

2023

Audit Quality Unit

# Report on 2022 quality assurance review of BDO

6 March 2023



## Vision

Public trust and confidence in quality auditing and accounting



## Mission

Upholding quality corporate reporting and an accountable profession

## Our Values



### Excellence

Striving to be the best we can be



### Independence

Regulating impartially and objectively



### Integrity

Being trustworthy and respectful

## Introduction

### Overview of BDO (the Firm)



**3**

offices in Dublin, Cork and Limerick



**13**

audits of public-interest entities in 2022



**9**

audit partners



**0.4%**

market share based on audit fees associated with public-interest entities in 2022

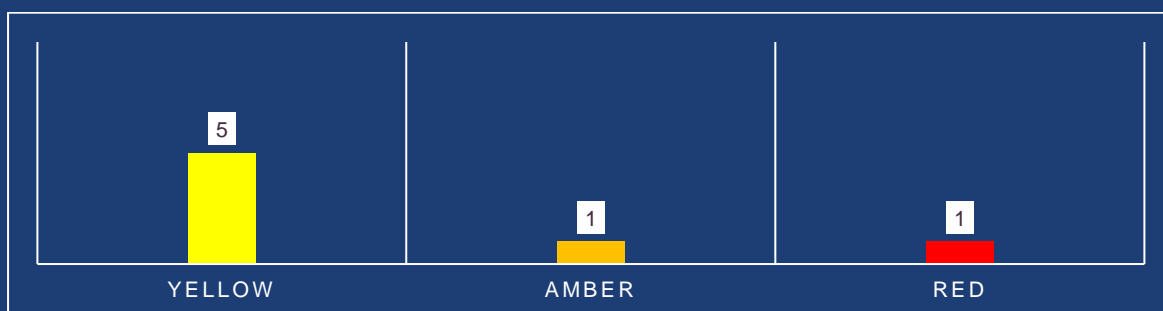


**173**

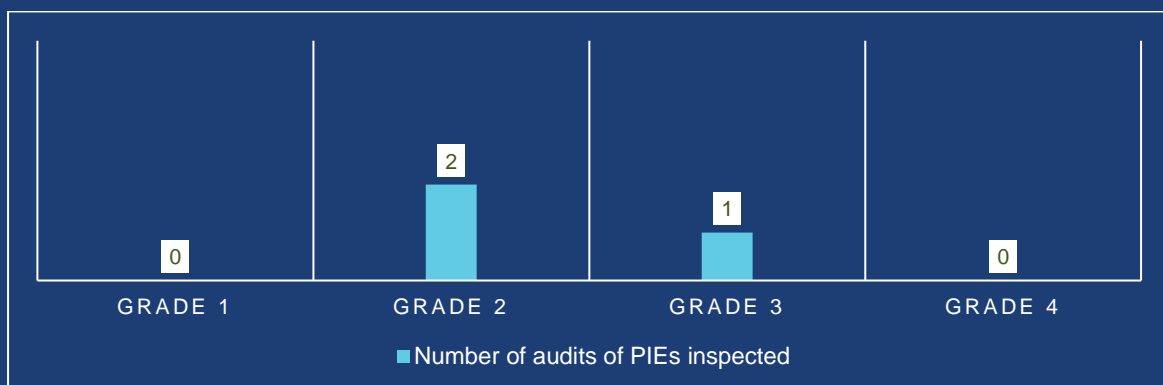
personnel working in the audit function

### Outcome of the quality assurance review

#### Firm's system of quality control - findings with related recommendations<sup>1</sup>



#### Audits of PIEs – grading<sup>1</sup>



<sup>1</sup> See Appendix for detailed description of ratings and grades.

## Guide to IAASA's reports on quality assurance reviews

A guide to assist readers in understanding IAASA's reports on quality assurance reviews of audit firms is available [here](#).

The guide sets out what users can expect from the quality assurance review report. It also explains how IAASA's quality assurance review process drives the form and content of these reports.

## Quality assurance review explained

The purpose of a quality assurance review is to assess the effectiveness of the Firm's system of quality control.

A quality assurance review:

- assesses the design of the Firm's system of quality control
- performs compliance testing around the implementation of the Firm's procedures
- evaluates the quality of a sample of audits of public-interest entities (PIEs)

Note that a quality assurance review is not designed to identify all weaknesses that may exist in the Firm's system of quality control.

Assessing the design of the Firm's system of quality control involves a review of the Firm's policies and procedures and their impact, if any, on audit quality. Compliance testing involves a review of the Firm's implementation of its policies and procedures.

The Authority selects the sample of audits of PIEs using a risk based approach. A risk based approach allows for audits with particular complexities to be selected, as well as audits of varying sizes. As the sample of audits of PIEs is not a representative sample, results cannot be extrapolated to make inferences about audits that have not been selected. In evaluating the quality of an audit of a PIE, the Authority considers the sufficiency and quality of audit evidence across a number of selected audit areas.

## Scope of the quality assurance review of the Firm

### The Firm's policies and procedures

The assessment of the Firm's system of quality control is performed across 13 areas on a three-year cyclical basis. In 2022, the quality assurance review assessed the design of the system of quality control in four areas:

- ethics and independence
- acceptance and continuance
- partner evaluation and compensation
- staff evaluation and compensation

For each of the four areas assessed, the Authority evaluated the Firm's policies and procedures and obtained evidence of the implementation of the Firm's policies.

## **Audits of public-interest entities**

In 2022, the Authority selected a sample of three audits of PIEs.

For each audit selected, the Authority evaluated the quality of the communications with those charged with governance, review of financial statements and the audit procedures performed in relation to related parties and analytical reviews. For each audit selected, the Authority also evaluated the quality of audit evidence across additional audit areas. The additional audit areas were selected at the discretion of the Authority, taking into consideration the specific risks pertaining to the audit as well as other areas of focus for the Authority.

## **Overview of findings**

There were seven findings with related recommendations identified in the areas reviewed in relation to the effectiveness of the design or implementation of the Firm's system of quality control.

The Authority assigned a grade of 2 (limited improvements required) to two audits of PIEs and a grade of 3 (improvements required) to one audit of PIEs.

The results of the quality assurance review are set out in detail in the next section of this report.

A description of ratings and grades is set out in the appendix to this report.

The Firm must implement each recommendation raised by the Authority within 12 months of the date of the recommendation. The Authority follows up to ensure each recommendation is implemented. Where the Firm fails to satisfactorily implement the recommendation within the 12 month timeframe, the Authority will refer the matter to its Enforcement Unit.

# Results of the quality assurance review

## Overview of areas

---

Ethics and independence      The Authority evaluated whether the Firm had adequate procedures to provide reasonable assurance that the Firm and its personnel comply with relevant ethical and independence requirements. The Authority performed a range of procedures to understand the Firm’s policies around ethics and independence. These included examining policies regarding financial interests, conflicts of interest and the independence of partners and staff from the Firm’s audit clients. The Authority obtained evidence of the Firm’s implementation of its policies.

**The Authority notes that “fit and proper” declarations were not in place for all employees. The Authority also notes that the Firm’s list of business relationships contains at least one error, and that business relationships were not correctly documented on two audit files. Full details of these findings and recommendations are set out below. (Findings 1 and 2)**

---

Partner evaluation and compensation      The Authority evaluated whether adequate remuneration policies were in place for audit partners to provide sufficient performance incentives to secure audit quality. The Authority performed procedures to understand the Firm’s policies around the evaluation and compensation of audit partners. The Authority obtained evidence of a sample of partner appraisals, and the related remuneration, in order to ensure that audit quality was appropriately reflected.

**The Authority notes that the Firm’s sanctions policy should be updated, and the partner evaluation process should be strengthened, specifically around assessment of monitoring results and partner promotion. Full details of these findings and recommendations are set out below. (Findings 3, 4 and 5)**

---

Staff evaluation and compensation      The Authority evaluated whether adequate remuneration policies were in place for audit staff to provide sufficient performance incentives to secure audit quality. The Authority performed procedures to understand the Firm’s policies around the evaluation and compensation of audit staff. The Authority obtained evidence of a sample of staff appraisals, and the related remuneration, in order to ensure that audit quality was appropriately reflected.

**The Authority notes the BDO competency frameworks do not explicitly reference audit quality. The Authority further notes that for a sample of five probationary reviews to review new employees’ conduct and performance, three reviews were either not conducted in a timely manner or were not performed. Full details of these findings and recommendations are set out below. (Findings 6 and 7)**

---

---

Acceptance and continuance	The Authority evaluated whether the Firm had adequate procedures to ensure appropriate acceptance and continuance of audit clients. The Authority performed procedures to understand the Firm's policies around the acceptance and continuance of audit clients, including whether the Firm's policies ensure an appropriate response to any issues identified. The Authority obtained evidence of the Firm's implementation of its policies.
----------------------------	---

**The Authority has no findings with related recommendations to report in this area.**

---

## Findings and recommendations on the Firm’s system of quality control

Area and significance rating	Background	Issue	Recommendation
<p><b>Ethics and independence</b></p> <p><b>Finding 1</b></p> <p><b>● Yellow</b></p>	<p>The International Standard on Quality Control (Ireland) (ISQC 1) requires the Firm to establish policies and procedures designed to maintain the confidentiality of engagement documentation.</p> <p>As part of these procedures, the Firm requires its staff to complete the “fit and proper” questionnaire.</p> <p>We inspected a sample of these questionnaires in respect of five employees.</p>	<p>In the case of two employees inspected, no “fit and proper” questionnaire was available.</p>	<p>The Authority recommends that, going forward, “fit and proper” questionnaires are completed by all employees.</p>
<p><b>Ethics and independence</b></p> <p><b>Finding 2</b></p> <p><b>● Yellow</b></p>	<p>The Ethical Standard for Auditors (Ireland) requires the Firm to identify all business relationships entered into by the Firm, covered persons, or persons closely associated with them.</p> <p>To satisfy this, the Firm maintains a list of business relationships with audited entities.</p> <p>The Firm’s independence workbook, which forms part of each audit file, requires engagement teams to document any</p>	<p>In the case of one item in our sample, there was a business relationship listed in error on the Firm’s list of business relationships.</p> <p>In the case of two items in our sample, the business relationship was not documented in the independence workbook.</p>	<p>The Authority recommends that the list of business relationships is revised and that errors in it are resolved.</p> <p>The Authority further recommends that, going forward, business relationships are documented correctly in independence workbooks.</p>



business relationship with the client, including the nature of the relationship, BDO's spend with the client in the current period, and the materiality of the relationship to BDO and to the client. It also requires the engagement team to document any safeguards and consultations.

We inspected a sample of five items from the list of business relationships with audited entities.

---

**Partner evaluation and compensation**

**Finding 3**

● **Yellow**

ISQC 1 requires the Firm to establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing engagements.

Legislation requires the Firm to have in place adequate remuneration policies, including profit-sharing policies, providing sufficient performance incentives to secure audit quality.

The Firm's sanctions policy notes that where a partner fails to meet quality and risk standards, there is a requirement to impose a sanction.

The Firm's sanctions policy notes that, through the course of monitoring activities, it may be identified that a partner is not meeting the standards set by the Firm or complying with legal or regulatory requirements. If so, the

The Firm's sanctions policy is to allow for a consistent and effective sanctions process.

The sanctions policy does not set out the procedures that the Firm's quality and risk committee follow to identify a circumstance where a partner is not meeting the standards set by the Firm or complying with legal or regulatory requirements.

The sanctions policy does not specify the factors that are considered by the Firm's quality and risk committee when making a determination on issues identified.

The Authority recommends that the Firm revises its sanctions policy to set out procedures that the Firm's quality and risk committee follow to identify a circumstance where a partner is not meeting the standards set by the Firm or complying with legal or regulatory requirements.

The Authority further recommends that the Firm revises its sanctions policy to specify the factors that should be considered by the Firm's quality and risk committee when making a determination on issues identified.

Firm's quality and risk committee engage with the partner and issue a determination on the issue(s) arising, which is reported into the Firm's evaluation committee.

The Firm has noted that the Firm's sanctions policy is used as the guidance for the Firm's quality and risk committee.

---

**Partner evaluation and compensation**

**Finding 4**

● **Red**

ISQC 1 requires the Firm to establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing engagements.

Legislation requires the Firm to have in place adequate remuneration policies, including profit-sharing policies, providing sufficient performance incentives to secure audit quality.

The Authority selected a sample of five audit partners and reviewed the performance evaluation documentation retained by the Firm for the period ended 29 February 2020.

The Firm noted that 2019 and 2018 monitoring results relating to audit quality were used for the 2020 performance evaluations and provided the Authority with a schedule of the internal and external monitoring results used.

For one audit partner in the sample, there

Although the Firm's schedule of monitoring results showed unsatisfactory results and improvements required relating to audit quality for the partner, there was no evidence that these results impacted the partner's remuneration.

Further, the documentation supporting the partner's performance evaluation evidenced the failure of the Firm to adequately evaluate quality issues arising:

- (1) The performance evaluation documentation referred to only two of the three monitoring results relating to the partner. There was no reference to the "improvements required" indicative grading.
- (2) The partner's self-evaluation noted that the unsatisfactory result was based on an area where there was fundamental disagreement with the reviewer. There is no evidence that the

The Authority recommends that, going forward, the Firm clearly evidences consideration of all relevant quality monitoring results in evaluating the performance of audit partners and demonstrates how unsatisfactory audit quality results impact on partner remuneration.

were monitoring results for three audits that were relevant to the 2020 performance evaluation.

Firm's quality and risk committee accepted or challenged the partner's comments.

The Firm's schedule of monitoring results showed the following results for the three audits:

- satisfactory
- unsatisfactory
- improvements required (indicative grading)

(3) The partner's evaluation documentation noted their self-quality and risk rating was "meets requirements", despite monitoring results indicating poor audit quality.

The Firm's evaluation committee made no reference to the partner's monitoring results and concluded to recommend the partner for advancement within the partnership. This advancement resulted in an increase in the partner's remuneration.

**Partner evaluation and compensation**

**Finding 5**

● **Amber**

ISQC 1 requires the Firm to establish human resources policies and procedures designed to provide reasonable assurance that there are sufficient personnel with the competence to perform engagements in accordance with professional standards and applicable legal and regulatory requirements.

ISQC 1 gives guidance noting that promotion procedures give due recognition and reward to the development and maintenance of competence.

ISQC 1 guides the steps the Firm may take in developing and maintaining competence include helping personnel understand that

The Firm does not have written policies and procedures relating to the promotion of candidates to the partnership. The Firm's policies do not set out how the Firm evaluates a partner candidate's competencies. There is also no specified procedure to evaluate audit quality in deciding whether to promote a candidate to partnership.

The Authority recommends that the Firm establishes written policies relating to the promotion of candidates to the role of audit partner that include procedures to evaluate how a candidate has demonstrated competencies relating to audit quality.

advancement to positions of greater responsibility depends, among other things, upon performance quality.

---

**Staff evaluation and compensation**

**Finding 6**

● Yellow

ISQC 1 requires the Firm to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to perform engagements in accordance with professional standards and applicable legal and regulatory requirements.

As part of the inspection process, a sample of staff members were selected to test whether probationary reviews were carried out at the end of their probationary period. There was no evidence of a probationary review for one of the five staff members sampled. Two of the five staff members' probationary reviews were completed two months after the six-month probation period.

The Authority recommends that the Firm conduct training of people managers and emphasise the importance of completing probationary reviews. The Authority recommends monitoring of the completion of probationary reviews should also occur.

In these instances, it is not clear how the Firm monitored the new hires' conduct and performance during the probationary period.

Furthermore, the policy is silent on whether formal probationary reviews are mandatory or when they should occur.

---

**Staff evaluation and compensation**

**Finding 7**

● Yellow

The ISQC 1 requires the Firm to establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to perform engagements in accordance with

The BDO competency frameworks outlined for each level, do not reference audit quality. While quality is covered as part of goal setting amongst audit staff, this does not link back directly to the Firm's competency frameworks. The competency frameworks reference behaviours that could be potential indicators of audit

The Authority recommends that the Firm should address audit quality specifically within their competency frameworks. The framework should clearly indicate which value, competency, description, or behavioural indicator align with audit quality.

professional standards and applicable legal and regulatory requirements.

quality, but audit quality in itself is not explicitly called out.

ISQC 1 also requires the Firm to establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing engagements.

The Firm's competency framework details the competencies, values and behaviours for Firm staff at all levels. The competency framework is applicable for all staff irrespective of service line and applies to the following levels

- Director
- Senior Manager
- Manager
- Qualified Assistant
- Manager/Consultant
- Trainee

---

**Acceptance  
and  
continuance**

The Authority has no findings with related recommendations to report in this area.

## Summary of audits of PIEs inspected

	Assigned grade <sup>2</sup>	Audit areas reviewed
Audit one	2	<ul style="list-style-type: none"> <li>Analytical reviews</li> <li>Statement of cash flows</li> <li>Communications and auditor's report</li> <li>Financial statement review</li> <li>Management override of controls</li> <li>Related parties</li> <li>Existence and valuation of financial assets and liabilities</li> <li>Revenue recognition</li> </ul>
Audit two	3	<ul style="list-style-type: none"> <li>IT audit</li> <li>Statement of cash flows</li> <li>Communications and auditor's report</li> <li>Financial statement review</li> <li>Management override of controls</li> <li>Related parties</li> <li>Valuation and cut-off of technical provisions and reinsurers' share of technical provisions</li> </ul>
Audit three	2	<ul style="list-style-type: none"> <li>Analytical reviews</li> <li>Statement of cash flows</li> <li>Communications and auditor's report</li> <li>Financial statement review</li> <li>Management override of controls</li> <li>Related parties</li> <li>Premiums written</li> <li>Claims outstanding</li> </ul>

## Key recommendations arising from the inspection of audits of PIEs

This table sets out the key recommendations for the Firm arising from the inspection of audits of PIEs. These are recommendations deemed by the Authority to be key to an individual inspection or which were recurring across inspections. Not all recommendations apply to all audits of PIEs inspected and not all recommendations issued are included in this table.

<sup>2</sup> See Appendix for detailed description of ratings and grades

Audit area	Recommendation
Review of financial statements - tie-back to underlying records	The Authority recommends that, going forward, audit work papers clearly identify how financial statement notes have been tied back to underlying accounting records.
Valuation and cut-off of technical provisions and reinsurers' share of technical provisions	The Authority recommends that, going forward, in instances where workpapers from other engagements are to be included as audit documentation, these workpapers contain sufficient information so as to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed insofar as they relate to the audit of the Entity.
IT audit - assessment of IT findings	The Authority recommends that, going forward, the audit team includes sufficient evidence on the audit file of their consideration of points raised by the IT audit team.
IT audit - information to be used as audit evidence	The Authority recommends that, going forward, sufficient resources are allocated to the preparation and review of work papers and that it is clearly evidenced how the audit work performed relates to the current audit year.

## Results of follow up procedures

The Firm is required to implement the Authority's recommendations within 12 months. The Authority is satisfied that all recommendations made to the Firm in 2021 were appropriately implemented in 2022.

## Purpose and limitations of this report

The purpose of the quality assurance review is to assess the effectiveness of the Firm's system of quality control. The purpose of this report is to communicate any deficiencies identified through the quality assurance review and the recommendations arising.

This report is not intended to serve as a balanced scorecard or as an overall rating tool. Although this report on the quality assurance review may comment positively on certain items, it is not designed to give a balanced analysis of all areas of the Firm.

Where an inspection of an audit of a PIE identifies an area where the Firm did not obtain sufficient audit evidence, this does not necessarily indicate that the audit opinion is inappropriate or that the financial statements are misstated. Furthermore, it would be inappropriate to infer that any issues identified in this quality assurance review report are replicated in audits that have not been inspected by the Authority.

## Appendix – Detailed description of ratings and grades

### Ratings

Findings arising in relation to the effectiveness of the design or implementation of a firm's system of quality control have their significance rated by way of a red-amber-yellow (RAY) system.

● **Red** indicates that a finding is a significant deficiency<sup>3</sup>. Failure to implement a recommendation and/or remediation set out in a prior finding in relation to a firm's system of quality control, or, in relation to a matter arising from a PIE inspection is also likely to be assigned a red grading.

● **Amber** indicates that an improvement is required. This is a less than significant failure to:

- meet the requirements of the ethical standards and ISQC 1; or
- apply a firm's processes or procedures.

● **Yellow** indicates that a finding is a minor deficiency. This is:

- a minor failure in the application of a firm's procedures or processes; or
- a low level deficiency that has the potential to develop into a significant or less than significant failure to meet the requirements of the ethical standards and ISQC 1.

### Grades

Each of the audits of PIEs inspected as part of the quality assurance review is assigned a grade.

- 1** A **1** grade is a good audit with no concerns regarding the sufficiency and quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Any concerns are very limited in their implications (both individually and collectively).
- 2** A **2** grade is an audit that requires limited improvements. There are only limited concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Although there may be some concerns, their implications (both individually and collectively) are limited.
- 3** A **3** grade is an audit that requires improvements. There are some concerns, assessed as less than significant<sup>4</sup>, regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Although there may be concerns, their implications (both individually and collectively) are less than significant.
- 4** A **4** grade is an audit that requires significant improvements. There are significant concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit

---

<sup>3</sup> A significant deficiency is a significant failure to meet the requirements of the ethical standards or ISQC 1; or, a pervasive failure to apply a firm's processes or procedures where there is more than a remote likelihood that the deficiency could affect the firm's independence or the quality of audits performed by the firm.

<sup>4</sup> For audits of PIEs, four key factors will be considered in assessing 'significance' of findings, these are as follows: the materiality of the area or matter concerned; the extent of any concerns regarding the sufficiency or quality of audit evidence (e.g. whether they relate to specific elements of the audit evidence only or are more pervasive to the overall sufficiency or quality of audit evidence in the areas concerned); whether appropriate professional scepticism appears to have been exercised in forming audit judgements; and the extent of any non-compliance with standards or the firm's methodology identified.



judgements in the areas reviewed. There may be concerns in other areas, with implications that are individually or collectively significant.



**Irish Auditing & Accounting  
Supervisory Authority**

Willow House  
Millennium Park  
Naas, Co. Kildare  
W91 C6KT  
Ireland

Phone: +353 (0) 45 983 600  
Email: [info@iaasa.ie](mailto:info@iaasa.ie)

**[www.iaasa.ie](http://www.iaasa.ie)**