Public Report

Financial Reporting Council

May 2015

BDO LLP

Audit Quality Inspection

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries, and oversee the regulatory activities of the accountancy and actuarial professional bodies.

Contents

page

1. Background information and key messages 1

2. Principal findings 4

Appendix A – Objectives, scope and basis of reporting 12

Appendix B – Firm's response 14

1 Background information and key messages

1.1 Introduction

This report sets out the principal findings arising from the 2014/15 inspection of BDO LLP ("BDO" or "the firm") carried out by the Audit Quality Review team of the Financial Reporting Council ("the FRC"). Our inspection was conducted at various times in the period to December 2014 (referred to as "the time of our inspection"). We now inspect BDO annually (previously this was approximately every two years); our previous inspection report was published in March 2013. The objectives of our work are set out in Appendix A.

Our inspection comprised reviews of individual audit engagements and a review of the firm's policies and procedures supporting audit quality.

We reviewed eight audit engagements undertaken by the firm, of which two were further reviews of audits reviewed in our last inspection. These related to FTSE 250, other listed and other major public interest entities, with financial year ends between December 2012 and December 2013. Our reviews were selected on a risk basis, utilising a risk model; each review covered only selected aspects of the relevant audit. The further reviews included an assessment of the extent to which our previous findings on that audit had been addressed.

Our responsibility is to monitor and assess the quality of the audit work performed by the UK firm. Accordingly, our reviews of group audits covered the planning and control of the audit by the group engagement team, including their evaluation of the adequacy of the work performed by component auditors, and selected aspects of other work performed by the UK firm at group and/or component level. Our reviews did not cover audit work relating to components undertaken by other firms within or outside BDO's international network.

Our review of the firm's policies and procedures supporting audit quality covered the following areas:

- Tone at the top and internal communications
- Transparency report
- Independence and ethics
- Performance evaluation and other human resource matters
- Audit methodology, training and guidance
- Client risk assessment and acceptance/continuance
- Consultation and review
- Audit quality monitoring
- Other firm-wide matters

We exercise judgment in determining which findings to include in our public report on each inspection, taking into account their relative significance in relation to audit quality, both in the context of the individual inspection and in relation to any areas of particular focus in our overall inspection programme for the relevant year. Where appropriate, we have commented on themes arising or issues of a similar nature identified across more than one audit.

Further information on the scope of our work and the basis on which we report is set out in Appendix A.

All findings requiring action set out in this report, together with the firm's proposed action plan to address them, have been discussed with the firm. Appropriate action may have already been taken by the date of this report. The adequacy of the actions taken and planned will be reviewed during our next inspection.

The firm was invited to provide a response to this report for publication. The firm's response is set out in Appendix B.

We acknowledge the co-operation and assistance received from the partners and staff of BDO in the conduct of our 2014/15 inspection.

1.2 Background information on the firm

BDO LLP is a UK limited liability partnership with 20 offices. The firm merged with PKF (UK) LLP ("PKF") in April 2013. The firm is a member of BDO International, a global network of firms using common audit methodology and audit software. This report excludes the BDO Northern Ireland firm, which is a separate partnership, and the Guernsey office, which has a separate audit registration.

For the 52 weeks ended 4 July 2014, the firm's turnover was £384 million, of which £129 million related to audit work and other assurance services. There were a total of 279 partners, of whom 99 were authorised to sign audit reports, and 27 audit directors who were authorised to sign audit reports[1].

We estimate that the firm audited 109 UK entities within the scope of independent inspection as at 31 December 2013. Of these entities, our records show that 55 had securities listed on the main market of the London Stock Exchange, including one FTSE 100 company and six FTSE 250 companies.

Audits of entities incorporated in Jersey, Guernsey or the Isle of Man whose securities are traded on a regulated market in the European Economic Area are inspected by us under separate arrangements agreed with the relevant regulatory bodies in those jurisdictions. The results of these reviews are included in this report. Our records show that, at the time of our inspection, the firm had four such audits, including one FTSE 100 company and one FTSE 250 company.

BDO supplies audit services to local authorities and the NHS (Local Public Audits – LPAs). Whilst we review LPAs undertaken by firms, this is done under separate arrangements agreed with the Audit Commission. The results of these reviews are not included in this report because the LPA inspections fulfil a different purpose to those considered in this report. The reviews of LPAs form part of the Audit Commission's assessment of the quality of contracted out audits. The Audit Commission publishes its assessment both in overall terms and individually by firm. The most recent report is available on its website.

1.3 Overview

We focus in this report on matters where we believe improvements are required to safeguard and enhance audit quality. We set out our key messages to the firm in this regard in section 1.4. While this report is not intended to provide a balanced scorecard, we highlight certain matters which we believe contribute to audit quality, including the actions taken by the firm to address findings arising from our prior year inspection.

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[1] As disclosed in the annual return to the ICAEW as at 31 December 2013

The firm places considerable emphasis on its overall systems of quality control and, in most areas, has appropriate policies and procedures in place for its size and the nature of its client base. Nevertheless, we have identified certain areas where improvements are required to those policies and procedures. These are set out in this report.

Our findings relating to reviews of individual audits, as set out in section 2, largely relate to the application of the firm’s procedures by audit personnel, whose work and judgments ultimately determine the quality of individual audits. In response to our prior year findings the firm took several steps to achieve improvements in audit quality. In addition, following the merger, the firm also considered whether any of the findings in relation to our inspections of PKF (UK) LLP were of relevance to the merged firm and, where relevant, these were added to the firm’s action plan. This included enhanced guidance, technical communications of our findings with actions required and audit training on the recurring themes. However, a number of our more significant findings relate to audit work performed in key areas of judgment such as valuations and accounting estimates.

1.4 Key messages

The firm should pay particular attention to the following areas in order to enhance audit quality and safeguard auditor independence:

- Take further action to ensure that professional scepticism and challenge of management are successfully embedded in the firm's culture.

- Strengthen the firm's quality control procedures related to the direction, supervision and review of individual audits, including improving the effectiveness of Engagement Quality Control Reviews.

- Take further and timely action to improve the audit of financial statement disclosures, including cash flow statements and related party transactions.

- Ensure that all auditor's reports issued by the firm accurately describe the audit procedures performed to address the audit risks.

- Improve the firm’s procedures to identify and assess breaches of both ethical standards and the firm’s policies and to report these to the firm’s Risk and Quality Committee.

2 Principal findings

The comments below are based on our reviews of individual audits and the firm's policies and procedures supporting audit quality.

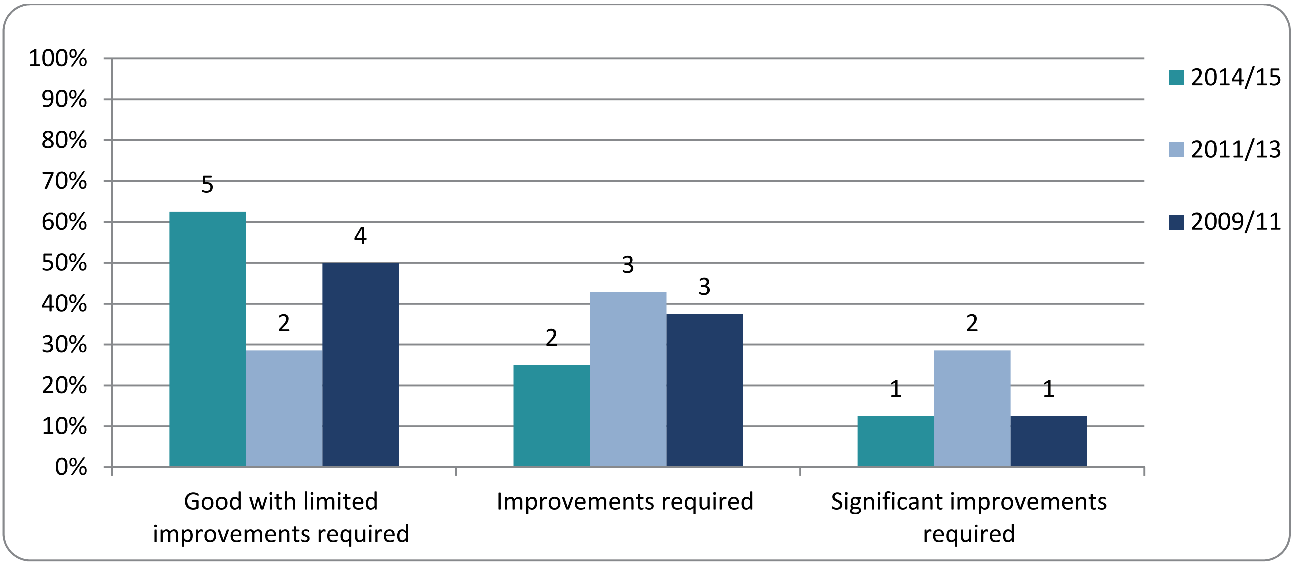
2.1 Reviews of individual audits

We reviewed and assessed the quality of selected aspects of eight audits (2011/13: eight audits), of which two were further reviews of audits reviewed in our last inspection to assess how findings previously raised had been addressed (2011/13: one follow-up review was also undertaken).

Five of the audits we reviewed were performed to a good standard with limited improvements required and two audits required improvements. One audit required significant improvements in relation to the audit of the valuation of land and biological assets and the form of the audit opinion issued. Further details are set out later in this section.

An audit is assessed as requiring significant improvements if we had significant concerns in relation to the sufficiency or quality of audit evidence or the appropriateness of significant audit judgments in the areas reviewed or the implications of concerns relating to other areas are considered to be individually or collectively significant. This assessment does not necessarily imply that an inappropriate audit opinion was issued.

The bar chart below shows our assessment of the quality of the audits we reviewed in 2014/15 with comparatives for 2011/13 and 2009/11. The number of audits within each category is shown at the top of each bar.



Changes to the proportion of audits reviewed falling within each category from year to year reflect a wide range of factors, which may include the size, complexity and risk of the individual audits selected for review and the scope of the individual reviews. For this reason, and given the sample sizes involved, movements from one period to the next are not necessarily indicative of any overall change in audit quality at the firm.

Findings in relation to audit evidence and judgments

Our reviews focused on the audit evidence and related judgments for material areas of the financial statements and areas of significant risk. We draw attention to the following findings which the firm should ensure are addressed appropriately in future audits.

The significance of these findings in the context of an individual audit reviewed, and therefore the implications for our assessment of the quality of that audit, will vary. However, whatever the implications for the specific audits reviewed, we nevertheless include the relevant findings in this report if we consider them important in the broader context of improving audit quality at the firm.

Two of our reviews were further reviews of audits requiring significant improvement in our prior inspection. Whilst the audit teams took appropriate steps to address the key issues that were identified in the prior year, new issues arose such that our overall assessment of these audits was that they required further improvement.

Professional scepticism

On six audits we identified concerns regarding the level of professional scepticism applied in key audit areas. Whilst the firm has developed a number of initiatives intended to embed professional scepticism in the culture of the firm, including improved training, our file review findings continue to suggest that more needs to be done to achieve changes on individual audits.

On two audits there was insufficient challenge of the principal assumptions relating to asset valuations and loan loss provisions.

On two audits reliance was placed on management's explanations for variances arising on substantive analytical review procedures without obtaining sufficient corroborative evidence.

For another two audits management were not requested to provide evidence that they had performed an impairment review for capitalised development costs and freehold land to support the disclosures in the financial statements that an annual impairment review had been performed.

Audit of disclosures

On three of the eight audits reviewed inadequate procedures were performed to agree the financial statement disclosures to the underlying audit working papers and to ensure consistency with other disclosures in the annual report. In one case a material subsequent event included in the directors' report was not included in the financial statement disclosures and the disclosures of key assumptions used in a valuation model did not accurately report the actual assumptions used in the model. In another case an incorrect discount rate was disclosed which was not checked to the discount rates audited and reported on by the component auditor. These issues were not identified by the audit team.

On another audit there was inadequate evidence to support the disclosure of various items of income and expenses as exceptional, other income or discontinued operations.

Related party transactions

We reviewed the audit procedures performed in relation to related party transactions on three audits. We identified issues on two of these audits, including the adequacy of audit evidence to support the completeness of related party disclosures; a failure to obtain third party confirmation of related party transactions and inadequate consideration of whether transactions were on an arm's length basis.

On another audit we identified that a material amount was due from a related party. There was inadequate consideration of the business rationale for the transaction and disclosure was omitted from the financial statements. Users of the financial statements were therefore unaware of the related party nature of this balance.

IT controls testing

We reviewed the testing of IT controls on one audit. We considered that inquiry procedures alone were insufficient to determine whether there were any changes to the design of IT general controls and insufficient testing of IT general controls was performed. Insufficient evidence was obtained over joiner and leaver controls, the controls over the completeness of certain balances, the appropriateness of access rights and to confirm that it was still appropriate in the current year to rely on the system generation of a report that was tested in previous years.

Lack of evidence of consultations

Audit teams are required to consult with the firm's technical specialists or Ethics Partner in certain circumstances. On three audits, where there were consultations, evidence of these consultations was either lacking or inadequate, as follows:

- The outcome of a consultation with the Ethics Partner regarding non-audit fees exceeding audit fees was not recorded on the audit file.
- There was limited evidence of the consultation process undertaken on the wording of a qualified audit report, other than a brief exchange of emails recorded on the audit file.
- A consultation regarding cash settled share based payments was only recorded in the final conclusions reported to the Audit Committee. The audit file did not include the detailed evidence supporting the conclusions reached.

Auditor's reports

UK auditing standards introduced a requirement for extended audit reports for listed and certain other entities[2] with effect from September 2013 year ends. The audit report is now required to include a description of those assessed risks of material misstatement which have the greatest effect on the audit, an explanation of how the concept of materiality was applied and an overview of the scope of the audit. The firm introduced detailed guidance and additional quality control procedures in this area.

Three of the audits we reviewed were subject to these new requirements. For two of these, the nature and amount of audit work described in the audit report was inconsistent with the actual work performed. For example, the auditor's report was factually incorrect by referring to controls testing relating to revenue that had not been performed.

On another audit, the auditors' report included a 'limitation of scope' qualification on the basis that the audit team were unable to obtain sufficient audit evidence regarding the application of accounting standards in relation to the carrying value of certain of the group's assets, due to

[2] Entities which apply the UK Corporate Governance Code.-

ongoing enquiries by the FRC's Corporate Reporting Review team. However, in our view, the available evidence was sufficient and the audit team should have been able to conclude whether or not they agreed with the group's application of accounting standards and expressed either an unqualified or adverse audit opinion, as appropriate, in accordance with the requirements of auditing standards.

Journal testing

On five out of six audits we noted various weaknesses in the audit of journals. On two audits there was insufficient justification of sample sizes; on three audits there was a lack of explanation for the risk characteristics used to select journals for testing; on one audit management's explanations were not challenged and in another audit supporting evidence for the journals tested was not obtained.

Other findings

Supervision and review of audit work

On three audits the review procedures did not identify erroneous comments on the audit file which had a potential impact on either the audit procedures required, the accounting treatment in respect of material balances or independence considerations. On another audit, inadequate supervision and review led to a failure to identify errors in a document, prepared by the audit team, to audit the valuation of intangible assets. In all these cases, more thorough and sceptical review procedures, by the appropriate members of the audit team, may have identified some of these matters.

On one audit there was insufficient evidence of the nature, timing and extent of the EQCR review and on two audits the EQCR sign off on the electronic audit file was delegated to other members of the audit team.

Independence and ethics - long involvement of the audit engagement partner

For one audit, at the request of the Audit Committee and with agreement of the firm's Ethics Partner, the audit engagement partner's involvement in the audit was extended to a seventh year, to safeguard the quality of the audit (as permitted by Ethical Standards). There was no evidence that the intended safeguard to the familiarity threat, the EQCR, had expanded the scope of his review of the audit work to address this threat.

Communications with the Audit Committee

We assessed the reporting to the Audit Committee in all of the audits we reviewed. This was generally of a good standard, although in two audits the reporting of independence matters required improvement. In one audit, the report to the Audit Committee did not explain the safeguards that had been applied to address the threats arising from the partner's long involvement. In another audit, the audit team reported to the Audit Committee that the safeguard to address threats to independence arising from providing tax compliance services to the audited entity was the use of a separate tax team. This was incorrect as all or some of the tax compliance team were also used to assist in the audit of the tax disclosures included in the financial statements. Consequently, the Audit Committees were not in a position to assess the adequacy of the safeguards put in place.

2.2 Review of the firm's policies and procedures

Policies and procedures are developed by BDO International, with significant input from the UK firm. Following the merger with PKF a detailed integration plan was implemented for full completion by December 2013. Audits performed by PKF were to be undertaken under the BDO International audit methodology and audit software from December 2013 year ends and supplemental guidance and policies were harmonised for the merged firm.

The firm's strategy is focused on mid-market leadership. The strategy of the audit practice emphasises audit quality, profitable revenue growth and the skills of the individual. The firm has developed its Audit Quality Framework which summarises how the firm creates the right environment and provides the necessary infrastructure to deliver audit quality. We were informed that the firm does not use off-shore centres to conduct audit work.

Improvements made since our last inspection

The firm has taken action in response to our last inspection findings and improved its procedures in certain areas. In addition, the firm considered the findings and actions arising from the last PKF (UK) LLP inspection and, where appropriate, incorporated these into the action plan for the merged firm.

We previously reported that BDO's partner objectives and the firm's Audit Stream Business Plan included unacceptable references to cross-selling of non-audit services to the firm's audited entities. The firm amended its partner appraisal forms and withdrew this Business Plan. Following the PKF merger, an interim strategy was put in place. A new Head of Audit was appointed in March 2014 and a new three year Audit Stream Strategy, as referred to above, was launched. This strategy makes no reference to cross-selling and includes an appropriate focus on risk and quality. Audit quality is a standing agenda item for the firm's Leadership Team and the Audit Stream Executive and the firm has considerably strengthened its internal communications about audit quality.

The firm issued revised guidance on the audit of letterbox companies which clarified the responsibilities of the UK audit engagement partner and other team members, including those based overseas. Where the UK firm directly audits less than 50% of the group, the firm requires audit teams to obtain approval for their planned audit strategy from the central technical team.

The firm rolled out enhanced training on professional ethics to all partners and staff. Partners' individual risk and quality ratings have been updated to improve the linkage with partner remuneration. Audit quality failures and partners' personal ethical breaches are now considered in determining the risk and quality ratings and a fining structure has been implemented.

Since our last inspection, the firm has established a Public Interest Committee.

Prior year findings not adequately addressed

The following prior year findings have not been adequately addressed by the firm:

Internal quality review findings

Four of the firm's Audit Quality Assurance Reviews ('AQAR') did not adequately explain how it was concluded that audits were performed to an acceptable standard, given the nature and number of significant issues raised in the reports to the audit partner.

The firm's definitions for audits classified as 'acceptable' or 'requiring significant improvement' are at a high level and further guidance may be helpful to assist reviewers in assessing the grade awarded. Consideration should be given to whether the current pass or fail grade structure provides a suitable framework to assess the results of the AQAR reviews.

Rotation – long association with non-public interest entities

The firm has 16 non-public interest audits (all legacy PKF) where the audit partner has been involved for over 20 years. In each audit an engagement quality control review partner was appointed as a safeguard to address the threats arising from this long association. Whilst this figure has reduced since our previous PKF inspection, the firm should require these audits to be rotated to another partner as soon as practicable. We understand that the firm is implementing new procedures in this area and in future will not allow this situation to occur. We will continue to monitor this in our next inspection.

Current year findings

We identified certain further areas where improvements to the firm's policies and procedures are required, as set out below.

Rotation monitoring

The audit partners for two listed entity audits had served for six years. The status of these entities, which had non-traded listed debt, had not been promptly identified by the firm. As a result, they were not recorded on the firm's central rotation records for listed entities, the rotation time limits as listed entities were not being monitored and extensions to serve beyond five years were not requested or approved, contrary to the requirements of ethical standards.

Investments made by partners and staff in prohibited entities

The firm identified a number of instances where partners and staff held investments in entities on the firm's prohibited entities list. None of these instances involved audit partners. In a few cases, where they related to partners, the firm referred these matters to the appropriate regulatory committee. In some cases partners had made investments in prohibited entities prior to consulting the prohibited entity listing or were unintentionally holding these investments through discretionary management arrangements. The firm strengthened its guidance and training to prevent further occurrences.

The firm is planning to introduce a system to check financial interests declared on individuals' annual declarations and a number of different approaches are being considered. The firm should ensure that this system is introduced promptly.

Senior audit team members taking employment at their audited entities

We identified one instance where a senior manager joined their own audit client as financial controller but only notified the firm on acceptance of the position, following which she was immediately removed from the audit team. However, ethical standards require senior audit staff to notify the firm as soon as there is a potential employment opportunity with an entity they audit, as objectivity and independence may be threatened when an individual knows, or has reason to believe, that he or she will or may be joining the audited entity. Senior audit staff should be reminded of the requirement to notify the firm of any situation involving their potential employment at an entity they audit.

To address the threats to objectivity and independence, a manager, new to the firm, reviewed the work performed by the resigning senior manager and completed the remaining audit work. However, it was not explained why this was considered to be appropriate as ethical standards indicate that this should be performed by a more senior audit professional.

Assessing whether there have been breaches of ethical standards

The Ethics Partner reports significant breaches to the firm's Risk and Quality Committee and a few instances where partners had breached ethical standards relating to financial interests were reported. Our review of the firm's ethical consultations identified a number of other breaches of ethical standards or the firm's policies which were not formally identified as breaches and were not reported to the firm's Risk and Quality Committee. At the time of our review the firm did not maintain a central list of ethical breaches and the log of ethical consultations did not always state whether the matter reported is actually or potentially a breach of either ethical standards or firm policy; whether the breach had been satisfactorily remedied or whether any further course of action were taken (for example, to report it to the Risk and Quality Committee, the appropriate regulatory authorities or whether the individual was sanctioned).

The firm should consider how it identifies, assesses and reports all breaches of firm's policies and ethical standards.

Audit of cash flow statements

The firm's AQAR team commenced a programme of thematic reviews and in August 2014 the firm reported to partners and staff that the findings of its first thematic review into the audit of cash flow statements were generally unsatisfactory. The firm's actions were to add specific tests to the library for audit teams and to develop training. A 'self-teach' module on preparing cash flows and an 'on demand' workshop on auditing cash flows are being rolled out in early 2015 and staff will be directed to complete these, if necessary, as a training need. There is a risk that staff training needs will not be identified until staff appraisals are performed in the Summer 2015 which is too late for improvements to be made in the audit of cash flows for December 2014 year end audits. Whilst the introduction of thematic reviews as part of the firm's internal quality monitoring is a positive step for improving audit quality, the firm must ensure that where the overall conclusions are unsatisfactory, appropriate action is taken on a timely basis.

Partner appraisals and remuneration - Risk and Quality gradings

Where partners are assessed as 'improvement required' for Risk and Quality ('R&Q'), the firm will levy a fine (for example, if they have failed an internal or external quality review or have breached ethical standards). One of the 16 partners who received an unacceptable AQAR grade was awarded an overall 'meets requirements' R&Q grade and therefore was not subject to a fine. The assessment did not adequately explain why, despite the unacceptable AQAR grade, the R&Q standards were concluded to have been met.

Consideration of EQCR involvement in audits graded as unsatisfactory

For two listed audits graded as unsatisfactory in the firm's AQAR, no action was considered in respect of the EQCRs. Where an EQCR is involved, the reviewer should consider whether the matters raised should or could have been identified and dealt with by the EQCR and, where this is the case, the unsatisfactory grading should be considered in their annual risk and quality assessment.

Other matters

Bank and building society audits

In December 2013 the FRC announced that during 2014 it would perform a thematic review of the quality of bank and building society audits, focusing on the audit of loan loss provisions and related IT controls. The thematic review sought to identify why progress in improving audit quality in these areas had been slow and what further action was needed to achieve the necessary improvements. As part of the thematic review, we reviewed the policies and procedures applied by the firm in conducting bank and building society audits.

We conducted a review of firm-wide procedures established to support the firm's financial services audit practice. We note that the firm has made significant improvements in addressing concerns raised previously by Audit Quality Review, either through the introduction of additional initiatives or increased leadership focus on loan loss provisioning and related IT controls.

At the time of our review, the firm did not have monitoring procedures in place to ensure that all banking audit personnel attend relevant training courses.

The FRC published a report in December 2014 setting out the principal findings of the thematic review and identifying key messages arising for both auditors and audit committees.

Transparency report

We reviewed the firm's transparency report for the year to 4 July 2014, which was published in November 2014. We assessed whether the information in the report was consistent with our understanding of the firm's quality control and independence procedures and did not identify any inconsistencies.

In common with certain other major audit firms, the firm's transparency report was enhanced to identify factors which contribute to audit quality. The report included details of the firm's Quality Framework and information on a number of audit quality indicators, including external investigations, the results of internal and external quality reviews and actions taken in response, training investment and the output from partner and employee surveys. We believe this is a positive development.

Andrew Jones

Director

Audit Quality Review

FRC Conduct Division

29 May 2015

Appendix A – Objectives, scope and basis of reporting

Scope and objectives

The overall objective of our work is to monitor and promote improvements in the quality of auditing. As part of our work, we monitor compliance with the regulatory framework for auditing, including the Auditing Standards, Ethical Standards and Quality Control Standards for auditors issued by the FRC and other requirements under the Audit Regulations issued by the relevant professional bodies. The standards referred to in this report are those effective at the time of our inspection or, in relation to our reviews of individual audits, those effective at the time the relevant audit was undertaken.

Our reviews of individual audit engagements and the firm's policies and procedures supporting audit quality cover, but are not restricted to, the firm's compliance with the requirements of relevant standards and other aspects of the regulatory framework. Our reviews place emphasis on the appropriateness of key audit judgments made in reaching the audit opinion together with the sufficiency and appropriateness of the audit evidence obtained. We also assess the extent to which the firm has addressed the findings arising from our previous inspection.

We seek to identify areas where improvements are, in our view, needed in order to safeguard audit quality and/or comply with regulatory requirements and to agree an action plan with the firm designed to achieve these improvements. Accordingly, our reports place greater emphasis on weaknesses identified which require action by the firm than areas of strength and are not intended to be a balanced scorecard or rating tool.

Our inspection was not designed to identify all weaknesses which may exist in the design and/or implementation of the firm's policies and procedures supporting audit quality or in relation to the performance of the individual audit engagements selected for review and cannot be relied upon for this purpose.

The professional accountancy bodies in the UK register firms to conduct audit work. Their monitoring units are responsible for monitoring the quality of audit engagements falling outside the scope of independent inspection but within the scope of audit regulation in the UK. Their work, which is overseen by the FRC, covers audits of UK incorporated companies and certain other entities which do not have any securities listed on the main market of the London Stock Exchange and whose financial condition is not otherwise considered to be of major public interest. All matters raised in this report are based solely on the work which we carried out for the purposes of our inspection.

Basis of reporting

We exercise judgment in determining those findings which it is appropriate to include in our public report on each inspection, taking into account their relative significance in relation to audit quality, in the context of both the individual inspection and any areas of particular focus in our overall inspection programme for the year. Where appropriate, we have commented on themes arising or issues of a similar nature identified across more than one audit.

While our public reports seek to provide useful information for interested parties, they do not provide a comprehensive basis for assessing the comparative merits of individual firms. The findings reported for each firm in any one year reflect a wide range of factors, including the number, size and complexity of the individual audits selected for review which, in turn, reflects the firm's client base. An issue reported in relation to a particular firm may therefore apply equally to other firms without having arisen in the course of our inspection fieldwork at those other firms in the relevant year. Also, only a small sample of audits is selected for review at each firm and the findings may therefore not be representative of the overall quality of each firm's audit work.

The fieldwork at each firm is completed at different times during the year and rigorous quality control procedures are applied. These procedures include a peer review process at staff level and a final review by independent non-executives who approve the issue of all reports. These processes are designed to ensure both a high quality of reporting and that a consistent approach is adopted across all inspections.

We also issue confidential reports on individual audits reviewed during an inspection. While these reports are addressed to the relevant audit engagement partner or director, they are copied to the chair of the relevant entity's audit committee (or equivalent body).

Purpose of this report

This report has been prepared for general information only. The information in this report does not constitute professional advice and should not be acted upon without obtaining specific professional advice.

To the full extent permitted by law, the FRC and its employees and agents accept no liability and disclaim all responsibility for the consequences of anyone acting or refraining from acting in reliance on the information contained in this report or for any decision based on it.

Appendix B – Firm's response

The firm's response is on the following page

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Audit Quality Review
FRC Conduct Division
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12 May 2015

Our ref: 000/SK/NG

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Dear Mr Jones

BDO LLP Audit Quality Inspection Report 2014/2015

We are pleased to have the opportunity to respond to the 2014/2015 Audit Quality Review Inspection report for BDO LLP.

The firm has audit quality at the top of its agenda and we welcome the acknowledgement that we have taken steps to improve audit quality as a result of findings in previous reviews. The firm describes in detail our commitment to audit quality in our latest Transparency Report which is available on our website: www.bdo.co.uk.

We welcome the insights provided by the review team which are a very important contribution to our focus on continuous improvement in audit quality. We acknowledge that additional improvements are required in certain areas and we have already made substantial inroads into our action plan responding to the findings of this report.

We would like to record our thanks to the review team for the professional way in which they conducted the review.

Yours sincerely

Scott Knight
Head of Audit

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