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THE LEADER FOR EXCEPTIONAL CLIENT SERVICE

2013

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CELEBRATING 50 YEARS OF BDO



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**HOFFMANN
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GANSKE VERLAGSGRUPPE

**THE
LEADER
FOR
EXCEPTIONAL
CLIENT
SERVICE**

CELEBRATING 50 YEARS OF BDO

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PREFACE

“WE SUCCEED THROUGH OUR PEOPLE”



I am delighted that this book is being published to celebrate the 50th anniversary of BDO International Limited. From the foundation of BDO in 1963 up to 2001 I was actively involved in its ongoing development, growth and global expansion. Since 1973 I have been the 'O' in BDO and in 2001 I was appointed its Honorary Chairman. All this fills me with a certain degree of pride. But what delights me most is the fact that in the past 50 years BDO has developed from a 'nobody' to become the world's fifth-largest accounting organisation. This is undoubtedly a remarkable success story. BDO was born, as it were, 'out of the blue'. In 1980 we first entered the top ten of the accounting business, in 1989 we were ninth, in 1990 seventh, in 2001 sixth and now we are fifth in the global ranking. Our success story reminds me of that well-known song 'Ten green bottles standing on a wall'. Again and again, people predicted that BDO would be the next organisation to disappear. But as history proves, it was always one of the big ones that ceased to exist.

BDO would not be what it is today if a number of entrepreneurially minded men back in the 1960s and 1970s had not been totally committed to the idea of "facilitating the provision of a comprehensive international service", as the original agreement between five accounting firms from the USA, Canada, the UK, the Netherlands and the Federal Republic of Germany stated. Those visionaries from the early years of BDO, of whom I am the only one still involved in the organisation, were driven by what I would call the core values of BDO: the independence of the member firms; a high degree of mutual trust and strong personal relationships between the partners; and BDO-minded people dedicated to the overriding principle of "We serve our clients".

The founding members were motivated to establish an international organisation for a number of reasons, some of which I would like to mention here. From a defensive point of view we were motivated to safeguard our national business at a time when the big international accounting organisations were tempting our multinational and mid-sized national clients to switch to

those organisations' worldwide audit services. Our progressive motive was to generate new international business. Beyond that, we were sure that the creation of an international network would improve the image of all the national member firms within the accounting profession. And last but not least, we knew we could all benefit from sharing our experience, resources and technical know-how.

Seven milestones over the past 50 years were, in my view, decisive for BDO's future development. The establishment in 1963 of what would later become BDO is obviously the most important milestone that this book is celebrating. A second key development took place in 1970. Throughout the 1960s our international organisation had been organised in a very low-key fashion, but it became increasingly apparent to me that the market was demanding a more closely coordinated organisational structure. As a result, we decided to set up an Executive Committee, which met for the first time in Rome in 1970. Another important milestone came in 1973 with the establishment of Binder Dijker Otte & Co. (BDO). This was the first time that the three initials 'BDO' were used internationally. For the next seven years we had two closely linked international organisations under one global umbrella: Binder Dijker Otte & Co. for Europe and parts of the Near East, and Binder Seidmann & Co. for the USA, Canada, Mexico, Australia and the rest of the world. In 1980 we took the integration process one step further by naming the entire international network Binder Dijker Otte & Co. – 'BDO goes worldwide', as we said back then. The next milestone from 1989 to 1991 came with the collapse of the Soviet empire, the fall of the Berlin Wall and the creation of the European single market. 'BDO goes east' was the motto of those years, and during the 1990s we saw the number of member firms grow by more than 50%. The past decade has been characterised by a strengthening of our international organisation. And the final milestone I would mention was in 2010 when all our national and international member firms adopted a single global trading name: BDO.

The rapid growth of our international network – and this is something I must emphasise – was not the work of any one person, but was made possible through the dedicated efforts of a whole host of BDO-minded people. "We succeed through our people" has always been the secret of our successful development.

During the first four decades I was proactively involved in BDO's international network, the guiding principle behind all my work was to ensure that political, religious or cultural matters that have nothing to do with our accounting profession in no way interfered with the collaboration between BDO partners.

When I look ahead – and I will certainly not be around to celebrate our centenary – it is my sincere wish that BDO maintains its organisational independence. This independence, which is a fundamental element of our corporate philosophy, must be the yardstick for all BDO's activities. Secondly, I would wish BDO ongoing growth and profitability so we continue to be attractive for young recruits. Thirdly, whatever changes may affect our profession and the international organisational set-up in future, I sincerely hope that the collaboration and interaction between member firms will be strengthened, and that all our partners remain in every respect satisfied as members of the international BDO network. Finally, and above all, I hope that the spirit of BDO-minded mutual cooperation based on communication and creativity continues to be a leitmotif for all BDO's activities.

PROF. HANS-HEINRICH OTTE
HONORARY CHAIRMAN
BDO INTERNATIONAL LIMITED

EDITORIAL

PRIDE IN THE PAST, CONFIDENCE IN THE FUTURE

At BDO we can be proud of what we have achieved in the past 50 years. What began as a small group of accounting firms from five countries has not only survived half a century of keen competition from the globally operating networks, but actually outlived a number of them to become the world's fifth-largest audit and accounting organisation. The entrepreneurial founding members started off in a small way, but their vision was to look beyond their own horizons and to set up an international network of independent member firms. That vision has now become a global reality with BDO Member Firms in 145 countries at the time of writing.

Our history is relevant today because our partners and staff know that they are working for a well-established organisation built upon clear values and a successful past. I am convinced that our success has come about because BDO has always been true to these values. After all, accounting is a people business. As our CEO Martin van Roekel says overleaf, in BDO it's people that count – and that means our clients as well as our BDO colleagues. In many cases these personal relationships, within and outside the network, have existed for many, many years. Our relationships with our clients and colleagues are based on two key values: reliability and trust – values that both those we service and our people benefit from. Take the example of client referrals. When I refer one of my German clients with global operations to a partner in another country, I need to be certain that that client will enjoy the same high quality of service he experiences with me. Over the past half-century, we have learned that within our international network we can rely on our BDO partners across the world to deliver that quality. That is the basis for trusting relationships in the people-focused business in which we work every day.

Our history is also of relevance to our clients. A network that has developed so successfully over 50 turbulent years stands for continuity. Our clients value this, as they do the fact that the BDO network is not only characterised by a high degree of expertise and homogeneity, but also integrally linked by common

VITA

Dr. Holger Otte has held the position of Chairman of the BDO Global Board since 1 January 2011 and has been a member of the former BDO Policy Board since 2004. He is also CEO of BDO Germany. Dr. Otte is a qualified chartered accountant, tax adviser and lawyer and joined BDO Germany in 1983





ideas and shared values. In recent months I have often heard appreciative words from clients about the fact that we are celebrating our 50th anniversary this year.

If we look back at the year our international network was founded, 1963, we find a very different world from the one we know today. The history chapter in this book outlines how much has changed over the past five decades. 50 years ago, our founders were driven by two principles – a defensive strategy and a visionary idea. The defensive strategy was a proactive response to the increasingly globalised nature of business in the early 1960s. The founders knew that major clients that were already operating in many countries could only be serviced successfully if their own accounting firm was adequately represented abroad. This was also what motivated our founders to look for like-minded auditors with a similar vision focused on setting up an international network of independent member firms. The decisive factor was that the founders of the BDO network – all well respected and highly reputed accountants in their own right – wanted to maintain their professional independence by collaborating with accounting firms in other countries in order to service internationally

operating clients. Of course, they could have joined one of the existing global networks, but that would have meant giving up what they valued most – their professional independence. So our founding members from the USA, Canada, the UK, the Netherlands and Germany decided to formalise their cooperation to ensure that they did not lose any of their major domestic clients to what was then termed the global 'big eight'. That was the driving principle behind our international network, and it has proved a stable foundation throughout the past 50 years.

Back in 1963, those founders would never have dreamed of some of the things we take for granted in our network today. But one principle has remained the same throughout these years: member firms share their competencies with the international network in order to profit from the latter's support in matters such as legal structure, brand, marketing, quality assurance, risk management and regulatory affairs. This communication and cooperation have enabled us to respond proactively to the challenges our profession has faced over the past 50 years. But even as the network's structure became stronger from the mid-1980s onwards, our member firms maintained their

independence. BDO has sometimes been accused of being little more than a loose network of firms, but we knew that we were highly integrated in operative terms. In 2010 we decided to communicate this high degree of operative integrity to the outside world by uniting the entire worldwide organisation under a single global trading name and one brand: BDO. As a result, I can safely say that our organisation and external brand image differ in no way from our major competitors'.

Over the past half-century, there have been repeated efforts to diminish BDO's strength by implying that we have a 'weak organisational structure'. We started out in 1963 as number 10 behind the then 'big eight'. Since then, they have been reduced to the 'big four' and we are now up to fifth position globally. BDO continues to remain so attractive to its member firms that none of the large competitors has been able to take us over. The main reason why we have retained this status of being the better choice is our philosophy of independence, in a network that is based on strong personal relationships between all its people. Our firms regard BDO as significantly more attractive than the bigger firms because the partners in our network are entrepreneurs, not employees. I am convinced that BDO partners and staff have consciously chosen this principle of self-determination, entrepreneurial freedom and the opportunity to develop a variety of different skills – the net result of which is of great benefit to our clients and colleagues alike. This makes a decisive difference in our people business. This is the demarcation line that defines our relationships within the BDO network and differentiates us from the competition.

One of the key features of the past 50 years has been our success in competing with what at times can seem the overwhelming strength our larger competitors. Another has been our ability, at regular intervals, to convince firms and people from other networks to join BDO. There are good reasons for that, and I believe they are to be found in our shared values, the form of partnership that characterises BDO – independent member firms working together in an operatively integrated organisation – and our democratic structure. None of the bigger firms dominates BDO's network. Every single member firm, whatever their size, has the same voting rights in the BDO Council: one firm, one vote.

“I believe that the foundations have been laid for another half-century of BDO success.”

DR. HOLGER OTTE

That is democracy at its best, but it also demands a great deal of sensitivity and understanding of the needs of others. But most importantly it is a precondition for running an international network such as ours. To ensure an effective global entity, you need a good balance between all the constituent parties – our firms – and policies that are not determined by a handful of the bigger ones. At BDO we achieve this balance consistently, and the conclusions we reach are rarely the easiest options. In the nine years I have had the privilege to sit on the Global Board, I can assure you that its members have worked steadily for the good of the network and do not put the interests of individual countries or firms above the common good. BDO is well advised to continue working on these firm foundations.

Just how strong the international BDO network is has been evident in the past five years in particular. Our profession has been suffering overall from the effects of the global financial crisis and recession, and yet in the meantime BDO has grown significantly. We have not only strengthened our position in countries of the 'old economy', but have expanded our presence in the territories where economic growth was, is and will remain strong. We had a powerful presence in the Far East well before the crisis hit and this has been systematically expanded in the past five to six years: in China as well as in the other emerging markets we have seen consistent above-average growth in recent years. BDO China now employs over 7,500 people and we are witnessing significant success in the world's second-largest economy. In all these countries we are now a highly attractive choice for clients. As I have said, 50 years ago one of the two drivers behind the formation of our international network was defensive. Our current strategy is just the opposite, driven as we are by a determination to be present in each of the world's primary centres of economic activity. We are investing in the implementation of this strategy right now, and will continue to do so in future: the expansion of our international network will be commensurate with these efforts.

I can conclude, therefore, by stating with confidence that I believe that the foundations have been laid for another half-century of BDO success. The challenge now is to push ahead with the process of operative integration whilst maintaining the independence of our firms – and convincing firms outside our network that we offer an excellent platform on which to build mutual success. Challenge lies also in facing up to regulatory changes and seeing the opportunities they offer, rather than viewing them as a necessary evil. As auditors we tend to spend a lot of time looking backwards in time at corporate numbers. Looking back at the past 50 years of BDO's history, we most certainly have grounds for optimism as we face the future. In that respect, I am convinced we must continue to do all we can to make BDO as attractive for talented young people as it has been since the beginning. Only then can we be sure that the founding principles formulated in 1963 and developed over the past five decades will continue to be successfully implemented in years to come.


**WHO WE ARE
WHAT WE STAND FOR
WHERE WE'RE GOING**



OUR VISION

“Our culture, our philosophy, our vision have made us what we are today.”

MARTIN VAN ROEKEL
CEO, BDO



Our vision is to be the leader for exceptional client service. This is not about trying to reinvent our profession’s approach to service, but about doing things exceptionally well – and delivering that consistently from more than 1,200 offices in 140-plus countries. We have demanding client service standards that all our firms must meet and our people – nearly 55,000 of them worldwide – use their skills and experience to deliver the exceptional service clients expect. That means offering a tailored service, believing in the importance of close personal relationships and listening carefully to and working with our clients to determine what exceptional client service means to them. For us, exceptional client service is based on five key components: client needs, communication, commitment, people and value. And these are the attributes that define BDO today.



CLIENT NEEDS

“You have to be prepared to give your client a tailored and dedicated level of service. That means we can offer advice and services that are really reliable.”

**DR. HOLGER OTTE
CHAIRMAN, BDO GLOBAL BOARD
MANAGING PARTNER, BDO GERMANY**

We anticipate client needs and are forthright in our views to ensure the best outcome for our clients. To achieve this, we invest a great deal of time in getting to know our domestic and multinational clients and in building close, personal relationships with them. Only by listening carefully to our clients can we deliver relevant ideas and valuable insights. Only by looking at our clients' immediate requirements and long-term strategy can we create a tailored approach that offers genuine added value. In the final analysis, it is our in-depth local market knowledge, combined with global industry expertise and technical skills that enable us to fulfil our clients' complex needs.



COMMUNICATION

“In this day and age, everybody expects an instantaneous reaction and clients are looking for a quick turnaround time. So communication is the key.”

ALBERT AU
CHAIRMAN, BDO HONG KONG

Our top priority is to be clear, open and swift in all our communication. In practice, this means ensuring short lines of communication so our clients always know who to talk to. We avoid the use of unnecessary jargon and provide our clients with regular feedback: we proactively ensure there are no unpleasant surprises. Our clients appreciate the outcome: efficient, constructive, workable and timely solutions tailored to their specific needs. Our decentralised technical resources ensure swift decision making, prompt answers to questions, and speedy resolution of issues. Our organisational structure ensures clients enjoy quicker access to our senior professionals. And last but not least, our client teams are easily contactable so their experience in offering in-depth industry expertise and commercially astute insights is readily available.



COMMITMENT

“Our success is built upon commitment, accountability, anticipation, trust and a clear show of reliability.”

HANS DE ROOIJ
GLOBAL SECTOR HEAD
PARTNER, BDO NETHERLANDS

Commitment to us means delivering what we promise and going the extra mile – day after day and for each and every client. We know that a significant proportion of clients within our profession are unhappy with the service levels generally provided, and we appreciate that we can only earn the trust of clients by demonstrating reliability and integrity. Clients do not want gimmicks or a reinvention of accountancy. They want consistently high-quality service delivery that meets their needs. That is what BDO is committed to provide – worldwide. Our integrated network approach ensures the delivery of exceptional client service in every country we are represented in, and we put this commitment into practice through the demanding client service standards all our member firms are required to meet.

PEOPLE

“The name of the game is to gather and effectively share our skills. Our added value to the client is in bringing the right people to the table.”

**WERNER SCHIESSER
CHAIRMAN OF BDO COUNCIL
MANAGING PARTNER, BDO SWITZERLAND**

To ensure the delivery of exceptional client service we provide the right environment for our people and the right people for our clients. We employ experienced people and empower them to make a difference through top-class training, opportunities and reward. That way we ensure all our people are fully engaged, and transfer this engagement to client service delivery. In every BDO firm we aim to establish a culture that allows all levels of staff to interact with clients and ensures we provide the best-fit teams for their needs. We are proud of the fact that our people have the highest commercial and technical skills and work to the highest ethical standards. As a result, our people have brought us global recognition.



VALUE

“We have to be proactive, take our ideas to our clients and understand their business so those ideas are relevant to where they’re going. That way, we create great value for our clients.”

**TONY SCHIFFMANN
MANAGING PARTNER, BDO BRISBANE**

We generate value when we give our clients up to date ideas, valuable insights and competent advice they can trust. Our in-depth understanding of what value means to each particular client is based on a mix of professionalism, business knowledge, quality service and the appropriate human and technical resources – always in the context of fair and transparent fees and timelines. At BDO, we believe that our new ideas and innovative thinking help clients achieve their objectives and contribute to their commercial success – now and in the future. The actionable advice we provide is backed by local and regional expertise, together with global experience. In our increasingly globalised economy that is an essential added value factor for every client’s business.



INTERVIEW

“OURS IS A PEOPLE BUSINESS AND IN BDO IT’S OUR PEOPLE THAT COUNT.”

BDO is celebrating its 50th anniversary this year, has grown impressively since 1963 and in 2013 has a workforce of 55,000 operating out of over 1,200 offices in 145 countries across the world. What are the major challenges you face as CEO of this international network?

I think there are five main challenges: first, to ensure that BDO is winning in the ongoing consolidation taking place in the accounting profession – a process that has been gaining momentum over the past two or 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; and fifth, that we can deal successfully with the constantly changing regulatory amendments.

What have been the most valuable insights gained in your two years as CEO?

I’ve learnt some of my most valuable lessons through my experiences with BDO partners and staff. For example: do the basics brilliantly. Big global networks can all look the same, but I firmly believe that we don’t all think the same – and we certainly don’t all feel the same to our clients. What matters most is how our clients experience us. Ours is a people business and in BDO it’s our people that count. It’s thanks to the expertise and high standards of our partners and staff that we are able to deliver exceptional service to our clients, and that we are continuing to grow our market share.

Another thing I’ve learnt is that a tailored approach is key. I’ve witnessed first-hand that service expectations aren’t the same the world

over – in fact they vary dramatically from market to market. In India, for example, I saw that clients seek deep personal relationships, even expecting home visits. In Russia, clients will primarily want to speak to the most senior team members only. That’s why delivering tailored client service is so important. This remains at the heart of our business and will continue to bring us success.

Finally, I’ve discovered that with challenge comes opportunity. Although, generally speaking, everyone is having to work harder to achieve growth in the current economic climate, I have also seen the opportunities a challenging environment brings. In tough times companies are fiercely focused on cost, value for money and service, and I know that no other global network is set up to adapt to individual client needs as well as BDO is.

The size of BDO’s international network today is partly the result of mergers. How significant have they been in this growth process?

There’s no doubt that mergers have been a catalyst for success in a number of BDO regions, particularly in 2012. We’ve seen growth pretty much across the board – from Eastern Europe to the Middle East, from Asia Pacific to Sub-Saharan Africa, and in the Americas. And I must add that much of this growth has been organic. Our strategy isn’t about trying to reinvent the whole accountancy profession, but about doing things exceptionally well – and delivering that consistently across all the countries we are represented in.

How do we do things exceptionally well? First, by focusing on the quality of our clients’ experience; second, by hiring and developing great



VITA

Martin van Roekel took over as CEO of BDO International Limited on 1 October 2011. Prior to that, he was the Managing Partner of BDO Netherlands for six years and the Netherlands member of the network’s international Policy Board from 2003, before becoming Chairman of the Policy Board in October 2007. Martin stood down from both positions at the end of 2009, and immediately joined the global leadership team as the network’s first Global Head of Network Development and CEO Europe

people; and third, by trusting our people to take responsibility locally for delivering a tailored, high-quality service that consistently meets – or even exceeds – our clients’ expectations. I believe that this will continue to set us apart.

How do you make tailored service a reality?

It’s simple: we do not believe in a top-down way of working. BDO is one of very few networks capable of offering such an approach to client service: no other entities are set up like BDO to adapt to individual client needs and provide the right service mix. In other networks, their service offering is good, but it tends to be uniform the world over – looking more like business built on their terms, rather than those of their clients.

Talking of mergers, how important is consolidation within the mid-tier of accounting networks?

I think it is fair to say that the market for professional services has undergone more changes in the past few years than in the two decades before. One key factor has been the growing trend to cross-border business. For years there have been predictions of rationalisation outside the largest networks and one frequently asked question is which of the so-called ‘mid-tier’ networks will survive. Here, I’d like to quote my colleague Tony Schiffmann, who is Managing Partner of BDO in Brisbane: “I expect very few of them – two, maybe three – have what it takes to maintain relevance on a global scale.” That, I think, is a very realistic assessment of the situation.

What does it take for such a mid-tier network to survive - and indeed succeed?

Tony identified four factors, and I wholeheartedly agree with his analysis: first, enough partners in leadership positions across the network who are passionate to effect change when it is needed; second, a network leadership with the courage to act in line with the agreed vision and strategy, even if it challenges the status quo; third, a credible global presence; and fourth, a clear brand differentiation from both client and employee perspectives. On all these counts I firmly believe that BDO is strongly positioned to look to the future with confidence. And don’t forget that regulators and clients are constantly telling us that they want greater choice from professional services providers. I firmly believe that BDO is on course to strengthen our leading position within the mid-tier.

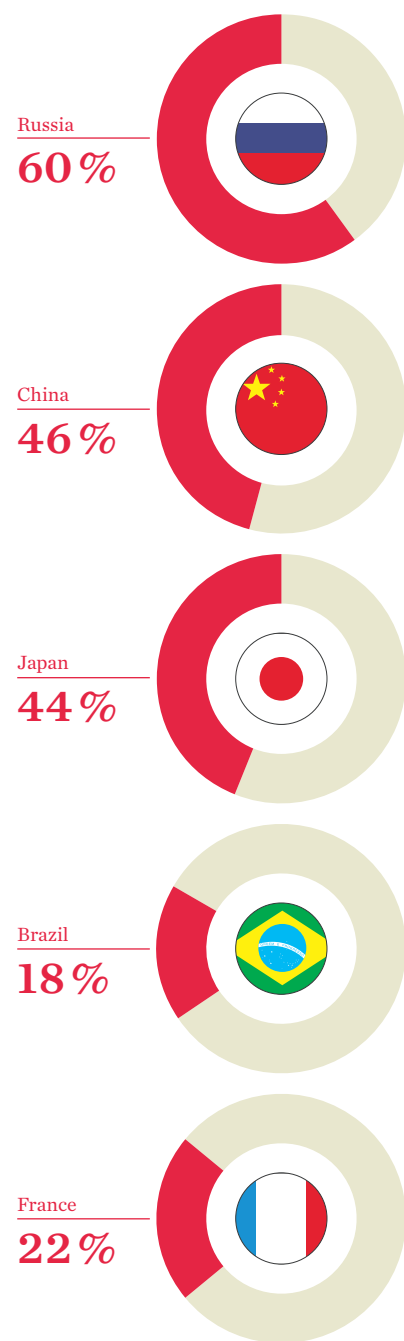
What can you offer clients that nobody else can?

If we compare our business case with that of our mid-tier competitors, BDO undoubtedly covers more countries than any other. Outside the dominant four networks, BDO is the only truly global network. We have strong member firms in all the important economies around the world and our network is

“Technical excellence is a given ... the way to differentiate is through exceptional service.”

MARTIN VAN ROEKEL

APPETITE FOR RISK VARIES CONSIDERABLY FROM COUNTRY TO COUNTRY



% of CFOs willing to take major risks when investing abroad. Source: BDO Ambition Survey 2012

“Outside the dominant four networks BDO is the only truly global network.”

MARTIN VAN ROEKEL

very well balanced. One thing that differentiates us from other networks is that many have a clear Anglo-Saxon dominance – which is not a criticism, but BDO recognises that other parts of the world have a great deal to offer, and that’s why it’s so important to have a well-balanced network such as ours. Another distinguishing feature is our system of government: one firm, one vote. It’s a very fair system that ensures that our largest firms cannot dominate the decision-making process. If the right things are proposed, they will be approved across the board. Likewise, our Global Board and our Global Leadership Team are made up of people from throughout the network, with no dominance from any particular part of the world.

What distinguishes BDO in practical terms?

Three things: relationships, culture, and exceptional client service. Let me go into more detail. BDO is a people business that relies on relationships. Of course it is business-critical to cultivate close relationships with clients, but within the network itself these relationships are just as essential. BDO partners know each other well – we make sure of that – and it is these personal, trusting relationships between BDO partners and their firms that smooth the way to more effective and higher-quality cross-border cooperation.

This leads me to BDO’s distinctive culture, which I believe is just as important to our present and future success. If you look around the international network, you see that our partners and firms are always willing to help each other out. BDO’s unique culture is defined by the cooperation and relationships between our partners and firms. It is this culture that makes BDO much more than a referral network. Our firms are not part

of BDO simply to increase their international referrals, but because they believe in our vision: to be the leader for exceptional client service. It’s client service that holds the key to keeping ahead of the competition. It’s client service that matters to the bottom line. And it’s exceptional client service that differentiates us.

Let me quote my colleague Allan Evans on that. He’s the Global Head of Clients and Markets at BDO and understands more than most what client service means in practice: “Because technical excellence is a given in the top firms, the only way to differentiate is through exceptional service. Our exceptional service programme has a whole range of different strategies, which we undertake on a truly global level.”

THE TOP 10 INVESTMENT DESTINATIONS 2012

2012	2011		2012	2011	
1	1	China	6	8	Russia
2	2	USA	7	5	UK
3	6	Brazil	8	11	Australia
4	4	India	9	9	UAE
5	3	Germany	10	13	Mexico

Source: BDO Ambition Survey 2012

Is exceptional client service a true differentiator for BDO?

Many of our big competitors have a ‘playbook’ when it comes to client service: 95% of the solutions and policies are pre-planned. The problem

with this, in my opinion, is that it leaves little room for flexibility and what we at BDO call client service instinct. We actively train and empower our people to make the right client service decisions. But for this to be effective, our people need to be responsive and not have to check with, for example, a global HQ before taking a specific decision. You can only do that by trusting people to have the skills, experience and mind-set to take responsibility. And that is exactly what we do.

How important is trust in building and maintaining client relationships?

Trust is essential – and doesn't come easily. It can only be built up over a number of years, and comes from being very close to your clients, understanding their needs and reacting to them in a proactive way. Trust is also based on combining a good business relationship with a good personal relationship, which I believe is one of BDO's key strengths. The fact that a number of clients have been with BDO for decades speaks for itself.

The 2012 BDO Ambition Survey was the third time BDO had conducted thought leadership research through interviews with CFOs of mid-sized companies operating internationally. What did the findings tell you about how these CFOs view international growth prospects?

Interestingly, more than two thirds of the CFOs we interviewed saw customer service as a vital element for international success, with Brazilian, British and South African companies ranking this most highly. But more significantly, our survey shows that the risk-reward dynamic is changing as ambitious CFOs face greater risk for the same reward – the economic crisis

BRIC COUNTRIES SEE A BOOM IN INVESTMENT

The number of CFOs investing or planning to invest in the BRIC countries has sharply increased



The BRIC countries are now perceived as established, rather than emerging investment markets

Source: BDO Ambition Survey 2012

“BDO is distinguished by three things: relationships, culture and exceptional client service.”

MARTIN VAN ROEKEL

has cut their appetite for risk compared to previous years. Macroeconomic worries are leading 66% of them to increase investment in what they perceive as safe haven markets. In their approach to overseas investment they were sticking to what they know in 2012, rather than taking bigger risks that could lead to greater returns.

The appetite for risk varies considerably, however, from country to country. The biggest risk takers are the Russians, the Chinese and the Japanese. Those least likely to take risks come from Brazil and France.

Which markets are perceived to be safe havens?

Interestingly, a mix of the so-called BRIC countries – Brazil, Russia, India and China – as well as the older, established markets of the USA, the UK and Germany. Since mid-sized companies are the growth engines of global trade, their investment plans are definitely a boost for these seven countries. However, I must emphasise that these markets aren't the only choice for entities looking to expand abroad.

The interesting thing is that emerging markets, including the BRIC countries, are now perceived by the CFOs we interviewed as established, rather than emerging investment markets. In our 2011 Survey 29% of these CFOs said they were investing or planning to invest in the BRIC countries. By 2012 that figure had risen to 45%.

Meanwhile, the two top investment destinations in 2012 were unchanged from 2011: China and the USA, in that order. But Brazil rose from the sixth spot in 2011 to third place in 2012, and Russia from eighth to sixth. A large percentage of the CFOs cited China's market size as a key advantage, although rather fewer of them were attracted by cheap labour. Incidentally, investment in the USA, the UK and Germany saw a collective rise in 2012.

You mentioned China as the top investment destination. How is BDO positioned in that country?

BDO now employs over 7,500 people in China, where we have a 10% market share. We appointed a new CEO Asia Pacific in 2013 in order to help us continue growing in the Asia Pacific region, and of course in China. We fully expect our Chinese firm to carry on growing as a result of increasing investment in China, as well as the international expansion of Chinese companies.

BDO is fully committed to supporting our Chinese firm and the wider progression of the Chinese accounting profession. But the attraction of China as an investment destination remains tempered by challenges. In 2012, the World Bank's Ease of Doing Business ranking saw China as 91st (lagging behind the likes of Rwanda and Kazakhstan). The views of the CFOs we spoke to also confirmed this assessment, with cultural and language barriers and ethics identified as the key risks when expanding into China.

However, I am always encouraged by conversations with the Ministry of Finance and the Shanghai Finance Bureau during my frequent visits to China. It is apparent that measures are being taken to address some of these challenges and facilitate doing business in China, and for accounting in particular, there is a clear focus on delivering better quality audits through ensuring more transparent financial reporting, together with making sure auditors are capable of delivering them. There is also a real interest in improving the Chinese accounting industry by learning more from international practices and networks. I am proud of the fact that BDO

“In the last ten years our revenues have almost tripled to US\$6 bn in 2012 and the number of countries we are represented in went up from 100 to 138.”

MARTIN VAN ROEKEL

is contributing towards this drive by sharing our knowledge and expertise at a local and international level.

It's obvious how much time and effort BDO puts into researching changes in markets, regulatory and political developments, and then communicating this knowledge to the outside world. How important is communication in your business?

I think we need to distinguish between external and internal communications. From an internal, network viewpoint, it is very important that our global office communicates with our firms as well as facilitating effective communication between them. The success of our network is partly based on BDO firms being able to share best practice, knowledge and expertise around the globe. Internally, you can't over-communicate: people feel they're part of a truly international network when they are regularly informed about what's going on.

Externally, we communicate both at global and national level through press releases, sector-specific information, performance credentials and our web sites. In this way, clients get the best possible information as our partners keep them up to date and informed on specific tax, accounting and regulatory issues. That's proactive communication that delivers exceptional client service through information that is of particular relevance to a client's business situation.

In the year BDO celebrates its 50th anniversary, how do you see the future of BDO?

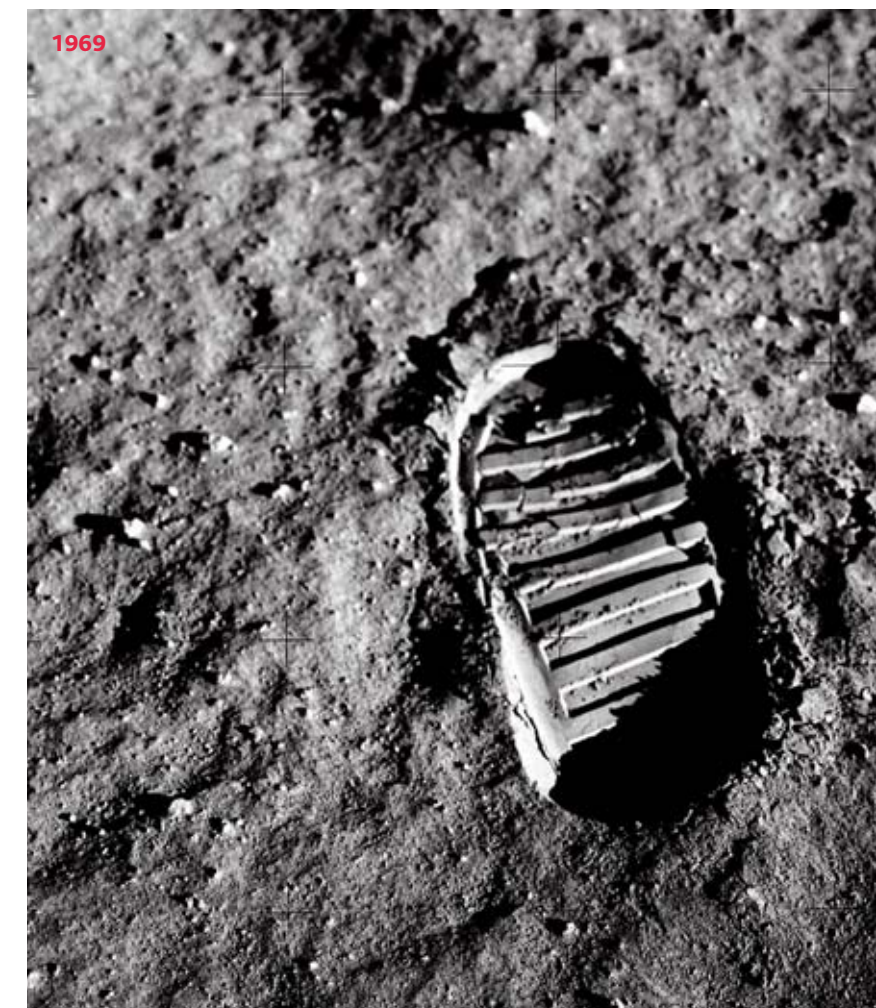
In the last ten years alone our revenues have almost tripled – from US\$2.4 billion in 2002 to US\$6 billion in 2012. I'm confident that we can continue our growth in years to come and am expecting revenues of around US\$10 billion five years from now. An enormous contribution to that growth will come from Asia Pacific – and especially China. 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 make a contribution as well. This growth in revenues will be accompanied by a significant increase in partners and staff, as well as in the number of countries we are represented in. That number went up from 100 countries in 2002 to 138 in 2012, and I believe we can grow to somewhere between 150 and 160 within the next three years.

But 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 all our countries. 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.

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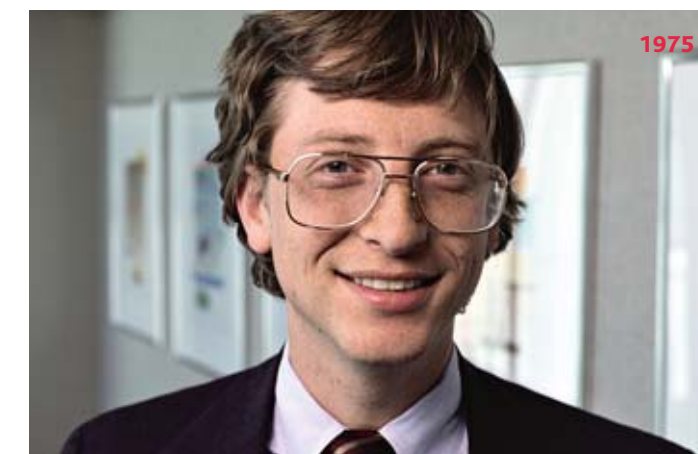
THE FIRST DECADE

1963 A decade of rapidly expanding world trade and increasing prosperity in the USA, West Germany and Japan, but of growing problems for 'mature' economies such as the United Kingdom. Foundation of the Organisation of African Unity (OAU) by the leaders of 31 African countries, reflecting the growing number of African states who had secured independence from colonial rule. Increasing internationalisation, a shift of focus towards future-oriented business management and the beginnings of electronic data processing in the business world all impact on the accounting business. **Formation of BSIG (Binder Seidman International Group), the forerunner to BDO**, in order to "facilitate the provision of a comprehensive international service" the five founding member firms (from Canada, Germany, the Netherlands, the USA and the UK) respond to the increasingly international nature of their clients' business and explicitly emphasise that the "members should all remain independent of each other and autonomous ... and the highest standard of professional work ... be maintained throughout the Group". French President Charles de Gaulle rejects Britain's application to join the European Economic Community (EEC). Release of the Beatles' first album marks birth of modern pop music industry. US President John F. Kennedy assassinated. **1964** First computer programme written in BASIC programming language. Civil Rights Act abolishes racial segregation in the USA. Vietnam War escalates through direct US military intervention. **1965** Singapore leaves the Malaysian Federation and becomes an independent country. World population: 3.33 billion. End of the 2nd Vatican Council – the catalyst for far-reaching reforms in the Catholic Church. **1966** Cultural Revolution commences in China. Red Guards supported by Mao Zedong unleash a wave of attacks on writers, scientists, 'reactionary bourgeois' elements in society. A Russian space probe becomes the first projectile from earth to reach Venus. Soft landings on the moon by Russian and US spacecraft. Birth of a billion-dollar industry: while waiting at a bus stop Ralph Baer writes down the basic principles of a video game to be played on a television. **1967** First automatic teller machine (ATM) put into service by Barclays in London. Pocket calculator invented by Texas Instruments. Commission of the European Community formed from the European Coal and Steel Community, the EEC and EURATOM. **The name of what is to become BDO is changed to Binder Seidman Thorne International Group (BSTIG) to take account of the growing international importance of the Canadian partners;** appointment of a permanent secretariat in London with the aim of "keeping members informed of major developments in the international accounting field; assisting member firms in negotiations with each other; and developing the interests of the Group in other possible ways". **1968** Assassination of Martin Luther King leads to race riots in the USA. Troops from the Soviet Union and other Warsaw Pact countries invade Czechoslovakia and crush the Prague Spring. Japan becomes the world's third largest industrial nation. First successful heart transplant operation performed in South Africa by Dr. Christian Barnard. Maiden flight of the Boeing 747 jumbo jet. Nuclear Non-Proliferation Treaty signed by the USSR, USA, UK and 59 other countries. Apollo 8: first manned space mission to orbit the moon. Rising imports of Japanese cars to Europe and USA cause concerns about the impact on domestic car industries. **BDO forerunner publishes its first World Directory to provide clients with an overview of the composition of the Group in its six countries;** secretariat replaced by an Executive Committee in order to "improve the profile of the Group ... develop strategic concepts ... and to take all necessary steps to coordinate and intensify relationships between individual member firms"; group expands to include France. **1969** Neil Armstrong becomes the first man to set foot on the moon and utters the famous words: "One small step for man, one giant leap for mankind". Increasing opposition to the war in Vietnam, not just in the USA. Rising inflation becomes a global problem. Formation of the Andean Pact: a South American trade bloc comprising Bolivia, Colombia, Ecuador and Peru. Military putsch led by Colonel al-Gaddafi overthrows the monarchy in Libya. Invention of ARPANET, the technical core of what will become the Internet. **1970** Nuclear Non-Proliferation Treaty comes into effect. Invention of the liquid crystal display (LCD). Concorde makes the first supersonic passenger flight. West German chancellor Willy Brandt eases East-West tensions during the Cold War. Salvador Allende, a Marxist, is elected President of Chile. **1971** The People's Republic of China is finally admitted to the United Nations as the representative of China after 21 years of refusals; Taiwan is simultaneously expelled. Britain and Ireland switch to a decimal currency. West Germany and the Netherlands temporarily float their currencies against the US dollar to combat a financial crisis in Western Europe caused by an influx of US dollars. Oil production from the North Sea begins in Norway. Greenpeace is launched. 90-day freeze on wages and prices introduced in the USA in an attempt to control inflation. Invention of e-mail and the floppy disk. Sharp launches the first pocket calculator. Intel releases the world's first microprocessor, paving the way for the computer revolution. Civil war in Pakistan leads to the establishment of Bangladesh as an independent country. **1972** President Nixon visits China, thus opening up a new era in US foreign policy. US political establishment rocked by Watergate scandal. A UN Conference in Stockholm passes a pioneering "declaration concerning the human environment". **Far reaching changes occur in the "previously relaxed and somewhat complacent professional life of accountants" (Hans-Heinrich Otte), as a wave of mergers in economically important countries have a disruptive effect and many respected second-tier accounting firms are taken over by industry giants. The loss of two member firms to national mergers in the Netherlands (1971) and France (1972) leads the Executive Committee to conclude that internationally operating accounting firms working together on the basis of a relatively loose cooperation agreement no longer meet the requirements of the marketplace. Besides the six member firms, the group comprises 27 representatives and 20 correspondent firms.**



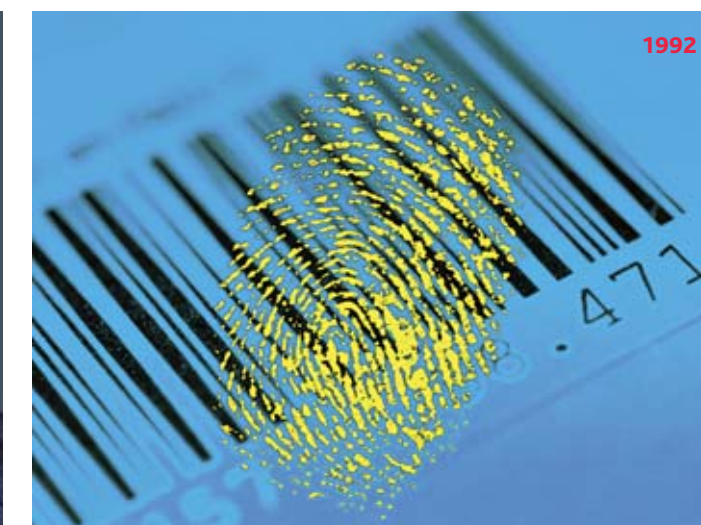
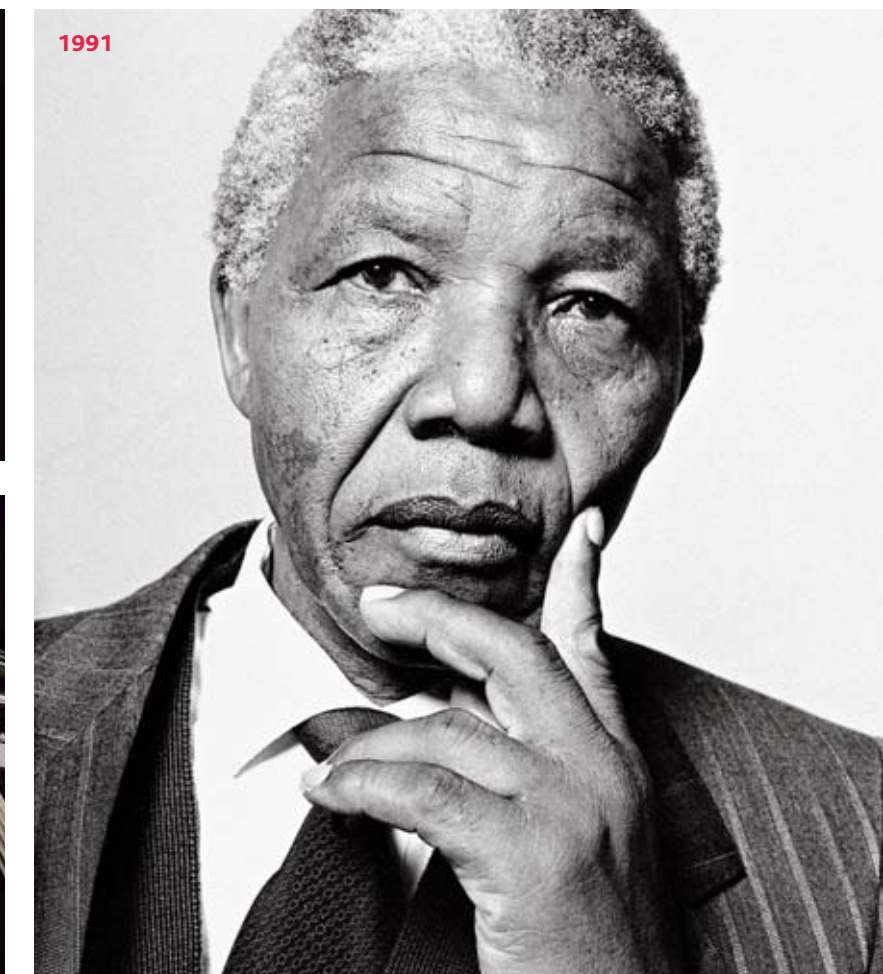
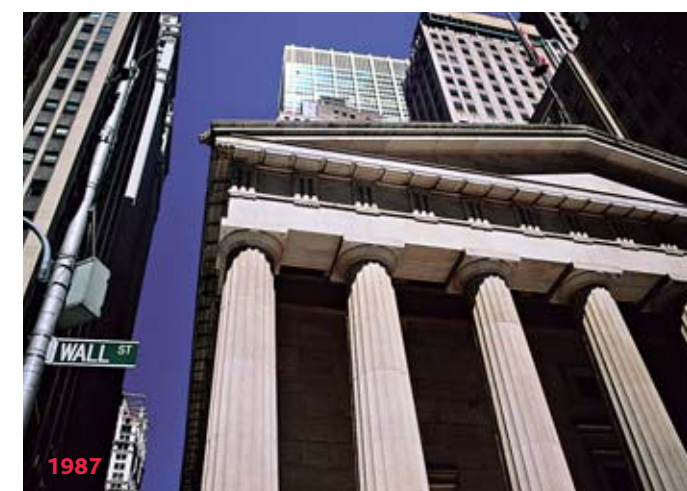
THE SECOND DECADE

1973 Increasing degree of European economic integration leads to the formation of Binder Dijker Otte & Co. (BDO), headquartered in Britain, the Netherlands and West Germany. Essence of BDO agreement: member firms, while maintaining their legal independence, agree to conduct all international business through BDO in order to provide clients with a comprehensive auditing and advisory service of the highest quality. Britain, Denmark and Ireland join the EEC. OPEC's Arab members restrict exports of crude oil to countries supporting Israel in the Yom Kippur War, resulting in a 200% increase in the price of crude oil and recession in Europe. US involvement in the Vietnam War ends. New York's World Trade Center becomes the world's tallest building as the first-ever public mobile phone call takes place in that city. **1974** Inflation reaches 11.3% in the USA and 17.2% in the UK, where a three-day working week is introduced to save electricity as strikes by coal miners cripple the power industry. Global recession deepens with fuel shortages and price increases hitting western economies. Debate intensifies on the increased use of nuclear power as a means of reducing dependence on oil. Richard Nixon becomes the first US President to resign from office following the Watergate scandal. Military putsch in Chile leads to death of President Allende and a military dictatorship under General Pinochet. Ethiopian Army overthrows Emperor Haile Selassie and introduces a socialist regime. Office workers start using a very primitive, typewriter-like word processor. **1975** Fall of Saigon and unconditional surrender of South Vietnam's government leads to reunification and establishment of the Socialist Republic of Vietnam in 1976. Price of petrol in Britain rises by nearly 70% in a year as crude oil passes US\$13 a barrel. US economy officially in recession. Bill Gates and Paul Allen set up a company called Microsoft. **1976** Inflation rampant in western economies. Steve Jobs and Steve Wozniak form Apple. IBM introduces the first laser printer. Concorde cuts transatlantic flying time to 3½ hours. Death of Mao Zedong. **1977** Between 1972 and 1977, BDO establishes a presence in Italy, Luxembourg, Sweden, Spain, New Zealand, United Arab Emirates, Portugal and Denmark. Looting and disorder in New York City after a 25-hour blackout caused by multiple power failures. Apple II computer goes on sale, making personal computers available to a much wider audience. NAVSTAR, the precursor to GPS, is inaugurated by the US Department of Defense. Opening of the Trans-Alaskan Oil Pipeline cuts US dependence on imported oil. **1978** Deng Xiaoping outmanoeuvres Mao's chosen successor to become the country's effective leader until his death in 1992; the reforms he introduces lead the People's Republic towards a market economy and enable China to become one of the world's fastest-growing economies for decades to come. Sweden bans sale of aerosol sprays because of their impact on the earth's ozone layer. After decades of near full employment, unemployment starts to rise around the world. Economical Japanese cars account for half of US automobile imports. World population: 4.4 billion. **1979** Sony launches the Walkman. Iran becomes an Islamic Republic and crude shoots up to US\$24 a barrel with panic buying making things even worse. Britain's first female Prime Minister, Margaret Thatcher, is elected, partly as a result of public discontent with the previous government's handling of various economic crises. After four Arab-Israeli wars (1948, 1956, 1967 and 1973), Israel and Egypt sign the Camp David Peace Agreement mediated by US President Jimmy Carter. First direct elections to the European Parliament. **BDO goes worldwide with a global-local name concept adopted for the worldwide organisation: BDO replaces BSI to create a single identity for the Group; very positive reaction to the realignment of BDO on its announcement in January 1980.** **1980** Japan becomes the world's No. 1 car producer and sees the launch of the first domestic camcorders and fax machines. CNN becomes the first 24-hour news station. Digital Equipment Corporation, Intel and Xerox introduce the DIX standard for Ethernet. Return to democracy in Peru as free elections are held. **BDO Member Firms are established in South Africa and Ireland, and the network now has 33 firms represented in 37 countries with 219 offices and 7,624 partners and staff.** **1981** First flight of Columbia space shuttle. The term cyberspace is first mentioned in a sci-fi novella by Vernor Vinge. Launch of MS-DOS by Microsoft and personal computer (PC) by IBM. Solidarity instigates popular protests and a general strike in Poland. British Prime Minister Margaret Thatcher begins privatising nationalised industries, a move subsequently emulated in many western economies. TGV: France introduces Europe's first high-speed train. Greece becomes the tenth member of the European Community. **1982** Launch of first CD player heralds dawn of new digital music era. Genetically engineered human insulin produced by bacteria sold for the first time. USA hit by severe recession. A computer scientist first suggests the use of a smiley or emoticon as a way of expressing emotion. Freeware introduced as a means of distributing applications that allow programmes to be copied. Significant developments on the international accounting scene with mergers leading to the formation of KMG in 1979, AMSA (later Arthur Young Europe) in 1980 and KPMG in 1986. In the course of the 1980s the 'big eight' become the 'big six'. Competition intensifies as American Institute of Certified Public Accountants (AICPA) permits advertising and soliciting clients of other organisations for the first time. **BDO network expands as the focus on Europe and North America at the beginning of the decade is broadened to create a truly global network – new firms joining between 1981 and 1989 include Argentina, Finland, Pakistan, Australia, Japan, Jersey, Korea, Turkey, Uruguay, Belgium, Peru and Norway.** European directives in 1978, 1983 and 1984 lead to extensive harmonisation of accounting practices within the European Community.



THE THIRD DECADE

1983 Launch of Microsoft Word, the world's most popular word processing programme. US unemployment rises to 12 million, the highest figure since 1941. China's population exceeds 1 billion. Deployment of US cruise missiles in Europe leads to mass protests, particularly in Britain and West Germany. End of the military junta in Argentina leads to free elections. ARPANET starts using the Internet Protocol and thus gives birth to the Internet. Lotus 1-2-3 and the IBM PC XT released. **1984** Mass protests force the military regime in Uruguay to allow free elections. First Apple Macintosh computer goes on sale. Sony produces first 3½" computer disk. Recession still a problem in the USA with 70 banks failing by the end of year. New constitution in South Africa gives Asians and Coloureds limited political rights. AIDS virus identified by French immunologist. **1985** End of military dictatorship in Brazil heralds the return to democratic rule. First .com domain name registered. Microsoft releases first version of Windows. Live Aid concerts around the world raise millions to help Ethiopian famine victims. Mikhail Gorbachev becomes Soviet leader. Governments worldwide start screening blood donations for AIDS. Schengen I Agreement starts to ease cross-border traffic within the European Community, with Schengen II completing the process in 1990. **1986** Many trouble-free years of space exploration come to an end as the Challenger space shuttle explodes shortly after take-off. Soviet Union launches the Mir space station. Breakthrough in US-Soviet arms talks heralds beginning of the end of the Cold War. Gorbachev introduces Perestroika and Glasnost reforms in the Soviet Union. Big Bang: deregulation of the London Stock Exchange allows computerised share dealing. Definition of Internet Mail Access Protocol paves the way for e-mail communications. Launch of the Human Genome Project. Portugal and Spain join the European Community. **1987** Black Monday: US Stock Market crashes, falling 508 points or 22.6% in a single day. Domino effect on stock markets around the world – even greater falls in Hong Kong, Australia and Britain. World population: 5 billion. Work on the Channel Tunnel between Britain and France begins. Clive Sinclair launches a portable computer weighing less than 1 kg. **BDO is truly global: representatives in 57 countries, almost 15,500 partners and staff, an increase in fee income of nearly 190% and referral volume up 356% since 1980.** BDO responds to wave of mergers in accounting, ensuring services of the highest quality and striving for market growth; 'unity through diversity' aptly describes the network's strong position on the global accounting landscape. **1988** Widespread strikes in Poland by Solidarity supporters. First transatlantic fibre optic cable enables 40,000 telephone calls to be carried simultaneously. First serious computer virus infects computers linked to the Internet. **BDO's International Secretariat is relocated to Brussels from Amsterdam. A corporate visual identity and a new BDO logo are introduced.** **1989** Intel releases the 486 microprocessor series to make the next generation of more powerful PCs possible. Microsoft releases Office Suite; its spreadsheet, word processing, database and presentation software still dominate office applications today. Tokyo Stock Market crashes to end a long period of strong economic growth. US Government agrees a US\$150 billion bailout for hundreds of saving and loan associations that are in financial difficulties as a result of injudicious real estate lending and easing of regulatory oversight. Free elections in Poland bring Solidarity to power. Mass protests in Czechoslovakia call for the resignation of the country's communist government. Fall of the Berlin Wall ultimately leads to German reunification in October 1990. End of the military dictatorship in Chile. Merger fever in the accounting business: number of big international accounting firms falls from ten in 1986 to seven at the end of 1989. **1990** USA hit by a severe recession, which spreads to many world economies in the next few years. Nelson Mandela is released from prison in South Africa; end of the ban on the African National Congress (ANC). Tim Berners-Lee publishes first page on the World Wide Web. First in-car satellite navigation system sold. **1991** Abolition of apartheid in South Africa. Boris Yeltsin wins first free elections in Russia's post-Soviet era and is elected President. Collapse of the Soviet Union results in ten former Soviet Republics becoming independent countries. Japan's economy enters a period of stagnation and deflation lasting for more than two decades. Mercosur (the 'Common Market of the South') is established to promote free trade and the fluid movement of goods, people and currency in Latin America; its founding members are Argentina, Brazil, Paraguay, Uruguay and Venezuela; Bolivia, Chile, Colombia, Ecuador and Peru subsequently become associate members. Internet made available for widespread commercial use and more than a million computers are linked to the net. Tim Berners-Lee introduces the first web browser. Linus Torvalds releases the first version of the Linux operating system. **1992** UN Earth Summit held in Brazil. South Africans vote for political reforms to end apartheid and create a power-sharing multiracial government. Invention of DNA fingerprinting. Maastricht Treaty signed by members of the European Community, leading to the formation of the European Union and the creation of the single European currency, the euro. **Between 1991 and 1993 BDO goes east with firms established in Russia, Czechoslovakia, Hungary and Poland. Between 1988 and 1993 BDO also strengthens both its internal organisation (new firms joined in the Netherlands and France) and its worldwide presence, in particular by expanding into Latin America with new member firms in seven countries and the Asia Pacific region, where it is now represented in twelve.**



THE FOURTH DECADE

1993 The EU's Internal Market comes into force with the aim of guaranteeing free movement of goods, capital, services and people, and leading to a significant increase in the need for independent advisory services in the accounting field. BDO has already developed advisory services covering a wide range of fields and is well equipped to exploit the business opportunities arising from the Single European Market. Ongoing efforts to enhance BDO's internal cohesion and establish a worldwide presence have proved extremely successful: **BDO represented in 66 countries with 496 offices in the year of its 30th anniversary. Firms joining between 1993 and 1999 include Austria, Thailand, Bahamas, Morocco, Tunisia, Venezuela, Gibraltar, Zimbabwe, Philippines, Bulgaria, Chile, Hong Kong, Estonia, Israel and Romania.** 53% rise in intra-group referrals since 1988 indicates efficient cooperation between member firms. New BDO Audit Manual issued to ensure greater consistency in the worldwide service provided.

1994 Formation of North American Free Trade Agreement (NAFTA) by the USA, Canada and Mexico, creating the world's largest trading block. Establishment of non-racial democracy in South Africa; election victory for the ANC; Nelson Mandela is elected President. Release of Netscape Navigator, soon to become the world's leading web browser. **National mergers result in the previous BDO Member Firms in Austria and Britain leaving the network, but the gaps are soon filled and 13 UK offices opt to stay with BDO.**

1995 Javascript used for the first time. Release of Windows 95. Britain's oldest investment bank Barings collapses after a securities broker loses US\$1.4 billion through speculation on the Tokyo Stock Exchange. Austria, Finland and Sweden join the EU.

1996 Number of Internet host computers rises from 1 to 10 million in 12 months. Launch of the Internet Explorer 3 web browser, Java programming language and eBay. IBM's Deep Blue computer defeats world chess champion Gary Kasparov. Federal Reserve Chairman Alan Greenspan questions whether the stock market is overvalued. The Andean Pact becomes the Andean Community of Nations (CAN) comprising Bolivia, Colombia, Ecuador and Peru. **BDO's international Policy Board develops a common general mission and strategic goal for the network: to be the leading adviser worldwide dedicated to entrepreneurial businesses, and the people behind them.**

1997 After decades of growth rates in excess of 7% p.a., the Asian Tigers – Taiwan, South Korea, Singapore and Hong Kong – are hit by the Asian financial crisis; all four economies rebound strongly in the 2000s, with South Korea – the worst hit of the Asian Tigers – tripling its per capita GDP in dollar terms since 1997. Kyoto Protocol signed by 150 countries at global warming conference in Japan. Microsoft becomes the world's most valuable company. The UK returns Hong Kong to China.

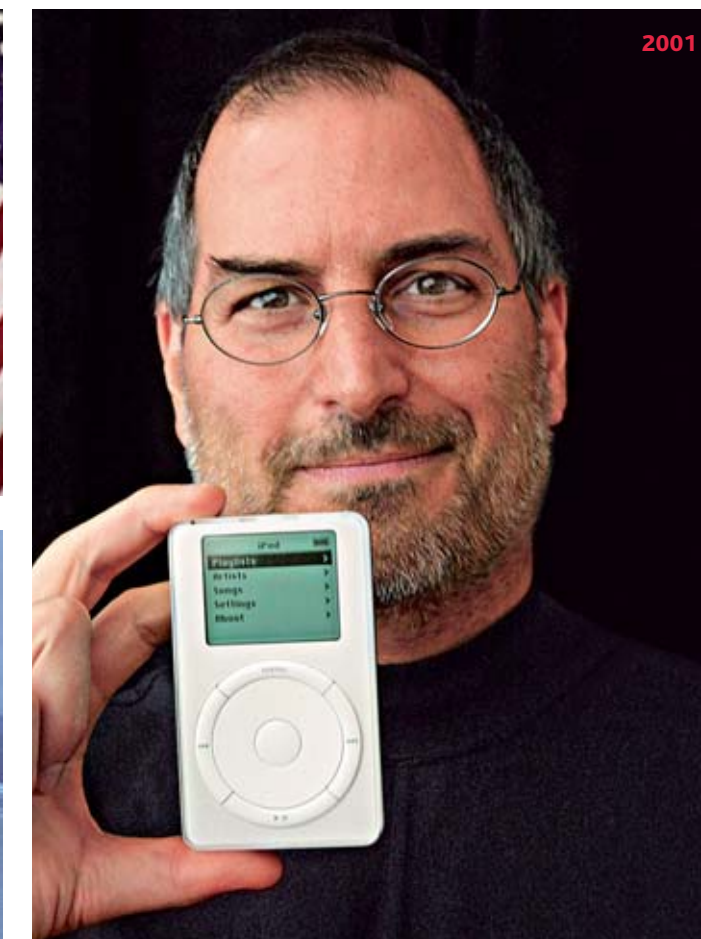
1998 Financial crisis hits much of SE Asia. USA announces first budget surplus in 30 years. Japan's economy goes into recession and Japanese banks have to be rescued following the collapse of the property market. European Central Bank established in Frankfurt. Exxon and Mobil merge to form the world's largest petroleum company. Formation of a company known as Google. Culmination of consolidation process in accounting business with the merger of Coopers & Lybrand and Price Waterhouse creating the world's largest accounting organisation; the industry's giants are now known as the 'top five'.

1999 World population reaches 6 billion. E-mail virus infects more than 1 million computers and clogs up e-mail systems worldwide. **BDO continues to increase the number of member firms with the aim of achieving closer proximity to its clients: 88 members with 532 offices and 18,515 partners and staff by the end of the year, and a 43% increase in total business volume since 1995.**

2000 Concerns about Y2K prove groundless as new millennium dawns without predicted computer failures and malfunctions. DotCom bubble bursts. BDO is unaffected by the various merger activities of recent decades since its independence has been preserved and the opportunities arising from changing market constellations successfully exploited. Never tempted to go for growth simply for growth's sake, BDO sees the interests and requirements of its clients as being paramount in matters of size.

2001 BDO's combined fee income reaches US\$2,203 million, an increase of over 65% in the five years since 1996. 9/11: The USA declares war on terrorism after al-Qaida terrorists crash hijacked aircraft into New York's Twin Towers and the Pentagon. Wikipedia goes online. **BDO improves its worldwide ranking amongst accountancy networks from seventh to fifth as a result of the disappearance of some larger competitors through the PwC merger. Apple releases the iPod and Microsoft brings out Windows XP.**


2002 BDO moves into China, acquiring a Shanghai-based firm in 2001 and another in Beijing in 2002. Introduction of the euro in 12 member states of the European Economic and Monetary Union: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain. Collapse of Enron leads to disintegration of the world's fifth largest accounting organisation, Arthur Andersen LLP, as a result of its role as Enron's long-term auditor. False accounting at WorldCom ("the largest case of business fraud in US history") results in extensive calls for widespread reforms in the accounting business. **BDO comprises 100 member firms, is represented in virtually all the world's economically important countries, and occupies a unique position between the largest four networks and mid-tier accounting firms.**



THE FIFTH DECADE

2003 At the start of its fifth decade BDO expresses its mission to be "a worldwide network of professional firms serving global and national businesses", specialising in "growing business and the people behind it", and striving to become the leading adviser in its market sector of growth-oriented medium-sized businesses. Key operational sectors remain unchanged: auditing, national and international tax advice, and management consultancy. US interest rates fall to a 45-year record low of 1% and the core inflation rate to a 37-year record low of 1.3%. The Human Genome Project is successfully completed. **2004** Largest-ever expansion of the EU with the admittance of Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia as member states. Launch of the social networking site Facebook – initially only for students at Harvard University. Google's IPO raises US\$1.67 billion. **BDO launches its first brand strategy: "a way to do business". 2005** Oil prices rise sharply due to trouble in the Middle East and Hurricane Katrina, which devastates the coastal areas of Louisiana, Mississippi and Alabama. The Kyoto Protocol comes into effect, but is not ratified by the USA. First flight of the Airbus 380 'superjumbo'. **2006** Apple iTunes sells its billionth song. Google purchases YouTube for US\$1.6 bn. Twitter is launched. **2007** Bulgaria and Romania join the EU, which is now made up of 27 member states. The Bank of England is forced to bail out the UK's fourth-largest mortgage company, Northern Rock; it becomes Europe's first bank to be taken into public ownership in 2008. The US housing bubble bursts with year-on-year prices dropping by 2-15%, causing numerous foreclosures. Apple launches the iPhone. **2008** Cyprus and Malta adopt the single currency, joining the 13 other countries in the euro zone. Property prices continue to fall on both sides of the Atlantic, causing financial problems for both homeowners and financial institutions. **A new report, commissioned by BDO UK and the world-renowned London School of Economics, reveals that concentration in the audit market is directly linked to higher audit fees.** Oil hits a record high of US\$147 a barrel as economies around the world struggle with rising inflation and unemployment. Lehman Brothers files for bankruptcy. Formation of the Union of South American Nations (UNASUR), an intergovernmental union integrating the two existing customs unions, Mercosur and the Andean Community of Nations; modelled on the European Union, UNASUR reflects the ongoing process of South American integration. **Newly appointed CEO Jeremy Newman announces the creation of a new Global Leadership Team – an entirely new approach for BDO. 2009** Slovakia joins the 15 other European countries using the euro. The financial crisis worsens, house prices continue to decline in many mature economies and the recession deepens. Governments start pumping trillions into their economies and financial systems to try and ward off the worst slump since the Great Depression of the 1930s. The Icelandic banking system collapses. The economies of the Asian Tigers, in contrast, rebound strongly from the financial crisis, partly thanks to fiscal stimuli introduced by their respective governments. The EU's member states adopt the Treaty of Lisbon. The use of mobile phones and smartphones booms as 3G networks and improved operating systems become more widespread. **2010** The financial crisis continues as house prices continue to fall, foreclosures increase and unemployment levels rise sharply in most western economies. European and US governments follow different policies to address the crisis: European governments tackle their budget deficits whereas the US tries to spend its way out of recession through job creation measures. India, in contrast, records an annual growth rate of 8.5% in 2009 and 10.5% in 2010, while China does even better with annual growth rates of between 9.6% and 10.4% in 2008 – 11. Apple launches the iPad, thus establishing a new genre of handheld computers: the tablet. Android smartphones begin to outsell iPhones. **The BDO brand is strengthened when all member firms adopt the single global trading name, BDO, and a new visual identity is rolled out. 2011** Estonia becomes the 17th euro zone country. The Arab Spring, an uprising in countries across North Africa and the Middle East, ultimately leads to the overthrow of the governments of Tunisia, Egypt and Libya. Uncertainty over Libyan oil production also causes a 20% hike in crude prices. Russia joins the World Trade Organisation after 18 years of negotiations. The earthquake and tsunami that hit Japan have political and economic reverberations around the world. The European sovereign debt crisis deepens as deficit-cutting measures bite in Ireland, Greece, Portugal and Spain. **BDO announces that Martin van Roekel, former Managing Partner of BDO in the Netherlands, will succeed Jeremy Newman as CEO of the international BDO network. 2012** BDO becomes the first international accounting organisation to have a Chinese representative on its Global Board. Cyprus joins the list of euro zone countries hit by severe sovereign debt problems. Unemployment hits new highs in Greece, Spain, Portugal and France, while averaging a record 10.7% throughout the euro zone. **Over the past decade BDO's global network has expanded by almost 40% and is now providing services in 138 countries, with nearly 55,000 people working out of 1,204 offices worldwide. 2013** Six of the world's ten fastest growing economies in the past ten years are in sub-Saharan Africa, with GDP growth averaging around 6% for the entire continent. About a third of this growth is accounted for by commodities, with mineral-rich economies boosted by high commodity prices. Important progress is made in other areas: most countries are at peace; record numbers of children are attending school; HIV infections have fallen dramatically; average life expectancy has risen by about 10% over the past ten years; and foreign investment in Africa has tripled. **New BDO firms join from Mongolia, Fiji, French Guiana, French Polynesia, Ethiopia and Liechtenstein. 2 DECEMBER 2013** BDO celebrates the 50th anniversary of its founding.





RELATIONSHIPS

IT'S BDO PEOPLE THAT MAKE ALL THE DIFFERENCE

At BDO we strive to seek out and develop talented people with the imagination and initiative to make a difference for our clients. The six stories in this chapter illustrate how our people and the close relationships within the international BDO network make the delivery of exceptional client service possible.

Danube City: In the area between the Danube and UN City, a modern multi-functional centre provides a striking contrast to the historic heart of Vienna



FACTS ON GERMANY, AUSTRIA, SWITZERLAND

Manufacturing industry and tourism are two pillars of the Austrian economy. Germany is one of the world's top three export nations with its automotive, engineering and chemical industries particularly prominent. Along with tourism, Switzerland's medical, pharmaceutical and luxury watch industries have helped make it one of the world's most prosperous countries

BDO GERMANY & BDO AUSTRIA & BDO SWITZERLAND

INTERNATIONAL FORENSIC TEAM UNCOVERS FRAUD

The Supervisory Board of a leading telecommunications company in Austria suspected fraud and other malpractices in the company's business dealings from 2000 onwards. They commissioned BDO to conduct a forensic investigation, and the BDO team's report confirmed the Board's worst suspicions. Fraudulent acts were uncovered, and the case is now in the hands of the State Prosecutor's Department in Vienna.

WHITE-COLLAR CRIME IS ON THE INCREASE. Fraud, corruption, theft, financial misappropriation, balance-sheet manipulation: companies are losing millions through fraudulent acts and malversation. Markus Brinkmann, Head of Forensic & Internal Audit Services at BDO Germany and a member of BDO's Global Forensics Leadership Team, is an expert in this kind of white-collar crime: "If suspicious facts suggest that a criminal offence has been committed, the right steps have to be taken immediately." And this was precisely what the Supervisory Board of the Austrian company did. They invited forensic auditors to tender for the work, and BDO Germany's bid was successful.

"A professionally conducted special investigation is of the utmost importance in order to find out those responsible and cut the company's losses," Markus explains. This was exactly what the BDO forensic team was commissioned to do, but the magnitude of the task meant it was too much for BDO Germany alone, and so Markus added forensic specialists from BDO Switzerland and BDO Austria to his team. Moreover, the colleagues from BDO Austria brought in their local expertise as well. Ultimately, up to 30 specialists worked for up to a year on this fraud investigation, the scale of which surpassed anything ever undertaken for an Austrian company.



Forensic auditing: some 30 BDO specialists worked for up to a year on this fraud investigation

MALVERSATION SUSPECTED

What had raised the Supervisory Board's suspicions? Rumours of malpractices, malversation and fraud were rife. There was talk of bribes, kickbacks and other dubious dealings. Millions of euro were said to have been misappropriated. Markus Brinkmann's team was asked to investigate all the company's business transactions, acquisitions, property deals and consulting contracts in Austria and abroad from 2000 onwards. "We cooperated closely with the company's internal audit team and of course with the State Prosecutor's Department in Vienna," Markus says. "But, first and foremost, we applied our forensic expertise to get to the bottom of this murky business."

FRAUD CONFIRMED

After presenting an initial report to the company's Supervisory Board in November 2011, the BDO team completed its forensic audit in time for the company's AGM in May 2012. The findings were damning: millions paid to consultants with no corresponding services rendered; inadequate or non-existent documentation of contracts awarded; bills written before services were performed and backdated invoices. The financial damage inflicted on the company added up to tens of millions of euro, but none of the top managers who could have been called to account were still on the company's payroll. The Chairman of the Supervisory Board was very satisfied with the BDO team's forensic work. He was quoted in the Austrian press as saying that what had happened in the past had damaged the company's reputation and the issues had to be cleared up.

SUCCESSFUL CROSS-BORDER COLLABORATION

Although Germany, Switzerland and Austria do share a common language, there were, as Markus Brinkmann points out, "Quite significant differences in culture and mentality to overcome. But, thanks to the close collaboration we enjoy with our colleagues from BDO Austria and Switzerland, no problems of that nature cropped up in this forensic investigation. In fact, without the manpower of our Swiss colleagues and the on-the-ground knowledge of our Austrian colleagues we could not have brought our work to such a successful conclusion."

“First and foremost we applied our forensic expertise to get to the bottom of this murky business.”

MARKUS BRINKMANN



ONGOING ISSUES

While carrying out the investigations, the BDO team also moved on to initiate the remediation phase and launch a compliance programme. Remediation involves searching for solutions to the problems that led to the fraudulent acts in the first place, while the compliance programme sees BDO forensic experts acting as sparring partners for the company's own compliance office. "Both measures are designed to restore the company's reputation and, above all, to prevent such things happening again," Markus explains. The investigative excellence displayed by the BDO team in sorting out the murky past of this Austrian telecommunications company is a good example of how BDO brings expertise and experience to bear in forensic and internal auditing.



Baku, a city of over 2 million, is the capital of Azerbaijan and by far the largest city in the country



FACTS ON AZERBAIJAN

With its population of nearly 9.4 million, Azerbaijan is the largest country in the Caucasus region at the crossroads of Eastern Europe and Western Asia. The country is not only rich in oil, natural gas and numerous minerals, it also has the largest agricultural industry in the region. Azerbaijan is also an important economic hub in the transportation of raw materials. The Baku-Tbilisi-Ceyhan pipeline, for example, carries oil from the Caspian Sea oilfield to Turkey and from there to markets worldwide

BDO AZERBAIJAN & BDO UKRAINE

PITCHING IN WITH SPECIALIST EXPERTISE

BDO Azerbaijan identified an enterprise resource planning (ERP) problem at one of the country's major development and construction companies. Through the BDO network the Azerbaijani team knew that BDO Ukraine were experts in this field and had plenty of experience with this software. BDO Ukraine partners came to Baku to meet the client and successfully completed the pilot project. Delighted that the ERP problem had been solved, the construction company is now a client of BDO Azerbaijan.

A NEWCOMER IN AN ENERGY-RICH ECONOMY, BDO Azerbaijan enjoys a unique position within the international BDO network, as the firm's CEO and Managing Partner, Yunis Salayev, explains: "Unlike other member firms we are not a local accounting firm that was admitted to the BDO network. We are actually a firm that was created from scratch in 2010 by the BDO network under the auspices of the BDO Eurasia project." BDO Eurasia is a company formed by BDO and its member firms in Cyprus, Georgia, Israel, Kazakhstan, Russia and Ukraine with the aim of developing BDO's presence in the Eurasia region. These expansion plans are part of BDO's strategy to extend its global presence to cover all the world's economic centres. When BDO Azerbaijan joined the BDO network in October 2010, Azerbaijan was one of the world's fastest-growing economies. Since then, growth has seesawed somewhat, but the country continues to reap rich rewards from its bountiful energy resources. Established in a business environment rich with potential, BDO Azerbaijan nonetheless operates in a competitive business climate and is therefore proactive in looking out for new business.

KEEN EYE FOR POTENTIAL BUSINESS

Yunis Salayev explains his firm's new business strategy: "As a young firm in Azerbaijan, we focused on one of the major holding companies in the country – a construction company

that is actually one of the largest such development companies in the South Caucasus. In order to assess how best to offer them an exceptional level of service, we sought as much information as possible about this potential client's service providers, systems, products, etc., and we spotted that they had a problem with their ERP system. This Russian ERP software, known as 1C, is very common in the former Soviet countries that belong to the Commonwealth of Independent States. Since we did not have an in-house IT specialist, I immediately called upon the BDO network to see which of our firms might be able to support us. It quickly became apparent that our Ukrainian colleagues had a lot of experience with this particular software." BDO Azerbaijan is a member of BDO's Europe Group G constituency, which holds regular meetings to exchange information and know-how, share best practice and cooperate on regional projects. As a result of this regular contact, Yunis Salayev is well aware of the specialist capabilities that each of the BDO firms in this group has to offer. BDO Ukraine has a subsidiary that is very familiar with 1C, so he was confident that he could offer the construction company a solution to their ERP problem.

REMOTE SOLUTION

BDO Azerbaijan contacted the construction company's top management, and BDO Ukraine partners were invited to Baku, the Azerbaijani capital, to meet the potential client. After touching base with the technical staff directly responsible for the 1C software, the BDO team was able to convince the client that they could solve their ERP problem and handle the project. The result was a contract for a pilot project, which gave BDO the opportunity to introduce themselves and demonstrate their skills. Thanks to their 1C competencies, BDO Ukraine's specialist subsidiary was able to solve the ERP problem remotely from Kiev – to the client's complete satisfaction.

“What happened with this construction company is a good example of how beneficial collaboration within the BDO network can be.”

YUNIS SALAYEV



BDO Ukraine's expertise in Russian software solved the Azerbaijani construction company's ERP problem



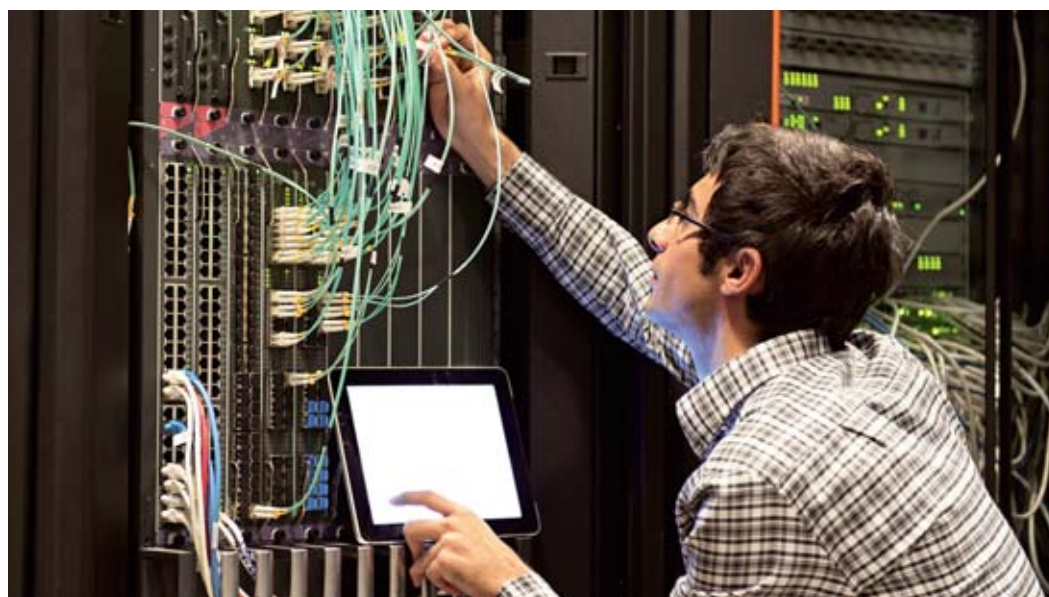
The Russian Orthodox St. Sophia Cathedral in Kiev, the Ukrainian capital, is a UNESCO World Cultural Heritage Site

POSITIVE KNOCK-ON EFFECTS

By solving the ERP problem, BDO had opened the door to follow-up business, including a second contract with the construction company. What is more, having identified the potential for new business in the ERP field, BDO Azerbaijan and BDO Ukraine decided to launch a project to develop a 1C configuration tailored to the needs of Azerbaijani businesses, and to offer it to the market on a broader scale.

EFFECTIVE NETWORK COLLABORATION

"Although we have only been in the market for three years, BDO Azerbaijan is already the country's sixth-largest accounting firm," Yunis Salayev reports with a justifiable hint of pride. "And what happened with this construction company is a good example of how beneficial collaboration within the BDO network can be – both for the client and for us. We did not train our people in this particular specialisation because ERP is not our core competence, but we were able to rely on the expertise and experience of our colleagues in Ukraine. And that was a door-opener to a new client relationship."





The Puerto Madero waterfront in Buenos Aires: the old docks are now home to some of the city's most striking architecture

BDO ARGENTINA & BDO JAPAN

EXCEPTIONAL SERVICE WORLDWIDE



FACTS ON ARGENTINA

Argentina is South America's second-largest country, third-largest economy and the world's eighth-largest by land area. The country's economic potential is founded on its market size, levels of foreign investment and high-tech exports. Argentina has a very high rating on the human development index and boasts five Nobel Prize winners, more than any other Latin American country

How good is a global accounting network? How well can it work for a company with worldwide operations? Servicing a client with headquarters in Argentina and offices in Japan is as good a test as any. One obvious difficulty is the 12-hour time difference. Another less foreseeable one, in this particular case, was a change in the client's Japanese management, which left the BDO team with no client contacts and doubts about whether this Sarbanes-Oxley consultancy project would continue. Despite the adverse circumstances, BDO Argentina did not withdraw its support team. The client appreciated this ongoing support in a critical situation – and is still with BDO ten years later.

THE SARBANES-OXLEY ACT, A US FEDERAL LAW ENACTED IN 2002, set stricter standards for the top management of US public companies and public accounting firms. The bill was passed in response to major corporate and accounting scandals such as Enron and WorldCom. Sarbanes-Oxley (SOX) requires top management to personally certify the accuracy of financial information. It also strengthened the independence of outside auditors and introduced more severe penalties for fraudulent financial activities. SOX-type legislation has subsequently been enacted in various other countries, including Japan, Germany, France, Italy, the UK, India and South Africa. In other words, SOX compliance has become a critical issue for globally operating companies.

GLOBAL SOX BUSINESS IN ARGENTINA

There are around 20 companies with headquarters in Argentina, subsidiaries abroad and a listing on the New York Stock Exchange. Since SOX compliance was mandatory for these entities, BDO Argentina created a team of more than 100 professionals whose specific task was to support them. More than ten of these companies engaged BDO's SOX consultancy services and one of them, a leading global manufacturer of tubes for the oil and gas industry, asked BDO Argentina to support its headquarters in Buenos Aires.



Claudio Doller, a senior partner and commercial director at BDO Argentina

Aires as well as its global locations in Japan, Venezuela, Brazil, Uruguay and Italy. The work involved designing the accounting processes required to ensure SOX compliance, and initially focused on the global headquarters in Buenos Aires. After approval was received from an external auditor and the client for the processes BDO proposed, they had to be adapted to meet the needs of the company's remaining offices and foreign subsidiaries. BDO Argentina coordinated the tasks performed at every global location and reported on developments to the company's board of directors in Buenos Aires. A multinational team of BDO specialists from BDO Argentina, together with the BDO offices in each location, was assembled to carry out the necessary tasks. This is what any global organisation might be expected to deliver. But the true test of how well the BDO network functions worldwide took place in Japan.

TRYING CIRCUMSTANCES

Japan and Argentina are 12 hours apart, flights take around 24 hours, and the cultural differences are vast. BDO's Argentine client had offices in Tokyo where SOX compliance services were just as much needed as at the more convenient locations of Uruguay, Brazil and Venezuela. Ultimately, BDO's Japanese engagement for this client would last four years and involve a team of three to four people from Argentina and three from Japan. The work schedule was tough: five weeks in Tokyo, three weeks in Buenos Aires, and then back to Japan. Moreover, the task itself was far from easy. At

that time, Japanese companies still viewed SOX compliance as an unusual requirement that was very different to their accustomed way of doing business. This meant that sensitive intercultural integration skills were required of the BDO team as well.

ADDITIONAL SETBACK

BDO's work in Japan was supervised by the client's local management and subsequently monitored by staff at the headquarters in Buenos Aires. Six months into the Japanese SOX compliance project, the BDO team suffered a serious setback when the client decided to change its Japanese management. All of a sudden, there was no local contact that BDO in Tokyo could consult or call on to supervise their work. When the new management personnel were finally appointed, they asked BDO for some time to evaluate what had already been done – only then could they say whether the project would continue. At the same time, the client in Argentina asked BDO for more time to carry out an internal reorganisation. BDO had to consider carefully how to respond.

SOX ACT

The US Sarbanes-Oxley Act (SOX) set stricter standards for the top management of US public companies and public accounting firms. SOX compliance is mandatory for foreign companies listed in the USA



The client featured in this story is a leading global manufacturer of tubes for the oil and gas industry



“Our attitude demonstrated our full collaboration and understanding of our client’s difficult situation.”

CLAUDIO DOLLER

Tokyo: Close cooperation between BDO Argentina and BDO Japan provided the client with invaluable support during a crisis



GLOBAL CLIENT SERVICE IN ACTION

Maintaining a team of Argentinean consultants in Tokyo is expensive. Staying in close contact by phone or videoconference is extremely difficult in view of the 12-hour time difference. But ultimately it was the fluid communication between BDO Argentina and BDO Japan that proved crucial. In spite of the many cultural differences, both offices supported each other to the full and decided to maintain the joint team in Tokyo at BDO Argentina’s expense. A week later, during a videoconference held at 05:00 Argentinian time / 17:00 in Japan, the client informed BDO that no decision had yet been taken as to whether the project should be resumed or discontinued. BDO Argentina and BDO Japan then discussed the economic and technical risks involved and agreed to maintain a minimum support team between them to ensure project continuity in case the client did decide to go ahead. Claudio Doller, senior partner and commercial director at BDO Argentina, explains BDO’s course of action in this tricky situation: “We always tried to stay close and be absolutely clear in our communications and opinions, stating our support of the project and our confidence in the work done – both towards our client and between the team members. Our attitude was intended to demonstrate our full collaboration and understanding of our client’s difficult situation.”

FAVOURABLE DECISION

At a weekly meeting with the client’s global management in Argentina to assess project development at all global locations, a decision on the Japan case was finally announced. Claudio Doller: “The client told us that after a comprehensive evaluation of the project, they had decided to carry on with us. Although they had detected some issues that demanded attention and amendment, they made it clear that what they particularly appreciated was BDO’s full support, in spite of some residual doubts. This meant a lot to the client because, even during this crisis, we were right there supporting them.”

Since then, BDO Argentina has worked for this client on various projects. And even now, ten years on, the client still remembers BDO’s commitment and support in those difficult times.



The BDO office building in Córdoba, the second-largest city in Argentina



BDO is engaged in 54 African countries. Here Abel Myburgh is seen travelling through Namibia

BDO AFRICA

AN EFFECTIVE PARTNER IN DOING BUSINESS IN AFRICA



FACTS ON AFRICA

Africa is perceived as a poor continent. That is no longer true. Africa is actually one of the wealthiest continents in terms of natural resources, and in particular valuable minerals and commodities

The business world is waking up to the fact that right now Africa is the fastest-growing continent. But companies looking to invest or do business in Africa have to overcome numerous cultural, legal, financial, infrastructural and risk management challenges. That is where BDO's Africa Desk can help, by supplying country-specific and tailored advice and assistance across the entire continent.

SIX OF THE WORLD'S TEN FASTEST-GROWING ECONOMIES in the past decade are to be found in Sub-Saharan Africa and a number of African countries have recorded more than 5% growth in income per person since 2007. Although levels of wellbeing – GDP per person – have not always kept pace with economic growth, numerous African countries have also seen a significant improvement in wellbeing over the past five years. They include Angola, Congo, Ethiopia, Ghana, Lesotho, Malawi, Mozambique, Nigeria, Rwanda, Tanzania, and Uganda. About a third of Africa's GDP growth – which averages approximately 6% for the entire continent – comes from commodities, with mineral-rich economies boosted by today's high commodity prices.

But important progress has also been made in other areas: most countries are at peace; record numbers of children are going to school; mobile phones are revolutionising the economies of many African countries (e.g. banking in Kenya); HIV infections have fallen dramatically; average life expectancy has risen by around 10% in the past decade; and foreign investment in Africa has tripled. For companies wanting to invest in Africa BDO's Africa Desk plays a key role.

THE CLIENT'S FACE IN AFRICA

From a base in Johannesburg, BDO's Africa Desk acts as the one-stop go-to adviser for any company wanting to set up in Africa, advising on the most efficient way of establishing business in every African country (except Somalia). This service includes an examination of the accounting, tax, legal, statutory and exchange control requirements in each country – all coordinated from a single office in South Africa. For organisations looking to capture the opportunities that Africa offers, the BDO Africa Desk helps to

minimise the risk and maximise the potential by supplying local knowledge, expertise and, crucially, the right contacts. BDO's 2012 Ambition Survey found that finding local people with the right skills was the biggest challenge for companies investing overseas. The BDO Africa Desk's business advisers bring country-specific, tailored advice to businesses facing the challenge of efficiently administering multiple operations within and across the varying social and business cultures of this far from homogeneous continent.

BROAD SERVICE AND INDUSTRY PORTFOLIO

The services BDO offers across Africa include auditing, assurance and accounting, tax consulting and compliance assistance, corporate finance and advisory, corporate structuring, risk advisory, entity incorporation and registration, legal, payroll, expatriate and immigration assistance, IT assurance and consulting, wealth management and financial services. This service portfolio is executed by BDO Member Firms operating in 25 African countries and carefully chosen referral firms independent of the BDO network in a further 29 countries. The industry sectors they cover include health, non-profit organisations, IT and telecommunications, broadcasting, mining, oil and gas, construction and property development, engineering and payroll.

MULTINATIONALS CHOOSE BDO

Abel Myburgh, BDO's Africa Desk Coordinator, knows why multinational companies are using BDO in Africa: "Our Africa Desk offers a single contact point and that means fast turnaround times. Our extensive and stable network gives them an in-country presence so we are not working from some vaguely-defined regional hub. Our experience in Africa is second to none and each of our wide-ranging service offerings deliver high standards at competitive fees."

His colleague John Spencer, until recently Managing Partner of BDO South Africa, reports on just one year's work: "We had over 300 requests to do work in Africa, both in countries where we have offices as well as those where we do not. Effectively, it is a very short line of communication to come to the Africa Desk, from where we coordinate assignments in multiple countries at the same time. This would be impossible for any other adviser or client to do because they would have to go one-on-one to Mali, or to Benin, or Ethiopia, etc. As a result of the short line of communication, we have been very successful in getting results quickly. For instance, if you want to set up a permanent establishment in a country, we can do it within two weeks (it's worth noting that for bigger firms, which usually act from a regional hub, this takes three to four months).



The BDO office in Johannesburg from where the BDO Africa Desk is coordinated

BDO IN AFRICA

BDO has Member Firms in 25 African countries and referral firms independent of the BDO network in a further 29



“Africa is now a global investment hotspot, but it is full of surprises for the unprepared.”

ABEL MYBURGH, BDO'S AFRICA DESK COORDINATOR

Tax compliance assistance in Africa: the Botswana tax collector used to sit under a tree when he came from Orapa



We have people on the ground in all the countries and have reached a stage now where we know and have rated the quality of the non-BDO firms. That means we are finding solutions for large multinational clients in locations where, by and large, there are no accounting offices of note from the bigger firms.”

TEN MOST COMMON INVESTMENT MISTAKES

“Africa is now a global investment hotspot,” Abel Myburgh says, “but it is full of surprises for the unprepared.” BDO knows from its 2012 BDO Ambition Survey that there are a number of factors impacting on companies when they consider global expansion – into any territory. When the CFOs in BDO’s 2012 survey were asked what would have most impact on their company’s ability to expand abroad, most cited macro-economics as having the potential for the greatest effect.

Lack of knowledge and planning: Many investors regard the African continent as a single business regime, whereas there are over 55 countries, each with its own rules and regulations

Not knowing the business culture: Foreign investors may unwittingly disrespect local cultural norms, with negative consequences for their business

Unrealistic expectations: A negative impact on contractual deliverables may well result

Type of business entity: In certain countries it is mandatory to register a business entity, and in most countries a Permanent Establishment (PE) regime is required

Minimum share capital: Statutory minimum share capital requirements can vary from US\$500 to US\$1 million

Local participation: The inclusion of local shareholders and directors may be mandatory in newly established companies

Foreign exchange regulations: Some countries do not permit all of the profits and investments from a project to be repatriated

Direct and indirect taxation: Import duties in particular require a good deal of homework.

Taxation of employees: Tax residency issues may be triggered if employees are present in a country for more than 183 days

Work permits: Each country has its own requirements and regulations

“Our experience shows that these mistakes can be avoided if proper planning is done,” Abel Myburgh explains. That’s just one reason why BDO’s Africa Desk has proven to be an invaluable partner in doing business in Africa.

SUCCESS STORIES OUT OF AFRICA

Abel Myburgh can point to a number of significant successes in recent times: “We coordinated the incorporation of a listed Indian telecom company in 16 African countries within six months. Subsequently, two other Indian companies were referred to us for similar incorporation. Since then, all three companies have requested accounting, statutory compliance, payroll and auditing work for these African countries.”

Besides assisting companies wanting to enter Africa, BDO’s Africa Desk has also contributed to bids emanating from within BDO’s global network. As Abel Myburgh



Abel Myburgh crossing a river in Botswana in his Land Rover



John Spencer
Former CEO BDO South Africa

explains: “We have assisted with a number of bid proposals for BDO in the USA, Canada, Australia, the UK, the Netherlands, Belgium and Norway. For example, BDO Norway’s successful Red Cross bid was boosted by our presence in Africa, and we coordinated the Africa portion of a BDO USA bid for a global statutory audit for a potential client operating in over 40 countries.”

REACHING A SAFE HAVEN

A recent survey conducted by Silk Invest concluded that most investors view Africa as a more attractive destination than some other emerging markets. Africa is undoubtedly an exciting place to do business in, but incoming organisations need an experienced pilot to navigate the shallows, narrows, rocks and reefs that bar the way to a safe haven. That is precisely the service BDO’s Africa Desk provides.

Johannesburg, the largest city in South Africa and the hub of the country’s commercial, financial, industrial and mining undertakings



New Zealand's main export industries are agriculture, horticulture, fishing, forestry and mining



FACTS ON NEW ZEALAND

New Zealand is heavily dependent on international trade, mainly with Australia, China, the USA, Japan, the EU and South Korea. The economy is focused on tourism and primary industries such as its highly efficient agriculture sector. New Zealand has huge hydroelectric resources and sizeable reserves of natural gas. In 2005 the World Bank declared New Zealand to be the most business-friendly country in the world, ahead of Singapore

BDO NEW ZEALAND

SUCCESSFUL SECONDMENT PROVES THE VALUE OF THE NETWORK

A paper wholesaler parented in New Zealand has a subsidiary in Australia. BDO New Zealand was able to provide its client with a smooth audit in Australia by seconding a specialised staff member from Auckland to first Brisbane and then Melbourne. The client was delighted that continuity was assured and profited from seamless interaction within the international BDO network.

PAGEPACK LIMITED IS AN AUCKLAND-BASED WHOLESALE COMPANY that sources and supplies papers with the highest environmental credentials to the print and design communities. PagePack's Australian subsidiary, PagePack (AU) Pty Limited, distributes fine paper, packaging paper and paperboard in Australia. In an industry characterised by cross-border price risks and international fluctuations in paper prices, and where financial risk is a complex business, BDO New Zealand delivered exceptional service to their client when they seconded a specialised staff member to the BDO office in Melbourne in 2011 in order to assist in a specific audit. The seconded staff member was industry-trained, had a very sound understanding of the client's business and risks, was proficient in the use of BDO's bespoke audit process tool (APT) and had a very sound technical background. In other words, she was just the right person for this particular client, and in 2011 the audit process went very well – but a complication arose in 2012.

PROBLEM SOLVED

Changes affecting the Melbourne and Sydney offices of BDO Australia in 2012 left BDO New Zealand with a problem, as David O'Connor, Managing Partner of BDO New Zealand, explains: "The loss of our Melbourne and Sydney firms meant we had to service this client using BDO Brisbane. Our client was concerned about the continuity of staff as well as our understanding of their industry and our knowledge of their specific situation. This was a major reason why we stepped up our service and assisted this important client by seconding the same staff member again. We needed to perform in this situation,



BDO New Zealand's client is the longest established paper merchant in New Zealand and one of the oldest in Australasia

demonstrate that we were concerned for our client and ensure they received the excellent service they were used to." So the same industry-savvy staff member was sent to undertake the audit of PagePack's Australian subsidiary in 2012.

CLIENT SATISFIED

Since the staff member understood the client, the environment and the industry, she was able to complete the audit to the client's entire satisfaction in 2012. Since then, PagePack's Australian subsidiary has returned to the new BDO Member Firm in Melbourne. "The feedback we received from the client was very positive. They commented on the complete and utterly seamless transition they encountered in undertaking that audit through using the same person," David O'Connor relates. "The client was also very happy that the transition back to BDO Melbourne was done smoothly and that our good knowledge of the client's business was handed over seamlessly and without error." The same staff member from BDO New Zealand was involved in the audit undertaken in 2013, and once again, the client was extremely pleased that first-rate business knowledge was passed on smoothly. "Since the files were handed over without a hitch and the client systems were fully explained, we were able to ensure that the client's staff were not bugged with explaining all the details over again to new staff. The audit process went extremely well – from a client and the BDO perspective."

BENEFICIAL NETWORK

"Our focus," David O'Connor says, "is on providing value to a client's business and ensuring they can perform to their optimum level. As a result – and this story proves my point – our clients are confident in the strong BDO brand, knowing that their financial objectives have been achieved with integrity by a team of supportive specialists. This example of interaction between BDO New Zealand and the BDO offices in Australia demonstrates the benefit of the network, of our people and obviously the depth of our specific industry knowledge."

"Our focus is on providing value to a client's business and ensuring they can perform to their optimum level."

DAVID O'CONNOR



Auckland, New Zealand's principal city, is home to nearly 1.4 million of the total population of around 4.5 million



Tourism continues to be a major money earner in the Caribbean

BDO CANADA & BDO JAMAICA

COLLABORATION CUTS TURNAROUND TIME



BDO IN THE CARIBBEAN

In the Caribbean it is tourism that instantly springs to mind. But dig deeper and you find lots of exciting activities, including thriving agricultural, fishing, mining and retail industries. In recent years, BDO has grown and strengthened its network in the Caribbean. In 2012, for example, BDO Puerto Rico joined the network and BDO Dominican Republic completed a milestone merger that doubled that firm's size. Moreover, BDO Suriname has the strongest accounting presence in that country. What characterises all the BDO firms in the Caribbean is their strong local ties with business and government. This ensures they can offer their clients the best possible advice in overcoming one of the challenges of doing business in the Caribbean – the lack of awareness among investors and entrepreneurs about local corporate governance and process

One of Canada's oldest actuarial practices with operations across Canada and in Jamaica and Barbados was unhappy with the slow turnaround time on audit services in Jamaica. BDO and some larger firms were asked to put in proposals. BDO Canada won the account and successfully collaborated with BDO Jamaica to deliver a much faster turnaround time. Since the client was extremely satisfied, BDO has now been auditing this client's accounts in Canada and Jamaica for three years.

ONE OF CANADA'S OLDEST ACTUARIAL PRACTICES is a mid-sized private company with offices located in major centres across Canada and the Caribbean. Over the years, the company evolved from a strictly actuarial practice to a fully integrated consulting practice spanning the full range of actuarial and related services, including financial services, pensions and benefits, investment, communications and technology consulting. When BDO Canada and a selection of larger firms were asked to propose the audits, the BDO team learned why these actuaries and consultants were dissatisfied with their previous auditors.

Stephen Spiers, a BDO Canada partner with more than 25 years experience in public accounting, explains what the issue was: "It was evident that the response time and time lag on finalising financial statements and tax filings in Jamaica was very poor under the service provider they were then working with. It was taking months, and that was just too long." The actuarial and consulting company was using two separate firms to do the work in Canada and Jamaica. "Even though they were indeed separate audits, the company believed there could be synergy effects resulting from using just one firm to do all the audit work. So obviously they were looking for a firm with competent people in Canada and Jamaica, and expected the Canadian firm to help coordinate the audit if necessary," Stephen explains.



“Even though they were separate audits, the company believed there could be synergy effects resulting from using just one firm to do all the audit work.”

STEPHEN SPIERS

NETWORK LINKS

Although BDO Canada has not worked much in the Caribbean, BDO’s international network proved invaluable in putting together a credible audit proposal. Raynold MacFarlane, Managing Partner of BDO Jamaica, was the ideal contact with over 28 years experience in managing audit engagements and extensive experience in external audits, operational reviews and business advice. Raynold met with the head of the prospective client’s Jamaican operations and BDO Canada partnered up with BDO Jamaica in a joint proposal. BDO got the nod.

EFFECTIVE SOLUTION

Collaboration between the BDO firms in Canada and Jamaica proved to be both effective and efficient. All the staff deployed on the job were fully briefed on the client’s professional environment. Clear timelines were communicated upfront and adhered to. “At BDO Jamaica we used our local knowledge to ensure efficient interaction with the client’s Jamaican staff,” Raynold MacFarlane said. “The result was a win-win situation for both the client and BDO.”

CLIENT PRAISE

BDO has now been the auditor in Canada and Jamaica for three year-ends and the client “is extremely happy with the service we have provided,” as Stephen points out. “Recently I attended this client’s Board meeting to review and discuss audit issues on the 2012 year-end. The Chairman of their Board went out of his way to comment on the level of service they have received from BDO. They are so pleased that the turnaround time on the Jamaica services has been significantly reduced and wanted to acknowledge how pleased they are with BDO.” Although BDO had never performed audit or tax compliance work for this actuarial and consulting firm before, their proposal had been convincing – and more importantly, they delivered what they promised. “The client was very happy that BDO came through like we said we would in our original proposal,” Stephen says, with justifiable pride.

Agriculture is thriving in many Caribbean countries



BDO has now been the auditor in Canada and Jamaica for three years for this company



“We used our local knowledge to ensure efficient interaction with the client’s Jamaican staff. The result was a win-win situation for both the client and BDO.”

RAYNOLD MACFARLANE

CLIENT SUCCESS STORIES

GOING THE EXTRA MILE TO ENSURE THE BEST OUTCOME FOR OUR CLIENTS

What does exceptional client service mean in practice?

The five stories in this chapter illustrate how BDO people around the world have gone the extra mile to ensure their client's success.



The Marfrig Group is a global player in the beef industry



FACTS ON BRAZIL

The largest country in South America and the world's fifth largest by area and population (over 193 million), Brazil is one of the fastest growing major economies. Its economic strength is based on agriculture, mining, manufacturing and services

BDO BRAZIL

WHERE THE BEEF IS

Big and beefy is possibly the best way to describe the multinational Marfrig Group, the world's fourth biggest beef producer and Brazil's third largest food processing company. Marfrig was also a major BDO client until the then BDO Member Firm in Brazil was acquired by a competitor in 2011, and Marfrig went too. But the only BDO man left was not prepared to throw in the towel that easily. Thanks to persistent personal contacts, the re-engagement of BDO Brazil's original client team and able assistance from the international BDO network, Marfrig was back within a year. And now the relationship is stronger than ever.

A PUBLICLY LISTED BRAZILIAN MULTINATIONAL CORPORATION with operations in the food and food service industries in Brazil and 17 other countries, the Marfrig Group ended 2012 with more than 91,000 employees in 138 production units, distribution centres and offices all over the world. From a distribution network in 150 countries Marfrig serves around 100,000 regional and global customers. The Group is engaged in the production, processing, marketing and distribution of food made from animal proteins (beef, pork, lamb, poultry and processed products), and in the distribution of other food products (frozen foods, cold cuts and sausages, fish, ready-to-eat meals, pastas, confectionery and margarines) as well as semi-finished or finished leather products. This global player was a major client not just of BDO Brazil but also of other BDO firms in a variety of countries.

A SIGNIFICANT LOSS

When in 2011 the former BDO firm in Brazil was acquired, BDO lost a major client. Esmir de Oliveira, the previous firm's international liaison and audit partner, stayed with BDO and was involved in the process of choosing the new BDO firm in Brazil. But that was not all: Esmir was determined not to let Marfrig go without a fight. And in his battle to recapture this global player, Esmir benefited not only from his good relationship with Marfrig's President and main shareholder, Marcos Molina, but also from the due diligence services BDO had provided for Marfrig's acquisitions of several meat packing companies in Latin America, the USA and a UK distributor for Europe. BDO firms in the US, UK, Ireland,



Esmir de Oliveira played a key role in bringing the Marfrig Group back to BDO

Germany, Australia, New Zealand, South Africa, the Netherlands, Argentina, Chile, Mexico and Uruguay had all been of service to Marfrig in the past. But it was the help of BDO USA that was to prove decisive in the battle to recapture the account.

A FUNCTIONING NETWORK

The most important contacts at BDO USA were Wayne Berson, who is now that firm's CEO, and the BDO office in Philadelphia. This was particularly significant since the Marfrig Group is a major player in the US food service industry through its subsidiary Keystone Foods, which supplies such big-name customers as McDonalds, KFC, Wendy's and Burger King. Keystone Foods is headquartered in Pennsylvania. BDO USA had played a key role in maintaining the pre-2011 client relationship and now threw its weight into the battle to win back Marfrig.



**MARFRIG GROUP
CONSOLIDATED
NET REVENUE:**
R\$23.7 billion

GLOBAL WORKFORCE:
more than 91,000

FACILITIES:
138 production units, distribution
centres and offices worldwide

DISTRIBUTION NETWORK:
150 countries

GLOBAL CLIENTELE:
more than 52,000 fast food
restaurants, major food service
locations, industrial food
companies and retail outlets

ANNUAL PROCESSING VOLUME:
2.2 billion pounds of poultry,
over 400 million pounds of beef,
nearly 30 million pounds of fish and
nearly 10 million pounds of pork

HEADQUARTERS:
São Paulo, Brazil

Keystone Foods, a Marfrig subsidiary, supplies such big-name customers as McDonalds, Wendy's and Burger King



Marcos Molina the President of the Marfrig Group, and Esmir de Oliveira

**“Simplicity and agility
were the differentials
that permeated our
attitudes and actions.”**

ESMIR DE OLIVEIRA

A CLIENT RECAPTURED

In April 2012, after many meetings and personal contacts, Marfrig returned to BDO. Esmir de Oliveira explains what proved decisive in the tussle: “Not only did we clearly understand the client's needs, we were also able to re-engage the original team. We hired everyone from the old team – it was a pre-condition for recapturing the client. In response to Marfrig's requirements we emphasised our experience and capabilities in servicing clients of similar size, the scope and range of our international network, our experienced team, our ability to complete the work within a shorter timeframe and deliver the audit reports on time, and our value for money fees. Simplicity and agility were the differentials that permeated our attitudes and actions.” Esmir de Oliveira convinced Marcos Molina that BDO could deliver international auditing on time through a structured scope plan and audit instructions that were prepared and approved worldwide by the Audit Committee. Important contributions from each of the relevant BDO firms highlighted the strength of the international BDO network.

PERSISTENCE PAYS OFF

Esmir de Oliveira's close relationship with the Marfrig President had been a key door opener, while the engagement, experience and expertise of BDO's Brazilian team and BDO firms from elsewhere in the network ultimately sealed the deal. BDO's focus on timely compliance with required Brazilian Securities and Exchange Commission filings and quality of work are key factors in this ongoing relationship. Today, BDO continues to serve the Marfrig Group, maintaining a core team in every country where audit-related procedures are performed. BDO not only audited the 2012 accounts but was also asked to participate in Marfrig's public offering in 2012, which involved launching bonds at the Luxembourg Stock Exchange, and in a follow-on offering in 2013.

BDO AUSTRALIA

RESPONSIVE AND QUICK-WITTED EVEN AT WEEKENDS



FACTS ON AUSTRALIA

Australia is the world's sixth-largest country by area, 12th-largest economy and fifth-highest by per capita income. It also ranks highly in terms of quality of life, health, education, economic freedom, civil liberties and political rights

What differentiates BDO from the competition, for example in tax consulting work? Tony Sloan, a Senior Partner in BDO Tax Consulting in Australia, is convinced that outstanding expertise is a given quality but "Being nimble is the key". This story of going the extra mile to ensure an exceptionally fast out-of-hours response proves him right.

AN AUSTRALIAN PROPERTY DEVELOPER wanted to get out of the property development business. BDO had been doing his compliance work, but when it came to the high-level tax consulting aspects of selling his business, the client decided to engage a legal firm for their perceived high level expertise.

Their lawyer came up with a very creative and seemingly clever solution to sell the business. As part of the solution, he suggested moving an asset from one part of the group to another (i.e. from one company to another) by means of a so-called 'novation'. A novation is a tripartite agreement whereby a contract between two parties is rescinded in consideration of a new contract entered into on the same terms between one of the parties and a third party.

Unfortunately, the lawyer had made a crucial mistake. The problem with this particular novation, as Tony Sloan explains, was that rollover relief from capital gains tax was not applicable because the solution technically involved a transaction with a third party. This meant that the intra-group transfer of the asset in question, which should have been a tax-free transaction, became liable to a substantial amount of tax. In other words, the solution suggested by the lawyer was definitely a no-goer.

Tony spotted the problem from the 'back benches' (i.e. by doing a voluntary peer review of the lawyer's advice), stepped in and pointed it out to the lawyer, who graciously acknowledged that the novation was indeed a problem. Together they informed the client. The client was understandably not amused and on a Friday night telephoned Tony and the lawyer to ask them to collectively come up with a different workable solution, backed by a written opinion, as soon as possible.

But because lawyers typically use dictaphones to record their opinions, which their secretaries then type into letters, this lawyer was unable to finalise a written opinion over the weekend. Indeed he would not have been able to finalise the opinion until the middle of the next week due to the law firm's internal 'review and sign off' procedures.

Tony immediately jumped in and said that he would be happy to take the lead role on resolving this problem and, because speed was of the essence, he offered to come up with a solution and write a detailed bullet-proof opinion over the weekend. The lawyer could then peer review Tony's work. All of a sudden, there had been a role reversal. And most importantly the client was happy, because resolving their concern – which involved millions of dollars and would otherwise have created a great deal of stress – had now been elevated way up the priority list.

Tony Sloan, Senior Partner in BDO Tax Consulting in Australia



“Being nimble is the key to being a good tax adviser - what defines exceptional client service.”

TONY SLOAN

THE EXPERT

Tony Sloan is no ordinary chartered accountant. Prior to joining BDO in 1992, he was with a larger accounting firm for about eight years and has been specialising in tax matters since 1989. He is now one of the leading tax advisers in Australia and has advised the Australian Government on the rewrite of the Tax Act, including the capital gains tax, trading stock and income provisions. He has written for numerous publications and co-authored over 200 pages of commentary in Australian Tax Practice on the highly onerous capital gains tax value shifting provisions. But most importantly, Tony is extremely hands on. Since becoming a partner in 1995, he has personally clocked up over 45,000 hours of time on clients' tax affairs – an adviser in extremely high demand. From a tax skills perspective, Tony was the ideal man to come up with a viable solution to the client's problem – but what about the timing?

THE OUT-OF-HOURS SOLUTION

Although nobody likes working over the weekend, for Tony, helping clients is not work. It is a passion and a privilege. Tony knew that a quick response was essential and, after devising an innovative and creative solution that could withstand scrutiny from the regulatory authorities, he wrote a 20-page opinion on the Saturday. He had it peer-reviewed by another BDO tax partner late on the Saturday afternoon following Tony's 'call to arms' and by 11 pm on the Saturday night, the client had received a written opinion, including a tax-viable solution.

By 10 am on the Sunday morning, the client was happy. Indeed, they were so happy that they asked BDO to complete the high-level tax consulting assignment. "We not only identified the technical mistake in the lawyer's proposal but we found a technical solution ourselves, and we were nimble enough to respond to the client's request out of hours. By marshalling our resources over the weekend, we showed the client that we were far more nimble than the law firm," Tony says, with satisfaction.

His reward was a happy client and an ongoing assignment that was technically challenging and professionally rewarding. It generated a great deal of fees, of course, but more importantly, it created goodwill and trust with the client.

So what about the law firm? Whilst now taking a back seat role, the law firm continued to work with Tony over the next few months. "It was fantastic to work in collaboration with the law firm," Tony reports. "All we wanted to do was to help the client, and we both leveraged off our different but complementary skill sets to ensure that the client got the best advice." The fact that there had been a role reversal did not create any angst between BDO and the law firm. On the contrary, it cemented a partnership that endures today, built on mutual respect and a common goal of putting clients first and being technically at the leading edge.

THE TAX-EFFICIENT SALE

As a result of Tony's pre-emptive warning about the non-workable novation solution the lawyer had devised, and the subsequent advice provided by BDO Tax Consulting over several months, the client was able to sell his business in an extremely tax-efficient



Sydney: Australia's largest city and its financial and economic hub, is also home to the world-famous Opera House

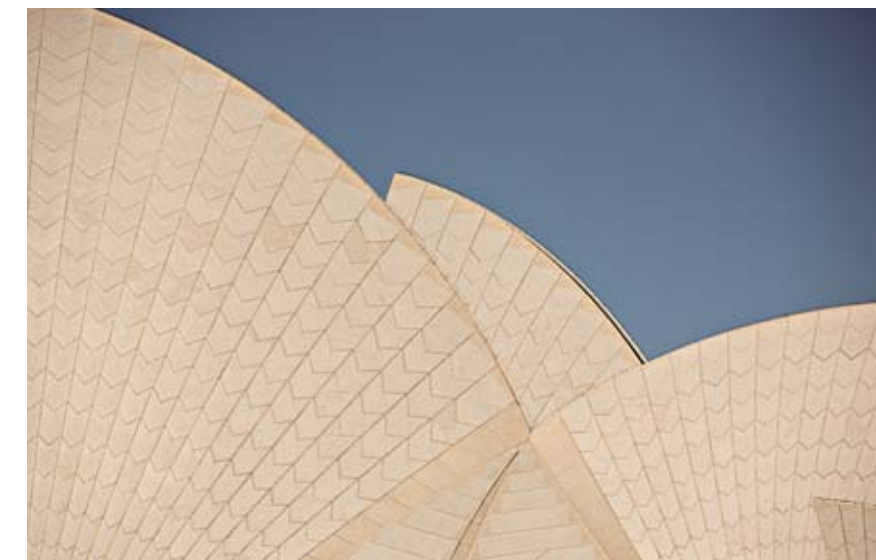
manner. "He was thrilled," Tony says, "and the after-tax result was several million dollars better than initially expected."

The Australian Tax Office subsequently audited both the transaction and the advice BDO had given. The result was no adjustment and a clean bill of health from the Tax Office for everything to do with the sale of his business. "So even though we were very creative and innovative, the transaction was ultimately approved by the Australian Tax Office," Tony points out. "It was a 'win-win'".

THE LESSON LEARNED

"My view is that being nimble is the key to being a good tax adviser," Tony says. "One of the reasons I do not work for one of the largest firms is that they are too slow. They're a bit like dinosaurs who moved too slowly and needed a large food supply. And what happened to the dinosaurs? Using out-dated technology and not being able to come up with innovative solutions quickly is no different. You have to be nimble and responsive to survive."

Tony and his BDO team certainly delivered the added value that wins over a client. It was not just their undoubted tax expertise that proved crucial but in particular, their exceptionally fast response and their passion for wanting to put the client's need first. "This has always been my view of what exceptional client service means – it has to be part of your DNA," Tony adds, "Even if it does mean many hours of weekend work."





BDO USA

GOING THE EXTRA MILE TO HELP A COMPANY ACHIEVE ITS GOALS

Biotechnology: a high potential but highly risky business

Biotechnology is a high-potential business. But it is also highly risky. Innovative products can prove to be a goldmine, but management skills are critical to their successful implementation. A US biotechnology company went through four turbulent years due to financial challenges and departures of executives, a period when, on many occasions, it looked like the company would go out of business. During these challenging times, the dedicated support of a BDO USA service team helped the company navigate through its filing obligations, its NASDAQ listing and complex equity transactions. Needless to say, the team gained the respect of the client and its outside professionals.

IN 2007, BDO USA WAS ENGAGED TO AUDIT a public New York-based development-stage biotechnology company. As BDO progressed through their audit, they discovered various issues with the historical and current accounting for certain complex debt and equity instruments. This was extremely challenging as US financial reporting standards require development stage companies to present their financial results from inception until revenue generation begins. "We were required to audit the company's financial statements from its inception in 1999 to date," says Maria Karalis, BDO USA's Country Coordinator Benelux, Cyprus & Greece and the lead audit partner of this client service team. "The client service team worked through the summer of 2007 towards an anticipated filing with the SEC in the autumn. The plan was curtailed when we were advised that the company was in default on their outstanding debentures – if the holders were to call the debt, the company would be rendered illiquid. We put our pencils down as the company was no longer in a position to implement its plan." For many firms that would have been end of story, but not for this BDO team.



USA

The United States is the largest market and leading consumer of biotechnology products in the world, and home to more than 1,300 companies involved in the industry

A TURBULENT INTERLUDE

"We subsequently stayed in contact with the management and the audit committee members, and started and stopped the audit a number of times for four (very turbulent) years. During this period, the company went through various business plans, four CEOs, numerous CFOs and consultants – and moved to California. Throughout this time the only true continuity, outside of certain Board members, was BDO," Maria says. "If we had walked away, they would probably never have been able to get audited again. Only BDO had legacy knowledge from a financial reporting perspective." The BDO client team – Maria, Luis Torres as engagement quality control partner, Natalie Verbanac as senior manager and Liza Prossnitz as SEC reviewer – stuck to their guns. Maria had a pre-existing client relationship and the team was motivated by a strong sense of obligation to the Chairman of the Board and chair of the audit committee of this biotechnology company. "With biotechnology companies it really comes down to the technology itself and the management team – plus the management team's ability to execute a business plan that brings the company's technology into the market," Maria points out. "But because of the turnover in the management team, this ship kept getting steered in different directions."

A HAPPY ENDING

"In May 2011, we were asked once again to finish the audit," Maria recalls. Two consultants began the difficult task of preparing the company's financial statements for the proposed filing with support from our two main contacts on the Board and yet another CFO and CEO. The company rolled out a new plan – but this plan was different. Although everything did not go as smoothly as it could have done, the extensive involvement of the Chairman of the Board and the audit committee chair moved the process forward. All the while the legal team, the consultants and the new management team worked in conjunction with the hard-working, dedicated BDO team with its legacy knowledge. As a result, BDO was able to complete the audits of the company's financial statements from its 1999 inception to date for filing in a registration statement on Form 10. "Our senior manager Natalie was instrumental in working with the consultants and attorneys, as well as our team, to ensure that everyone was on the same page. She was presented with a monumental task as the financial statements covered 12+ years and during this period the company had engaged in equity and debt transactions which required complex accounting," Maria reports. "Without the diligence, dedication and efforts put in by the entire BDO team, the company would have been unable to achieve their plan to complete the Form 10 filing in 2011."

After six months of audit work, the goal of filing was finally achieved the night before Thanksgiving, a major US holiday. "The company consultants and BDO were the ones worrying about how this Form 10 was going to get filed – the company pushed the button to file after midnight," Maria relates, and remembers the relief and joy felt by her entire team. The team had only a short respite. Shortly after its initial filing, the company updated the Form 10. While the rest of BDO USA enjoyed the Christmas/New Year break, Maria's team was working on reviewing the updated filing. The company's first annual report on Form 10-K was filed in March 2012 – on time. It then completed a public offering and achieved its NASDAQ listing in June 2012. "We were there as they rang the closing bell!" Maria says with pride. And yes, they continue to be a BDO client to date.



“Throughout four very turbulent years the only true continuity, outside of certain Board members, was BDO. If we had walked away, they would probably never have been able to get audited again.”

MARIA KARALIS



The BDO service team went many an extra mile for a US biotechnology company

That is what happens when BDO practices what it preaches: exceptional client service. Maria's team went the extra mile, stuck with the company through thick and thin and delivered the goods on time. This BDO client service team was with the company as it sailed into strong winds and continued with them on their sail into calmer waters. As this biotechnology company is now realizing its business potential, BDO's client relationship is a win-win for all concerned.

BDO CANADA

PROACTIVE COMMUNICATION MAKES ALL THE DIFFERENCE



CANADA

Canada has one of the world's largest and most advanced economies. Its population of around 35 million (2013) enjoys the world's ninth-highest per capita income and is 11th-highest in the UN Human Development Index list, with Canada ranking highly in international comparisons of education, government transparency, civil liberties, quality of life and economic freedom. The economy's strength is largely based on the country's abundant natural resources

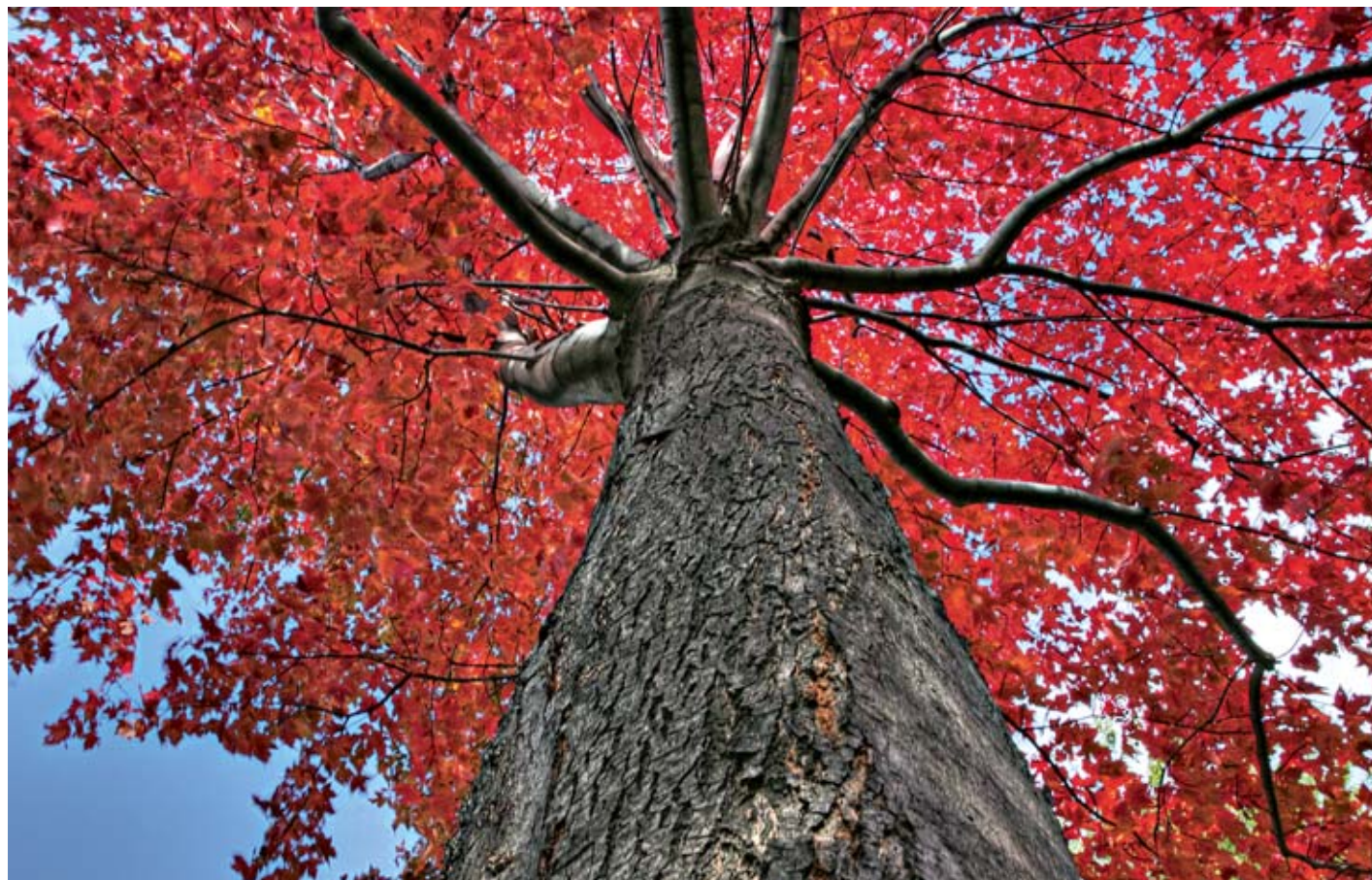
"We pitched for audit work and gave the potential client some free tax advice, but still they decided to go with one of our competitors. Yet we kept communicating with them and observing them. And then we used our specialised knowledge to leverage a small advantage into a much bigger result." Martin Hoeschele, a BDO Canada partner, never had dollar signs in his eyes when putting exceptional client service into practice for a large private equity fund. But his proactive communication style ultimately proved decisive.

A PRIVATE EQUITY FUND WAS SET UP IN 2008 to invest in mid-market Canadian manufacturing, distribution and business service companies of a certain size. One thing the companies concerned have in common is the potential to grow their market share, significantly improve their financial performance or lead consolidations in their respective sector. The fund sources capital from investors in Canada, the US and Europe and makes significant investments in the target companies. The fund managers then assist these companies in restructuring, improving their financial and operational performance and – if suitable opportunities arise – merging with competitors. Ultimately, the fund aims to sell its ownership stake at a higher price than was paid for the investment – with the higher price justified by the lasting improvement in the enterprise value of the target company. It was not just this attractive business concept that motivated BDO Canada to pitch for the fund's audit work: one of BDO's existing clients had brought a group of investors together to invest in the fund.

A FAILED PITCH – THE END OF THE STORY?

BDO Canada pitched for the fund's audit work, and was unsuccessful – despite giving the fund some free tax advice. Martin Hoeschele outlines how this came about: "From time to time funds tend to set up new fund vehicles for new investor groups, i.e. legal entities through which investors put money into the fund. In this case the Canadian fund was looking to set up a vehicle for Europe-based investors, specifically German ones, and we gave them some informal free advice on how to structure that vehicle." Despite this,

Toronto, where BDO Canada is headquartered, is the cultural, entertainment and financial capital of Canada



The national flag of Canada is also known as the Maple Leaf, which has for centuries served as a symbol of the nature and environment of what is now Canada

GERMAN KNOW-HOW

BDO Canada has a team specialising in in-bound German work, e.g. servicing the audit, accounting and tax requirements of German companies with operations in Canada

the fund decided to give the audit work to one of BDO Canada's competitors. "From what I know," Martin adds, "the fund was a break-away from another group and had a pre-existing relationship with the firm they selected as auditors. Besides, their CEO had a good relationship with that competitor's senior partner and maybe it just seemed like a safer bet to stick with the firm they had worked with before and whose name might have been better known to their investors." Sounds like the end of the story before it had even really begun – but not if you know Martin Hoeschele.

STAYING IN TOUCH

One of BDO Canada's long-standing clients had recently invested in this particular fund. Martin Hoeschele was in touch with this client for various reasons so he also made a point of keeping an eye on how the fund was developing. "This led to another opportunity to talk to the fund's CEO. I asked him how things were going, whether they were happy, and if and how our free tax advice had been implemented for a specific investor group," Martin says. There were several reasons why Martin stayed in touch, even though no client relationship existed: "First, I was keen to look after our own client's interests.

Second, I wanted to ensure that the German investors that had put money into the fund were looked after as well as possible. And third, I was curious to find out if the advice we had given had proved to be the best for that particular situation, or if the other firm had come up with something better. The latter was obviously not the case." And what was the outcome? BDO Canada was asked to take on a small assignment that involved reviewing some tax compliance issues relating to the German investors, and this was where BDO Canada's German know-how came in useful.

CANADIAN-GERMAN KNOW-HOW

Within BDO Canada Martin Hoeschele heads a team specialising in in-bound German work. This involves, among other things, servicing the audit, accounting and tax requirements of German companies with investments, subsidiaries or projects in Canada. Some of the team, including Martin himself, have a German background, speak the language, know the culture and are familiar with the specifics of business life in Germany. Over the years, this has enabled Martin's team to provide German companies and investors with an exceptional service in Canada: "We know their issues, we can tell them what they will encounter in Canada, we fully understand the questions they have and we can explain the Canadian context to them in concepts and language they understand. That was the simple reason why I was able to give the fund that informal free advice. Since I had worked with German investors many times before, it seemed perfectly clear to me what the best structure would be for the fund vehicle in the context of what the fund wanted to achieve." The exceptional client service BDO provides is always based on in-depth expertise and market experience.

AN ONGOING RELATIONSHIP

For Martin, proactive communication meant staying in touch with the fund through phone calls and e-mails. So, when an opportunity arose, he was easily able to set up a meeting with the fund's CEO to discuss the tax issue relating to German investors, and that was where the BDO team's German know-how proved invaluable. After undertaking a very minor piece of tax compliance work for the fund, the policy of proactive communication with a potential client bore fruit. BDO Canada now audits all the fund vehicles for this private equity fund and assists them with tax filings for all their fund vehicles and related legal entities.

"There was actually another reason for staying in touch with these guys – they seemed like people who knew what they were doing and would be good people to work with," Martin adds. His hunch proved right. The fund is growing, has lots of committed capital in the background, and has brought BDO Canada a much bigger result than many would have expected. Except, maybe, Martin Hoeschele.

“We know German companies’ issues, we can tell them what they will encounter in Canada, we fully understand the questions they have and we can explain the Canadian context to them.”

MARTIN HOESCHELE





BDO RUSSIA

FAVOURABLE COMPARISON WINS ACCOUNT BACK

Five years of audits for a medium-sized Russian bank. Everything seems to be going well. Frequent, positive communications with the client. Plenty of time spent explaining difficult accounting issues. Then out of the blue a big setback: the client decides to move to a larger competitor. Is this client lost for good? A comparison between BDO's performance and the competitor's results in an interesting outcome.

FROM 2006 TO 2011 BDO RUSSIA audited a medium-sized universal bank headquartered in Moscow. The bank's main focus is on servicing small and mid-sized businesses. During that five-year period, a BDO manager, senior and partner invested a lot of time discussing difficult accounting issues with the client, including the transformation from statutory accounting records to IFRS financial statements. As Anton Efremov, a senior partner with BDO Russia, points out, "Actually all of our team were involved in explaining the various IFRS issues to the client, and those discussions covered tricky topics such as provisions for loan impairment". Everything seemed to be going well, particularly as BDO and the bank communicated very regularly and in a most positive way. The shock came in summer 2011 when one of the bank's shareholders decided to move the account to a larger competitor. Nobody at BDO Russia knew why. But the client was gone.

CLIENT LOST – AND REGAINED

What happened next must have surprised everyone. Within a year this medium-sized Russian bank was back with BDO. What had happened? Anton Efremov explains: "The bank was totally disappointed with the approach the other firm took. There was no criticism of the work we had done: no financial statements were restated and the competitor was satisfied with the quality of our work. But the main issue the client had



RUSSIA

Russia is the largest country in the world, covering one eighth of the Earth's inhabited land area. The Russian economy is ranked eighth largest in the world in nominal GDP terms and sixth largest by purchasing power parity. The country's extensive natural resources, in particular oil and gas, account for 80% of the country's exports

“When performing audits from 2006 to 2011, we went the extra mile to find solutions. That was the main reason why this bank felt very comfortable working with us.”

ANTON EFREMOV



with their new auditors was their overall approach to the audit. They found numerous instances in the bank's records where they said: "You should do this and that – otherwise the audit opinion will be qualified." But they did not explain what was wrong, nor did they suggest any solutions for improving the situation. There were simply not enough explanations given to the bank on issues that were important to them. The impression I got was that our competitor did not spend as much time taking an in-depth look at the issues as we had done."

The bank was understandably disappointed with their new auditors and got back in touch with BDO. Anton Efremov met up with the bank's main shareholder and was asked if he could supply the same team that had performed the audits before. Anton was naturally delighted to comply with this request. In summer 2012 the bank came back to BDO Russia and in spring 2013 BDO issued the audit opinion on the bank's 2012 IFRS financial statements.

LESSONS LEARNED

"What the client appreciated most about our way of working is that we were able to talk freely, and we went out of our way to explain everything," Anton points out. "When we were performing the audits from 2006 to 2011, we too had tough discussions with the client, but we went the extra mile and spent more time than was budgeted to find solutions within the auditing and accounting standards. That was the main reason why this bank felt very comfortable working with us. The impression I had was that this medium-sized bank was not so important to the other, larger firm, so they didn't invest the extra time needed to consider all the arguments, understand the bank's point of view, provide detailed explanations and come up with adequate responses to important questions."

EXCEPTIONAL CLIENT SERVICE IN PRACTICE

This Moscow story is a typical example of how BDO puts exceptional client service into practice. The BDO team tailored their approach to meet this client's specific needs. For the larger firm the bank was just one of many medium-sized clients and a standard approach was applied: "... just do this and that, otherwise the audit opinion will be qualified". Over five years, the team at BDO Russia had spent lots of time getting to grips with the client's needs, viewpoints and concerns – ultimately, this investment paid off. The account is back with BDO, and the client is happy.



BDO Russia
has its head office
in Moscow

THE FUTURE OF THE PROFESSION

Where is the audit and accounting profession heading and what does the future hold? Are audit-only firms likely to emerge? How important will consulting services be? What regulatory developments are to be expected? We talked to members of the BDO Global Board and the CEO and asked them for their opinions on what the future might look like.



WHERE AUDITING AND ACCOUNTING ARE HEADING

Seven leaders from the international BDO network – Dr. Holger Otte, Chairman of the Global Board; Martin van Roekel, CEO, BDO International Limited; Keith Farlinger, CEO, BDO Canada; Reinder Brummelman, Managing Partner, BDO Netherlands; Simon Michaels, Managing Partner, BDO UK; Wayne Berson, CEO, BDO USA and Jiandi Zhu, Managing Partner, BDO China – were asked to consider the future of the profession and voice their views from a BDO perspective.

Gentlemen, where do you think the profession is heading?

MICHAELS: Fifty years on from BDO starting, it's a fascinating time for the profession and for BDO. Right now, it's very much a perfect storm, and these situations don't come around very often. The dynamics contributing to that perfect storm are that you have fast-developing economies (for instance the BRIC territories), a sentiment very much against the largest four networks and a very fragile global economy. The spotlight is on the profession to continue providing the highest independent quality services to their clients. This situation gives us an opportunity to exploit changes in such a way that if you roll the clock forward another five or ten years, we will have been able to take market share and cement our position as the quality network in the market place. In view of the regulatory environment in the profession, we're going to see over the next five or ten years changes that will throw up great opportunities. There are also going to be restrictions on the sorts of services auditors can provide. So, whilst we see the audit market growing in a number of territories, the bigger opportunities for the network are, I think, going to be more around tax and advisory services, as other firms are unable to do everything for their clients. But I also think these growth opportunities will be supplemented by greater scrutiny from international regulators and an opening up of the competitive environment.

BERSON: Our profession is truly at a crossroads. Notwithstanding criticisms faced by the profession as a result of the recent financial crisis, the need for credible, independent assurance is still recognised as essential to the efficient operation of the capital markets. Based on numerous global roundtables and other forums, it is clear that investors are demanding an expansion of the auditor's role in terms of greater insights into the company, as well as assurance on more types of information. The profession will have to develop the skills to meet this demand in order for it to remain relevant.

An avenue of opportunity lies in the development of integrated reporting, which is much broader than financial reporting and covers all relevant business areas that create value for a company. While integrated reporting is being piloted, now, by a relatively small group of large multinationals, I expect that it will eventually be used by a greater universe of smaller companies in future. This will require networks to develop specialised skills to help companies deal with this new and holistic form of reporting.

We will also likely see an environment of mandatory firm rotation for public interest entities (PIEs) in many parts of the world. This is likely to present BDO with greater opportunities to gain audit work for companies that have been audited by larger networks where the latter have independence



The Central District in Hong Kong, one of Asia's leading financial centres



conflicts. Equally, BDO could well gain non-audit work for these companies if other contenders decide to propose only on the audit. I also expect to see further tightening of restrictions on performing non-audit services, particularly for PIEs.

To what extent has auditing become a commodity?

FARLINGER: I really think you need a bit of a crystal ball to see where auditing is going. Auditing has become a commodity and, as the years go by, I think that commodity will become less and less valuable. So where we can add value to our clients is with auditing more specifically – for example, looking at the inventory account, asking whether the inventory is managed efficiently, auditing pieces of a company rather than the company as a whole. I think the part of auditing that involves helping clients solve their issues and



Keith Farlinger
CEO
BDO Canada

“I think the whole area of advisory is a growth opportunity.”

KEITH FARLINGER

achieve their visions is something that will never change. BDO’s approach is to help clients at every level, and we have many years of experience in doing just that. So we are already positioned to advise our clients on auditing the areas they need to be audited.

I think the whole area of advisory is a growth opportunity for BDO. We are growing into advisory because clients need our advice and are looking for it. The advisory stream encompasses many disciplines, and because of the economic turmoil we’ve seen in a lot of markets, forensics is an area of need. We have a strong foothold in this field at a national and global level, and we have capabilities in key financial centres where much international work originates, including New York, London, Frankfurt and Geneva. Around the world we have people on the ground who can go in and test and qualify matters where there are uncertainties. This is where the global network and our ability to go global locally is a key competitive strength, because we can bridge the big picture with local circumstances in a credible, cohesive and trustworthy manner. That’s the name of the game, and that’s BDO.

What about the prediction that there may be audit-only firms in future?

VAN ROEKEL: I’m convinced that there always will be a function for audit firms in future. The big question is whether these firms will be audit-only firms or part of the large international networks, especially as 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 a growth area. As a result, particularly in those economies, we are focusing on other activities to ensure the continuing growth of our firms as a whole. The situation is certainly different in the emerging markets, where there remains an increasing demand for audit services – combined with an emerging need for more and more advisory services. We therefore foresee substantial growth in those parts of the world. If you ask me whether I foresee the large networks ultimately leaving the audit profession, I would have to say that I consider that very, very unlikely. This is primarily because auditing ultimately gives them their brand: it’s the only regulated business they have and it provides a fantastic door opener to a lot of large companies around the world. Without that, it might become much more difficult to deliver, say, tax services to those companies. Of course we all realise that, because of conflict of interest and independence rules, it’s becoming more and more difficult to sell different services to one and the same client. But, ultimately, having a foot in the door in the form of an audit is still very important to many firms around the world.

Which markets do you expect to grow in future?

OTTE: The stronger markets today are definitely to be found in the Far East, and we have to cope with this reality. I think that the influence of China and India, especially, will grow. And these countries, their businesses, their



Reinder Brummelman
Chairman of the
Board of Directors
BDO Netherlands

“I believe that the auditor will continue to play an absolutely important role in the future.”

REINDER BRUMMELMANN



Simon Michaels
Managing Partner
BDO UK

“There are going to be restrictions on the sorts of services auditors can provide.”

SIMON MICHAELS



Martin van Roekel
CEO, BDO

“Ultimately, there will be fewer players in the majority of economies.”

MARTIN VAN ROEKEL



Jiandi Zhu,
Managing Partner
BDO China

“BDO China is the first Chinese firm of any international accounting network to have a representative on the Global Board.”

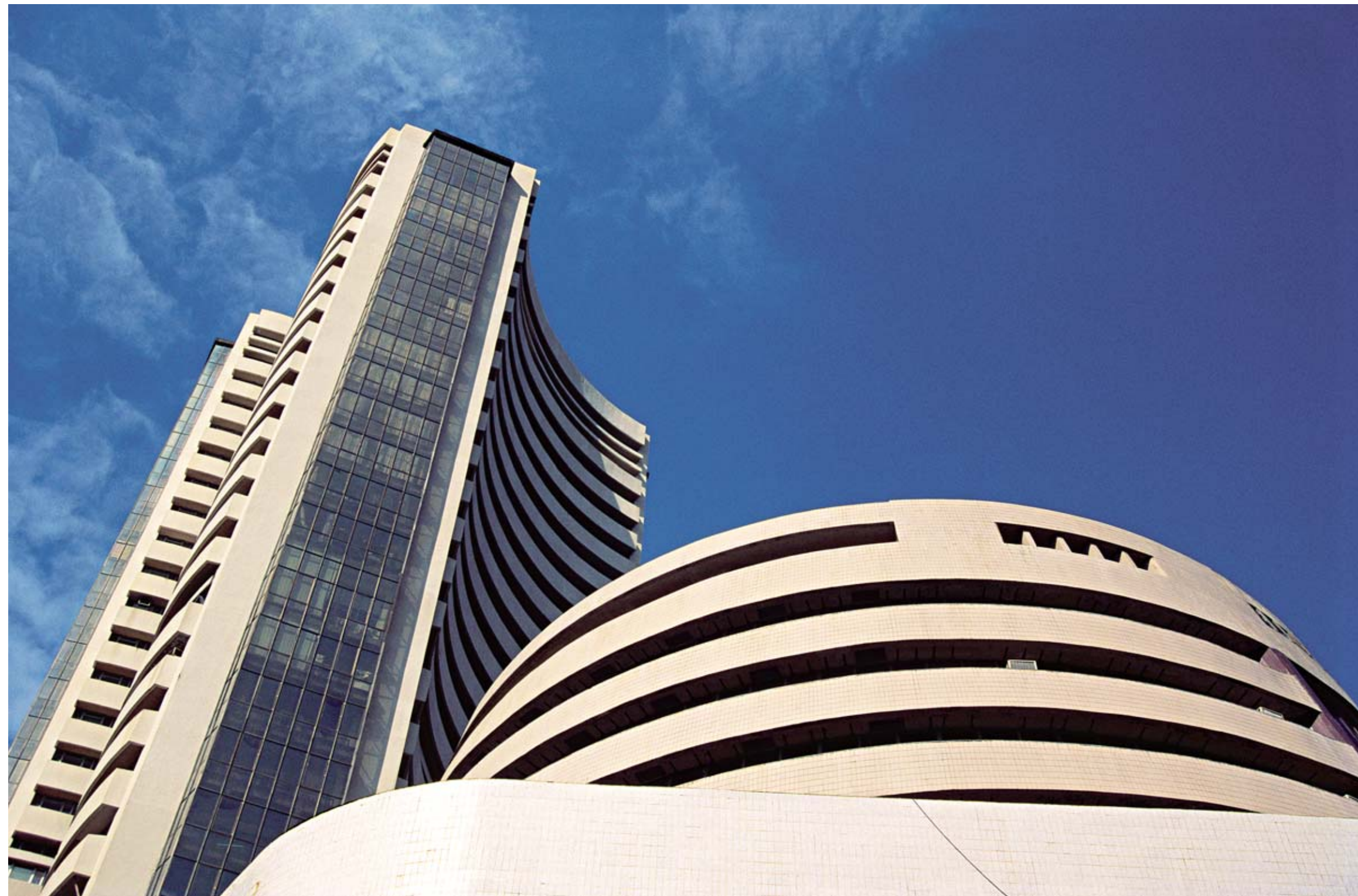
JIAN DI ZHU

economy and their member firms within BDO will influence our network in a very positive way. Today we are a global network that is still strongly influenced by ‘old Europe’ and ‘old America’, but in the future we will have a broader variety of international influence, especially from those emerging markets in the Far East.

BERSON: There is also significant growth potential in Africa. The continent’s growing native industries, together with global investment – especially from China – is driving substantial demand for accounting services. Firms will need to ensure that they have the right level of local talent to meet this demand. There are also good opportunities for growth in South America, particularly in countries like Brazil, Colombia, Peru and Chile, which have substantial natural resources and supportive governments. In the US we are seeing opportunities in many of the non-audit type services. Many of the consulting services like global forensics and the specialised tax services are in demand.

How will consolidation impact on the profession?

VAN ROEKEL: What we see in many countries around the world, and in particular in the mature economies, is that the revenues of accounting firms are not increasing, whereas costs are – in many territories we have to deal with higher regulatory costs, for instance. So if we want to maintain an acceptable level of profitability that will enable us to invest in people, in training, in infrastructure, in IT, in tools etc., we need a larger revenue base. And BDO is certainly not the only network facing that challenge. I’m pleased to say, however, that, given the relative size of BDO firms in many countries, BDO is undoubtedly a very attractive option for any firms looking for a new home. Ultimately, there will be fewer players in the majority of economies.



Mumbai
Stock Exchange,
India



Wayne Berson,
CEO
BDO USA

“There is significant potential for growth in Africa”

WAYNE BERSON

years’ time, but there will definitely be some other countries represented on it, and our international network will benefit from these developments. The second thing is that we have to concentrate on advisory services, which is a very good idea and an excellent development: the mixture of traditional accounting and future-orientated advisory services is good for the overall development and growth of an international network.

How significant is the appointment of a Chinese CEO to the BDO Global Board in terms of the future of the profession?

JIANDI ZHU: BDO China is the first Chinese firm to have a representative on the global board of any international accounting network and, as our CEO, Martin van Roekel, said at the time, this appointment to the BDO Global Board recognises the importance of China in the international BDO network. He was also kind enough to say that BDO will benefit from the valuable insight that I will bring to the Board, certainly in relation to international companies both working out of and wishing to invest in China. Personally, I am honoured to be joining my colleagues from the largest firms in BDO on the Global Board. In China we set high standards and operate coordinated global systems that ensure our people are given responsibility for delivering the tailored service to our clients that they expect. In terms of client relations, our people will be able to take advantage of this platform to approach international businesses. Internally, it enables all of us in BDO China to have wide-ranging business exchanges with other firms within the network. There are 140+ firms in the BDO network and not only will they be able to learn



Dr. Holger Otte
Chairman
BDO Global Board

“The challenges we are facing from the international regulation of our business are a problem every accounting network has to cope with.”

DR. HOLGER OTTE

Where are things headed on the regulatory front?

BRUMMELMAN: Of course there have been lots of discussions in the recent past about our profession and the way it will evolve. My expectation is that auditing will return as a very important element of our industry. What I mean by ‘return’ is this: the audit profession is, in a way, under regulatory attack. So you could get the impression that auditing is becoming less and less important. I however, believe that the auditor will continue to play an absolutely important role in the future.

BERSON: Regulatory oversight of the profession is expanding rapidly, as we have experienced with IFIAR, which has over 40 national regulators as its members. Regulators will become more focused on network and firm structures, including pushing for the right tone at the top in order to create a high level of consistent audit quality around the world, and setting an environment for greater partner accountability, including effective protocols for monetary rewards and penalties.

While the environment around regulatory enforcement actions against auditors has been relatively stable in recent years, the pace of enforcement activity may heat up in the near future as a result of criticisms emanating from the financial crisis and other developments.

What are the key challenges the future will bring?

OTTE: The challenges we are facing from the international regulation of our business are a problem every accounting network has to cope with – it’s a fact of life and one that doesn’t affect us unduly. On the other hand, there are many, many chances we can seize and use to shape our network. Doing business in the emerging markets will, I think, be very challenging. Growth rates in China of 30% a year, for example, will bring enormous changes not only to the business world but also to our BDO world. The impact of China and India will completely change the old western world of accounting. And I think our appointment of a Chinese CEO as member of our Global Board is just the first step. I do not know what our Board will look like in five

first-hand about China and the importance of Chinese business, our firms will have more chance to see the inner management experience of the large member firms on the Global Board and learn from their experience in global management. This will mean that we can undertake more responsibility for global business interaction. I believe also that this appointment will give Chinese accountants a bigger international discursive power overall, because we will be kept informed of international trends and will be able to find more development opportunity through this sort of information exchange.

As for the future, from China’s point of view our strategy is to expand within and to strengthen our position throughout the Asia Pacific region. We anticipate the strengthening of relations between BDO China and all BDO

Member Firms, and being able to act more from a global leader standpoint rather than solely in the interests of the Chinese firm.

And what does the future hold for BDO?

OTTE: The accountancy world is undoubtedly changing. Our clients have high expectations and are focused on cost, value and service – a consistently high-quality service delivery that meets their needs. As an integrated organisation, BDO is ready to meet these challenges and must be ready to grasp opportunities. I firmly believe that by working together in the spirit of partnership to make the BDO vision a reality, we will remain the only credible challenger to the bigger global players.



INTERVIEW THE IMPACT OF THE REGULATORY ENVIRONMENT

BDO expressed disappointment at the watered-down EU Audit Reform proposals published in April 2013. How do you see things developing on this front?

The disappointment is relative. Maybe in view of the original rhetoric and grand statements from Commissioner Michel Barnier about shaking up the market and the profession, people possibly expected more of the process, but you have to bear in mind how EU law is formulated when assessing the likely outcome. The legislative process in the European Union is extremely complex and the whole EU approach is about finding an acceptable compromise – the lowest common denominator that everyone can sign up to – rather than the optimal policy outcome. Some of us are indeed rather disappointed that there will be no 'Big Bang' or more immediate impact from the audit reforms, but change will come and the process has starkly highlighted the need for that change. Over time, that will be positive for mid-tier firms, but only if they invest to take advantage of the opportunities that will materialise. The most progressive and spectacular elements of the proposals have certainly been lobbied away or softened considerably but they haven't gone away completely, and I would say that the whole process has caused a lot of stakeholders to realise that the largest four networks are indeed too powerful, too well connected to policy makers and influencers and too politically influential. They are also increasingly seen as too big to regulate and too big to fail!

Not even our most ardent opponents would say that the audit profession caused the financial crisis, but we didn't prevent it either; and therein lies the most constructive part of the whole exercise: the debate and deliberation around the future role and relevance of auditors. As a profession we need to provide a more useful product to society. Our audit report needs to move from a binary 19th-century model of opining to

providing more relevant information for the relevant stakeholders in the modern environment. Providing an audit report three months after year-end does not deliver any useful or timely information to base an investment decision on in the modern era. Of course, the reform process is not yet finished at a European level, and is only commencing elsewhere, but the direction of travel is pretty clear. Measures will be adopted by policy makers and legislators that will enable auditors – if not require them – to offer greater levels of assurance. Paradoxically, the audit profession will become a net beneficiary if it invests accordingly to enable it to provide those levels of assurance.



Noel Clehane
BDO Global Head
of Regulatory
and Public Policy
Affairs

“You’ll see a trend towards more specialisation among audit firms.”

NOEL CLEHANE

To what extent will independence rules affect the profession?

The constructive debate in Europe and around the world has been about the role and relevance of auditing, as well as stricter independence rules. Combining these aspects, I see that audit-only clients may become more prevalent in the future as independence rules become more stringent. At one stage the European Commission would have had us believe that the future is audit-only firms, but I personally don't believe that this is the right road to take, particularly from the perspective of the attractiveness of the profession and the multiple skills required to do a proper audit of a global company in the 21st century.

For that you don't just need accountants but also engineers, linguists, economists and lawyers, as well as many other disciplines. Certainly for larger companies audits will become more sophisticated, useful and specialised. You'll see a trend towards more specialisation amongst audit firms, e.g. those with particular expertise in auditing extractive industries or banks or manufacturing SMEs. In Europe, smaller and even mid-sized companies are increasingly being released from the requirement to have a mandatory statutory audit, though often it is being replaced by some voluntary alternative form of assurance.

Non-financial reporting and corporate social responsibility requirements are leading auditors to offer a broader range of services of an assurance nature. Independence rules in future will probably prevent audit firms from offering numerous lucrative non-audit services to clients, and in particular to public companies, but they will be replaced by the possibility of providing bespoke assurance, attestation or certification on the risk profile of the business or a more precise commentary on the going concern aspects of a company.

Auditing, as we know it, is increasingly in danger of becoming a commodity in which the rather 19th-century level of assurance will have run its course. The future will probably see auditors expected to provide a more meaningful and comprehensive spectrum of assurance. But as a quid pro quo for that, the days of selling lucrative corporate finance, tax planning and consultancy services will probably disappear and with it the commoditising of the core audit service. This will offer ambitious networks like BDO incredible opportunities to offer tailored assurance services to companies that have no legal requirement to have an audit, as well as offer statutory 21st century-style audits to a growing list of companies. There will also be much more opportunity to offer 'non-audit services' to the audit clients of the largest audit firms.

No doubt because of a potential conflict of interests ...

This is one of a number of independence issues in play at present, including the nature and volume of non-audit services. If you're providing an audit for, say, 100 euro and more lucrative non-audit services for, say, 500 euro the perception among the general public would be that the audit partner is not independent of mind and as all auditors will recall, being seen to be independent is as important as actual independence. Regulators all over the world are increasingly saying that it doesn't really matter that you can prove you were independent. When a significant company collapses and the audit firm is found to have provided multiple non-audit services in addition to the audit service, the presumption is that the audit may not have been as vigorous as it might have been. This is not necessarily a valid presumption but it is nonetheless unhealthy for the auditor in that situation and more generally for the audit profession. It seems inevitable that stricter rules to address conflicts of interest and independence issues will therefore be implemented in many jurisdictions, particularly in the European Union.

To what extent might the industry in future be merely driven by regulatory bodies, or will accountancy still be a driver as well?

The future of regulation for the audit profession, many would call it an industry, is independent oversight. The days of self-regulation are gone. It is still lingering on in a number of countries, but not in Europe where the latest proposals, once adopted, will put an end to any remaining vestiges of

“The future of regulation for the audit profession is independent oversight.”

NOEL CLEHANE

self-regulation. Professional institutes will maintain their training role and for small firms there may be some level of regulation by the institute, but that will have been devolved to the institute by the independent, usually government-sponsored, regulatory body. Independent regulation is the future, and the audit profession, including BDO, welcomes that. It's good for the reputation of our profession to be seen to be absolutely independently regulated. I do not see the industry being a driver of the nature of regulation, but, of course, logically it will be a driver of its development otherwise within the regulatory environment that will evolve.

It will be interesting to see what China does in this regard in the future, because China doesn't currently have an independent regulatory body in the way it has been defined in Europe or North America or by IFIAR. I think that even in China independent regulation will come, but it's a very slow process. The Chinese certainly have incredibly long-term plans to address auditing issues and this will have global implications. They normally have five-year plans for any given sector, as you know, but they also have a 50-year plan for the accounting profession giving them a truly long-term outlook. One anecdote will suffice to capture this approach and commitment to long-term thinking: when asked about the effects of the French Revolution some years before his death, Deng Xiaoping said that 'it was too early to say' – despite nearly 200 years having passed.

The profession is increasingly taking on the role of a guide through the regulatory jungle. It's always been part of our role in terms of taxation, company law or corporate governance provisions. Interestingly, the 21st-century themes of corporate social responsibility and integrated reporting, which cover a much broader area than traditional financial reporting, are presenting opportunities for BDO firms to guide their clients through new complex areas. Many companies are finding it increasingly difficult to keep



The EU's policies on audit reform have inspired debate in many parts of the world

up with all of these developments, so audit or tax advisers are playing an increasing role in keeping clients aware of relevant developments, including comprehensive environmental and transparency regulations.

How will the globalisation of business continue to affect this profession?

I think the development of the profession has been affected by a number of factors, not least globalisation. As companies have grown and globalised, they have required their advisers, and that includes their auditors, to grow with them and become global as well. Over the past 10–15 years, concentration in the auditing market has become more pronounced – not just in the collective dominance of the largest four networks but also in the collective size and reach of the next eight or ten networks genuinely capable of offering

“Competition in an industry always drives innovation and price, and regulators are only now beginning to address the false notion that bigger means better quality”

NOEL CLEHANE

a global service. This is one obvious response to the needs of clients who have been driven by globalisation.

The resources you need to stay aware of critical developments in the financial reporting supply chain (including audit), disseminate this information to colleagues around the world, and develop the tools and technology needed to service a global client in this regard, are expensive and normally can only be found in a small number of globally integrated networks. You don't have to be big to be good, but you certainly have to be big to adequately invest in global resources, methodologies and tools. I would hazard a guess that if you're not in the world's top 15 networks in size terms, it will soon become more and more difficult, if not prohibitive, to service a complex global client as expectations rise and servicing such clients demands ever more investment in tooling. For that reason and others, I believe that consolidation of mid-tier audit networks is inevitable and has in effect already commenced.

How do you expect the concentration process to develop in the industry?

Of course we would like to think that this concentration process in our industry will not be permitted to continue at the very top end of the market, and there certainly have been efforts in Europe, most notably by the UK Competition Commission and by the Internal Market and Services Directorate of the European Commission, to push back this concentration trend and to facilitate the widening and deepening of this market. The financial crisis highlighted the fact that the collective dominance of a small number of audit firms, particularly in the listed companies market and even more so in the financial services sector, may itself even be a matter of financial instability. I don't imagine that the collapse of one of the leading audit networks would have the same effect as the collapse of Lehman Brothers

had, but it would certainly have serious implications in the near term for the capital markets in terms of the ability of many larger companies to secure an audit.

In some countries and markets, like banking, there might not even be four firms capable of auditing the banks from a sectoral expertise and independence perspective, so such concentration is increasingly unhealthy. Competition in an industry always drives innovation and price, and regulators are only now beginning to address the false notion that 'bigger means better quality'. It is clear now that there will neither be a 'Big Bang' in our profession nor any forced break-up of the so-called 'Big Four'. But if the regulators get it right, I think that concentration will actually lessen over time, which is naturally in the public interest because it means more choice, more innovation and competition. Many would argue that it would drive up quality levels also.

Where is the profession heading in developing economies?

The accounting profession in the BRICs faces some significant challenges. In China the profession only came into existence in 1988 and there is, as yet, no deep culture of accounting and auditing. Besides, the country cannot yet produce enough qualified accountants to meet the demand for their services. There are also challenges in a country like India, which has a long tradition of accounting, but where the growth of its globalised economy is outstripping the profession's ability to provide enough qualified accountants. Indonesia, a country of 250 million people and a G20 economy, has fewer than a thousand qualified accountants and, from the present perspective, no chance of ever producing enough accountants to meet the economy's needs as it develops rapidly. In contrast, nearby Singapore has a well-established profession, an excellent education system and a very structured economy; but the entire output of accounting-oriented graduates from the three universities is taken up by the banks or the largest accounting networks. This suggests that in the emerging markets there are a variety of challenges to be addressed that all ultimately raise question marks about the long-term quality and sustainability of the profession.

My own view is that the rise of the BRICs is as inexorable as that of the CIVETS and MINTS, other lesser-known acronyms capturing fast-developing countries such as Malaysia, Indonesia, Turkey, Vietnam, Colombia, etc. Such countries will undoubtedly require a strong accounting profession to fully capitalise on their economic potential. There is no doubt that BDO's future growth will be driven over the medium to long term by the role of the profession in these and other emerging market countries. There remains, however, a very significant if slow-growing and declining marketplace in the old economies. BDO firms in those countries can continue to grow as the role of the auditor and related services continues to evolve.

FACTS AND FIGURES



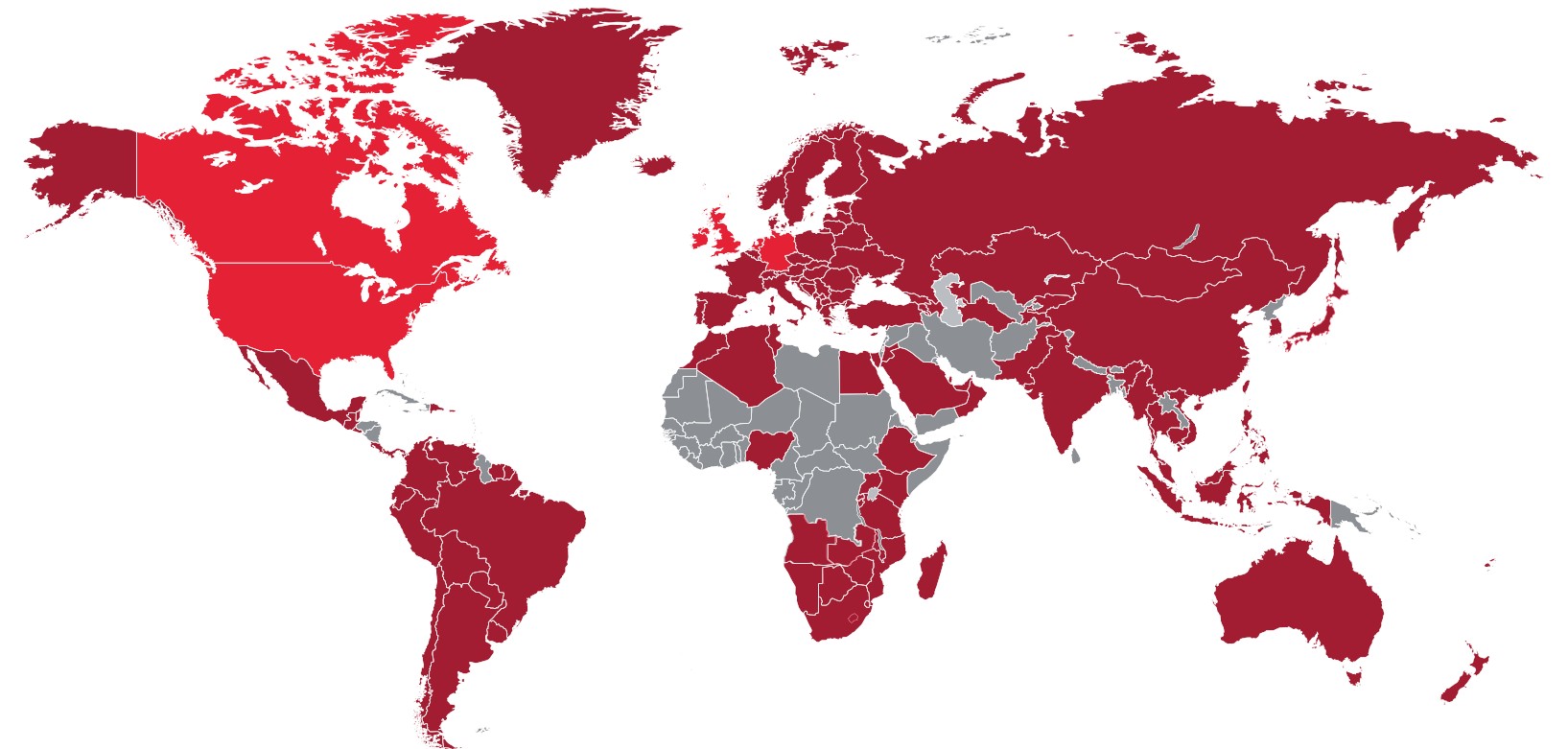
INTERNATIONAL BDO NETWORK

BDO network 2002 – 2012. Regional statistics are broken down on the following pages.

\$6 BILLION TOTAL REVENUE IN 2012



↑ OVERALL GROWTH 2002 – 2012: **89.5%** ↕ AVERAGE ANNUAL GROWTH 2002 – 2012: **9%**



GLOBAL NETWORK

1963:
GERMANY, NETHERLANDS
UK, CANADA & US

2013:
147
COUNTRIES

↑ OVERALL GROWTH 2002 – 2012: **39%**

2002:
22,589 PEOPLE

2012:
54,933 PEOPLE

AVERAGE ANNUAL GROWTH **14%**

OVERALL GROWTH 2002 – 2012 **143%**


OFFICES IN 2002: 576

OFFICES IN 2012: 1204

OVERALL GROWTH 2002 – 2012: **109%**

BDO EUROPE

This region now forms part of BDO EMEA (see ME&A below). Statistics as at September 2012.

€1.8 BILLION

TOTAL REVENUE



1963:
GERMANY,
NETHERLANDS, UK

2013:
63
COUNTRIES

EUROPEAN NETWORK

18,501
PEOPLE



372 OFFICES

BDO AMERICAS

Includes North America, the Caribbean and Latin America. Statistics as at September 2012.

€2 BILLION
TOTAL REVENUE



18,244
PEOPLE



OFFICES
651



1963:
CANADA,
USA

2013:
33
COUNTRIES

AMERICAS NETWORK

BDO ASIA PACIFIC

BDO's fastest-growing region in 2012.
Statistics as at September 2012



2013:
22
COUNTRIES

ASIA
PACIFIC
NETWORK

€803 MILLION

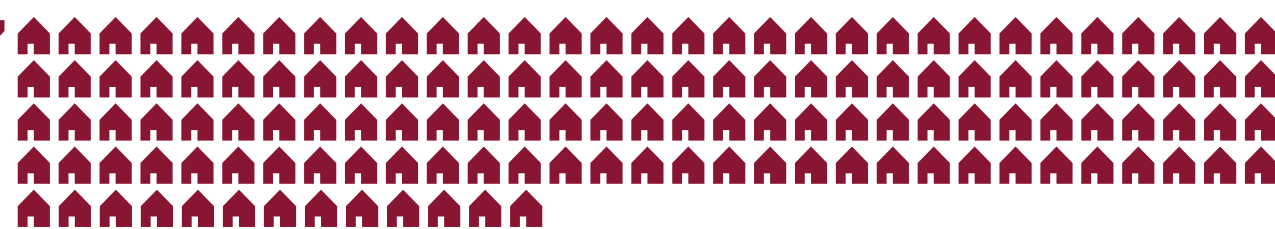


TOTAL REVENUE

15,538 PEOPLE



137 OFFICES

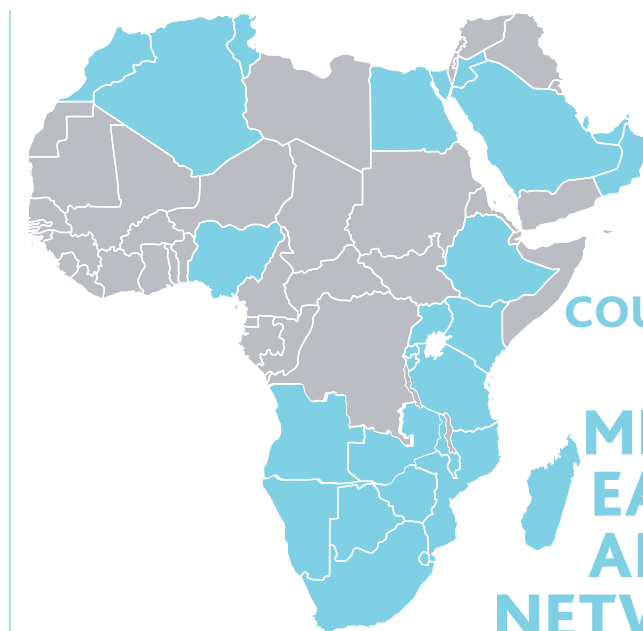


BDO ME & A

This region now forms part of BDO EMEA (see Europe above)

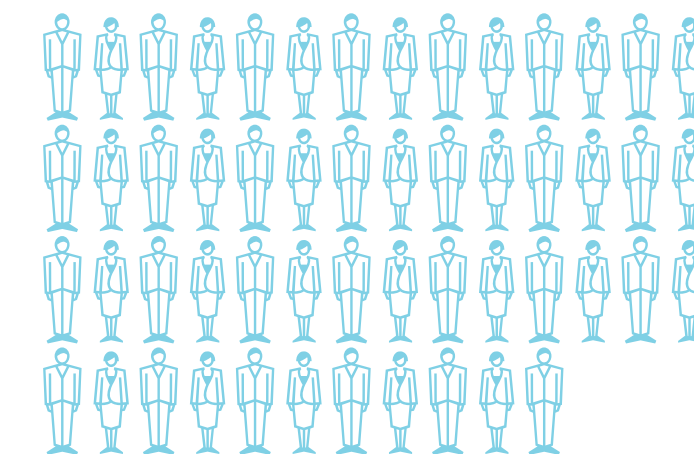
€100 MILLION

TOTAL
REVENUE



2013:
27
COUNTRIES

MIDDLE
EAST &
AFRICA
NETWORK



2,650 PEOPLE

44

OFFICES



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EDITORIAL

10/11 BDO; 12/13 BDO

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