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# 2020 Inspection BDO USA, LLP

(Headquartered in Chicago, Illinois)

September 30, 2021

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. 104-2021-149A

(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2021-149)



# EXECUTIVE SUMMARY

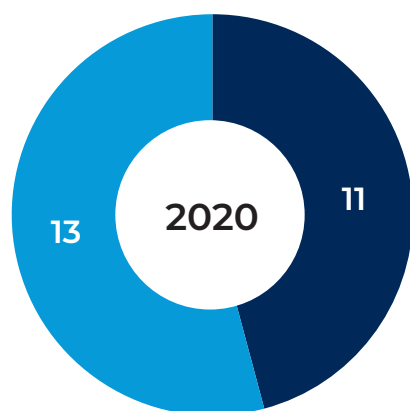
Our 2020 inspection report on BDO USA, LLP provides information on our inspection to assess the firm’s compliance with Public Company Accounting Oversight Board (PCAOB) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of:

- 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
- 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.

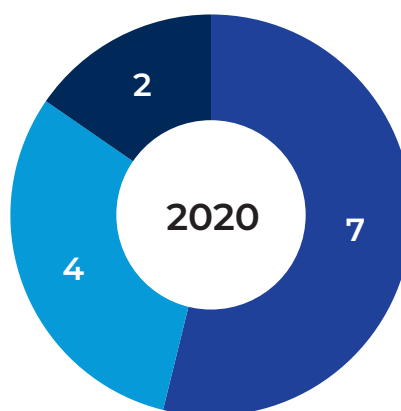
If we include a deficiency in this report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer’s financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. If we include a deficiency 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 2020 Deficiencies Included in Part I

Thirteen of the 24 audits we reviewed in 2020 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, business combinations, and income taxes.



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



■ Deficiencies in both financial statement and ICFR audits  
■ Deficiencies in the financial statement audit only  
■ Deficiencies in the ICFR audit only

The most common Part I.A deficiencies in 2020 related to testing the design or operating effectiveness of controls selected for testing, identifying controls related to a significant account or relevant assertion, and in some cases the resulting overreliance on controls when performing substantive testing.

Other deficiencies identified during the 2020 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, audit committee communications, reporting the results of audits of internal control over financial reporting, and Form AP.

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# 2020 INSPECTION

In the 2020 inspection of BDO USA, LLP, the PCAOB 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 2019. In addition, to gain an understanding of how COVID-19 affected the firm's performance of audits, we selected for review an audit of an issuer with a fiscal year end of June 30, 2020. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

We also selected for review two reviews of interim financial information ("interim reviews"). Our reviews were performed to gain a timely understanding of COVID-19's effect on firms and their procedures and to determine if we needed to issue guidance or other information to assist firms in completing audits and interim reviews during the pandemic. Although the identification of deficiencies was not the primary objective of these reviews, we did not identify any instances of non-compliance with PCAOB standards related to the interim reviews that we reviewed.

## What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2020 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(s) 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 ("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.

## 2020 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.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring

deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

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

Our target team performs inspection procedures in areas of current audit risk and emerging topics and focuses its reviews primarily on evaluating the firm's procedures related to that risk or topic. In 2020, to gain an understanding of how COVID-19 affected how the firm performed its procedures, our target team focused on an audit of an issuer with a fiscal year ending on June 30, 2020 and interim reviews of issuers for quarterly periods ending on or before June 30, 2020.<sup>1</sup>

For the interim reviews, similar to our approach for reviewing audits, we did not review every aspect of the interim review. Rather, our review procedures focused on a portion of the firm's procedures.

View the details on the [scope of our inspections and our inspections procedures](#).

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<sup>1</sup> Refer to [Staff Observations and Reminders during the COVID-19 Pandemic](#) for observations from the target team reviews.

# OVERVIEW OF THE 2020 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2020 inspection as well as data from the previous two inspections. We use a combination of risk-based and random methods to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from year to year and firm to firm. As a result of this variation, we caution that our inspection results are not necessarily comparable over time or among firms.

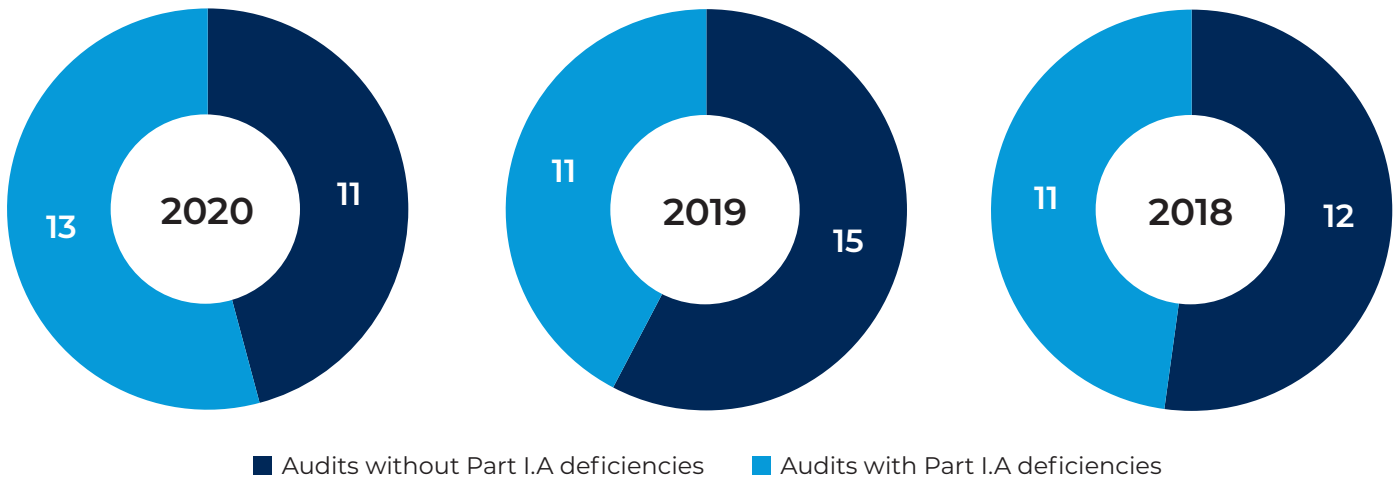
## Audits Selected for Review

	2020	2019	2018
<b>Total audits reviewed</b>			
Total audits reviewed	24	26	23
<b>Selection method</b>			
Risk-based selections	17	18	18
Random selections	6	6	5
Target team selections <sup>2</sup>	1	2	0
Total audits reviewed	24	26	23
<b>Principal auditor</b>			
Audits in which the firm was the principal auditor	24	26	23
Audits in which the firm was not the principal auditor	0	0	0
Total audits reviewed	24	26	23
<b>Audit type</b>			
Integrated audits of financial statements and ICFR	17	21	20
Financial statement audits only	7	5	3
Total audits reviewed	24	26	23

<sup>2</sup> For further information on the target team's activities in 2019, refer to that inspection report.

## Part I.A Deficiencies in Audits Reviewed

In 2020, 11 of the 13 audits appearing in Part I.A were selected for review using risk-based criteria. 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.

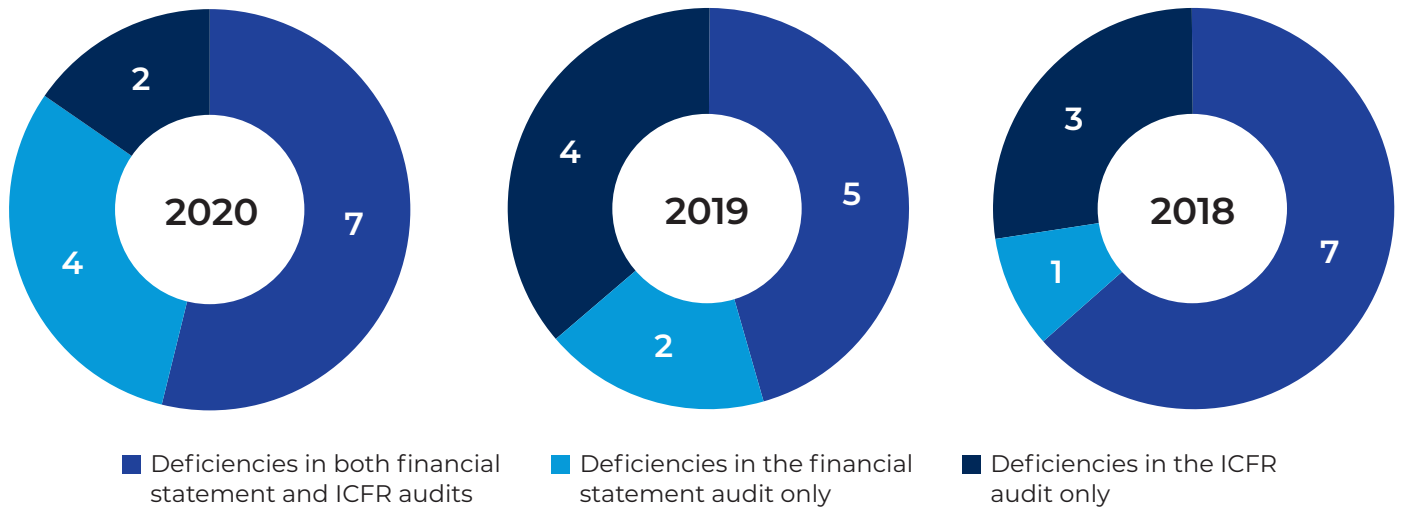


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the issue was identified. Depending on the circumstances, remedial actions may include performing additional 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.

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

## Audits Affected by the Deficiencies Identified in Part I.A



In connection with our 2019 inspection procedures for one audit, the issuer revised its report on ICFR, and the firm revised its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

The following tables and graphs summarize inspection-related information, by inspection year, for 2020 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		
	2020	2019	2018
Did not obtain sufficient evidence as a result of overreliance on controls (due to deficiencies in testing controls)	5	1	4
Did not sufficiently evaluate the appropriateness of the issuer's accounting method or disclosure for one or more transactions or accounts	4	2	0
Did not sufficiently evaluate significant assumptions or data that the issuer used in developing an estimate	3	3	3
Did not perform sufficient testing for the sample of transactions selected for testing	3	2	3
Did not perform sufficient, appropriate analytical procedures when analytical procedures were intended to provide substantive evidence	3	1	0

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2020	2019	2018
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	7	7	5
Did not identify and test any controls that addressed the risks related to a significant account or relevant assertion	5	3	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	3	2	3

## 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.

2020			2019			2018		
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	20	8	Revenue and related accounts	18	8	Revenue and related accounts	18	5
Business combinations	6	3	Goodwill and intangible assets	8	1	Inventory	9	1
Inventory	6	1	Inventory	6	0	Income taxes	7	2
Income taxes	5	2	Other investments	5	0	Investment securities	5	0
Going concern	4	0	Income taxes	4	3	Long-lived assets	5	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	2020		2019		2018	
	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	20	8	18	5	18
Business combinations	3	6	1	4	1	4
Income taxes	2	5	3	4	2	7
Allowance for loan losses	1	2	1	2	2	2
Deposit liabilities	0	2	0	0	2	2

**Revenue and related accounts:** The deficiencies in 2020, 2019, and 2018 primarily related to substantive testing of, and testing controls over, revenue.

**Business combinations:** The deficiencies in 2020, 2019, and 2018 primarily related to substantive testing of, and testing controls over, assumptions used by the issuer to determine the fair values of assets acquired and liabilities assumed in a business combination and the related disclosures.

**Income taxes:** The deficiencies in 2020 primarily related to substantive testing of, and testing controls over, income taxes. The deficiencies in 2019 and 2018 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 deficiency in 2020 related to testing controls over the valuation of the allowance for loan losses. The deficiencies in 2019 and 2018 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.

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

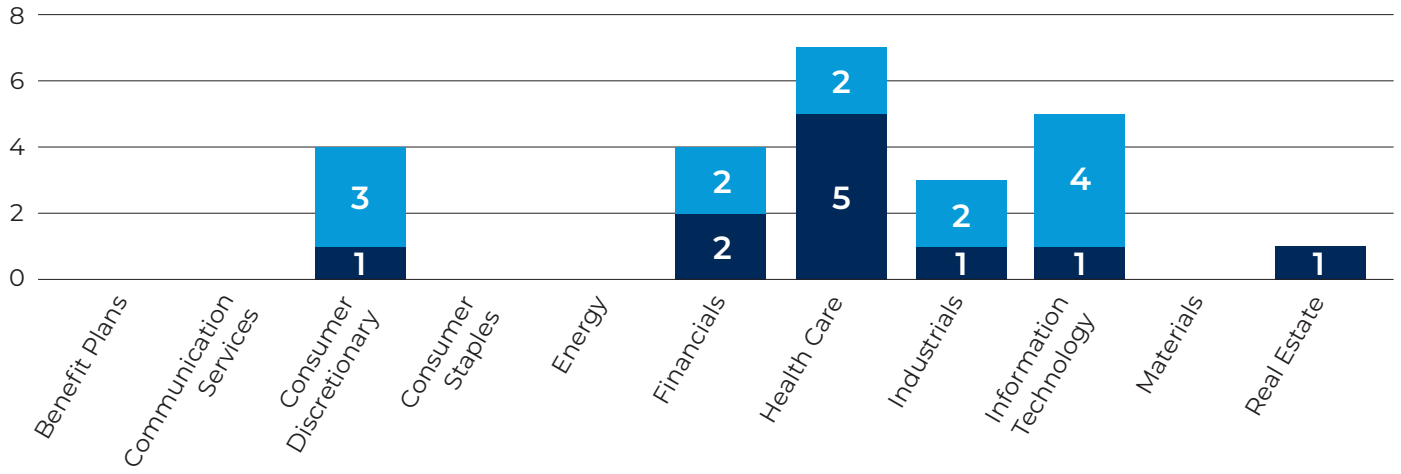
The following lists the auditing standards referenced in Part I.A of the 2020 and the previous two inspection reports and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2020	2019	2018
<i>AS 1105, Audit Evidence</i>	7	0	2
<i>AS 2101, Audit Planning</i>	0	1	0
<i>AS 2201, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i>	29	21	19
<i>AS 2301, The Auditor's Responses to the Risks of Material Misstatement</i>	8	4	9
<i>AS 2305, Substantive Analytical Procedures</i>	3	1	0
<i>AS 2310, The Confirmation Process</i>	2	2	2
<i>AS 2315, Audit Sampling</i>	5	1	6
<i>AS 2415, Consideration of an Entity's Ability to Continue as a Going Concern</i>	0	1	0
<i>AS 2501, Auditing Accounting Estimates</i>	3	2	3
<i>AS 2502, Auditing Fair Value Measurements and Disclosures</i>	1	1	1
<i>AS 2810, Evaluating Audit Results</i>	6	2	0

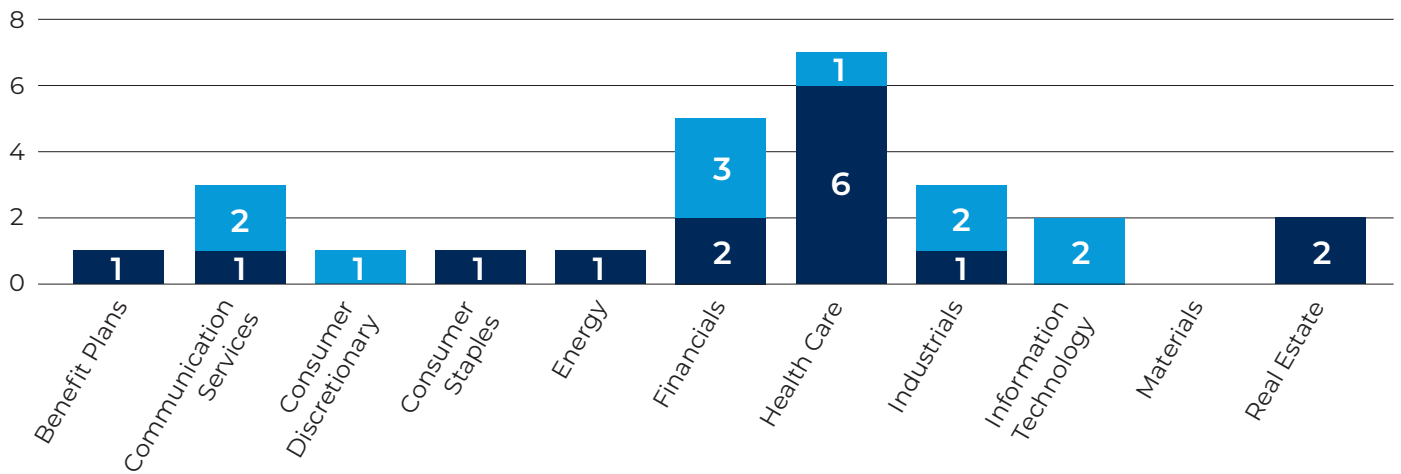
# Inspection Results by Issuer Industry Sector

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.

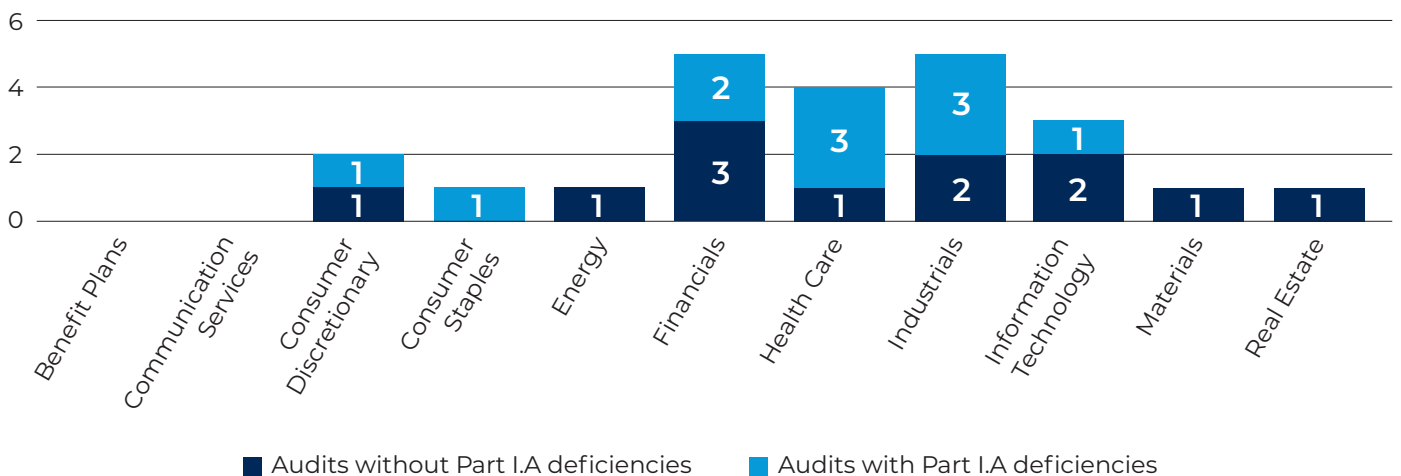
## 2020



## 2019



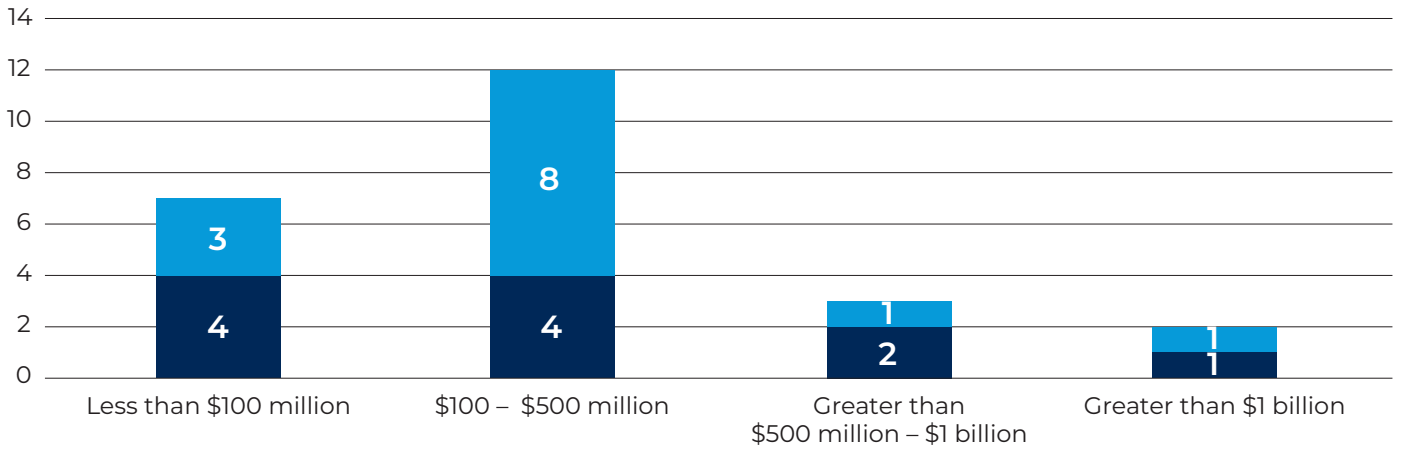
## 2018



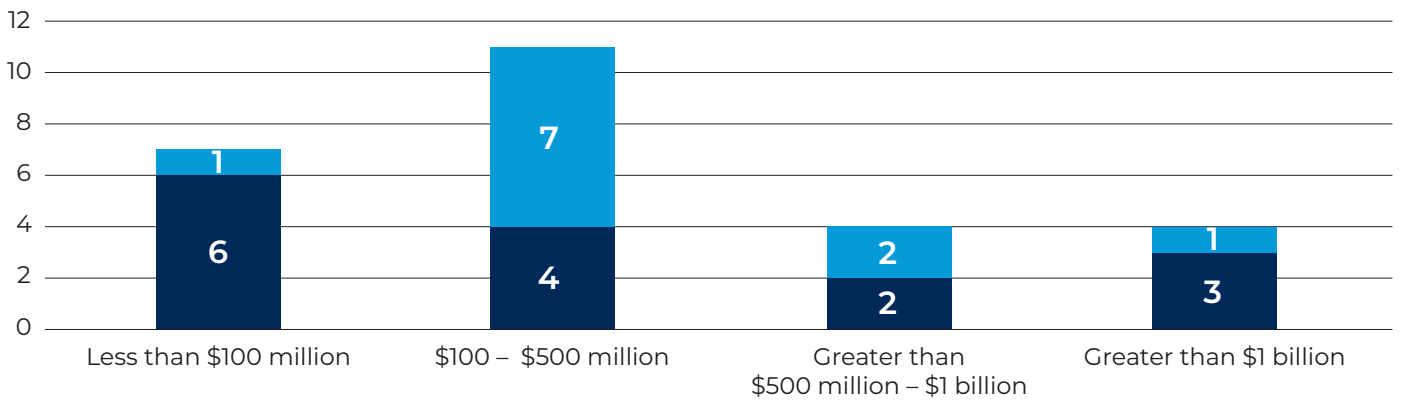
■ Audits without Part I.A deficiencies    ■ Audits with Part I.A deficiencies

# Inspection Results by Issuer Revenue Range

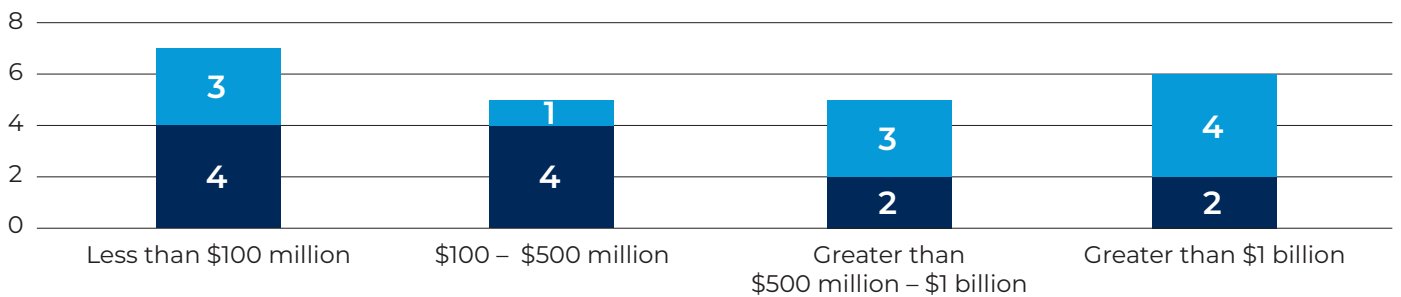
## 2020



## 2019



## 2018



■ 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 revised its report, on ICFR. This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. We include any deficiencies identified in connection with our reviews of these audits in the audits with multiple deficiencies or audits with a single deficiency classification below.

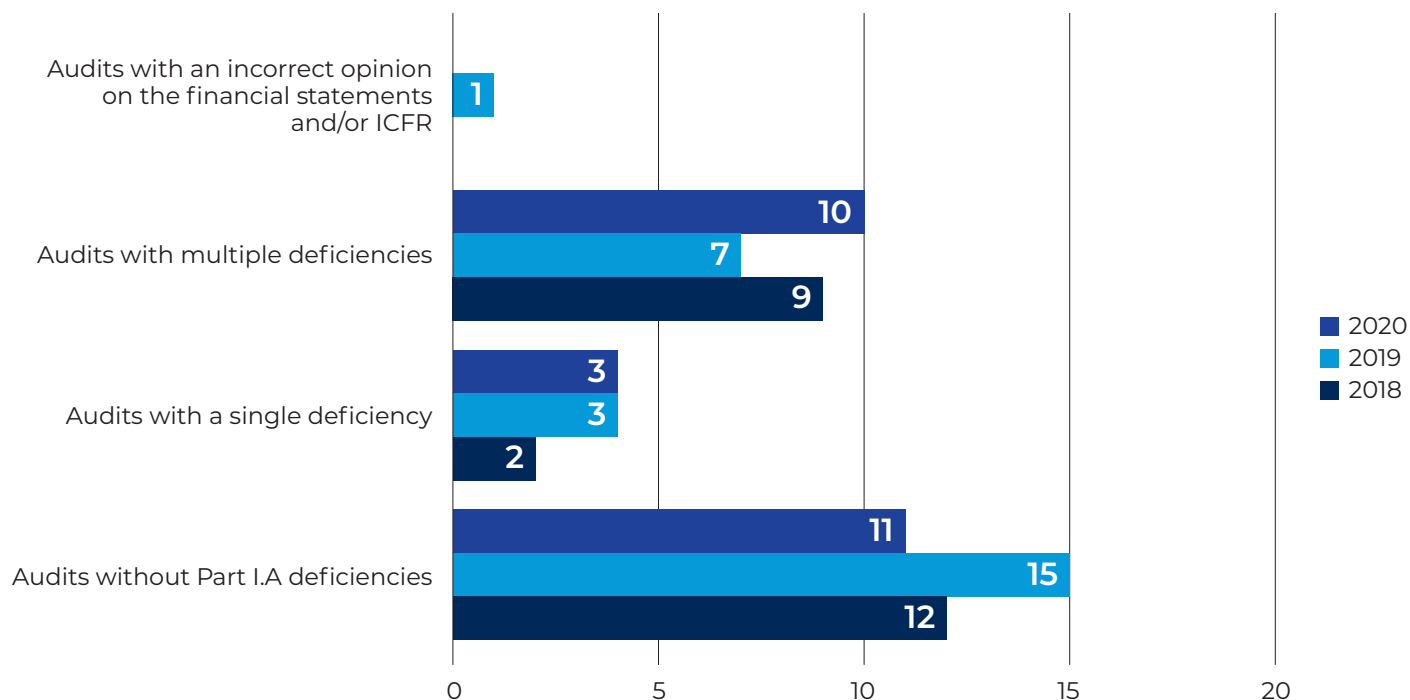
### Audits with Multiple Deficiencies

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

### Audits with a Single Deficiency

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

## Number of Audits in Each Category



# PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion 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. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II.

## PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion 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.

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

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

None

### Audits with Multiple Deficiencies

#### Issuer A – 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 Related Accounts** and **Accounts Receivable**.

##### Description of the deficiencies identified

With respect to **Revenue and Related Accounts**:

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

With respect to user access:

- The firm selected for testing a control over the periodic review of user access for each of these IT systems. The firm did not evaluate whether items identified by the control owners for follow up were appropriately resolved. (AS 2201.44) In addition, the firm did not identify and test any controls over the accuracy and completeness of certain reports used in the operation of this control. (AS 2201.39)
- The firm selected for testing a control over the approval of new or modified user access for each of these IT systems. The firm did not test the operating effectiveness of (1) this control for one of these systems and (2) the aspect of this control related to the modification of access for existing users for certain other of these systems. Further, in its testing of the operating effectiveness of this control for certain IT systems, the firm tested fewer items than the sample size it calculated. (AS 2201.44)
- The firm selected for testing a control over the removal of access for terminated employees. For one of these IT systems, the firm did not evaluate the control owner's procedures to determine whether access was appropriately removed for users identified as terminated. (AS 2201.42 and .44)

With respect to both user access and change management:

- For certain IT systems, the firm did not (1) identify and test controls and/or (2) test identified controls that addressed certain risks over change management and user access. (AS 2201.39)
- For one of these IT systems, the firm selected for testing controls related to (1) the monitoring of database changes and (2) privileged access review but did not perform any procedures, beyond inquiry, to test the design and operating effectiveness of these controls. (AS 2201.42 and .44)
- For each of these IT systems, the firm did not perform any substantive procedures to test, or in the alternative, test any controls over, the completeness of certain system-generated reports that it used to make its selections for testing controls over change management and/or user access. (AS 1105.10)

As a result of the audit deficiencies discussed above, the firm did not perform sufficient substantive procedures to test, or sufficiently test controls over, (1) the completeness of certain system-generated reports that the firm used to make its selections to test various controls over certain revenue and related accounts and (2) the accuracy of certain system-generated data it used in its substantive testing of certain revenue and related accounts. (AS 1105.10)

The issuer recognized certain revenue from contracts using a measure of progress method. The following deficiencies were identified:

- The firm selected for testing controls over the review and approval of certain of this revenue. 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 accuracy and completeness of certain data used in the operation of these controls. (AS 2201.39)
- For certain of this revenue, the firm did not identify and test any controls over the accuracy and completeness of labor hours that were an input into the issuer's calculation of this revenue. (AS 2201.39)
- For certain of this revenue, the firm did not perform substantive procedures to test, or sufficiently test controls over, the accuracy of certain data it used in its substantive testing. (AS 1105.10)

- For this revenue at one business unit, the firm did not perform any substantive procedures to evaluate the reasonableness of the estimated costs to complete open contracts. (AS 2501.07)
- For certain of this revenue at another business unit, the firm did not obtain sufficient appropriate audit evidence regarding the accuracy of estimated total units to be completed. (AS 1105.10; AS 2501.11) In addition, for certain other revenue at this business unit, the firm did not perform any procedures to evaluate whether revenue was recorded in the appropriate period. (AS 2301.08)

The sample sizes the firm used in certain of its substantive procedures to test revenue and related accounts were too small to provide sufficient appropriate audit evidence because these procedures were designed based upon 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)

With respect to **Accounts Receivable**:

The firm sent positive confirmation requests to the issuer's customers for a sample of accounts receivable. The following deficiencies were identified:

- For certain items in its sample, the responses were returned by email. The firm did not consider performing any procedures to verify the source of these responses. (AS 2310.29)
- For certain confirmations that were not returned, the firm did not perform alternative procedures that provided sufficient appropriate audit evidence that these balances represented valid receivables 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 and ICFR audits related to **Revenue, Derivatives, and Debt**.

### Description of the deficiencies identified

With respect to **Revenue and Derivatives**:

The issuer used multiple IT systems to initiate, process, and record transactions related to certain revenue and derivatives. The firm tested ITGCs for these IT systems. The following deficiencies were identified:

- The firm did not perform any substantive procedures to test, or in the alternative, test any controls over, the completeness of the system-generated reports that it used to select its sample for testing controls over change management for certain of these systems. (AS 1105.10)
- The firm selected for testing a control over the segregation of duties related to the ability to develop and implement changes to these IT systems. In its testing of the operating effectiveness of this control for certain of these systems, the firm did not test whether users with the ability to implement changes also had the ability to develop changes. (AS 2201.44)
- The firm selected for testing a control over the approval of new or modified user access to these IT systems. In its testing of the operating effectiveness of this control, the firm (1) excluded certain types of new users from its testing population and (2) did not test the aspect of this control related to the modification of access for existing users. (AS 2201.44)
- The firm selected for testing a control over the removal of access to these systems for terminated users. The firm identified an exception in the operation of this control but did not evaluate the effect of this exception on the operating effectiveness of this control. (AS 2201.48)

- The firm selected for testing a control over the periodic review of user access. For certain of these systems, the firm did not identify and test any controls over the accuracy and completeness of the reports that the control owners used in the operation of this control. (AS 2201.39)
- The firm tested various automated controls over this revenue and derivatives that used data from certain of these IT systems. As a result of the deficiencies in the firm's testing of ITGCs discussed above, the firm's testing of these automated controls was not sufficient. (AS 2201.46)

The issuer calculated certain revenue and recorded the fair value of its derivatives based on security prices it obtained from external pricing services. The firm did not identify and test any controls over the reliability of the prices obtained from the external pricing services. (AS 2201.39)

The sample sizes the firm used in certain of its substantive procedures to test this revenue were too small to provide sufficient appropriate audit evidence because these procedures were designed based upon 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)

With respect to **Debt**:

The firm identified a deficiency in ITGCs for certain of the issuer's systems related to individuals having inappropriate administrative rights to these systems. The firm identified a compensating control related to the issuer's monthly reviews of financial information. 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. Further, the firm did not identify that the control owners used data in the performance of this control that were produced by the systems that were subject to the inappropriate access deficiency. (AS 2201.68)

The firm tested various IT-dependent manual controls that used data generated or maintained by these systems. As a result of the deficiencies in the firm's compensating control testing discussed above, the firm's testing of these IT-dependent manual controls was not sufficient. (AS 2201.46)

## Issuer C – Information Technology

### Type of audit and related areas affected

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

### Description of the deficiencies identified

With respect to **Revenue**:

The firm's substantive procedures to test revenue consisted of performing a test of details for the first 11 months of the issuer's fiscal year and a substantive analytical procedure for the remaining month. The following deficiencies were identified:

- The firm limited its test of details to a smaller number of selections than the sample size it calculated. (AS 2301.08)
- The firm did not perform procedures to test the accuracy and completeness of certain historical data used in its substantive analytical procedure. (AS 2305.16)

With respect to **Business Combinations**:

During the year, the issuer acquired multiple businesses. The firm performed certain substantive procedures but did not obtain sufficient appropriate audit evidence regarding the reasonableness of the projected financial information used by the issuer to determine the fair value of certain acquired intangible assets and contingent consideration. (AS 2502.26, .28, .31, and .36)

During the year, the issuer created a subsidiary to purchase certain assets from a counterparty. The firm did not evaluate whether, due to the terms in the agreement, the subsidiary was a variable interest entity under FASB ASC Topic 810, *Consolidation*. (AS 2810.30)

The firm did not identify, and evaluate the significance to the financial statements of, omissions from a required disclosure under FASB ASC Topic 805, *Business Combinations*. (AS 2810.30 and .31)

## Issuer D – 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

The firm selected for testing a control that included monthly reviews of certain revenue, for four of the issuer's 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 the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

The issuer used multiple IT systems to initiate, process, and record transactions related to certain revenue at two of these business units. The firm tested controls over user access to these systems. The following deficiencies were identified:

- The firm selected for testing a control over the granting or modification of user access. For the first business unit, the firm did not test the operating effectiveness of this control. For the second, the firm did not test the design and operating effectiveness of the aspect of this control related to the modification of user access. (AS 2201.42 and .44)
- The firm selected for testing a control over the periodic review of user access. For both business units, the firm did not identify and test any controls over the accuracy and completeness of the user access lists that the control owner used in the operation of this control. (AS 2201.39)
- As a result of these deficiencies, the firm's testing of the accuracy and completeness of data used in the performance of the monthly financial information review control discussed above for these two business units was not sufficient. (AS 2201.46)

The sample sizes the firm used in certain of its substantive procedures to test this revenue at three of these business units were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

## Issuer E – Information Technology

### 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

For certain revenue transactions that occurred throughout the audit period, the firm did not identify and test any controls that addressed the risk related to the accuracy of prices and quantities invoiced. (AS 2201.39)

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

## Issuer F – Consumer Discretionary

### Type of audit and related area affected

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

### Description of the deficiencies identified

The firm's substantive procedures to test certain revenue consisted of (1) testing a sample of revenue transactions and (2) performing analytical procedures. The following deficiencies were identified:

- For certain of the transactions selected for testing, the firm did not test whether revenue was recognized according to the contractual terms. (AS 2301.08)
- The firm's analytical procedures consisted of calculating the issuer's gross margin. These procedures did not provide sufficient appropriate audit evidence because the firm did not (1) develop an expectation and (2) establish a threshold for investigation of differences from the expectation. (AS 2305.17 and .20)

## Issuer G – Health Care

### Type of audit and related areas affected

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

### Description of the deficiencies identified

With respect to **Revenue** and **Accounts Receivable** at two of the issuer's locations:

The firm did not identify and test any controls over the accuracy of prices and quantities invoiced. (AS 2201.39)

The sample sizes the firm used in certain of its substantive procedures to test revenue and accounts receivable were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiency in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

With respect to **Inventory** at two of the issuer's locations:

The firm selected for testing a control that consisted of the issuer's performance of a physical inventory count at each location at an interim date and the issuer's roll-forward of these inventory counts to year end. The firm did not perform any procedures to test the aspect of this control related to the issuer's roll-forward procedures. (AS 2201.42 and .44)

## Issuer H – Health Care

### 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 over the review of the issuer's income tax provision. In its testing of the operating effectiveness of this control, the firm did not evaluate whether an item identified by the control owner for follow up was appropriately resolved. (AS 2201.44)

The firm did not perform any substantive procedures to test, or in the alternative, test any controls over, the accuracy and/or completeness of certain data the firm used in its substantive testing of income taxes. (AS 1105.10)

The firm did not identify, and evaluate the significance to the financial statements of, a misstatement in a required disclosure under FASB ASC Topic 740, *Income Taxes*. (AS 2810.30 and .31)

## Issuer I – Information Technology

### Type of audit and related areas affected

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

### Description of the deficiencies identified

With respect to **Expenses**:

The firm performed substantive analytical procedures to test certain expenses. The firm did not determine whether the expectations it used in these analytical procedures were based on predictable relationships. Further, the firm identified differences in excess of the firm's established threshold but did not evaluate these differences beyond inquiring of management. (AS 2305.13, .14, and .21)

With respect to **Income Taxes**:

The firm's approach for substantively testing the estimated future benefit of certain deferred tax assets was to review and test management's process. The issuer used forecasts to determine this estimate. The firm did not sufficiently evaluate the reasonableness of this estimate because the firm's procedures to test certain assumptions underlying these forecasts were limited to inquiring of management and performing a sensitivity analysis that indicated that, if certain alternative assumptions were used, the future benefit would change by a significant amount. Further, the firm did not perform any procedures to test the accuracy and completeness of certain data the issuer used in these forecasts. (AS 1105.10; AS 2501.09, .10, and .11)

## Issuer J – Information Technology

### Type of audit and related areas affected

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

## Description of the deficiencies identified

With respect to a **Business Combination**:

The firm selected for testing a control that included the issuer's review of the reasonableness of the revenue-growth assumptions used in the valuation of certain assets acquired and liabilities assumed. The firm did not evaluate the specific review procedures that the control owner performed to assess the reasonableness of the revenue-growth assumptions. (AS 2201.42 and .44)

The firm did not identify, and evaluate the significance to the financial statements of, omissions from a required disclosure under FASB ASC Topic 805, *Business Combinations*. (AS 2810.30 and .31)

With respect to **Revenue**:

During the audit, the firm did not identify, and evaluate the significance to the financial statements of, misstatements in a required disclosure under FASB ASC Topic 280, *Segment Reporting*. (AS 2810.30 and .31)

## Audits with a Single Deficiency

### Issuer K – Financials

#### Type of audit and related area affected

In our review, we identified a deficiency in the ICFR audit related to the **Allowance for Loan Losses (ALL)**.

#### Description of the deficiency identified

The firm selected for testing a control that consisted of the issuer's review of the assigned loan risk ratings. The loan risk rating was an important input in estimating the ALL and determining whether a loan would be individually or collectively evaluated for impairment. 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 L – Consumer Discretionary

#### Type of audit and related area affected

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

#### Description of the deficiency identified

The firm selected for testing a control over the review of the valuation of assets acquired and liabilities assumed in a business combination. The firm did not evaluate the specific review procedures that the control owner performed to assess the accuracy of the inventory information used to determine the valuation of the inventory acquired. (AS 2201.42 and .44)

### Issuer M – Consumer Discretionary

#### Type of audit and related area affected

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

#### Description of the deficiency identified

During the audit, the firm did not identify, and evaluate the significance to the financial statements of, misstatements related to lease expense information included in a required disclosure under FASB ASC Topic 842, *Leases*. (AS 2810.30 and .31)

## 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 reviewed and include any instances of non-compliance below.

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

- In two of 24 audits reviewed, the firm did not include all relevant work papers in the final set of audit documentation it was required to assemble. In these instances, the firm was non-compliant with AS 1215, *Audit Documentation*.
- In six 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 audit. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 17 audits reviewed, the firm's audit report on the issuer's financial statements included incorrect language related to the audit of the issuer's ICFR. In this instance, the firm was non-compliant with AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.
- In four of 17 audits reviewed, the firm did not communicate to management, in writing, all deficiencies in ICFR identified during the audit prior to the issuance of its audit report. In these instances, the firm was non-compliant with AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.
- In two of 12 audits reviewed, the firm's report on Form AP omitted information related to the participation in the audit by certain other accounting firms. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.
- In one of 12 audits reviewed, the firm did not document the computation of total audit hours it used in its report on Form AP. In this instance, 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.

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

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

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

## 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 \*\*\*\* and \*\*\*\* identifying and testing controls over 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. \*\*\*\*

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

In five audits,<sup>3</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.

\*\*\*\*

## Identifying and Testing Controls Over Data or Reports

In three audits,<sup>4</sup> all 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.

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<sup>3</sup> Issuers A, B, D, E, and G

<sup>4</sup> Issuers A, B, and D

## 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 11 audits,<sup>5</sup> all of which are included in Part I.A and one of which is included in Part I.B,<sup>6</sup> the inspection team identified one or more deficiencies that the engagement partner, or an assisting partner who performed supervisory activities, should have identified and appropriately addressed but did not. In seven of these audits,<sup>7</sup> the engagement team had identified a significant risk, including in some cases a fraud risk, in an 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)

In eight audits,<sup>8</sup> seven of which are included in Part I.A<sup>9</sup> and one of which is included in Part I.B,<sup>10</sup> the inspection team identified one or more deficiencies in an area that the EQR partner was required to evaluate. In seven of these audits,<sup>11</sup> the EQR partner did not identify a deficiency in an area in which the engagement team had identified a significant risk, including in some cases a fraud risk.

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<sup>5</sup> Issuers A, B, C, D, E, F, G, I, J, K, and L

<sup>6</sup> Issuer L

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

<sup>8</sup> Issuers A, C, D, E, F, G, I, and L

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

<sup>10</sup> Issuer L

<sup>11</sup> Issuers A, C, D, E, F, G, and I

# 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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September 23, 2021

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 2020 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 2020 inspection of BDO USA, LLP. We continue to support the PCAOB's goal of improving audit quality in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports.

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*

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