2021 Inspection BDO USA, LLP

(Headquartered in Chicago, Illinois)

November 4, 2022

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. 104-2022-218

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

EXECUTIVE SUMMARY

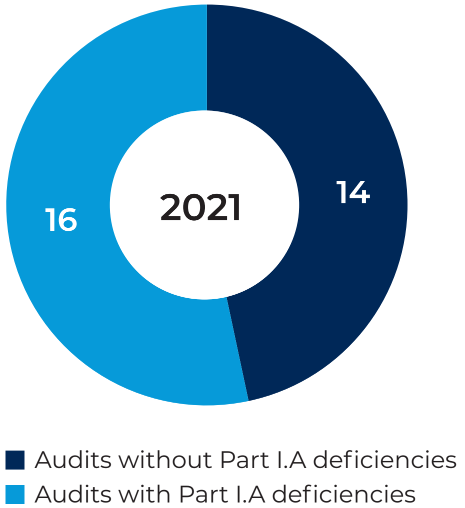
Our 2021 inspection report on BDO USA, LLP provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board (PCAOB) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of:

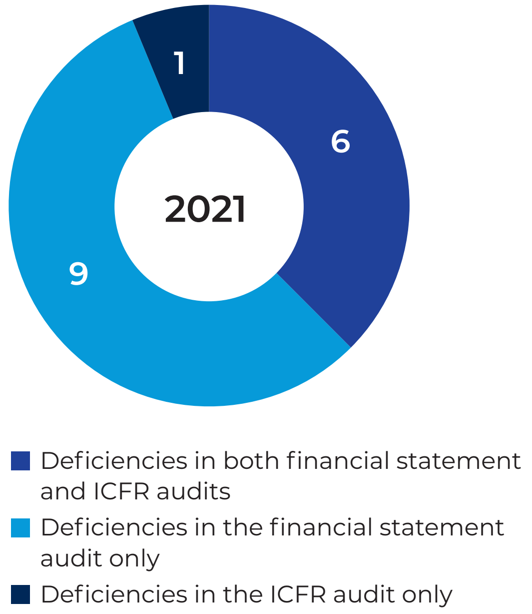
- Part I.A of the report, which discusses deficiencies ("Part I.A deficiencies") in certain issuer audits that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or internal control over financial reporting (ICFR); and
- Part I.B of the report, which discusses deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

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

Overview of the 2021 Deficiencies Included in Part I

Sixteen of the 30 audits we reviewed in 2021 are included in Part I.A of this report due to the significance of the deficiencies identified. The identified deficiencies primarily related to the firm's testing of controls over and/or substantive testing of revenue and related accounts and expenses.





The most common Part I.A deficiencies in 2021 related to evaluating the appropriateness of the issuer's accounting method or disclosure, performing substantive testing to address a risk of material misstatement, testing the design or operating effectiveness of controls selected for testing, and testing controls over the accuracy and completeness of data or reports used in the operation of controls.

Other deficiencies identified during the 2021 inspection that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s), which appear in Part I.B, related to retention of audit documentation, audit committee communications, reporting the results of audits of internal control over financial reporting, critical audit matters, and reviews of interim financial information.

TABLE OF CONTENTS

2021 INSPECTION

In the 2021 inspection of BDO USA, LLP, the PCAOB assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review 30 audits of issuers with fiscal years generally ending in 2020. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

We also selected for review two reviews of interim financial information ("interim reviews"). Our reviews were performed to gain a timely understanding of emerging financial reporting and auditing risks associated with issuers that were formed by mergers between non-public operating companies and special purpose acquisition companies (SPACs). We identified instances of non-compliance with PCAOB standards, which appear in Part I.B.

What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2021 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.
- **Part I – Inspection Observations:**
  - **Part I.A:** Deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR.
  - **Part I.B:** Deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.
- **Part II – Observations Related to Quality Control:** Criticisms of, or potential defects in, the firm's system of quality control. Section 104(g)(2) of the Sarbanes-Oxley Act ("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.

2021 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 2021, our target team focused primarily on audit areas affected by COVID-19, such as fraud and going concern, and on interim reviews of issuers that were formed by mergers between non-public operating companies and SPACs.[1]

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

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

[1] Refer to Observations From the Target Team's 2021 Inspections for observations from the target team reviews.

OVERVIEW OF THE 2021 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2021 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.

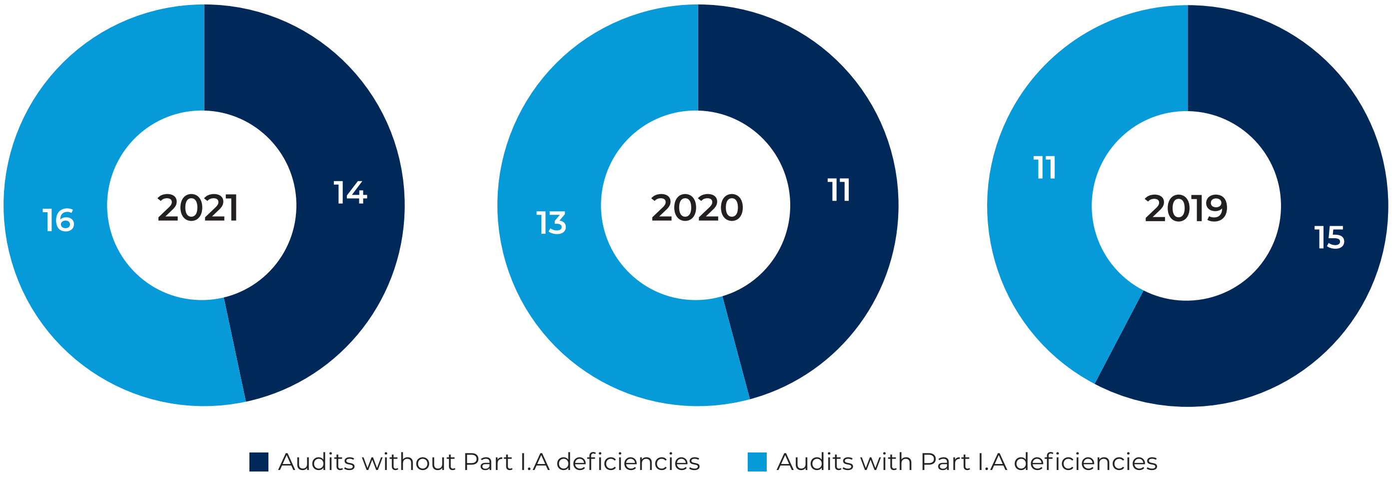
Audits Selected for Review

	2021	2020	2019
Total audits reviewed			
Total audits reviewed	30	24	26
Selection method			
Risk-based selections	14	17	18
Random selections	11	6	6
Target team selections[2]	5	1	2
Total audits reviewed	**30**	**24**	**26**
Principal auditor			
Audits in which the firm was the principal auditor	30	24	26
Audits in which the firm was not the principal auditor	0	0	0
Total audits reviewed	**30**	**24**	**26**
Audit type			
Integrated audits of financial statements and ICFR	15	17	21
Financial statement audits only	15	7	5
Total audits reviewed	**30**	**24**	**26**

[2] For further information on the target team's activities in 2020 and 2019, refer to those inspection reports.

Part I.A Deficiencies in Audits Reviewed

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

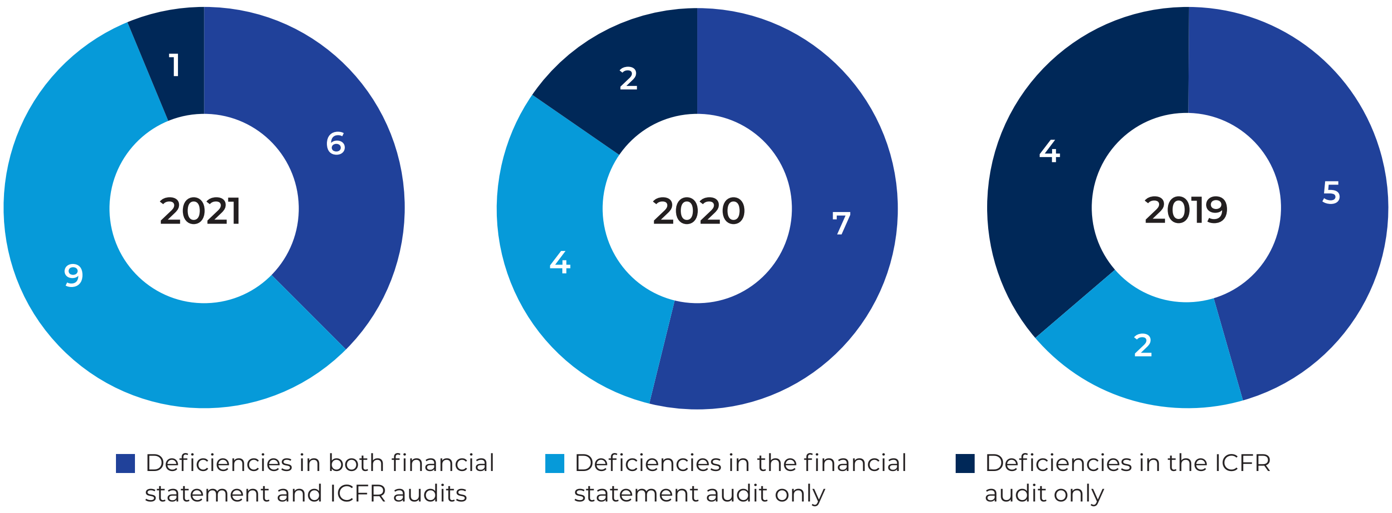


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional 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 normally includes a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

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

Audits Affected by the Deficiencies Identified in Part I.A



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

The following tables and graphs summarize inspection-related information, by inspection year, for 2021 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		
	2021	2020	2019
Did not sufficiently evaluate the appropriateness of the issuer's accounting method or disclosure for one or more transactions or accounts	6	4	2
Did not perform sufficient testing related to an account or significant portion of an account or to address an identified risk	5	1	2
Did not obtain sufficient evidence as a result of overreliance on controls (due to deficiencies in testing controls)	4	5	1
Did not perform sufficient, appropriate analytical procedures when analytical procedures were intended to provide substantive evidence	4	3	1

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2021	2020	2019
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	5	7	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	5	3	2
Did not identify and test any controls that addressed the risks related to a significant account or relevant assertion	4	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.

2021			2020			2019		
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	17	6	Revenue and related accounts	20	8	Revenue and related accounts	18	8
Business combinations	8	0	Business combinations	6	3	Goodwill and intangible assets	8	1
Cash and cash equivalents	8	1	Inventory	6	1	Inventory	6	0
Equity and equity-related transactions	7	2	Income taxes	5	2	Other investments	5	0
Going concern	6	0	Going concern	4	0	Income taxes	4	3

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	2021		2020		2019	
	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	6	17	8	20	8	18
Expenses	4	5	1	1	0	2
Business combinations	0	8	3	6	1	4
Income taxes	0	3	2	5	3	4
Allowance for credit losses/ Allowance for loan losses	1	3	1	2	1	2

Revenue and related accounts: The deficiencies in 2021, 2020, and 2019 primarily related to substantive testing of, and testing controls over, revenue.

Expenses: The deficiencies in 2021 and 2020 primarily related to substantive testing of expenses, including deficiencies in substantive analytical procedures performed to test expenses.

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

Income taxes: The deficiencies in 2020 primarily related to substantive testing of, and testing controls over, income taxes. The deficiencies in 2019 primarily related to testing controls involving the issuer's review of income taxes, including the tax provision.

Allowance for credit losses/Allowance for loan losses: The deficiencies in 2021, 2020, and 2019 related to testing controls over the valuation of the allowance for credit losses or allowance for loan losses.

Auditing Standards Associated with Identified Part I.A Deficiencies

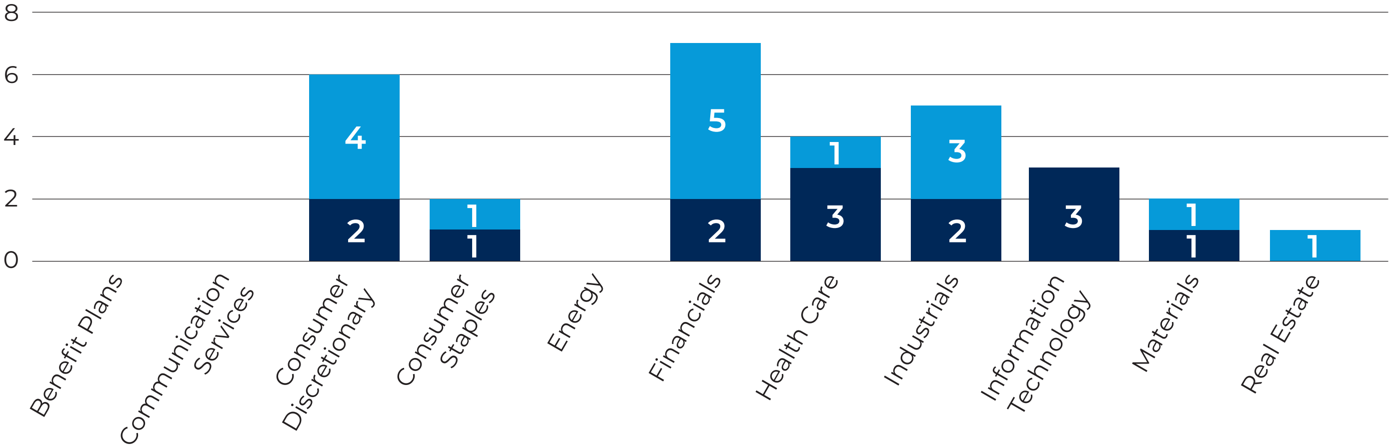
The following lists the auditing standards referenced in Part I.A of the 2021 and the previous two inspection reports, and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2021	2020	2019
AS 1105, *Audit Evidence*	3	7	0
AS 1201, *Supervision of the Audit Engagement*	1	0	0
AS 2101, *Audit Planning*	1	0	1
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	21	29	21
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	14	8	4
AS 2305, *Substantive Analytical Procedures*	6	3	1
AS 2310, *The Confirmation Process*	0	2	2
AS 2315, *Audit Sampling*	7	5	1
AS 2410, *Related Parties*	1	0	0
AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*	0	0	1
AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements* (effective for fiscal years ending on or after December 15, 2020)	1	-	-
AS 2501, *Auditing Accounting Estimates* (effective for fiscal years ending before December 15, 2020)	0	3	2
AS 2502, *Auditing Fair Value Measurements and Disclosures* (effective for fiscal years ending before December 15, 2020)	0	1	1
AS 2503, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities* (effective for fiscal years ending before December 15, 2020)	2	0	0
AS 2810, *Evaluating Audit Results*	7	6	2

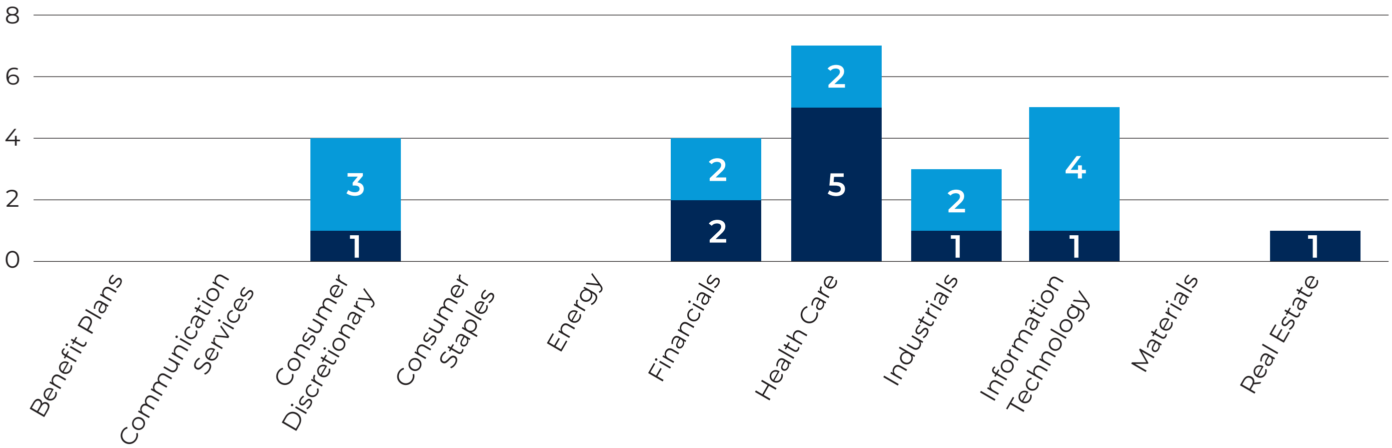
Inspection Results by Issuer Industry Sector

The majority of industry sector data is based on Global Industry Classification Standard (GICS) data obtained from Standard & Poor's (S&P). In instances where GICS data for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data.

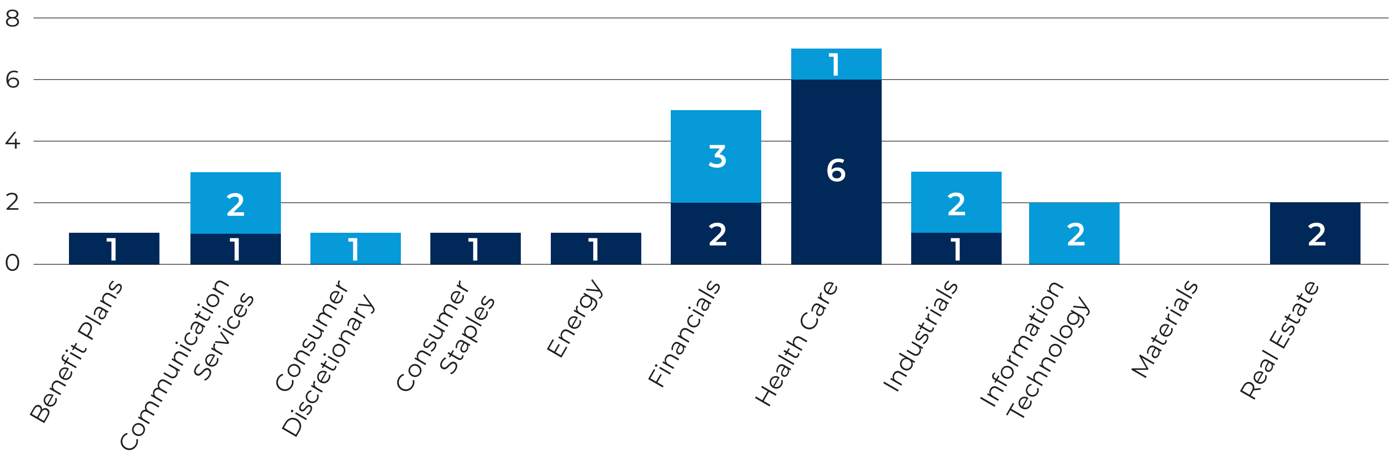
2021



2020



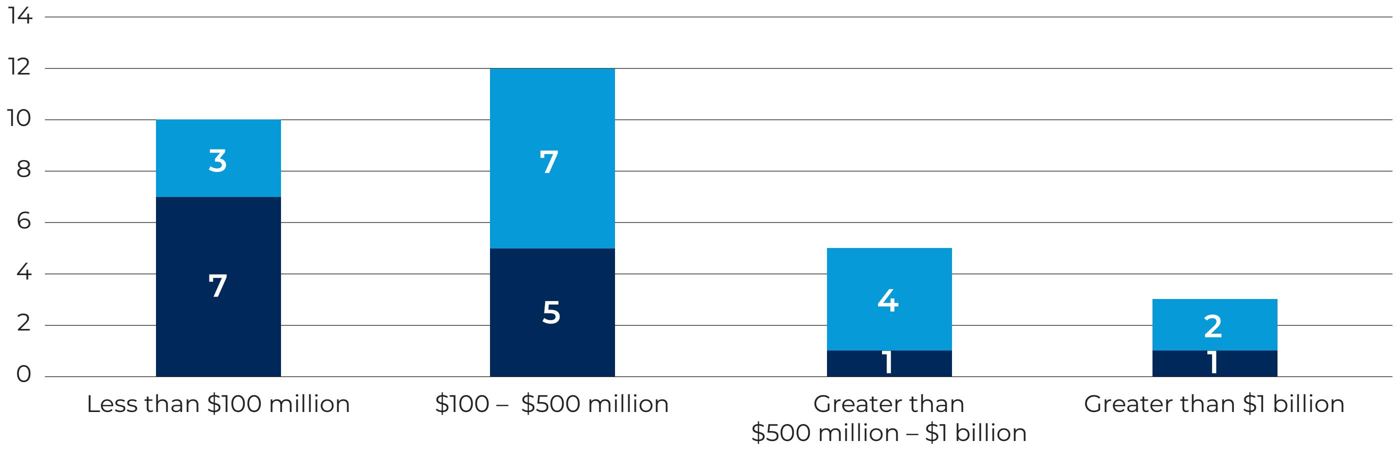
2019



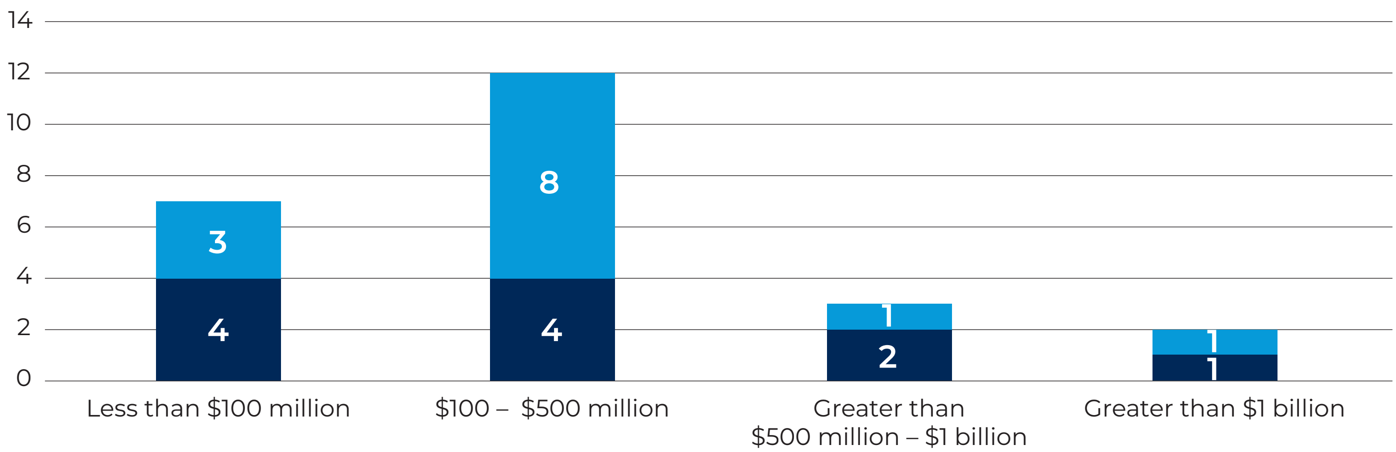
Audits without Part I.A deficiencies   Audits with Part I.A deficiencies

Inspection Results by Issuer Revenue Range

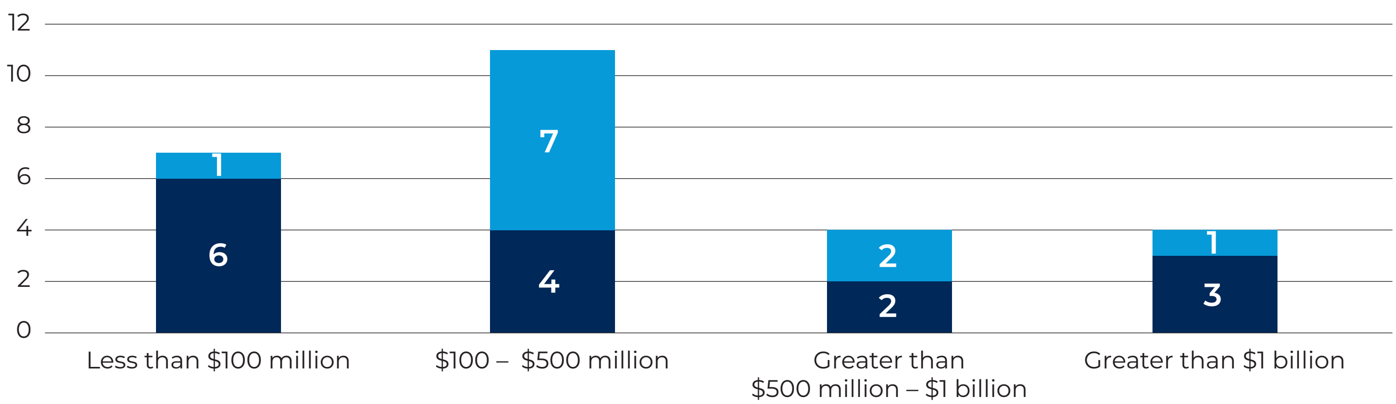
2021



2020



2019



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.

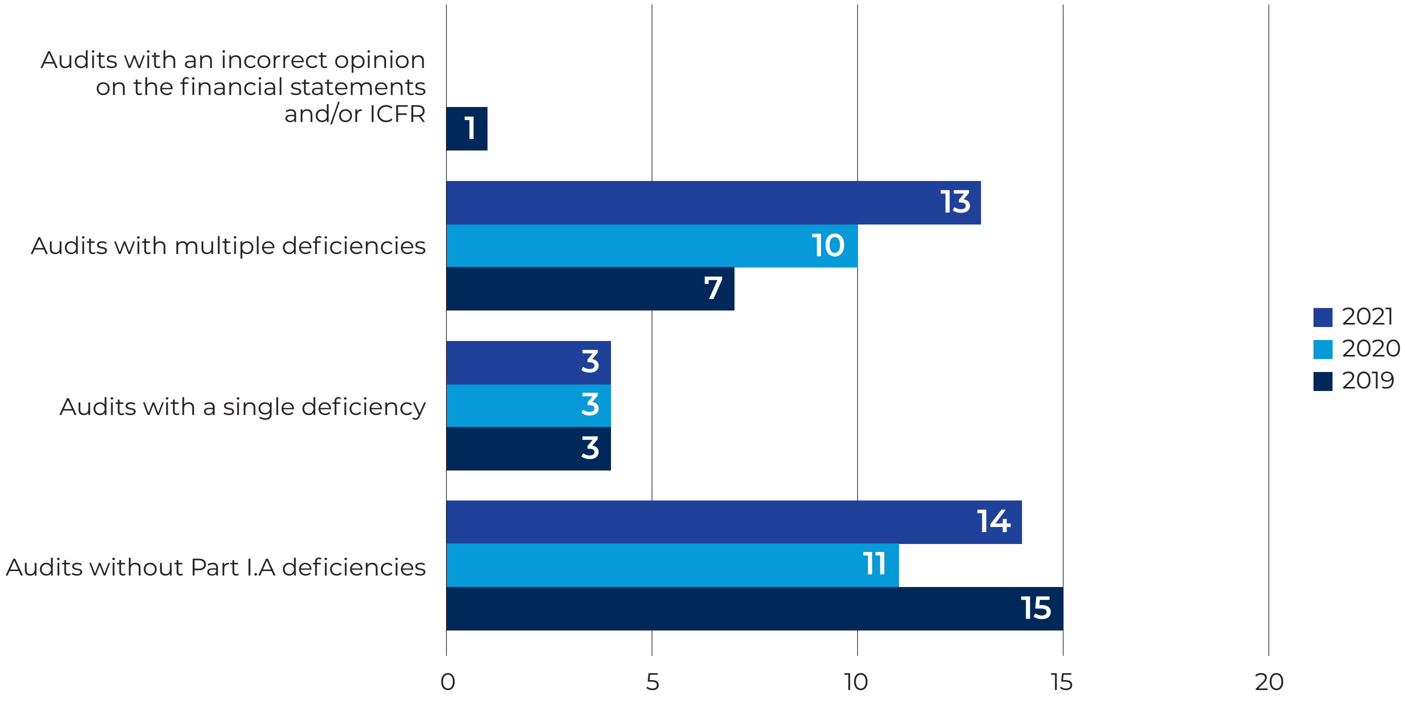
Audits with Multiple Deficiencies

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 deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

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

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

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

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

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

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

None

Audits with Multiple Deficiencies

Issuer A – Materials

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Inventory**:

The firm did not identify and test any controls that addressed whether the issuer's inventory system appropriately calculated the unit costs used to record certain manufactured inventory. (AS 2201.39)

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

The firm's substantive procedures at year end to test the unit cost of this inventory included selecting a sample of inventory items for testing. The following deficiencies were identified:

- The firm did not test whether the issuer's inventory system calculated the inventory unit costs appropriately. (AS 2301.08)
- The firm did not perform sufficient procedures to test the cost of the raw materials included in the selected items because its procedures were limited to comparing certain of these costs to system-generated reports. (AS 2301.08)
- The firm did not perform sufficient procedures to test the labor and overhead costs included in the selected items because it did not test whether these costs were consistent with the standard labor and overhead rates that the issuer had determined. (AS 2301.08)

With respect to **Accounts Payable**:

The issuer used an information-technology system to process transactions related to accounts payable at certain of the issuer's business units. The following deficiencies were identified:

- The firm selected for testing a control over the daily transfer of data from the accounts payable system to the general ledger, including the manual resolution of any errors in this data transfer. In its testing of the operating effectiveness of this control, the firm did not test how the control owner resolved these data transfer errors, beyond inquiring of management. (AS 2201.44)
- The firm selected for testing a control that included the automated processing of invoices by the accounts payable system. The firm did not identify and test any controls over the investigation and resolution of exceptions identified during this automated processing. (AS 2201.39) In addition, the firm did not test the aspect of this control related to the processing of these exceptions once they were resolved. (AS 2201.42 and .44)

With respect to accounts payable at certain other business units ("other accounts payable"), the following deficiencies were identified:

- The firm did not evaluate whether the risks of material misstatement that the firm associated with accounts payable at business units that were subject to more extensive audit procedures also applied to these other accounts payable. (AS 2101.11 and .12; AS 2201.B10)
- The firm did not identify and test any controls over these other accounts payable. (AS 2201.39)
- The firm did not perform any substantive procedures to test these other accounts payable. (AS 2301.08)

Issuer B – 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 an **Expense**.

Description of the deficiencies identified

With respect to the issuer's domestic **Revenue**:

The firm did not identify and test any controls over the accuracy and completeness of the customer order information from various source systems that the issuer used to record revenue. (AS 2201.39)

The firm selected for testing two controls that consisted of the issuer's reviews of revenue transactions for appropriate revenue recognition. For the first control, the firm did not test whether the control addressed all revenue transactions. For the second control, the firm did not evaluate whether the issuer's review was sufficient to address the risks of material misstatement given not all revenue transactions were covered by this control. (AS 2201.42 and .44)

The firm selected for testing a control that consisted of the issuer's reviews of comparisons of current-period revenue to prior-period revenue. The firm did not identify and test any controls over the accuracy of certain revenue data used in the operation of this control. (AS 2201.39)

The firm's substantive procedures to test certain of this revenue consisted of (1) testing a sample of revenue transactions, (2) testing a sample of accounts receivable, and (3) performing analytical procedures. The following deficiencies were identified:

- For certain of the transactions selected for testing, which included multiple services provided to the customer, the firm did not evaluate whether multiple performance obligations existed in the associated contract that would affect whether this revenue was appropriately recognized. (AS 2301.08)
- The firm determined its sample size for testing these revenue transactions based, in part, on the assurance it had obtained from its testing of a sample of accounts receivable at year end. This year-end accounts receivable testing did not provide the planned level of substantive evidence to address the risks of material misstatement related to this revenue because this procedure was primarily focused on the occurrence of revenue at a point in time. As a result, the sample that the firm used to test this revenue was too small to provide sufficient appropriate audit evidence to address the risks of material misstatement related to this revenue throughout the year. (AS 2301.42; AS 2315.19, .23, and .23A)
- For the analytical procedures, the firm did not determine whether the expectations it used in these analytical procedures were based on predictable relationships. (AS 2305.13 and.14)

With respect to one type of **Expense**:

The firm did not identify and test any controls over this expense. (AS 2201.39)

Issuer C – Consumer Discretionary

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Warrants**, **Revenue**, and the **Statement of Cash Flows**.

Description of the deficiencies identified

With respect to **Warrants**:

During the audit, the firm did not identify, and appropriately address, that the issuer's accounting for warrants as equity was not in conformity with FASB ASC Topic 815, Derivatives and Hedging. (AS 2810.30)

Unrelated to our review, the issuer reevaluated its accounting for these warrants and concluded that a material misstatement existed that had not been previously identified. The issuer subsequently corrected this misstatement in a restatement of its financial statements, and the firm revised and reissued its report on the financial statements.

With respect to **Revenue**:

The issuer offered various forms of sales incentives to customers that were recorded as deductions from revenue. The following deficiencies were identified:

- The firm did not perform any substantive procedures to test certain of these sales incentives beyond comparing the recorded balances to system-generated reports. (AS 2301.08)
- The firm's sample for testing certain other of these sales incentives 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 2315.16, .23, and .23A)

With respect to the **Statement of Cash Flows**:

The firm did not identify, and evaluate the significance to the financial statements, that the issuer's omission of certain cash from the statement of cash flows was not in conformity with FASB ASC Topic 230, *Statement of Cash Flows*. (AS 2810.30)

Issuer D – Financials

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Investments**:

The firm selected for testing controls that consisted of the issuer's reviews of the fair value of certain investments. The firm did not evaluate the specific review procedures that the control owners performed to assess the (1) reasonableness of the methodologies and assumptions the issuer used to determine the fair value of these investments and (2) accuracy and completeness of a report used in the operation of these controls. (AS 2201.42 and .44)

With respect to **Investment Income**:

The issuer recognized certain investment income based on estimates derived, in part, from cash-flow models. The following deficiencies were identified:

- The firm selected for testing a control that consisted of the issuer's review of the assumptions used in these cash-flow models. The firm did not identify and test any controls over the accuracy and completeness of certain data that were used to develop certain of these assumptions. (AS 2201.39)
- During the year, the issuer made changes to certain assumptions used in these cash-flow models. The firm selected for testing a control that consisted of the issuer's reviews of these changes. The firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of these changes. (AS 2201.42 and .44)
- The firm did not identify and test any controls over the accuracy and completeness of the output of these cash-flow models that operated during the second half of the year. (AS 2201.39)
- The firm used the output of these cash-flow models in its substantive testing of this investment income. The firm did not perform any substantive procedures to test, or (as discussed above) test any controls over, the accuracy and completeness of the output of these cash-flow models for the second half of the year. (AS 1105.10)

Issuer E – Consumer Staples

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Expenses**:

During the audit, the firm did not identify, and evaluate the significance to the financial statements, that the issuer's presentation and disclosure of certain expenses was not in conformity with FASB ASC Topic 330, *Inventory*. (AS 2810.30 and .31)

With respect to **Equity**:

During the audit, the firm did not identify, and evaluate the significance to the financial statements of, omissions from the statement of stockholders' equity and other required disclosures under FASB ASC Topic 718, *Compensation-Stock Compensation*, and FASB ASC Topic 260, *Earnings Per Share*. (AS 2810.30 and .31)

Issuer F – Consumer Discretionary

Type of audit and related area affected

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

Description of the deficiencies identified

The issuer recognized certain revenue over time based on estimates of the goods and services it would provide to customers and the payments it would receive for those goods and services. The following deficiencies were identified:

- The firm selected for testing a control that consisted of the issuer's review of the reasonableness of the forecasted information that the issuer used to develop these estimates. The firm did not identify and test any controls over the accuracy of the data that were used to develop this forecasted information. (AS 2201.39)
- The sample size the firm used in certain of its substantive procedures to test this revenue was too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiency in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)
- The firm's substantive procedures to test this revenue consisted of performing tests of details and substantive analytical procedures. The firm used certain system-generated data in its substantive testing of this revenue but did not test, or in the alternative, test any controls over, the accuracy of these data. (AS 1105.10; AS 2305.16)
- To facilitate the issuer's fulfillment of its contracts for certain of this revenue, the issuer's customers contributed certain goods and services that the issuer recognized as revenue. The firm did not perform sufficient substantive procedures to evaluate whether this revenue was recognized in conformity with FASB ASC Topic 606, *Revenue from Contracts with Customers*, because it did not evaluate certain contractual terms and conditions that could affect revenue recognition. (AS 2810.30)

Issuer G – Financials

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Investments**:

The issuer held investments without readily determinable fair values that were recorded at cost, less impairments. The following deficiencies were identified:

- For one of these investments selected for testing, the firm did not perform sufficient procedures to evaluate whether management considered certain relevant information in determining whether factors may have existed that indicated an impairment loss was present because the firm's procedures were limited to reading certain meeting minutes and related documents, which did not address the relevant information. (AS 2503.48)
- For another of these investments selected for testing, the issuer identified factors that may have indicated an impairment loss was present, but concluded that the investment was not impaired based on a sensitivity analysis it prepared for certain of these factors. The firm did not perform any procedures to test this sensitivity analysis and evaluate the other potential impairment factors that were identified by the issuer. (AS 2503.48)

With respect to **Operating Expenses**:

The firm's substantive procedures to test certain operating expenses included performing substantive analytical procedures. The following deficiencies were identified:

- For certain types of operating expenses, the firm did not determine whether the expectations it used in these analytical procedures were based on predictable relationships. Further, the firm identified differences in excess of the firm's established threshold but did not evaluate certain of these differences beyond inquiring of management. (AS 2305.13, .14, and .21)
- For certain other types of operating expenses, the expectations the firm used were not sufficiently precise because its expectations were that these expenses would decrease, but it did not quantify the amount of the decrease. (AS 2305.17)

Issuer H – Industrials

Type of audit and related area affected

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

Description of the deficiencies identified

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 price. The issuer disclosed that it used observable prices to determine the standalone selling prices for certain performance obligations in these arrangements. The following deficiencies were identified:

- The firm selected for testing a control that consisted of the issuer's review of certain standalone selling prices. The firm did not evaluate the specific review procedures that the control owner performed to conclude that the prices the issuer used to determine the standalone selling prices for these performance obligations were observable. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy and completeness of certain reports that the control owner used in the operation of this control. (AS 2201.39)

- The firm did not identify and test any controls that addressed the establishment of the standalone selling price for new products. (AS 2201.39)
- The firm did not perform substantive procedures to evaluate the issuer's determination and disclosure of whether it used observable prices to determine the standalone selling prices for these performance obligations in conformity with FASB ASC Topic 606, *Revenue from Contracts with Customers*. (AS 2810.30 and .31)

Issuer I – Consumer Discretionary

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and an **Accrued Expense**.

Description of the deficiencies identified

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

The firm did not identify and test any controls that addressed the risk that certain cash receipts from revenue transactions were not properly recorded to support that these revenue transactions were valid. (AS 2201.39)

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

With respect to an **Accrued Expense**:

The firm selected for testing controls that included the issuer's review of the calculation of an accrued expense. The firm did not identify and test any controls over the accuracy of certain data used in this calculation. (AS 2201.39)

Issuer J – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Certain Assets** and **Loans Receivable**.

Description of the deficiencies identified

With respect to **Certain Assets**:

The firm's approach for substantively testing the fair values of certain assets was to test the issuer's process, and the firm used an auditor-employed specialist to evaluate certain significant assumptions the issuer used to determine these fair values. The firm did not sufficiently evaluate the reasonableness of these significant assumptions because it did not identify that the specialist's procedures were limited to reading an issuer-prepared analysis and obtaining data from external sources that indicated a range of possible assumptions, without evaluating whether the issuer had a reasonable basis for its selection of assumptions. (AS 1201.C6 and .C7; AS 2501.16)

With respect to **Loans Receivable**:

The firm relied on controls it selected for testing in its approach to testing certain loans receivable. The following deficiencies were identified:

- The firm did not test any controls over the entry of loan information and the recording of payments for these loans in the issuer's loan system. (AS 2301.16)
- The sample size the firm used in its substantive procedures to test these loans receivable was too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer K – Consumer Discretionary

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Revenue**:

The firm's substantive procedures to test one type of revenue consisted of testing a sample of revenue transactions. For certain items in its sample, the firm did not perform procedures to evaluate whether the issuer met certain revenue recognition criteria. (AS 2301.08)

With respect to **Debt**:

The firm did not identify, and evaluate the significance to the financial statements of, the issuer's omission of a required disclosure under FASB ASC Topic 470, *Debt*. (AS 2810.30 and .31)

Issuer L – Real Estate

Type of audit and related area affected

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

Description of the deficiencies identified

The firm did not obtain sufficient appropriate audit evidence that certain cash accounts included in the issuer's cash balance were owned and controlled by the issuer. Although these accounts were in the name of a related party, the firm limited its procedures to inspecting a legal letter for one of these cash accounts, which the issuer had obtained from the related party during a previous audit. (AS 2301.08) In addition, the firm did not evaluate whether these cash accounts should have been included in the issuer's related party disclosures. (AS 2410.17)

Issuer M – Industrials

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

The firm's substantive procedures to test certain expenses included performing substantive analytical procedures. For certain of these analytical procedures, the firm did not determine whether the expectations it used were based on predictable relationships. (AS 2305.13 and .14) In addition, for each of these analytical procedures, the firm identified differences in excess of the firm's established threshold but did not evaluate the differences beyond inquiring of management and, in one instance, obtaining certain pricing trends. (AS 2305.21)

Audits with a Single Deficiency

Issuer N – Financials

Type of audit and related area affected

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

Description of the deficiency identified

The firm selected for testing a control that consisted of the issuer's review of certain assumptions used to estimate the quantitative component of the ACL for loans collectively evaluated for impairment. The firm did not evaluate the specific review procedures that the control owner performed to assess the reasonableness of these assumptions that were outside of the range of assumptions the issuer established under its ACL methodology. (AS 2201.42 and .44)

Issuer O – Health Care

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Long-Lived Assets**.

Description of the deficiency identified

The issuer used certain long-lived assets to generate revenue. The firm used information produced by the issuer in its testing of the obsolescence reserve for these assets but did not perform any substantive procedures to test, or in the alternative, test any controls over, the accuracy and completeness of certain of this information. (AS 1105.10)

Issuer P – Financials

Type of audit and related area affected

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

Description of the deficiency identified

The firm sent positive confirmation requests to the issuer's customers for a sample of deposit liabilities. The firm did not perform sufficient sampling procedures because it did not verify that all deposit liabilities had the opportunity to be selected for testing. (AS 2315.24)

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

This section of our report discusses any deficiencies we identified that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

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

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

- In one of 30 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 14 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 audit reviewed, the firm did not provide a copy of the management representation letter to the issuer's audit committee. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*, and AS 2805, *Management Representations*.
- In two of 15 audits reviewed, the firm did not communicate to management, in writing, all control deficiencies identified during the audit. In these instances, the firm was non-compliant with AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.
- In one of 18 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 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*.
- In one of five audits reviewed, the firm did not describe, in writing, to the audit committee the fee structure for certain permissible tax 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*.
- In one of two interim reviews reviewed, the firm did not identify, when performing its inquiries and review procedures, misstatements in the issuer's interim financial information related to the statement of stockholders' equity and the earnings per share disclosure. In this instance, the firm was non-compliant with AS 4105, *Reviews of Interim Financial Information*.

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.

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

100 Park Avenue
New York, NY 10017

October 17, 2022

Mr. George Botic
Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006

Re: Response to Part I of the Draft Report on the 2021 Inspection of BDO USA, LLP

Dear Mr. Botic:

On behalf of BDO USA, LLP, 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 2021 Inspection of BDO USA, LLP. The Board's inspection process plays an integral role in enhancing audit quality. We continue to support the PCAOB's very important 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 are continuing to strengthen our commitment to audit quality through several strategic initiatives, including a newly formed Audit Quality Advisory Council in 2022. In addition, towards the latter part of 2021, we reorganized our assurance practice into two distinct functional areas and reporting structures. The purpose of this reorganization was to consolidate the operational, professional and client services under one umbrella and to implement an objective governance structure focused on delivering high quality audits to protect investors and further the public interest. To see BDO USA, LLP's firm and engagement-level performance metrics, please see our 2022/2021 Audit Quality Report, which can be found at the following link: https://www.bdo.com/insights/assurance/corporate-governance/2022-2021-bdo-audit-quality-report.

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,

BDO USA, LLP