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PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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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. 105-2025-001

January 14, 2025

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," "Firm," or "Respondent");

(2) imposing a $500,000 civil money penalty upon the Firm;

(3) requiring Baker Tilly to engage an independent consultant to review and make recommendations concerning Baker Tilly's system of quality control as specified in Section IV of this Order; and

(4) requiring Baker Tilly to conduct certain training for all issuer audit staff.

The Board is imposing these sanctions on the basis of its findings that the Firm violated PCAOB rules and quality control standards from 2021 to 2022 by failing to ensure that its system of quality control provided reasonable assurance that its personnel complied with applicable professional standards and the Firm's standards of quality, despite audit and quality control concerns brought to the Firm's attention through PCAOB inspections.

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, Respondent has submitted an Offer of Settlement (the "Offer") that the Board has determined to accept. Solely for the purpose of these proceedings and any other proceeding 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.[1]

III.

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

A. Respondent

1. **Baker Tilly US, LLP** is a public accounting firm headquartered in Chicago, Illinois. Baker Tilly is licensed to practice public accounting by the Illinois Department of Financial and Professional Regulation (License No. 066.004260), among other state licensing authorities. Baker Tilly is, and, at all relevant times, was registered with the Board pursuant to Section 102 of the Act and PCAOB rules.

B. Summary

2. This matter concerns the Firm's failure to comply with PCAOB rules and quality control standards from 2021 to 2022. During that period, the Firm's system of quality control over engagement performance failed to provide reasonable assurance that work performed by the Firm's engagement personnel met applicable professional standards and regulatory requirements. In addition, the Firm's monitoring policies and procedures failed to provide it with reasonable assurance that the policies and procedures relating to each of the other elements of quality control were suitably designed and effectively applied.[2]

[1] The findings herein are made pursuant to Respondent's Offer and are not binding on any other person or entity in this or any other proceeding.

[2] Before 2022, Baker Tilly was inspected on a triennial basis. On October 4, 2021, the Firm filed a special report on Form 3 reporting that it had issued audit reports with respect to more than 100 issuers. As a result, the Firm was subject to a PCAOB inspection each calendar year beginning in calendar year 2022. *See* PCAOB Rule 4003, *Frequency of Inspections*. The Firm remained subject to annual inspection in calendar year 2023. The Firm has since reported that it has reduced its issuer client base, filing a PCAOB Form 3 on February 29, 2024, which indicated in Item 2.3 that the Firm has issued audit

3. In 2018 and early 2019, PCAOB inspectors brought concerns to the Firm's attention related to significant engagement deficiencies found in various audit areas, including in the Firm's auditing of issuers' internal control over financial reporting ("ICFR"), its auditing of accounting estimates, and its execution of engagement quality reviews ("EQRs").

4. Despite the Firm's awareness of these deficiencies and concerns, the Firm failed to make effective changes to improve its system of quality control and failed to address the deficiencies through its quality control engagement performance and monitoring policies and procedures. Indeed, in two subsequent inspections that the Board conducted in 2021 and 2022, PCAOB inspectors identified substantially the same significant engagement deficiencies across multiple audits that the Firm conducted. Accordingly, the Firm violated PCAOB quality control standards.

C. The Firm Violated PCAOB Rules and Quality Control Standards

5. PCAOB rules require a registered public accounting firm and its associated persons to comply with PCAOB quality control standards.[3] These standards require that a registered firm have a system of quality control for its accounting and auditing practice.[4] A firm's system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide the firm with reasonable assurance of complying with professional standards.[5]

6. A firm's system of quality control should, among other things, include policies and procedures for engagement performance.[6] These quality control policies and procedures should provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality.[7] Quality control policies and procedures for engagement performance

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reports with respect to 100 or fewer issuers in a completed calendar year [2023] immediately following a calendar year in which the Firm issued audit reports with respect to more than 100 issuers [2022]. *See* Firm Form 3 (Feb. 29, 2024).

3 *See* PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3400T, *Interim Quality Control Standards*.

4 *See* QC 20.01, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

5 *Id.* at .04.

6 *Id.* at .07.

7 *Id.* at .17.

encompass all phases of the design and execution of an engagement.[8] To the extent appropriate and as required by applicable professional standards, these policies and procedures should cover planning, performing, supervising, reviewing, documenting, and communicating the results of each engagement.[9] These policies and procedures also should address EQRs.[10]

7. A firm should also establish policies and procedures to provide the firm with reasonable assurance that its quality control policies and procedures are suitably designed and are being effectively applied.[11] Monitoring procedures taken as a whole should enable the firm to obtain reasonable assurance that its system of quality control is effective.[12] Procedures that provide the firm with a means of identifying and communicating circumstances that may necessitate changes to or the need to improve compliance with the firm's policies and procedures contribute to the monitoring element.[13] Among other things, a firm's monitoring procedures may include inspection procedures, preissuance or postissuance review of selected engagements, determination of any corrective actions to be taken and improvements to be made in the quality control system, communication to appropriate firm personnel of any weaknesses identified, and follow-up to ensure that any necessary modifications are made to the quality control system on a timely basis.[14]

8. Inspection procedures, as a part of a firm's system of quality control, evaluate the adequacy of a firm's quality control policies and procedures, its personnel's understanding of those policies and procedures, and the extent of the firm's compliance with its quality control policies and procedures.[15] Inspection procedures contribute to the monitoring function because findings are evaluated and changes in, or clarifications of, quality control policies and procedures are considered.[16]

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[8] *Id.* at .18.

[9] *Id.*

[10] *Id*.

[11] *See* QC § 20.20; QC 30, *Monitoring a CPA Firm's Accounting and Auditing Practice*, .02.

[12] QC § 30.03.

[13] *Id*.

[14] QC § 30.03; *see also id.* at .04-.08.

[15] *Id.* at .04.

[16] *Id*.

9. To provide reasonable assurance that the firm's quality control system achieves its objectives, appropriate consideration should be given to the assignment of quality control responsibilities within the firm, the means by which quality control policies and procedures are communicated, and the extent to which the policies and procedures and compliance should be documented.[17]

i. The Firm's Quality Control Policies and Procedures Failed to Provide Reasonable Assurance That Personnel Complied with Applicable Professional Standards

10. In 2018, PCAOB inspection staff conducted an inspection of the Firm. In connection with the inspection, PCAOB inspection staff informed the Firm in 2018 and early 2019 of its findings regarding audit deficiencies, including findings that the Firm failed, in three ICFR audits selected for inspection, to perform sufficient procedures to test the design and operating effectiveness of controls.

11. These 2018 inspection findings related to, among other things, deficiencies in the Firm's testing of controls over allowances for loan losses ("ALL"), valuation of available-for-sale securities, and the existence of inventory. The findings also concerned deficiencies in the Firm's testing of the process used by management to make estimates in two ICFR audits the inspectors reviewed. Lastly, the findings included deficiencies in the performance of an EQR in one audit. Specifically, PCAOB inspectors found that in this audit, the Firm's engagement quality reviewer did not appropriately evaluate an area that the engagement team had identified as a significant risk. These inspection findings, among others, were memorialized in the 2018 PCAOB Inspection Report.[18]

12. In November and December 2021, PCAOB inspection staff conducted the next inspection of the Firm. PCAOB inspectors again found deficiencies in the Firm's testing of controls in ICFR audits and in testing estimates. Specifically, with respect to all three ICFR audits selected for review, PCAOB inspectors again identified deficiencies in the Firm's testing of the design and operating effectiveness of controls. Additionally, the 2021 inspection findings again included deficiencies in issuer audits related to the Firm's ALL testing and, more generally, in testing of estimates. The 2021 inspection further found repeat deficiencies in the performance of EQRs. In particular, in five of the audits reviewed, PCAOB inspectors again found that the

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17 QC § 20.21.

18 *See Report on 2018 Inspection of Baker Tilly US, LLP* ("2018 Inspection Report"), PCAOB Rel. No. 104-2021-023A (Dec. 21, 2020).

Firm's engagement quality reviewers did not appropriately evaluate areas identified as significant risks.

13. In 2022, the PCAOB conducted another inspection of the Firm. In the issuer audits selected for review during that inspection, PCAOB inspectors once again identified deficiencies similar to those that they had brought to the Firm's attention in connection with the 2018 inspection. In three of the four ICFR audits reviewed, the inspectors again identified deficiencies in the Firm's testing of the design and/or operating effectiveness of controls selected for testing. In 10 of 12 audit engagements reviewed, the inspectors again identified deficiencies in the Firm's testing of accounting estimates. And in 10 of the 12 engagements reviewed, the inspectors again found deficiencies in the performance of EQRs.

14. Accordingly, despite being put on notice through the 2018 inspection of significant deficiencies in multiple audits in the areas of ICFR auditing, testing of accounting estimates, and performance of EQRs, the Firm failed to take sufficient action to provide reasonable assurance that its personnel would comply with PCAOB standards in these areas in future audits, as evidenced by the findings in these areas in the 2021 and 2022 PCAOB inspections. Accordingly, from 2021 to 2022, the engagement performance element of the Firm's system of quality control failed to provide the Firm with reasonable assurance that the work performed by its engagement personnel met applicable professional standards and regulatory requirements, in violation of QC 20.[19]

ii. The Firm's Quality Control Monitoring Policies and Procedures Failed to Provide Reasonable Assurance That Each of the Other Elements of Quality Control Was Suitably Designed and Being Effectively Applied

15. From 2021 to 2022, the Firm's monitoring procedures related to its internal inspections also were deficient and failed to provide the Firm with a means of identifying and communicating circumstances that may necessitate changes to or the need to improve compliance with the Firm's policies and procedures that contribute to the monitoring element.[20]

16. To address requirements that a firm's monitoring element provide it with reasonable assurance that its policies and procedures for each of the other elements of its

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[19] *See* QC § 20.17.

[20] *See* QC § 30.03.

system of quality control are suitably designed and were being effectively applied,[21] the Firm conducted annual internal inspections between 2018 and 2022.

17. Those annual internal inspections, however, were insufficient to address the above-described issuer-specific audit deficiencies that PCAOB inspectors first identified in connection with the 2018 inspection and that recurred repeatedly in engagements the Firm conducted in 2021 and 2022.

18. As a result, the Firm violated PCAOB rules and quality control standards by failing from 2021 to 2022 to have monitoring policies and procedures, taken as a whole, that enabled the Firm to obtain reasonable assurance that its system of quality control was effective, such that the policies and procedures for each of the elements of its system of quality control, including engagement performance, were suitably designed and being effectively applied.

IV.

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), Baker Tilly is hereby censured.

B. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), the Board imposes a civil money penalty in the amount of $500,000 on Baker Tilly.

1. All funds collected by the PCAOB 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 the civil money penalty within ten days of the issuance of this Order by (a) wire transfer in accordance with instructions furnished by PCAOB staff; or (b) United States Postal Service money order, bank money order, certified check, or bank cashier's check: (i) made payable to the Public Company Accounting Oversight Board, (ii) delivered to the Office of Finance, Public Company Accounting

21 *See* QC § 20.20.

Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (iii) 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, 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 Sections 105(c)(4)(C) and (G) of the Act and PCAOB Rules 5300(a)(3), (8) and (9), the Board orders that:

1. Independent Consultant

a. Baker Tilly shall retain and pay for an independent consultant ("Independent Consultant"), not unacceptable to the PCAOB staff, to review and make recommendations regarding Baker Tilly's quality control policies and procedures applicable to audits and reviews conducted pursuant to PCAOB standards and to recommend areas of training for Baker Tilly issuer audit personnel. The Independent Consultant must have experience with, and be knowledgeable concerning, PCAOB quality control and auditing standards. Within thirty days after the entry of this Order, Baker Tilly shall submit to the PCAOB staff a proposal setting forth the identity, qualifications, and proposed terms of retention of the Independent Consultant. Baker Tilly may not hire as the Independent Consultant any individual who has provided legal, auditing, or other services to, or has had any affiliation with, Baker Tilly during the two years prior to entry of this Order.

b. To ensure the independence of the Independent Consultant, Baker Tilly: (i) shall not have the authority to terminate the Independent Consultant or substitute another independent consultant for the initial Independent Consultant, without the prior written approval of the PCAOB staff; and (ii) shall compensate the Independent Consultant and persons engaged to assist the Independent Consultant for services rendered pursuant to this Order at their reasonable and customary rates.

c. Baker Tilly shall cooperate fully with the Independent Consultant and shall provide reasonable access to its personnel, information, and records as the Independent Consultant may reasonably request for the Independent Consultant’s review, evaluation, and reports.

d. If Baker Tilly, despite its best, good faith efforts, is unable to identify an Independent Consultant candidate that meets all of the above-listed criteria, it may seek approval from the PCAOB staff of alternative candidates or alternative terms that Baker Tilly believes to be otherwise suitable.

e. Within 90 days of this Order, Baker Tilly will review, evaluate, and implement, under the supervision of the Independent Consultant, any necessary enhancements to Baker Tilly’s quality control policies and procedures applicable to audits and reviews conducted pursuant to PCAOB standards. If, as a result of that review and evaluation, it appears to the Independent Consultant that any further enhancements to the system of quality control are necessary, it shall recommend such enhancements to Baker Tilly.

f. Within 270 days of this Order, Baker Tilly shall (1) implement any recommendations received from the Independent Consultant, pursuant to Paragraph IV.C.1.e, and (2) require the Independent Consultant to complete his or her review of a sample of the Firm's most recent public company audits to ensure those audits comply with PCAOB auditing standards and that those integrated audits were conducted in accordance with PCAOB quality control standards and the Firm's revised Quality Control Manual. If Baker Tilly does not implement recommendations received from the Independent Consultant pursuant to Paragraph IV.C.1.e, it shall communicate to the Director of the Division of Enforcement and Investigations the recommendations of the Independent Consultant it did not implement and the reasons for not doing so.

2. Firm Certification

a. Within 270 days of the date of this Order, Baker Tilly shall certify in writing to the Director of the Division of Enforcement and Investigations, PCAOB, 1666 K Street N.W., Washington, DC 20006, the Firm's compliance with the above paragraphs ("Final Certification"). The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The certification shall include a description of the specific enhancements implemented to Baker Tilly's system of quality control from the time of the conduct described in this Order. Baker Tilly shall also submit such additional evidence of and information concerning actions taken to comply with this Order as the staff of the Division of Enforcement and Investigations may reasonably request.

b. For good cause shown, the PCAOB staff may extend any of the procedural dates relating to these undertakings. Deadlines for procedural dates shall be counted in calendar days, except that if the last day falls on a weekend or federal holiday, the next business day shall be considered the last day.

c. Baker Tilly understands that the failure to satisfy these undertakings may constitute a violation of PCAOB Rule 5000 that could provide a basis for the imposition of additional sanctions in a subsequent disciplinary proceeding.

D. Pursuant to Section 105(c)(4)(F) and (G) of the Act and PCAOB Rule 5300(a)(6) and (9), Baker Tilly is required:

1. As of the date of the Final Certification, to have conducted training for all issuer audit personnel of the Firm related to the areas recommended by the Independent Consultant as referenced in Paragraph IV.C.1.a above.

2. The Firm understands that the failure to satisfy these conditions may constitute a violation of PCAOB Rule 5000 that could provide a basis for the imposition of additional sanctions in a subsequent disciplinary proceeding.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

January 14, 2025