2023 Inspection Eide Bailly LLP

(Headquartered in Fargo, North Dakota)

January 25, 2024

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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TABLE OF CONTENTS

2023 Inspection... 2
Overview of the 2023 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 8
Part I.C: Independence... 9
Part II: Observations Related to Quality Control 11
Appendix A: Firm's Response to the Draft Inspection Report...A-1

2023 INSPECTION

In the 2023 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, one with a fiscal year ending in 2022 and one with a fiscal year 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.

2023 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 necessarily 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 or 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 2023 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2023 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

	2023	2020
Firm data		
Total issuer audit clients in which the firm was the principal auditor	16	20
Total engagement partners on issuer audit work[1]	8	10
Audits reviewed		
Total audits reviewed	2	2
Audits in which the firm was the principal auditor	2	2
Integrated audits of financial statements and internal control over financial reporting (ICFR)	2	1
Audits with Part I.A deficiencies	1	2
Percentage of audits with Part I.A deficiencies	50%	100%

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.

[1] 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, *Supervision of the Audit Engagement*) during the twelve-month period preceding the outset of the inspection.

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 2023 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.

2023		2020	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Allowance for loan losses	2	**Allowance for loan losses**	1
Investment securities	1	**Investment securities**	1
Deposit liabilities	1	**Revenue and related accounts**	1
		Inventory	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(s) on the issuer's financial statements and/or ICFR.

Part I.B discusses certain deficiencies, if any, 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, if any, 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. 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 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(s) 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 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 **Allowance for Loan Losses (ALL)**, **Deposit Liabilities**, and **Journal Entries**.

Description of the deficiencies identified

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

The issuer used certain qualitative factors to determine the qualitative component of the ALL. The firm selected for testing a review control over certain data used in the calculation of the qualitative reserve. The firm did not evaluate the review procedures that the control owners 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)

Loan risk grades were an important input in estimating the issuer's ALL. The firm selected for testing a control designed to validate loan risk grades assigned by the issuer to certain categories of loans. The control included the review of loan risk grades by the issuer's external loan reviewer (ELR). The following deficiencies were identified:

- The firm did not evaluate the review procedures that the control owners performed to evaluate the appropriateness of the issuer's loan grades. (AS 2201.42 and .44)

- The ELR reviewed loan risk grades as of 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 grades for loans that were not subject to this control. (AS 2201.39)

On a periodic basis the issuer evaluates potential problem loans. The firm selected for testing a control that included the review of potential problem loans. The following deficiencies were identified:

- The firm did not evaluate the review procedures that the control owners 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 firm did not identify and test any controls over the accuracy and completeness of reports used by the control owners. (AS 2201.39)

The issuer's ALL included loans individually evaluated for impairment. The firm did not identify and test any controls over the reasonableness of the fair value of the collateral used in the loan impairment calculation for certain individually evaluated loans. (AS 2201.39)

The firm's approach for substantively testing the qualitative component of the ALL was to review and test the issuer's process. The firm did not perform procedures to evaluate whether the issuer had a reasonable basis for the significant assumptions related to basis point qualitative factors used to determine the qualitative component of the ALL, beyond obtaining and reading an issuer-prepared narrative. (AS 2501.16)

The issuer also reported a component of the ALL related to loans individually evaluated for impairment, of which certain loans were considered collateral dependent and the impairment was determined based on the fair value of the collateral less estimated costs to sell. The issuer engaged a specialist to determine the fair value of certain collateral and for the remaining collateral, the issuer used an automated valuation model to determine the fair value. The following deficiencies were identified:

- The firm did not perform sufficient procedures to test the fair value of collateral based on the company's specialists' valuation reports that it selected for testing because (1) although it determined it needed additional evidence for valuation reports that were significantly aged, it limited its procedures to inquiry and obtaining information from external sources, without evaluating the relevance and reliability of that information (AS 1105.04, .06, and .A10; AS 2501.07), and (2) it did not perform further procedures to use the work of the company's specialist as audit evidence. (AS 1105.A1 - .A10; AS 2501.07)

- The firm's approach to test the fair value of the collateral, based on the issuer's internal model, it selected for testing, was to develop an independent expectation. The firm did not perform any procedures to (1) demonstrate it had a reasonable basis for the assumptions used (AS 2501.22), and (2) evaluate the relevance and reliability of certain information it obtained from an external source that it used to develop its independent expectation. (AS 1105.04 and .06)

With respect to **Deposit Liabilities**:

The issuer's deposit liability transactions included certain deposits processed through information systems that were outside of the issuer's core deposit liability system. The firm did not identify and test any controls over deposit transactions initiated outside of the issuer's core deposit system. (AS 2201.39)

The firm selected for testing a control over deposit liability reconciliations. The firm did not evaluate the specific review procedures that the control owners performed to determine whether reconciling items were appropriately resolved. (AS 2201.42 and 44)

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

The firm identified journal entries that met certain fraud criteria. The firm judgmentally selected certain of those journal entries for testing, without having an appropriate basis for limiting its testing to these journal entries. Further, for journal entries meeting one of the identified fraud criteria, the firm did not select any of the entries for testing. (AS 2401.61)

Audits with a Single Deficiency

None

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 two audits reviewed, the firm did not evaluate certain factors when assessing the risks of material misstatement related to a significant account. In this instance, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In both audits reviewed, 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*.
- In one audit, the firm's communication of critical audit matters in the audit report did not include certain language required to precede the critical audit matters communicated in the audit report. 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*.

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 an instance of potential non-compliance that the firm brought to our attention, 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 did not identify any instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Firm-Identified

During the inspection, the firm brought to our attention that it had identified, through its independence monitoring activities, one instance for one issuer,[2] in which the firm appeared to have impaired its independence because it may not have complied with Rule 2-01(c) of Regulation S-X related to maintaining independence.

[2] The firm-identified instances of potential non-compliance do not necessarily relate to the issuer audits that we selected for review.

While we have not evaluated the underlying reasons for the instances of potential non-compliance, the number, large or small, of firm-identified instances of potential non-compliance may be reflective of the size of the firm, including any associated firms; 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 these firm-identified instances of potential non-compliance across firms.

The instance of potential non-compliance related to audit committee pre-approval:

The firm reported one instance of potential non-compliance with Rule 2-01(c)(7) of Regulation S-X regarding audit committee pre-approval.

The firm has reported to us that it has evaluated this instance of potential non-compliance and determined that its objectivity and impartiality were not impaired. The firm also reported to us that it has communicated this instance to the issuer's audit committee in accordance with PCAOB Rule 3526.

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.

EideBailly

CPAs & BUSINESS ADVISORS

December 7, 2023

Ms. Christine Gunia, Acting 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 2023 Inspection of Eide Bailly LLP (Firm ID 286)

Dear Ms. Gunia:

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 2023 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 which will assist in our objective of improvement in audit quality.

Respectfully submitted,

Eide Bailly LLP

Eide Bailly LLP

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