PCAOB
Public Company Accounting Oversight Board

1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8430
www.pcaobus.org

Report on

2004 Inspection of Crowe Chizek and Company LLC

Issued by the

Public Company Accounting Oversight Board

January 19, 2006

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. 104-2006-001

PCAOB Release No. 104-2006-001

Preface to Reports Concerning Annually Inspected Firms

The Sarbanes-Oxley Act of 2002 requires the Public Company Accounting Oversight Board ("the Board") to conduct an annual inspection of each registered public accounting firm that regularly provides audit reports for more than 100 issuers. The Board's report on any such inspection includes this preface to provide context for information in the public portion of the report.

A Board inspection includes, among other things, a review of selected audits. If the Board inspection team identifies deficiencies in those audits, it alerts the firm to the deficiencies during the inspection process. Deficiencies that exceed a certain significance threshold are also summarized in the public portion of the Board's inspection report. The Board encourages readers to bear in mind two points concerning those reported deficiencies.

First, inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Under PCAOB standards, a firm must take appropriate action to assess the importance of the deficiency to the firm's present ability to support its previously expressed audit opinions. Depending upon the circumstances, compliance with these standards may require the firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements, or to take steps to prevent reliance on previously expressed audit opinions. A Board inspection does not typically include review of a firm's actions to address deficiencies identified in that inspection, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take action. If, through subsequent inspections or other processes, the Board determines that the firm failed to take appropriate action, that failure may be grounds for a Board disciplinary sanction.

Second, the Board cautions against drawing conclusions about the comparative merits of these firms based on the number of reported deficiencies in any given year. The total number of audits reviewed is a small portion of the total audits performed by these firms, and the frequency of deficiencies identified does not necessarily represent the frequency of deficiencies throughout the firm's practice. Moreover, if the Board discovers a potential weakness during an inspection, the Board may revise its inspection plan to target additional audits that may be affected by that weakness, and this may increase the number of deficiencies reported for that firm in that year. Such weaknesses may emerge in varying degrees at different firms in different years.

PCAOB

Public Company Accounting Oversight Board

PCAOB Release No. 104-2006-001

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 Generally Accepted Accounting Principles ("GAAP") in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP 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, rests with the Securities and Exchange Commission ("SEC" or "Commission"). Any description, in this report, of perceived departures from GAAP should not be understood as an indication that the Commission has considered or made any determination regarding these GAAP issues unless otherwise expressly stated.

2004 INSPECTION OF CROWE CHIZEK AND COMPANY LLC

In 2004, the Public Company Accounting Oversight Board ("PCAOB" or "Board") conducted an inspection of Crowe Chizek and Company LLC ("Crowe Chizek" or "the Firm"). The Board is today 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, Appendix B, and portions of Appendix C. Appendix B provides an overview of the inspection process. Appendix C consists of the Firm's comments, if any, on a draft of the report.[1/]

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.[2/] 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 Board does not make public any of a firm's comments that address a nonpublic portion of the report. 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 notes that it routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final report.

2/ <u>See</u> 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") performed an inspection of Crowe Chizek from November 2004 to December 2004. The inspection team performed field work at Crowe Chizek's National Office and at four of its 19 other physical locations. Appendix B to this report provides a description of the procedures the inspection team performed.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits. 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. Appendix B to this report provides a description of the steps the inspection team took with respect to the review of audit engagements and the review of six functional areas related to quality control.

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.[3/] 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 scope of the inspection procedures performed included reviews of aspects of selected audits performed by the Firm. Those audits and aspects were selected

---

[3/] 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 reports that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the selection process.

In reviewing the audits, the inspection team identified matters that it considered to be audit deficiencies. Those deficiencies included failures by the Firm to identify or appropriately address errors in the issuer's application of GAAP, none of which appeared likely to be material to the issuer's financial statements. The deficiencies also included failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures.

When audit deficiencies are identified after the date of the audit report, PCAOB standards require a firm to take appropriate actions to assess the importance of the deficiencies to the firm's present ability to support its previously expressed opinions,[4/] and failure to take such actions could be a basis for Board disciplinary sanctions. In response to the inspection team's identification of deficiencies, the Firm, in some cases, performed additional procedures or supplemented its work papers.[5/]

In some cases, the deficiencies identified were of such significance that it appeared to the inspection team that the Firm had not, at the time it issued its audit report, obtained sufficient competent evidential matter to support its opinion on the issuer's financial statements. In some of those audits, that conclusion followed from the omission, or insufficient performance, of a single procedure, while other audits included more than one such failure. The deficiencies that reached this degree of significance are described below (without identifying the issuers).[6/] The deficiencies are discussed

---

[4/] See AU 390, *Consideration 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).

[5/] The Board inspection process did not include review of such additional procedures or documentation although future Board inspections of the Firm may, as appropriate, include further review of any of these matters.

[6/] The discussion in this report of any deficiency observed in a particular audit reflects information reported to the Board by the inspection team and does not reflect any determination by the Board as to whether the Firm has engaged in any conduct for which it could be sanctioned through the Board's disciplinary process.

here on an audit-by-audit basis, with the exception of certain types of deficiencies that were observed to recur in multiple audits and are therefore grouped together.

Auditing the Allowance for Loan Losses (Four Issuers)

On the audits of four financial institutions, the Firm failed to obtain sufficient competent evidential matter regarding the allowance for loan losses to support its audit opinion:

- (Issuer A) The Firm failed to evaluate, or failed to include evidence in the work papers that it had evaluated, the loan loss factors the issuer used to determine its allowance. In addition, the Firm failed to link the various allowance, charge-off and delinquency ratio analyses it performed, or the results of them, to the loan loss factors the issuer used. The Firm could instead have chosen to audit the allowance by developing an independent expectation of the allowance to obtain corroboration of the reasonableness of the issuer's allowance, but the Firm did not do so.

  The audit approach on this engagement called for the Firm's internal loan credit review specialists to perform a detailed review of a sample of commercial loans. For some loans, the specialists did not complete their procedures, and the Firm instead relied, inappropriately, on the results of its tests of those loans in the prior year and its review of the status of the payments on those loans. For other loans that the Firm selected for testing, the Firm made inquiries of the issuer's internal loan reviewer, but it failed to obtain corroboration of the loan reviewer's responses.

  The Firm's specialists determined that the issuer had assigned a risk classification that was too high by two grades to one of the credit relationships they analyzed. However, the Firm failed to evaluate, or to include evidence in the work papers that it had evaluated, the discrepancy in relation to the issuer's ability to grade loans properly and the potential implications on the allowance for the remainder of the loan portfolio.

- (Issuer B) The Firm determined that the issuer had a weak loan review function and that the loan loss factors the issuer assigned to homogeneous loans did not correlate to the issuer's actual loss experience. The Firm failed, however, to quantify the effects of these deficiencies on the financial statements; rather, on the basis of some "high-level trend analyses," it concluded that the two deficiencies offset each other. These analyses failed to meet the requirements for substantive analytical procedures because the Firm failed to establish, or failed to include evidence in the work papers that it had established, in accordance with PCAOB standards, its expectations and the amounts of the differences from the expectations that the Firm could accept without further investigation.

- (Issuer C) Approximately one-third of the issuer's allowance for loan losses consisted of an "unallocated component." The Firm failed to obtain sufficient evidence to support its conclusion that the unallocated allowance represented a supportable estimate of the probable losses inherent in the issuer's loan portfolio. The Firm's audit procedures related to the unallocated allowance consisted solely of certain "high-level trend analyses" that contained the same deficiencies as those described in the preceding paragraph.

- (Issuer D) The Firm developed its own independent expectations of the allowance because it concluded that the issuer did not have sufficient documentation to support its own estimate of the allowance. The Firm compared its estimate to the issuer's allowance and concluded that the issuer's allowance was reasonable. However, the Firm failed to support, or to include evidence in the work papers that supports, certain significant assumptions, such as the loan loss factors, that it made when developing its estimate. In addition, in its evaluation of the appropriateness of the issuer's provision for loan losses in the current year, the Firm failed to evaluate, or failed to include evidence in the work papers that it had evaluated, the effects on income of the elimination during the year of the excess allowance that the Firm had identified, and waived, in the prior year.

Issuer E

On this first-year audit for the Firm, the Firm failed in several respects to obtain sufficient competent evidential matter to support its audit opinion:

- If the Firm had used an appropriate amount for planning materiality, the Firm's sample sizes for confirming receivables and performing certain tests of inventory would have been approximately three times larger than the sample sizes that the Firm used for these tests.

- The Firm failed to test all the relevant assertions regarding cost of goods sold. The Firm's tests were limited to inventory tests, including the sampling referred to above.

- The issuer accounted for a curtailment loss on its post-retirement health care plan entirely in its fourth quarter of fiscal year 2004, which reduced net income for the year by approximately one-third. The work papers include a letter from the issuer's third-party actuary that concludes that a curtailment loss should be recognized as a result of a reduction in personnel from 2000 to 2004. The Firm failed to evaluate, or failed to include evidence in the work papers of its evaluation of, whether the reduction in personnel met the criteria in Statement of Financial Accounting Standards ("SFAS") No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* for a curtailment, and if so, whether the curtailment should be accounted for entirely in fiscal-year 2004.

Issuer F

On this audit, the Firm failed in several respects to obtain sufficient competent evidential matter regarding revenue recognition to support its audit opinion:

- The Firm failed to evaluate whether the issuer's sales contracts included multiple-element arrangements that would affect the issuer's recognition of revenue.

- The Firm's information technology ("IT") audit personnel participated in evaluating and testing general computer controls to assess control risk below the maximum level for auditing revenue. The IT audit personnel documented an understanding of the design of controls and identified potential control issues primarily through inquiry. However, the Firm failed to perform numerous tests and observations in its internal control work program due to "time constraints." As a consequence, the Firm failed to obtain sufficient evidence to assess control risk below the maximum level, and thus its substantive audit procedures for revenue were not sufficient.

- The Firm failed to evaluate the propriety or collectibility of an account receivable even though the customer did not respond to a request for a positive confirmation of the receivable and the Firm was aware that the customer would not pay until the issuer resolved a service problem with the equipment that had been delivered to the customer.

Issuer G

The issuer employed a perpetual inventory system for tracking finished goods, but not for tracking raw materials or work in process. The issuer performed a full physical inventory five or six months before its year end at each of its locations, and the Firm observed those physical inventories at a sample of the locations. The physical inventories generally resulted in favorable adjustments to inventory, which resulted in significant increases in income in the period recorded. The Firm failed to test inventory transactions between the interim physical inventory dates and year end, as required by PCAOB standards, and it failed to evaluate the need to test the physical inventories again at or near year end in light of the lack of a perpetual inventory system for tracking raw materials and work in process. In addition, the Firm failed to evaluate the potential implications of the interim inventory adjustments on the need for adjustments to the year-end inventory balances.

Issuer C

The issuer owned property that, about a decade ago, was placed on the Comprehensive Environmental Response Compensation and Liability Information System after the owner investigated the possibility of entering the site into the state voluntary clean-up program but failed to sign a service contract. Near the end of the year preceding the year under audit, the issuer tried to donate part of the property to its local municipality, which rejected the contribution early in the year under audit. The issuer did not record a liability for environmental remediation costs nor did it disclose the contingency in its financial statements.

The Firm failed to obtain an appropriate understanding, or failed to include evidence in the work papers that it had obtained an appropriate understanding, of the status of the environmental issue to support the lack of an accrual or disclosure. In addition, the Firm failed to evaluate, or failed to include evidence in the work papers that it had evaluated, whether the property was impaired in light of the municipality's rejection of the property and the issuer's continuing inability to sell the property.

Issuer H

Approximately 70 percent of the issuer's assets consists of goodwill, and almost all of that goodwill relates to one reporting unit. The issuer performed its annual goodwill impairment test as of the end of the third quarter and concluded that the goodwill was not impaired. This conclusion was based on a valuation made by a third-party valuation specialist. However, the valuation of the reporting unit exceeded its carrying value by only 0.04 percent. The valuation was based on management's assumptions that sales would increase by more than 20 percent in the next year, even though they had declined in both the current and prior years, and that the entity would be profitable in the next year, even though it incurred net losses in both the current and prior years.

The issuer's fourth quarter results were lower than expected, due to a number of factors, including new legislation. In addition, the issuer was in violation of its debt covenants at year end. According to documents in the Firm's work papers, when the issuer was negotiating revised covenants, it used more conservative assumptions than the ones it had used previously in its goodwill impairment test. In light of these circumstances, the Firm should have evaluated whether the issuer should have performed another impairment test at the end of the year. Other than making an inquiry of management, however, the Firm failed to do so.

Issuer I

The issuer's available-for-sale securities represented approximately 17 percent of the issuer's assets. The Firm failed to perform, or failed to include evidence in the work papers that it had performed, sufficient tests of the market value of these securities. The Firm's audit procedures were limited to testing, at an interim date, the market value of three of the securities, representing less than three percent of the available-for-sale securities.

Issuer J

During the year, this issuer significantly increased its portfolio of the mortgage loans it services. To test the issuer's capitalized mortgage servicing rights and the related amortization expense, the Firm performed analytical procedures, consisting principally of trend analyses, and reviewed the amortization expense general ledger account for unusual entries. However, the Firm's substantive analytical procedures were deficient because the Firm failed to establish its expectations and the amounts of the differences from the expectations that the Firm could accept without further investigation. Furthermore, the Firm failed to evaluate significant variances that the analytical procedures identified that indicated the issuer may not have properly accounted for the mortgage servicing rights and the amortization expense.

Issuer K

On this audit, the Firm failed to control the notes receivable confirmation process. The Firm permitted the issuer's employees at the issuer's data center to select the notes to be confirmed, with no supervision or control by the Firm.

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 and the following six functional areas (1) tone at the top; (2) practices for partner[7/] evaluation, compensation, promotion, assignment of responsibilities and disciplinary actions; (3) independence implications of non-audit services; business ventures, alliances and arrangements; and commissions and contingent fees; (4) client acceptance and retention; (5) the Firm's internal inspection program; and (6) practices for establishment and communication of audit policies, procedures and methodologies, including training. 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

[7/] The Firm is organized as a limited liability corporation. References in this report to "partners" correspond to what the Firm refers to as the Firm's "signing executives."

PART II, PART III, AND APPENDIX A OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

APPENDIX B

THE INSPECTION PROCESS

The inspection process was designed and performed to provide a basis for assessing the degree of compliance of Crowe Chizek with applicable requirements and standards related to auditing issuers. This process included reviews of components of selected issuer audit engagements completed by Crowe Chizek. These reviews were intended both to identify deficiencies, if any, in the conduct of those audits and to determine whether the results of these audits indicated deficiencies in the design or operation of the Firm's system of quality controls over audits. In addition, the inspection included reviews of the design and, in some cases, the application of procedures related to certain functional areas of Crowe Chizek that could be expected to influence audit quality.

1. Review of Selected Audit Engagements

The inspection team reviewed aspects of selected audits performed by Crowe Chizek. The inspection team chose the engagements according to the Board's criteria. Crowe Chizek was not allowed an opportunity to limit or to influence the selection process or any other aspect of the review.

For each audit engagement selected, the inspection team reviewed the issuer's financial statements and certain SEC filings. The inspection team selected certain higher-risk areas for review and, at the Firm, inspected the engagement team's work papers and interviewed engagement personnel regarding those areas. The areas subject to review included, but were not limited to, allowances for loan losses, other reserves or estimated liabilities, income taxes, and testing and documentation of internal controls by the engagement team. The inspection team also analyzed potential adjustments to the issuer's financial statements that had been identified during the audit but not recorded in the financial statements. For each engagement, the inspection team reviewed written communications between Crowe Chizek and the issuer's audit committee. With respect to certain engagements, the inspection team also interviewed the chairperson of the issuer's audit committee.

When the inspection team identified a potential issue, the inspection team discussed the issue with members of the audit engagement team and with Crowe Chizek's Technical Standards Function in its National Office.

2. Review of Six Functional Areas

The inspection team conducted the procedures related to the review of the six functional areas primarily at Crowe Chizek's National Office. With respect to those functional areas, the inspection team also conducted procedures at certain of the Firm's other physical locations. The review of the six functional areas was designed to provide a knowledge base on which to draw in planning future inspections, comparing firm practices, and measuring progress over time. The inspection team also performed procedures to identify possible defects in Crowe Chizek's system of quality controls. A more detailed description of the scope with respect to each of the six functional areas follows.

a. Review of Partner Evaluation, Compensation, Promotion and Assignment of Responsibilities, and Disciplinary Actions

The inspection team reviewed the Firm's policies and procedures related to partner evaluation; partner compensation; nomination and admission of new partners; and discipline, assignment of duties and termination of partners. The inspection procedures were designed to provide a basis for an assessment of whether the design of these processes, as documented and communicated, could be expected to encourage an appropriate emphasis on audit quality and technical competence, as compared to marketing or other activities of the Firm.

The inspection team interviewed nine members of Crowe Chizek's leadership at its National Office, as well as members of leadership and audit partners in other physical locations, regarding these topics. In addition, the inspection team analyzed schedules provided by Crowe Chizek that detailed information on each partner, including the current year's income allocation and the rationale for any adjustments to such allocation.

b. Review of Independence Policies

The objectives of the inspection procedures in this area included gaining an understanding of and evaluating Crowe Chizek's policies and procedures relating to its compliance with independence requirements with respect to the provision of non-audit services to issuer clients; Firm participation in business ventures, alliances, and arrangements; contingent fee arrangements; and the provision of services pursuant to Section 404 of the Act. To accomplish these objectives, the inspection team reviewed Crowe Chizek's policies, procedures, guidance, and training materials pertaining to these independence matters. The inspection team also reviewed Crowe Chizek's internal inspection program as it relates to monitoring compliance with Crowe Chizek's independence policies and procedures and examined the Firm's independence consultation process. The inspection team also interviewed numerous National Office and other personnel regarding Crowe Chizek's independence policies, practices, and procedures.

For certain of the engagements selected for review, the inspection team reviewed relevant information to identify any non-audit services performed for the issuer, including whether any of the services involved contingent fee arrangements; to determine whether the Firm was involved in any business ventures, alliances, or arrangements with the issuer; and to determine whether the fees for the services provided were classified appropriately in the issuer's proxy statement. In addition, the inspection team read and evaluated the most recent letter pursuant to Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*.

c. Review of Client Acceptance and Retention Policies

The primary objectives of the inspection procedures in this area were to evaluate whether the Firm's client acceptance and retention policies and procedures reasonably assure that it is not associated with issuers whose management lacks integrity, that it undertakes only engagements within its professional competence, and that it appropriately considers the risks involved in accepting and retaining clients in the particular circumstances. Toward those objectives, the inspection team reviewed Crowe Chizek's policies, procedures and forms related to client acceptance and continuance; evaluated documentation related to new clients and to clients that had recently changed auditors from Crowe Chizek; and interviewed members of the Firm's leadership.

At the physical locations, the inspection team selected a sample from the engagements it reviewed and, for that sample, evaluated whether the client continuance documentation was completed and approved in accordance with Firm policies; interviewed the audit partners and managers on these engagements concerning the reasons for continuing to serve the issuer, the approval process, and whether specific risk mitigation steps were performed and documented in response to any identified risks; and assessed whether the audit planning documentation incorporated the specific actions, if any, developed in response to any identified risks.

d. Review of Internal Inspection Program

The objectives of the inspection procedures in this area were to evaluate the effectiveness of Crowe Chizek's annual internal inspection program in enhancing audit quality, as well as to assess the Firm's compliance with the quality control standards adopted by the Board. To meet those objectives, the inspection team reviewed policies, procedures, guidance and forms at Crowe Chizek's National Office related to its internal inspection program, documentation of the results of the current year's inspection program, and steps taken by the Firm in response to those results. The inspection team also interviewed Crowe Chizek's leadership concerning the process and effectiveness of its internal inspection program.

The inspection team reviewed and tested the conduct of the internal inspection program by performing field work in two physical locations where the Firm conducted internal inspections. These procedures included evaluating the qualifications of the Firm's inspectors, reading the inspectors' comments, reviewing the results of the inspectors' review of certain Firm-wide functional areas, and interviewing both business unit leadership and selected audit personnel concerning the internal inspection program. In addition, the inspection team reviewed documentation of the internal inspectors' review of selected engagements, reviewed certain aspects of the audit work papers, and discussed with Crowe Chizek any significant differences in the results of the inspection team's review and that of the Firm's internal inspectors.

e. Review of Practices for Establishment and Communication of Audit Policies, Procedures and Methodologies, Including Training

The objectives of the inspection procedures in this area were to obtain an understanding of the Firm's processes for establishing and communicating audit policies, procedures, and methodologies, including training; and to evaluate whether the design of these processes could be expected to promote audit quality and enhance compliance.

Toward those objectives, the inspection team reviewed documentation relating to the Firm's method for developing policies and procedures; evaluated internal guidance and/or training materials distributed to audit personnel with respect to recent changes in requirements and to selected specific areas; and interviewed members of the Firm's leadership. The inspection team also evaluated the effectiveness of the design of Crowe Chizek's processes for monitoring developments that could affect the Firm's audit policies, procedures and methodologies. In addition, for each of the engagements selected for review, the inspection team evaluated the engagement team's procedures related to specific areas of the Firm's audit methodology to evaluate the consistency with which those procedures were performed.

f. Review of Tone at the Top

The primary objective of the review of Crowe Chizek's "tone at the top" was to assess whether actions and communications by the Firm's leadership demonstrate a commitment to audit quality and compliance with the Act, the rules of the Board, the rules of the SEC, and PCAOB standards in connection with the Firm's performance of audits, issuance of audit reports, and related matters involving issuers. Toward that end, the inspection team reviewed and analyzed information at Crowe Chizek's National Office. Such information included Crowe Chizek's code of conduct; documents relating to measuring and monitoring audit quality; descriptions of the duties of, and relationships between and among, Crowe Chizek's staff and leadership; results of surveys of staff and clients; public company audit proposals; internal and external communications from management; descriptions of the Firm's financial structure and business plan; and agendas and minutes of the Firm's Executive Committee and Management Committee. In addition, the inspection team interviewed ten members of Crowe Chizek's leadership team.

The inspection team conducted interviews at three of the Firm's physical locations to obtain perspectives on communications from the Firm's leadership relating to audit quality and tone at the top. The inspection team interviewed members of the leadership at each of these locations, as well as certain audit partners and senior managers assigned to engagements that were reviewed. In addition, the inspection team conducted focus group meetings at these locations to assess the participants' understanding of, among other things, the messages conveyed by the National Office, other leadership and their supervisors, and how such messages might affect their actions on audits, as well as to hear their perspectives on the tone at the top. Each of these focus group meetings was comprised of audit managers and audit senior accountants, and one of the focus group meetings also included audit staff.

APPENDIX C

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 Board provided the Firm an opportunity to review and comment on a draft of this report. The Firm provided a written response.

Pursuant to section 104(f) of the Act 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 of a firm's comments that identify factually inaccurate statements, in the draft, that the Board corrects in the final 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. In any version of this report that the Board makes publicly available, any portions of the Firm's response that address nonpublic portions of the report are omitted.

Crowe™

Crowe Chizek and Company LLC
Member Horwath International

December 15, 2005

Mr. George Diacont
Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006

Re: Response to the Public Company Accounting Oversight Board
Draft Report on 2004 Inspection of Crowe Chizek and Company LLC

Dear Mr. Diacont:

We are pleased to provide this response to the Public Company Accounting Oversight Board's (the "PCAOB" or the "Board") draft report (the Report) on the initial inspection of Crowe Chizek and Company LLC ("Crowe Chizek" or "Firm"), performed during 2004. We believe that the PCAOB and Crowe Chizek share a mutual objective to continually improve audit quality.

Approximately one year ago, the PCAOB inspection team performed their initial inspection of our Firm, covering December 31, 2003 audits of issuers and existing Firm policies. We responded quickly with audit enhancements for use on the December 31, 2004 audits to address the preliminary comments we received by January 2005. As the PCAOB focuses on different areas in its inspections, as auditing standards change and as best practices evolve, we believe that our Firm and the entire audit profession will experience continual improvement in audit quality.

Each of the specific matters noted in Part I of the Report have been addressed by appropriate action. We have also considered whether it was necessary to perform additional procedures in accordance with AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*. No facts or circumstances came to our attention during the inspection or in preparing this response to the Report which caused us to believe that any of our previously issued reports should be withdrawn.

The Report comments reflect differences between judgments made by audit engagement teams during the real-time process of the audit and those of inspectors during an inspection performed after such audits were completed. Our audit philosophy has been principles-based with emphasis on use of professional judgment, and application of professional judgment is required in many decisions in every audit. The audit inspection process necessarily involves evaluation of those judgments and may result in differing views on certain judgments made during the conduct of an audit.

We appreciate the opportunity to provide this response and look forward to further dialogue with the Board's Inspections Staff or the Board about enhancing audit quality and improvements to the auditing profession.

Cordially,

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC