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# 2020 Inspection Eide Bailly LLP

(Headquartered in Fargo, North Dakota)

March 10, 2022

**THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT**

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

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# TABLE OF CONTENTS

2020 Inspection.....	2
Overview of the 2020 Inspection and Historical Data by Inspection Year .....	3
Part I: Inspection Observations.....	5
Part I.A: Audits with Unsupported Opinions .....	6
Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules .....	9
Part II: Observations Related to Quality Control .....	10
Appendix A: Firm’s Response to the Draft Inspection Report.....	A-1

## 2020 INSPECTION

In the 2020 inspection of Eide Bailly LLP, the Public Company Accounting Oversight Board (PCAOB) assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review two audits of issuers with fiscal years ending in 2019. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

### 2020 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. In certain situations, we may select all of the firm's issuer audits for review.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed.

View the details on the [scope of our inspections and our inspections procedures](#).

## OVERVIEW OF THE 2020 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2020 inspection as well as data from the previous inspection. We use a risk-based method to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

### Firm Data and Audits Selected for Review

	2020	2017
<b>Firm data</b>		
<b>Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures</b>	20	19
<b>Total engagement partners on issuer audit work<sup>1</sup></b>	10	9
<b>Audits reviewed</b>		
<b>Total audits reviewed<sup>2</sup></b>	2	3
<b>Audits in which the firm was the principal auditor</b>	2	3
<b>Audits with Part I.A deficiencies</b>	2	1

If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the issue was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on internal control over financial reporting (ICFR), or taking steps to prevent reliance on prior audit reports.

Our inspection may include a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current

<sup>1</sup> The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201) during the twelve-month period preceding the outset of the inspection.

<sup>2</sup> The population of issuer audits from which audits are selected for review may differ from the issuer audits at the outset of the inspection procedures due to variations such as new issuer audit clients for which the firm has not yet issued an opinion or issuer audit clients lost prior to the outset of the inspection.

inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

If we include a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer’s financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer’s public disclosures. We do not have direct access to the issuer’s management, underlying books and records, and other information.

## Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2020 inspection and the previous inspection. For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer’s financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2020		2017	
Audit area	Audits reviewed	Audit area	Audits reviewed
Revenue and related accounts	1	Revenue and related accounts	2
Investment securities	1	Investment securities	2
Allowance for loan losses	1	Long-lived assets	2
Inventory	1	A significant estimate	1
		Participant and employer contributions	1

## PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR.

Part I.B discusses deficiencies, if any, that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

Consistent with the Sarbanes-Oxley Act ("Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.

### Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The sole purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

### Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or revised its report, on ICFR. This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. We include any deficiencies identified in connection with our reviews of these audits in the audits with multiple deficiencies or audits with a single deficiency classification below.

### Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

## Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

## PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion on the issuer's financial statements and/or ICFR.

We identify each issuer by a letter (e.g., Issuer A). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard(s) that most directly relates to the requirement with which the firm did not comply.

We present issuer audits below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

### Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

### Audits with Multiple Deficiencies

#### Issuer A – Financials

##### Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to the **Allowance for Loan Losses ("ALL")** and **Investment Securities**.

##### Description of the deficiencies identified

With respect to the **ALL** and **Investment Securities**:

The issuer used service organizations to host and/or maintain and manage various information technology (IT) systems that the issuer used to initiate, process, and record transactions related to the ALL and Investment Securities. The following deficiencies were identified:

- The firm did not perform procedures, beyond inquiring of management and reading certain related documentation, to test that controls over program changes, access to programs, and computer operations were designed and operating effectively. (AS 2201.42 and .44)

- The firm did not perform any procedures to evaluate whether the appropriate complementary user entity controls were implemented and operating effectively in order to achieve the control objectives stated in the service organizations' control reports. (AS 2201.B22)

With respect to the **ALL**:

Loan risk ratings were an important input in estimating the issuer's ALL. The firm selected for testing a control designed to validate loan risk ratings assigned by the issuer to certain categories of its loans. The issuer used internal loan reviewers (ILRs) and an external loan reviewer (ELR) in the operation of this control. The following deficiencies were identified:

- The firm did not evaluate the review procedures that the ILRs performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)
- The ELR reviewed loan risk ratings at an interim date. The firm did not identify and test any controls over the loans that were subject to review by the ELR from the interim date to the issuer's year end. (AS 2201.39)
- The firm did not identify and test any controls over the reasonableness of loan risk ratings for loans that were not subject to this control. (AS 2201.39)
- The firm did not identify and test any controls over the accuracy and completeness of data the ILRs and ELR used in the performance of this control. (AS 2201.39)

The firm identified deficiencies in certain of the issuer's other controls over the ALL it had selected for testing and concluded that these deficiencies, in the aggregate, represented a significant deficiency. The firm did not sufficiently evaluate whether the identified control deficiencies represented a material weakness because the firm did not evaluate the magnitude of the potential misstatements resulting from these control deficiencies. (AS 2201.62)

The firm's approach for substantively testing the quantitative component of the ALL was (1) to review and test management's process and (2) develop an independent expectation. The issuer used loss data from selected peer companies to develop loss rates that it used to estimate the quantitative component of the portion of the ALL related to loans collectively evaluated for impairment. The following deficiencies were identified:

- The firm did not obtain an understanding of how the issuer developed its loss rates. (AS 2501.10)
- To test management's process, the firm compared the loss rates developed by the issuer to the loss rates of certain peer companies identified by the issuer. The firm did not sufficiently evaluate the relevance of the loss rates of the peer companies, because the firm did not evaluate the comparability of the composition and risk characteristics of the issuer's loan portfolio to the loan portfolios of the peer companies. (AS 2501.09, .10, and .11)



- To develop an independent expectation, the firm used a combination of the issuer's historical loss rates and the loss rates of the group of peer companies used by the issuer to develop estimated loss ranges and compared these estimated loss ranges to the issuer's loss rates. The firm did not evaluate (1) the reasonableness of the assumptions used to develop these estimated loss ranges and (2) the differences between these estimated loss ranges and issuer's loss rates. (AS 2501.09, .10, and .12)

The firm's approach for substantively testing the qualitative component of the ALL was to review and test management's process. The firm did not sufficiently evaluate the reasonableness of the qualitative reserve component of the ALL because the firm's procedures to test the qualitative factors the issuer used to determine the reserve component were limited to (1) reading the issuer's ALL memorandum, (2) testing certain observable inputs related to existing economic conditions that the issuer used to develop its loss estimates, and (3) comparing the qualitative factors the issuer used at year end to those used in prior periods. (AS 2501.09, .10, and .11)

The firm did not perform any substantive procedures to test, or in the alternative, test any controls over, the accuracy and/or completeness of certain data and reports the firm used in its substantive testing of the ALL. (AS 1105.10)

## Audits with a Single Deficiency

### Issuer B

#### Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Revenue**.

#### Description of the deficiency identified

The firm did not perform any substantive procedures to test, or in the alternative, test any controls over, the completeness of a report obtained from the issuer that it used in its substantive procedures to test revenue. (AS 1105.10)

## PART I.B: OTHER INSTANCES OF NON-COMPLIANCE WITH PCAOB STANDARDS OR RULES

This section of our report discusses any deficiencies we identified that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

When we review an audit, we do not review every aspect of the audit. As a result, the area below was not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not reviewed and include any instances of non-compliance below.

We identified the following deficiencies:

In both audits reviewed, and in eight other audits, the firm's audit reports contained inaccurate information for the year the firm began serving consecutively as the company's auditor. In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

## PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

We include deficiencies in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

This report does not reflect changes or improvements to the firm's system of quality control that the firm may have made subsequent to the period covered by our inspection. The Board does consider such changes or improvements in assessing whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, we will make public any such deficiency.

## APPENDIX A: FIRM'S RESPONSE TO THE DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the firm's response, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available.

In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), 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 portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.



November 22, 2021

Mr. George Botic, Director  
Division of Registration and Inspections  
Public Company Accounting Oversight Board  
1666 K Street NW  
Washington, DC 20006

Re: Response to Part I of the Draft Report on the 2020 Inspection of Eide Bailly LLP (Firm ID 286)

Dear Mr. Botic:

We appreciate the opportunity to provide our response to Part I of the Public Company Accounting Oversight Board's (PCAOB) Draft Report (Draft Report) on the 2020 inspection of Eide Bailly LLP.

We have considered and taken action, as appropriate, to address the matters identified in Part I of the Draft Report, specifically those considerations included in AS 2901, *Consideration of Omitted Procedures after the Report Date*, and AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*.

Eide Bailly is committed to a high standard of audit quality and utilizes the PCAOB inspection process as an opportunity to improve the Firm's audit performance and underlying system of quality control. We continually strive to evaluate and improve the quality of our audit process and appreciate the dialogue which took place with the inspection staff during the inspection process.

Respectfully submitted,

A handwritten signature in black ink that reads "Eide Bailly LLP".

Eide Bailly LLP

What inspires you, inspires us. | [eidebailly.com](http://eidebailly.com)

