



**Transparency report:**  
How we perform quality audit engagements  
February 2016



Candor. Insight. Results.

# Table of contents



Candor. Insight. Results.

<b>1) A message from the CEO, CEO-Elect, and Managing Partner of Assurance</b>	<b>2</b>
<b>2) Quality control policies</b>	<b>3</b>
> Tone at the top – our commitment to quality	3
> EthicsPoint	3
> Quality control standards	4
> Leadership responsibilities for quality within the firm (the tone at the top)	4
> Relevant ethical and independence requirements	5
> Acceptance and continuance of client relationships and specific engagements	6
> Human resources	7
> Engagement performance	9
> Monitoring	11
<b>3) Recent quality control reviews</b>	<b>12</b>
> PCAOB inspections	12
> Peer review	12
> Department of Labor (DOL) inspection	13
> Internal quality control reviews	13
<b>4) About Baker Tilly</b>	<b>14</b>
> Baker Tilly Virchow Krause, LLP	14

## A message from the CEO, CEO Elect, and Managing Partner of Assurance

We are pleased to demonstrate within this document how Baker Tilly professionals bring skill, integrity, and energy to each engagement as we strive to become America's Finest Professional Services Firm.

Our focus on delivering high-quality audit engagements and the policies our professionals adhere to in performing their work are shared in the following pages. Topics include quality control standards, ethical and independence requirements, client acceptance procedures, and leadership responsibilities.

While similarities exist, accounting firms are not all the same. Baker Tilly rises above others when it comes to providing Exceptional Client Service through professionals dedicated to understanding their clients' industry and conducting high-quality audit engagements. The key differences that provide more value to you are:

- > Professionals who operate on a risk-based model that aligns to a specific understanding of the client's business, industry, and internal controls
- > Proactive, personal, and responsive client service through a collaborative team that brings service expertise together into an integrated approach, and ensures continuity and access to partners and managers
- > Active communication of findings and knowledge-based insights throughout the engagement
- > Informed observations and recommendations from experienced professionals who know your industry
- > In-depth technical experience allows us to keep clients apprised of significant developments related to new accounting or auditing standards and how they may affect their organizations
- > Strong global network through Baker Tilly International

We understand an auditor plays an important role for an organization and its stakeholders. This drives our desire to collaborate and clearly communicate while delivering a high level of service.



A handwritten signature in black ink that reads "Tim Christen".

Timothy L. Christen  
Chief Executive Officer  
Baker Tilly Virchow Krause, LLP



A handwritten signature in black ink that reads "Alan Whitman".

Alan D. Whitman  
Chief Executive Officer-Elect  
Baker Tilly Virchow Krause, LLP



A handwritten signature in black ink that reads "Christine Anderson".

Christine M. Anderson  
Managing Partner of Assurance  
Baker Tilly Virchow Krause, LLP

# System of quality control

Baker Tilly Virchow Krause, LLP (Baker Tilly or the firm) has adopted a system of quality control and other safeguards that are applicable to every audit engagement completed by the firm. These controls and safeguards provide a comprehensive system that serves to prevent or detect, in a timely manner, matters that without corrective action could result in substandard performance. As a result, we believe that the firm's system of quality control meets the requirements of quality control standards adopted by the Public Company Accounting Oversight Board (PCAOB) and the American Institute of Certified Public Accountants (AICPA).

The following describes our system of quality control.

## A. Tone at the top — our commitment to quality

Baker Tilly is committed to providing quality service to all of our clients. Our firm's strategic plan, *Advancing our Agenda for Excellence*, describes a road map for Baker Tilly's journey to become America's Finest Professional Services Firm. The strategic plan defines the firm's values and critical success factors. Three values uniquely resonate with associates across the firm — integrity, passion, and stewardship — and act as a filter for every business decision.

Four critical success factors give dimension to Baker Tilly's success. One of the firm's critical success factors is Best Quality, as we believe that any professional services firm striving to be the finest must focus on quality. The firm's Managing Partner–Risk is charged with leading the firm's quality initiatives and reports directly to the office of the CEO. This establishes an appropriate sense of focus regarding Baker Tilly's client acceptance, client continuance, internal monitoring, compliance with Baker Tilly's internal policies and procedures, and the development of risk mitigation strategies. In this regard, the firm's Managing Partner–Assurance, who oversees all of our audit and attestation activities, works closely with the Managing Partner–Risk in establishing policies, monitoring compliance, and providing training and development to our professionals focused on audit and attest services.

## B. EthicsPoint

To encourage employees to report any unethical behavior on the part of any of our partners or employees, the firm has subscribed to EthicsPoint, a 24-hour online anonymous reporting system. EthicsPoint is available through our intranet. Complaints are routed to specific individuals in the firm that have responsibility for the various areas. Generally, areas designated by the EthicsPoint system include:

- > Accounting and auditing matters
- > Falsification of contracts, reports, or records
- > Securities violations

## System of quality control (continued)

### C. Quality control standards

The standards of the PCAOB as well as the AICPA require all accounting firms to have a system of quality control over their accounting and auditing practice.

An overview of the system of quality control is included in the firm's Quality Control Document and is embedded in our day-to-day policies and procedures. Results of the most recent PCAOB inspection and peer review indicate that our system of quality control, as documented in the firm's Quality Control Document, are in compliance with the requirements of the PCAOB and the AICPA. PCAOB and AICPA quality control standards are similar, but some differences exist. A firm's policies and procedures for its accounting and auditing practice should include the following elements under PCAOB and AICPA standards, respectively:

AICPA	PCAOB
1. Leadership responsibilities for quality within the firm (the tone at the top)	1. Independence, integrity, and objectivity
2. Relevant ethical and independence requirements	2. Personnel management
3. Acceptance and continuance of client relationships and specific engagements	3. Acceptance and continuance of client relationships and engagements
4. Human resources	4. Engagement performance
5. Engagement performance	5. Monitoring
6. Monitoring	

### D. Leadership responsibilities for quality within the firm (the tone at the top)

The Quality Control Standards require that the firm's leadership (CEO) assume the ultimate responsibility for the firm's system of quality control and for setting the appropriate tone at the top of the organization. Firm leadership is responsible for promoting a quality oriented internal culture through their actions and by sending clear, consistent, and frequent messages that emphasize the firm's system of quality control and the requirement to:

- > Perform work that complies with professional standards and regulatory and legal requirements
- > Issue reports that are appropriate in the circumstances

Actions and messages by the firm's leadership are intended to encourage a culture that recognizes and rewards quality work. Promoting this internal culture based on quality is recognized by the firm's leadership in our business strategy.

**“ We continue to be impressed with Baker Tilly's professionalism and quality of work. ”**

— Client satisfaction survey comment  
from restaurant industry client

## System of quality control (continued)

### E. Relevant ethical and independence requirements

Baker Tilly requires all professional staff to comply with the independence standards and all other ethical requirements of the PCAOB, AICPA, the Securities and Exchange Commission (SEC), the Department of Labor (DOL) and applicable state licensing boards.

Employees are required to complete a questionnaire documenting their compliance with the firm's independence policies and procedures upon joining the firm, and annually thereafter. The firm tests these annual independence representations by reviewing underlying source documents for a sample of our partners and managers.

The PCAOB requires ongoing independence training. All professional employees of Baker Tilly are required to participate in a training event covering current professional independence and ethical standards on a periodic basis. All new employees joining the firm are required to participate in a video self-study program.

The firm's Professional Practice Group, which includes seven partners with extensive public accounting experience, maintains a restricted investment listing, which lists all issuer audit clients, clients where we audit employee benefit plans of publicly traded companies, and other entities requiring independence under SEC rules such as broker-dealers and certain financial institutions. Our Quality Control Document instructs our employees to review this listing prior to acquiring any equity or other prohibited interest in a publicly traded company. The restricted investment listing is maintained in real-time with firmwide notifications for new additions to the list.

All professional staff are encouraged to consult with the Professional Practice Group on any independence questions. The Independence Clearing House was created as a function of the Professional Practice Group to help answer independence questions and to maintain compliance with the various required independence rules.

The firm's Quality Control Document spells out potential implications for any partner or professional staff found to have violated the firm's independence standards. The Professional Practice Group is responsible for monitoring and communicating applicable changes in independence standards to the rest of the firm.

**“ Experienced, high quality team. ”**

— Client satisfaction survey comment  
from retail industry client

## System of quality control (continued)

### **F. Acceptance and continuance of client relationships and specific engagements**

Factors that we consider during our client acceptance procedures are included in our Quality Control Document. The firm's Client Acceptance Checklist includes such matters as:

- > Financial condition of the client
- > An assessment of the apparent integrity of management
- > Possible independence issues or conflicts of interest
- > Adequacy of the firm's professional competence to perform the engagement
- > Known disagreements with prior accountants
- > Risks associated with the engagement

Baker Tilly has developed an electronic system to document compliance with our client acceptance and reacceptance policies. The system requires the completion of various approvals before the creation of a client account.

The approvals vary depending upon the type of services being rendered, the size of the engagement, and whether or not the engagement involves an issuer. For engagements involving issuers, approval is required by not only the engagement partner, but also by the firm's SEC Client Acceptance Committee, comprised of the firm's Managing Partner-Risk and Managing Partner-Assurance, among other partners. We also conduct formal background checks on select members of management and the board of directors for potential issuer clients.

The firm annually re-evaluates the decision to continue serving each client.

For issuers, background information is accumulated, a questionnaire is completed regarding client management and risk attributes, and a continuance decision is reached by the SEC Client Acceptance Committee.

For our non-issuer clients, the firm utilizes an electronic client continuance system. The system requires completion of a series of questions at the individual client level, similar to those asked for issuer clients. When certain "red flag" questions are answered negatively, approval of the Managing Partner-Assurance is required to reach the decision to continue serving the client. As part of this evaluation process, some engagements are identified as "closely-monitored" engagements. Those engagements are then subject to additional firm oversight through the assignment of appropriate engagement quality reviewers and enhanced engagement quality review procedures.

## System of quality control (continued)

### G. Human resources

#### Recruitment and hiring

Baker Tilly has established hiring standards for accounting and auditing personnel. We hire extensively at both the entry and experienced personnel levels and have established successful recruiting programs with a number of colleges and universities where we have traditionally hired successful candidates. For entry-level personnel, we require copies of transcripts evidencing that the prospective employee meets our requirements and has obtained the appropriate degrees. For experienced personnel, we also require reference checks.

#### Determining capabilities and competencies

Capabilities and competencies are the knowledge, skills, and abilities that qualify personnel to perform an engagement. Capabilities and competencies are not measured by periods of time, but by qualitative, rather than quantitative, measures.

The Professional Practice Group evaluates the competencies of our engagement personnel, particularly at the engagement partner level, through our monitoring and inspection procedures discussed below.

#### Assignment of engagement teams

The engagement partner has responsibility for the assignment of the engagement team.

For each engagement, the name and responsibilities of the engagement partner are communicated to management and the audit committee or others charged with governance.

In assigning personnel to engagements, numerous factors are considered including:

- > understanding of the engagement and familiarity with the industry;
- > engagement size, significance, complexity, and risk profile;
- > special expertise required;
- > new or emerging professional standards;
- > recent relevant industry training;
- > time and length of the engagement;
- > personnel continuity;
- > on the job training opportunities;
- > previously demonstrated competencies;
- > personnel availability;
- > involvement of supervisory personnel; and
- > potential independence issues.



## System of quality control (continued)

### Professional development

Baker Tilly has established minimum training requirements for all accounting and auditing personnel in compliance with PCAOB, AICPA, and state licensing board requirements. All partners and managers who participate on any audit or other attest engagements are required to obtain at least 40% of their minimum CPE required credits in the accounting and auditing area. In addition, even though not required by any professional standards, we require partners and managers involved in auditing issuer companies to take a minimum of 8 credit hours of training each year in SEC and PCAOB related matters.

Personnel participate in training in core subjects, as well as in subjects relating to specific industries in which they are involved. Several states in which we practice also require licensees to take minimum levels of ethics training on an ongoing basis.

The firm leverages a learning and development system to enable the firm to better track, report, and monitor all professionals for compliance with the applicable professional standards and the firm's requirements. Compliance with the firm's and regulatory requirements is monitored by the Professional Practice Group.

### Performance evaluation, compensation, and advancement

The firm utilizes an electronic performance management system in which all professional employees participate. The system requires each employee to establish goals and objectives for the upcoming fiscal year in specified areas and core competencies. Meetings are required to be held with the employee's performance counselor at least twice during the year, including a final year end evaluation, to determine progress being made on their goals and objectives.

The partner performance management system helps improve the clarity, visibility, connectivity, and accountability of each partner, which allows each individual to focus on the highest and best use of their individual talents and skills. As part of our evaluation procedures, all partners and managers are subject to upward evaluations, which are completed by our staff annually. In addition, supervisory personnel are encouraged to provide a written evaluation of a staff person's performance when a staff person works more than 48 hours on an engagement. This is especially encouraged for staff new to the firm.

Promotion guidelines are established by the firm's Human Resources Department. Advancement to the partnership level is controlled by the firm's Management Committee. Advancement to ownership within the firm is approved by the firm's Board of Partners.

“ The evaluation process allows you to assess your own strengths and areas of improvement while providing the opportunity for valuable feedback from those you spent so much time working with. ”

— Tax accountant

## System of quality control (continued)

### H. Engagement performance

The firm has customized its audit methodology and tailored it for many specialized industries including financial institutions, construction contractors, not-for-profits, governmental entities, employee benefit plans, and others. The firm uses an electronic document manager to facilitate the organization of, and access to, work papers on all engagements. The Professional Practice Group develops the overall integration of the audit methodology materials into the electronic document manager for all audit staff to use as an integrated paperless system. Individual industry teams then tailor the overall framework provided by the firm to fit the unique matters related to the various specialized industries. Additional tailoring is encouraged to better address the risks of specific engagements.

Our firm's engagement oversight and review policies and procedures are included in an appendix to our Quality Control Document. These policies and procedures are expected to be complied with on all audit engagements. The nature of the review process varies depending on the nature of the engagement.

For audits of issuers, an independent engagement quality review is required for the financial statements and critical work papers by a partner experienced in SEC matters and the client's industry, who is not otherwise associated with the engagement.

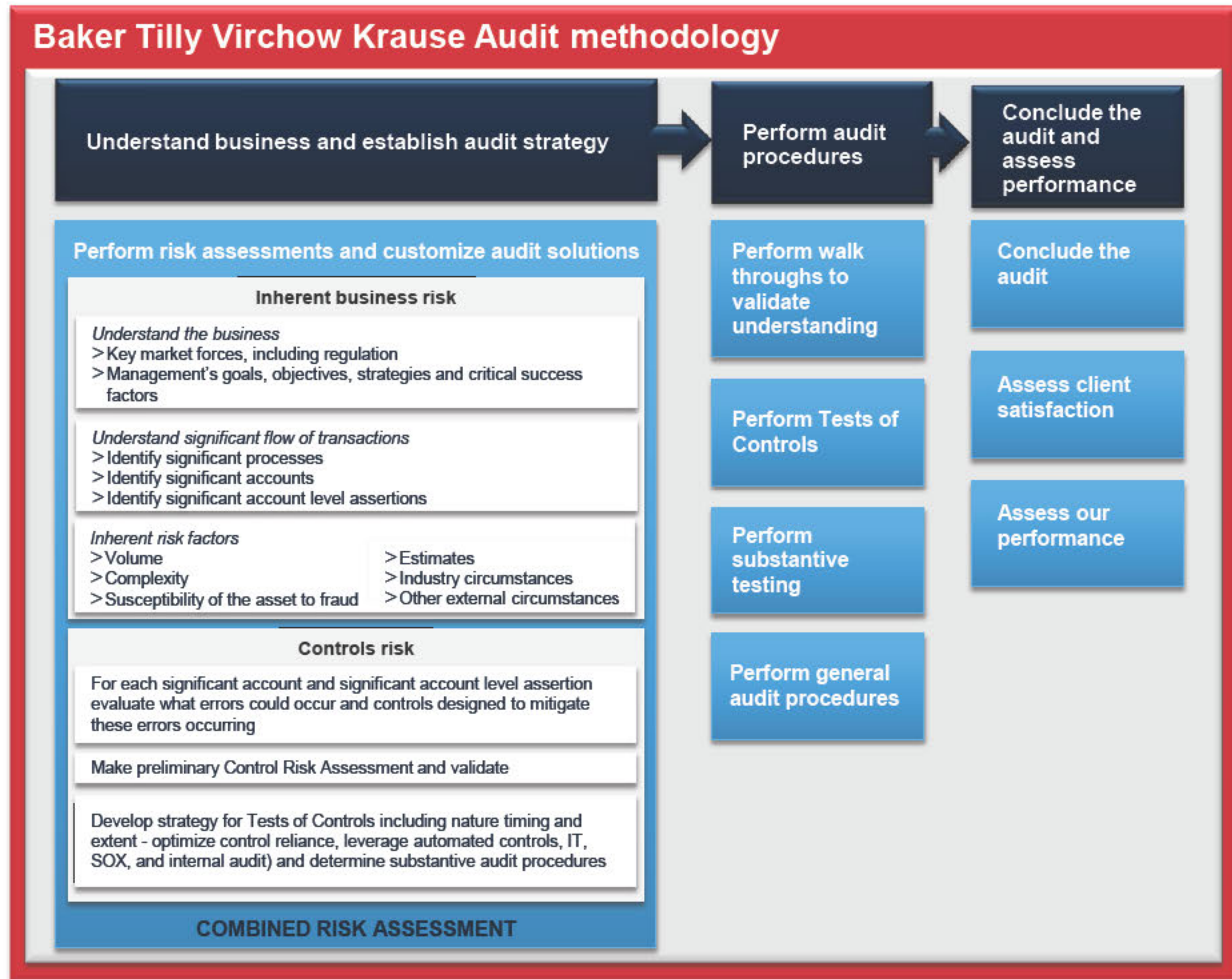
As part of our system of quality control, we have defined review procedures for the engagement quality review process, which is documented in our review tools and templates. The following have been implemented at the firm.

- > Annually, we update the engagement quality reviewer listing which is categorized by engagement type and industry.
- > Annually, we examine our review policies and procedures to ensure compliance with professional standards.
- > Periodically, we require all engagement quality reviewers to attend a training session on the requirements of our engagement quality reviews.
- > At least every five years, the audit engagement partner and engagement quality review partner are rotated from issuer engagements in accordance with SEC requirements.

All firm personnel working on audit engagements are encouraged to consult with a Professional Practice Liason on technical issues. For more complex technical issues that cannot be resolved locally, engagement personnel are encouraged to consult with the Professional Practice Group. The firm maintains a list of designated specialists in various matters in an appendix to our Quality Control Document. In addition, the firm has identified areas which, if encountered on an engagement, personnel are encouraged to consult.

## System of quality control(continued)

Below is an illustration of the process used for all of our audits to ensure high quality results and consistency.



## System of quality control (continued)

### I. Monitoring

The AICPA and PCAOB Quality Control Standards require a firm to have a system to monitor the quality of work it performs and the firm's compliance with professional and firm standards. The objective of monitoring procedures is to evaluate the design and operating effectiveness of the firm's system of quality control covering audit engagements. The results help us evaluate the firm's quality controls, personnel performance, and areas where some improvement is needed.

One of the most common monitoring procedures is the completion of an annual internal inspection process whereby a sample of audit engagements are selected from throughout the firm (on a post-issuance basis) and an internal quality control review is performed for compliance with firm and professional standards. More internal quality control review information is available in Section D below.

“ Quality audit. Easy to work with. Responsive to questions and concerns. ”

— Client satisfaction survey comment  
from public sector client

## Recent quality control reviews

### A. PCAOB inspections

The Sarbanes-Oxley Act requires that the PCAOB inspect firms on a periodic basis. Firms with more than 100 issuers audits are inspected annually and firms with fewer than 100 issuers are required to be inspected at least once every three years.

Baker Tilly was inspected by the PCAOB in 2015. The PCAOB, in conducting their inspection, reviewed specific engagements selected based on their own criteria. For each engagement, the PCAOB reviewed the issuer's financial statements and certain SEC filings; and, for selected high-risk areas, inspected the work papers and interviewed engagement personnel regarding those areas. For certain engagements, the PCAOB reviewed written communications between the audit team and the issuer's audit committee and interviewed the audit committee chair.

In addition to the specific audit engagement reviews, the PCAOB reviewed six functional areas, examining both the firms system of quality control and the selected practice offices for the following:

- > Tone at the top
- > Independence implications of non-audit services, business ventures, alliances and arrangements, and commissions and contingent fees
- > Practices for partner evaluation, compensation, promotion, and assignment of responsibilities
- > Client acceptance and continuance policies
- > Internal inspection program
- > Practices for establishment and communication of audit policies, procedures, and methodologies, including training

As of the date of this report, the results of the firm's 2015 inspection are still pending. The firm was last inspected by the PCAOB in 2012. A copy of the PCAOB's final 2012 report dated May 23, 2013 is available on the PCAOB's website. We have been informed that we have satisfactorily addressed the PCAOB's nonpublic comments in Part II of that report.

### B. Peer review

The AICPA requires all member firms to participate in an external peer review process. Firms are required to be reviewed at least once every three years. Our most recent peer review was accepted in December 2015 for our peer review period ended March 31, 2015. Our next peer review is scheduled to take place in 2018.

Our most recent peer review was completed by Moss Adams, LLP, a CPA firm similar in size to Baker Tilly. In Moss Adams' opinion, our system of quality control for our accounting and auditing practice applicable to non-SEC issuers in effect for the year ended March 31, 2015 was suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies), or fail. Baker Tilly received a peer review rating of *pass*.

A copy of our most recent peer review report is available on the AICPA's website.

## Recent quality control reviews (continued)

### C. Department of Labor (DOL) inspection

During 2013 and 2014, the DOL inspected eleven employee benefit plan audit engagements covering five office locations that audit employee benefit plans. The DOL suggested certain areas that need strengthening, but there were no engagements that required remediation or corrective actions to be taken against individual partners or the firm. The firm will address areas that need strengthening through the annual training process and by enhancing the firm's tools and templates.

The DOL did not inspect any employee benefit plan audit engagements during 2015.

### D. Internal quality control reviews

Firms are required to have internal quality control review procedures completed annually. The peer review process incorporates a review of the firm's monitoring function, including internal inspection, and there were no findings in this area as a result of the review. The internal quality control review generally includes engagement reviews and monitoring compliance with the firm's quality controls. Baker Tilly conducts internal inspections annually. The firm requires all partners to be covered by our internal inspection procedures or by our external peer review or PCAOB inspection at least once every other year. Internal inspection generally covers the major business units of the firm, new audit partners, merged in practices, and other selected partners throughout the firm.

Inspections are completed by partners and managers who have appropriate industry expertise based upon the type of engagement being reviewed. The inspectors are individuals who do not have any involvement with the engagement being inspected. Where possible, the inspectors are from offices separate from the engagement team. The firm believes that our internal inspection process is rigorous and allows us to continue to achieve the high standards for quality necessary in the industry.

We utilize the results of our internal inspection and our external reviews, including peer review and PCAOB inspections, as a means for us to challenge our practitioners to improve. This information is widely communicated to our practitioners and is incorporated into our training programs. None of the findings from our internal or external reviews represent issues that impact our firm's ability to provide companies with audits conducted in accordance with the standards of the PCAOB.

## About Baker Tilly

### Baker Tilly Virchow Krause, LLP

Baker Tilly is one of the oldest and largest certified public accounting and consulting firms in the US. It is one of the top 15 accounting and advisory firms in the US according to Accounting Today's 2015 list of "Top 100 Firms." The firm originated in 1931 with a commitment to deliver innovative financial solutions and solid business strategies to our clients. We believe that an accounting firm should complement the business style it is serving. Our approach balances solid financial know-how with a talent for innovation and creativity. This "can do" philosophy has resulted in our position as one of the industry's most progressive and respected accounting firms.

Baker Tilly Virchow Krause, LLP	
Partners	303
Personnel	2,900
Offices	35

[bakertilly.com](http://bakertilly.com)

An independent member of Baker Tilly International  
An Affirmative Action Equal Opportunity Employer