

Report on
2008 Inspection of Crowe Horwath LLP
(Headquartered in South Bend, Indiana)

Issued by the
Public Company Accounting Oversight Board

May 6, 2009

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**



Preface to Reports Concerning Annually Inspected Firms

The Sarbanes-Oxley Act of 2002 requires the Public Company Accounting Oversight Board ("PCAOB" or "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 of financial statements and of internal control over financial reporting. 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 reporting on internal control, 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 the annually inspected 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.



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.



2008 INSPECTION OF CROWE HORWATH LLP

In 2008, the Board conducted an inspection of Crowe Horwath^{1/} LLP ("Crowe Horwath" 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 A, and portions of Appendix B. Appendix A provides an overview of the inspection process. Appendix B includes 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/} Crowe Horwath LLP formerly practiced under the name Crowe Chizek and Company LLC prior to September 1, 2008.

^{2/} 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 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") performed an inspection of the Firm from August 2008 to October 2008. The inspection team performed field work at the Firm's National Office and at three of its approximately 23 other physical locations.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.^{4/} 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 A to this report provides a description of the steps the inspection team took with respect to the review of audits and the review of certain firm-wide 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.^{5/} 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 or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

^{4/} 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.

^{5/} When the Board becomes aware 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.

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 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.^{6/} Those deficiencies included failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures.

In some cases, the conclusion that the Firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if the 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.^{7/} 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.

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,^{8/}

^{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.

^{7/} See AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28.

^{8/} See AU 390, *Consideration of Omitted Procedures After the Report Date*, 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), and PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over*

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.^{9/}

In one case, the deficiencies identified were of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient competent evidential matter to support its opinion on the issuer's financial statements. The deficiencies that reached this degree of significance are described below.

Issuer A

In this audit, the Firm failed in the following respects to obtain sufficient competent evidential matter to support its audit opinion:

- The issuer's allowance for loan losses ("ALL") included an unallocated component that represented most of the ALL balance. The Firm identified a deficiency in the issuer's overall ALL assessment methodology because the issuer's process for estimating this unallocated component did not use quantifiable objective data. The Firm's audit approach included checking the mathematical accuracy of the issuer's calculation, testing completeness of the issuer's problem loan listing, and reviewing problem loan trends in the loan portfolio. The Firm failed, however, to design and perform audit procedures that took into account the identified deficiency in the ALL process and therefore failed to sufficiently evaluate the reasonableness of the ALL estimate.
- The Firm failed to perform sufficient substantive procedures to test the existence of certain securities. Although the Firm received responses to

Financial Reporting That Is Integrated with An Audit of Financial Statements ("AS No. 5"), ¶ 98.

^{9/} The Board inspection process generally did not include review of such additional procedures or documentation, or of such revised accounting, although future Board inspections of the Firm may, as appropriate, include further review of any of these matters.

confirmation requests for certain investment securities, the Firm failed to reconcile the responses to the accounting records of the issuer.

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 seven functional areas (1) tone at the top; (2) practices for partner evaluation, compensation, admission, assignment of responsibilities, and disciplinary actions; (3) independence implications of non-audit services; business ventures, alliances, and arrangements; personal financial interests; and commissions and contingent fees; (4) practices for client acceptance and retention; (5) practices for consultations on accounting, auditing, and SEC matters; (6) the Firm's internal inspection program; and (7) policies and procedures for staffing audits. 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

APPENDIX A

THE INSPECTION PROCESS

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

1. Review of Selected Audits

The inspection team reviewed aspects of selected audits, which it chose according to the Board's criteria. The Firm was not allowed an opportunity to limit or influence the engagement 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 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, revenues, fair value, financial instruments, income taxes, reserves or estimated liabilities, inventories, consideration of fraud, related party transactions, supervision of work performed by foreign affiliates, and assessment of risk 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 corrected. For certain selected engagements, the inspection team reviewed written communications between the Firm and the issuer's audit committee. With respect to certain engagements, the inspection team also interviewed the chairperson of the issuer's audit committee. In addition, the inspection team conducted focused inspections of audits of certain issuers whose audits had been reviewed during previous PCAOB inspections of the Firm to ascertain whether the audit procedures in areas with previous deficiencies had been improved.

When the inspection team identified a potential issue, it discussed the issue with members of the engagement team. If the inspection team was unable to resolve the issue through this discussion and any review of additional work papers or other documentation, the inspection team issued a comment form on the matter and the Firm provided a written response to the comment form.

2. Implementation of AS No. 5

Shortly after the approval of AS No. 5, members of the Board's Office of the Chief Auditor and of the Division of Registration and Inspections reviewed documentation of the Firm's initial approach to the implementation of AS No. 5 and provided feedback to the Firm's National Office. Field inspection procedures in this area began with discussions with members of the Firm's leadership to address specific areas of inspection emphasis and the appropriate use of auditor judgment, and to outline planned communications with the Firm. The reviews of certain audits included discussions with engagement teams and the review of documentation regarding the following aspects of the Firm's audit of internal control over financial reporting: (1) risk assessment; (2) risk of fraud; (3) entity-level controls; (4) the nature, timing, and extent of tests of controls; and (5) evaluating and reporting deficiencies. The inspection team discussed its observations about the effectiveness of the implementation of AS No. 5 with the engagement teams, with emphasis on areas where implementation could be improved in subsequent audits. The observations were summarized and discussed with the Firm's National Office.

3. Review of Certain Firm-Wide Quality Control Processes

The inspection team reviewed certain Firm-wide quality control processes both to identify possible defects in the Firm's system of quality control and, where applicable, to update the Board's knowledge of the Firm's policies and procedures in those areas.

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

The objective of the inspection procedures was to assess whether the design and application of the Firm's processes related to partner evaluation, compensation, admission, assignment, termination, and disciplinary actions 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

members of the Firm's management, as well as audit partners in practice offices, regarding these topics. In addition, the inspection team reviewed a sample of partners' personnel files, including files of partners who resigned or took early retirement, partners who had significant negative inspection results from recent internal, PCAOB, and peer-review inspections, and partners who received bonus compensation. Also, the inspection team interviewed audit partners regarding their time and responsibilities and interviewed practice office leadership regarding the performance of partners being inspected, the evaluation and compensation process, any disciplinary actions, and any situations where client management requested a change in the lead audit partner.

b. Review of Independence Policies

The objective of the inspection procedures in this area was to evaluate the Firm's policies and procedures for complying with the independence requirements applicable to its audits of issuers and to update the inspection team's understanding of the Firm's processes for establishing and communicating audit policies, procedures, and methodologies. The procedures included obtaining an update of the inspection team's understanding of policies, procedures, and guidance related to the Firm's independence requirements and the Firm's compliance with them. In addition, the inspection team reviewed documents, including certain newly issued policies and procedures, and interviewed Firm management to update its understanding of the Firm's methods for developing policies and procedures, including internal guidance and training materials and, for a sample of the audits reviewed, tested compliance with the Firm's policies and applicable independence requirements.

c. Review of Client Acceptance and Retention, Including the Firm's Risk-Rating System

The objectives of the inspection procedures in this area were to continue to assess whether the Firm appropriately considers and addresses the risks involved in accepting and retaining clients in the particular circumstances and to assess the Firm's responses to the risks identified, including the extent to which an observable link exists between those risks and the audit procedures performed. Toward those objectives, the inspection team obtained an understanding of any changes in the acceptance and retention processes and evaluated the Firm's policies and procedures relating to the Firm's risk-rating systems. The inspection team interviewed members of the Firm's management and selected a sample of issuer audits to (a) evaluate compliance with the Firm's policies and procedures for identifying and assessing the risks involved in

accepting or continuing the client and (b) observe whether the audit procedures were responsive to the risks identified during the process.

d. Review of Practices for Consultations

The objective of the inspection procedures in this area was to assess the effectiveness of the Firm's consultation process and to update the inspection team's understanding of the Firm's processes for establishing and communicating audit policies, procedures, and methodologies. The procedures included obtaining an update of the inspection team's understanding of policies, procedures, and guidance related to the Firm's consultation processes and the Firm's compliance with them. In addition, the inspection team reviewed documents, including certain newly issued policies and procedures, and interviewed Firm management to update its understanding of the Firm's methods for developing policies and procedures, including internal guidance and training materials and reviewed a sample of consultations that occurred during the inspection period to evaluate the Firm's compliance with its policies and procedures, whether the conclusions were in accordance with professional standards, and whether the engagement teams acted in accordance with the conclusions.

e. Review of Internal Inspection Program

The objective of the inspection procedures in this area was to evaluate the effectiveness of the Firm's internal inspection program in enhancing audit quality. Toward that objective, the inspection team reviewed policies, procedures, guidance, and forms; documentation of the results of the current year's internal inspection program; and steps the Firm took in response to those results. The inspection team also interviewed the Firm's management concerning the process and effectiveness of its internal inspection program. In addition, the inspection team reviewed certain audits that the Firm had inspected and compared its results to those from the internal inspection.

f. Review of Policies and Procedures for Staffing Audits

The objective of the inspection procedures in this area was to understand and evaluate the Firm's policies and procedures for allocating, monitoring, and managing its personnel resources. Toward that objective, the inspection team reviewed documentation relating to the Firm's processes for allocating its personnel resources and interviewed the responsible persons at the National Office and practice offices regarding such policies and procedures and their implementation.

g. Review of Tone at the Top

The objective of the review of the Firm's "tone at the top" was to assess whether actions and communications by the Firm's leadership demonstrate a commitment to audit quality. Toward that objective, the inspection team interviewed members of the Firm's national, regional, and local leadership to understand their perspectives on the Firm's culture and the messages being conveyed by leadership. The inspection team also interviewed certain audit partners to obtain their perspectives on communications from the Firm's leadership. In addition, the inspection team reviewed the Firm's code of conduct; documents relating to measuring and monitoring audit quality; descriptions of the duties of, and relationships between and among, staff and leadership; results of surveys of staff and clients; public company audit proposals; internal and external communications from management; and descriptions of the Firm's financial structure and business plan.

APPENDIX B

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.



Crowe Horwath LLP
Member Crowe Horwath International

April 10, 2009

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

Dear Mr. Diacont:

We are pleased to respond to the Public Company Accounting Oversight Board's ("PCAOB") draft report on the 2008 Inspection of Crowe Horwath LLP (the "Report").

Crowe Horwath LLP is committed to high audit quality, and we have designed our systems to ensure and continually improve audit quality. Our quality control, pre-issuance review, and monitoring systems are robust and lead to changes in methodologies, policies, and procedures when opportunities for improvement are identified.

We recognize that inspection comments may reflect differences between professional judgments that were made during the performance of audits about accounting or auditing issues, and those made by Board inspectors during their subsequent inspection. These involve materiality assessments or the nature and extent of audit documentation. Auditors need to obtain sufficient, competent evidential material to support the audit report, while being sensitive to the costs of pursuing and documenting judgments of matters which have a relatively low risk of significant impact on the financial statements. Experienced, well trained professionals can take differing approaches to achieve this balance. We appreciate the views of the Board's inspectors regarding the appropriate balance and will continue to improve our procedures and documentation process as appropriate. Although we may not agree with the characterization by the PCAOB in its Report of our audit work and related documentation, we have evaluated and addressed the matters noted in Part I of the Report by adding additional documentation to the audit file as appropriate.

The following provides perspective on the matter noted in the Report involving an unallocated portion of the allowance for loan losses. We identified this matter during our planning of that audit. The audit procedures, such as loan file examinations and analytical procedures, confirmed our understanding of the matter. We believe that we sufficiently evaluated management's analysis of the allowance for loan losses and, in fact, we performed additional analyses in response to the matter, including assessing the effect of the increase during the year in the unallocated portion. We apply rigorous auditing procedures to significant and complex accounting estimates such as the allowance for loan losses. Some portions of the allowance are relatively objective, such as determination of a specific allowance on an impaired loan. However, many judgmental factors influence the level of the subjective portion of the

Mr. George Diacont, Director
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allowance, including management's philosophy and the views of banking regulators. Consideration of the subjective portion of the allowance is complex and requires use of judgment, by both preparers and auditors, and particularly for banks such as Issuer A which have a history of a substantial portion of the allowance being based on experience and expectations, but relatively few loan losses. We reported this matter to the Issuer as a control deficiency, but it was not considered to be a significant deficiency or material weakness.

We remain committed to continual improvement in our audit practice and quality control processes, including areas the PCAOB identifies for potential improvement.

Sincerely,


Crowe Horwath LLP