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## Message from leadership

### We are very pleased to introduce BDO Israel's Transparency Report for the fiscal year ended December 31, 2023

2023 has been a year full of changes for Israel's business and economy. The Israel-Gaza war, as well as geopolitical tension, economic instability, and other issues, had a significant effect on the Israeli market and brought much challenges and uncertainties. These challenges and uncertainties impact our firm and its personnel, our clients, and our society, and require increasement of our professional Judgement and skepticism, in accordance with BDO's professional Judgement and skepticism Framework, and remain ready to embrace the never-ending changing environment. In times like this, we need to keep strengthening the role that we play in protecting investors and to ensure we consistently deliver high-quality audits to our clients.

A firm's culture is at its most important (and most tested) at such pivotal moments. When we ask colleagues what brought them to BDO and what keeps them here, there is a common

thread in their answers: our culture. The strength of this positive culture – underpinned by our core purpose and values – is vital to our future. Because of this, we are confident that our people will succeed, overcome future challenges, and continue to fulfil our ambition to serve the public interest by consistently delivering high-quality audits.

Our purpose - People helping People – will continue to be our guiding principle, shaping our current and future direction. We are a people-powered business, and as such our people and culture are the foundation of our Firm. Our teams are our most asset. This has cause us continuing and investing in our quality.

Quality is at the heart of everything we do and is our top priority. It is the bedrock for auditing and other services, creating the trust and transparency that our stakeholders demand. Quality is how we serve the public interest. Excellence in quality is a core part of the culture and attitudes of our firm: we gather feedback from regulators about our firm and the wider profession and implement action plans to match their recommendations. Our commitment to exceptional and sustainable auditing quality means that we

continually strive to improve and enhance our auditing methodology, tools, and technology.

Starting December 15, 2022, our firm's System of Quality Management was designed, implemented and operated in line with International Standard of Quality Management 1 (ISQM 1) '*Quality management for firms that perform audits, reviews and other assurance or related service engagements*'. Our conclusion as of October 30, 2023, was that our System of Quality Management provides us with reasonable assurance that the objectives of the System are being achieved.

Our transparency report is complying with the requirements set out in Article 13 of the European Union's Audit Regulation No 537/2014. This report presents information regarding our Firm (and network), as well as information regarding our System of Quality Management, and shows how we have implemented ISQM 1 to further improve this System.

We appreciate the opportunity to share this report.



Erez Soffer  
Chairman & CEO



Shahar Ziv  
Chairman & CEO



# BDO Network

## BDO Israel is a Member Firm of BDO International Limited

### ► Description of the network

The BDO network is an international 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 (hereafter: 'BDO Member Firms'). BDO is the brand name for the BDO network and all BDO Member Firms.

### ► Key Features of the member firm network agreement

Each BDO Member Firm is an independent legal entity. Profits are not shared between member firms. All BDO Member Firm client 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, and a high standard of professionalism and ethics.



## Legal and Structural Arrangements in the network

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 in the Regulations.

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

The Council comprises one representative from each voting member and comprises 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 Global Board, which is the Board of Directors of BDO International Limited, comprises a representative of the BDO network's seven largest member firms, whose

appointment (each for a three-year term), is approved by the Council. The Global Board sets priorities for the BDO network and oversees the work of the Global Leadership Team. The Global Board meets at least four times a year.

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 (CSOO), Global General Counsel, Global Head of Risk & Compliance (also acting as the International Secretary), Global Head of Audit & Assurance, Global Head of BSO (also acting as Regional Managing Director, Americas), Global Head of People & Culture, Global Head of IT, Global Head of Tax, and Global Head of Advisory.

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.

BDO International Limited and Brussels Worldwide Services BV do not provide any professional services to clients. This is the sole preserve of the BDO Member Firms.

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 such entity's acts or omissions. Nothing in the arrangements or rules of BDO shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide services BV and/or the BDO Member Firms.

## The Network in a glance

- ▶ The global aggregated turnover for BDO member firms (including their exclusive Alliances) in **166 countries** for the year ended 30 September 2023 was **over €13 billion**.
- ▶ **Partner and staff** numbers as of 30 September 2023 were **115,661** (+3.9% year on year).
- ▶ The total turnover covering EU/EEA auditors, achieved by firms that are members of the network, in relation to statutory audits of annual and consolidated financial statements for the year ended 30 September 2023, was **€630 million** (\*).

(\*) Please note that this figure does not include the UK. The turnover reported from Bulgaria, Denmark, Iceland, Lichtenstein, and the Netherlands is last year's. This figure might be changed as the network receive updated figures.

(\*) 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 than EUR, the average exchange rate for the period they reported has been used.



# BDO Israel

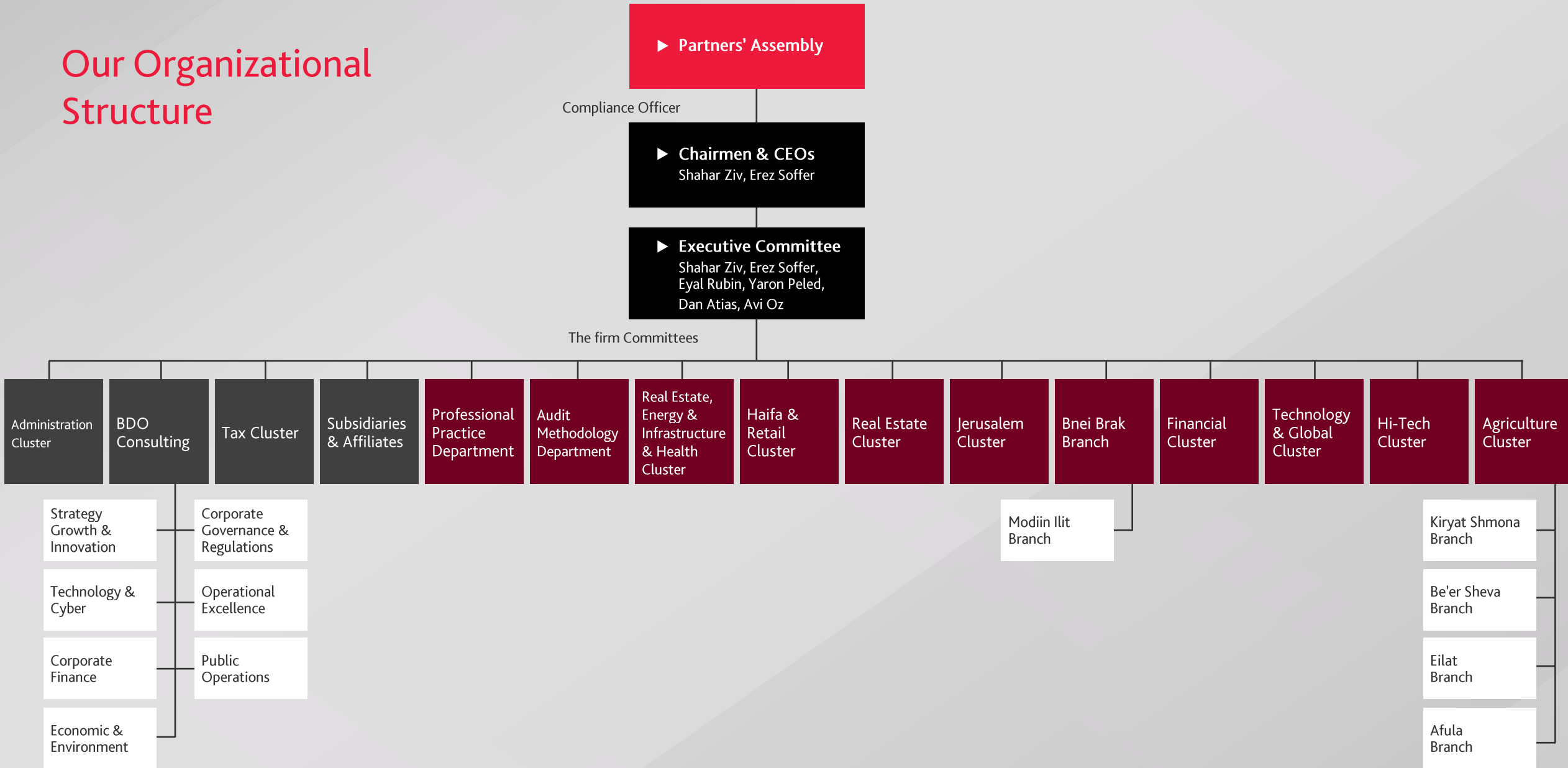
## BDO Israel in a glance

- ▶ BDO Israel is an accounting and consulting firm which was established in 1983.
- ▶ BDO Israel is a partnership, incorporated in Israel and is owned by its members (who are often referred to as partners). As of January 2024, there are 83 partners.
- ▶ The firm offers a broad range of services in three main areas: Audit, Tax and Advisory. Further details of these services, including key contacts, are available on our website: [www.bdo.co.il](http://www.bdo.co.il)
- ▶ These business streams have dedicated teams of partners and professional employees nationwide to tailor high quality business solutions for their clients.
- ▶ BDO Israel has approximately 1,850 employees (including business partnerships and Joint Ventures).
- ▶ The firm operates in 10 offices across the country (Tel- Aviv, Jerusalem, Haifa, Beer Sheva, Kiryat- Shmona, Afula, Bnei Brak, Modi'in Ellit, Rehovot and Eilat).

# Our Structure, Partners Remuneration and Financial Information



# Our Organizational Structure



## Our Governance Structure

### ► Partners' assembly

As a partnership, certain matters are specifically reserved for decision by all partners. Arrangements for voting are laid down by the Partnership Agreement.

### ► Executive committee

The management of the firm is governed by the executive committee. This committee is responsible for the operation of the firm and the nomination of other committees' members. The executive committee includes the Chairmen and CEOs of the firm (permanent members) and additional members that are elected by the permanent members.

The executive committee is currently comprised of the following members:

Name	Title
Erez Soffer	Chairman and CEO
Shahar Ziv	Chairman and CEO
Eyal Rubin	Vice Chairman of the executive board and Head of Tax Cluster
Yaron Peled	Head of the Advisory Cluster
Dan Atias	Head of Audit Cluster
Avi Oz	Head of Audit Cluster



## Our Committees

### Extended management committee

- ▶ The committee's responsibility is to support the Executive Committee in its responsibilities, supervise the collectability process of the firm and any other business.
- ▶ The Committee is chaired by the firm Chairmen and CEOs.

### A&A Oversight committee

- ▶ The responsibility of the committee is to govern and supervise the audit practice.
- ▶ The committee's focus includes, inter alia, the following:
  - An ongoing assessment of the firm's audit practice
  - Implementing changes and improvements to our audit methodology and policies to meet the regulatory requirements, BDO network's guidance and the development of the practice in the world
  - Discuss and provide solutions to firm-wide issues
  - Responsibility over the internal quality control program
  - Nomination of Engagement Quality Reviewers
- ▶ The Committee is chaired by the firm Chairman & CEO.

### Risks management committee

- ▶ An essential element of governing any firm is to identify and mitigate risk. The Executive Committee has delegated responsibility for the design and implementation of the risk management process to the Risk Management Committee.
- ▶ The committee responsibility is to ensure that the quality, objectivity, and independence of client service is maintained through well managed client acceptance and engagement procedures. In addition, the committee is responsible for making sure that guidance is updated regularly and published on the conduct of all professional services, and that rigorous processes are in place to identify and resolve conflicts of interest.
- ▶ Our top risks are reviewed and agreed by the Risk Management Committee combining both top-down and bottom-up perspectives and evidence. The top risks are then reviewed and agreed by the Executive Committee.
- ▶ The Committee is chaired by the Head of Risk Management.

### Client acceptance and retention committee

- ▶ The committee is responsible for the acceptance and retention process of sensitive audit and non-audit clients.
- ▶ The Committee is chaired by the Head of Risk Management.



## Our Partners Remuneration

The firm's profit is split amongst all partners under a framework set out in the firm's agreement. The executive committee is responsible for distributing profits to the firm's partners. The total annual remuneration for a partner is based on a fixed tranche in the form of monthly payments followed by the closing tranche that is based on the points allocated to each individual partner, based various criteria as detailed below. There is also a provision to remunerate for exceptional performance.

Several partners are "salaried partners" who are entitled to annual compensation according to their performance.

Several criteria are used in assessing the performance of each partner. These include quality and risk management, delivering exceptional client service, technical excellence, growing and developing our people, contributing to the firm's financial success, and growing our brand and reputation. Partners are subject to annual or biannual performance reviews which include feedback on the quality of the relevant partner's work. The performance development review includes a risk and quality grading by the relevant department. If a partner receives a low grading in the risk and quality section, it will have a direct impact on his remuneration. In forming these grading for audit partners, the Executive Committee draws upon factors such as: the results of external and internal audit file reviews and other ad-hoc reviews, attendance or involvement in training courses, additional responsibilities such as engagement quality reviewer roles, and other individual initiatives contributing towards firm-wide quality.



# Our Financial Information

BDO Israel turnover splits to the following:

Revenue from statutory audits of audit clients listed in the EU	0%
Revenue from statutory audits of other clients	41%
Revenue from non-audit services to audit clients	9%
Revenue from non-audit services to other clients	50%



# Our System Of Quality Management

# Our System Of Quality Management

## ▶ System of quality management (SoQM)

A System designed, implemented, and operated by a firm for audits or reviews of financial statements, or other assurance or related services performed by the firm, that provides the firm with reasonable assurance that the objectives of the SoQM are being achieved.

## ▶ The objectives of the SoQM

1. The firm & its personnel fulfil responsibilities in accordance with professional standards and applicable legal and regulatory requirements, conduct engagements in accordance with such standards and requirements; and
2. Engagement reports issued by the firm are appropriate in the circumstances.

## ▶ International Standard of Quality Management 1 (ISQM1)

The Firm is implementing the International Standard of Quality Management 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" (ISQM1).

ISQM1 requires that a compliant System of Quality Management will be designed and implemented no later than December 15, 2022, and that the first annual evaluation will be performed within one year of that date.

## ▶ SoQM conclusion

Our Firm has designed and implemented a system of quality management in accordance with ISQM1, and performed the annual evaluation as of October 31, 2023.

**Our annual evaluation conclusion is that as of October 31, 2023, the System of Quality Management provides reasonable assurance that the objectives of the system of quality management are being achieved.**

# Our System of Quality Management

## The SoQM Components





## Our System of Quality Management



- ▶ We designed and implemented a risk assessment process to establish quality objectives, identify and assess quality risks and design and implement responses to address the quality risks.
- ▶ We established the quality objectives specified by this ISQM and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management.
- ▶ We identified and assessed quality risks to provide a basis for the design and implementation of responses. In doing so we obtained an understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives. We also consider how, and the degree to which, those conditions, events, circumstances, actions or inactions may adversely affect the achievement of the quality objectives.
- ▶ We designed and implemented responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks. The firm's responses are also including the responses specified in ISQM1.
- ▶ We established policies and procedures that are designed to identify information that indicates additional quality objectives, or additional or modified quality risks or responses, are needed due

to changes in the nature and circumstances of the firm or its engagements. If such information is identified, we consider the information and when appropriate:

- Establish additional quality objectives or modify quality objectives already established by the firm.
- Identify and assess additional quality risks, modify the quality risks or reassess the quality risks; or
- Design and implement additional responses or modify the responses.

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## Governance & Leadership

# Our System of Quality Management

- ▶ We demonstrate a commitment to quality through a culture that exists throughout our firm, which recognizes and reinforces:
  - The firm's role in serving the public interest by consistently performing quality engagements;
  - The importance of professional ethics, values and attitudes;
  - The responsibility of all personnel for quality relating to the performance of engagements or activities within the system of quality management, and their expected behavior; and
  - The importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities.
- ▶ Our leadership is responsible and accountable for quality and demonstrates a commitment to quality through their actions and behaviors.
- ▶ Our organizational structure and assignment of roles, responsibilities and authority is appropriate to enable the design, implementation and operation of our firm's system of quality management:
  - Our organizational structure is inherently sound, and clearly defines, the responsibilities of the various levels of management.
  - Our firm has clearly established responsibilities for the chairmen & CEOs, managing partners and other senior personnel. The firm's Executive Committee designs and implements the firm's business strategy and manages operational issues.
- ▶ The Executive Committee and the entire firm are committed to quality work, the public interest and professional judgment, and other values including:
  - Honesty and integrity
  - Taking personal responsibility
  - Mutual support and
  - Exceptional client service

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## Governance & Leadership

# Our System of Quality Management

- ▶ The Audit Practice's 'Tone at the Top' is set by the Head of Audit (The Chairman & CEO) and the A&A oversight committee which is chaired by the Head of Audit.
- ▶ Resource needs, including financial resources, are planned for and resources are obtained, allocated or assigned in a manner that is consistent with our firm's commitment to quality.
- ▶ We conduct an annual survey of all personnel on perceptions and attitudes of leadership towards quality.
- ▶ The **A&A oversight committee** has a leadership role within the audit practice focused on executing the best practice, consistency in approach and in communicating priorities and agreed projects, and initiatives and targets for the practice. Whilst overall responsibility for audit quality on an engagement will always reside with the engagement partner, the committee is responsible for managing and monitoring audit quality in the firm, through:
  - Promoting a culture and environment which supports audit quality and upholding our values and recognizing and rewarding high quality work
  - Ongoing assessment of the firm's audit practice
  - Implementing changes and improvements to current practices to meet the regulatory requirements, BDO network's requirements and the development of the practice
  - Provide solutions to practical issues
  - Discuss new audit standards and help with incorporating them into the audit tools and practices
  - Encouraging knowledge sharing
  - Encouraging consultation
  - Promoting professional skepticism
  - Responsibility over Engagement Inspection Program (EIP)
  - Nomination of engagement quality reviewers (EQRs)
  - Supervision of appropriate key partners and staff's rotation according to relevant regulations.

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Governance &  
Leadership

## Our System of Quality Management

- ▶ **The Audit Methodology Department** is responsible, inter-alia, for the following:
  - Localization of BDO Global's audit approach and policies
  - Localization of BDO Global's Audit Processing Tool (APT)
  - Circulation of professional guidance and policies by flash reports
  - Training the audit practice and supervising the firm's Training Champions
  - Supervising the internal and external quality control inspections
  - Development of intranet based local resources
  - Supporting engagement teams in complex auditing areas and other professional issues
  
- ▶ The Audit practice is also supported by the **Professional Practice Department (PPD)**. The PPD provides technical guidance to audit professionals on specific engagements' technical-related matters, on emerging technical and professional issues and provides guidance on International Financial Reporting Standards (IFRS), Local Israeli GAAP and General accepted Accounting Principles in the U.S.A. (U.S. GAAP). The professional practice department is responsible for the following:
  - Examining the quality of the financial statements including the review and analyzation of the work done by the audit professionals
  - Providing solutions for technical issues that arise in the course of the professional work and the audit process
  - Providing trainings to the audit professionals on changes in international, local and U.S. accounting standards and interpretations and on changes to local and international laws, regulations and standards
  - Publishing professional updates and sending flash reports to employees and clients
  - Publishing professional articles in accounting journals, daily newspapers and booklets
  - Participation in Professional Committees (Israeli Accounting Standard Board, Institute of CPA in Israel, the supervisor of banks liaison committee, etc.)
  - Participation in BDO international technical and professional groups



## Our System of Quality Management

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Relevant Ethical Requirements

- ▶ Our firm and its personnel:
  - Understand the relevant ethical requirements to which the firm and the firm's engagements are subject; and
  - Fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm's engagements are subject.
- ▶ Others, including the network, network firms, individuals in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject:
  - Understand the relevant ethical requirements that apply to them; and
  - Fulfill their responsibilities in relation to the relevant ethical requirements that apply to them.
- ▶ The firm's Conduct of Professional Standards procedures contains the principles and rules relating to ethical conduct, including integrity, independence and objectivity, professional competence and due care, confidentiality and professional behavior. The ethical conduct guidance is available to all staff on the firm's intranet. Annual declarations are made by all partners and staff to ensure compliance with relevant ethical requirements and policies have been implemented for resolution of issues.
- ▶ Our independence and objectivity on assurance clients is achieved through policies and procedures designed to ensure compliance with the relevant independence standards, which is accessible by all partners and professionals.
- ▶ We have a designated Independence Champion, an experienced partner, who monitors compliance with the applicable independence policies and procedures, provides consultations regarding independence matters, and monitors independence training and maintenance of a restricted entity database.
- ▶ We also maintain a database of all our firm's restricted entities, including listed companies and other public interest entities. This is available on our intranet and its objective is to prevent the performance of prohibited non-assurance services or investment in these entities. The database is continuously updated.
- ▶ Prior to accepting any new client or assurance engagement, our engagement teams must perform specific procedures to identify potential conflicts of interest and threats to our independence. Procedures include a custom-made web-based tool to facilitate international conflict of interest and independence checks throughout the BDO network, when needed.
- ▶ There is also an independence declaration per audit engagement signed by all partners and staff members that have been involved in the performance of the audit engagement.

## Our System of Quality Management

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Acceptance &  
Continuance of  
client relationships  
& specific  
engagements

- ▶ Robust client and engagement acceptance procedures play a pivotal role in our firm's ability to deliver a professional and quality service.
- ▶ Prior to the acceptance of any new client and consideration of continuance with that client, certain procedures to assess the risks associated with that client must be carried out. Those include:
  - Consideration of the client's business including its geographical spread and the industry it operates in;
  - Evaluation of information concerning the client, its management and its owners including obtaining evidence of the identity of the owners and officers of the business;
  - Consideration of information regarding the character and reputation of the prospective client and key personnel;
  - Assessment of potential independence risks and potential conflicts of interest;
  - Inquiry of the previous auditor regarding the reasons for the change in auditor and reason for why the appointment might not be accepted, if necessary;
  - Assessment of our ability to serve the prospective client; and
  - Reviewing of the client's filings, including prior year financial statements.
- ▶ Judgments by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on:
  - Information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) that is sufficient to support such judgments; and
  - Our firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.
- ▶ The financial and operational priorities of our firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.
- ▶ We established a policy for the acceptance and continuance of client relationships and engagements. The acceptance and continuation of all clients requires an approval process that is appropriate to the perceived risk.
- ▶ We obtain sufficient information about the BDO firm's ability to perform the engagement in accordance with BDO Policies, applicable professional standards, and applicable legal and regulatory requirements as part of our acceptance or continuance decision.
- ▶ We retain documentation that is sufficient to support the consistent implementation and operation of our firm's acceptance and continuance process and to support the evaluation of its effectiveness.

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Engagement  
Performance

## Our System of Quality Management

- ▶ Engagement teams **understand and fulfill their responsibilities** in connection with the engagements, including, as applicable, the overall responsibility of the engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement.
- ▶ Engagement teams exercise **appropriate professional judgment and professional skepticism**.
- ▶ **Common Methodology** - Our policies and procedures are designed to ensure that audits meet all applicable professional standards, regulatory requirements and that our firm issues reports that are appropriate in the circumstances. To achieve this and to promote consistency in the approach to auditing and related fundamental application of professional skepticism throughout the BDO network, BDO International has developed the common BDO Audit Methodology, related software tools and other standard forms of documentation. This methodology is fully compliant with International Auditing Standards.
- ▶ **APT** - BDO Global's in-house state of the art audit software, remains the single largest global project of its kind and its evolution continues. With further substantial audit methodology and IT investment, the next generation of APT was launched during 2020. By designing APT to take advantage of recent technological

advances, we will be able to:

- Safeguard the structural integrity of the tool for the future;
- Provide us with a fully-integrated tool that reflects the latest interpretations of the auditing standards; and
- Enable teams to work efficiently on both large and small engagements.

We continue to develop and incorporate analytics driven audit techniques into our engagements. BDO Advantage is our global methodology and suite of tools for performing data analytics as part of our audit engagements. The tools help streamline the extraction and analysis of large data sets that not only yield potential efficiencies but also identify and effectively channel our auditing procedures to address key areas of risk.

## Our System of Quality Management

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Engagement  
Performance

- ▶ The nature, timing and extent of **direction and supervision of engagement teams and review of the work performed** is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members.

We require all professional work to be supervised by staff members 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 skepticism, and that it meets our firm's 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 are 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 evidence obtained supports the conclusions reached; and
- 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.

- ▶ An **engagement quality review** is performed for audits of public interest entities and other high-risk engagements. The engagement quality reviewer is familiar with the auditing and reporting practices used during the engagement, and is knowledgeable and familiar with the client's industry, but is not part of the audit engagement team. They are experienced audit partners or directors and are not likely to be unduly influenced by the views of a particular engagement partner. The engagement quality reviewer is not be actively involved in making ongoing decisions relating to the engagement and is not involved in performing the engagement. Engagement quality reviewers are selected from a list of approved reviewers, as determined by the A&A oversight committee.



## Our System of Quality Management

5

Engagement  
Performance

- ▶ **Consultation** on difficult or contentious matters is undertaken and the conclusions agreed are implemented. We established a consultation process for matters arising in the conduct of an engagement that:
  - Defines the criteria when written consultations are required
  - Defines the role(s) or identifies the individual(s) who will be consulted
  - Ensures the results of the consultation are properly concluded, documented, and implemented
- ▶ **Differences of opinion** within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management are brought to the attention of the firm and resolved. We established a process for resolving differences of opinion that may arise within the engagement team, or between the engagement team and the engagement quality reviewer or others, including individuals performing activities within the BDO firm's SoQM, that includes:
  - When and how the matter should be escalated to an individual outside the engagement team
  - To whom within the BDO firm the matter should be escalated
  - How the matter is to be resolved, implemented, and documented
- ▶ **Engagement documentation is assembled** on a timely basis after the date of the engagement report and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards.
  - We established a policy for documentation assembly period for audits or reviews of financial statements, or other assurance or related services engagements, that complies with all applicable laws, regulations, relevant ethical requirements, or professional standards
  - We established archiving, maintenance, and retention policies for engagement documentation to comply with all applicable laws, regulations, relevant ethical requirements, or professional standards.

## Our System of Quality Management

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Resources

- ▶ Our people are a critical factor in our ability to provide professional services. To ensure that our firm has sufficient staff with the capabilities, competence, and ethical standards necessary to provide quality audits in accordance with professional and legal requirements, we have established clear policies and procedures. These procedures and policies provide clarity and coherence on goals, structures, vision and accepted behaviors of our employees. In short, they cover the rules of play within our organization.
- ▶ Personnel are hired, developed and retained and have the competence and capabilities to:
  - Consistently perform quality engagements, including having knowledge or experience relevant to the engagements our firm performs; or
  - Perform activities or carry out responsibilities in relation to the operation of our firm's system of quality management.
- ▶ Policies and procedures for assigning our people to engagements are designed such that only those persons having adequate technical proficiency and competence will perform the work. A current profile of technical proficiency is obtained by personal knowledge and reviewing evaluation forms. Our training catalogue of learning and development opportunities is designed to ensure that our people are fully competent and constantly developing.
- ▶ Engagement team members are assigned to each engagement, including an engagement partner, who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements.
- ▶ Individuals are assigned to perform activities within the system of quality management who have appropriate competence and capabilities, including sufficient time, to perform such activities.
- ▶ Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion and other incentives.



## Our System of Quality Management

### Recruitment procedure

- ▶ Policies and procedures for recruitment are designed to provide reasonable assurance that those employed possess the appropriate characteristics that enable them to deliver a high-quality service and perform their duties with professional competence.
- ▶ We work actively to promote diversity within the firm's culture, not just in principle but in practice. Inclusivity within the organization, whether it is based on age, gender, ethnicity or physical capabilities, strengthens the firm's values, makes the firm more representative and more capable of providing a quality professional service.
- ▶ We seek smart people with maturity, integrity, motivation, aptitude and leadership qualities appropriate to the role for which they are being hired.
- ▶ We establish a recruitment policy that, inter alia, includes the following features:
  - Use of effective role descriptions, with minimum experience requirements, and minimum knowledge (education) requirements
  - Screening and interview processes that include an evaluation of an individual's capabilities and behaviors that will allow them to consistently perform quality engagements
  - Selection processes that involve the appropriate level of decision makers.

### Job description: tasks, responsibilities and expectations

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

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

### What does succession management mean to us?

- ▶ To protect the firm's present strengths and build for its future, ensuring sustainability and continuous strong leadership is important.
- ▶ To reduce the risk of having leadership gaps for critical positions (either because of lack of talent or unprepared key successors).
- ▶ To engage the leadership in supporting the development of high-potential leaders and, in return, motivate, retain, and engage key talents.
- ▶ To anticipate and align resources with future needs and strategies and create a flexible business by responding faster to new leadership needs.
- ▶ To counter the increasing difficulty and costs of recruiting employees externally.

### What does this mean to the employee?

- ▶ To get opportunities to grow and develop skills necessary for future roles and meet career development expectations
- ▶ To remain committed, motivated and engaged
- ▶ To stay with the firm

## Our System of Quality Management

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Resources

### Performance appraisal and engagement surveys

- ▶ We periodically evaluate our personnel. Formal reviews provide the opportunity for discussion of an individual's contribution to the quality of service provided. The factors evaluated (which may vary by level) include work performance and general contribution, professional and technical competence, and other core competencies required for the execution of their duties.
- ▶ All our staff members are subject to formal performance appraisal, review, and counselling on a regular basis, to evaluate the level of competence, monitor development, and to help them reach their full potential. A performance appraisal includes a review of each individual's contribution to the quality of service(s) provided by our firm. Evaluations occur no less frequently than annually.
- ▶ The factors appraised, inter alia, include:
  - Whether the individual has performed their roles in accordance with the competencies required by the role
  - Professional and technical competence
  - Personal and management skills
  - Client servicing skills

- Self-responsibility for the quality of services rendered to clients

- ▶ Remuneration and promotion decisions of personnel includes an assessment of quality; positively impacting those that continually perform engagements of a high quality, and negatively impacting those where quality is found to be continually unsatisfactory.
- ▶ Our firm provides regular engagement surveys to monitor employee engagement which ensures the motivation to maximize the success of the firm.

### Career development

We address the career development of our employees. Our people are promoted to the next level only when they are prepared for the increased responsibilities that promotion entails.

Non-compliance with the firm's policies and professional standards is also recognized. Lack of compliance is reflected through additional training, delays in promotion or through dismissal for serious instances of non-compliance.



## Our System of Quality Management

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Resources

### Development plan and training policy

Our learning and development strategy ensures the firm's ability to remain competitive and to motivate our staff. It includes both the technical expertise and skills to meet the needs of the higher demands of the market which includes business advisers, financial analysts, communicators, negotiators and managers. At the same time integrity, objectivity, professional skepticism, and willingness to take a firm stand are essential attributes of professionals.

### The continuing education of Auditors

The firm has a policy of facilitating and encouraging continuing education as an important means of developing knowledge and maintaining and improving the quality of its services and of motivating and retaining its personnel.

For audit partners and professional staff, the firm requires participation in appropriate continuing professional development programs and monitors the fulfilment of program obligations.

The continuing education program is comprised of training sessions organized by the firm specifically designed to meet its needs, by the firm as well as external training by relevant professional bodies or other training organizations that are accredited by the local professional body. Certain courses are mandatory, and others are optional.

Extensive training is given to all new recruits on the BDO audit methodologies, tools and processes.

More experienced personnel and partners are encouraged to update and deepen their technical knowledge.

Developing management and interpersonal skills is also very important for this group.

Continuing professional education is a factor considered for the yearly evaluation of audit staff and the assessment of their career potential within the firm. We are committed to developing and maintaining the highest possible standards of technical competence through our own development programs. As part of an individual's performance appraisal, professional development needs are assessed, and courses or other training opportunities are identified.

We have developed a curriculum providing technical training for our professionals throughout their careers. For all new audit professionals, there is an orientation program covering the firm's audit approach and procedures and its organizational structure.

All audit staff, including managers and partners, attend regular technical update courses. These courses are complemented by on-the-job coaching, which provides a significant aspect of their professional development.

All audit staff are personally responsible for keeping up to date with the requisite knowledge, skills and professional competence which they will need to successfully carry out the roles to which they are assigned.

# Our System of Quality Management

## Resource management

We recognize that ultimately, it is the ability and commitment of our people that really makes a difference and enables us to deliver a quality audit.

We look at our people as the most important and valuable resource that we have. Given this, our ability to attract the right number of high-quality people is of utmost importance. We predict our requirements to continue to service the firm's clients and provide sufficient capacity to enable our people to develop the business.

## Technological Resources

Appropriate technological resources are obtained or developed, implemented, maintained, and used, to enable the operation of our firm's system of quality management and the performance of engagements.

## Intellectual Resources

Appropriate intellectual resources are obtained or developed, implemented, maintained, and used, to enable the operation of our firm's system of quality management and the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable.

## Service Providers

Human, technological or intellectual resources from service providers are appropriate for use in our firm's system of quality management and in the performance of engagements.

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Resources

## Our System of Quality Management

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### Information & Communication

- ▶ The information system identifies, captures, processes and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources.
- ▶ The culture of our firm recognizes and reinforces the responsibility of personnel to exchange information with the firm and with one another.
- ▶ Relevant and reliable information is exchanged throughout the firm and with engagement teams, including:
  - Information is communicated to personnel and engagement teams, and the nature, timing and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the system of quality management or engagements; and
  - Personnel and engagement teams communicate information to the firm when performing activities within the system of quality management or engagements.
- ▶ Relevant and reliable information is communicated to external parties, including:
  - Information is communicated by the firm to or within the firm's network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by them; and
  - Information is communicated externally when required by law, regulation or professional standards, or to support external parties' understanding of the system of quality management.

## Our System of Quality Management

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Monitoring &  
Remediation  
Process (MRP)

We established a monitoring and remediation process to:

- ▶ Provide relevant, reliable and timely information about the design, implementation and operation of the system of quality management.
- ▶ Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.

### Designing and performing monitoring activities

We designed and performed monitoring activities to provide a basis for the identification of deficiencies. In determining the nature, timing and extent of the monitoring activities, we consider:

- ▶ The reasons for the assessments given to the quality risks;
- ▶ The design of the responses;
- ▶ The design of our firm's risk assessment process and monitoring and remediation process;
- ▶ Changes in the system of quality management;
- ▶ The results of previous monitoring activities, whether previous monitoring activities continue to be relevant in evaluating the firm's system of quality management and whether remedial actions to address previously identified deficiencies were effective; and
- ▶ Other relevant information, including complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or non-compliance with the firm's policies or procedures established in accordance with this ISQM, information from external inspections and information from service providers.

### Engagement inspection program (EIP)

We perform the inspection of completed engagements in our monitoring activities through our Engagement Inspection Program (EIP) and determined which engagements and engagement partners to select.

The audit EIP cycle allows for engagement partners to be reviewed under the EIP at least once every three-year and follows the requirements of ISQM 1. The program extends across all offices and engagement partners/directors.

The A&A oversight committee is responsible for the EIP Process.

The process is managed by the audit methodology department and each review is headed by an experienced auditor. The independence of the reviewers is ensured by the committee.

Instructions are issued to the reviewers in advance of the review laying out the objectives of the process, a checklist, appropriate guidance and reporting templates.

A conclusion is drawn on each audit reviewed as to whether the audit work was acceptable or requires significant improvement.

At the conclusion of the annual program, the results are discussed with the A&A oversight committee and the Management Committee.

We established policies and procedures that:

- ▶ Require the individuals performing the monitoring activities to have the competence and capabilities, including sufficient time, to perform the monitoring activities effectively; and
- ▶ Address the objectivity of the individuals performing the monitoring activities. Such policies or procedures shall prohibit the engagement team members or the engagement quality reviewer of an engagement from performing any inspection of that engagement.



## Our System of Quality Management

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Monitoring &  
Remediation  
Process (MRP)

### Evaluating findings and identifying deficiencies

We evaluate findings to determine whether deficiencies exist, including in the monitoring and remediation process.

We evaluate the severity and pervasiveness of identified deficiencies by:

- ▶ Investigating the root cause(s) of the identified deficiencies. In determining the nature, timing and extent of the procedures to investigate the root cause(s), we consider the nature of the identified deficiencies and their possible severity.
- ▶ Evaluating the effect of the identified deficiencies, individually and in aggregate, on the system of quality management.

### Responding to identified deficiencies

We design and implement remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis.

The individual assigned operational responsibility for the monitoring and remediation process evaluates whether the remedial actions:

- ▶ Are appropriately designed to address the identified deficiencies and their related root cause(s) and determine that they have been implemented; and
- ▶ Implemented to address previously identified deficiencies are effective.

### Findings about a particular engagement

We respond to circumstances when findings indicate that there is an engagement(s) for which procedures required were omitted during the performance of the engagement(s) or the report issued may be inappropriate. Our firm's response includes:

- ▶ Taking appropriate action to comply with relevant professional standards and applicable legal and regulatory requirements; and
- ▶ When the report is considered to be inappropriate, considering the implications and taking appropriate action, including considering whether to obtain legal advice.

### Ongoing communication related to monitoring and remediation

The head of A&A quality management, which has the operational responsibility for the monitoring and remediation process, communicates to the Managing Partner on a timely basis:

- ▶ A description of the monitoring activities performed;
- ▶ The identified deficiencies, including the severity and pervasiveness of such deficiencies; and
- ▶ The remedial actions to address the identified deficiencies.

We communicate those matters to engagement teams and other individuals that have roles within the system of quality management to enable them to take prompt and appropriate action in accordance with their responsibilities.

Regulatory

## Regulatory and other reviews

- ▶ The last external inspection of the firm by the Israeli institute for peer review (under the supervision of the Israeli Institute of Certified Public Accountants) was performed during June-July 2023 (with respect to 2022's engagements and quality control).
- ▶ The last external inspection of the firm by the PCAOB took place on August 2022 (with respect to 2021's engagements and quality control).  
The firm hadn't received the final copy of the quality assurance review report yet.
- ▶ The last inspection of the firm by the BDO International took place on September 2019 (with respect to 2018's engagements and quality control procedures).

# Appendixes

- ▶ **Appendix 1**  
Public interest audit clients
- ▶ **Appendix 2**  
EU/EEA Member firms



# Appendix 1

## Public interest audit clients

During the period covered by this transparency report, BDO Israel has not signed any audit report of entities that have shares listed on the UK's London Stock Exchange.

## Appendix 2

### EU/EEA Member firms

Country	Territory	Name of the audit firm
Albania	Albania	BDO Albania Sh.P.K.
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 Assurance GmbH Wirtschaftsprüfungs - und Steuerberatungsgesellschaft
Belgium	Belgium	BDO Bedrijfsrevisoren BV / Réviseurs d'Entreprises SRL
Bulgaria	Bulgaria	BDO AFA OOD
Croatia	Croatia	BDO Croatia D.O.O.
	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
Estonia	Estonia	Aktsiaselts BDO Eesti
Finland	Finland	BDO Oy
		BDO Audiator Oy

## Appendix 2

### EU/EEA Member firms

Country	Territory	Name of the audit firm
France	France	BDO France
		BDO PARIS ENTREPRISES
		BDO PARIS AUDIT PME
		BDO ATLANTIQUE
		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
Germany	Germany	BDO AG Wirtschaftsprüfungsgesellschaft
		BDO Oldenburg GmbH & Co KG Wirtschaftsprüfungsgesellschaft
		BDO DPI AG
		BDO Dr. Daiber Audit GmbH (until 24 April 2023)
		BDO Concunia GmbH Wirtschaftsprüfungsgesellschaft
Gibraltar	Gibraltar	BDO Limited
Greece	Greece	BDO CERTIFIED PUBLIC ACCOUNTANTS S.A.
		BDO Services SA

## Appendix 2

### EU/EEA Member firms

Country	Territory	Name of the audit firm
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
Netherlands	Netherlands	BDO Audit & Assurance B.V.
Norway	Norway	BDO AS
Poland	Poland	BDO Spółka z ograniczoną odpowiedzialnością 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.

## Appendix 2

### EU/EEA Member firms

Country	Territory	Name of the audit firm
Spain	Spain	BDO Auditores, S.L.P.
		BDO Audiberia Abogados y Asesores Tributarios, S.L.P.
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		



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