



EXCERPTS OF RECENT MEDIA COVERAGE

ASSURANCE PRACTICE

A SAMPLING OF BDO THOUGHT LEADERSHIP IN THE MEDIA FOR Q2 2014

► WALL STREET JOURNAL MORE COMPANIES BOW TO INVESTORS WITH A SOCIAL CAUSE

April 1, 2014

Shareholders are driving changes in corporate policies and disclosures unthinkable a decade ago, on issues ranging from protecting rain forests to human rights. Even the threat of a proxy vote can be enough to bring company executives to the negotiating table.

So far this year, environmental and social issues have accounted for 56% of shareholder proposals, representing a majority for the first time...

Among the reasons for this year's surge in social and environmental proposals is the strong stock market, which has left shareholders little room for complaints about performance.



"You're not seeing the same sort of push-back on executive compensation this year," said **Wendy Hambleton**, national director of the Securities

and Exchange Commission practice at accounting firm BDO USA LLP.

The shareholders who push for these proposals aren't agitating for higher returns like activists Dan Loeb and Carl Icahn, but rather are long-term investors at pension funds, unions and coalitions of socially conscious shareholders.

For example, the American Federation of State, County and Municipal Employees, a labor union for public employees, has been pressuring dozens of companies to disclose their lobbying activity this year. Ceres, a nonprofit group that advocates sustainable business practices, is helping investors at many companies write environmental resolutions.

As investors win battles at some companies, they hope peer pressure will convince others to follow suit....

Shareholder proposals on these issues are expected to gather steam as more companies agree to disclosures. Boston-based Walden Asset Management has submitted several political-spending disclosure proposals to companies this year on behalf of clients.

"We're getting to the point where companies are not just listening to a squeaky shareholder, but doing this because they believe it is a good thing to do for the company," said Timothy Smith, a director at Walden.



BDO USA ASSURANCE PRACTICE

BDO USA's Assurance Practice delivers comprehensive, independent, efficient, and effective audits of financial statements, including those that are integrated with an audit of internal controls. We also provide quality assurance services to help ensure that our clients' financial statements meet the complex regulatory and business requirements under which they function.

At the core of our service philosophy is a commitment to proactively communicate with our clients and their audit committee, or others charged with corporate governance, about issues and information that impact their company and industry.

For non-audit clients, we provide a broad range of advisory services including assistance with internal audit, risk advisory, internal control design and testing, and other accounting services.

► **ACCOUNTING TODAY**

BDO LEADS Q1 IN NEW SEC CLIENTS

April 18, 2014

With 11 overall new Securities and Exchange Commission clients and a net gain of eight, Top 10 Firm **BDO USA** led the nation's large firms in the first quarter of 2014.

Among its new clients were flower distributor 1-800-Flowers, cloud services and digital media company j2 Global, and food and animal safety products developer Neogen Corp. It brought in almost \$5 billion in new market cap audited, with big boosts from j2, with a market cap of \$2.3 billion, and Neogen, with \$1.3 billion. It also added over \$7.6 million in new audit fees.

Big Four firm KPMG and Marcum followed up with net gains of five clients each for the period ...



► **WALL STREET JOURNAL**

SMALLER AUDITORS ADD MARKET SHARE

June 3, 2014

It isn't just the Big Four any more. Auditors like Grant Thornton LLP and **BDO USA LLP** are gaining ground.

More companies with market values of \$700 million or more are turning to smaller auditors, according to data from Audit Analytics.

While four firms—Ernst & Young, PricewaterhouseCoopers LLP, Deloitte & Touche LLP, and KPMG LLP—audit 92.3% of those companies, they have lost 2.4 percentage points of market share since 2008....

The trend may show that smaller companies stay loyal to their auditors even as they grow. In addition, certain auditors may have focused their marketing efforts on small-but-growing companies....

► **COMPLIANCE WEEK**

CONTROL FREAK: AUDIT FIRMS PLACING MORE SCRUTINY ON CONTROLS

June 10, 2014

This summer many public companies will be spending an exorbitant amount of time examining their control documentation as audit regulators—and hence audit firms—focus not just on the detection of controls, but also whether they are operating effectively.

The Public Company Accounting Oversight Board is shining new light on internal controls and whether auditors have adequately audited management's assertions on the effectiveness of controls....

The focus on effectiveness represents yet another step in the long road to showing investors that a company uses a good set of internal controls to provide as much accuracy as possible in financial statements. First Sarbanes-Oxley led to Auditing Standard No. 2 and a frenzied approach to

document controls, followed by Auditing Standard No. 5 to focus attention on the risk of mis-statement.

PCAOB inspections showed initial compliance with AS5 represented too lax an approach to controls, with inspectors noting too many instances where controls were overlooked. Now firms are catching more controls, but not gathering sufficient evidence to show that they operate effectively to mitigate risks of mis-statement, said PCAOB member Jay Hanson at a recent conference.

Showing effectiveness of controls is easier in straightforward areas, like the movement of inventory, where numbers are not



driven by judgments or estimates, says **Sue Lister, national director of auditing for BDO USA**. With so much accounting now relying on judgments, however, controls and

their effectiveness are more difficult to document, she says.

"There's not nearly as much black and white," **Lister** says. "Did the person who prepared the documentation have enough knowledge? What data did they use? How did they come up with the estimate? This is much harder to establish and prove. You almost have to get inside their heads. So many more of a company's controls used to be fairly mechanical processes, and they were fairly easy to observe and audit. Now it's not nearly as observable and auditable."

Lister is asking companies to produce more documentation to show more precisely how controls work. "They know in their heads what they do when they review something, but they may not have written in the control description exactly what's involved," she says....

Lister says the increased focus on difficult-to-audit judgments requires the firms to place more senior level auditors on tasks that otherwise would be performed by junior-level auditors. "If you are going to sit in a meeting so you can evaluate the quality of judgments, you have to have senior-level time, and that does get expensive," she says...

Lister is not as convinced that adopting the new framework will address the specific concerns around showing effectiveness of controls. "You will see more specificity in the entry-level controls, but I don't see that having a direct impact on whether you got the fair value of intangibles correct," she says. I don't think it will affect the account level, which is what the PCAOB is looking at."

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