APPROACH TO AUDIT QUALITY
CEO Perspective
Audit quality and the culture connection

Over the past four years, BDO USA has experienced a period of phenomenal growth. In this short time, we have doubled in size, exceeding $1.29 billion in annual revenue, and gained more Securities and Exchange Commission (SEC) clients than any other public accounting firm. As part of this expansion strategy, we have added more than 2,400 partners and professionals. Yet, throughout this time, we’ve been careful to remember who we are and why we are here.

Our firm’s core purpose is helping people thrive every day, acting in the public interest. We believe that when we help our people, our clients, and our communities to thrive, each of us individually — and BDO collectively — will succeed. Our commitment to this central purpose is evident in our culture, our values and our relationships, as well as in how we conduct our audit engagements.

Public accounting firms serve a unique and valuable role in enhancing the integrity of the financial reporting systems that underpins the smooth functioning of the capital markets. Central to this role is a committed focus on audit quality. Audit quality is not measured at a specific point in time, nor is it the result of narrowly scoped initiatives. Rather, it is best demonstrated by a framework that encapsulates how we as a firm align attention to audit quality with the environments in which we conduct our audit engagements. In environments characterized by mounting complexity, audit quality requires a holistic perspective that encompasses the firm’s culture as a key driver.

BDO’s approach to audit quality is rooted in the five pillars of our strategy that we refer to as CLIMB: Culture and unity, Leadership and accountability, Innovation, Market prominence and Best in class. These pillars, and our foundational values and purpose, direct the way we maintain and uphold audit quality—from shaping our tone, infrastructure, and actions to how we evaluate our success.

In this report, we invite you to get to know BDO, as we share the insights that reflect our firm’s core values, people, and framework for embedding quality in all that we do. As we look toward the future of our firm and the evolving audit profession, we are confident that our commitment to our purpose and creating an environment where people thrive on excellence and doing the right things, are the keys to continuing to deliver quality audits to our clients.

Wayne Berson
Chief Executive Officer of BDO USA, LLP
Chairman of the Global Board of BDO International Ltd.
BDO Audit Quality Framework

BDO’s approach to audit quality is captured in a contextual framework that is influenced by external factors including:

- the business and regulatory environment in which we and our clients operate
- accounting and reporting complexities
- oversight of those charged with governance
- expectations of investors and other stakeholders
- market competition
- innovation and sustainability needs that support capital markets

How our firm readies and positions our professionals to respond appropriately, timely, and in a high-quality manner to these external influences depends on internal factors embodied in our CLIMB strategy.

The following sections highlight how we are executing on each component of our CLIMB strategy within the framework of audit quality.
Our people are the most important single factor in our ability to provide quality professional services. When talented people come together, united by a common culture and purpose, and supported by core values that reward excellence, the result is a high potential for success. In 2014, we named our first Chief People Officer (CPO) to emphasize the importance of our people, bring about cultural integration across all aspects of the firm, and foster an environment where all BDO partners and employees can thrive. Such activity begins with a focus on:

- Recruiting and onboarding
- Developing our professionals
- Assigning personnel to engagements
- Evaluating performance
- Retaining and cultivating our next generation of leaders

Recruiting and Onboarding

We are growing our audit practice at all levels, adding professionals with vast industry, international, and specialty service capabilities.

Our onboarding activities are designed to integrate new employees into the fabric and culture of our firm, underscore expectations about living our core values, and introduce our methodologies and practices. Enhanced communications, direct access to people and information, and emphasis on relationships and personal connections are also important aspects of our onboarding process. We continually adapt new ideas and best practices, gained from our recent expansion experience, into our onboarding approach.

Developing Our Professionals

Continuous Learning Model and BDO University

We demonstrate our commitment to our professionals’ growth through our Continuous Learning Model—our framework for learning and development. This model encapsulates a level/role-based curriculum that offers both technical and leadership skills training for professionals throughout their careers. Delivered through BDO University (“BDOU”), our training includes formal sessions at national, regional, and local office locations, complemented by self-paced, on-demand learning, social learning (e.g., on-the-job training), guidance on policies and procedures, and access to specialized technical knowledge (see Figure 1).

Within the audit practice, the National Audit & Accounting (A&A) Learning Team continually monitors critical accounting, auditing, and financial reporting topics to determine what needs to be incorporated into our content. Our National A&A Learning online portal provides professionals direct access to the firm’s technical training expectations, as well as to self-directed courses and content.

The National A&A Learning Team regularly reviews our curriculum to align with professional competencies and developments. We continue to invest in and enhance our training offerings with blended learning techniques, practical case studies and scenario-based learning modules that require staff to consider and address issues by applying professional skepticism, judgment, and objectivity. We also participate in the American Institute of Certified Public Accountants (AICPA) Educational Management Exchange (EDMAX), a forum for sharing education ideas and innovations with our peers and integrating new concepts or approaches into our Continuous Learning Model.

Learning and CPE Requirements

We monitor compliance with regulatory and firm continuing professional education (CPE) requirements. At a minimum, the firm requires each professional to:

- Participate in qualifying CPE programs that result in at least 120 hours every three years, but not less than 20 hours in each of the three years
- Comply with mandatory CPE for regulatory and state licensing requirements
- Comply with mandatory training as determined by our National A&A leaders

All professionals are responsible for keeping up to date with the knowledge and skills they need to carry out their assigned roles beyond these minimum requirements. We
provide a growing library of mandatory, highly recommended, and suggested training modules covering auditing and accounting, industry-specific issues, and leadership and professional skills, along with other emerging areas that reflect the evolving nature of our clients’ business environments. This gives professionals the flexibility to customize learning plans to fit their needs and level of development.

Assigning Personnel to Audit Engagements

As of the end of 2016, our audit practice constituted approximately 51% of the firm’s total professional staff of over 5,000 employees.

We staff our audit engagements to achieve the proper blend of technical skills, supervision, staff utilization, and on-the-job learning. For each engagement we consider:

- Required knowledge of the client’s business and industry
- Nature of the work to be performed, including engagement size and complexity
- Nature and extent of supervision needed
- Workload constraints
- Staff development

Because teams have on-line accessibility to working papers via our Audit Process Tool (APT) and our Global Audit Methodology, we can be less office-centric and deploy our professionals to engagements based on appropriate skill sets versus solely on geographic location.

Audit engagement partner designations and changes are approved by local and regional leadership, as well as by national office professionals. This helps ensure that we assign an individual with the right abilities and availability needed to capably perform the role. Our audit partner-to-staff ratio is approximately one to nine, which reflects the relatively high level of partner involvement in client engagements.

Evaluating Performance

All professionals receive formal performance evaluations, engagement-specific reviews, and counseling with career advisors and mentors in order to evaluate their level of competence, monitor their development, and assist them in reaching their full potential.

Employees set performance goals annually with their career advisors and supervisors. We evaluate all client service professionals on a range of factors, including demonstrated technical excellence, professional skepticism, embodiment of core values, and support for firm strategies. Additionally, partners, directors, and managers participate in upward and lateral reviews in which direct reports and peers provide feedback on their engagement management and supervisory abilities.

Finally, as part of our continuing investment in our people, we are currently implementing a new Human Resources Information System (HRIS) that supports our refreshed professional competencies and performance management expectations.

Retaining and Cultivating Our Next Generation of Leaders

Success and adaptability depend not only on recruiting and developing the most talented professionals, but also on creating an environment where they can thrive personally and professionally. We prepare professionals at all levels for leadership roles through our National Training Conferences, as well as through such multi-module programs as the BDO Leadership Institute for senior managers and directors, the New Partner Workshop, and the Positive Leadership Approach for regional and office managing partners.

Additionally, BDO has a long history of programs and strategies to promote flexibility and predictability, inclusion, corporate responsibility and sustainability, and community outreach. These, combined with emphasis on leadership and professional skills training underscores the value our firm places on retaining high performers to be our leaders of tomorrow.
Leadership and Accountability
Drivers of audit quality

BDO is committed to exceptional client service consistent with the public interest. This demands a mindset and actions centered on personal and professional accountability, objectivity, and applied skepticism. Ensuring our professionals are led by those who promote this objective, embrace our culture, and embody our core values is critical to driving audit quality throughout our organization.

BDO is governed by a Board of Directors (the Board), who set the tone for our organization and demand the same emphasis on values and quality from professionals at all levels. These expectations are cascaded through the leadership for each of our business lines, our regions, our offices, and ultimately to our engagement teams.

Audit Practice Leadership and Oversight Structure
Our National Audit & Accounting (A&A) leadership oversees both public and private company audit engagements. The National A&A practice is led by the National Accounting & Assurance Professional Practice Leader (NAAPPL), who reports to the CEO.

National A&A has invested a great deal in the quality and depth of our resources, particularly in light of our rapid growth and the increasing scrutiny of the audit profession. Over the past several years, our national office practice has expanded to over 70 experienced professionals, half of whom are partners. To support our public company practice, we have added several experienced partners and directors, all formerly of the Public Company Accounting Oversight Board (PCAOB), to lead our Audit Quality Team and focus on the regulatory aspects of audit quality. This allows us to continue to identify best practices to apply to our public company engagements.

Our National A&A professionals are geographically dispersed within local practice offices. This not only gives local engagement teams direct access to national resources, but also creates a feedback loop for the national leadership team regarding audit quality practice issues that help inform coaching, communications, and education.

General National Office Responsibilities
The National A&A practice is responsible for:

- **Accounting and auditing guidance:** Developing accounting and auditing as well as industry-specific application guidance, maintaining the firm’s technical manuals, and communicating guidance to the firm’s professionals and information to our clients

- **Engagement performance:** Coordinating the professional performance of engagements by local offices and achieving in each of them standards that meet the firm’s professional objectives

- **Quality control:** Evaluating the firm’s quality control policies and procedures and monitoring their implementation

- **Technical advice:** Consulting with local office partners and other professionals seeking technical advice and guidance

- **Training:** Overseeing the firm’s accounting, auditing, and other professional training programs

- **Assurance policies:** Formulating policies regarding assurance matters

- **Thought leadership:** Participating in industry dialogues and expressing the firm’s position on proposals from accounting and auditing standards setters and regulators

Independence and Ethics as Cornerstones of Accountability
Audit quality calls for audit firms to be independent from their clients and to demonstrate integrity and objectivity when it comes to performing audits. Our firm culture demands that each professional be: (a) well-informed about independence requirements and applicable firm policies and procedures; and (b) sensitive to activities and relationships that might create other conflicts of interest that might impair independence in fact or appearance.

The firm’s policies and procedures, available to each employee electronically, summarize the rules of the SEC, PCAOB, AICPA, Department of Labor, and Government Accountability Office. They cover, among other things, prohibited investments in, and relationships with, audit clients, rotation of audit partners, fees, and the provision of non-audit services to audit clients.

Independence
The National Director of Independence, along with dedicated professionals, oversees the development and communications of the firm’s independence policies, procedures, and independence training and also monitors compliance.
Key features of the National Independence monitoring system include:

- A Restricted Entities Database, a continually updated listing of all entities with which firm personnel are prohibited from owning, having a financial interest, or having a business/personal relationship.
- Annual online independence confirmation that all professionals are required to complete.
- Annual testing of independence confirmations of selected partners and managers.
- Monitoring of compliance with partner rotation rules established by the SEC.
- Disciplinary structure to determine the appropriate sanction(s) for any professional who violates the independence rules and firm policies.
- Annual confirmation of U.S. Independence Rules and Regulations by international BDO member firms.
- Completion of independence questionnaires for all audit engagements.

Independence checks are an integral part of the engagement process both domestically and internationally. National Independence is consulted when independence issues are noted, and all client service professionals are subject to mandatory independence training.

Ethics and Code of Conduct

We recognize that we are retained by clients based on the strength of our reputation, knowledge, experience, integrity, and professionalism. We also recognize that we are charged with an important duty to the public and will not compromise our standards for any client or purpose. We will not tolerate conduct that is tainted by even the appearance of impropriety.

Both partners and staff are expected to adhere to all applicable provisions of the AICPA Code of Conduct and the requirements of the PCAOB and the state boards of accountancy. This understanding is captured in BDO’s Code of Ethics and Business Conduct (the Code). Compliance with the Code is a condition of employment and partnership in BDO, and failure to adhere to its provisions may result in disciplinary action, including termination.

Our Compliance & Ethics Office is responsible for ensuring the firm continues to uphold the highest ethical standards. This includes maintaining compliance with internal policies and external laws and regulations, reinforcing the firm’s core values, providing guidance on the application of ethical standards, and monitoring compliance with the Code. BDO’s Board has established a Compliance & Ethics Committee to oversee the efforts of the Compliance & Ethics Office. Compliance and ethics training programs are offered on an annual basis and compliance is monitored in accordance with firm policies.

Our Anonymous Ethics & Compliance Hotline (available both telephonically and online) enables personnel and those who conduct business with BDO to report a violation of the Code or non-compliance with any laws. The Hotline is staffed by an independent third party. All contacts to the Hotline are kept anonymous, if so desired, and the nature of the concern is routed to the firm’s Office of General Counsel and the Chief Compliance Officer for investigation.

To develop greater accountability for employees and partners to comply with firm policies and expectations, we established our Compliance Policy. This policy defines:

- Specific sanctions for noncompliance, including mandatory training.
- Partner performance management evaluations and goals.
- Adherence to professional licensing requirements.
- Required annual acknowledgements of compliance.

The Compliance & Ethics Office actively monitors compliance with the Code and other conduct policies and procedures. Since their inception in 2013, annual internal assessments of compliance with these conduct policies have concluded that the firm’s compliance program is operating effectively, and have increased professionals’ awareness of reporting options for potential non-compliance.

“We are proud of the pace at which our business is expanding. However, we would never have achieved such a level of success without the unwavering commitment by our leaders and our professionals and the ethical foundation that our policies and procedures provide.”

Steve Ferrara, BDO Chief Operating Officer
Our firm, both domestically and within BDO International Limited (“BDO International”), is committed to innovation and investment in tools, methodologies, policies, and national-level resources. We believe this focus is critical in order to adapt and scale our audits and to be responsive to the complex challenges of our clients.

**BDO Audit Methodology and Tools**

BDO’s audit policies and engagement procedures are designed to ensure that our audits meet all applicable professional standards and regulatory requirements, as well as our own quality control standards. Our Assurance Quality Control Manual describes the high standards established for our audit practice. Our audit methodology and related policies and procedures are more fully addressed in the BDO USA Audit Manual (“Audit Manual”). In 2016, we updated the Audit Manual to differentiate content applicable to audits conducted in accordance with U.S. generally accepted auditing standards (GAAS) for private-entity engagements from content applicable to audits conducted under the standards of the PCAOB for public-entity engagements.

To ensure consistency in our audit approach and engagement performance, we use the worldwide BDO Audit Methodology, and tailor the approach as appropriate for audits performed under U.S. GAAS and those performed in compliance with PCAOB auditing standards. In 2015, we migrated our firm’s related audit and accounting practice aids, forms, and other audit-specific content to a new, searchable, web-based platform known as the BDO Assurance Knowledge Base. In addition, the firm provides each employee with access to the Accounting Research Manager© tool for researching accounting, financial reporting, auditing, and SEC matters.

We firmly believe that using a consistent approach on every domestic and international engagement across all industries contributes to high-quality audits. In 2010, BDO International revised its global audit methodology, and developed a new audit software and documentation tool referred to as APT. APT is an essential part of our audit methodology. Our professionals use it to devise proper audit procedures and testing based upon applicable U.S. auditing standards, as well as to factor in engagement- and industry-specific facts and circumstances for all types and sizes of audit engagements. During the past few years, we have allocated significant time and resources to expanding our APT audit libraries to include additional industry-specific content, and to designing a version of the tool for smaller, less complex audit engagements. This helps our engagement teams focus on risk and audit execution, and has resulted in more informed choices regarding alternative audit strategies and the types of testing that are most appropriate to a client’s specific facts and circumstances.

---

1 BDO is the U.S. member firm of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.
As our firm grows, we continue to place significant emphasis on audit quality and audit quality indicators. Data analytics is critical to enhancing both our practice and our client service delivery, and we continually explore ways to access and leverage engagement-related data through APT to identify and assess risk criteria. Data analytics also offers our audit quality control teams a means of monitoring engagements in real time and assessing the overall level of quality of our audits.

**BDO Advantage** is our new data analytics audit tool. It combines collaborative technology with knowledge of our clients’ business to deliver in-depth information via graphics. This visualization aids in the exploration and understanding of large sets of data and make it easier to spot patterns and trends and identify anomalies on a timely basis. BDO Advantage improves engagement awareness, provides valuable insights, and helps improve audit quality.

---

**National A&A Practice Functional Areas**

Our National A&A practice provides traditional Accounting, Auditing, Employee Benefit Plans, Independence & Ethics, and National Training functional areas. Additionally, we have further aligned our national office resources in support of the increasing needs of our audit engagement teams (see Figure 2).

- **Accounting**
  - Responsible for periodically evaluating the relevance and adequacy of the firm’s quality control policies and procedures

- **Assurance Committee**

- **Assurance Quality Control**

- **Auditing**

- **Corporate Governance & Communications**

- **Employee Benefit Plans**

- **Entrepreneurial Services**

- **Global Offerings & Support Services**

- **Independence & Ethics**

- **National Training**

- **Regional Technical Directors (RTDs)**

- **SEC**

Ensure compliance with professional standards and firm policies

Technical and service matter assistance for smaller, entrepreneurial engagements, with a focus on audit support for newer expansion practices

Technical partners assigned to one of six U.S. regions to help maintain firm standards of technical competence

---
Audit quality has always been a top priority for BDO. To ensure compliance with professional standards and firm policies, we have established the Assurance Quality Compliance Department to complement our existing comprehensive and objective practice office inspection program.

Audit Quality Team
The public accounting profession is becoming increasingly regulated, and the complexity of transactions and accounting and auditing rules continues to grow. In response, we have established a national-level Audit Quality Team to oversee our public company practice. We have also introduced the regional Audit Quality Directors (AQDs) that serve at the direction of our Regional Technical Directors.

Finally, we have expanded and enhanced our local office Audit Quality Network (AQN) professionals to ensure significant technical matters are understood locally. These resources are charged with executing our Quality Matters Process. This process includes guidelines for the evaluation of engagement-level quality-related events, including identifying their root causes and designing actions to reduce the likelihood of a re-occurrence.

As part of this process, certain individuals, offices, or regions are held accountable for specific actions identified and designed to improve audit quality where necessary, and these actions are considered during the partner performance management process. Furthermore, engagement-level events are aggregated with other audit-execution or quality-control-related observations to gain a better understanding of developing trends or systemic events. This information is used to identify additional steps that will enhance a culture dedicated to audit quality.

The Audit Quality Team also provides coaching and other support to issuer engagement teams; designs and implements quality control initiatives, including assigning and monitoring effectiveness of corrective actions; develops, implements and responds to issues raised in internal and external inspection reports.

Audit Quality Directors and the Audit Quality Network
In 2015, we extended our national resources to include regional AQDs. The AQDs are individuals who demonstrate a high aptitude for technical auditing in addition to accounting skills. They are assigned to work under the supervision of the Regional Technical Directors (RTDs) to enhance audit quality at the regional and local-office levels. AQDs oversee audit policy implementation and provide support in a number of areas:

- Researching and resolving technical audit questions
- Internal and external inspection processes
- Preparing technical audit training
- Developing communications, tools, and templates

AQDs are further charged with helping to both set and maintain an overall tone within their regions with respect to audit quality.

The role of the AQD complements the existing local office AQN. The AQN consists of designated local office individuals at the senior staff, manager, and partner levels who serve as local points of contact regarding audit quality.

“Our Audit Quality Directors are our ‘first line of defense’ when it comes to delivering quality audits. Doubling down with our Audit Quality Network, we have provided the practice with timely and locally accessible resources on the nuts and bolts of auditing.”

Christopher Tower, BDO Managing Partner – West Region
Market Prominence

Growth and Depth of Experience

As part of our firm’s growth strategy, we actively seek to add firms and services that complement our current offerings and align with our culture. The candidate’s practice must be of both high quality and technical proficiency, as determined by appropriate partners and directors under the direction of the National Director of Assurance Quality Control and approved by the firm’s leadership and Board. Over the past several years, we have completed more than 10 expansions that have added to our geographic footprint within the U.S. and strengthened our skillsets in several industry areas, including healthcare, government contracting, financial services, and hospitality.

Growth of Our Public Company Practice

"As it has for the past three years, over the course of 2015 BDO USA led the large firm pack in new SEC audit clients..."  
—Accounting Today 3-8-2016

The growth of our firm has been fueled both organically (13.9% in FY2016) and through expansion-led activity (9% in FY2016). Our audit practice constitutes 50% of our revenues. In particular, over the past five years, our SEC public company audit practice has increased significantly. At the end of calendar year 2015, we were serving over 380 public companies, which represented approximately 35% of total audit revenues.

Throughout this period of expansion, we have strengthened our public company national resources using approaches such as secondments of highly technical senior managers and directors to our national SEC practice. These individuals participate in consultations on SEC reporting matters and perform pre-reviews of filings. While certain of these resources choose to remain within our national practice, others return to their local or international office practices, which enhances the capabilities of those practices. We have also increased training on internal control over financial reporting and other matters specific to public companies.

BDO has made it a priority to be very active in external professional task forces in order to remain abreast of developments in, and be an advocate for, the profession. In addition, we continue to respond to requests for comment from various regulatory bodies on proposed standard setting related to audit quality indicators and audit committee disclosures, along with other topics aimed at enhancing financial reporting and audit quality.

Enhancement of Our Business Lines

While BDO has historically had strong practices in advisory, tax, and consulting, over the past several years the firm has seen significant transformation in both the hiring of seasoned professionals and the vertical integration of services. Professionals from a broad variety of backgrounds both within and external to the auditing profession have joined our firm, providing audit engagement teams with a deeper pool of consultative resources.

There are numerous examples of how synergies among our multiple business lines provide additional value for our auditors and our clients, within the confines of independence rules. These include the establishment of a dedicated ASC 740 (income tax accounting) team and other specialty tax services dealing with domestic and international taxation issues; the alignment of advisory practices that provide a host of services across risk, transaction, and internal controls consulting; and the increase in professionals experienced in forensics, data analytics, and cyber security.

Industry Experience

We have aligned our national industry practices across each of our business lines and have identified specified roles for experienced professionals in audit, tax, consulting, and advisory as direct points of contact to serve our engagement teams. Our goal is to expose professional staff to a variety of industry engagements and training opportunities so that they can begin to specialize early in their careers

Market Prominence

Growth and Depth of Experience

Annual Revenue Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Audit</th>
<th>Tax</th>
<th>Consulting</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$683M</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>$833M</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>$1.05B</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>$1.29B</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Audit</th>
<th>Tax</th>
<th>Consulting</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>30%</td>
<td>60%</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>2014</td>
<td>16%</td>
<td>32%</td>
<td>52%</td>
<td>28%</td>
</tr>
<tr>
<td>2015</td>
<td>15%</td>
<td>52%</td>
<td>33%</td>
<td>28%</td>
</tr>
<tr>
<td>2016</td>
<td>8%</td>
<td>32%</td>
<td>58%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Audit quality indicators and audit committee disclosures.
and gain the depth of knowledge and experience that our clients expect. Our audit tools contain nationally developed, customized industry content that we continually update to reflect developments within individual industries.

The strategy of our firm’s industry leadership team continues to evolve as we grow. For this reason, our CEO recently announced the establishment of six managing partners who will have specific responsibilities in overseeing our 16 primary industry groups.

Collaboration through Our Networks

The BDO Alliance USA (Alliance) comprises over 400 peer-reviewed accounting firms forming a nationwide association of independently owned local and regional firms with similar client service goals across accounting and tax services. Alliance membership consists of two primary categories: CPA firm members and non-CPA Business Resource Network (BRN) firm members. The BRN members include technology and information systems, management, operations, finance and treasury, and other more traditional consulting services.

Membership in the Alliance is currently limited to U.S.-based firms. Although they remain independent, they are held to high standards for integrity, collaboration, and caliber of work product. BDO performs in-depth screening of all potential members, including examining peer review reports and conducting extensive background checks on equity partners.

BDO International

As a member firm of BDO International, BDO serves multi-national clients by leveraging a global network of over 1,400 offices in over 150 countries and a pool of talent that includes more than 64,000 total staff.

In each country, BDO member firms comprise people knowledgeable about national laws, business customs, and local and international business methods. As our clients expand globally, their access to our international network can help them better reach their business and financial goals. This network also gives us the flexibility to draw on technical knowledge around the globe so that we can serve cross-border clients. International engagement teams are subject to strict policies and procedures and must adhere to stringent compliance requirements.

Our CEO chairs BDO International’s Global Board of Directors. Many of our BDO national practice leaders participate in a variety of joint international committees and initiatives aimed at enhancing the BDO Audit Methodology and tools utilized by all member firms. Creating these linkages across the international network helps promote consistency in the culture, values, and vision for all member firms. For further information regarding the governance of BDO International, refer to its most recent Annual Statement available here.
Our primary goal is to provide best-in-class service in accordance with the standards of the public accounting profession and in recognition of the public interest. To accomplish this, we have developed a system of internal quality controls that ensures work is performed at a uniformly high level. An integrated system of quality control includes many elements, from accepting and retaining clients, to assessing performance, to re-calibrating policies and procedures for continuous improvement.

Client Acceptance and Continuance

Audit quality relies on ensuring that we associate only with highly ethical clients to whom we can provide excellent service. Our objective is to be selective in our professional relationships. Our policies and procedures also provide the firm with reasonable assurance that we will undertake or continue only those engagements where the firm: (1) has the competencies to perform the engagement and has the capabilities, including time and resources, to do so; (2) can comply with legal and ethical requirements; and (3) has considered the risks associated with providing professional services in particular circumstances, including the integrity of the client.

Acceptance of all new audit clients requires approval by firm leadership. All continuing relationships with clients are also evaluated annually (or more frequently when certain conditions exist).

Engagement Performance

Supervision and Review

We require all professional work to be supervised by individuals who have the appropriate knowledge and experience. The audit engagement partner has full authority and responsibility for the audit engagement being carried out in accordance with professional standards and the firm’s policies and procedures. This involves ensuring that (1) the related risks are identified; (2) sufficient evidence has been obtained to provide reasonable assurance that the financial statements are free from material misstatement; and (3) issues raised during the audit have been satisfactorily resolved.

The audit engagement partner, in coordination with directors and managers, supervises and directs all phases of the audit and is responsible for ensuring the work is planned, executed, and reviewed in accordance with firm policies.

Our policies stipulate several levels of review by someone other than the preparer of all reports, financial statements, and supporting working papers. An engagement quality control (EQC) review is performed by designated partners for audits of SEC issuers and other engagements meeting certain criteria. This EQC review entails:

- discussion of significant matters with the audit engagement partner
- review of the financial statements (including disclosures) and the auditor’s report
- review of selected working papers related to significant risk areas
- evaluation of the conclusions reached by the engagement team in formulating the auditor’s report

At critical points during certain audit engagements, members of the national Audit Quality Team provide engagement staff with real-time feedback and coaching.

Use of Specialists

BDO’s business line structure provides audit professionals ready access to technical specialists. There are a number of situations in which audit teams bring in the firm’s specialists:

- **Advisory information system specialists:** Help evaluate the effectiveness of IT controls and the degree of assurance to be placed on those controls
- **Income tax specialists:** Review aspects of the audit that involve complex income tax provisions and accruals
- **Consulting valuation specialists:** Review fair value calculations associated with significant business combinations, investments, goodwill, stock options, and complex valuations.

Filings of SEC issuers undergo additional review by our National SEC Department professionals. For engagements with specific industry or other audit and accounting complexities, we have consultative partners who focus on such issues to further assist teams.

Professional Skepticism and Judgment

Approaching audit engagements with a questioning mind and subjecting audit evidence to a critical assessment are at the core of the BDO Audit Methodology. We teach our staff, both in the classroom and on the job, the essential aspects of conducting a high-quality audit including: how to exercise professional skepticism and judgment; how to be satisfied only with persuasive audit evidence; and how to properly analyze disconfirming evidence.
"Being a best-in-class audit service provider means placing an emphasis on extensive industry knowledge, thorough planning, focused execution, and the continuing education of both our personnel and our clients. A critical backstop to the entire process is our continuous quality control review function which allows us to re-challenge the effectiveness of our audit approach each year."

Brian Eccleston, BDO Managing Partner – Northeast and BDO Core Values Ambassador

We tailor our audit procedures to address identified risks, and our working papers are prepared to clearly document our thought processes, procedures performed, evidence gathered, and conclusions reached.

Consultation
Consultation and collaboration are deeply rooted in the culture of BDO. Our policies and procedures for consultation are designed to provide reasonable assurance that auditors will seek assistance on accounting and auditing questions, to the extent required, from persons having appropriate levels of knowledge, competence, judgment, and authority. It is essential that our personnel consult with experienced partners and other technical specialists within the firm when problems or novel situations arise. The vertical structuring of our national, regional, and local office A&A resources is fundamental to this process. We are also positioned horizontally across our industry groups and business lines with identified networks of industry and other service line specialists who are readily accessible and willing to assist on matters of complexity.

For clients that operate globally, BDO supports engagement teams serving such clients through consultative resources at the national office level Global Offerings & Support Services team and via our BDO USA country desk professionals, our international tax practice specialists, and our extensive network of BDO International member firms.

Internal and External Inspections
BDO is focused on continually improving all aspects of our audit practice. The results of our internal and external inspections are important to identifying areas where we can improve audit quality.

Internal Inspection and Monitoring Processes
Our audit quality control system includes the following monitoring procedures:

- Inspection of selected engagements to provide reasonable assurance that the firm’s policies and procedures for quality control are suitably designed and being effectively applied
- Determination of any corrective actions to be taken and improvements to be made on specific engagements and in the overall quality control system
- Communication to appropriate firm professionals of any weaknesses identified in the quality control system
- Follow-up to ensure that corrective actions are implemented on a timely basis

A formal inspection of the firm’s assurance practice is conducted, under the direction of the National Director of Assurance Quality Control, by a review team generally consisting of firm partners, directors, senior managers, managers, and recently retired BDO audit partners who possess the requisite technical knowledge and experience. Each office and assurance partner is generally subject to review at least once every three years.

The purpose of these reviews is threefold:

- Determine the quality of work performed
- Confirm that our work complies with professional standards and firm policies and procedures
- Identify root causes of, and correct, any deficiencies encountered and provide recommendations for improvements

The team reviews the working papers and reports of selected assurance engagements. It also reviews documentation of compliance with our quality control policies and procedures in other areas, such as ethical requirements, client acceptance and continuance, consultations, and other human resources policies. These reviews also involve focus group sessions with professional staff to ensure the firm’s quality control procedures are properly understood.

At the conclusion of the inspection, the inspectors are responsible for: (a) discussing the results of the review with the engagement teams and (b) summarizing any deficiencies noted. Deficiencies are reviewed by National A&A and evaluated to determine whether: (a) existing quality control policies and procedures should be changed; (b) additional guidance should be provided in specific audit areas; and determine what remedial actions, if any, are required to address the deficiencies. For the partners and managers with unsatisfactory inspection results, local and regional leadership, along with the RTD, develop action plans approved at the national level. Regional Managing Partners, Office Managing Partners, along with RTDs, are also responsible for implementation and monitoring of the plans.
As part of BDO’s Quality Matters Process, the Audit Quality Team has implemented a specific requirement for the completion of a Quality Matters Report (QMR) for any public company engagement that receives an unsatisfactory internal inspection rating. These reports are used to identify root causes of deficiencies and to design corrective action plans that are administered by regional leadership and overseen by National A&A.

National A&A professionals are advised on inspection findings, as well as the focus group discussions. They work throughout the year to deliver enhanced messaging, training, and tools to our audit professionals.

During 2015, we inspected over 100 engagements across 85% of audit practice offices. This represented approximately 5% of the firm’s total assurance hours, inclusive of engagements from recent expansions.

Quality Assurance Reviews
We are subject to periodic Quality Assurance Reviews (QARs) on behalf of BDO International. The objective of these QARs is to provide assurance that BDO member firms adhere to, and comply with, applicable professional standards, as well as BDO International’s standards. QARs are carried out by a team of dedicated reviewers who go through a special training process. QARs cover the major services supplied by the member firm, as well as the member firm’s overall quality and risk management framework. Member firms undergo these international reviews on a rotational basis. The last review took place in May 2014. Of all the files inspected, all were determined to be satisfactory.

External Inspection Process, Findings, and Action Plans

PCAOB Inspection
Due to our large number of issuer audit clients, we are subject to an annual inspection of our public company audits by the PCAOB. The most recent Inspection Report the PCAOB issued is from 2014. The PCAOB’s reports on inspections of registered public accounting firms consist of two parts:

Part I: 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, and/or in rare cases, revising its report.

In evaluating the matters described in the PCAOB’s report on its 2014 inspection, we concluded that none of them, or the results of procedures we subsequently performed, impacted our previously issued reports on the financial statements. The inspection report and our response to the report can be found at: http://pcaobus.org/Inspections/Reports/Documents/2014-BDO-USA-PDF

Key findings in BDO’s report align with findings across the profession and center primarily on testing of internal controls over financial reporting, management’s estimates, sampling, use of substantive analytical procedures, and journal entries.

Part II: Non-Public Portion
This portion 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


We consider the PCAOB inspection process to be a valuable component of our firm’s overall approach to enhancing audit quality. Accordingly, we 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 national 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 all matters raised in the inspection reports. We expect our increased diligence and attention to audit quality on our current year-end audits will lead to further improvement in 2016.

Peer Review
As a member of the AICPA, we are also subject to triennial external peer reviews of the portion of our auditing practice applicable to non-SEC issuers. Our peer review in 2015 concluded that the system of quality for the firm’s accounting and auditing practice applicable to non-SEC issuers was suitably designed, and the firm had complied with its own quality guidelines. The peer review also concluded the system provided the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies), or fail. BDO received a rating of pass. The peer review report and the related AICPA Acceptance Letter can be found at https://peerreview.aicpa.org/publicfile/PublicFileSearch.aspx.
Communications and Development for Those Charged with Governance

Both our audit professionals and those charged with governance of the companies we serve are responsible for ensuring the integrity of the financial information relied upon by capital market investors. This is a responsibility that requires ongoing attention and focus. We value the opportunity to provide continuing education and resources to board directors and financial executives.

Internally, our National A&A professionals provide up-to-date firm-wide tools and communication templates that enable our engagement teams to share insights on the quality of our clients’ financial statements with client audit committees and others charged with governance.

Through BDO’s Center for Corporate Governance and Financial Reporting, National A&A leads the development and presentation of a series of external BDO Knowledge webinars, self-study courses, and thought leadership. We deliver timely discussions on emerging topical issues in accounting, financial reporting, and corporate governance to our clients and contacts, along with our professionals, including colleagues within our Alliance and BDO International networks.

In addition, we partner with external organizations like the National Association of Corporate Directors, Financial Executives International, Association of Audit Committee Members, Inc., the Association for Corporate Growth, and others in delivering education and guidance to boards and financial executives. We are poised to unveil a powerful web-based home for our Center later this year that will increase access to our governance community resources for our clients and board member contacts.

Actively Promoting Audit Quality to the Profession and the Community

The firm’s leadership is actively committed to providing funding and resources to promote audit quality initiatives through such activities as the AICPA’s industry groups and its data analytics and CPE exam task forces; the FASB Practice Fellowship program; and the SEC Professional Accounting Fellowship program. We are also active in the Center for Audit Quality (CAQ), including board membership, firm liaison roles, and task force and committee participation.

In December 2015, BDO professionals took an active role in supporting the CAQ’s social media campaign “#AuditorProud,” directed at younger generations and designed to support and highlight the benefits of a career in auditing and the important role auditors play in capital markets.

We are extremely proud of our culture and the success we have had in building our practice for over 100 years. Annually, the prestigious Ben Neuhausen award is given to an individual in our audit practice who demonstrates outstanding commitment to professionalism. The award is named in memory of the late Ben Neuhausen, BDO’s national director of accounting until his untimely passing in 2009, as a way of keeping his unwavering ideals and integrity part of the firm’s culture.

We have been recognized by respected local and national organizations and received a variety of awards for our accomplishments in establishing an environment that is as supportive to our people as it is professionally rewarding. We continue to strive to be a leader and contributor to our profession, as well as a valuable member of the communities we serve.

- Work-Life 2016 Seal of Distinction – WorldatWork
- NAFE Top Companies for Executive Women – National Association for Female Executives
- 25 Best Places to Work for Recent Grads – Symplicity
- Working Mother 100 Best Companies – Working Mothers Magazine
- 2016 When Work Works – When Work Works
- Vault Top 50 Accounting Firms – Vault.com

"Our professionals are committed to building a culture that values technical ability, leadership, and relationships, both internally and externally, grounded in our relentless commitment to our core values, including being “exceptional every day, every way”. I am proud to serve in an organization of individuals who choose accountability and empower one another by sharing our knowledge. These are the catalysts of excellence."

Cathy M. Moy, Chief People Officer
Our Commitment to Audit Quality

Public accounting firms play an important role in the U.S. capital markets by conducting audits that support the reliability of companies’ financial statements. BDO takes its position of public trust very seriously and strives to deliver high-quality audits for each and every client. In this report, we have demonstrated how our firm’s overarching audit quality framework, our leadership, our culture, and our operations all contribute to this critical objective.

Our culture, as well as the strategic plan that is embedded within our audit quality framework, underpin how we hire and train our people, how we choose to grow our practice, how we execute our engagements, and how we view our role in the audit profession.

As a firm, we place a particular emphasis on accepting and retaining high-caliber clients in the industries where we have chosen to practice. We continue to devote significant resources to designing and enhancing tools and methodologies to meet the changing needs of our profession, as well as to expanding our technical resources to match the growth of our firm, the diversity of our client base, and the increasing complexity of the business environment. Finally, as part of our effort to enhance audit quality, we continually monitor and review the risk environment to pinpoint new and emerging risks that will impact our clients.

Yet ultimately, ensuring audit quality is about hiring the best-qualified people whose values dovetail with those of our firm and then creating an environment that not only allows them to perform independent, high-quality work, but that demands they do so.

Being accountable for audit quality is an ongoing effort that requires constant vigilance and attention—to our people, our methodologies, our tools, our training, and our culture. It is a process of continuous improvement in which the bar is always being raised. And for us, that’s as it should be.

Chris Smith
National Accounting & Auditing Professional Practice Leader of BDO USA, LLP