2023 Inspection
Baker Tilly US, LLP

(Headquartered in Chicago, Illinois)

June 20, 2024

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. 104-2024-107

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

EXECUTIVE SUMMARY

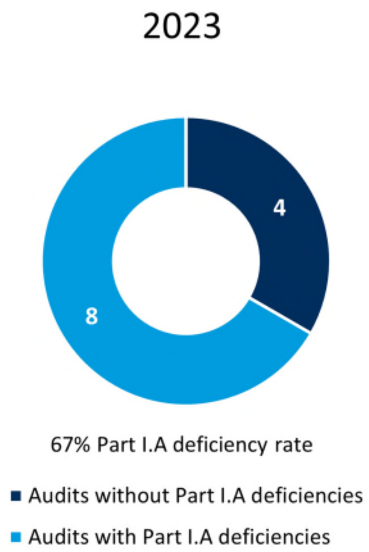
Our 2023 inspection report on Baker Tilly US, LLP provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board (PCAOB) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of what is included in this report:

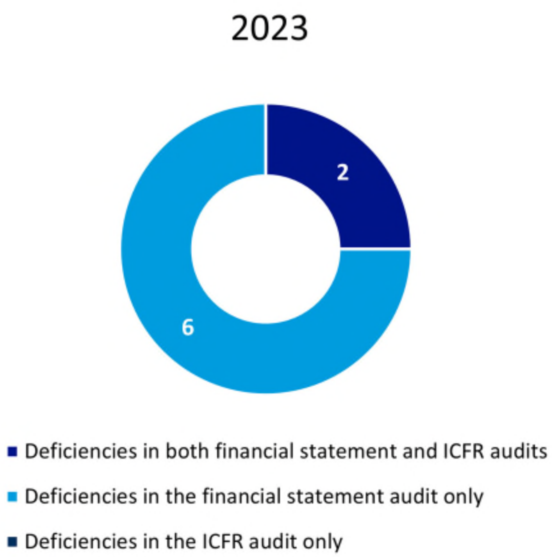
- Part I.A of the report discusses deficiencies ("Part I.A deficiencies") in certain issuer audits that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial 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 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 2023 Deficiencies Included in Part I

Eight of the 12 audits we reviewed in 2023 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, and inventory.





The most common Part I.A deficiencies in 2023 related to testing data or reports used in substantive testing and performing substantive testing to address a risk of material misstatement.

The Part I.B deficiencies in 2023 related to consideration of fraud, audit planning, risk assessment, communications to management, critical audit matters, and audit committee communications.

The Part I.C deficiencies in 2023 related to audit committee pre-approval.

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2023 INSPECTION

In the 2023 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 ending in 2022. 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 2023 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.

2023 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 2023 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

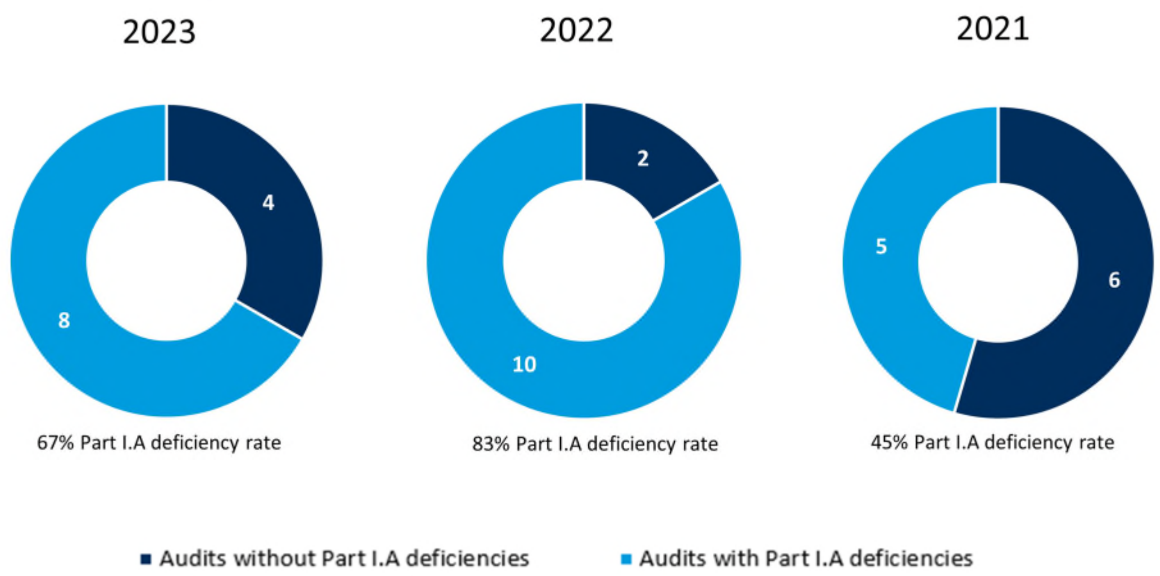
The following information provides an overview of our 2023 inspection as well as data from the previous two inspections. We use a combination of risk-based and random methods to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, 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

	2023	2022	2021
Total audits reviewed			
Total audits reviewed	12	12	11
Selection method			
Risk-based selections	10	10	11
Random selections	2	2	0
Total audits reviewed	**12**	**12**	**11**
Principal auditor			
Audits in which the firm was the principal auditor	12	12	11
Audits in which the firm was not the principal auditor	0	0	0
Total audits reviewed	**12**	**12**	**11**
Audit type			
Integrated audits of financial statements and ICFR	4	4	3
Financial statement audits only	8	8	8
Total audits reviewed	**12**	**12**	**11**

Part I.A Deficiencies in Audits Reviewed

In 2023, six of the eight audits appearing in Part I.A were selected for review using risk-based criteria. 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.

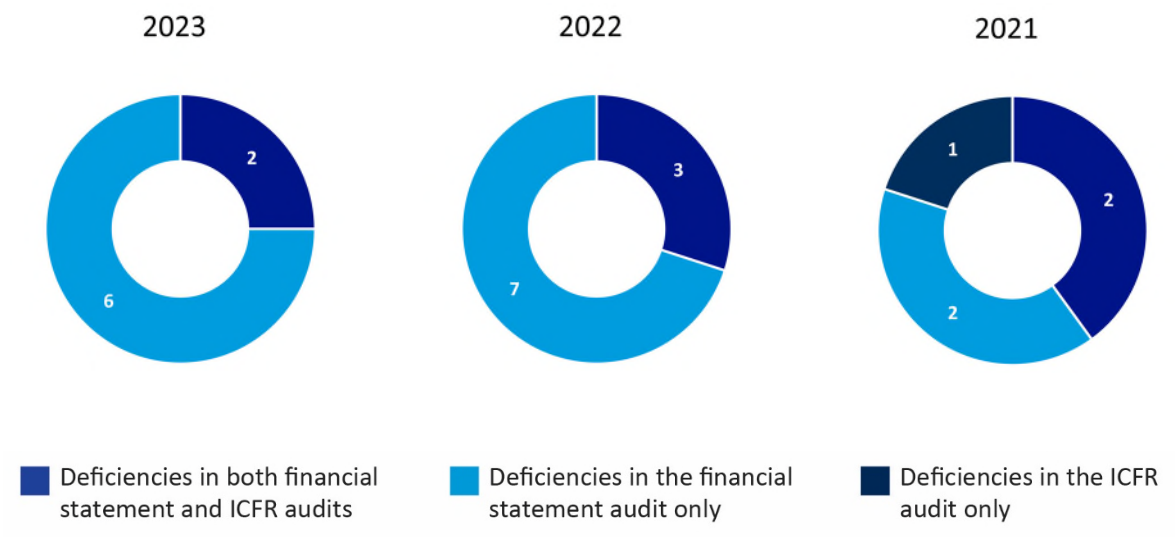


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional 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 2023 and the previous two inspections. 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		
	2023	2022	2021
Did not perform sufficient testing of data or reports used in the firm's substantive testing	5	6	1
Did not perform sufficient testing related to a significant account or disclosure or to address an identified risk	4	7	1
Did not sufficiently test an estimate	2	10	3

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2023	2022	2021
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	2	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	2
Did not identify and test any controls that addressed the risks related to a significant account or relevant assertion	2	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.

2023			2022			2021		
Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies
Revenue and related accounts	6	4	**Revenue and related accounts**	8	6	**Revenue and related accounts**	6	2
Business combinations	4	2	**Business combinations**	3	3	**Allowance for loan losses**	4	2
Investment securities	3	0	**Investment securities**	3	0	**Inventory**	2	1
Going concern	3	0	**Cash and cash equivalents**	3	0	**Business combinations**	2	1
Inventory	2	2	**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 two years presented.

Audit area	2023		2022		2021	
	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed
Revenue and related accounts	4	6	6	8	2	6
Business combinations	2	4	3	3	1	2
Inventory	2	2	2	2	1	2
Allowance for loan losses	1	2	2	2	2	4

Revenue and related accounts: The deficiencies in 2023, 2022, and 2021 related to substantive testing of, and testing controls over, revenue and related accounts, including testing whether relevant revenue recognition criteria were met.

Business combinations: The deficiencies in 2023 related to evaluating business combination disclosures and testing controls over the reasonableness of the fair value of acquired assets and assumed liabilities. The deficiencies in 2022 and 2021 primarily related to substantive testing of significant assumptions used by the issuer to determine the fair value of acquired assets.

Inventory: The deficiencies in 2023 primarily related to testing controls over inventory and the resulting overreliance on controls when performing substantive testing. 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.

Allowance for loan losses: The deficiencies in 2023, 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.

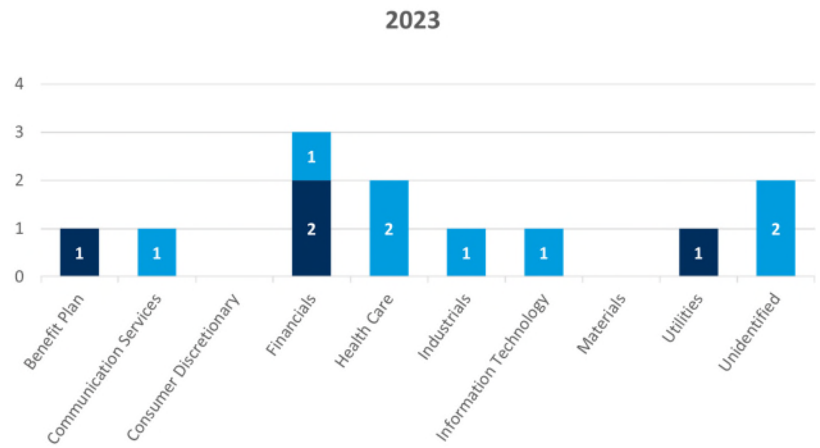
Auditing Standards Associated with Identified Part I.A Deficiencies

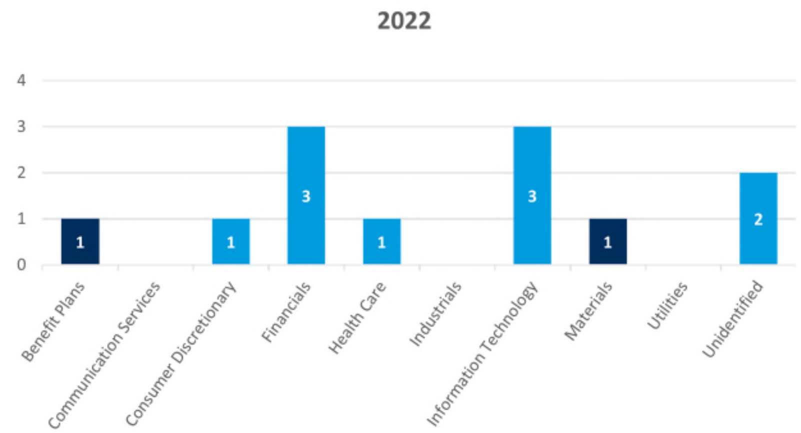
The following lists the auditing standards referenced in Part I.A of the 2023 and the previous two inspection reports, and the number of times that the standard is cited in Part I.A.

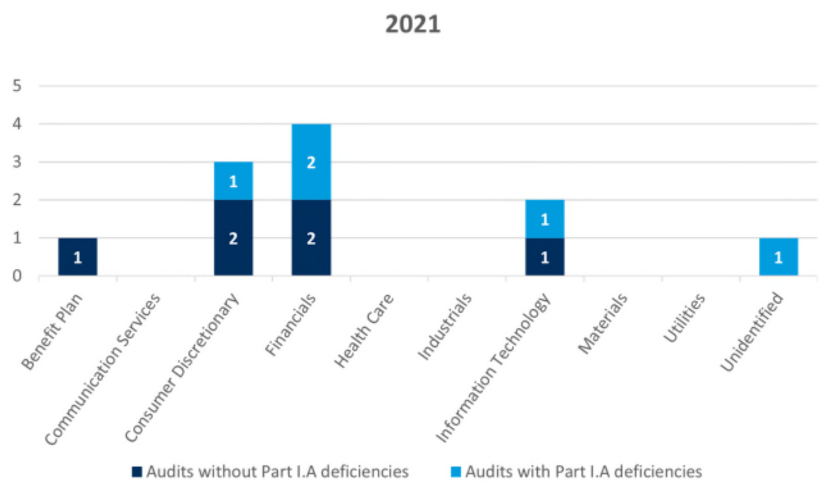
PCAOB Auditing Standards	2023	2022	2021
AS 1105, *Audit Evidence*	9	16	1
AS 1201, *Supervision of the Audit Engagement*	0	3	0
AS 1210, *Using the Work of an Auditor-Engaged Specialist*	0	1	0
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	12	9	11
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	12	9	2
AS 2305, *Substantive Analytical Procedures*	3	2	0
AS 2310, *The Confirmation Process*	0	0	1
AS 2315, *Audit Sampling*	3	2	2
AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements* (effective for fiscal years ending on or after December 15, 2020)	4	15	3
AS 2501, *Auditing Accounting Estimates* (effective for fiscal years ending before December 15, 2020)	-	-	2
AS 2510, *Auditing Inventories*	0	1	0
AS 2810, *Evaluating Audit Results*	2	1	0

Inspection Results by Issuer Industry Sector

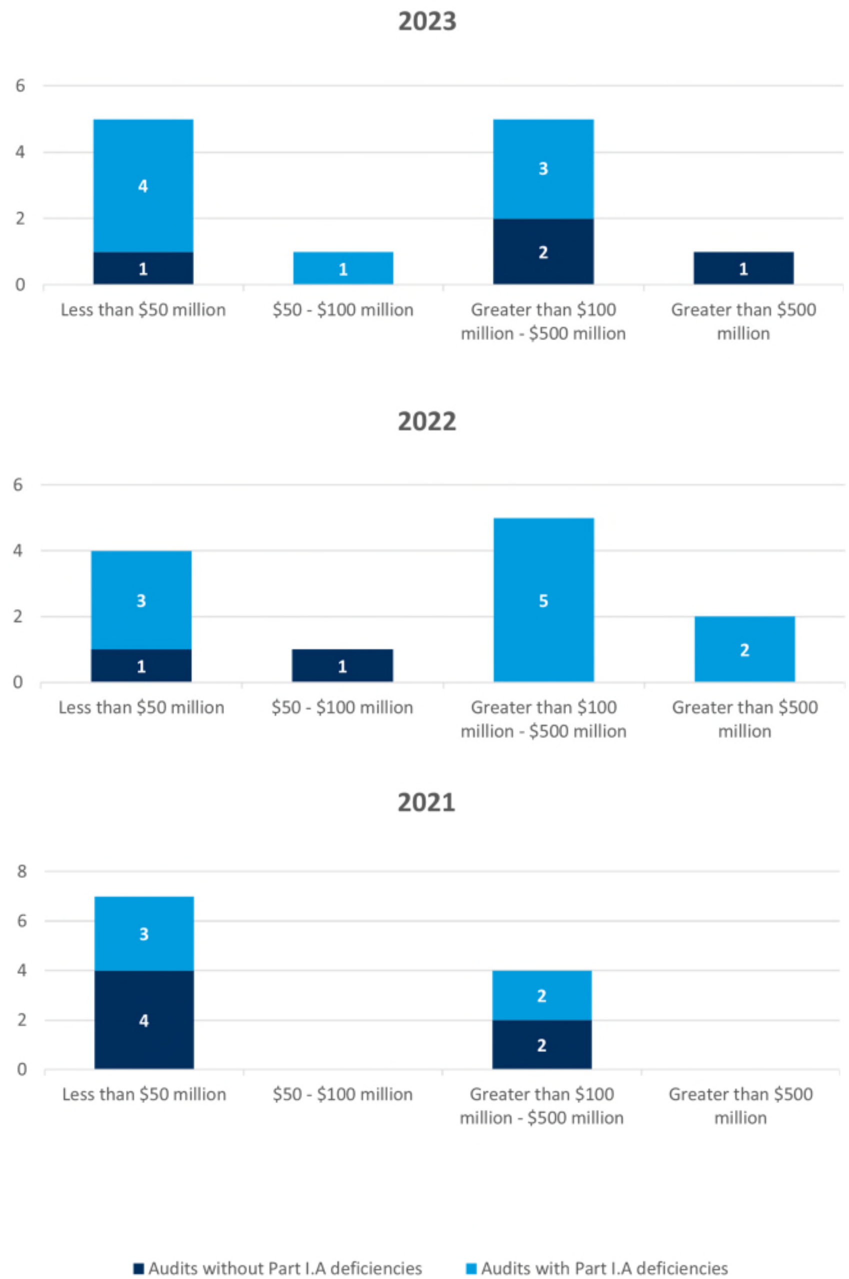
The majority of industry sector data is based on Global Industry Classification Standard (GICS) data obtained from Standard & Poor's (S&P). In instances where GICS data for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data.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



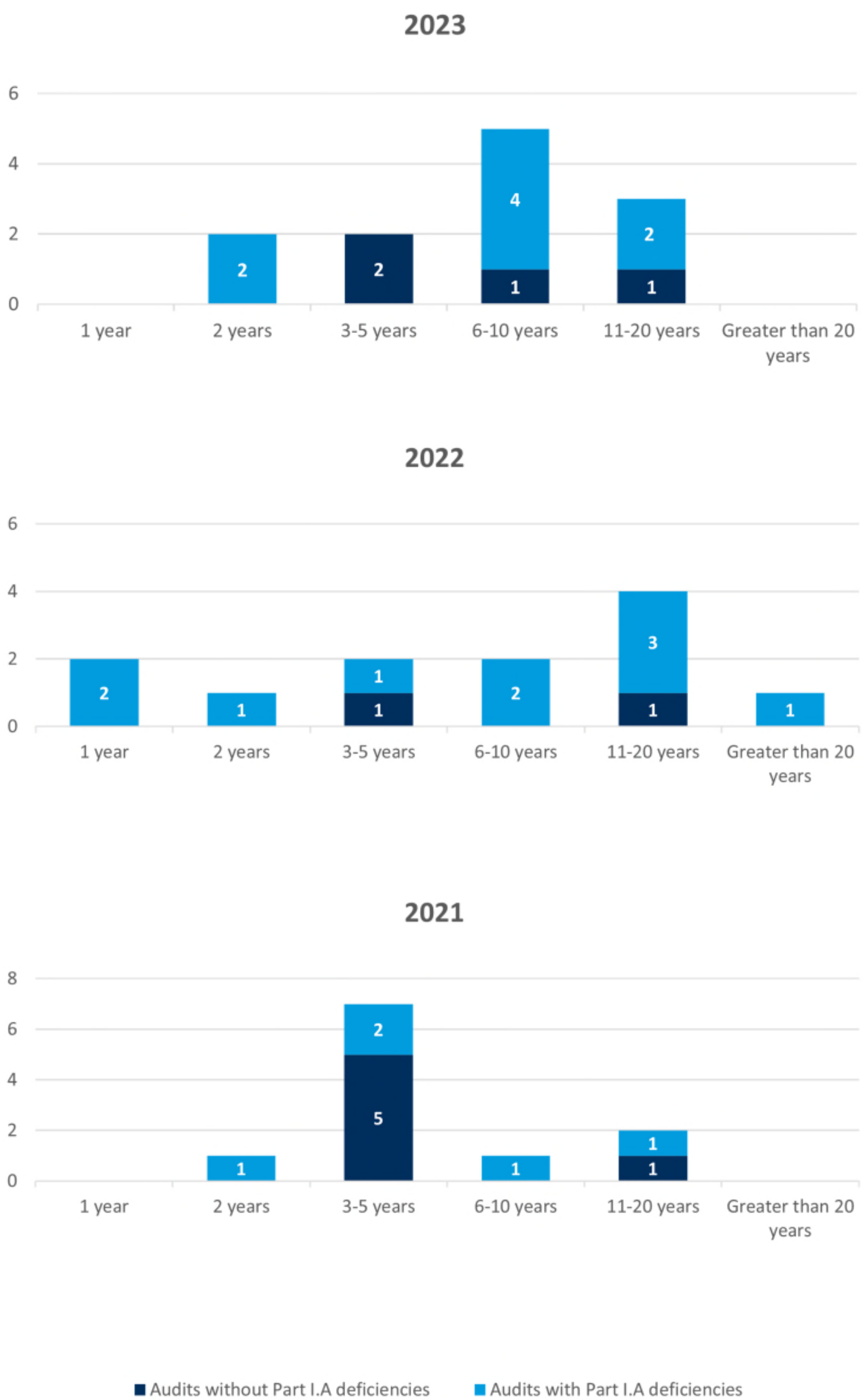




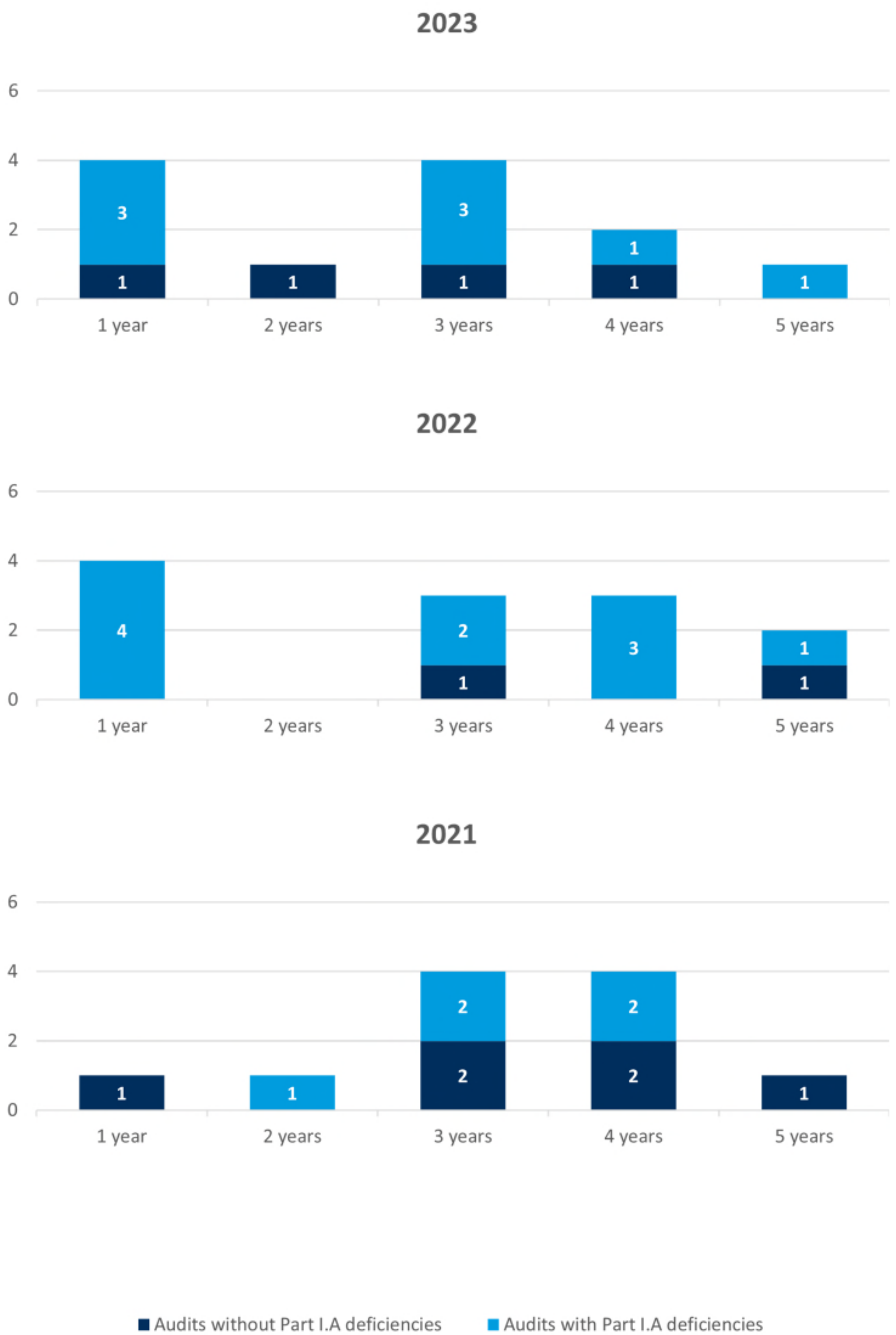
Inspection Results by Issuer Revenue Range



Inspection Results by the Firm's Tenure on the Issuer



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



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.

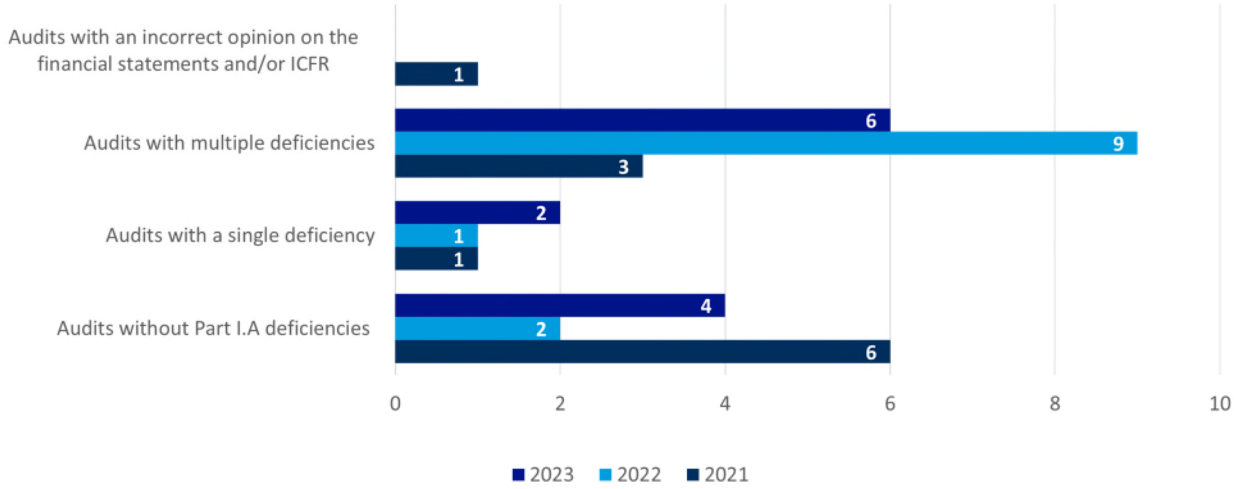
Audits with Multiple Deficiencies

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**, **Inventory**, and **Foreign Currency Translation**.

Description of the deficiencies identified

With respect to **Revenue** and **Inventory**:

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

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

The firm selected for testing controls that consisted of the issuer's reviews of gross margins, estimates of revenue deductions, and customer shipments and invoices. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and/or the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

The firm selected for testing a control that consisted of the issuer's review and approval of customer price changes. The firm did not evaluate the specific review procedures that the control owners performed to assess the appropriateness of the price changes and whether they were appropriately approved. (AS 2201.42 and .44)

The firm's substantive procedures to test revenue consisted of selecting a sample of transactions for testing. The firm did not perform sufficient procedures to test these transactions because it did not test (1) whether the issuer had a valid contract with the customer and (2) the issuer's determination of the transaction price. (AS 2301.08 and .13)

With respect to **Inventory**:

The firm selected for testing a control that consisted of the issuer's review of standard costs for its inventory items. The firm did not evaluate the specific review procedures that the control owner performed to assess the reasonableness of the standard costs included in the issuer's inventory system. (AS 2201.42 and .44)

The firm did not identify and test any controls that addressed whether variances between actual and standard costs were appropriately calculated and recorded in the issuer's inventory system. (AS 2201.39)

The firm did not identify and test any controls over the completeness of the issuer's in-transit inventory. (AS 2201.39)

For in-transit inventory and freight included in inventory, the firm did not perform procedures to test, or test any controls over, the accuracy and completeness of certain system-generated data or reports the firm used in its substantive testing, including its substantive analytical procedures. (AS 1105.10; AS 2305.16)

With respect to **Foreign Currency Translation**:

The firm did not identify and test any controls over the issuer's foreign currency translation adjustments. (AS 2201.39)

The firm did not perform sufficient substantive procedures to test the issuer's foreign currency translation adjustments because the firm did not test the exchange rates that the issuer used in the translation of certain accounts. (AS 2301.08)

Issuer B

Type of audit and related areas affected

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

Description of the deficiencies identified

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

For certain contracts, the issuer recognized revenue over time based on costs incurred to date relative to total estimated costs to complete. The firm's substantive procedures to test this revenue and the related accounts included (1) selecting a sample of contracts that exceeded a monetary threshold, (2) selecting a sample of costs incurred and billings to customers during the year, and (3) performing analytical procedures. The following deficiencies were identified:

- For certain contracts selected for testing, the firm did not perform procedures to test whether the performance obligations had been satisfied before revenue was recognized, beyond comparisons to issuer-produced reports and invoices. (AS 2301.08 and .13)
- The firm's sample sizes to test costs incurred and billings to customers were too small to provide sufficient appropriate audit evidence because, in determining the sample sizes, the firm did not take into account tolerable misstatement, the allowable risk of incorrect acceptance, and the characteristics of the population. (AS 2315.16, .23, and .23A) In addition, the firm used certain labor rates in its substantive testing of costs incurred but did not perform procedures to test, or test any controls over, the accuracy of these labor rates. (AS 1105.10)
- The firm did not perform substantive procedures to test the occurrence of revenue or the existence of contract assets for contracts below the monetary threshold, beyond performing the procedures to test a sample of costs incurred and billings to customers discussed above. (AS 1105.27; AS 2301.08 and .13)
- For the analytical procedures over certain revenue, the firm developed its expectations, in part, using data derived from the recorded amounts of revenue. The firm did not evaluate whether these data were sufficiently relevant and reliable for the purpose of achieving its audit objectives. (AS 1105.04 and .06; AS 2305.16)
- For the analytical procedures over certain other revenue, the firm identified a difference in excess of the firm's established threshold but did not obtain any evidential matter to evaluate the difference. (AS 2305.21)

With respect to a **Business Combination**:

During the year, the issuer acquired a business. The firm did not identify and evaluate the issuer's omission of certain disclosures required under FASB ASC Topic 805, *Business Combinations*. (AS 2810.30 and .31)

Issuer C – Industrials

Type of audit and related area affected

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

Description of the deficiencies identified

The firm relied on controls it selected for testing in its approach to testing revenue at two of the issuer's business units. The following deficiencies were identified:

- For the first business unit, the only control the firm selected for testing over the occurrence of revenue consisted of the issuer's reconciliation of the sales subledger to the general ledger and its review of this reconciliation. The firm did not evaluate whether the design of this control was sufficient to address the risks of material misstatement related to the occurrence of sales transactions in the sales subledger. (AS 2301.19)

- For the second business unit, the firm selected for testing a control that consisted of the issuer's review of sales transactions included in the general ledger. The firm's testing of this control was not sufficient because the firm did not directly test the review procedures that the control owner performed. (AS 2301.19, .21, and .23)

- The sample sizes the firm used in certain of its substantive procedures to test this revenue were 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)

Issuer D – Communication Services

Type of audit and related areas affected

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

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 consisted of selecting a sample of transactions for testing. The following deficiencies were identified:

- For certain transactions selected for testing, the firm did not perform any procedures to test whether the performance obligations had been satisfied before revenue was recognized. (AS 2301.08 and .13)

- For certain other transactions selected for testing, the firm used issuer-produced data or information from external sources in its testing. The firm did not (1) test, or test any controls over, the accuracy and completeness of the issuer-produced data or (2) evaluate the reliability of the external information. (AS 1105.04, .06, and .10)

- The firm did not evaluate whether the issuer (1) was acting as a principal or as an agent and (2) appropriately disclosed whether revenue was recognized at a point in time or over time. (AS 2301.08)

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

The issuer used forecasted cash flows in its assessment of certain amortizable intangible assets for possible impairment. The firm's approach for substantively testing the valuation of these intangible assets was to test the issuer's process. The following deficiencies were identified:

- For one of the issuer's asset groups, the firm did not evaluate whether the issuer's inclusion of expected cash flows from a certain product in its forecasted cash flows was in conformity with FASB ASC Topic 360, *Property, Plant, and Equipment*. (AS 2501.10) In addition, the firm did not evaluate the reasonableness of the significant assumptions the issuer used related to the expected cash flows from this product, beyond obtaining evidence from an external party that this product was under development. (AS 2501.16)
- For the other asset groups, the firm used an issuer-prepared spreadsheet in its substantive testing of the issuer's allocation of historical revenue to these asset groups. The firm did not test, or test any controls over, the accuracy of this spreadsheet. (AS 1105.10)

The firm did not identify and evaluate the issuer's omission of certain required disclosures under FASB ASC Topic 350, *Intangibles – Goodwill and Other*. (AS 2810.30 and .31)

Issuer E – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Inventory** and a **Business Combination**. The firm's internal inspection program had inspected this audit, reviewed these areas, and also identified the deficiencies below.

Description of the deficiencies identified

With respect to **Inventory**:

The issuer used multiple information-technology (IT) systems to initiate, process, and record transactions related to inventory. The firm selected for testing an automated control that used data generated or maintained by these IT systems. As a result of the following deficiencies in the firm's testing of IT general controls, the firm's testing of this automated control was not sufficient. (AS 2201.46)

- The firm selected for testing two controls over change management and one control over transaction processing within these IT systems. The firm did not perform any procedures to test, or test any controls over, the completeness of the population of items from which it selected its samples for testing these controls. (AS 1105.10) In addition, the firm did not evaluate whether user access to perform the control over transaction processing was appropriately restricted for one of these IT systems. (AS 2201.42 and .44)

- The firm selected for testing a control over user access to these IT systems but did not perform procedures to test, or test any controls over, the accuracy and completeness of certain reports that the firm used in its testing. (AS 1105.10)

The firm did not identify and test any controls that addressed the risk related to the accuracy and completeness of data transferred from the issuer's inventory subledger to the general ledger. (AS 2201.39)

The firm selected for testing controls over the calculation of the issuer's excess and obsolete inventory reserve and inventory unit costs. The firm did not identify and test any controls over the accuracy and completeness of certain system-generated data or reports that were used in the operation of these controls. (AS 2201.39)

As a result of the firm's control testing deficiencies discussed above, the firm did not perform sufficient substantive procedures to test the valuation of inventory, as follows:

- The sample size the firm used in certain of its substantive procedures to test inventory 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. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)
- The firm did not perform procedures to test, or test any controls over, the accuracy and/or completeness of certain system-generated data or reports that the firm used in its substantive testing. (AS 1105.10)

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

During the year, the issuer acquired a business. The firm selected for testing controls that consisted of the issuer's reviews of the fair values of tangible assets acquired and liabilities assumed. The firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of the fair values of certain of these tangible assets acquired and liabilities assumed. (AS 2201.42 and .44)

Issuer F – Financials

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to the **Allowance for Loan Losses (ALL)**, for which the firm identified a significant risk.

Description of the deficiencies identified

The firm's approach for substantively testing the ALL was to test the issuer's process. The following deficiencies were identified:

- For loans that were collectively evaluated for impairment, the issuer determined the qualitative reserve component of the ALL using various qualitative factors. The firm did not evaluate whether the issuer had a reasonable basis for the significant assumptions the issuer used to develop these qualitative factors. (AS 2501.16)

- The issuer also reported an unallocated reserve component of the ALL. The firm did not evaluate the reasonableness of the significant assumptions the issuer used to develop this component. (AS 2501.16)

Audits with a Single Deficiency

Issuer G – Health Care

Type of audit and related area affected

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

Description of the deficiency identified

The issuer used a service organization to process and record transactions related to payroll expense and the firm used a report produced by the service organization in its substantive testing. The firm did not perform any procedures that addressed the accuracy and completeness of this report. (AS 2301.08)

Issuer H – Health Care

Type of audit and related area affected

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

Description of the deficiency identified

The issuer included payroll costs as a component of various operating expenses it reported. The firm did not perform any substantive procedures to test whether the issuer had appropriately classified these payroll costs. (AS 2301.08)

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 12 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 12 audits reviewed, the firm did not perform procedures to determine whether all individuals who participated in the audit were in compliance with independence requirements. In this instance, the firm was non-compliant with AS 2101, *Audit Planning*.
- In one of 12 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 one of 12 audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not appropriately consider the characteristics of potentially fraudulent journal entries in determining the criteria it used to identify and select journal entries for testing. In this instance, the firm was non-compliant with AS 2401, *Consideration of Fraud in a Financial Statement Audit*.
- In two of 12 audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not have an appropriate rationale for limiting its testing of entries it identified as having certain fraud risk characteristics to certain entries. In these instances, the firm was non-compliant with AS 2401, *Consideration of Fraud in a Financial Statement Audit*.
- In one of 10 audits reviewed, the firm did not make a required communication to management related to an identified misstatement. In this instance, the firm was non-compliant with AS 2810, *Evaluating Audit Results*.
- In two of seven 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 certain matters that were communicated to the 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 seven 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 12 audits reviewed, the firm's independence communications with the audit committee inaccurately described the professional standards related to required communications. In one of these audits, the firm did not describe in writing to the audit committee all relationships that, as of the date of the firm's communication, may have been thought to bear on the firm's independence. In these instances, the firm was non-compliant with PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence.*

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 and 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 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. In 12 audits reviewed, we identified two instances across two issuers in which this circumstance appears to have occurred related to certain audit services, including quarterly reviews.

Firm-Identified

During the inspection, the firm brought to our attention that it had identified, through its independence monitoring activities, for a 12-month period, one instance for one issuer,[1] representing approximately 1% of the firm's total reported issuer audits, 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. This instance of potential non-compliance did not involve non-U.S. associated firms.

While we have not evaluated the underlying reasons for the instance 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 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 the issuer. Therefore, we caution against making any comparison of firm-identified instances of potential non-compliance across firms.

The firm reported one instance of potential non-compliance with Rule 2-01(c)(7) of Regulation S-X regarding audit committee pre-approval. This instance related to the firm being engaged to provide tax services without the firm obtaining 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 communicated this instance to the issuer's audit committee as required by PCAOB Rule 3526.

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[1] The firm-identified instance of potential non-compliance does not necessarily relate to the issuer audits that we selected for review.

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.

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May 23, 2024

Ms. Christine Gunia, 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 2023 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 2023 Inspection of Baker Tilly US, LLP (the Draft Report).

We appreciate the PCAOB's mission and take our responsibilities to conduct audits of issuers in conformity with PCAOB standards very seriously. As a result, we carefully evaluate each of the PCAOB's inspection observations and undertake remediation where appropriate both in the interest of improving audit quality and in the interest of active cooperation with, and responsiveness to, the PCAOB. 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 in the Draft Report.

In addition to PCAOB Board Members and Division of Registration and Inspections staff, we recognize other stakeholders 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. **Part I.A** – We have evaluated each of the matters set forth in Part I.A and have taken appropriate actions in response under pertinent 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 that the identified matters related to the application of PCAOB auditing standards, and our additional procedures did not identify a need for any financial reporting restatements in any of the audits cited in Part I.A.

2. **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. The referenced matters did not change our conclusions or reporting of critical audit matters.

Similarly, there was no impact on our audit reports or the underlying financial reporting for the other matters described in Part I.B.

3. **Part I.C** – The PCAOB-identified independence matter in Part I.C relates to documentation of approvals to continue with first quarter interim reviews following the completion of the prior year audit for two continuing audit clients. The firm-identified independence matter referenced in Part I.C relates to permissible tax services. In all cases, we concluded these matters did not impair our firm's objectivity or impartiality for our audits of the issuers' financial statements or affect our audit reports.

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