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# 2020 Inspection Baker Newman & Noyes, P.A. Limited Liability Company

(Headquartered in Portland, Maine)

May 26, 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**

**PCAOB RELEASE NO. 104-2022-141A**

(Includes portions of Part II and Appendix A of the full report that were not included in PCAOB Release No. 104-2022-141)



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## 2020 INSPECTION

In the 2020 inspection of Baker Newman & Noyes, P.A. Limited Liability Company, 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 one audit of an issuer with a fiscal year ending in 2019. For the 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>	2	6
<b>Total engagement partners on issuer audit work<sup>1</sup></b>	2	6
<b>Audits reviewed</b>		
<b>Total audits reviewed<sup>2</sup></b>	1	2
<b>Audits in which the firm was the principal auditor</b>	1	2
<b>Integrated audits of financial statements and internal control over financial reporting (ICFR)</b>	1	1
<b>Audits with Part I.A deficiencies</b>	1	2

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

<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.

procedures, informing management of the issuer of the need for changes to the financial statements or reporting on 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 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
Allowance for loan losses	1	Allowance for loan losses	2
Deposit liabilities	1	Loans and related accounts	2

## 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) and industry sector. 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 area affected

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

##### Description of the deficiencies identified

The firm selected for testing two review controls over the qualitative factors used in the calculation of the ALL. The firm did not evaluate the specific review procedure that the control owners performed to evaluate the reasonableness of the qualitative factors. (AS 2201.42 and .44)

The firm did not identify and test a control over certain assumptions used in the calculation of the ALL. (AS 2201.39)

The firm selected for testing a control that included a review of all loans to determine whether they should be put on non-accrual status. The firm did not identify and test any controls over the accuracy and completeness of a report used in the operation of this control. (AS 2201.39)

The firm's approach for substantively testing the ALL was to review and test management's process. The firm did not sufficiently evaluate the reasonableness of the ALL because the firm's procedures to test the qualitative factors and risk adjustment percentages the issuer used to determine the ALL were limited to (1) reading the issuer's analysis, (2) comparing the factors and percentages to the prior year, and (3) evaluating whether certain changes, or lack thereof, to the factors and percentages from the prior year were directionally consistent with internal or external data. (AS 2501.09, .10, and .11)

## Audits with a Single Deficiency

None

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

In the 2020 inspection, we did not identify any deficiencies related to other instances of non-compliance with PCAOB standards or rules.



## 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.

\* \* \* \*

### Engagement Quality Review

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the review procedures performed by the firm's engagement quality review (EQR) partners will meet the requirements of AS 1220. (QC 20.03 and .17)

In one audit,<sup>3</sup> which is included in Part I.A, the inspection team identified deficiencies in an area that the EQR partner was required to evaluate. In this audit, the EQR partner did not identify a deficiency in an area of significant risk, including a fraud risk.

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<sup>3</sup> Issuer A

## 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.



January 7, 2022

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 Baker Newman & Noyes LLC.

Dear Mr. Botic:

We are pleased to provide our response to Part I of the PCAOB's Draft Report on the 2020 Inspection of Baker Newman & Noyes LLC dated December 8, 2021.

We have considered and thoroughly evaluated the matters described in Part I.A of the Draft Report and we have taken appropriate actions to address the findings in accordance with 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* and our policies.

Baker Newman & Noyes LLC remains committed to making audit quality our top priority. We support the PCAOB's inspection process and we will use the resulting comments and observations to help us improve the quality of our audit engagements and our system of quality control. We reiterate our commitment to the integrity of the audit process and appreciate the insights afforded by the PCAOB inspection team.

Sincerely,

*BAKER NEWMAN & NOYES LLC*  
Baker Newman & Noyes LLC



Baker Newman & Noyes LLC  
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800.244.7444 | www.bnn CPA.com

**NONPUBLIC RESPONSE**

January 7, 2022

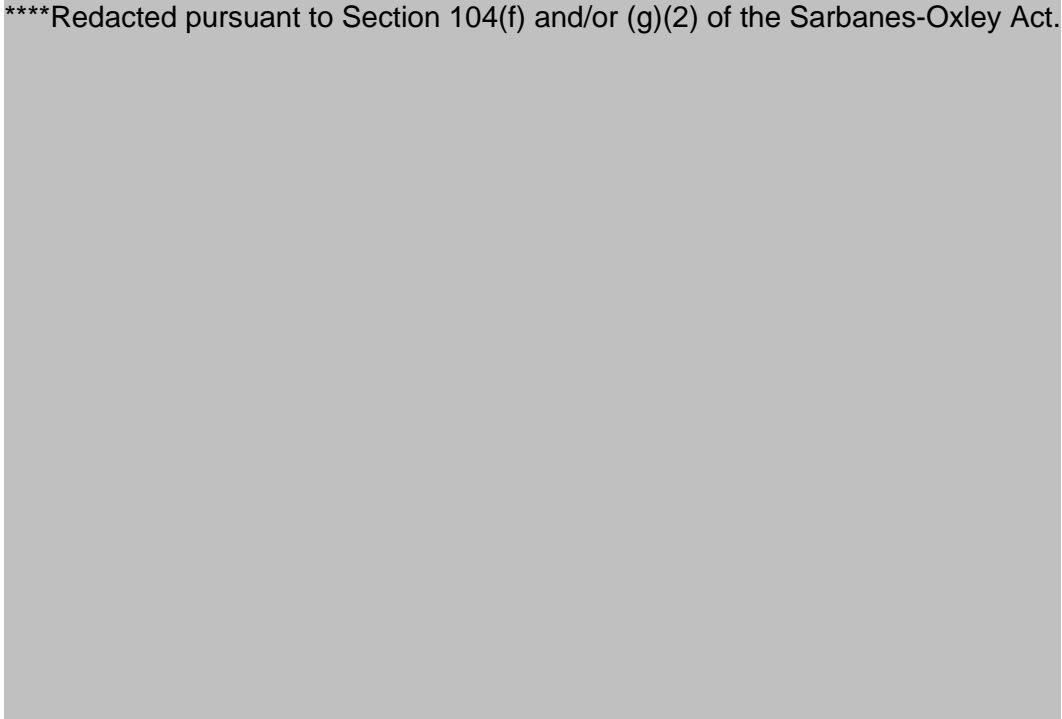
Mr. George Botic, Director  
Division of Registration and Inspections  
Public Company Accounting Oversight Board  
1666 K Street NW  
Washington, DC 20006

Re: Response to the Draft Report on the 2020 Inspection of Baker Newman & Noyes, P.A., LLC

Dear Mr. Botic:

We are pleased to provide our nonpublic response to the Public Company Accounting Oversight Board's (PCAOB) Draft Report on the 2020 Inspection of Baker Newman & Noyes LLC dated December 8, 2021.

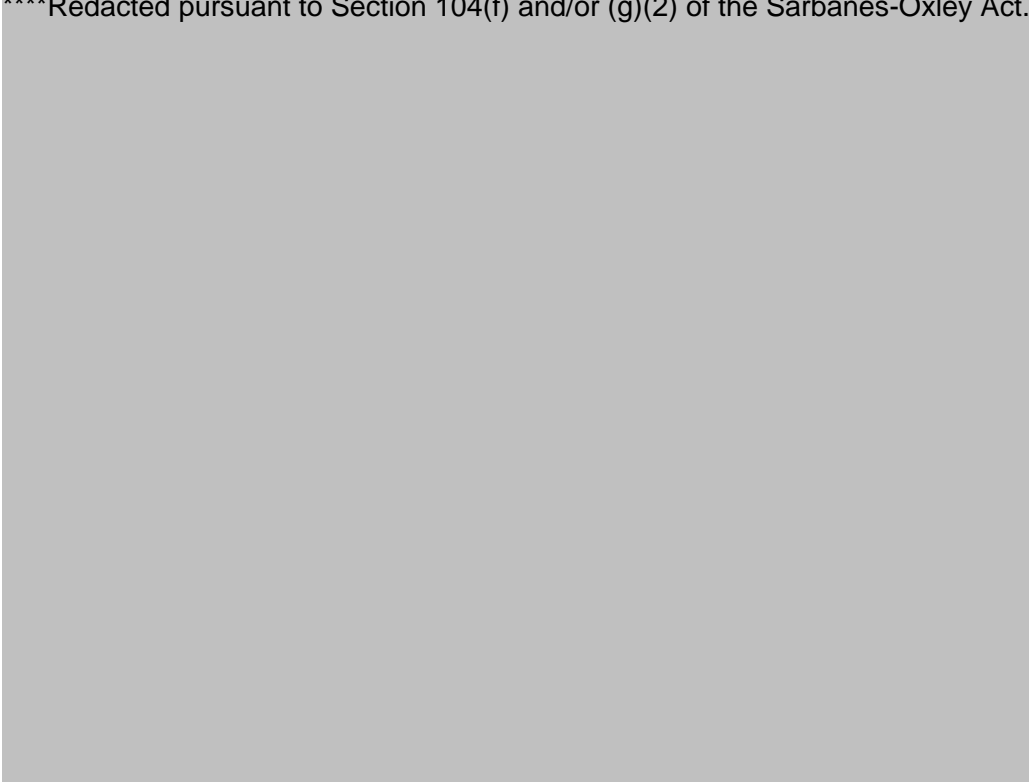
\*\*\*\*Redacted pursuant to Section 104(f) and/or (g)(2) of the Sarbanes-Oxley Act.



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Mr. George Botic, Director  
Division of Registration and Inspections  
Public Company Accounting Oversight Board  
January 7, 2022

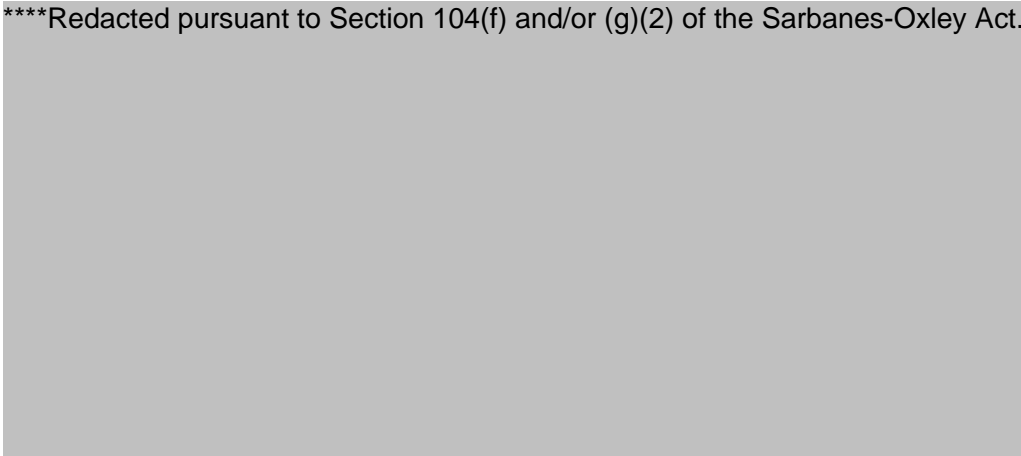
\*\*\*\*Redacted pursuant to Section 104(f) and/or (g)(2) of the Sarbanes-Oxley Act.



PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

**Description of the Deficiencies Identified**

\*\*\*\*Redacted pursuant to Section 104(f) and/or (g)(2) of the Sarbanes-Oxley Act.



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Mr. George Botic, Director  
Division of Registration and Inspections  
Public Company Accounting Oversight Board  
January 7, 2022

\*\*\*\*Redacted pursuant to Section 104(f) and/or (g)(2) of the Sarbanes-Oxley Act.

\*\*\*\* [Engagement Quality Review](#)

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the review procedures performed by the firm's engagement quality review (EQR) partners will meet the requirements of AS 1220. (QC 20.03 and .17)

In one audit (Issuer A), which is included in Part I.A, the inspection team identified deficiencies in an area that the EQR partner was required to evaluate. In this audit, the EQR partner did not identify a deficiency in an area of significant risk, including a fraud risk.

**Response to the Deficiencies Identified**

\*\*\*\*Redacted pursuant to Section 104(f) and/or (g)(2) of the Sarbanes-Oxley Act.

\*\*\*\*

Mr. George Botic, Director  
Division of Registration and Inspections  
Public Company Accounting Oversight Board  
January 7, 2022

***The Firm has criteria for determining whether an engagement quality control review should be performed; evaluates all engagements against the criteria; performs an engagement quality control review for all engagements that meet the criteria; and completes the review before the report is released.*** The Firm implements this policy through the following procedures:

- Engagements meeting the following criteria require an engagement quality control review before the report is released;
  - High-risk engagements, as defined by the BNN audit manual;
  - All SEC issuers are subject to an engagement quality control review performed in accordance with Public Company Accounting Oversight Board (PCAOB) quality control standards; and
  - All engagements are evaluated against the above criteria in connection with the Firm's policies and procedures related to client acceptance, client continuation, engagement risk assessment, and performance of the engagement.

***The Firm establishes procedures addressing the nature, timing, extent, and documentation of the engagement quality control review.*** The Firm implements this policy through the following procedures:

- ***Nature and extent of review.*** The Firm's procedures for audit and attestation engagements require that the engagement quality control reviewer do the following:
  - Discuss significant accounting, auditing, and financial reporting issues with the engagement Principal, including matters for which there has been consultation;
  - Discuss with the engagement Principal the engagement team's identification and audit of significant assertions, transactions, and account balances;
  - Review selected working papers relating to the significant judgments the engagement team made and the conclusions they reached;
  - Review documentation of the resolution of significant accounting, auditing, and financial reporting issues, including documentation of consultation with Firm personnel or external sources;
  - Review the summary of uncorrected misstatements that are related to known and likely misstatements;
  - Review additional engagement documentation to the extent considered necessary;
  - Read the financial statements and report and consider whether the report is appropriate;
  - Confirm with the engagement Principal that there are no significant unresolved issues; and
  - Complete the review before the release of the report.

***The Firm establishes criteria for the eligibility of engagement quality control reviewers.*** The Firm implements this policy by establishing the following criteria for an engagement quality control reviewer:

- Is selected by the Director of Audit Quality, who maintains a list of assigned review principals by attest engagement which is accessible by all audit personnel;
- Has sufficient technical expertise and experience;
- Carries out his or her responsibilities with objectivity and due professional care without regard to the relative positions of the engagement Principal and the engagement quality control reviewer;
- Does not assume any of the responsibilities of the engagement Principal or have responsibility for the audit of any significant subsidiaries, divisions, or affiliated or related entities;
- Meets the relevant standards of the PCAOB for engagement quality reviewers, where applicable;
- Meets the independence requirements relating to the engagements reviewed, even though the engagement quality control reviewer is not a member of the engagement team; and

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Mr. George Botic, Director  
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Public Company Accounting Oversight Board  
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- Does not make decisions for the engagement team or participate in the performance of the engagement, except that the engagement Principal may consult the engagement quality control reviewer at any stage during the engagement.

The below are applicable excerpts from the BNN Audit Manual section 3.0 Implementation of RSM Audit Approach:

As a matter of policy, the firm will require... all audits of SEC clients to be subject to an EQR...

For any client requiring an EQR review, the EQR should review and initial the audit planning forms prior to the start of year end fieldwork. As a reminder, for all SEC engagements, the EQR principal should also participate in the planning/brainstorming meeting.

The EQR will complete the required forms for an engagement quality control review. The extent of the work paper review by the EQR principal is a matter of professional judgment which should be made by the reviewer and will vary with the particular circumstances of each engagement but which should include a review of the documentation supporting significant accounting estimates and complex material applications of GAAP.

The above listed quality control procedures are designed to mitigate the risk that our Firm's system of quality control does not provide reasonable assurance that review activities performed by the EQR partner will meet the requirements of AS 1220 and that the Firm's policies and procedures in this area are not in compliance with QC 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

Baker Newman & Noyes LLC remains committed to making audit quality our top priority. We support the PCAOB's inspection process and we will use the resulting comments and observations to help us improve the quality of our audit engagements and our system of quality control. We reiterate our commitment to the integrity of the audit process and appreciate the insights afforded by the PCAOB inspection team.

Sincerely,

BAKER NEWMAN & NOYES LLC  
BAKER NEWMAN & NOYES LLC



