2022 Inspection BDO USA, P.C.

(Headquartered in Chicago, Illinois)

November 28, 2023

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. 104-2024-031

PCAOB

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

EXECUTIVE SUMMARY

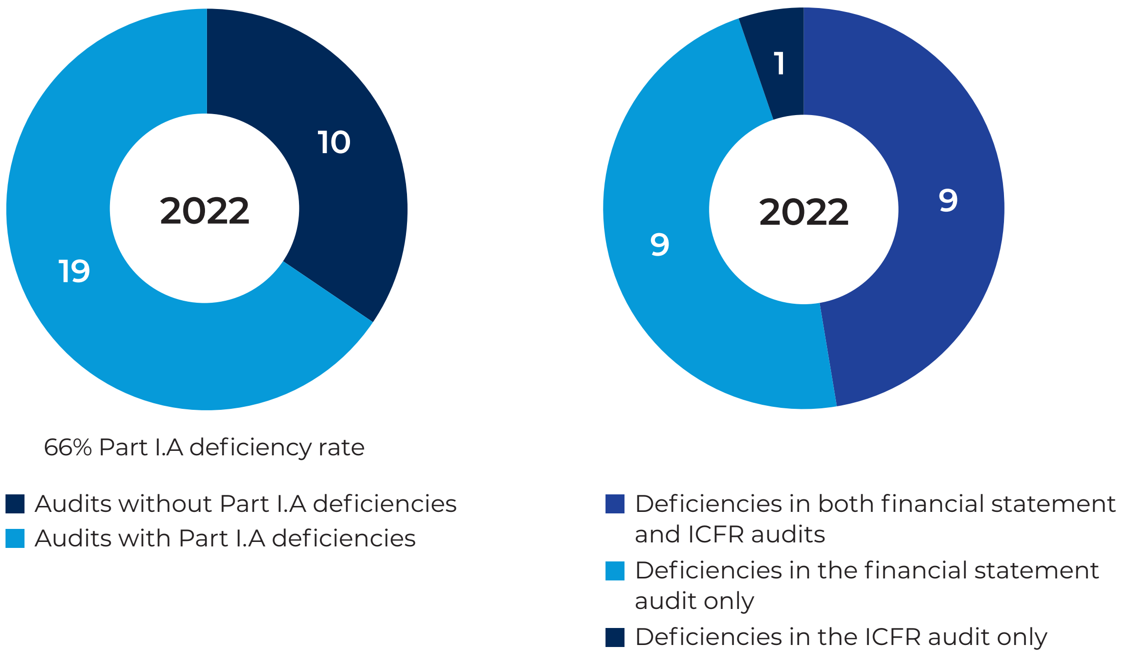
Our 2022 inspection report on BDO USA, P.C. (formerly BDO USA, P.A. and BDO USA, LLP) provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board (PCAOB) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of what is included in this report:

- Part I.A of the report discusses deficiencies ("Part I.A deficiencies") in certain issuer audits that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or internal control over financial reporting (ICFR).
- Part I.B of the report discusses certain deficiencies ("Part I.B deficiencies") that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.
- Part I.C of the report, which is new commencing with our 2022 inspection reports, discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence ("Part I.C deficiencies").

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

Overview of the 2022 Deficiencies Included in Part I

Nineteen of the 29 audits we reviewed in 2022 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, goodwill and intangible assets, and inventory.



The most common Part I.A deficiencies in 2022 related to testing data or reports used in substantive testing, performing substantive testing to address a risk of material misstatement, testing an estimate, and identifying controls related to a significant account or relevant assertion.

The Part I.B deficiencies in 2022 related to retention of audit documentation, audit committee communications, risk assessment, fraud, critical audit matters, and Form AP.

The most common Part I.C deficiencies in 2022 related to non-audit services, audit committee pre-approval, and indemnification clauses.

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2022 INSPECTION

In the 2022 inspection of BDO USA, P.C., the PCAOB assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review 29 audits of issuers with fiscal years generally ending in 2021. 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 2022 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:** Certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.
  - o **Part I.C:** Instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

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

2022 Inspection Approach

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

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

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

Our target team performs inspection procedures in areas of current audit risk and emerging topics and focuses its reviews primarily on evaluating the firm's procedures related to that risk or topic. In 2022, our target team focused primarily on audits of issuers that had recently completed initial public offerings and issuers that were recently formed by mergers between non-public operating companies and special purpose acquisition companies (SPACs).

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

OVERVIEW OF THE 2022 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2022 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.

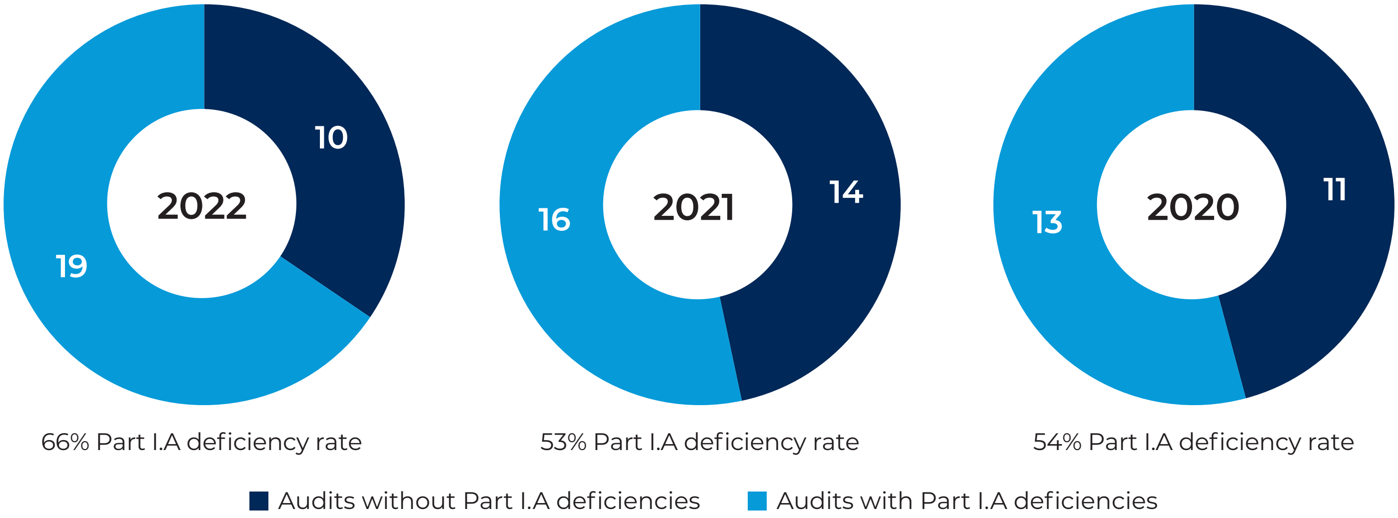
Audits Selected for Review

	2022	2021	2020
Total audits reviewed			
Total audits reviewed	29	30	24
Selection method			
Risk-based selections	20	14	17
Random selections	7	11	6
Target team selections[1]	2	5	1
Total audits reviewed	**29**	**30**	**24**
Principal auditor			
Audits in which the firm was the principal auditor	29	30	24
Audits in which the firm was not the principal auditor	0	0	0
Total audits reviewed	**29**	**30**	**24**
Audit type			
Integrated audits of financial statements and ICFR	19	15	17
Financial statement audits only	10	15	7
Total audits reviewed	**29**	**30**	**24**

[1] For further information on the target team's activities in 2021 and 2020, refer to those inspection reports.

Part I.A Deficiencies in Audits Reviewed

In 2022, 14 of the 19 audits appearing in Part I.A were selected for review using risk-based criteria. In 2021, 10 of the 16 audits appearing in Part I.A were selected for review using risk-based criteria. In 2020, 11 of the 13 audits appearing in Part I.A were selected for review using risk-based criteria.

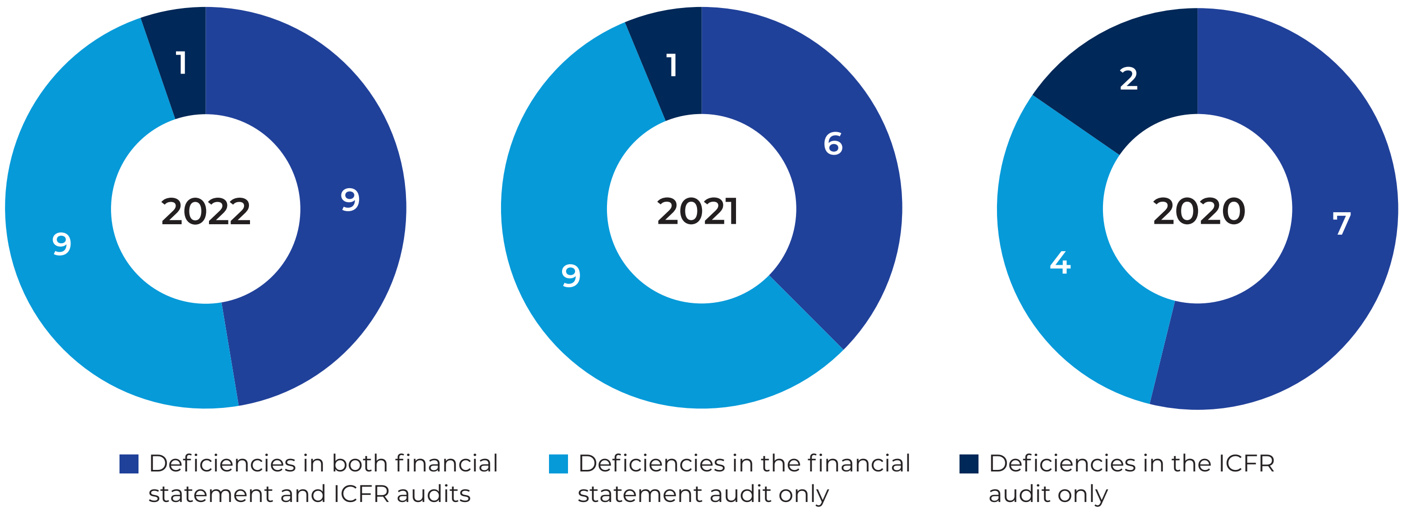


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional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

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

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

Audits Affected by the Deficiencies Identified in Part I.A



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

Our 2021 inspection procedures involved one audit of an issuer that was formed by a merger between a non-public operating company and a SPAC for which the issuer, unrelated to our review, restated its financial statements to correct a misstatement and the firm revised and reissued its report on the financial statements.

The following tables and graphs summarize inspection-related information, by inspection year, for 2022 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		
	2022	2021	2020
Did not perform sufficient testing of data or reports used in the firm's substantive testing	12	2	2
Did not perform sufficient testing related to a significant account or disclosure or to address an identified risk	9	5	1
Did not sufficiently test an estimate	8	2	3

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2022	2021	2020
Did not identify and test any controls that addressed the risks related to a significant account or relevant assertion	8	4	5
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	7	5	7
Did not identify and/or sufficiently test controls over the accuracy and completeness of data or reports that the issuer used in the operation of controls	7	5	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.

2022			2021			2020		
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	23	13	Revenue and related accounts	17	6	Revenue and related accounts	20	8
Goodwill and intangible assets	9	3	Business combinations	8	0	Business combinations	6	3
Business combinations	8	4	Cash and cash equivalents	8	1	Inventory	6	1
Inventory	8	3	Equity and equity-related transactions	7	2	Income taxes	5	2
Equity and equity-related transactions	5	2	Going concern	6	0	Going concern	4	0

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	2022		2021		2020	
	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	13	23	6	17	8	20
Business combinations	4	8	0	8	3	6
Goodwill and intangible assets	3	9	0	4	0	1
Inventory	3	8	1	2	1	6
Expenses	1	1	4	5	1	1

Revenue and related accounts: The deficiencies in 2022, 2021, and 2020 primarily related to substantive testing of, and testing controls over, revenue and related accounts.

Business combinations: The deficiencies in 2022 primarily related to substantive testing of significant assumptions used by the issuer to determine the fair values of acquired assets and liabilities assumed in a business combination. The deficiencies in 2020 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.

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

Inventory: The deficiencies in 2022 related to the accuracy and completeness of data or reports used in substantive testing and testing controls over inventory. The deficiencies in 2021 primarily related to substantive testing, and testing controls over, inventory. The deficiency in 2020 related to testing controls over the existence of inventory.

Expenses: The deficiencies in 2022 related to substantive testing of expenses, including deficiencies in evaluating the appropriateness of the issuer's accounting for expenses. The deficiencies in 2021 and 2020 primarily related to substantive testing of expenses, including deficiencies in substantive analytical procedures performed to test expenses.

Auditing Standards Associated with Identified Part I.A Deficiencies

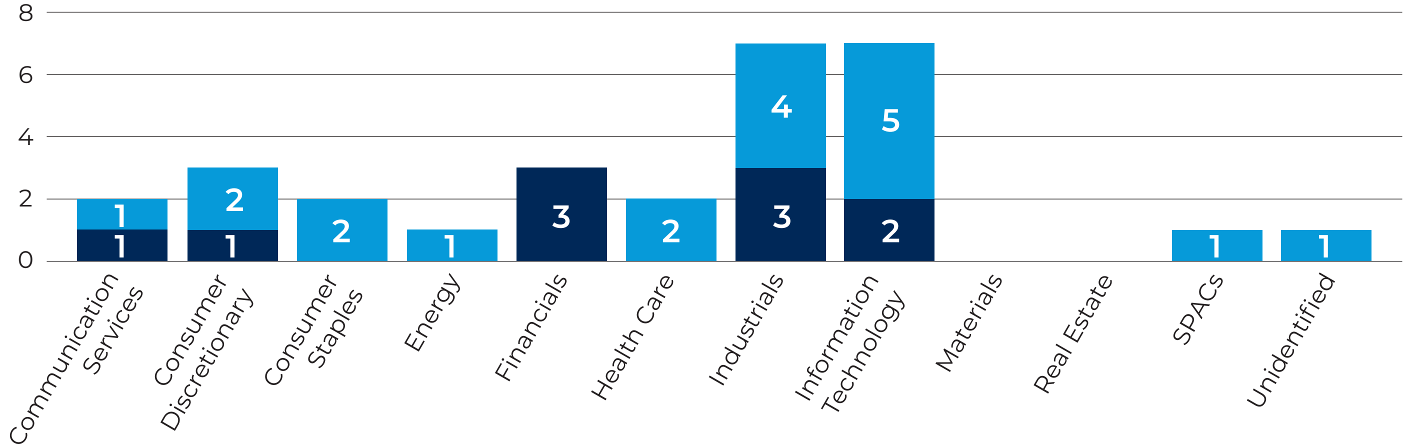
The following lists the auditing standards referenced in Part I.A of the 2022 and the previous two inspection reports, and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2022	2021	2020
AS 1105, *Audit Evidence*	36	3	7
AS 1201, *Supervision of the Audit Engagement*	2	1	0
AS 1210, *Using the Work of an Auditor-Engaged Specialist*	1	0	0
AS 2101, *Audit Planning*	1	1	0
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	55	21	29
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	16	14	8
AS 2305, *Substantive Analytical Procedures*	1	6	3
AS 2310, *The Confirmation Process*	1	0	2
AS 2315, *Audit Sampling*	6	7	5
AS 2410, *Related Parties*	0	1	0
AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements* (effective for fiscal years ending on or after December 15, 2020)	16	1	-
AS 2501, *Auditing Accounting Estimates* (effective for fiscal years ending before December 15, 2020)	-	0	3
AS 2502, *Auditing Fair Value Measurements and Disclosures* (effective for fiscal years ending before December 15, 2020)	-	0	1
AS 2503, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities* (effective for fiscal years ending before December 15, 2020)	-	2	0
AS 2601, *Consideration of an Entity's Use of a Service Organization*	1	0	0
AS 2810, *Evaluating Audit Results*	5	7	6

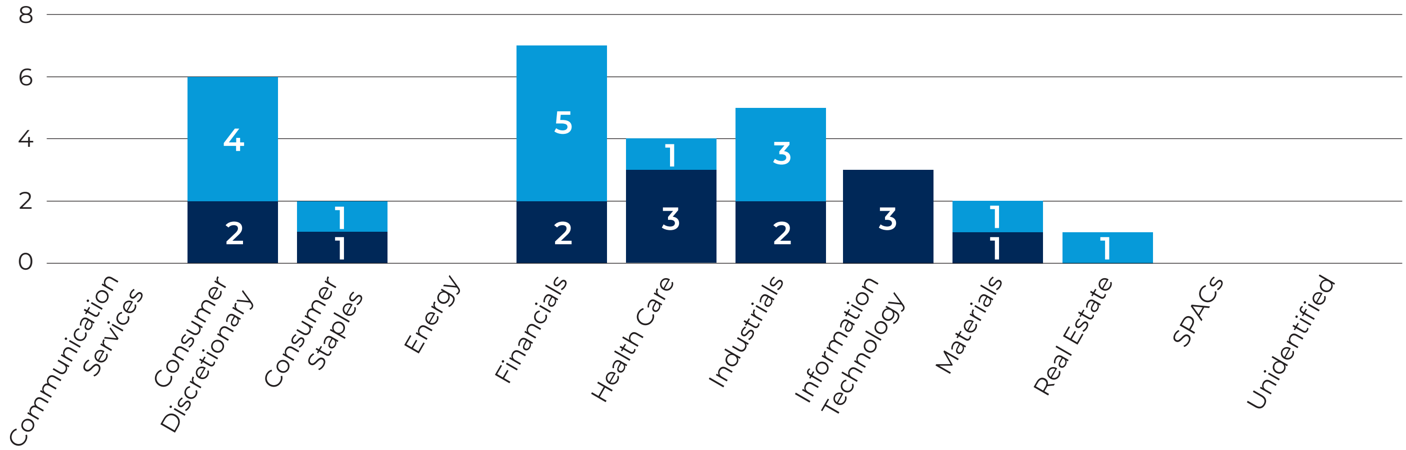
Inspection Results by Issuer Industry Sector

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

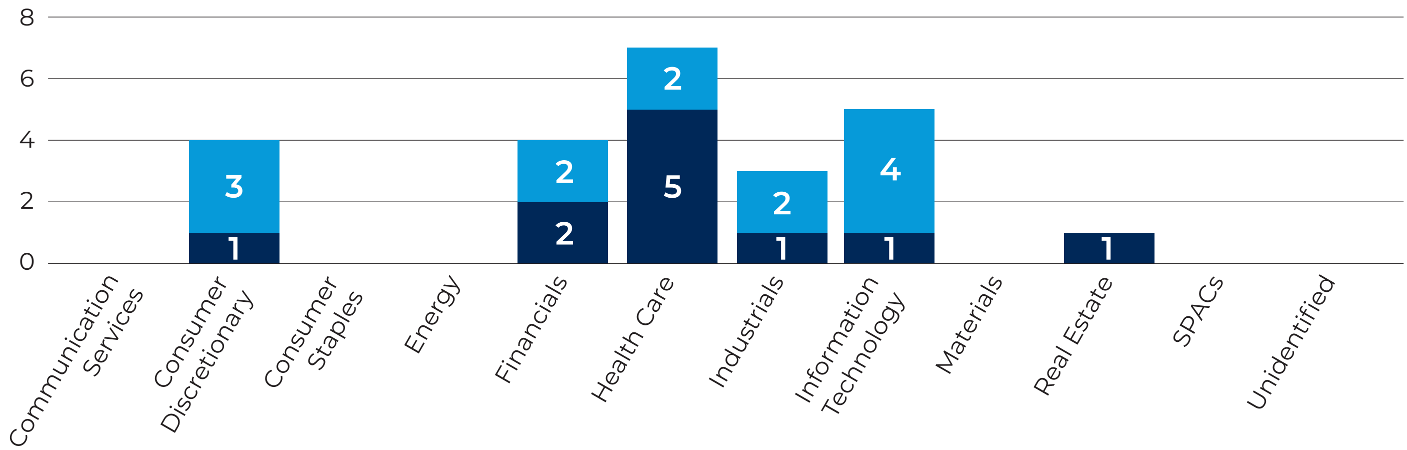
2022



2021



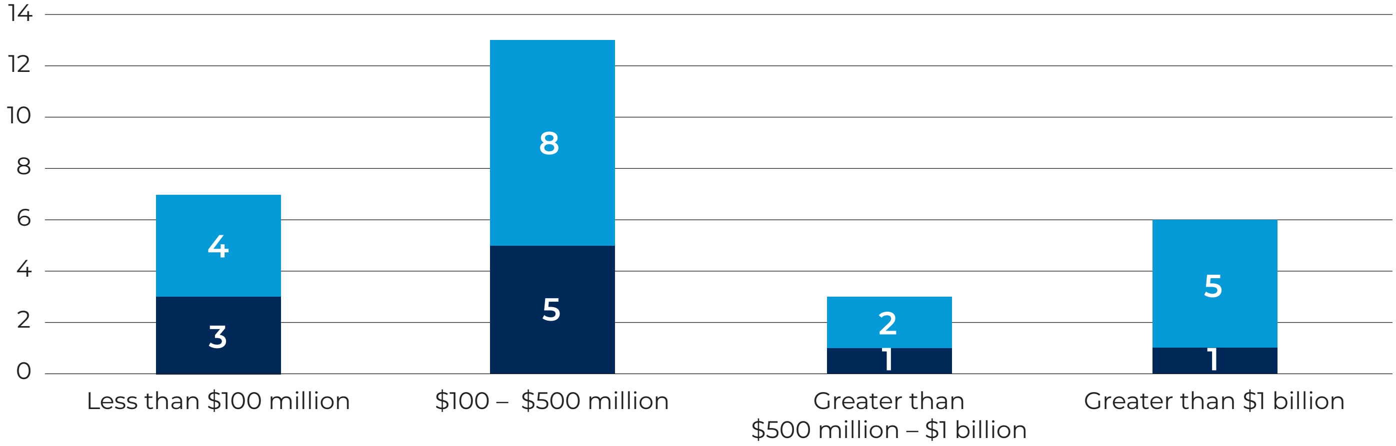
2020



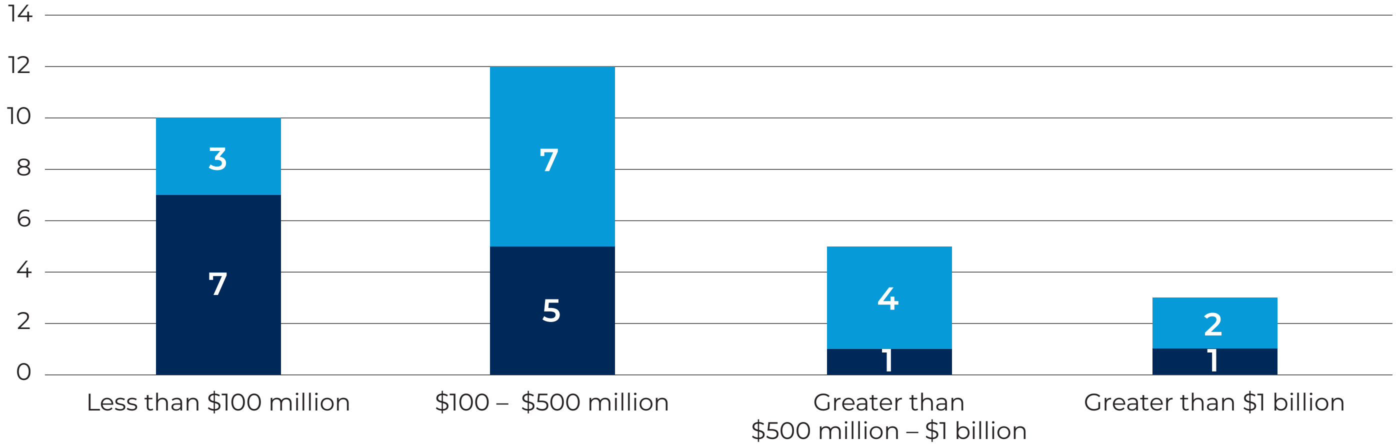
■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

Inspection Results by Issuer Revenue Range

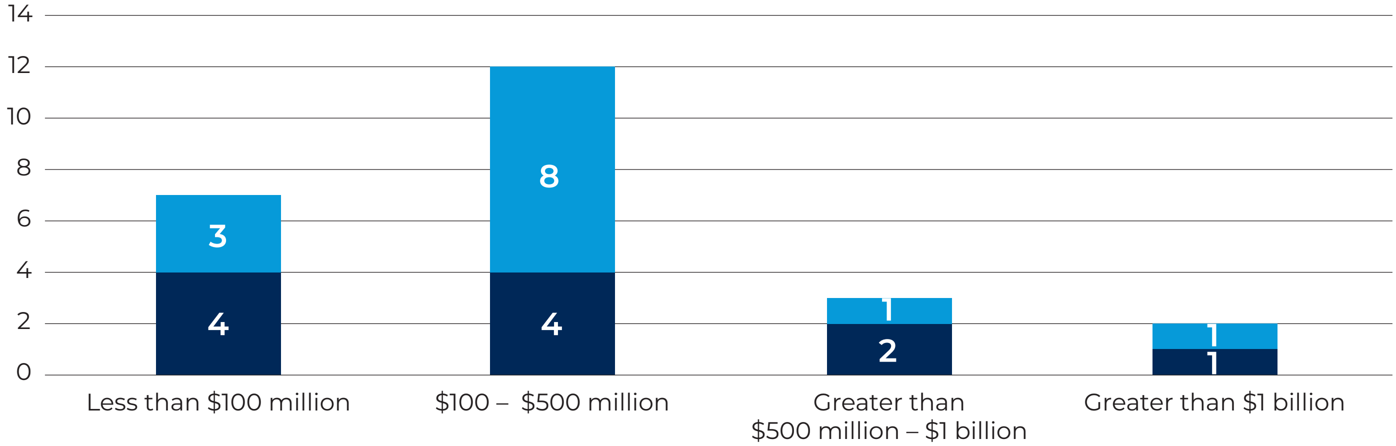
2022



2021

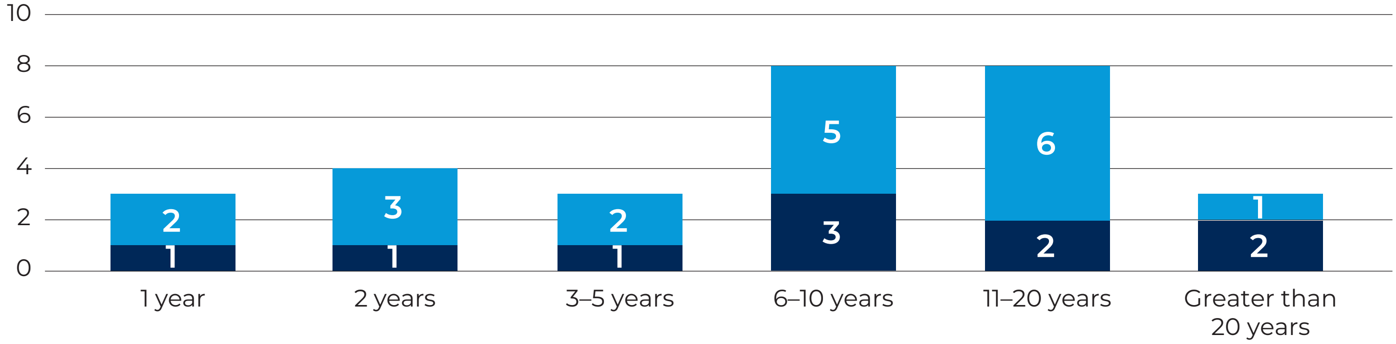


2020

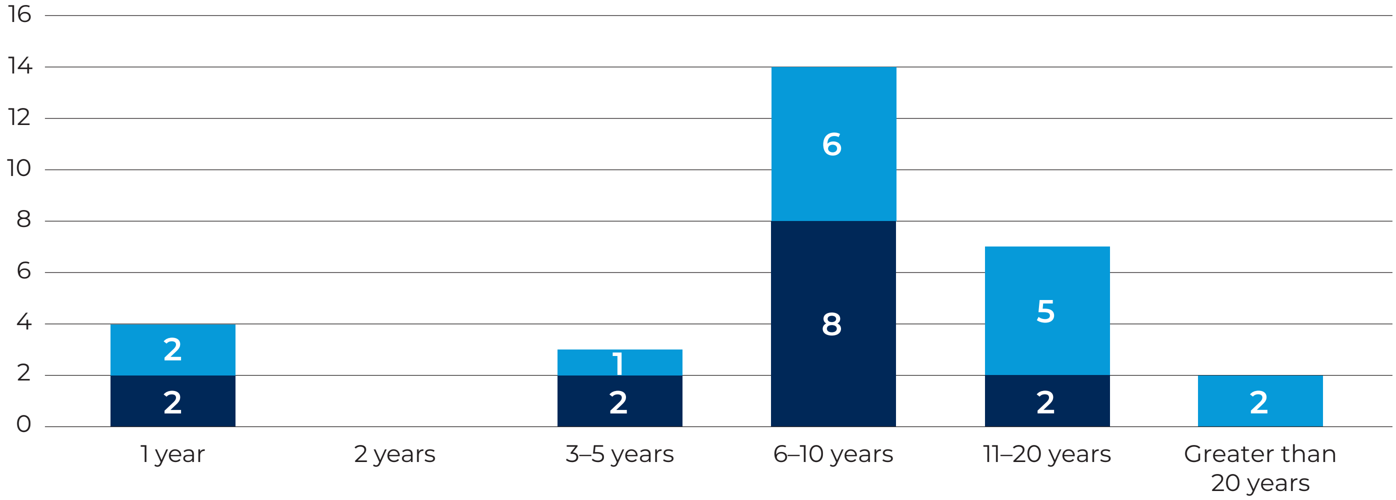


Inspection Results by the Firm's Tenure on the Issuer

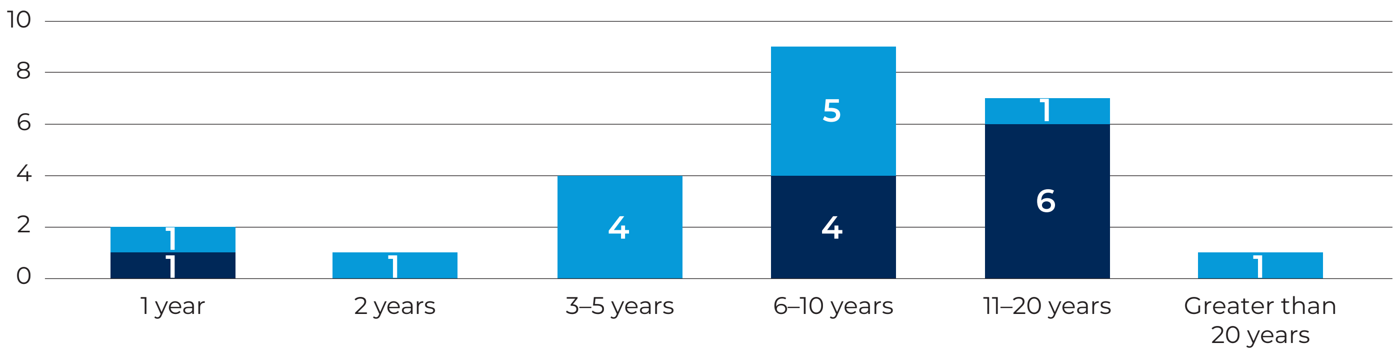
2022



2021



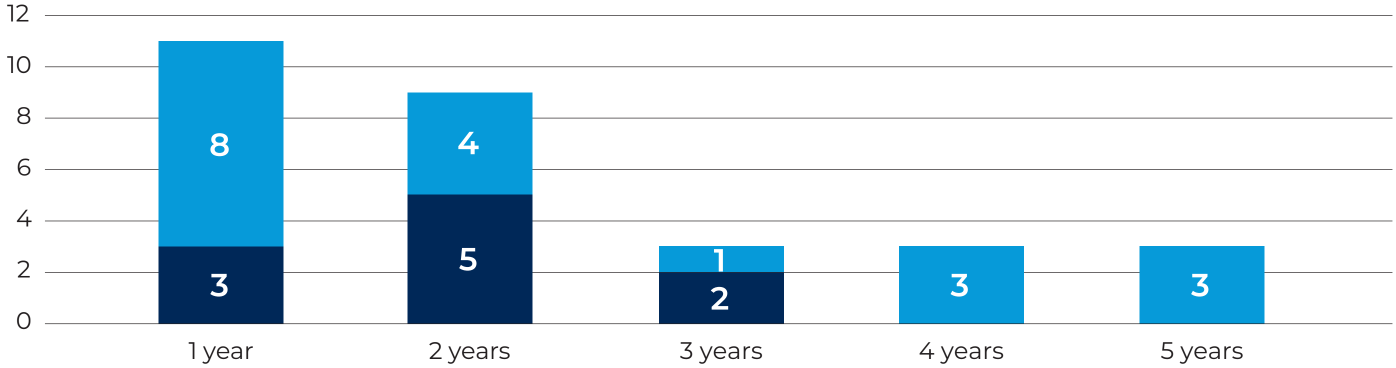
2020



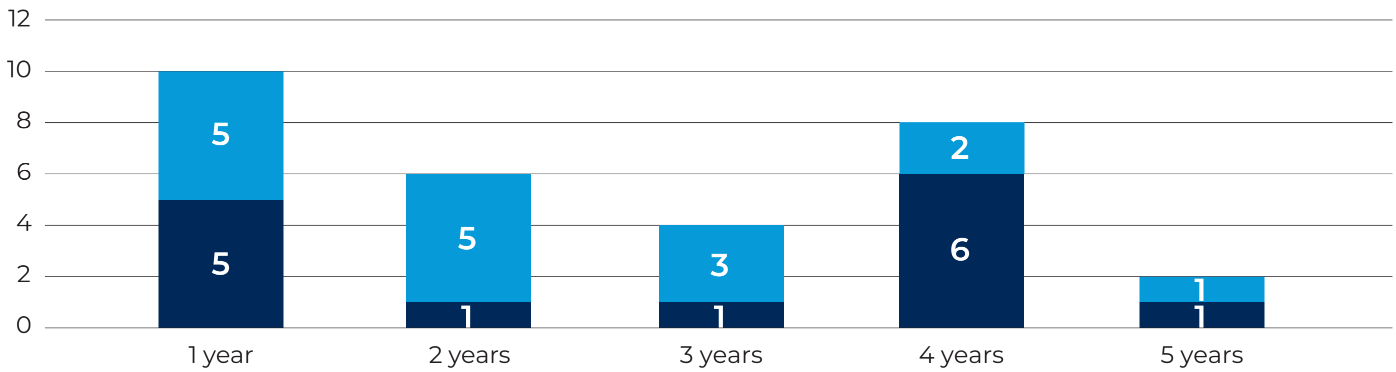
■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

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

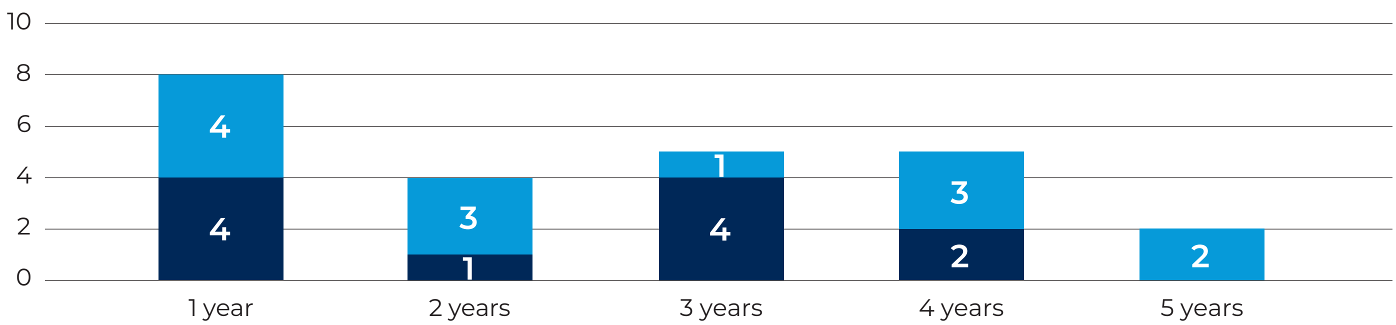
2022



2021



2020



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

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

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

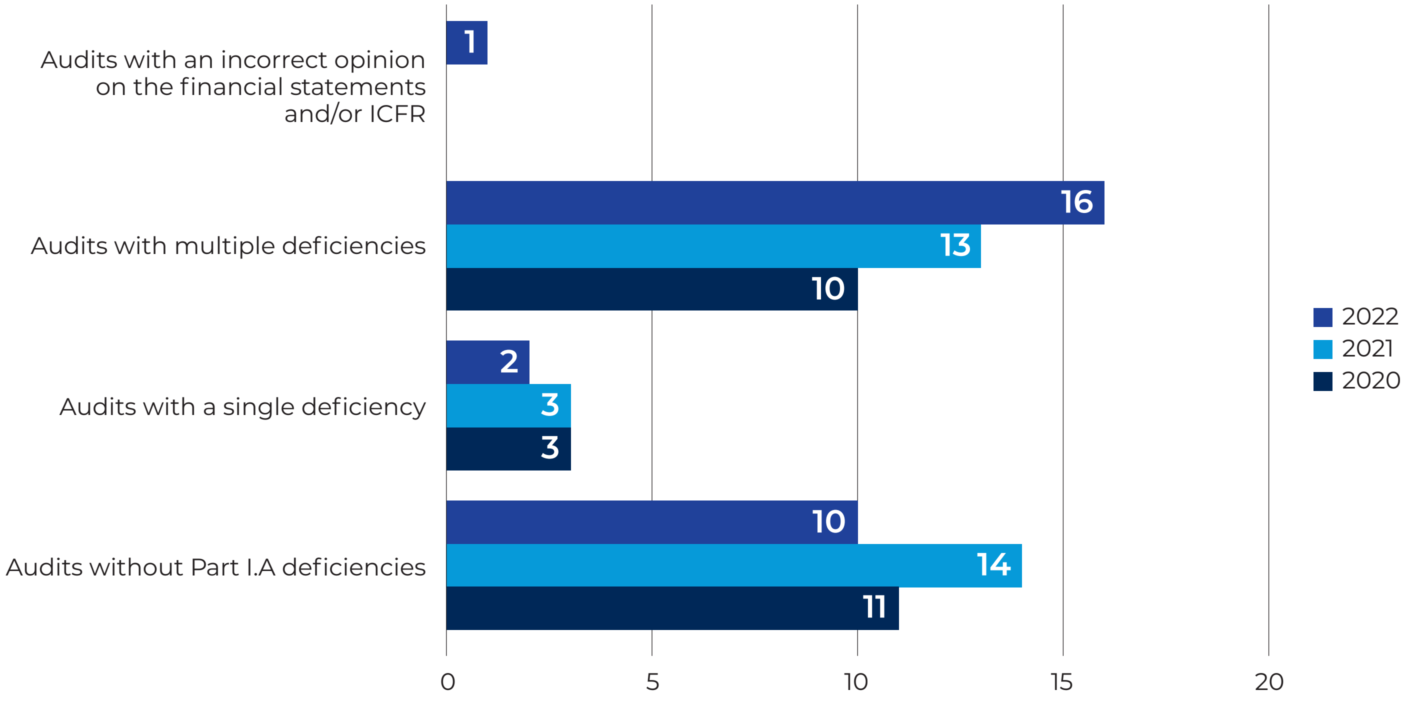
Audits with Multiple Deficiencies

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

Audits with a Single Deficiency

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

Number of Audits in Each Category



PART I: INSPECTION OBSERVATIONS

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

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

Part I.C discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

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

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

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

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

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

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

Issuer A – Consumer Staples

Type of audit and related area affected

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

Description of the deficiencies identified

For one contractual arrangement, the firm did not sufficiently evaluate whether the issuer's accounting for certain payments to a customer as expenses was in conformity with FASB ASC Topic 606, *Revenue from Contracts with Customers*, because it did not evaluate whether these payments included variable consideration. (AS 2301.08)

For a second contractual arrangement, the firm did not evaluate whether the issuer's upfront recording of an advance cash payment for advertising services as an operating expense was in conformity with FASB ASC Topic 720, *Other Expenses*. (AS 2301.08)

In connection with our review, the issuer reevaluated its accounting for these arrangements and concluded that misstatements existed that had not been previously identified. The issuer subsequently corrected these misstatements in a restatement of its financial statements, and the firm revised and reissued its report on the financial statements.

For the second contractual arrangement, the issuer also issued equity awards for advertising services. The firm did not evaluate whether the issuer, in conformity with FASB ASC Topic 718, *Stock Compensation*, should have deferred and recognized these awards in the same manner as if the issuer had paid cash for these services. (AS 2301.08)

The firm did not sufficiently test expenses because, when planning its sample for its test of details, the firm did not consider the characteristics of the population. (AS 2315.16, .23, and .23A) In addition, when testing the sample the firm selected, the firm identified misstatements but did not (1) evaluate the nature and cause of the misstatements identified, (2) project the misstatements to the remaining population of expenses, and (3) evaluate whether the projected misstatements were material to the financial statements. (AS 2315.26 and .27; AS 2810.17)

Audits with Multiple Deficiencies

Issuer B – Information Technology

Type of audit and related areas affected

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

Description of the deficiencies identified

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

With respect to change management:

- The firm selected for testing a control over the 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, 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 certain controls over change management for these IT systems but did not perform sufficient procedures to test the completeness of the population of changes from which it made its selections for testing because it limited its procedures to testing the completeness of only one type of change. (AS 1105.10)

With respect to user access:

- The firm selected for testing certain controls over the restriction of access to these IT systems. In its testing of the operating effectiveness of one of these controls, the firm excluded a certain type of user from its testing population. (AS 2201.44) For another of these controls, the firm did not evaluate whether access was appropriately restricted, beyond inquiring of management. (AS 2201.42 and .44)

- The firm selected for testing a control over the issuer's review of requested user access to these IT systems. In its testing of the operating effectiveness of this control, the firm excluded a certain type of user from its testing population and instead replaced one of the users selected with one of the excluded type of users. (AS 2201.44)
- The firm selected for testing a control over the issuer's periodic review of previously granted access to these IT systems. In its testing of operating effectiveness, the firm did not test, beyond inquiry, the aspect of the control that addressed the accuracy and completeness of the reports used in the operation of the control. (AS 2201.44)

With respect to **Revenue**, for which the firm identified a fraud risk; **Unbilled Accounts Receivable**; and **Deferred Revenue**:

As a result of the firm's ITGC testing deficiencies discussed above, for revenue, unbilled accounts receivable, and deferred revenue, the firm did not perform sufficient procedures to test, or sufficiently test controls over, the accuracy and completeness of certain system-generated data or reports the firm used (1) to make its selections to test certain controls or (2) in its substantive testing. (AS 1105.10)

The firm selected for testing automated controls over the timing of revenue recognition, the approval of sales discounts, and the calculation of contract progress. The firm did not sufficiently test the design and operating effectiveness of these automated controls as it limited its testing to only certain scenarios, without identifying and/or evaluating all relevant configurations. Further, for one of these controls, the firm tested an aspect of this control in the issuer's IT testing environment, rather than in its production environment, without performing any procedures to determine whether the testing environment was a complete replica of the production environment. (AS 2201.42 and .44)

Certain of the issuer's revenue arrangements included multiple performance obligations. The issuer allocated the total transaction price for each of these arrangements to the separate performance obligations based on the relative standalone selling prices. The firm did not perform any substantive procedures to evaluate the reasonableness of the standalone selling prices that the issuer established. (AS 2301.08)

With respect to **Inventory**:

The firm selected for testing certain controls related to the issuer's review of the reserve for excess and obsolete inventory. The firm did not identify and test any controls over certain inputs used in the operation of these controls. (AS 2201.39)

The firm selected for testing automated controls over the recording of inventory upon receipt. The firm did not sufficiently test the design and operating effectiveness of these automated controls as it limited its testing to only certain scenarios, without identifying and evaluating all relevant configurations. Further, the firm tested these controls in the issuer's IT testing environment, rather than in its production environment, without performing any procedures to determine whether the testing environment was a complete replica of the production environment. (AS 2201.42 and .44)

The firm selected for testing an automated control over the timing and amount of cost of sales recognized. The firm did not test whether cost of sales was recognized (1) upon revenue recognition and (2) at standard cost. (AS 2201.42 and .44)

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

The firm selected for testing certain controls that consisted of the issuer's review of the income tax provision, transfer-pricing reserves, uncertain tax positions, and tax disclosures. 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 firm did not identify and test any controls related to the issuer's evaluation of the potential effects of changes in tax rates, tax laws, and accounting standards. (AS 2201.39)

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

Issuer C – Information Technology

Type of audit and related areas affected

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

Description of the deficiencies identified

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

- The firm identified significant deficiencies in ITGCs for two of the issuer's IT systems related to individuals having inappropriate access to these systems. The firm identified and tested various compensating controls that it believed would mitigate these deficiencies. In performing its testing of the identified compensating controls, the firm did not identify that the control owners used data and reports in the performance of these controls that were produced by the systems that were subject to these ITGC deficiencies. (AS 2201.68)
- For another IT system, the firm did not identify and test any controls that addressed the risk that inappropriate changes could be made to the reports maintained in this system. (AS 2201.39)

As a result of the firm's control testing deficiencies discussed above, the firm did not perform sufficient procedures to test, or sufficiently test controls over, the accuracy and completeness of certain system-generated data and reports it used in its substantive testing for this revenue and the related accounts receivable. (AS 1105.10)

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

For this type of revenue, the issuer entered into arrangements where it could either be acting in the capacity of a principal or an agent, and as a result would record revenue on either a gross or net basis. The following additional deficiencies were identified:

- For one business unit, the firm selected for testing a control that included the issuer's review of changes to prices in the issuer's IT system for existing customers. The firm did not evaluate the specific review procedures that the control owner performed to assess the accuracy of these price changes. (AS 2201.42 and .44)

- The firm did not identify and test any controls that addressed whether the issuer was acting as a principal or an agent in these arrangements. (AS 2201.39)
- The issuer used point-of-sale systems to accumulate and transmit transaction data to certain of the issuer's IT systems and recorded revenue based on these data. The firm did not identify and test any controls that addressed the accuracy and completeness of these data. (AS 2201.39)
- The firm's substantive procedures to test this revenue included testing a sample of revenue transactions. For the transactions selected for testing, the firm did not evaluate whether the issuer was acting as a principal or as an agent for this revenue. (AS 2301.08 and .13)
- The firm used transaction data from the issuer's point-of-sale systems in its substantive testing. For one business unit, the firm did not sufficiently test the accuracy and completeness of these data because the firm (1) did not select its sample from the full population and (2) for most of its selections, limited its procedures to comparing the data to reports generated from the same transmitted data. (AS 1105.10) For another business unit, the firm did not perform any procedures to test, or (as discussed above), identify and test any controls over, the accuracy and completeness of these data. (AS 1105.10)

For two types of revenue, one of which was affected by the audit deficiencies discussed above, certain of the issuer's revenue arrangements included multiple performance obligations. The issuer allocated the total transaction price for each of these arrangements to the separate performance obligations based on the relative standalone selling prices. The following additional deficiencies were identified:

- The firm did not identify and test any controls that addressed the estimate of the standalone selling prices of the performance obligations. (AS 2201.39)
- For certain contracts, the firm did not identify and test any controls that addressed whether the allocation of the transaction price to the separate performance obligations was based on the standalone selling prices. (AS 2201.39)
- The firm did not evaluate whether the methods that the issuer used to estimate the standalone selling prices were in conformity with FASB ASC Topic 606 because the firm did not evaluate whether the issuer's methods maximized the use of observable inputs. (AS 2501.10) In addition, the firm did not perform any procedures to test, or test any controls over, the completeness of the information the issuer used to estimate the standalone selling prices. (AS 1105.10)
- For certain contracts, the firm did not perform any substantive procedures to test whether the allocation of the transaction price was based on standalone selling prices. (AS 2301.08 and .13)

With respect to **Accounts Receivable** and **Debt**:

The firm selected for testing a control over the issuer's review of the accounting treatment for one-time or unusual transactions. The firm did not evaluate the specific review procedures that the control owners performed to assess the appropriateness of the conclusions reached regarding the accounting treatment. (AS 2201.42 and .44)

Issuer D – 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**, **Accounts Receivable**, **Goodwill**, **Intangible Assets**, and **Debt**.

Description of the deficiencies identified

With respect to **Revenue,** for which the firm identified a significant risk, and **Accounts Receivable**:

For one type of revenue, the firm selected for testing controls that consisted of the issuer's review of (1) invoices and revenue journal entries and (2) the related accounts receivable reconciliation. The firm did not identify and test any controls over the accuracy and completeness of certain reports that were used in the operation of these controls. (AS 2201.39)

The following deficiencies were identified for another type of revenue:

- The firm did not identify and test any controls that addressed whether the performance obligation was satisfied before revenue was recognized. (AS 2201.39)
- The firm did not perform any substantive procedures to test (1) whether the performance obligation was satisfied before revenue was recognized and (2) the completeness of this revenue for the first three quarters of the year. (AS 2301.08)

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

With respect to **Goodwill** and **Intangible Assets**:

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

- The firm did not identify and test any controls that addressed the (1) reasonableness of a significant assumption developed by the company's specialist and (2) relevance and reliability of certain external information used by the company's specialist in developing another significant assumption. (AS 2201.39)
- The firm selected for testing a control that included the issuer's reviews of certain other significant assumptions developed by the company's specialist or developed by the issuer. The firm did not evaluate the specific review procedures that the control owner performed to assess the reasonableness of these significant assumptions. (AS 2201.42 and .44)

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

The firm's approach to evaluate these intangible assets for possible impairment was to test the issuer's process. The following deficiencies were identified:

- The firm did not evaluate the reasonableness of certain significant assumptions developed by the company's specialist or developed by the issuer. (AS 1105.A8b; AS 2501.16)
- The firm did not sufficiently evaluate the reasonableness of certain other significant assumptions developed by the company's specialist because it did not evaluate whether these assumptions were consistent with existing market information. (AS 1105.A8b)
- The firm did not evaluate the relevance and reliability of certain external information used by the company's specialist in developing another significant assumption. (AS 1105.A8a)

Unrelated to our review, the issuer reevaluated its accounting for these assets and concluded that misstatements existed that had not been previously identified. The issuer corrected these misstatements in a subsequent filing.

With respect to **Debt**:

During the year, the issuer restructured certain of its debt and recorded an extinguishment loss. The following deficiencies were identified:

- The firm did not identify and test any controls that addressed whether the (1) restructured debt and (2) issuer's fair value disclosures for debt were measured in conformity with FASB ASC Topic 820, *Fair Value Measurement*. (AS 2201.39)
- The firm's approach to substantively test the fair value of the restructured debt was to develop an independent expectation of the estimate. In developing its expectation, the firm did not take into account certain requirements of FASB ASC Topic 820. (AS 2501.21)
- The firm did not perform any procedures to test the issuer's fair value disclosures for debt. (AS 2501.07)

Issuer E – 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**, **Inventory**, and a **Business Combination**.

Description of the deficiencies identified

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

The issuer used an IT system to initiate, process, and record transactions related to revenue and inventory. In its testing of controls over these accounts, the firm tested various IT-dependent manual controls that used data and reports generated or maintained by this IT system. The firm did not identify and test controls that addressed whether the level of access provided to users was appropriate. (AS 2201.39) As a result of this deficiency in the firm's testing of ITGCs, the firm's testing of these IT-dependent manual controls was not sufficient. (AS 2201.46)

With respect to **Inventory**:

The firm selected for testing certain controls that consisted of the issuer's review of the (1) allocation of labor and overhead costs to inventory and (2) reserve for excess and obsolete inventory. The firm did not identify and test any controls over the accuracy and completeness of certain information used in the operation of these controls. (AS 2201.39)

The firm selected for testing a control that consisted of the issuer's review of standard costing for inventory items with cost increases. In evaluating the design of this control, the firm did not assess the effect of the issuer excluding decreases in costs on the control's ability to effectively prevent or detect a material misstatement. (AS 2201.42)

The firm selected for testing a control that consisted of the automated recording of inventory at standard cost and the issuer's review of variances between actual and standard costs. The firm did not test the automated aspect of this control. Further, the firm did not evaluate the review procedures that the control owner performed related to the review of variances, 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 firm selected for testing a control that consisted of the issuer's review of the classification of inventory between raw materials, work-in-process, and finished goods. 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 firm did not perform procedures to test, or test any controls over, the completeness of a system-generated report that the firm used (1) to make its selections to test a control over the recording of inventory upon receipt and (2) in its substantive testing of inventory cut-off. (AS 1105.10)

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

During the year, the issuer acquired a business and engaged a specialist to determine the fair values of the acquired intangible assets and the provision for contingent consideration to be paid to the seller. The firm's approach for substantively testing the fair values of the acquired intangible assets was to develop independent expectations of the estimates. The following deficiencies were identified:

- The firm did not perform any procedures to evaluate the reasonableness of certain significant assumptions developed by the issuer, which were also used by the firm in developing its independent expectations. (AS 2501.16)
- The firm did not test, or test any controls over, the accuracy and/or completeness of certain data produced by the issuer and used by the firm in developing its independent expectations. (AS 1105.10)
- The firm did not perform procedures to demonstrate it had a reasonable basis for certain assumptions it independently derived. (AS 2501.22) In addition, for two of the acquired intangible assets, the firm did not perform sufficient procedures to demonstrate it had a reasonable basis for an assumption it independently derived because the data it used to develop this assumption included unrelated data. (AS 2501.22)
- For two of the acquired intangible assets, the firm did not evaluate the relevance of certain external data it used to develop its independent expectations. (AS 1105.04 and .06)
- For one of the acquired intangible assets, the firm used an auditor-employed specialist to evaluate a significant assumption developed by the company's specialist, which the firm used in developing its independent expectation of this estimate. The firm did not identify that the work of the auditor-employed specialist did not provide sufficient appropriate audit evidence because it did not evaluate the (1) relevance and reliability of external data that the company's specialist used to develop this assumption and (2) reasonableness of this assumption. (AS 1105.A8a and .A8b; AS 1201.C6 and .C7)

The firm did not evaluate whether, in conformity with FASB ASC Topic 805, *Business Combinations*, a separately identifiable intangible asset existed related to an agreement that was executed as part of the acquisition. (AS 2301.08)

The firm's approach for substantively testing the fair value of the contingent consideration to be paid to the sellers was to review and test the issuer's process. The firm's approach for evaluating the reasonableness of certain of the issuer's assumptions was to develop independent expectations of those assumptions. The firm did not compare the issuer's assumptions to these independent expectations, which were affected by the audit deficiencies discussed above. (AS 2501.16)

Issuer F – 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 **Debt**. The firm's internal inspection program inspected this audit, reviewed the Revenue and Related Accounts area, and also identified the deficiencies below.

Description of the deficiencies identified

With respect to **Revenue and Related Accounts**, for which the firm identified a significant risk:

The issuer recognized certain revenue from one of its business units over time based on units completed to date relative to total contractual units. The firm did not identify and test any controls that addressed whether certain requirements of FASB ASC Topic 606 had been met in determining revenue recognition. (AS 2201.39)

The firm did not perform sufficient substantive procedures to evaluate whether certain of this revenue was appropriately recognized because the firm only reviewed one customer change order. (AS 2301.08)

For the unbilled portion of this revenue, the following additional deficiencies were identified:

- The firm did not identify and test any controls that addressed the accuracy of this revenue. (AS 2201.39)
- The firm selected for testing a control that consisted of the issuer's review of revenue journal entries and related support. The firm did not evaluate the review procedures that the control owner performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44) In addition, the firm did not test the aspect of this control that addressed the accuracy and completeness of certain information used to record revenue. (AS 2201.42 and .44)
- The firm selected for testing a control that consisted of the issuer's review of contract setup within the issuer's IT system. The firm did not test the aspect of this control that addressed the accuracy of contractual units and rates. (AS 2201.42 and .44)
- The firm did not perform any procedures to test the completeness of this revenue. (AS 2301.08)

For another business unit, the issuer recognized certain revenue over time based on costs incurred to date relative to total estimated costs to complete these contracts. Certain of this revenue included revenue from contract modifications that had not yet been approved by customers. The following deficiencies were identified:

- The firm selected for testing a control that consisted of the issuer's review of revenue recognition for certain contracts. 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 firm selected for testing a control that consisted of the issuer's review of revenue recognition for modified contracts. The firm did not test the design of the aspects of this control related to unapproved contract modifications. (AS 2201.42)
- The firm did not perform procedures to evaluate whether unapproved contract modifications were accounted for in conformity with FASB ASC Topic 606. (AS 2301.08 and .11)

- The issuer engaged a specialist to assist it in estimating the amount of revenue to be recognized from certain unapproved contract modifications using various significant assumptions. The firm did not (1) evaluate the reasonableness of the significant assumptions developed by the company's specialist or by the issuer, (2) test the accuracy and completeness of information produced by the issuer that was used by the company's specialist, and (3) evaluate whether the methods used by the company's specialist were appropriate under the circumstances. (AS 1105.A8a-c; AS 2501.16)

The firm selected for testing controls that consisted of the issuer's reviews of allowances for accounts related to certain revenue. The firm did not identify and test any controls over the accuracy of certain reports used in the operation of these controls. (AS 2201.39)

The sample sizes the firm used in its substantive procedures to test certain revenue and related accounts 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)

With respect to **Debt**:

The firm did not identify and test any controls that addressed whether the issuer's fair value disclosures for certain debt were measured in conformity with FASB ASC Topic 820. (AS 2201.39)

The firm did not perform any substantive procedures to test the issuer's fair value disclosures for this debt. (AS 2501.07) In addition, the firm did not identify and evaluate the issuer's omission of a required disclosure under FASB ASC Topic 820, related to the categorization of certain of this debt within the fair value hierarchy. (AS 2810.30 and .31)

In connection with our review, the issuer reevaluated its disclosure related to this debt and determined that a disclosure was omitted. The issuer did not file an amended Form 10-K or Form 8-K indicating that its previously issued financial statements should not be relied on. Instead, the issuer corrected this omission in a subsequent filing.

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 **Equity**.

Description of the deficiencies identified

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

For one business unit, the issuer recognized several types of revenue. The following deficiencies were identified:

- For one type of revenue, the firm selected for testing various automated controls over the processing of certain orders through the issuer's IT systems. The firm's testing of each of these automated controls using a sample of only one instance of the control's operation was not sufficient because the firm did not test whether changes to configurations within these controls were subject to effective ITGCs over these IT systems. (AS 2201.46)
- For a second type of revenue, the firm selected for testing a control that included the issuer's evaluation of whether delivery and installation were a single performance obligation. The firm did not test this aspect of the control. (AS 2201.42 and .44) In addition, the firm did not identify and test any

controls that addressed the risk that other performance obligations existed that would affect whether revenue was appropriately recognized. (AS 2201.39)

- For both types of revenue, the firm did not identify and test any controls that addressed whether the quantities the issuer invoiced represented the quantities ordered by the customers. (AS 2201.39)

For another business unit, the firm selected for testing a control over the transfer of data from the revenue system to the general ledger. The firm did not test the automated aspect of this control that addressed the completeness of the data transferred. (AS 2201.42 and .44)

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

With respect to **Equity**:

The firm selected for testing a control that consisted of the issuer's review of the fair value measurements of redeemable noncontrolling interests. The firm did not evaluate the specific review procedures that the control owner performed to evaluate the reasonableness of the earnings multiples used in determining the fair values. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy and completeness of the historical earnings multiples that the control owner used in the operation of this control. (AS 2201.39)

The firm identified the issuer's omission of a required disclosure under FASB ASC Topic 820 related to the earnings multiples used in the fair value measurements of redeemable noncontrolling interests. The firm did not sufficiently evaluate the effect of this omission because it limited its assessment to asserting that including the omitted disclosure would not change a financial statement user's decision. (AS 2810.17, .30, and .31)

Issuer H

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Business Combinations**, **Certain Assets**, **Certain Liabilities**, and **Intangible Assets**.

Description of the deficiencies identified

With respect to a **Business Combination; Certain Assets**, for which the firm identified a significant risk; and **Certain Liabilities**, for which the firm identified a significant risk:

During the year, the issuer acquired a business and engaged a specialist to assist in determining the fair values of certain acquired assets and the related liabilities as of the acquisition date using various significant assumptions. This specialist also assisted the issuer in determining the fair values at year end. The following deficiencies were identified:

- In evaluating the company's specialist's methods to determine these fair values as of the acquisition date, the firm selected a sample of assets to evaluate whether the data and significant assumptions were appropriately applied. The firm's sample was too small to provide sufficient appropriate audit evidence because, in determining the sample size, the firm did not take into account tolerable misstatement and the allowable risk of incorrect acceptance. (AS 1105.A8c; AS 2315.16, .23, and .23A) In addition, for one category of these assets, the firm did not evaluate whether the data and significant assumptions were appropriately applied to the complete population of these assets. (AS 1105.A8c)

- For these acquired assets and the related liabilities as of the acquisition date, the firm did not perform procedures to evaluate the reasonableness of certain significant assumptions developed by the company's specialist, beyond comparing these assumptions to assumptions the issuer used in the prior year. (AS 1105.A8b)
- The issuer used a service organization to process and record transactions related to certain of these assets and the related liabilities, which was the source of certain data used by the company's specialist. The firm's approach to testing these data upon acquisition and year end included reliance on controls at the service organization. The firm did not perform procedures to test, or test the operating effectiveness of, certain complimentary user controls over these data that were identified in the service auditor's report. (AS 1105.A8a; AS 2601.14)

For a sample of certain acquired assets as of the acquisition date and at year end, the firm sent positive confirmation requests. For the confirmations that were not returned, the firm did not perform alternative procedures that provided sufficient appropriate audit evidence that the recorded amounts were accurate as of the confirmation date. (AS 2310.31)

The firm used an auditor-engaged specialist to assist it with testing the fair values of certain assets and the related liabilities at year end, which were determined by one of the company's specialists. The following deficiencies were identified:

- The firm did not identify that the auditor-engaged specialist did not perform any procedures to evaluate the (1) reasonableness of significant assumptions developed by the company's specialist or by the issuer and (2) relevance and reliability of certain external data used by the company's specialist. (AS 1105.A8a and .A8b; AS 1210.09 and .12; AS 2501.16)
- The firm did not perform any procedures to test the accuracy or completeness of certain issuer-produced data used by the issuer to estimate the discount rates that the company's specialist used to estimate the fair values of one category of these assets and the related liabilities. (AS 1105.10)
- The firm did not sufficiently evaluate the appropriateness of the methods used by the company's specialist for this category of these assets and the related liabilities, because it did not evaluate whether certain other information used was relevant to the estimate. (AS 1105.A8c)

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

During the year, the issuer acquired two businesses. The firm did not perform any procedures to evaluate the reasonableness of certain significant issuer-developed assumptions that were used by another of the company's specialists to determine the fair values of acquired intangible assets as of the acquisition date and at year end. (AS 2501.16)

Issuer I – Consumer Staples

Type of audit and related areas affected

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

Description of the deficiencies identified

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

The firm used system-generated data and reports in its testing of revenue. The following deficiencies were identified:

- The extent of the firm's procedures to test the accuracy of certain of these system-generated reports was not sufficient because, when calculating its sample size, the firm did not take into account an identified significant deficiency over ITGCs for this system. (AS 1105.10)
- The firm did not perform any procedures to test, or test any controls over, the accuracy and/or completeness of one of these reports and certain other system-generated data, certain of which the firm used in developing its expectations for substantive analytical procedures, beyond observing the issuer generate this report. (AS 1105.10; AS 2305.16)

The issuer's contractual arrangements offered certain discounts, primarily consisting of rebates and other deductions. For one type of revenue, the issuer recorded these discounts as an expense. The firm did not evaluate whether the issuer's accounting for these discounts was in conformity with FASB ASC Topic 606. (AS 2301.08)

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

The issuer performed a quantitative assessment of the possible impairment of goodwill. To determine the fair value of the reporting unit, the issuer developed cash-flow forecasts using various significant assumptions. The following deficiencies were identified:

- The firm did not evaluate the relevance and reliability of certain industry information it used in evaluating the reasonableness of certain significant assumptions. (AS 1105.04 and 06)
- The firm did not sufficiently evaluate the reasonableness of the significant assumptions related to revenue growth rates because it did not evaluate significant differences between these assumptions and industry information and historical experience. (AS 2501.16)
- The firm did not sufficiently evaluate the reasonableness of certain other significant assumptions because it did not take into account (1) certain contractual restrictions or (2) the issuer's written plans or other relevant documentation that could affect the issuer's ability to carry out its planned actions. (AS 2501.16 and .17)

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 **Revenue** and **Deferred Revenue**.

Description of the deficiencies identified

With respect to **Revenue**:

The firm identified a control deficiency related to the issuer's review of changes to prices maintained in the issuer's general ledger. The firm identified and tested various controls that it believed would mitigate this deficiency. The firm did not identify that these compensating controls did not address the risk of material misstatement related to inaccurate price changes. (AS 2201.68)

For one type of revenue, the firm did not identify and test any controls that addressed the risk related to the completeness and accuracy of data transferred from the issuer's revenue system to the general ledger. (AS 2201.39)

With respect to **Deferred Revenue**:

The firm did not identify and test any controls that addressed the issuer's presentation of deferred revenue. (AS 2201.39)

The firm did not identify and evaluate that the issuer's presentation of certain deferred revenue was not in conformity with FASB ASC Topic 210, *Balance Sheet*. (AS 2810.30 and .31)

Issuer K – 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 a **Business Combination**.

Description of the deficiencies identified

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

The issuer recognized revenue from two of its business units based, in part, on labor hours recorded in a timekeeping system hosted by a service organization. The following deficiencies were identified:

- The firm was unable to obtain a service auditor's report regarding the effectiveness of the service organization's controls for the year under audit. The firm identified and tested various compensating controls that it believed would mitigate its inability to obtain a service auditor's report. The firm did not identify that the control owners used labor hours in the performance of these compensating controls that were obtained from this timekeeping system. (AS 2201.68)
- The firm used labor hours from this timekeeping system in its testing of this revenue and related accounts. The firm did not perform any procedures to test, or (as discussed above) sufficiently test controls over, the accuracy and completeness of these labor hours. (AS 1105.10)

With respect to a **Business Combination** and **Revenue and Related Accounts**:

During the year, the issuer acquired a business and the firm used labor hours from another timekeeping system in its testing of (1) contract assets acquired and liabilities assumed and (2) the acquired business' revenue and related accounts. The firm did not perform any procedures to test, or test controls over, the accuracy and completeness of these labor hours. (AS 1105.10)

Issuer L – Industrials

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Other Income**:

During the year, the issuer sold several of its business units and recorded divestiture gains. The following deficiencies were identified:

- The firm did not identify and test any controls over the calculation of the divestiture gains. (AS 2201.39)

- For certain divestitures, the firm used information produced by the issuer in its testing of the divestiture gains, but did not perform any procedures to test, or test any controls over, the accuracy and completeness of certain of this information. (AS 1105.10)

With respect to **Revenue**:

Certain of the issuer's revenue arrangements included multiple performance obligations. The issuer allocated the total transaction price for each of these arrangements to the separate performance obligations based on the issuer's estimate of the relative standalone selling prices. The firm performed procedures to test the accuracy of certain issuer-prepared data the firm used in its testing of the relative standalone selling prices. The extent of these procedures was not sufficient because the firm calculated its samples of items to test assuming a control reliance strategy but did not take into account that one of the controls the firm relied upon was ineffective. (AS 1105.10)

Issuer M – Energy

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**, **Leases**, and **Oil and Gas Properties**.

Description of the deficiencies identified

The issuer used a specialist to estimate the issuer's oil and gas reserves that were used in the valuation of properties for which oil and gas reserves had been assigned. The issuer produced certain information that was (1) used in the firm's testing of revenue and lease operating expenses and (2) provided to the company's specialist. The firm did not perform any procedures to test, or test controls over, the accuracy and/or completeness of this information. (AS 1105.10 and .A8a)

With respect to **Revenue** and **Leases**:

The firm used certain information produced by a related party in its testing of revenue and lease operating expenses but did not perform any procedures to evaluate the reliability of this information. (AS 1105.04 and .06)

With respect to **Oil and Gas Properties**, for which the firm identified a fraud risk:

The company's specialist used certain other information provided by related parties of the issuer and an external source to estimate the issuer's oil and gas reserves. The following deficiencies were identified:

- The firm's procedures to evaluate the relevance and reliability of the information provided by related parties were not sufficient because (1) it did not evaluate whether this information was relevant to the measurement objective and (2) when determining the number of items to test, the firm did not take into account the source of the information. (AS 1105.A8a)
- The firm did not evaluate the relevance and reliability of the information provided by the external source. (AS 1105.A8a)

Issuer N – Information Technology

Type of audit and related area affected

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

Description of the deficiencies identified

Certain of the issuer's revenue arrangements included multiple performance obligations. The issuer allocated the total transaction price for each of these arrangements to the separate performance obligations based on the relative standalone selling prices. With respect to revenue at one business unit, the firm did not perform any substantive procedures to evaluate the reasonableness of the standalone selling prices that the issuer used. (AS 2301.08)

With respect to certain revenue at the remaining business units ("other revenue"), the firm did not evaluate whether the risks of material misstatement that the firm associated with certain revenue at the first business unit that was subject to more extensive audit procedures also applied to this other revenue. (AS 2101.11 and .12)

Issuer O – Information Technology

Type of audit and related area affected

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

Description of the deficiencies identified

During the year, the issuer acquired a business and determined the fair value of an acquired intangible asset using forecasted cash flows, which included significant assumptions related to revenue growth rates for the forecast period. The following deficiencies were identified:

- For certain years within the forecast period, the firm did not sufficiently evaluate the reasonableness of these significant assumptions because it did not (1) evaluate significant differences between the issuer's forecasted rates and industry growth information it used to support these rates, (2) evaluate whether these forecasted rates were consistent with the issuer's historical and recent experience, and (3) take into account the issuer's ability to achieve these forecasted rates. (AS 2501.16 and .17)
- For the remaining years within the forecast period, the firm did not perform any procedures to evaluate the reasonableness of the forecasted revenue growth rates. (AS 2501.16)

Issuer P – SPACs

Type of audit and related area affected

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

Description of the deficiencies identified

During the year, the issuer issued warrants that were recorded as equity and engaged a specialist to determine the fair values of these warrants. The firm's approach for substantively testing the fair values of these warrants was to test the issuer's process, and the firm used an auditor-employed specialist to evaluate the significant assumptions the company's specialist developed. The firm did not identify that the work of the auditor-employed specialist did not provide sufficient appropriate audit evidence because it did not (1) evaluate external data the auditor-employed specialist used to develop an independent expectation of one significant assumption and (2) identify that the auditor-employed specialist did not perform any procedures to evaluate certain of the other significant assumptions. (AS 1105.04, .06, and .A8b; AS 1201.C6 and .C7)

During the year, the issuer also issued warrants that were recorded as liabilities and engaged a specialist to determine the fair values of these warrants. The firm did not sufficiently evaluate the reasonableness of the significant assumptions used to value these warrants at year end because its procedures were limited to reading a memorandum prepared by the company's specialist and inquiring of management regarding changes in assumptions from the original issuance date. (AS 1105.A8b)

Issuer Q – Consumer Discretionary

Type of audit and related area affected

In our review, we identified deficiencies in the ICFR audit related to **Long-Lived Assets**. The firm's internal inspection program inspected this audit and reviewed this area but did not identify the deficiencies below.

Description of the deficiencies identified

The firm selected for testing a control that consisted of the issuer's review of its assessment of long-lived assets for possible impairment, including the underlying cash-flow forecasts. The firm did not evaluate the specific review procedures that the control owner performed to assess the appropriateness of excluding certain costs from these cash-flow forecasts. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy of certain data that were used in the operation of this control. (AS 2201.39)

Audits with a Single Deficiency

Issuer R – Industrials

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 did not identify and evaluate a misstatement in a required disclosure under FASB ASC Topic 606 related to the disaggregation of revenue. (AS 2810.30 and .31)

In connection with our review, the issuer reevaluated this disclosure and determined that an error existed that had not been previously identified. The issuer did not file an amended Form 10-K or Form 8-K indicating that its previously issued financial statements should not be relied on. Instead, the issuer corrected this error in a subsequent filing by revising the disclosure.

Issuer S – Consumer Discretionary

Type of audit and related area affected

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

Description of the deficiency identified

The firm performed procedures to test the accuracy and completeness of certain system-generated reports that the issuer used to estimate the reserve for excess and obsolete inventory. The extent of these procedures was not sufficient because the firm used the incorrect amount to calculate its samples of items to test from these reports. (AS 1105.10)

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

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

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

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

- In one of 29 audits reviewed, the firm did not include all relevant work papers in the final set of audit documentation it was required to assemble. In this instance, the firm was non-compliant with AS 1215, *Audit Documentation*.
- In one of 24 audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to (1) the issuer's critical accounting estimates and (2) the firm's disagreement with management about a matter that could be significant to the issuer's financial statements or the auditor's report. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of eight audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to the name, location, and planned responsibilities of an other accounting firm that performed audit procedures in the audit. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 29 audits reviewed, the firm did not evaluate certain factors when assessing the risks of material misstatement related to certain significant accounts. In this instance, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In five of 12 audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not have an appropriate rationale for limiting its testing of entries it identified as having certain fraud risk characteristics to certain entries. In these instances, the firm was non-compliant with AS 2401, *Consideration of Fraud in a Financial Statement Audit*.
- In one of 24 audits reviewed, the engagement team performed procedures to determine whether or not matters were critical audit matters but, in performing those procedures, did not include a matter that was communicated to the issuer's audit committee and that related to accounts or disclosures that were material to the financial statements. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. This instance of non-compliance does not necessarily mean that other critical audit matters should have been communicated in the auditor's report.
- In two of 24 audits reviewed, the firm's communication of a critical audit matter in the audit report included language that was inconsistent with information in the firm's audit documentation. In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

- In three of eight audits reviewed, the firm's report on Form AP either included inaccurate information or omitted information related to the participation in the audit by other accounting firms. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.
- In one of six audits reviewed, the firm did not describe, in writing, to the audit committee the scope of certain permissible tax services; the fee structure for these services; and any side letter or other amendment to the engagement letter, or any other agreement between the firm and the issuer, related to these services. In this instance, the firm was non-compliant with PCAOB Rule 3524, *Audit Committee Pre-Approval of Certain Tax Services*.

PART I.C: INDEPENDENCE

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

PCAOB-Identified

We did not identify any instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Firm-Identified

During the inspection, the firm brought to our attention that it had identified, through its independence monitoring activities, eight instances across six issuers,[2] representing approximately 2% of the firm's total reported issuer audits, in which the firm appeared to have impaired its independence because it may not have complied with Rules 2-01(b) or 2-01(c) of Regulation S-X related to maintaining independence. Approximately 50% of these instances of potential non-compliance involved non-U.S. associated firms.

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

The most common instances of potential non-compliance related to non-audit services, audit committee pre-approval requirements, and indemnification clauses:

- The firm reported three instances of potential non-compliance with Rule 2-01(c)(4) of Regulation S-X regarding non-audit services. Two of these instances related to services provided by non-U.S. associated firms, and one related to services provided by the firm. All of these instances related to services that the firm determined to be prohibited, such as performing management functions or bookkeeping.
- The firm reported two instances of potential non-compliance with Rule 2-01(c)(7) of Regulation S-X regarding audit committee pre-approval. Both of these instances related to tax services provided by non-U.S. associated firms without the firm obtaining audit committee pre-approval.
- The firm reported two instances of potential non-compliance regarding indemnification clauses that appear to be inconsistent with the general standard of independence set out in Rule 2-01(b) of Regulation S-X. Each of these instances related to the firm including clauses in its master service agreement with an issuer audit client that may have resulted in the audit client agreeing to indemnify the firm with respect to certain liabilities for those audits.

The firm has reported to us that it has evaluated these instances of potential non-compliance and determined in all instances that its objectivity and impartiality were not impaired.

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

PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

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

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

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

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

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

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

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

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

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Wayne Berson
Chief Executive Officer, BDO USA
Chairman, BDO International

October 30, 2023

Ms. Christine Gunia
Acting 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 2022 Inspection of BDO USA, P.C

Dear Ms. Gunia:

On behalf of BDO USA, P.C., we are pleased to provide our response to Part I of the Public Company Accounting Oversight Board's ("PCAOB" or the "Board") Draft Report on the 2022 Inspection of BDO USA, P.C. The Board's inspection process plays an integral role in enhancing audit quality. We continue to support the PCAOB's mission of protecting investors and furthering the public interest in the preparation of informative, accurate, and independent audit reports.

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

We recognize the important role we play in protecting the interest of investors and the integrity of the capital markets and are therefore steadfast in our commitment to audit quality as our highest priority. We are making numerous investments to improve the quality of our audits including, among others, the deployment of a reimagined training curriculum aimed at upskilling our professionals, the implementation of a new methodology enablement group aimed at improving the utility of audit tools and guidance used by our professionals, the continued centralization of our assurance practice operations including those for our engagement quality reviewers and IT audit professionals, and an enhanced approach to proper phasing of the audit to ensure adequate time for our professionals to focus on the most critical aspects of the audit and with the degree of professional skepticism necessary to perform high quality audits.

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

Sincerely,

Wayne Berson
Chief Executive Officer