2018 Inspection BDO USA, LLP

(Headquartered in Chicago, Illinois)

April 28, 2020

Public Company Accounting Oversight Board

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) and 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

PCAOB RELEASE NO. 104-2020-007A
(Includes portions of Part II and Appendix A of the full report that were not included in PCAOB Release No. 104-2020-007)

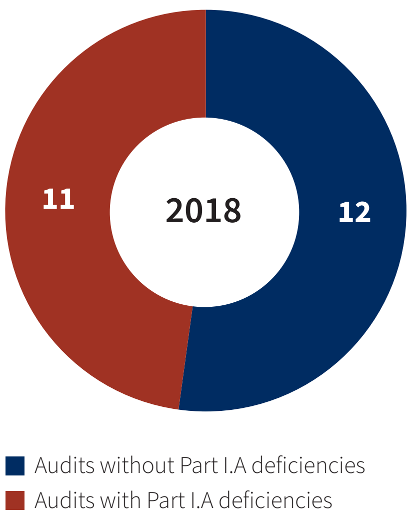
Executive Summary

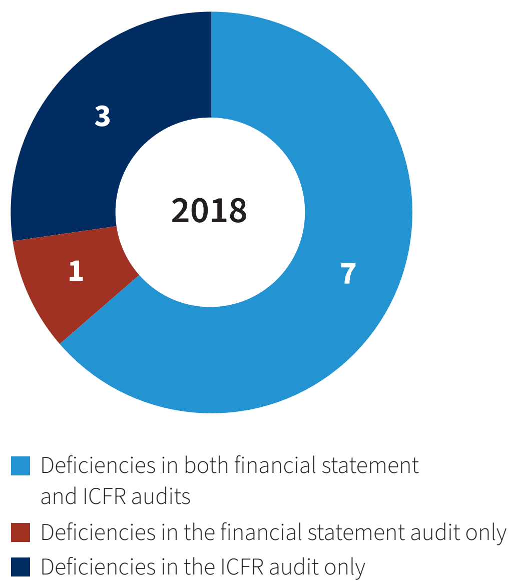
Our 2018 inspection report on BDO USA, LLP provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board ("PCAOB") standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of: (1) Part I.A of the report, which 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 on the issuer's financial statements and/or internal control over financial reporting ("ICFR"), and (2) Part I.B of the report, which discusses deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

The fact that we have included a deficiency in this report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. If a deficiency is included in Part I.A or Part I.B of this report, it does not necessarily mean that the firm has not addressed the deficiency.

Overview of the 2018 Deficiencies Included in Part I

Eleven of the 23 issuer audits we reviewed in 2018 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, income taxes, allowance for loan losses, and deposit liabilities.





The most common Part I.A deficiencies in 2018 related to performing substantive testing to address a risk of material misstatement and testing the design or operating effectiveness of controls selected for testing.

Other deficiencies identified during the 2018 inspection that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s), which appear in Part I.B, related to retention of audit documentation and audit committee communications.

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2018 Inspection

During the PCAOB's 2018 inspection of BDO USA, LLP, we assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review 23 audits of issuers with fiscal years generally ending in 2017. 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 2018 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 on the issuer's financial statements and/or ICFR.
  - **Part I.B:** Deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.
- **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 Sarbanes-Oxley Act ("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.

2018 Inspection Approach

In selecting issuer audits for review, we use both risk-based and random methods of selection. We make most 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 select the remaining 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.

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

Overview of the 2018 Inspection and Historical Data by Inspection Year

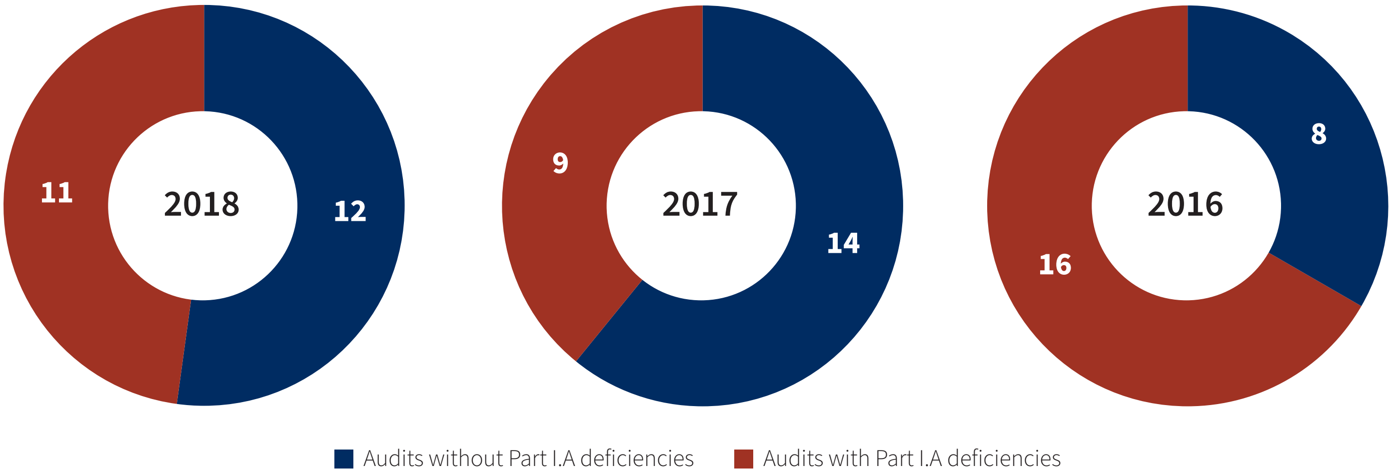
The following information provides an overview of our inspections in 2018 of the firm's issuer audits as well as data from the previous two inspections. We use a combination of risk-based and random methods to select audits for review and to identify areas on which we focus our inspection. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and focus 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 Reviewed

	2018	2017	2016
Total audits reviewed	23	23	24
Audits in which the firm was the principal auditor	23	23	24
Integrated audits of financial statements and ICFR	20	20	20
Risk-based selections	18	18	19
Random selections	5	5	5

Part I.A Deficiencies in Audits Reviewed

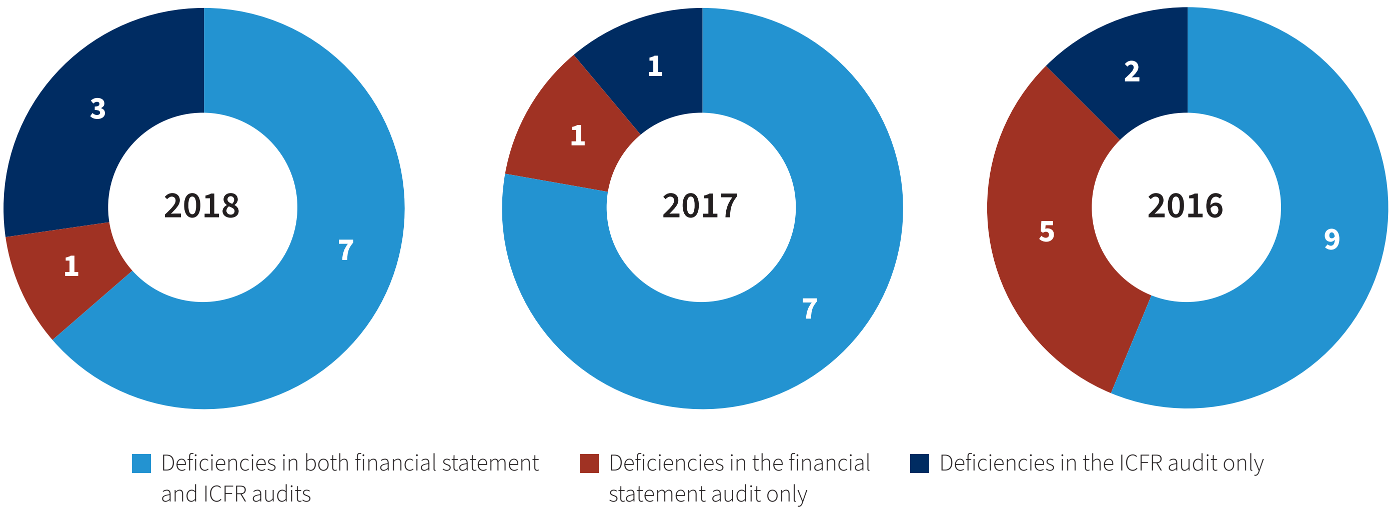
In 2018, all 11 audits appearing in Part I.A were selected for review using risk-based criteria. In 2017, eight of the nine audits appearing in Part I.A were selected for review using risk-based criteria. In 2016, 13 of the 16 audits appearing in Part I.A were selected for review using risk-based criteria.



If a deficiency is included in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the issue 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 normally includes 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 that 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.

The fact that we have included a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — 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 2017 inspection procedures for two audits, the issuers restated their financial statements, and the firm reissued its audit reports. The issuers also revised their reports on ICFR, and the firm revised its opinions on the effectiveness of the issuers' ICFR to express an adverse opinion and reissued its reports.

The following tables and graphs summarize inspection-related information, by inspection year, for 2018 and the previous two inspections. We caution 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		
	2018	2017	2016
Did not perform sufficient testing related to an account or significant portion of an account or to address an identified risk	5	2	4
Did not perform substantive procedures to obtain sufficient evidence as a result of overreliance on controls (due to deficiencies in testing controls)	4	3	5
Did not sufficiently evaluate significant assumptions or data that the issuer used in developing an estimate	3	5	9
Did not perform sufficient testing for the sample of transactions selected for testing	3	0	2

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2018	2017	2016
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	5	7	10
Did not identify and test any controls related to a significant account or relevant assertion	4	4	4
Did not identify and/or sufficiently test controls over the accuracy and completeness of data or reports	3	3	5

Audit Areas Most Frequently Reviewed

This table reflects the five focus 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.

2018			2017			2016		
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	18	5	**Revenue and related accounts**	19	3	**Revenue and related accounts**	18	6
Inventory	9	1	**Inventory**	14	1	**Inventory**	9	4
Income taxes	7	2	**Business combinations**	7	2	**Business combinations**	9	2
Investment securities	5	0	**Long-lived assets**	6	0	**Goodwill and intangible assets**	9	2
Long-lived assets	5	1	**Income taxes**	4	1	**Long-lived assets**	7	2

Audit Areas with Frequent Part I.A Deficiencies

This table reflects the focus 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	2018		2017		2016	
	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	5	18	3	19	6	18
Income taxes	2	7	1	4	0	4
Allowance for loan losses	2	2	1	2	2	2
Deposit liabilities	2	2	0	0	0	0
Inventory	1	9	1	14	4	9
Business combinations	1	4	2	7	2	9

Revenue and related accounts: The deficiencies in 2018, 2017, and 2016 primarily related to substantive testing of, and testing controls over, revenue.

Income taxes: The deficiencies in 2018 and 2017 primarily related to testing controls involving the issuer's review of income taxes, including uncertain tax positions and the tax provision.

Allowance for loan losses: The deficiencies in 2018, 2017, and 2016 related to substantive testing of, and testing controls over, the valuation of the allowance for loan losses.

Deposit liabilities: The deficiencies in 2018 primarily related to substantive testing of the recorded balance of deposit liabilities.

Inventory: The deficiencies in 2018, 2017, and 2016 primarily related to substantive testing of, and testing controls over, the existence of inventory, including cycle-count controls. The deficiencies in 2016 also included testing controls over the valuation of inventory.

Business combinations: The deficiencies in 2018, 2017, and 2016 primarily related to substantive testing of, and testing controls over, assumptions used by the issuer to determine the fair values of acquired assets. The deficiencies in 2017 and 2016 also included testing controls over assets acquired and liabilities assumed in a business combination.

Auditing Standards Associated with Identified Part I.A Deficiencies

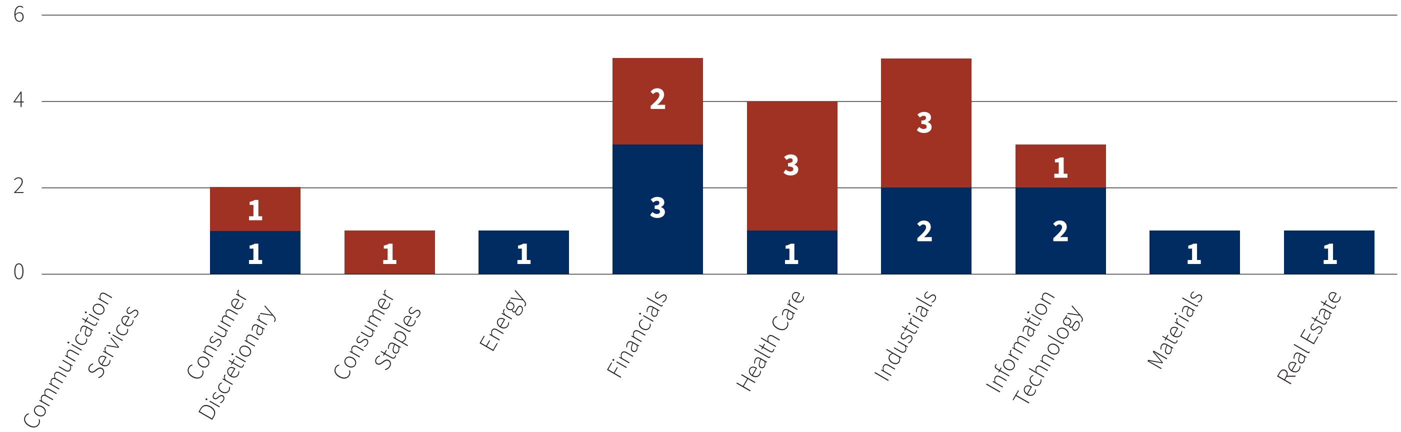
The following lists the auditing standards referenced in Part I.A of the 2018 and the previous two inspection reports and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2018	2017	2016
AS 1105, ***Audit Evidence***	2	1	0
AS 1210, ***Using the Work of a Specialist***	0	0	2
AS 2110, ***Identifying and Assessing Risks of Material Misstatement***	0	0	3
AS 2201, ***An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements***	19	25	38
AS 2301, ***The Auditor's Responses to the Risks of Material Misstatement***	9	3	14
AS 2305, ***Substantive Analytical Procedures***	0	0	1
AS 2310, ***The Confirmation Process***	2	0	1
AS 2315, ***Audit Sampling***	6	6	10
AS 2401, ***Consideration of Fraud in a Financial Statement Audit***	0	0	1
AS 2501, ***Auditing Accounting Estimates***	3	6	8
AS 2502, ***Auditing Fair Value Measurements and Disclosures***	1	1	12
AS 2510, ***Auditing Inventories***	0	1	1
AS 2810, ***Evaluating Audit Results***	0	3	2

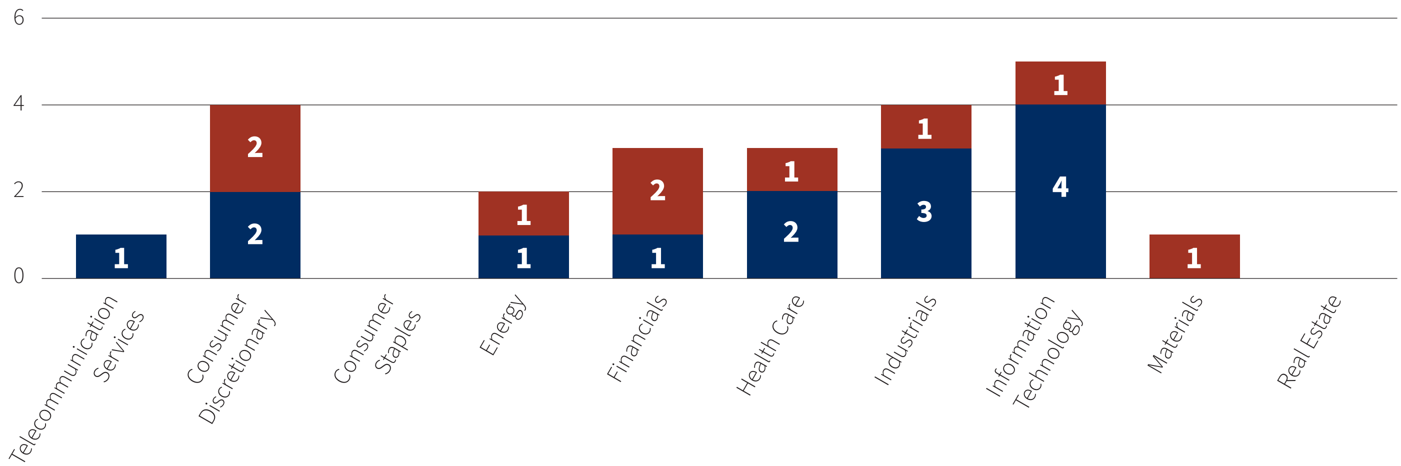
Inspection Results by Issuer Industry Sector

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.

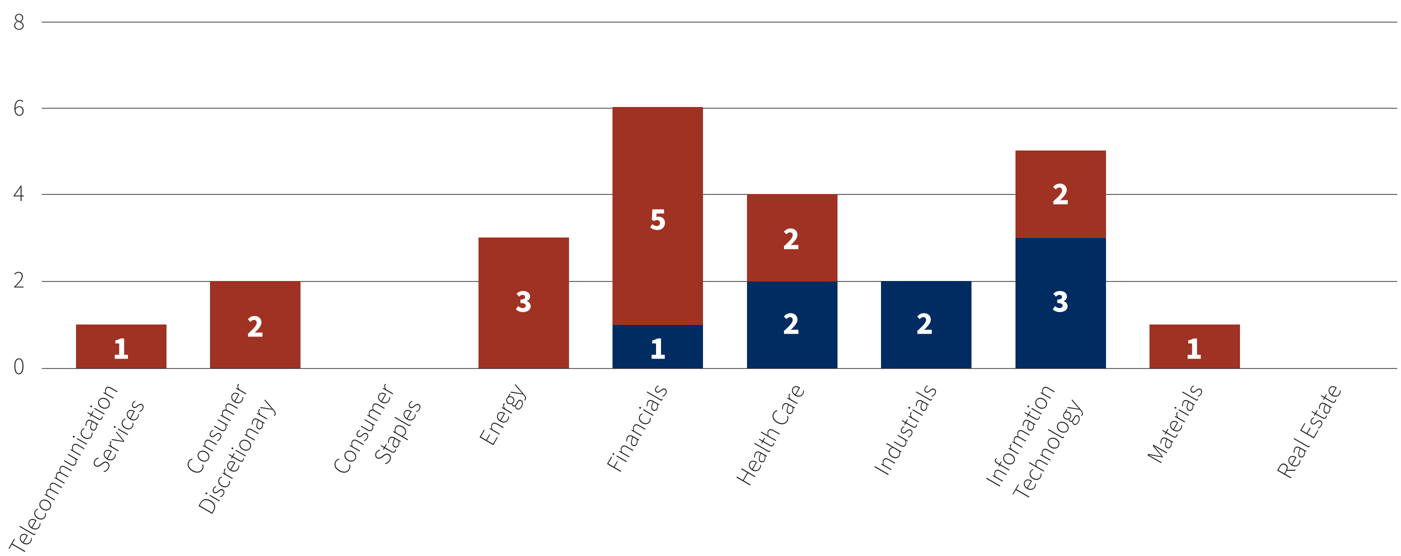
2018



2017



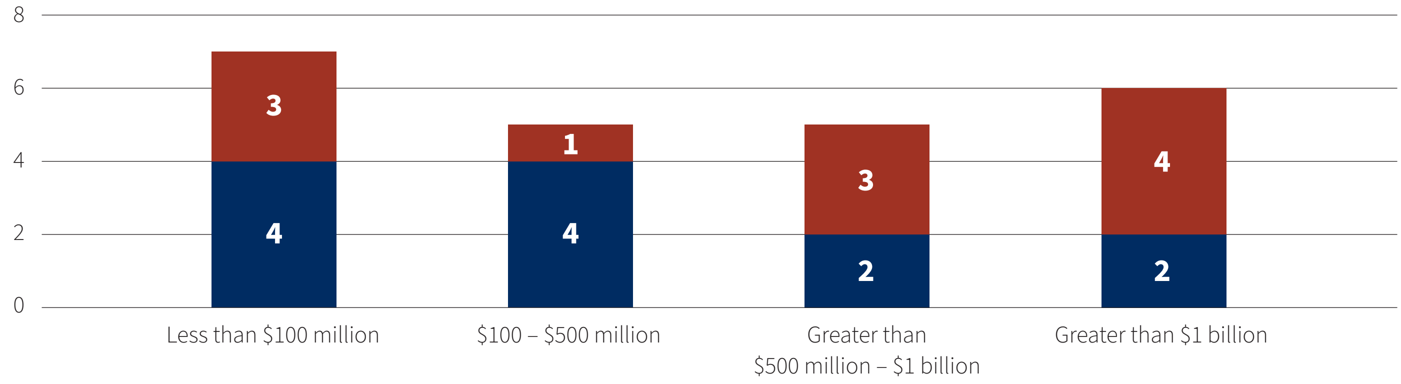
2016



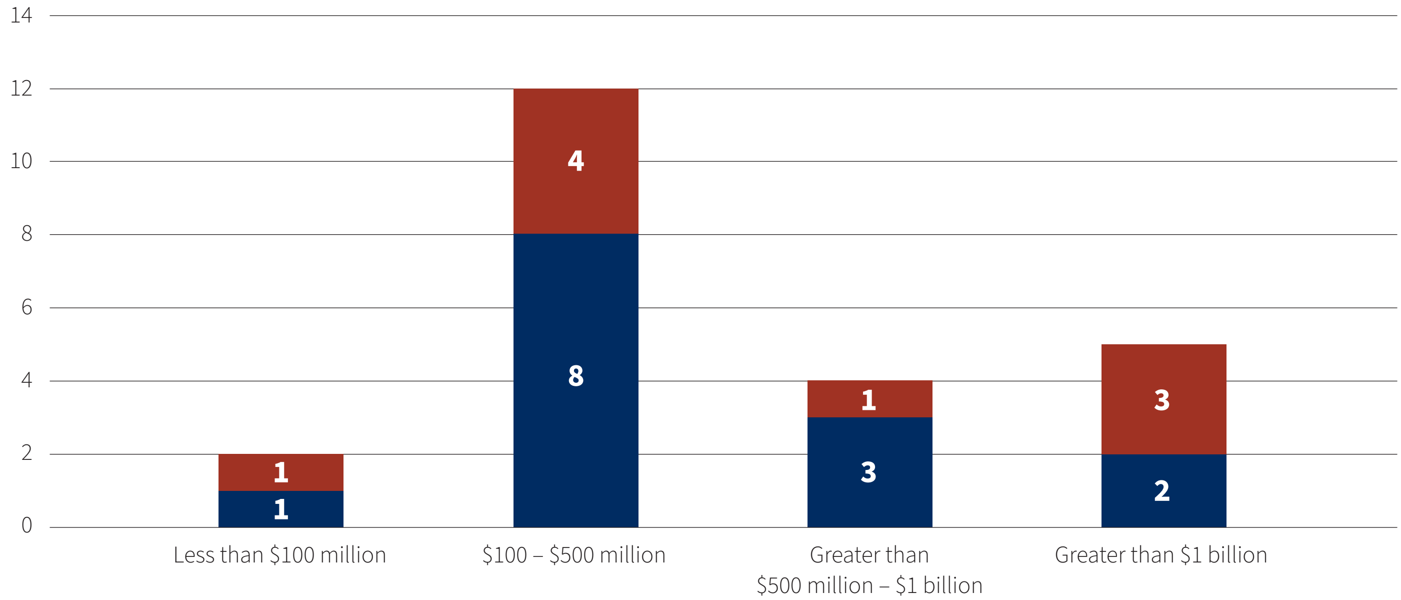
Audits without Part I.A deficiencies   Audits with Part I.A deficiencies

Inspection Results by Issuer Revenue Range

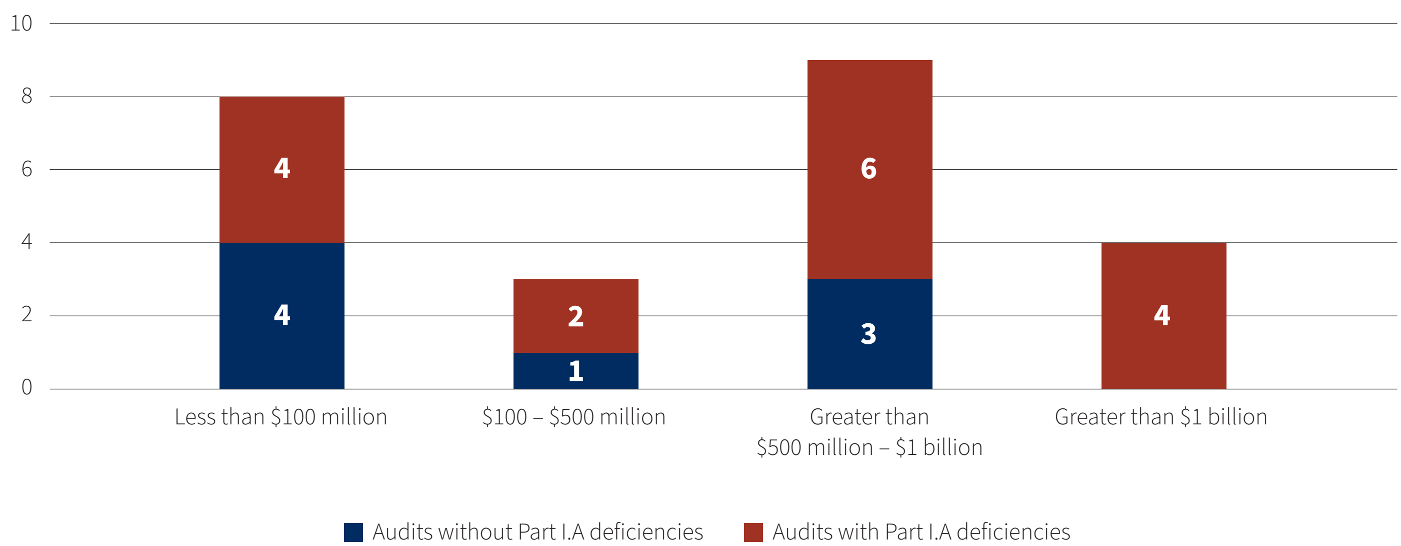
2018



2017



2016



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 sole 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 an audit 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 an audit 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 modified its report, on ICFR.

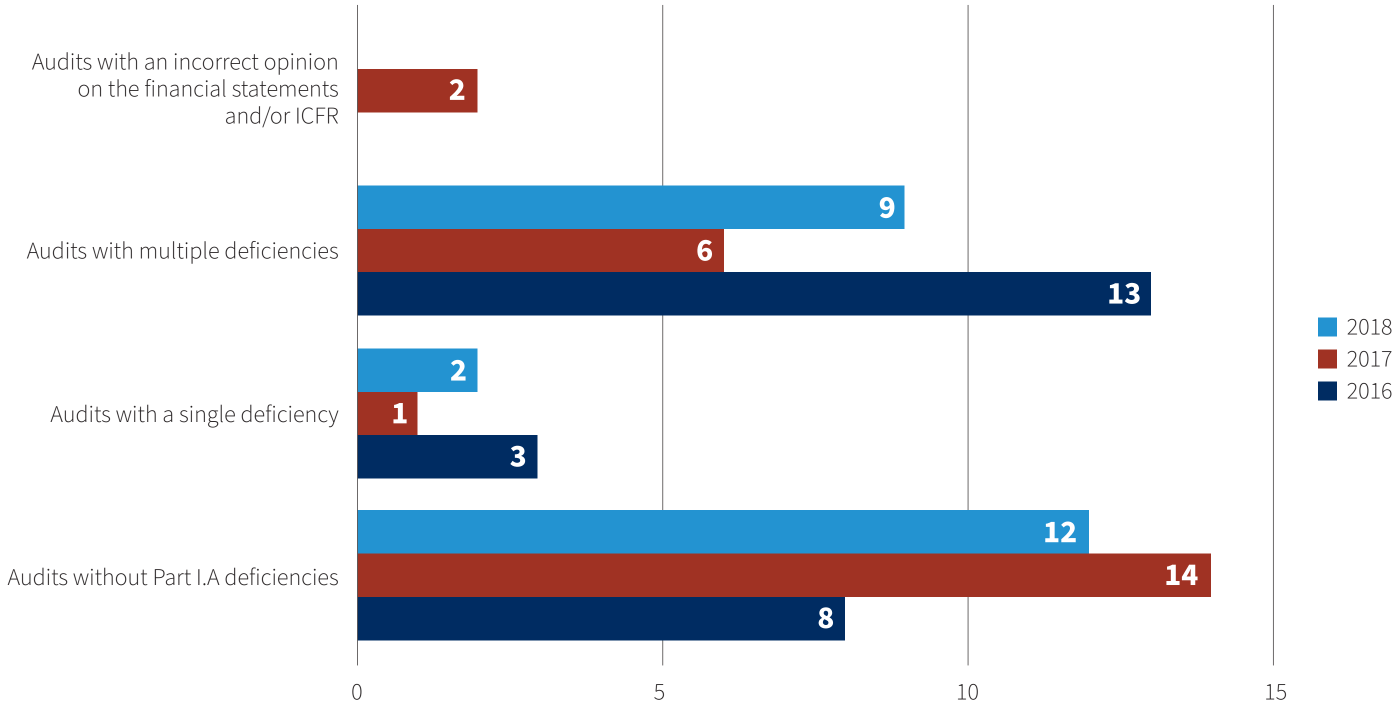
Audits with Multiple Deficiencies

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 on the issuer's financial statements and/or ICFR. Part I.B discusses deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. 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. Any such criticisms or potential defects are discussed in Part II. Further, you should not infer from any Part I deficiency or combination of deficiencies that a quality control finding is identified 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 on the issuer's financial statements and/or ICFR.

We identify each issuer by a letter (e.g., Issuer A) and industry sector. 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.

Issuer audits are presented 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

None

Audits with Multiple Deficiencies

Issuer A – 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 Loan Losses ("ALL")** and **Deposit Liabilities**.

Description of the deficiencies identified

With respect to the **ALL**:

The firm selected for testing a control that consisted of an annual review of certain loans, including an evaluation of loan grades. The loan grade was an important input in determining whether a loan would be individually evaluated for impairment or considered as part of the general reserve component of the ALL. The firm did not evaluate the specific review procedures that the control owner performed to evaluate the appropriateness of the loan grade. (AS 2201.42 and .44)

The firm selected for testing controls over the review of non-accrual loans and loans identified as troubled debt restructurings. The firm did not identify and test any controls over the accuracy and completeness of the reports that the control owners reviewed in the performance of these controls. (AS 2201.39)

The firm did not identify and test any controls over the issuer's identification of other loans with impairment indicators that had not already been placed in non-accrual status or identified as troubled debt restructurings. (AS 2201.39)

The firm's sample to test the reasonableness of loan grades was too small because, in determining its sample size, the firm did not appropriately consider the characteristics of the population. (AS 2315.23 and .23A)

The issuer used a model to estimate the general reserve component of the ALL, which consisted of quantitative, qualitative, and unallocated components. The unallocated component represented a significant portion of the general reserve. The following deficiencies were identified:

- The firm selected for testing a control that consisted of the evaluation of the reasonableness of the ALL, including the general reserve. The firm did not evaluate the specific review procedures the control owner performed to assess the reasonableness of certain assumptions used to estimate the general reserve. (AS 2201.42 and .44)
- With respect to the firm's substantive testing of the general reserve, the firm did not test the reasonableness of the significant unallocated component, beyond comparing the current year's general reserve to the prior year's. (AS 2501.07)

With respect to **Deposit Liabilities**:

The firm did not identify and test any controls over the accuracy and completeness of the deposit transaction data that were input into the issuer's deposits system. (AS 2201.39)

The issuer placed items in deposit suspense accounts when the items required further evaluation. The firm did not identify and test any controls over the review of items in certain of these accounts and whether those items were appropriately resolved. (AS 2201.39)

The sample sizes the firm used in certain of its substantive procedures to test deposit liabilities 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 deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

The firm sent positive confirmation requests to the issuer's customers for a sample of deposit liabilities. For the items in its sample for which the requested confirmations were not returned, or were returned with exceptions, the firm did not perform alternative procedures that provided sufficient evidence that the recorded amounts of the deposit liabilities were accurate as of the confirmation date. (AS 2310.31)

Issuer B – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to the **ALL**, **Loans Receivable**, and **Deposit Liabilities**.

Description of the deficiencies identified

With respect to the **ALL**:

The issuer assigned a loan grade to each loan. The loan grade was an important input in determining whether the loan would be individually evaluated for impairment or considered as part of the general reserve. The firm's sample to test the reasonableness of loan grades was too small because, in determining its sample size, the firm did not appropriately consider the characteristics of the population. (AS 2315.23 and .23A)

The firm performed various substantive procedures to evaluate the reasonableness of the methods and assumptions the issuer used to calculate the qualitative component of the general reserve of the ALL for originated loans. The firm did not evaluate the reasonableness of certain assumptions the issuer used to estimate the underlying qualitative factors, beyond comparing these factors to prior periods, inquiring about any changes, and recalculating the reserve. (AS 2501.10)

The issuer allocated loans between purchased loans and originated loans for each of six types of loans and then applied different loss rates to each population. The firm did not test the accuracy of the allocation of loans between purchased loans and originated loans. (AS 2501.10)

With respect to **Loans Receivable**:

The issuer engaged service providers to process loan payments, based on loan information provided by the issuer, for a significant portion of the issuer's loans receivable. The firm's testing of these loans receivable was insufficient because its procedures were limited to confirming loan information with these service providers. (AS 1105.04 and .08)

The firm did not perform any substantive procedures to test loan premiums and discounts. (AS 2301.36)

With respect to **Deposit Liabilities**:

The firm sent positive confirmation requests to the issuer's customers for a sample of deposit liabilities. For the items in its sample for which the requested confirmations were not returned, or were returned with exceptions, the firm did not perform alternative procedures that provided sufficient evidence that the recorded amounts of the deposit liabilities were accurate as of the confirmation date. (AS 2310.31)

Issuer C – Industrials

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Revenue**:

The issuer recognized revenue for each of its three segments based on the terms underlying its contracts with customers. The firm did not identify and test any controls over the identification and consideration of contract terms that would affect revenue recognition. (AS 2201.39)

The firm tested certain automated and information technology ("IT") dependent manual controls over revenue that used data and reports generated or maintained by the issuer's revenue systems. The firm tested IT general controls ("ITGCs") over these systems and identified multiple control deficiencies at two of the issuer's segments. In performing its testing of identified compensating controls for those segments, the firm did not identify that the control owners used information in the performance of two of these compensating controls that was produced by the systems that were subject to the ITGC deficiencies. (AS 2201.68)

The sample sizes the firm used in certain of 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 deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

In the firm's tests of details of revenue for one of the issuer's segments, which recorded revenue at the date of shipment, the firm did not identify and evaluate, for multiple transactions selected for testing, the significant differences between the date of shipment and the date revenue was recognized. (AS 2301.08)

In performing its cut-off testing, the firm did not test, or in the alternative, test any controls over, the accuracy and completeness of the system-generated reports from which it made its selections for testing. (AS 1105.10)

With respect to a **Business Combination**:

During the year, the issuer acquired a business. The firm did not test the reasonableness of the expected gross margin the issuer used to estimate the fair value of acquired finished goods inventory. (AS 2502.26 and .28)

Issuer D – Health Care

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 firm did not identify and test any controls over the review of contracts that provided preferred pricing to certain customers or controls to determine that the prices charged to customers were consistent with the contracts. (AS 2201.39)

The firm did not perform any substantive procedures to test revenue from contracts that provided preferred pricing to certain customers, including procedures to (1) identify and evaluate any contract terms that would affect revenue recognition and (2) evaluate whether the prices charged were consistent with the customer contracts. (AS 2301.08)

Issuer E – Consumer Staples

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 firm did not identify and test any controls over the review of contracts that provided preferred pricing to certain customers or controls to determine that the prices charged to customers were consistent with the contracts. (AS 2201.39)

The firm did not perform any substantive procedures to test revenue from contracts that provided preferred pricing to certain customers, including procedures to (1) identify and evaluate any contract terms that would affect revenue recognition and (2) evaluate whether the prices charged were consistent with the customer contracts. (AS 2301.08)

Issuer F – Health Care

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 firm selected for testing controls over revenue consisting of reviews of (1) monthly reports used to record sales and (2) quarterly sales adjustments. The firm did not evaluate the review procedures that the control owners performed, including the criteria the control owners used to identify items for follow up and whether those items were appropriately resolved. (AS 2201.42 and .44)

The sample size the firm used in certain of its substantive procedures to test revenue 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 deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer G – Industrials

Type of audit and related area affected

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

Description of the deficiencies identified

The firm selected for testing a control that consisted of a quarterly review of the provision for income taxes. The firm did not identify and test any controls over the accuracy and completeness of the information used by the control owner in the performance of this control. (AS 2201.39)

The issuer's deferred tax liabilities were primarily related to timing differences between book and tax depreciation expense for property and equipment. The firm did not perform any substantive procedures to test tax depreciation. (AS 2301.08)

Issuer H – Health Care

Type of audit and related area affected

In our review, we identified deficiencies in the ICFR audit related to **Revenue**.

Description of the deficiencies identified

The issuer used two service organizations to process certain revenue. For one service organization, the firm did not perform any procedures to obtain evidence regarding the service organization's controls for the year under audit. For the other service organization, the firm did not perform any procedures to ascertain whether there were any changes in the service organization's controls from the date of the service auditor's report, which was 11 months before year end. In addition, the firm selected for testing certain IT-dependent manual controls over this revenue that used data and reports from the two service organizations. The firm's testing of these controls was insufficient due to the deficiencies discussed above. (AS 2201.39, .B19, .B24, and .B25)

Issuer I – Consumer Discretionary

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Capitalized Internally Developed Software**.

Description of the deficiencies identified

The firm selected for testing four controls over the capitalization of internally developed software. The firm did not evaluate the specific review procedures that the control owners performed to evaluate whether project costs met the criteria for capitalization in conformity with FASB ASC Subtopic 350-40, *Intangibles – Goodwill and Other – Internal-Use Software*. (AS 2201.42 and .44)

Three of the four controls discussed above used reports generated by the issuer's project management system, for which the firm tested ITGCs. The firm identified a deficiency related to certain individuals having privileged access to this system that could circumvent controls but did not evaluate the severity of this deficiency. (AS 2201.62) In addition, the firm selected for testing a control over change management for the project management system. The firm tested this control through the second quarter but did not perform any procedures to update the results of its testing from that interim date to the issuer's year end. (AS 2201.55 and .56) As a result of these testing deficiencies, the firm's testing of the three controls discussed above was not sufficient because these controls used reports generated by this system. (AS 2201.46 and .47)

The sample sizes the firm used in certain of its substantive procedures to test capitalized internally developed software costs 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 deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Audits with a Single Deficiency

Issuer J – Industrials

Type of audit and related area affected

In our review, we identified a deficiency in the ICFR audit related to **Inventory**.

Description of the deficiency identified

The issuer stored certain raw materials in boxes with varying quantities. The firm selected for testing a cycle-count control over the existence of this inventory that consisted of (1) selecting a daily count location within the warehouse and counting the boxes of inventory in that location and (2) counting the contents of a small number of these boxes. In testing the cycle-count procedures that the issuer used for this inventory, the firm did not evaluate whether the control was appropriately designed because the control owner was only required to count the contents of a small number of boxes in the selected daily count location. Further, the firm did not test whether this control addressed that all inventory locations within the warehouse were counted during the period. (AS 2201.42)

Issuer K – Information Technology

Type of audit and related area affected

In our review, we identified a deficiency in the ICFR audit related to **Income Taxes**.

Description of the deficiency identified

The firm selected for testing a control that consisted of a review of uncertain tax positions. The firm did not evaluate the review procedures that the control owner performed, including the criteria the control owner used to identify items for follow up and whether those items were appropriately resolved. (AS 2201.42 and .44)

Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules

This section of our report discusses any deficiencies we identified that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not reviewed on every audit inspected.

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 one of 23 audits reviewed, the firm did not include all relevant work papers in the final set of audit documentation for retention it was required to assemble. In this instance, the firm was non-compliant with AS 1215, *Audit Documentation*.
- In two of five audits reviewed, the firm did not document the substance of its discussions with the audit committee about the potential effects of permissible tax services on the independence of the firm. In these instances, the firm was non-compliant with PCAOB Rule 3524, *Audit Committee Pre-approval of Certain Tax Services*.
- In one of five audits reviewed, the firm did not document the substance of its discussions with the audit committee about the potential effects of the relationships that, as of the date of the firm's annual communication, may have been reasonably thought to bear on the independence of the firm. In this instance, the firm was non-compliant with PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*.

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.

Deficiencies are included 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.

Any changes or improvements to its system of quality control that the firm may have brought to the Board's attention may not be reflected in this report, but are taken into account during the Board's assessment of whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

Criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified, are nonpublic when the reports are issued. 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, any such deficiency will be made public.

Application of Professional Skepticism

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm's personnel will appropriately exercise the professional skepticism required by PCAOB standards in the performance of issuer audits. (QC 20.03 and .17) The application of professional skepticism is essential to the performance of effective audits under PCAOB standards, and a lack of professional skepticism can have a pervasive effect on an audit.

In eight audits,[1] all of which are included in Part I.A, the inspection team identified deficiencies that appeared to have been caused, at least in part, by the firm's personnel not appropriately exercising professional skepticism. In five of these audits,[2] the firm's personnel did not appropriately exercise professional skepticism in an area where they had identified a significant risk, including in one case a fraud risk. These deficiencies included instances in which the firm did not (1) evaluate, or sufficiently evaluate, the reasonableness of certain significant assumptions that the issuer used to develop estimates; (2) identify, and sufficiently assess, relevant risks of material misstatement of a significant account; (3) perform any substantive procedures to test a significant account; or (4) evaluate the review procedures for certain controls that included a review element because its procedures were focused primarily on obtaining evidence, including through inquiry and inspection of documentation, that indicated that a review had occurred without evaluating the review procedures the control owners performed.

Testing Controls and Evaluating Control Deficiencies

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the work performed by the firm's personnel with respect to testing controls and evaluating control deficiencies will meet the requirements of AS 2201 and AS 2301. (QC 20.03 and .17)

The inspection team identified deficiencies in the firm's testing of controls in (9) audits,[3] **** included in Part I.A,[4] in the following areas: (1) identifying and testing controls that address risks of material misstatement, (2) testing controls that include a review element, **** and (4) identifying and testing controls over the accuracy and completeness of data or reports.

[1] Issuers A, B, C, D, E, F, G, and I

[2] Issuers A, B, C, E, and F

[3] Issuers A, C, D, E, F, G, H, I, K, ****

[4] Issuers A, C, D, E, F, G, H, I, and K

Addressing the concerns and monitoring the effects of the actions taken regarding testing controls and evaluating control deficiencies are critical because (1) the results of these procedures are used to support the firm's opinion on the effectiveness of ICFR and (2) control reliance is often used as the basis for modifying the nature, timing, and extent of substantive testing in audits of financial statements. The inspection team identified four audits,[5] all of which are included in Part I.A, in which the substantive procedures to test certain significant accounts did not provide sufficient appropriate audit evidence, at least in part, because the firm designed those substantive procedures based on a level of control reliance that was not supported due to deficiencies in its testing of controls or evaluation of control deficiencies.

Identifying and Testing Controls that Address Risks of Material Misstatement

In four audits,[6] all of which are included in Part I.A, the firm did not identify and test controls that sufficiently addressed the risks of material misstatement related to relevant assertions of certain significant accounts.

Testing Controls that Include a Review Element

In five audits,[7] all of which are included in Part I.A, the firm did not sufficiently evaluate whether controls that it selected for testing that included a review element operated at a level of precision that would prevent or detect material misstatements because the firm did not evaluate the review procedures the control owners performed, including instances in which the firm did not evaluate (1) the criteria used to identify items for follow up and (2) the resolution of such items.

****

Identifying and Testing Controls Over Data or Reports

In five audits,[10] all of which are included in Part I.A, the firm did not identify and test controls over the accuracy and completeness of data or reports that the issuer used in the operation of controls that the firm tested.

Supervision of the Audit

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the supervisory activities, including reviews of audit work, performed by the firm's engagement partners will meet the requirements of AS 1201. (QC 20.03 and .17)

In nine audits,[11] all of which are included in Part I.A, the inspection team identified one or more audit deficiencies that the engagement partner, or an assisting partner who performed supervisory activities, should have identified and appropriately addressed but did not. In four of these audits,[12] the engagement team had identified a significant risk, including in some cases a fraud risk, in the area in which a deficiency was identified.

Engagement Quality Review

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the review procedures performed by the firm's engagement quality review ("EQR") partners will meet the requirements of AS 1220. (QC 20.03 and .17)

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[5] Issuers A, C, F, and I

[6] Issuers A, C, D, and E

[7] Issuers A, C, F, I, and K

[8] ****

[9] ****

[10] Issuers A, C, G, H, and I

[11] Issuers A, B, C, D, E, F, H, I, and K

[12] Issuers A, B, C, and F

In four audits,[13] all of which are included in Part I.A, the inspection team identified one or more audit deficiencies in an area that the EQR partner was required to evaluate. In all of these audits, the EQR partner did not identify and appropriately address a deficiency in an area of significant risk, including in some cases a fraud risk.

* * * *

[13] Issuers A, B, C, and F

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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April 3, 2020

Mr. George Botic
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 2018 Inspection of BDO USA, LLP

Dear Mr. Botic:

We are pleased to provide our response to Part I of the Public Company Accounting Oversight Board's ("PCAOB") Draft Report on the 2018 inspection of BDO USA, LLP.

We have evaluated each of the matters described in Part I.A and I.B of the Draft Report and have taken appropriate actions under both PCAOB standards and our policies, including all necessary steps to comply with 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*.

With respect to the archiving matter noted in Part I.B, we want to clarify that the firm assembled a final set of audit documentation for retention within 45 days of the report release date, but the final set of retained documentation contained an older version of seven (7) working papers. The final versions of such working papers were subsequently recovered and added to the archived files.

We remain committed in making audit quality our top priority. The PCAOB's inspection process assists us in improving our audit performance and our underlying quality control systems. We look forward to continuing to work with the PCAOB on the most effective means of achieving this objective.

Respectfully submitted,

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New York, NY 10017

April 3, 2020

Mr. George Botic
Director
Division of Registration and Inspections
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1666 K Street, N.W.
Washington, DC 20006

Re: Response to the Non-public Portion of the Draft Report on the 2018 Inspection of BDO USA, LLP

Dear Mr. Botic:

We appreciate this opportunity to provide our response to Part II of the Public Company Accounting Oversight Board's ("PCAOB") Draft Report on the 2018 inspection of BDO USA, LLP. We have separately provided our response to Part I of the Draft Report as of the same date.

We wish to emphasize the seriousness with which we take the matters described in Part II of the Draft Report. In that regard, we will re-evaluate actions previously taken, as well as undertake any new measures we consider necessary to address these matters.

Our remediation action plans relative to the specific matters discussed in Part II of the Draft Report will be submitted to the PCAOB at a subsequent date and will contain the actions already implemented as well as future plans for each of the matters covered by the Draft Report. Firm leadership will continue to endorse and support the efforts to improve audit quality and make it our top priority.

We look forward to our continuing dialogue with your staff in order to ensure that our actions are fully responsive to the Board's expectations and, if not, that we take additional timely actions to achieve that goal.

Respectfully submitted,

BDO USA, LLP