

2024

Audit Quality Unit

# **Report on 2023 quality assurance review of BDO**

11 March 2024



## 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 2023



**12**  
audit partners



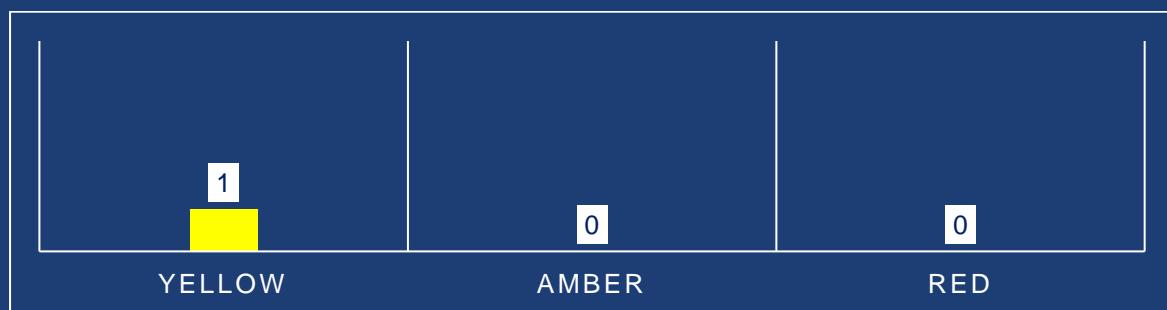
**0.4%**  
market share based on audit fees associated with public-interest entities in 2023



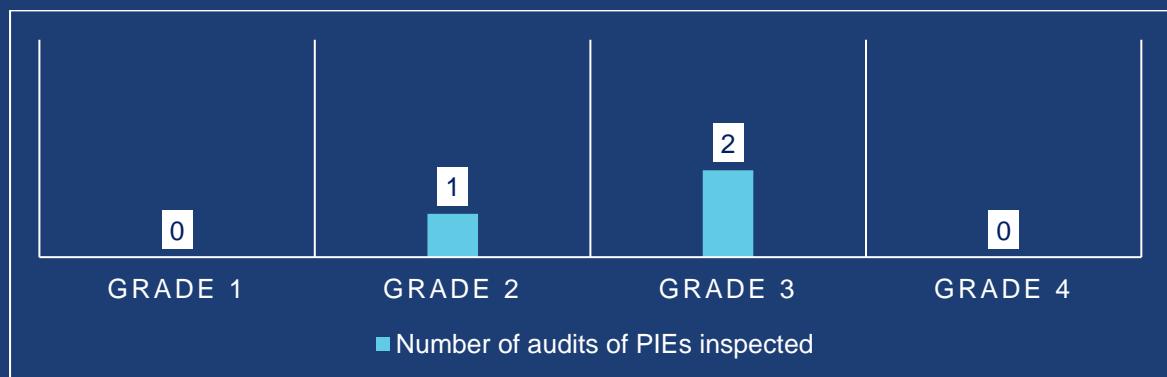
**193**  
personnel working in the audit function

## Outcome of the quality assurance review

### Firm's system of quality management - 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 management.

A quality assurance review:

- assesses the design of the Firm's system of quality management
- 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 management.

In 2023, IAASA inspected the implementation of the International Standard on Quality Management (Ireland) 1 (ISQM 1) which was effective for the first time during this inspection period. ISQM 1 requires audit firms to design a system of quality management that is tailored to the nature and circumstances of the firm and engagements it performs. Firms are also required to monitor their own quality management system in order to ensure timely and effective remediation takes place, if and when required.

Assessing the design of the Firm's system of quality management involves evaluating the quality objectives, quality risks and related responses identified by the Firm and reviewing the Firm's policies and procedures and their impact, if any, on audit quality. Compliance testing involves testing of the operating effectiveness of selected responses and assessing the Firm's monitoring of the responses across component areas.

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 management is performed across eight component areas, as defined in ISQM 1, on a three year cyclical basis. In 2023, the quality assurance review assessed the design of the system of quality management in four component areas:

- risk assessment process
- governance and leadership
- resources – technological resources, intellectual resources and service providers
- information and communication

For the resources component, the Authority assessed the Firm's system of quality management across the areas of technological resources, intellectual resources and service providers. For the remaining components, the Authority assessed the full component areas. The Authority evaluated the quality objectives, quality risks and related responses designed by the Firm, including the implementation of related policies and procedures.

## Audits of public-interest entities

In 2023, 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, the review of financial statements, the engagement quality control review and the audit procedures performed in relation to related parties and subsequent events.

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 was one finding with a related recommendation identified in the areas reviewed in relation to the effectiveness of the design or implementation of the Firm's system of quality management.

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

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Governance and leadership	<p>The Authority assessed whether the Firm had established quality objectives that address the Firm's governance and leadership and that demonstrated a commitment to quality through the culture that exists throughout the Firm. The Authority evaluated the quality risks identified and assessed by the Firm for each of the quality objectives relating to governance and leadership and the responses designed and implemented to address the quality risks, including the specified responses of ISQM1.</p> <p>The Authority performed procedures to understand how the Firm's leadership is held accountable for quality and how they demonstrate a commitment to quality through their actions and behaviours.</p> <p><b>The Authority has noted one of the required ISQM1 quality objectives was not appropriately mapped to the Firm's system of quality management. (Finding 1)</b></p>
Risk assessment process	<p>The Authority evaluated whether the Firm had designed and implemented a risk assessment process to establish quality objectives, identify and assess quality risks and design and implement responses to address the quality risks. The Authority performed procedures to understand the Firm's risk assessment process, including whether the Firm had identified quality risks to provide a basis for the design and implementation of responses.</p> <p><b>The Authority has no findings with related recommendations to report in this area.</b></p>
Resources – technological resources, intellectual resources and service providers	<p>The Authority evaluated whether the Firm had established quality objectives, and appropriate responses to the risks of not meeting these quality objectives, that address appropriately obtaining, developing, using, maintaining, allocating and assigning technological and intellectual resources in a timely manner to enable the design, implementation and operation of the system of quality management and whether human, technological or intellectual resources from service providers are appropriate for use in the Firm's system of quality management and in the performance of engagements.</p> <p><b>The Authority has no findings with related recommendations to report in this area.</b></p>
Information and communication	<p>The Authority evaluated whether the Firm had established quality objectives, and appropriate responses to the risks of not meeting these quality objectives, that address obtaining, generating or using information regarding the system of quality management, and communicating information within the firm and to external parties</p>

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on a timely basis to enable the design, implementation and operation of the system of quality management.

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

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## Findings and recommendations on the Firm's system of quality management

Area and significance rating	Background	Issue	Recommendation
<b>Finding 1</b> <span style="color: yellow;">Yellow</span>	ISQM1 requires that the Firm establish quality objectives as specified by ISQM 1 and any additional quality objectives considered necessary by the Firm to achieve the objectives of the system of quality management.	The quality objective set out in Paragraph 28(d) of ISQM 1: 'The organisational structure and assignment of roles, responsibilities and authority is appropriate to enable the design, implementation and operation of the firm's system of quality management.' is not included as a quality objective within the Firm's system of quality management as required by the standard or within the Firm's supporting ISQM1 mapping documentation.	The Authority recommends that the required quality objective is incorporated into the Firm's system of quality management.
<b>Risk assessment process</b>	The Authority has no findings with related recommendations to report in this area.		
<b>Resources – technological resources, intellectual resources and</b>	The Authority has no findings with related recommendations to report in this area.		

**service  
providers**

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

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## Summary of audits of PIEs inspected

	Assigned grade <sup>2</sup>	Audit areas reviewed
Audit one	3	<ul style="list-style-type: none"> <li>• Recoverability of loans and receivables</li> <li>• Management override of controls</li> <li>• Communications with those charged with governance</li> <li>• Review of financial statements</li> <li>• Review of the engagement quality control review</li> <li>• Related parties</li> <li>• Subsequent events</li> </ul>
Audit two	3	<ul style="list-style-type: none"> <li>• Claims outstanding</li> <li>• Management override of controls</li> <li>• Communications with those charged with governance</li> <li>• Review of financial statements</li> <li>• Review of the engagement quality control review</li> <li>• Related parties</li> <li>• Subsequent events</li> </ul>
Audit three	2	<ul style="list-style-type: none"> <li>• Technical Reserves</li> <li>• Management override of controls</li> <li>• Communications with those charged with governance</li> <li>• Review of financial statements</li> <li>• Review of the engagement quality control review</li> <li>• Related parties</li> <li>• Subsequent events</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.

Audit area	Recommendation
Claims outstanding	The Authority recommends that, going forward, the engagement team ensures the risks are documented in a consistent manner on the audit file.

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

	The Authority recommends that, going forward, the engagement team performs procedures that could reasonably detect material issues around the valuation together with the accuracy of statutory reserves.
Communications with those charged with governance	The Authority recommends that, going forward, the engagement team correctly communicates with those charged with governance an overview of the planned scope of the audit.
Review of financial statements	The Authority recommends that, going forward, the financial statement disclosure checklist is accurately and fully completed with sufficient review time also allocated to the financial statement disclosure checklist by engagement team's management.
	The Authority recommends that, going forward, in describing the key audit matter, the engagement team correctly summarises the auditor's response to the risk.
	The Authority recommends that, going forward, the engagement team include clear evidence of their consideration over the appropriateness of the relevant accounting policies.
	The Authority recommends that, going forward, the engagement team performs and evidences an appropriate evaluation of the judgements and key sources of estimation uncertainty, in order to ensure appropriate disclosure has been made in the financial statements, in accordance with the requirements of the applicable financial reporting framework.
Related parties	The Authority recommends that, going forward, the engagement team sufficiently evidences the audit procedures performed around related party controls and disclosures, and the conclusions reached thereon.
	The Authority recommends that, going forward, the audit file sufficiently evidences the engagement team's conclusion regarding the appropriateness of the arm's length assertion made by management in relation to the related party transactions disclosed in the financial statements.
Review of the engagement quality control review	The Authority recommends that, going forward, the engagement team evidences all discussions of significant matters arising during the audit engagement between the engagement partner and the engagement quality control reviewer.

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The Authority recommends that, going forward, the engagement quality control reviewer evidences their conclusions reached of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report.

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The Authority recommends that, going forward, the documentation on the audit file demonstrates a robust appraisal by the engagement quality control reviewer of the quality of the work performed and the conclusions reached by the engagement team.

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## **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 2022 were appropriately implemented in 2023.

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

<sup>3</sup> A significant deficiency is a significant failure to meet the requirements of the ethical standards or ISQM 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.



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