

**Report on**  
**2008 Inspection of BDO Seidman, LLP**  
(Headquartered in Chicago, Illinois)

**Issued by the**  
**Public Company Accounting Oversight Board**  
**July 9, 2009**

**THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT**  
**PORTIONS OF THE COMPLETE REPORT ARE OMITTED**  
**FROM THIS DOCUMENT IN ORDER TO COMPLY WITH**  
**SECTIONS 104(g)(2) AND 105(b)(5)(A)**  
**OF THE SARBANES-OXLEY ACT OF 2002**



### **Preface to Reports Concerning Annually Inspected Firms**

The Sarbanes-Oxley Act of 2002 requires the Public Company Accounting Oversight Board ("PCAOB" or "the Board") to conduct an annual inspection of each registered public accounting firm that regularly provides audit reports for more than 100 issuers. The Board's report on any such inspection includes this preface to provide context for information in the public portion of the report.

A Board inspection includes, among other things, a review of selected audits of financial statements and of internal control over financial reporting. If the Board inspection team identifies deficiencies in those audits, it alerts the firm to the deficiencies during the inspection process. Deficiencies that exceed a certain significance threshold are also summarized in the public portion of the Board's inspection report. The Board encourages readers to bear in mind two points concerning those reported deficiencies.

First, inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Under PCAOB standards, a firm must take appropriate action to assess the importance of the deficiency to the firm's present ability to support its previously expressed audit opinions. Depending upon the circumstances, compliance with these standards may require the firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on previously expressed audit opinions. A Board inspection does not typically include review of a firm's actions to address deficiencies identified in that inspection, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take, action. If, through subsequent inspections or other processes, the Board determines that the firm failed to take appropriate action, that failure may be grounds for a Board disciplinary sanction.

Second, the Board cautions against drawing conclusions about the comparative merits of the annually inspected firms based on the number of reported deficiencies in any given year. The total number of audits reviewed is a small portion of the total audits performed by these firms, and the frequency of deficiencies identified does not necessarily represent the frequency of deficiencies throughout the firm's practice. Moreover, if the Board discovers a potential weakness during an inspection, the Board may revise its inspection plan to target additional audits that may be affected by that weakness, and this may increase the number of deficiencies reported for that firm in that year. Such weaknesses may emerge in varying degrees at different firms in different years.



### **Notes Concerning this Report**

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.
2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.
3. Board inspections encompass, among other things, whether the firm has failed to identify departures from U.S. Generally Accepted Accounting Principles ("GAAP") or Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP or disclosure departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning an issuer's compliance with GAAP or Commission disclosure requirements, rests with the Commission. Any description, in this report, of perceived departures from GAAP or Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.



## 2008 INSPECTION OF BDO SEIDMAN, LLP

In 2008, the Board conducted an inspection of BDO Seidman, LLP ("BDO" or "the Firm"). The Board is today issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report, Appendix A, and portions of Appendix B. Appendix A provides an overview of the inspection process. Appendix B includes the Firm's comments, if any, on a draft of the report.<sup>1/</sup>

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.<sup>2/</sup> A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

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<sup>1/</sup> The Board does not make public any of a firm's comments that address a nonpublic portion of the report. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

<sup>2/</sup> See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

## **PART I**

### **INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS**

Members of the Board's inspection staff ("the inspection team") performed an inspection of the Firm from August 2008 through January 2009. The inspection team performed field work at the Firm's national and practice offices in New York City and Chicago, its Center for Information Management in Grand Rapids, and at an additional eight of its approximately 37 U.S. practice offices.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.<sup>3/</sup> To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system. Appendix A to this report provides a description of the steps the inspection team took with respect to the review of audits and the review of certain firm-wide quality control processes.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.<sup>4/</sup> It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

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<sup>3/</sup> This focus on weaknesses and deficiencies necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools.

<sup>4/</sup> When the Board becomes aware that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with GAAP, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

A. Review of Audit Engagements

The scope of the inspection procedures performed included reviews of aspects of selected audits performed by the Firm. Those audits and aspects were selected according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the selection process.

In reviewing the audits, the inspection team identified matters that it considered to be audit deficiencies.<sup>5/</sup> The deficiencies included failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures.

In some cases, the conclusion that the Firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if the Firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3") provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence.<sup>6/</sup> For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

When audit deficiencies are identified after the date of the audit report, PCAOB standards require a firm to take appropriate actions to assess the importance of the deficiencies to the firm's present ability to support its previously expressed opinions.<sup>7/</sup>

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<sup>5/</sup> The discussion in this report of any deficiency observed in a particular audit reflects information reported to the Board by the inspection team and does not reflect any determination by the Board as to whether the Firm has engaged in any conduct for which it could be sanctioned through the Board's disciplinary process.

<sup>6/</sup> See AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28.

<sup>7/</sup> See AU 390, *Consideration of Omitted Procedures After the Report Date*, AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T), and PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That is Integrated with An Audit of Financial Statements* ("AS No. 5"), ¶ 98.

and failure to take such actions could be a basis for Board disciplinary sanctions. In response to the inspection team's identification of deficiencies, the Firm, in some cases, performed additional procedures or supplemented its work papers.<sup>8/</sup>

In some cases, the deficiencies identified were of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient competent evidential matter to support its opinion on the issuer's financial statements. The deficiencies that reached this degree of significance are described below, on an audit-by-audit basis, with the exception of similar deficiencies that were observed in multiple audits and are therefore grouped together.

#### Deficiencies in testing revenue (five audits)

In five audits, due to deficiencies in its testing of revenue, the Firm failed to obtain sufficient competent evidential matter to support its audit opinion. The deficiencies are as follows:

- One issuer is in a technology-intensive industry that uses information technology to log services provided to users, initiate bills for the services, process the billing transactions, and record such amounts in electronic accounting records that are used to produce the financial statements. The Firm failed to test the operating effectiveness of controls specific to revenue and, as a result, the Firm's substantive tests of revenue were inadequate. Also, in auditing revenue, accounts receivable, and deferred revenue, the Firm used system-generated data, but neither tested the operating effectiveness of controls over the completeness and accuracy of that data nor otherwise tested the completeness and accuracy of that data. In addition, while the Firm performed tests of certain revenue-associated accounts, such as accounts receivable and the deferred revenue for one operating segment, these tests did not provide evidence of the completeness, existence, and accuracy of revenue for the entire year. Further, the Firm's analytical procedures did not provide sufficient additional substantive assurance because they were not designed to identify material misstatements of revenue and, in executing them, the Firm relied on the system-generated information referenced above. (Issuer A)

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<sup>8/</sup> The Board inspection process generally did not include review of such additional procedures or documentation, although future Board inspections of the Firm may, as appropriate, include further review of any of these matters.

- In an audit of a new client, the Firm failed to appropriately test the issuer's recognition of revenue. The Firm noted that sales increased in the last month of the year, but failed to obtain corroboration of management's explanations for that increase. In addition, the Firm intended to obtain some assurance regarding revenue from its confirmation of accounts receivable and its testing of sales cut-off at an interim date, but it failed to test revenue between the interim date and year end and to test sales cut-off at year end. (Issuer B)
- In two audits, the Firm's audit approach regarding revenue included tests of controls, tests of related balance sheet accounts, and certain analytical procedures. Based on the results of the Firm's tests of controls, the Firm reduced its substantive testing of revenue to a low level, and planned to obtain the remainder of its audit assurance from testing the related balance sheet accounts and from analytical procedures related to revenue. The Firm, however, failed to test sales cut-off at year end in one audit and at all in the other. In addition, in both audits, the Firm failed to test sales and accounts receivable between the interim date as of which it confirmed accounts receivable and year end, other than by performing analytical procedures that the Firm did not design to be a significant source of audit assurance. (Issuers C and D)
- In one audit, the Firm identified "channel stuffing" (accelerating the recognition of revenue by inducing distributors to hold excess inventory) as a risk of material misstatement due to fraud. To assess whether "channel stuffing" had occurred and, if so, the extent of it, the Firm analyzed the amount of inventory held by distributors and assessed whether amounts in excess of its expectations were material. The Firm, however, failed to test the completeness and accuracy of the issuer-supplied data that it used in its analysis of inventory held by distributors. The Firm also failed to test another set of issuer-supplied data that it used to conclude that the amounts that differed from its expectations were immaterial. Furthermore, the Firm tested and relied on controls over revenue and thus concluded that it could reduce its substantive testing of revenue to a low level. As a result, the Firm planned to obtain most of its substantive audit assurance from its testing of related balance sheet accounts and various analytical procedures. In performing these procedures, the Firm failed to test the completeness and accuracy of the data used in applying the analytical procedures and failed to obtain corroboration of management's explanations for certain of the significant differences that the Firm identified. (Issuer E)

## Issuer E

In this audit, in addition to the revenue-testing deficiency described above, the Firm failed in the following respects to obtain sufficient competent evidential matter to support its audit opinion –

- The Firm failed to design and perform sufficient audit procedures to test journal entries and other adjustments for evidence of possible material misstatement due to fraud. Specifically, the Firm did not obtain supporting documentation for nearly half of the journal entries that it had selected for testing, primarily because the Firm understood that the issuer did not retain such documentation. The Firm performed no alternate procedures for these entries beyond making inquiries of management. Further, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had tested the completeness and accuracy of the population of journal entries from which the sample was selected for testing. Also, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had identified that a number of the journal entries that it had selected for testing contained individually significant errors. In addition, in evaluating controls over journal entries, the Firm failed to adequately address the risk of management override by certain individuals who had the authority both to propose and to approve the same journal entries. The Firm performed no tests to determine whether any of these individuals had proposed, approved, and reviewed the same journal entry. The controls that the Firm identified and tested involved review by these same individuals.
- The Firm failed to perform sufficient audit procedures to test the existence and completeness of certain contra-revenue accounts and the valuation of the related accrued liabilities. The Firm's audit procedures related to these accounts consisted of certain analytical procedures and a comparison of one of the estimated liabilities to the amounts recorded subsequent to the issuer's year end. When performing the analytical procedures, the Firm failed to (i) test the information that management provided to explain the differences identified, (ii) investigate an unusual relationship that the analytical procedures identified, (iii) test the completeness and accuracy of certain information used in applying the analytical procedures, and (iv) establish an expectation at a level precise enough to provide the necessary level of assurance that differences that may be potential material misstatements would be identified. In addition, the Firm tested the accrued liabilities by comparing the recorded amounts of the liabilities to the total of certain types

of contra-revenue transactions that occurred between year end and a date before the financial statements were released ("the subsequent period"). Regarding this testing, the Firm failed to (i) determine whether the length of the subsequent period was an appropriate time period for comparing the subsequent transactions to the estimated liability, (ii) test whether the subsequent transactions related to sales prior to year end, and (iii) test the accuracy of the amount of these transactions.

- In connection with the acquisition of another entity, the issuer recorded a liability for estimated sales returns and other contra-revenue transactions. The Firm's tests of this liability were inadequate because they were limited to comparing the balance to the acquired company's unaudited closing general ledger and prior year's audited balance and to obtaining various information about the sales returns and other transactions from the issuer without testing the balance or the information.

#### Issuer F

In this audit, the Firm failed to perform sufficient tests of the significant assumptions that the issuer had made when analyzing the goodwill of a significant business unit for potential impairment. Specifically, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had obtained corroboration of the forecasted revenue growth rate that the issuer had used, despite the unit's recent results, the unit's budgeted decline in revenue for the next year, the loss of the unit's most significant client, changes in the unit's leadership, and the fact that the issuer's other, similar units to which the issuer looked for comparison had lower budgeted growth rates for the next year.

#### B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance and the following seven functional areas (1) tone at the top; (2) practices for partner evaluation, compensation, admission, assignment of responsibilities, and disciplinary actions; (3) independence implications of non-audit services; business ventures, alliances, and arrangements; personal financial interests; and commissions and contingent fees; (4) practices for client acceptance and retention; (5) practices for consultations on accounting, auditing, and SEC matters; (6) the Firm's internal inspection program; and (7) the supervision by U.S. audit

engagement teams of the work performed by foreign affiliates on foreign operations of U.S. issuer audit clients. Any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I

PARTS II AND III OF THIS REPORT ARE NONPUBLIC  
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

## **APPENDIX A**

### **THE INSPECTION PROCESS**

The inspection process was designed and performed to provide a basis for assessing the degree of compliance by the Firm with applicable requirements related to auditing issuers. This process included reviews of components of selected issuer audits completed by the Firm. These reviews were intended both to identify deficiencies, if any, in those components of the audits and to determine whether the results of those reviews indicated deficiencies in the design or operation of the Firm's system of quality control over audits. In addition, the inspection included reviews of policies and procedures related to certain functional areas of the Firm that could be expected to affect audit quality.

#### **1. Review of Selected Audits**

The inspection team reviewed aspects of selected audits, which it chose according to the Board's criteria. The Firm was not allowed an opportunity to limit or influence the engagement selection process or any other aspect of the review.

For each audit engagement selected, the inspection team reviewed the issuer's financial statements and certain SEC filings. The inspection team selected certain higher-risk areas for review and inspected the engagement team's work papers and interviewed engagement personnel regarding those areas. The areas subject to review included, but were not limited to, revenues, fair value, financial instruments, derivatives, income taxes, reserves or estimated liabilities, inventories, consideration of fraud, related party transactions, supervision of work performed by foreign affiliates, and assessment of risk by the engagement team. The inspection team also analyzed potential adjustments to the issuer's financial statements that had been identified during the audit but not corrected. For certain selected engagements, the inspection team reviewed written communications between the Firm and the issuer's audit committee. With respect to certain engagements, the inspection team also interviewed the chairperson of the issuer's audit committee. In addition, the inspection team conducted focused inspections of audits of certain issuers whose audits had been reviewed during previous PCAOB inspections of the Firm to ascertain whether the audit procedures in areas with previous deficiencies had been improved.

When the inspection team identified a potential issue, it discussed the issue with members of the engagement team. If the inspection team was unable to resolve the issue through this discussion and any review of additional work papers or other documentation, the inspection team issued a comment form on the matter and the Firm provided a written response to the comment form.

2. Implementation of AS No. 5

Shortly after the approval of AS No. 5, members of the Board's Office of the Chief Auditor and of the Division of Registration and Inspections reviewed documentation of the Firm's initial approach to the implementation of AS No. 5 and provided feedback to the Firm's National Office. Field inspection procedures in this area began with discussions with members of the Firm's leadership to address specific areas of inspection emphasis and the appropriate use of auditor judgment, and to outline planned communications with the Firm. The reviews of certain audits included discussions with engagement teams and the review of documentation regarding the following aspects of the Firm's audit of internal control over financial reporting: (1) risk assessment; (2) risk of fraud; (3) entity-level controls; (4) the nature, timing, and extent of tests of controls; and (5) evaluating and reporting deficiencies. The inspection team discussed its observations about the effectiveness of the implementation of AS No. 5 with the engagement teams, with emphasis on areas where implementation could be improved in subsequent audits. Periodically the observations were summarized and discussed with the Firm's National Office.

3. Review of Certain Firm-Wide Quality Control Processes

The inspection team reviewed certain Firm-wide quality control processes both to identify possible defects in the Firm's system of quality control and, where applicable, to update the Board's knowledge of the Firm's policies and procedures in those areas.

a. Review of Partner Evaluation, Compensation, Admission, Assignment of Responsibilities, and Disciplinary Actions

The objective of the inspection procedures was to assess whether the design and application of the Firm's processes related to partner evaluation, compensation, admission, assignment, termination, and disciplinary actions could be expected to encourage an appropriate emphasis on audit quality and technical competence, as compared to marketing or other activities of the Firm. The inspection team interviewed members of the Firm's leadership, as well as audit partners in practice offices, regarding these topics. In addition, the inspection team reviewed a sample of partners' personnel files, including files of partners who resigned or took early retirement, partners who had significant negative inspection results from recent internal, PCAOB, and peer-review inspections, and partners who received bonus compensation. Also, the inspection team interviewed audit partners regarding their time and responsibilities and interviewed practice office leadership regarding the performance of partners being inspected, the evaluation and compensation process, any disciplinary actions, and any situations where client management requested a change in the lead audit partner.

b. Review of Independence Policies

The objective of the inspection procedures in this area was to evaluate the Firm's policies and procedures for compliance with the independence requirements applicable to its audits of issuers. To accomplish this objective, the inspection team reviewed the Firm's policies, procedures, and guidance; reviewed the Firm's monitoring of compliance with its policies and procedures; reviewed information concerning the Firm's existing business ventures, alliances, and arrangements, as well as the Firm's process for establishing such enterprises; interviewed numerous National Office and practice office personnel regarding the Firm's independence policies, practices, and procedures; and, for a sample of the audits reviewed, tested compliance with the Firm's policies and applicable independence requirements.

c. Review of Client Acceptance and Retention Policies

The objectives of the inspection procedures in this area were to evaluate whether the Firm appropriately considers and addresses the risks involved in accepting and retaining clients in the particular circumstances. Toward those objectives, the inspection team reviewed the Firm's policies, procedures, and forms related to client acceptance and continuance; interviewed members of the Firm's leadership; and for a sample of the engagements reviewed, assessed whether the audit procedures included the specific actions, if any, contemplated in response to any risks identified in the client acceptance or retention process.

d. Review of Practices for Consultations

The objective of the inspection procedures in this area was to assess the effectiveness of the Firm's consultation process. Toward this objective, the inspection team gained an understanding of and evaluated the Firm's policies and procedures relating to its consultation process, and reviewed a sample of consultations that occurred during the inspection period to evaluate the Firm's compliance with its policies and procedures, whether the conclusions were in accordance with professional standards, and whether the engagement teams acted in accordance with the conclusions.

e. Review of Internal Inspection Program

The objective of the inspection procedures in this area was to evaluate the effectiveness of the Firm's internal inspection program in enhancing audit quality. To meet this objective, the inspection team reviewed policies, procedures, guidance, and forms; documentation of the results of the current year's internal inspection program; and steps the Firm took in response to those results. The inspection team also

interviewed the Firm's leadership concerning the process and effectiveness of its internal inspection program.

f. Review of Policies Related to Foreign Affiliates

The objective of the inspection procedures in this area was to evaluate the processes the Firm uses to ensure that the audit work that its foreign affiliates perform on the foreign operations of U.S. issuers is effective and in accordance with applicable standards. The inspection team did not inspect the audit work of foreign affiliates; rather, the procedures were limited to the supervision and control exercised by the U.S. engagement team over such work. To accomplish its objective, the inspection team reviewed the Firm's policies and procedures related to its supervision and control of work performed by foreign affiliates on the operations of U.S. issuer clients, reviewed available information relating to the most recent foreign affiliated firms' internal inspections, interviewed members of the Firm's leadership, and reviewed the U.S. engagement teams' supervision and control procedures concerning the audit work that the Firm's foreign affiliates performed on a sample of audits.

g. Review of Tone at the Top

The objective of the review of the Firm's "tone at the top" was to assess whether actions and communications by the Firm's leadership demonstrate a commitment to audit quality. Toward that end, the inspection team interviewed members of the Firm's national, regional, and local leadership to understand their perspectives on the Firm's culture and the messages being conveyed by leadership. The inspection team also interviewed certain audit partners and managers to obtain their perspectives on communications from the Firm's leadership. In addition, the inspection team reviewed the Firm's code of conduct; documents relating to measuring and monitoring audit quality; descriptions of the duties of, and relationships between and among, staff and leadership; results of surveys of staff and clients; internal and external communications from management; descriptions of the Firm's financial structure and business plan; and agendas and minutes of the Firm's board of directors.

**APPENDIX B**

**RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT**

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.<sup>9/</sup>

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<sup>9/</sup> In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.

June 24, 2009

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

**Re: Response to Part I of the  
Draft Report on the 2008 Inspection of BDO Seidman, LLP**

Dear Mr. Diacont:

We welcome this opportunity to provide our response to Part I of the draft Report of the Public Company Accounting Oversight Board (“PCAOB”) on the 2008 inspection of BDO Seidman, LLP (“the Firm”). We support the PCAOB’s goal of improving audit quality and, consequently, the reliability of financial reporting.

We acknowledge that considerable value is derived from the inspection process. Since an inherent part of our audit practice involves continuous improvement, the PCAOB’s inspections are one of the means that assist us in identifying areas where we can continue to improve performance.

Recognizing the importance and value of the inspection process, we cooperated with the inspection team to our fullest extent. We did this with the understanding that, while there were, at times, what we considered to be reasonable differing views between the inspection team and the Firm as to audit approaches, accounting decisions, or materiality, as would be expected based on the judgmental nature of such matters, consideration of different views is a useful means of promoting best practices.

The draft Report does appropriately recognize that the inspection process is designed to identify deficiencies and that, based on the limited selection of audits inspected, findings are not necessarily reflective of a firm’s practice in general. As such, the format of the draft Report produced by this process does not lend itself to a portrayal of the overall high quality of our audit practice. Further, the design of the draft Report does not provide a comprehensive description of the procedures that were performed in the applicable areas at the time of the audits or other information that may provide additional context for understanding the nature or magnitude of the findings. Moreover, the engagements

reviewed by the inspection team typically involved many decisions that may be subject to different reasonable interpretations.

It should be recognized that the sufficiency of evidential matter required to support an informed audit opinion is determined through the exercise of the auditor's professional judgment after a careful study of the particular circumstances. It is often difficult to reach a common understanding of what is sufficient because of the variety of judgments involved in that analysis by professionals having different levels of knowledge of the issuers' businesses.

We have evaluated each of the matters described in Part I of the draft Report. In that regard, we have considered whether it was necessary to perform additional procedures in accordance with AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*. With respect to issuers B, C, and D, we concluded that appropriate audit procedures had been performed and sufficient competent evidence had been obtained to support our reports. With respect to the other issuers identified in Part I, we either enhanced our workpaper documentation of previously completed procedures or performed some additional procedures. However, the performance of additional procedures did not impact our conclusions and previously issued reports on the financial statements.

In addition, with respect to Issuer E, we would like to clarify that the journal entries that contained individually significant errors did not result in a misstatement to the financial statements, as correcting journal entries were also recorded within the reporting period.

We want to reiterate the seriousness with which we view the inspection comments and that we are committed to improving our performance wherever possible.

We appreciate this opportunity to provide our response to the Board and we look forward to continuing to work with the PCAOB on the most effective means of enhancing audit quality.

Respectfully submitted,

*BDO Seidman, LLP*