2024 Inspection
BDO USA, P.C.

(Headquartered in Chicago, Illinois)

February 26, 2025

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PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

EXECUTIVE SUMMARY

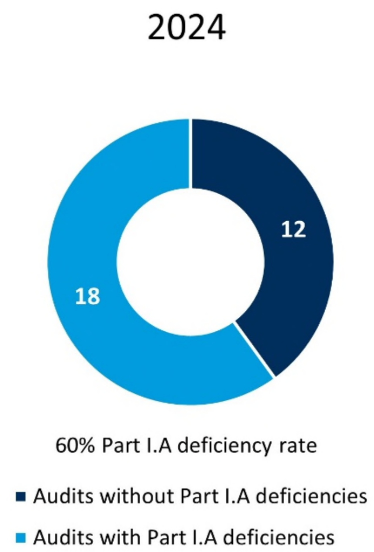
Our 2024 inspection report on BDO USA, P.C. provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board (PCAOB) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of what is included in this report:

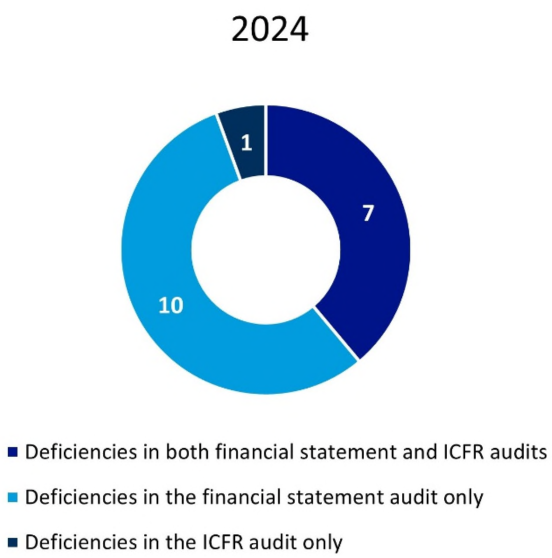
- Part I.A of the report discusses deficiencies ("Part I.A deficiencies") in certain issuer audits that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or internal control over financial reporting (ICFR).
- Part I.B of the report discusses certain deficiencies ("Part I.B deficiencies") that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of apparent non-compliance with rules related to maintaining independence.
- Part I.C of the report discusses instances of apparent non-compliance with rules related to maintaining independence ("Part I.C deficiencies").

If we include a Part I.A or Part I.B deficiency in this report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. If we include a Part I.C deficiency in this report, it does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. If we include a deficiency in Part I.A, Part I.B, or Part I.C of this report, it does not necessarily mean that the firm has not addressed the deficiency.

Overview of the 2024 Deficiencies Included in Part I

Eighteen of the 30 audits we reviewed in 2024 are included in Part I.A of this report due to the significance of the deficiencies identified. The identified deficiencies primarily related to the firm's testing of controls over and/or substantive testing of revenue and related accounts, goodwill and intangible assets, and business combinations.





In connection with our 2024 inspection procedures for one audit, the issuer revised its report on ICFR, and the firm revised its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

The most common Part I.A deficiencies in 2024 related to testing an estimate, testing data or reports used in substantive testing, identifying controls related to a significant account or relevant assertion, testing the design or operating effectiveness of controls selected for testing, and testing controls over the accuracy and completeness of data or reports used in the operation of controls.

The Part I.B deficiencies in 2024 related to consideration of fraud, audit committee communications, audit planning, risk assessment, the firm's audit report, and Form AP.

The Part I.C deficiencies in 2024 related to audit committee pre-approval and partner rotation.

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2024 INSPECTION

In the 2024 inspection of BDO USA, P.C., the PCAOB assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of issuers.

We selected for review 30 audits of issuers with fiscal years generally ending in 2023. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2024 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.

- **Part I – Inspection Observations:**

  - **Part I.A:** Deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR.

  - **Part I.B:** Certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of apparent non-compliance with rules related to maintaining independence.

  - **Part I.C:** Instances of apparent non-compliance with rules related to maintaining independence.

  Consistent with the Sarbanes-Oxley Act ("Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II.

- **Part II – Observations Related to Quality Control:** Criticisms of, or potential defects in, the firm's system of quality control. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.

- **Appendix A – Firm's Response to the Draft Inspection Report:** The firm's response to a draft of this report, excluding any portion granted confidential treatment.

2024 Inspection Approach

In selecting issuer audits for review, we use both risk-based and random methods of selection. We make the majority of our selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. We also select audits randomly to provide an element of unpredictability.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed.

Our target team performs inspection procedures in areas of current audit risk and emerging topics and focuses its reviews primarily on evaluating the firm's procedures related to that risk or topic. In 2024, our target team focused primarily on the firm's initial audit of an issuer, on the firm's procedures to identify and assess risks of material misstatement, on audits of issuers with significant investment in artificial intelligence technologies, on audits of issuers in the biotechnology industry that had recently completed initial public offerings, and on the firm's procedures to test the statement of cash flows.

View the details on the scope of our inspections and our inspections procedures.

OVERVIEW OF THE 2024 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2024 inspection as well as data from the previous two inspections. We use a combination of risk-based and random methods to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from year to year and firm to firm. As a result of this variation, we caution that our inspection results are not necessarily comparable over time or among firms.

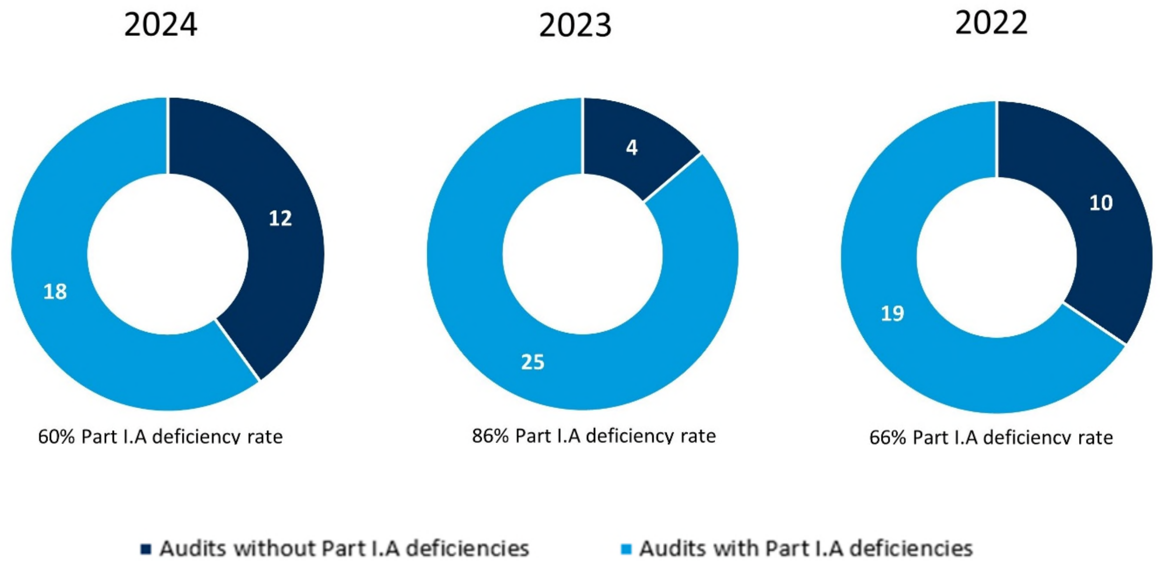
Audits Selected for Review

	2024	2023	2022
Total audits reviewed			
Total audits reviewed	30	29	29
Selection method			
Risk-based selections	22	22	20
Random selections	6	6	7
Target team selections[1]	2	1	2
Total audits reviewed	**30**	**29**	**29**
Principal auditor			
Audits in which the firm was the principal auditor	29	29	29
Audits in which the firm was not the principal auditor	1	0	0
Total audits reviewed	**30**	**29**	**29**
Audit type			
Integrated audits of financial statements and ICFR	18	19	19
Financial statement audits only	12	10	10
Total audits reviewed	**30**	**29**	**29**

[1] For further information on the target team's activities in 2023 and 2022, refer to those inspection reports.

Part I.A Deficiencies in Audits Reviewed

In 2024, 17 of the 18 audits appearing in Part I.A were selected for review using risk-based criteria. In 2023, 19 of the 25 audits appearing in Part I.A were selected for review using risk-based criteria. In 2022, 14 of the 19 audits appearing in Part I.A were selected for review using risk-based criteria.

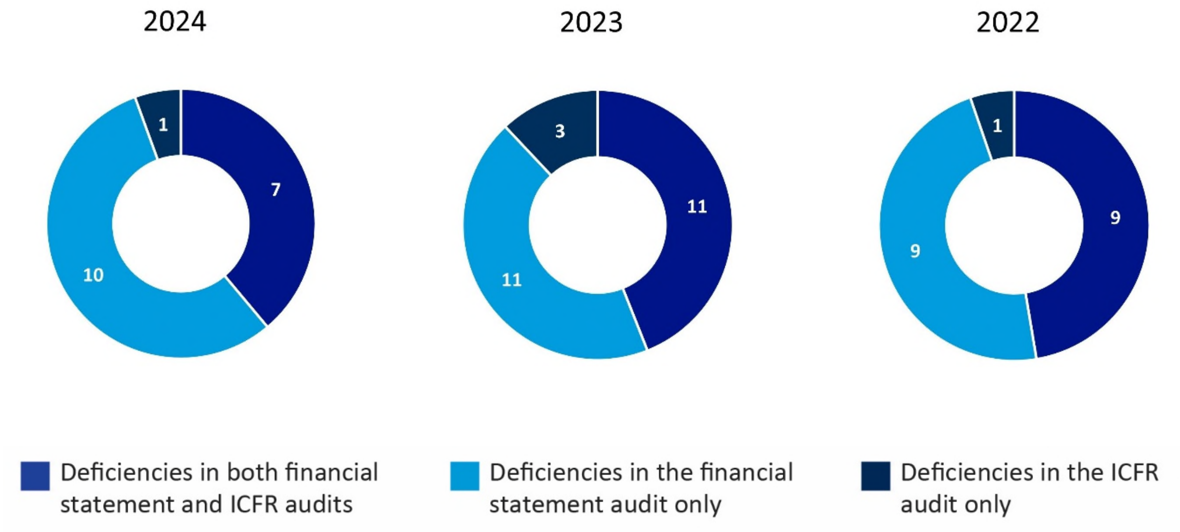


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In certain cases, the firm may have performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports.

Our inspection may include a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

If we include a Part I.A or Part I.B deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer's public disclosures. We do not have direct access to the issuer's management, underlying books and records, and other information.

Audits Affected by the Deficiencies Identified in Part I.A



In connection with our 2024 inspection procedures for one audit, the issuer revised its report on ICFR, and the firm revised its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

In connection with our 2023 inspection procedures for one audit, the issuer restated its financial statements to correct misstatements, and the firm revised and reissued its report on the financial statements. In addition, in connection with our 2023 inspection procedures for another audit, the issuer revised its report on ICFR, and the firm revised its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

In connection with our 2022 inspection procedures for one audit, the issuer restated its financial statements to correct misstatements, and the firm revised and reissued its report on the financial statements. In addition, in connection with our 2022 inspection procedures for two other audits, the issuer corrected a misstatement in a disclosure or an omission of a required disclosure in a subsequent filing. Our 2022 inspection procedures also involved one audit for which the issuer, unrelated to our review, revised its report on ICFR and the firm revised its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

The following tables and graphs summarize inspection-related information, by inspection year, for 2024 and the previous two inspections. We caution against making any comparison of the data provided without reading the descriptions of the underlying deficiencies in each respective inspection report.

Most Frequently Identified Part I.A Deficiencies

Deficiencies in audits of financial statements	Audits with Part I.A deficiencies		
	2024	2023	2022
Did not sufficiently test an estimate	11	9	8
Did not perform sufficient testing of data or reports used in the firm's substantive testing	6	9	12
Did not perform sufficient testing related to a significant account or disclosure or to address an identified risk	5	13	9

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2024	2023	2022
Did not identify and test any controls that addressed the risks related to a significant account or relevant assertion	6	13	8
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	6	9	7
Did not identify and/or sufficiently test controls over the accuracy and completeness of data or reports that the issuer used in the operation of controls	6	8	7

Audit Areas Most Frequently Reviewed

This table reflects the five audit areas we have selected most frequently for review in each inspection year (and the related Part I.A deficiencies). For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2024			2023			2022		
Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies
Revenue and related accounts	22	10	**Revenue and related accounts**	21	12	**Revenue and related accounts**	23	13
Goodwill and intangible assets	9	4	**Inventory**	10	7	**Goodwill and intangible assets**	9	3
Inventory	8	2	**Goodwill and intangible assets**	9	3	**Business combinations**	8	4
Investment securities	5	2	**Business combinations**	5	5	**Inventory**	8	3
Business combinations	4	3	**Investment securities**	4	2	**Equity and equity-related transactions**	5	2

Audit Areas with Frequent Part I.A Deficiencies

This table reflects the audit areas with the most frequently identified Part I.A deficiencies in each inspection year with the corresponding results for the other two years presented.

Audit area	2024		2023		2022	
	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed
Revenue and related accounts	10	22	12	21	13	23
Goodwill and intangible assets	4	9	3	9	3	9
Business combinations	3	4	5	5	4	8
Inventory	2	8	7	10	3	8

Revenue and related accounts: The deficiencies in 2024, 2023, and 2022 primarily related to the substantive testing of, and testing controls over, revenue and related accounts.

Goodwill and intangible assets: The deficiencies in 2024 and 2022 primarily related to substantive testing of, and testing controls over, assumptions used by the issuer in evaluating goodwill and intangible assets for possible impairment. The deficiencies in 2023 primarily related to evaluating intangible assets for possible impairment.

Business combinations: The deficiencies in 2024 primarily related to substantive testing of, and testing controls over, significant assumptions used by the issuer to determine the fair value of assets acquired in a business combination and the accuracy and completeness of data used. The deficiencies in 2023 primarily related to substantive testing of, and testing controls over, significant assumptions used by the issuer to determine the fair values of assets acquired in a business combination. The deficiencies in 2022 primarily related to substantive testing of significant assumptions used by the issuer to determine the fair values of assets acquired and liabilities assumed in a business combination.

Inventory: The deficiencies in 2024 and 2022 primarily related to the accuracy and completeness of data or reports used in substantive testing and testing controls over inventory. The deficiencies in 2023 primarily related to substantive testing of, and testing controls over, inventory.

Auditing Standards Associated with Identified Part I.A Deficiencies

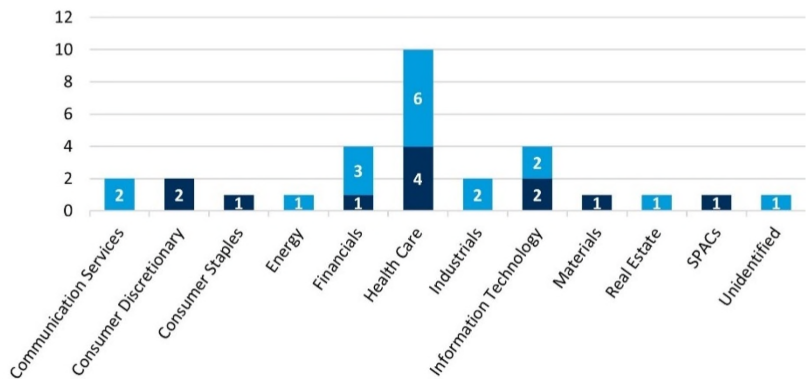
The following lists the auditing standards referenced in Part I.A of the 2024 and the previous two inspection reports, and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2024	2023	2022
AS 1105, *Audit Evidence*	15	17	36
AS 1201, *Supervision of the Audit Engagement*	6	5	2
AS 1210, *Using the Work of an Auditor-Engaged Specialist*	0	0	1
AS 2101, *Audit Planning*	1	1	1
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	25	58	55
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	9	30	16
AS 2305, *Substantive Analytical Procedures*	1	0	1
AS 2310, *The Confirmation Process*	0	2	1
AS 2315, *Audit Sampling*	4	11	6
AS 2401, *Consideration of Fraud in a Financial Statement Audit*	1	6	0
AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*	1	0	0
AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements*	18	14	16
AS 2510, *Auditing Inventories*	0	2	0
AS 2601, *Consideration of an Entity's Use of a Service Organization*	0	0	1
AS 2605, *Consideration of the Internal Audit Function*	0	1	0
AS 2810, *Evaluating Audit Results*	1	4	5

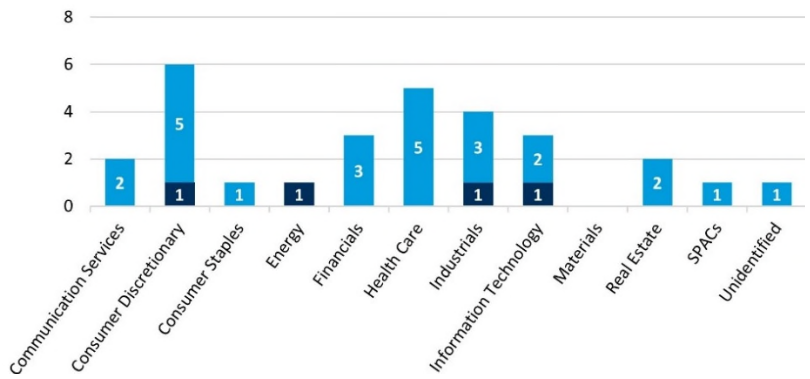
Inspection Results by Issuer Industry Sector

The majority of industry sector data is based on Global Industry Classification Standard (GICS) data obtained from Standard & Poor's (S&P). In instances where GICS data for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data. In instances where classifying an issuer using its industry sector could make an issuer identifiable, we have instead classified such issuer(s) as "unidentified."

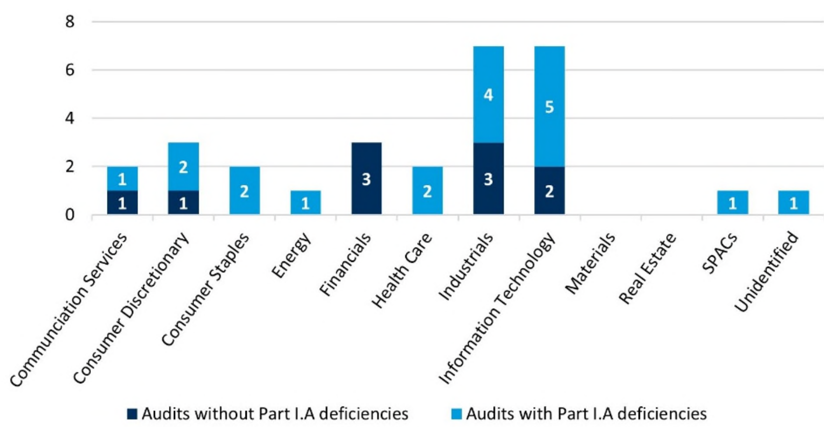
2024



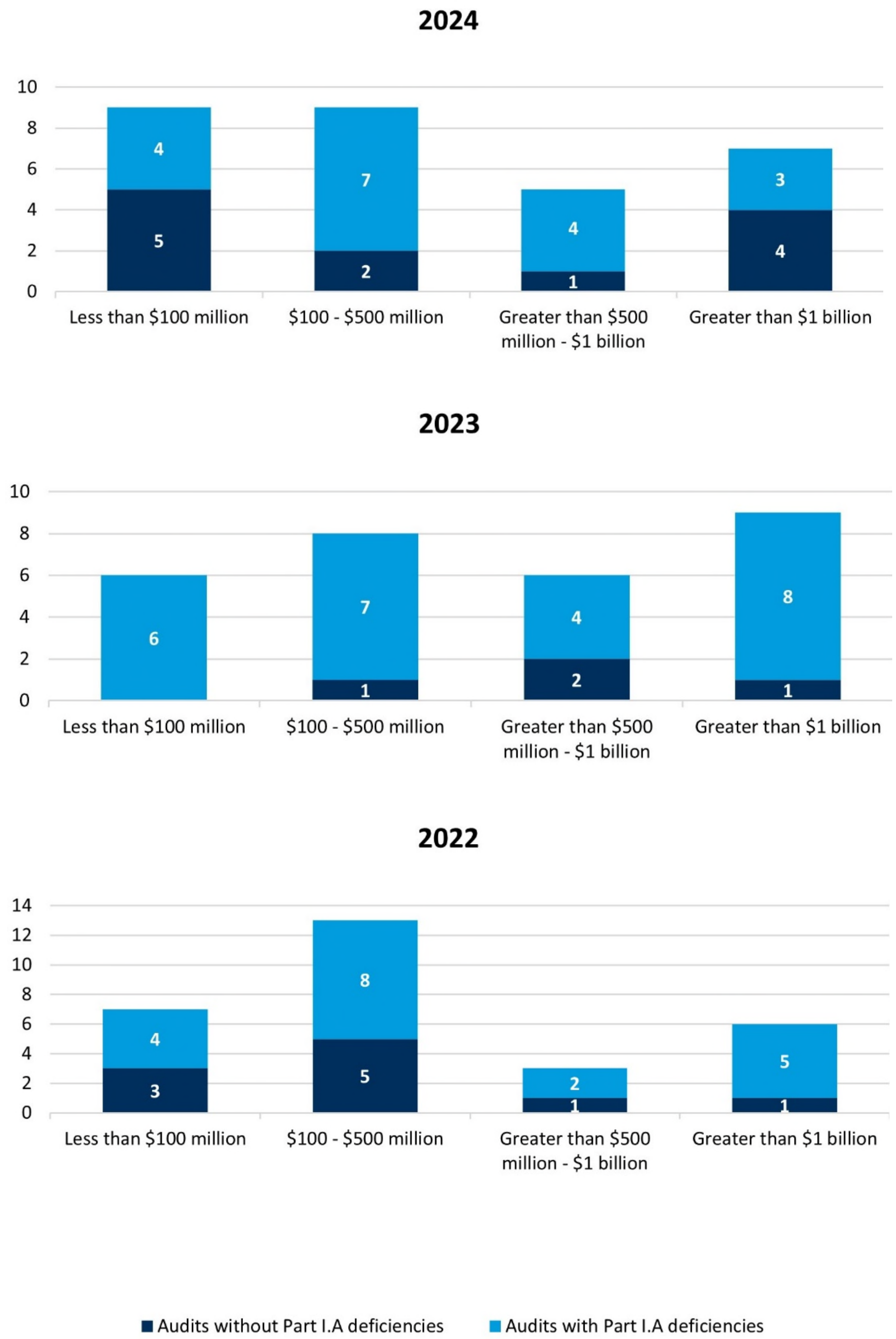
2023



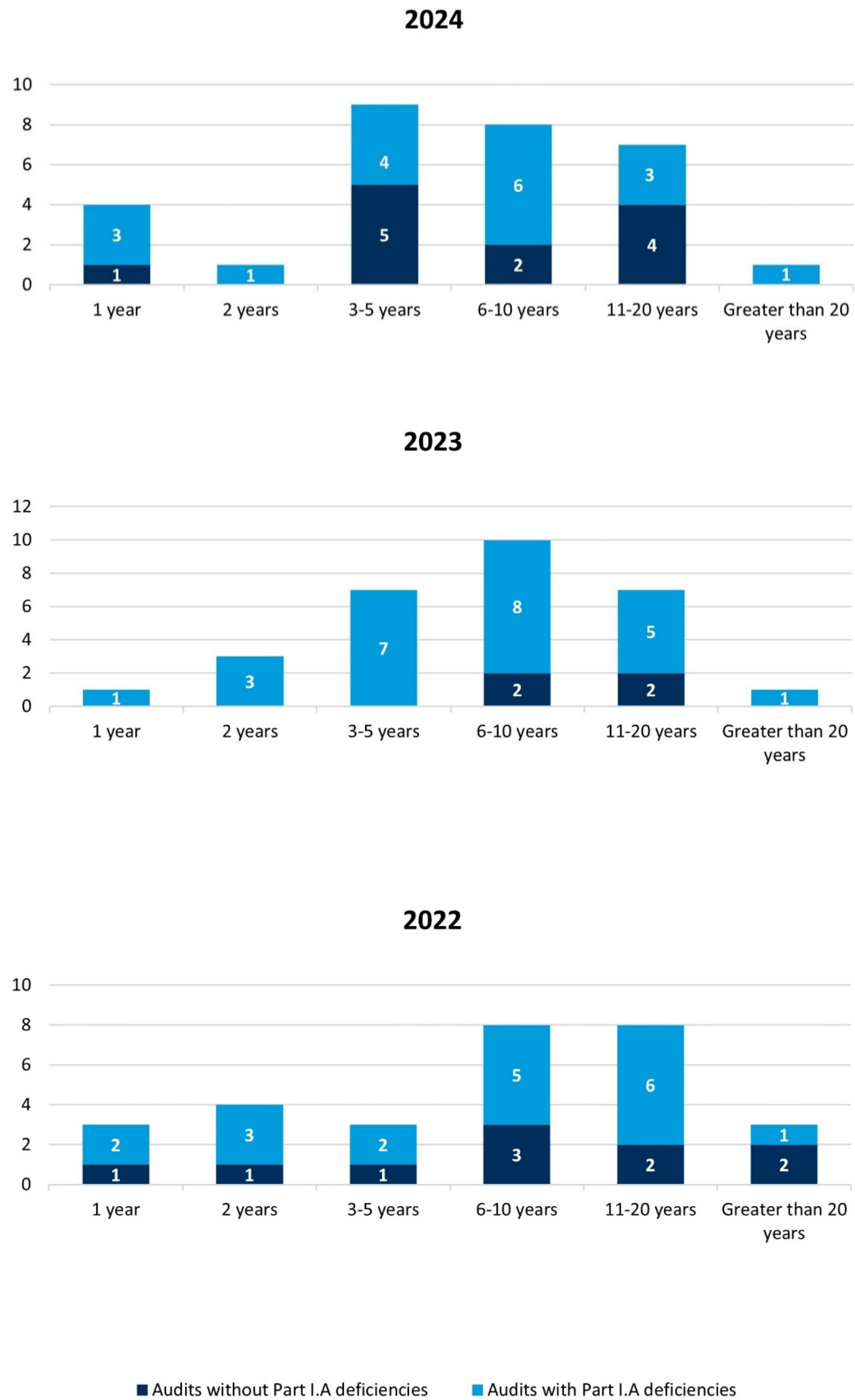
2022



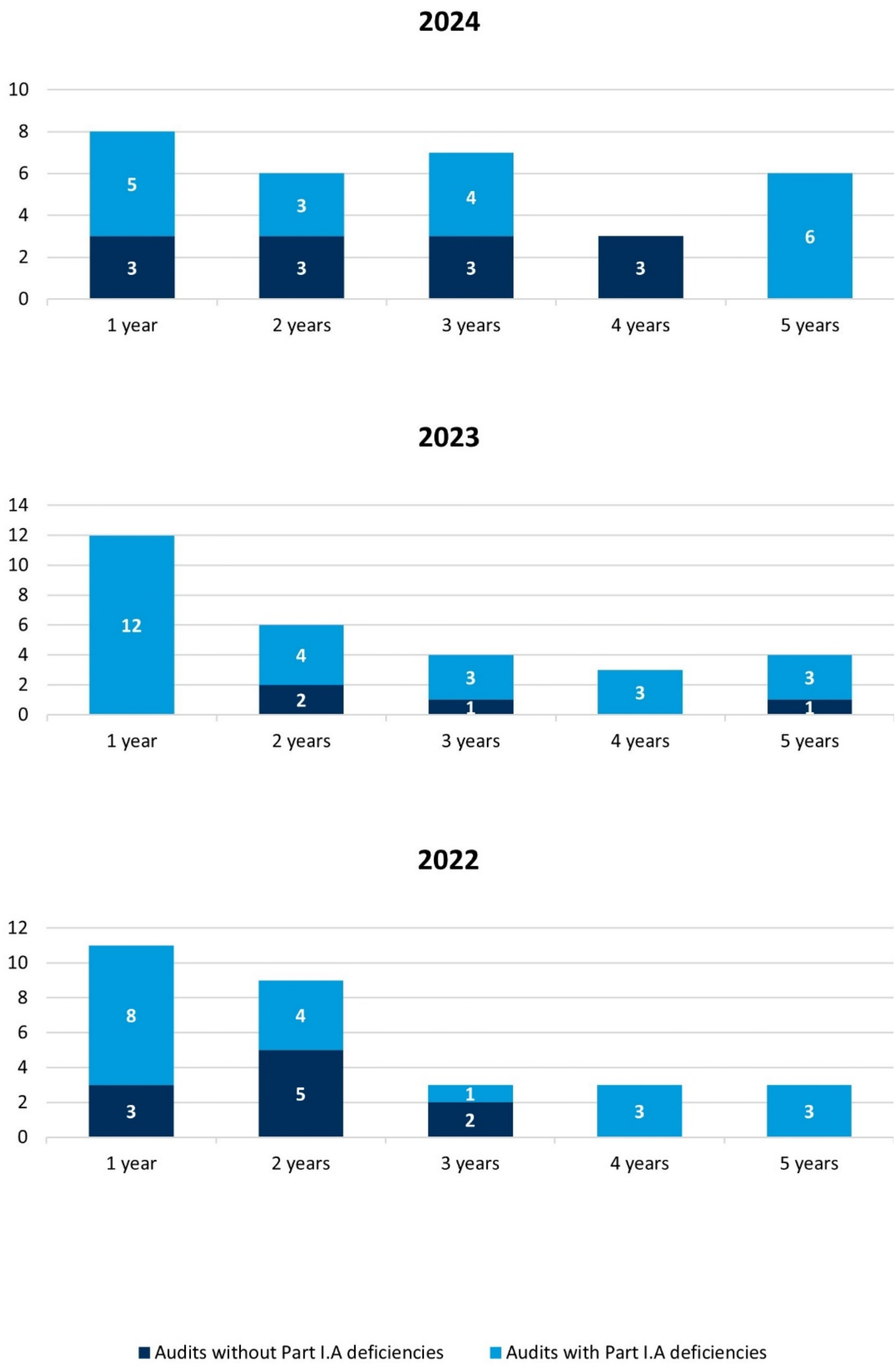
Inspection Results by Issuer Revenue Range



Inspection Results by the Firm’s Tenure on the Issuer



Inspection Results by the Engagement Partner's Tenure on the Issuer



Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or revised its report, on ICFR. This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. We include any deficiencies identified in connection with our reviews of these audits in the audits with multiple deficiencies or audits with a single deficiency classification below.

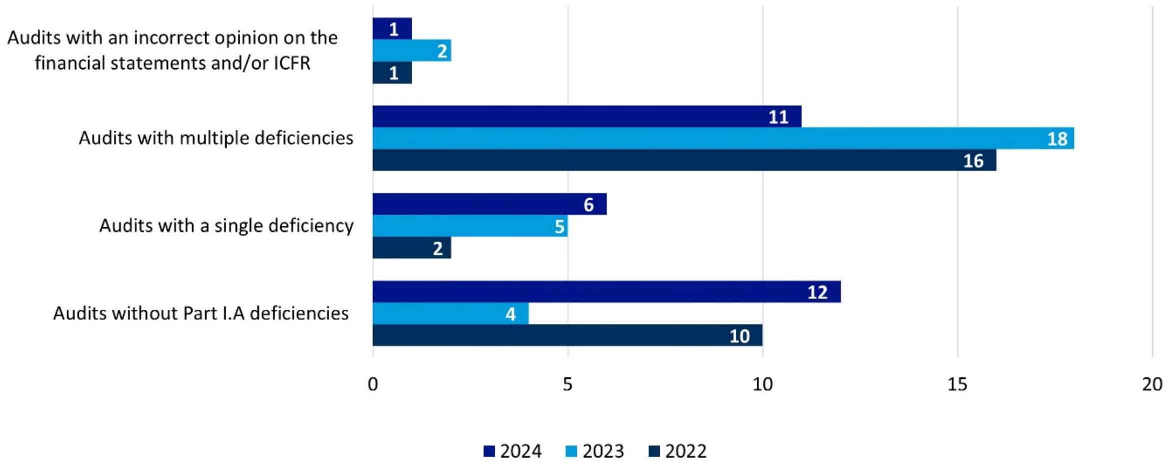
Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

Number of Audits in Each Category



PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR.

Part I.B discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of apparent non-compliance with rules related to maintaining independence.

Part I.C discusses instances of apparent non-compliance with rules related to maintaining independence.

Consistent with the Act, it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II.

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion(s) on the issuer's financial statements and/or ICFR.

We identify each issuer by a letter (e.g., Issuer A). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard(s) that most directly relates to the requirement with which the firm did not comply.

We present issuer audits below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies, taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

Issuer A – Communication Services

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and **Intangible Assets**.

Description of the deficiencies identified

With respect to **Revenue**:

The issuer used an information-technology (IT) system to initiate transactions related to certain revenue. In its testing of controls over this revenue, the firm tested various automated and IT-dependent manual controls that used data generated by this IT system. As a result of the following audit deficiencies, the firm's testing of these automated and IT-dependent manual controls was not sufficient. (AS 2201.46)

The firm identified a control deficiency related to change management for this IT system. The following audit deficiencies were identified:

- The firm identified and tested a compensating control that it believed mitigated this deficiency but did not identify that the control owner used information in the performance of this control that was produced by this IT system. (AS 2201.68)
- The firm did not sufficiently evaluate the severity of the control deficiency because it did not accurately calculate the magnitude of the potential misstatement resulting from this deficiency. (AS 2201.62)

For this revenue, which was affected by the audit deficiencies discussed above, the following additional deficiencies were identified:

- The firm did not identify and test any controls over the accuracy and completeness of certain information used to record revenue. (AS 2201.39)
- The firm's substantive procedures to test revenue included testing a sample of transactions. The firm did not perform any procedures to test whether performance obligations were satisfied before revenue was recognized. (AS 2301.08)
- For certain of this revenue, the firm did not perform procedures to test, or (as discussed above) test controls over, the accuracy and completeness of certain information used in its substantive testing. (AS 1105.10)

In connection with our review, the issuer reevaluated its controls over this revenue and concluded that a material weakness existed that had not been previously identified. The issuer subsequently reflected this material weakness in a revision to its report on ICFR, and the firm revised its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

With respect to **Intangible Assets**, for which the firm identified a significant risk:

The issuer engaged a specialist to perform an assessment of certain of its intangible assets for possible impairment. The following deficiencies were identified:

- The firm selected for testing a control that included the issuer's review of this assessment and related significant assumptions. The firm did not evaluate the specific review procedures the control owner performed to assess the reasonableness of certain of these assumptions. (AS 2201.42 and .44)
- The firm did not perform any substantive procedures to evaluate the reasonableness of certain significant assumptions developed by the company's specialist or by the issuer. (AS 1105.A8b; AS 2501.16)
- The firm did not sufficiently evaluate the reasonableness of certain other significant assumptions developed by the issuer because its procedures were limited to evaluating the

assumptions for consistency with the issuer's recent experience. Further, the firm did not evaluate certain significant differences between these assumptions and the issuer's recent experience. (AS 2501.16)

Audits with Multiple Deficiencies

Issuer B – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**, a **Business Combination**, the **Statement of Cash Flows**, and **Journal Entries**.

Description of the deficiencies identified

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

The firm's substantive procedures to test one type of revenue at one business unit included selecting a sample of transactions for testing. The firm's sample was too small to provide sufficient appropriate audit evidence because, in determining the sample size, the firm did not take into account the allowable risk of incorrect acceptance. (AS 2315.16, .23, and .23A)

The firm subjected this type of revenue from certain other business units to less extensive audit procedures. In determining the extent to which audit procedures should be performed, the firm did not evaluate (1) the materiality of these business units, (2) the specific risks associated with these business units, and (3) whether the risks of material misstatement that the firm identified for the business unit subject to more extensive audit procedures also applied to these business units. (AS 2101.11 and .12)

For another business unit, the issuer contracted with an external party to manufacture and sell products on behalf of the issuer and recognized the associated revenue based on information it obtained from this external party. The following deficiencies were identified:

- The firm's procedures to test the completeness of this revenue consisted of performing substantive analytical procedures. The firm did not determine whether the expectations it used in these analytical procedures were based on predictable relationships. (AS 2305.13 and .14)
- The issuer recognized certain of this revenue based on sales of this product to the external party. The firm obtained and used information from the external party in its substantive testing of this revenue but did not perform procedures to evaluate the reliability of this information. (AS 1105.04 and .06) In addition, the firm did not evaluate the terms and conditions included in the issuer's sales contract with the external party. (AS 2301.08)

With respect to a **Business Combination**, for which the firm identified a significant risk:

During the year, the issuer acquired a business and engaged a specialist to determine the fair values of certain acquired assets. The following deficiencies were identified:

- For one of these assets, the firm did not sufficiently evaluate the reasonableness of a significant assumption developed by the issuer because it did not perform any procedures to evaluate the reasonableness of a component of this significant assumption. (AS 2501.16)

- For certain other assets, the firm did not perform any procedures to test the accuracy and completeness of issuer-produced information that was used by the specialist to determine their fair values. (AS 1105.A8a)

The firm did not identify and evaluate misstatements in certain required disclosures under FASB ASC Topic 470, *Debt,* and FASB ASC Topic 805*, Business Combinations*, related to the accounting for the purchase price allocation. (AS 2810.30 and .31)

With respect to the **Statement of Cash Flows**:

The firm used an issuer-prepared schedule in its substantive testing of the issuer's statement of cash flows but did not perform any procedures to test, or test controls over, the accuracy and completeness of certain information included in this schedule. (AS 1105.10)

With respect to **Journal Entries**, for which the firm identified a fraud risk:

For certain of the issuer's business units, the firm did not perform any procedures to identify and select journal entries and other adjustments for testing, without having an appropriate basis for excluding those business units. (AS 2401.61)

Issuer C – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to the **Allowance for Credit Losses (ACL)** and a **Business Combination**.

Description of the deficiencies identified

With respect to the **ACL**, for which the firm identified a significant risk:

For loans that were collectively evaluated for impairment, the issuer determined the qualitative reserve component of the ACL using various risk-weighted qualitative factors. The following deficiencies were identified:

- The firm selected for testing a control that included the issuer's review of these qualitative factors using an internally developed framework comprised of various assumptions. The firm did not identify and test any controls that addressed the (1) reasonableness of the assumptions from the framework that were used in the operation of this control, (2) reasonableness of the risk weights assigned to the qualitative factors, and (3) the accuracy of certain loan information used in the operation of the issuer's controls over the ACL that the firm selected for testing. (AS 2201.39)

- The firm's approach for substantively testing the qualitative reserve component of the ACL was to test the issuer's process. The firm did not perform any procedures to evaluate whether the issuer had a reasonable basis for the qualitative factors used in developing the reserve. (AS 2501.16)

The issuer assigned certain loans a loan risk rating, which was an important input in estimating the quantitative component of the ACL. The following deficiencies were identified:

- The firm selected for testing a control that consisted of the issuer's review of the loan risk ratings assigned to certain loans. The firm did not evaluate the specific review procedures that the control owner performed to assess the reasonableness of the loan risk ratings. (AS 2201.42 and .44) In addition, the firm did not assess whether the issuer's review was designed to occur with sufficient scope and frequency to address the risks of material misstatement. (AS 2201.42)
- The firm selected for testing a control that consisted of the issuer's comparison of loan risk ratings determined by an external loan reviewer to loan risk ratings determined by the issuer. The firm did not identify and test any controls that addressed the reasonableness of the loan risk ratings determined by the external loan reviewer. (AS 2201.39)
- The firm's substantive procedures to test the reasonableness of the assigned loan risk rating for these loans included selecting a sample of loans for testing. The sample size that the firm used was too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37)

With respect to a **Business Combination**, for which the firm identified a significant risk:

During the year, the issuer acquired a business. The firm selected for testing controls that included the issuer's review of the valuation of acquired loans. The firm did not evaluate the specific review procedures that the control owner performed to assess the (1) reasonableness of the assumptions the issuer used to develop the fair value of these loans and (2) accuracy and completeness of certain data used in the operation of these controls. (AS 2201.42 and .44)

Issuer D – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Goodwill** and **Investments**.

Description of the deficiencies identified

With respect to **Goodwill**:

The issuer engaged a specialist to perform an assessment of its goodwill for possible impairment, and the firm selected for testing a control that consisted of the issuer's review of this assessment and related significant assumptions. The firm did not evaluate the specific review procedures the control owner performed to assess the reasonableness of certain significant assumptions used in the assessment. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the review of the forecasted financial information used in the operation of this control. (AS 2201.39)

The firm's approach to substantively test the issuer's impairment assessment consisted of (1) testing the issuer's process and (2) developing an independent expectation of the fair value of the issuer's single reporting unit with the assistance of an auditor-employed specialist. The following deficiencies were identified:

- In testing the issuer's process, the firm did not perform procedures to evaluate the reasonableness of certain significant assumptions developed by the issuer. (AS 2501.16) In addition, the firm did not perform sufficient procedures to evaluate the reasonableness of another significant assumption developed by the company's specialist because its procedures were limited to evaluating this assumption for consistency with historical experience, without taking into account changes in conditions and events affecting the issuer. (AS 1105.A8b)
- The firm did not sufficiently evaluate the relevance and reliability of the company's specialist's work because it did not identify and evaluate inconsistencies between another significant assumption developed by the company's specialist and (1) the auditor-employed specialist's independent expectation of this assumption and (2) management's analysis of this assumption. (AS 1105.A9 and .A10)
- In developing an independent expectation, the firm used another significant assumption. The firm did not identify that the auditor-employed specialist did not perform procedures to demonstrate it had a reasonable basis for its selection of this significant assumption from a range of potential assumptions. (AS 1201.C6 and .C7; AS 2501.22)

With respect to **Investments**:

The issuer recorded the fair value of certain of its available-for-sale (AFS) securities based on prices it obtained from an external pricing service. The firm selected for testing a control that consisted of the issuer's comparison of its recorded prices to prices obtained from another external pricing service and the issuer's investigation of price variances that exceeded certain thresholds. The firm did not evaluate the specific review procedures that the control owner performed to (1) assess whether the prices the issuer used in this comparison were derived from independent sources and (2) investigate identified variances and determine whether items identified for follow up had been appropriately resolved. (AS 2201.42 and .44)

The firm selected for testing a control that consisted of the issuer's review of certain AFS securities for potential impairment. The firm did not identify and test any controls over the accuracy and completeness of certain information used in the operation of this control. (AS 2201.39)

The firm's approach for substantively testing the fair values of certain of the issuer's held-to-maturity securities was to test the issuer's process, and the firm used an auditor-employed specialist to evaluate the methods and significant assumptions used by the issuer. The firm did not sufficiently test the fair value of these investments because it did not identify that the auditor-employed specialist did not perform procedures to evaluate whether the issuer had a reasonable basis for certain significant assumptions it used. (AS 1201.C6 and .C7; AS 2501.16)

Issuer E

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Other Investments**, **Revenue**, and **Long-Lived Assets**.

Description of the deficiencies identified

With respect to **Other Investments**:

The issuer engaged a specialist to determine the fair values for its investments in certain entities. The firm's approach for substantively testing these fair value measurements was to test the issuer's process, and the firm used an auditor-employed specialist to evaluate certain significant assumptions the company's specialist used. The following deficiencies were identified:

- The firm did not identify that the auditor-employed specialist did not sufficiently evaluate the reasonableness of certain significant assumptions developed by the company's specialist because the auditor-employed specialist did not take into account inconsistencies between these assumptions and other significant assumptions developed by the issuer. (AS 1105.A8b; AS 1201.C6 and .C7)

- The firm did not sufficiently evaluate the reasonableness of certain significant assumptions developed by the issuer because it did not perform any procedures to evaluate the reasonableness of certain components of these assumptions. Further, for certain of these significant assumptions, the firm did not evaluate significant differences between these assumptions and the issuer's recent experience. (AS 2501.16)

With respect to **Revenue**:

The firm's substantive procedures to test the issuer's disclosure related to remaining performance obligations included selecting a sample of contracts for testing. For certain of these contracts, the firm did not perform procedures to evaluate the reasonableness of a significant assumption used by the issuer to develop this disclosure. (AS 2501.16)

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

The issuer performed an assessment of certain of its long-lived assets for possible impairment at year end and concluded that the carrying value of these assets was recoverable. The firm did not identify that the issuer did not consider an indicator of possible impairment in its assessment of the recoverability of these assets. (AS 2301.08)

Issuer F – Energy

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and **Income Taxes**. The firm's internal inspection program had inspected this audit, reviewed these areas, and also identified the deficiencies below.

Description of the deficiencies identified

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

The issuer used an IT system to record transactions related to revenue. The firm did not identify and test any controls that addressed the risk that users with the ability to develop changes also had the ability to implement those changes. (AS 2201.39) In its testing of controls over revenue, the firm tested an IT-dependent manual control that used a report generated from this system. As a result of this deficiency in the firm's testing of ITGCs, the firm's testing of this IT-dependent manual control was not sufficient. (AS 2201.46)

For certain revenue, which was affected by the audit deficiencies discussed above, the following additional deficiencies were identified:

- For one type of revenue, the firm did not perform substantive procedures to test whether performance obligations had been satisfied before revenue was recognized, beyond comparisons to customer payments and/or issuer-produced information. (AS 2301.08 and .13)
- For another type of revenue, the firm's substantive procedures consisted of selecting a sample of transactions for testing. For certain transactions, the firm did not perform procedures to test, or test controls over, the accuracy of certain issuer-produced information that the firm used in its testing. (AS 1105.10)

With respect to **Income Taxes**:

The firm selected for testing a control that consisted of the issuer's review of the valuation of deferred tax assets. The firm did not identify and test any controls over the review of forecasted financial information used in the operation of this control. (AS 2201.39)

Issuer G – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Convertible Debt** and **Intangible Assets**.

Description of the deficiencies identified

With respect to **Convertible Debt**, for which the firm identified a significant risk:

During the year, the issuer entered into agreements resulting in the issuance of convertible notes and an option for the creditor to purchase additional convertible notes; the issuer accounted for this option as a liability. Certain of these notes were subsequently converted to equity. The following deficiencies were identified:

- The firm's approach for substantively testing the fair values of the convertible notes and related purchase option at issuance and year end was to develop independent expectations of the estimates using the work of an auditor-employed specialist. The firm did not identify that the auditor-employed specialist did not perform procedures to demonstrate it had a reasonable basis for a component of a significant assumption it developed and used in each independent expectation. (AS 1201.C6 and .C7; AS 2501.22)
- The firm's approach for substantively testing the fair value of the converted notes was to test the issuer's process. The firm did not evaluate whether the method used by the issuer to measure the fair value was in conformity with the requirements of FASB ASC Topic 820, *Fair Value Measurement*. (AS 2501.10)

With respect to **Intangible Assets**:

During the year, events or changes in circumstances existed indicating that the carrying value of certain of the issuer's intangible assets may not be recoverable and the issuer performed assessments of these assets for possible impairment. The following deficiencies were identified:

- For one asset group, the firm did not perform any substantive procedures to test the issuer's impairment assessment. (AS 2501.07)
- For another asset group, the firm's substantive procedures to test the issuer's impairment assessment consisted of developing an independent expectation of the undiscounted cash flows used to assess the asset group for recoverability. In developing its expectation, the firm did not perform procedures to demonstrate it had a reasonable basis for the undiscounted cash flow period it used, including taking into account certain requirements of FASB ASC Topic 360, *Property, Plant, and Equipment*. (AS 2501.21 and .22)

Issuer H – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and **Inventory**.

Description of the deficiencies identified

The issuer used a service organization to host and maintain an IT system that the issuer used to initiate, process, and record transactions related to revenue and inventory. In its testing of controls over these accounts, the firm tested certain automated and/or IT-dependent manual controls that used data and reports generated or maintained by this IT system. As a result of the following deficiency in the firm's testing of ITGCs, the firm's testing of these automated and IT-dependent manual controls was not sufficient. (AS 2201.46)

With respect to this service organization, the firm obtained a service auditor's report and identified a complementary user control related to change management that the service auditor's report described as necessary. The firm did not perform procedures, beyond inquiry, to evaluate whether the issuer had implemented this control. (AS 2201.39 and .B22)

As a result of the firm's control testing deficiencies discussed above, the firm did not perform sufficient substantive procedures over revenue, as follows:

- The firm did not perform procedures to test, or sufficiently test controls over, the completeness of certain reports that the firm used in its substantive testing of revenue. (AS 1105.10)
- The sample sizes the firm used in its substantive procedures to test revenue were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer I – Communication Services

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue**.

Description of the deficiencies identified

The issuer used two IT systems to initiate, process, and record transactions related to certain revenue. In its testing of controls over this revenue, the firm tested various automated and IT-dependent manual controls that used data and reports generated or maintained by these IT systems. As a result of the following deficiencies in the firm's testing of ITGCs, the firm's testing of these automated and IT-dependent manual controls was not sufficient. (AS 2201.46)

With respect to change management, the firm selected for testing a control over the issuer's review of changes to the production environments for these IT systems. The firm did not evaluate the review procedures that the control owner performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44) In addition, the firm did not identify that this control was not designed to address the risk that unauthorized changes were made to these systems, as certain users with the ability to develop and implement changes also had administrative access to the monitoring tools used in the operation of this control. (AS 2201.42)

As a result of the firm's control testing deficiencies discussed above, the firm did not perform sufficient substantive procedures over this revenue, as follows:

- The sample sizes that the firm used in certain of its substantive procedures to test this revenue were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)
- For certain of this revenue, the firm did not perform procedures to test, or sufficiently test controls over, the accuracy and completeness of certain system-generated data and reports the firm used in its substantive testing. (AS 1105.10)

Issuer J – Financials

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to **Investments**, for which the firm identified a significant risk.

Description of the deficiencies identified

The firm's approach to substantively test the fair value of certain investments was to develop independent expectations of the fair values using the work of an auditor-employed specialist. The following deficiencies were identified:

- The auditor-employed specialist used data from external sources to develop certain significant assumptions for its independent expectations. The firm did not identify that the auditor-employed specialist did not perform any procedures to evaluate the relevance of these data. (AS 1105.04 and .06; AS 1201.C6 and .C7)

- The firm did not identify that the auditor-employed specialist did not perform any procedures to demonstrate it had a reasonable basis for certain other significant assumptions used for its independent expectations. (AS 1201.C6 and .C7; AS 2501.22)

Issuer K – Real Estate

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Goodwill** and **Long-Lived Assets**.

Description of the deficiencies identified

With respect to **Goodwill**:

The issuer performed an assessment of goodwill for possible impairment using various significant assumptions. The following deficiencies were identified:

- The firm did not identify and test any controls over the reasonableness of the significant assumptions used in the impairment assessment. (AS 2201.39)
- The firm did not sufficiently evaluate the reasonableness of certain significant assumptions used in the impairment assessment because its procedures were limited to performing sensitivity analyses. (AS 2501.16)

With respect to **Long-Lived Assets**, for which the firm identified a significant risk:

The firm selected for testing a control that consisted of the issuer's reviews of its assessment of long-lived assets for possible impairment. The firm did not evaluate the specific review procedures that the control owners performed to assess the qualitative factors used to determine whether indicators of possible impairment existed. (AS 2201.42 and .44)

Issuer L – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Inventory** and **Revenue**.

Description of the deficiencies identified

With respect to **Inventory**, for which the firm identified a significant risk:

The firm's approach for substantively testing one component of the issuer's reserve for excess and obsolete inventory was to test the issuer's process. The firm did not sufficiently evaluate the reasonableness of a significant assumption the issuer used because the firm did not (1) take into account the issuer's ability to carry out this assumption, (2) take into account changes in conditions and events affecting the issuer, and (3) evaluate significant differences between this assumption and the issuer's historical experience. (AS 2501.16 and .17)

The firm used a system-generated report in its substantive procedures to test the remainder of the issuer's reserve for excess and obsolete inventory. The firm relied on its testing of the accuracy and completeness of this report that was performed in the prior year. The firm did not perform sufficient procedures to test, or sufficiently test controls over, the accuracy and completeness of this report because it did not take into account that user access controls over this IT system were ineffective. (AS 1105.10)

With respect to **Revenue**:

The firm's substantive procedures to test certain revenue included selecting a sample of transactions for testing. For certain of these selections, the firm did not perform sufficient procedures to evaluate whether the customer contracts met the collectability criteria required to recognize revenue under FASB ASC Topic 606, *Revenue from Contracts with Customers*, because these customers did not meet one or more of the issuer's established credit policies and the firm did not evaluate the basis on which the customer or transaction was approved. (AS 2301.08)

Audits with a Single Deficiency

Issuer M – Industrials

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Revenue**. This was the firm's initial audit of this issuer.

Description of the deficiency identified

For certain contracts, the issuer recognized revenue over time based on costs incurred to date relative to total estimated costs to complete. The firm did not perform procedures to evaluate the reasonableness of the significant assumptions that the issuer used to develop the estimated costs to complete the open contracts the firm selected for testing. (AS 2501.16)

Issuer N – Health Care

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to a **Business Combination**, for which the firm identified a significant risk. This was the firm's initial audit of this issuer.

Description of the deficiency identified

During the year, the issuer acquired a business and determined the fair value of certain acquired intangible assets using various significant assumptions. The firm's approach for substantively testing the fair values of these assets was to test the issuer's process. The firm did not perform any procedures to evaluate the reasonableness of certain significant assumptions used in the valuation of these assets. (AS 2501.16)

Issuer O – Health Care

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Revenue**, for which the firm identified a significant risk.

Description of the deficiency identified

The firm identified a significant deficiency related to an IT system that the issuer used to record revenue. The firm's substantive procedures to test revenue at one business unit included selecting samples of transactions for testing. The sample sizes the firm used were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported, as it did not take into account the potential effect of the significant deficiency on the controls it relied upon. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer P – Industrials

Type of audit and related area affected

In our review, we identified a deficiency in the ICFR audit related to **Revenue and Related Accounts**, for which the firm identified a fraud risk.

Description of the deficiency identified

For certain contracts, the issuer recognized revenue over time based on costs incurred to date relative to total estimated costs to complete. The firm selected for testing a control that included the issuer's review of the (1) revenue calculations, (2) accuracy and completeness of certain related information, and (3) corresponding journal entries. In its testing of the operating effectiveness of this control, the firm did not test these aspects. (AS 2201.44)

Issuer Q – Information Technology

Type of audit and related area affected

In our review of an audit in which the firm played a role but was not the principal auditor, we identified a deficiency in connection with the firm's role in the financial statement audit related to **Income Taxes**. This was the first year the firm played a role on the audit of this issuer.

Description of the deficiency identified

The firm did not perform any procedures to test, or test any controls over, the accuracy and completeness of certain information produced by the issuer that the firm used in its substantive testing of the income tax provision and a deferred tax asset. (AS 1105.10)

Issuer R – Health Care

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Going Concern**.

Description of the deficiency identified

The issuer used forecasted financial information in its evaluation of its ability to continue as a going concern and concluded that the substantial doubt was alleviated by its plans. In evaluating management's plans, the firm did not sufficiently evaluate the relevance and reliability of certain forecasted financial information because it did not evaluate management's ability to sustain revenue from existing customers. (AS 1105.04 and .06; AS 2415.03, .08, and .09)

PART I.B: OTHER INSTANCES OF NON-COMPLIANCE WITH PCAOB STANDARDS OR RULES

This section of our report discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of apparent non-compliance with rules related to maintaining independence.

When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not reviewed and include any instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In two of 30 audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not perform sufficient procedures to determine whether the journal entry population from which it made its selections was accurate or complete. In these instances, the firm was non-compliant with AS 1105, *Audit Evidence*.
- In 10 of 29 audits reviewed, the firm did not make certain required communications to the audit committee related to uncorrected and/or corrected misstatements. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In three of 29 audits reviewed, the firm did not make certain required communications to the audit committee related to the extent to which the firm planned to use the work of the issuer's internal auditors in performing its audits. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In two of 28 audits reviewed, the firm did not make certain required communications to the audit committee related to certain critical accounting estimates. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 29 audits reviewed, the firm did not perform procedures to determine whether all individuals who participated in the audit were in compliance with independence requirements. In this instance, the firm was non-compliant with AS 2101, *Audit Planning*.
- In two of 28 audits reviewed, the firm did not make all required inquiries of management or the internal audit function about fraud risks. In these instances, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In one of 30 audits reviewed, the firm did not evaluate certain information that indicated that fraud risk factors were present and should have been taken into account in identifying and assessing fraud risks. In this instance, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In one of 30 audits reviewed, the firm did not evaluate certain factors when determining that there were no risks of material misstatement related to a relevant assertion for a significant

account and disclosure. In this instance, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.

- In two of 30 audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, identified fraud risk characteristics but did not perform sufficient procedures to identify all journal entries that had those characteristics. In these instances, the firm was non-compliant with AS 2401, *Consideration of Fraud in a Financial Statement Audit*.

- In one of 30 audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not consider certain characteristics of potentially fraudulent journal entries in determining the criteria it used to identify and select journal entries for testing. In this instance, the firm was non-compliant with AS 2401, *Consideration of Fraud in a Financial Statement Audit*.

- In one of three audits reviewed, the firm included in its audit report an explanatory paragraph intended to describe substantial doubt about the issuer's ability to continue as a going concern, but did not include the phrase "substantial doubt." In this instance, the firm was non-compliant with AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*.

- In one of 28 audits reviewed, the firm's report on Form AP included inaccurate information regarding the issuer CIK number. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

- In one of 28 audits reviewed, the firm did not describe, in writing, to the audit committee the scope of certain permissible tax services and the fee structure for these services. In this instance, the firm was non-compliant with PCAOB Rule 3524, *Audit Committee Pre-Approval of Certain Tax Services*.

- In one of 28 audits reviewed, the firm did not affirm to the audit committee, in writing, that, as of the date of the communication, the firm was independent in compliance with PCAOB Rule 3520, *Auditor Independence*. In this instance, the firm was non-compliant with PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*.

PART I.C: INDEPENDENCE

PCAOB Rule 3520, *Auditor Independence*, requires a firm and its personnel to be independent of the firm's audit clients. This requirement encompasses not only an obligation to satisfy the independence criteria articulated in PCAOB rules and standards but also an obligation to satisfy all other independence criteria applicable to an engagement, including the independence criteria set out by the SEC in Regulation S-X, 17 C.F.R. § 210.2-01, *Qualifications of Accountants* ("Rule 2-01").

This section of our report discusses identified instances of apparent non-compliance with PCAOB Rule 3520. An instance of apparent non-compliance with PCAOB Rule 3520 does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. Although this section includes instances of apparent non-compliance with PCAOB Rule 3520 that we identified and the firm brought to our attention, there may be other instances of non-compliance with rules related to independence that were not identified through our procedures or the firm's monitoring activities.

PCAOB-Identified

We identified the following instances of apparent non-compliance with PCAOB Rule 3520:

Under Rule 2-01(c)(7), an accountant is not independent if it is engaged to render audit or non-audit services to an issuer or its subsidiaries without that engagement having been pre-approved by the audit committee. In 29 audits reviewed and in two other audits, we identified five instances across five issuers in which the firm could provide no persuasive evidence of the necessary audit committee pre-approval.

Firm-Identified

During the inspection, the firm brought to our attention that it had identified, through its independence monitoring activities, for a 9-month period, seven instances across four issuers,[2] representing approximately 2% of the firm's total reported issuer audits, in which the firm appeared to have impaired its independence because it may not have complied with Rule 2-01(c) related to maintaining independence. Five of these instances of apparent non-compliance involved non-U.S. associated firms.

While we have not evaluated the underlying reasons for the instances of apparent non-compliance with PCAOB Rule 3520, the number, large or small, of firm-identified instances of apparent non-compliance may be reflective of the size of the firm, including the number of non-U.S. associated firms in the global network; the design and effectiveness of the firm's independence monitoring activities; and the size and/or complexity of the issuers it audits, including the number of affiliates of the issuer. Therefore, we caution against making any comparison of these firm-identified instances of apparent non-compliance across firms.

The instances of apparent non-compliance related to audit committee pre-approval and partner rotation requirements:

[2] The firm-identified instances of apparent non-compliance do not necessarily relate to the issuer audits that we selected for review.

- The firm reported five instances of apparent non-compliance with Rule 2-01(c)(7) regarding audit committee pre-approval. These instances related to services provided by non-U.S. associated firms without those engagements having been pre-approved by the audit committee.
- The firm reported two instances of apparent non-compliance with Rule 2-01(c)(6) regarding partner rotation. These instances related to the performance of services by the engagement quality reviewer for more than the maximum period permitted.

The firm has reported to us that it has evaluated these instances of apparent non-compliance and determined in all instances that its objectivity and impartiality were not impaired. The firm also reported to us that it communicated these instances to the issuers' audit committees as required by PCAOB Rule 3526.

PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

We include deficiencies in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

This report does not reflect changes or improvements to the firm's system of quality control that the firm may have made subsequent to the period covered by our inspection. The Board does consider such changes or improvements in assessing whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, we will make public any such deficiency.

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

Pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the firm provided a written response to a draft of this report. Pursuant to Section 104(f) of the Act and PCAOB Rule 4007(b), the firm's response, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available.

In addition, pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

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February 18, 2025

Ms. Christine Gunia
Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006

Re: Response to Part I of the Draft Report on the 2024 Inspection of BDO USA, P.C.

Dear Ms. Gunia:

On behalf of BDO USA, P.C., we are pleased to provide our response to Part I of the Public Company Accounting Oversight Board's ("PCAOB" or the "Board") Draft Report on the 2024 Inspection of BDO USA, P.C. The Board's inspection process plays an integral role in enhancing audit quality. We continue to support the PCAOB's mission of protecting investors and furthering the public interest in the preparation of informative, accurate, and independent audit reports.

We have evaluated each of the matters described in Part I of the Draft Report and have taken appropriate actions in accordance with PCAOB standards, AS 2901, *Consideration of Omitted Procedures After the Report Date*, and where applicable, AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*.

We recognize the important role we play in protecting the interest of investors and the integrity of the capital markets and are therefore steadfast in our commitment to audit quality as our highest priority. We detail the numerous investments we are making to improve the quality of our audits at: https://www.bdo.com/insights/assurance/bdo-usa-audit-quality-journey

The PCAOB's inspection process, including dialogue with the staff, assists us in improving our audit performance, our underlying quality control system, and ultimately the reliability of financial reporting. We look forward to continuing our dialogue with the PCAOB and its staff and would be happy to address any questions you may have.

Sincerely,

Wayne Berson	Christopher Orella
CEO	Assurance National Managing Principal