

BDO ANNUAL STATEMENT 2013

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▶ LETTER FROM THE CHAIR OF THE GLOBAL BOARD

2013 was a landmark year for BDO, as we celebrated the 50th anniversary of the founding of our international network. As expected, all of our member firms supported the numerous networking and charitable initiatives to mark our important anniversary, in particular the BDO *50 for 50* campaign, which involved offering 50 hours of free support to an organisation or local charity with a social purpose. To quote our surviving founder, Hans-Heinrich Otte, never has his declaration "We succeed through our people" been more in evidence.

Perhaps less momentarily, I was honoured and delighted to be appointed Chair of the BDO Global Board during 2013. For those that don't know me, I am the CEO of BDO's US firm and my career in the profession has spanned 28 years, the last 12 of which have been with BDO. My sincere thanks go to my predecessor, Holger Otte who, with his vision and determination has set high standards, and whose leadership example I shall endeavour to follow.

At the start of a new year – let alone a new half century – it is customary to both look back at past successes, and look ahead to the future. In terms of the prevailing 'eventful and challenging economic conditions' that Holger referred to a year ago, I believe there is now some degree of optimism. On the strength of apparent accelerated growth in the US in 2013, more positivity in Europe and signs that the emerging markets are performing better than in previous crises, some observers are predicting a synchronised global recovery. The World Bank is in agreement, even looking forward to global economic growth in 2014 surpassing that of last year. The European Central Bank also expects a recovery in the short term, based on the fact that European banks and businesses alike are starting to look for opportunities to expand internationally through acquisitions.

Predicting the future is necessarily fraught with uncertainty – but in the audit profession it is virtually certain that we will see substantial changes. A number of factors are influencing this, including greater regulatory oversight, the much-cited 'war for talent' and, of course, increased globalisation – but, from BDO's standpoint, the most important is market consolidation. Organic growth in core audit services has slowed in recent years, after the short-term flurry of activity following the Sarbanes-Oxley Act and similar global initiatives. Accordingly, the most likely opportunities for growth at every level of our profession will lie in merger and acquisition (M&A) activity. Notwithstanding the fact that the accounting profession has, from time to time, been subject to instances of political intervention, for BDO, such M&A avenues will help us measure up to larger firms and networks to create better leverage in our cost structures. Indeed, this is a top priority in our network's 2014-2019 Strategic Plan. Plainly the

recent legislative package of EU audit reforms, which prohibits certain non-audit services for public interest entities, creates a more restrictive environment throughout the profession, but it can equally become a competitive advantage. This is the case for BDO firms in particular, which have necessarily become more operationally integrated in all business aspects, enhancing our ability to offer an increased range of services.

And despite the challenges of the economy and of our professional environment, for BDO globally, 2013 was far from unsuccessful. The total combined fee income for the year ended 30 September 2013 for all BDO Member Firms amounted to US\$ 6.45 billion / € 4.92 billion – an impressive percentage increase of 7.27% (in US dollars) compared to the previous year. Every region saw healthy growth, with our newly-defined EMEA region leading with +7.69%, while the Americas region contributed the largest percentage to the total revenue (43%).

Strategic mergers throughout the network continue to be an active factor in boosting growth, with significant merger activity in every region: Netherlands, UK, Belgium, Israel, Denmark and Morocco in EMEA, Australia, New Zealand and China in Asia Pacific and Canada and the US in the Americas.

As I've already mentioned, the continuing development of our network is a defining element of our strategy and, with regard to identified future trends, I am convinced that BDO is in a good position to take prompt and appropriate actions which will continue to keep all firms in our continually expanding network the most effective in delivering exceptional client service and therefore the most competitive in our market.

Before closing, I'd like to say how pleased I am that our global CEO as of October 2011, Martin van Roekel, has kindly agreed to extend his term until the end of October 2015. I would like to thank him for his exemplary leadership to date and look forward to working with him and my other Global Board colleagues in driving our Strategic Plan and realising another successful BDO year.



Wayne Berson
Chair of the Global Board,
BDO International Limited
February 2014

► REPORT FROM THE CEO

I would like to take this opportunity to welcome Wayne Berson as Chair of the BDO Global Board and to congratulate him on his appointment. Having witnessed the continued growth by BDO worldwide in 2013, I echo his optimism. If the year saw some stabilisation in certain markets there remained enduring economic challenges - but I have also seen the opportunities a challenging environment brings. In my role as CEO, I am committed to making the most of these opportunities and focusing on the further development of our network.

Wayne has noted that 2013 marked BDO's 50th anniversary. In the last 50 years, the operating environment for our profession has changed dramatically, shaped by market shifts and evolving client needs and expectations. We are proud that BDO has grown into a successful business by adapting to these changes over the past half-century and I am confident that BDO will continue to succeed and overcome the economic and other obstacles we shall surely face in 2014, to emerge as the true leader of the profession's mid-tier. It is clear to me that the continued growth of BDO is due to the ability of our firms to adapt to shifting circumstances and seize the opportunities they provide. Nonetheless considerable challenges remain that will need to be addressed if we are to achieve our growth ambitions.

I believe there are five key challenges that we need to focus on: first, to ensure that BDO capitalises on the ongoing consolidation taking place in our profession – a process that has been gaining momentum over the past two to three years. Second, to maintain the distinctive BDO culture of strong business and personal relationships. Third, to ensure that the market will consider BDO to be synonymous with exceptional client service. Fourth, that talented people will regard BDO as the employer of choice that can deliver an interesting career in a good working environment. Finally - fifth, that we can deal successfully with evolving regulatory amendments.

In the last ten years alone our revenues have almost tripled and there's every reason to suppose that we can continue significant growth in the coming years. The stronger markets today are definitely to be found in the Far East, so an enormous contribution will come from our Asia Pacific region, and we are ready to embrace this reality. Our firms in the mature economies are expected to realise substantial growth as well, primarily because of the opportunities presented by the ongoing consolidation in those markets. As the next important emerging market, Africa will also make an important contribution. This increase in revenues will be accompanied by significantly more partners and staff joining the network, as well as a larger number of countries with BDO representation.





That number went up from 100 countries in 2002 to 144 in 2013, and I believe we can grow to somewhere between 150 and 160 within the next three years. At the same time as expanding, it is vital that we continue to live up to our vision and to maintain our unique BDO culture. The exceptional understanding and personal relationships between our partners and firms will mean that we can continue delivering exceptional client service in every country. It's our culture, our philosophy and our vision that have made us what we are today. And they will also be the drivers of our future growth.

But what shape will this growth take? As Wayne states overleaf, strategic mergers to further market consolidation continue to be an active factor. The big question for many accountancy firms is whether - and how - they expand their service offerings. There is a growing trend to focus more and more on tax and advisory services: these are considered to be growth areas, whereas auditing - especially in mature economies - is no longer seen as such. As a result, we are working hard to develop our tax and advisory service offerings alongside audit, to ensure the continuing growth of our firms overall. The situation is somewhat different in the emerging markets, where there remains an increasing demand for audit services, but here too this is combined with a need for more tax and advisory services, and I foresee substantial growth in those parts of the world.

Our 50th anniversary has proven to be a truly remarkable year. It convinces me that the foundations have been laid for another half-century of BDO progress. For 2014, we will persist in our commitment to the development of BDO as a genuinely international business, through which our firms across the world provide exceptional client service.



Martin van Roekel
CEO, BDO International Limited
February 2014

► GLOBAL PERFORMANCE

Core statistics for the BDO network

Our revenues

Year to 30 September	2013	2012	2011	2010	2009
Combined fee income	€4,918 million \$6,453 million	€4,630 million \$6,015 million	€4,068 million \$5,677 million	€3,893 million \$5,284 million	€3,710 million \$5,026 million
Number of countries	144	138	135	119	110
Number of offices	1,264	1,204	1,118	1,082	1,138

Our people

At 30 September	2013	2012	2011	2010	2009
Partners	4,908	4,778	4,723	4,111	4,098
Professional staff	43,461	41,979	36,022	34,811	34,156
Administrative staff	8,020	8,176	8,109	8,008	7,781
Total staff	56,389	54,933	48,890	46,930	46,035

Our geography

Year to 30 Sept	2013		2012		2011		2010		2009	
	Revenue %	Countries								
Americas	43	30	43	28	43	28	44	26	44	24
Asia Pacific	17	22	17	20	13	18	11	16	9	18
EMEA	40	92	40	90	44	89	45	77	47	68
Total		144		138		135		119		110



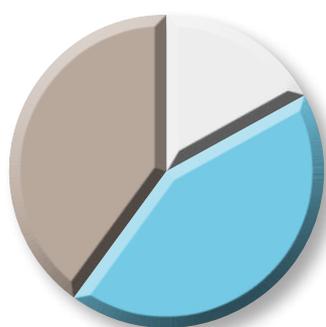
The total combined fee income for all BDO Member Firms now stands at

US\$ 6.45 billion

Our services

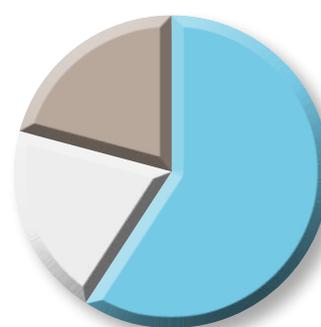
Service line	2013 %	2012 %	2011 %	2010 %	2009 %
Audit & accounting	59	60	61	61	60
Tax services	20	19	19	19	19
Advisory services	21	21	20	20	21
Total	100	100	100	100	100

REVENUE BY REGION



43%	Americas
17%	Asia Pacific
40%	EMEA

REVENUE BY SERVICE LINE



59%	Audit & accounting
20%	Tax services
21%	Advisory services

► SERVICE LINES

Audit & accounting

Our state of the art audit software, APT, continues to be regularly enhanced. 2013 saw the release of a further improved version that extends the use of APT to other assurance engagements, including reviews. Global usage of the tool has increased and now more than 107,000 audits have been completed on APT since its initial launch in 2010. Over 100 of our firms have joined the bespoke APT Shared Facility that hosts the tool centrally, meaning that a large majority of BDO firms are receiving cost-effective support around the clock.

As the largest BDO project of its kind, the success and consistent evolution of the APT is not only an extraordinary example of the cooperation and strength within our network, but supports our global vision to deliver exceptional service to our clients through high quality and integration. Together, the BDO Audit Approach and APT deliver a range of benefits to our network's audit practices, including a consistent and scalable worldwide audit performance, teamwork on a real-time basis, timely and more efficient multi-location and cross border audits, together with a more intuitive audit methodology that complies with the clarified International Standards on Auditing (ISAs).

Now that APT is a well-established project, we have developed a more permanent governance structure that includes full-time personnel and an APT Director. We have also begun to develop a new architecture to replace the APT's IT components in well-controlled phases that reflect the latest technology and will ensure the structural integrity of the tool into the future.

The role of the auditor and the auditor's report continued to receive a great deal of attention in 2013, with proposals being considered by international and national standards setters and audit regulators. BDO is significantly involved in the many public meetings and professional groups that debate these issues and we frequently provide formal comments. We are supportive of responsible efforts to improve the communicative value of the auditor's report, in recognition of the significant demand for change from users of financial statements, as well as the need for greater clarity as to what an audit represents.

BDO's global IFRS Advisory team has continued to expand the range of IFRS resources that are made available to our member firms and to their clients. A number of new publications have been issued over the past year and are downloadable both internally through our global intranet and for public access on the international web site. Our internal advanced level training courses are focused on practical application issues and aim to highlight the topics raised by global securities regulators.

These activities are supplemented by the team's participation in a wide range of high level professional meetings with both other audit networks and regulators: these have included a number that focused on banking issues. In order to provide global coverage, the IFRS team is located in a number of jurisdictions and includes secondees whose expertise can be utilised in their home firms when they return. It has submitted responses to a range of consultation documents issued by the International Accounting Standards Board as well.

Another key benefit for the member firms in our network is technical training at a global level, in addition to the IFRS training noted above. In recent years the significant demand for technical audit training throughout the network led us to develop a series of eLearning courses that reflect robust course development and review processes. The global audit training group is planning to release a large number of additional courses in 2014 and is developing a curriculum that links training topics to the competencies required of audit professionals at all stages of their careers.

As a core element of exceptional client service, audit quality is a shared goal of audit regulators around the world and remains at the heart of the A&A agenda. Maintaining quality standards is the key focus of the International Audit Steering Committee and its subgroups, as well as our Regional Audit Advisers, who are active in visiting member firms and assisting in technical matters. Furthermore, an Audit Quality Framework was launched at the beginning of 2013 that provides a mechanism for our firms to develop the action steps to drive audit quality.

Tax services

Across the world, BDO's tax service line forms an important part of our service offering. Tax revenue is currently 20% of our total business and we are now targeting tax as a major growth pillar for our network: our ambition is to grow BDO's tax practice significantly over the next 5 years. We anticipate achieving this ambitious increase with contributions from all our member firms, also through focusing on enlarging the amount of international business that we service.

Corporate international tax, transfer pricing, expatriate tax and indirect tax services continue to be key focuses. Our global tax centres of excellence allow our tax professionals to share knowledge and develop effective processes and procedures that improve both the quality and efficiency of the tax services we deliver. They also enable our tax professionals worldwide to interact effectively as teams, resulting in further improvements in our service delivery to our clients.



And we continue to expand the list of tax services we offer to meet the needs of our clients and the changing environment. One example is our Tax Effective Value Chain Management service offering, which helps those international clients that are setting up operations in other jurisdictions, or who are restructuring their value chains to manage their tax costs and tax risks during this process. This particular service respects the commercial realities of our clients' businesses, which is critical if their tax planning is to withstand the scrutiny of the tax authorities.

As a network, we are also closely following the work of the OECD and the European Commission as they review the principles that will affect the taxation of businesses that operate internationally. BDO is providing input to the OECD's work through their public consultation process and is keeping our clients up to date on developments by means of informative publications and public seminars.

The growth in our tax service line will not come at the expense of quality. The quality of our tax practices continues to be a top priority. BDO's accreditation criteria for tax and our international quality assurance reviews play a key role in strengthening our tax practice worldwide. We also are very focused on expanding both our tax training and knowledge sharing processes, in order to ensure that our tax professionals are up to date on the latest developments and issues that are important to our clients and can deliver the exceptional service that they have come to expect from BDO.

Advisory services

BDO's advisory services grew by 6.2% in 2013¹. Globally, we are continuing to focus on 4 advisory service lines:

- Outsourcing
- Corporate Finance, Transactions and Restructuring
- Forensics and Risk Management Advisory
- Technology Advisory

These are supplemented on a local level by service offerings within, for example, management consulting and legal advisory services.

Forensics and Risk Management Advisory has seen the sharpest increase in activity and as a result has enjoyed a 26.8% growth, with much of this being contributed by our recently established Global Forensics group. As the Global Forensics initiative continues to grow, BDO expects to strengthen its market position as a premier provider of international forensic services going forward.

The Outsourcing practice has achieved an impressive 17.6% growth compared to 2012, a result of the ongoing investments by our member firms to provide clients with accounting and business services paired with our vision of exceptional client service.

Corporate Finance has seen both the number and value of deals increase significantly and is at the same time committed to expand and further develop its transaction and valuation services. Technology Advisory fared less well in the last year but BDO continues to consider this as an area with substantial growth potential that we are determined to unlock.

Across all of our regions, from Asia Pacific, through EMEA to the Americas, there is global recognition that advisory is an excellent market opportunity that will play an important role in the future growth of the BDO network. We are therefore focused on working with our firms throughout the world to increase the size and strength of their advisory practices and assist the development of their advisory services offering. An element of this is to ensure that there is increased support for joint developments across markets, enabling globally seamless solutions that can better support our domestic and international clients.

BDO's structure allows the efficient sharing of best practices on a daily basis. The global systems we have in place mean that such actions are reinforced by a range of regional and global conferences, as well as our regional centres of excellence. Through BDO's verifiable global reach and deep capabilities across all advisory disciplines we strive continuously to provide our international clients with the best possible level of service. We set high standards and give our people responsibility for delivering a tailored service that works for our clients.

¹Measured in USD

► CLIENTS & MARKETS

At BDO, we are passionate about service and have long been aware of its importance to not only our success, but that of the clients we serve. The current challenging economic climate has served to emphasise that businesses across the spectrum need to understand that service quality has a bearing on their long-term achievement. Across the world, companies are striving to distinguish themselves in an increasingly competitive marketplace: competition for customers remains fierce in every market and every industry sector, including the accounting profession.

Our Global Board chair and our CEO have mentioned earlier in this Statement that BDO's Strategic Plan for the next 5 years is to increase both our revenues and our global reach significantly. Merger and acquisition activity and the consequent consolidation among professional service firms globally is inevitable, and is being driven by the continued globalisation of the small and medium-sized businesses that we serve. For BDO, this will play a large part in achieving that ambition. But so also will be the delivery of exceptional client service, to all our clients in every country where BDO has a presence.

Our vision is to be the leader for exceptional client service, and service quality is embedded in everything we do. It's not confined to a client service department and all our people are aware of what it involves, on a daily basis. We have clearly defined what exceptional service means for us and for our clients and strive to live up to its attributes every day and in everything we do. It's a simple but effective approach that ensures we not only meet our clients' needs but exceed their expectations. It's about being clear and open in our communications and always delivering what we promise.

We pay strict attention to the people that make up our client service teams and aim always to provide the right people for the client – as well as the right working environment for our people. Above all, we recognise that all our clients are different and that they therefore appreciate a relationship with their service provider that is more personal than uniform and reflects the kind of business they are, as well as their culture. Only then can we create tangible value that's based on trustworthy insight and advice.

Our commitment to service quality means that we are set up to adapt to our individual clients' needs and provide them with the right service mix and we have the proof that this approach works. BDO in Sweden, for example, was for the fourth time placed first in a client satisfaction study run by an independent research institute in 2013 – and this rating is reflected in their revenues too: 8% organic growth in one year alone.



Meanwhile in Brazil, BDO was elected as the country's most admired audit and consulting company for the second consecutive year and BDO Netherlands was named by the influential business publication *Management Team* as 2013's best accountancy firm. This annual survey of management executives cited the firm's exceptional price quality ratio, flexibility and in-depth expertise, as well as its stable business approach. And a similar accolade was received by BDO UK, when independent research showed that the firm outperformed all of its major competitors in 2013 to become the market leader for client satisfaction for the second year running. Not only was the BDO firm the only organisation to have seen consistent improvement over the past four years, almost two-thirds of the clients interviewed highlighted specific BDO individuals as having "...gone beyond the call of duty to deliver".

And it's not just our high standards and commitment to creating value for our clients in the delivery of exceptional service, at BDO it's our people that matter: one client has been quoted as saying "BDO has a creative approach to problem solving and a clear, pragmatic and commercial communication style. They have the acumen and integrity to successfully resolve opposing points of view, but when hard messages have to be given, they tell it like it is. They are first class professionals". Knowing what our clients think of us is important, because to be truly credible in our claim to be leaders in delivering exceptional service and to continue to improve our service delivery, we need to be able to report on the service experience of our client base.

That's why we have implemented a global Net Promoter Score (NPS) programme this year. NPS is a well-known foundation-level client satisfaction framework that provides effective and comparable metrics and in BDO we're using it to complement our existing client satisfaction programmes. As a truly independent measure, it is widely recognised as a reliable source of information about clients' perception and appreciation of BDO. Our global programme is customised for use by all our firms, however large or small they are, and wherever they are in the world. To date, some 18 firms have signed up to it and more will follow. We look forward to sharing the results with our clients in due course.

Furthermore, in order to measure our brand in terms of our effectiveness at delivering exceptional client service, we are planning a global brand survey programme to gauge how our brand is perceived. With the resulting insight that this will give us, we will have a clear idea of what people believe BDO stands for and what we can do to improve our service delivery.

Last year was the year of BDO 50, and the founding of our international network in 1963 was celebrated through a range of initiatives and commemorations at global and national level. These included the creation of a commemorative BDO book, entitled *The Leader for Exceptional Client Service 1963-2013*, which defines and brings to life our vision and celebrates our history through selected highlights, interviews and success stories depicting the diversity of our client engagements around the world. An interactive pdf of the book is available on the web site bdointernational.com.

The book is complemented by a new BDO film that showcases all that is good about our network and features interviews from BDO's global leaders, partners and staff, as well as clients. Our film celebrates the very best that BDO has to offer its clients, its people and all its stakeholders and demonstrates how, 50 years on, BDO is uniquely positioned to support our clients worldwide in meeting the challenges they are facing in their particular industries and in their daily business.

One of the most rewarding initiatives was *50 for 50*, a global social responsibility campaign that we ran because trust is vital and BDO, like all businesses in the 21st century, is expected to provide commercial value in a way that delivers broader social benefit. To date, some 40 firms have signed up to the initiative, committing to give away more than 2,500 hours of support. Activities have ranged from teaching children how to save money in South Africa through landscaping community gardens in the United States to providing investment advice to a Belgium-based social enterprise.

Our objective is to consistently improve the service that we deliver to our clients and in 2013 our global thought leadership programme was accordingly focused on service. We joined forces with the Economist Intelligence Unit (EIU) and launched a research programme to investigate how defined and acknowledged the link between customer service and profit is, and whether businesses pay enough heed to the correlation. The survey sought to investigate what companies think their customers want, how they are adapting their customer service offerings and what impact their service strategy has on the bottom line.

The survey revealed that 84% of the companies surveyed believe that good customer service is important to their financial performance but, despite this acknowledgement, only 36% of the respondents have a formal strategy in place that addresses this financial link. Companies are simply not investing enough in customer service, neither are they apportioning responsibility for it at Board level – 62% give this responsibility to other departments such as HR and marketing, and only 28% have a designated head of customer service.

Companies are right to focus on quality, value, price and innovation but not to the detriment of service quality – and it seems that Boardrooms are blinkered to this fact. So we're calling for more companies to put service on the boardroom agenda and have a clearer focus on the link between service quality and the bottom line, and we're happy to discuss this with our clients. We believe that it's important for businesses to define what customer service means to them and be prepared to invest in perfecting how they deliver it. We also believe that, because of our service focus, our advice can deliver the best outcome for our clients.

In 2014, we will not be standing still. Our global programmes will include a global advertising initiative that will see an aligned campaign across the world, because BDO is a global brand with shared values and we want our audience to understand these values, no matter what their business needs are. And, because the traditional customer service model has changed, giving digital technology a more important role than ever, we are developing a global web site template for our firms that will make it even easier for our clients to interact with and locate what they need from BDO. Not only will the format and delivery of content on our sites be more dynamic and appropriate, the new visual design will better represent what BDO is and our commitment to exceptional service.

► PEOPLE

In 2013, BDO's international Human Resources team continued to concentrate on its business plan and on achieving our vision, to be the leader for exceptional client service. The execution of our plan focused on providing the right environment for our people and the right people for our clients.

BDO. Because Relationships Matter

There are many world-class accounting firms. Far fewer that offer a culture so rich in professional opportunity, personal fulfilment and long-term growth. At BDO, we understand that exceptional service to our clients begins — and ends — with exceptional regard for our people. Because at its core, our business is not about numbers or spreadsheets, dollars or pence, but about people working with, for, and in service of others. In short, because relationships matter.

Following the work done in 2012 to identify exactly what marks us out as unique from our competitors in the 'war for talent', 2013 was the period in which our network put into place tactics to make the market more aware of our value proposition and why BDO is a great place to have a career. 'BDO. Because Relationships Matter' clearly and simply states what we are about.

With the creation of our employment brand, we have begun the ongoing process of updating our web sites and other recruitment materials with a common look and approach. To further strengthen our presence with social media, as a network we also began coordinated work with LinkedIn. In 2013, 17 member firms continued or began structured work with this online tool.

Continuous learning and growth

The network maintains its belief that continuous learning and development is fundamental to our ability to provide exceptional client service. In 2013, we held 30 international events in 15 countries for over 2,000 delegates. Our premier people event for the year was our New Partner Conference, held in Amsterdam in September, where 61 partners from 28 countries came together to network while building their technical and leadership skills.

At the network level, our arsenal of learning programmes continues to grow as additional virtual and live training programmes are added. This is on top of the technical and non-technical training that each individual member firm runs.

Our people also continue to grow through their experiences around the globe. In 2013, 67 individuals took part in secondments in 25 countries. These experiences furthered personal experiences, built relationships and strengthened BDO's ability to offer exceptional client service.



Developing our leaders

Strong leadership for the future is a key component of the network's success. We must build leadership accountability and responsibility to ensure that future leaders add value and contribute to our growth. With this in mind, this year we pooled our resources and knowledge to launch the new BDO Global Partner Leadership Programme (GPLP). By taking part in this programme, our top talent and future leaders gain access to international resources and capabilities solely focused on developing their leadership skills. The programme draws on the best in class experiences from around the world both within and outside of BDO, as well as in academia.

► TRANSPARENCY REPORT

The regulatory environment

The world is changing fast and the regulatory environment in which BDO Member Firms operate is arguably changing even faster than some other elements of this digital age.

The 'new normal' is one where old business models must be cast aside to survive and prosper and it has seen the expectations of regulators, oversight bodies and standard setters alter more in 5 years than in the previous 50. Against the backdrop of the international financial and economic crisis that began in 2008, regulators and policy makers all over the world now demand increased scrutiny of accounting firms and the networks to which they belong. This is manifesting itself increasingly in new regulations, standards and codes of practice which can be globally, regionally or nationally applied.

Greater public 'transparency' about the ownership structure, professional education programmes, internal control and audit quality initiatives of audit firms is now accepted - if not expected - in many jurisdictions and this trend will continue. The last year has also seen this thinking surface in other areas in which BDO Member Firms offer services, most notably tax services. This service stream is likely to see increased regulation and scrutiny as politicians and policy makers further respond to the effects of the crisis on civil society. There is little doubt that significant additional reputational and litigation risk will be a possibility arising from the provision of tax advisory services as policy makers attempt to coordinate and extend the 'public interest', 'transparency' and 'trust' concepts to all professional services, not just statutory audit.

The European Union has led the field since 2006 in relation to formal 'Transparency Reporting'. The latest audit reform proposals likely to become European law early in 2014 will raise the bar still further in relation to the expectations of auditors in explaining what they do and how they do it, both generally and on any given public interest entity audit. These measures will also enhance the transparency and disclosure requirements for firms that audit public interest entities and will increase the number of audit firms affected by such requirements. As predicted in the BDO Annual Statement 2012, the EU proposals will expose auditors to additional surveillance from existing and newly formed regulatory bodies, some of them supranational in nature.

Independent oversight of the audit profession is now all but universally accepted as the way forward, and groups which barely existed before the crisis are now major stakeholders on the regulatory landscape. Think of the *Independent Forum of Audit Regulators* (IFIAR) and regional 'equivalents', such as *EAIG* in Europe or *AARG* in the ASEAN region. The level of interest in the formerly mundane world of accounting firms from long-established multilateral bodies such as the *Financial Stability Board*, the *OECD*, *IOSCO*, the *Basel Committee* and even the *G20* and *G8* is both staggering and permanent. Responding positively to that interest has not come easily for the traditionally conservative accounting profession, but BDO has consistently sought to engage positively and constructively with the full range of policy makers, regulators and standard setters. This applies both nationally and on an international level.

BDO has always believed that greater transparency by individual audit firms and by the networks of which they are members serves to build confidence in the audit profession and enables firms to improve their credibility and reputation for integrity. We recognise the need to play our part in restoring trust in the wider accounting profession. Commitment to transparency is essential to earning that public trust and this Annual Statement is part of the BDO network's contribution to that imperative.

Governance

BDO is an international network of public accounting, tax and advisory firms, the BDO Member Firms, which perform professional services under the name of BDO.

BDO is the brand name for the BDO network and all BDO Member Firms. BDO is a registered trademark of Stichting BDO.

Legal and structural arrangements in the network

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

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

The Council comprises one representative from each voting member and represents the members of BDO International Limited in general meeting. The Council approves budgets, 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, currently comprises a representative from the network's seven largest member firms, whose appointment, each for a three year term, is approved by the Council. The Global Board sets policies and priorities for the network and oversees the work of the Global Leadership Team. The Global Board meets at least four times a year and more if required. The Global Leadership Team is tasked with coordinating the activities of the network on a day-to-day basis. It is headed by the CEO and comprises the Global Heads of Audit & Accounting, Tax, Advisory, People, Clients and Markets, Network Development, the CEO EMEA, the CEO Asia Pacific, the CEO Americas and the Head of the BWS Legal Department.

Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA (BWS), a limited liability company incorporated in Belgium with its statutory seat in Brussels. BDO International Limited and Brussels Worldwide Services BVBA 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 BVBA and the member firms of the BDO network 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 BVBA and/or the member firms of the BDO network.

Quality

Membership of the network enables BDO Member Firms to deliver quality services at the highest level. The International Executive Office of BWS in Brussels mandates the use of the *BDO International Risk Management Manual*, which provides guidance on the design and implementation of quality control systems to support our firms' compliance with both local and international standards. Additionally, and in accordance with the requirements of the International Standard on Quality Control (ISQC-1), all BDO Member Firms have their own systems of quality control.

The quality of local and referred professional work carried out by member firms is evaluated through an international Quality Assurance Review (QAR) process which supplements the domestic quality review processes executed by member firms themselves. The objective of these QARs is to provide assurance that BDO Member Firms adhere to and comply with applicable professional standards, as well as BDO's international standards.





They are carried out by a team of dedicated reviewers, for whom there is an ongoing training process in place. QARs cover the major services supplied by the member firm, as well as its overall quality and risk management framework, and in 2013 we strengthened the root cause analysis process for audit QARs. Member firms undergo these international reviews on a rotational basis. Many of the BDO Member Firms are also subject to external inspections by local professional institutes and local regulators, or undergo a peer review.

As part of the acceptance process for new member firms, prospective firms are subject to an extensive risk management and quality due diligence review before their admission to the BDO network is accepted.

The process and criteria of BDO's internal member firm accreditation is revised and strengthened on a continual basis. The primary purpose of the accreditation process is to enhance all member firms' focus on quality, in line with the key strategic aim of the network to deliver consistently high quality services. This accreditation process has resulted in improvement plans being implemented by a number of member firms, to further guarantee the delivery of exceptional client service.

Independence

BDO Member Firms' independence and objectivity from assurance clients is achieved through policies and procedures designed to ensure compliance with the independence standards of the International Federation of Accountants Code of Ethics and the respective national regulatory organisations. The relevant ethics and independence rules for each member firm are posted on BDO's global intranet, which is accessible by all BDO partners and professionals.

The large majority of our member firms have a designated Independence Champion, usually an experienced partner, who monitors compliance with the applicable independence policies and procedures, and oversees independence training and the maintenance of a restricted entity database.

BDO also maintains a worldwide database of all our major firms' restricted entities, including listed companies and other public interest entities. This is situated on the global intranet and its objective is to prevent the performance of prohibited non-assurance services or prohibited investments. The worldwide database is updated monthly and each Independence Champion must positively affirm that their member firm's listing of restricted entities is accurate and complete. They also confirm annually that their domestic independence rules are current on the global intranet.

Prior to accepting any new client or assurance engagement, member firms perform specific safeguards to identify potential conflicts of interest and threats to auditor independence. A new custom-made web-based tool has recently been implemented to facilitate international conflict of interest and independence checks throughout the BDO network.



The BDO network provides services in the following countries*

ALBANIA - ALGERIA - ANGOLA - ARGENTINA - ARMENIA - AUSTRALIA - AUSTRIA - AZERBAIJAN - BAHAMAS
BAHRAIN - BARBADOS - BELARUS - BELGIUM - BOSNIA HERZEGOVINA - BOLIVIA - BOTSWANA - BRAZIL
BRITISH VIRGIN ISLANDS - BRUNEI DARUSSALAM - BULGARIA - CAMBODIA - CANADA - CAPE VERDE
CAYMAN ISLANDS - CHILE - CHINA (PRC) - COLOMBIA - COMOROS - COSTA RICA - CROATIA - CYPRUS
CZECH REPUBLIC - DENMARK & FAROE ISLANDS - DOMINICAN REPUBLIC - DUTCH CARIBBEAN (ARUBA
/ CURACAO / ST MAARTEN) - EAST AFRICA (BURUNDI / ETHIOPIA / KENYA / RWANDA / TANZANIA /
UGANDA) - EASTERN CARIBBEAN (ST LUCIA / ST VINCENT & THE GRENADINES / ANGUILLA / ST KITTS
& NEVIS / MONTSERRAT) - ECUADOR - EGYPT - EL SALVADOR - ESTONIA - FIJI - FINLAND - FRANCE
FRENCH GUIANA - FRENCH POLYNESIA - GEORGIA - GERMANY - GIBRALTAR - GREECE - GREENLAND
GUATEMALA - GUERNSEY - HONG KONG - HUNGARY - ICELAND - INDIA - INDONESIA - IRELAND - ISLE
OF MAN - ISRAEL - ITALY - JAMAICA - JAPAN - JERSEY - JORDAN - KAZAKHSTAN - KOREA - KOSOVO
KUWAIT - KYRGYZSTAN - LATVIA - LEBANON - LIECHTENSTEIN - LITHUANIA - LUXEMBOURG - MACAU
MACEDONIA - MADAGASCAR - MALAWI - MALAYSIA - MALTA - MAURITIUS - MEXICO - MOLDOVA
MONGOLIA - MONTENEGRO - MOROCCO - MOZAMBIQUE - MYANMAR - NAMIBIA - NETHERLANDS
NEW ZEALAND - NIGERIA - NORWAY - OMAN - PAKISTAN - PANAMA - PARAGUAY - PERU - PHILIPPINES
POLAND - PORTUGAL - PUERTO RICO - QATAR - ROMANIA - RUSSIA - SAUDI ARABIA - SAN MARINO
SERBIA - SEYCHELLES - SINGAPORE - SLOVAK REPUBLIC - SLOVENIA - SOUTH AFRICA - SPAIN - SRI LANKA
SURINAME - SWEDEN - SWITZERLAND - TAIWAN - TAJIKISTAN - THAILAND - TRINIDAD AND TOBAGO
TUNISIA - TURKEY - TURKMENISTAN - UKRAINE - UAE - UNITED KINGDOM - UNITED STATES OF AMERICA
URUGUAY - US VIRGIN ISLANDS - VENEZUELA - VIETNAM - ZAMBIA - ZIMBABWE

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