

**Inspection of
Baker Tilly Virchow Krause, LLP
(Headquartered in Chicago, Illinois)**

Issued by the
Public Company Accounting Oversight Board
May 26, 2011

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**



Notes Concerning this Report

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.
2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.
3. Board inspections encompass, among other things, whether the firm has failed to identify departures from U.S. Generally Accepted Accounting Principles ("GAAP") or Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP or disclosure departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning an issuer's compliance with GAAP or Commission disclosure requirements, rests with the Commission. Any description, in this report, of perceived departures from GAAP or Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.



INSPECTION OF BAKER TILLY VIRCHOW KRAUSE, LLP

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Baker Tilly Virchow Krause, LLP^{1/} ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.^{2/}

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.^{3/} A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

^{1/} The Firm has issued audit reports under the name of Virchow, Krause & Company, LLP.

^{2/} 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 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 at all. 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.

^{3/} See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from September 28, 2009 to October 2, 2009. These procedures were tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	10 (Chicago and Oakbrook, Illinois; Southfield, Michigan; Minneapolis, Minnesota; New York, New York; and Appleton, Janesville, Madison, Milwaukee, and Wausau, Wisconsin)
Ownership structure	Limited liability partnership
Number of partners	152
Number of professional staff ^{4/}	983
Number of issuer audit clients ^{5/}	46

^{4/} "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

^{5/} The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act. In some circumstances, a Board inspection may include a review of a firm's audit of financial statements of an issuer that ceased to be an audit client before the inspection, and any such former clients are not included in the number shown here.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.^{6/} To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.^{7/} It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements, are free of any deficiencies not specifically described in an inspection report.

A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of seven issuers. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

The inspection team identified what it considered to be audit deficiencies.^{8/} The deficiencies identified in three of the audits reviewed included deficiencies of such

^{6/} This focus necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools.

^{7/} When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with GAAP, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

^{8/} PCAOB standards require a firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions. See AU 390, *Consideration*

significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements.^{9/} Those deficiencies were –

- (1) the failure to perform sufficient audit procedures related to the allowance for loan losses;
- (2) the failure to perform sufficient audit procedures to test the valuation of inventories; and
- (3) the failure to perform sufficient audit procedures to evaluate audit differences.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's, practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence

of Omitted Procedures After the Report Date, and AU 561, Subsequent Discovery of Facts Existing at the Date of the Auditor's Report (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T). Failure to comply with these PCAOB standards could be a basis for Board disciplinary sanctions.

^{9/} In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. See AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

standards, client acceptance and retention, and the establishment of policies and procedures. As described above, any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I



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PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

PART IV

RESPONSE OF THE FIRM TO 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, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.^{10/}

^{10/} In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.



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March 28, 2011

Mr. George H. Diacount
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006

RE: Draft Report of Inspection

Dear Mr. Diacount:

Baker Tilly Virchow Krause, LLP (the "firm") appreciates the opportunity to respond to the Public Company Accounting Oversight Board (the PCAOB") Draft Report on the 2009 Inspection of Baker Tilly Virchow Krause, LLP.

The firm is committed to the highest standards of audit quality. We have thoroughly considered the Board's comments addressed in the draft report, and have assessed whether we have already initiated actions on a firm wide basis that address those comments. After addressing each of the specific comments raised in the February 23, 2011 draft report, we are determining the extent to which further actions are necessary.

As part of our commitment to high quality, we have been implementing enhancements to our audit methodology and delivery, including an extensive investment in training, improving our audit technology, and significantly perfecting our own internal review process.

We appreciate the constructive dialogue we have had with the PCAOB Inspection Staff in connection with the inspection process. Further, we support the Board's effort to improve the quality of the public reporting process. The PCAOB staff was very helpful in interpreting the Board's views contained in the PCAOB's February 23, 2011 draft report.

We have had lengthy conversations with representatives of the PCAOB as to how we can meet the expectations of the PCAOB on a consistent basis in the future. Based on those conversations, the common thread is concerned with the complete documentation of all of the procedures we performed so that a PCAOB inspection team could, if they chose to, step into our shoes, perform all of the appropriate audit procedures, and reach the same conclusions.

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Upon reviewing our work papers after we received our first report in August 2010 regarding the inspection of our 2008 audits, we concluded that our audits were conducted in compliance with firm policy and regulatory standards but, bearing the PCAOB's comments in mind, the procedures we performed could have been documented in a more robust fashion.

We would be pleased to discuss any aspect of our response, or to address any other questions you may have.

We have the following additional comments regarding the matters described in Part I Public Section of the PCAOB report.

- 1) *The failure to perform sufficient procedures related to the allowance for loan losses – Issuer A –* The work performed was thorough and rigorous; however, if we had as one of our primary goals the construction of our work paper files with the express intent to make it easy for any reviewer to see all the procedures we had performed and why our conclusions were appropriate, then the firm does not believe the PCAOB would have written the preceding comment. If we specifically build into our work papers the logical consolidation of our efforts, then a seamless stream of insightful information that reaches logical conclusions will result, and the comments we received on our 2008 audits will not be repeated in the future.
- 2) *The failure to perform sufficient audit procedures to test the valuation of the inventories –* This comment pertains primarily to the cost of inventory in work-in-process and finished goods. To put this into perspective, inventory represented 22% of total assets, and labor and overhead represented just 13% of total inventory, or about 3% of total assets. Contrary to the comment, raw materials were tested thoroughly by randomly selecting 21 items included in work-in-process or finished goods and tracing them to supporting documentation. Labor and overhead was tested by using audit analytics to challenge the reasonableness of the issuer's costs included in year-end inventory. The firm thought that the predictive analytics used produced estimates that were sufficiently close to the book values as to provide sufficient substantive support of these costs. The firm also provided an explanation for the difference between our audit estimate and the actual book value. In the future, we will endeavor to make our audit analytics more precise.
- 3) *The failure to perform sufficient audit procedures to evaluate audit differences.* This comment relates to whether the difference between two estimates, which represents only 1.6% of the issuer's reserve for bad debts, should be considered an amount that was of sufficient precision and likelihood to occur to merit meeting the definition of an audit adjustment. In this case, it did not meet the definition of a known misstatement, nor did it meet the definition of a likely misstatement. Further audit procedures were unwarranted. In the audit of the 2011 financial statements, our work papers will reflect the implementation of more definitive audit procedures, so that we can identify, measure, and accumulate known misstatements that exceed our audit posting threshold.

As a general comment, the PCAOB's report was conducted on 2008 audits. With the advent of significantly expanded independent review partner responsibilities as mandated by the PCAOB, and the benefits we have received from our own in-house quality control reviews and participation in the AICPA peer review process, the overall quality of our audits on a firm wide basis has continued to improve.

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We appreciate the opportunity to provide our response to the report and look forward to continuing to work with the PCAOB on matters of interest to our public company auditing practice.

Immediately following this letter is our response to the PCAOB Part II A. Nonpublic Report comments.

Please contact R. Bruce Cole at 608 240 2312 with any questions.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

A handwritten signature in cursive script that reads "Baker Tilly Virchow Krause, LLP".

Enclosures

c: Mr. Timothy L. Christen
Mr. Brandon D. Andries
Ms. Carla A. Gogin
Mr. Kim L. Tredinnick
Mr. Scott Ebert