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LOOKING
BEYOND
WITH PURPOSE

Transparency Report

OCTOBER 2023

IDEAS | PEOPLE | TRUST

Transparency Report

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Paul England

Introduction from the Managing Partner



As I imagine every other CEO and Managing Partner will be writing in their 2023 annual reports: it's been yet another year of difficulty and uncertainty for many. The post-COVID recalibration of business models, cost-of-living crisis and increasing global tensions, coupled with ongoing labour shortages and being a step closer to irreversible climate change, have created a volatile environment that society, BDO, our people and the businesses we work with have had to navigate.

For those of us in accountancy and business advisory, this environment has been compounded by a number of factors. In particular, I'd note: Artificial Intelligence (AI) and other rapidly advancing technology; a necessary, laser-like focus on audit quality; understanding our Environmental, Social and Governance (ESG) impact both as a firm and in how we advise and support other businesses on theirs; and questions around the future of the profession.

Like any organisation of our size, I could list numerous carefully-designed initiatives and investment programmes we have in place to help BDO, our people and the businesses we serve tackle these issues.

But if we step back and take a broader view for the purposes of this report, BDO's role during this tumultuous period has been twofold.

First was to perform our duty as an employer. I am acutely aware that it is our 7,500 people, their families and wider society, who have experienced and are experiencing the everyday reality of increasing mental and physical health issues, spiking interest rates and high inflation. It is my hope that creating a supportive, inclusive and agile working environment offers some much-needed stability to our people during such uncertain times, which in turn creates motivated, engaged teams able to deliver high-quality in all they do.

Secondly was our ongoing commitment to serve the public interest by consistently performing quality engagements. Operating a robust system of quality management (SOQM), designed and built in compliance with the requirements of International Standard of Quality Management (UK) 1 (ISQM(UK)1), is our collective aim. In this regard, we recognise that ISQM(UK)1 is a new standard. This is complex and requires us to systematically review our existing domestic and cross-border policies, processes and controls and test them for effectiveness. In many instances, this will require us to further refine and enhance these policies, processes and controls so that they are completely aligned to what we see as ISQM(UK)1 best practice. Whilst work in this area is underway, our updated plan of action will take time to execute. This SOQM ambition is completely aligned to our commercial objectives of continuous improvement and high performance, which in turn enhances our ability to provide high-quality advice and services to our clients and audited entities.

Our commitment and investment in managing quality of course also extends into audit quality, where we have a multi-year investment strategy and Single Quality Plan (SQP). Our SQP is shared with and constructively discussed with our regulators, including the Financial Reporting Council (FRC).

While this year's FRC Audit Quality Review (AQR) report indicates an improvement in our quality grades, as compared with last year, I remain disappointed that we have not yet secured the consistently high-quality results we are capable of. I remain personally determined to continue to set a clear 'tone from the top' and invest in quality; we cannot afford to, and will not, slow down our efforts. An indication of this commitment is that, in the two years to June 2023, our firmwide business generated some £200m of additional revenues when compared to the year ended June 2021; the entirety of this £200m, and more, was invested into increased pay, more people, additional technology and quality infrastructure to support our SQP.

As our Senior Partner also notes in his report, meaningful change takes time. Securing the grades we ultimately wish to achieve will take a continued, unrelenting focus on audit quality and transformation, and recurring problems need to be addressed. I have asked my colleagues to detail exactly what this focus entails in the following pages.

Which leaves me with the privilege of saying thank you to all those – inside and outside of BDO – who work with us and join us as we all navigate a post-pandemic, high-inflation, Net-Zero world.



Our strategic framework

Our strategic framework is the anchor for our decision-making. It is the entirety of our Core Purpose, Vision, Values and BUILD strategy, as well as our commitment to high-quality, independence, ethics and serving the public interest. It is our why, where, how and what, and collectively governs all our strategic decision-making across the UK firm, including at a stream, region and sector level via forward-looking BUILD Growth Plans. The framework provides us with a clear and consistent direction for building our future.

Committed to serving the public interest by consistently performing quality engagements



Committed to high quality, independence and ethics

- 

Brand: a name synonymous with helping people and businesses succeed.
- 

Unifying culture: an inspiring, challenging and collaborative environment where people are encouraged to be themselves and supported to be successful and deliver high-quality in all they do.
- 

International: a \$12.8bn organisation with 111,300 people in 164 countries helping businesses to grow internationally.
- 

Leading our markets: integrated and valuable advice for ambitious businesses and individuals.
- 

Digital mindset: doing things differently to drive value, deliver efficiency and promote innovation.

Matthew White

Report from the Senior Partner



This year's theme of "Looking beyond, with purpose" perfectly captures the firm's governance journey this year as we have moved from the implementation of a new governance structure to the embedding phase, purposefully building processes around that structure to support and sustain it into the future.

Last year, I reported that BDO had introduced a new governance structure and spoke about how, as a firm, we had carefully and comprehensively considered what structure and skills we required to serve the public interest.

This concluded in the voluntary introduction of two new governance bodies – the Business Interest Oversight Board (BIOB) and the Audit Board (AB) – to provide senior members of the firm both the vantage point and space they needed to oversee the work of the firm.

I outlined how our Public Interest Committee (PIC), a critical element of our oversight function, had been reconstituted to comprise only Independent Non-Executives (INEs) and how, in recognition of their importance, we had increased their number to four. You can read the report from our Chair of PIC on page 10.

A year on, I am pleased to say we remain committed to the continuous improvement of governance and oversight. Despite the external forces all businesses are facing which our Managing Partner mentions in his report – including the shifting geopolitical and macro-economic dynamics, emerging technology such as generative AI, and sustainability and ESG – internally we have felt anchored by the new governance systems in place.

Our governance structure, though still in its infancy, has already started to allow those in our firm with a responsibility for oversight to better review, discuss and challenge the decisions of management. The creation of the AB has provided a valuable vehicle through which we can maintain a laser focus on the strategy, performance and operations of the Audit stream, with a particular focus on audit quality, while the BIOB has provided oversight and challenge of other aspects of the firm's management, particularly in relation to the Tax and Advisory streams.

Monitoring governance

Alongside changes to structure, this year we have introduced new governance Key Performance Indicators (KPIs) and implemented self-assessments of all of our oversight bodies; two actions deliberately designed to monitor and measure our commitment to improving and enhancing the oversight function within the firm.

We have also undertaken a gap analysis of our processes and procedures compared against the new requirements of the Audit Firm Governance Code (Revised) 2022 (AFGC 2022) which took effect from 1 July 2023, in order to prepare for this transition. I am pleased to confirm that we are compliant with the AFGC 2022 as we enter the new financial year.

Controlling our growth

As pointed out by the FRC in this year's AQR report, it is critical that we carefully monitor not just our governance but our growth. As BDO continues to expand, it is important that we are discerning with the work we are taking on, focusing on audited entities that fit our skillsets and resources.

'Controlled, responsible growth' is a lever we've specifically put in our Audit strategy and is the reason behind our enhanced criteria for tenders and the subsequent decision to walk away from a number of opportunities that didn't lend themselves to the high-quality audits that are rightfully expected of us. You can read more about this in the Audit Quality section.





Helping our people succeed

Quality work is of course dependent on skilled people. We have made significant changes to the way in which we recruit, retain and train across the organisation. As our Head of Audit outlines in his report, in Audit alone we have recruited an additional 700 audit professionals net, including almost 30 lateral hire audit partners in the last two years.

Whilst an increase in resource is of course helpful, this is not just a numbers game. Our governance bodies are focussed on ensuring we are doing everything we can to enable our people to work with an absolute focus on delivering quality and to sustain this for every engagement.

We are working together on our aim to operate a robust SOQM, built in compliance with the requirements of ISQM(UK)1. ISQM(UK)1 is a new standard, which requires us to have, document and test multiple policies, processes and controls. As we continue to execute on our plan of action, we are setting ourselves high standards, and assessing ourselves to this high level. This includes fostering a culture of continuous improvement in quality and challenge of management, as well as designing an environment in which this focus is maintained.

This is complex and our work is ongoing. Change takes time to embed and, as this year's AQR report makes clear, we still have a lot to do. Our external assessments have shown, whilst we are improving, we cannot afford to slow down our efforts.

The AQR report highlights there remain recurring issues within some of BDO's audits that must be addressed and we are not yet at a place where our investments are producing the consistent outcomes we are ultimately seeking. As a firm we have embraced the change and evolution so far, but we remain open and willing to invest and learn as we go.

It would also be remiss of me not to mention perhaps the biggest change facing us all: sustainability. Alongside my co-chair Nicola Lally, I am proud of the work of the Sustainability and ESG Board and the direction of travel BDO is taking. This past year has seen us publish our Net-Zero plan, commit to a near-term target of halving our emissions by 2030 and submit a roadmap to the Science Based Targets initiative (SBTi) (subsequently validated by the SBTi in August 2023).

In addition to the employment and training of 7,500 BDO people, we have invested further still in strategic partnerships with social enterprises and social mobility charities. This is an area I am personally very invested in – and I know I'm not alone in wanting to enhance our collective, positive social impact.

As we look to the year ahead – and we work to navigate yet more change, from generative AI to a looming general election – I want to recognise all those already involved in our progress towards greater quality and thank them in advance for their continued efforts as we continue to strive to deliver the high-quality work desired by – and required of – us.

Scott Knight

Report from the Head of Audit



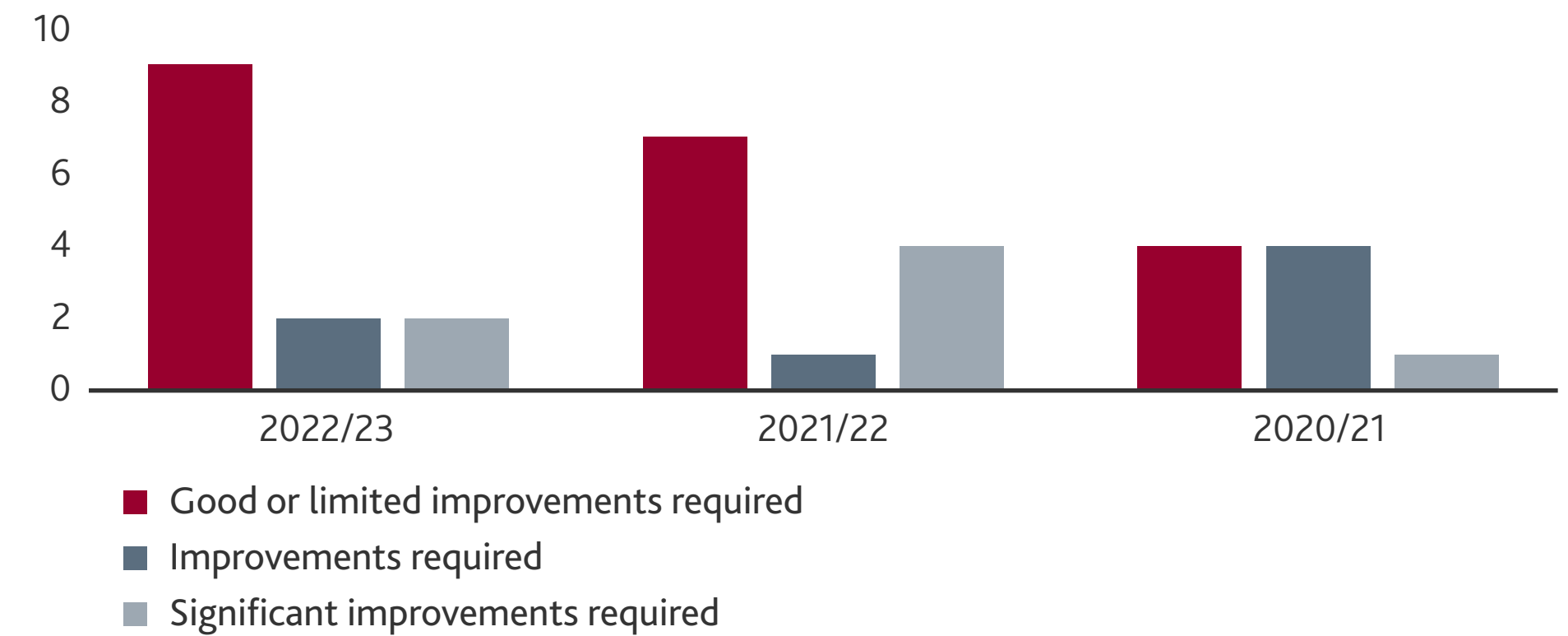
This has undoubtedly been a challenging year for our Audit stream. We've responded to challenges from the FRC regarding the consistency of audit quality, continued to embed the biggest investment programme in our history, and focussed on our culture of challenge whilst also improving the quality of our audit portfolio and reducing the strain on our people.

Overall, we have made positive progress consistent with our strategic plans, and this has only been possible thanks to the commitment and efforts of our near 3,000 professional audit staff, including more than 140 audit partners.



We still have a lot to achieve but we are clear on our SQP and look forward with confidence. We continue to control our growth, build additional resource capacity with the right skills to carry out high-quality audits, shape our audit portfolio, and invest in more specialists in our Audit Quality Directorate (AQD), particularly in addressing recurring problems. I note more on each of these points below, and we expand further on our SQP in our detailed Audit Quality section of this report on page 25. All of this came together this year to form our focus on High Performing Teams and supporting Audit Specific Behaviours. You can read more on how we have developed our High Performing Teams focus in the People and Culture section on page 38.

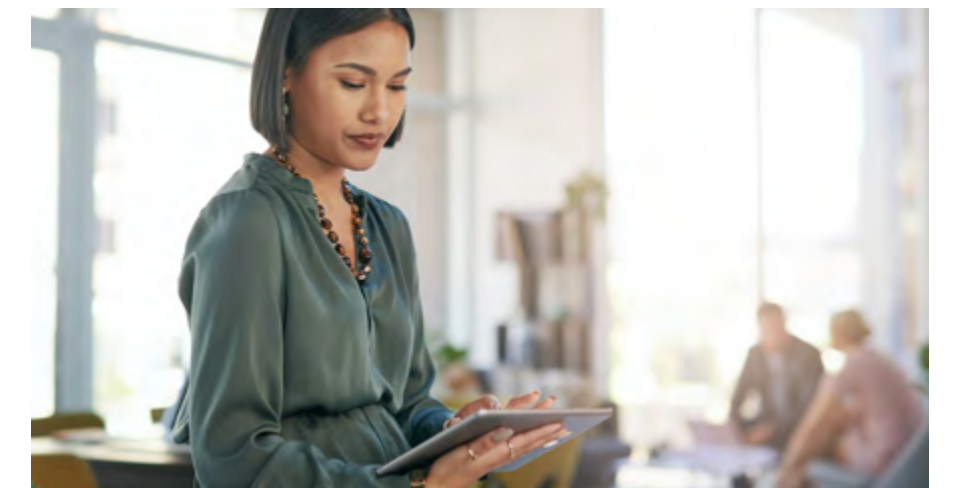
Table 1: BDO's AQR scores



Improving audit quality

Our INEs and Leadership Team (LT) have dedicated significant time to overseeing our SQP and the response to the FRC's public and private reports on our firm. We are constantly revisiting our plans and looking to improve our effectiveness monitoring to provide up-to-date information about the improvements we are making and whether they are achieving the aim of improving audit quality.

As Table 1 demonstrates, in the last AQR report, nine of the files reviewed were rated as 'Good' or 'Limited improvements required'. This was the highest number we have ever had in this category, but we also had four files rated as needing 'Improvements' or 'Significant Improvements'. While the outcome is below our expectations, it demonstrates that our



challenge is not the firm's ability to perform high-quality audits but to carry out high-quality audits consistently. It was encouraging to see a notable increase in the proportion of positive files reviewed but, as both our Managing Partner and Senior Partner observe in their reports, there remains work to be done and recurring problems must be, and are being, addressed.



Controlled, responsible growth

We have just completed the third year of our five-year strategic plan which is based on controlled, responsible growth. The cornerstone of this plan is that we will only grow our audit business at a pace which is consistent with our ability to add resource capacity with high-quality audit staff and specialists, and that we will take active steps to slow or pause that growth if required.

We have been very clear that, as part of the plan, we do not intend to stretch our people or partners beyond current levels; that is simply not culturally how we operate. The resource capacity we have been adding at pace continues to be aligned to our strategic plan.

As part of our implementation of our five-year plan, members of the Audit Executive meet with each Local Head of Audit each quarter specifically to consider 'Controlled Growth' in their part of the business and to ensure we accurately match demand and capacity. This also includes our Extended Delivery Teams strategy, which you can read more about later in this report.

Overall, I believe these steps are having a positive impact on controlling our growth and we remain on track with the objectives in our five-year plan.

Adding capacity

Over the last two years, we have grown our productive capacity from 2.8m chargeable hours in FY21 to 3.5m chargeable hours in FY23. This is based upon increasing our net staff headcount by more than 700 audit professionals, including partners. As part of this, we have recruited almost 30 lateral hire partners from other leading firms to complement our internal pipeline of talent. As a result of this investment, we have reduced utilisation (chargeable hours as a percentage of total hours) not only below the peak in COVID but back to long-term trends.



Shaping our audit portfolio

We have actively managed our portfolio of audit work over the last year by resigning from more than 450 audits and replacing them with just over 100 new wins. This net reduction is consistent with our strategic plan to reduce the number of audits but increase the average size of each individual audit.

As part of our commitment to controlling our growth, we have been discerning about which entities we pitch for and only accept requests to tender where we are confident we have the right teams with relevant experience and sufficient capacity, or the ability to build capacity in time to execute a consistent high-quality audit.

In addition to controls over tenders, we conduct annual portfolio reviews to align our book of work around four common lenses:

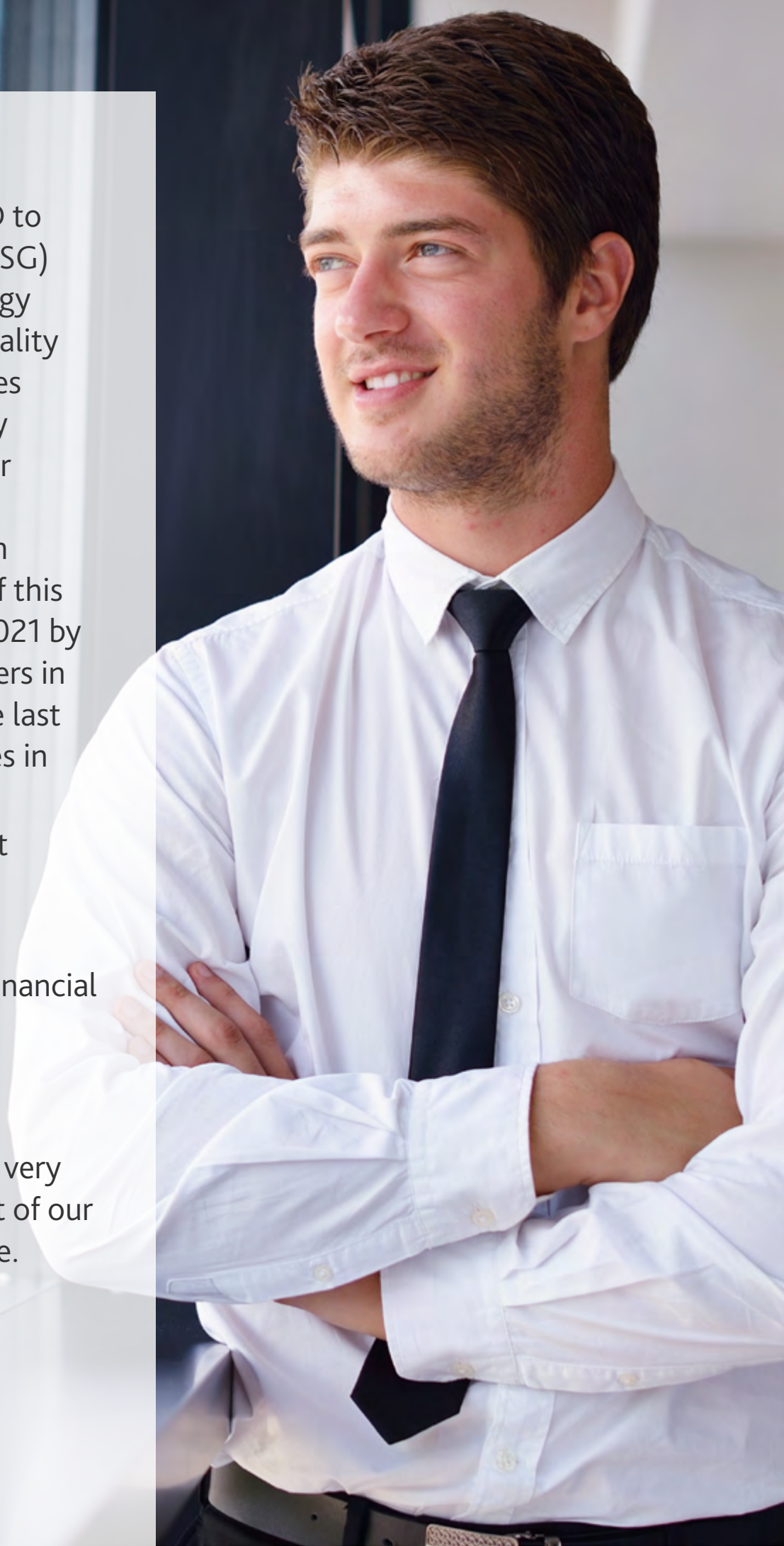
- 01 The **risk profile** of the entity including industry, governance, control environment and transparency.
- 02 The **enjoyment factor** of our people, typically our people enjoy working with interesting businesses that report in a timely manner with good project management and where we are working with management teams that appreciate the importance of a rigorous audit.
- 03 The **strategic fit** with our expertise. We have more opportunities than we could possibly service. Therefore, we focus on those audits which fit our strategic aim to be the leading audit firm servicing the mid-market and to be the market leader in the sectors we target.
- 04 The **economics** of doing business. It is important that we make an appropriate economic return sufficient to cover all the costs of running a high-quality audit business.

Investments in our AQD

In the prior year, we established an AQD to house our Technical Standards Group (TSG) which focuses on standards, methodology and training together with the Audit Quality Improvement Team (AQIT) which focuses on Practice Reviews (our internal quality monitoring programme), live support for engagements, Root Cause Analysis and transition support for first year audits. In doing so, we increased the headcount of this Directorate since its formation in July 2021 by 67% to 131 heads. The number of partners in this group has increased to eleven in the last two years with five specialist lateral hires in key areas:

- ▶ Head of Audit Quality Improvement
- ▶ Root Cause Analysis
- ▶ Internal Practice Reviews
- ▶ Financial reporting specifically on Financial Instruments
- ▶ Audit methodology.

This approved programme of additional investment totals £8m to date. This is a very significant investment and a critical part of our audit quality transformation programme.



Market reform and competition

We believe BDO, as the largest challenger firm, has a critical role to play in shaping the UK audit market. While the timing and scope of legislation is currently unclear, the need for a more competitive and dynamic market for audit services is becoming an increasing issue for UK Plcs. We have increased our market share of the FTSE 250 market to 10%; this is consistent with the aims of our strategic plan. The challenge from the FRC regarding the consistency of our audit quality and correlation to our pace of growth has resulted in us being more cautious regarding the audit engagements we pitch for.

As Table 2 demonstrates, we have a portfolio of public interest audits comparable to the Big Four firms in terms of numbers, but the composition differs significantly with more entrepreneurial businesses that have accessed public markets. This is an important part of the economy, but these entities often make for more challenging audits due to the maturity of their control and governance environment.

Table 2: Number of audits in AQR scope for top 7 firms (source: Tier 1 Firms – Overview FRC)

Firm	Audits in AQR Scope
PwC	385
Deloitte	307
EY	293
BDO	264
KPMG	240
Mazars	98
Grant Thornton	34



As the largest challenger firm, we recognise our public interest responsibility to create a more dynamic and competitive audit market but must balance this against the need to grow our firm in a controlled, responsible manner. This can create understandable frustration from buyers of audit services who want more choice. We are ambitious but need to be selective over the pace of, and nature of, extensions to our public interest portfolio. We believe our current path will provide the platform for that greater choice, but it will take time.

Looking beyond, I know I have the full support of our Senior Partner, Managing Partner, INEs and LT to continue delivering on our strategic plan. We will continue to address the consistency of audit quality, embed the biggest investment programme in our history, and focus on our High Performing Teams programme. We will navigate the opportunities, risks and learning associated with transformational agendas including sustainability and AI; fascinating topics that the strength of our near 3,000 audit professionals will get behind in a way I know I'll be proud to write about next year. My thanks to all of them.

Eamonn McGrath

Report from the Chair of the PIC

I am an INE and Chair of the PIC. My role, and that of my fellow INEs, is to provide constructive challenge to the firm with a focus on public interest.

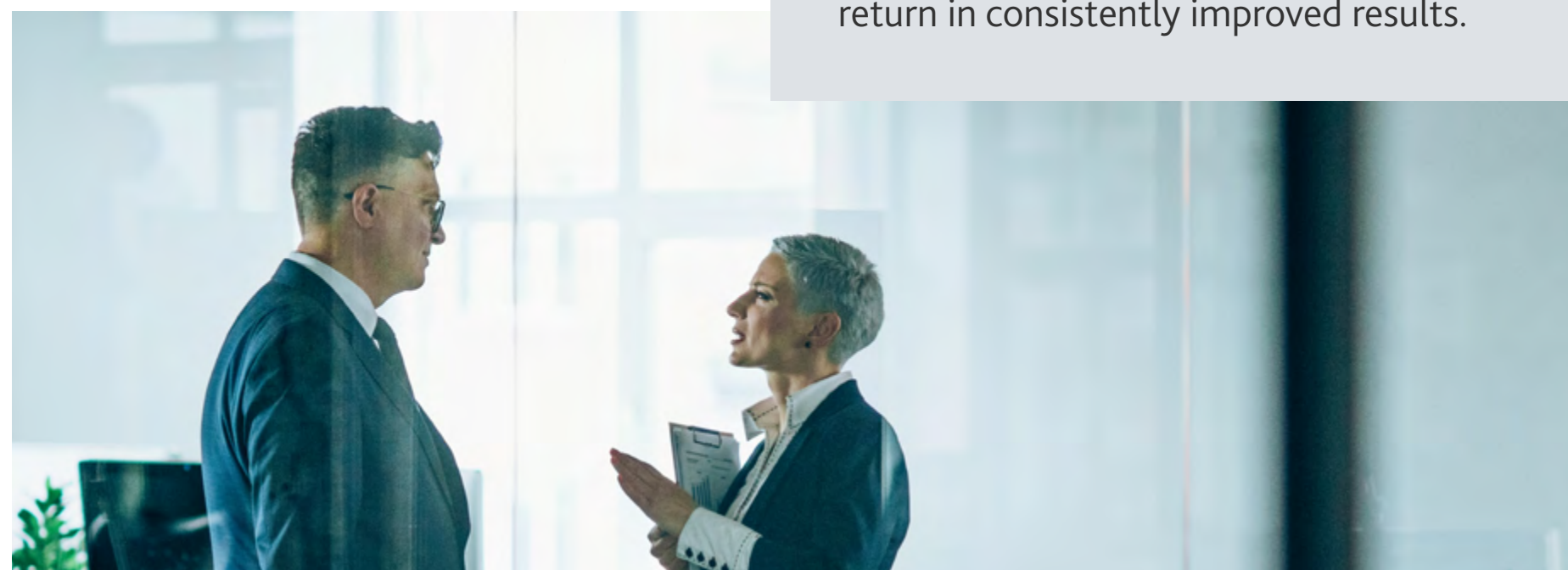


The PIC consists of the four INEs. It met six times during the year and senior members of the firm were invited to attend, including the Senior Partner, Managing Partner, Head of Audit, Head of Quality & Risk and Ethics Partner. Topics discussed during the year are set out in the Governance section on page 16.

But, as the AFGC 2016 indicates, there is a great deal more to an INE's role than formal meetings. We all regularly meet informally with senior members of the firm to maintain open and frank dialogue. The INEs have also maintained our programme of office visits with four regional offices and three sectors within London Audit Group visited over the course of the financial year. We also attend meetings of the Partnership Council (PC) twice a year and, during this past year, we attended the Audit Summit.

From an external perspective, the INEs also met members of the Audit Committee Chairs' Independent Forum as part of our stakeholder engagement. We met with the FRC twice in the last 12 months and participated in its roundtables with the INEs from the other major firms.

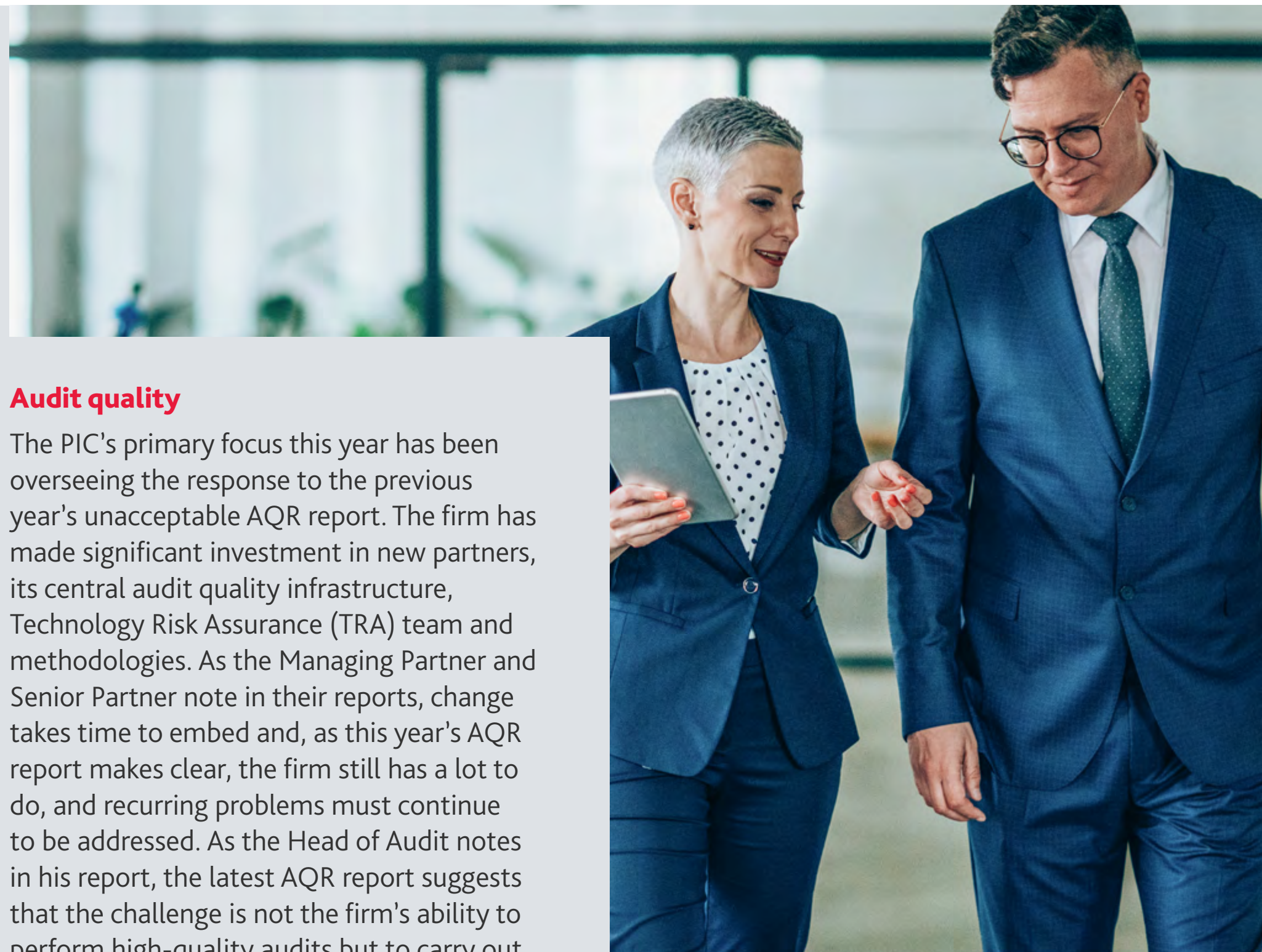
These are the interactions which help us encourage a focus on quality and public interest into all layers of the firm.



Audit quality

The PIC's primary focus this year has been overseeing the response to the previous year's unacceptable AQR report. The firm has made significant investment in new partners, its central audit quality infrastructure, Technology Risk Assurance (TRA) team and methodologies. As the Managing Partner and Senior Partner note in their reports, change takes time to embed and, as this year's AQR report makes clear, the firm still has a lot to do, and recurring problems must continue to be addressed. As the Head of Audit notes in his report, the latest AQR report suggests that the challenge is not the firm's ability to perform high-quality audits but to carry out consistently high-quality audits. Neither the firm nor the INEs are complacent as it will take ongoing investment and attention to see a full return in consistently improved results.

We continue to promote good quality auditing. It is undeniably in the public interest to have a competitive audit market and BDO, as the largest challenger firm, has a significant part to play in this. As INEs, we continue to reinforce this at every opportunity in formal meetings and informal settings; our role is to encourage the firm's leadership and partners to continue to make the changes but also to provide support along the way. Audit quality is on every agenda of PIC and the AB. We have overseen the progress made with respect to the SQP.



The firm's new governance structure, supported by the INEs, has provided a far greater level of oversight of quality and risk management, while the enhanced audit portfolio review process continues to re-shape the firm's portfolio such that the Audit stream can have the capacity and capability to deliver high-quality audits within its chosen market. INEs continue to be invited to attend Acceptance and Continuance Panels for the high profile or riskier clients and audited entities.

Consistent high-quality audits require high performing audit teams and a robust and ever improving audit methodology. As such, we have been pleased to see the firm hiring almost 30 lateral hire audit partners in the last two years, not only bringing the right skill sets into the firm but upskilling those already here with their experience.

We also received presentations on the annual performance and the quality and risk grading process for audit partners, and attended the PC meeting which was held to review and approve the partner profit share process. The INEs were able to challenge the basis of allocating profit share to audit partners and satisfied ourselves that quality was considered during each individual profit share setting process.



As reported by the FRC in this year's AQR report, we are starting to see the fruits of these efforts, though there is still more to do. The presentations we have received from the audit business and the AQR report show improvements, and the INEs are impressed by the firm's efforts to achieve this.

Culture and People

A regular entry on the PIC's agenda is culture; an area identified by the AFGC 2022 as one in which the INEs should take a significant role.

Led by my fellow INE, Russell King, we have recently undertaken a deep dive into what culture means for BDO, and how this can be practically applied to the firm's professional behaviours, processes and procedures.

In its truest sense, culture describes what it feels like to work at BDO. Specifically in audit, we have taken time to understand the firm's four designated behaviours which were introduced in July 2023 (known internally as Audit Specific Behaviours), its core values and its emphasis on High Performing Teams, all of which are outlined further on in this report.

We were pleased to see the firm undertake an independent survey with the respected employee engagement agency, Ipsos Karian and Box, and have received regular updates on the report and subsequent work from the LT. This has been bolstered by findings from BDO's own internal listening programme, also reported to the PIC, to which there were more than 4,600 respondents.



A common theme across both reports and the PIC's work with the FRC is the importance of training in bolstering the ability of BDO's auditors to challenge audited entities and management appropriately, and to both embrace and learn from regulatory reviews. The PIC has been working closely with the Audit stream on how this confidence to challenge management can be instilled across teams, ensuring the firm is recruiting those with desired skills, values and behaviours, and providing them with the skills they need to continue to "Be Bold" in their roles. Initiatives in this area are sizable and include Summer Schools for auditors, mentoring and on-the-job training. Further details of these matters can be found in later sections of this report.

Maintaining a sustainable portfolio

The PIC is also charged with providing oversight of and challenge on how the firm maintains an appropriate and sustainable portfolio of work. As mentioned, INEs are frequent attendees at BDO's Acceptance and Continuance Panels, which look to identify and evaluate any potential risks of a business relationship.

We are also regularly updated on ethics and whistleblowing, including the many initiatives and policies implemented across BDO pertaining to these issues, and their effectiveness.



Governance and oversight

The past couple of years have seen the firm undertake a comprehensive and firmwide review of its governance. Taking an active role in this process, the PIC is satisfied that this was performed effectively and agrees with the changes enacted as a result.

A key driver behind the governance review and subsequent changes, besides a desire to improve quality across the firm, was the need to comply with the AFGC 2022. The INEs have overseen the gap analysis undertaken by the firm to identify any changes or additional requirements requiring implementation ahead of 1 July 2023. According to the information presented to us at PIC, we are satisfied that the firm was compliant with the AFGC 2022 for the start of our new financial year.

ISQM(UK)1

During the year, the PIC has also reviewed the firm’s approach to implementing a SOQM in compliance with ISQM(UK)1. This new standard represents a significant change from its predecessor, International Standard on Quality Control (UK) 1 (ISQC(UK)1), requiring proactive identification of risks, the detailed design and implementation of responses to mitigate those risks, and enhanced monitoring, testing and timely and effective action.

The PIC has monitored the firm’s progress towards implementing the SOQM required by ISQM(UK)1.

Resilience

We receive regular presentations from the BIOB on the financial health of the firm, including updates on bank facility renewals and insurance claims. We are also involved in the biannual ‘Top Risk’ review, a process whereby the LT reflects on the changes in the risk environment, identifies potential issues and measures the level of local and global risk the firm is facing.

As part of understanding this global landscape, the PIC also received a presentation from the BDO Global CEO, Pat Kramer, on his global vision for the network, and more specifically, audit quality. We were able to challenge him on the vision and steps taken on audit quality.



Looking beyond

Though the firm is heading in the right direction, there is still much more to do. With geopolitical challenges increasing across the globe, a cost-of-living crisis and building pressure on sustainability, expectations on businesses are far greater. As INEs, we are very aware of the risks and opportunities posed by some of the market forces mentioned by the Managing Partner in his report, for example, sustainability, ESG and emerging technology such as generative AI. Both ESG and AI are already locked in to our FY24 PIC agendas for further discussion, oversight and challenge.

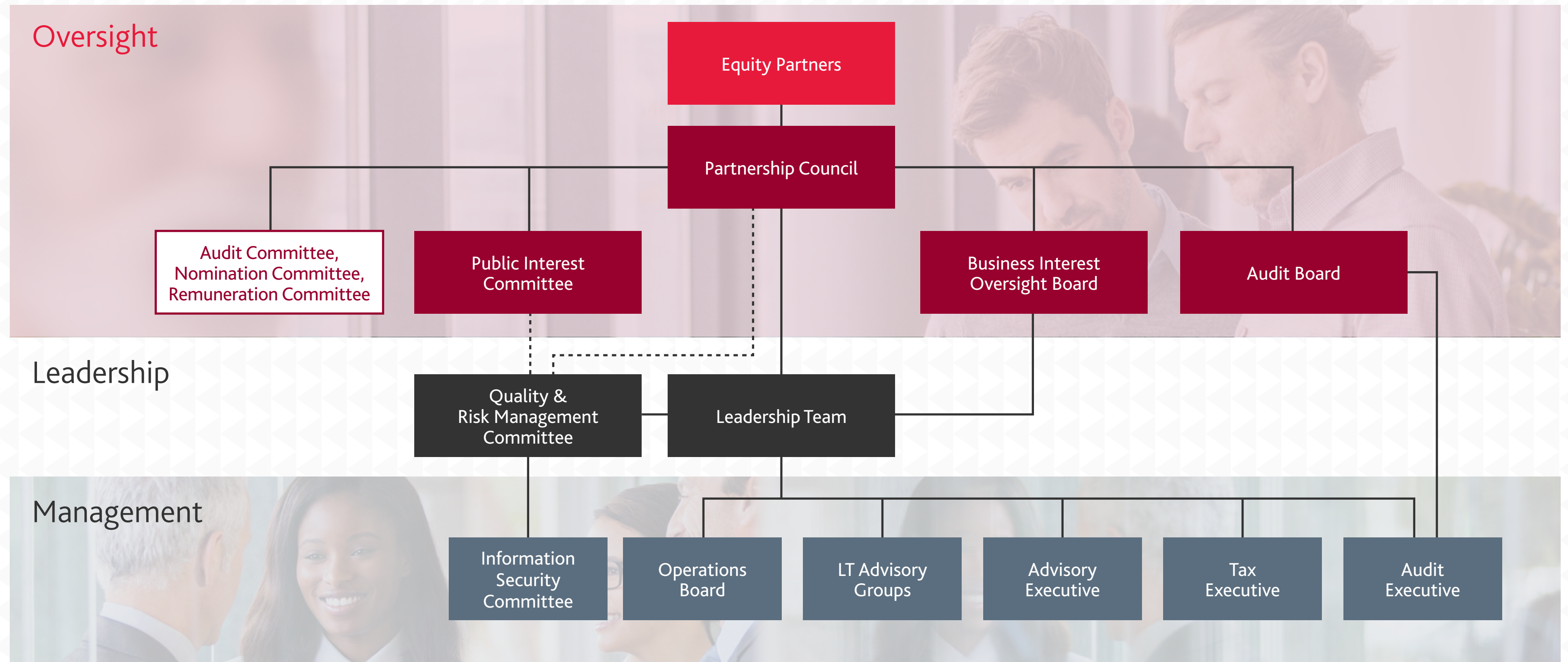
Now more than ever, the firm must uphold public interest and continue to perform as the effective challenger the public deserves. The INEs look forward to playing their part in overseeing this journey.



Governance

Good governance is not only a regulatory imperative but gives us a platform to run our business effectively and efficiently. It allows high quality strategic decision making and supports our commitment to serve the public interest by consistently performing quality engagements.

At BDO our governance structure is visually represented as follows:



Governance

Activities of the oversight and leadership bodies – summarised

Following the changes to the governance structure last year, this year the oversight and leadership bodies have embedded these changes and purposefully built processes around them to support and enhance the new structure. By doing this, we have increased the level of oversight and challenge brought by the oversight bodies and allowed them a greater degree of influence over the firm's management.

Looking forward, we have been putting in place measures to ensure compliance with the AFGC 2022 which took effect from 1 July 2023.

This section summarises this year's activities.

Partnership Council (PC)

PC is the ultimate governing body within the firm. It is chaired by the Senior Partner and has 12 elected members, chosen by the equity partners. It has a full, formal meeting every other month and, in the alternate months, PC meets to discuss "hot" topics. PC can also be convened at short notice to discuss any urgent matters as and when they arise.

The Senior Partner is elected by the partners to hold office for a term of four years commencing from 1 October in the year in which they are elected. The Senior Partner is not eligible for election for more than two consecutive terms. For the duration of their time in office, the Senior Partner chairs PC. Partners initially serve a four-year term, following which they can stand for re-election. At the end of their consecutive second term, they must stand down.

During the course of the year, seven new members have joined PC and eight left: two left as a result of partner retirements and the other six changes arose as the individuals had completed two full terms in office or were taking up management roles within the firm and, accordingly, could not also hold an oversight role. Short biographies for PC members as at 30 June 2023 are set out at Appendix H.

PC's purpose is to ensure the firm's management activities align to its purpose, values and strategic framework. It also protects the equity interests of the partners, recognising the interests of both individuals and the collective body of equity partners. It has overall responsibility for governance matters.

This year, in order to fulfil that purpose, it has considered the following topics:

- ▶ Firm strategy and development plans
- ▶ Quality at a firm-wide level, including the firm's progress with implementing ISQM(UK)¹
- ▶ Sustainability and ESG, with a particular focus on the firm's plans regarding Net-Zero and its current ESG priorities
- ▶ New Governance KPIs
- ▶ The firm's plan to transition to AFGC 2022
- ▶ Profit share process
- ▶ Partner succession and the partner promotion process
- ▶ Proposals to enhance the Internal Audit function within the firm.

It also receives regular formal updates from the other oversight Boards (by way of formal "reporting up" memos) and matters discussed at LT. It can raise questions and challenges to the other Boards based on these reports.

Twice a year, the firm's INEs attend a PC meeting and they provide their views on the firm's management, regulatory matters and compliance with the AFGC 2016.

Between meetings, individually selected PC members may be asked to investigate disciplinary matters involving equity partners, lead particular projects (for instance, the firm's implementation of the AFGC 2022) or sit on interview panels for the recruitment of partners into all areas of the business.

PC has a number of Boards / Committees which report into it. The AB, BIOB and Audit Committee (AC) are the most significant and active of these and they are each considered in turn below.

The Nomination Committee (NomCo) and the Remuneration Committee (RemCo) meet more infrequently and in accordance with their Terms of Reference. RemCo meets during the profit share process each year to oversee the performance review process and related profit sharing for the Senior Partner, Managing Partner and the members of the LT. NomCo meets, as required, to consider the appointment of new INEs and a new Managing Partner and Senior Partner.

Governance

Business Interest Oversight Board (BIOB)

The BIOB is a sub-board of PC. It is chaired by the Senior Partner and its members comprise the Ethics Partner, two INEs and two members of PC. It meets every other month but can also be convened at short notice should the need arise.

The PC members are selected by a formal interview conducted by the Senior Partner and the two INEs who sit on BIOB. PC members then serve a two-year term, following which they can stand for re-selection for a further two-year term as long as they have been elected as PC members for that period as well. The INEs, Ethics Partner and Senior Partner will remain members for their respective terms of office. The two INEs are selected by aligning individual skillsets to the BIOB's Terms of Reference. There have been no membership changes during the course of this year. Short biographies for BIOB members as at 30 June 2023 are set out at Appendix H.

The BIOB's purpose is to hold management to account and provide appropriate challenge in relation to financial matters, the strategy for the Tax and Advisory streams and the work of the Operations Board (which oversees the firm's practice management departments (PMDs)).

This year, to fulfil that purpose, it has considered the following topics:

- ▶ Review of Advisory stream strategy
- ▶ Review of Tax stream strategy
- ▶ Review of LT's deep dive into sub-streams within the Advisory stream
- ▶ Operations Board priorities and strategy
- ▶ Quality matters arising from the Tax and Advisory streams
- ▶ Budget for the financial year and financial progress throughout the year
- ▶ IT strategy, including a detailed review of the firm's cyber information security provision
- ▶ Tax and Advisory streams' partner pipelines.

Audit Board (AB)

AB is an oversight board which reports to PC. It is chaired by the Senior Partner and its members comprise the Head of the Audit stream, two INEs (both of whom come from Big Four audit backgrounds) and an additional audit partner selected by the Head of the Audit stream in conjunction with the Senior Partner (and based on relevant skillsets). This year that additional audit partner, Andrea Bishop, has been consistent for all of the meetings and she is also a member of the Audit Executive. The AB meets every other month but can also be convened at short notice should the need arise.

The Head of the Audit stream, the INEs and Senior Partner will remain members for their respective terms of office. The additional audit partner may, from time to time, be rotated at the discretion of the Head of the Audit stream in consultation with the Senior Partner. This year, in September, Andrea Bishop became a permanent member of the AB. Short biographies for AB members are set out at Appendix H.

The AB's purpose is to oversee the strategy, performance and operations of the firm's Audit stream.

This year, in order to fulfil that purpose, it has considered the following topics:

- ▶ Audit stream's strategy
- ▶ Audit quality, with a particular focus on the firm's development of its Root Cause Analysis capability, the audit quality infrastructure, the transition to the SQP
- ▶ Individual quality matters as and when they arise
- ▶ Investment in TRA and Digital
- ▶ Approach to setting audit methodologies, in particular revenue
- ▶ Understanding the implications of ESG on audits
- ▶ Public Sector audit
- ▶ Audit stream budget and financial progress throughout the year
- ▶ Audit stream partner pipeline
- ▶ Plan for the Audit stream Summer School.

Governance

Audit Committee (AC)

The AC is a sub-committee of the PC. It is chaired by a member of the PC and its members comprise two further members of the PC (proposed by the Senior Partner, by reference to relevant skillsets for the role, and approved by PC), the Senior Partner and one of the firm's INEs. It usually meets five times a year and those meetings coincide with the firm's reporting cycle.

All the AC members will remain members for their respective terms of office. During the year Tim West completed his term of office on the PC and, accordingly, stood down from the AC. He was replaced by Arbinder Chatwal as a new member. Short biographies for AC members as at 30 June 2023 are included at Appendix H.

The AC is responsible for independent oversight of the firm's financial reporting, interaction with the external auditors and oversight of the firm's internal audit function.

This year, in order to fulfil that purpose, it has considered the following matters:



- ▶ A review of the FY22 Transparency Report
- ▶ A review of the FY22 group financial statements of BDO LLP
- ▶ The findings from the work of the firm's external auditor
- ▶ Reviewing and agreeing the Internal Audit Plan for FY23
- ▶ Reviewing the findings and recommendations from the work of the Internal Auditors
- ▶ Initiating and then considering the findings from a review of the Internal Audit Function.

Public Interest Committee (PIC)

The PIC membership comprises the firm's four INEs and it is chaired by Eamonn McGrath. It meets every other month but can also be convened at short notice should the need arise. You can read Eamonn's report for the year on page 10.

The INEs are members of the PIC for their respective terms of office. There have been no membership changes during the course of this year. Short biographies for the INEs as at 30 June 2023 are set out at Appendix H.

The purpose of the PIC is to enable the INEs to perform their duties under the AFGC 2016, to consider public interest matters that affect the firm and to enhance stakeholder confidence in the public interest aspects of the firm's activities.

This year, in order to fulfil that purpose, it has considered the following topics:

- ▶ Quality and risk issues arising within the business streams which could impact on the firm's reputation or the public interest

- ▶ Processes relating to the implementation of ISQM(UK)1
- ▶ Audit quality, with a particular focus on the development of the SQP
- ▶ The firm's annual reporting, including the Transparency Report
- ▶ BDO Global's strategy with a focus on any planned investments and its approach to international regulatory developments
- ▶ Ethics and whistleblowing matters
- ▶ The firm's culture and the culture of quality within the Audit stream
- ▶ People, values and behaviour with a focus on recruitment and retention strategies to support High Performing Teams
- ▶ Interactions with the regulator and other stakeholders including audit committees of audited entities and the Investment Association
- ▶ Reputation and how it can be secured more widely for both the audit and non audit business
- ▶ Implications of professional services market activity.

Governance

Leadership Team (LT)

The LT is the leadership body within the governance structure which provides executive leadership to the firm. It is chaired by the Managing Partner who then selects their team of individuals to serve on the LT which is then approved by the PC. The Managing Partner is elected by the partners to hold office for a term of four years commencing from 1 October in the year in which they are elected. The Managing Partner is not eligible for election for more than two consecutive terms. There is no minimum or maximum number of members of the LT and, at present, there are eight equity partner members, including the Managing Partner. The composition must, however, reflect the needs of the business in terms of skills and behavioural attributes. There is no limit to the number of terms that a partner may serve on the LT. At the start of the year, Kaley Crossthwaite (with LT responsibility for Quality and Risk) and Anna Draper (as Head of Partner Engagement and Development) joined the LT. There have been no further changes to the LT membership during the course of the year. Short biographies of all LT members as at 30 June 2023 are set out at Appendix H.

The purpose of the LT is to design and drive strategy for the firm, promote the firm's brand and culture, take ultimate responsibility for the firm's SOQM and support the firm's partners and people to succeed. In pursuing this purpose, the LT oversees other bodies within the management and leadership layers of the governance structure.

This year, to fulfil its purpose, it has considered the following topics:

- ▶ Implementation of ISQM(UK)1
- ▶ Implications for the firm's strategy as a result of professional services market activity and the economic environment
- ▶ A review of alternative delivery models
- ▶ Creating a culture of challenge in the business
- ▶ Sustainability and Net-Zero ambitions
- ▶ Progress with stream strategies
- ▶ Progress with Operations Board priorities
- ▶ Partner engagement and development
- ▶ Firmwide listening programme results
- ▶ External reporting
- ▶ A variety of regulatory matters.



These have been in addition to regular standing agenda items to discuss Quality & Risk matters, strategic priority updates, partner matters, BDO Global updates, budgets and reforecasts and other finance and operations matters.

As well as the regular 'business as usual' meetings (generally held twice per month during the year), the LT also meet to undertake annual profit sharing for the equity partners in the summer and hold specific strategy days on three occasions across the year to support the ongoing development of our strategic framework and strategy.

Quality and Risk Management Committee (QRMC)

During the course of the year the QRMC was a leadership body which reported to the LT. It was chaired by the Head of Quality and Risk Management (now retired) and its members included those partners within streams with responsibility for Quality and Risk, other partners with relevant Quality and Risk expertise and other experienced partners with a remit to provide challenge. There was no minimum or maximum number of members. From 1 July 2023, the QRMC was disbanded and a new Quality & Risk Executive has been formed which will have the remit of promoting a quality and risk management culture throughout all areas of the firm. We will report on the activities of the Executive in next year's report. For completeness, however, we provide meeting attendance statistics for the QRMC at Appendix I.

The purpose of the QRMC was to promote a quality and risk management culture through the firm that was based on relevant laws, regulations and standards as well as the firm's values, purpose and quality cornerstones.

This year, to fulfil its purpose, it considered the following topics:

- ▶ Review and refresh of the Top Risks of the firm (see Appendix F)
- ▶ Approval of updates to the Enterprise Risk Management Policy, risk appetite statement and supporting methodology
- ▶ Review and updates on key regulatory and compliance matters, including audit quality, ethics and economic crime
- ▶ Review and updates on risk management matters as reported by stream and PMD leaders including through presentations, risk register updates and risk reports
- ▶ A review of the FY22 Transparency Report
- ▶ Updates on key risk matters affecting BDO Global and consideration of their potential impact on the UK firm.

Governance



AFGC 2016 compliance and our transition to the AFGC 2022 – progressing

We have fully complied with the requirements of the AFGC 2016 and our statement confirming this compliance is set out at Appendix K. Where appropriate, we have also considered and adopted good governance practices under the UK Corporate Governance Code 2018 (CGC 2018). For instance, when we updated our Governance KPIs we reviewed and considered relevant sections of the CGC 2018.

Following the FRC's publication of the AFGC 2022, we purposefully initiated a project to review our governance practices in line with the AFGC 2022 to identify any gaps. Following this gap analysis, and in order to look forward to implementation of AFGC 2022 from 1 July 2023, we have tightened our governance processes in a number of respects. In particular, we have:

- ▶ Updated the Terms of Reference for each of the oversight bodies and refocused agendas for these bodies on the requirements of the AFGC 2022
- ▶ Set new KPIs for each oversight body
- ▶ Introduced some additional training for members of oversight boards in recognition of the difference between performing a management role and an oversight role
- ▶ Initiated annual self-assessments for all the key oversight bodies.



Governance

Governance KPIs – embedded

During the year, we introduced new KPIs which were approved by the oversight bodies in January 2023. These are set out in Table 3 with their current status and how we have performed against them in the period January – June 2023.

Table 3: BDO's Governance KPIs

KPI	Status	Performance
Board composition		
The following KPIs apply to each oversight body individually:		The Terms of Reference have been followed for each body and meeting attendance has exceeded the KPI (see Appendix I). INEs have been matched appropriately to the oversight bodies with regard to their skill sets and expertise. PC members have been elected based on manifestos in which they set out their skillset and the expertise they would bring to an oversight position and following discussion with existing PC members who checked the suitability of the candidates.
▶ Each body should be constituted in accordance with its Terms of Reference	✓	
▶ Members of each body should attend at least 75% of the meetings held during the year	✓	
▶ Relative to the responsibilities required for each body, Members should collectively bring the appropriate skillset, knowledge and expertise.	✓	
Board effectiveness		
▶ Each oversight body considers the matters delegated to it in its own Terms of Reference	✓	Annual meeting planners and individual meeting agendas take into account each body's Terms of Reference and the requirements of the AFGC 2016. Following a gap analysis, the firm has aligned its oversight bodies with the requirements of AFGC 2022. Minutes are prepared for each meeting and circulated to members for approval shortly after the meeting and an action log is maintained for each body and updated between meetings.
▶ Collectively, the oversight bodies fulfil the requirements of the AFGC in place at the relevant time, in particular with regard to taking account of the public interest in their decision-making, promoting audit quality and safeguarding the sustainability and resilience of the audit practice and the firm as a whole	✓	
▶ Each oversight body prepares comprehensive minutes of matters discussed and agreed at each meeting	✓	
▶ Actions agreed at each meeting are logged and followed up appropriately.	✓	
Quality and Risk		
Collectively, the oversight bodies review and, where appropriate, challenge the firm's:		During the year, the PC and the PIC have reviewed the firm's processes for implementing ISQM(UK)1. The AC reviewed and considered the internal audit of the firm's risk management processes and further monitoring of the firm's internal controls will be considered during FY24. The INEs provided input into the firm's analysis of its top risks which will also be considered in greater detail by PC in FY24.
▶ Monitoring of ISQM(UK)1	✓	
▶ Monitoring of its internal controls and, particularly, any notable failings in this area	Partial	
▶ Approach to identifying and mitigating its top risks.	Partial	

Governance



Table 3: BDO's Governance KPIs (continued)

KPI	Status	Performance
Our values and culture		
Collectively, the oversight bodies review:		The BIOB and the PIC have considered the results of listening surveys and recommended actions for the LT's consideration. The PIC and the AB have also reviewed the firm's work on culture and, particularly, its development of its audit culture and Audit Specific Behaviours to support High Performing Teams.
▶ The results of people surveys conducted throughout the year and make recommendations based on these results to Leadership and Management	✓	
▶ The work of the Culture of Quality Team and the Audit Culture Committee and make appropriate recommendations.	✓	
Our stakeholders		
▶ The Senior Partner (who is ultimately responsible for the firm's governance) meets separately with the firm's regulator at least twice a year	✓	Regular meetings have taken place between the INEs and the FRC and also between the FRC and the Managing Partner, Head of Audit and Senior Partner (both as a group and individually). The Transparency Report was reviewed extensively by the AC, the AB and the PIC and substantive comments were received from a number of senior stakeholders within the oversight and leadership levels of the firm. The INEs are positioned within the governance structure having due regard to their expertise. Those with an auditing background sit on the AB and those with extensive business experience from other sectors sit on the BIOB.
▶ The oversight bodies between them provide input into, review and comment upon the Transparency Report which is then shared with the public at large on the firm's website annually	✓	
▶ The firm appropriately leverages the skills and expertise of the INEs by positioning them effectively within the governance structure so that they can provide external perspective to the firm's reports, consultations and decision making	✓	
▶ The INEs meet with the regulator throughout the course of the year and participate in round tables organised by the regulator.	✓	

Governance

Self-assessments for the oversight bodies – implemented and underway

We commenced self-assessments for the oversight bodies in June 2023 and, at the time of writing, they are ongoing. The bodies are operating well and the processes for managing a smooth and efficient flow of information between management, leadership and oversight layers and across the oversight layer are operating well. We will continue to focus on agendas to ensure they are targeted to the purpose of each of the bodies, thus reducing duplication of information and increasing efficiency in the process.



Internal Audit – reviewed and to be strengthened

We recognise that an important function of governance is to provide appropriate checks and balances over processes and procedures within the firm.

Following the implementation of the new governance structure in 2022, we purposefully chose to conduct an internal audit of governance within the firm itself. The internal audit report noted a number of instances of good practice, particularly effective challenge of management by the oversight boards, improved oversight over audit quality following the creation of the AB, and robust agenda planning and detailed minuting of meetings. That said, we continue to be on a journey with respect to our governance arrangements, particularly asserting the PC as the firm's Board (with greater control over the sub-boards and their agendas) and an increasing need for more in-depth governance training for those transitioning to oversight roles which will also support succession in this area.



This year, we have deliberately chosen to increase the size of our own internal audit team and, at the time of writing, have just appointed a new Head of Internal Audit.

Governance at a global level - reviewed

We are part of a global network and, as such, there are international governance matters to consider and take into account as well.

The Managing Partner sits on the BDO Global Board and attends five in person and/or hybrid meetings each year, with some additional calls scheduled from time to time. During the year, the Global Board has considered a number of governance related topics including:

- ▶ Quality
- ▶ The implementation of International Standard of Quality Management 1
- ▶ Member firm admissions and departures
- ▶ Implications for the network as a result of professional services market activity
- ▶ Global independence matters
- ▶ Referral mechanisms
- ▶ Outsourcing delivery models
- ▶ Regulatory matters
- ▶ Sustainability.



The PIC has engaged with BDO Global's CEO, Pat Kramer, and Basile Dura, the Global Head of Risk, Quality and Governance to understand the regulatory and governance issues impacting the network and the likely investments which the network may look to make in the coming months and years to support these.

Governance

Sustainability and ESG

Perhaps there can be no better articulation of how we see Sustainability and ESG interlinking with the Public Interest than the theme of this very report: *Looking beyond, with purpose*.

Positive and sustainable ESG performance is imperative to demonstrate our impact on the people and planet around us. It's how we are, and will be, judged by the public interest to be a responsible business. At BDO, 'Sustainability and ESG' is not an initiative, programme or reporting requirement. It's a guiding principle that we need to embed into our entire strategic framework to guide how we act and make decisions as a firm that is focused on responsible growth. Our response has been to weave the sustainability and ESG agendas into aspects of the way we do business, advise clients, carry out audit engagements, and attract and retain talent.

In the last year, the urgency of taking action on climate has been underlined by severe weather events and record-breaking temperatures across the globe. Over those last 12 months, we have published our [Transition to Net-Zero roadmap](#), submitted it to the SBTi for validation (which we received in August

2023), and directed our energies to halving our emissions by 2030. We have invested in and launched a Sustainability and ESG Hub, out of our Advisory stream, to offer the business world support and advice on their own sustainability transitions. And we have conducted our first ESG Materiality Assessment and prepared for our first Climate-Related Financial Disclosure as a firm, which has helped guide our ongoing decision-making.

To guide us through these commitments and investments, we have recruited two new Sustainability and ESG Leaders, working in lockstep: Professor Simon Pringle, who heads up our ESG Hub to offer sustainability services and advice to businesses; and Claire Snowdon, who heads up our own operational ESG commitments and actions.

We have also expanded our language and horizons to include both Sustainability and ESG. 'Sustainability' is the direction we are heading: society and our planet need all business leaders to run sustainable organisations. 'ESG' represents the agendas, metrics and frameworks that we must consider on our way. Both are important to make the right progress.

Helping our people, society and the planet succeed needs to be a collective effort. These are global agendas that require global solutions. Our Senior Partner sits on our BDO Global Sustainability Steering Group, and we have purposefully asked BDO UK partners and colleagues to work collaboratively with their international counterparts to create clarity on the work we do for clients and audited entities in these areas, and to take a leading role supporting our global network to develop their Net-Zero roadmap with the collective aim of BDO internationally becoming Net-Zero by 2050 or sooner.

You can read more detail about our ESG services and our own operational impact in Appendix A.

Looking beyond

As the firm continues to grow, similarly our governance processes will not stand still. In FY24, we are looking forward to embedding the requirements of the AFGC 2022 within the fabric of the oversight, leadership and management structures within the firm. We believe that these guiding principles will further enhance how we govern ourselves and, in particular, provide greater clarity to our INEs over their roles within the firm so that we can better utilise their skills.

We are also looking forward to designing and starting to establish a new training programme for those partners within the firm carrying out oversight roles to widen their skills in this area so that they are better equipped to perform their roles and, in doing so, serve the public interest.





Audit Quality



We have made significant investment and implemented a wide-ranging audit quality transformation programme over the past two years focused on strengthening our system of quality management. Embedding these changes is key to driving consistent high-quality audits.

Ryan Ferguson
Head of Audit Quality & Risk

As a firm, we are committed to serving the public interest by consistently performing high-quality audits. Central to delivering on this commitment is the strengthening of our SOQM to proactively identify and respond to risks to quality, to drive continuous improvement and to support our audit teams in achieving consistent high-quality audits across our entire portfolio.

An important element of this has been, and will remain, investment in our central audit quality infrastructure while embedding and further building upon the significant changes made in recent periods. Key elements are outlined in this section, from details of the extent of the significant investment programme and establishment of the SQP to prioritise quality improvement actions through to the progress of our methodology projects and enhanced Root Cause Analysis framework.

Audit Quality

Our AQD

We recognise the important role that senior technical, quality and risk specialists play in providing an environment that supports and enables quality through our central audit quality function.

This team is called our AQD, which is led by the Head of Audit Quality & Risk, who is also a member of the Audit Executive. Through the AQD, we are implementing our approved programme of additional investment totalling £8m to date, which has included the recruitment of five additional partners into the AQD and a 67% expansion of the team since its formation in 2021 to provide significantly increased capacity and expertise to support the increased scale and complexity of our audit portfolio.

The AQD comprises the TSG and AQIT.

The TSG is responsible for audit tools, audit methodology, technical training, consultations and Financial Reporting Advisory.

The AQIT comprises eight subgroups:

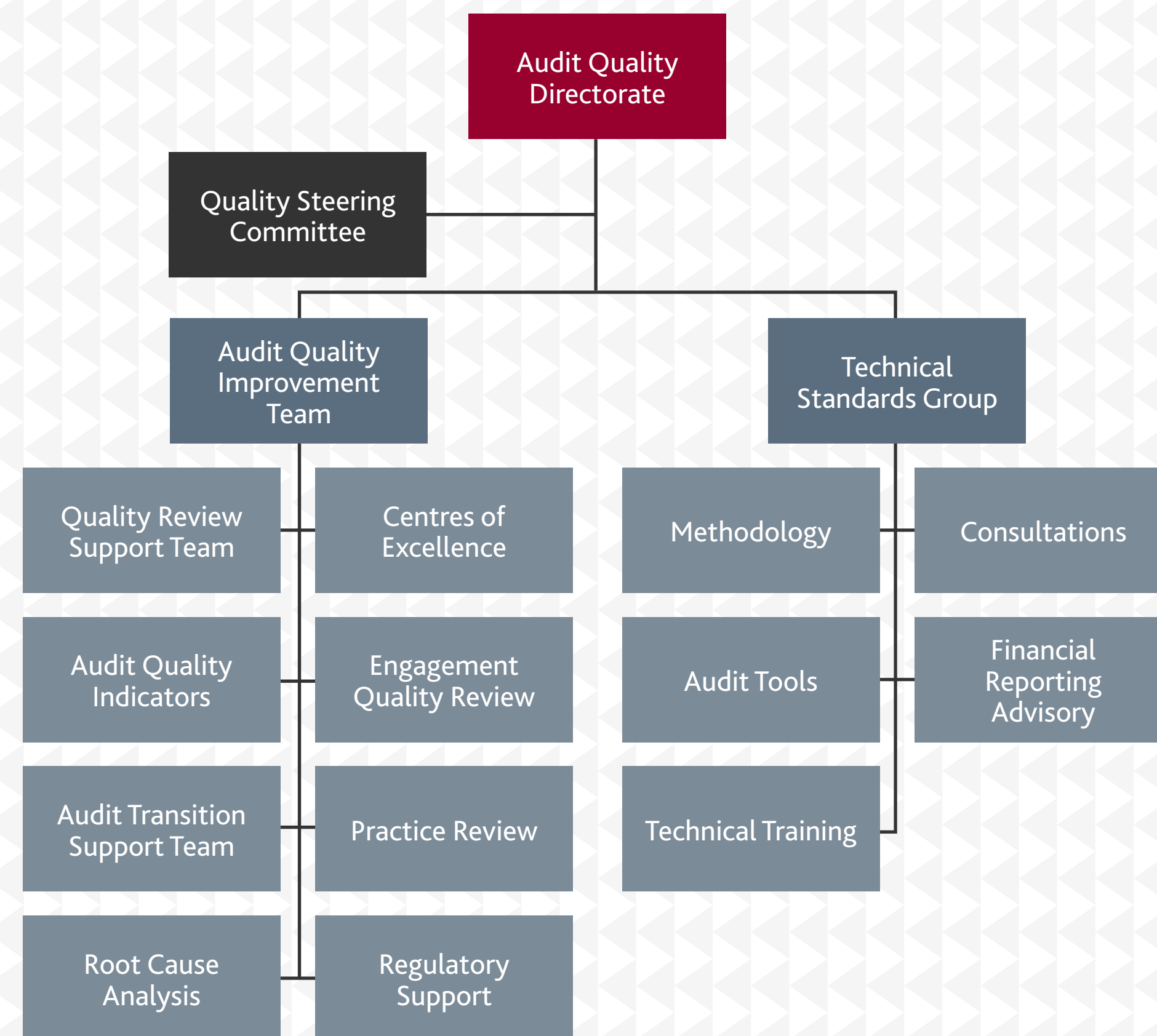
- ▶ In-flight Quality Review Support Team (QRST)
- ▶ Centres of Excellence
- ▶ Monitoring of Audit Quality Indicators (AQI)
- ▶ Engagement Quality Review
- ▶ Audit Transition Support Team
- ▶ Internal quality monitoring through the Practice Review
- ▶ Root Cause Analysis
- ▶ Regulatory support for external inspections and supervision.

Each subgroup plays a different role in our continuous improvement journey and they come together to drive audit quality.

The Quality Steering Committee comprises members from the AQD and Audit stream and supports the development of the SQP, the strategic Audit Quality Plan and implementation and monitoring of actions. The newly formed Action Committee evaluates proposed actions to enhance audit quality arising from Root Cause Analysis.



The overarching focus of the AQD is enabling the Audit stream to deliver consistent high-quality audits through the provision of methodologies, learning and tools and by supporting engagement teams in the audit of complex areas or on high-risk audits, while monitoring audit quality and driving continuous improvement through targeted actions.



Audit Quality

Our ongoing story of audit quality

We commenced our audit quality transformation programme to provide strategic focus on continuously improving our SOQM to enable the delivery of consistent high-quality audits. While we have laid the foundations and made progress in a short period of time there remains work to do and we set out below areas that have represented some of the key priorities that we believe will come together to underpin quality improvement as our story of audit quality continues.



Our SQP – developed

We have developed a SQP, as required of all Tier 1 firms by the FRC. This is used to support both the firm's overarching framework to drive audit quality, the strategic Audit Quality Plan, and our response to regulatory findings, as it assists in monitoring the progress of key actions to improve audit quality and the evaluation of effectiveness of those actions. The SQP is an important tool that allows us to monitor, prioritise and evaluate progress to continuously improve audit quality over time.

We provide a summary of the firm's action plans within our SQP monthly update to our leadership and oversight bodies, with a focus on those actions mapped to a priority area. This allows key stakeholders to monitor progress against (amongst other things) the commitments we have made both internally and also to our regulators to improve audit quality. Actions have been subject to oversight and challenge by the Audit Executive, LT, AB and PIC and revised accordingly.

The SQP documents our priority areas, which our Head of Audit and Head of Audit Quality & Risk assess at least every six months. We have engaged throughout the period with the FRC to obtain their input to the SQP as it developed and continue to find this engagement positive and valuable. The priorities within the SQP necessarily evolve and adapt to respond to internal and external quality findings and indicators and include areas highlighted by the FRC as requiring focus and prioritisation. Currently these include:

1. Controlling growth and portfolio
2. Linkage of reward and recognition with quality
3. Project management and review
4. Challenge of management
5. Enhancing the audit of revenue
6. Methodology including Financial Services and related balances
7. Strengthening inflight quality review
8. Root Cause Analysis
9. Strengthening Practice Reviews.



Actions included within the SQP are developed and mapped against these priority areas.

Having undertaken a suite of audit quality initiatives, the embedding of actions, and assessing their effectiveness and progress is a priority for us in the year ahead. We are developing our approach to evaluating the effectiveness of our actions. This will include both quantitative and qualitative effectiveness measures to determine whether the action taken has addressed the identified risk or whether additional actions are required.



Audit Quality

Acceptance and continuance – strengthened

We continue to be deliberate and selective about which audited entities we choose to work with, as we focus on improving our portfolio – which we term our ‘book of work’ – and execute on our strategy of controlled, responsible growth to ensure we have the resource capacity and capability to deliver consistent high-quality audits across our portfolio. During FY23 as part of this strategy of controlled, responsible growth, we resigned from over 450 audits, replacing them with approximately 100 new audits and declined to tender for over 500 opportunities.

Through the year, we have continued to embed our ‘Four Lenses’ approach to evaluating opportunities and existing audits; being strategic fit, risk, the enjoyment of our teams and economics. We are embedding this mindset through activities such as roundtable events with partners hosted by the Audit Executive, sessions focused on the ‘Four Lenses’ approach in the national Audit Summit event and by embedding it into the continued portfolio reviews held with each Responsible Individual (RI).

We have continued to embed and develop our tender approval policy whereby all new opportunities require approval by the relevant Regional Head of Audit or London Audit Sector Leader. This includes assessment as to whether sufficient and appropriate resources are available for the opportunity or can realistically be secured in the timescale available. Plus, tenders above certain size criteria or those that are designated as higher risk under predetermined criteria (including Public Interest Entity (PIE) audits) require approval by the Audit Executive. Policies have also been implemented requiring BDO Global approval for the largest tenders.

We have further enhanced the online platform we use to facilitate review and control approval of tender opportunities. This has expanded the breadth of information required as part of the approval process, considering factors such as the availability of appropriate resources, the risks associated with the entity and our capability to deliver the audit including engagement team experience and required specialists and experts.

Engagement continuance is considered annually with particular regard to any changes in circumstances, risk or other relevant factors. Acceptance and Continuance Panels are undertaken for audits that meet pre-defined risk criteria involving senior leadership and, where appropriate, our INEs to provide scrutiny and challenge to the process.



The firm conducts an annual portfolio review exercise, considering each RI’s portfolio, including a risk assessment of engagements to inform the allocation of central audit quality support. This process has been further enhanced in the current year with portfolios assessed using the ‘Four Lenses’ approach. The portfolio review is led by the Head of AQIT and Regional Heads of Audit or London Audit Quality Leads and includes a detailed review focused on the RI’s capacity, Engagement Quality Reviewer (EQR) responsibilities, skill set, audit quality record and the quality of the audited entities’ governance and control environment. The results of this review are reported to the Audit Executive, and actions subsequently monitored by the Regional Heads of Audit, London Audit Quality Leads and AQIT. Such actions have included the recruitment of additional partners into specific sectors such as Financial Services, allocation of central audit quality support to engagements, reallocations of audits to new RIs based on capacity or skillset, reductions in RI and EQR roles, specific Acceptance and Continuance Panels for certain high risk audits and the identification of audits to be resigned from.

Audit Quality

Audit methodology and tools – further developed

We operate a global audit methodology and audit tool which is then supplemented by additional application guidance, both at a global and UK level. During the period we have continued to support the development of global methodology through provision of specialists to global projects and representation on the key global audit leadership and governance bodies.

We have continued to invest in our central technical function to ensure that we have the appropriate skills and expertise to make continuous improvements and enhancements to our audit methodology applied in the UK following last year's root-and-branch review. Our focus is ensuring we continue to develop methodology that inspires confidence in engagement teams and can be consistently applied, in a scalable way, resulting in high-quality audits.

We have implemented a continuous programme of maintenance and improvement for our methodology and related tools which means that changes and enhancements are not only reactive to current audit issues but look to future developments. Since the release of our new audit manual and re-purposed intranet in September 2022, we have also developed or strengthened methodology in a number of key areas including:

- ▶ Audit of actual and suspected fraud
- ▶ Audit of revenue (in collaboration with our Revenue Centre of Excellence)
- ▶ Use of Information Produced by the Entity in the audit
- ▶ Working practices where specialists and experts are involved in the audit.

Looking beyond, our central technical team is currently working with the Audit stream and specialist stakeholders to introduce:

- ▶ Specific sector methodologies for audit teams carrying out work in key sectors in which we operate
- ▶ An enhancement to our controls audit methodology with improved linkages to relevant technology risk and related IT controls
- ▶ Further developments in the audit of revenue, challenge of management, going concern and viability and detecting material fraud as priority areas within our strategic Audit Quality Plan
- ▶ Methodology relevant to financial services audits and related balances in non-financial services entities
- ▶ Updated audit methodology for group audits.

Alongside these developments, we continue to develop our audit software and our training programmes to ensure they remain aligned with the latest methodology.



Audit Quality

TRA – invested in quality

Our TRA team comprises the specialists and experts who undertake audit procedures over complex technology risk areas in our audits, working as part of an integrated team with core audit professionals. They also develop and utilise technology to support the execution of audit procedures by audit teams. TRA's capabilities include technology controls testing, data analytics and IT development. They are a catalyst to the digital-first mindset we adopt in our audit work and have rolled out new data extraction, transformation, and manipulation tools during the past year. TRA also work alongside broader Audit stream activities including supporting Summer School (read more on pages 53 and 96), methodology developments, Practice Reviews and our digital audit champions' network.

TRA also work with Audit Labs, our in-house platform designed to drive innovation and create solutions to current audit challenges. A team of audit, innovation, and IT professionals work in an agile manner to create prototypes, evaluate the proof of concept with the Audit stream and, if successful, refine and create as enterprise-grade digital products.

We have continued to invest significantly in our TRA team which has grown to 221 full time equivalent personnel at 30 June 2023 from 153 in 2 July 2022, including seven partners. Regional expansion has also continued with investment in our Manchester and Birmingham hubs, and we are committed to further expansion under our five-year growth plan. Our TRA Quality Plan was issued this year, which complements the strategic Audit Quality Plan and SQP and focuses on TRA activities that will enhance audit quality. It aims to drive continual improvement in audit quality, underpinned by five pillars, being Integration with Audit, Resourcing, Learning & Development, Tooling & Workplans, and Emerging Technology & Horizon Scanning. We have also recently established a Digital Steering Committee for audit, which brings together TRA, Learning & Development, methodology and audit professionals to provide strategic oversight and direction to our 'digital and controls first' mindset drive.

LABS AUDIT

A look back at the year...



100+ ideas submitted on the Edison platform



000s of hours saved from Sample Generator Tool



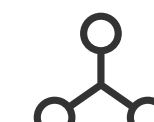
8 challenges raised on the innovation platform



2 successful experiments moving to production and **5** on the way



21 experiments in-flight



All offices engaged with Audit Labs



6 Fail Fast



1,400+ Audit members engaged and ideating across the stream



Tools launched

- ▶ Sample generator
- ▶ APT Document Checks

Key experiments

- ▶ Automated end-to-end transaction testing
- ▶ AI Board Minute analysis
- ▶ AI to support materiality

Top challenges

- ▶ How can we improve our quality and time management: **106 ideas**
- ▶ Identifying opportunities in Audits: **48 ideas**
- ▶ Improving and analysing how we use data and dashboards: **16 ideas**

Audit Quality

Centres of Excellence – established and operational

The Revenue Centre of Excellence (CoE) is now fully operational providing additional capacity and capability to audit teams, helping them plan and execute a high-quality audit of revenue. The CoE works collaboratively with TSG and other teams within the AQIT to identify common themes, issues and challenges audit teams face and areas that require additional guidance, training, and practical implementation support. Currently a team of four led by a director, we plan to double its headcount in FY24 through further investment as the team scales up and extends the breadth of support across higher risk audits.

The firm established a new methodology for the audit of revenue in FY22 which focuses on a controls and digital first approach, underpinned by detailed assessment of risks and controls. While activity this year to embed this enhanced approach to the audit of revenue has been wide ranging, as shown below, there is still work to be done to embed its application and drive a consistent high-quality and efficient approach over revenue. However, the Revenue CoE has already made a significant impact and the feedback from audit teams has been positive. In FY24, we are looking at:

- ▶ Consolidating gains from year 1 (FY23)
- ▶ Building confidence in the execution of new revenue techniques
- ▶ Developing transferable skills to drive consistency across all engagements
- ▶ Increasing the use of controls and digital techniques.

Mandatory/voluntary consultations

180 audit teams supported

- ▶ 37 mandatory
- ▶ 143 optional

Templates & guidance

- ▶ 7 new workpaper templates
- ▶ 3 new guidance issued

Training

- ▶ 13 local sector training and drop-in sessions
- ▶ 8 offices

Methodology

- ▶ Revenue Methodology Technical Standards Document
- ▶ Revenue chapter Audit Manual updates
- ▶ APT library updates

Quality

Looking beyond, we are expanding the CoE model; our Audit Executive has approved plans for a Pensions Centre of Excellence (Pensions CoE). Planning for the Pensions CoE is at an advanced stage and will be piloted for certain December 2023 year-end audits using a team drawn from existing central functions, with full deployment planned from June 2024. Approval has been provided to recruit five specialists to support this function beyond the pilot, led by the existing CoE director and supported by a newly recruited pensions sector audit partner.

Audit Quality

QRST – doubled in two years

The QRST was established to provide specialist in-flight audit quality reviews for higher risk engagements across each of our key audit sectors and improve audit quality both through the direct review of those engagements prior to their completion and more widely by embedding best practice to support the delivery of consistent high-quality audits.

QRST's main objective is to improve audit quality through:

- ▶ Coaching and supporting audit teams through each phase of the audit from planning through to completion
- ▶ Reviewing and challenging audit teams' audit approach and documentation, to identify areas to improve before the completion of the audit engagement
- ▶ Collating the emerging themes and good practice examples identified across all QRST reviews and sharing these with key stakeholders and the audit stream.

QRST supports our most complex audit engagements which includes mostly, but not exclusively, higher risk and PIE audits. The QRST team provides real-time support to engagement teams through in-flight reviews of audit files. In identifying the audit engagements to be supported, consideration is given to the risk profile of the audit, outcome of file reviews (internal & external), and other qualitative factors identified in collaboration with key stakeholders in AQD and the Audit stream.

We continue to invest in the QRST function. The team has doubled from five in October 2021 to ten in July 2023. The increase in investment meant we have increased the number of engagements supported from 34 in FY22 to 48 in FY23 and the scope and depth of the reviews has been enhanced to capture all significant risk areas and other areas of focus based on regulatory focus areas and internal assessment.



Project management – established action plan

Strong project management is a key driver of consistent high-quality audits and has been identified as a causal theme through our Root Cause Analysis. Strong project management supports the effective deployment of resources, timely involvement of specialists and experts and effective review within an audit.

Towards the end of FY23, the AQIT launched our new 'Break the Cycle' programme for our most complex and higher risk audits which focuses audit teams on the need to look ahead and plan early, engage with specialists and experts and set the agenda with audited entities much earlier in the annual audit cycle. The programme involves the creation of space to ensure audit team meetings take place early in this cycle supported by centralised materials to promote planning of key activities.

Additionally, we have established action plans within the SQP to strengthen audit teams' understanding and recognition of the role project management plays in audit quality while upskilling the Audit stream with a project management training event scheduled later in 2023.

Audit Quality

Scepticism and challenge – programmes and frameworks activated

Auditor mindset, focused on scepticism and challenge, is central to the delivery of consistent high-quality audits. Inspection findings and Root Cause Analysis in the period have continued to identify a theme of engagement teams not demonstrating appropriate professional scepticism and challenge on audits. Improving this area is a key priority.

In order to support scepticism and challenge by audit teams, it is essential that we embed the appropriate culture within the Audit stream, with expected behaviours focused on challenge and scepticism clearly articulated, promoted and recognised. We designed our High Performing Teams and Audit Specific Behaviours programme during the course of the year and this was launched in July 2023 with an aim to influence future audits. It focuses on 'Challenge Mindset' as a core behaviour; this includes how we build psychological safety to support continual challenge. This important programme forms part of a wider project action plan to strengthen scepticism and challenge. You can read more about this in our Our Culture and Our People section.

Alongside, we have re-launched the BDO Professional Judgement Framework (PJF) which provides auditors with a framework to support scepticism and challenge, together with a planned programme of partner led coaching workshops to embed practical application. This is further supported through inclusion of the PJF within documentation aids, the Audit Manual, our Audit Tool content and training to embed scepticism and challenge across audit teams.



EQR – developed clarity, accountability and recognition

We have reviewed our policies and procedures in the year against International Standard on Quality Management (UK) 2 (ISQM(UK)2) requirements.

Strengthening the role of the EQR as part of improving audit quality is a priority for us, recognising both the findings from external inspections and our own internal monitoring which highlight the need to increase the involvement and challenge provided by EQRs, together with the recording of this challenge.



This year, our focus in this area has been on the capacity of EQRs. Our portfolio review has been strengthened in the year to include how much time RIs are required to spend on EQR roles and how that fits into their overall capacity. This is important as we seek to ensure the reviewers have sufficient time to perform both their RI and EQR roles.

We are seeking to further increase recognition and accountability for the EQR role through performance review processes. In the current year we expanded the audit quality and risk assessment to include specific metrics related to EQR roles and assessment of EQR roles in inspection outcomes with adverse findings.

During the year, we implemented proposals for enhanced EQR engagement with particular focus on regular roundtable and one-to-one sessions between the Head of AQIT, the EQR allocations partner and EQRs, with the aim

of ensuring a renewed focus on challenge mindset and consistency in reviews, utilising examples of best practice through discussions at those sessions. These sessions specifically emphasise knowledge sharing and establishing an effective two-way dialogue between the EQR and audit team as key to improving the effectiveness of the review. The sessions were also used to focus EQRs on recording evidence of the challenge they provide to audit teams and, more widely, to promote the importance of the EQR role in driving audit quality improvement.

Output from the sessions was used, and continues to be used, to drive developments in the firm's guidance for EQRs, in particular focused on approach to and documentation of the EQR's review which are being implemented for December 2023 year ends.

For further details on the EQR process, refer to Appendix D.



Audit Quality

Root Cause Analysis – advanced further

Root Cause Analysis is a key process in our continuous improvement quality cycle and a key pillar of our SQP. As required by ISQM(UK)1, we are focused on proactively identifying, investigating and responding to quality risks. As part of the remediation process, we use Root Cause Analysis to ensure that the causal factors identified are considered in designing and implementing remedial actions to address identified deficiencies and to avoid these from recurring. In prior years, the FRC assessed that our overall approach to Root Cause Analysis needed to improve and develop in several areas. As such, and under the remit of the Root Cause Analysis partner, we have strengthened the programme. We have developed a comprehensive framework, which we are in the process of now embedding. This new framework will enhance our ability to identify causal factors of quality findings (positive and adverse) at both the engagement level and the SOQM level on a continuous basis.

We perform Root Cause Analysis on quality findings arising from different sources, including internal and external quality reviews, prior period adjustments or investigations, and thematic reviews on specific areas where considered appropriate. Causal factors are identified by evaluating information at an engagement level, performing interviews with engagement team members and specialists and experts where applicable and, where required, focus groups and analysing data points. We have introduced a structured multi-level granular taxonomy that allows for appropriate and consistent analysis of engagement level causal factors, including behavioural aspects. Correlation and trend analysis is also performed for engagements with positive and adverse quality findings as this information provides additional insights in relation to quality. Where relevant, these are compared with our AQIs. We also consider concentration of findings which could be indicative of wider deficiencies in the SOQM.

Root Cause Analysis findings are discussed as part of a newly formed Action Committee, with representatives of relevant areas of the Audit stream, to design and challenge appropriate actions to deal with the findings and to drive accountability and ownership for the actions designed. Where necessary, we incorporate these actions into the SQP.

We share learnings from Root Cause Analysis and related actions with the Audit stream and relevant stakeholders in different ways, including training and communications. We also report Root Cause Analysis findings to the relevant management and oversight bodies, including the Audit Executive and the AB.

The following overarching causal factors have been identified in the current cycle: appropriate and timely engagement with specialists and experts; auditor's mindset; and engagement team composition and skillset. We have also identified several best practice examples in those engagements with positive quality results, which link to some of our Audit Specific Behaviours and include 'we are proud and accountable', 'we prioritise our teams' and 'we have a challenge mindset'.

Audit Quality

Internal and external inspections – responding and investing

We welcome both external and internal scrutiny of our work, as this keeps us improving in how we serve the public interest.



AQR inspections

As noted in the headline reports, whilst the FRC's AQR report acknowledged an improvement in the firm's results with nine of the files (69%) inspected achieving good or limited improvements, the results are disappointing and not where we or the regulator wants them to be. The recurrence of the same findings is unacceptable and it is of particular concern that two of the inspections required significant improvement.

The key findings at an engagement level related to:

- ▶ Audit of revenue
- ▶ Audit on financial service entities and financial service related balances on other audits
- ▶ Challenge and testing of estimates and assumptions in key judgement areas
- ▶ Testing of journals and response to the risk of management override of controls
- ▶ Quality control procedures.

A theme that has emerged within the key findings relates to the audit of IT and IT control related issues. We have undertaken Root Cause Analysis on these findings. Given that these are recurring issues, we already had a series of actions in place which will take time to take effect and we are establishing an effectiveness monitoring framework to support the evaluation of these actions as they embed. At the same time, we are conscious of the need to keep these actions under review and add to, or adapt, them as appropriate to drive the necessary improvement.



Quality Assurance Department (QAD) reviews

The QAD of the Institute of Chartered Accountants in England and Wales (ICAEW) reviews the firm every two years, focussing on the entities outside of the AQR's scope, with the last review having been performed during Summer 2022. 90% of the files inspected were assessed as either good or generally acceptable. Nonetheless the firm is looking to improve further and has carried out Root Cause Analysis on themes that emerged from these reviews.

Inspections of local audits

Local audits (as defined by the Local Audit and Accountability Act 2014) are subject to inspections by both the FRC's AQR for Major Local Audits (MLAs) and the ICAEW's QAD for Non-Major Local Audits. The FRC's AQR reviews happen annually and ICAEW's QAD reviews typically every other year. The firm has had one MLA inspected by the FRC in the period covered by this report for both the financial statement audit and the work to support the Value for Money arrangements. The QAD are carrying out a review this year, but this is yet to be finalised.

The firm is cognisant of the backlog of audits that exist profession-wide within the local audit market, reflecting structural factors within that market. Given the backlog that similarly exists in our local audit portfolio, this is a matter of key focus for the leadership and oversight bodies of the firm and specific action plans have been implemented to safeguard audit quality and progress the audits.

Audit Quality

Internal Practice Review

The results of our internal quality monitoring programme – the Practice Review – showed a slight reduction in inspection grades overall with 67% of files achieving good or limited improvements compared to 72% in the prior year. Following feedback from the FRC on our Practice Review programme during the 2021/22 review cycle, we performed a critical review of the Practice Review to understand why there was previously a disparity in the grading profile between our grading profile and the FRC's. Whilst it is disappointing that the results have declined, we note that they now more closely mirror those of the AQR and partially attribute this to an increase in the rigour, knowledge and expertise of the reviewers reflecting the training and other responses the firm has been making to the quality findings raised by the FRC.

We have continued to invest in the Practice Review team and recruited a dedicated partner in 2022 whose sole focus is the internal quality monitoring programme and we continue to invest further in the team. We have established a new Practice Review Framework for 2023 focused on increasing the timeliness of the review cycle, supported by assessment within the performance review process and enhanced oversight by the Audit Executive, so that issues identified can be communicated to the Audit stream and addressed more effectively. Additionally, we are currently developing protocols for the development of action plans for individual RIs as the inspections are concluded, rather than through the annual quality and risk assessment, thereby providing more timely interventions to improve quality.

Revised Ethical Standard incorporated

From a firmwide perspective, the regulator identified findings related to compliance with the FRC's Revised Ethical Standard 2019 relating to the robustness of the assessment of independence threats and safeguards before the approval of non-audit services (NAS) and various partner and staff matters. The actions identified from both file and firmwide findings are all incorporated in the SQP.



AQI – assessed monthly

AQIs provide valuable insights using data to indicate whether we are producing, or reasonably expect to be able to produce high quality audits. We use AQIs as metrics to provide greater information to the users of audit services and wider stakeholders, both internal and external to BDO. This enables greater consideration of what drives both consistent high-quality audits and a high-quality Audit stream. AQIs can be assessed both at a firmwide and engagement level.

At an Audit stream level, a suite of AQIs is reported monthly, linked to the strategic Audit Quality Plan. These include those related to the sufficiency of resources allocated to audits, training completion rates, the project management of audits and the adoption of new/emerging technology. We continue to re-assess our selection of firmwide quality indicators parallel to the evolution of our strategic Audit Quality Plan and the FRC's AQIs Consultation in June 2022.

At an engagement level, we are participating in the FRC's engagement level AQI pilot. From this, we are understanding more about the information Audit Committee Chairs are interested in. We are also expanding our AQI reporting capabilities to allow the production of engagement-level metrics, both via centralised 'Insights' dashboards and individualised real-time reports to audit teams and continue to support the exploration of 'good practice' in the use of AQIs.

We also note that, in addition to AQIs, there are many other metrics and management information that can provide insight into our SOQM at a firmwide level. Please refer to Appendices B, E, L, M, P and Q which include metrics that have been mutually agreed with the Policy and Reputation Group to be disclosed in Transparency Reports.

Audit Quality



Looking beyond

As noted at the start of this section, the past two years have been a period of significant investment and change. We are focused on embedding these investments to realise the benefit we believe they will bring, but we are not complacent and recognise the need to continue to build upon the actions taken to date to improve audit quality. As we look ahead to FY24 the following are considered to be some of our key deliverables:

- ▶ Strengthening acceptance and continuance by adding further granularity to portfolio reviews to support the ongoing re-shaping of our book of work in audit
- ▶ Embedding the central audit quality functions recently established, whilst continuing to invest, most notably through the addition of further Financial Services focused central audit quality specialists
- ▶ Completing the development of sector methodologies for our priority sectors
- ▶ Performing an updated training needs analysis and development of enhanced learning curriculums for our teams based on role and experience
- ▶ Strengthening challenge of management and project management through the 'Break the Cycle' programme, partner led coaching workshops around application of the PJF and delivery of project management training for the audit stream
- ▶ Strengthening the Root Cause Analysis programme
- ▶ Improving the timeliness of our Practice Review programme by embedding the recently enhanced Practice Review Framework.



Our Culture and Our People

Our aim is to ensure our culture drives high-quality outputs and that our people have the skills and motivation to deliver them. This section looks at how we approach our People and Culture strategies.

Under 'Culture', we cover what our Unifying Culture means, our Values and behaviours, Listening Up, and progress on our three firmwide cultural priorities. This extensive section – particularly reporting on our Audit Culture work – reflects the prominence of, and programmes on, culture that we've worked on over the last 12 months.

Under 'People', we cover our People Proposition, career development, skills, learning and training, WORKABLE (our agile working framework), recruitment and onboarding, and performance and reward. This builds on last year's report content. Each section looks at firmwide activities first, followed by a closer look at our Audit stream.

Unifying Culture – firmwide

We believe that high-quality work is an output of having engaged, motivated and well-skilled teams – and our culture is critical in supporting that, whether you approach it through a firmwide or a business area lens.

Across the firm, the 'U' in our BUILD strategy stands for Unifying Culture. It covers our firmwide view of what it feels like to work at BDO, including our Core Purpose (Helping You Succeed), which articulates why we do what we do, and our Values, which articulate how we behave.

Within individual business areas, we recognise our culture influences, and is influenced by, stream-specific behaviours that point people towards delivering high-quality work as befits their Audit, Tax, Advisory or operational field. You can read more about our work specifically on Audit culture later in this section.

We are an accountancy and business advisory firm with a defined core purpose, a clear set of values and an intention to grow responsibly. Culture is specifically identified within our strategy (the U in BUILD) and we have national and stream leaders overseeing cultural programmes, a group of leaders across the firm looking specifically at our 'culture



Our aim is to establish a culture where we are supportive, inclusive and collaborative in helping our people deliver their highest-quality work.

Chris Grove

Chair of the U Board and LT member

Our firmwide Unifying Culture KPIs are:

- ▶ Our engagement score. This is now at 74%, which is considered strong. But this score is 4% behind where we were last year, so we have an opportunity for further engagement with our people
- ▶ Our pride score. 78% of our people say they are proud to tell others they work at BDO. This is down from 84%. We wish to increase this sense of pride.

Our steps to improve these metrics are captured in this section and – in more detail – in our annual Culture and Impact Report, available on www.bdo.co.uk.

of quality' and 'culture of challenge', and we transparently publish relevant data and stories each year in our Culture and Impact Report.

Our U Board, in place for more than six years, acts as an advisory group to our LT on firmwide cultural matters. We have three clearly defined Unifying Culture priorities for the entire firm: Wellbeing, Be Yourself (Equality, Diversity and Inclusion (ED&I)) and Citizenship.

Our Culture and Our People

Culture, public interest and behaviours – understood

We believe that employees in a strong organisational culture have a sense of mission; they know what is expected of them and how to behave as they work towards it. We believe there is a link between having engaged, motivated people who feel psychologically safe, and their ability to deliver high-quality work.

We are able to be clear on what is expected of us. In our strategic framework, we clearly lay out our commitment to serving the public interest by consistently performing high-quality engagements. We are focusing on the continuous improvement of quality in our work through our implementation of a SOQM in compliance with ISQM(UK)1.

We are able to be clear on how we need to behave. Firmwide, we have two cultural non-negotiables: our Core Purpose and our Values. At a stream level, we need to focus on stream-specific behaviours that point people towards delivering high-quality work as befits their Audit, Tax, Advisory or operational field. You can read more about the process of implementing our Audit Specific Behaviours later in this section.

The link between culture and public interest doesn't end there, though, as we also need to consider how we act as an employer. We need to be alert to the social agendas (the 'S' in ESG) that matter to our people and to the public and adapt our culture and policies accordingly; societal expectations of what is in the public interest evolve over time.



Culture of Quality – dedicated team

In 2022, we formalised a firmwide Culture of Quality Team, to promote, nurture, support and monitor a culture of quality across the firm, consistent with our commitment to serve the public interest by consistently performing high-quality engagements. The team comprises senior representatives from the People Partner teams in Audit, Tax and Advisory, as well as Ethics, Quality & Risk, HR, Communications and members of our U Board.

The Culture of Quality Team has been reviewing all aspects of the firm's culture of quality and understanding the actions required to change behaviours. In FY23, this included:

- ▶ Supporting Audit in their analysis of what a culture of quality and challenge looks like. *Progress: Audit Stream Behaviours identified; Audit stream designed High Performing Teams programme for launch in July 2023*



- ▶ Conducting surveys of our people to measure how well our desired culture of quality is understood and embedded; using an external culture consultancy for independent guidance. This also included holding workshops to better understand the attitudes and views of our people on quality and speaking up, using an external culture consultancy for independent guidance. 15 in-depth interviews with senior leaders and 14 focus groups of employees were held. This told us: perceived high levels of psychological safety exist but this does not come through strongly in challenging situations due to a lack of personal accountability; that people needed more help interpreting our policies and literature to bring to life the expected behaviours; and we needed to take whistleblowing further. *Progress: Culture of Quality surveys and focus groups conducted; results fed into Audit Culture Plan, specifically the creation of High Performing Teams, and Culture of Quality Team planning; More overt and more frequent promotion of Speaking Up and whistleblowing helpline via central and local communications channels*

- ▶ Ensuring our relevant internal messaging references and emphasises our public interest role. *Progress: LT and Audit Executive broadcast communications have prominent public interest and quality messaging*
- ▶ Sharing Audit's work with other streams to achieve consistency where relevant, and bespoke actions, as appropriate. *Progress: Tax and Advisory are underway with considering their Culture of Quality programmes.*

Our Culture and Our People

Culture: High Performing Teams in Audit

In order to serve the public interest by consistently performing high-quality audits, the UK needs auditors who are trained to challenge management, be professionally sceptical about what they see and deliver work in accordance with all ethical requirements. Robust, focused and independent challenge is vital to a high-quality audit, aided by effective project management. How we encourage our auditors to behave – and the values and professional behaviours they display – have a significant impact on the quality of those audits, and the trust in both the audit outputs and the audit profession itself.

This is where culture – and specifically a culture of challenge in Audit – becomes fundamental.



To drive our culture of challenge, we have appointed Louise Sayers as our Head of People and Culture in Audit. As the member of our Audit Executive charged with overseeing our five-year people and culture strategy, Louise leads two important groups:

- ▶ **Audit People Executive:** to deliver our ambition to be an employer of choice, ensuring that our people have the best possible experience whilst working for BDO, daily, monthly, during projects and throughout their careers
- ▶ **Audit Culture Committee:** to define and embed a strong audit culture of challenge and clear Audit Specific Behaviours which are required to deliver consistent high-quality audit work which our people are proud to deliver in the public interest.

One of our priorities and key deliverables this year has been to coalesce and articulate the specific behaviours we would expect our auditors to demonstrate and that reflect a culture of challenge. This work became our High Performing Teams programme, designed in 2022 and ready for launch in July 2023.



It has been a privilege to be able to lead on the thinking behind, and design of, what a culture of challenge looks like within BDO's Audit stream. I want us all to focus on what outcome we achieve when we effectively and positively challenge during an audit: the delivery of consistent, high-quality audits which serve the public interest in providing financial information that is trusted. We believe that High Performing Teams are an output of having a culture of challenge, which in turn helps us drive quality. This is why we are focused on High Performing Teams – and bringing this to life through the Audit Specific Behaviours.

Louise Sayers
Head of People and Culture, Audit

FY23 Audit Culture priority workstreams

During the course of FY23, the Audit Culture Committee has focussed on eight priority areas:

- | | |
|-----------|--|
| 01 | Audit culture & Audit Specific Behaviours |
| 02 | Public interest, purpose and tone at the top |
| 03 | Reward and recognition of audit quality and the desired behaviours |
| 04 | Ad-hoc and non-financial recognition of audit quality and the desired behaviours |
| 05 | Realistic project budgets & resourcing |
| 06 | Focus on review time, coaching & development |
| 07 | Project management |
| 08 | Specialists and experts |



Culture

Our Culture and Our People

Audit Specific Behaviours: coalesced

Our start and end point is: "Doing the right thing. Always." This year, we have more clearly articulated what we mean by that in Audit by designing and documenting our Audit Specific Behaviours.

Our Audit Specific Behaviours, shown on the graphic opposite, are designed to help our Audit teams bring to life in their day jobs how being part of a High Performing Team enables them to deliver consistent high-quality audits. Just as our firm-wide Values are the cultural glue of our business, the Audit Specific Behaviours are the cultural glue of the Audit stream's Culture of Challenge. They sit alongside three priority areas of Quality, Talent and Commercial Management to create High Performing Teams, that aspire to "Do the right thing. Always."

Over the last 12 months, we progressed multiple actions to identify and articulate our Audit Specific Behaviours. We:

- ▶ Conducted firmwide proprietary research, using the skills of external, independent research company, Ipsos Karian & Box
- ▶ Reviewed external academic publications; and
- ▶ Consulted with the FRC, our firmwide oversight bodies and focus groups consisting of all grades of people from the Audit stream.

These actions resulted in the articulation and promotion of our Audit Specific Behaviours. During FY24 we will be assessing the effectiveness of the Audit Specific Behaviours through direct Audit Culture related KPIs and relatable KPIs which provide a broader view of the impact of the Audit Specific Behaviours on the stream as a whole.

BDO's Audit Specific Behaviours

We recognise and celebrate each other

We prioritise our teams

HIGH
PERFORMING
TEAMS

We have a challenge mindset

We are proud and accountable



Quality



Talent



Commercial management

Our Culture and Our People

Audit Quality Cornerstones: updated

Our Audit Specific Behaviours map readily across to our Audit Quality Cornerstones. Our Audit Quality Cornerstones (shown on this graphic) are BDO's framework to bring audit quality to life. Over the last 12 months, we have undertaken a review of the cornerstones and updated them to reflect both changes within the audit market and our own thinking regarding what drives audit quality.

Consistent high-quality audits start with having the right strategic focus to put the right foundations in place for successful outcomes. We then come together as talented individuals with a clear understanding of our role to undertake audits with a challenging and sceptical mindset, which results in consistent high-quality audit outputs that we can be proud of.

Audit Quality Cornerstones

High quality audit outputs

- ▶ High quality reports
- ▶ Impactful controls recommendations
- ▶ Excellent Commercial Management
- ▶ Unambiguous audit conclusions.

Strategic drivers

- ▶ Tone at the top
- ▶ High quality audited entities
- ▶ Knowledgeable skilled people
- ▶ High quality methodologies and tools
- ▶ Effective central support.

Quality cornerstones

Mindset & behaviours

- ▶ Challenging of management, each other & ourselves
- ▶ Independent, sceptical and diligent
- ▶ Application of professional judgement
- ▶ Committed to learning and development
- ▶ Embrace change and continuous improvement
- ▶ Strong project management.

Focus & understanding of our role

- ▶ Serving the public interest
- ▶ Doing the right thing supported by the firm
- ▶ Personal accountability and pride
- ▶ Team mentality
- ▶ Seeking deep understanding of an entity's risk and its environment.



Our Culture and Our People

Tone at the top: partners and influencers engaged

Our Audit Specific Behaviours need to be consistently demonstrated by everyone in the Audit stream and those working with the Audit stream. The Audit Specific Behaviours help our people to understand how they are accountable for our shared objective of serving the public interest by consistently performing high-quality audits.

As we briefed our local partners on our aspiration to lead High Performing Teams, we reinforced the message that there must be a strong tone at the top. We recognise that the outcome of 'tone at the top' is our people reflecting the behaviours of our senior people. As such, we devised a dedicated network of 'Influencers'; senior people who received a detailed briefing of the concept of High Performing Teams, in order to enable them to work to embed the Audit Specific Behaviours and bring them to life in their local teams. In addition, our Head of Audit and Audit Executive have a live communication and engagement plan, which includes a stream-wide open forum known as 'Conversation with the Audit Exec' at which our culture of challenge was a prominent topic.

Storytelling: activated

As with many cultural practices, we recognise that storytelling can be impactful, particularly in bringing our Audit Specific Behaviours to life.

This year, the Audit Culture Committee has identified and shared stories with the Audit stream of the real-life experiences of our audit teams managing challenging situations, discussions and audit issues effectively in the pursuit of consistent high-quality audits. We have shared these stories through Audit Quality Live training events, intranet articles, Viva Engage (our internal social media platform) and our Monthly Technical Round-Up. Our Head of Audit also presented at a 'Keep Calm and Carry On' live panel discussion, at which three partners shared personal stories of how they challenged management through robust discussions and the support they received from internal teams to do so.

Our Values – firmwide

We have four BDO Values: **Being Bold**, **Being Collaborative**, **Being Genuine**, and **Being Responsible and Acting with Integrity**. These Values, together with the firm's Code of Conduct (underpinned by the ICAEW Code of Ethics) guide day-to-day interactions and decision-making with colleagues, the business world and society as a whole. They define how individuals should behave towards one another, not only in an office context but also in their wider lives; ethical behaviour is pervasive, not selective.



Values need to be far more than words on a piece of paper. They need to drive behaviours, decisions, actions and – critically, when poor behaviour is found – reactions.

Nicola Lally

U Board member and Partner



In our last Listening Programme, 74% of our people say that those around them demonstrate our BDO values. This has slightly decreased from 77% the prior year; our U Board (overseeing firmwide, long-term cultural matters) has subsequently taken on a project for FY24 to review the impact of how our Values resonate with our people and what additional work we need to do to further embed them.

Values – celebrated and promoted

Our Values are promoted via internal communications and form the criteria in our Spotlight Awards, our quarterly recognition programme. Examples of us living our Values this year can be found detailed in our Culture and Impact Report.

Our Culture and Our People

Our Values – in Audit

This year, we've taken strategic steps to help our people to understand what behaviours are required by auditors acting in the public interest.

A number of our audit teams have used our firm-wide Values as fun, team activities as part of their team strategy days to reiterate the importance of the Values in our daily interactions, and what they mean to them as auditors.

For next year, as we embed the focus on High Performing Teams and the Audit Specific Behaviours through what we call 'Enabler' projects and activities, we will be reiterating the importance of how the behaviours are the common thread which helps us to deliver consistent high-quality audits.

Language matters

Words such as 'client' – which have been part of professional service firm vernacular for decades – suggest a level of subservience which is contradictory to the importance of the auditor's role to serve the public interest in the delivery of consistent high-quality audits, that are trusted.

The Audit Culture Committee led a comprehensive project this year with all areas of the business reviewing internal and external publications to consider the appropriateness of language used. Specific controls over audit proposals were put in place and messaging to audit teams around the importance of language were communicated. The impact of these actions will be reviewed and tested regularly by the Audit Culture Committee in FY24.

Listening Up – firmwide

We recognise that 'tone at the top' is not just broadcasting messages; it is also active listening. Ensuring our employees have a voice helps us to gauge how two-way communication is going, to surface day-to-day micro challenges that people may face and to assess what's happening culturally at BDO. We have:

- ▶ Conducted an annual Listening Programme to tell us how we're doing and how our people are feeling. *Progress: Insights from the firmwide results led to the creation of a 2023 Success Conversations programme to help people with their longer-term career planning, promotion of a more accessible internal jobs board, as well as a firmwide Learning group to share and improve skills development. The insights were used by Stream People Partners as they designed their people plans. It also led to local people action plans to address local areas of development*

- ▶ Held two series of Managing Partner Listening Events, covering strategy and wellbeing, as well as with specific communities to discuss gender balance, ethnicity and faith at work. *Progress: This led to greater support for our Be Yourself Networks with their storytelling, such as launching our Pride 2023 video which featured LT members as allies. The insights have also encouraged our Heads of Streams to hold Listening Events in FY24*
- ▶ Encouraged every partner to receive 360-feedback from members of their teams. *Progress: We had more than 4,200 pieces of feedback from our people; more than double the number of submissions from the prior year. 94% of partners therefore received a formal Upward Partner Feedback report for their performance review*

- ▶ Ensured Listening Up and Speaking Up are both encouraged. We promoted our Whistleblowing helpline. If our people wish to report concerns confidentially and/or anonymously, they may do so by referring to our whistleblowing policy and contacting a completely independent organisation free of charge and available 24/7. Our policy is in place to reassure people that it is both safe and acceptable to speak up. *Progress: Please see our Ethics and Independence section on page 63 for more detail on our progress here*
- ▶ Invited a second employee to sit on our Sustainability and ESG Board. *Progress: We are able to tap into an additional employee perspective on Sustainability and ESG Board matters, as well as our existing Shadow U Board, a group of employee representatives who consider long-term cultural matters.*





Culture

Our Culture and Our People

Listening Up – in Audit

People and Culture Plan: using focus groups and employee insights

Listening to employees was a critical part of designing our Audit Culture plan. A series of focus groups across FY23 – run both internally and using Ipsos Karian & Box – gave us qualitative feedback, which was supplemented by quantitative intelligence from multiple surveys including our annual Listening Programme and Culture of Quality datasets.

These employee insights were used by our new Audit Culture Committee to help identify, design and deliver our People and our Culture priorities that will continue to help us attract, engage, develop and retain our people.

Our Audit People and our Audit Culture priorities are intertwined; we seek to ensure we have engaged people who have the right skills and demonstrate the right behaviours to deliver consistent high-quality audit work in the public interest. In order to do this, it is important we continue to listen to and engage with our people.



Audit Summit: interactive discussions held

In October 2022, we held our Audit Summit, inviting all grades above assistant manager, which includes all our newly qualified auditors, to hear about our firmwide and Audit stream strategy. The agenda purposefully included giving our people the opportunity to break out into smaller groups and discuss more specific priorities, including the Audit People priorities. During these sessions, people were able to ask questions and provide honest feedback on #LifeatBDO and whether our priorities were the right ones. One of the priorities was to ensure we keep listening.

New partners: surveyed

Following feedback from the firm's INEs, we put in place a formal survey for lateral hire partners to review their experience since joining the Audit stream. We aim to identify any challenges and hear their reflections on initial expectations versus reality. This programme complements a centrally-led programme of 'new joiner' interviews for all lateral hire partners. Our first round of data from this programme is being analysed at the time of writing this report to enable us to identify actions.

Our Culture and Our People

Three Unifying Culture priorities

We believe there is a link between having engaged, motivated people who feel psychologically safe, and their ability to deliver high-quality work. Our three Unifying Culture priorities are designed to help us achieve an environment that facilitates this.



Read more about our Be Yourself actions and progress in our annual Culture and Impact Report, available on www.bdo.co.uk.

Be Yourself – firmwide

BDO's approach to ED&I is called 'Be Yourself'. Through our Be Yourself strategy, we aspire to ensure people feel they belong and are included, at every point of their career. Our Be Yourself strategy is founded on our Core Purpose – Helping You Succeed – and allows us to check that we are proactively reflecting on and addressing equality, diversity and inclusion at four levels: Leadership, Culture, Selection and Development.

85% of our people agree that people from different backgrounds and opinions can be themselves and thrive, which is ahead of industry benchmarks.

We have published ambitions and action plans to improve representation – particularly at senior levels – for gender and ethnicity; these can be found in our Culture and Impact Report. As at 30 June 2023, 22.4% of our partners were female and 6.3% were of an ethnic background, 0% of which identify as black. We publish pay gaps on both characteristics each year, for employees, for partners, and combined.

We have held multiple firmwide events, including a live Be Yourself interview panel with our Managing Partner and Be Yourself Partner Sponsor, which also included an update on our progress on our Race Action Plan. We help our ten Be Yourself Networks with their events and messaging, including a "Be Bold, Be Yourself, Be Allies" video to mark 2023 Pride, a firmwide Ramadan Sponsored Challenge, the inaugural BDO International Women's Day awards, a Social Mobility storytelling session from Reggie Nelson on Social Mobility Awareness Day and attendance at the ICAEW's Windrush anniversary event. Over the last year, we placed 39 mentors and 36 mentees on the 30% Club mentoring programme.

We have appointed ED&I partners in each business stream this year to help us better support teams, communities and individuals across the firm.

BDO Firmwide (FY 22/23)

Gender representation



Ethnic representation¹



1% Prefer not to say

¹15% of respondents chose not to answer this question

Culture

Our Culture and Our People



Our ongoing commitment towards having a diverse and inclusive employee population in Audit has continued to be reflected in the year-on-year positive trend of greater diversity in our demographic data.

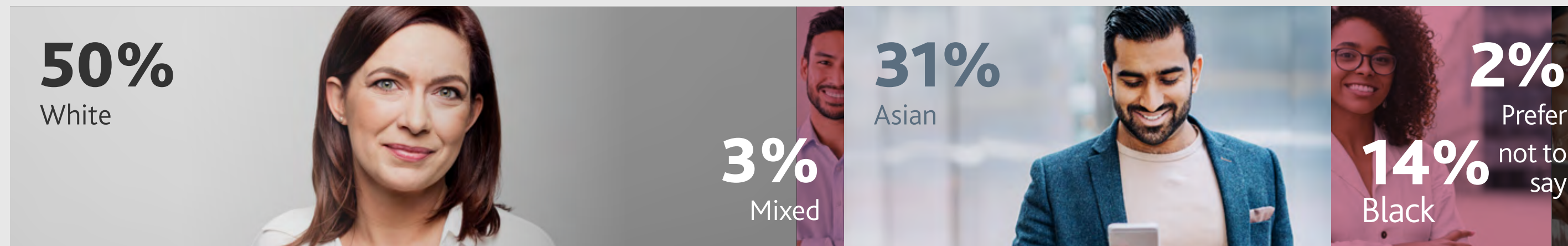
Rida Rahmani
Audit Partner

BDO Audit Stream (FY 22/23)

Gender representation



Ethnic representation



Be Yourself – in Audit

In Audit, we continue to progress with the ED&I agenda as a people priority, delivering on the firmwide action plans at a stream level.

This year, we have assigned a new ED&I partner sponsor in Audit, Rida Rahmani. Rida supports the implementation of firm-wide strategies at a stream level, brings a focus on ED&I initiatives and raises further the importance of the ED&I agenda in Audit.

We have boosted our ED&I actions and conversations. We have:

- ▶ Launched an interview series showcasing senior Audit leaders who embrace and represent different strands of ED&I
- ▶ Introduced videos of colleagues sharing their authenticity
- ▶ Increased our stream collaboration with established Be Yourself networks to celebrate cultural events
- ▶ Held interactive and educational workshops to discuss ED&I topics in open forums

- ▶ Created the inaugural BDO International Women's Day awards for Inspirational Leader, Rising Star and Male Ally
- ▶ Reconsidered ED&I aspects in our performance review programmes as well as our ongoing recruitment strategy.



Phil has never seen 'working mums' as any kind of obstacle to career progression. For Phil, gender is simply not an issue when leading and promoting a high performing team. He has inspired me to want to promote gender balance and diversity coming through the next generation of BDO leaders.

Nomination for Phil Cliftlands
The Male Ally Winner for International Women's Day 2023 Audit Awards

Our Culture and Our People

Wellbeing – firmwide

Wellbeing – and addressing strain – has been an area of focus for us for some years. As we emerged from COVID lockdowns, our Listening Programme told us that our people cared about one aspect above any others: Wellbeing.

We are pleased to say that our most recent Listening Programme results show that fewer colleagues say they are working under strain, down 11% since 2021. However, that still leaves 49% of our people reporting that they feel under strain. Additionally, we saw a 6% drop from last year in people agreeing that the firm sufficiently supports wellbeing (62% in 2022 vs 68% in 2021).

In the last year, we have trained more Mental Health First Aiders, recruited new Wellbeing Champions, and have switched private medical cover suppliers. We have created the BDO Summer Games, an inclusive team competition to encourage physical wellbeing and movement. We have been using the Mind's 5 Ways of Wellbeing to structure and promote multiple wellbeing resources for our people, including our Employee Assistance Programme and Digicare+ Workplace App.



Read more about our Wellbeing actions and progress in our annual *Culture and Impact Report*, available on www.bdo.co.uk.

Wellbeing – in Audit

Two years ago, our Listening Programme revealed a significant sense of strain in our Audit stream. We made strategic steps to decrease utilisation rates, hired more than net 700 audit professionals (including partners) over the course of two years, embedded alternative resourcing models such as Extended Delivery Teams in overseas locations to support busier periods, and resigned from unprofitable and unpopular work. We saw a 10% improvement in people feeling less work strain in the FY23 Listening Programme results compared to FY21 Listening Programme results. The FY23 Culture of Quality Survey also demonstrated that 83% of our people agreed or strongly agreed that their office/sector had more people than it did in the comparable period in the prior year. But we recognise that there is still work to be done on Wellbeing within the Audit stream, and this is being addressed in our Audit People Plan.



Our Culture and Our People

Citizenship – firmwide

Latest academic and business research is validating that people are searching for meaningful jobs that allow them to make a difference. For BDO, Citizenship and Social Impact isn't just what we do outside of working hours, but also the impact we have through our day jobs.

60% of our employees think that BDO has a positive social impact; a statistic we are keen to boost by helping our people to understand the importance of serving the public interest, as well as both increasing our Social Impact activities and promoting that impact more with our people.



Through our 9 to 5

87% of our people tell us they know how their role makes a difference.

A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. While the ICAEW Code of Ethics provides guidance on how a professional accountant fulfils their duty, the focus of our firm, and us as individuals, is to discharge our obligation to serve the public interest by consistently performing quality engagements. Meeting this obligation has never been as important as it is now, at a time when we all need to act to restore trust in the profession.

We apply our professional skills to help entrepreneurial businesses, the UK's economic engine (mid-market businesses), the broader UK economy and 7,500 partners and employees succeed.

Our auditors work to ensure that the market has access to trustworthy business information.

A strong, responsible and transparent tax profession is vital to supporting the growth and competitiveness of the UK. And companies should be able to access quality business advice and ideas they can trust so – as their business grows – they can do the right things, right.

We identify and promote the issues that the entrepreneurially-spirited, ambitious businesses of the UK face through our Rethink campaign. We carefully consider what work we don't do. We have introduced Sustainability and ESG considerations into our engagement acceptance and continuance decisions. We continue to publish the principles we adhere to when offering companies and individuals tax advice. We have launched a Sustainability and ESG Hub in Advisory; you can read more about this at Appendix A.

Through our 5+5

We have offered ten citizenship days a year to our employees for the last 17 years and continue to encourage more of our colleagues to use them. Our approach is called 5+5: five 'action' days for fundraising or local volunteering; and five 'strategic' days to use our professional expertise to provide strategic support to schools, charities and other community initiatives. We have Citizenship Champions in each business unit.

In the last year, our people logged 9,475 hours of Citizenship activity (7,959 as 'action' volunteering and 1,516 as 'strategic' volunteering).

In addition:

- ▶ We remain founder members of Access Accountancy which helps young people from lower socio-economic backgrounds to gain valuable work experience in professional services

- ▶ We were founding partners of Rise and continue to be on the Steering Committee. Rise is led by the ICAEW with over 25 firms who enable their people to volunteer. Last year, Rise engaged with more than 2,800 young people, supported by around 140 volunteers, through 50 workshops in schools in disadvantaged areas across the UK. This year Rise is on track for 100 workshops, with further expansion plans for next year
- ▶ We have entered into new strategic partnerships with Getting On Board, Teach First and Social Enterprise UK. We remain working with #10000BlackInterns, The Ahead Partnership, Leadership Through Sport and Business, and Tax Aid.

Read more about our **Citizenship actions and progress** in our annual *Culture and Impact Report*, available on www.bdo.co.uk.



Our Culture and Our People

Citizenship – in Audit

Through our 9 to 5

Our work as auditors is fundamental to the success of the business world, enabling decisions based on transparent financial reporting that is trusted. The purpose of an audit is to help establish and maintain deserved confidence in a company, in its directors and in the information which they have responsibility to report, including the financial statements.

The delivery of consistent, high-quality audit can be achieved by auditors exhibiting the right Audit Specific Behaviours in their day-to-day work, with the aspiration of being part of a High Performing Team. We see this as a mutually symbiotic relationship – and one designed to serve the public interest. Perhaps there can be no better definition of being a 'good corporate citizen' than us delivering determinedly on consistent high-quality audits in the public interest.

Through our 5+5

Our mentoring programme is nationwide. As one example, our London Audit Group runs a school mentoring programme, aimed at improving social mobility and employability for students. The programme is designed to enable young people to explore their potential, help them consider their future career prospects, and develop key employment skills. It also provides our people with the opportunity to contribute and serve the public interest in a different way and give something back to others under our Citizenship programme. In the last 12 months, ten mentors have taken part, working with 18 students.



I have always felt empowered and emboldened to bring ideas to the table on how we can make our firm, and our output, better. Once I came up with the idea for the corporate school alliance, I was encouraged and supported to take this further. The team have done a really great job in getting this off the ground and delivering something invaluable to the students involved.

Adam Barallon
Audit Director



Our Culture and Our People

People Proposition – firmwide

Although we have a single People Proposition, we know that one size cannot fit all. We all work at BDO for different reasons and have different needs from the firm at different times. For some of us, meaningful and easily accessible Wellbeing tools might be key; for others, the most important thing might be the opportunity to develop personally and grow their career; or there may be people who are particularly interested in certain benefits or reward.

Our most recent Listening Programme results told us that:

- ▶ We foster a diverse and inclusive workplace where people can be themselves
- ▶ Our culture is friendly and collaborative
- ▶ We take a considered approach to quality and risk in all our decisions
- ▶ People Managers did more over the year to actively support colleagues' career development.



It also told us that:

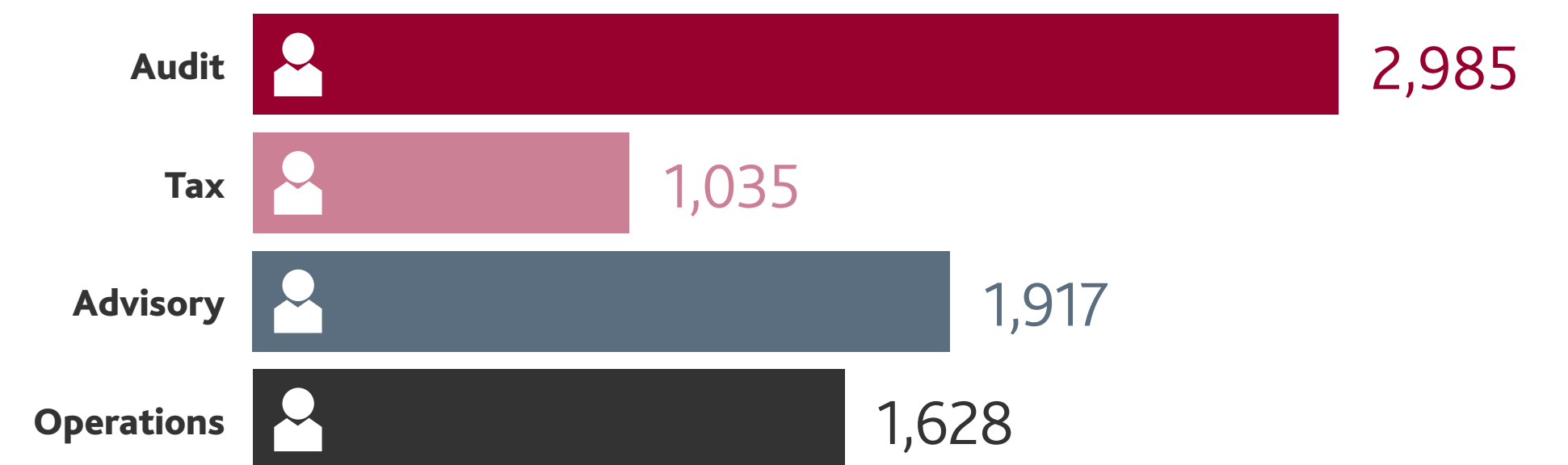
- ▶ There was a relatively low sense of personal accountability for work (68% of people felt that people are held accountable for their behaviours), which could be preventing a healthy culture of challenge; this has been picked up by our Culture of Quality Team
- ▶ There is a need for a continued focus on wellbeing, and the importance of career development and recognising quality work
- ▶ People are slightly less motivated than they were before by the leadership strategy and BDO's core purpose.

People Manager Accreditation – introduced and year 1 completed

As of 30 June 2023, we had over 2,000 People Managers. One of our firmwide People Proposition priorities for FY22 was the introduction of our People Manager Accreditation programme to upskill our People Managers in how they help their team members succeed.

More than 83% of our People Managers completed the live training sections of the People Manager Accreditation, with 45% completing the full five steps of the course with a Personal Development plan. The accreditation has been streamlined to 3 steps for FY24 to progress towards higher full completion statistics. Our scores relating to how effectively our People Managers engaged their team members increased in the subsequent Listening Programme, including a ten-point increase in Net Promoter Score for People Managers (NPS is a measure of satisfaction).

BDO population, as at 30 June 2023



Our People Proposition sets out what #LifeAtBDO is like. It helps us be clear on what the firm will do for us, and what's expected of us as a group of colleagues.

Rob Worrall
Head of People

Success Conversations – firmwide commitment made

Our firmwide People Proposition priority for FY23 is the introduction of Success Conversations.

They're distinct from performance reviews as a Success Conversation involves a broad ranging discussion, with a senior member of the firm, to establish what success looks like for the individual and how this is best aligned to the firm's strategic framework, commercial model and, more locally, their business plans. The programme was designed in FY23, for roll-out in FY24.

Our Culture and Our People

People Proposition – in Audit

In Audit, our People and Culture priorities are intertwined as we seek to ensure we have engaged people that have the right skills and demonstrate the right Audit Specific Behaviours to deliver consistent high-quality audit work which serves the public interest.

Career Development Programmes – delivered 19 programmes for 245 high-potential participants

Our Career Development Programmes set out journeys for our people throughout their BDO career. As well as personal development, the programmes boost networking, peer/cohort support and greater understanding of ESG and ED&I agendas (purposefully covered in the modules). In the last 12 months, we:

- ▶ Delivered 19 programmes for 245 high-potential participants, across Assistant Managers, Managers and Senior Managers
- ▶ Piloted a new Director Readiness Programme, supporting our Senior Managers with aspirations to become Directors
- ▶ Ran eight virtual modules and three in person modules of our 'Welcome to Partnership' programme for new Partners
- ▶ Created a development programme for experienced Equity Partners
- ▶ Offered additional coaching, mentoring and skills workshops as part of all career development programmes.

Career development – firmwide

3,075 people were promoted last year



700 people moved to internal positions elsewhere in the firm



Achieving My Potential framework – consistent

We have one, consistent framework to guide people through their career at BDO, called 'Achieving My Potential' (AMP). Career development looks different for everyone. For some, AMP can help guide them to their next promotion. For others, it will help to move across streams or sector teams into roles which better suit their skills, interests, and career ambitions.

Identifying and Developing Potential tool – being rolled out

Our 'Identifying and Developing Potential' (IDP) talent review tool aims to facilitate career development conversations. An output of these reviews will be individual conversations with colleagues and their People Managers around current performance, future career ambitions, potential and areas for development.

FY23 Audit People priority workstreams

During the course of FY23, the Audit People Executive has focussed on six priority areas for our Audit People Plan:

- 01** Culture of Quality
- 02** Embedding a feedback culture
- 03** Career opportunities and pathways
- 04** Listening
- 05** Training & development
- 06** ED&I

Our Audit People Plan was designed to address feedback from our people, including from our FY23 Listening Programme; the Audit results mirrored the same themes as the firm-wide results. Our Audit People Plan priorities, as part of our five-year strategy, were subsequently discussed at our biennial Audit Summit, and our progress and changes are communicated within our monthly Audit Round-Up newsletters and shared with our business leaders.

Our Culture and Our People

Career development – in Audit

We seek to demystify our career pathways and opportunities for our people and look at different ways to ensure they are aware of what is available to them within Audit or the wider firm.

There was a total of 1,691 promotions across the Audit stream in FY23, including promotions of trainees as they progress through their training contracts to become our newly-qualifieds and promotion to all grades of Manager and above.

We have refreshed our Director promotion process to ensure quality is at the forefront of the process, and created clear and accessible guidance that is available to everyone across the Audit stream to ensure we have a transparent, accessible and supportive promotion process. This is also available to all People Managers and potential sponsoring partners to ensure the guidance is leveraged to support ongoing career conversations.



People Managers: upskilled for better conversations

We recognise that an individual's life at BDO and career development are heavily influenced by their People Manager. So, we have activated dedicated programmes to upskill those who support individuals in their career development and planning:

- ▶ **People Manager Accreditation:** all People Managers had access to the Accreditation training; 83% of People Managers in Audit completed this training in FY23. Our Listening Programme results confirmed our People Managers were demonstrating an improvement in their support of their people's career development
- ▶ **IDP tool:** all Audit areas have undertaken an IDP review for managers and above. This is helping us to align skills, potential and personal aspirations
- ▶ **Success Conversations:** the Audit stream will be introducing these in FY24.



Alternative career routes: identified

We support the conversion of non-UK accountancy qualifications held by individuals into UK accountancy qualifications to allow progression through the firm towards being a RI. By working with audit leaders to identify the appropriate pathway, we provide support such as paid time or unpaid time off to complete study courses prior to exams, costs of study courses, relevant materials and exam sittings.

Career opportunities outside of Audit: shared

Last year, we held our first Get Connected event. This was a firmwide programme that sought to bring different parts of BDO together to showcase their service offerings and career opportunities. It was designed by the Audit People Executive in response to auditors seeking to understand alternative career pathways open to them, as well as wanting to showcase to others in the firm the work auditors do in various sectors. We had 26 business areas participate and more than 1,000 people from across our Audit and Advisory streams attend.

Our Culture and Our People

Skills, learning and training – firmwide

We place great importance on the continued professional development of our people, whether this is technical learning or soft skill development. 'Skills development' was also identified as material to our impact in our first ESG Materiality Assessment.

Learning Group – activated

This year, we have created a firmwide Learning Group. The group has representatives from all areas of the firm to collectively reflect on the skills, behaviours and competencies that will set people up for success. The group monitors learning activity across the firm, aiming to continue to develop a positive learning environment.

Core Curriculum – live

Our professionals have access to on-demand, self-paced, bite-sized e-learning across a range of topics, as well as virtual and in-person facilitated learning programmes. This gives people flexibility to engage in learning in a way that suits them. We provide a mix of technical and business and professional learning. We refer to our business and professional learning as our "Core Curriculum".

Trainees – skilling up

We now recruit c. 600 trainees each year, working in Audit, Tax or Advisory. Through recognised professional qualifications, our training programme aims to give them the technical knowledge and business skills they need to deliver high-quality outputs. Our trainees regularly outperform the ICAEW exam pass rates, and we had one ICAEW prize winner this year.

Firmwide mandatory training – co-ordinated

Firmwide mandatory quality and risk management training remains an important tool in aligning expected behaviours and highlighting important and common focus areas. The 2022 firmwide mandatory training comprised five mandatory modules, which every person in the firm was required to complete by 31 October 2022. The modules covered anti-money laundering, modern slavery, ethics, cyber security awareness and protecting personal data. Completion rates ran at over 99%. Failure to complete by the deadline resulted in an IT block on system access until training was complete and, for FY24, will lead to a 'Development Required' performance rating.



Our Culture and Our People

Skills, learning and training – in Audit

In the Audit stream, we complete mandatory firm-wide and stream-wide required learning for four reasons: to drive our continued focus on consistent high-quality audits; to improve our skills and abilities; to meet the professional standards of our professional bodies; and to meet our firm's requirements as a regulated entity. In addition, our people are encouraged to attend supplementary learning events which stretch them to learn new skills and develop personal competencies across different areas, as they seek to progress their careers with the firm.

The technical training of audit employees and partners is overseen by the Audit stream's Learning Steering Committee with further oversight from the Audit Executive. The training programme is split between our Early in Careers (EiC) training and our Continuing Professional Development (CPD) programme for qualified employees and partners. The firm adopts a blended approach to formal learning events, using, for example face-to-face sessions, webinars, videos and podcasts.

Learning & Development Hub: increased investment

In the last year, we have increased our investment in our Audit Learning & Development (L&D) Hub, enabling us to:

- ▶ Enhance our use of data analytics to review and boost the completion of required learning
- ▶ Provide additional resource in the Audit L&D Hub to guide the development of the learning curricula across both technical and business skills development
- ▶ Ensure that all learning and development activities for the stream support the Audit Quality, Audit People, and Audit Culture Plans, are fit-for-purpose, and support the training needs of our people
- ▶ Launch our International Standards on Auditing (ISA) (UK) 315 programme, including technical sessions, Summer School modules, new digital functionality releases and local workshops
- ▶ Hold a two-day developmental programme focusing on the skills needed by Assistant Managers, as they begin to lead and manage teams and take on review responsibilities on audits

- ▶ Continue to run skills-based courses across our core competencies, adding programmes this year at both trainee and Manager/Senior Manager levels. During the year to June 2023, in which in-person training courses only resumed part way through the period, the Audit Stream L&D Hub had 137 Assistant Managers attending 'Your Changing Role', 172 Assistant Managers/Managers attending 'Developing Self & Others', as well as 135 and 21 Managers and Senior Managers attending 'Managing our Business and our People' and 'Contribution through Character', respectively.

For FY24, we have instigated a full strategic review of our Audit Learning and Development activities, the outcomes of which will be reported next year.



Summer School: our biggest in-person learning event

'Summer School 2022' was our biggest, in-person learning event for Audit, with more than 2,000 of our qualified individuals in the Audit stream attending our three-day training programme in either July or September. Summer School provides an opportunity for all individuals to hear from subject matter experts on a range of topics with the primary purpose of embedding Audit Quality in everything we do. Summer School 2023 has been extended further to the whole of the Audit stream; the content has been built around a case study focused on the challenge of management and the Audit stream behaviours more generally.

Summer School: extended to reach even more

For the second year in a row, we delivered a specific Summer School programme for our TRA specialists within the Audit stream. TRA's primary role is to deliver tech-enabled approaches, working alongside our wider Audit stream to understand the key IT systems used by audited entities to process financial data. TRA Summer School involved approximately 125+ professionals (qualifieds and above) and spread across four half day sessions. Days one and four were delivered to all competencies and focused on ISA (UK) 315 updates and ways of working relevant to all attendees. Days two and three were split across data and controls and focused on core technical training relevant to these competencies.

Our Culture and Our People

Specialists and experts: further requirements identified & investments made

To become High Performing Teams and to address areas of the AQR report, we recognise that we must continue our investment in specialists and experts to support audit teams, central technical resources and CoE. At the same time, we need to help our audit teams engage with our specialists and experts in a consistent and timely way.

This year, our actions have included: reviewing our specialist and expert resource capacity and alignment to our Audit five-year strategic plan; creating standardised scoping and reporting protocols for specialists and experts; training for specialists and experts; and approval of an additional audit of pensions CoE to support the Audit stream. You can read more about this in our Audit Quality section.

A feedback culture: parameters, surveys and facilitation now live

We recognise how important a culture of feedback is in supporting, developing and retaining our people, while ensuring we are delivering consistent high-quality audit work and operating in an environment in which people feel psychologically safe in providing feedback.

As part of our work to embed a culture of feedback, this year we have identified three steps to better equip our people with the skills and confidence to request and give feedback to others on a timely and consistent basis:

- ▶ **Feedback parameters** launched to provide guidance on the minimum requirements for requesting and providing formal feedback during the year and ahead of our interim and annual performance review process



- ▶ **Upward Feedback survey** conducted, not just for partners (which already existed) but for audit managers, senior managers and directors too. This generated more than 4,000 pieces of feedback; c. seven per person. A report – including a self-assessment by the individual – is produced for use in people's performance reviews
- ▶ **Feedback facilitation sessions** coming soon, to support local audit teams to overcome any challenges they may have in sharing feedback and to bring to life what good quality feedback looks like.

Resourcing: new Directorate in place

Ensuring we have the right people, with the right skills, is critical to delivering on our quality agenda. We have set up our Audit Resourcing Directorate (ARD), led by a member of the Audit Executive, to ensure the appropriate level of investment is focused on this area. The ARD:

- ▶ Monitors our resourcing KPIs on a monthly basis to consider the size and shape of each team on each audit engagement
- ▶ Undertakes specific data reviews to ensure our people have the appropriate time and support to perform at their best
- ▶ Has identified a new resourcing solution, which will be live to the Audit stream later in 2023. This will link internal audit licences with relevant projects, link people's skills to engagement needs, and ensure budgets are directly linked to resource allocation, so we can confirm appropriate time is allocated for quality work to be performed
- ▶ Transitioned overseas resource to operate on an Extended Delivery Team basis, so professional staff based overseas are fully integrated within, and trained to the same standards as, our UK audit teams.

Extended Delivery Teams: training aligned

Our people who work remotely as part of an Extended Delivery Team are subject to the same rigorous training approach as our UK colleagues, both from a technical audit perspective and in respect of firm wide mandatory training.

Our Audit L&D Hub also visit our Extended Delivery Teams to provide face-to-face training on skills and to set up local training teams to facilitate sessions on the ground. We have started to roll out our skills development programme in Mauritius (January 2023), South Africa (May 2023) and are looking to roll this out further in India later in 2023.

We have implemented an annual quality review programme focused on the work of the Extended Delivery Teams to make sure that the use of these teams does not impact negatively on audit quality.

People

Our Culture and Our People

WORKABLE – firmwide

WORKABLE is our agile working framework. It is our approach to making work work for everyone at BDO. It includes guidance, policies and support to help our people put WORKABLE into practice effectively.

We put the needs of our clients or audited entities and our teams before our individual preferences. WORKABLE offers flexibility about when and where you work, encouraging a work/life-balance whilst still ensuring that we deliver quality work, and remain connected to team members and the firm.



WORKABLE – in Audit

For auditors, WORKABLE means we have the flexibility to work in the place and at the time that best suits what we need to do. We put the needs of our audit engagements and audit teams before our individual preferences. This means, as teams, we review the work we need to complete and consider the best place to deliver it: at a BDO Hub, audited entity's office or from home. When the answer is to be together at a BDO Hub or audited entity's site, we can take the opportunity to gather to collaborate, connect, learn and focus.

Initial findings from our Root Cause Analysis team's work identifies that audits which were delivered at a BDO Hub or at an audited entity's office showed a positive impact to delivering consistent high-quality audit work through collaboration, challenge and clear communication. Being back on site at audited entities has enhanced the ability of our audit teams to challenge management and focus on the productivity of the audit. Increases in the use of audit technology and tools has also played a critical part in our continued ability to work in an agile way, for example the evolving use of MS Teams and secure online global portals.



Our Culture and Our People



Recruitment and onboarding – firmwide

In FY23, we boosted our workforce by net 543 people, reflecting our resourcing commitments to support the delivery of high-quality work.

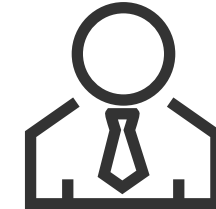
For experienced roles, we received more than 59,000 applications. We hired nearly 1,500 of them.

For our EiC programme, we hired 753 people last year across Graduates, School Leavers, Interns and Industrial Placements.

For experienced hires we received **more than 59,000 applications**



We hired **nearly 1,500** of them.



For our **EiC programme**, we hired **753** people across **Graduates, School Leavers, Interns and Industrial placements.**

Talent search – expanded

We find our future talent from a range of talent pools. Our direct sourcing team is now one year old, helping us leverage people's networks. Internal mobility (employees moving between BDO teams) has increased, and the careers website we launched ahead of last year's report continues to be our master source of recruitment.

We have several programmes and initiatives in place to extend our search into more diverse talent pools, thus better supporting social mobility and improving socio-economic diversity and perspectives within our own teams:

- ▶ Our Explore BDO programme, which also forms part of our commitment as founding members of Access Accountancy, and our now well-established Black Heritage Insight programme
- ▶ External partnerships, such as TG Consulting's Reaction 24/7 programme specifically aimed at students who meet the social mobility criteria
- ▶ Broadened and strengthened our outreach strategies to attract a more diverse pool of students, including a new partnership with Teach First to target schools in lower socio-economic areas
- ▶ Partnered with Enactus UK, who support university students and young people across the country to engage in social action and social enterprise.

Onboarding programme – reviewed

This year, we have reviewed our onboarding programme to provide new joiners with sufficient information and training to help them acclimatise to their new role, the team and the firm and have a better understanding of the firm's expectations, commitment to serving the public interest by consistently delivering quality engagements, company policies, and culture.



Our Culture and Our People



Recruitment and onboarding – in Audit

First 100 days: new programme designed

In Audit, we have introduced the 'First 100 days' programme. Using a new Audit Onboarding Framework, we aim to help our new joiners be clear on what is expected of them while receiving support from their People Manager, the wider team and the broader Audit stream. It lays out clearly why and how key activities – such as completion of objectives, completion of all Audit stream 'required' training, a new mid-probation review, and the end of probation review – should take place within the timeframes expected.

In FY24, we will be providing our new joiners in Audit with a three-day in-person training programme. It will be delivered by subject matter experts and individual trainers from our Audit L&D Hub, to equip new joiners with an understanding of the BDO methodology and our Audit tools.

Hiring processes: standardised, including quality, independence and ethics

Over the last 12 months, we reviewed our Experienced Hire recruitment process to ensure we had a simple and streamlined process that all hiring managers and partners understood and followed. We introduced standardised interview and assessment toolkits to ensure there was consistency in our interview approach. We simplified the interview feedback form and required documentation and asked for interview feedback to focus more heavily on Quality, Independence and Ethics. We mandated that no offers could proceed without good quality feedback being received to explain why a candidate was successful in the process.

Performance and reward – firmwide

Performance management – prominently promoted and processes co-ordinated

Performance reviews are an important opportunity to celebrate and reflect on our people's accomplishments and goals.

Over the last year – and in line with our focus on quality management and ISQM(UK)1 – we introduced a ratification review designed to ensure performance management decisions were quality-led, consistent, fair (including through an ED&I lens) and supported with sufficient documentation. We intend to continue with this, using Workday as our platform.

Reward

We have continued to invest in recognition, wellbeing and our reward package which, in addition to any monetary elements, includes a range of core and flexible benefits providing both protection and personal choice. This also includes a wider opportunity to focus on longer-term career aspirations with senior stakeholders through our ongoing Success Conversations, as well as a focussed investment in our firmwide learning environment.

In determining the reward strategy for all employees across the firm, we consider multiple factors, and we welcomed a new Head of Reward this year to advise us further in this area. These factors include external influences such as the economic climate in addition to the external market, and internal factors such as the performance of the firm and any current and future investments.

Immediate feedback is also very important, so our instant Spotlight Awards are accessible by all to recognise positive contributions at a moment in time. Across the whole firm last year, we issued 4,982 instant awards and 2,005 quarterly awards.

People

Our Culture and Our People

Performance and reward – in Audit

Over the last year, we have:

- ▶ Awarded 2,099 instant awards and 733 quarterly awards
- ▶ Hosted our first – and now annual – Audit Awards, to celebrate exceptional displays of contribution to the quality agenda
- ▶ Introduced a Quality Rating for our managers and senior managers, to specifically review and recognise contribution to quality



- ▶ Introduced an Audit Quality objective requirement for everyone in the Audit stream for the year ahead
- ▶ Aligned to one consistent performance review form to ensure reviews are appropriately focused on Audit quality, the portfolio of work, and timely completion of learning and development
- ▶ Established closer connectivity between performance management and the Audit L&D Hub to identify themes or trends for how we support our people better
- ▶ Continued to align financial awards to an individual's contribution to quality
- ▶ Continued to invest in an additional bonus pot which is allocated to RIs, enabling them to reward members of their respective teams who have played a key role in achieving a positive external review grading
- ▶ Introduced a ratification review to ensure all decisions made around performance and reward are consistent, supported with sufficient documentation, and have been considered through an ED&I lens.



Looking beyond – Our Future Culture

Our U Board – acting as an advisory group for the LT – undertook comprehensive research this year to create a green paper called Our Future Culture. Thinking about our firmwide Unifying Culture, the U Board asked: What factors will influence our future culture, and are we ready for them? The U Board delved into internal and external research to understand our current state, assess how extensive our cultural change is likely to be, how realistic our cultural aims are, and how much of this needs to be actively shaped, moulded or policed to help us manage the longer-term challenges.

We recognise that future-proofing a firm's culture needs to take the best of yesterday and of today, whilst being open to meet the needs and demands of tomorrow.

The U Board shared the recommendations with the LT and the PIC. In FY24, we intend to publish this internally as a white paper, and progress with influencing and shaping the firm's cultural programmes accordingly.



Our Culture and Our People

Looking beyond – in Audit

With our five-year People and Culture plan in place for Audit, we have a clear line-of-sight of what we need to keep working on. This is focused on the priority workstreams documented in this section – such as project management, feedback culture and effective utilisation of specialists and experts. In addition, we are planning specifically:

- ▶ A relaunch of our Audit Quality Focus programme, through which we gather feedback from audited entities on AQIs
- ▶ A 'Welcome' programme for all EIC trainees joining Audit
- ▶ The introduction of psychological safety training for all partners, with tailored versions for other grades to follow

- ▶ To check how effective our culture programme is, based on culture specific and relatable KPIs.

With the roll-out of High Performing Teams commencing in July 2023, we now intend to embed High Performing Teams and the Audit Specific Behaviours throughout our performance review process. We will be expanding our annual objectives to include not just an objective on Audit Quality but also on Talent and Commercial Management, in order to ensure we have the right people, supported to do the right work, in the right place, at the right time. In short: doing the right thing. Always.



Ethics and Independence



Ethics and ethical behaviour are foundational to the way we 'do things' at BDO; it is important to the people proposition that we offer our partners and employees and it is expected by our clients, audited entities and wider stakeholders. It is central to creating and reinforcing trust and confidence in BDO and in the accountancy and auditing profession more widely. This is why we not only embed ethics and independence into our systems, processes, and Values, but we also work hard to ensure that all our people live by them.

For these reasons, it forms a strong and explicit thread throughout our Strategic Framework and is prominently reflected in all the major components of our system of internal control, management, and our governance structure. Our Ethics Partner is a permanent member of the firm's BIOB and attends PIC meetings. In its new formation for FY24, he will also be a member of the Quality & Risk Executive.

We have continued to invest in growing our Ethics Team. This growth in our team not only reflects the growth of our business and the increasing need for monitoring activities resulting from ISQM(UK)1, but it also reflects the importance that we believe Ethics has to the success of our business and our people.

In terms of regulatory obligations, we have a responsibility at a firm level to follow the FRC's Revised Ethical Standard (2019) and the ICAEW Code of Ethics (2020), as well as a global network requirement to comply with the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants.

In line with the requirements of the Local Auditors (Transparency) Regulations 2020, we confirm that we have conducted an internal review of our relevant independence practices.



New Ethics code and standards – adapting to changes

The past year has been one where our primary regulators, the FRC and the ICAEW, have both been undertaking projects to revise their Standards and Codes relating to Ethics and Independence.

As we write this report, the FRC's Ethical Standard is in consultation and revisions will likely become fully operational at the end of 2024. We support the FRC in these revisions and enhancements and, although the full impact of the changes to the FRC Standard will not be known until the Government finalise their thinking on revisions to the definition of PIEs, as a firm we are well-placed to be in full compliance with the changes prior to their effective date.

Changes made in recent years to the 'International Code of Ethics for Professional Accountants' as issued by the IESBA, including those documented in our Transparency Report last year, are in the process of being incorporated into both the FRC's Ethical Standard and the ICAEW's Code of Ethics. As part of the BDO Global Network, we are already required to adopt IESBA's Code and are therefore already adopting many of these changes ahead of the expected changes to the UK standards.

Ethics and Independence

Integrity and cheating in exams – actively addressing

In our 2022 Transparency Report, we noted that a number of accountancy firms around the world had been sanctioned by regulators in respect of cheating in both external professional exams and internal assessments. We take this issue very seriously. Cheating of any kind goes against our Values including 'Being Responsible and Acting with Integrity'. Allegations of cheating are investigated in line with the firm's disciplinary procedures.

Since last year, we have constituted a working group to undertake a review of the risks posed to the firm in this area, critique our internal control system responsive to these risks, and recommend and implement appropriate enhancements. In the short time that this group has been active, there has been a significant amount of activity and a number of changes have been instigated. We fed this thinking into our annual suite of mandatory training, enhancing the design and consistency of Tests of Knowledge (ToK) throughout all modules such that the firm is clear that ToKs are now drawn from an adequately large bank of questions, randomly presented to candidates, and limited in the number of retakes possible. We have also co-ordinated communications regarding our expectations of behaviour in this area, along with a comprehensive formal policy, 'Exam and Firmwide Learning Misconduct Policy'. Details of this policy, and expected behaviours arising from it, are also included within the 2023 Ethics Training, mandatory to all partners and employees.

The firm does not carry out or invigilate any exams or assessments on behalf of any Recognised Qualifying Bodies. Partners and employees take exams with the ICAEW, the Association of Chartered Certified Accountants and the Institute of Chartered Accountants of Scotland. Tuition, exam preparedness and exam sitting are outsourced to external training providers, which operate strict preventative measures against cheating and plagiarism.

Although no system of internal controls can give absolute assurance, as a firm, we continue to have in place a robust internal control system responsive and proportionate to this risk. Of course, as our firm expands and as technology changes, new risks or reassessment of risk will be needed and, as such, the working group is continuing in its operations with a view to continuing to make appropriate recommendations and improvements.

Confidentiality – reinforced

Confidentiality is one of the five Fundamental Principles of the ICAEW Code of Ethics. Not only is it one of the foundational drivers of trust in the profession, it also serves the public interest by way of facilitating the free flow of information from the professional accountant's client or employing organisation to the accountant in the knowledge that the information will not be disclosed to a third party.

The past year has seen some disturbing accounts of unethical behaviour by professional accountants in relation to the treatment of confidential information. Although this behaviour did not involve BDO, its occurrence caused us to reflect on the need for any response from ourselves. We were, and remain, confident that our Values and expectations regarding the treatment of confidential information are embedded in our partners and employees; nevertheless, we took the opportunity to reinforce these expectations and enhance a small number of related controls at both a BDO Global network level and within the UK firm.

Our LT took the opportunity to write to every partner in the firm setting out the reporting fact pattern of the matter arising in Australia and the significant impact it was having to that global network and the profession more widely, whilst at the same time emphasising the expected behaviour that we have at BDO. Concurrent to this, the Ethics Partner communicated directly with all senior individuals who had had recent interactions, through working groups, with HMRC and set out how future conflicts of interest with regards to confidentiality could arise, how to avoid them, and offered meetings to discuss in detail. Additionally, we undertook targeted reviews on certain interactions with HMRC and introduced more robust mechanisms regarding the tracking of contractual obligations in this area.

We also included the ethical responsibilities concerning confidential information, including a suite of high-risk scenarios, in the firm's annual mandated training.



Ethics and Independence

Non-financial misconduct – strengthening controls and responses

Non-financial misconduct continues to be of increasing importance in terms of cultural influence and compliance and is a key focal point for BDO. We have seen a growing regulatory focus on non-financial conduct (NFC) and a spotlight on how the profession handles non-financial misconduct, including discrimination, harassment, sexual harassment, victimisation, bullying, and alcohol and substance misuse.

Our expectations in terms of the firm's Values and culture are well defined. However, there is an absolute need for firms to tackle non-financial misconduct at an early stage through ensuring that we have a controlled environment in place where people can, not only, easily raise concerns, but also where they have confidence that these concerns will be addressed robustly, fairly and without retaliation to them. This is actualised by having a comprehensive system of internal controls in place to record, manage, report, analyse and address the concerns raised.

Preventing and managing non-financial misconduct and poor behaviour requires clear policies on respect at work and zero tolerance of any incidents where they occur. But equally important, it requires our leaders to role model the right behaviours themselves and have the competence and confidence to act promptly if any issues arise. This is important to encourage a culture where people can truly be themselves and where people are able to speak up, in turn supporting a culture of challenge.

Since July 2019, we have met a quarterly reporting requirement from the FRC to report on certain NFC matters, with the aim of providing the FRC with assurance that the firm has effective monitoring arrangements in place to capture elements of NFC at early stages and undertake remediation work.

Since reporting began, we have invested significantly in the control and monitoring activities responsive to NFC, as well as elevating relevant environmental factors. As a result of this, we have generally seen a steady increase in reportable cases month on month, on a rolling 12-month basis. As well as corroborating other evidence that supports a better speak up culture, we believe this demonstrates a clearer process for recording NFC cases and an improvement in our internal controls to capture these reports.

During the past year, we have expanded the NFC team resources which has enabled us to accelerate planned assessments and reviews of the design and effectiveness of the policies and procedures the firm has in place to facilitate the reporting of, and response to, NFC matters. As a result, we have continued to enhance the internal controls to ensure effective awareness and management of these matters.

These enhancements include creating a pool of partners and directors who are responsible for the investigation and decision-making processes with regards to when a NFC concern has been raised. This ensures that key stakeholders are better equipped to understand when conducting an investigation might be necessary, how to conduct this fairly, and how to make a fair decision on the back of any investigation.

To ensure that we are at the leading edge of best practice, an external employment lawyer provided this training and has, to date, trained over 30 partners and directors in conducting investigations and decision making.

The training included:

- ▶ How to conduct a good and fair investigation
- ▶ How to conclude and write the report
- ▶ The decision making process, including the role of the decision maker in the grievance, disciplinary and appeals
- ▶ Options after a decision has been made, including sanctions.



We have also created a NFC Partner Panel. Any NFC matters relating to a partner are reported to the NFC Partner Panel – consisting of a standing panel of partners, unless conflicted, those being: the firm's Senior Partner, Ethics Partner, and a member of the LT. In addition to those partners, the panel also includes: an INE, the firm's NFC Lead and the Director of the Office of the Senior Partner. The Panel ensures that all NFC matters involving partners are consistently and independently assessed. The Panel assesses the matter, decides on the scope of any investigation, identifies the appropriate individuals to lead it, and puts in place any necessary actions required.

Ethics and Independence

Speaking Up – expected, not just encouraged

The firm takes allegations of inappropriate behaviour, whether in the workplace or outside of the workplace, seriously and supports individuals in raising honest concerns. This year, we have had a particular focus on 'Speaking Up'.

We aim to have an environment where people are comfortable about speaking out, where this is not only encouraged, but is expected. We want to create an environment where people not only live our Values in their own work, but are vigilant in identifying potential concerns, and confident about speaking up in such situations.

We expect people to be accountable for their own behaviour but also for calling out other people's poor behaviour and speaking out against misconduct.

The firm has undertaken several initiatives elevating speaking up, embedding new social behaviour policies, and enhancing exit interview procedures to review our speak up culture.

We already had in place a number of mechanisms for how people can speak up. We aim to regularly reinforce these mechanisms to people through a variety of mediums and forums in order to achieve the objective of good awareness and confidence to speak up. Because the value of speaking up flows through almost everything that the firm does, we reference it widely, through internal communication channels and training, in order to demonstrate it as real and relevant to a diverse set of scenarios.

From this and a recent FRC Information Request on speaking up and whistleblowing, we have identified an opportunity to look at how people raise their NFC concerns to combine our whistleblowing with a more simplified speak up mechanism; we will progress this in FY24.

Global approach – connected

Our Global Ethics and Independence team is committed to developing policies and procedures, supported by effective technological solutions, to ensure that the BDO network continues to act ethically and, where required, remains independent both in fact and appearance.

The network's suite of policies and procedures form the basis of the Global Ethics and Independence Management Programme; a framework established to assist member firms to comply with relevant ethical and independence requirements.

The programme is documented in the BDO Ethics and Independence Manual and comprises five elements:

- ▶ Standards and policies
- ▶ Processes, data and tools
- ▶ Training and communication
- ▶ Monitoring and reporting
- ▶ Leadership and governance.

We work with clients and audited entities that operate across multiple jurisdictions, including a large number of PIEs. Working with these businesses 'conflict-free' and maintaining independence, where required, is a priority for the network.

Comprehensive due diligence is performed prior to accepting any new audit engagement or new engagement for an existing BDO audited entity and the maintenance of a database of restricted entities, including listed and other PIEs, that is readily accessible to all partners and employees is an important component of this.

This due diligence, in combination with the global independence and conflict of interest tool, enables BDO firms to collaborate on service provision prior to the acceptance of clients and audited entities.

Furthermore, ongoing monitoring activities are carried out at a global level to ensure that BDO firms remain compliant with the programme and to ensure that BDO continues to meet the demands of the changing environments in which our firms operate.

Such is the importance of procedures and control in this area, that the network is currently in the process of designing and implementing a new generation of entity management system and conflict of interest tool, which will futureproof the system of internal control well into the future.

Further details of BDO's independence and ethics policies can be found at Appendix C.



Ethics and Independence

Looking beyond

In the coming year, as the changes to the FRC's Ethical Standard become clear, we look forward to putting in place changes to our policies, procedures and controls needed to be fully compliant with them. These changes along with both the revised Corporate Governance Code and the Government's changes to the PIE definition, that are also expected to crystallise next year, promise significant changes in regards to the audit of a number of audited entities that are currently outside of the PIE framework.

We have also undertaken significant investment in the development of our new network-wide Conflict of Interest and Entity Management platform. Next year will start to see the fruits of our investment as the first phase completes roll out and the final phase approaches completion, thus enabling us to respond more quickly to engagement take-on.



Internal Control Systems and Risk Management

The AFGC 2016 requires the firm to conduct, at least annually, a review of the effectiveness of the firm's internal control systems, including financial, operational, compliance controls and risk management systems as well as to promote an appropriate culture underpinned by sound values and behaviour within the firm. It also requires the firm to carry out a robust assessment of the principal risks facing it.

Our LT assumes the ultimate responsibility for the firm's internal control systems.

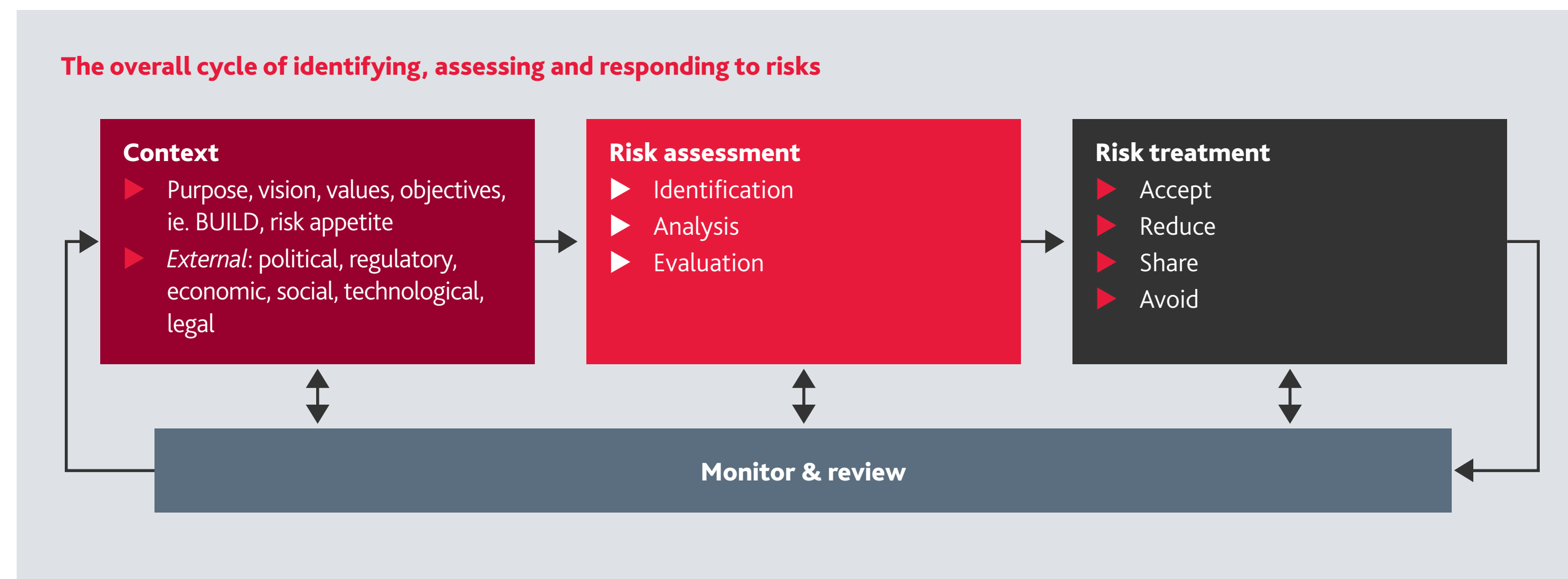
Our compliance statements with the AFGC 2016, Article 13 (2) (d) of the EU Regulation and the Local Auditors (Transparency) Regulations 2020 have been included at Appendix J. Further details on how we have complied with the disclosure requirements have been included in Appendices K, L and M.

Mitigating top risks – analysed and updated

We monitor, manage and mitigate the risks we face through a robust internal control system that combines policies, processes and controls; a focus on risk management and both preventative and reactive measures.

An important element of governing any firm is to identify and manage risk. At BDO we have identified our top risks and put in place key mitigation activities to manage those risks. Our top risks (detailed at Appendix F) have been reviewed and challenged by the QRMC this year, combining both top-down and bottom-up perspectives and evidence in order to identify new risks and consider whether existing risks are still relevant.

The QRMC received periodic updates from business units as well as regular updates on internal compliance reviews, internal audit reviews, information security risks, engagement acceptance and economic crime matters, regulatory inspections, claims and other risk events. These were all factored into the QRMC's review of risks. In addition, the review considered risk experience since the last



review and was also forward looking in nature, utilising internal and external publications and the knowledge and awareness of the QRMC to highlight emerging risks for the year ahead and beyond. The top risks were then reviewed and approved by the LT. Details of individual risks and mitigation activities can be found in Appendix F.



Internal Control Systems and Risk Management

We have continued to monitor and respond to impacts on the firm arising from the geopolitical and humanitarian crisis driven by the war between Russia and Ukraine. In line with BDO's global policy and UK regulations we will not work with sanctioned Russian or Belarussian entities including the Russian and Belarussian Governments, Russian and Belarussian state-owned enterprises and sanctioned individuals. Even when an individual or organisation is not on a sanctions list we consider the commercial, economic crime and reputational perspectives carefully. We also adhere to relevant professional guidance set out in the Consultative Committee of Accountancy Bodies' joint statement to the profession dated 2 March 2022.

The firm's risk reporting system ensures that risk event reports are escalated to the appropriate level so that the firm's leadership are aware of the risk and can respond appropriately to address the risk. Our partners and staff are required to report complaints, claims and circumstances that could lead to claims and/or regulatory intervention to our central Quality and Risk Management (QRM) Team. This ensures that when a risk event is reported, the appropriate resources and specialist expertise are applied to the incident, including reports to professional indemnity insurers.

The Legal Team, who sit in the QRM Team, are responsible for the firm's Professional Indemnity policies, regulatory investigations, claims and complaints. For further details on investigations refer to Appendix E.

Three lines of defence – remain in place

We operate a three lines of defence model to monitor and manage risks and internal controls.

The first line of defence comprises operational management who have responsibility for identifying and managing risks, operating robust internal controls and upward reporting on the operation of those controls.

The second line of defence comprises the functions that oversee quality and risk management. They also provide policies, frameworks, tools, techniques and support to enable risk and compliance to be managed in the first line. They carry out testing of controls and monitor outcomes. These functions include the firm's QRM Team, the AQD and the Ethics Team.

The third line of defence is independent assurance provided by Internal Audit and certain external providers (e.g. ISO 27001 certification). Their main role is to ensure the first and second lines are operating effectively and to consider how they can be improved.



Our QRM Team conduct an annual Assurance Mapping exercise in order to identify the main sources and types of assurance across the three lines of defence, to co-ordinate the three lines to best effect, and to determine priorities for further assurance activities.

Internal audit – reviewed and plan to strengthen

The firm's internal audit function reports to the AC who reviewed and approved the Internal Audit plan of activity for the year, which is based on an overall three-year plan. The Internal Audit plan is primarily driven from the firm's Top Risks and includes both service stream and PMD specific audits.

As outlined in the Governance section, during the year we have reviewed our Internal Audit provision and deliberately chosen to increase it.



Internal Control Systems and Risk Management



Global compliance reporting system – remains active

This a programme developed by Global for the purpose of reporting, compiling and monitoring the internal governance, risk and compliance information of BDO firms and at the same time help BDO firms to reach all their quality objectives, encourage continuous improvement and provide transparency throughout the network.

Commercial contracts and procurement – increased team

We continue to use centrally created templates for our engagement letters and standard terms of business, which are reviewed and updated periodically. Quality and Risk teams within each stream tailor these templates and insert stream-specific requirements where appropriate. Within the audit stream, responsibility for this process rests with the TSG. Any material amendments to standard engagement terms are subject to review and approval by our central Commercial Contracts and Procurement (CCP) team. All procurement activity, including the engagement of suppliers relevant to the delivery of audits, is subject to our procurement policy and process which is the responsibility of the CCP team (part of the QRM Team).

In the last year, a new internal procurement team structure has been established to replace a previously outsourced provider and a procurement transformation project initiated which has included a spend review for our top suppliers, including a verification of supplier due diligence and implementation of additional controls within the supplier due diligence process.

Confidentiality and information security – clear and active

All BDO Member Firms must have policies, procedures and training in place in respect of confidentiality, data protection, and information security and must comply with the BDO Global Information Security policy and Global Privacy policy.

We are committed to protecting the privacy of our clients' and audited entities', partners' and employees' personal information. Misuse or loss of confidential information or personal data could result in financial, operational and reputational damages.

To ensure that the use and circulation of personal data within the BDO network is safe and in line with data privacy principles, the BDO Global Office created the BDO Global Privacy Programme. This is an awareness and compliance programme that supports all BDO firms in meeting their obligations under privacy laws. It contains tools, guidance and information that will help BDO firms, partners, staff and anyone else engaged or retained by BDO firms, and the BDO network, to respect and appropriately protect personal data, as well as to create a culture of privacy within the BDO network.



Responsibility for information security in BDO LLP lies with the Chief Operating Officer, Andy Butterworth. The Chief Information Security Office is responsible for the firm's information security framework and cyber incident response processes. There is also a security function in the IT team who are responsible for managing, monitoring and maintaining the firm's security controls.

Partners and employees are bound by the duty of confidentiality, one of the fundamental principles of the ICAEW's Code of Ethics, which precludes them from disclosing to third parties confidential information acquired as a result of professional and business relationships, unless there is a legal or professional right or duty to do so.

BDO LLP has appointed a partner as Data Protection Officer with responsibility for ensuring compliance with relevant legislation. Mandatory data privacy training is part of the induction for all partners and employees and annually all partners and employees are required to complete e-learning on data protection and on cyber security.

BDO LLP is registered with the Information Commissioner as a data controller. Details of our registration can be found on the ICO website under registration Z5799637. BDO LLP operates an information security management system, which is certified as compliant with the requirements of ISO/IEC 27001:2013 and is audited bi-annually by the BSI.

Internal Control Systems and Risk Management

Internal quality control – progressing

Our internal quality control framework is designed to ensure that our partners and employees comply with the professional standards, regulatory and legal requirements, including those relevant to local auditors. As described throughout the report, a number of deficiencies have been identified and our SQP and strategic Audit Quality Plan has been developed to address those deficiencies as explained in the Audit Quality section of this report.

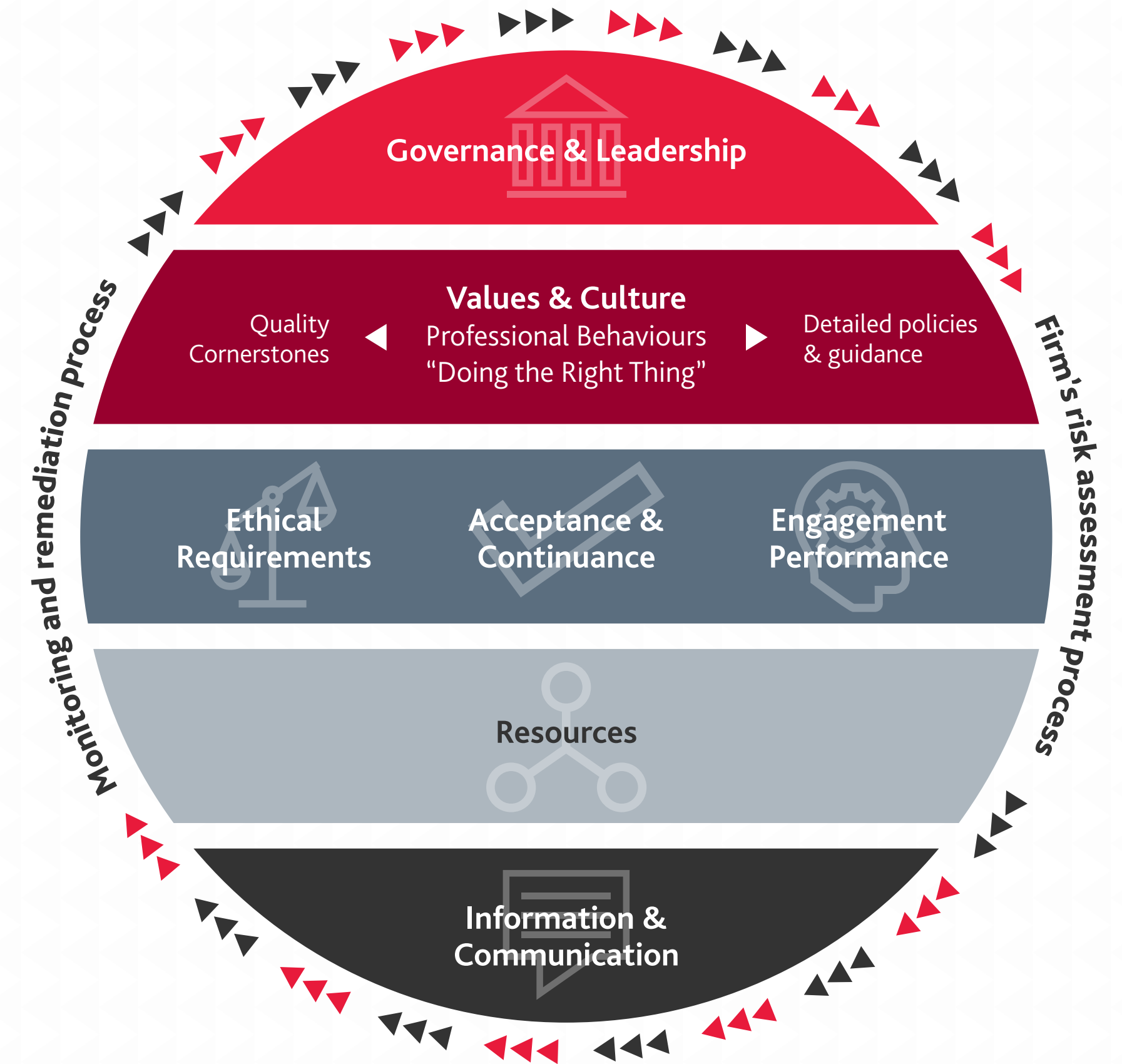
In this financial year, we have devoted significant efforts to the design and implementation of the new quality management standard, ISQM(UK)1, ISQM(UK)2 and ISA (UK) 220 as well as beginning monitoring of the framework. Our first evaluation date of our SOQM under ISQM(UK)1 is set as 30 September 2023.

ISQM(UK)1 is a significant change from ISQC(UK)1 as it requires a quality management approach to establish a SOQM that is risk based and proactive, supported by enhanced monitoring and timely and effective remediation of any identified deficiencies.

The LT has continued to prioritise the implementation of ISQM(UK)1 and the establishment of a monitoring programme by creating an ISQM(UK)1 delivery team led, since April 2023, by the recently appointed Chief Audit Risk Officer (CARO), who reports to the LT Lead for Quality and Risk. The delivery team is supported by a Steering Committee comprising partners and directors with a range of experience in audit risk and quality, risk and controls frameworks, ethics, governance and regulatory requirements. The Steering Committee will continue to operate while we fully embed our SOQM under ISQM(UK)1.

We have assigned responsibilities for the SOQM as required by ISQM(UK)1 as follows:

- ▶ Ultimate responsibility and accountability: assigned to the LT, chaired by our Managing Partner, Paul Eagland
- ▶ Operational responsibility: assigned to a committee of partners and senior leaders who lead on components or quality and risk within service lines that fall in the scope of ISQM(UK)1. The committee is chaired by Ryan Ferguson, Head of Audit Quality and Risk
- ▶ Operational responsibility for compliance with independence requirements: assigned to David Isherwood, Ethics Partner
- ▶ Operational responsibility for monitoring and remediation: assigned to a committee comprising Gervase Macgregor (LT Lead for Risk and Reputation), Kaley Crossthwaite (LT Lead for Quality and Risk) and Helen Detre (CARO).



Internal Control Systems and Risk Management

ISQM(UK)1 framework

We have adopted all quality objectives and specified responses as set out in ISQM(UK)1. Throughout the period to the effective date of ISQM(UK)1, our focus was on identification of quality risks, and design and implementation of responses to mitigate risks. Since 15 December 2022, we have been embarking on a monitoring programme but we have continued to review and improve our responses as part of our approach to continuous improvement of our SOQM. We recognise the challenge involved in embedding a framework in compliance with ISQM(UK)1 over a rapidly changing audit quality management landscape, which we are constantly evolving to enable us to meet our goal of carrying out consistently high-quality audits. The LT has allocated resources totalling £3.5m for further work on our ISQM(UK)1 programme in FY24.

Our SOQM consists of policies, procedures and control activities which are designed to mitigate one or more of our identified quality risks. We know that we have more work to do to design and implement a more robust SOQM and our Audit Quality section sets out the areas of our quality control framework that we are continuing to improve. Our risk assessment is an iterative process and as we make changes to the policies and procedures in operation in the firm to address newly identified risks the ISQM(UK)1 team works with the business to ensure that these are captured within the ISQM(UK)1 framework.

We will evaluate our SOQM using the results from testing our responses as well as by considering all other evidence which indicates how well our SOQM is operating. This includes the results from our Practice Review process, the outcome of external regulatory reviews by the FRC and other regulators, issues identified through claims, internal and external investigations and any ethical breaches that have occurred in the period.



Looking beyond

In FY24 we will continue our work to design and implement a more robust SOQM across the firm. With risk management in mind, we will also be working to embed the new Quality and Risk Executive into the fabric of the firm and we will report on the work of that Executive in next year's report.



Appendices

- A: Sustainability and ESG
- B: Audit Quality Indicators
- C: Ethics and Independence
- D: Internal Quality Control Systems
- E: External inspections and investigations
- F: Top Risks
- G: Legal Structure and Ownership
- H: Biographies for members of oversight bodies and the LT and information about our INEs
- I: Meeting attendance statistics
- J: Compliance Statements
- K: AFGC 2016 compliance mapping
- L: Local Audit Transparency Regulations compliance mapping
- M: EU Audit Regulations compliance mapping
- N: Financial information required under the Local Auditor and EU Audit Regulations
- O: List of EU/EEA Member Firms
- P: List of Public Interest Audited Entities
- Q: List of Local Major Audits Entities
- Glossary of Terms



Appendix A: Sustainability and ESG

Our operational impact

Environmental

We have retained both ISO 14001 and ISO 50001 accreditation.

Carbon

In December 2022, we published our Transition to Net-Zero roadmap, with our near-term target of halving emissions by 2030.

We applied to the SBTi for validation of our targets, which are in line to achieve the goal of limiting global warming to below 1.5°C. In August 2023, we received confirmation that the SBTi has validated our targets.

Target One: Known as our 'near-term target', our first Net-Zero target is 2030. In that time, we will work to halve our scope 1, 2 and 3 emissions, against a benchmark year of 2020. We'll achieve this by focusing on three workstreams: How we buy, How we travel, and How we work.

Target Two: Known as our 'long-term target', we need to operate as a fully Net-Zero business by 2050 or sooner. This involves removing more than 90% of our emissions by that point. We're of course keen to accelerate this when we can – but our focus for the next seven years is to halve our emissions by 2030.

On behalf of our LT and Operations Board, our decarbonisation programme is overseen by our Decarbonisation Steering Committee, chaired by our Finance Partner, and implemented by our Decarbonisation Working Group.

As we make progress on our transition, we continue to monitor and report on our annual carbon emissions. Our latest data can be found in our Environmental Report on our [website](#).

We have also committed to continue offsetting our residual operational emissions, whilst we work separately on our Net-Zero roadmap. We know that offsetting is not a solution or alternative to reducing our actual emissions – and nor can offsetting be part of our Net-Zero plan – but we are aware of our environmental impact. We are proud of our support for Gold Standard climate protection projects that often bring wider environmental and social impacts to communities where they operate. We are clear that any project that we invest in must be validated and its impact verified in line with the requirements of the VERRA Verified Carbon Standard. Through BaumInvest, we currently fund afforestation projects in Costa Rica.



Like many businesses, BDO's approach to Sustainability and ESG will be a 'work in progress' for many years to come. But it is an active journey to improve the quality of data, insights and efficacy of our work over the coming months and years. We recognise that fully embedding Sustainability and ESG into our decision-making and delivering sustained improvements over the longer term will take years of concerted effort. But, importantly, we are making progress and are fully committed to continuous improvement, being bold and genuine as we go.

Claire Snowdon
Sustainability and ESG Lead (Operations)

Climate

We have been producing our first set of climate disclosures, in line with the Task Force on Climate-Related Financial Disclosures (TCFD) which will be published in our FY23 financial accounts. We are subject to climate-related disclosure regulations set out in the LLP Act. These regulations require us to make

similar, but not identical, disclosures to those recommended by the TCFD. As part of our global membership of the Glasgow Financial Alliance for Net-Zero, we are encouraged to report against the 11 TCFD recommendations. Therefore, in our Energy and Carbon Report we set out for the first time our understanding

Looking beyond

Our Sustainability and ESG Board will host informed debates to move towards full compliance with TCFD and to better understand our relationship to, and impact on, nature and biodiversity.



of how climate change may impact our business and operations, and our strategies to manage this over different time horizons. The process we have undertaken to complete this disclosure has been collaborative and provided valuable insights that we will build on through this coming year and beyond. We have convened a Climate Risk Working Group to oversee the actions that we have identified as next steps, such as quantitative scenario planning and training.

Appendix A: Sustainability and ESG

Our operational impact

Social

As a large employer with 7,500 people working across the UK, we believe the Social element of ESG is where we can have a particularly positive impact.

This starts with an environment in which our people are inspired and challenged, collaborative, included and able to be themselves, and successful in delivering high quality in all they do.

Our cultural priorities focus on three major social agendas: Wellbeing, ED&I (which BDO refers to as 'Be Yourself') and Citizenship. Read Our Culture and Our People section for more. We also capture more detail, progress, actions plans and stories in our annual Culture and Impact Report.

One area in which we believe we can have a positive impact is Social Mobility. We:

- ▶ Are founding partners of Access Accountancy and RISE, and have this year committed more, and more senior, resources to the latter
- ▶ Continued to work with #10000BlackInterns, The Ahead Partnership, Leadership Through Sport and Business, and Tax Aid
- ▶ Have boosted our existing strategic partnerships with three more: Teach First, to address educational disadvantage; Social Enterprise UK, where we join a community of supporters of social enterprises and have signed up to join the Social Procurement Connect programme; and Getting On Board, supporting people to become charity board trustees.

We publish our detailed [Modern Slavery Act Statement](#) each year and we have a dedicated working group (comprising decision-makers from Quality and Risk, Operations, Procurement, and Communications and ESG) to tackle modern slavery, reporting directly to our Operations Board.

Looking beyond

Our Sustainability and ESG Board is reviewing the firm's Social Impact to create a longer-term programme for how we boost positive impact and mitigate any negative impact. 60% of people at BDO believe we have a positive impact; a statistic we aim to improve as we work to have an even greater positive impact.



Appendix A: Sustainability and ESG

Our operational impact

Governance

In terms of firmwide governance, we have been bedding in our updated governance structure following our comprehensive review of this area last year. You can read more about this in [the Governance section](#).

In terms of ESG governance, our Sustainability and ESG Board continues to act as an advisory group for our LT, horizon-scanning on the impact of the prominence of Sustainability and ESG on our firm. The Sustainability and ESG Board expanded its membership this year by two members: our new operational ESG Leader, Claire Snowdon, and a second employee voice role to focus on the Environment, Rachel Scanlan, who is also co-chair of our Environmental Champions network.

In the last 12 months, we completed our ESG Materiality Assessment. This showed our material factors are Climate Change (E), Diversity & Inclusion (S), Skills Development (S) and Ethical Behaviours (S). Whilst all four are deemed material, it is particularly pleasing to see our people and leaders collectively concluding that 'demonstrating ethical behaviours' is one of the ways BDO will have

the biggest impact on the communities around us. The Sustainability and ESG Board invited our internal subject matter experts on each of these matters into board meetings to brief and debate on these areas. We updated our ESG strategy and are assessing how this impacts our priority programmes and risks.

We continue to report openly on our progress via our annual reports, including our Culture and Impact Report and our Environmental

Report. We are also benchmarked via the EcoVadis platform and the Carbon Disclosure Project. Our work on our first TCFD disclosure for Autumn 2023 has prompted us to review how we integrate climate into our governance processes and decision-making. We have identified changes that we will work to implement in time for our second disclosure in Autumn 2024; more detail can be found in our 2023 Financial Report on our website.



Looking beyond

Alongside our BDO Global and ESG Hub colleagues, we are reviewing which ESG framework we will utilise for our future decision-making, monitoring and reporting.



Appendix A: Sustainability and ESG

Our ESG services



Boardrooms are actively working to put the sustainability and ESG agenda into context and to place focus on issues of true materiality. The ability to create value, protect value and manage risk against the backdrop of an increasingly turbulent world is a true challenge. It's no surprise businesses need help – and they need it from genuine experts with a diversity of experience and expertise.

Professor Simon Pringle
Head of Sustainability and ESG Hub

The 2023 World Economic Forum Global Risk Report identified that the threat of failing to deliver on climate action will dominate the risk horizon for the next decade. In BDO's own risk survey, 69% of respondents believed that climate change posed a significant long-term risk and 75% indicated a short-term risk to their organisations.

In just two years, the business world has moved from scientific predictions on climate change and sociological forecasts of the impact of social injustice through to lived experience – and now regulation. Climate and nature change has happened and is now visible. Regulatory compliance and sustainability frameworks exist. Businesses need to navigate new market forces in a way that still strengthens their business – and they need to rely on robust data and the right pace of transformation while doing so.

In Advisory

We have been delivering assurance around our clients' carbon emissions measurement for a number of years. Over the last four years, this has developed into a wider service also focusing on climate and ESG risks and opportunities, for example:

- ▶ In Financial Services, we offer climate risk regulatory compliance reviews and assurance, risk assessments and materiality assessments and support in determining how to report on TCFD
- ▶ Our Digital and Risk Advisory Services team (DRAS) have a dedicated team who lead a range of ESG related areas, including:
 - Working cross sector to support businesses respond to the wider international regulatory landscape on areas including Climate-related Financial Disclosures and Corporate Sustainability Reporting Directive. The support provided includes helping to proactively respond to the challenges ahead including evolving the data, processes, controls and supporting technology that will enable consistency of reporting going forward. This often

involves working with our international colleagues to deal with complex business structures and a diverse range of subject matter.

- Providing transaction support, working with stakeholders to bolster their understanding of the ESG agenda and provide assurance on those areas of most significance from TCFD to industry-related criteria.
- Providing advice and assurance in relation to Social related metrics through our dedicated People Advisory Team
- Addressing evolving standards, such as ISSA 5000, which will be the basis of Sustainability assurance going forward, helping shape the draft requirements and working with businesses to understand what lies ahead and how best they can move towards reasonable assurance.
- ▶ Our M&A sector teams have upskilled in Circular Economy knowledge to be well-positioned to advise on how positive Circular credentials drive value.



In the last 12 months, we have established a new Sustainability and ESG Hub working across our Advisory stream.

The Hub itself is a diverse and experienced team of ESG industry specialists, out of fields varying from academia, green finance and sustainable management, as well as consulting. This team is creating specific ESG services to help Advisory and Tax clients on their own transition to become sustainable companies.

But the Hub is also designed to work 'horizontally' across all Advisory teams, as our Hub experts seek to enrich the existing teams with skills and thus integrate sustainability into existing service offerings.



Appendix A: Sustainability and ESG

Our ESG services

This approach means BDO is gearing up to:

- ▶ **Deliver ESG Advisory services**, including strategy consulting, carbon reporting, sustainable finance and support to the commercialisation of clean technology – across a broad range of industries. We have developed and delivered on propositions including ESG Due Diligence, verification on sustainability-backed loans, and readiness for first-year sustainability reporting and assurance, including compliance support to the TCFD reporting mechanism and that of the Sustainability Accounting Standards Board standards. We have launched a People Advisory Services team to help businesses succeed through multiple Social agendas.
- ▶ **Support evolving needs of the business world**, as our Sustainability and ESG experts link into existing projects and engagements as part of increasingly integrated delivery teams, in the UK and internationally. This includes due diligence for transactions, looking at carbon footprint, governance structures, processes and organisational control, through to assurance work, including TCFD risks.
- ▶ **Build capacity and capability**, which means skilling up our teams to apply a Sustainability and ESG lens to their day jobs. We are working on an ESG learning and development programme, as we seek to upskill our people through technical training, internal learning initiatives and secondments. This also includes leveraging the breadth and depth of BDO's international sustainability expertise across a range of ESG performance metrics.



In Tax

We recognise we play an important role in supporting organisations and individuals to be responsible in how they approach tax matters and tax payments. We have created a Responsible Tax programme, recognising that Tax is an important ESG metric for many companies already. This looks at five areas:

- ▶ **Tax risk and principles:** developing tax policies and principles that demonstrate how an organisation's approach to tax is aligned with their ESG vision and its sustainability objectives
- ▶ **Governance and frameworks:** advising on the design and enhancement of tax governance and risk management frameworks to ensure awareness and adherence to tax principles
- ▶ **Specific assurance:** some businesses require assurance to provide an independent level of comfort over the accuracy of the narrative and numbers in their tax report for internal or external purposes
- ▶ **Global tax transparency:** supporting global businesses in adopting various tax transparency initiatives (both multilateral and unilateral) such as CRS, OECD BEPS and EU regulations, and other standards such as GRI207
- ▶ **Compliance with tax regimes and initiatives:** supporting companies and individuals in compliance with a variety of tax regimes and incentives related to ESG, including advising on environmental taxes (e.g. carbon tax, plastic tax), green subsidiaries, carbon adjustment mechanisms and electric vehicle incentives. Tax is also impacted by 'social' considerations and we provide tax advice relating to matters including social insurance, health care and pension premiums, tax impacts of equal pay, and living wages.

Appendix A: Sustainability and ESG

Our ESG services

In Audit

We recognise the growing demand for transparent, accurate information about companies' carbon footprint, decarbonisation strategies and the impacts of climate change – as well as social metrics – on financial performance.

As signatories to the Net Zero Service Providers' Alliance, part of the Glasgow Financial Alliance for Net Zero, we are committed to plan and perform audits in accordance with professional standards and related guidance issued by standard setters, including as they relate to climate-related matters. From the policy perspective, climate risk consideration is mandatory for every one of our audits.

We have set up the Climate and Sustainability technical team that supports our UK auditors, providing guidance and practical support in relation to climate change considerations in our audit approach. We have provided training to all UK auditors on the impacts of climate change on the financial reporting, and continue to embed climate considerations in our methodology, templates, guidance and learning programmes.

As the reporting and regulatory landscape continues to evolve, we aim to play a greater role in providing ESG assurance to help the business world succeed.

Acutely mindful of the potential for any independence conflicts, our Sustainability and ESG Advisory Hub also support our Audit and Assurance teams in providing deep sustainability and sector expertise on emerging ESG reporting and assurance dimensions.

Looking beyond

Sustainability is a global agenda. We will continue to work with our global network to share knowledge, ideas and expertise to help businesses tackle the risks and gear up for the opportunities. We expect to expand our services and skillsets – through people development, strategic partnerships, new hires and technology – to meet market need, and we'll do so in a way that gives real, and expert, value in our chosen markets.



Appendix B: Audit Quality Indicators

We use AQIs to help provide insight into audit quality internally and as a source of information for business intelligence (i.e. correlations to audit quality). We are working to align AQIs with our Root Cause Analysis needs, for both identifying good practice and areas requiring improvement. This, in turn, is expected to help develop appropriate corrective actions, the effectiveness of which can then be re-assessed by our AQIs.

We note that our external stakeholders, such as audit committees and regulators, will use AQIs when assessing the quality of our external audits as well as to monitor the overall trend of audit quality within the profession. We continue to collaborate with the FRC and additional wider stakeholders in our continued understanding of what 'good practice' represents in the use of AQIs. Internally, we are continuing to re-assess our selection of AQIs parallel to the evolution of our SQP, the implementation of ISQM(UK)1 and the FRC's AQIs Consultation (dated 22 June 2022).

This year, as in previous years, we have chosen to include metrics additional to those suggested by the Policy and Reputation Group, which form part of the suite of metrics that we review internally to monitor any impact they may have on audit quality.

Audit Quality Measures

These measures can be used to assess our internal quality management processes (e.g. internal monitoring systems) as well as the quality of engagement performance (the outcomes/findings of the internal monitoring systems). The reported results are indications that the quality of individual engagements are adequate or inadequate, but further work would be required to understand if the identified issues are isolated or systemic.



Metrics on external investigations related to our audits

AQI definition	Metric FY23 (FY22)	Commentary
Number of cases in the last 12 months (2 July 2022 – 30 June 2023) in which the FRC's Conduct Committee has found against the firm or one of its partners	0 (0)	No such cases occurred during the year to 30 June 2023.
Number of cases in the last 12 months (2 July 2022 – 30 June 2023) in which the equivalent of a Conduct or Disciplinary Committee of any other Regulatory Body has found against the firm or one of its partners	1 (0)	During the financial year there was one audit case found against the firm by the ICAEW, details can be found on ICAEW's disciplinary database . Where we have enquiries from the ICAEW we are committed to working constructively with them to resolve these. Further details of the ICAEW's disciplinary process can be found at www.icaew.co.uk .

Metrics on external investigations related to our other matters

AQI definition	Metric FY23 (FY22)	Commentary
Number of cases in the last 12 months (2 July 2022 – 30 June 2023) in which the FRC's Conduct Committee has found against the firm or one of its members	0 (0)	No such cases occurred during the year to 30 June 2023.
Number of cases in the last 12 months (2 July 2022 – 30 June 2023) in which the Disciplinary Committee of any other Regulatory Body has found against the firm or one of its members	0 (1)	No such cases occurred during the year to 30 June 2023.

Appendix B: Audit Quality Indicators

Metrics on audit quality reviews (external)

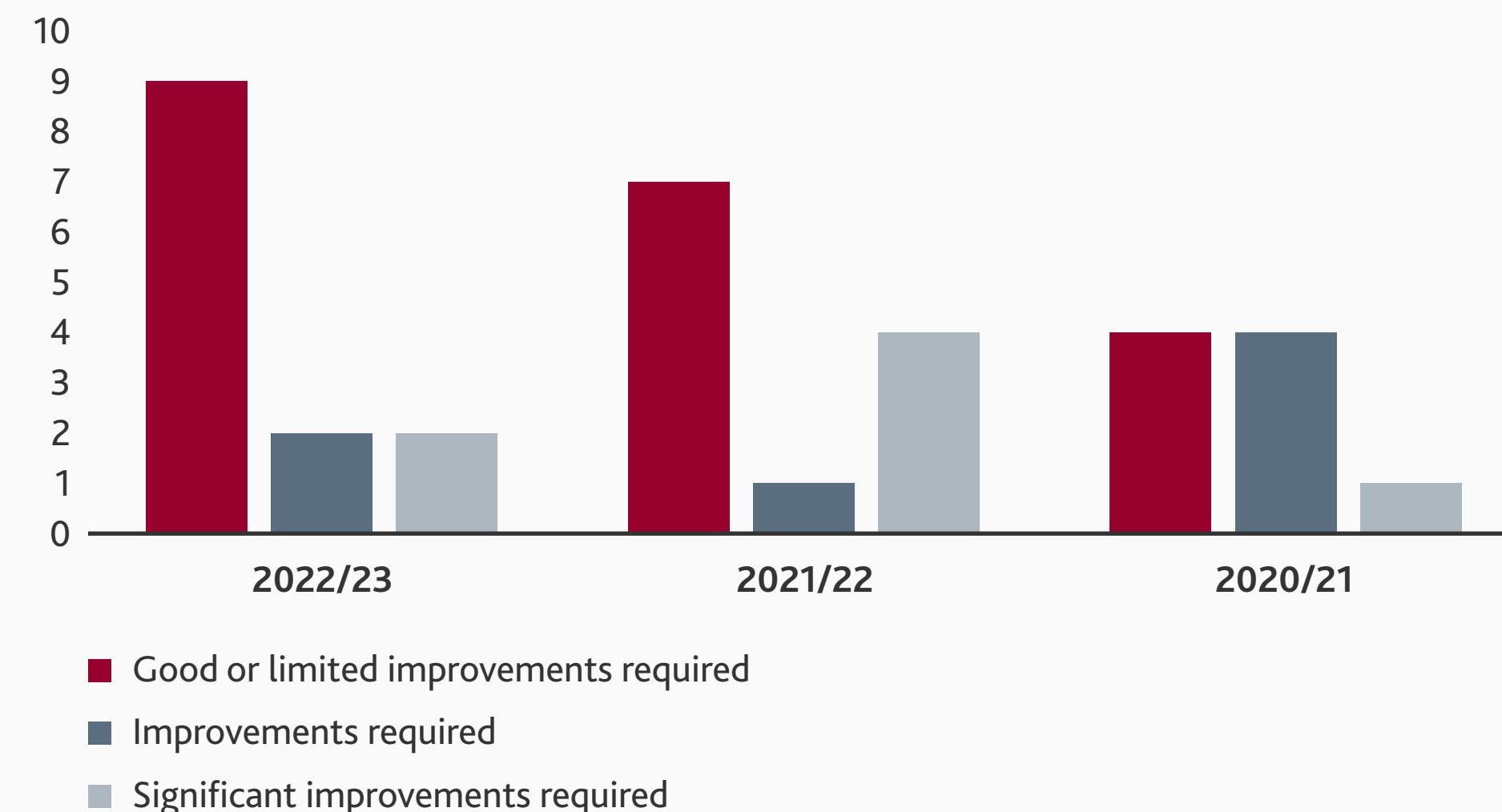
Results of inspection by the FRC's AQR

The FRC's AQR report focuses primarily on the audits of PIEs. The AQR team reviews a sample of individual audits and assesses elements of our quality control systems. Separately, they provide thematic reviews on a periodic basis, which help facilitate our efforts in continuous improvement.



The most recently completed AQR report for the 2022/23 cycle was published in July 2023, and was in respect of engagements with year-ends ranging from December 2020 to March 2022. The full 2022/23 AQR report on BDO can be found at: [FRC BDO LLP Public Report July 2023](#).

AQR results

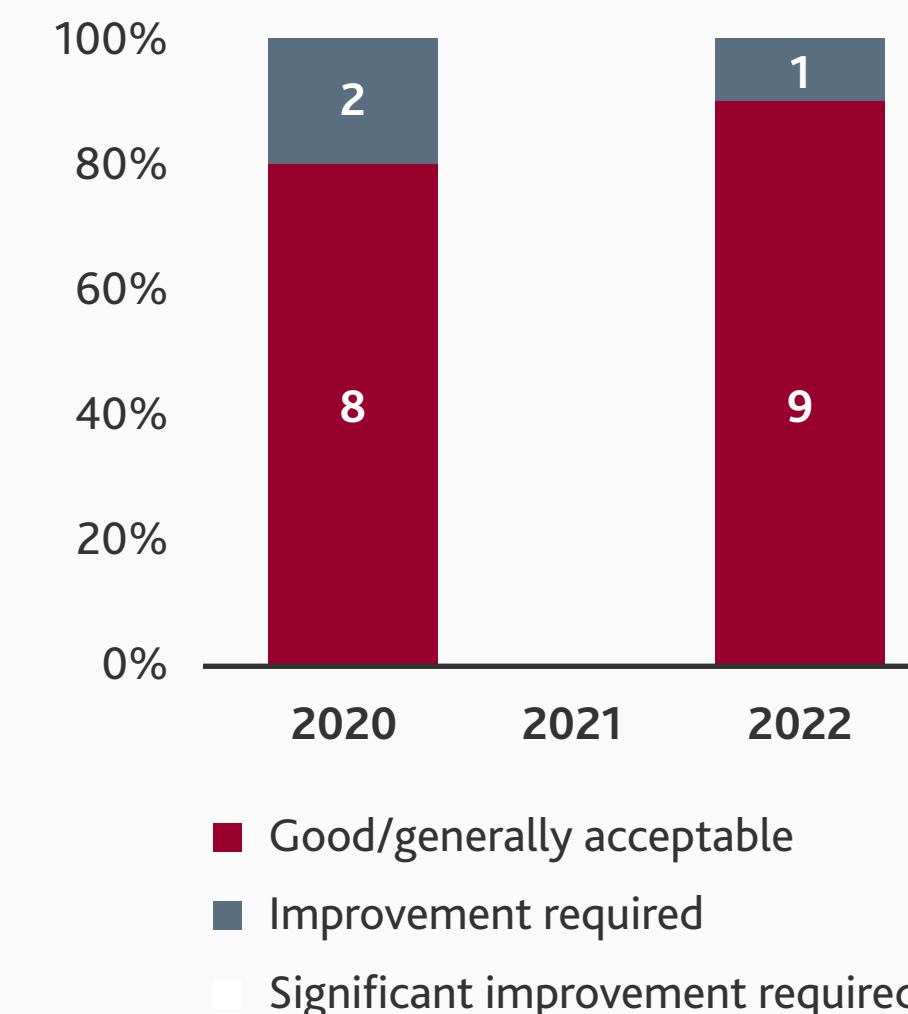


Results of inspection by the QAD of the ICAEW

The QAD undertakes inspections of UK statutory audits which are outside the scope of the AQR's inspections. The firm receives a private annual report from the QAD documenting its findings and a summary of the inspections is included as an appendix to the FRC's AQR report on the firm.

The most recently completed review by the ICAEW's QAD for 2022 was included in the FRC's July 2023 report and was in respect of engagements with year-ends ranging from September 2020 to December 2021. Whilst the full 2022 report of the QAD in respect of BDO has not yet been published, the summary of the inspections can be found at: [FRC BDO LLP Public Report July 2023](#).

The overall conclusion of the QAD was 'Overall, the audit work continues to be of a generally good standard.' Of the ten reviews, nine files were graded good or generally acceptable, and one file required improvement. The overall profile of results is relatively consistent with our previous QAD



inspection results. Across the sample of audit reviews, the ICAEW identified one recurring theme related to contract accounting. The ICAEW also identified and communicated good practice points.

Appendix B: Audit Quality Indicators

Results of inspection by the FRC of MLAs

A MLA is defined within the Local Audit (Professional Qualification and Major Local Audit) Regulations 2014, and the performance of audit firms conducting said audits is monitored by the FRC.

The firm has had one MLA inspected in the period covered by this report for both the financial statement audit and the work to support the Value for Money arrangements.

Metrics on audit quality reviews (internal)

Results of firm's Practice Review

Both the current year and comparative data include all UK audit engagements and as applicable, UK overseas territories audits performed by BDO UK. Any comparison of results year-on-year should recognise we continually seek to refine our approach to internal reviews, to ensure they are consistent with the latest regulatory developments and continue to be sufficiently challenging and robust.

Practice Review results

Grade	2022 completed	2022 %	2021 completed	2021 %	2020 completed	2020 %
1 – Good	14	67%	63	72%	62	69%
2 – Acceptable with limited improvements required	51					
3 – Improvements required	15	16%	14	16%	17	19%
4 – Significant improvements required	16	17%	11	12%	11	12%
Total	96	100%	88	100%	90	100%

The grading categories used in this table are:

Good: This grade covers audits where there are no identified key findings and other findings are limited in number.

Acceptable with limited improvements required: This grade covers audits where any key findings are limited both in significance and in number.

Improvements required: Generally, an audit is graded 'improvements required' where there are a number of key findings relating to a flawed audit approach leading to weaknesses in the audit evidence obtained, there are omissions / errors in the documentation of the audit evidence and / or the significant judgements reached in significant risk areas, or where there are some concerns in relation to the appropriateness of one or more significant audit judgements, the impact of which is unlikely to be material.

Significant improvements required: Audits are graded 'significant improvements required' where the audit procedures planned or audit evidence obtained did not provide reasonable assurance that no undetected material misstatements, individually or collectively, in the financial statements were present; or there are significant concerns in relation to the appropriateness of one or more of the significant audit judgements, the impact of which was likely to be material.

In the latest review cycle (2022), 31 engagements were rated as either 'Improvements Required' or 'Significant Improvements Required'. The increase in the percentage of files rated as either 'Improvements Required' or 'Significant Improvements Required' year-on-year has been addressed in the Audit Quality section. Root Cause Analysis is performed over some of these engagements on a thematic basis.

Our approach to Practice Reviews is such that each non-financial services RI will normally be subject to review every two years, with financial services RIs normally being subject to review every year and RIs receiving an 'Improvements Required' or 'Significant Improvements Required' grade being reviewed in the subsequent year to the grading. 59% of RIs (based on number of RIs as at end of FY23) were subject to Practice Review during the 2022 cycle.

Appendix B: Audit Quality Indicators

Operational Metrics

We consider the number of Audit stream staff members in the UK firm, including new hires and leavers during the period, as indicators of the consistency of the firm's engagement teams. We hold that consistent teams assist in improving our audit quality and maintaining professional knowledge within the firm, whilst recognising that adding new staff will promote new and fresh ideas, ultimately improving and achieving high audit quality. This is in line with our key priority to continue to invest, over and above the existing approved £8m programme of additional investment, in our central audit quality infrastructure (the AQD).

Furthermore, whilst knowing the right number of RIs to have against staff will be dependent upon the firm's engagement portfolio, a higher proportion of senior engagement team members may indicate that the firm possesses the right levels of experience and knowledge to benefit audit quality.

Metrics on staff recruitment and retention

AQI definition	Metric FY23 (FY22)	Commentary
Opening number of permanent partners and staff members within the audit stream (as at year end date)	2,691 (2,299)	In both years, our targeted investment in expanding the size of the AQD has represented a core pillar of our strategic commitment to quality. We believe that our staff turnover appropriately reflects the profile of our business and we have huge pride in the exceptional talent of all of our people, even after they leave the firm. The minor variances identified in the Headcount Reconciliations for both FY22 and FY23 are reflective of individuals either moving from Professional to Support Roles or Casual Workers to Regular Employees during the period, which are not regarded as either New Joiners to/ Leavers from the Audit Stream per the definitions provided above.
Number of newly recruited and internally seconded/transferred permanent partners and staff members to the audit stream within the period 2 July 2022 – 30 June 2023	1,145 (1,179)	
Number of leavers and internally seconded/transferred permanent partners and staff members from the audit stream within the period 2 July 2022 – 30 June 2023	(842) (776)	
Closing number of permanent partners and staff members within the audit stream (as at year end date)	2,985 (2,691)	

In addition, the Audit stream utilises Extended Delivery Teams in South Africa, Mauritius and India to provide additional resources. The total number of staff in the Extended Delivery Teams at 30 June 2023 was 404 (1 July 2022: 356). Please note that, during the year ended 30 June 2023, the Audit stream included all Extended Delivery Team individuals on our BDO UK people management systems in order to enhance the visibility of time spent on training and learning activities. Prior to this time, the full time equivalent was a calculated amount based on assumptions and did not reflect the actual number of heads contracted.



Appendix B: Audit Quality Indicators



Metrics on RIs

AQI definition	Metric FY23 (FY22)	Commentary
Number of RIs within the audit stream (as at year end date)	162 (153)	Our total number of audited entity-facing permanent staff members within the Audit stream has increased over the past year. Much of this is due to our increased focus on quality, and has focused on grades below that of RIs, which has resulted in a decrease in the ratio of RIs to non-RI audited entity-facing permanent staff members within the Audit stream.
Ratio of RIs to non-RI audited entity-facing permanent staff members within the audit stream (as at year end date)	5.6% (5.9%)	

Investment Metrics

We consider the average time, and total number of hours, charged to approved BDO mandatory training codes by qualified (and equivalent grade) Audit stream partners and staff members during the financial year, split by grade, as indicators of the firm's investment in improving audit quality and maintaining professional knowledge.

Specifically, all qualified staff are required to view regular technical webcasts hosted by the AQD ('Audit Quality Live Events') and Ethics and Independence Teams ('sAnCTION'). These approximately one-hour sessions provide updates on corporate and financial reporting, auditing and regulatory information, as well as risk management and investigation resolutions, to the Audit stream partners and staff members. Attendance at these sessions is monitored and is specifically presented below for reference.

We additionally recognise that, against the backdrop of intense scrutiny of the accounting profession, the ICAEW are introducing revised CPD requirements from 1 November 2023, and believe that the training being undertaken will allow our partners and staff to meet the CPD requirements.

Further description of the learning and development programmes provided to our partners and staff members during the financial year can be found in the Our Culture and Our People section.

Appendix B: Audit Quality Indicators

Overall metrics on investment in training

AQI definition	Metric FY23 (FY22)	Commentary
Average time (in hours) charged to approved BDO mandatory training codes by our qualified (and equivalent grade) Audit stream partners and staff members during the financial year	140.8 (120.3)	<p>Please note that the metrics hereby presented are on the basis of the complete and accurate time charging by our audit partners and staff members to approved BDO mandatory training codes.</p> <p>From October 2022, the Audit Quality Live Events programme was introduced. These 1 hour monthly webcasts covered topics relating to regulatory results, the latest accounting and auditing methodology updates and key findings from internal review programmes. They are mandatory for all Assistant Managers and above.</p> <p>This programme replaced the firm's weekly 30-45 minutes RIs' training calls, previously applicable to higher grade Assistant Managers and above.</p> <p>Furthermore, in FY23, a bespoke training programme for all Assistant Managers and above was performed in line with the implementation of ISA (UK) 315 Revised. This was in conjunction with the novel application of the BDO UK revised Revenue Methodology and associated training not present in FY22.</p> <p>The firm will continue to monitor these metrics in light of the changes to CPD requirements to be introduced by the ICAEW in November 2023.</p>
Total time (in hours) charged to approved BDO mandatory training codes by our qualified (and equivalent grade) partners and staff members during the financial year	222,868 (154,243)	<p>Please note that the metrics hereby presented are on the basis of the complete and accurate time charging by our audit partners and staff members to approved BDO mandatory training codes.</p> <p>The trends in Total Time charged to approved BDO mandatory training codes by our qualified (and equivalent grade) Audit stream partners and staff members during the financial year are noted as consistent with the commentary provided above in respect to Average Time charged to approved BDO mandatory training codes by our qualified (and equivalent grade) audit stream partners and staff members during the financial year.</p>

Firm-specific metrics on investment in training

AQI definition	Metric FY23 (FY22)	Commentary
'Audit Quality Live Events' Training Completion Rate for the period 2 July 2022 – 30 June 2023	99.7% (N/A)	Please note that this metric was not applicable for FY22 due to the Audit Quality Live Events programme being introduced in October 2022. Relevant mandatory training was provided prior to the introduction of this programme.
'sAnCTION' Training Completion Rate for the period 2 July 2022 – 30 June 2023	99.7% (N/A)	Please note that this metric was not applicable for FY22 due to the 'sAnCTION' programme being introduced in September 2022. Relevant mandatory training was provided prior to the introduction of this programme.



Appendix B: Audit Quality Indicators

Culture and Behaviour Metrics

As we continue to build and evolve our purpose and values-led culture within the Audit stream (through adoption of the 'BUILD' strategic framework, and specifically, through introduction and embedding of 'High-Performing Teams and Audit Specific Behaviours' in the remainder of 2023 and beyond), understanding where we are on this journey is important as it will inform the decisions we make as an Audit stream.

As a result, we consider the 'Favourable' responses provided to a representative sample of questions from our annual Audit Quality Survey, in conjunction with the Response Rate achieved for each instance of the Survey, as an indicator of the firm's progress on audit culture initiatives and staff engagement.

The results presented here are from the annual Audit Quality Survey which was issued to the Audit stream in May 2023. These results, along with the results of other surveys, are reviewed by the AQD and the Audit Executive to help identify ways to improve audit quality and to highlight areas where further improvement is required. All results (both 2023 and 2022) represent the combination of 'Strongly Agree' and 'Agree' responses, unless otherwise stated in the Explanatory Notes.

Metrics on culture within the audit stream

AQI definition (Question from the Audit Quality and Public Interest Survey)	Question Domain	2023 (Response Rate)	2022 (Response Rate)	Explanatory Notes
I believe I am personally responsible for the delivery of quality on an engagement	Quality	97% (23%)	97% (36%)	Consistency identified in this high-scoring result indicates continuing success in embedding the importance of quality and accountability into the Audit stream.
I believe that the engagement leaders I work with demonstrate a commitment to consistent high quality through their actions and behaviours	Quality	95% (23%)	95% (36%)	The statement in the 2022 survey was 'The leaders I work with demonstrate a commitment to performing high quality work through their actions'. Consistency identified in this high-scoring result indicates continuing success in embedding the importance of quality and accountability into the Audit stream.
I believe that BDO is committed to the delivery of consistent high-quality audits that serve the public interest	Quality	95% (23%)	95% (36%)	The statement in the 2022 survey was 'BDO is committed to the consistent execution of quality engagements in serving our clients, investors and capital markets'. Consistency identified in this high-scoring result indicates continuing success in communicating the importance of quality and accountability into the Audit stream.
I personally have sufficient time and appropriate resources to deliver consistent high quality audit work	Resourcing	57% (23%)	21% Yes, 41% Sometimes (36%)	The 2022 result was based on yes/sometimes responses to the statement 'I, personally, have sufficient time and resource to do my job' within the Audit Resourcing Survey issued in May 2022. The sufficient and appropriate resourcing of our audit engagements remains a key priority. We have resigned from over 450 audits and added circa 100 new audits to re-shape the audit portfolio, while recruiting almost 30 lateral hire partners and 700 additional audit professional staff net, including partners, over the past two years. This has translated into utilisation rates reducing not only below the peak in COVID but back to long-term trends. We will continue investment and the review of the allocation of work across all grades within audit, and monitor this indicator in conjunction with other resourcing-related metrics during the period.

Appendix B: Audit Quality Indicators

Other Reportable AQIs

The final two reportable AQIs detailed below relate to our ongoing investment activities in technology, research and development and activities with our external stakeholder community. Whilst these are not specific metrics/measures, these activities are considered important given the firm's obligations to act in the public interest.

Our ongoing investment activities in technology, research and development

Our investments in innovation and quality are continuing to transform the way our audits are performed. During the period, we have continued to invest into our signature journals analytics programme, BDO Advantage, which seeks to streamline our audit methodology, drive audit efficiencies and generate further insights for both our audited entities and our audit teams. We are seeking to build upon the effectiveness of data analytics through the deployment of an updated 'Financial Analyser', due to be released in FY24.

Furthermore, with the 'Shopping for Assurance' programme, our TRA Data Analytics Team have developed a wider suite of data analytics tools and standardised testing approaches, in line with BDO audit methodology; this is intended to be deployed to the audit stream in FY24. This is envisioned to instil greater value and deeper insights throughout our audits, which we believe will also help standardise our audit work to drive consistency in quality.

Finally, we have continued to invest in our audit documentation software, APT, throughout the period, and will continue to do so in FY24. We recognise that the strength of our audits depend on the functionality and capabilities of our tools, and continue to upskill our Audit stream partners and staff in utilising the latest technologies available to drive fresh, new perspectives on the most effective and efficient way to complete our audits.

Metrics on culture within the audit stream (continued)

AQI definition (Question from the Audit Quality and Public Interest Survey)	Question Domain	2023 (Response Rate)	2022 (Response Rate)	Explanatory Notes
The learning, coaching and development I receive from BDO enables me to deliver consistent high-quality audits	Training	85% (23%)	85% (36%)	<p>The statement in the 2022 survey was 'The learning, coaching and development I receive from my firm has prepared me for the work I do'.</p> <p>Consistency identified in this result indicates continuing success in developing the appropriate training pathways and coaching opportunities within the Audit stream.</p> <p>We will continue to review and adapt our training programmes in line with the latest accounting and regulatory updates to ensure our audit staff training programmes remain fit for the future.</p>

Our ongoing commitment to investor liaison

We remain keen to develop communication with the investor community. BDO seeks to engage with investors to improve our understanding of their key priorities in respect of audit quality, market reform and emerging issues. Typically we seek to engage through multi investor organisations such as the Investor Forum but remain open to dialogue with any individual institutional investor. We also seek to engage with the

community of Audit Committees Chairs both at an individual level and through bodies such as the Audit Committee Chairs Independent Forum in order to understand their views on important profession issues such as audit quality, competition and reform. Finally we engage with the community of small and midcap public companies through the Quoted Companies Alliance on a wider range of issues including regulation, governance and corporate reporting.

Appendix C: Ethics and Independence



Ethics and independence are of fundamental importance to our culture and success. As a professional services firm, we are required to adhere to a number of UK and international ethical and independence standards, including the ICAEW Code of Ethics, the FRC's Revised Ethical Standard and the IESBA International Code of Ethics for Professional Accountants.

Integrity, objectivity and independence are at the core of our culture and our business. Our policies and procedures are in line with, or exceed, regulatory requirements including those relating to local public sector audits.

In terms of regulatory obligations, we have a responsibility at a firm level to follow the FRC's Revised Ethical Standard (2019) and the ICAEW Code of Ethics (2020), as well as a global network requirement to comply with the IESBA International Code of Ethics for Professional Accountants.

We set out below the most significant aspects relating to compliance with these standards.

Financial interests and relationships

In order to comply with relevant ethical standards, we have policies in place that prohibit the firm, its partners and persons closely associated with them and its staff and their immediate family members from holding a financial interest in an audited entity or a significant affiliate of an audited entity. As part of the enhancing controls in this area, the firm has implemented a new financial interest compliance platform. This is a mandatory requirement for all partners, principals, and directors and significantly increases the strength of our internal controls in this area.

Additionally, the firm, covered persons (as defined by the FRC) and persons closely associated with them may only enter into business relationships with any of the firm's audited entities or their affiliates where they:

- ▶ Involve the purchase of goods and services from the audited entity in the ordinary course of business and on an arm's-length basis and where the value involved is not material to either party, or
- ▶ Would be clearly inconsequential to either party in the view of an objective, reasonable and informed third party.

Employment-type relationships with an audited entity are relatively rare but, in order to protect objectivity, approval procedures are in place before any such situation can be established.

If partners or staff members are asked to provide services to any entity that is audited by the firm, and where they have a family relationship or personal relationship, then they are required to notify the audit partner for an audit engagement or the Project Partner in the case of a non-audit engagement, and obtain their approval prior to any engagement.

We monitor adherence to our policies through a suite of tailored monitoring activities, which includes the annual declaration process. This process, which is overseen by the Ethics Partner, seeks confirmation from partners and staff that our policies surrounding financial, business, employment and personal relationships have been complied with, including those working on local public sector audits. We also undertake a number of detective control activities across these areas to assess and identify any non-compliance issues with our policies and procedures.

All exceptions to the annual declaration process are reviewed and investigated by the QRM Team and/or the Ethics Team. In addition, the QRM Team perform audits of financial interests held by our partners and staff. Partners' interests are audited on a three-yearly basis with 1% of our staff being subject to financial audits each year.

Where our monitoring procedures identify breaches, these are rectified as soon as possible, and the matter is referred to their People Manager for inclusion in their overall performance review. In addition, for Partners or Directors, Financial Interest breaches are reflected in their Quality and Risk ratings and, for Partners, these are referred to the Partner Fines Panel. Following each breach, a review and causal analysis of the circumstances is undertaken by the Ethics Team.

Appendix C: Ethics and Independence

Long association

Our policies are in accordance with the FRC's Revised Ethical Standard (Revised December 2019) notably that:

- ▶ The audit partner on a listed or PIE audited entity rotates after five years, except in exceptional circumstances, where rotation can be extended to occur beyond this and up to seven years. Where an extension of the rotation period occurs, additional safeguards will be put in place and approval for the extension will be obtained from the Ethics Partner
- ▶ Once an audit partner has completed five years on a listed or PIE audited entity, they are required to observe a cooling-off period for five years before they can return on the same entity
- ▶ Audit teams are required to plan the rotation of other partners and senior staff involved in the audit of PIEs to achieve a gradual rotation to preserve audit quality

- ▶ The firm's rotation policy for other partners and senior staff requires any continuous involvement longer than seven years to be discussed with the Ethics Partner/Ethics Team
- ▶ For non-listed audited entities, the audit partner will normally rotate off the audit after ten years. Where rotation is extended beyond ten years, a rotation plan will be agreed with the firm's Ethics Partner and additional safeguards put in place
- ▶ Local Public Sector auditors are appointed by the Public Sector Audit Appointments Limited on a five-year basis.

Rotation data is held on our firm's Audit Monitoring Database, which is reviewed and confirmed periodically by the audit partner or Director.

NAS

Following the release of the Revised Ethical Standard 2019, the provision of all NAS, except for those on the permitted list as per paragraph 5.40 of the Standard, are prohibited for audited entities which meet the definition of a PIE or Other Entity of Public Interest (OEPI). Given the significance of the judgements concerning the provision of NAS to PIEs and OEPIs, all NAS provided to them have to be centrally approved by the Ethics Team, in addition to the relevant audit partner. NAS proposed for all other types of audited entities must first be approved by the respective audit partner who will undertake a threats and safeguards assessment in consultation with the Ethics Team, where appropriate. Services and fees are approved via the firm's client take-on system and are also subject to targeted monitoring on a monthly basis, through the review of reports obtained from the firm's billing system.



We also realise that historical NAS provided to entities that later become audited entities of the firm can also have a significant bearing on the perception of independence. Therefore, for new audit engagements, the firm's procedures include the requirement to consider all NAS provided in previous periods to determine whether they pose a significant threat to independence.

Given the perceived self-interest threats from providing NAS to audited entities, the firm also requires central approval of all NAS to audit entities once the Audit:NAS fee ratio exceeds certain pre-set limits. These limits vary depending on whether the entity is a PIE, OEPI, other listed or private entity and range between ratios of 1:0.7 to 1:4.

The objective, reasonable and informed third party test is a critical part of assessing the acceptability of any NAS and, as such, the firm requires all NAS to be assessed against this. Furthermore, the Ethics Team monitor the extent to which this test has been determinative in the outcome of the decision.

In relation to Local Public Sector Audit, we are guided by the requirements in the Auditor Guidance Notes (AGN01). Furthermore, we have agreed through contractual Terms of Appointment, to limit our NAS work to 70% of the total fees for services to any audited entity and its controlled entities in any one year. We voluntarily apply the same principle to our audits of 'NHS engagements'.

Appendix C: Ethics and Independence

Bribes, gifts and hospitality

In accordance with the Bribery Act, partners, staff, or anyone who performs services for or on behalf of the firm are not permitted to agree to anything that an objective, reasonable, and informed third party might perceive to be a bribe.

The firm has specific policies regarding situations where a bribe might occur – gifts, hospitality and expenses, facilitation payments, political contributions, charitable contributions, sponsorship, commission payments, commission receipts and recruitment.

Partners, staff, and persons closely associated with them may only accept a gift, favour, or other personal benefit from an entity (or an entity's officers or employees) or introducers of work to the firm or any other organisation or individuals, including suppliers, if it satisfies the criteria set out in the firm's gifts policy.

The annual declaration process seeks confirmation from partners and staff that the firm's policies surrounding gifts and hospitality have been complied with. All exceptions identified through this process are reviewed and investigated by the QRM Team and, where these relate to audited entities, the Ethics Team. The firm has a gifts, hospitality and sponsorship register that is monitored by the Economic Crime Team and the Ethics Team.

In addition to this, the Ethics Team conduct monthly checks on the firm's expenses system to identify any undisclosed hospitality in relation to PIE and OEPI audited entities to ensure any gifts and hospitality to or from such entities were recorded in the Independence Workbook for that entity and the audit partner has concluded that the firm and the team's independence is not impacted. Monitoring of the firm's expenses is also undertaken on 'prospective' audited entities to ensure compliance with the firm's policies.

Engagement acceptance

The firm's engagement acceptance procedures are completed for all new clients or audited entities and engagements. In respect of all NAS provided to audited entities, procedures require approval by the Audit Partner to ensure that they (or their delegate) is informed about any proposed engagement and that they consider the implications for the auditor's objectivity and independence before the engagement is accepted. Further details on client and engagement take-on and conflicts of interest are given in the Internal Quality Control Systems section. The provision and approval of NAS is specifically reviewed at an engagement level as part of our internal inspections programme conducted on a selection of audit files. Thematic reviews are also undertaken by the Ethics Team on audit independence working papers to test, among other things, that NAS are approved and documented as required.



Appendix C: Ethics and Independence

Conflicts of interest

The ICAEW's Code of Ethics requires the firm to comply with its Fundamental Principles and apply its Conceptual Framework. In doing so it recognises that we must avoid, or mitigate, any conflict of interest that causes threats against these Fundamental Principles.

One of these principles, that of objectivity, imposes an obligation on all professional accountants not to compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others. A threat can arise when two or more entities have conflicting interests in a matter and the services being provided relate to that matter.

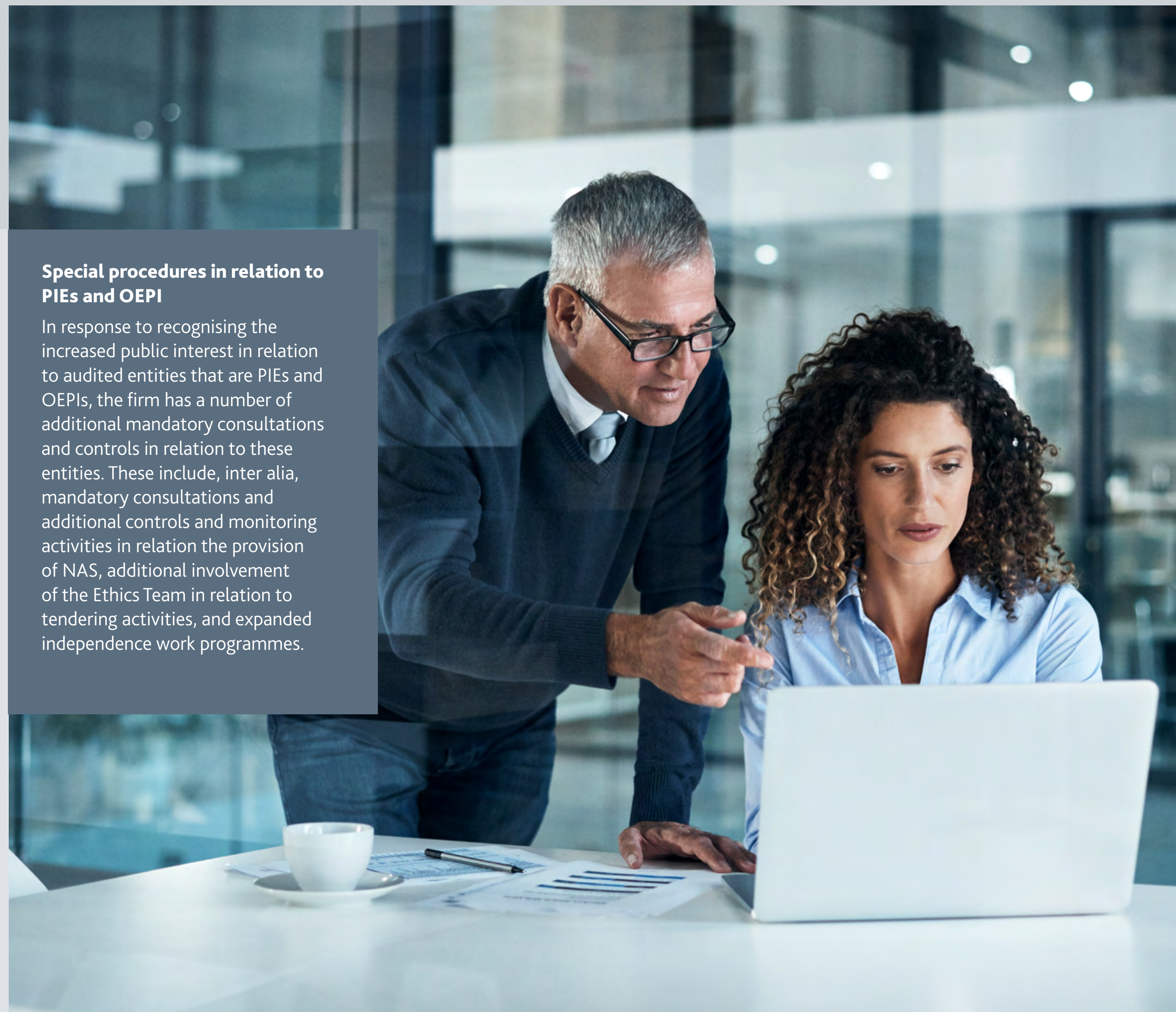
The Engagement Partner is responsible for the identification of potential conflicts of interest. Conflict checks are carried out through a computerised search of our client and engagement database, to identify relationships which could give rise to a potential conflict of interest. There is a facility to perform conflict checks confidentially where required. The QRM Team and the Ethics Team both provide direction, oversight and a point of escalation to ensure that conflict checking is performed consistently and robustly.

International conflict of interest checks across the BDO Network are performed using the network's computerised, conflict-checking system. The system initiates conflict checks for either separate countries, a group of countries or worldwide, logs responses and keeps a detailed audit trail for future use.

Where potential conflicts of interest are identified, we either decline to accept an engagement or, if appropriate, we put in place robust arrangements to make sure that the conflicts of interest are managed. Where appropriate, we seek informed consent from all parties and, if required, ensure that teams are separate and appropriate information barriers are in place. Where, in our opinion, a conflict is not manageable, or where it cannot be managed to the satisfaction of all parties, or where we believe that a reasonable and informed third party would have significant concerns, then we decline to act.

Special procedures in relation to PIEs and OEPI

In response to recognising the increased public interest in relation to audited entities that are PIEs and OEPIs, the firm has a number of additional mandatory consultations and controls in relation to these entities. These include, inter alia, mandatory consultations and additional controls and monitoring activities in relation the provision of NAS, additional involvement of the Ethics Team in relation to tendering activities, and expanded independence work programmes.



Appendix D: Internal Quality Control Systems

Leadership responsibilities for quality within the firm

Quality control is dependent upon an organisational structure which is inherently sound, and which clearly defines the responsibilities of the various levels of management.

Our LT has overall responsibility for the quality of work across the firm including the quality of our audit work in the Audit stream. Within this, it has responsibility for the design of a system of internal monitoring to ensure that audit quality is maintained and improved.

The LT has delegated the design and implementation of this system of internal quality control to the Audit Executive, but the work of the Audit Executive is subject to review and approval by the LT prior to implementation.

The Head of Audit and LT Lead for Quality and Risk sit on the LT and the Head of Audit Quality and Risk attends for agenda items regarding quality. Audit quality is a standing item on the agenda of every LT and AB meeting and the Head of Audit provides a monthly update on audit quality issues to the LT.



The Audit stream 'tone at the top' is set by the Head of Audit, supported by the Audit Executive. The LT Lead for Quality and Risk supported by the Ethics Partner reinforces the appropriate 'tone at the top' by instilling professional and ethical values and the Head of Audit and the Head of Audit Quality and Risk have regular communications with audit partners on audit quality issues.

The national Audit stream is supported by the AQD, led by the Head of Audit Quality and Risk who is also the Audit Compliance Partner. The AQD comprises the TSG and AQIT.

TSG

Led by: Head of Technical

Responsible for:

- ▶ Development and maintenance of high quality auditing methodologies and Technical Support Documents and communicating developments to the practice
- ▶ Consultations with local office partners and other professionals seeking technical advice on auditing matters
- ▶ Audit reporting policies, materials and pre-issuance reviews
- ▶ Financial reporting consultations and pre-issuance reviews
- ▶ Overseeing our audit and financial reporting continuing professional education programme.

AQIT

Led by: Head of Audit Quality Improvement

Responsible for:

- ▶ Monitoring of audit quality indicators and audit quality milestones
- ▶ Inflight quality review support
- ▶ Audit transition support
- ▶ Centres of Excellence
- ▶ Internal quality monitoring through the practice review
- ▶ Regulatory support for external inspections and supervision
- ▶ Engagement quality reviews
- ▶ Root Cause Analysis.



Appendix D: Internal Quality Control Systems

Acceptance and continuance of relationships with audit entities and specific engagements

Robust audit entity acceptance procedures play a pivotal role in our ability to deliver a professional and quality service.

Prior to the acceptance of any new audit engagement, or the continuance of an existing audit engagement, certain procedures to assess the risks associated with that engagement must be carried out.

These include:

- ▶ Consideration of the entity's business including its geographical spread and the industry it operates in
- ▶ Evaluation of information concerning the entity, its management and its owners including obtaining evidence of the identity of the owners and officers of the business
- ▶ Considering information regarding the character and reputation of the audited entity, its key personnel, beneficial owners and other related parties

- ▶ Considering the adequacy of the governance arrangements and the system of internal controls of the entity
- ▶ Assessing the risks of money laundering, other economic crimes and any risks relating to sanctions in relation to the audited entity
- ▶ Assessment of potential independence risks and potential conflicts of interest
- ▶ If relevant, enquiry of the previous auditor regarding the reasons for the change in auditor and if there is any reason why we should not accept the appointment
- ▶ Assessment of our capability and capacity to deliver the engagement, including the consideration of specialist skills and resources and any international requirements
- ▶ Consideration of the fee and commercial aspects of the engagement to ensure they are commercially viable and do not give rise to any independence concerns
- ▶ Consideration of the ESG aspects of the prospective or existing audit engagement
- ▶ Review of the filings of the company, including prior year financial statements.



The acceptance and continuation of all engagements requires an approval process that is appropriate to the perceived risk:

- ▶ Information in respect of approval controls for prospective audit tender opportunities and audited entity portfolio review procedures in place during the period that form part of audited entity continuance assessments are set out in the Audit Quality section of this report
- ▶ Additionally, acceptance or continuance of engagements defined as 'high risk' under the firm's policy require an Acceptance and Continuance Panel, or where a RI considers a Panel is required in their professional judgement. When a Panel is convened it will constitute at least two members of the LT or Stream Lead Partners and one or more of the LT Lead for Quality and Risk, the Head of the QRM Team, the Money Laundering Reporting Officer (MLRO), Ethics Partner (or any reasonable substitute in the case of their absence). The panel will comprise at least three members. In addition, where there is a money laundering concern, either the MLRO (or an appropriate deputy from the



Economic Crime Group) should always be present. There may be cases where the nature of the elevated risk or other factors such as the profile of the entity, or the wider impact of any decision to decline the work means, that an independent perspective would be valuable to the discussion. In such cases, an INE will be invited to be part of the panel. In particular, an INE may assist in considering the perspective of an objective, reasonable and informed third party.

Appendix D: Internal Quality Control Systems

Human resources and development

Human resources are a critical factor in our ability to provide professional services. In order to ensure that we have sufficient personnel with the capabilities, competence, and ethical behaviours necessary to provide high quality audits in accordance with professional and legal requirements, we have established clear and consistent policies and procedures addressing the following areas:

- ▶ Clear job description: tasks, responsibilities and expectations
- ▶ Recruitment procedures covering the end-to-end cycle of the recruitment process
- ▶ Grades and levels: explanation and theoretical progression timeline, career pathways
- ▶ Workforce planning and succession management
- ▶ Continuous performance improvements in the annual and interim appraisal process
- ▶ Engagement surveys
- ▶ Development and build out of the Learning and Development plan.

Procedures and policies related to our people are contained on our intranet and provide clarity and coherence on goals, structures, vision and accepted behaviours of BDO employees.

Non-compliance with policies and professional standards are addressed through additional training, performance improvement plans, delays in promotion or through dismissal for serious instances of non-compliance.

Clear job descriptions: tasks, responsibilities and expectations

A good job description is the basis for most personnel matters: recruitment, selection, coaching and mentoring, career development and mobility and performance evaluation.

A job description is a structured, written record of all facets of a position; it provides clarity on the tasks, scope of responsibilities and authorities, what we expect of the person and the standard of performance required.

The job description contains the following information:

- ▶ Purpose of a role
- ▶ Reporting line, position in the structure, workflow
- ▶ Core tasks and specific activities
- ▶ Responsibilities, authority and scope
- ▶ Expectations
- ▶ Job requirements (knowledge, skills and behavioural competencies)
- ▶ Qualifications required for the role.

Recruitment procedure: covering the end-to-end cycle of the recruitment process

Policies and procedures for recruitment are designed to ensure that those employed possess the appropriate characteristics to enable them to deliver a high-quality service and perform their duties with professional competence.

We look to recruit people with integrity, motivation, aptitude and leadership qualities appropriate to the role for which they are being hired.

We seek to ensure that our recruitment process is diligent and focussed on the behaviours required for a role. We provide focussed support for new joiners through induction programmes and via our people manager network.

To ensure we recruit the best talent, we divide recruitment into three categories – EiC recruitment, experienced hire recruitment and partner recruitment.

EiC

Across the firm, and in Audit, in the last five years EiC recruitment has increased in line with the other large firms. The Audit stream wants to ensure it trains and retains the next generation of audit managers by ensuring it recruits enough EiC candidates who can progress into manager-level positions in due course.

Experienced hires

We have continued to expand the number of experienced hires recruited to ensure that the Audit stream has the right mix of skills and experience to deliver consistently high-quality audits across all its offices. We are mindful that an increase in attrition would have an impact on the Audit stream. As a result, people's personal career aspirations are supported with a variety of initiatives such as the opportunity to complete secondments, take career breaks or undertake community work.

Partner hires

A separate process exists for lateral partner hires to ensure that we recruit partners that have the depth of specialisms required as the Audit stream continues to grow.

Not only has the Audit stream invested heavily in practising audit partners, but it has also invested in appointing lateral hire partners to its AQD, a key internal function in our system of quality management.

Appendix D: Internal Quality Control Systems

Grades and levels: explanation and theoretical progression timeline, career pathways

Competency management requires 'the right person, in the right place, at the right time'. But the influence goes further, it:

- ▶ Enables the 'matching' of a potential employee to our culture
- ▶ Strives to tie the individual's career needs and aspirations to our needs
- ▶ Structures the HR processes and administration of:
 - New employees (recruitment and selection procedures)
 - Existing employees (remuneration, appraisals, training and development); and
 - Exiting employees (exit policy).

We provide a clear set of grades and levels with an appropriate competencies explanation and an indicative timing guideline. Compensation by grade is benchmarked to market. It is reviewed periodically to ensure market competitiveness.

Employee career development is addressed on both a national and regional basis. Employees are considered for promotion where a business and personal case is clearly articulated.

Partner remuneration is reviewed regularly and includes consideration of the partner's role, their quality and risk grading (which is assessed annually) and, in relation to audit partners, the findings from internal and external inspections of audit engagements alongside a suite of AQIs. All partners are included within the remuneration review, including partners with LT roles and oversight roles and the same criteria are applied to all partners at all levels.

Workforce planning and succession management

We recognise that ultimately it is the quality and commitment of our partners and employees that really makes a difference and enables us to deliver a quality audit. Given this, our ability to attract and retain the right number of high-quality people is of utmost importance. We predict personnel requirements to continue to service the audited entity and provide sufficient capacity to enable our partners and staff to develop the business. These plans are monitored on a quarterly basis.

Policies and procedures for assigning personnel to engagements ensure that only those persons having adequate technical training, proficiency and competence will perform the work.

A current profile of employees' technical proficiency is obtained by personal knowledge and by reviewing evaluations of their performance by those more senior based on previous engagements. This profile is used to assess the suitability of the employee for a specific subsequent assignment.

In staffing an engagement, consideration is given to ensuring that partners and employees have the necessary technical knowledge and other skills appropriate to the size, complexity and nature of the planned work.

Succession management enables us to:

- ▶ Protect our present strengths and build for our future, ensuring sustainability and continuous strong leadership
- ▶ Reduce the risk of having leadership gaps for critical positions (either because of lack of talent or unprepared key successors)
- ▶ Engage the leadership in supporting the development of high-quality leaders and, in return, motivate, retain and engage key talents
- ▶ Anticipate and align resources with future needs and strategies and create a flexible business by responding faster to new leadership needs



- ▶ Counter the increasing difficulty and costs of recruiting employees externally

Succession management enables the employee to:

- ▶ Obtain opportunities to grow and develop skills necessary for future roles and meet career development aspirations
- ▶ Remain engaged, motivated and inspired
- ▶ Remain with the firm.

Continuous performance improvements in the annual and interim appraisal process

All our partners and employees are subject to formal performance appraisal, review and assessment on a regular basis, in order to evaluate the level of competence, monitor development and to help them reach their full potential.

Performance appraisals include a review of an individual's contribution to the quality of the work in respect of an engagement. Project appraisals are completed on an assignment-by-assignment basis at certain levels and also at regular intervals at all levels. The factors appraised (which may vary by level) include professional and technical competence (including challenge of management), personal and management skills, delivery against quality objectives and project management skills.

Additionally, this year we have recognised the importance of a culture of feedback, particularly for audit teams and we have introduced three steps to better equip our people to give and receive feedback. These are detailed in Our Culture and Our People section.

Appendix D: Internal Quality Control Systems

Engagement surveys

Engagement surveys covering a range of specific areas of focus, including resourcing, are undertaken in order to obtain an insight into the priorities for the stream. We further supplement the surveys by undertaking Listening Events with all grades. The results of the surveys are shared with business leaders.

These Audit stream surveys are in addition to the regular engagement surveys delivered by the firm which monitor, more widely, employee engagement.

Development and build out of the training and development plan

Our learning and development strategy ensures our ability to remain competitive and to motivate our people.

It includes both the technical expertise and skills to ensure the continued delivery of consistently high-quality audit work, providing our people with the essential attributes of audit professionals to ensure they always act with integrity, objectivity, professional scepticism and have the confidence to always act in the right way.

We provide our people with a clear career path and complementary development plan.

Our people's integrity, honesty and moral character must be above reproach. While attributes of individual applicants may differ because of technical specialisation and years of experience, there are four basic attributes that our people possess:

- ▶ A strong sense and clear understanding of what it means to act in the public interest
- ▶ Technical competence in a chosen field of expertise
- ▶ Pride in self, the firm and the profession
- ▶ Strong personal skills which are focussed on delivering quality audit work.

These are mandatory requirements for partnership.

Engagement performance

Common methodology

Clear and accessible audit methodologies and related tools to support engagement teams are an important part of delivering a consistently high-quality audit on a consistent basis.

Our policies and procedures are designed to ensure that audits meet all applicable professional standards, regulatory requirements and that we issue reports that are appropriate in the circumstances.

To achieve this and to promote consistency in the approach to auditing throughout the BDO network, BDO Global has developed a common BDO audit methodology, related software tools and other standard forms of documentation. This methodology is fully compliant with International Standards on Auditing. The BDO audit methodology is supplemented and enhanced by UK specific requirements, policies, procedures and guidance intended to ensure that the methodology applied by the firm's audit teams complies with the UK auditing, accounting and regulatory requirements.

Over the last 18 months, we have invested in infrastructure and resource to ensure that the BDO audit methodology, as it applies in the UK, reflects current expectations of a wide cross-section of users of our audit opinions and is consistently applied. This methodology has been designed to ensure that the risk of material misstatement of the financial statements, based on a detailed, thorough understanding of the audited entities, is at the heart of our audits as required by ISA (UK) 315 revised. It has also been updated to embed the use of the audit tools in our audit approach.

Audit tools

BDO Global's in-house audit software, Audit Process Tool (APT), is used to document our work. It is designed in a way to accommodate significant layering of content onto the general 'library' of material on which all audit workspaces are built. APT can generate sector specific audit workspaces which contain content facilitating the audit for the sector concerned. It also allows for new, emerging or evolving material developed for areas including, for example, ESG reporting as well as materials developed for the impact of global events like the COVID-19 pandemic or international conflicts.

'BDO Advantage' is our data analytics audit software. It works by combining smart technology with our knowledge and understanding of entities' business to deliver information for in-depth interpretation of key data for use in the audit. This includes graphics that aid the exploration and understanding of data and make it easier to spot patterns and trends to identify anomalies.

Auditing journal adjustments are a key part of the audit and are often difficult to cover. BDO Advantage uses financial analysis to help the audit team identify the journals that are risky or unusual and support the process for auditing them. In developing BDO Advantage, the firm has issued a further four analysers in addition to the journals' analyser: Customer Analyser; Supplier Analyser; Bank Analyser and Payroll Analyser.



Appendix D: Internal Quality Control Systems

Specialists and experts

As required by the auditing standards, the BDO audit methodology puts significant emphasis on the use of the right people, with the right skills, knowledge and experience. Standing beside our audit teams, there is a pool of experts and specialists to provide support in a broad range of areas to help teams to address complex issues in their audits.

This range of support extends from taxation specialists to complex valuations experts, from financial reporting reviewers to forensic audit support teams, from technical helplines to quality review partners.

Certain levels of support are mandated through policy and procedure embedded in the BDO audit methodology which may be in the form of mandatory consultation or through second review mechanisms. In other non-mandated cases, the support available can extend from basic consultation through to collective discussion and conclusion in a technical panel through to involvement of specialists in the event certain events or conditions exist within an audited entity.

Project management

An important driver of audit quality is strong project management and deficiencies in project management are a common causal factor when audit quality falls short of our expectations. Whilst pilots have been run for formal project management training and audit milestone projects implemented, AQIs highlight there is further work to be done in this area. The Audit Culture Committee, as part of its remit, has established an action plan to drive improvement in project management in conjunction with the QRST, Engagement Quality Review and milestone programs. Further details in relation to project management initiatives can be found in the Audit Quality section.

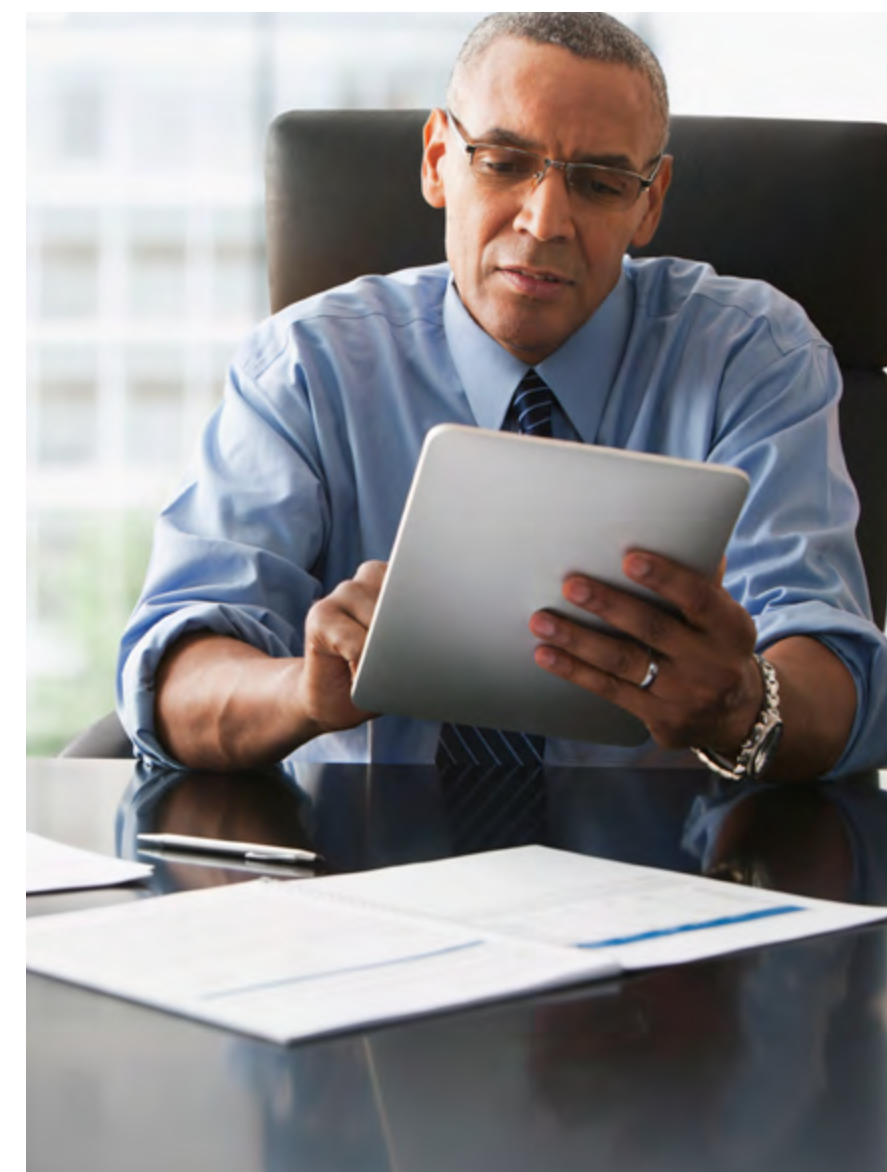


Supervision and review

We require all professional work to be supervised by our employees who have appropriate knowledge and experience. It is the responsibility of the relevant partner, principal or director to ensure that related risks are identified and that decisions are taken by those with an appropriate level of authority. The relevant partner, principal or director must also ensure that professional work is carried out with appropriate professional scepticism, and that it meets our standards in all respects.

Our review procedures are designed to ensure effective control of the audit as it progresses. These policies are designed to ensure that:

- ▶ The work is performed in accordance with applicable standards and regulations
- ▶ Significant matters have been raised for further consideration and appropriately addressed
- ▶ Appropriate consultations have taken place
- ▶ The planned work has been reviewed and that the objective of all planned work has been achieved
- ▶ The work performed, and the evidence obtained, supports the conclusions reached.



The documentation present on the audit file enables an experienced auditor to understand the significant matters arising on the audit as well as the nature, timing and extent of the procedures undertaken, the results of those procedures and the evidence obtained.

Consultation

Whilst our culture encourages consultation and collaboration at all levels, we have documented policies and processes for RIs and teams to consult with in-house specialist teams on quality and risk, financial reporting and auditing matters.

Consultations with members of the TSG are mandatory for certain prescribed matters, such as extended audit reports and prior period adjustments, and are encouraged whenever a technically complex, contentious or judgemental issue is identified. All consultations are subject to requirements for documentation and RI approval.

Where a matter is highly judgemental and differences of professional opinion arise, a Technical Panel can be called by the RI or an AQD partner. Such a panel is formed of several experienced audit partners and other relevant experts to deliberate and agree the firm's position on the matter. The conclusion and its rationale are formally documented.

Appendix D: Internal Quality Control Systems



EQR

An engagement quality control review is performed for audits of PIEs and certain other high-risk engagements. The EQR will be familiar with the auditing and reporting practices used during the engagement and be knowledgeable and familiar with the audited entity's industry but is not part of the audit engagement team and hence will not be actively involved in making ongoing decisions relating to the engagement nor directly involved in performing the engagement. They will be an experienced RI and not unduly influenced by the views of a particular engagement partner.

EQRs are selected from a list of approved reviewers, as determined by the EQR allocations partner, the Head of AQIT and the Head of Audit Quality and Risk. The firm has a dedicated partner responsible for the selection and training of EQRs.

EQR roles are allocated centrally by the EQR allocations partner, who ensures that the reviewer is independent of the audit entity and team, and appropriately skilled and experienced to bring effective and constructive challenge. EQRs are accredited in three tiers, which are then used to inform the allocation process, particularly to larger or more complex audits. For further details on length of appointment refer to the Appendix C.

Appendix D: Internal Quality Control Systems

Continuing education and training of statutory auditors

BDO advocates and uses the 70:20:10 learning model:

- ▶ 70% of learning should be experiential or through on the job learning
- ▶ 20% of learning should be social or learning from others e.g., through mentoring, your peers and coaching and
- ▶ 10% from formal learning

The technical training of audit employees and partners is conducted by the firm's TSG with oversight from the Audit Executive. The training programme is split between our EiC training and our CPD programme for qualified employees and partners.

Our annual Audit stream Summer School continues to run with content focused on the four key pillars of the Audit Quality Plan:

Audit of Revenue, Challenge of Management, Detecting Material Fraud and Going Concern and Viability. The 2022 Summer School programme which ran in the period also included content addressing the impact on audits of ISA (UK) 315 revised. In addition to the Summer School the Audit Executive expanded the training curriculum to include a full day training on the Audit of Revenue and Controls. Audit Summer School 2023 which launched during the reporting period and ran through summer 2023, continued to build on the four key pillars of the Audit Quality Plan. Summer School provides an opportunity for all individuals within the Audit stream to hear from subject matter experts on key topics with content centred around a Case Study. The primary focus of the programme is to embed audit quality in everything we do.

The key training delivered to the Audit stream in FY23 included the following:

- ▶ **Audit Summer School:** With subject matter expert broadcasts from a central location and in-office facilitated sessions, Audit Summer School ran as a three-day in-person event in multiple locations across the UK and our EDTs, covering key topics such as fraud, challenge management and ISA (UK) 315 revised. Summer School 2023 built on these topics with content focused on fraud and applying professional judgement as well as topic content on climate risk. Our teams also had time to explore our Audit Specific Behaviours and High Performing Teams together, bringing to life what these mean in practice. The event was run multiple times to ensure all relevant members of the stream could attend and benefit from the learnings and face to face interactions, and peer learning. Interactivity within sessions was further enhanced in 2023 with the use of an App to encourage knowledge sharing and session engagement.

- ▶ **TRA Summer School:** TRA Summer School is a programme run specifically for our TRA specialists within the Audit stream. TRA Summer School involved more than 125 professionals, deployed across two main IT audit skills sets, being IT controls and data analytics. The sessions included joint workshops on how TRA controls and data teams could work effectively together, and with core audit, to improve audit quality. Additionally, there were sessions for each specific skillset, focusing on topics which impacted their specific audit procedures, such as Information Produced by the Entity, IT General Controls scoping, and deficiency assessments and responses.
- ▶ **Audit technical training** is also provided by the TSG Technical Training Team and comprises the EiC curriculum, as well as specific technical modules for both audit and accounting matters for our qualified employees. The firm adopts a blended approach to formal learning events, using, for example, face-to-face sessions, webinars, videos and podcasts.

- ▶ **Skill development training:** The Audit stream has run several core competencies, skill-based courses for several years. These courses, focused on developing wider soft skills, were primarily aimed at our newly qualified employees, as well as recently promoted managers and involved a two-day residential training and networking event across the National Stream. During the year to June 2023, the Audit stream L&D Hub had 137 Assistant Managers attending 'Your Changing Role' and 172 Assistant Managers/Managers attending 'Developing Self & Others', as well as 135 and 21 Managers and Senior Managers attending 'Managing our Business and our People' and 'Contribution through Character', respectively. Looking ahead, our intention is to increase the number of soft skill programmes offered to our auditors with the introduction of additional programmes at Manager and Senior Manager levels and for our EiC population.



Appendix D: Internal Quality Control Systems



Our training programmes are designed to support our teams to explore key technical challenges and issues they will face in the course of auditing entities and consider practical application of methodology and tools to support them in the execution of their work.

We continue to make use of our internal social media platform, Viva Engage, for knowledge sharing and hints and tips to get the most out of our technology and audit approach.

All our people, including all our engagement leads, working on local public sector assignments receive specialist local audit work training on an annual basis to ensure they remain competent to work in this specialist area. Similar engagement specific training applies for those working in financial services and on US engagements.

BDO recognises the importance of training in the development of our people, supporting them with the knowledge and skills necessary to deliver consistently high-quality audits. We continue to invest in the infrastructure and resources in respect to learning and development.

An experienced L&D director joined our Audit stream L&D Hub in May 2023 to lead on a strategic review of learning and development for the stream which is currently underway. The objective of the review is to identify how we enhance our existing offering to ensure our programmes and approach remain fit for purpose and support delivery of the right training at the right time to the right people. Recommendations from the review will be implemented over the course of the next two to three years as part of a detailed implementation plan which will be agreed with the Audit Executive prior to implementation.

In July 2023, BDO early adopted the new ICAEW CPD requirements. All staff are required to have a specific objective around maintaining their professional development as part of our standard performance process.

Monitoring and documentation of the system of quality control

Our policies and procedures concerning monitoring activities are designed to ensure that our internal quality control system is operating effectively and is being complied with in practice.

Audit quality monitoring is a fundamental part of the firm's processes and a key element to help us identify how we can continuously improve our policies, procedures and controls to enhance the quality of our work. We take quality failures very seriously, but we also celebrate good quality behaviours and outcomes. Financial penalties and non-financial measures can be imposed on engagement leaders with adverse quality findings. Similarly, engagement leaders with exceptional quality results, will have their reward positively impacted. The focus on quality similarly extends to our people more widely with audit quality being a primary consideration in performance reviews and resultant reward and recognition.

Internal quality monitoring programme at an engagement level

In addition to the various external quality reviews, we carry out our own internal monitoring programme to assess the quality of audits being performed. Practice Reviews provide a key monitoring tool for audit quality. This is designed by the Audit Executive and approved by the QRMC and the LT. Its purpose is to monitor compliance with our policies, procedures, standards and regulatory requirements and to ensure that audit work carried out in order to arrive at an appropriate opinion, is properly documented and of high-quality.

Each RI is reviewed at least every two years and we ensure that circa 60% of RIs are reviewed in any one year. Additionally, RIs holding financial services audit licences are reviewed annually. Audits are selected for review on a risk basis.

The sample of audits selected for review is weighted to ensure that an appropriate number of PIEs are included. The Practice Reviews of FRC in-scope audits are designed around the FRC focus areas as well as the significant audit quality risk areas in our Audit Quality Plan: the

audit of revenue, going concern, challenge of management and detecting material fraud. These reviews are completed by the firm's central Practice Review team and are overseen by the Practice Review partner. Audits not within the FRC's remit (non-FRC in-scope) are reviewed by individuals from within the Audit stream under the supervision of a review team leader (an audit partner) and are moderated and graded by a central moderation panel consisting of the Practice Review partner and director, other partners from the AQD and partners from the Audit stream independent of the file being graded and moderated. The central Practice Review team provide all review team members with training and guidance for performing the Practice Reviews. While many of the 2022 Practice Reviews were performed remotely, reviewers and review team leaders have been encouraged to perform the 2023 Practice Reviews onsite and in-person resulting in an overall reduction in the time taken to complete a review.

Appendix D: Internal Quality Control Systems

Root Cause Analysis

A key process to help us identify areas for improvement is performing Root Cause Analysis on positive and adverse quality outputs. Once the enhanced Root Cause Analysis framework is fully developed, Root Cause Analysis will be performed in several scenarios including:

- ▶ Internal Practice Reviews, where the audit was considered to require significant improvements (grade 4)
- ▶ All external regulator reviews where the audit was considered to require improvements or significant improvements (grades 3 and 4)
- ▶ All external regulator reviews performed by the FRC and certain external reviews performed by other regulators where the audit was considered to be good or with limited improvements required (grades 1 and 2) to enable us to understand further good practice behaviours or other causal factors that were not present on those with improvements required
- ▶ Limited number of prior year adjustments and investigations
- ▶ Targeted thematic reviews on wider findings where a concentration of findings have been identified.

During the period covered by this report, Root Cause Analysis was performed at an engagement level on 27 engagements, including all the external FRC reviews, QAD reviews that required improvements, a MLA engagement subject to inspection by the FRC and several Practice Reviews, one prior period adjustment and an investigation. Three thematic reviews were also performed in relation to the themes identified in the AQR report, the QAD thematic findings and the 2021 revenue methodology for December 2021 year ends.

The Root Cause Analysis involved a series of interviews with the engagement teams, their specialists, experts and EQRs where applicable to understand the underlying causal factors and the collation of data points to perform correlation and trend analysis and where possible to map them to the established AQIs. Where relevant, and in particular for the thematic reviews, focus groups by grade were also organised.

The causal factors identified were mapped to the newly developed multi-level Root Cause Analysis taxonomy to allow a consistent analysis of the findings across all the engagements.

AQIs

AQIs are in place to track how audit engagements are being project managed and delivered, alongside other measures of quality such as Practice Review scores, regulatory scores, and training compliance. The AQIs allow the firm to draw on key themes and implement remedial actions. We are on a journey and a significant focus has been placed on developing more meaningful measures that will help us to assess indicators to promptly react to potential quality challenges on a timely basis. For further details refer to Appendix B.

Internal quality monitoring of the SOQM

As set out on page 68 the firm has established a SOQM under ISQM(UK)1 to support consistent delivery of quality engagements and intends to evaluate this within 12 months of the effective date of ISQM(UK)1. The firm continued to monitor its compliance with policies and procedures under ISQC(UK)1 in the period to 15 December 2022. This monitoring included compliance reviews, consideration of ethics and independence matters, review of AQIs, evaluating regulatory findings and the results of internal and external inspection reviews together with associated Root Cause Analysis.

Global quality monitoring and accreditation programmes

The objectives of the BDO Global quality monitoring programme are to:

- ▶ Ensure that each BDO member firm is compliant with BDO Global requirements
- ▶ Enhance the consistency of the systems of quality management of BDO member firms
- ▶ Provide aggregated information on network quality to the Global Board and Global LT, as well as to international regulators
- ▶ Follow up on firms' implemented remedial actions and confirm quality improvements.

The quality review programme is an important element of the quality monitoring programme by serving not only as an indicator of quality with respect to member firms' internal control systems and audit engagements, but also as an indicator of the speed and the extent to which quality is being enhanced across the network. The frequency and extent of each review depends on the results of previous reviews, feedback received, and a risk assessment undertaken by the Global Office. BDO LLP was not reviewed this year.

All member firms must comply with BDO's Accreditation programme which lays out the minimum acceptable requirements that must be met for each of the following quality areas:

- ▶ Audit quality
- ▶ Independence
- ▶ Professional indemnity insurance
- ▶ Information security and privacy.

Compliance with the Accreditation criteria is assessed via the Global Compliance Reporting System, which member firms must use to submit required evidence on an annual basis.

Alongside the review and accreditation programme, the Global Office has driven a number of key quality initiatives in the year including a focus on ISQM(UK)1 design, implementation and monitoring, acceptance and continuance policies, cryptocurrency consultation, Root Cause Analysis, internal quality monitoring, and the deployment of updates to the APT assurance software.

Appendix E: External inspections and investigations

The firm is subject to a comprehensive regulatory monitoring regime in respect of its audit registration in the UK and is also subject to monitoring visits from some overseas regulatory bodies.

During the year, BDO became registered with the FRC as a PIE Auditor under the PIE Auditor Registration Regulations that came into force on 5 December 2022. Details of the firm's registration and the RIs registered can be found on the FRC's [PIE Auditor Register](#).

External inspections

We operate in a highly regulated industry and hence we are subject to monitoring by several UK and overseas regulatory bodies on a regular basis as a requirement of some of our registrations.

UK regulators

FRC

BDO is subject to annual reviews by the FRC's AQR team, which primarily reviews the firm's PIE audit engagements. The results of these reviews can be found on page 78 in Appendix B.

On a cyclical basis, the FRC's Audit Market Supervision division also performs a review of certain aspects of the firm's policies and procedures supporting quality.

This year, the firm-wide work focused primarily on compliance with the FRC's Revised Ethical Standard 2019, partner and staff matters (including recruitment, appraisals, remuneration, and promotion), acceptance and continuance and resignation procedures, and audit methodology (settlements and clearing processes for banks and building societies).

ICAEW's QAD

The QAD of the ICAEW undertakes bi-annual inspection audits of entities outside of the FRC's scope. The results of these reviews can be found on page 78 in Appendix B.

Local audit monitoring and NHS improvement

Public sector bodies in the UK have differing audit requirements and arrangements, depending upon the country and the type of body. 'Local audits' (or 'local public audits') are audits of English bodies conducted in accordance with the Local Audit and Accountability Act 2014. BDO is subject to inspection of its MLAs by the FRC.

Please refer to Appendix Q for a full list of the firm's MLAs for which BDO issued an audit report during the year ended 30 June 2023..



Other UK regulatory bodies with whom BDO has interactions

We regularly engage with regulators of our audited entities including the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) on emerging audit matters and on matters specific to individual audited entities where relevant. Under arrangements with the relevant regulatory bodies, the FRC undertakes the review of relevant audits performed by BDO of the financial statements of certain entities registered in the Crown Dependencies. In their 2022/23 inspection, no such audits were reviewed.

Overseas regulatory bodies

During 2021/22, BDO LLP was reviewed by the US Public Company Accounting Oversight Board (PCAOB) as part of its oversight of non-US audit firms that audit or play a substantial role in the audit of US issuers and foreign issuers. The PCAOB reviews BDO every three years. The final inspection report was published in January 2023 and is available on the [PCAOB website](#).

BDO LLP and/or certain of its RIs have audit registrations with regulators in the following territories:

- ▶ Canada (Canadian Public Accountability Board)
- ▶ Guernsey (Guernsey Registry)
- ▶ Ireland (Irish Auditing and Accounting Supervisory Authority)
- ▶ Jersey (Jersey Financial Services Commission);
- ▶ The Netherlands (the Netherlands Authority for the Financial Markets)
- ▶ Norway (Finanstilsynet)
- ▶ New Zealand (New Zealand Companies Office)
- ▶ South Africa (the Johannesburg Stock Exchange)
- ▶ The Isle of Man (Isle of Man Financial Services Authority) and
- ▶ United States of America (Public Company Accounting Oversight Board)

BDO LLP has policies and procedures in place to comply with the policies and regulations of the above regulatory authorities including their monitoring activities where relevant.

Appendix E: External inspections and investigations



Investigations

FRC Investigations

The government has designated the FRC as the Competent Authority for audit under the UK Audit Regulation and Audit Directive. The FRC deals with cases that appear to raise important issues affecting the public interest in the UK and investigates whether there is evidence of misconduct (under the Accountancy Scheme) or breach of a relevant requirement (under the Audit Enforcement Procedure) by an accountant or accountancy firm. There have been no cases found against the firm by the Enforcement Division of the FRC during the financial year.

As previously disclosed, the FRC announced in October 2021 that it had commenced an investigation in relation to the audit conducted by BDO LLP of the consolidated financial statements of NMCN plc for the year ended 31 December 2019. The decision was made at a meeting of the FRC's Conduct Committee on 14 September 2021. This case is ongoing.

The investigation is being conducted by the FRC's Enforcement Division under the Audit Enforcement Procedure.

FRC Case Assessment (CA)

The Constructive Engagement process, handled now by the CA team, seeks to resolve cases where the FRC considers that any audit quality concerns identified are able to be appropriately and satisfactorily addressed without full enforcement action. During the year we have responded to enquiries from the CA team (formerly the Case Examination and Enquiries Team) and put in place a number of actions including undertaking a risk assessment of certain audited entities, providing additional guidance, updates to our methodology, training and reminders to the Audit stream and updating policies in specific areas.

We also have open enquiries and are committed to working constructively with the CA team. Further details of the constructive engagement process, Accountancy Scheme and Audit Enforcement Procedures can be found at www.frc.org.uk.

ICAEW

During the financial year there was one audit case found against the firm by the ICAEW, details can be found on [ICAEW's disciplinary database](#). Where we have enquiries from the ICAEW we are committed to working constructively with them to resolve these. Further details of the ICAEW's disciplinary process can be found at www.icaew.co.uk.

Complaints Against the Firm

If audited entities wish to make a complaint about our services, they may contact either the engagement partner or the firm's Senior Partner, [Matthew White](#). We promptly and carefully review any complaints or allegations received. The ICAEW may also be contacted directly.

Appendix F: Top Risks

Top Risks

An important element of governing any firm is to identify, assess and manage risk. At BDO, we annually review and actively consider our current top risks and put in place key mitigation activities to manage those risks.

In respect of FY23, we have performed a robust assessment of the top risks the firm is facing, including those that would threaten the firm's business model, future performance, solvency or liquidity. The full range of the firm's services and operational activities is considered when performing this evaluation.

When reviewing and updating the Top Risks of the firm, we gave specific consideration to the following emerging and ongoing risk factors:

- ▶ The vital importance of audit quality and the culture of the firm, including our responsiveness to risks and issues raised by our regulators, increasing use of Extended Delivery Teams (including offshore teams), and design and implementation of responses to ISQM(UK)1
- ▶ Long term implications of applying the firm's agile working policies, in the context of a challenging recruitment market and competition for talent

- ▶ Exposure to geopolitical risk including international conflicts and resultant economic crime, cyber security, energy security, supply chain and other operational risks, as well as resilience to future geopolitical shocks
- ▶ Economic uncertainty in the context of the overall economic environment of increased inflation and interest rates, the cost-of-living crisis, and persisting post-Covid 19 impacts, as well as resilience to risks of instability in financial markets and institutions.

The table overleaf summarises the Top Risks as determined by the QRMC and approved by LT that were effective as of 30 June 2023.



Appendix F: Top Risks

Risk	Risk trend	Description	Key mitigating risks
Failure to deliver quality work	Unchanged	<p>Major service failure resulting in litigation and/or regulatory action, with the potential to impact the reputation of the firm.</p> <p>Failure to deliver the right quality of service to meet stakeholder expectations (including a quality failure in an Extended Delivery Team).</p> <p>Poor quality of bid / tender documents or marketing collateral leading to missed opportunities and reputational impacts.</p>	<ul style="list-style-type: none"> ▶ Comprehensive quality control systems, methodologies, and guidance ▶ Dedicated 'Second Line' functions including technical support services ▶ Significant technical and commercial training to enhance the skills of our people and to ensure they remain up to date ▶ People performance systems to ensure individuals are, and remain, competent ▶ Controls to ensure that partners and employees with the right specialist knowledge and skills are assigned to engagements ▶ Bid Support Team provides resources to the wider firm ▶ Client Listening Programme and People Listening Programme ▶ Comprehensive SQP to address regulators' recommendations, findings from internal and external inspections and other identified deficiencies ▶ Internal inspections to review the quality of work and clear action plans to address the findings from internal and external reviews ▶ Established Risk Reporting procedures for claims, complaints, or potential concerns about our work ▶ Maintaining adequate professional indemnity insurance.
Ineffective governance of growth and change	Reduced	<p>Ineffective governance and/or strategic decision making resulting in failure to manage our growth and the consequences of growth in a dynamic environment.</p> <p>Failure to invest in and embed infrastructure to fully support growth.</p> <p>Risk that we become too set in our ways / suffer from loss aversion / we are too slow and / or we fail to deliver the changes we require.</p> <p>Failure to adapt effectively to audit market reform (market growth opportunities & other regulatory changes).</p>	<ul style="list-style-type: none"> ▶ Firm governance structure periodically reviewed with formal Terms of Reference for all governance bodies ▶ Responsible Growth Strategy documented and KPIs established to monitor ▶ LT oversight of management of growth, with a priority of ensuring high quality ▶ A strategy and performance review system that incorporates the importance of challenge ▶ Business transformation and change management regularly discussed by the LT and with BDO Global ▶ LT and management approval of firm priorities and key projects ▶ Growth Plans for each service and support business unit ▶ Monitoring of utilisation and other measures ▶ Dedicated resources to assist with the implementation of change programmes.

Appendix F: Top Risks

Risk	Risk trend	Description	Key mitigating risks
Regulation	Unchanged	<p>Compliance risk:</p> <ul style="list-style-type: none"> ▶ Increased regulatory scrutiny (e.g., Audit Supervision Letters) ▶ New/updated auditing standards ▶ Risk of significant regulatory sanctions, e.g., restrictions on operations or loss of license to trade, and/or uninsurable enforcement penalties ▶ Failure to maintain quality standards to the required regulatory standard or deal with any adverse findings from regulatory inspections to the regulator’s satisfaction. (NB – this risk is therefore also influenced by the risk of failure to deliver quality work) ▶ Increased focus from regulators on economic crime (ICAEW). Use of thematic reviews which will provide comparators which may drive regulatory action ▶ Increasing focus on firm-wide internal controls (2nd line of defence) and the need to enhance the maturity of our control infrastructure, including ISQM(UK)1 monitoring. <p>Regulatory change:</p> <ul style="list-style-type: none"> ▶ Failure to recognise changing regulation and/or to invest in enhancing quality to meet new requirements (e.g., insolvency reform). ▶ The FRC evolving and transitioning to ARGA leading to uncertainty in the regulatory regime ▶ Failure to adequately plan for the costs and resources to address robust challenge from our regulators and increasing regulatory information requirements. 	<ul style="list-style-type: none"> ▶ Partner involvement with professional institutes and regulatory bodies (identifying change and influencing where possible and appropriate) ▶ Maintaining an appropriate level of interaction and relationships with regulatory authorities ▶ Regular review of anticipated regulatory changes and assessment of their impact ▶ Comprehensive quality control systems, methodologies and guidance ▶ Mandatory risk training including Economic Crime, Ethics and Data Protection ▶ Dedicated ‘Second Line’ functions including technical support services ▶ Improvements to the SOQM arising from the implementation of ISQM(UK)1 ▶ Additional resource introduced to the firm’s Internal Audit function with a corresponding increase to the scope of the Internal Audit projects with an agreed more extensive set of reviews for FY24.

Appendix F: Top Risks

Risk	Risk trend	Description	Key mitigating risks
Information security (including cyber security)	Unchanged	<p>Failure to protect confidential audited entity, client, or personal data.</p> <p>Failure to prevent and recover from cyber-attacks.</p> <p>Failure to identify and manage emergent cyber risks.</p>	<ul style="list-style-type: none"> ▶ IT policies and processes, including access controls and appropriate disaster recovery and business continuity plans linked to BDO Global information security risk mitigation programme ▶ Chief Data Officer appointed ▶ Use of appropriate software tools to help protect against cyber threats ▶ Extensive data protection policies and processes ▶ Control of sensitive data by limiting access ▶ Implementation of tools such as secure portals to reduce the risk in information exchange with our clients, audited entities and third parties ▶ Ongoing training and awareness activities to alert partners and staff to cyber and other risks of data loss and the behaviours necessary to minimise such risks and targeted training/alerts to specific teams (e.g. Finance) ▶ Clear desk and clear screen sweeps in offices ▶ Monitoring by LT, QRMC and management on an ongoing basis ▶ ISO27001 Information Security Management System accreditation.
Failure to attract, retain and develop our people and look after their wellbeing	Unchanged	<p>Failure to recruit, retain and develop skilled and experienced people leading to service failure, inefficiency, loss of our people, stress and illness, demotivation of our people and increased recruitment and other costs.</p> <p>Risk that the accountancy profession / audit profession are unattractive to our people relative to other career opportunities at an experienced level.</p> <p>Failure to protect and support the physical and mental health and wellbeing of our people.</p> <p>Failure to design and apply agile working policies in an optimal way that:</p> <ul style="list-style-type: none"> ▶ Balances the needs of the firm, our clients, our people, and our other stakeholders ▶ Maximises productivity ▶ Ensures the development of people through on-the-job learning. 	<ul style="list-style-type: none"> ▶ HR policies and procedures including agile working policies ▶ Learning culture supported by technical and commercial training, development and on the job coaching. Policies for mandatory learning ▶ Structured career discussions, performance reviews and feedback to help the development of partners and employees ▶ BDO's People Proposition ▶ Quality Cornerstones to guide professional behaviour ▶ Strong and robustly implemented health & safety and travel policies ▶ Leadership focus on mental health and wellbeing, supported by a dedicated Wellbeing team ▶ Monitoring of key metrics and results from structured programmes to gather feedback from our people.

Appendix F: Top Risks

Risk	Risk trend	Description	Key mitigating risks
BDO Global risk and reputation	Unchanged	<p>Significant litigation, service failure or inappropriate conduct by a BDO member firm resulting in a loss of reputation to BDO as a whole.</p> <p>Failure of BDO Global to develop an effective quality and risk management function and to implement sufficient adequate quality controls (in particular in respect of audit) resulting in criticism by regulators and loss of reputation.</p> <p>Gaps in required policies and procedures and/or inadequate powers and authority to mandate implementation of required policies and procedures.</p> <p>Failure of BDO Global to adequately monitor member firms and address identified deficiencies in a timely manner.</p> <p>Failure of BDO Global or a BDO firm to protect confidential client or personal data and/or failure to prevent and recover from cyber-attacks resulting in a loss of reputation to BDO as a whole.</p> <p>Risk that BDO (Global and firms) fails to identify, recognise, plan and deliver the strategic and operational changes required.</p>	<ul style="list-style-type: none"> ▶ Methodologies and supporting tools applied globally, including our global audit methodology and APT ▶ BDO member firm accreditation ▶ Global policies for all member firms, including risk management, data privacy and information security ▶ International quality inspection programme ▶ Strong collaboration between member firms ▶ BDO LLP participation in and influencing of Global initiatives ▶ International Liaison Partners ▶ Engagement quality control with respect to reliance on subcontracting to member firms (including component auditors) ▶ Crisis Management Committee equipped with plans and tools to rapidly respond to a significant BDO Global risk event.
Changing external environment and business models for professional services firms	Unchanged	<p>Risk that significant external geopolitical events have a major direct adverse impact on our business and/or economic conditions and related risks including supply chain risk.</p> <p>Risk that professional service firms such as ours fail to attract and develop new business due to:</p> <ul style="list-style-type: none"> ▶ Competitors innovating faster than us ▶ New disruptive technology transforming markets (including platforms for providing professional services becoming IT-driven) and the cost of providing services ▶ New skills and expertise being required to deliver services (e.g., ESG audit and advisory services) ▶ Existing methodologies, processes and IT becoming obsolete ▶ Our property portfolio becomes inflexible/obsolete ▶ Risk of group-think and failure to obtain and/or accept advice from external resources. 	<ul style="list-style-type: none"> ▶ Forward horizon scanning by the LT and management ▶ Risk awareness and risk management prominent in the BUILD framework ▶ Dedicated IT resources for innovation, digital products, automation, and artificial intelligence, with monitoring to prevent / address systems obsolescence ▶ Dedicated resources to assist with the implementation of change programmes ▶ Property portfolio strategy and monitoring ▶ Crisis Management and Business Continuity planning and testing ▶ Continuous monitoring of the firm's financial metrics and of our cash position and financial resilience.

Appendix F: Top Risks

Risk	Risk trend	Description	Key mitigating risks
Resource management	Unchanged	<p>Taking on or continuing work where we lack the capacity, competence or capability to deliver (lack of resources).</p> <p>Failure to manage resources optimally leading to inability to service work and/or decreased service quality.</p> <p>Failure to secure necessary specialists, e.g. ESG specialists for audit and advisory.</p> <p>Over-reliance on key individuals.</p> <p>Placing undue stress on our partners and staff, potentially leading to stress and illness and decreased service quality.</p>	<ul style="list-style-type: none"> ▶ Selectivity and scrutiny in our acceptance and continuance processes ▶ Regular reviews of management accounts and KPIs to identify signs of over-stretched resources and to respond. Reviewing monthly reports of utilisation by individual ▶ Dedicated recruitment and people development teams in the HR function to support the firm in meeting resource demands ▶ Flexible resourcing models and cross-skilling across teams ▶ Continued expansion of the support provided by the Shared Service Centre and through offshoring ▶ Technological innovation, substituting technology to reduce demands on people.
Failing to instil a culture appropriate to an audit and advisory firm of our scale and recognising we are a regulated firm	Unchanged	<p>Failure to fully embed quality in our culture, mindset, and everything we do.</p> <p>Our behaviour is under continuous scrutiny and perceived or actual failings (including egregious behaviour by a partner or senior employee) can result in damage to reputation.</p> <p>Failure to ensure our culture recognises the firm's role in serving the public interest by consistently performing high quality engagements.</p> <p>Failure to embed a culture of challenge and professional scepticism (in relation to assurance work)/ an inquiring mindset (in relation to non-assurance work).</p>	<ul style="list-style-type: none"> ▶ Overall firm governance and reporting ▶ Focus on values, culture and quality, independence, and ethics within the strategic framework ▶ Development and implementation of a "Culture of Quality plan" ▶ Publication of annual Culture and Impact Report ▶ Ongoing monitoring including listening programme and exit surveys ▶ Whistleblowing and grievance policies.

Appendix F: Top Risks

Risk	Risk trend	Description	Key mitigating risks
ESG performance	Reduced	ESG strategy (or lack of strategy) and/or performance leading to a negative impact on our reputation and brand and our attractiveness as an employer. Failure to transition to Net Zero within an acceptable timescale.	<ul style="list-style-type: none"> ▶ Sustainability and ESG Board formed to advise the LT ▶ Signatory to the UN Global Compact ▶ Commitment to becoming a Net-Zero business by 2050 ▶ Annual Carbon Report and Streamlined Energy and Carbon Reporting report ▶ Monitoring of internal and external environmental activity ▶ ISO:14001 Environmental Management System Accreditation ▶ Annual Modern Slavery Act statement and mandatory training for all staff ▶ Liaising with BDO Global with respect to the wider network's sustainability agenda.
Failure of our IT infrastructure	Unchanged	Major IT failure or major data loss results in our inability to carry out business as usual. This may be due to our internal controls or due to the failure of a third-party IT provider (including cloud services). Ineffective development / poor quality in developing new IT applications.	<ul style="list-style-type: none"> ▶ IT policies and processes, including access controls, patching and vulnerability management, and appropriate disaster recovery and business continuity plans ▶ Relationships with outsourced providers managed and maintained, with regular performance reviews and contractually agreed service levels ▶ Incident, change and problem management processes ▶ Monitoring of use of infrastructure resources and projections of future capacity requirements ▶ Monthly internal reviews of incidents and service levels.

Appendix F: Top Risks

Risk	Risk trend	Description	Key mitigating risks
Client acceptance and continuance, and scope of work	Unchanged	<p>Failure to identify and manage risks associated with a potential client or project including:</p> <ul style="list-style-type: none"> ▶ Economic crime including AML ▶ Non-compliance with audit independence requirements under the new Ethical Standard ▶ Conflicts of interest ▶ Reputational risk (including ESG impacts) ▶ Execution risk ▶ Commercial risk ▶ Network risk. <p>Failure to define the scope of projects with sufficient clarity or engage those who have the right knowledge and skills to deliver the scope of work.</p>	<ul style="list-style-type: none"> ▶ Tender approvals and portfolio reviews (Audit) ▶ Service-specific approvals prior to firmwide acceptance processes ▶ Audited entity, client and engagement acceptance and continuance policies, procedures and training ▶ UK and international conflict checking processes ▶ Processes operationalised through software with key controls integrated ▶ Template engagement letters and Terms of Business, with liability provisions (where appropriate) within client contracts ▶ Escalation of approval of potential clients or engagements with higher risk characteristics or reputational concerns ▶ Dedicated 'Second Line' functions including technical support services ▶ Maintaining adequate professional indemnity insurance ▶ Annual Quality & Risk assessment for all partners.
Internal fraud / insider threat	Unchanged	<p>Fraudulent or malicious actions on the part of insiders, including but not limited to:</p> <ul style="list-style-type: none"> ▶ Finance fraud (payments / payroll) and/or financial misreporting for personal gain ▶ Insider trading ▶ Client money fraud ▶ Forgery of signoffs (e.g., audit opinions) ▶ Unauthorised disclosure of confidential information (e.g., Panama papers) ▶ Theft of property including confidential information/IP ▶ "Planting" of a rogue person inside the Firm by an organised crime group or other malicious actor ▶ An internal activist making adverse comments on social media ▶ Fraudulent acts due to partners/staff being under pressure from clients or others. 	<ul style="list-style-type: none"> ▶ Recruitment approvals and screening and vetting of our people ▶ Financial controls – segregation, authorisations, reconciliations ▶ Client money and asset policies and procedures including reconciliations and annual firm-wide client money review ▶ Reconciliations of Companies House filings and DocuSign records. ▶ Information security controls and monitoring ▶ Physical security and IT asset registers ▶ Anti-Bribery policy, gifts and entertainment register, and MLRO approval of refunds ▶ Whistleblowing policies, including creating and maintaining awareness ▶ Market Abuse Policy (including insider dealing and insider lists) ▶ Monitoring by management and Internal Audit.

Appendix F: Top Risks

Risk	Risk trend	Description	Key mitigating risks
Commercial management	New	<p>Failure to manage our business holistically across client and audited entity relationships, people and other resources. Including:</p> <ul style="list-style-type: none"> ▶ Failure to adjust our pricing to account for market conditions, changing demand for our services and increasing costs ▶ Opportunity risks arising from inadequate or ineffective marketing and business development activity ▶ Poor client relationship management ▶ Inefficient service delivery leads to low recovery. 	<ul style="list-style-type: none"> ▶ Growth Plans for each service and support business unit ▶ Application of internal commercial principles when setting and reviewing project pricing ▶ Timesheets, with business leaders in streams having access to utilisation and fee recovery metrics ▶ Continued expansion of the support provided by the BDO Shared Service Centre and through offshoring ▶ Technological innovation to increase efficiency and effectiveness and reduce cost ▶ Marketing, Sales and Client policies and procedures ▶ Client listening programme.
Financial and working capital management	New	<p>Risks arising from:</p> <ul style="list-style-type: none"> ▶ Inadequate management of budgeting, billing, and cash flow ▶ Volatility in financial markets and/or counterparties ▶ Inadequate value for money from suppliers. 	<ul style="list-style-type: none"> ▶ Finance policies and procedures ▶ Timesheets, with business leaders in streams having access to utilisation and fee recovery metrics ▶ Monthly management accounts packs and financial metrics across service Streams and support business units ▶ Delegation schedules and signing authorities including expenses approvals, built into finance systems ▶ Monthly reconciliations over all expected cycles ▶ Credit control monitoring ▶ Procurement policies and procedures ▶ Supplier due diligence procedures ▶ Procurement team support with supplier contract terms ▶ Continuous monitoring of our cash position and financial resilience.

Appendix G: Legal Structure and Ownership

BDO LLP

BDO LLP is a limited liability partnership, incorporated in the UK and is owned by its members (who are often referred to as partners). On 30 June 2023 there were 333 members up from 318 members on the same date in 2022.

A service company, BDO Services Limited, employs people, contracts with suppliers and provides services to the LLP and third parties.

BDO Northern Ireland is an independent partnership.

BDO is a global network of independent public accounting, tax and advisory firms, which are members of BDO International Limited and perform professional services under the name and style of BDO.

BDO is the brand name for the BDO network and all BDO Member Firms.

Through the financial year, BDO LLP operated through three different streams being Audit, Tax and Advisory. Further details on the individual services provided by each stream can be found in the [BDO website](#).

BDO Global

Each BDO Member Firm is a member of BDO International Limited, a UK company limited by guarantee, as either a voting member (one per country) or a non-voting member.

BDO International Limited is the governing entity of the BDO network and sets the membership obligations of the BDO Member Firms through the Articles and Regulations of BDO International Limited.

The BDO network is governed by the Council, the Global Board and the Global Leadership Team (GLT) of BDO International Limited.

The Council comprises one representative from each voting BDO Member Firm and represents the members of BDO International Limited in general meeting. The Council approves the network's central budget, appoints the Global Board and approves any changes in the Articles and Regulations of BDO International Limited. The Council meets at least once a year.

The Global Board is also the Board of Directors of BDO International Limited. It comprises the Managing Partners of at least the three largest firms of the EMEA region, the two largest firms of the Americas region and the two largest firms of the Asia Pacific region. Each

Global Board member is appointed for a three-year term, which is approved by the Council. Members are eligible for reappointment for further terms which are also approved by the Council. The Global Board sets priorities for the BDO network and oversees the work of the GLT. The Global Board met (for an in-person/hybrid meeting) or discussed single issues during a Global Board call ten times in the year to 30 June 2023.

The Global Leadership Team is tasked with coordinating the activities of the BDO network. It is headed by the CEO and comprises the Chief Strategy and Operations Officer, Global Head of Risk & Compliance, Global General Counsel, Global Head of Tax (also Global Head of People & Culture), Global Head of Advisory, Global Head of Audit & Assurance, Global Head of Business Services and Outsourcing (BSO) (also Regional Managing Director, Americas) and Global Head of IT.

The Global Leadership Team is supported by the Global Office at Brussels Worldwide Services BV. Brussels Worldwide Services BV, a Belgian limited liability company, provides

services to assist in the coordination of the BDO network. Each of BDO International Limited, Brussels Worldwide Services BV and the BDO member firms is a separate legal entity and has no liability for another entity's acts or omissions.

Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BV and/or the BDO member firms.

Neither BDO International Limited nor any other central entities of the BDO network provide services to clients.

The global aggregated turnover for BDO Member firms (including their exclusive Alliances) in 164 countries for the year ended 30 September 2022 was in excess of US\$12.8bn. Partner and staff numbers at 30 September 2022 were some 111,300 working out of 1,803 offices worldwide. Appendix O sets out the name and operating country of statutory auditors within the EU and the combined turnover achieved by those firms.

Key features of the Member Firm Network Agreement

Each BDO Member Firm is an independent legal entity and profits are not shared between member firms.

All BDO Member Firm client or audited entity engagements – whether for domestic work, referred work from other firms in the network, or international work sourced from non-BDO sources – are conducted in the name of the local BDO Member Firm.

Membership of the network confers certain rights on BDO Member Firms, as well as certain obligations. Rights include the use of the BDO brand, including the network name and logo, the ability to refer work to and from other BDO Member Firms and a wide range of resources. Obligations include the capability to offer the minimum core services, including accounting and auditing, taxation and specialist advisory services.

Appendix H: Biographies for members of oversight bodies and the LT and information about our INEs

Biographies

Biographies for partners sitting on the LT or one or more of the six oversight bodies within the firm (PC, BIOB, AB, AC, RemCo and NomCo) are set out in this Appendix.



LT

Paul England

Managing Partner

Paul was elected as Managing Partner, starting his first four-year term in October 2016. He was re-elected to serve a second four-year term commencing October 2020. Paul and his LT are responsible for the overall strategic direction of the firm, its financial performance and business model. Paul has served on the LT since 5 July 2008. Paul is also a member of BDO International's Global Board which sets and monitors strategy for the International network.

Andy Butterworth

Chief Operating Officer and Head of Tax

As Chief Operating Officer, Andy leads the firm's PMDs. He chairs our Operations Board ensuring we focus on delivery of the firm's operational priorities. Andy also leads our Tax stream and chairs our Tax Executive whose role is to implement the firm's vision and strategy across the national tax practice. Andy has served on the LT since October 2016.

Kaley Crossthwaite

LT Lead for Quality and Risk

Kaley joined the LT on 2 July 2022, after spending the prior three years as head of BDO's Forensic and Valuation Services (FAVS), leading a national team of almost 200 people. She has been with the firm for more than 20 years, joining as manager and being promoted to partner in 2008. Kaley's remit within the LT is to strengthen BDO's continued focus on quality and risk management. From July 2023, Kaley became the firm's Head of Quality & Risk and also became the firm's Money Laundering Compliance Principal (MLCP).

Anna Draper

Head of Partner Engagement and Development

Anna joined the LT on 2 July 2022, having spent the prior three years as head of BDO's offices in the South East region. Anna began working for BDO as a senior manager in 2007 and was promoted to partner in 2012 and regional lead partner in 2019, responsible for overseeing two offices consisting of almost 400 people. Her role on the LT sees Anna focus on partner engagement and development, helping to plan the pipeline of future partners within the firm.

Simon Gallgaher

Head of Advisory

Simon leads the Advisory stream, chairs the Advisory Executive, and joined the LT in 2019. Simon is a member of our Operations Board and is also a member of the Advisory Leadership Group which has responsibility for co-ordinating the strategy and delivery of global Advisory services within the BDO international network. Before joining BDO, Simon was Managing Partner of Moore Stephens LLP.

Chris Grove

Head of Transaction Services

Chris leads the Transaction Services team, having previously worked in Business Recovery. Chris is a past Chair of BDO's International Corporate Finance Group and a past member of the firm's PC; he was appointed to the LT in October 2016. Chris also chairs the firm's Unifying Culture (U) Board.

Scott Knight

Head of Audit

Scott leads the Audit stream and chairs the Audit Executive, including design and execution of strategy. He also leads on the investments in Audit Quality and transformation as well as responsibility for financial performance. He was appointed to serve on the LT on 1 April 2014 and has been a member of the firm's AB since its constitution in January 2022. Scott is also a member of our Operations Board.

Gervase McGregor

LT Lead for Risk and Reputation

Gervase is responsible for setting the firm-wide risk framework and policies, provision of education and ensuring adherence. He is responsible for all claims and regulatory matters involving the firm. Gervase is also the firm's Money Laundering Reporting Officer (MLRO). He is a forensic services partner and has served on the LT since 5 July 2008.

Appendix H: Biographies for members of oversight bodies and the LT and information about our INEs

Oversight bodies

Matthew White

Senior Partner (PC, BIOB, AB, NomCo, RemCo, AC)

Matthew is the firm's Senior Partner, elected to the role in 2018 and is Chair of PC. Prior to his election to Senior Partner, Matthew spent eight years as a member of PC. In addition, Matthew chairs BIOB, AB, RemCo and NomCo. He helped create and is co-chair of the Sustainability and ESG Board. Matthew is the International Liaison Partner and is also a member of the AC.

Andrea Bishop

(AB)

Andrea has responsibility for the development of the digital audit transformation strategy, including tools, digital mindset and innovation. She also leads the TRA team and is a Business Assurance Partner. Andrea was made partner in July 2005, and joined the AB in September 2022, is a long serving member of the Audit Executive and on 1 July 2023 was also appointed to the firm's Operations Board.

Lee Causer

(PC)

Lee is a business restructuring partner and leads the Business Restructuring team in the Midlands in addition to being a member of the Clients and Markets and Strategic Partnerships Operations Groups within the Advisory stream. Lee joined the firm as a partner in 2019 as part of the merger with Moore Stephens and was elected to PC in 2023.

Hamid Ghafoor

(PC)

Hamid is an audit partner based out of the North West, BDO's Head of Social Housing and leads the Not for Profit team across the North. Hamid was appointed to partner in 2011 and was elected to PC in 2022.

Jeff Harris

(PC, AC)

Jeff joined the firm in 2013 as a partner via the merger with PKF. Jeff is a transactions support partner based in Gatwick and London, leading on BDO's TS work in the Natural Resource and Not for Profit space. Jeff was elected to PC in 2019 and is a member of AC.

Suk Aulak

(PC)

Suk is a partner based out of the Birmingham office, heading the Business Services and Outsourcing team in the Midlands and the firm's Company Secretarial Team. He joined the firm as a partner via the merger with Moore Stephens in 2019 and has served on PC since joining.

Nick Carter-Pegg

(PC, AC)

Nick is an audit partner and is National Head of the Professional Services sector, based out of the London office. Nick is a member of the Association of Partnership Practitioners. He made partner in 1999 and has been a member of PC since 2016 and is the Chair of the AC.

Arbinder Chatwal

(PC, AC)

Arbinder is an audit partner, based out of the firm's Southampton office, and works across a range of sectors including retail, technology, manufacturing and leisure. Arbinder is the CCO for India and leads the India Advisory Group, in addition he works with BDO Global and is a member of the Next Generation Leaders group. He was made partner in 2018 and was elected to PC in 2022. In addition to his role on PC, Arbinder is a member of AC.

Jo Gilbey

(PC, BIOB, NomCo, RemCo)

Jo is a tax partner based in Gatwick and the South East who co-ordinates and leads on the provision of non-audit services to many of BDO's largest FTSE, AIM and other listed groups with a particular focus on PIEs and OEPIs where there is a heavy emphasis on regulation, governance and reputation. Jo was made partner in 2006 and was elected to PC in 2016. Jo also sits on BIOB, NomCo and RemCo.

Sarah Hillary

(PC, RemCo)

Sarah is a partner in the Digital Risk and Advisory Services team, specialising in governance, risk management and internal control and is a member of the firm's Unifying Culture board and the sponsor partner for the firm's work in diversity and inclusion. Sarah joined the firm in 2019 as part of the merger with Moore Stephens and was elected to PC in 2022. From 1 July 2023, Sarah will also sit on the RemCo.

Appendix H: Biographies for members of oversight bodies and the LT and information about our INEs

Oversight bodies (continued)

David Isherwood

(BIOB, NomCo)

David is the firm's Ethics Partner and has been a partner in the firm since 2010. He is a member of the firm's BIOB and the International Network's Ethics and Independence Steering Committee. He holds a number of appointments external to the firm, including the Chair of IFAC's Forum of Firms, the Vice-Chair of the ICAEW's Audit and Assurance Faculty Board and he is also a member of the ICAEW's Ethics Standards Committee.

Iain Nettleton

(PC)

Iain is a partner in the International Institutions and Donor Assurance team within the Advisory stream and leads the International Projects Group, focusing on Public Sector Transformation and Economic Growth in developing countries. Iain was made partner in 2018 and elected to PC in 2022.

Andrew Viner

(PC, BIOB, NomCo, RemCo)

Andrew is an audit partner, specialising in Media and Technology, based in the London office. He was made partner in 2003 and has been a member of PC since 2016. Andrew also sits on BIOB, NomCo and RemCo.

Kelly Sheppard

(PC)

Kelly is an audit partner in Financial Services, heading up the payments e-money team and is based out of the London office, joining the firm as a partner in 2019 through the merger with Moore Stephens. Kelly was elected to PC in 2022 and is the Council's representative on the firm's retirement panel.

Dominic Stammers

(PC, RemCo)

Dominic is an audit partner in the Consumer Markets Team in London, providing advice within the leisure and hospitality market since his appointment to Partner in 2014. Dominic was elected to PC in 2022 and, from 1 July 2023, will sit on the RemCo.



Appendix H: Biographies for members of oversight bodies and the LT and information about our INEs

Biographies for the firm's INEs, all of whom sit on PIC and at least one other oversight body are set out below.

Independent Non-Executives

Eamonn Mcgrath (PIC, AB, QRMC)

Eamonn spent more than 30 years as a PLC audit partner at EY and was also on the firm's Board in a senior policy and regulatory role. He holds a non-executive position at Cranmer Court Tenants as well as previously at property consultant consulting firm Henry Riley LLP and a charity.

Eamonn was appointed as an INE on 3 January 2022. He is a member of the AB and chairs the PIC. He also attended the QRMC meetings as an observer.

Jane Guyett (PIC, BIOB, AC, NomCo)

Jane, who was awarded a CBE for her services to the economy in 2020, has extensive experience in highly-regulated sectors, notably financial services and investment banking, including as Chief Operating Officer for Bank of America Securities. She has a broad portfolio of non-executive roles including at Royal London Group, UK Government Investments and London Stock Exchange Group companies: London Clearing House and Banque Centrale de Compensation.

Jane was appointed as an INE on 3 January 2022. She is a member of the AC, the BIOB, NomCo and the PIC.

Russell King (PIC, BIOB, NomCo)

Russell brings a broad experience in business strategy/development, human resources, government relations, and sustainable development. His specialties include experience in mining and consumer goods and human resources. Russell holds a non-executive post at FTSE firm, Ricardo.

Russell was appointed as an INE on 1 July 2017. He is a member of the NFC Partner Panel BIOB, NomCo and the PIC. He was a non-executive member of the LT until 31 December 2021.

David Matthews (PIC, AB)

David was the President and Chair of ICAEW in 2020/21. Previously, he spent almost 40 years at KPMG, including as an audit partner responsible for some of KPMG's largest global audited entities and latterly as a member of its UK Executive Committee and Board.

David was appointed as an INE on 31 January 2022. He is a member of the AB and the PIC.

He is also a Justice of the Peace; a Trustee of Cumberland Lodge, Inter Mediate and Treloar's; and a member of the Court of the Worshipful Company of Chartered Accountants in England and Wales.

Appendix H: Biographies for members of oversight bodies and the LT and information about our INEs



Additional information about our INEs

Candidates for INE roles are proposed and approved by the PC (acting through the NomCo). The PC reviews the effectiveness and independence of the INEs. In doing this they receive feedback from the business periodically as to the impact and contribution made by the INEs and this is communicated to them by the Managing Partner and Senior Partner.

The PC implicitly reviews the effectiveness of the INEs via their contribution at the oversight Board meetings which they attend and, in particular, their input into the PIC. From 1 July 2023, the Senior Partner will set high level objectives for each INE.

The INEs are invited to attend two meetings of the PC each year without executive members of the LT in attendance and have the right to meet with each other on a private basis.

In addition, INEs have the right to initiate direct access to the PC at any other time in order to report and agree a course of action in relation to any fundamental disagreements with the executive members of the LT. Where ultimately the disagreement cannot be resolved and results in the resignation of an INE they also have the right to report this resignation publicly.

At present, the INEs are contracted to BDO for an initial three-year term, which is then reviewed by the PC. An additional three-year term can then be offered. At the end of the full six-year period, further rolling one-year terms may be agreed but nine years remains the maximum tenure for any INE.

The INEs perform duties as set out in their letter of appointment; in particular, they:

- ▶ Provide advice on governance and fulfilment of INE obligations relating to the AFGC 2016
- ▶ Share knowledge from industry and regulatory experience
- ▶ Apply independent judgement to matters of particular concern.

In assessing the INE's impact on the firm's independence as auditors we consider the following criteria:

- ▶ Attendance at oversight body meetings and QRMC
- ▶ Inclusion in an Acceptance and Continuance Panel for contentious, high-risk engagements or areas of potential significant conflicts of interest

- ▶ Office visits and meetings with partners and staff, feeding back to the PIC on cultural and other aspects.

The firm's criteria for assessing the INEs' independence from the firm can be summarised as follows:

- ▶ Rigorous independence checking prior to appointment
- ▶ Quarterly monitoring on the INEs' personal and business relationships against the firm's client-base. Where a conflict is identified, this is addressed, for instance, by applying effective safeguards
- ▶ Requirement to sign an Annual Declaration confirming relevant matters relating to independence and conflicts of interest
- ▶ Requirement to advise the Senior Partner prior to accepting any additional external roles or appointments.

Where occasions arise that the INEs consider they need to obtain independent professional advice, they will be fully reimbursed for the cost of obtaining such advice.

INE	Total remuneration per annum
Eamonn McGrath *	£110,000
Russell King	£100,000
Jane Guyett	£100,000
David Matthews	£100,000

*Chair of PIC

All salaries quoted above are effective from 1 February 2023.

Appendix I: Meeting attendance statistics

The tables below record meeting attendance between 2 July 2022 – 30 June 2023 for the oversight bodies and the LT.



AB

Name	Title	Tenure on AB	Length of Service on AB at 30 June 2023	Total number of meetings in the period while in office	No. of meetings attended in the period
Matthew White	Senior Partner (Chair)	January 2022 – present	1 year 6 months	6	6
Scott Knight	Head of Audit	January 2022 – present	1 year 6 months	6	6
Eamonn McGrath	INE	January 2022 – present	1 year 6 months	6	6
David Matthews	INE	January 2022 – present	1 year 6 months	6	6
Andrea Bishop	Audit Partner	September 2022 – present	10 months	6	6

PIC

Name	Title	Tenure on PIC	Length of Service on PIC at 30 June 2023	Total number of meetings in the period while in office	No. of meetings attended in the period
Eamonn McGrath	INE (Chair)	January 2022 – present	1 year 6 months	6	6
Jane Guyett	INE	January 2022 – present	1 year 6 months	6	6
David Matthews	INE	January 2022 – present	1 year 6 months	6	6
Russell King	INE	July 2017 – present	6 years	6	6

Appendix I: Meeting attendance statistics



PC

Name	Title	Tenure on PC	Length of Service on PC at 30 June 2023	Total number of meetings in the period while in office	No. of meetings attended in the period
Matthew White	Senior Partner (Chair)	October 2018 – present (appointed Chair)	4 years 9 months	9	9
Suk Aulak	BSO Partner	February 2019 – present	4 years 5 months	9	9
Nick Carter-Pegg	Audit Partner	October 2016 – present	6 years 9 months	9	9
Lee Causer	BR Partner	April 2023 – present	3 months	3	3
Arbinder Chatwal	Audit Partner	October 2022 – present	9 months	7	7
Hamid Ghafoor	Audit Partner	October 2022 – present	9 months	7	6
Jo Gilbey	Tax Partner	October 2016 – present	6 years 9 months	9	8
Jeff Harris	TS Partner	November 2019 – present	3 years 8 months	9	9
Iain Henderson	Audit Partner	November 2019 – September 2022	2 years 11 months	2	1
Sarah Hillary	DRAS Partner	October 2022 – present	9 months	7	7
Geraint Jones	Audit Partner	October 2016 – September 2022	6 years	2	2
Sarah Moss	Tax Partner	October 2020 – September 2022	2 years	2	2

Appendix I: Meeting attendance statistics



PC (continued)

Name	Title	Tenure on PC	Length of Service on PC at 30 June 2023	Total number of meetings in the period while in office	No. of meetings attended in the period
Iain Nettleton	IIDA Partner	October 2022 – present	9 months	7	7
Sarah Rayment	BR Partner	October 2018 – August 2022	3 years 11 months	1	1
Julien Rye	Audit Partner	November 2014 – March 2023	8 years 5 months	6	6
Kelly Sheppard	Audit Partner	October 2022 – present	9 months	7	7
Michael Simms	Audit Partner	February 2019 – September 2022	3 years 8 months	2	2
Tony Spillett	Tax Partner	November 2019 – September 2022	2 years 11 months	2	2
Dominic Stammers	Audit Partner	October 2022 – present	9 months	7	7
Andrew Viner	Audit Partner	October 2016 – present	6 years 9 months	9	8
Tim West	Audit Partner	February 2019 – September 2022	3 years 8 months	2	2

Appendix I: Meeting attendance statistics



BIOB

Name	Title	Tenure on BIOB	Length of Service on BIOB at 30 June 2023	Total number of meetings in the period while in office	No. of meetings attended in the period
Matthew White	Senior Partner (Chair)	January 2022 – present	1 year 6 months	6	6
Jo Gilbey	Tax Partner	January 2022 – present	1 year 6 months	6	5
Jane Guyett	INE	January 2022 – present	1 year 6 months	6	6
David Isherwood	Ethics Partner	January 2022 – present	1 year 6 months	6	5
Russell King	INE	January 2022 – present	1 year 6 months	6	6
Andrew Viner	Audit Partner	January 2022 – present	1 year 6 months	6	6

AC

Name	Title	Tenure on Audit Committee	Length of Service on AC at 30 June 2023	Total number of meetings in the period while in office	No. of meetings attended in the period
Nick Carter-Pegg	Audit Partner (Chair)	April 2017 – present	6 years 3 months	5	5
Arbinder Chatwal	Audit Partner	October 2022 – present	9 months	3	3
Jane Guyett	INE	January 2022 – present	1 year 6 months	5	5
Jeff Harris	TS Partner	November 2019 – present	3 years 8 months	5	4
Tim West	Audit Partner	February 2019 – September 2022	3 years 8 months	2	2
Matthew White	Senior Partner	September 2016 – present	6 years 10 months	5	5

Appendix I: Meeting attendance statistics



RemCo

Name	Title	Tenure on RemCo	Length of Service on RemCo at 30 June 2023	Total number of meetings in the period while in office	No. of meetings attended in the period
Matthew White	Senior Partner (Chair)	July 2018 – present	5 years	3	3
Andrew Viner	Audit Partner	July 2019 – present	4 years	3	3
Sarah Rayment	BR Partner	July 2019 – July 2022	3 years 1 months	3	3
Tony Spillett	Tax Partner	July 2020 – September 2022	2 years 3 months	3	3
Jo Gilbey	Tax Partner	July 2021 – present	2 years	3	3

NomCo

Name	Title	Tenure on NomCo	Length of Service on NomCo at 30 June 2023	Total number of meetings in the period while in office	No. of meetings attended in the period
Matthew White	Senior Partner (Chair)	January 2022 – present	1 year 6 months	1	1
Jo Gilbey	Tax Partner	January 2022 – present	1 year 6 months	1	0
Jane Guyett	INE	January 2022 – present	1 year 6 months	1	1
David Isherwood	Ethics Partner	January 2022 – present	1 year 6 months	1	1
Russell King	INE	January 2022 – present	1 year 6 months	1	1
Andrew Viner	Audit Partner	January 2022 – present	1 year 6 months	1	1

Appendix I: Meeting attendance statistics



LT

Name	Title	Tenure on LT	Length of service on LT at 30 June 2023	Total number of meetings in the period while in office	No. of meetings attended in the period
Andy Butterworth	Chief Operating Officer and Head of Tax	October 2016 – present	6 Years 9 Months	20	17
Kaley Crossthwaite	LT Lead for Quality & Risk	July 2022 – present	1 Years 0 Months	20	17
Anna Draper	Head of Partner Engagement and Development	July 2022 – present	1 Years 0 Months	20	20
Paul Eagland	Managing Partner	July 2008 – present	15 Years 0 Months	20	20
Simon Gallagher	Head of Advisory	February 2019 – present	4 Years 5 Months	20	19
Chris Grove	Head of Transaction Services	October 2016 – present	6 Years 9 Months	20	20
Scott Knight	Head of Audit	April 2014 – present	9 Years 3 Months	20	20
Gervase MacGregor	LT Lead for Risk and Reputation	July 2008 – present	15 Years 0 Months	20	17

Appendix I: Meeting attendance statistics



QRMC

Name	Title	Tenure on QRMC	Length of Service on QRMC at 30 June 2023	Total number of meetings in the period while in office	No. of meetings attended in the period
Iain Lawson (chair)	Head of Quality and Risk	1 September 2011 – 30 June 2023	11 years 10 months	11	11
Angela Foyle	Partner – Quality and Risk Management	1 February 2016 – 30 June 2023	7 years 5 months	11	10
Matthew Tait	Partner – Business Restructuring	1 October 2018 – 30 June 2023	4 years 9 months	11	7
Nicole Kissun	Partner – Audit Quality Improvement	April 2013 – 30 June 2023	10 years 3 months	11	10
Ryan Ferguson	Partner – Head of Audit Quality & Risk	April 2021 – 30 June 2023	2 years 3 months	11	8
Chris Chapple	Partner – Private Wealth	April 2021 – 30 June 2023	2 years 3 months	11	8
Mark Shaw	Head of Business Restructuring	April 2021 – 30 June 2023	2 years 3 months	11	9
Kevin Haywood Crouch	Partner – FAVS	April 2021 – 30 June 2023	2 years 3 months	11	10
Kaley Crossthwaite	LT Lead for Quality & Risk	January 2022 – 30 June 2023	1 year 6 months	11	9
Eamonn McGrath	INE	January 2022 – 30 June 2023	1 year 6 months	11	9
David Matthews	Alternate INE	January 2022 – 30 June 2023	1 year 6 months	2	2

Appendix J: Compliance Statements

This Transparency Report is compliant with the AFGC 2016, Article 13 of the EU Audit Regulation (537/2014) and the Local Auditors (Transparency) Regulations 2020.

We have included below individual statements of compliance as required by the regulations above. Compliance mapping to the individual requirements / regulations is set out in separate appendices.

Statement of review of the effectiveness of internal controls as required by AFGC 2016 D.2.2:

As part of its annual procedures and in compliance with the AFGC 2016, the LT confirms that it has performed a review of the principal risks facing the firm and the effectiveness of the system of internal control.

This involved:

- ▶ Consideration of relevant aspects of the firm's governance structure
- ▶ Reviewing the firm's Enterprise Risk Management Framework and Top Risks as established by the QRMC
- ▶ Reviewing reports and minutes from the QRMC and the LT Lead for Quality and Risk on the management and monitoring of risks (including those in the detailed risk register)

- ▶ Reviewing regular reports on the firm's financial performance from the Finance Partner and any risks arising therefrom
- ▶ Reviewing the Annual Report from the Operations Board on the delivery of key operational and infrastructure priorities
- ▶ Reviewing the work of Internal Audit and compliance monitoring in relation to matters pertaining to LT's remit
- ▶ Considering the reports and findings from external regulatory reviews
- ▶ Reviewing the conclusions of our external auditors, including comments in relation to the control environment.

In the course of this review of effectiveness of internal control, the LT did not identify any significant weaknesses but identified improvements that we believe will strengthen controls to manage and better mitigate principal risks. Corresponding actions were developed and either have been or will be implemented and monitored. Following the LT's formal review of the Top Risks, which is reported in Appendix F, we have continued to assess our Regulation risk specifically with regards to the implementation of ISQM(UK)1.

As our Managing Partner notes in his foreword, ISQM(UK)1 is a new complex standard, under which we have identified a need to further refine and enhance many of our policies, processes and controls. This is our top priority as a firm but we recognise that it will take time to execute on all of our plans.

The LT further recognises, based on the results of internal compliance monitoring and feedback from our regulators, that there is a need to strengthen elements of our system of quality management under ISQC(UK)1 (see the separate statement on the internal quality control system below). However, it is not considered that any of the areas requiring improvement under ISQC(UK)1 represent a significant failure or weakness, which either requires disclosure or which undermines the current systems of internal control in respect of the firm's operations as a whole.

On the basis of the reviews, the LT is satisfied that, with the exception of elements of our quality systems under ISQC(UK)1, the firm's systems of internal control are operating effectively and are in line with the risk management principles of the AFGC.

Effectiveness of internal quality control system as required by Article 13 of the EU Audit Regulation:

The LT assumes the ultimate responsibility for BDO LLP's system of quality control as required by ISQC(UK)1. ISQC(UK)1 was replaced by ISQM(UK)1 on 15 December 2022. Consequently, the period from 1 July 2022 to 14 December 2022 is covered by ISQC(UK)1, on which we conclude below. The subsequent period from 15 December 2022 to 30 June 2023 is covered by ISQM(UK)1. Our statements below report on our compliance with ISQC(UK)1 in the period from 1 July 2022 to 14 December 2022. In line with the requirements of ISQM(UK)1 we will report the conclusion of our evaluation of the standard within 12 months of the effective date.

In accordance with article 13 (2) (d) of the EU Audit Regulation and the Local Auditors (Transparency) Regulations 2020, the LT confirms that it has performed a review of the effectiveness of its internal quality control system. Based on the feedback from our regulators and our internal review, the LT recognises that there are deficiencies

and required improvements to strengthen our internal quality control system. Where deficiencies have been identified, prompt corrective actions have been developed and have or will be implemented and monitored.

Local Auditors (Transparency) Regulations 2020 statements:

In addition to the effectiveness of the internal quality control system statement as per the Local Auditors (Transparency) Regulations 2020, we are also required to make the following statements:

In accordance with the Local Auditors (Transparency) Regulations 2020, the last monitoring performance for the 2021/22 inspection cycle was completed in the first half of 2022 with results published in October 2022.

The LT confirms that the policies and practices are designed to ensure that persons eligible for appointment as local auditors continue to maintain their theoretical knowledge, professional skills and values.

Appendix K: AFGC 2016 compliance mapping

In this appendix, we confirm our compliance with the disclosures required in the Transparency Report by the AFGC 2016.

AFGC reference	AFGC requirement	Status	Reference to section
A.1.2	The firm should state in its transparency report how its governance structures and management operate, their duties and the types of decisions they take. In doing so the firm should explain how its governance structure provides oversight of both the audit practice and the firm as a whole with a focus on ensuring the Code's purpose, is achieved. If the management and/or governance of the firm rests at an international level it should specifically set out how management and oversight of audit, is undertaken and the Code's purpose achieved in the UK.	✓	Governance section
A.1.3	The firm should state in its transparency report the names and job titles of all members of the firm's governance structures and its management, how they are elected or appointed and their terms, length of service, meeting attendance in the year, and relevant biographical details.	✓	Appendix H – Biographies and INE information, Appendix I – Meeting attendance statistics and the Governance section
B.1.2	Firms should introduce KPIs on the performance of their governance system, and report on performance against these in their transparency reports.	✓	Governance section
C.1.2	The firm should disclose on its website and in its transparency report information about the appointment, retirement and resignation of independent non-executives; their remuneration; their duties and the arrangements by which they discharge those duties; and the obligations of the firm to support them. The firm should report on why it has chosen to position its independent non-executives in the way it has (for example, as members of the main Board or on a public interest committee).	✓	Appendix H – Biographies and INE information and Governance section
C.1.3	The independent non-executives should report in the firm's transparency report on how they have worked to meet the purpose of the Code defined as: <ul style="list-style-type: none"> a. Promoting audit quality b. Helping the firm secure its reputation more broadly, including in its non-audit businesses c. Reducing the risk of firm failure. 	✓	Report from the Chair of the PIC

Appendix K: AFGC 2016 compliance mapping

AFGC reference	AFGC requirement	Status	Reference to section
C.2.1	The firm should state in its transparency report its criteria for assessing the impact of independent non-executives on the firm's independence as auditors and their independence from the firm and its owners.	✓	Appendix H – Biographies and INE information
D.1.3	The firm should state in its transparency report how it applies policies and procedures for managing potential and actual conflicts of interest.	✓	Appendix C – Ethics and Independence
D.2.2	The firm should state in its transparency report that it has performed a review of the effectiveness of the system of internal control, summarise the process it has applied and confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review. It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in its financial statements or management commentary.	✓	Appendix J – Compliance Statements, Appendix D – Internal Quality Control Systems and Internal Control Systems and Risk Management section
E.2.2	In its transparency report the firm should give details of any additional provisions from the UK Corporate Governance Code which it has adopted within its own governance structure.	✓	Governance section
E.3.1	The firm should confirm that it has carried out a robust assessment of the principal risks facing the audit firm, including those that would threaten its business model, future performance, solvency or liquidity. The firm should describe those risks and explain how they are being managed or mitigated.	✓	Appendix F – Top Risks and Internal Control Systems and Risk Management section, Appendix J – Compliance Statements
E.4.1	The firm should establish an audit committee and disclose on its website information on the committee's membership and terms of reference which should deal clearly with its authority and duties, including its duties in relation to the appointment and independence of the firm's auditors. On an annual basis, the audit committee should publish a description of its work and how it has discharged its duties.	✓	Governance section
F1.1	The firm should disclose on its website its policies and procedures, including contact details, for dialogue about matters covered by this Audit Firm Governance Code with listed company shareholders and listed companies. It should also report on the dialogue it has had during the year. These disclosures should cover the nature and extent of the involvement of independence non-executives in such dialogue.	✓	Report from the Chair of PIC and Appendix B – Audit Quality Indicators

Appendix L: Local Audit Transparency Regulations compliance mapping

In accordance with the Local Auditors (Transparency) Regulations 2020 we make the following statement with regards to the application in practice of each of the requirements and set out in the Schedule to those Regulations on which we are required to report.



Requirement	Status	Report reference
1a. A description of the legal structure, governance and ownership of the transparency reporting local auditor.	✓	Appendix G – Legal Structure and Ownership, Appendix I – Meeting attendance statistics and Governance section
1b. Where the transparency reporting local auditor belongs to a network, a description of the network and the legal, governance and structural arrangements of the network	✓	Appendix G – Legal Structure and Ownership
1c. A description of the internal quality control system of the transparency reporting local auditor and a statement by the administrative or management body on the effectiveness of its functioning in relation to local audit work.	✓	Appendix D – Internal Quality Control Systems and Appendix J – Compliance Statements
1d. A description of the transparency reporting local auditor’s independence procedures and practices including a confirmation that an internal review of independence practices has been conducted.	✓	Ethics and Independence section and Appendix C – Ethics and Independence
1e. Confirmation that all engagement leads are competent to undertake local audit work and staff working on such assignments are suitably trained.	✓	Appendix D – Internal Quality Control Systems
1f. A statement of when the last monitoring of the performance by the transparency reporting local auditor of local audit functions, within the meaning of paragraph 23 of Schedule 10 to the 2006 Act, as applied in relation to local audits by Section 18 and paragraphs 1,2 and 28(7) of Schedule 5 to the 2014 Act, took place.	✓	Audit Quality section and Appendix J – Compliance Statements
1g. A list of major local audits in respect of which an audit report has been made by the transparency reporting local auditor in the financial year of the auditor; and any such list may be made available elsewhere on the website specified in regulation 4 provided that a clear link is established between the transparency report and such a list.	✓	Appendix Q – List of Major Local Audits
1h. A statement on the policies and practices of the transparency reporting local auditor designed to ensure that persons eligible for appointment as a local auditor continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level.	✓	Appendix J – Compliance Statements
1i. Turnover for the financial year of the transparency reporting local auditor to which the report relates, including the showing of the importance of the transparency reporting local auditor’s local audit work.	✓	Appendix N – Financial Information
1j. Information about the basis for the remuneration of partners	✓	Appendix D – Internal Quality Control Systems

Appendix M: EU Audit Regulations compliance mapping

We cross-reference in the table in this Appendix to where and how BDO LLP complies with the requirements of Article 13.2 of the EU Audit Regulation.



Requirement	Status	Report reference
(a) a description of the legal structure and ownership of the audit firm;	✓	Appendix G – Legal Structure and Ownership
(b) where the statutory auditor or the audit firm is a member of a network:	✓	
(i) a description of the network and the legal and structural arrangements in the network	✓	Appendix G – Legal Structure and Ownership
(ii) the name of each statutory auditor operating as a sole practitioner or audit firm that is a member of the network;	✓	Appendix O – List of EU/EEA Member Firms
(iii) the countries in which each statutory auditor operating as a sole practitioner or audit firm that is a member of the network is qualified as a statutory auditor or has his, her or its registered office, central administration or principal place of business	✓	Appendix O – List of EU/EEA Member Firms
(iv) the total turnover achieved by the statutory auditors operating as sole practitioners and audit firms that are members of the network, resulting from the statutory audit of annual and consolidated financial statements	✓	Appendix O – List of EU/EEA Member Firms
(c) a description of the governance structure of the audit firm	✓	Governance section
(d) a description of the internal quality control system of the statutory auditor or of the audit firm and a statement by the administrative or management body on the effectiveness of its functioning	✓	Appendix D – Internal Quality Control Systems, Appendix J – Compliance Statements and Internal Control Systems and Risk Management section
(e) an indication of when the last quality assurance review referred to in Article 26 was carried out	✓	Audit Quality section
(f) a list of public-interest entities for which the statutory auditor or the audit firm carried out statutory audits during the preceding financial year	✓	Appendix P – List of Public Interest Audited Entities
(g) a statement concerning the statutory auditor's or the audit firm's independence practices which also confirms that an internal review of independence compliance has been conducted	✓	Ethics and Independence section

Appendix M: EU Audit Regulations compliance mapping



Requirement	Status	Report reference
(h) a statement on the policy followed by the statutory auditor or the audit firm concerning the continuing education of statutory auditors referred to in Article 13 of Directive 2006/43/EC	✓	Appendix D – Internal Quality Control Systems, Appendix J – Compliance Statements and Our Culture and Our People section
(i) information concerning the basis for the partners' remuneration in audit firms	✓	Appendix D – Internal Quality Control Systems
(j) a description of the statutory auditor's or the audit firm's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7)	✓	Appendix C – Ethics and Independence
(k) where not disclosed in its financial statements within the meaning of Article 4(2) of Directive 2012/34/EU, information about the total turnover of the statutory auditor or the audit firm, divided into the following categories:		
(i) revenues from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity;	✓	Appendix N – Financial Information
(ii) revenues from the statutory audit of annual and consolidated financial statements of other entities;	✓	Appendix N – Financial Information
(iii) revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm; and	✓	Appendix N – Financial Information
(iv) revenues from non-audit services to other entities	✓	Appendix N – Financial Information

Appendix N: Financial information required under the Local Auditor and EU Audit Regulations

Disclosure in accordance with Article 13.2(k) (i) – (iv) of the EU Audit Regulation and the schedule to The Local Auditors (Transparency) Regulations 2020

We have provided the following financial information from BDO's audited financial statements and its financial records for the year ended 30 June 2023.

The figures indicate the relative importance of audit work for UK PIE's¹, audits of entities on EU exchanges and local audits, and the levels of non-audit services provided to entities for which BDO is – and is not – the auditor. They relate to work performed by the UK firm only.

Note: This year, we have improved the way in which revenue attributable to audited and non-audited entities is identified. Based on this enhanced approach, we have reclassified our prior year numbers; there is no change to our overall total revenues.



	FY23		FY22		FY21	
	Amount £	Percentage %	Amount £	Percentage %	Amount £	Percentage %
BDO UK LLP Revenue						
Statutory audits and directly related services for audited entities (UK PIE's and subsidiaries of UK PIE's)	54	6	43	5	36	5
Statutory audits and directly related services for audited entities (Other Entities)	346	37	281	35	240	33
Statutory audits and directly related services for audited entities	400²	43	324	40	276	38
Non-audit services to audited entities ³	60 ⁴	6	73	9	91	12
Total revenues from audited entities	460	49	397	49	367	50
Non-audit services to non-audited entities	475	51	411	51	363	50
BDO UK LLP firm revenue	935	100	808	100	730	100

Footnotes

¹ See details in Appendix P

² Of which £1.4m relates to local audit work in FY23 (£0.6m in FY22 and £2m in FY21)

³ Non-audit services provided to entities we audit are only provided where permitted by the FRC Ethical Standard and BDO Network and BDO UK Policies

⁴ Of which £0 relates to local audit work in FY23 (£0 in FY22 and £0 in FY21)

Appendix N: Financial information required under the Local Auditor and EU Audit Regulations

BDO UK LLP Revenue Recognition Policy:

Revenue is recognised for the reportable period on a basis consistent with the firm's audited consolidated financial statements:

- ▶ Revenue is recognised when services are transferred to an audited entity / non-audited entity at an amount that reflects the consideration to which the firm expects to be entitled in exchange for those services. Revenues are recognised applying IFRS 15 on an over time basis where contracts give the firm the right to receive payment for work performed to date.
- ▶ Performance obligations are assessed for each contract and the transaction price is spread over the performance obligation. Progress towards complete satisfaction of the performance obligations is measured using time and costs incurred as a proportion of total estimated time and costs but excluding Value Added Tax.

All above balances are provided as of 30 June 2023. For FY 2023, revenue was in line with forecast, with audit revenue increases reflecting an increase in pricing together with underlying growth supported by increased headcount across both our PIE and non-PIE portfolios. We note that, whilst the ongoing economic and geopolitical events bring uncertainty to our industry, demand for our services remains strong. Full details on our firmwide results and performance are provided in our financial statements.



Appendix O: List of EU/EEA Member Firms

Country	Territory	Name of the audit firms in the territory
Austria	Austria	BDO Salzburg GmbH Wirtschaftsprüfungs – und Steuerberatungsgesellschaft
		BDO Austria GmbH Wirtschaftsprüfungs – und Steuerberatungsgesellschaft
		BDO Steiermark GmbH Wirtschaftsprüfungs – und Steuerberatungsgesellschaft
		BDO Oberösterreich GmbH Wirtschaftsprüfungs – und Steuerberatungsgesellschaft
		BDO Audit GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft
Belgium	Belgium	BDO Bedrijfsrevisoren BV / Réviseurs d'Entreprises SRL
Bulgaria	Bulgaria	BDO Bulgaria OOD
Croatia	Croatia	BDO Croatia D.O.O.
	Albania	BDO Albania Sh.P.K.*
	Sarajevo	BDO BH d.o.o. Sarajevo
Cyprus	Cyprus	BDO Limited
Czech Republic	Czech Republic	BDO Audit s.r.o
		BDO Group s.r.o.
		BDO Czech Republic s.r.o.
Denmark	Denmark	BDO Statsautoriseret revisionsaktieselskab
		BDO Holding VI, Statsautoriseret Revisionsaktieselskab

Country	Territory	Name of the audit firms in the territory
Estonia	Estonia	Aktsiaselts BDO Eesti
Finland	Finland	BDO Oy
		BDO Auditor Oy
France	France	BDO France
		BDO Audit Des Activites Sociales
		BDO Paris Entreprises
		BDO Paris Audit PME
		BDO AtlantiqueE
		BDO Rennes
		BDO Lyon Audit
		BDO IDF
		BDO Les Herbiers
		BDO Fontenay Le Comte
		BDO Nantes
		BDO Les Ulis
		BDO Paris Audit & Advisory
BDO Méditerranée		

Appendix O: List of EU/EEA Member Firms

Country	Territory	Name of the audit firms in the territory
Germany	Germany	BDO AG Wirtschaftsprüfungsgesellschaft
		BDO Oldenburg GmbH & Co KG Wirtschaftsprüfungsgesellschaft
		BDO DPI AG Wirtschaftsprüfungsgesellschaft
		BDO Dr. Daiber Audit GmbH
Gibraltar	Gibraltar	BDO Limited
Greece	Greece	BDO Certified Public Accountants S.A.
		BDO Services SA
Hungary	Hungary	BDO Hungary Audit Ltd
Iceland	Iceland	BDO ehf.
Ireland	Ireland	BDO
Italy	Italy	BDO Italia S.p.A.
Latvia	Latvia	BDO Assurance, LLC
Liechtenstein	Liechtenstein	BDO (Liechtenstein) AG
Lithuania	Lithuania	BDO Auditas ir Apskaita, UAB
Luxembourg	Luxembourg	BDO Audit
Malta	Malta	BDO Malta CPAs

Country	Territory	Name of the audit firms in the territory
Netherlands	Netherlands	BDO Audit & Assurance B.V.
Norway	Norway	BDO AS
Poland	Poland	BDO Spółka z ograniczoną odpowiedzialnością Sp. K.
		BDO Legal Latala i Wspólnicy Sp.K.
Portugal	Portugal	BDO & Associados, SROC, Lda
Romania	Romania	BDO Audit SRL
		BDO Auditors & Accountants SRL
		BDO Auditors and Business Advisors SRL
Slovak Republic	Slovak Republic	BDO Audit, spol. s r.o.
Slovenia	Slovenia	BDO Revizija d.o.o.
Spain	Spain	BDO Auditores, S.L.P.
		BDO Audiberia Abogados y Asesores Tributarios, S.L.P.

Appendix O: List of EU/EEA Member Firms

Country	Territory	Name of the audit firms in the territory
Sweden	Sweden	BDO AB
		BDO Göteborg AB
		BDO Göteborg Intressenter AB
		BDO Göteborg KB
		BDO Mälardalen AB
		BDO Mälardalen Intressenter AB
		BDO Norr AB
		BDO Norr Intressenter AB
		BDO Stockholm AB
		BDO Sweden AB
		BDO Syd AB
		BDO Syd Intressenter AB
		BDO Syd KB



*The non-voting firm in Albania, BDO Albania Sh.P.K., previously aligned to BDO in Croatia, is now aligned to BDO in Israel, effective 9 March 2023. The territory of Albania is therefore allocated to BDO in Israel.

The combined turnover from statutory audits of the BDO EU/EEA audit firms, based on the information received from the relevant firms was €559,012,416.45.

Please note that BDO firms have different year ends. Therefore, the total number that we have provided is a combination of the statutory audit turnovers of EU/EEA Member Firms for their latest financial year.

For each firm using another currency other than Euro, the average exchange rate for the period they reported has been used.

Please note that this figure does not include the UK due to Brexit.

Appendix P: List of Public Interest Audited Entities

A list of UK PIEs for which BDO LLP carried out statutory audits and issued an audit report during the year ended 30 June 2023, as required by Article 13.2(f) of the EU Audit Regulation as retained in UK law, is set out here.

A2Dominion Housing Group Limited	Augmentum Fintech PLC	Catalyst Housing Limited	Endeavour Sch Plc
ABRDN Private Equity Opportunities Trust PLC	Aurora Investment Trust Plc	Central Nottinghamshire Hospitals (Holdings) Limited	Equine And Livestock Insurance Company Limited (THE)
Adriatic Metals Plc	AVI Japan Opportunity Trust plc	ClearBank Limited	Fairmead Insurance Limited
Advanced Payment Solutions Limited	Axis Bank UK Ltd	Cornish Mutual Assurance Company Ltd	Fce Bank Plc
AEW UK REIT plc	Baillie Gifford European Growth Trust plc	CQS Natural Resources Growth and Income plc	Folgate Insurance Company Limited
Ageas Insurance Limited	Baring Emerging EMEA Opportunities Plc	Crown Place VCT Plc	Foxtons Group Plc
AJ Bell Plc	Baronsmead Second Venture Trust Plc	CT Private Equity Trust plc	Futures Treasury PLC
Albion Development Vct Plc	Baronsmead Venture Trust PLC	CT UK Capital and Income Investment Trust plc	Galliford Try Holdings Plc
Albion Enterprise VCT PLC	Blackfinch Spring VCT plc	De Montfort University Higher Education Corporation	Genfinance II PLC
Albion Technology & General VCT PLC	Braemar Shipping Services plc	Dentists' Provident Society Limited	Greencoat UK Wind PLC
Albion Venture Capital Trust PLC	British Friendly Society Limited	Derby Healthcare Plc	Gresham House Energy Storage Fund PLC
Alliance Trust PLC	British Smaller Companies VCT 2 Plc	Downing Renewables & Infrastructure Trust plc	Gresham House Renewable Energy VCT 1 plc
Alpha Plus Holdings plc	British Smaller Companies VCT PLC	Downing Strategic Micro-cap Investment Trust plc	Gresham House Renewable Energy VCT 2 plc
Amati AIM VCT plc	Caffyns Plc	Earl Shilton Building Society	Gresham Technologies plc
Amey Roads NI Financial PLC	Calculus VCT plc	Ecofin Global Utilities and Infrastructure Trust plc	Halfords Group PLC
Anglo-Eastern Plantations Plc	Caledonia Investments Plc	Ecofin U.S. Renewables Infrastructure Trust Plc	Hargreave Hale AIM VCT PLC
Arix Bioscience plc	Capital Gearing Trust plc	Empiric Student Property PLC	Hastoe Capital Plc
Atrato Onsite Energy Plc	Capital Hospitals (Holdings) LTD.	Endeavour Mining Plc	Healthcare Support (Newcastle) Finance Plc

Appendix P: List of Public Interest Audited Entities

Henderson EuroTrust plc	Kroo Limited	Mobeus Income & Growth VCT PLC	Optivo Finance Plc
Henderson International Income Trust plc	Lendinvest Secured Income Plc	Molten Ventures VCT PLC	Oxbury Bank PLC
Henderson Opportunities Trust plc	Libra Treasury 2 plc	Monmouthshire Building Society	Oxford Instruments plc
Hyde Housing Association Limited	Libra Treasury plc	Montanaro UK Smaller Companies Investment Trust plc	Pacific Assets Trust Plc
HYVE Group PLC	Life Settlement Assets PLC	Mortimer BTL 2019-1 PLC	Pacific Horizon Investment Trust Plc
ICICI Bank UK plc	Lindsell Train Investment Trust plc	Mortimer BTL 2020-1 PLC	Palace Capital plc
Impact Healthcare REIT plc	LMS Capital plc	Mortimer BTL 2021-1 PLC	Pembroke VCT PLC
Impax Environmental Markets plc	Lookers Plc	Murray International Trust plc	Pensana Plc
International Transport Intermediaries Club Limited	LXi REIT plc	NATS (En Route) plc	ProVen Growth and Income VCT PLC
Intu Debenture PLC	Market Harborough Building Society	Newhospitals (St Helens And Knowsley) Holdings Limited	Proven VCT PLC
JPMorgan American Investment Trust Plc	Martlet Homes Limited	Nippon Active Value Fund plc	Radian Capital PLC
JPMorgan China Growth & Income PLC	Melton Mowbray Building Society	Norcros plc	Recognise Bank Limited
JPMorgan Emerging Markets Investment Trust plc	Meridian Hospital Company Plc	Notting Hill Genesis	Record PLC
JPMorgan Russian Securities plc	Metropolitan Funding Plc	Octagon Healthcare Fund plc	Reliance Bank Limited
JPMorgan US Smaller Companies Investment Trust plc	MITIE Group plc	Octopus AIM VCT 2 PLC	Renewi Plc
Keele Residential Funding PLC	Miton UK Microcap Trust plc	Octopus AIM VCT PLC	Residential Secure Income plc
KEXIM Bank (UK) Ltd	Moat Homes Finance Plc	Octopus Apollo VCT PLC	RHP Finance PLC
Kingdom Bank Limited	Mobeus Income & Growth 2 Vct Plc	Octopus Future Generations VCT PLC	Riverside Finance plc
Kings Arms Yard VCT PLC	Mobeus Income & Growth 4 VCT PLC	Octopus Titan VCT plc	Robert Walters Plc

Appendix P: List of Public Interest Audited Entities

Rockwood Strategic Plc	Supermarket Income REIT Plc	Tipton & Coseley Building Society	Unicorn Aim Vct Plc
Roquefort Therapeutics PLC	Teachers Building Society	Together Housing Finance plc	Union Bank UK plc
Saffron Building Society	Temple Bar Investment Trust plc	Town Centre Securities Plc	United Kingdom Freight, Demurrage & Defence Association
Schroder BSC Social Impact Trust plc	Thames Ventures VCT 1 plc	Tradex Insurance Company Limited	United Kingdom Mutual War Risks Association Limited
Seraphim Space Investment Trust PLC	Thames Ventures VCT 2 plc	Transform Schools (North Lanarkshire) Holdings Limited	UP Global Sourcing Holdings Plc
Shepherds Friendly Society Limited	The Biotech Growth Trust Plc	Transport Friendly Society Limited	Value and Indexed Property Income Services Limited
Smart (J.) & Co. (Contractors) PLC	The Dentists' & General Mutual Benefit Society Limited	Treatt Plc	VH Global Sustainable Energy Opportunities plc
Smiths News Plc	The Diverse Income Trust plc	Triad Group Plc	Warehouse REIT PLC
Southern Housing Group Limited	The Global Smaller Companies Trust plc	Trifast plc	Westfield Contributory Health Scheme Limited
Sovereign Health Care	The Income & Growth VCT PLC	Triple Point Energy Transition Plc	Wincanton PLC
Starr International (Europe) Limited	The Mercantile Investment Trust plc	Triple Point Income Vct Plc	XPS Pensions Group plc
Steamship Mutual Underwriting Association Ltd	The Merchants Trust plc	Triple Point Social Housing REIT plc	Yarlington Treasury Service PLC
Stonewater Funding PLC	The Original Holloway Friendly Society Limited	Triple Point VCT 2011 PLC	
Suecia Re & Marine insurance Company Limited	The Standard Club UK Limited	Tritax Big Box REIT plc	
Suffolk Building Society	The Walsall Hospital Company (Holdings) Limited	UIA (Insurance) Limited	

A separate list of entities with securities admitted to trading on an EEA regulated market and for which a statutory audit was carried out and an audit opinion was issued during the year is provided as required by Article 13.2(f) of the EU Audit Regulation in respect of BDO LLP's third country auditor registrations.

Disruptive Capital Acquisition Co Ltd	Juturna (European Loan Conduit No. 16) plc
Eurocastle Investment Limited	MotorK PLC
IOG Plc	Renewi Plc

Appendix Q: List of Major Local Audits



The organisations below are the only bodies:

1. Which constitute a 'major local audit' for the purposes of Regulation 12 of The Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014 (SI 2014/1627); and
2. For which BDO LLP issued an audit report on its financial statements during the year ended 30 June 2023.

Barking Havering & Redbridge University Hospitals NHS Trust
NHS Ipswich & East Suffolk CCG
NHS North East Essex CCG
NHS West Suffolk CCG

Glossary of Terms

AMP	Achieving My Potential
AI	Artificial Intelligence
AB	Audit Board
AC	Audit Committee
AFGC 2016	Audit Firm Governance Code 2016
AFGC 2022	Audit Firm Governance Code (Revised) 2022
APT	Audit Process Tool
AQD	Audit Quality Directorate
AQI	Audit Quality Indicator
AQIT	Audit Quality Improvement Team
AQR	Audit Quality Review
ARD	Audit Resourcing Directorate
BIOB	Business Interest Oversight Board
BSO	Business Services and Outsourcing
CA	Case Assessment
CoE	Centre of Excellence
CARO	Chief Audit Risk Officer
CCP	Commercial Contracts and Procurement
CPD	Continuing Professional Development
DRAS	Digital and Risk Advisory Service
EiC	Early in Careers
EQR	Engagement Quality Reviewer

ESG	Environmental, Social and Governance
ED&I	Equality, Diversity and Inclusion
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FAVS	Forensic and Valuations Services
GLT	Global Leadership Team
IDP	Identifying and Developing Potential
INE	Independent Non Executive
ICAEW	Institute of Chartered Accountants in England and Wales
IESBA	International Ethics Standards Board for Accountants
ISQC(UK)1	International Standard of Quality Control (UK) 1
ISQM(UK)1	International Standard of Quality Management (UK) 1
ISQM(UK)2	International Standard of Quality Management (UK) 2
ISA	International Standards on Auditing
KPI	Key Performance Indicator
LT	Leadership Team
L&D	Learning and Development
MLA	Major Local Audit
MLRO	Money Laundering Reporting Officer
NomCo	Nomination Committee
NAS	Non Audit Services
NFC	Non Financial Conduct

OEPI	Other Entity of Public Interest
PJF	Professional Judgement Framework
PRA	Prudential Regulation Authority
PCAOB	Public Company Accounting Oversight Board
PIC	Public Interest Committee
PIE	Public Interest Entity
QAD	Quality Assurance Department
QRM	Quality and Risk Management
QRMC	Quality and Risk Management Committee
QRST	Quality Review Support Team
RemCo	Remuneration Committee
RI	Responsible Individual
SBTi	Science Based Targets Initiative
SQP	Single Quality Plan
SOQM	System of Quality Management
TCFD	Task Force on Climate Related Financial Disclosures
TSG	Technical Standards Group
TRA	Technology Risk Assurance
ToK	Test of Knowledge
CGC 2018	UK Corporate Governance Code 2018

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