# 2023 Inspection BDO AG

(Headquartered in Zurich, Switzerland)

April 28, 2025

**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. 104-2025-065**

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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# 2023 INSPECTION

In the 2023 inspection of BDO AG, the Public Company Accounting Oversight Board (PCAOB) assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies. Our inspection was conducted in cooperation with the Swiss Federal Audit Oversight Authority.

We selected for review three audits of issuers with fiscal years ending in 2022. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

## 2023 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make 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. In certain situations, we may select all of the firm's issuer audits for review.

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 necessarily 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 or of all of the audit procedures performed for the audits reviewed.

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

# OVERVIEW OF THE 2023 INSPECTION

The following information provides an overview of our 2023 inspection. We use a risk-based method 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 inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

## Firm Data and Audits Selected for Review

| | 2023 |
|---|---|
| **Firm data** | |
| **Total issuer audit clients in which the firm was the principal auditor** | 3 |
| **Total issuer audits in which the firm was not the principal auditor** | 5 |
| **Total engagement partners on issuer audit work**[1] | 4 |
| **Audits reviewed** | |
| **Total audits reviewed**[2] | 3 |
| **Audits in which the firm was the principal auditor** | 2 |
| **Audits in which the firm was not the principal auditor** | 1 |
| **Integrated audits of financial statements and internal control over financial reporting (ICFR)** | 1 |
| **Audits with Part I.A deficiencies** | 3 |
| **Percentage of audits with Part I.A deficiencies** | 100% |

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

[1] The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201, *Supervision of the Audit Engagement*) or for the firm's role in an issuer audit during the twelve-month period preceding the outset of the inspection.

[2] The population from which audits are selected for review includes both audits for which the firm was the principal auditor and those where the firm was not the principal auditor but played a role in the audit.

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 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.

## Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2023 inspection. 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.

| 2023 | |
|---|---|
| **Audit area** | **Audits reviewed** |
| **Revenue and related accounts** | 3 |
| **Cash and cash equivalents** | 1 |
| **Inventory** | 1 |
| **Goodwill and intangible assets** | 1 |
| **Financial reporting and close** | 1 |

# PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, (1) 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 or (2) in audit(s) in which it was not the principal auditor, had not obtained sufficient appropriate audit evidence to fulfill the objectives of its role in the audit.

Part I.B discusses certain deficiencies, if any, 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) or fulfill the objectives of its role in the audit(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, if any, related to maintaining independence.

Consistent with the Sarbanes-Oxley Act ("Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.

## 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.

# 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 (1) supporting the firm's opinion(s) on the issuer's financial statements and/or ICFR and (2) in audit(s) in which it was not the principal auditor, to fulfill the objectives of its role in the audit.

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 that most directly relates to the requirement with which the firm did not comply.

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

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

None

## Audits with Multiple Deficiencies

### Issuer A

#### Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**, **Goodwill and Intangible Assets**, **Fraud Considerations**, and **Journal Entries**.

## Description of the deficiencies identified

With respect to **Revenue**:

The issuer used an information technology (IT) system to process certain revenue transactions under multiple revenue recognition scenarios. To reduce the extent of its substantive procedures for this revenue, the firm tested and placed reliance on certain IT general controls (ITGCs). The following deficiencies were identified:

- The firm selected for testing a change management control over this IT system that consisted of the testing and approval of system changes prior to their migration into the production environment. The issuer documented system changes in tickets that were entered into a change ticket tracking system. The firm did not perform sufficient procedures to test, or test any controls over, the completeness of the population of changes from which it made its selections for testing this control, because it limited its procedures to obtaining a list of change tickets from the change ticket tracking system without performing procedures to determine if there were changes that were not captured in that system. (AS 1105.10)

- The firm selected for testing another change management control over this IT system that consisted of the restriction of access to migrate system changes from the development environment into the production environment. The firm did not identify and evaluate a control design deficiency related to certain IT users that had the ability to develop system changes and migrate system changes from the development environment into the production environment. (AS 2301.19)

- The firm did not perform sufficient procedures to test this revenue because it did not test (1) whether this IT system appropriately processed this revenue under each of the revenue recognition scenarios and (2) the inputs used in determining the revenue recognized. (AS 2301.08)

In addition, the firm did not perform procedures to test, or (as discussed above) sufficiently test controls over, the accuracy and completeness of certain system-generated data that it used to substantively test this revenue and certain other revenue. (AS 1105.10)

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

The issuer evaluated goodwill and intangible assets for impairment for one reporting unit using a discounted cash flow model ("DCF model"), which was developed using various assumptions. The following deficiencies were identified:

- The firm did not perform any procedures to evaluate the reasonableness of the significant assumptions related to forecasted operating expenses used by the issuer in its goodwill and intangible assets impairment analysis. (AS 2501.16)

- The firm did not perform sufficient procedures to evaluate the reasonableness of the significant assumptions related to forecasted revenue used by the issuer in its goodwill and intangible assets impairment analysis, as it limited its procedures to recalculating the compounded annual growth rate (CAGR) for revenue based on projected financial information and comparing it to the CAGR for the industry, without evaluating the projected financial information. Further, the firm did not evaluate the difference between the recalculated CAGR and the CAGR for the industry. (AS 2501.16)

With respect to **Fraud Considerations:**

Certain users of the issuer's accounting system were identified as having the ability to create and approve manual journal entries. The firm did not identify and select journal entries for testing, or perform other audit procedures, to specifically address this risk. (AS 2301.08; AS 2401.61)

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

The firm identified certain fraud criteria and obtained a listing of all journal entries that met the criteria. The firm did not examine the underlying support for the entries and, instead, limited its procedures to reading the journal entry descriptions. (AS 2401.61)

## Issuer B

### Type of audit and related areas affected

In our review of an audit in which the firm played a role but was not the principal auditor, we identified deficiencies in connection with the firm's role in the financial statement and ICFR audits related to **Revenue**, **Inventory**, and **Journal Entries**. The firm's internal inspection program had inspected this audit and reviewed these areas but did not identify certain of the deficiencies below.

### Description of the deficiencies identified

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

The firm was instructed by the principal auditor to perform certain procedures to test revenue, including (1) analyzing the amount of inventory held by distributors at year-end, (2) testing cash disbursements to distributors, and (3) agreeing revenue transactions to cash receipts. The firm did not perform procedures (1) and (3) and, for (2), limited its testing of cash disbursements to distributors to those made subsequent to year-end. (AS 2301.08 and .13)

With respect to **Inventory**:

The firm did not identify and test any controls over certain inventory. (AS 2201.39)

The firm did not perform sufficient procedures to test this inventory, as it limited its procedures to (1) confirming the balance with the principal auditor and (2) reconciling the balance to the general ledger. (AS 2301.08)

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

The firm was instructed by the principal auditor to test any unusual cost of sales journal entries. The firm did not perform any procedures to identify and test any unusual cost of sales journal entries. (AS 2401.61)

### Issuer C

#### Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Fraud Considerations** and **Journal Entries**.

#### Description of the deficiencies identified

With respect to **Fraud Considerations:**

The firm identified a fraud risk related to users of the issuer's accounting system having the ability to create and approve manual journal entries. The firm did not identify and select journal entries for testing, or perform other audit procedures, to address this risk. (AS 2301.08 and .13; AS 2401.61)

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

For one component, the firm did not identify and select manual journal entries for testing, or perform other audit procedures, to specifically address the identified risk related to expenses being recorded in the incorrect accounting period. (AS 2301.08 and .13; AS 2401.61)

For another component, the firm identified certain fraud criteria for journal entries and obtained a listing of all journal entries that met the criteria. The firm did not perform sufficient procedures to test those journal entries, because it limited its procedures to certain journal entries, without having an appropriate rationale for limiting its procedures to those journal entries. Further, the firm did not examine the underlying support for certain of the selected journal entries. (AS 2401.61)

## Audits with a Single Deficiency

None

# 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) or fulfill the objectives of its role in the audit(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 audit, the firm did not make a required communication to the audit committee related to the name, location, and planned responsibilities of other accounting firms that performed audit procedures in the audit. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

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

- In one of three 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 this instance, the firm was non-compliant with AS 2401, *Consideration of Fraud in a Financial Statement Audit*.

- In one audit, the firm did not take appropriate action with respect to the issuer's disclosure in Form 20-F that its internal control over financial reporting was effective despite the firm's awareness that the issuer's internal control over financial reporting was not effective. In this instance, the firm was non-compliant with AS 2710, *Other Information in Documents Containing Audited Financial Statements*.

- In one audit, 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 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 one audit, the firm's report on Form AP omitted information related to the participation in the audit by certain other accounting firms. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

# 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 we identified, 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 identified the following instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence:

Under Rule 2-01(c)(7) of Regulation S-X, an accountant is not independent if it is engaged to render audit or non-audit services to an issuer or its subsidiaries without that engagement having been pre-approved by the audit committee. In three audits reviewed, we identified 13 instances across two issuers in which the firm could provide no persuasive evidence of the necessary audit committee pre-approval.

## Firm-Identified

The firm did not bring to our attention any instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

While the firm did not bring to our attention any 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 associated firms; 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 those issuers. Therefore, we caution against making any comparison of firm-identified instances of potential non-compliance across firms.

# 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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Ms. Christine Gunia,
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10 March 2025

Re: Response to Part I of the Draft Report on the 2023 Inspection of BDO AG

Dear Ms. Gunia:

We are pleased to provide our response to Part I of the Draft Report of the Public Company Accounting Oversight Board ("PCAOB") on the 2023 inspection of BDO AG.

We recognize the inspection process provides a valuable opportunity to further enhance the quality of our audits. We continue to support the PCAOB in its mission and are committed to furthering the public interest through the preparation of informative, accurate, and independent audit reports. We continue to make significant investments to improve the quality of our audits.

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

Respectfully submitted,

BDO AG

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