2022 Inspection Baker Tilly US, LLP

(Headquartered in Chicago, Illinois)

November 30, 2023

PCAOB RELEASE NO. 104-2024-037

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

EXECUTIVE SUMMARY

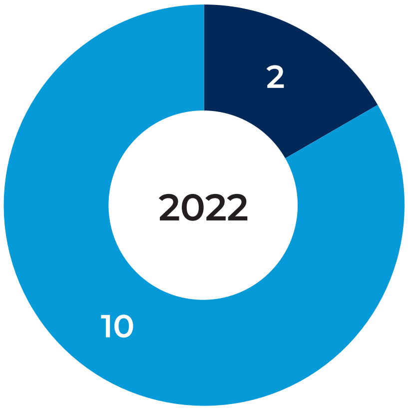
Our 2022 inspection report on Baker Tilly US, LLP provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board (PCAOB) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of what is included in this report:

- Part I.A of the report discusses deficiencies ("Part I.A deficiencies") in certain issuer audits 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(s) on the issuer's financial statements and/or internal control over financial reporting (ICFR).
- Part I.B of the report discusses certain deficiencies ("Part I.B deficiencies") that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.
- Part I.C of the report, which is new commencing with our 2022 inspection reports, discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence ("Part I.C deficiencies").

If we include a Part I.A or Part I.B deficiency in this 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. If we include a Part I.C deficiency in this report, it does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. If we include a deficiency in Part I.A, Part I.B, or Part I.C of this report, it does not necessarily mean that the firm has not addressed the deficiency.

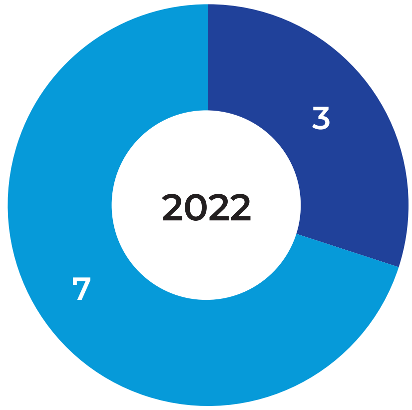
Overview of the 2022 Deficiencies Included in Part I

Ten of the 12 audits we reviewed in 2022 are included in Part I.A of this report due to the significance of the deficiencies identified. The identified deficiencies primarily related to the firm's testing of controls over and/or substantive testing of revenue, business combinations, the allowance for loan losses, inventory, and income taxes.



83% Part I.A deficiency rate

- Audits without Part I.A deficiencies
- Audits with Part I.A deficiencies



- Deficiencies in both financial statement and ICFR audits
- Deficiencies in the financial statement audit only
- Deficiencies in the ICFR audit only

The most common Part I.A deficiencies in 2022 related to testing an estimate, performing substantive testing to address a risk of material misstatement, and testing data or reports used in substantive testing.

The Part I.B deficiencies in 2022 related to fraud, audit committee communications, reporting the results of audits of internal control over financial reporting, critical audit matters, and Form AP.

The Part I.C deficiencies in 2022 related to audit committee pre-approval.

TABLE OF CONTENTS

2022 INSPECTION

In the 2022 inspection of Baker Tilly US, LLP, the PCAOB assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review 12 audits of issuers with fiscal years generally ending in 2021. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2022 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.

- **Part I – Inspection Observations:**

  - **Part I.A:** Deficiencies 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(s) on the issuer's financial statements and/or ICFR.

  - **Part I.B:** Certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

  - **Part I.C:** Instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

  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.

- **Part II – Observations Related to Quality Control:** Criticisms of, or potential defects in, the firm's system of quality control. 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.

- **Appendix A – Firm's Response to the Draft Inspection Report:** The firm's response to a draft of this report, excluding any portion granted confidential treatment.

2022 Inspection Approach

In selecting issuer audits for review, we use both risk-based and random methods of selection. We make the majority of our 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. We also select audits randomly to provide an element of unpredictability.

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 2022 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

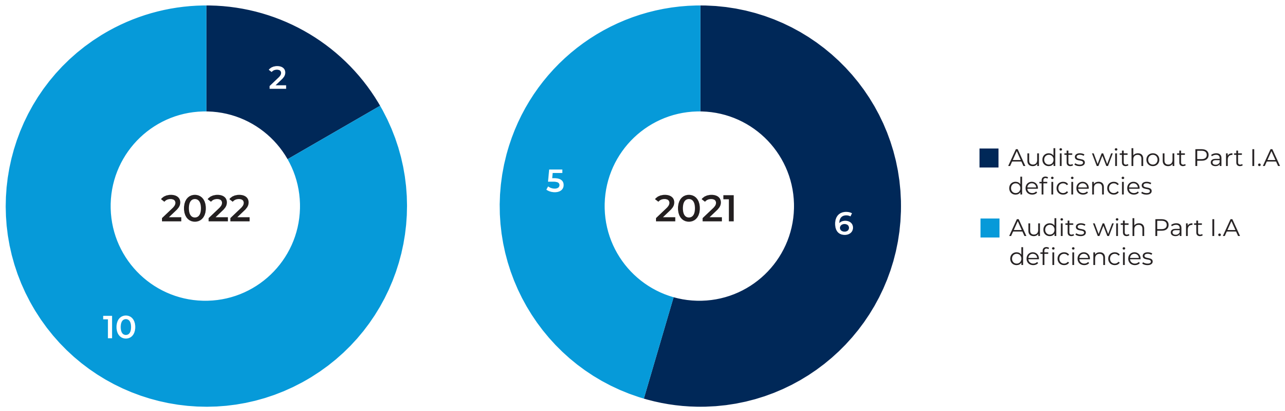
The following information provides an overview of our 2022 inspection as well as data from the previous inspection. We use a combination of risk-based and random methods to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from year to year and firm to firm. As a result of this variation, we caution that our inspection results are not necessarily comparable over time or among firms.

Audits Selected for Review

	2022	2021
Total audits reviewed		
Total audits reviewed	12	11
Selection method		
Risk-based selections	10	11
Random selections	2	0
Total audits reviewed	**12**	**11**
Principal auditor		
Audits in which the firm was the principal auditor	12	11
Audits in which the firm was not the principal auditor	0	0
Total audits reviewed	**12**	**11**
Audit type		
Integrated audits of financial statements and ICFR	4	3
Financial statement audits only	8	8
Total audits reviewed	**12**	**11**

Part I.A Deficiencies in Audits Reviewed

In 2022, eight of the 10 audits appearing in Part I.A were selected for review using risk-based criteria. In 2021, all of the audits appearing in Part I.A were selected for review using risk-based criteria.



83% Part I.A deficiency rate

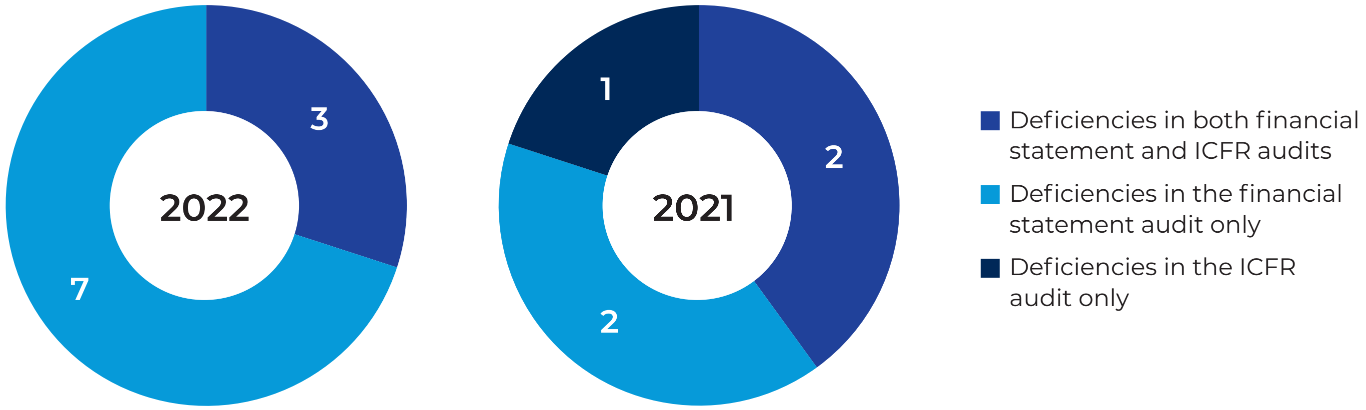
45% Part I.A deficiency rate

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 deficiency 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 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 Part I.A or Part I.B 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.

Audits Affected by the Deficiencies Identified in Part I.A



Our 2022 inspection procedures involved one audit for which the issuer, unrelated to our review, restated its financial statements to correct a misstatement and the firm revised and reissued its report on the financial statements.

In connection with our 2021 inspection procedures for one audit, the issuer restated its financial statements to correct a misstatement, and the firm revised and reissued its report on the financial statements. The issuer also revised its report on ICFR, and the firm revised its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report. Our 2021 inspection procedures also involved one audit for which the issuer, unrelated to our review, restated its financial statements to correct a misstatement and the firm revised and reissued its report on the financial statements. The issuer also revised its report on ICFR, and the firm revised its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

The following tables and graphs summarize inspection-related information, by inspection year, for 2022 and the previous inspection. We caution against making any comparison of the data provided without reading the descriptions of the underlying deficiencies in each respective inspection report.

Most Frequently Identified Part I.A Deficiencies

Deficiencies in audits of financial statements	Audits with Part I.A deficiencies	
	2022	2021
Did not sufficiently test an estimate	10	3
Did not perform sufficient testing related to a significant account or disclosure or to address an identified risk	7	1
Did not perform sufficient testing of data or reports used in the firm's substantive testing	6	1

Deficiencies in ICFR audits	Audits with Part I.A deficiencies	
	2022	2021
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	3	3
Did not identify and/or sufficiently test controls over the accuracy and completeness of data or reports that the issuer used in the operation of controls	2	2
Did not identify and test any controls that addressed the risks related to a significant account or relevant assertion	1	2

Audit Areas Most Frequently Reviewed

This table reflects the five audit areas we have selected most frequently for review in each inspection year (and the related Part I.A deficiencies). 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.

2022			2021		
Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies
Revenue and related accounts	8	6	**Revenue and related accounts**	6	2
Business combinations	3	3	**Allowance for loan losses**	4	2
Investment securities	3	0	**Inventory**	2	1
Cash and cash equivalents	3	0	**Business combinations**	2	1
Allowance for loan losses	2	2	**Goodwill and intangible assets**	2	1

Audit Areas with Frequent Part I.A Deficiencies

This table reflects the audit areas with the most frequently identified Part I.A deficiencies in each inspection year with the corresponding results for the other year presented.

Audit area	2022		2021	
	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed
Revenue and related accounts	6	8	2	6
Business combinations	3	3	1	2
Allowance for loan losses	2	2	2	4
Inventory	2	2	1	2
Income taxes	2	2	0	0

Revenue and related accounts: The deficiencies in 2022 and 2021 related to substantive testing of, and testing controls over, revenue and related accounts.

Business combinations: The deficiencies in 2022 and 2021 primarily related to substantive testing of significant assumptions used by the issuer to determine the fair values of acquired assets.

Allowance for loan losses: The deficiencies in 2022 and 2021 primarily related to substantive testing of, and testing controls over, significant assumptions used by the issuer to determine the allowance for loan losses.

Inventory: The deficiencies in 2022 related to substantive testing of the existence and valuation of inventory, including evaluating the reasonableness of the inventory reserve. The deficiencies in 2021 related to substantive testing of, and testing controls over, the inventory reserve.

Income taxes: The deficiencies in 2022 related to substantive testing of income taxes, including the valuation allowance that the issuer recorded against its deferred tax assets.

Auditing Standards Associated with Identified Part I.A Deficiencies

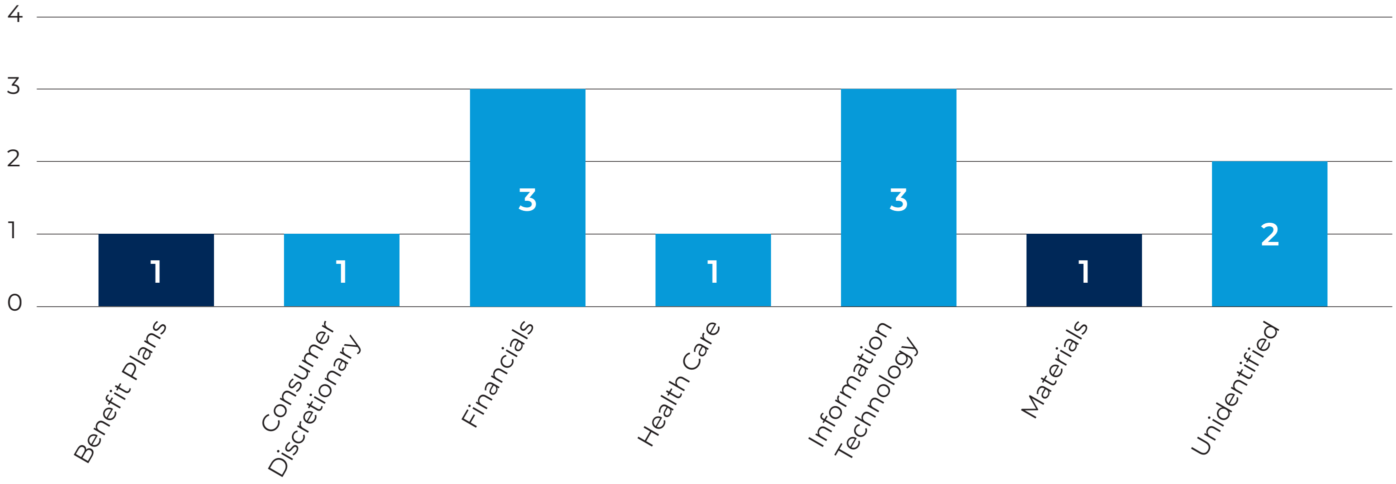
The following lists the auditing standards referenced in Part I.A of the 2022 and the previous inspection report, and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2022	2021
AS 1105, *Audit Evidence*	16	1
AS 1201, *Supervision of the Audit Engagement*	3	0
AS 1210, *Using the Work of an Auditor-Engaged Specialist*	1	0
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	9	11
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	9	2
AS 2305, *Substantive Analytical Procedures*	2	0
AS 2310, *The Confirmation Process*	0	1
AS 2315, *Audit Sampling*	2	2
AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements* (effective for fiscal years ending on or after December 15, 2020)	15	3
AS 2501, *Auditing Accounting Estimates* (effective for fiscal years ending before December 15, 2020)	-	2
AS 2510, *Auditing Inventories*	1	0
AS 2810, *Evaluating Audit Results*	1	0

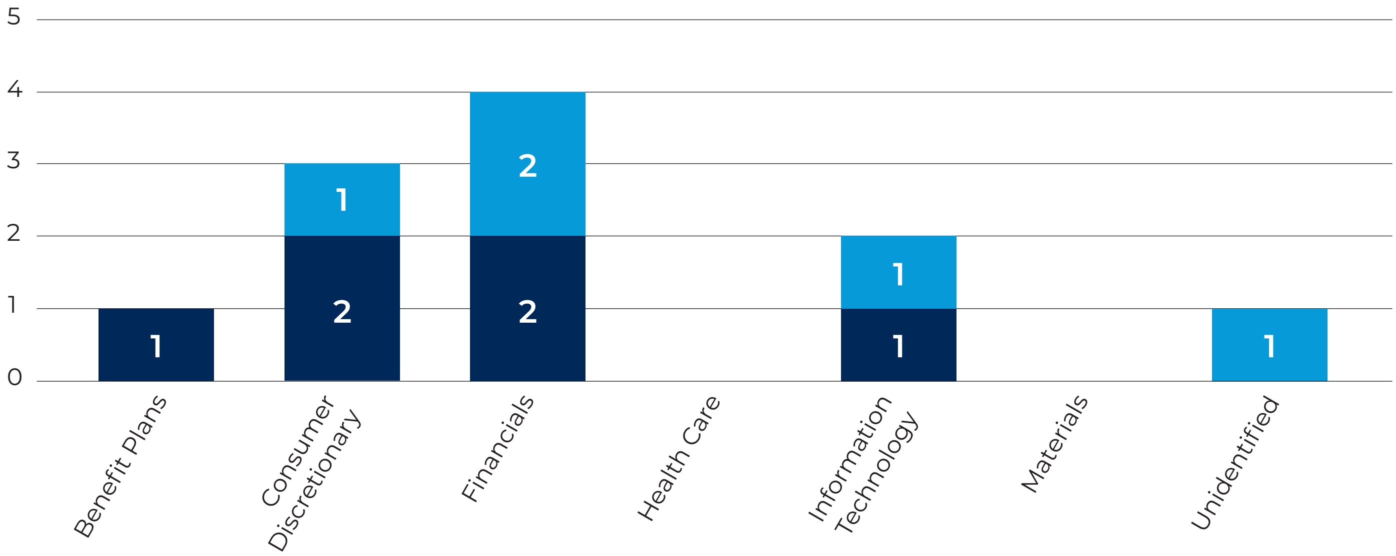
Inspection Results by Issuer Industry Sector

The majority of industry sector data is based on Global Industry Classification Standard (GICS) data obtained from Standard & Poor's (S&P). In instances where GICS data for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data. In instances where classifying an issuer using its industry sector could make an issuer identifiable, we have instead classified such issuer(s) as "unidentified."

2022



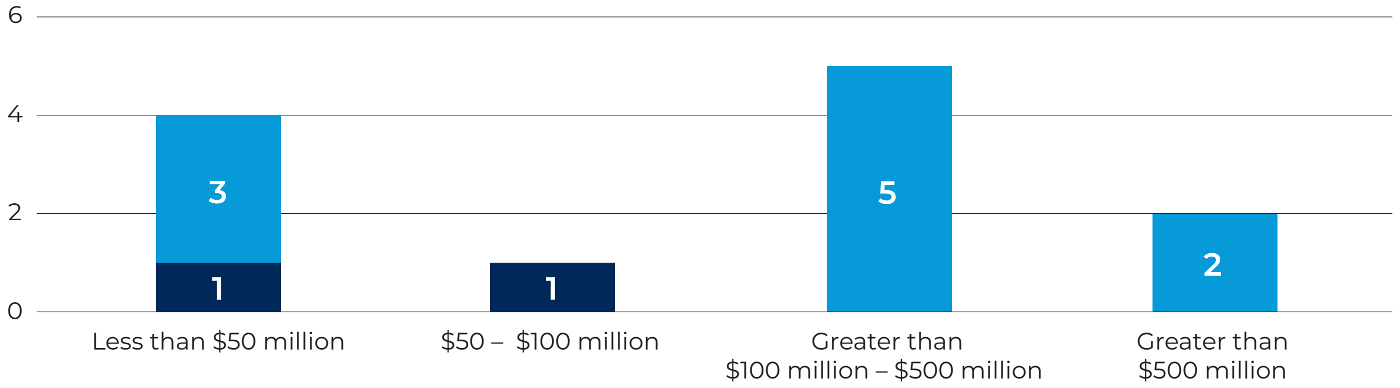
2021



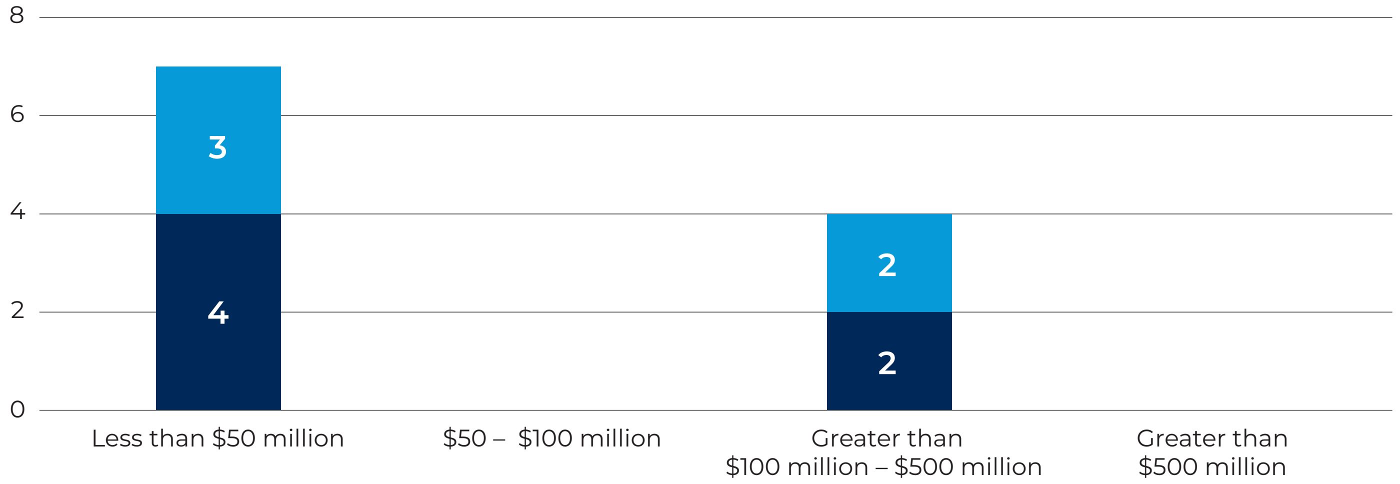
Audits without Part I.A deficiencies
Audits with Part I.A deficiencies

Inspection Results by Issuer Revenue Range

2022



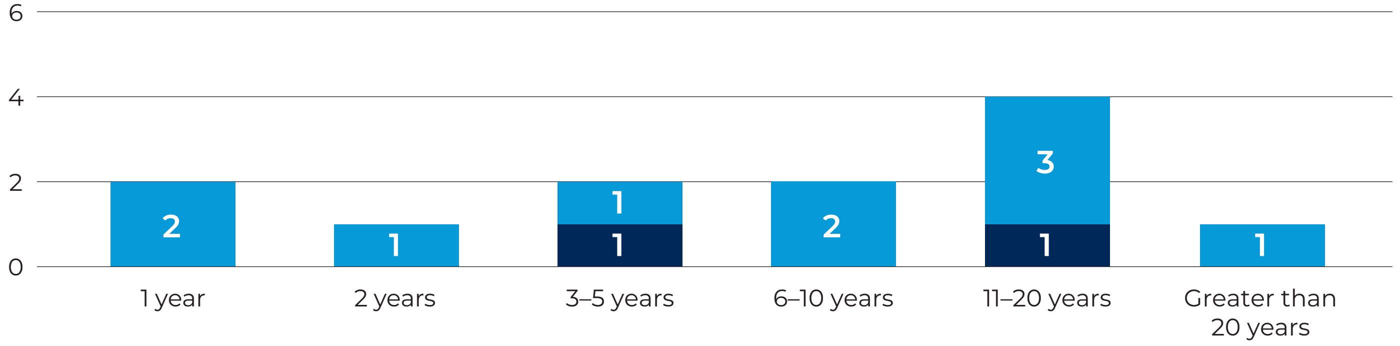
2021



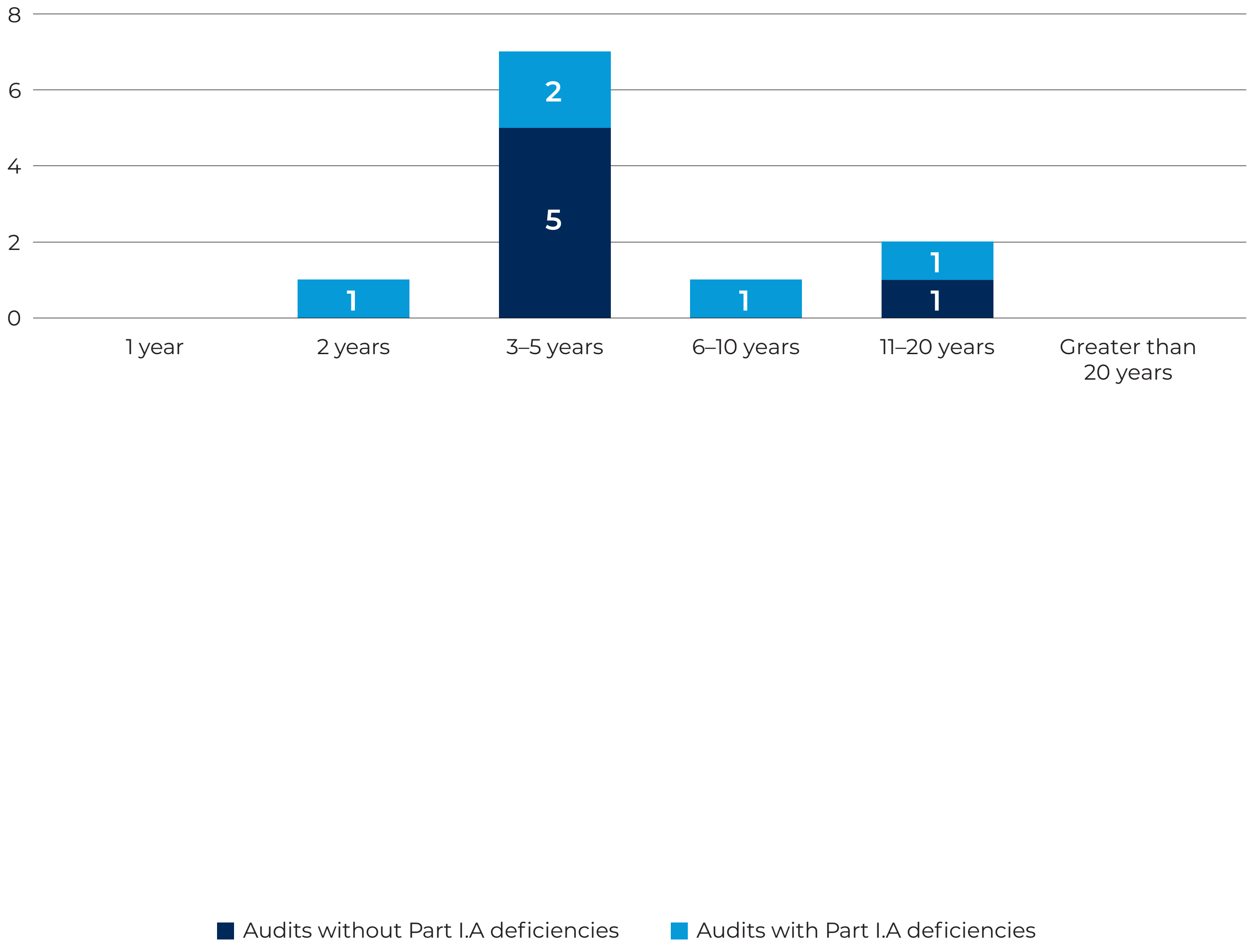
Audits without Part I.A deficiencies   Audits with Part I.A deficiencies

Inspection Results by the Firm's Tenure on the Issuer

2022

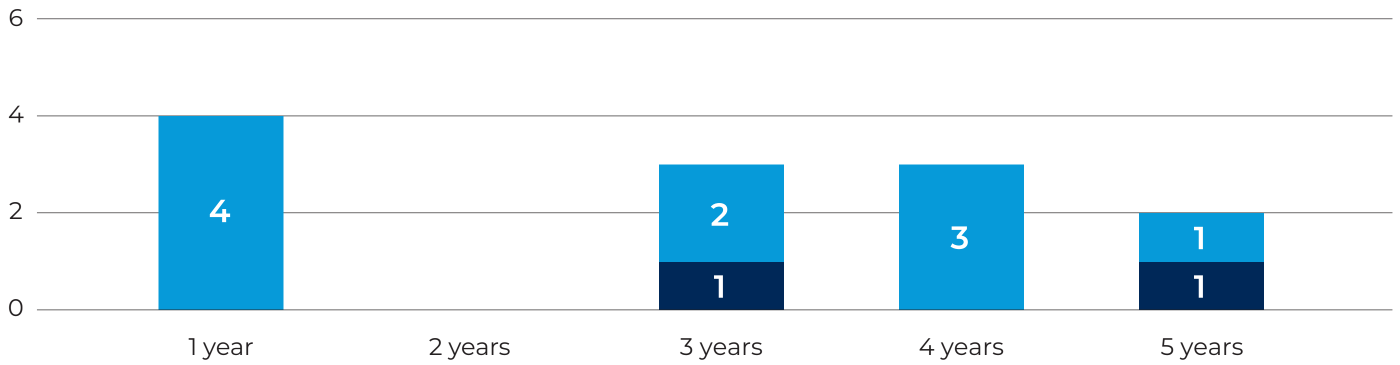


2021

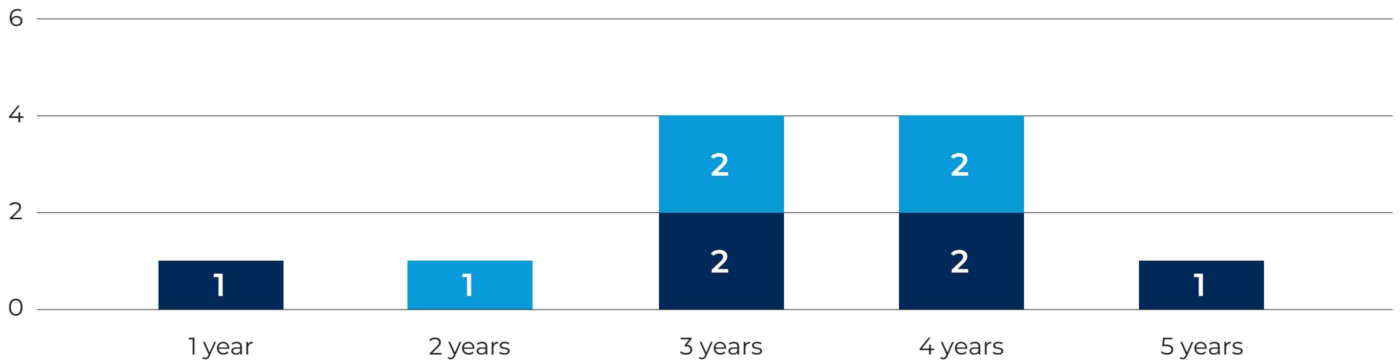


Inspection Results by the Engagement Partner's Tenure on the Issuer

2022



2021



■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

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 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.

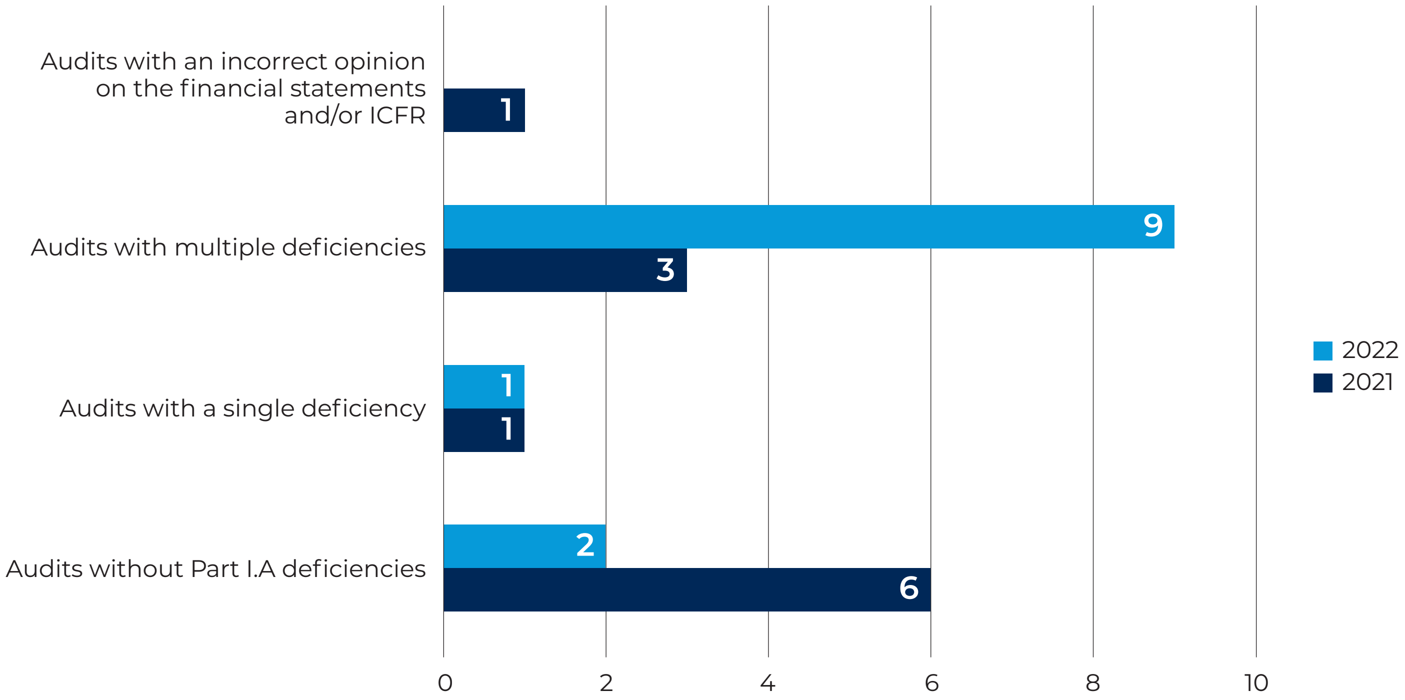
Audits with Multiple Deficiencies

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.

Number of Audits in Each Category



PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies 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(s) on the issuer's financial statements and/or ICFR.

Part I.B discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Part I.C discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Consistent with the 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.

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(s) 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

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and **Business Combinations**. The firm's internal inspection program inspected this audit and reviewed the revenue area but did not identify the deficiencies below.

Description of the deficiencies identified

With respect to one type of **Revenue**, for which the firm identified a fraud risk:

The issuer used multiple service organizations to host and/or maintain information technology (IT) systems that the issuer used to initiate, process, and record transactions related to this revenue. In its testing of controls over this account, the firm tested certain IT-dependent manual controls that used data and reports generated or maintained by these IT systems. As a result of the deficiencies in the firm's testing of IT general controls discussed below, the firm's testing of these IT-dependent manual controls was not sufficient. (AS 2201.46)

- The firm selected for testing complementary user controls that consisted of the issuer's reviews of user access to these IT systems. The firm did not evaluate the specific review procedures that the control owners performed to determine whether previously granted access continued to be appropriate. (AS 2201.42, .44, and .B22)
- The firm selected for testing certain other controls over user access but did not perform procedures to test, or test any controls over, the accuracy and completeness of certain information that the firm used in its testing. (AS 1105.10)

The firm did not identify and test any controls over the accuracy and completeness of certain information that the issuer used to process and record this revenue. Further, the firm did not identify and test any controls that addressed whether the performance obligation was satisfied before this revenue was recognized. (AS 2201.39)

The sample size the firm used in certain of its substantive procedures to test this revenue was too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

With respect to **Business Combinations**, for which the firm identified a significant risk:

The issuer determined the fair values of certain acquired assets using cash-flow forecasts. The following deficiencies were identified:

- The firm selected for testing a control that included the issuer's review of assumptions used in these cash flow forecasts. The firm did not evaluate the specific review procedures that the control owner performed to assess the reasonableness of certain of these assumptions. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy and completeness of certain issuer-produced reports used in the operation of the control. (AS 2201.39)
- The firm did not perform procedures to test, or (as discussed above) test any controls over, the accuracy and completeness of certain issuer-produced reports used to develop certain assumptions that were used to determine these fair values. (AS 1105.10)
- The firm did not sufficiently evaluate the reasonableness of certain significant assumptions the issuer used because the firm did not evaluate (1) the relevance and reliability of certain market information it used and (2) whether these assumptions were consistent with certain industry factors and existing market information. (AS 1105.04 and .06; AS 2501.16)
- The firm did not evaluate the reasonableness of the useful lives assigned to certain of the acquired assets, including evaluating significant differences between the useful lives assigned to these assets and the cash flow forecast periods used to determine their fair values. (AS 2501.16)

The issuer determined the fair values of certain other assets of the acquired business based on two previously completed acquisitions. The firm did not sufficiently evaluate whether the issuer had a reasonable basis for the significant assumptions the issuer used because the firm did not evaluate whether these previous acquisitions were comparable to this acquired business. (AS 2501.16)

Issuer B – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Stock-Based Compensation** and **Business Combinations**. This was the firm's initial audit of this issuer.

Description of the deficiencies identified

With respect to **Stock-Based Compensation**:

During the audit, the firm did not identify and evaluate that the issuer's accounting for compensation expense associated with certain equity awards was not in conformity with FASB ASC Topic 718, *Compensation – Stock Compensation*. (AS 2810.30)

Unrelated to our review, the issuer reevaluated its accounting for compensation expense related to these equity awards and concluded that a material misstatement existed that had not been previously identified. The issuer subsequently restated its financial statements, and the firm revised and reissued its report on the financial statements.

With respect to **Business Combinations**, for which the firm identified a significant risk:

During the year, the issuer acquired multiple businesses and engaged specialists to assist it in determining the fair values of certain acquired assets using various significant assumptions. The following deficiencies were identified:

- For certain acquired intangible assets, the firm did not perform any procedures to evaluate the reasonableness of certain significant assumptions developed by the issuer, including evaluating significant differences between the useful lives assigned to these intangible assets and the cash flow forecast periods used to determine their fair values. (AS 2501.16) In addition, the firm did not perform any procedures to evaluate the relevance and reliability of certain information that the issuer used to develop certain of these assumptions. (AS 1105.04 and .06)
- The firm did not perform procedures to test the fair values of certain tangible assets acquired and liabilities assumed, beyond reading an issuer-prepared memorandum. (AS 2501.07)
- In its testing of the fair values of certain other acquired tangible assets, the firm used a company's specialist's valuation report as audit evidence, without performing procedures to evaluate the work of this specialist. (AS 1105.A1-.A9; AS 2501.07)
- For two of these business combinations, the firm did not perform any procedures to test whether any deferred tax liabilities should have been recognized in connection with the business combinations. (AS 2301.08)

The firm used an auditor-employed specialist to assist it with testing the fair values of certain acquired assets, which were determined by the company's specialists. The following deficiencies were identified:

- For certain acquired intangible assets, the firm did not identify that the auditor-employed specialist did not perform any procedures to (1) evaluate certain of the significant assumptions that were developed by one of the company's specialists and used to determine the fair values of these acquired assets and (2) test the accuracy and completeness of certain issuer-produced data that were used by this specialist to develop these significant assumptions. (AS 1105.A8a and .A8b; AS 1201.C6 and .C7)
- For one of these business combinations, the firm did not identify that the auditor-employed specialist did not sufficiently evaluate the relevance and reliability of this company's specialist's work because it did not identify inconsistencies between the measurement of the enterprise fair value estimated by

this specialist compared to the fair value of the consideration transferred by the issuer. (AS 1105.A9 and .A10; AS 1201.C6 and .C7)

- In testing the fair values of certain acquired tangible assets, the firm did not identify that the auditor-employed specialist did not evaluate the relevance and/or reliability of certain external information used by another of the company's specialists or the auditor-employed specialist. (AS 1105.04, .06, and .A8a; AS 1201.C6 and .C7)

Issuer C

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue**, for which the firm identified a fraud risk. The firm's internal inspection program inspected this audit and reviewed this area but did not identify certain of the deficiencies below.

Description of the deficiencies identified

The firm identified a control deficiency related to the issuer's lack of controls over amounts invoiced to customers. The firm identified various controls that it believed would compensate for this deficiency but did not identify that these controls did not address whether amounts invoiced to customers were accurate. (AS 2201.68)

The firm selected for testing various controls over revenue but did not identify and test any controls over the accuracy and completeness of certain system-generated data that were used in the operation of these controls. (AS 2201.39)

For certain types of revenue, the firm did not perform any procedures to test, or (as discussed above) test any controls over, the accuracy and completeness of certain system-generated data the firm used in its substantive testing. (AS 1105.10) In addition, the firm used certain emails from the issuer's customers as audit evidence to test these types of revenue but did not perform any procedures to evaluate whether the information included in these emails was reliable. (AS 1105.04 and .06)

For another type of revenue that included an estimate of variable consideration in the transaction price, the following deficiencies were identified:

- The firm selected for testing a control that consisted of the issuer's review of certain assumptions used to determine this estimate. The firm did not evaluate the specific review procedures that the control owner performed to assess the reasonableness of these assumptions. (AS 2201.42 and .44)

- The firm's approach for substantively testing this estimate was to test the issuer's process. The firm did not evaluate the reasonableness of certain of the significant assumptions that the issuer used to determine this estimate. (AS 2501.16) In addition, the firm did not test, or (as discussed above) test any controls over, the accuracy and completeness of certain system-generated data that the issuer used to determine this estimate. (AS 1105.10)

- The firm's procedures to test the occurrence of this revenue consisted of testing a sample of transactions from the last month of the year. The firm did not perform any procedures to test the remaining population of this revenue. (AS 2315.24)

Issuer D – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue** and a **Business Combination**.

Description of the deficiencies identified

With respect to **Revenue**, for which the firm identified a fraud risk:

The firm's substantive procedures to test revenue included testing a sample of transactions. The firm did not perform any procedures to test whether the performance obligation was satisfied before revenue was recognized. (AS 2301.08 and .13) In addition, the firm used information from the issuer and from external sources in its testing of certain of these transactions. The firm did not (1) test, or test any controls over, the accuracy and completeness of the issuer-produced information and (2) evaluate the reliability of the external information. (AS 1105.04, .06, and .10)

With respect to a **Business Combination**, for which the firm identified a significant risk:

During the year, the issuer entered into a transaction and engaged a specialist to assist it in determining the fair value of a certain liability recorded in connection with the transaction. The following deficiencies were identified:

- The firm's approach for substantively testing the fair value of this liability was to test the issuer's process, and the firm used an auditor-engaged specialist to assist it with evaluating the significant assumptions the company's specialist used. The firm did not identify that the auditor-engaged specialist did not (1) perform any procedures to evaluate the reasonableness of a significant assumption and (2) evaluate whether certain external data that the company's specialist used to develop this significant assumption were relevant or reliable. (AS 1105.A8a and .A8b; AS 1210.09 and .12)
- The issuer recognized another liability in connection with this transaction. The firm did not evaluate whether the issuer appropriately assessed certain relevant information when it calculated this liability. (AS 2301.08 and .11)

Issuer E – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue** and **Inventory**.

Description of the deficiencies identified

With respect to **Revenue**, for which the firm identified a fraud risk:

The firm's substantive procedures to test certain revenue included testing a sample of transactions. The firm did not perform any procedures to test whether the performance obligation was satisfied before revenue was recognized. (AS 2301.08 and .13) In addition, the firm used certain issuer-produced data in these substantive procedures but did not test, or test any controls over, the accuracy and completeness of these data. (AS 1105.10)

With respect to **Inventory**, for which the firm identified a significant risk:

For certain inventory, the firm's approach for substantively testing the reserve for excess and obsolete (E&O) inventory was to test the issuer's process. The firm did not evaluate the reasonableness of certain significant assumptions the issuer used to develop the E&O reserve. (AS 2501.16) In addition, for certain other inventory, the firm did not perform any procedures to test the E&O reserve. (AS 2501.07)

The firm's substantive procedures to test the unit cost of certain manufactured inventory consisted of (1) selecting a sample of inventory items for testing and (2) performing substantive analytical procedures. The following deficiencies were identified:

- For the items selected for testing, the firm did not perform sufficient procedures to test the cost of the raw materials because its procedures were limited to comparing certain of these costs to system-generated reports. (AS 2301.08)
- For the substantive analytical procedures, the firm did not determine whether the expectations it used in these analytical procedures were based on predictable relationships. Further, the firm identified differences in excess of the firm's established threshold but did not evaluate certain of these differences beyond, in some instances, inquiring of management. (AS 2305.13, .14, and .21)

Issuer F – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Inventory** and **Revenue**.

Description of the deficiencies identified

With respect to **Inventory**, for which the firm identified a significant risk:

The firm's substantive procedures to test the reserve for excess and obsolete (E&O) inventory included selecting a sample of inventory items for testing. The following deficiencies were identified:

- The firm did not perform any procedures to test, or test any controls over, the accuracy and completeness of certain issuer-produced reports used in these substantive procedures. (AS 1105.10)
- For certain of its selections, the firm did not perform any procedures to test the sales forecast that the issuer used to develop the E&O reserve. (AS 2501.07)
- For certain other selections, the firm did not perform procedures, beyond inquiring of management, to test the issuer's conclusion that an E&O reserve was not necessary. (AS 2501.07)

The issuer held certain inventory at foreign external warehouses, which represented a significant proportion of the issuer's total assets. The firm did not perform sufficient procedures to test the existence of this inventory because it limited its procedures to confirming the quantities of this inventory with the external warehouses. (AS 2510.14)

With respect to **Revenue**:

The firm's substantive procedures to test certain of the issuer's revenue disclosures consisted of tracing the amounts disclosed to schedules produced by the issuer. The firm did not perform any procedures to test, or test any controls over, the accuracy and completeness of these issuer-produced schedules. (AS 1105.10)

Issuer G – Consumer Discretionary

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**, **Deferred Revenue**, and **Income Taxes**. The firm's internal inspection program inspected this audit and reviewed the revenue area but did not identify the deficiencies below.

Description of the deficiencies identified

With respect to **Revenue** and **Deferred Revenue**, for which the firm identified a fraud risk:

The firm's substantive procedures to test two types of revenue and the deferred revenue related to one of these types of revenue consisted of performing substantive analytical procedures and tests of details. The following deficiencies were identified:

- For both types of revenue, the firm used certain system-generated data or reports in its substantive analytical procedures but did not test, or test any controls over, the accuracy and/or completeness of these data or reports. (AS 2305.16)
- For one of these types of revenue and the related deferred revenue, the firm's tests of details included comparing amounts the issuer recorded to revenue and deferred revenue to cash receipts included in the issuer's bank statements. The firm did not perform any procedures to test certain reconciling items it identified in these comparisons. (AS 2301.08 and .13)

With respect to **Income Taxes**:

The firm's approach for substantively testing the valuation allowance that the issuer recorded against its deferred tax assets was to test the issuer's process. The firm did not perform any procedures to evaluate the reasonableness of the significant assumptions the issuer used to determine the valuation allowance, beyond inquiring of management. (AS 2501.16)

The firm did not perform any substantive procedures to test certain of the issuer's income tax disclosures. (AS 2301.08)

Issuer H – 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)**, for which the firm identified a significant risk.

Description of the deficiencies identified

For loans that were collectively evaluated for impairment, the issuer determined the qualitative reserve component of the ALL using various qualitative factors. The following deficiencies were identified:

- The firm selected for testing controls that included the issuer's reviews of the qualitative factors for reasonableness. The firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of these qualitative factors. (AS 2201.42 and .44)
- The firm's approach for substantively testing the ALL was to test the issuer's process. The firm did not sufficiently evaluate whether the issuer had a reasonable basis for these qualitative factors because the firm's procedures were limited to (1) reading the issuer's ALL memorandum and (2) comparing the qualitative factors the issuer used to those used in prior periods. (AS 2501.16)

Issuer I – Financials

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to **Income Taxes**, for which the firm identified a significant risk.

Description of the deficiencies identified

The firm did not perform any substantive procedures to test the valuation allowance that the issuer recorded against its deferred tax assets, beyond inquiring of management. (AS 2501.07)

The firm did not perform any substantive procedures to test certain deferred tax assets, beyond comparing certain information from the supporting schedules that the issuer used to calculate these deferred tax assets to the general ledger. (AS 2301.08)

Audits with a Single Deficiency

Issuer J – Financials

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to the **ALL**, for which the firm identified a significant risk.

Description of the deficiency identified

For loans that were collectively evaluated for impairment, the issuer determined the quantitative reserve component of the ALL using various assumptions. The firm's approach for substantively testing the ALL was to test the issuer's process. The firm did not evaluate whether the issuer had a reasonable basis for certain significant assumptions, beyond reading an issuer-prepared memorandum. (AS 2501.16)

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

This section of our report discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

When we review an audit, we do not review every aspect of the audit. As a result, the areas below were 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.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In one of seven audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not perform sufficient procedures to determine whether the journal entry population from which it made its selections was complete. In this instance, the firm was non-compliant with AS 1105, *Audit Evidence*.
- In one of nine audits reviewed, the firm did not communicate to the issuer's audit committee all of the significant risks identified through its risk assessment procedures. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of three audits reviewed, the firm did not make a required communication to the issuer's audit committee related to the name, location, and planned responsibilities of an other accounting firm that performed audit procedures in the audit. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of four audits reviewed, the firm did not communicate to management, in writing, all control deficiencies identified during the audit and inform the audit committee when such communication had been made. In this instance, the firm was non-compliant with AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.
- In three of nine audits reviewed, the engagement team performed procedures to determine whether or not matters were critical audit matters but, in performing those procedures, did not include one or more matters that were communicated to the issuer's audit committee and that related to accounts or disclosures that were material to the financial statements. 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*. These instances of non-compliance do not necessarily mean that other critical audit matters should have been communicated in the auditor's report.
- In one of nine audits reviewed, the firm's communication of a critical audit matter in the auditor's report did not refer to the relevant financial statement accounts or disclosures related to the critical audit matter. In this instance, 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*.
- In two of eight audits reviewed, the firm's report on Form AP included inaccurate information related to the participation in the audit by certain other accounting firms. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

PART I.C: INDEPENDENCE

This section of our report discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence. An instance of potential non-compliance with SEC rules or an instance of non-compliance with PCAOB rules does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. Although this section includes instances of potential non-compliance that we identified, there may be other instances of non-compliance with SEC or PCAOB rules related to independence that were not identified through our procedures or the firm's monitoring activities.

PCAOB-Identified

We identified the following instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence:

Under Rule 2-01(c)(7) of Regulation S-X, an accountant is not independent if it does not obtain audit committee pre-approval for audit and non-audit services. We identified three instances for one issuer in three audits reviewed in which this circumstance appears to have occurred related to certain audit services.

Firm-Identified

The firm did not bring to our attention any instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

While the firm did not bring to our attention any instances of potential noncompliance, the number, large or small, of firm-identified instances of potential non-compliance may be reflective of the size of the firm, including the number of non-U.S. associated firms in the global network; the design and effectiveness of the firm's independence monitoring activities; and the size and/or complexity of the issuers it audits, including the number of affiliates of those issuers. Therefore, we caution against making any comparison of firm-identified instances of potential non-compliance across firms.

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.

Baker Tilly US, LLP
205 N Michigan Ave, 28th Fl
Chicago, IL 60601-5927
United States of America

T: +1 (312) 729 8000
F: +1 (312) 729 8199

bakertilly.com

October 30, 2023

Ms. Christine Gunia, Acting Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006

Re: Response to Part I of the Draft Report on the 2022 Inspection of Baker Tilly US, LLP

Dear Ms. Gunia:

We appreciate the opportunity to provide our response to Part I of the Public Company Accounting Oversight Board's (the PCAOB) Draft Report on the 2022 Inspection of Baker Tilly US, LLP (the Draft Report).

In addition to PCAOB Board Members and Division of Registration and Inspections staff, we recognize stakeholders beyond the PCAOB may be interested in our response to the matters cited in the Draft Report. We believe the following points are important for stakeholders' understanding:

1. **Inspection reports in general –** The PCAOB's stated mission, pursuant to Section 101(a) of the Sarbanes-Oxley Act of 2002, is to "protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports." We appreciate that mission and we take our responsibilities to further the public interest by preparing informative audit reports in conformity with PCAOB standards very seriously. As a result, we carefully evaluate each of the PCAOB's inspection observations and undertake remediation both in the interest of improving audit quality and in the interest of active cooperation with the PCAOB. However, we do note that while we have taken steps to remediate pertinent inspection observations to help improve audit quality, in certain cases we disagree with the PCAOB's observations or the way the observations are characterized.

2. **Part I.A –** We have evaluated each of the matters set forth in Part I.A and have taken actions appropriate under PCAOB rules and auditing standards, including AS 2901, *Consideration of Omitted Procedures After the Report Date,* AS 2201*, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements,* and, where applicable, AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report.* We concluded the identified matters related to the application of PCAOB auditing standards, and our additional procedures did not identify financial reporting misstatements in any of the audits cited in Part I.A.

3. **Part I.B –** We also evaluated the other compliance matters referenced in Part I.B. Specifically, regarding the evaluation and reporting of critical audit matters pursuant to AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, the

PCAOB's observations primarily relate to the documentation of the population of potential critical audit matters. These observations did not change our conclusions or reporting of critical audit matters. Similarly, there was no impact to our audit reports or the underlying financial reporting for the other matters described in Part I.B.

4. **Part I.C –** The independence matter referenced in Part I.C is not directly related to our audit of the issuer's financial statements. This matter relates to permissible audit services for three of the issuer's foreign subsidiaries, which are required by local law in those foreign jurisdictions. These audits were performed by three independently owned and operated firms in the international network of which we are a member, but we do not rely on these audits in our audit of the parent company financial statements. We concluded this matter did not impair our objectivity or impartiality for our audit of the issuer's financial statements.

We are committed to advancing audit quality, and the work of the PCAOB and its staff provides valuable insight to our quality improvement process. Improving audit quality is a continual process, and we look forward to collaborating with the PCAOB to pursue our shared objective of enhancing audit quality.

Sincerely,

Baker Tilly US, LLP

BAKER TILLY US, LLP