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**Inspection of
BDO Stoy Hayward LLP**

**Issued by the
Public Company Accounting Oversight Board**

December 20, 2006

PCAOB RELEASE NO. 104-2006-206



Notes Concerning this Report

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



INSPECTION OF BDO STOY HAYWARD LLP

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm BDO Stoy Hayward LLP ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Act restricts the Board from publicly disclosing portions of an inspection report that discuss certain types of deficiencies or certain other nonpublic information.^{1/} Because the inspection did not identify instances of such deficiencies, and because the report does not otherwise disclose protected information, the Board is making the entire report available to the public.

^{1/} The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions. See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted fieldwork for the inspection from November 1, 2005 to November 5, 2005 and from December 5, 2006 to December 16, 2005.^{2/} The fieldwork included procedures tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	14 (Ayr, Birmingham, Bristol, Bromley, Chelmsford, Epsom, Glasgow, Guildford, Hatfield, Leeds, London, Manchester, Reading, and Southampton, United Kingdom)
Ownership structure	Limited liability partnership
Number of partners	216
Number of professional staff ^{3/}	Approximately 1,900
Number of issuer audit clients ^{4/}	1

^{2/} The Board's inspection was conducted in cooperation with the Audit Inspection Unit of the Professional Oversight Board.

^{3/} "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

^{4/} The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits. To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.^{5/} It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements, are free of any deficiencies not specifically described in an inspection report.

A. Review of Audit Engagement

The scope of the inspection procedures performed included a review of aspects of the performance of the Firm's audit of the financial statements of its issuer audit client. Those aspects were selected according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the selection process. The engagement review did not identify audit performance issues that, in the inspection team's view, resulted in the Firm failing to obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on a specific audit, the inspection included review of certain of the Firm's practices, policies and procedures related to audit quality. This review addressed practices, policies and procedures concerning audit performance and the following six functional areas: (1) tone at the top; (2) independence implications of non-audit services; business ventures,

^{5/} When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations or cash flows of the issuer in conformity with GAAP, the Board reports that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

alliances and arrangements; and commissions and contingent fees; (3) practices for client acceptance and retention; (4) the Firm's internal inspection program; (5) practices for establishment and communication of audit policies, procedures and methodologies, including training; and (6) the supervision by the Firm's audit engagement teams of the work performed by non-U.K. affiliates on non-U.K. operations of the Firm's issuer audit clients. The inspection team did not identify anything that it considered to be a quality control defect that warrants discussion in a Board inspection report.

END OF PART I

PART II

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Board provided the Firm an opportunity to review and comment on a draft of this report. The Firm provided a written response.

Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final report.

Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report. In any version of this report that the Board makes publicly available, any portions of the Firm's response that address nonpublic portions of the report are omitted.



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1666 K Street, N.W.
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USA

11 September 2006

Our ref: 72/DHU/RL00684 - PCAOB

E-mail: don.hutchison@bdo.co.uk

Dear Mr Diacont

Thank you for your letter of 14 August 2006 enclosing your Inspection Report on BDO Stoy Hayward LLP.

We share the Public Company Accounting Oversight Board's goal of using the inspection process as a further driver of improving audit quality and related financial reporting. In that regard, we appreciate the considerable value derived from such process because a fundamental of our audit practice is to seek continuous improvement.

We would also like to take the opportunity to thank you for the effective manner in which your team co-ordinated and carried out their review in co-operation with the Audit Inspection Unit of the (UK) Professional Oversight Board.

If you have any questions regarding this letter, please contact Don Hutchison on +44 20 7893 2625

Yours sincerely

BDO Stoy Hayward LLP

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BDO Stoy Hayward LLP is a limited liability partnership and is authorised and regulated by the Financial Services Authority to conduct investment business

Registered office: 8 Baker Street, London W1U 3LL
Registered number: OC305127
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