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## Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

*In the Matter of Baker Tilly US, LLP,*

Respondent.

PCAOB Release No. 105-2024-006

February 20, 2024

By this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (“Order”), the Public Company Accounting Oversight Board (“Board” or “PCAOB”) is:

- (1) censuring Baker Tilly US, LLP (“Baker Tilly,” the “Firm,” or “Respondent”);
- (2) imposing a civil money penalty in the amount of \$80,000 upon the Firm; and
- (3) requiring the Firm to comply with its policies and procedures directed toward ensuring compliance with PCAOB standards for communications with audit committees and the documentation of those communications.

The Board is imposing these sanctions on the basis of its findings that the Firm (a) failed to document pre-approval of services by two issuer clients’ audit committees, in violation of AS 1215, *Audit Documentation*; and (b) failed to make certain required communications to the audit committees of two issuer audit clients, in violation of AS 1301, *Communications with Audit Committees*.

### I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted against Respondent pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the “Act”), and PCAOB Rule 5200(a)(1).

## II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Baker Tilly has submitted an Offer of Settlement (“Offer”) that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board’s jurisdiction over Respondent and the subject matter of these proceedings, which is admitted, Respondent consents to the entry of this Order as set forth below.<sup>1</sup>

## III.

On the basis of Respondent’s Offer, the Board finds that:

### A. Respondent

1. **Baker Tilly US, LLP** is a limited liability partnership headquartered in Chicago, Illinois and is a member of the Baker Tilly International network of firms (“BTI”). It is licensed to practice public accounting in multiple jurisdictions, including with the Department of Financial and Professional Regulation of the State of Illinois (license no. 066-004260). At all relevant times, Baker Tilly was registered with the Board pursuant to Section 102 of the Act and PCAOB rules. During the period covered by this Order, the Firm annually served as the principal auditor for more than 70 issuer clients and more than 30 broker-dealer clients.

### B. Issuers

2. **Genius Brands International, Inc.** (“Genius Brands”) is a corporation headquartered in Beverly Hills, California. Its public filings disclose that it is a global content and brand management company that creates and licenses multimedia content. Baker Tilly issued an audit report that Genius Brands included in its Form 10-K filed with the U.S. Securities and Exchange Commission (“Commission”) for the fiscal year ended December 31, 2020 (the “2020 Genius Brands Audit”).

3. **Nortech Systems, Inc.** (“Nortech”) is a corporation headquartered in Maple Grove, Minnesota. Its public filings disclose that it is a provider of design and manufacturing solutions for complex electromedical devices, electromechanical systems, assemblies, and

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<sup>1</sup> The findings herein are made pursuant to the Firm’s Offer and are not binding on any other person or entity in this or any other proceeding.

components. Baker Tilly issued an audit report that Nortech included in its Form 10-K filed with the Commission for the fiscal year ended December 31, 2020 (the “2020 Nortech Audit”).

4. **Northern Technologies International Corporation** (“Northern Technologies”) is a corporation headquartered in Circle Pines, Minnesota. Its public filings disclose that it develops and markets corrosion prevention and polymer resin compounds and products. Baker Tilly issued an audit report that Northern Technologies included in its Form 10-K filed with the Commission for the fiscal year ended August 31, 2021 (the “2021 Northern Technologies Audit”).

5. At all relevant times, each of the companies listed in paragraphs 2 through 4 was an “issuer” as that term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

### C. Other Relevant Entities

6. **Baker Tilly 4Partners Auditores Independentes S.S.** (“BT Brazil”) is headquartered in Sao Paulo, Brazil, and a member of BTI. At all relevant times, BT Brazil was registered with the Board pursuant to Section 102 of the Act and PCAOB rules. BT Brazil performed a statutory audit for a subsidiary of Northern Technologies.

7. **Baker Tilly China Certified Public Accountants** (“BT China”) is headquartered in Beijing, China and a member of BTI. At all relevant times, BT China was registered with the Board pursuant to Section 102 of the Act and PCAOB rules. BT China performed a statutory audit for a subsidiary of Northern Technologies.

8. **Baker Tilly Mexico, S.C.** (“BT Mexico”) is headquartered in Mexico City, Mexico and a member of BTI. At all relevant times, BT Mexico was registered with the Board pursuant to Section 102 of the Act and PCAOB rules. BT Mexico performed a statutory audit for a subsidiary of Nortech.

9. **Baker Tilly Hong Kong Limited** (“BT Hong Kong”) is headquartered in Hong Kong, Special Administrative Region of the People’s Republic of China, and a member of BTI. BT Hong Kong is a “public accounting firm,” as that term is defined in Section 2(a)(11) of the Act and PCAOB Rule 1001(p)(iii). BT Hong Kong is not now, and was not at the relevant time, registered with the Board. BT Hong Kong performed a statutory audit for a subsidiary of Nortech.

10. **Haribhakti & Co. LLP** (“BT India”) is headquartered in Mumbai, India and a member of BTI. BT India is a “public accounting firm,” as that term is defined in Section 2(a)(11) of the Act and PCAOB Rule 1001(p)(iii). BT India is not now, and was not at the

relevant time, registered with the Board. BT India performed a statutory audit for a subsidiary of Northern Technologies.

11. **Suzhou Wanlong Yongding Certified Public Accountants Co., Ltd.** (“SWY”) headquartered in Suzhou, Jiangsu, People’s Republic of China. SWY is a “public accounting firm,” as that term is defined in Section 2(a)(11) of the Act and PCAOB Rule 1001(p)(iii). SWY is not now, and never has been, registered with the Board. SWY was an other accounting firm that performed audit procedures on the 2020 Nortech Audit.

#### **D. Baker Tilly Failed to Document Audit Committee Pre-Approval of Statutory Audit Services, in Violation of AS 1215**

12. PCAOB standards require that audit documentation should demonstrate that the engagement complied with the standards of the PCAOB.<sup>2</sup> Audit documentation is the written record of the basis of the auditor’s conclusions and provides the support for the auditor’s representations in the audit report,<sup>3</sup> including the representation that an audit was conducted in accordance with PCAOB standards.<sup>4</sup>

13. Thus, documentation of an audit must support that the auditor complied with PCAOB and SEC independence requirements. PCAOB rules and standards require that a registered public accounting firm and its associated persons be independent of the firm’s audit client, including by satisfying the independence criteria set out in the Commission’s rules and regulations under the federal securities laws.<sup>5</sup> One such criterion is set out in Rule 2-01(c)(7)(i) of Commission Regulation S-X, which provides that “[a]n accountant is not independent of an issuer” unless, “[b]efore the accountant is engaged by the issuer...to render audit or non-audit services, the engagement is approved by the issuer’s...audit committee.”<sup>6</sup>

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<sup>2</sup> See AS 1215.05(a).

<sup>3</sup> AS 1215.02.

<sup>4</sup> See AS 3101.09, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* (describing the elements that must be included in the section of the audit report containing the basis for the auditor’s opinion).

<sup>5</sup> See PCAOB Rule 3520, Note 1, *Auditor Independence*; AS 1005.05-.06, *Independence*.

<sup>6</sup> 17 C.F.R. § 210.2-01(c)(7). The definition of accountant includes “any accounting firm with which the certified public accountant . . . is affiliated.” 17 C.F.R. § 210.2-01(f)(1).

**i. Services for Nortech and Its Subsidiaries**

14. Nortech retained Baker Tilly to perform the 2020 Nortech Audit.
15. During the 2020 Nortech Audit, two of Baker Tilly's affiliates, BT Mexico and BT Hong Kong, performed statutory audit services for subsidiaries of Nortech.
16. Nortech's audit committee pre-approved these statutory audit services, but Baker Tilly failed to document that pre-approval.
17. Accordingly, Baker Tilly violated AS 1215 with respect to the 2020 Nortech Audit.

**ii. Services for Northern Technologies and Its Subsidiaries**

18. Northern Technologies retained Baker Tilly to perform the 2021 Northern Technologies Audit.
19. During the 2021 Northern Technologies Audit, three of Baker Tilly's affiliates, BT Brazil, BT China, and BT India, performed statutory audit services for subsidiaries of Northern Technologies.
20. Northern Technologies's audit committee pre-approved these statutory audit services, but Baker Tilly failed to document that pre-approval.
21. Accordingly, Baker Tilly violated AS 1215 with respect to the 2021 Northern Technologies Audit.

**E. Baker Tilly Failed to Make Required Audit Committee Communications in Violation of AS 1301**

22. Pursuant to PCAOB auditing standards, an auditor must communicate with a client's audit committee regarding certain matters related to the conduct of an audit and obtain certain information from the audit committee relevant to the audit.<sup>7</sup> The auditor should communicate to the audit committee an overview of the overall audit strategy, including the timing of the audit, and discuss with the audit committee the significant risks identified during the auditor's risk assessment.<sup>8</sup>

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<sup>7</sup> AS 1301.01, *Communications with Audit Committees*.

<sup>8</sup> *Id.* at .09. In the adopting release for Auditing Standard No. 16 (now known as AS 1301) ("AS 1301 Adopting Release"), the Board indicated that "[c]ommunications between the auditor and the

23. PCAOB standards specify that each auditor, as part of communicating the overall audit strategy, should communicate with the audit committee the names, locations, and planned responsibilities of other independent public accounting firms<sup>9</sup> or other persons, who were not employed by the auditor, that performed audit procedures in the current period audit.<sup>10</sup>

24. The auditor also should communicate to the audit committee: (a) significant accounting policies and practices; (b) critical accounting policies and practices; (c) critical accounting estimates; and (d) significant unusual transactions.<sup>11</sup>

25. Baker Tilly informed Nortech’s audit committee that certain targeted audit procedures would be performed in China during the 2020 Nortech Audit, but failed to inform Nortech’s audit committee of the name and planned responsibilities of SWY, an other independent public accounting firm in China, not employed by Baker Tilly, that performed audit procedures in the 2020 Nortech Audit.

26. Accordingly, Baker Tilly violated AS 1301.10d in connection with the 2020 Nortech Audit.

27. In connection with the 2020 Genius Brands Audit, Baker Tilly informed Genius Brands’s audit committee of eight critical accounting policies and estimates, but it failed to

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audit committee allow the audit committee to be well-informed about accounting and disclosure matters, including the auditor’s evaluation of matters that are significant to the financial statements, and to be better able to carry out its oversight role.” See Auditing Standard No. 16—*Communications With Audit Committees; Related Amendments to PCAOB Standards; and Transitional Amendments to AU Sec. 380*, PCAOB Rel. No. 2012-004, at 2 (August 15, 2012).

<sup>9</sup> The term “other independent public accounting firms” includes “firms that perform audit procedures in the current period audit regardless of whether they otherwise have any relationship with the auditor.” AS 1301.10d.

<sup>10</sup> *Id.* In the AS 1301 Adopting Release, the Board explained the rationale for identifying other independent public accounting firms for the audit committee as follows: “The audit committee should be aware of all the participants in the audit. This communication regarding other participants in the audit would enable the audit committee to inquire or otherwise determine, for example, whether the other participants are registered with the Board and are subject to PCAOB inspections and whether they have disciplinary history with the Board or other regulators.” AS 1301 Adopting Release at Appendix 4, p. A4-15.

<sup>11</sup> AS 1301.12a-.12d.

inform the audit committee about two other critical accounting estimates, related to share-based compensation and income taxes, including deferred income tax assets and liabilities.

28. Accordingly, Baker Tilly violated AS 1301.12c in connection with the 2020 Genius Brands Audit.

#### IV.

29. Baker Tilly has represented to the Board that it has established and implemented the following changes to its policies and procedures for the purpose of providing it with reasonable assurance of compliance with PCAOB standards for communications with audit committees and the documentation of those communications:

- a. Baker Tilly implemented new template work papers for documenting pre-approval of services by audit committees;
- b. Baker Tilly communicated requirements related to documenting pre-approval of services by audit committees to all personnel working on issuer audits through an updated policy and guidance;
- c. Baker Tilly required senior audit professionals to attend webinars concerning, among other things, PCAOB and SEC independence requirements and related documentation requirements;
- d. Baker Tilly updated an internal publication and template audit work paper checklist related to audit committee communications; and
- e. Baker Tilly required senior audit professionals to attend webinars concerning, among other things, required audit committee communications.

#### V.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), the Firm is hereby censured;

- B. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$80,000 is imposed upon the Firm.
1. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act.
  2. The Firm shall pay this civil money penalty within ten (10) days of the issuance of this Order by: (1) wire transfer pursuant to instructions provided by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter, which identifies the Firm as a respondent in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006.
  3. If timely payment is not made, additional interest shall accrue at the federal debt collection rate set for the current quarter pursuant to 31 U.S.C. § 3717. Payments shall be applied first to post-Order interest.
  4. With respect to any civil money penalty amounts that Respondent shall pay pursuant to this Order, Respondent shall not, directly or indirectly, (a) seek or accept reimbursement or indemnification from any source including, but not limited to, any current or former affiliated firm or professional or any payment made pursuant to any insurance policy; (b) claim, assert, or apply for a tax deduction or tax credit in connection with any federal, state, local, or foreign tax; nor (c) seek or benefit by any offset or reduction of any award of compensatory damages, by the amount of any part of Respondent's payment of the civil money penalty pursuant to this Order, in any private action brought against Respondent based on substantially the same facts as set out in the findings in this Order.
  5. Respondent understands that failure to pay the civil money penalty described above may result in summary suspension of Respondent's registration, pursuant to PCAOB Rule 5304(a), following written notice to



Respondent at the address on file with the PCAOB at the time of the issuance of this Order.

- C. Pursuant to Section 105(c)(4)(G) of the Act and PCAOB Rule 5300(a)(9), the Firm is required to comply with its revised policies and procedures, including those intended to provide reasonable assurance that Firm personnel will comply with PCAOB standards for communications with audit committees and the documentation of those communications.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

February 20, 2024