



TRANSPARENCY REPORT

2020

**BDO ISRAEL**

**BDO**

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# INTRODUCTION FROM THE CHAIRMAN

## I am very pleased to introduce BDO Israel's Transparency Report for 2020.

Our vision is to be a leader for exceptional client service. Excellence in quality, empowered professionals and strong values are the foundations on which this is built. We have a clear strategy for market leadership with a number of straightforward, yet ambitious goals which are to be achieved over the coming years.

Excellence in quality relies heavily on the attitude and culture of our firm. We listen to feedback from regulators about both our firm and the wider profession and implement action plans in order to address their recommendations. The ongoing scrutiny on audit quality both domestically and internationally has been compounded by the challenges presented with the COVID-19 pandemic. We at BDO understand the importance of maintaining a strong culture of quality during these challenging times.

Our commitment to exceptional and sustainable audit quality means that we must continually improve and enhance our audit methodology, tools and technology. In keeping with this commitment, in late 2019 we deployed the next generation of BDO's auditing tool, APT NG. This along with our new Global Portal, a document and data exchange system, allowed us to respond to the changing work environment in a seamless and effective manner. While the impacts of Coronavirus on our audit teams and clients have been significant our world leading technology allowed us to respond in the best possible way.

We will continue to invest in the quality of our business lines, both through our people and in technology, in order to enhance the quality and the consistency in the application of procedures.

In this report, you can read about our commitment to delivering quality practices and how this is supported by our structure and governance.



**DANNY MARGALIT**  
CHAIRMAN & CEO

# INTRODUCTION FROM MANAGING PARTNERS



**EREZ SOFFER**  
MANAGING PARTNER



**SHAHAR ZIV**  
MANAGING PARTNER

## MANAGING PARTNERS

BDO Israel provides an important public interest role as an auditor of public interest entities. This role is central to our purpose, values, management and processes. BDO Israel's reputation is based on providing high-quality, professional audit services objectively and ethically to each and every entity we audit.

BDO Israel's 2020 Transparency Report complies with the Directive and covers the fiscal year ending December 2020. In this report, you can read more about our internal quality control system: how we instill professional values, how we perform an audit, our review and consultation process, and our process for audit quality reviews.

Enhancing audit quality can require challenging previous approaches to audit execution, and we make sure to focus on continuous improvement by evaluating all inspection findings and taking responsive actions.

# BDO NETWORK

## **BDO ISRAEL IS A MEMBER FIRM OF BDO INTERNATIONAL LIMITED**

The BDO network is an international network of independent public accounting, tax and advisory firms which are members of BDO International Limited and perform professional services under the name and style of BDO (hereafter: 'BDO Member Firms'). BDO is the brand name for the BDO network and all BDO Member Firms .

# LEGAL AND STRUCTURAL ARRANGEMENTS IN THE NETWORK

The BDO network is an international network of independent public accounting, tax and advisory firms which are members of BDO International Limited and perform professional services under the name and style of BDO (hereafter: 'BDO Member Firms'). BDO is the brand name for the BDO network and all BDO Member Firms.

Each BDO Member Firm is a member of BDO International Limited, a UK company limited by guarantee, as either a voting member (one per country) or a non-voting member. BDO International Limited is the governing entity of the BDO network and sets the membership obligations of the BDO Member Firms in the Regulations.

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

The Council comprises one representative from each voting member and comprises the members of BDO International Limited in general meeting. The Council approves the network's central budget, appoints the Global Board and approves any changes in the Articles and Regulations of BDO International Limited.

The Global Board, which is the Board of Directors of BDO International Limited, comprises a representative of the BDO network's seven largest member firms, whose appointment, each for a three year term, is approved by the Council. The Global Board sets priorities for the BDO network and oversees the work of the Global Leadership Team. The Global Board meets at least four times a year.

The Global Leadership Team is tasked with coordinating the activities of the BDO network. It is headed by the CEO and comprises the COO (currently also acting as Global Head of Advisory), Global Heads of Audit & Assurance, Tax, HR & Development, Business Development & Marketing, IT, the CEO EMEA, the CEO Americas, the CEO Asia Pacific and the International Secretary.

The Global Leadership Team is supported by the Global Office at Brussels Worldwide Services BVBA. Brussels Worldwide Services BVBA, a Belgian limited liability company, provides services to assist in the coordination of the BDO network.

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

Each of BDO International Limited, Brussels Worldwide Services BVBA and the BDO Member Firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of BDO shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide services BVBA and/or the BDO Member Firms.

The global aggregated turnover for BDO member firms (including their exclusive Alliances) in 167 countries for the year ended 30 September 2020 was in excess of US\$10.3 billion. Partner and staff numbers at 30 September 2020 were 91,054.

The global aggregated turnover from statutory audits of the BDO EU/EEA audit firms was €785 million (published 15 October 2020).

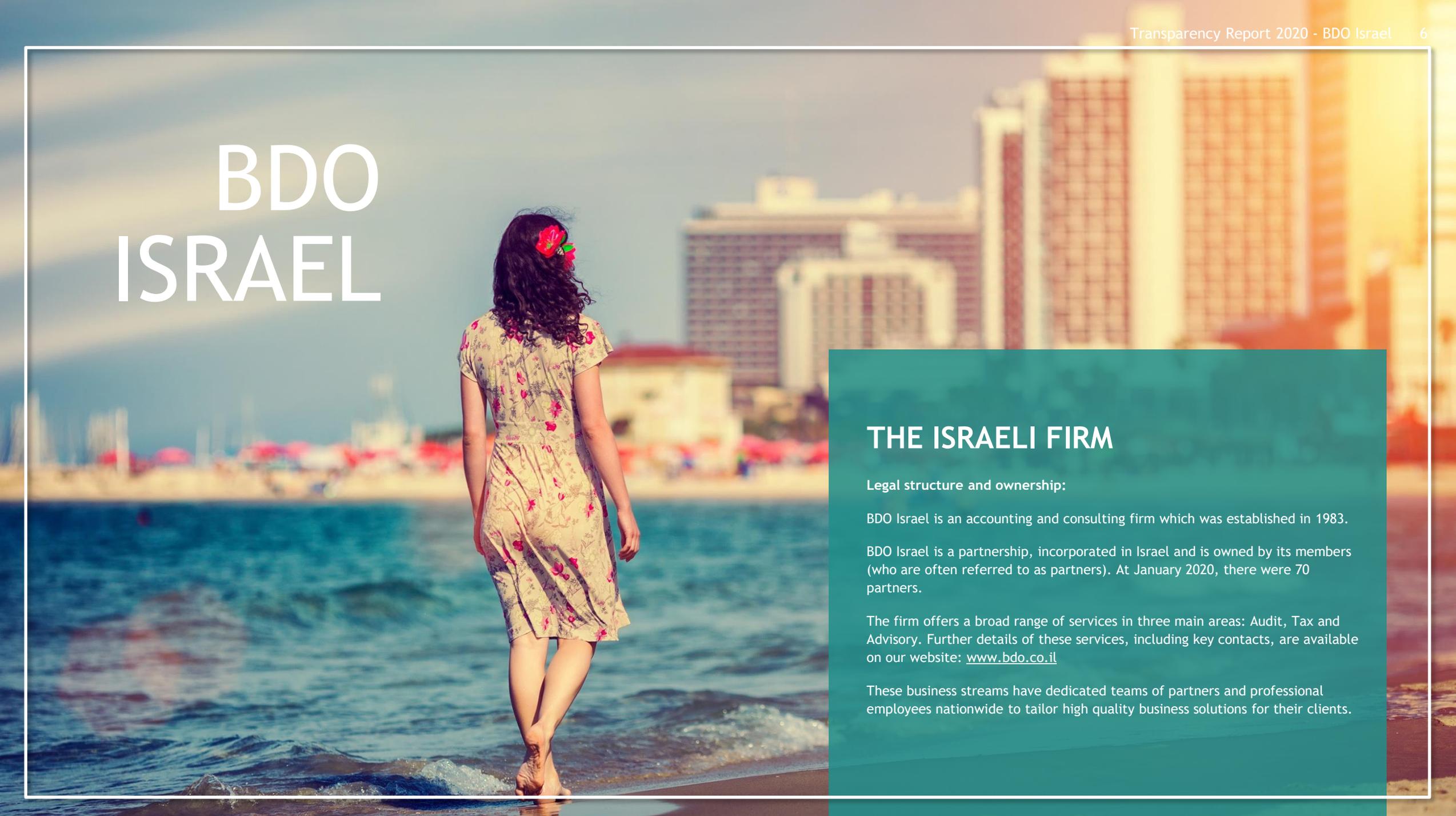
# KEY FEATURES OF THE MEMBER FIRM NETWORK AGREEMENT

Each BDO Member Firm is an independent legal entity. Profits are not shared between member firms. All BDO Member Firm client engagements - whether for domestic work, referred work from other firms in the network, or international work sourced from non-BDO sources - are conducted in the name of the local BDO Member Firm.

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



# BDO ISRAEL

A woman with long dark hair, wearing a light-colored floral dress and a red flower in her hair, is walking away from the camera on a beach. She is barefoot and walking through the shallow water. The background shows a city skyline with several tall buildings under a warm, golden sunset sky. The water is a deep blue, and the beach is visible in the foreground.

## THE ISRAELI FIRM

### Legal structure and ownership:

BDO Israel is an accounting and consulting firm which was established in 1983.

BDO Israel is a partnership, incorporated in Israel and is owned by its members (who are often referred to as partners). At January 2020, there were 70 partners.

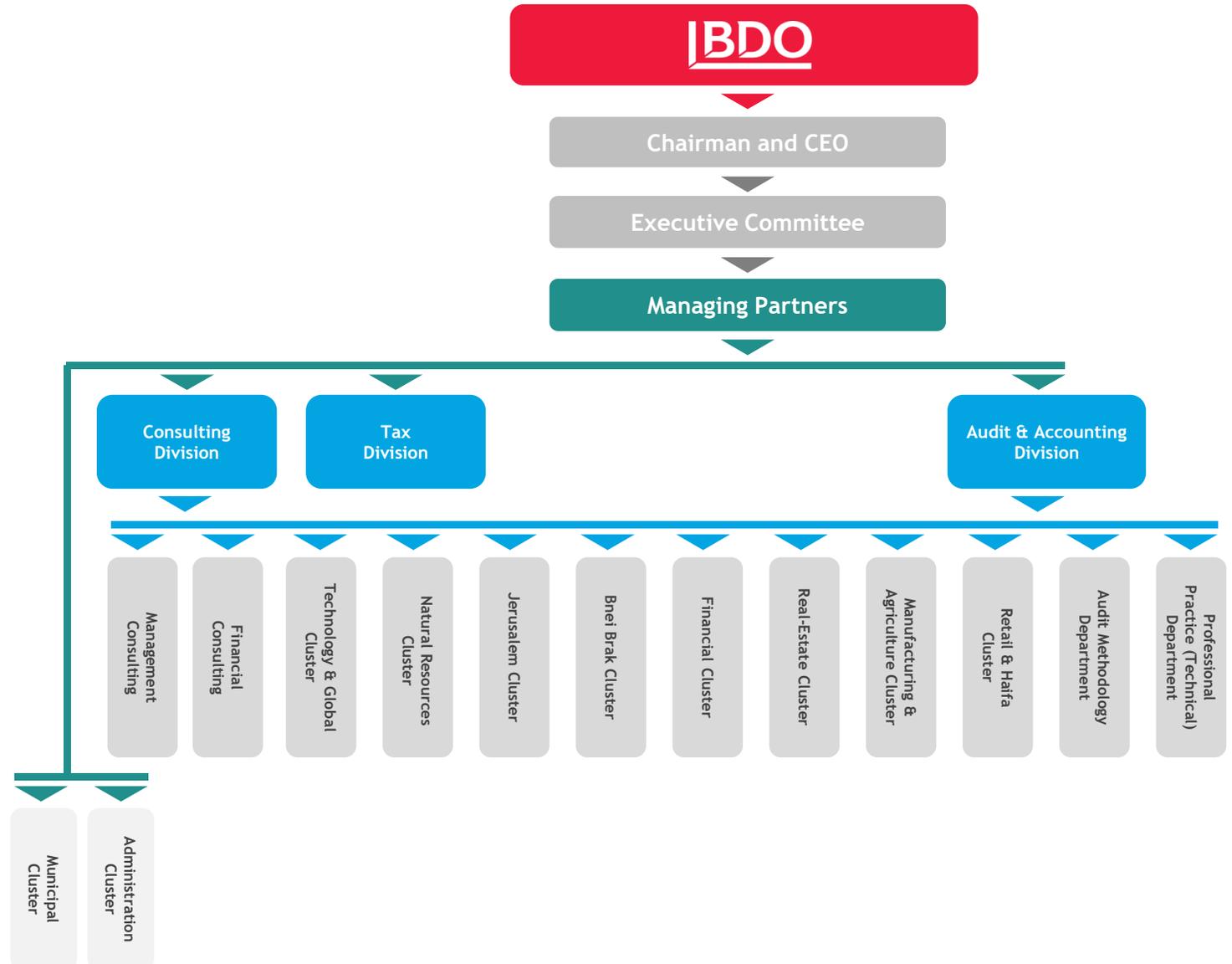
The firm offers a broad range of services in three main areas: Audit, Tax and Advisory. Further details of these services, including key contacts, are available on our website: [www.bdo.co.il](http://www.bdo.co.il)

These business streams have dedicated teams of partners and professional employees nationwide to tailor high quality business solutions for their clients.

# LEGAL STRUCTURE AND OWNERSHIP BUSINESS STRUCTURE

BDO Israel has approximately 1,650 employees (including business partnerships and Joint Ventures). The firm operates in 8 offices across the country (Tel- Aviv, Jerusalem, Haifa, Beer Sheva, Kiryat- Shmona, Bene Brak, Modi'in Illit and Eilat).

Our organizational structure is:



# GOVERNANCE STRUCTURE OF THE ISRAELI FIRM

## PARTNERS' ASSEMBLY

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

## EXECUTIVE COMMITTEE

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

The partners elect the Chairman and the Managing Partners of the firm to hold office for a term of four years.

The executive committee is currently comprised of the following members:

Name	Title
Danny Margalit	Chairman and CEO
Erez Soffer	Managing Partner
Shahar Ziv	Managing partner
Eyal Rubin	Head of the Tax cluster

# MEMBERS OF THE FIRM'S GOVERNANCE STRUCTURE



**DANNY MARGALIT**  
Chairman & CEO

Mr. Margalit's role is to lead the firm in Israel with overall responsibility for setting and delivering the strategy, running the business and ensuring we have the quality reputation and clients that enables us to motivate and retain the best people.

Mr. Margalit has overall responsibility for building our brand, reputation and communications. Mr. Margalit has over 30 years of experience providing auditing, accounting and consulting services, mainly in the Hi Tech sector.

Mr. Margalit represents the firm in cooperating with BDO member firms and is a member of:

- The BDO international council
- BDO EMEA's Board of Directors

Mr. Margalit has been a partner for over 20 years and Chairman and CEO since 1 January 2012.



**EREZ SOFFER**  
Managing Partner

Mr. Soffer has many years of experience in the provision of consulting and accounting services.

Mr. Soffer's role is to manage the firm. Mr. Soffer is the head of the audit practice in the firm (National Director of Assurance) and has the overall responsibility for the accounting and audit services. Mr. Soffer has more than 25 years of experience in providing accounting, audit and consulting services, mainly to the banking, finance and healthcare sectors. Mr. Soffer is a member of:

- The Committee to oversight the relationship between the Israeli Institute of Certified Public Accountants and the supervisor of banks in Israel
- The Peer Reviews Institution's Board of Directors
- BDO Europe's supreme banking and finance committee

Mr. Soffer has been a partner for over 20 years and a Managing Partner since 1 January 2012.



**SHAHAR ZIV**  
Managing Partner

Mr. Ziv has many years of experience in providing consultation and accounting services, particularly in the field of corporate finance, mergers and acquisitions and project finance. Mr. Ziv's role is to manage the firm. As part of his previous position as head of BDO Israel's Consulting Division, Mr. Ziv consulted leading firms in Israel and was in charge of management and supervision for a variety of projects in both the private and the public sector. Mr. Ziv has extensive experience in guiding and consulting organizations in the fields of venture capital and capital structure, and has led some of the most complex acquisitions and financial transactions in Israel.

Mr. Ziv is a member of:

- BDO International Corporate Finance - Member of the steering committee
- BDO International Corporate Finance - Head of the Valuation group
- BDO Eurasia's Board of Directors

Mr. Ziv has been a partner for over 15 years and a Managing Partner since 1 January 2012.

# MEMBERS OF THE FIRM'S GOVERNANCE STRUCTURE



**EYAL RUBIN,**  
**PARTNER**  
Head of the Tax  
Cluster

Mr. Rubin has many years of experience providing professional consulting in the fields of tax and commercial law. Over the years, Mr. Rubin has provided tax services to a wide range of clients, including Israeli market leaders. Mr. Rubin has consulted in many of the most prominent transactions in the Israeli market and has acquired substantial experience in representing his clients with the Israeli tax authorities. Mr. Rubin has published numerous articles on tax issues and is a highly experienced lecturer in both professional and academic forums. Mr. Rubin is a member of the Tax Committee of the Institute of Certified Public Accountants in Israel and of the Tax Legislation Committee of the Israel Bar as well as additional tax committees.

## MANAGEMENT COMMITTEE

The committee's responsibility is to supervise the day to day operations of the firm.

The management committee meets on a weekly basis.

Name	Title
Danny Margalit	Chairmen and CEO
Erez Soffer	Managing Partner
Shahar Ziv	Managing partner



# MEMBERS OF THE FIRM'S GOVERNANCE STRUCTURE

## EXTENDED MANAGEMENT COMMITTEE

The committee's responsibility is to support the Executive Committee in its responsibilities, supervise the collectability process of the firm and any other business. The committee meets approximately twelve times over the year.

The committee is comprised the following members:

Name	Title
Danny Margalit	Chairman and CEO
Erez Soffer	Managing Partner
Shahar Ziv	Managing partner
Eyal Rubin	Head of the Tax Cluster
Doron Stein	Head of Manufacturing & Agriculture Cluster
Yoel Toledano	Head of the Bnei-Brak Cluster
Yigal Toledano	Head of BDO Financial Consulting
Dan Attias	Head of the Real Estate & Jerusalem Clusters
Yaron Peled	Head of BDO Management Consulting
Zvi Shif	Head of Banking & Financial Cluster & National Director of Risk Management
Yaniv Cohen	Head of the Technology & Global Cluster
Avi Oz	Head of Retail & and Haifa Cluster
Yaron Peled	Head of BDO Management Consulting
Liat Kahalani	VP Operations & CFO
Nirit Mor	VP Business Development, Marketing & Sales
Yamit Peled	VP HR, Head of HR Department

## RISKS MANAGEMENT COMMITTEE

The committee is responsible for discussing the risks in the firm and advising the Executive Committee on procedures to minimize the potential risks that the firm might encounter during its operations.

The Executive Committee has delegated responsibility for the design and implementation of the risk management process to the Risk Management Committee.

The Risk Management Committee meets 4 times a year and is chaired by the Head of Risk Management. It is made up of appointed individuals including the heads of streams, head of the risk management unit and the partner responsible for dealing with professional claims and complaints. The committee has particular responsibility to ensure that the quality, objectivity, and independence of client service is maintained through well managed client acceptance and engagement procedures. In addition, the committee is responsible for making sure that guidance is updated regularly and published on the conduct of all professional services, and that rigorous processes are in place to identify and resolve conflicts of interest.

All partners and staff are required to submit annual confirmations of regulatory compliance which include statements of independence.

The chairman of the committee is the National Director of Risk Management.

The risks management committee is comprised of the following members:

Name	Title
Zvi Shif	Head of Banking & Financial Cluster & National Director of Risk Management
Avi Amit	Head of Audit Methodology Department
Yaron Peled	Head of BDO Management Consulting
Sharon Witkowski Tabib	Head of Risk Advisory Services
Ehud Greenberg	Professional Practice Department Partner
Ran Sharman	Professional Practice Department Partner/National Director of Independence
Dana Gottesman	Risk Advisory Services Partner
Ayelet Yitzhaki	Tax Partner

# MEMBERS OF THE FIRM'S GOVERNANCE STRUCTURE

## THE COMMITTEE TO OVERSIGHT THE AUDIT PRACTICE

The responsibility of the committee is to govern and supervise the audit practice. The committee's focus includes the following:

- An ongoing assessment of the firm's audit practice
- Implementing changes and improvements to our audit methodology and policies in order to meet the regulatory requirements, BDO network's guidance and the development of the practice in the world
- Discuss and provide solutions to firm-wide issues
- Responsibility over the internal quality control program
- Nomination of Engagement Quality Control Reviewers

The committee to oversight the audit practice is comprised of the following members:

Name	Title
Erez Soffer (Chairman)	Managing Partner, National Director of Assurance
Avi Oz	Head of Retail & Haifa Cluster
Lavi Giat	Head of Natural Resources Cluster & National Director of Accounting
Zvi Shif	Head of Banking & Financial Cluster & National Director of Risk Management & Independence
Ran Sherman	Professional Practice Department & National Director of Independence
Ehud Greenberg	Professional Practice Department
Avi Amit	Head of Audit Methodology Department

## CLIENT ACCEPTATION AND RETENTION COMMITTEE

The committee is responsible for the acceptance and retention process of audit and non-audit clients.

The Client Acceptation and Retention Committee is comprised of the following members:

Name	Title
Ran Sherman (Chairman)	Professional Practice Department & National Director of Independence
Yaniv Cohen	Head of the Technology & Global Cluster
Zvi Shif	Head of Banking & Financial Cluster & National Director of Risk Management
Chen Herzog	Consulting Partner, Chief Economist
Arie Baron	Audit Partner
Alon Gonen	Audit Partner

A close-up photograph of three hands in business attire giving a thumbs-up gesture. The hands are positioned in the foreground, with the fingers pointing upwards. The background is slightly blurred, showing more of the hands and arms in blue and grey suits. The lighting is bright and natural, suggesting an outdoor or well-lit indoor setting.

# PARTNER REMUNERATION

The firm's profit is shared amongst all partners under a framework set out in the firm's agreement. The Executive Committee is responsible for allocations that are considered on an annual basis. They are based on a fixed tranche in the form of monthly salaries followed by the closing tranche that is based on the points held by each individual partner. There is also a provision to remunerate for exceptional performance.

Salaried partners receive an annual salary.

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

# INTERNAL QUALITY CONTROL SYSTEM

The firm's system of internal quality control is designed to provide reasonable assurance that the firm, its partners and staff comply with professional standards and regulatory and legal requirements, work is performed to a consistently high standard and that reports issued by the firm are appropriate.

The firm's system of internal quality control can be split into the following elements:

- Leadership responsibilities for quality within the firm;
- Ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Human resources and development;
- Engagement performance;
- Monitoring and documentation of the system of quality control.

## A. LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM

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

The firm has clearly established responsibilities for the chairman, managing partners and other senior personnel. The chairman and the managing partners are members of the firm's Management Committee, which devises and implements the firm's business strategy and manages operational issues.

The Executive Committee and the entire firm are committed to quality work, the public interest and professional judgment, and other values including:

- Honesty and integrity
- Taking personal responsibility
- Mutual support and
- Exceptional client service

The Audit Practice's 'tone at the top' is set by the National Director of Assurance (Managing Partner and a member of the executive committee) and the Committee to Oversight the Audit Practice (COAP).

The National Director of Assurance is the chairman of the COAP. This committee has a leadership role within the audit practice focused on executing the best practice, consistency in approach and in communicating priorities and agreed projects, and initiatives and targets for the practice. Members of the committee are those responsible for the various quality control and risk management areas of the audit practice.

The COAP is responsible for the following:

- Promoting a culture and environment which supports audit quality
- Upholding our values and recognizing and rewarding high quality work
- Ongoing assessment of the firm's audit practice
- Implementing changes and improvements to current practices in order to meet the regulatory requirements, BDO network's requirements and the development of the practice
- Provide solutions to practical issues
- Discuss new audit standards and help with incorporating them into the audit tools and practices
- Encouraging knowledge sharing
- Encouraging consultation
- Promoting professional skepticism
- Responsibility over internal quality control inspections. By choosing on an annual basis the engagements to be reviewed, monitoring the process, assessing the results and providing conclusions and recommendations to the firm's management
- Nomination of engagement quality control reviewers (EQCRs)
- Supervision of appropriate key partners and staff's rotation according to relevant regulations.

Whilst overall responsibility for audit quality on an engagement will always reside with the Engagement Partner or Director, the COAP is responsible for managing and monitoring audit quality in the firm.

The COAP's instructions, decisions and conclusions are distributed and implemented by the Audit Methodology Department.

The Audit Methodology Department is responsible, inter-alia, for the following:

- Migration of BDO International's Audit Manual and policies
- Development of practical tools to comply with BDO Audit Manual (based on BDO forms and tools) and other regulatory or best practice requirements
- Circulation of professional guidance and policies by flash reports
- Training the audit practice and supervising the firm's Training Champions.
- Supervising the internal and external quality control inspections
- Development of intranet based local resources
- Supporting engagement teams with audit judgments, client issues, technical issues and advice

The Audit practice is also supported by the Professional Practice Department (PPD).

The PPD provides technical guidance to audit professionals on specific engagements' technical-related matters, on emerging technical and professional issues and provides guidance on International Financial Reporting Standards (IFRS), Local Israeli GAAP and General accepted Accounting Principles in the U.S.A. (U.S. GAAP).

The professional practice department is responsible for the following:

- Examining the quality of the financial statements including the review and analyzation of the work done by the audit professionals
- Providing solutions for technical issues that arise in the course of the professional work and the audit process
- Providing trainings to the audit professionals on changes in international, local and U.S. accounting standards and interpretations and on changes to local and international laws, regulations and standards
- Publishing professional updates and sending flash reports to employees and clients
- Publishing professional articles in accounting journals, daily newspapers and booklets

- Participation in Professional Committees (Israeli Accounting Standard Board, Institute of CPA in Israel, the supervisor of banks liaison committee, etc.)
- Participation in BDO international technical and professional groups
- Evaluating the firm's quality controls policies and procedures

## B. ETHICAL REQUIREMENTS

The firm's Conduct of Professional Standards procedures contains the principles and rules relating to ethical conduct, including integrity, independence and objectivity, professional competence and due care, confidentiality and professional behavior. The ethical conduct guidance is available to all staff on the firm's intranet. Annual declarations are made by all partners and staff to ensure compliance with relevant ethical requirements and policies have been implemented for resolution of issues.

Our independence and objectivity on assurance clients is achieved through policies and procedures designed to ensure compliance with the relevant independence standards, which is accessible by all partners and professionals.

We have a designated Independence Champion, an experienced partner, who monitors compliance with the applicable independence policies and procedures, provides consultations regarding independence matters, and monitors independence training and maintenance of a restricted entity database.

We also maintain a database of all our firm's restricted entities, including listed companies and other public interest entities. This is available on our intranet and its objective is to prevent the performance of prohibited non-assurance services or investment in these entities. The database is continuously updated.

Prior to accepting any new client or assurance engagement, our engagement teams must perform specific procedures to identify potential conflicts of interest and threats to our independence. Procedures include a custom-made web-based tool to facilitate international conflict of interest and independence checks throughout the BDO network, when needed.

There is also an independence declaration per audit engagement signed by all partners and staff members that have been involved in the performance of the audit engagement.

### C. ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS

Robust client and engagement acceptance procedures play a pivotal role in the firm's ability to deliver a professional and quality service.

Prior to the acceptance of any new client and consideration of continuance with that client, certain procedures to assess the risks associated with that client must be carried out. These will include:

- Consideration of the client's business including its geographical spread and the industry it operates in;
- Evaluation of information concerning the client, its management and its owners including obtaining evidence of the identity of the owners and officers of the business;
- Consideration of information regarding the character and reputation of the prospective client and key personnel;
- Assessment of potential independence risks and potential conflicts of interest;
- Inquiry of the previous auditor regarding the reasons for the change in auditor and reason for why the appointment might not be accepted, if necessary;
- Assessment of our ability to serve the prospective client; and
- Reviewing filings of the company, including prior year financial statements.

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

### D. HUMAN RESOURCES

Our people are a critical factor in our ability to provide professional services. To ensure that the firm has sufficient staff with the capabilities, competence, and ethical standards necessary to provide quality audits in accordance with professional and legal requirements, we have established clear policies and procedures. These procedures and policies provide clarity and coherence on goals, structures, vision and accepted behaviors of the BDO Member Firm employees. In short, they cover the rules of play within our organization.

Human resources' policies and procedures addressing the following areas:

- Recruitment procedure
- Job description for each level: tasks, responsibilities and expectations
- Performance appraisal and engagement surveys
- Development plan and training policy

#### RECRUITMENT PROCEDURE

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

We work actively to promote diversity within the firm's culture, not just in principle but in practice. Inclusivity within the organization, whether it is based on age, gender, ethnicity or physical capabilities, strengthens the firm's values, makes the firm more representative and more capable of providing a quality professional service.

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

#### JOB DESCRIPTION: TASKS, RESPONSIBILITIES AND EXPECTATIONS

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

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

**WHAT DOES SUCCESSION MANAGEMENT MEAN TO THE BDO MEMBER FIRM?**

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

**WHAT DOES THIS MEAN TO THE EMPLOYEE?**

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

**PERFORMANCE APPRAISALS AND ENGAGEMENT SURVEYS**

Formal reviews provide the opportunity for discussion of an individual's contribution to the quality of service provided. The factors evaluated (which may vary by level) include work performance and general contribution, professional and technical competence, and other core competencies required for the execution of their duties.

All our staff members are subject to formal performance appraisal, review, and counselling on a regular basis, in order to evaluate the level of competence, monitor development, and to help them reach their full potential. A performance appraisal includes a review of each individual's contribution to the quality of service(s) provided by our firm.

The factors appraised (which may vary by level) include professional and technical competence (including analytical and judgement skills), personal and management skills, and client servicing skills.

Our firm provides regular engagement surveys to monitor employee engagement which ensures the motivation to maximize the success of the firm.

**DEVELOPMENT PLAN AND TRAINING POLICY**

The career development plan is to ensure promotion to the next level, but only takes place when people are prepared for the increased responsibilities that promotion entails. We provide our individuals a clear career path and complementary development plan.

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

**THE CONTINUING EDUCATION OF STATUTORY AUDITORS**

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

For audit partners and professional staff, the firm requires partners and staff members to participate in appropriate, continuous professional development programs and monitors the fulfilment of program obligations.

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

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

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

Developing management and interpersonal skills are also very important for the group.

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

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

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

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

#### **CAPABILITIES AND COMPETENCE**

Policies and procedures for assigning our people to engagements are designed such that only those persons having adequate technical proficiency and competence will perform the work (taking into account the size, nature and complexity of each engagement). A current profile of technical proficiency is obtained by personal knowledge and reviewing evaluation forms. Our training catalogue of learning and development opportunities is designed to ensure that our people are fully competent and constantly developing.

#### **CAREER DEVELOPMENT**

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

On the firm's internet site, an employee can view the specific procedures regarding the requirements and capabilities that the firm demands in order to advance to the next level in each business stream. This provides an employee the framework of what is expected from him/her and also provides the partners and managers tools for the development and assessment of the employees.

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

#### **RESOURCE MANAGEMENT**

We recognize that ultimately, it is the ability and commitment of our people that really makes a difference and enables us to deliver a quality audit. We look at our people as the most important and valuable resource that we have. Given this, our ability to attract the right number of high quality people is of utmost importance. We predict our requirements so as to continue to service the firm's clients and provide sufficient capacity to enable our people to develop the business.

### **E. ENGAGEMENT PERFORMANCE IN THE AUDIT STREAM**

#### **COMMON METHODOLOGY**

Our policies and procedures are designed to ensure that audits meet all applicable professional standards, regulatory requirements and that the firm issues reports that are appropriate in the circumstances. To achieve this and to promote consistency in the approach to auditing and related fundamental application of professional skepticism throughout the BDO network, BDO International has developed the common BDO Audit Methodology, related software tools and other standard forms of documentation. This methodology is fully compliant with International Auditing Standards.

APT, BDO International's in-house state of the art audit software, remains the single largest global project of its kind and its evolution continues. With further substantial audit methodology and IT investment, the next generation of APT was launched during 2020. By designing APT to take advantage of recent technological advances, we will be able to:

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

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

## SUPERVISION AND REVIEW

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

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

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

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

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

## CONSULTATION

Our culture encourages consultation with experienced partners and other specialists where appropriate. The firm has a process in place for audit partners and teams to follow when consulting and seeking a 'firm' opinion, support on a client issue, judgement or risk.

## F. MONITORING OF THE AUDIT STREAM

Our policies and procedures concerning monitoring activities are designed to give the firm reasonable assurance that the firm's internal quality control system is operating effectively and is being complied with in practice.

We perform an Internal Inspection Program (IIP) on an annual basis. The audit IIP inspection cycle allows for engagement partners to be reviewed under the IIP at least once in a three-year cycle, and is in compliance with the requirements of ASQC 1. The program extends across all offices and engagement partners/directors.

Our quality control system includes an annual review process of audit files to monitor compliance with the firm's policies, procedures and standards and to ensure that the audit work carried out in order to arrive at a proper opinion is properly documented and is of high quality.

The COAP is responsible for monitoring and documenting the implementation of, and compliance with, any corrective actions. The process is managed by the audit methodology department and each review is headed by an experienced auditor. The independence of the reviewers is ensured by the COAP.

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

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

At the conclusion of the annual program, the results are discussed with the COAP and the Management Committee.

### **MANAGEMENT STATEMENT ON EFFECTIVENESS OF FUNCTIONING**

These policies, procedures and monitoring activities have provided the firm's Management Committee with reasonable assurance that the firm, its partners and staff have materially complied with applicable professional, regulatory and legal requirements, that work has been performed to a consistently high standard and that appropriate reports have been issued. The firm's Management Committee have inter alia considered the results of the annual regulatory inspections by the peer review and other regulators in reaching this opinion.

### **PUBLIC INTEREST AUDIT CLIENTS**

During the period covered by this transparency report, BDO Israel has signed the audit report for B.S.D Crown Ltd. that has shares listed on the UK's London Stock Exchange.

### **FINANCIAL INFORMATION**

BDO Israel turnover is split to the following:

- Revenue from statutory audits of audit clients listed in the EU	less than 1%
- Revenue from statutory audits of other clients	41%
- Revenue from non-audit services to audit clients	8%
- Revenue from non-audit services to other clients	51%

# REGULATORY AND OTHER REVIEWS

- PCAOB Review is performed every 3 years. The last review was performed in May 2019 with respect to 2018's engagements and quality control procedures.
- BDO International's Quality Review is performed every 3 years. The last review was performed in September 2019 with respect to 2018's engagements and quality control procedures.
- Peer review is performed by the institute for peer review (under the supervision of the Israeli Institute of Certified Public Accountants). The last review was performed during July-August 2020 with respect to 2019's engagements and quality control procedures.
- ISO 9001:2015 internal and external reviews are performed every year. The last review was performed in November 2020 with respect to 2019's engagements and quality control procedures.

None of the reviews have raised significant deficiencies with respect to the reviewed engagement and the firm's quality controls' procedures.

# APPENDIX A

## EU/EEA MEMBER FIRMS

COUNTRY	TERRITORY	NAME OF THE AUDIT FIRMS
AUSTRIA	Austria	BDO Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft
	Austria	BDO Steiermark GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft
	Austria	BDO Salzburg GmbH Wirtschaftsprüfungs - und Steuerberatungsgesellschaft
	Austria	BDO Oberösterreich GmbH Wirtschaftsprüfungs - und Steuerberatungsgesellschaft
BELGIUM	Belgium	BDO Bedrijfsrevisoren - Réviseurs d'Entreprises CVBA
BULGARIA	Bulgaria	BDO Bulgaria OOD
CROATIA	Croatia	BDO Croatia D.O.O.
	Albania	BDO ALBANIA LLC
	Kosovo	BDO KOSOVO
CYPRUS	Cyprus	BDO Limited
CZECH REPUBLIC	Czech Republic	BDO Audit s.r.o
	Czech Republic	BDO Group s.r.o.
	Czech Republic	BDO Czech Republic s.r.o.
DENMARK	Denmark	BDO Statsautoriseret revisionsaktieselskab
		BDO Holding V, Statsautoriseret Revisionsaktieselskab
ESTONIA	Estonia	BDO Eesti AS
FINLAND	Finland	BDO Oy
	Finland	BDO Audiator Oy
	Finland	Finnpartners BDO Oy

COUNTRY	TERRITORY	NAME OF THE AUDIT FIRMS
FRANCE	France	BDO France
	France	BDO IDF
	France	BDO RHONE-ALPES
	France	BDO 2AS
	France	BDO LES HERBIERS
	France	BDO FONTENAY LE COMTE
	France	BDO ST GILLES CROIX DE VIE
	France	BDO NANTES
	France	BDO ARRAOU
	France	VINCENT RUSE CONSEIL
	France	BDO LES ULIS
	France	FIDENT AUDIT
	France	3APEXCO
	France	3A CORPORATE
	France	BDO Paris Audit & Advisory
France	BDO Méditerranée	
GERMANY	Germany	BDO AG Wirtschaftsprüfungsgesellschaft
	Germany	BDO Oldenburg GmbH & Co KG Wirtschaftsprüfungsgesellschaft
	Germany	BDO DPI AG Wirtschaftsprüfungsgesellschaft
	Germany	BDO Dr. Daiber Audit GmbH Wirtschaftsprüfungsgesellschaft
GIBRALTAR	Gibraltar	BDO Limited
GREECE	Greece	BDO CERTIFIED PUBLIC ACCOUNTANTS S.A.
HUNGARY	Hungary	BDO Hungary Audit Ltd

COUNTRY	TERRITORY	NAME OF THE AUDIT FIRMS
ICELAND	Iceland	BDO ehf.
IRELAND	Ireland	BDO
ITALY	Italy	BDO Italia S.p.A.
LATVIA	Latvia	SIA BDO ASSURANCE
LIECHTENSTEIN	Liechtenstein	BDO (Liechtenstein) AG
LITHUANIA	Lithuania	BDO Auditas ir Apskaita, UAB
LUXEMBOURG	Luxembourg	BDO Audit
MALTA	Malta	BDO Malta CPAs
NETHERLANDS	Netherlands	BDO Audit & Assurance B.V.
NORWAY	Norway	BDO AS
POLAND	Poland	BDO Spółka z ograniczoną odpowiedzialnością Sp. K.
	Poland	BDO Legal Latala is Wspólnicy Sp.K. (non-voting Firm)
PORTUGAL	Portugal	BDO & Associados, SROC, Lda
ROMANIA	Romania	BDO Audit SRL
	Romania	BDO Auditors & Accountants SRL
	Romania	BDO Auditors and Business Advisors SRL
SLOVAK REPUBLIC	Slovak Republic	BDO Audit, spol. s r.o.
SLOVENIA	Slovenia	BDO Revizija d.o.o.
SPAIN	Spain	BDO Auditores, S.L.P.
	Spain	BDO Audiberia Abogados y Asesores Tributarios, S.L.P.

COUNTRY	TERRITORY	NAME OF THE AUDIT FIRMS
<b>SWEDEN</b>	Sweden	BDO AB
	Sweden	BDO Göteborg AB
	Sweden	BDO Göteborg Intressenter AB
	Sweden	BDO Göteborg KB
	Sweden	BDO Mälardalen AB
	Sweden	BDO Mälardalen Intressenter AB
	Sweden	BDO Norr AB
	Sweden	BDO Norr Intressenter AB
	Sweden	BDO Stockholm AB
	Sweden	BDO Sweden AB
	Sweden	BDO Syd AB
	Sweden	BDO Syd Intressenter AB
	Sweden	BDO Syd KB
<b>United Kingdom of Great Britain and Northern Ireland/Isle of Man</b>	United Kingdom	BDO LLP
	Northern Ireland	BDO Northern Ireland

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