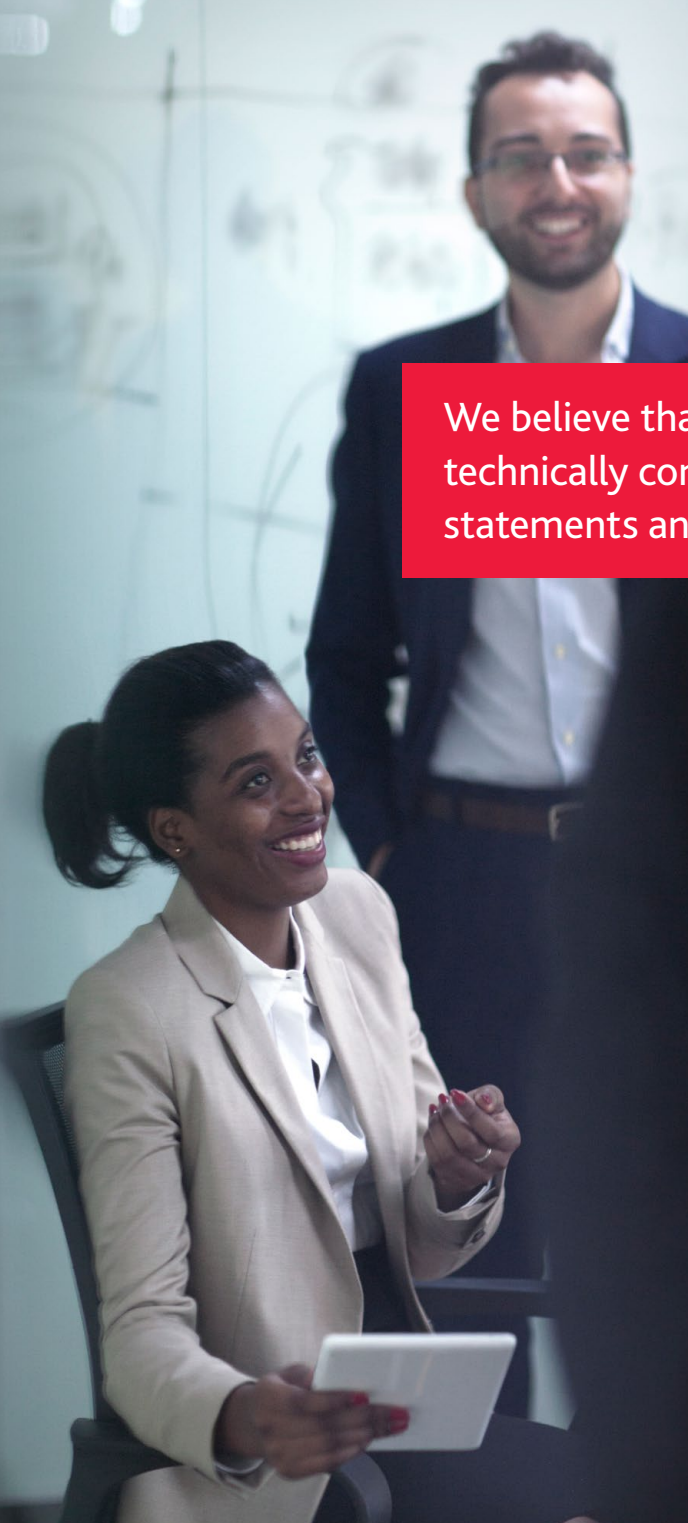


# DELIVERING SUSTAINED AUDIT QUALITY

BDO 2019 AUDIT QUALITY REPORT



Dynamic forces continue to shape our capital markets. Trust in the underlying integrity of financial reporting and in the audit profession provide a means of stability in a turbulent environment.

As auditors, we are engaged by the audit committee, but we further recognize the importance of stakeholder reliance on the accuracy of financial statements. Therefore, it is incumbent upon our firm to clearly define what audit quality means to us and describe and demonstrate how we are designing and executing our internal systems of quality control to deliver sustainable audit quality.

**We believe that audit quality includes effective, efficient, technology-enabled and technically compliant audits that are highly valued and relied upon by users of the financial statements and are performed by people doing evaluative, insightful and impactful work.**

Audit quality starts with how we choose to build our culture and lead our people. It extends to how we select our professionals, develop them and promote and monitor their independence and adherence to ethical behavior. It encompasses the behaviors and commitments that guide their performance in judgment, analysis and decision-making. It models how we identify and evaluate the acceptance and retention of those clients we are best-suited to serve.

A commitment to quality further guides how we invest in processes, technologies and methodologies to best execute our audits as business evolves. Audit quality encompasses how we monitor our performance and respond to findings, including those from our regulators, to continue to strengthen the control environment in which we conduct our audits. With each of these elements in place and functioning as intended, the users of financial statements can be confident in the assurance we provide on financial information.

With over a century of client service, millions of hours of experience and countless insights delivered, we pride ourselves on being a highly trusted, reliable and transformative organization. The knowledgebase of over 80,000 global professionals, inclusive of the nearly 7,000 who compose BDO USA, LLP<sup>1</sup>, is being cultivated to prepare us as we meet the changing business demands of our clients, regulators, investors and other market participants. The talent we have added and developed within our firm is tasked with addressing the increasing complexity and risk our clients are facing.

We continue to invest in the people, technology and innovations that are transforming the audit of today for the audit of the future. We are exacting the behaviors that drive audit quality. We are determining milestones and activities that allow for the proper work sequencing and risk focus to aid in our execution and delivery of high-quality audit engagements.

<sup>1</sup> BDO USA, LLP is the U.S. member firm of BDO International Limited, a U.K. Company limited by guarantee, and forms part of the international BDO network of independent member firms. Throughout the report, we refer to the U.S. member firm as "BDO" or "we" or "our."



# Our Focus on Audit Quality

In 2018, BDO adopted an [aspirational view](#) of audit quality and seven underlying commitments that form the core of what we do.

We have pledged to honor those commitments with a deep focus on critical areas that will enhance and build upon audit quality initiatives previously shared.

Our 2019 Audit Quality report continues to build upon the activities, insights and observations that our firm has shared with you in our [prior reports](#). Our 2019 report further aligns with the Center for Audit Quality's newly released [Audit Quality Disclosure Framework](#).

We invite you learn more about our strategy, development and deployment of resources as we continue to create sustainable audit quality.



A handwritten signature in black ink.

**WAYNE BERSON**

Chief Executive Officer of BDO USA, LLP  
Chairman of the Global Board of Directors of BDO International Ltd.



A handwritten signature in black ink.

**CHRISTOPHER TOWER**

National Assurance Managing Partner,  
Audit Quality and Professional Practice, BDO USA, LLP



A handwritten signature in black ink.

**BILL EISIG**

National Assurance Managing Partner,  
Clients and Practice Operations, BDO USA, LLP

## INSIGHT-FIRST INNOVATION

### Championing the CAQ Audit Quality Disclosure Framework

In January 2019, the Center for Audit Quality (CAQ) released the Audit Quality Disclosure Framework designed to further enhance the consistency of audit firm disclosures and measures of audit quality. BDO's Christopher Tower championed the CAQ's task force alongside many CAQ member firms within the profession in the development of the new framework.

The framework is far from a one-size-fits-all approach and is designed to be voluntary, flexible and scalable to allow firms to share quantitative and qualitative information they believe to be most relevant and meaningful to audit quality.

Now, BDO is leading execution of this framework by framing our own 2019 Audit Quality Report based on the six noted elements of audit quality and more clearly distinguishing our key audit quality indicators throughout the report.

*"It was a true privilege to work with the CAQ while serving as the task force champion. Not only did this project allow us to deepen our working relationship with peers, but we believe the output provides meaningful guidance that will enhance the usefulness of audit quality reports for critical stakeholders."*

**CHRISTOPHER TOWER**

National Assurance Managing Partner,  
Audit Quality and Professional Practice

# Highlights of Our Focus on Audit Quality

## KEY: HOW OUR SEVEN COMMITMENTS ALIGN WITH AUDIT QUALITY



Assume individual and collective responsibility for every audit



Lead in field: Make appropriate judgments in real time and support our people in pursuit of audit quality



Pursue continuing education—our own and our clients: Explain, guide, and explore with curiosity what we need to achieve



Know and apply professional standards and all firm guidance effectively in delivering our work



Approach with the mindset of an evaluator: Seek out facts, consider applicable literature, evaluate alternatives, and present persuasive judgments



Seek and implement change and not become attached to the status quo or old orthodoxies: Transform what we do every day, in every way



Involve others—when required and when not: Collaborate and strengthen judgment, find and seek the right answers, and be better professionals

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







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# Governing the Tone of Our Culture and Leadership

## AUDIT QUALITY INDICATORS IN THIS SECTION

-  Adopting the Audit Quality Disclosure Framework
-  Living our Core Values
-  Expanding adaptation of Professional Judgment Framework
-  Cultivating diversity in thought
-  Focusing on innovation strategies
-  Re-aligning National Assurance and Operational Leadership
-  Expanding National Office
-  Setting the tone by keeping audit quality front and center
-  Offering nationwide Audit Quality roadshows
-  Mandatory Regional Full Day Issuer Audit Quality Training
-  Audit remaining largest segment and focus for the firm
-  Achieving positive trends in Assurance Audit Quality Survey
-  Achieving positive trends in firm wide Pulse Survey





# Culture Built on Shared Purpose and Values

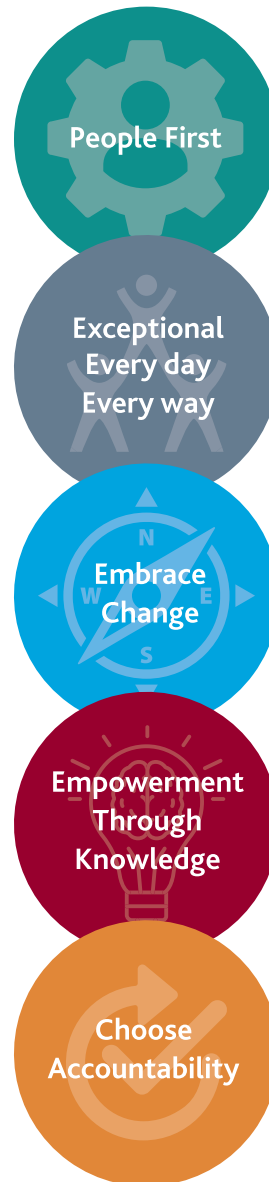
We begin our focus on audit quality through shared purpose and values.

## Our core purpose is helping people thrive every day.

Our [core values](#) are the standards embodied by our work, our relationships and our professionals woven into the fabric of our firm. They allow us to be genuine and fair in our judgments, to build deeper relationships with our clients and to maintain an inclusive, flexible work environment. They are what we stand for as a firm.

Simply, we put people first, set goals to be exceptional every day, embrace change, empower each other through the seeking and sharing of knowledge and choose to be accountable for our actions.

Each of these values and expectations links directly to our commitment to audit quality.



Investing in the right **talent**, at every level, to meet the needs of our clients and continuously working to empower and advance diverse groups of leaders to enhance our **diversity of thought and experience**

Expanding use of our proprietary **Professional Judgment Framework** through all engagements in order to reinforce **informed analysis** and provide **exceptional client service**

**Transforming** people-powered **technology** and **innovation** to enhance the **insights** our clients can access throughout the audit process

Committing to in-depth technical and industry learning throughout the year to enhance **knowledge** of emerging and key issues, supporting our ability to deliver technically compliant audits

Communicating and applying internal and external inspection observations to further **enhance audit quality** and **transparency** to stakeholders

## SPOTLIGHT ON:

# BDO Counts

**BDO Counts** is our year-round community volunteerism program, informed by our core purpose of helping people thrive every day.

Through firm wide, national events and local and individual efforts, our goal is to meaningfully impact the causes and issues we collectively care about and to better connect with the communities we serve. Engaged professionals, who take pride in their actions and develop deep connections, tend to be more highly focused and driven toward successful outcomes and delivering value in everything they do.

## 2018/2019 Highlights:

### WEEK OF SERVICE

- ▶ Dedicated a week of service for our employees to devote time during the work day to serve the community

### SKY'S THE LIMIT

- ▶ Launched Sky's the Limit mentoring program to pair experienced advisors with young, underrepresented entrepreneurs

### RED NOSE DAY

- ▶ Raised substantial funds to help put an end to child poverty







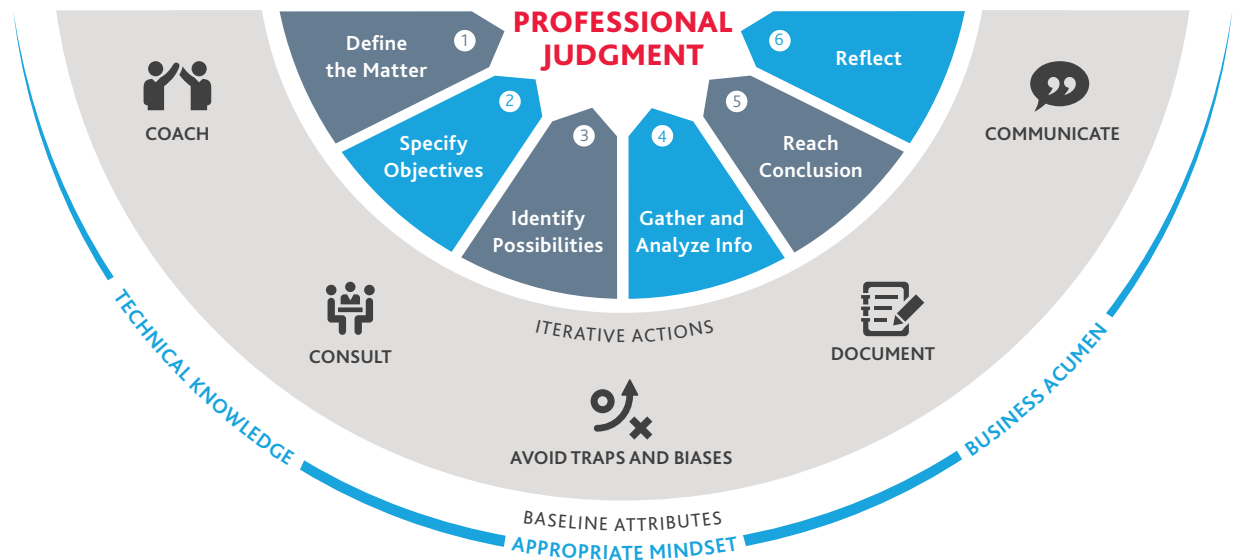
# Culture Built on Professional Judgment

Our culture is determined by the mindset of our people, which starts with our values and extends to the critical and skeptical approach to our work.

In 2017 and 2018, we collaborated with respected professors from Brigham Young University to co-create a [Professional Judgment Framework](#) which has been leveraged as a cornerstone of our audit methodology.

The framework provides a set of repeatable considerations and behaviors that form the core of how our people consider complex situations and form well-reasoned judgments. It also provides consistent outcomes and experience for our clients throughout the audit process. Our professionals use an evaluative approach and consultative style, with clear documentation and communication, and build on their individual technical knowledge and business acumen, while consciously avoiding pitfalls and biases.

Over the last year, the framework has helped enhance our work and the insights delivered to clients. It is now being adapted by BDO's Tax and Advisory practices so that our clients can expect to receive consistent application of professional judgment and skepticism through any touchpoint with BDO professionals. BYU professors and students leverage the framework within their academic curriculum, and it has been released [externally](#) for use by those outside BDO who seek to make optimal judgments.



# Culture Built on Diversity of Experience

We are proud to be a firm that both prizes and prioritizes [diversity and inclusion](#).

Indeed, diversity of thought and experience is essential to providing excellent service and exercising true professional judgment throughout the audit process. The rapid pace of change of business and the impact on the audit of the future demand expanding skillsets and teams able to avoid group think and focus on professional skepticism. Diversity, in all its forms, enables more thoughtful risk assessment and helps improve our audit response.

Through our inclusion strategy, BDO encourages diverse voices and empowers our professionals – whoever they are, and wherever they are from.

**We have a focus on three core objectives:**



Build an [Inclusive Environment](#) focused on:

- ▶ Generations
- ▶ Global mobility
- ▶ Parents
- ▶ Race and ethnicity
- ▶ Sexual orientation and gender identity
- ▶ Veterans
- ▶ Women



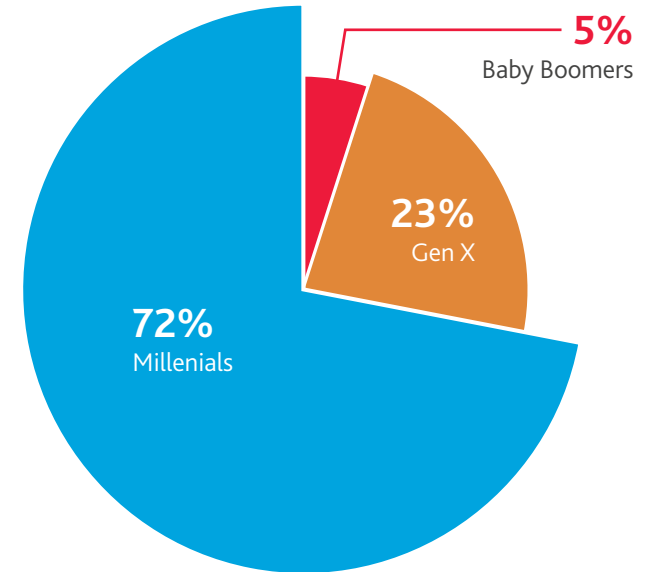
Enable [Flexibility](#)



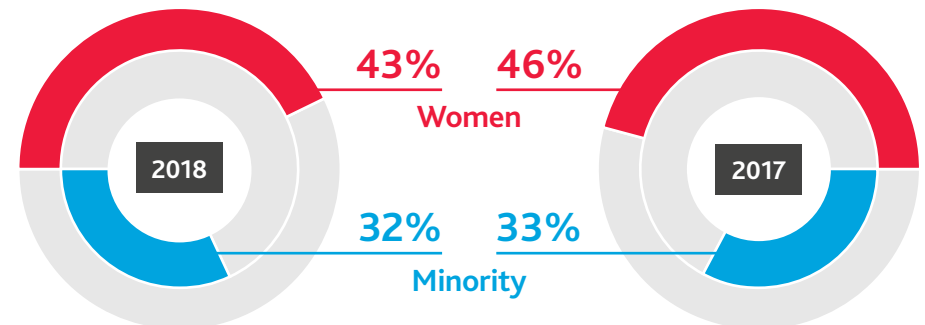
Encourage [Open Minds](#)

Our firm draws on broad generational perspectives that align with the evolving make-up of our clients' workforce.

**DIVERSE  
GENERATIONAL  
PERSPECTIVES**  
Assurance Practice



**REPRESENTATION OF WOMEN AND MINORITIES**  
Assurance Practice





## INSIGHT-FIRST INNOVATION:

# Diversity in the Boardroom

BDO held a recent [Spotlight on Evolving Diversity on the Board](#) discussing the merits of organizations who demonstrate diversity by setting the tone from the top.

In 2019, we are extremely proud to be approaching gender parity within our own Board of Directors, with

**4 of 11 directors being women.** 

Each BDO Board member brings desired skills, deep experience and industry knowledge, reflecting all of our major service areas.

**IN DECEMBER, BDO WAS PROUD TO JOIN 135 COMPANIES AND PARTICIPATE IN THE CEO ACTION FOR DIVERSITY & INCLUSION'S 'DAY OF UNDERSTANDING.'**

*"We all play a critical role in supporting diversity and inclusion and this is a great opportunity to show our support through a collective day of dialogue to further embrace this important topic, provide education and build more inclusive cultures inside and outside of the workplace."*



**WAYNE BERSON**  
Chief Executive Officer  
BDO USA, LLP

BDO has been recognized as a leading place to work for numerous groups—from working moms and dads, to interns and entry-level professionals—and we believe that people who find fulfillment in their jobs produce higher quality work.



**Top Entry Level Employers**  
CollegeGrad.com



**When Work Works Award**  
When Work Works



**Working Mother 2018's  
100 Best Company,  
Best Companies for Dads**  
Working Mother magazine



**Best Places to Work For, Best and  
Brightest in Wellness**  
National Association for  
Business Resources



**Vault Accounting 50;  
Top Internship Program**  
Vault Accounting



**World at Work, Work-Life Seal  
of Distinction**  
World at Work



**2019 NAFE Top Companies for  
Executive Women**  
National Association for Female  
Executives



**Tax Adviser of the Year**  
International  
Accounting Bulletin

# Culture Built on Insight-First Innovation

Continuous improvement defines our culture, and when it comes to business, innovation is changing everything. The pace of change necessitates agility and speed, as “new” quickly becomes the “new normal.” Innovation—from who and how we hire and train our professionals to the processes and tools we design to adapt to emerging market risks and opportunities—is a significant influencer on the execution of a quality audit.

Developing a digital transformation strategy is middle market executives' #1 digital priority.

2019 BDO MIDDLE MARKET DIGITAL TRANSFORMATION SURVEY

Our client needs are evolving, and so are we. Our firm's **strategic plan** includes four focus areas, one of which is **Digital Transformation & Innovation**. From our people to our processes and technology, we are collaborating, evolving and co-creating to provide our clients with more clarity to focus on what is most important to their business. In short, we're transforming our business to help clients transform theirs.





## THE INSPIRATION OF OUR DIGITAL TRANSFORMATION & INNOVATION FOCUS AND INSIGHT-FIRST INNOVATION APPROACH IS REALIZED IN:



### Expanded Resources

- ▶ Diverse skills, perspectives and insights from forward thinking professionals – [Our People](#)
- ▶ Innovative technologies, resources and services embedded in our culture and practice
- ▶ Data-centric business intelligence, helping inform strategic business decisions – [BDO Center for Business Innovation](#)
- ▶ Talented, empowered professionals, strategically hired or trained in data analytics, process automation and emerging technologies



### Enhanced Collaboration

- ▶ Integrated solutions delivered by cross-functional teams of subject matter specialists
- ▶ Forward-thinking, collaborative exchanges between our professionals and our clients – [BDO Resource Centers](#)
- ▶ Increased, proactive engagement with financial executives and those charged with governance – [BDO Center for Corporate Governance & Financial Reporting](#)



### Real-Time Access to Insight

- ▶ A shared digital environment for greater transparency and responsiveness, resulting in a streamlined client experience – [BDO Global Portal](#)
- ▶ Deeper perspective into our clients' business
- ▶ Direct access to advanced technologies, solutions and the people behind them – [BDODrive](#)
- ▶ Instant connection to thought leadership, educational and mentoring opportunities – [BDO Insights](#) and [BDO Events](#)

*"We face sophisticated questions and challenges. Our commitment to diversity of thought, curiosity of approach and data-driven insight allows the development of the right solutions. Our blend of people, process and technology brings the best of who we are to our audits."*



**PHILLIP AUSTIN**

National Assurance Managing Partner, Auditing

# Governance

From our executive leadership team through our staff professionals, we are focused on emphasizing, educating and enforcing measures of audit quality in our daily work and within our organizational structure.

Our executive leadership and Assurance business leadership team work collaboratively with our technical and quality focused National Assurance department led by Christopher Tower (National Assurance Managing Partner, Audit Quality and Professional Practice) and Phillip Austin (National Assurance Managing Partner, Auditing). Our focus on continuing to enhance audit quality as a direct tie-in to the evolving business environments of our clients allows us to live our Core Values through working closely together to create meaningful, impactful change.

In addition to leadership alignment, our firm continues to demonstrate our ongoing commitment to expanding our National Assurance resources and professionals, which has **more than doubled** over the past four years.

## NATIONAL ASSURANCE HEADCOUNT GROWTH



## RATIO OF NATIONAL ASSURANCE PROFESSIONALS TO ASSURANCE PRACTICE PROFESSIONALS:



**1 : 26**  
As of 6/30/2018



**1 : 23**  
As of 6/30/2019





NATIONAL ASSURANCE LEADERSHIP ORGANIZATIONAL STRUCTURE



**WAYNE BERSON**  
Chief Executive Officer



**CHRISTOPHER TOWER**  
National Assurance Managing Partner,  
Audit Quality and Professional Practice

**QUALITY CONTROL, MONITORING, INDEPENDENCE & RISK MANAGEMENT**



**MIKE FAWLEY**  
Inspections



**NANDA GOPAL**  
Regional Technical  
Oversight



**LISA SNYDER**  
Independence



**BLAKE WILSON**  
Audit Quality Assessment  
and Remediation



**SUSAN WOLAK**  
Risk Management

**AUDITING**

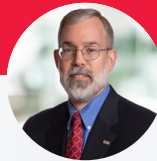


**PHILLIP AUSTIN**  
Auditing

**ACCOUNTING & FINANCIAL REPORTING**



**ADAM BROWN**  
Accounting



**TIM KVIZ**  
SEC Services

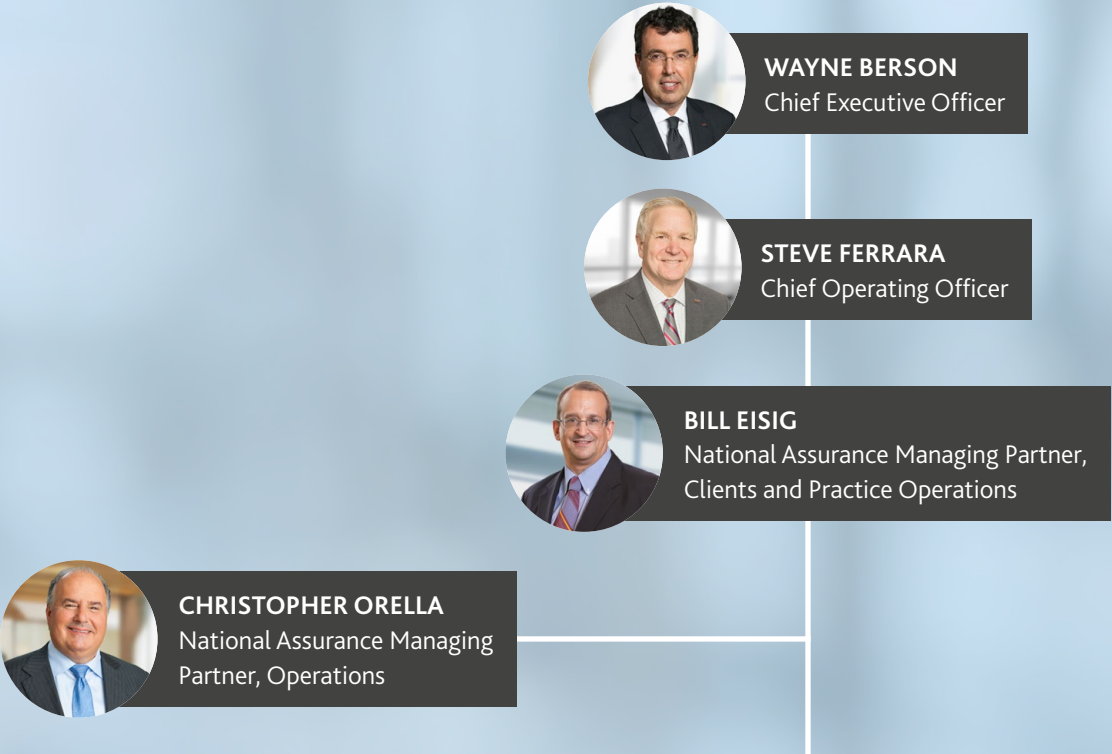
**COMMUNICATIONS & GOVERNANCE**



**AMY ROJIK**  
Communications & Governance

# ASSURANCE LEADERSHIP ORGANIZATIONAL STRUCTURE

Our Assurance practice leadership structure enables us to maximize our effectiveness and execute on our priorities as “one firm.” It allows us to make more streamlined operational decisions and provide the focus needed to significantly advance the firm's strategy and promote audit quality nationally, regionally and locally.



## ASSURANCE REGIONAL MANAGING PARTNERS



**TONY  
LAWRENCE**  
Central Region



**DEMETRIOS  
FRANGISKATOS**  
Northeast Region



**MARK  
ELLENBOGEN**  
Atlantic Region



**MIKE  
MUSICK**  
Southeast Region



**STEVE  
ALBERT**  
Southwest Region



**KEVIN  
KARO**  
West Region



# Clear Priorities

Together, our leaders have identified **eight clear priorities** to enhance our services to clients and safeguard our commitments to stakeholders by ensuring quality and managing risk.



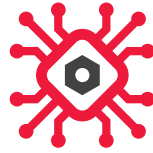
Audit  
Quality



Risk  
Management



Regulatory  
Guidance



Technology  
Innovation



World Class  
Talent  
Development



Industry  
Insight



Sustainability



Growth

The BDO Board of Directors, chaired by Bill Eisig, discusses audit quality at every board meeting to ensure that the firm is deploying the appropriate resources and approach to meet evolving needs and manage risk. The Board also seeks input and advice from technical leaders in and outside the firm to expand its perspective and inform its guidance, fiduciary responsibility and oversight for the firm.

Under direction of the Board, we have taken a holistic approach to goal-setting and execution for our practice, and we are able to respond faster and more consistently to client needs and external market demands. The tone established by the Board has ensured clear lines of communication and information sharing so that our best practices and resources are deployed efficiently and effectively.

*"We are committed to the highest standards of quality in our audits. The markets rely on us, and we never lose sight of that. How we get there is ultimately what sets BDO apart. The right tone at the top is critical, and we make our priorities clear through our investment in the best people, the best technology and our focus on the right culture and incentives to enhance quality."*



**BILL EISIG**

National Assurance Managing Partner, Clients and Practice Operations  
Chairman of the BDO Board of Directors

## INSIGHT FIRST-INNOVATION:

# Audit Quality on the Agenda

Audit quality is on the agenda for all significant audit business trainings and leadership meetings throughout the year, reinforcing our professional obligations and priorities to our professionals at every level. This includes:

### ANNUALLY

- ▶ 38 Audit Quality Roadshow Trainings, across 20 offices and all regions\*
- ▶ 8 Full Day Issuer Audit Quality Trainings, across all regions\*
- ▶ Inspections Debrief with Key Practice Reminders
- ▶ Audit Quality sessions offered in all annual National Training Conferences
- ▶ Regional Technical Leader recurring audit quality focused meetings with lead engagement partners and engagement quality control review partners

### QUARTERLY

- ▶ BDO Board Meetings
- ▶ Regional and National Leadership Team Meetings

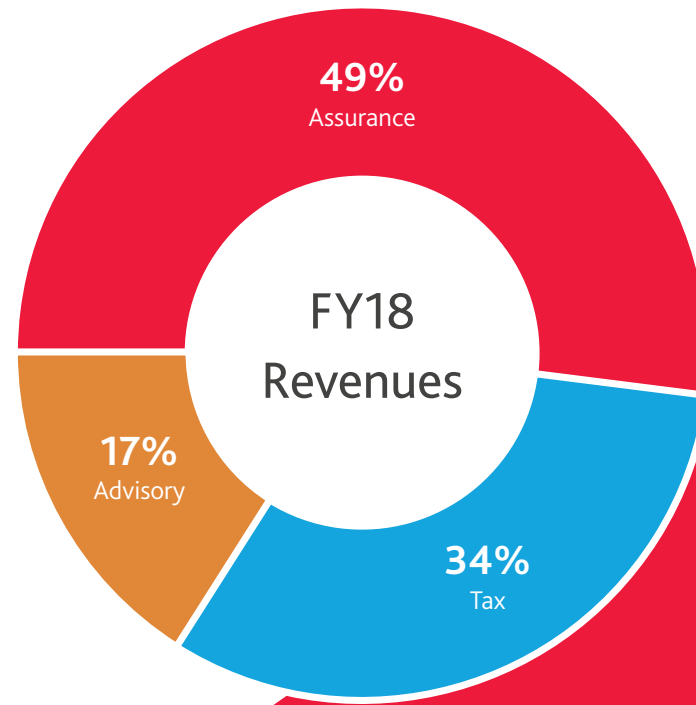
### MONTHLY

- ▶ National Assurance Leadership Team Meetings
- ▶ Assurance Practice Meetings

### BI-WEEKLY

- ▶ National Assurance and Practice Leadership Collaboration Meetings

\* Newly initiated in 2018



Representing the largest segment of our firm's overall business and revenues, we are committed to excellence throughout our Assurance practice, including investing and expanding our resources to continue to drive an audit quality focus throughout the firm.



## Accountable to our Audit Quality Commitment

For the past three years, we have polled our Assurance professionals on their views of the firm's commitment to exceptional client service, delivering high quality audits and the connection to their everyday work.

We asked professionals to rate BDO and their experience on numerous factors and invited open-ended responses and comments that were anonymized to encourage candor.

We continue to experience improvement in critical areas of personal accountability, commitment and oversight of audit quality, and pledge continued transparency with our professionals' feedback.

*"I think our firm as a whole has made a significant commitment to audit quality and the partners have embraced that and it trickles down to our audit files...I think that by embracing the tools and resources that we have and fully participating in efforts like internal inspection (on both sides of the table), it will continue to help improve audit quality."*

RESPONDENT TO BDO AUDIT QUALITY AND OPERATIONAL EXCELLENCE SURVEY

### OUR PROFESSIONALS RATE BDO AS "VERY GOOD" TO "EXCELLENT" ON THE FOLLOWING:

	2019	2018	2017
I believe I am personally responsible for our delivery of audit quality	94%	94%	94%
I understand what is expected of me with respect to audit quality	90%	90%	88%
I am well-versed with auditing standards	88%	88%	86%
I have clarity regarding the Firm's audit methodology	88%	86%	84%
I have clarity of the Firm's audit policies	86%	86%	82%
I am supportive of the direction we are heading with respect to audit quality and effective audits	86%	86%	82%
My Office Managing Partner is aligned with my executing audits with audit quality being a significant priority of the firm	88%	88%	88%
I believe my most direct supervisor demonstrates an effective commitment to audit quality	90%	92%	90%
I believe the teams I supervise demonstrate an effective commitment to audit quality	88%	88%	86%
Our CEO is aligned with audit quality being a significant priority of our firm	90%	90%	86%

## SPOTLIGHT ON:

# Our People's Alignment with Audit Quality

At the firm level, we conduct an annual Pulse Survey of all of our professionals and are pleased to share firm wide confirmation of improvements in commitment to quality areas focused on leadership, communication, development, empowerment and team engagement:

2018		2017
92%	Engagement teams and leaders clearly communicate their expectations and commitment to executing high quality work for our clients.	92%
93%	With rare exception, my coworkers perform their jobs at a high level.	93%
94%	At least one of the leaders in my practice or department cares about my development.	93%
91%	Firm and office leadership communicate clearly and often to our staff about BDO's commitment to quality.	90%
95%	I understand how my role contributes to the firm's success.	95%
92%	I am empowered to use my own judgment to make decisions.	92%

*"As a result of our evolving firm strategy and focus areas, we are so pleased to see continued improvements in critical areas that connect our people and facilitate the delivery of high-quality work."*



STEVE FERRARA  
Chief Operating Officer





# Promoting Ethics & Independence

## AUDIT QUALITY INDICATORS IN THIS SECTION



Enhancing independence tools & resources - domestic and global



Focusing on the prevention and detection of independence issues





# Ethics

Every BDO professional is responsible for consistently following our [Code of Ethics and Business Conduct \(the Code\)](#) and for choosing the right course of action if faced with an ethical workplace problem. Compliance is a condition of employment and partnership with BDO.

The Code is reviewed and updated each year under the leadership of BDO's Chief Compliance Officer to ensure we are responsive to emerging needs and issues—from security and confidential information policies, to adjustments based on applicable laws and regulations. As part of the firm's Compliance and Ethics programs, all employees and partners are required to annually read and acknowledge the Code and workplace guide.

We also provide regular training, resources and communications to all professionals to help them understand and apply ethical behavior consistently. Our monitored **BDO USA Anonymous Ethics & Compliance Hotline** enables and encourages personnel to report a violation of the Code or non-compliance with laws and regulations and allows our leadership to address any such matters on timely basis.

# Independence

Independence is the foundation of a quality audit and the baseline for confidence in the capital markets. It's at the core of our profession and built into every action our professionals take, or don't take.

It's also an essential part of our Code so that we can ensure each professional is free from outside influences or conflicts in performing services and reaching audit opinions.

In 2017, we began an expansion of our Independence practice, led by Lisa Snyder, the former Senior Director of Professional Ethics at the American Institute of Certified Public Accountants (AICPA). Our experienced team of dedicated professionals helps our leadership, partners and engagement teams understand, implement and comply with independence requirements and work toward enhancing system capabilities in performing complex conflict checks across our global network. Additionally, they monitor the propriety of employee investing activity to prevent and detect independence issues through our automated BDO Investment Tracking System (BITS), performance of quarterly independence audits and other compliance processes. Additionally, the team offers numerous resources throughout the year, including consultations, required annual education and quarterly newsletters.

As businesses reinvent in response to digital transformation and other disruptive forces like changing regulation and emerging industries, BDO's services also must evolve. Our Independence team is proactive about assessing and developing guidance for new, tech-enabled services and expanded industry offerings while prioritizing independence compliance.

Our independence team further remains focused on adhering to partner rotation rules and protocols and helping engagement teams and clients prepare for transition of engagement leadership.

*"Our firm leadership has set the right tone for independence and has been incredibly supportive in providing the team members and resources to ensure independence is maintained for our attest clients throughout the BDO network."*







**LISA SNYDER**  
National Assurance Managing Partner, Independence



# Ensuring the Right Fit with Our Clients

## AUDIT QUALITY INDICATORS IN THIS SECTION





-  Enhancing process for evaluating client retention decisions
-  Increasing focus on risk in acceptance of emerging industry engagements
-  Enhancing engagement with those charged with governance
-  Distinguishing public company from private company engagements



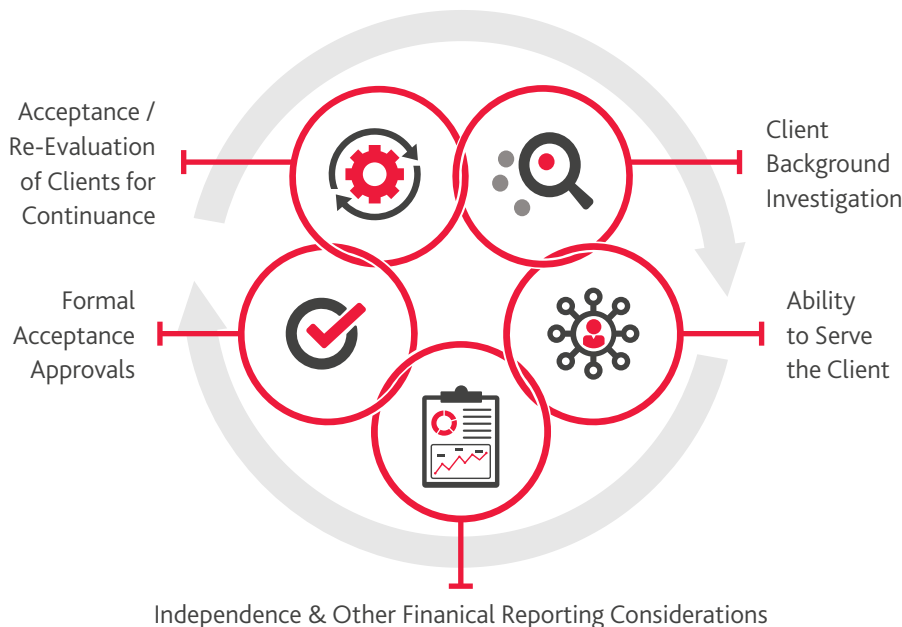
All client relationships start with honesty, and that is the foundation for our engagement acceptance and continuance processes.

We leverage a thorough, documented process that aims to get to know the prospective client or continue to get to know existing clients, while also considering and aligning the right people, resources and capabilities to serve their needs.

We work with clients from entrepreneurial businesses to global public companies, deploying the right resources at the right time. No matter their size, we:

 <b>Independence</b>	Follow best practices for maintaining independence across our global network.
 <b>Industry Experience</b>	Ensure we have the right industry experience and knowledge to meet clients' specific risks and challenges.
 <b>Tone at the Top</b>	Consider management's commitment to doing the right thing.
 <b>Risk</b>	Work with companies who match our risk profile.

#### BDO'S CLIENT ACCEPTANCE AND CONTINUANCE PROCESS



#### INSIGHT-FIRST INNOVATION:

### Emerging Business Engagements

Emerging business areas such as those ancillary to cannabis or cryptocurrency, have two things in common: opportunity and risk.

*"BDO takes a measured approach when considering working with clients in new sectors. We look at critical factors like our related industry knowledge, as well as the experience of the management team, advisors and investors and the long-term strategy of the company. We want to ensure that we'll be able to offer meaningful insight throughout the audit process, even in a developing industry, and that means considering our capabilities alongside the sophistication of the prospective client management team. A compliance-centric disruptor may sound like an oxymoron, but we look for emerging industry clients that take their business risk and opportunity as seriously as we take audit quality."*



**SUSAN WOLAK**  
National Partner, Risk Management



## INSIGHT-FIRST INNOVATION:

# BDO Center for Corporate Governance

We believe exceptional client service includes a commitment to assisting our clients with continual education to help them to assess the issues, risks and opportunities that will impact their businesses. [The BDO Center for Corporate Governance and Financial Reporting](#) is a longstanding resource center that draws on experienced leaders across our entire firm and externally to provide timely thought leadership along with continued professional education (CPE) through webinars and self-study courses on the latest emerging issues—from accounting and reporting guidance to workforce composition, digital transformation and data privacy.

The Center also regularly publishes guidance and best practices specifically for boards of directors, including annual [Board Governance](#) and [Compensation](#) Surveys and regular insights on issues including board diversity, total tax liability, new reporting standards implementation and cybersecurity. [Visit our Resource Center.](#)

BDO also continues to participate in significant national board of director events, including the National Association of Corporate Directors (NACD) *Global Board Leaders' Summit Small Cap Symposium* and the NACD *Emerging Board Forum*, where we have established a niche in delivering education topics for emerging and small-to mid-cap board of directors and executives.

Our quarterly **Board Roundtable Series** continues to grow in popularity with our director clients and guests. Hitesh Shah, who founded and leads this initiative on the West coast, was a 2018 recipient of our firm's prestigious **Seidman Neuhausen Award** which recognizes employees living our core purpose and values, displaying intellectual curiosity, technical rigor and poised confidence, while embracing our strategy and exceptional client service—internally and externally.



*"For our client board members, as chief stewards of corporate governance and oversight, we recognize the importance of providing not only timely information but customizing it in ways that help bring emerging issues and potential solutions to the forefront of conversations and action plans."*



**AMY ROJIK**  
National Assurance Partner,  
Communications & Governance



WORKING WITH  
PRIVATE CLIENTS:

## BDO's Private Company Audit Initiative

Private companies also are key benefactors of our audit services and our commitment to quality extends to them as well—from entrepreneurial businesses and middle market companies to large global enterprises.












We use a customized methodology and tailored resources to serve the specific needs of private companies. In fact, our BDO USA Audit Manual differentiates between private and public company audits to facilitate proper application of the customized methodology. However, our commitment to audit quality and exceptional service remains the same. Our engagement teams seek efficiency and excellence, using advanced technology and data analytics, and communicating effectively to help clients manage risk and avoid accounting and reporting surprises. For example, we leverage our experience working with public company clients on earlier implementation of significant new accounting standards and share that knowledge and best practices with our private company clients.

We also are attentive to where our clients are in their specific growth journey. For instance, we often help companies on the path to going public by educating them on the process and by conducting our audit with a view toward public company requirements and PCAOB standards. Clients entering the public markets benefit from the full breadth of our PCAOB audit experience, SEC national practice support and certified issuer engagement team members. For more, visit: [BDO IPO Services](#).



# Developing and Managing High Caliber People and Teams

## AUDIT QUALITY INDICATORS IN THIS SECTION

-  Enhancing recruitment of Assurance professionals
-  Developing future leadership
-  Providing a robust, modern and continuous curriculum
-  Integrating Professional Judgment Framework and Audit Data Analytics (ADA)
-  Offering secondees opportunities domestically and internationally
-  Focusing on retaining exceptional talent
-  Offering opportunities to engage with the profession and academia
-  Holding partners accountable for audit quality events
-  Enhancing our Audit Quality Committee
-  Applying "bottom-up and top-down" Partner workload assessments
-  Leading in the community



As market and client needs evolve, so too does our people strategy.

Indeed, **Exceptional and Engaged People** is a core focus area of our firm's strategy, anchored by our core purpose of helping people thrive, every day.



*"What we achieve through Exceptional & Engaged People is a strong, sustainable world class people environment where everyone thrives and achieves as their best selves."*



CATHY MOY  
Chief People Officer

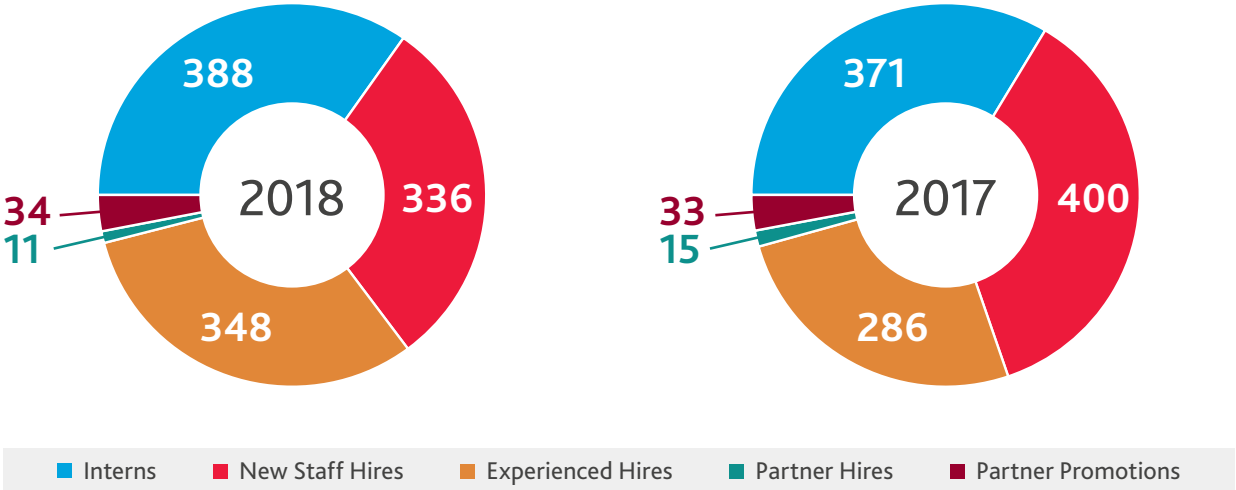
Consistently providing high quality audits requires relentless focus on developing the right skills, recruiting and retaining the right people and offering the right incentives.

ATTRACTING QUALITY TALENT

Developing strong engagement teams starts with recruiting exceptional talent at every level. BDO conducts on-campus recruitment at select colleges and universities across the country, in particular to attract top students for our expanding [Pathway to Success](#) summer leadership program, as well as internships and entry level positions.

We also think it's critical to evolve [our recruiting strategy](#) to meet emerging needs and expanded opportunities. The increasing digital economy has opened up new avenues for reaching prospective employees, and we are already capitalizing on them. Over the last year, we have enhanced our traditional approach with a virtual recruiting experience. It is designed to broaden access for strong applicants and reach the best talent, regardless of location.

Assurance Hiring by the Numbers



From intern to partner, BDO seeks talent who will be positioned for success under our core values and commitment to quality. Even at the intern level, professionals are expected to think and act like entrepreneurs, demonstrating high levels of accountability and problem-solving while working side-by-side with experienced team members, coaches and mentors.

In the last year, we've enhanced our focus on recruiting experienced and senior talent. For these roles, we look for a proven track record in performance, strong professional judgment and ethics, focused industry experience, analytical skills and commitment to professional growth. We've recently taken strides to align our interview process with our employee and partner competency models, including creating training to provide more consistency within our candidate assessment process.



## DEVELOPING ENGAGED PEOPLE

In a strong economy and competitive industry, professionals have more options for career paths than ever. We're committed to providing continuity to our clients by retaining our top performing professionals through a number of intentional programs and opportunities.

### SPOTLIGHT ON:

## BDO Leadership Institute

The BDO Leadership Institute (BLI) is a well-established program with the broad goal of developing partner candidates' leadership presence at the senior manager and director levels. Over the course of this 18-month highly competitive and interactive program, BLI students learn and collaborate with their peers to hone and demonstrate advanced leadership, interpersonal and business development skills.

Over 300 professionals  
will have graduated  
from BLI by 2020,

with the majority having been subsequently promoted to partner.



We believe, and our employees confirm, that job satisfaction is directly linked to challenging and fulfilling work, opportunities for professional growth, access to mentors and a flexible work environment that is responsive to professional needs.



When it comes to audit quality, learning is developed and delivered intentionally as a key element of our system of quality control. We maintain a dedicated **National Assurance Learning Team**, who creates and drives a culture of continuous development through a comprehensive learning approach. This approach is rooted in a core curriculum mapped to professional standards, designed to impactfully respond to and implement change, modernization and innovation to uphold and expand the competence and value of our professionals.

Each of our nearly 2,800 Assurance professionals is committed and accountable to sharpening their skills to better serve clients. In 2018, after extensive analysis of desired outcomes and learning behaviors of professionals, we achieved three objectives:

1. We further aligned the timing of learning uptake by tightening the release-to-due date.

**Result: Reduction in average number of days to complete learning from date of release of 41 days in 2017 to 24 days in 2018.**



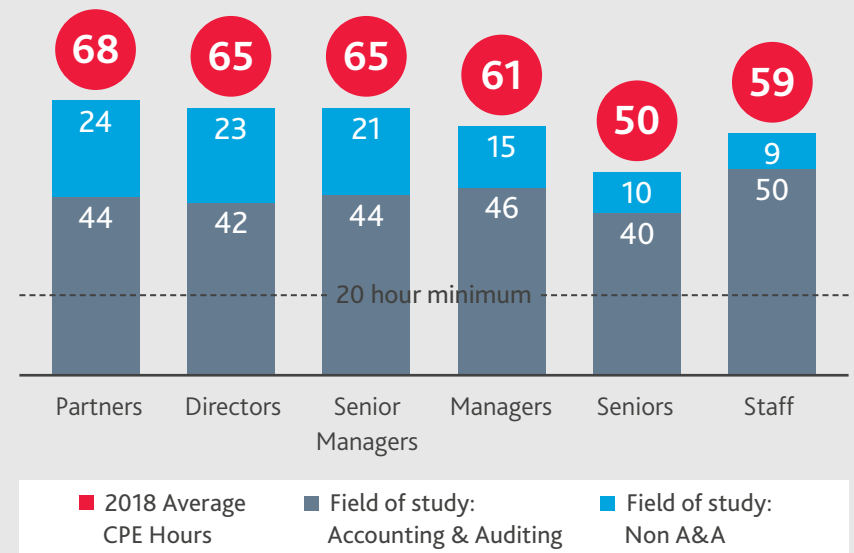
2. We continued the modernization of our courses to include video simulation of relatable audit scenarios that can be encountered, with thoughtful ensuing dialogue to allow awareness, reflection and prudent responses.



3. We integrated within all of our learning programs key concepts from our Professional Judgment Framework and our approach to Audit Data Analytics.



## ASSURANCE PROFESSIONALS' 2018 AVERAGE ANNUAL CPE HOURS\*:



The averages above reflect learning subject to continuing professional education (CPE) requirements and do not include numerous non-CPE learning that our professionals participate in throughout the year. Non-A&A fields of study include specialized knowledge (e.g., industry, technology, etc.) and other business skills.

\*The American Institute of Certified Public Accountants (AICPA) requires CPAs to complete a minimum of 20 hours or its equivalent of continuing professional education (CPE) per year or 120 CPE hours over a three year reporting period.

*"Development of deep acumen and value of our professionals through a robust learning approach - amplified by thousands of hours spent in the field learning our clients' businesses - is perhaps one of the truest differentiators of the auditing profession."*



**MICHAEL BECKER**

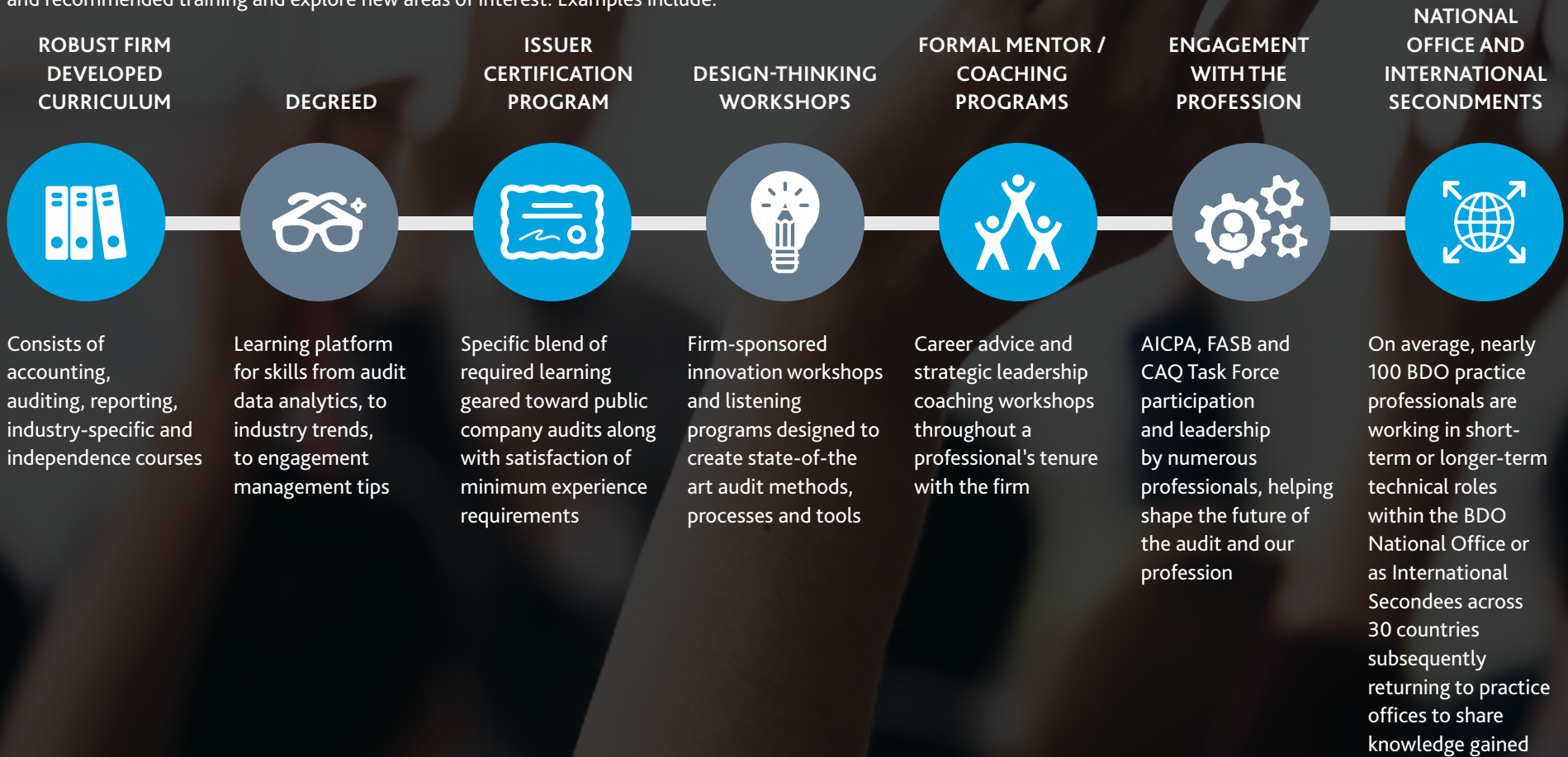
National Assurance Partner,  
Assurance Learning, Deployment & Change Management



## INSIGHT-FIRST INNOVATION:

# Continuing Learning and Engagement

BDO professionals treat every day and every interaction as a learning opportunity. We leverage each other, as well as internal and external resources, to satisfy both required and recommended training and explore new areas of interest. Examples include:



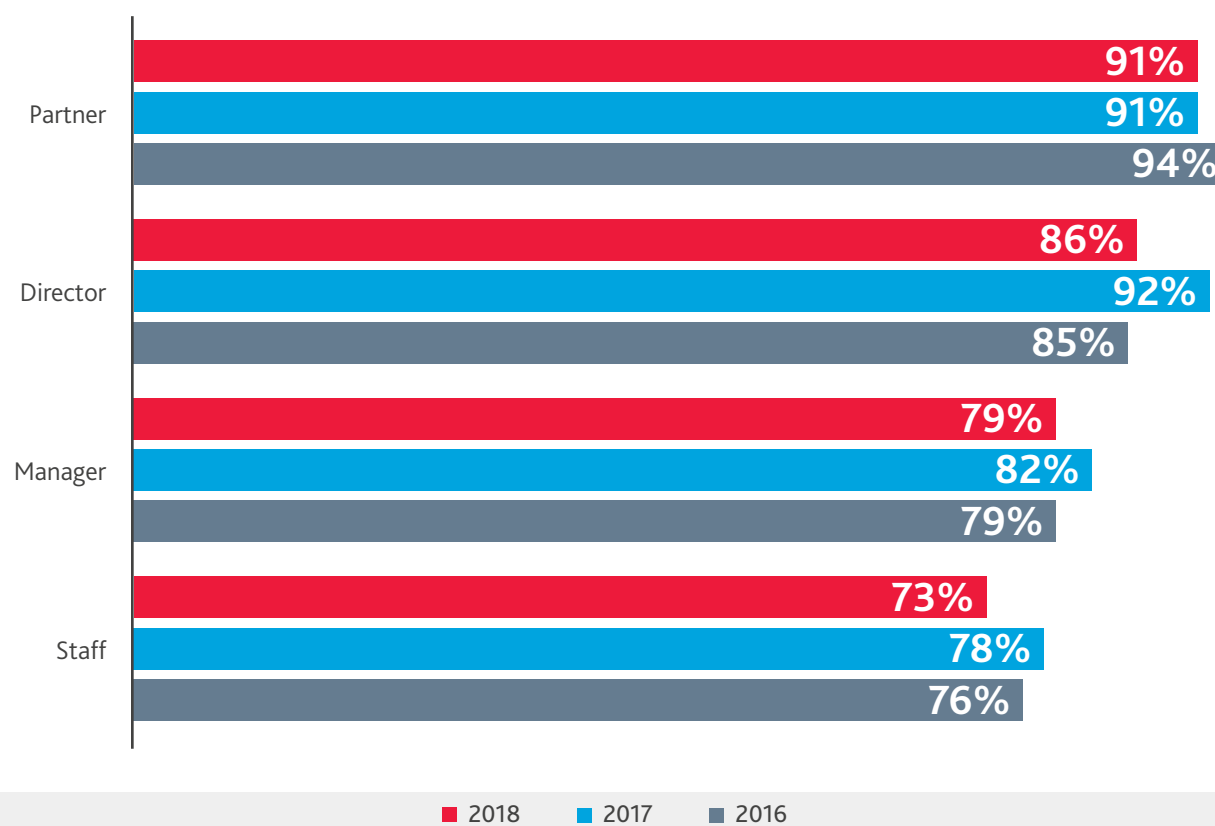


As a leader in the auditing profession, we provide opportunities equivalent to hands-on, MBA-caliber experience across multiple industries that is cultivated throughout our professionals' careers. This experience is fueled through the variety in professionals' client assignments and the deep relationships we form with all stakeholders within the financial reporting chain.

Today, experience like ours is in high demand and turnover is to be expected. Our recruiting, recognition and reward structure is appropriately focused on talent needs of purpose-driven and rewarding work and enhanced work-life fit.

When professionals choose to leave the firm to pursue other opportunities, we take pride in the preparation we have provided to help them become integral resources in the marketplace. We further endeavor to maintain relationships with our [alumni and retiring partners](#) as life-long friends of our firm.

## ANNUAL ASSURANCE PROFESSIONAL RETENTION RATES





## INSIGHT-FIRST INNOVATION:

# Engaging the Profession and Academic Community

BDO continues to be highly active with professional organizations and the academic community. In 2018, we hosted the [\*10th Annual CAQ Symposium\*](#), designed to bring together audit practice leaders and audit research scholars for discussion of important issues and exploration of how research can inform those issues.

Additionally, BDO professionals serve as committee members on the CAQ's [\*Research Advisory Board\*](#), which oversees the funding of grants in support of valuable independent academic research that can have important, real-world impact on audit quality and the future of auditing; and the CAQ's [\*Access to Audit Personnel\*](#), designed to facilitate accounting and auditing academics' ability to obtain access to audit firm personnel to participate in their research projects. Further, BDO has ongoing contributions to continuing enhancement of professional licensure and academia under the AICPA's Uniform CPA Examination and the Academic Executive Committee.





## RECOGNIZING EXCEPTIONAL WORK

We know that what gets measured gets done, so we design our Assurance practice performance strategy and promotion criteria around goals that will directly drive audit quality.

The performance management process is a key component of employee and partner development, designed to:

- ▶ Communicate clear expectations and leverage goal setting to encourage meaningful performance conversations
- ▶ Determine performance of all personnel relative to desired core competency behaviors and skills and adherence to core values
- ▶ Encourage retention of the most qualified client service professionals and ensure the most effective use of their skills, knowledge and talents
- ▶ Determine potential for advancement to the next level
- ▶ Determine equitable compensation based on merits

Assurance partners, inclusive of our technical partners, Audit Quality Team leaders and Regional and Office Managing Partners, have additional performance elements, including the firm's annual audit quality assessment process.

Our **Quality Matters Process**, as part of the firm's system of quality control, is intended to (1) track and evaluate positive and negative quality events on a personal and engagement basis; (2) determine sufficiently specific corrective actions; (3) monitor effectiveness of the implemented actions and (4) support, in part, partner audit quality ratings. It uses **Audit Quality Events ("AQEs")** – both observable positive quality events (PQEs) and negative quality events (NQEs) identified and reported by a member of National Assurance – as basic elements for measurement and evaluation of partners across a positive impact and negative severity rating scale. Quality events focus on appropriate demonstration/consideration of:

- ▶ Exhibition of appropriate tone
- ▶ Technical knowledge and focus
- ▶ Engagement of appropriate resources throughout the audit
- ▶ Execution of audits in line with professional standards
- ▶ Adherence to independence, risk management and other firm policies
- ▶ Adherence to audit engagement milestones
- ▶ Internal and external inspection findings
- ▶ Audit restatements





This information is used to both develop individuals' ratings and, where required, to determine corrective actions to be approved and subsequently monitored by Regional Technical Partners and Regional Managing Partners, along with Quality Matter Reviewers. It further allows us to recognize positive behaviors to highlight and further demonstrate to the practice.

The **Audit Quality Committee (AQC)** evaluates positive and negative quality events to determine each audit partner's annual audit quality rating and will recommend to the Partner Compensation Committee of the Board, along with firm leaders, that adjustments be made to partner unit awards and/or bonus payments for those with medium and high positive and negative audit quality ratings.

As an added check and balance on audit quality, the AQC further provides an office and regional audit quality rating for Office Managing Partners and Regional Managing Partners, respectively, based on aggregated evaluation of partners who received medium to high negative annual audit quality ratings in comparison to annual quality goals set for each office and region.

*"Doing the right thing defines our firm and our promise of exceptional audits. The AQC provides us with the method to ensure that our partners are recognized and rewarded for doing that. The process also provides a space for accountability and correction of any behaviors that require change to achieve the commitment we have made to ourselves to be market leaders in all we do, including audit quality."*



**CHRIS ORELLA**  
National Assurance Managing Partner, Operations  
Member of BDO Board of Directors

## SPOTLIGHT ON:

# The Audit Quality Committee

The Audit Quality Committee ("AQC") was established for the purpose of evaluating and concluding as to:



An individual audit partner's annual audit quality rating



Firm internal inspection ratings and related audit quality ratings



Audit quality ratings for all other positive and negative events that occur



Other matters that the National Assurance Managing Partner, Audit Quality and Professional Practice deems appropriate to bring to the AQC to address.





## ASSEMBLING THE RIGHT ENGAGEMENT TEAM

Our clients expect a skilled and seamless team. This means that we must successfully assemble the right level of experience and knowledge, in the right locations at the right time.

To do so requires equal parts art and science. The science comes in the precision of insights, driven by data and technical analysis and in the automation of routine administrative tasks. The art comes in the collaboration, judgment, communication and consistency that bring those insights to light and help the client manage risk and ensure compliance.

We involve industry and technical leaders throughout our audit process and leverage our Business Services Center to create efficiencies. This allows for more of our professionals' time to be applied to critical work and counsel.

Capacity is critical. Thus, we centrally manage and monitor workloads, including partner and Engagement Quality Control Review (EQCR) assignments, to ensure every professional has adequate bandwidth to provide proper care and attention to each engagement – whether new or continuing. This is overseen by regional and local Assurance leadership, in conjunction with nationally designated Regional Technical Partners. Particular attention is paid to allow resourcing adjustments to avoid excessive hours and the potential for professional burnout.



Additionally, current staff profiles of technical proficiency and industry experience are maintained and serve as the basis for making appropriate engagement assignments. We work to ensure the proper environment is established to provide supervision, on-the-job learning and reinforcement to align the knowledge of the client's business and industry with the nature and complexity of the audit work. Wherever possible, engagement continuity is prioritized to build deep knowledge of the client and provide minimal disruption to the audit.

In addition to active engagement with our clients, many of our professionals enhance their business acumen and leadership by serving as directors and officers for private and nonprofit organizations. These governance roles help inform our professionals on the operational challenges of business, while enabling us to serve the broader community by providing knowledge, perspective and professional judgment.


















#### LEADING IN THE COMMUNITY

15% of our experienced BDO professionals serve as a director or officer for charitable or nonprofit organizations

# Ensuring High Quality Engagement and Performance

## AUDIT QUALITY INDICATORS IN THIS SECTION

-  Applying global Audit Process Tool (APT)
-  Contributing to APT Next Generation
-  Rolling out updated Client Portal App
-  Adopting BDOLexi (translation application)
-  Increasing engagement integration of Audit Data Analytics (ADA) solutions
-  Adapting to accounting changes
-  Maintaining our technical edge
-  Recognizing importance of consultations
-  Enhancing external collaboration
-  Expanding our Audit Quality Network (AQN)
-  Engaging with Audit Committees and those charged with governance
-  Creating critical audit matters (CAM) tools and holding dry runs for accelerated filers
-  Maintaining proper oversight and supervision
-  Continuing expansion of Audit Milestone Program
-  Coaching by Audit Quality Team







A close-up photograph showing a person's hands interacting with a tablet. One hand holds the device while the other points at the screen. The background is blurred, suggesting an indoor setting.

## NEXT GENERATION GLOBAL AUDIT TECHNOLOGY

The firm utilizes an integrated audit approach through our global **Audit Process Tool (APT)** to ensure consistent delivery of high quality, risk-based audits worldwide. For the past several years, we have heavily invested in enhancements to the next generation of APT to adapt to the audit of the future in terms of scalability, complexity and increasing data mining capabilities.

In 2019, we are beginning the roll out of **APT NextGen**. Key benefits include: built-in project management capabilities, real-time documentation throughout the engagement process, customized industry-specific content and an integrated trial-balance manager that automates updates to the workspace when financial statement adjustments are recorded. Critically, it also enables our professionals to leverage business intelligence tools, helping our engagement leaders identify and communicate risks, issues and timely information to our teams and our clients throughout the audit.

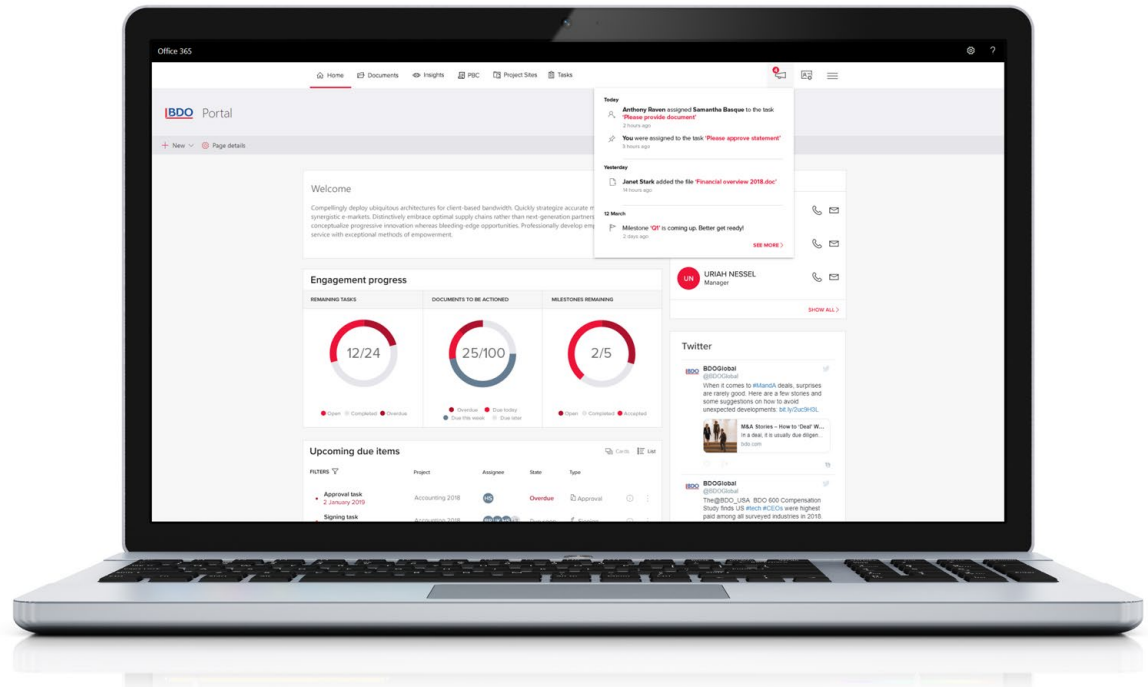
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## SINGLE-VIEW, BDO GLOBAL PORTAL

Clients rightfully expect a seamless experience when working with BDO teams across the world, and that extends to the digital space. Transparency, accessibility and real-time responsiveness are among the defining features of **BDO's Global Portal**.

The portal is our clients' digital gateway to the audit experience, powered by quantitative data and the professional judgment and qualitative assessments of our Assurance leaders. Use of the portal is allowing clients and BDO professionals a more complete view of the status of the client's audit, the impact of business issues and a secure experience with engagement team members world-wide.

Advanced technology also facilitates improved project management and productivity, through centralized document and records management, automatic language translation and optimized resource allocation. We are able to use such technology customized to each client's needs while offering agility, consistency of approach and collaboration.



Approximately 2,000 BDO USA Clients are already collaborating with their BDO professionals using BDO's Global Portal.

*"I can gladly say the adoption of the BDO Global Portal has been a success, with clients describing it as 'great,' 'streamlined' and 'intuitive.'"*

**WILLIAM JONES**  
Assurance Experienced Senior





## REIMAGINING AUDIT DATA ANALYTICS (ADA)

Modern technology is enabling increased audit data analytics (ADA) to improve the risk assessment process, the depth of substantive procedures and the focus of tests of controls, further increasing audit quality. We use modern, proprietary analytical tools to fully analyze large quantities of data to more effectively focus on items with indicators of risk.

Such tools help visualize client data to enhance understanding of our clients' revenue streams, purchases activities, control activities and inventory movements to more dynamically explore and focus our audit efforts on patterns, trends and notable items. These risk-based tools and applications allow flexibility in further customizing audit solutions that can easily be applied across any business, component, or dataset.



## INSIGHT-FIRST INNOVATION:

### Meet BDO Lexi

For one client, primarily located in Brazil and Mexico, we leveraged our proprietary translation technology BDO Lexi to instantly translate work papers, PDF documents and spreadsheets from Portuguese and Spanish. BDO saved countless hours, resulting in reduced fees and freeing up resources able to be applied to audit execution and a more efficient audit timeline.

*"By infusing ADA into our audit, we are leveraging technology to deliver a better quality audit and focusing our efforts on the right areas of our client's business and those with the largest risk. The result: less time on reviewing repetitive tasks and more time on matters that require our auditors' professional judgment."*



**BRIAN MILLER**  
National Partner,  
Audit Transformation and Innovation

Our ADA solutions include benchmarking (e.g., against historical data, industry and peer group information, etc.) and dashboards that provide financial executives and those charged with governance with pointed summary data highlighting matters of relevance for their consideration in addressing specific business issues and risks.

With such real-time access to data, analytics and benchmarking capabilities, our clients have the ability to transform their own organizational data into action, enabling more informed, data-driven decision-making and further enhancing audit quality.

## INSIGHT-FIRST INNOVATION:

### ADA Applications

- ▶ **BDO Advantage**  
Journal Analyzer to assist with advanced testing of journal entries
- ▶ **BDO Harmony**  
Web APP to create client Power BI workspace to automate the transformation and loading of client data into guided analytics
- ▶ **BDO Maestro**  
Enables conversion of general ledger data for systems other than SAP

*"Given our large volume of transactions and significant number of subsidiaries and foreign currencies, there were inherent challenges in working with our large amounts of data. Using BDO Advantage, the audit team was able to take data from our G/L, identify certain items (e.g., foreign currency translation) and roll forward our trial balances. This was previously a painstaking process that required much of my time to complete. Leveraging BDO's tool, the process was far more easy and efficient and did not take up any of my time!"*

#### JASON WOOD

Americas Controller,  
Ivanti Software





## READINESS FOR PLANNED (AND SURPRISE) GUIDANCE

Major accounting standard changes around revenue recognition, lease accounting and current expected credit losses (CECL) have been on the minds of our clients for years. As staggered implementation deadlines become reality, we're working diligently to prepare impacted companies and help them apply implementation lessons learned in real-time.

We continue to provide detailed technical guides and [roadmaps for implementation](#) of new guidance ahead of deadlines, as well as [industry-specific resources](#) with tailored analysis and answers to frequently asked questions.

Similar to [our response to the passage of the U.S. Tax Cuts and Jobs Act](#), the firm has resources at the ready to respond to new guidance, even when unexpected.

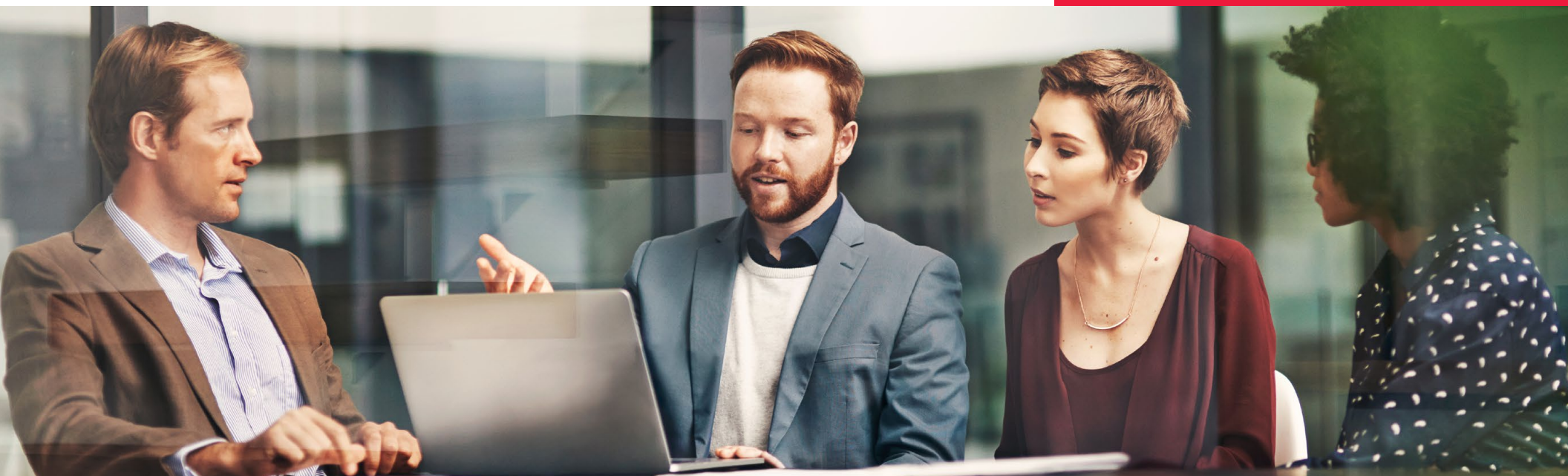
In June 2018, the U.S. Supreme Court issued its decision on *South Dakota v. Wayfair*, drastically changing the tax position of e-commerce sellers, digital service providers, consumers and buyers and sellers of businesses. We took immediate action to advise our clients and lead in the development of resources, including a [state-by-state guide to economic nexus standards](#), industry-specific guidance, webinars and media commentary.

We were able to apply our tested response strategy for emerging standards, with lessons learned from the FASB's ASC 606 revenue recognition and ASC 842 lease accounting deployment, and provide a rapid Wayfair response guide—including risk assessment, analysis and work plan development—to our clients within weeks of the decision.

## BEING AUDITOR PROUD



BDO Assurance professionals are serving **20+** external professional organizations via participation on **90+** audit quality focused activities and initiatives.



INSIGHT FIRST-INNOVATION:

## Make Way for Wayfair

*"I felt well-prepared for Wayfair and its potential impact on the company's financial reporting as a result of the up-front and regular conversations with BDO Tax partner, Kristi Pindell, and State and Local Tax (SALT) leader, Angie Acosta."*

**KELLY ROBINSON**

Director of Global Tax at 3D Systems, Inc.

*"One of the first people we met after becoming a client of BDO was Tom Smith, the SALT Partner in the Southwest. Tom brought a team of professionals with him to our offices in San Antonio, sat down with us, and clearly explained how the Wayfair ruling impacted our company and our clients. Then the team went to work. BDO brought in the right people, even if they were outside their firm, and they all worked together with our people seamlessly. It hasn't been easy, but I'd hate to think what it would have been like without BDO."*

**MIKE SINGLETON**

CFO at Black Rifle Coffee



## INSIGHT-FIRST INNOVATION:

### Maintaining our Technical Edge

BDO is establishing a rich history of contributing to accounting, auditing and regulatory professional organizations and standard setting with many of our professionals serving in a variety of leadership roles within advisory councils, task forces, secondments and exchanges.

As a firm, we meet quarterly with the SEC's Offices of the Chief Accountant and Independence and annually with Corporation Finance. We further meet semi-annually with the PCAOB Board and monthly with the PCAOB Inspections Team. Such engagement allows for an effective two-way dialogue with regulators to share and receive key insights on the impact of regulatory initiatives on both our clients' financial reporting and our audit processes that we are then able to share further with our clients.

We also encourage and fully support our individual professionals who are serving within many organizations including the AICPA's Auditing Standards Board, Financial Reporting Executive Committee and other task forces; the CAQ's Professional Practice Executive Committee, Advisory Council and various CAQ task forces; and the PCAOB's Standing Advisory Board with the key objective of promoting audit quality for the profession as a whole. In June, Wayne Berson was named as the Vice Chair of the CAQ's Governing Board.



## QUALITY FROM THE TOP OF FINREC

The Financial Reporting Executive Committee (FinREC) is the senior committee of the AICPA for financial reporting, and is authorized to make public statements on behalf of the AICPA on financial reporting matters.

**BDO is proud to share that our own Angela Newell was appointed chair of FinREC in April, 2019.**



In her new role as FinREC Chair, Newell will represent the committee externally and lead discussions about new accounting guidance and the evolution of industry standards. Angela will share her experience and insights with BDO clients and professionals throughout her tenure, including on forthcoming guidance on accounting and valuation, business combinations and CECL.

Newell follows in the footsteps of the late Ben Neuhausen, former partner and National Director of Accounting for BDO, who chaired FinREC—then called the Accounting Standards Executive Committee—from 2005-2008. In 2009, Neuhausen received the AICPA Special Recognition Award for his contributions to accounting standard setting.

## CONSULTATION AND COLLABORATION

In addition to our ongoing learning programs, we maintain robust technical consultation resources and firm policies within our BDO Audit Manual with respect to formal and informal consultations that all professionals are expected to familiarize themselves with and adhere to. We use an automated Assurance Consultation Log to track matters that require formal consultations with National Assurance or other designated technical subject matter specialists. Such matters include auditing, accounting, reporting and independence related matters that are unusual or sensitive in nature; complex; subject to differing interpretations or provide a choice among acceptable alternatives; or that may involve significant uncertainties, judgment or accounting estimates.

2018	Responses based on a 4.0 scale	2017
3.75	I have confidence that the consultation process achieved a well-considered and technically sound outcome.	3.5
3.75	Based on your experience of the consultation process, how likely are you to recommend this process to a colleague?	3.25
3.5	The consultation improved my personal knowledge and understanding of the issue.	3.25
3.5	The consultation improved my personal knowledge of how the judgments were reached.	3.25

*“Through several policy enhancements, we have fostered a stronger connection between our engagement teams and national office resources. This has led to a **30% increase** in formal consultations in fiscal year 2019, reflecting our focus on quality.”*







**ADAM BROWN**  
National Assurance Managing Partner, Accounting



## Internal Collaboration

The growth within our National Assurance department and the extended Audit Quality Network has been unprecedented over the past four years. Maximizing our growth requires concerted efforts to share knowledge and experience to both our professionals and our clients. As such, we have built out several forums that allow our National Assurance professionals to update and seek solutions to practice issues from peers within the department. These take the form of weekly “water cooler” and monthly inter-departmental meetings; bi-weekly technical calls; quarterly conference calls and semi-annual in-person leadership retreats.

In addition to our Assurance technical resources is our growing network of tax and advisory subject matter specialists and extensive independent Alliance firm network, operating in over 650 locations in the U.S. Further complementing our U.S.-based professionals is our vast network of BDO International member firms in 162 countries in close to 1,600 offices worldwide.

2018 STATISTICS	BDO USA, LLP	BDO Alliance, USA	BDO Global Network
 OFFICE LOCATIONS	60+ (U.S.)	650+ (U.S.)	1,591 in 162 countries
 TOTAL PERSONNEL	6,592	14,977	80,087
 PARTNERS/ OWNERS	576	2,047	6,384
 REVENUE	\$1.47b	\$2.29b	\$8.99b

U.S. and International financial statistics for the years ended 6/30/2018 and 9/30/2018, respectively

## External Collaboration

Externally, we have created custom opportunities for our National Assurance professionals to provide in-person education alongside engagement team leadership directly to client audit committees and financial management teams. In addition to these customized events, we actively host mid-year and year-end technical updates for our clients' accounting and tax professionals. We are also expanding our in-person board of director programming on a variety of regulatory and corporate governance matters.

*“As a board director, I found BDO’s approach of bringing in their national office to complement the engagement team via interactive education with our audit committee and management team as timely and instructive in helping us identify additional resources to further our insight and knowledge. We look forward to working with BDO to further engage our full board.”*

**HOWARD HAUG**

Audit Committee Chair, Otelco, Inc.

*“Sergey Starysh [National Assurance Partner] gave two presentations about SOX 404 and ICFR to Blue Bird. Our team was fully engaged in the presentations, primarily because of the way that Sergey managed the discussion and encouraged participation. The Blue Bird team really appreciated Sergey’s professionalism and insights and we are hoping that we can continue to have access to him in the future.”*

**PHIL TIGHE**

CFO, Blue Bird Corporation

## AUDIT QUALITY NETWORK

Our quality control processes and procedures have a singular goal: provide our clients and professionals with confidence and resources to address risk and improve outcomes. We believe quality control requires continuous focus and improvement.

While BDO engagement teams are communicating with clients throughout the audit process, there is also an engaged network of internal touchpoints and connections related to audit quality.

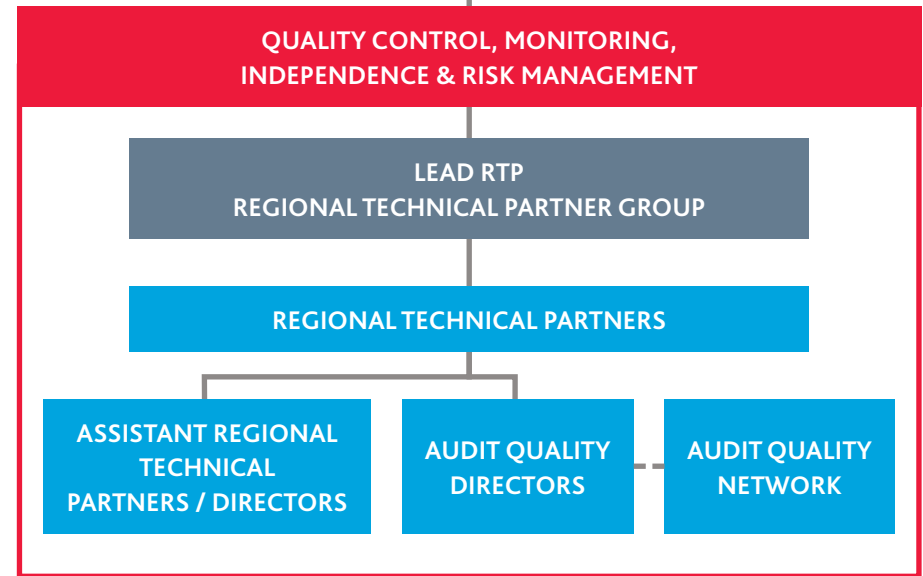
**Our Audit Quality Network (AQN) of 330 professionals works alongside our National Assurance practice and with our 35 local and regional Audit Quality Directors to clearly and efficiently share best practices, address questions and cascade new approaches across our client engagements.**

The AQN is overseen by our Regional Technical Partners and Directors to ensure consistency in messaging across geographies. Additionally, the AQN is provided additional continual education through weekly topical discussion calls led by National Assurance. We've invested to continue to expand our team of Audit Quality Directors in order to bolster their support of data analytics, audit methodology, consultations and technology-enablement.

National Assurance provided over **200,000 annual hours** in activities to enhance audit quality in 2018.



**CHRISTOPHER TOWER**  
Audit Quality and Professional Practice



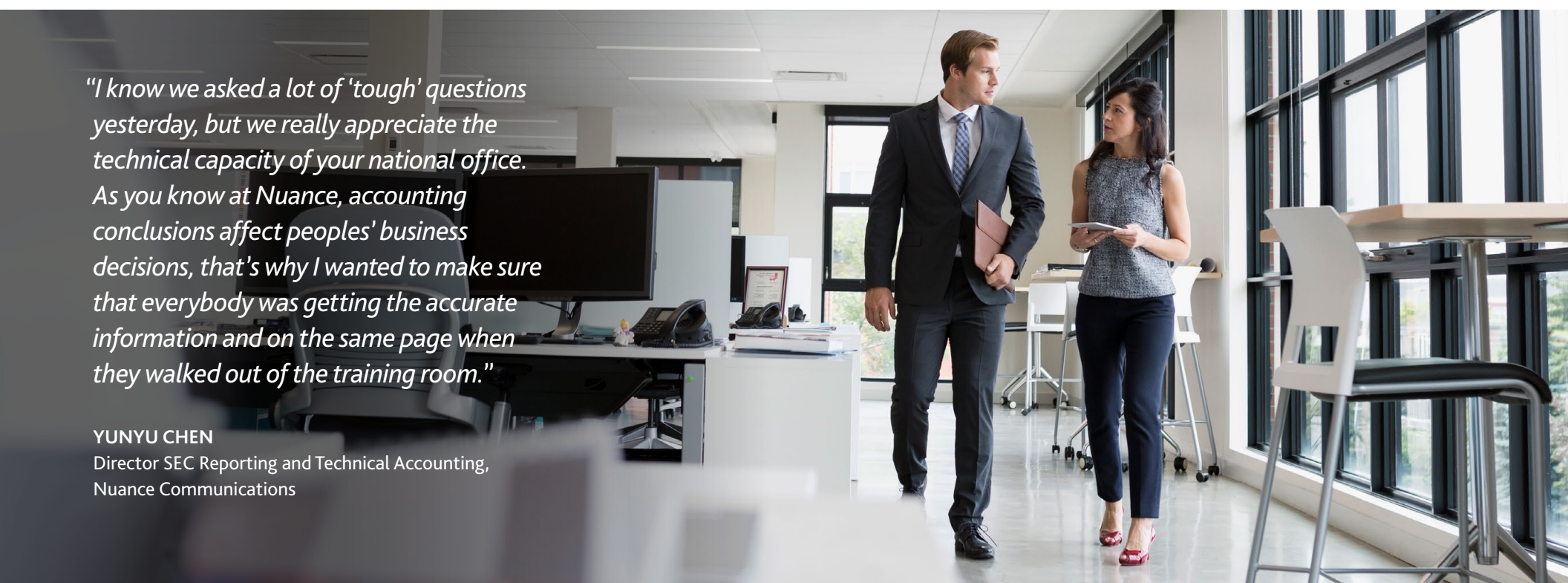


## COMMUNICATING AUDIT RESULTS

Annually, we participate in **several thousand** audit committee meetings, with both public companies and companies operating similarly to public companies, covering planning, quarterly reporting and year-end financial report issuances. Additional touch points include countless executive sessions, transactional discussions and informal queries with audit committee chairs and committee members throughout the year.

Audit committees play a critical role in enhancing confidence in markets through their oversight of risk management, financial reporting, compliance and, of course, the audit process. Our commitment to our clients includes providing clear communications on scope and progress of the audit, as well as sharing any risks or concerns over controls identified. We expect to answer questions—related to our methodology, to our approach to audit innovation and independence policies—and we respect our clients' own scrutiny and judgment of our work.

We further welcome and encourage robust communication around the quality of our clients' management teams and the quality of their financial reporting and disclosures. To aid in the communications process, we continually enhance our **Required Communication Templates**, used by our professionals in discussions with those charged with corporate governance. The templates provide key insights around risk assessment and judgment applied in the audit, serving as a springboard for our periodic discussions with audit committees and management and ensuring compliance with professional standards and regulations. These templates are further infused with value-added considerations and educational opportunities on evolving matters of governance and disclosures that impact the audit committee and the board more broadly, furthering important channels of communication and deepening our audit relationships.



*"I know we asked a lot of 'tough' questions yesterday, but we really appreciate the technical capacity of your national office. As you know at Nuance, accounting conclusions affect peoples' business decisions, that's why I wanted to make sure that everybody was getting the accurate information and on the same page when they walked out of the training room."*

YUNYU CHEN

Director SEC Reporting and Technical Accounting,  
Nuance Communications

## INSIGHT-FIRST INNOVATION:

### Critical Audit Matters Disclosures

BDO is a member of a six firm CAQ Task Force focused on the PCAOB auditing standard (AS 3101) that expands the auditor's report and requires auditors to identify and disclose critical audit matters (CAM). Through our seat at the table, we've provided extensive input and questions to the regulators and stakeholders. As a result of this engagement with firms preparing to implement the new standard, the PCAOB released a series of additional implementation guidance.

In anticipation of CAM disclosures within the auditor's report, which are effective for large accelerated filers this year, we developed a template for CAM reporting based on our professional judgment framework, designed to ensure best practices are shared across engagement teams and with our clients. This includes debriefs on the results of CAM "Dry Runs" conducted with audit committees and management teams through 2018 and 2019. Additionally, we continue to raise awareness of additional CAM tools and resources being put forth by the [PCAOB](#) and [CAQ](#).

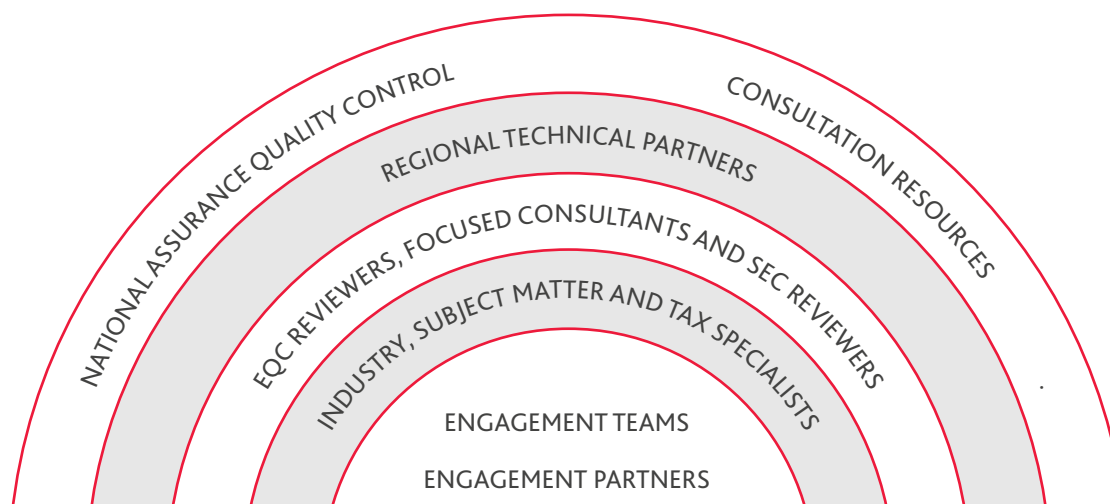
## INTERNAL SUPERVISION AND REVIEW

Outcomes are improved when the supervision and review process includes thorough and objective challenge to the work that has been performed.

We deploy consistent supervision and review as a part of our audit process that includes input from engagement partners, National Assurance technical and audit quality leaders, Regional Technical Partners and EQCRs.

2018	Client-Facing Staffing Leverage Ratios:	2017
1 : 7.6	Partner to Staff	1 : 7.6
1 : 1.8	Partner to Manager	1 : 1.7
1 : 2.8	Manager to Staff	1 : 3.2

## LAYERS OF ASSURANCE SUPERVISION & REVIEW







## MANAGING RISK THROUGH MILESTONES & COACHING








Over the last several years, we have expanded our engagement milestone program for completion of significant audit work to intentionally stretch the audit timeline throughout the year and allow the right work to be performed at the right time.

The milestone program helps our engagement teams avoid compressed work timelines and allows for earlier risk identification through enhanced monitoring and data gathering to identify outliers or areas that require significant judgment. By identifying and applying appropriate resources to address needs earlier in the process, we ensure engagements are being managed effectively and we minimize stress that can detract from audit quality.

We also deploy leaders from our **National Assurance Audit Quality Team** to provide real-time **Focused Coaching** to engagement teams, including consulting on areas of risk assessment, process and judgment. The goal of this independent check-in is to give our professionals the time and resources to be thoughtful about issues that arise, as they arise. We believe this approach is highly indicative of quality.

# Monitoring Audit Quality

## AUDIT QUALITY INDICATORS IN THIS SECTION

-  Increasing focus on firm system of quality controls
-  Performing focused internal inspections
-  Achieving compliance with Quality Assurance Reviews
-  Receiving positive AICPA Peer Review results
-  Factoring in PCAOB inspection findings
-  Outlining 2018/2019 priorities for all audits
-  Continuing to conduct causal analysis







Quality engagements are achieved through planning, performing and reporting in accordance with professional standards and applicable legal and regulatory requirements.

Achieving the objectives of those standards and complying with the requirements of applicable law and regulation involves applying professional judgment and exercising professional skepticism. The purpose of a system of quality control is to support the consistent performance of quality engagements, by providing assurance that the firm's professionals comply with both evolving professional standards and the firm's quality standards.

A system of quality control is dynamic and iterative and its components highly integrated. It encompasses all of the elements we have described in our report, including:



In evaluating the relevance and adequacy of this system, our National Assurance Department along with our **Assurance Committee** considers changes in: professional standards; legal and other regulatory requirements; changes within the industry – our own and our clients'; mergers, acquisitions and divestitures affecting our practice; and inspections – internal and external.

Even the best designed systems of control require continuous monitoring that synthesizes a broad variety of data, inputs and judgment to allow for continual improvement.

## INSPECTION INSIGHTS

We view internal and external inspections as an opportunity to gain meaningful insight to inform timely improvements and reinforcement of our audit guidance, tools, policies and procedures and enhance our overall system of quality control.

### Firm-Led Inspections

Our internal audit quality control inspection process is conducted by a dedicated and trained team of partners, directors and senior managers, selected for their deep technical knowledge and industry experience and led by our National Partner of Inspections. Quality control inspections are performed for certain partners, directors and functional areas, and this annual process consists of two types of inspection activities:

#### ENGAGEMENT REVIEW

A review of the working papers for the purpose of determining whether the engagement has been performed in accordance with applicable professional standards and firm policies. The inspection program is bifurcated between issuer and non-issuer engagements and the programs have been designed to address the specific risks associated with these two types of engagements. All Assurance partners have the potential to be subject to inspection each year and will generally be inspected at least once within a three year period. Determination of the partners selected for review is a risk-based process in which consideration is given to the date of last inspection, recent inspection results (internal and external) and other audit quality risk factors (e.g., workload, restatements, technical rating). Engagement characteristics and profile are also considered in scoping decisions.

#### FUNCTIONAL AREA REVIEW

A review of certain key Assurance practice areas that pertain to or can influence audit quality including ethical requirements, human resources, acceptance and continuance of clients and other matters. Testing of functional areas is performed for approximately one-third of the practice offices each year on a rotating basis. In addition, focus group sessions are conducted to gain insight on the office's attitude and emphasis on audit quality, tone at the top, as well as to the understanding of the firm's policies and procedures.

During 2018, we inspected



**49%** of  
our partners



across **all six** regions



representing  
**152 engagements** –  
**24** issuer clients, **107**  
non-issuer clients  
and **21** employee  
benefit plan audits –

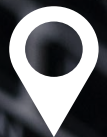


covering **78%** of our  
practice offices.

This represented  
approximately **5%** of  
all Assurance hours for the  
period ended March 31, 2018.



Reviews of functional  
areas were conducted  
in **15** offices,  
representing all six regions.





## QUALITY ASSURANCE REVIEWS

As a member of BDO International, BDO USA also undergoes **Quality Assurance Reviews** (QARs) performed by a BDO International member firm inspection team to provide assurance that BDO member firms adhere to, and comply with, applicable professional standards, as well as BDO International's standards. Our latest report reflects an acceptable level of performance in all functional areas.

Our QARs also include reviews of our BDO International member firm audit engagements where the related financial statements are filed with the SEC. Such reviews are performed by professionals knowledgeable in accounting, auditing and independence standards generally accepted in the U.S., independence requirements of the SEC and PCAOB, and SEC rules and regulations in areas where such rules and regulations are pertinent.

## External Inspections

### AICPA PEER REVIEW

As a member of the AICPA, we participate in a triennial external peer review of our accounting and auditing practice.

**In 2018, 68 audits were examined by a peer firm that concluded the system of quality for our firm's practice was suitably designed, and our firm had complied with our own quality guidelines.**

The peer reviewer also concluded the system provided our firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The peer review report and the related AICPA Acceptance Letter can be found [here](#).

### PCAOB

As a firm that conducts more than 100 issuer audit engagements, we are subject to annual inspection by the PCAOB. The current year's inspection (2019) is currently ongoing and expected to conclude in September of 2019. The results of our PCAOB inspections over the past four years reflect ongoing improvement in the outcome of the firm's activities. The results, consistent with our internal inspection and peer review outcomes, confirm that our ongoing actions to improve audit quality are accretive.



Within the Public Portion of the PCAOB reports, the PCAOB describes findings that relate to specific audit engagements. In addressing these findings, a firm takes appropriate remedial actions, including possible additional documentation or audit procedures. Key activities arising from recent inspection activities reports align with findings across the profession.

We consider the PCAOB inspection process to be a valuable input to our firm's overall approach to enhancing audit quality. We therefore take the inspection comments with the utmost seriousness, giving them prompt consideration. We have made, and continue to make, significant enhancements to our audit quality process, including investments in appropriate resources, tools, training and communication, as well as in the design of specific action plans and monitoring of such plans. We are confident that these improvements are addressing matters raised as a consequence of the PCAOB inspection activities.

PCAOB inspection reports consist of two parts:

PART 1: PUBLIC PORTION

This section reports findings relating to specific audit engagements in which audit deficiencies may affect a firm's ability to support its audit opinion. In addressing these findings, a firm takes appropriate corrective actions, including possible additional documentation or audit procedures (known as engagement remediation), and/or in rare cases revises its report. Our most recent inspection report and our response can be found [here](#). This covers the 2017 inspection of 2016 audits. The nature of the findings is consistent with those of the profession.

 Financial Statement Areas	<ul style="list-style-type: none"><li>▶ Revenue, including allowances related to accounts receivable, deferred revenue, and revenue related warranties</li><li>▶ Loans, including the allowance for loan losses</li><li>▶ Income Taxes</li><li>▶ Goodwill / Business combinations</li><li>▶ Inventory and related reserves</li><li>▶ Journal entries</li></ul>
 ICFR	<ul style="list-style-type: none"><li>▶ Identifying and testing effectiveness of certain controls</li><li>▶ Testing management review controls</li><li>▶ Identifying and testing controls over the accuracy and completeness of data and reports</li></ul>

Our 2018 PCAOB report, which relates to our 2017 audits, is expected to be publicly available in the third quarter of 2019.

PART II: NON-PUBLIC PORTION

This portion of the report includes the PCAOB's observations relating to a firm's audit performance and quality controls where improvements are recommended. In evaluating a firm's quality controls, the PCAOB assesses the following areas as part of that inspection:

- ▶ Management structure and processes, including tone at the top
- ▶ Practices for partner management, including allocation of partner resources and partner evaluation, compensation, admission and disciplinary actions
- ▶ Policies and procedures for considering and addressing the risks involved in accepting and retaining clients
- ▶ Processes related to the firm's use of audit work that the firm's foreign affiliates perform on the foreign operations of the firm's U.S. issuer audit clients
- ▶ The firm's processes for monitoring audit performance, including processes for identifying and assessing indicators of deficiencies in audit performance, independence policies and procedures and processes for responding to weaknesses in quality control

Our most recent completed remediation activities that the PCAOB have assessed relate to the 2015 inspection of 2014 audits. The PCAOB has accepted our remediation activities for this year and the previous two years.

We diligently review, consider and act on all inspection comments as well as listen and engage in proactive dialogue with the PCAOB in our regularly scheduled discussions with them occurring throughout the year outside of the inspection process. These are factored into both normal audit quality considerations as well as remediation activities that guide our design of appropriate actions to take and hold ourselves accountable to.



## PCAOB Strategic Planning & Communication

At the end of 2018, the PCAOB announced a new five-year strategic plan. The [PCAOB notes](#): “We are committed to overseeing audit firms more effectively, anticipating and responding to innovation, improving our external engagement, and optimizing our processes and culture.”

In their plan and in our regular discussions with the PCAOB Board and staff, the PCAOB has signaled enhanced focus on the systems of quality control within firms that include year-round review. Our firm has embarked on a process to further evaluate our current systems to inform recommendations and improvements. Additionally, this includes contemplation of measures already being undertaken as part of inspection remediation and monitoring activities and aligns with PCAOB stated focus and professional standards.

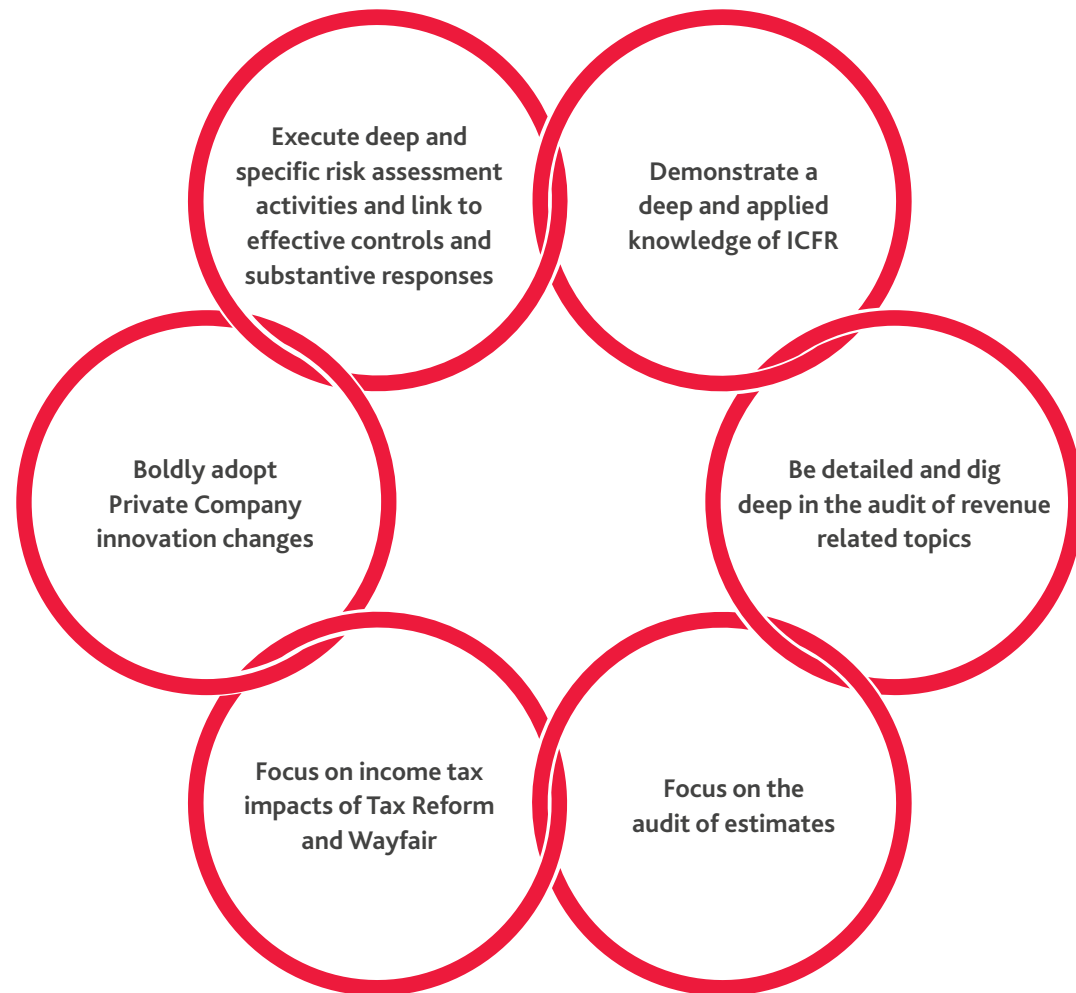
We believe that open communications and seeking alignment with our regulators' areas of focus is a measure of our commitment to continuous improvement and quality. Through Christopher Tower's role on the Strategic Advisory Group for the PCAOB, and other industry appointments, the firm has made a conscious effort to increase interactions with regulators to add more real-time connections on issues that need to be resolved, particularly those related to client matters.

This meaningful enhancement of approach means that issues are resolved and matters that relate to quality are more efficiently and effectively shared throughout our organization, and with our clients.

## MONITORING & REMEDIATION

Following the review of our internal and external inspection findings, our National Assurance leadership team outlines priorities for specific areas of improvements and works with professionals across specialties to design or update curriculum, processes and systems to execute and measure improvements.

Our 2018/2019 priorities for all audits include:



## FOCUS ON BEHAVIORS TO DRIVE AUDIT QUALITY

The priorities that we outlined in last year's [report](#) have been effective at driving improvement, and we continue to conduct causal analyses to identify **positive behaviors** to continually reinforce and address areas for renewed emphasis and continued vigilance:



Appropriate level of audit knowledge and experience



Appropriate level of supervision and review in alignment with perceived risk



Appropriate exercise of professional skepticism and application of professional judgment framework



Obtaining good understanding of processes, including identifying what could go wrong and related controls



Appropriate partner mindset



Sufficient time allocation for project management and appropriate work sequencing and timing



Reliance on use of firm guidance and applicable professional standards



Performance of robust risk assessment and understanding of significant risk of material misstatements and flow of transactions



Appropriate re-evaluation/challenge of certain legacy assumptions and conclusions.



Thorough completion of firm templates and application of required practice aids & tools



Evidence appropriate review controls and control design



Appropriate focus on workload management



Adequate integration and review/supervision of information system and tax professionals



Emerging areas of risk – e.g., revenue recognition, going concern, taxation and tax reform, *Wayfair*, etc.



# Sustaining Excellence

## AUDIT QUALITY INDICATORS IN THIS SECTION



Seeking best-in-class, sustainable audit quality





Our commitment to our clients, our profession and the stakeholders of the financial markets means that we will stop at nothing short of exceptional.

As an organization that seeks best-in-class, sustainable audit quality, we strive to be in the position where:



**We are the market leader in audit quality.** Private and public clients experience an audit that is focused on the most impactful aspects of the financial statements, receive insights and value beyond the audit opinion and find our audit professionals to be consummate professionals in delivering the audit in a less intrusive and more insightful manner.



**Auditors thrive and grow as professionals in our firm.** Our recruitment and retention of people reflects an attraction of the brightest and best people who either commit to a career at BDO or move to other careers with great pride for the audit business.



**We aspire to set the example that regulators and others refer to when describing how an audit firm demonstrates sustained execution of audit quality.** BDO is acknowledged for our tone of leadership, our commitment to audit excellence and our ongoing improvement of the audit product and audit quality.



**We are sought out by public and private audit clients, bankers/ lenders, private equity firms, and other investors as the audit firm of choice.** Market participants recognize BDO as a provider of high quality audits and put their trust in our ability to respond to and serve their needs.





People who know, know BDO.<sup>SM</sup>

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, and advisory services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 60 offices and over 650 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of more than 80,000 people working out of nearly 1,600 offices across 162 countries and territories.

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