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**Inspection of
Grant Thornton NSW
(Headquartered in Sydney, Commonwealth of Australia)**

**Issued by the
Public Company Accounting Oversight Board**

December 5, 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**

PCAOB RELEASE NO. 104-2012-012



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 financial statement misstatements, including failures to comply with 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 apparent misstatements 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 whether an issuer's financial statements are misstated or fail to comply with Commission disclosure requirements, rests with the Commission. Any description, in this report, of financial statement misstatements or failures to comply with 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 GRANT THORNTON NSW

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Grant Thornton NSW ("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.^{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 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.

^{2/} 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 October 12, 2009 to October 23, 2009.^{3/} 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	1 (Sydney, Commonwealth of Australia)
Ownership structure	Limited partnership
Number of partners	7
Number of professional staff ^{4/}	43
Number of issuer audit clients ^{5/}	None
Number of other issuer audits in which the Firm plays a role ^{6/}	4

^{3/} The Board's inspection was conducted in cooperation with the Australian Securities & Investments Commission.

^{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.

^{6/} The number of other issuer audits encompasses audit work performed by the Firm in engagements for which the Firm was not the principal auditor, including

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audit work.^{7/} To achieve that goal, Board inspections include reviews of certain aspects of selected audit work 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 audit work, an inspection may identify ways in which particular audit work is deficient, including failures by the firm to identify, or to address appropriately, departures from U.S. Generally Accepted Accounting Principles ("GAAP"), or, as applicable, International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").^{8/} It is not the purpose of an inspection, however, to review all of a firm's audit work or to identify every respect in which an audit performed by the firm, or in which the firm played a role, is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audit work, or the relevant issuer financial statements, are free of any deficiencies not specifically described in an inspection report.

A. Review of Audit Engagement

The inspection procedures included a review of aspects of the Firm's audit work on one issuer audit engagement in which it played a role but was not the principal auditor. 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.

audits, if any, in which the Firm plays a substantial role as defined in PCAOB Rule 1001(p)(ii).

^{7/} 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.

^{8/} 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 or IFRS, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

The inspection team identified what it considered to be audit deficiencies. The deficiencies identified included a deficiency of such significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to fulfill the objectives of its role in the audit.^{9/} That deficiency was –

the failure to perform sufficient audit procedures to test a significant estimated liability.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed, 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 eight 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; (7) practices for establishment and communication of audit policies, procedures, and methodologies, including training; and (8) the supervision by the Firm's audit engagement teams of the work performed by foreign affiliates. Any defects in, or criticisms of, the Firm's quality control system are discussed in the

^{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.

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

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.



Helen A. Munter
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25 October 2011

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Dear Mrs Munter

RESPONSE TO DRAFT REPORT ON 2009 INSPECTION

We are pleased to submit our response to the Public Company Accounting Oversight Board's (PCAOB) draft report (the Draft) on its 2009 inspection dated 1 October 2010 of the firm Grant Thornton NSW. Grant Thornton NSW has subsequently ceased its PCAOB registration.

Continuously improving audit quality is a high priority. We fully support both the PCAOB inspection process and the Australian Securities and Investments Commission's (ASIC) inspection process which were conducted in October 2009 and both organisations critical role in protecting investors and serving the public interest. Each year we make considerable investments in our monitoring processes, improvements to our audit tools and guidance, and changes in our quality control structure all with a goal of improving audit quality; the PCAOB and ASIC inspections helps us focus these efforts.

Part I Inspection Procedures and Certain Observations

Section A – Review of Audit Engagement

We carefully considered the report findings for the Issuer audit described in Part I of the Draft, which was the audit of an Australian corporate group that is a significant subsidiary of a US filer. Our audit was conducted for Australian Corporations Act purposes, which requires compliance with Australian Auditing Standards. We believe that we complied with Australian Auditing Standards which are consistent with International Auditing Standards.

The scope of our work was communicated to our US firm which is the principal auditor and it was left to the US firm to determine what, if any additional requirements were needed to ensure compliance with US and PCAOB requirements.

We have separately corresponded with our US firm to inform them of the Draft Report.

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Our Ref: L-111025-PAL-PCAOB Report Response Docs



As discussed with the PCAOB Inspection Team, we disagree with the comment that the firm did not perform sufficient procedures to test the estimate liabilities for long service leave and annual leave. Specifically, the firm failed to test the number of days of long service leave and annual leave hours to which employees were entitled when recomputing the estimated liability.

In Australia, long service leave (LSL) is a period of paid leave for employees who have been working for the same business for an extended period of time. Within Australia, each state has legislated different requirements related to length of time granted as LSL and the period that an employee needs to work before they are eligible to take their accrued LSL.

The entity reviewed is governed by the legislation within the state of New South Wales. In New South Wales an employee is entitled to 13 weeks of leave after 15 years of service but may be entitled to a pro-rata portion of that leave after 5 years. After 10 years that employee is eligible for 2 months of leave. The LSL calculation takes into account the years of service, historical retention rate of employees (probability of retention of employee to 10 years based on current service period experience), pay rates, discount rates and on-cost rate (i.e. superannuation, workers compensation and payroll tax). As noted per your finding, we had selected a sample of employees and tested the pay rates and start date of each employee to their employment contracts. We then tested that the years of service had been correctly calculated based on the start date. The discount rate and on-cost rate is also tested based on current government bond rate and actual on-cost rate for the company, respectively.

The LSL liability is then calculated for each employee based on these inputs. The report is referring to the fact that we do not test the number of LSL hours taken. The current LSL entitlement is the current entitlement calculated as described above less the LSL taken.

Since you are only entitled take leave after 10 years of service the number of eligible employees entitled to currently take leave is obviously restricted and even a smaller number of employees actually take leave in any one year. If our sample selected had included employees who have taken LSL in the period then we would test the LSL taken. This was not the case and in our professional judgement we have performed sufficient testing.

With respect to our testing of annual leave, it should be noted that all Australian employees are entitled to 20 days annual leave per year. We ensured that no leave entitlements are less than or in excess of 20 days. As noted per your finding, for the sample of employees selected we recalculated the ending leave liability based on the opening balance, current entitlement and leave days taken from the entity's payroll system. We also tested the pay rate to employee contracts. We have not tested that the leave days taken per the payroll report are correct.

Given the risk for a liability is understatement, in relation to annual leave, our professional judgement is that the risk of annual leave days taken during the year is overstated (which would understate the ending liability) is low and as a result we relied on the payroll records



monitoring annual leave entitlements and therefore, did not separately test leave days taken back to any source documents.

Redacted - Comments on Non-public Aspects of Report

We look forward to the continuing dialogue as we pursue our shared objectives to improve audit quality and protect the investing public.

Yours sincerely
GRANT THORNTON NSW

A handwritten signature in cursive script, appearing to read 'Andrew Archer'.

Andrew Archer
Partner - Audit & Assurance