

---

# 2019 Inspection BDO USA, LLP

(Headquartered in Chicago, Illinois)

December 17, 2020

**PCAOB**

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. 104-2021-003A

(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2021-003)

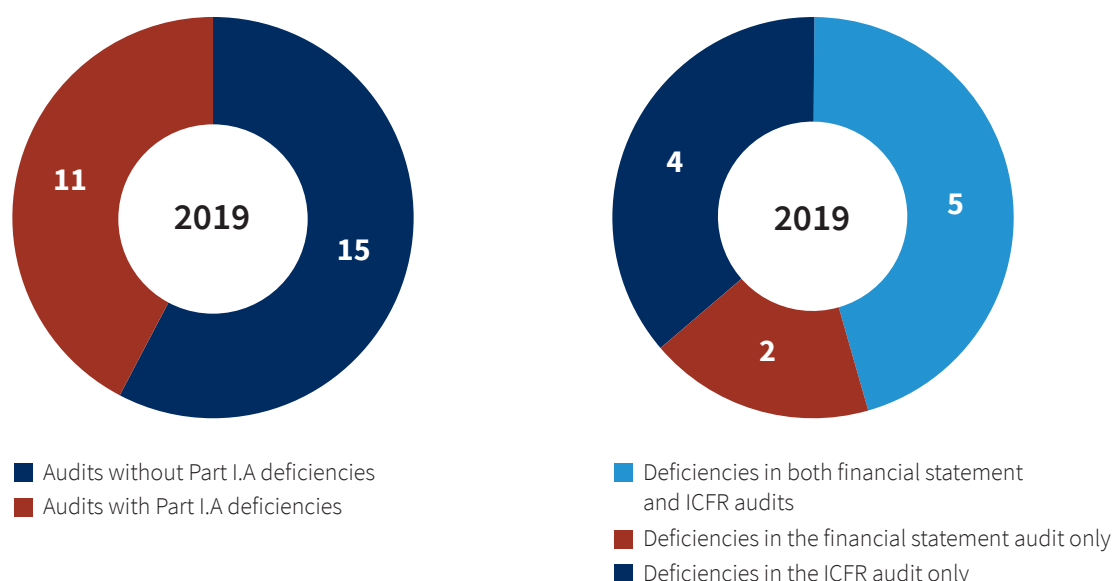
# Executive Summary

Our 2019 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 2019 Deficiencies Included in Part I

Eleven of the 26 issuer audits we reviewed in 2019 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 and income taxes.



The most common Part I.A deficiencies in 2019 related to testing the design or operating effectiveness of controls selected for testing, identifying controls related to a significant account or relevant assertion, and evaluating significant assumptions or data that the issuer used in developing an estimate.

Other deficiencies identified during the 2019 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 audit committee communications and Form AP.

---

# Table of Contents

2019 Inspection ..... 3

Overview of the 2019 Inspection and Historical Data by Inspection Year..... 5

Part I: Inspection Observations ..... 13

Part I.A: Audits with Unsupported Opinions ..... 13

Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules..... 19

Part II: Observations Related To Quality Control ..... 20

Appendix A: Firm’s Response to the Draft Inspection Report .....A-1

# 2019 Inspection

During the PCAOB's 2019 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 26 audits of issuers with fiscal years generally ending in 2018. 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 2019 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.
- **Part I – Inspection Observations:**
  - o 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.
  - o 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.

## 2019 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 also select audits randomly to provide an element of unpredictability. In 2019, we established a target team to perform inspection procedures in areas of current audit risk and emerging topics. For our target team selections, our review focuses primarily on evaluating the firm's procedures related to that risk or topic.

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.

In 2019, our target team reviews focused, in part, on planning and execution of multi-location audits, including risk assessment, principal auditor considerations, and communications between the principal auditor and the other auditor. We also evaluated the firm's determination and communication of critical audit matters ("CAM"), in particular

to understand the policies and procedures firms put in place to support and monitor the effective implementation of CAM requirements and how audit teams implemented CAM requirements.<sup>1</sup>

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](#).

---

<sup>1</sup> Refer to [Staff Update and Preview of 2019 Inspection Observations](#) and [Critical Audit Matters Spotlight](#) for observations from the target team reviews. Instances of non-compliance with PCAOB standards and rules identified during the target team reviews are included in Part I.A or Part I.B of this report.

# Overview of the 2019 Inspection and Historical Data by Inspection Year

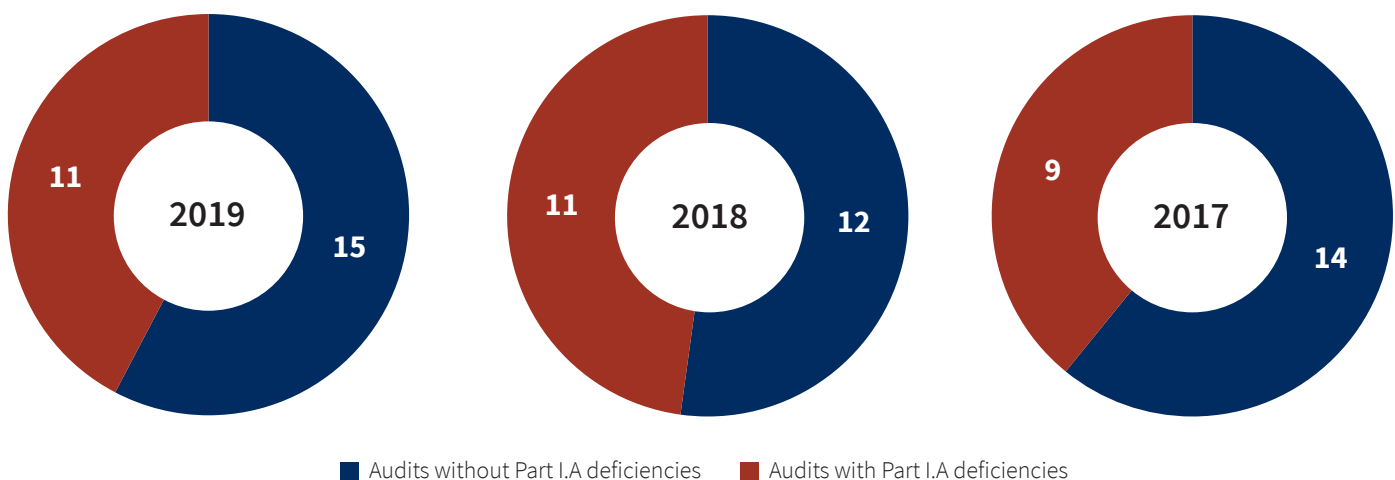
The following information provides an overview of our 2019 inspection as well as data from the previous two inspections. We use a combination of risk-based and random methods to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, 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 Reviewed

|                                                           | 2019 | 2018 | 2017 |
|-----------------------------------------------------------|------|------|------|
| <b>Total audits reviewed</b>                              | 26   | 23   | 23   |
| <b>Audits in which the firm was the principal auditor</b> | 26   | 23   | 23   |
| <b>Integrated audits of financial statements and ICFR</b> | 21   | 20   | 20   |
| <b>Risk-based selections</b>                              | 18   | 18   | 18   |
| <b>Random selections</b>                                  | 6    | 5    | 5    |
| <b>Target team selections</b>                             | 2    | 0    | 0    |

## Part I.A Deficiencies in Audits Reviewed

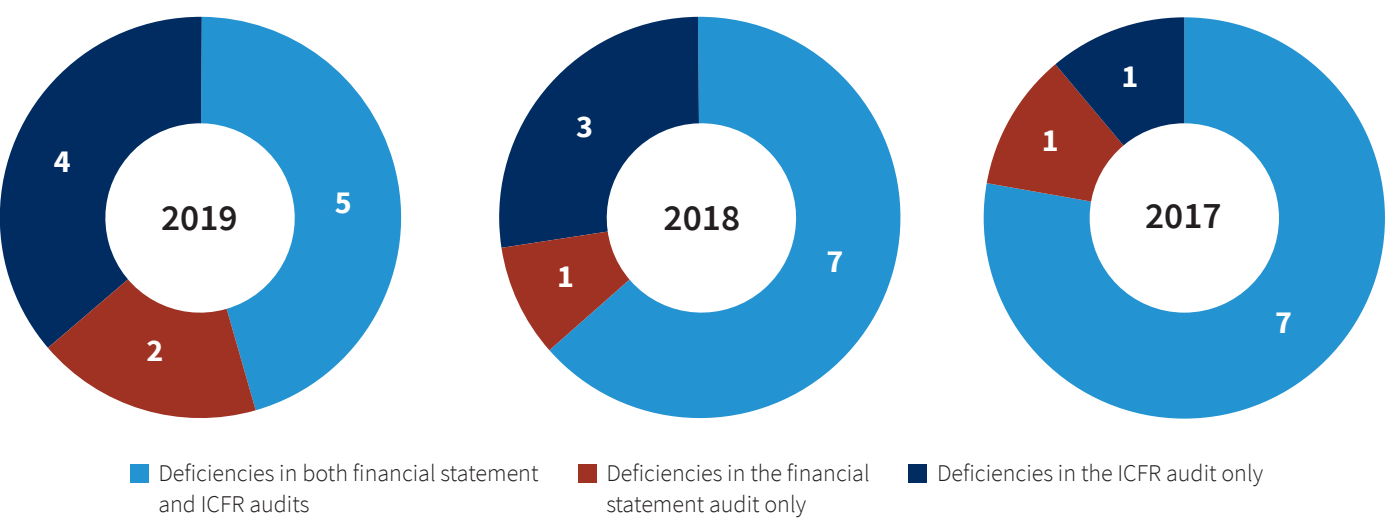
In 2019, nine of the 11 audits appearing in Part I.A were selected for review using risk-based criteria. In 2018, all 11 audits appearing in Part I.A were selected for review using risk-based criteria. In 2017, eight of the nine audits appearing in Part I.A were selected for review using risk-based criteria.



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 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.

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 2019 inspection procedures for one audit, the issuer revised its report on ICFR, and the firm modified its opinion on the effectiveness of the issuer’s ICFR to express an adverse opinion and reissued its report. In connection with our 2017 inspection procedures for two audits, the issuers restated their financial statements and the firm revised and reissued its reports on the financial statements. These issuers also revised their reports on ICFR, and the firm modified its opinions on the effectiveness of the issuers’ ICFR to express an adverse opinion and reissued their reports.

The following tables and graphs summarize inspection-related information, by inspection year, for 2019 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 |      |      |
|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|------|------|
|                                                                                                                                            | 2019                              | 2018 | 2017 |
| Did not sufficiently evaluate significant assumptions or data that the issuer used in developing an estimate                               | 3                                 | 3    | 5    |
| Did not perform sufficient testing related to an account or significant portion of an account or to address an identified risk             | 2                                 | 5    | 2    |
| Did not perform sufficient testing for the sample of transactions selected for testing                                                     | 2                                 | 3    | 0    |
| Did not sufficiently evaluate the appropriateness of the issuer's accounting method or disclosure for one or more transactions or accounts | 2                                 | 0    | 2    |

| Deficiencies in ICFR audits                                                                                                                                | Audits with Part I.A deficiencies |      |      |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|------|------|
|                                                                                                                                                            | 2019                              | 2018 | 2017 |
| Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing                                           | 7                                 | 5    | 7    |
| Did not identify and test any controls related to a significant account or relevant assertion                                                              | 3                                 | 4    | 4    |
| 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 | 2                                 | 3    | 3    |
| Did not appropriately evaluate control deficiencies                                                                                                        | 2                                 | 2    | 2    |

## 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.

| 2019                           |                 |                                   | 2018                         |                 |                                   | 2017                         |                 |                                   |
|--------------------------------|-----------------|-----------------------------------|------------------------------|-----------------|-----------------------------------|------------------------------|-----------------|-----------------------------------|
| 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              | 8                                 | Revenue and related accounts | 18              | 5                                 | Revenue and related accounts | 19              | 3                                 |
| Goodwill and intangible assets | 8               | 1                                 | Inventory                    | 9               | 1                                 | Inventory                    | 14              | 1                                 |
| Inventory                      | 6               | 0                                 | Income taxes                 | 7               | 2                                 | Business combinations        | 7               | 2                                 |
| Other investments              | 5               | 0                                 | Investment securities        | 5               | 0                                 | Long-lived assets            | 6               | 0                                 |
| Income taxes                   | 4               | 3                                 | Long-lived assets            | 5               | 1                                 | Income taxes                 | 4               | 1                                 |

## 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                   | 2019                              |                 | 2018                              |                 | 2017                              |                 |
|------------------------------|-----------------------------------|-----------------|-----------------------------------|-----------------|-----------------------------------|-----------------|
|                              | 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 | 8                                 | 18              | 5                                 | 18              | 3                                 | 19              |
| Income taxes                 | 3                                 | 4               | 2                                 | 7               | 1                                 | 4               |
| Allowance for loan losses    | 1                                 | 2               | 2                                 | 2               | 1                                 | 2               |
| Deposit liabilities          | 0                                 | 0               | 2                                 | 2               | 0                                 | 0               |
| Business combinations        | 1                                 | 4               | 1                                 | 4               | 2                                 | 7               |

**Revenue and related accounts:** The deficiencies in 2019, 2018, and 2017 primarily related to substantive testing of, and testing controls over, revenue.

**Income taxes:** The deficiencies in 2019, 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 2019, 2018, and 2017 related to substantive testing of and/or 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.

**Business combinations:** The deficiencies in 2019, 2018, and 2017 primarily related to substantive testing of, and/or testing controls over, assumptions used by the issuer to determine the fair values of assets acquired and liabilities assumed in a business combination.

## Auditing Standards Associated with Identified Part I.A Deficiencies

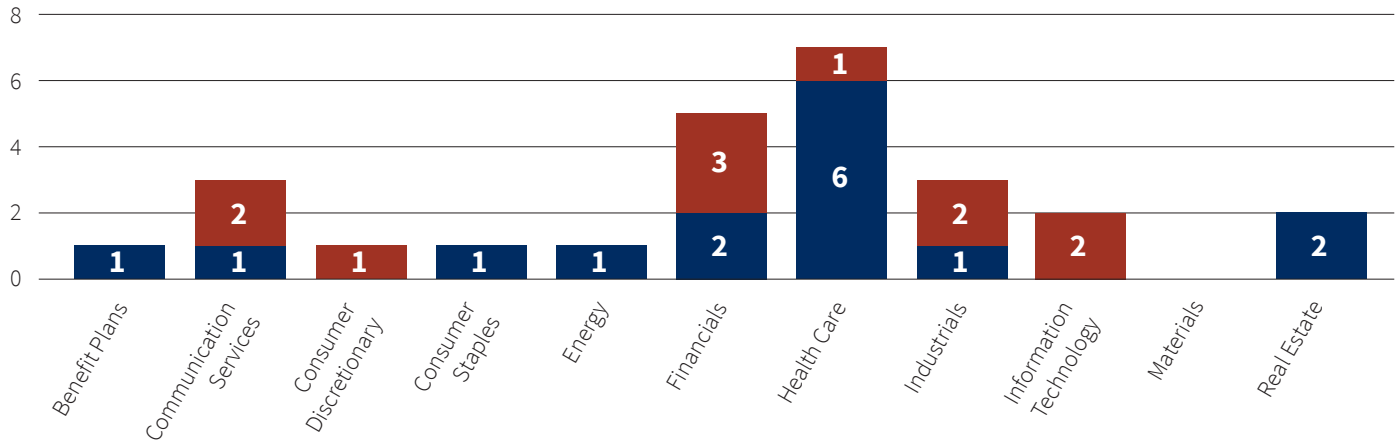
The following lists the auditing standards referenced in Part I.A of the 2019 and the previous two inspection reports and the number of times that the standard is cited in Part I.A.

| PCAOB Auditing Standards                                                                                                       | 2019 | 2018 | 2017 |
|--------------------------------------------------------------------------------------------------------------------------------|------|------|------|
| <i>AS 1105, Audit Evidence</i>                                                                                                 | 0    | 2    | 1    |
| <i>AS 2101, Audit Planning</i>                                                                                                 | 1    | 0    | 0    |
| <i>AS 2201, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i> | 21   | 19   | 25   |
| <i>AS 2301, The Auditor's Responses to the Risks of Material Misstatement</i>                                                  | 4    | 9    | 3    |
| <i>AS 2305, Substantive Analytical Procedures</i>                                                                              | 1    | 0    | 0    |
| <i>AS 2310, The Confirmation Process</i>                                                                                       | 2    | 2    | 0    |
| <i>AS 2315, Audit Sampling</i>                                                                                                 | 1    | 6    | 6    |
| <i>AS 2415, Consideration of an Entity's Ability to Continue as a Going Concern</i>                                            | 1    | 0    | 0    |
| <i>AS 2501, Auditing Accounting Estimates</i>                                                                                  | 2    | 3    | 6    |
| <i>AS 2502, Auditing Fair Value Measurements and Disclosures</i>                                                               | 1    | 1    | 1    |
| <i>AS 2510, Auditing Inventories</i>                                                                                           | 0    | 0    | 1    |
| <i>AS 2810, Evaluating Audit Results</i>                                                                                       | 2    | 0    | 3    |

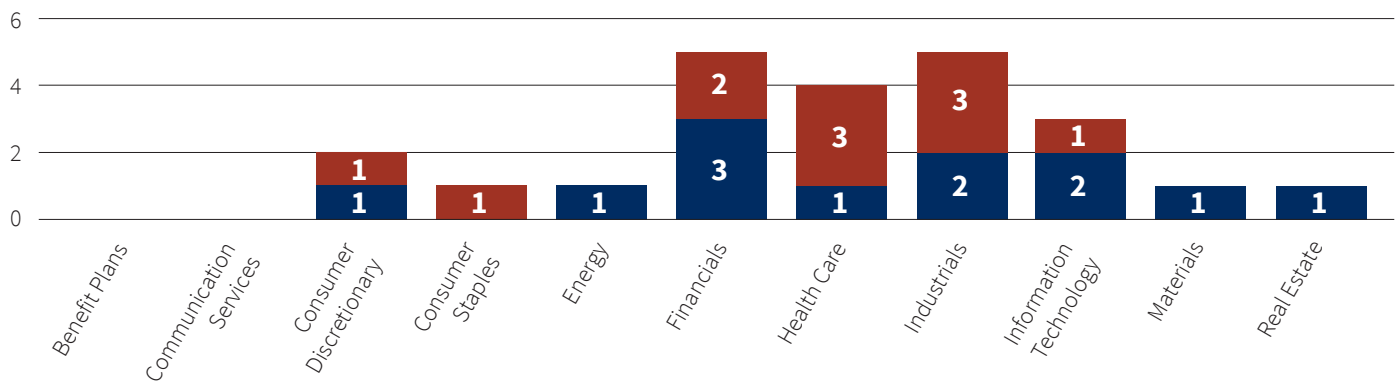
# Inspection Results by Issuer Industry Sector

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.

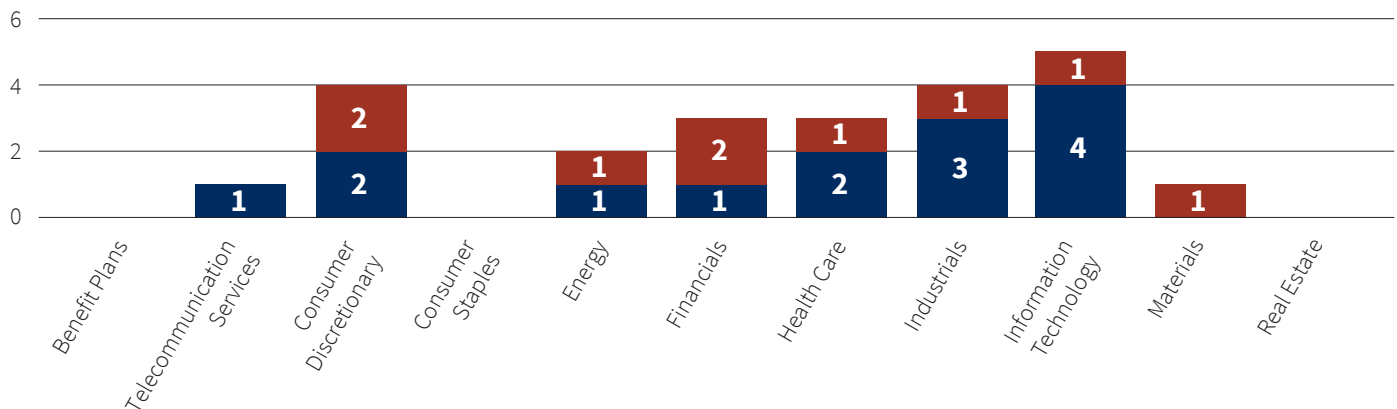
## 2019



## 2018



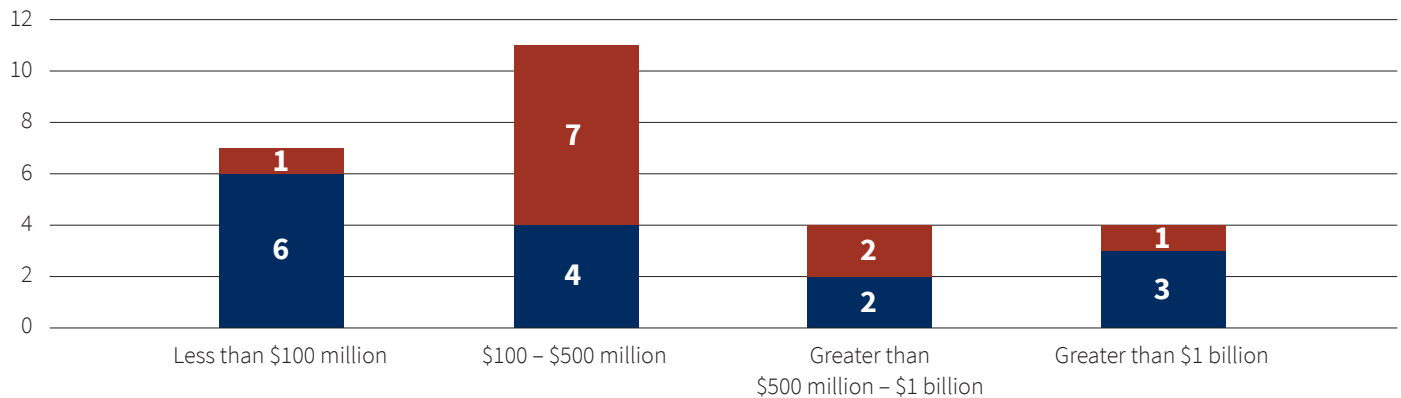
## 2017



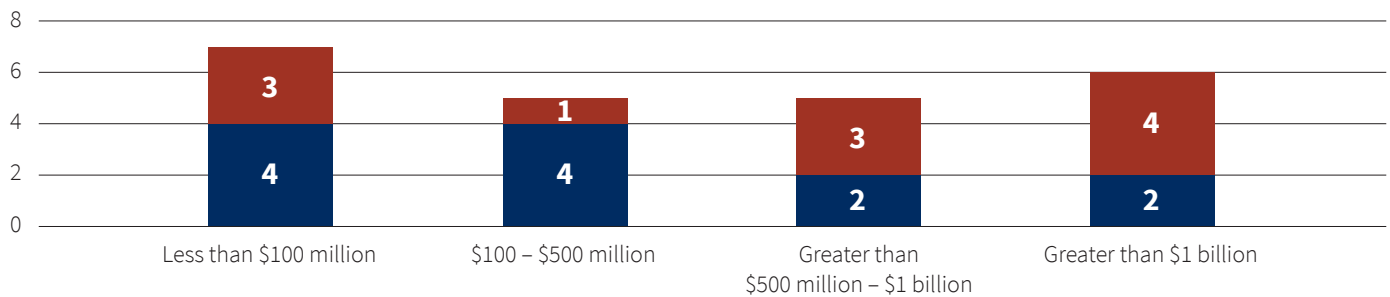
■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

## Inspection Results by Issuer Revenue Range

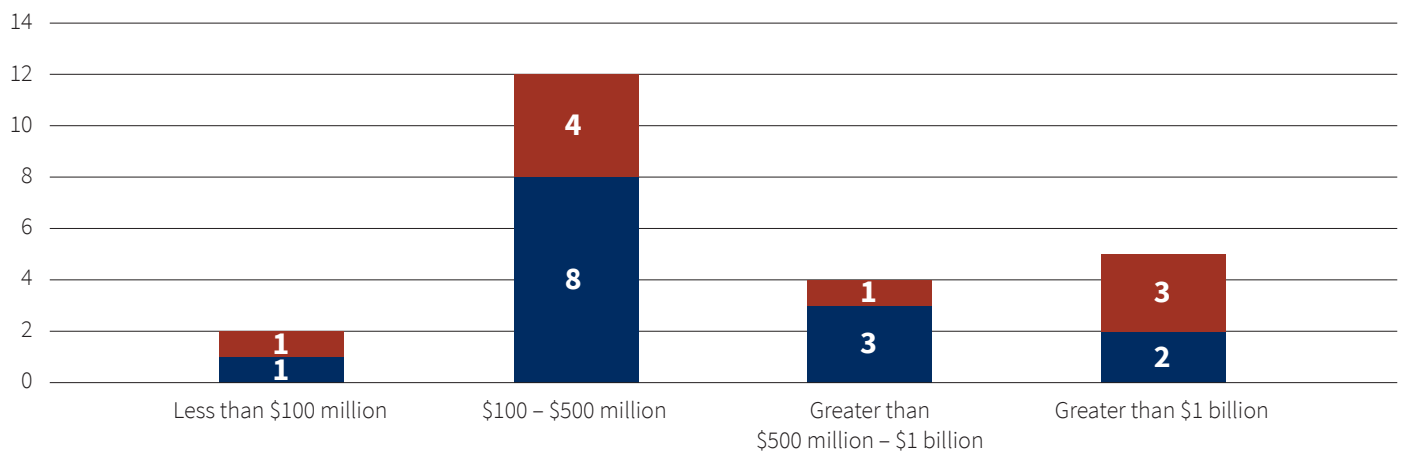
### 2019



### 2018



### 2017



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

## 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 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 modified 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. Any deficiencies identified in connection with our reviews of these audits would be included in the audits with multiple deficiencies or audits with a single deficiency classification below.

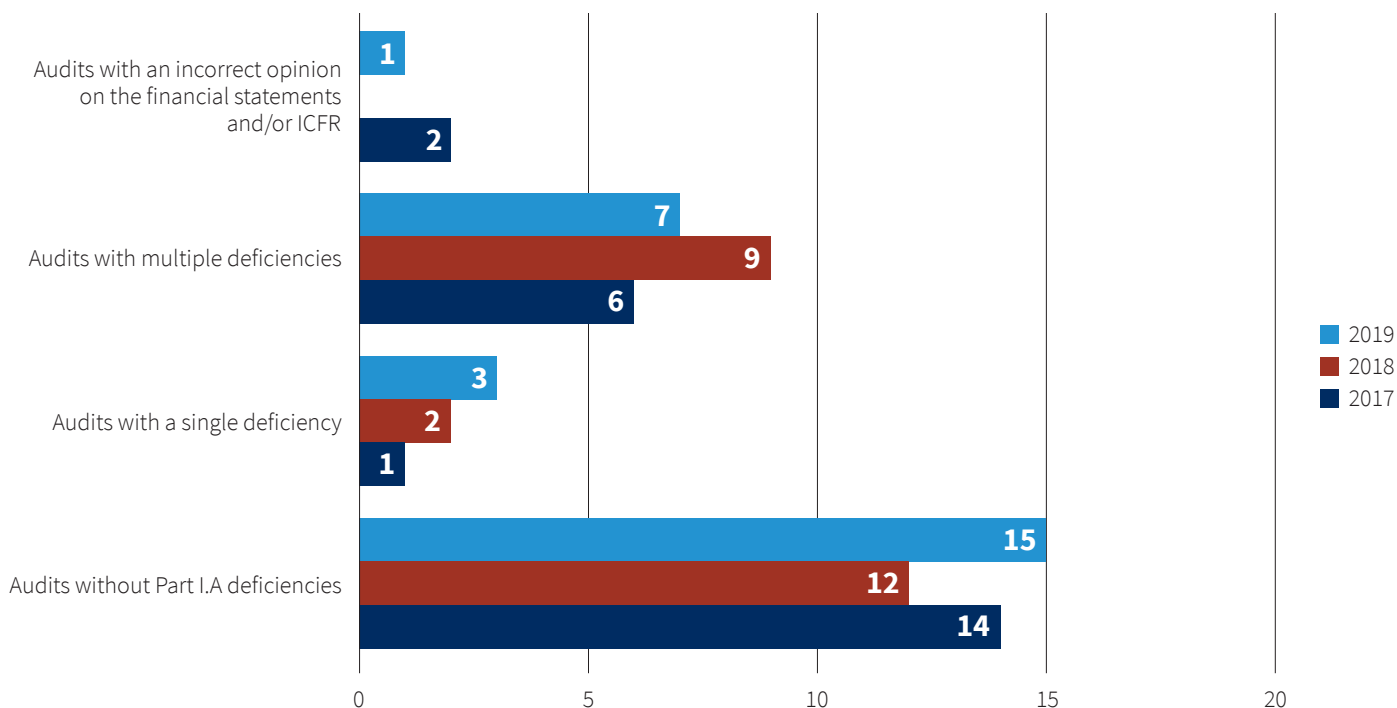
### Audits with Multiple Deficiencies

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 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

#### Issuer A – Industrials

##### 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

With respect to **Revenue** at one of the issuer's business units:

The firm selected for testing a control that consisted of the review of new contracts and certain changes to existing contracts. 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)

The issuer recognized revenue at a point in time. In its evaluation of the issuer's revenue recognition, the firm did not evaluate the specifications of the issuer's products and contracts in determining if there were practical limitations on whether the products had an alternative use in conformity with FASB ASC Topic 606, *Revenue from Contracts with Customers*. (AS 2810.30)

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

# Audits with Multiple Deficiencies

## Issuer B – 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 **Accounts Receivable**.

### Description of the deficiencies identified

With respect to **Revenue**:

The firm identified and tested a compensating control to address deficiencies the issuer identified in controls over revenue recognition. This compensating control involved the issuer's review of a small sample of contracts for appropriate revenue recognition. The firm did not evaluate whether the small sample of revenue contracts subject to the issuer's review was sufficient to address the risk of material misstatement. (AS 2201.68)

With respect to **Accounts Receivable**:

The issuer initiated and processed sales at numerous business units. The firm designated certain of the issuer's business units as (1) subject to more extensive audit procedures or (2) subject to less extensive audit procedures.

With respect to business units subject to more extensive audit procedures, the following deficiencies were identified:

- The firm did not identify and test any controls that addressed the existence of accounts receivable. (AS 2201.39)
- The firm sent positive confirmation requests to the issuer's customers for a sample of accounts receivable. For certain items in its sample, the responses were returned by email. The firm did not consider performing procedures to verify the source of these responses. (AS 2310.29)

With respect to business units subject to less extensive audit procedures, the following deficiencies were identified:

- In determining the extent to which audit procedures should be performed at these business units, the firm did not evaluate whether (1) specific risks of material misstatement existed at these business units and (2) the risks of material misstatement the firm identified for the business units subject to more extensive audit procedures also applied to these business units such that, in combination, these risks presented a reasonable possibility of material misstatement. (AS 2101.11 and .12; AS 2201.B10)
- The relevant controls the firm selected for testing were two entity level controls that included monthly reviews of financial information, including accounts receivable, for these business units. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and/or the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)
- The firm did not perform any substantive procedures to address the risks of material misstatement related to existence of accounts receivable. (AS 2301.08)

## 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 Loan Losses ("ALL")**, **Income Taxes**, and **Investments**.

## Description of the deficiencies identified

With respect to the **ALL**:

The firm selected for testing a control over the review of qualitative factors, which are inputs used in determining the general reserve component of the ALL. The firm did not evaluate the review procedures that the control owners 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 test the aspect of this control that addressed the accuracy of certain data used in the performance of this control. (AS 2201.42 and .44)

The issuer used loan charge-offs as inputs to determine the general reserve component of the ALL. The firm selected for testing a control that included the review of loan charge-offs and the evaluation of charge-offs excluded from the calculation. The firm did not evaluate the specific review procedures the control owner performed to evaluate the charge-offs excluded from the calculation. (AS 2201.42 and .44)

With respect to **Income Taxes**:

The firm selected for testing a control that consisted of the review of the provision for income taxes, including the issuer's review of (1) the effective tax rate reconciliation and (2) considerations regarding the need to record a deferred tax asset valuation allowance. The firm did not evaluate the specific review procedures that the control owner performed to assess the effective tax rate and whether a valuation allowance was needed. (AS 2201.42 and .44)

The issuer determined that no deferred tax asset valuation allowance was necessary for the current year. The firm did not evaluate the appropriateness of the assumptions the issuer used in its determination. (AS 2501.11)

With respect to **Investments**:

The issuer recorded the fair value of available-for-sale ("AFS") securities based on the prices it obtained from an external pricing service. The firm selected for testing a quarterly control that consisted of the issuer's comparing, for one-fourth of its AFS securities, these prices to prices it obtained from another external pricing service. The firm did not evaluate whether the control was appropriately designed to consider whether there were changes to the risk of material misstatement inherent in the population of securities from the issuer's interim testing dates to the issuer's year end. (AS 2201.42)

## Issuer D – Consumer Discretionary

### Type of audit and related areas affected

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

### Description of the deficiencies identified

With respect to **Goodwill** and **Going Concern**:

The firm selected for testing a control over the issuer's review of forecasts that it used in its (1) annual goodwill impairment assessment and (2) evaluation of its ability to continue as a going concern. The firm did not (1) determine the frequency with which the control was performed and (2) evaluate the review procedures that the control owners 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)

With respect to **Goodwill**:

The issuer performed its annual analysis of the possible impairment of goodwill as of an interim date. The firm performed substantive procedures to evaluate certain assumptions underlying the cash-flow forecasts that the issuer used to determine the fair value of its reporting units for this analysis. The firm, however, (1) evaluated these

assumptions at the consolidated financial statement level and not at the reporting unit level and (2) did not evaluate certain other assumptions underlying the cash-flow forecasts, including the issuer's ability to carry out specific actions. (AS 2502.26, .28, .31, and .36)

The firm selected for testing a control that included the issuer's review of triggering events as potential indicators of goodwill impairment. In its testing of the operating effectiveness of this control, the firm did not identify that the issuer's evaluation did not consider certain adverse market conditions and deteriorating financial results that arose before, and after, year end. (AS 2201.44)

The firm did not sufficiently evaluate the issuer's determination that it did not need to test goodwill for impairment between its annual tests because the firm did not identify that the issuer's evaluation did not consider certain adverse market conditions and deteriorating financial results that arose before, and after, year end. (AS 2301.08)

With respect to **Going Concern**:

The firm selected for testing a control over the issuer's preparation and review of the financial statements that included an evaluation by the control owners of the issuer's disclosures related to its ability to continue as a going concern. The firm did not evaluate the specific review procedures that the control owners performed to evaluate these disclosures. (AS 2201.42 and .44)

The issuer experienced certain adverse market conditions and deteriorating financial results that arose before, and after, year end. The issuer developed a plan to mitigate the effect of these events and conditions. The firm did not obtain sufficient appropriate audit evidence to support certain assumptions used in the issuer's plan, including the issuer's ability to carry out specific actions. (AS 2415.07, .08, and .09)

## Issuer E – Communication Services

### Type of audit and related areas affected

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

### Description of the deficiencies identified

With respect to **Income Taxes**:

The firm selected for testing a control that consisted of the issuer's review of an analysis of the valuation of deferred tax assets. The issuer adjusted its valuation of certain deferred tax assets based on a study prepared by the issuer's external specialist. The firm did not perform any procedures to test the aspect of this control, or any other control, that addressed the accuracy and completeness of the data and reasonableness of the assumptions used in this study. (AS 2201.42 and .44)

The firm did not perform any procedures to test the reasonableness of the fair value of certain assets or the tax basis of certain assets and liabilities used in the issuer's external specialist's study that the issuer used to adjust the valuation of certain deferred tax assets. (AS 2501.11)

With respect to **Revenue** at one of the issuer's business units:

The firm selected for testing controls that consisted of the review of (1) journal entries to record revenue and (2) month-end reconciliations. The firm did not identify and test any controls over the accuracy and completeness of certain revenue reports that the control owners used in the operation of these controls. (AS 2201.39)

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 the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

## Issuer F – Industrials

### Type of audit and related areas affected

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

### Description of the deficiencies identified

With respect to **Revenue** at certain of the issuer's business units:

The issuer recognized revenue from custom products at a point in time. In its evaluation of the issuer's revenue recognition, the firm did not evaluate (1) the specifications of the custom products in determining if there were practical limitations on whether the products had an alternative use and (2) whether the issuer's customary business practice of not enforcing its contractual right to payment on cancelled orders renders this right to be unenforceable in conformity with FASB ASC Topic 606. (AS 2810.30)

With respect to **Accounts Receivable** at one of the issuer's business units:

The firm sent positive confirmation requests to the issuer's customers for a sample of accounts receivable. For certain items in its sample, the responses were returned by email. The firm did not consider performing procedures to verify the source of these responses. (AS 2310.29)

## Issuer G – Health Care

### Type of audit and related areas affected

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

### Description of the deficiencies identified

With respect to **Revenue**:

The issuer used a service organization to process certain revenue. The firm selected for testing controls that consisted of the issuer's reviews of analyses supporting revenue deduction accruals for this revenue. The firm did not evaluate the specific review procedures that the control owners performed to assess the accuracy of the sales deduction rates used in the analyses. (AS 2201.42 and .44)

With respect to **Income Taxes**:

The firm selected for testing a control that consisted of the issuer's quarterly review of the provision for income taxes. 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)

## Issuer H – Financials

### Type of audit and related area affected

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

### Description of the deficiencies identified

During the year, the issuer acquired multiple businesses. The firm selected for testing controls over the accounting for business combinations, including the issuer's reviews of the valuation of certain acquired assets. The firm did not evaluate the review procedures that the control owners 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 and test any controls over the valuation of certain other assets that were also acquired in the business combinations. (AS 2201.39)

## Audits with a Single Deficiency

### Issuer I – Information Technology

#### Type of audit and related area affected

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

#### Description of the deficiency identified

The firm's substantive procedures to test revenue included performing substantive analytical procedures, which consisted of comparisons of monthly revenue to the prior-month revenue. These analytical procedures did not provide sufficient appropriate audit evidence because the firm did not (1) determine whether the prior-period amounts could be expected to be predictive of the current-period amounts and (2) include the first month of the year under audit in its analytical procedures. Further, the firm used a threshold for investigation of differences that was inconsistent with the desired level of assurance because it did not consider the possibility that a combination of misstatements could aggregate to an unacceptable amount. (AS 2301.08; AS 2305.13, .14, and .20)

### Issuer J – Financials

#### Type of audit and related area affected

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

#### Description of the deficiency identified

The issuer stored revenue data from its point-of-sale system in multiple databases, including a primary database that was used to record data in the general ledger and a redundant database. The firm determined that certain change management and logical access information technology general controls over the primary database were ineffective. The firm identified a compensating control that consisted of a manual comparison of revenue data from the redundant database to the general ledger, but the firm did not test, beyond inquiry, controls that addressed the accuracy and completeness of the revenue data in the redundant database. (AS 2201.68)

### Issuer K – Information Technology

#### Type of audit and related area affected

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

#### Description of the deficiency identified

The firm selected for testing a control that consisted of the issuer's review of invoices for certain revenue. The firm did not evaluate the specific review procedures the control owners performed with respect to reviewing the accuracy and completeness of labor hours, which were an input into the issuer's calculation of this revenue. (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 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 otherwise selected for review and may include 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 four audits reviewed, the firm did not document its required communication to the issuer's audit committee related to the basis for its conclusion that substantial doubt about the issuer's ability to continue as a going concern was alleviated, including the elements it identified within management's plans that were significant to overcoming the adverse effects of the conditions and events identified. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 12 audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to the names, locations, and planned responsibilities of other independent public accounting firms that performed audit procedures in the current period audit. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 12 audits reviewed, the firm's report on Form AP contained inaccurate information and omitted information related to the participation in the audit by certain other accounting firms. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.
- In five of 12 audits reviewed, the firm did not document the computation of total audit hours it used in its report on Form AP. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

## 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.

### A. 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 five audits,<sup>2</sup> 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 three of these audits,<sup>3</sup> the firm's personnel did not appropriately exercise professional skepticism in an area where they had identified a significant risk.

### B. Testing Controls \* \* \* \*

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 \* \* \* \* 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 the following areas: identifying and testing controls that address risks of material misstatement, testing controls that include a review element, \* \* \* \* and identifying and testing controls over the accuracy and completeness of data or reports.

Addressing the concerns and monitoring the effects of the actions taken regarding testing controls \* \* \* \* 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.

---

<sup>2</sup> Issuers A, B, C, D, and E

<sup>3</sup> Issuers C, D, and E

## Identifying and Testing Controls that Address Risks of Material Misstatement

In five audits,<sup>4</sup> all of which are included in Part I.A, the firm did not identify and test controls, or test aspects of certain 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 seven audits,<sup>5</sup> 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 that the control owners performed, including instances in which the firm did not evaluate the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved.

\* \* \* \*

## Identifying and Testing Controls Over Data or Reports

In two audits,<sup>6</sup> both of which are included in Part I.A, the firm did not identify and test controls over, or test aspects of certain controls that addressed, the accuracy and/or completeness of data or reports that the issuer used in the operation of controls that the firm tested.

## C. 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,<sup>7</sup> all of which are included in Part I.A, the inspection team identified one or more deficiencies that the engagement partner should have identified and appropriately addressed but did not. In six of these audits,<sup>8</sup> the engagement team had identified a significant risk, including in some cases a fraud risk, in the area in which a deficiency was identified.

## D. 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)

In six audits,<sup>9</sup> all of which are included in Part I.A, the inspection team identified one or more deficiencies in an area that the EQR partner was required to evaluate. In all of these audits, the EQR partner did not identify a deficiency in an area of significant risk, including in some cases a fraud risk.

---

<sup>4</sup> Issuers B, C, D, E, and H

<sup>5</sup> Issuers A, B, C, D, G, H, and K

<sup>6</sup> Issuers C and E

<sup>7</sup> Issuers A, B, C, D, E, F, G, H, and I

<sup>8</sup> Issuers B, C, D, E, G, and I

<sup>9</sup> Issuers B, C, D, E, G, and I

## E. Policies for Financial Holdings Disclosures

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm and its personnel will comply with the firm's policies and procedures with respect to independence-related regulatory requirements. (QC 20.04, .09, and .10)

The firm conducts periodic audits of a sample of its personnel to monitor compliance with certain of its independence policies. In the audits conducted during the nine-month period ended June 30, 2019, the firm identified that 35 percent of the partners and 46 percent of the managers and directors who were audited had not reported financial relationships that were required to be reported in accordance with the firm's policies. These high rates of non-compliance with the firm's policies, which are designed to provide compliance with applicable independence regulatory requirements, provide cause for concern, especially considering that these individuals are required to certify on an annual basis that they have complied with the firm's independence policies and procedures.

# 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.



Tel: 212-885-8000  
Fax: 212-697-1299  
www.bdo.com

100 Park Avenue  
New York, NY 10017

December 1, 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 2019 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 2019 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*.

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,

*BDO USA, LLP*

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

