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PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

In the Matter of Grant Thornton LLP's Quality Control Remediation Submissions	)	PCAOB Release No.104-2014-100
	)	June11, 2014

I.

The Public Company Accounting Oversight Board ("Board" or "PCAOB") has evaluated the submissions of Grant Thornton LLP ("the Firm") pursuant to PCAOB Rule 4009(a) for the remediation periods ended July 9, 2010 and August 12, 2011, concerning the Firm's efforts to address certain quality control criticisms included in the nonpublic portions of the Board's July 9, 2009 and August 12, 2010 inspection reports on the Firm ("the Reports"). The Board has determined that as of July 9, 2010 and August 12, 2011, respectively, the Firm had not addressed certain criticisms in the Reports to the Board's satisfaction. Accordingly, pursuant to Section 104(g)(2) of the Sarbanes-Oxley Act of 2002 ("the Act") and PCAOB Rule 4009(d), the Board is making public the portions of the Reports that deal with those criticisms.[1]

The Firm has notified the Board that it will not seek Securities and Exchange Commission review of the determinations, which the Firm has a right to do under the Act and Commission rules. The Firm has requested that a related statement by the Firm be attached as an Appendix to this release, and the Board has granted that request. By allowing the Firm's statement to be

[1] Those portions of the Reports are now included in the version of the Reports that are publicly available on the Board's web site. Observations in Board inspection reports 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.

attached as an Appendix to this release, however, the Board is not endorsing, confirming, or adopting as the Board's view any element of the Firm's statement.[2]

II.

The quality control remediation process is central to the Board's efforts to cause firms to improve the quality of their audits and thereby better protect investors. The Board therefore takes very seriously the importance of firms making sufficient progress on quality control issues identified in an inspection report in the 12 months following the report. Particularly with the largest firms, which are inspected annually, the Board devotes considerable time and resources to critically evaluating whether the firm did in fact make sufficient progress in that period. The Board makes the relevant criticisms public when a firm has failed to do so to the Board's satisfaction.

It is not unusual for an inspection report to include nonpublic criticisms of several aspects of a firm's system of quality control. Any Board judgment that results in later public disclosure is a judgment about whether the firm made sufficient effort and progress to address the particular criticisms articulated in the report on that firm in the 12 months immediately following the report date. It is not a broad judgment about the effectiveness of a firm's system of quality control compared to those of other firms, and it does not signify anything about the merits of any additional efforts a firm may have made to address the criticisms after the 12-month period.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

June 11, 2014

[2] Consistent with the Act, the Board does not make public statements indicating that it has determined that any firm has satisfactorily addressed all of the criticisms in an inspection report. In connection with any such Board determination, however, the Board notifies a firm that nothing prohibits a firm from publicly disclosing the determination. The Board also notifies a firm that the determination is not a determination that a firm has completely and permanently cured any particular quality control defect, is not a general endorsement of any aspect of a firm’s quality control system, and does not foreclose additional criticism on the same or related points in subsequent Board inspections of a firm.

Statement of Grant Thornton LLP on the PCAOB's June 11, 2014 Release No. 104-2014-100

Our firm remains dedicated to a continuous improvement process in audit quality and to contributing to the evolution of the standards of our profession. As a result, we have made, and continue to make, substantial investments in our audit practice and significant improvements in our tools, techniques, and policies, demonstrating our unwavering commitment to audit quality. The execution of high quality audits is a key factor in supporting the PCAOB's mission to protect interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports. The PCAOB's standards and processes have helped our firm, as well as the profession overall, attain a new level of audit quality that is the bedrock of investor confidence.

As discussed further below, the PCAOB is releasing certain portions of Part II of our 2008 and 2009 inspection reports. The Board has also recently informed us that they have determined that our remedial actions related to the more recent 2010 inspection report address the report's criticisms to the Board's satisfaction.

- <u>2008 and 2009 determinations</u> - The PCAOB has decided to release portions of Part II of our 2008 and 2009 inspection reports. This release relates to our actions during the 12-month periods following the issuance of those reports (the "remediation periods"). While we took actions that we believed at the time were sufficient and responsive to the matters in the respective inspection reports, we acknowledge the Board's determinations and accept that additional actions may have been warranted in those areas now being published. We have continued making improvements in the identified areas beyond the PCAOB's respective 12-month remediation periods.

- <u>2010 determination</u> - The Board has determined that our remedial actions related to the 2010 inspection report (remediation period ended March 29, 2013) address the report's criticisms to the Board's satisfaction. We are pleased with the Board's determination. We believe that the PCAOB's determination concerning our more recent actions reflects the substantial, good faith progress we have made toward achieving the relevant quality control objectives.

Continuous improvement and high quality audits remains a top priority of the firm. As a result, we have continued to invest in our resources, made and continue to make significant improvements to our tools and policies, and proactively self-assess our audit execution to identify ways we can continue to improve in order to deliver the highest quality audits. We look forward to continuing our constructive dialogue with the Board and its staff with the common objective of continuous improvement in audit quality.

Sincerely,

Stephen M. Chipman
Chief Executive Officer

R. Trent Gazzaway
National Managing Partner of Audit

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Report on

2009 Inspection of Grant Thornton LLP
(Headquartered in Chicago, Illinois)

Issued by the

Public Company Accounting Oversight Board

August 12, 2010

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. 104-2010-130A
(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2010-130)

PCAOB
Public Company Accounting Oversight Board

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.

PCAOB
Public Company Accounting Oversight Board

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.

Public Company Accounting Oversight Board

2009 INSPECTION OF GRANT THORNTON LLP

In 2009, the Board conducted an inspection of the registered public accounting firm Grant Thornton LLP ("Grant" or "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, 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.[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 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 September 2009 through January 2010. The inspection team performed field work at the Firm's National Office and at 18 of its approximately 50 U.S. practice offices.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.[3/] 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 quality control processes.

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.[4/] 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.

3/ This focus on weaknesses and deficiencies 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.

4/ 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.

A. Review of Audit Engagements

The inspection procedures included reviews of aspects of 39 audits performed by the Firm. 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.

In reviewing the audits, the inspection team identified matters that it considered to be audit deficiencies.[5/] Those deficiencies included failures by the Firm to identify or appropriately address errors in the issuer's application of GAAP, including, in some cases, errors that appeared likely to be material to the issuer's financial statements. In addition, the 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.[6/] 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,[7/]

5/ 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.

6/ See AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28.

7/ 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 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, and in some instances, follow-up between the Firm and the issuer led to a change in the issuer's accounting or disclosure practices or led to representations related to prospective changes.[8/]

In some cases, 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 or internal control over financial reporting ("ICFR"). The deficiencies that reached this degree of significance are described below, on an audit-by-audit basis.

Issuer A

The issuer held illiquid debt and equity investments in privately held companies. These investments were recorded at fair value and classified as Level 3 investments pursuant to Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*. The issuer valued the equity investments using an enterprise valuation method computed as a multiple of the corresponding investee's earnings before interest, taxes, depreciation, and amortization ("EBITDA") based on the unaudited financial statements of the investee. The issuer valued the debt investments using a yield approach in which the fair value of the debt was determined based on the present value of the principal and interest payments. The discount rate used in the present-value calculation took into consideration the stated interest rate on the debt and the financial position and credit risk of each investee. The Firm failed to perform sufficient procedures to test the underlying data and assumptions used in the issuer's valuation models to calculate the fair value of the debt and equity investments. Specifically:

Rule 3200T), and PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That is Integrated with An Audit of Financial Statements* ("AS No. 5"), ¶ 98.

[8/] 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.

- The Firm failed to apply (or to request that the issuer arrange with the investees to have other auditors apply) appropriate auditing procedures to the investees' financial statements from which the EBITDAs used to determine fair value were derived.

- The Firm failed to sufficiently evaluate the reasonableness of the multiples that the issuer applied to the investees' EBITDA to calculate the value of the equity investments, including whether the multiples reflected, or were not inconsistent with, market information. The Firm first compared the multiples to ranges of multiples that the issuer had obtained from an outside source, but the Firm did not test these ranges. Then, for those multiples that fell outside of the issuer-provided range, the Firm compared the multiple to a multiple that the Firm obtained from an outside source. For those multiples for which the multiple it obtained from this outside source did not provide corroboration, the Firm's procedures were limited to inquiries of management.

- The Firm failed to sufficiently evaluate the reasonableness of the discount rates applied by the issuer to calculate the value of the debt investments, including whether they reflected, or were not inconsistent with, market information. Specifically, for investments for which the discount rate fell outside a range determined by the Firm's valuation group for similar companies, the Firm's procedures were limited to inquiry of management.

Issuer B

The Firm failed to identify a departure from GAAP that it should have identified and addressed before issuing its audit report. The issuer calculated the fair value of its equity instruments issued to effect a business combination using the stock price on the date the transaction closed. Emerging Issues Task Force Issue No. 99-12, *Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination,* which was then in effect, required the use of a stock price over a reasonable period of time before and after the terms of the acquisition are agreed to and announced.[9/]

[9/] In the succeeding year's filings, the issuer adjusted its financial statements related to this matter.

Issuer C

In this audit, the Firm failed to perform sufficient procedures to test the issuer's recognition of revenue from contracts accounted for under the percentage-of-completion method. Specifically, the Firm failed to test costs incurred to date, including indirect cost allocations, beyond comparing certain costs to reports that were not tested. The Firm also failed to sufficiently test the estimated costs to complete, because the Firm's procedures were limited to inquiries of management.

Issuer D

In this audit, the Firm failed to test the claims data that the issuer had provided to the issuer's actuary for purposes of determining the issuer's self-insurance reserves. In addition, with respect to its audit of ICFR, the Firm failed to test the design and operating effectiveness of controls over the self-insurance claims.

Issuer E

The Firm failed to identify a departure from GAAP that it should have identified and addressed before issuing its audit report. Specifically, the issuer recorded a duplicate reserve in its financial statements for certain deferred tax assets.[10/]

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 five areas (1) management structure and processes, including the tone at the top; (2) practices for partner management, including allocation of partner resources and partner evaluation, compensation, admission, and disciplinary actions; (3) policies and procedures for considering and addressing the risks involved in accepting and retaining clients; (4) processes related to the Firm's use of audit work that the Firm's foreign affiliates perform on the foreign operations of the Firm's U.S. issuer audit clients; and (5) the

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10/ Prior to the inspection, the issuer's successor auditor identified the misstatement and the issuer subsequently restated its financial statements related to this matter. In connection with the restatement, the Firm revised its report on ICFR to include a material weakness related to this matter.

Firm's processes for monitoring audit performance, including processes for identifying and assessing indicators of deficiencies in audit performance, independence policies and procedures, and processes for responding to weaknesses in quality control. 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

PORTIONS OF THE REST OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

PART II

ISSUES RELATED TO QUALITY CONTROLS

This Part II describes the Board's concerns about potential defects in the Firm's quality control system. Assessment of a firm's quality control system rests both on review of a firm's stated quality control policies and procedures and on inferences that can be drawn from respects in which a firm's system has failed to assure quality in the actual performance of engagements. On the basis of the information reported by the inspection team, the Board has the following concerns about aspects of the Firm's system of quality control.[11/]

A. Audit Performance

A firm's system of quality control should provide reasonable assurance that the firm's audit work will meet professional standards and regulatory requirements. Not every deficiency in an audit indicates that a firm's quality control system is insufficient to provide that assurance, and this report does not discuss every auditing deficiency observed by the inspection team. On the other hand, some deficiencies, or repeated instances of similar deficiencies, may indicate a significant defect in a firm's quality control system even when the deficiency has not resulted in an insufficiently supported audit opinion. As described below, some deficiencies reported by the inspection team do suggest that the Firm's system of quality control may in some respects fail to provide sufficient assurance that the Firm's audit work will meet applicable standards and requirements.

1. Specific Categories of Deficiencies

* * * *

[11/] This report's description of quality control issues is based on the inspection team's observations during the inspection field work, which concluded in January 2010. Any changes or improvements that the Firm may have made in its system of quality control since that time are not reflected in this report, but will be taken into account by the Board during the 12-month remediation process following the issuance of this report.

Internal Control

The engagement reviews provide cause for concern about the effectiveness of the Firm's quality controls with respect to testing internal control. In addition to one engagement described in Part I.A,[12/] the inspection team identified four engagements[13/] with deficiencies relating to the testing of internal control. Specifically –

- In one engagement,[14/] the Firm placed reliance on information technology general controls ("ITGCs") despite deficiencies in the controls and failed to perform sufficient audit procedures to support its conclusion that certain application controls were operating effectively to address the existence assertion for inventory for purposes of its audit of ICFR. The Firm failed to sufficiently consider the effects of certain ITGC deficiencies on the nature, timing, and extent of its control tests performed over the issuer's application controls. Specifically, the Firm used a "test-of-one" strategy when testing automated controls relevant to this assertion, which was inappropriate given the known ITGC deficiencies. In addition, the Firm failed to test certain ITGCs over the database containing the issuer's financial data. Further, the Firm limited its testing of access controls and segregation of duties with respect to application controls to a subset of users within the issuer's organization, and the Firm did not evaluate the risks presented by users with identified segregation-of-duties conflicts.

- In one engagement,[15/] the Firm failed to perform sufficient procedures to test certain ITGCs on which it relied. Specifically, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had tested any of the ITGC work performed by external specialists hired by the issuer and whose work was used by the Firm, beyond a general statement in the Firm's work papers that the Firm had tested the work performed by the external specialists. In addition, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had assessed the competence and

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12/ Issuer D

13/ Issuers E, H, I, and J

14/ Issuer E

15/ Issuer I

objectivity of the external specialists, or that it had analyzed the risks associated with each ITGC in order to determine the extent to which the external specialist's work in this area could be used. Further, the Firm failed to perform procedures to update its interim ITGC testing through the end of the year.

- In one engagement,[16/] with respect to the Firm's audit of ICFR, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had evaluated the appropriateness of user access to certain inventory and revenue applications.

- In one engagement,[17/] the Firm obtained a service auditor's report to assess the operating effectiveness of internal controls at the issuer's payroll processer, which provided data that the issuer used to value a portion of its inventory. The Firm failed to perform procedures to address (1) the substantial period not covered by the report, (2) the fact that certain of the provider's data centers were not covered by the report, (3) the user-control considerations identified in the report, and (4) the exceptions identified by the service auditor. In addition, the Firm failed to evaluate a deficiency in ICFR that it had identified related to inadequate segregation of duties with respect to the payroll processing system.

Auditing Fair Value Measurements and Impairment Determinations

The engagement reviews provide cause for concern that the Firm's system of quality control may not do enough to assure that the Firm performs appropriate procedures to evaluate management's fair value measurements and impairment determinations, including evaluating the reasonableness of management's assumptions and testing the underlying data that management used. In addition to one engagement[18/] described in Part I.A, the inspection team identified five engagements[19/] with deficiencies in the Firm's testing of fair value measurements and impairment determinations.

16/ Issuer H

17/ Issuer J

18/ Issuer A

19/ Issuers D, J, K, L, and M

- In three engagements,[20] the Firm failed to perform sufficient procedures to evaluate the reasonableness of the growth rate assumptions that the issuers had used in their analyses of the possible impairment of goodwill. Specifically:

    - In two of these engagements,[21] the Firm's procedures were limited to comparison with historical results and management inquiry; and

    - In one of these engagements,[22] the evidence obtained by the Firm suggested a general increase in projected revenue, but it did not provide sufficient evidence to support the reasonableness of the growth rates used by the issuer, particularly in light of the recent decline in the issuer's revenues, the narrow gap between the issuer's estimated fair value for the reporting unit and its carrying value, and the sensitivity of the fair value estimate to changes in the revenue growth assumptions.

- In two engagements,[23] the Firm failed to perform sufficient procedures over the issuer's valuation of certain intangible assets. In one engagement,[24] the Firm failed to test the issuer's impairment analysis for an intangible asset. In the other engagement,[25] the Firm failed to test, beyond inquiry of management and reading the issuer's specialist's valuation report, certain underlying data and assumptions that the issuer had used in its estimation of the fair value of acquired intangible assets.

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[20] Issuers J, K, and M

[21] Issuers J and K

[22] Issuer M

[23] Issuers D and J

[24] Issuer D

[25] Issuer J

- In one engagement,[26/] the Firm failed to test the fair value of the issuer's interest rate swaps and certain commodity derivatives.

Auditing Other Management Estimates

The engagement reviews provide cause for concern that the Firm's system of quality control may not do enough to assure that the Firm performs appropriate procedures to audit other significant management estimates, including evaluating the reasonableness of management's assumptions and testing the underlying data that management used in developing the estimates. In addition to one engagement[27/] described in Part I.A, the inspection team identified four engagements[28/] with deficiencies in the Firm's testing of other management estimates. Specifically –

- In one engagement,[29/] the Firm failed to obtain a sufficient understanding of the methods and assumptions used by the actuarial specialists engaged by the issuer to measure its obligations related to its defined benefit pension plans and its other post-retirement benefit plan. Specifically, the Firm failed to obtain an understanding, beyond reviewing a general discount rate index and having a high-level discussion with one of its internal actuaries, of the rationale for the discount rates and long-term rates of return on plan assets that the specialists used. In addition, the Firm failed to test the participant data that the issuer provided to the actuarial specialists, and to evaluate the objectivity of the actuarial specialist for the defined benefit pension plans, taking into account the actuary's additional roles as investment advisor and custodian of the issuer's plan assets.

- In one engagement,[30/] the Firm failed to perform sufficient procedures to test the issuer's estimate of its allowance for excess and obsolete inventory.

26/ Issuer L

27/ Issuer D

28/ Issuers B, G, K, and N

29/ Issuer G

30/ Issuer N

Specifically, the Firm failed to test the underlying data and the judgmental percentages used in the issuer's calculation of the excess and obsolete inventory reserve. In addition, the Firm failed to resolve the potential exceptions that it identified when testing the completeness of the population considered for the reserve.

- In one engagement,[31/] the Firm failed to perform procedures to evaluate the remaining useful lives of certain acquired customer-related intangible assets. The Firm also failed to evaluate the pattern in which the economic benefits of those intangible assets were consumed in order to determine whether the issuer's use of the straight-line method to amortize the intangible assets was appropriate.

- In one engagement,[32/] the Firm failed to perform sufficient procedures to test certain components of the issuer's calculation of the allowance for loan losses. Specifically, the Firm failed to test certain underlying data that the issuer had used in estimating its allowance for loan losses.

* * * *

2. <u>Additional Quality Control Concerns Regarding Audit Performance</u>

The reported deficiencies (including, in five of the 39 engagements reviewed, the Firm's failure to obtain sufficient competent evidential matter, at the time it issued its audit report, to support its audit opinion) raise additional concerns regarding the Firm's system of quality control regarding audit performance.

The significance and volume of the reported audit deficiencies raise questions regarding the sufficiency, rigor, and efficacy of the supervision and/or review activities of the engagement managers, partners, and concurring reviewers. Although the reviewers may have signed off on the work papers as evidence of their review, the inspection results suggest that the reviews were not effective. The inspection observations indicate that supervision and review activities in connection with audits need to be improved. The Firm's personnel performing these activities need to devote more

[31/] Issuer K

[32/] Issuer B

attention to them, applying the appropriate level of due care and professional skepticism. The concerns in this area stem, in part, from the significance and number of deficiencies in more complex or subjective areas, such as the auditing of revenue and management estimates. In each of these areas, due to the greater risk of material misstatement, a greater degree of supervision and review would be expected. In addition, the number of situations in which the Firm asserted that important work had been performed, but not documented, raises questions whether higher-level Firm personnel could have adequately supervised and reviewed the audit work.

APPENDIX A

THE INSPECTION PROCESS

The inspection process was designed and performed to provide a basis for assessing the degree of compliance by 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 quality control processes of the Firm that could be expected to affect audit quality.

1. Review of Selected Audits

The inspection team reviewed aspects of selected audits of financial statements and ICFR, 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, revenue, fair value measurements, financial instruments, income taxes, reserves or estimated liabilities, inventories, consideration of fraud, 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 were 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.

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. Review of Firm Management and Monitoring Processes Related to Audit Quality Control

The inspection team's approach to its review of the Firm's system of quality control was intended to further its understanding of how the Firm manages audit quality, so as to enhance its basis for assessing, in this year and in future years, whether that system is appropriately designed and implemented to achieve the goal of conducting audits that are in compliance with applicable standards. The inspection team also continued its assessment of the Firm's processes and controls that relate to certain specific functional areas that relate to audit performance. The overall approach was designed to identify possible defects in the design or operation of the Firm's system of quality control, while also continuing and enhancing the evaluation of the Firm's ability to respond effectively to indications of possible defects in its system of quality control.

a. Review of Management Structure and Processes, Including the Tone at the Top

The objectives of the inspection procedures in this area were (a) to obtain an enhanced understanding of how the Firm's management is structured and operates the Firm's business, and the implications that the management structure and processes have on audit performance and (b) to continue assessing whether actions and communications by the Firm's leadership – the Firm's "tone at the top" – demonstrate a commitment to audit quality. Toward those ends, the inspection team interviewed members of the Firm's national, regional, and local leadership to obtain an understanding of the Firm's approach to, and processes for, its management, including the various management committees or other mechanisms, formal or informal, that relate to assessing and monitoring audit performance, or that otherwise affect audit performance. The inspection team also obtained and reviewed significant management reports and documents, as well as information regarding financial metrics that the Firm uses to evaluate the success of its business.

b. Review of Practices for Partner Management, Including Allocation of Partner Resources and Partner Evaluation, Compensation, Admission, and Disciplinary Actions

The objectives of the inspection procedures in this area were (a) to continue to assess whether the design and application of the Firm's processes related to partner evaluation, compensation, admission, 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; (b) to assess the Firm's quality controls over the allocation of its partner resources; and (c) to identify and assess the accountability and responsibilities of the different levels of Firm management with respect to partner management. The inspection team interviewed members of the Firm's management and also reviewed and evaluated documentation regarding certain of these topics.

In addition, the inspection team reviewed a sample of partners' personnel files, including files of partners who had resigned and partners who had significant negative inspection results from recent internal and PCAOB inspections.

c. Review of Policies and Procedures for Considering and Addressing the Risks Involved in Accepting and Retaining Clients

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 the identified risks of material misstatement and the audit procedures performed. Toward those objectives, the inspection team obtained an understanding of any changes in the acceptance and retention processes and interviewed members of the Firm's management.

d. Review of Processes Related to the Firm's Use of Audit Work that the Firm's Foreign Affiliates Perform on the Foreign Operations of the Firm's U.S. Issuer Audit Clients

The inspection team performed procedures in this area with respect to the processes the Firm uses to ensure that the audit work that its foreign affiliates perform on the foreign operations of U.S. issuers is effective and in accordance with applicable standards. For its procedures in this area, the inspection team reviewed the Firm's policies and procedures related to its supervision and control of work performed by foreign affiliates on the operations of U.S. issuer clients, reviewed available information relating to the most recent foreign affiliated firms' internal inspections, and reviewed the U.S. engagement teams' supervision and control procedures concerning the audit work that the Firm's foreign affiliates performed on a sample of audits.

e. Review of the Firm's Processes for Monitoring Audit Performance, Including Processes for Identifying and Assessing Indicators of Deficiencies in Audit Performance, Independence Policies and Procedures, and Processes for Responding to Weaknesses in Quality Control

(i) Review of Processes for Identifying and Assessing Indicators of Deficiencies in Audit Performance

The objective of the inspection procedures in this area was to identify and assess the monitoring processes that the Firm considers to be significant to its ability to monitor audit quality for individual engagements and for the Firm as a whole. Toward that objective, the inspection team interviewed members of the Firm's management and reviewed certain documents to build on its understanding of how the Firm identifies, evaluates, and responds to possible indicators of deficiencies in audit performance, including internal inspection findings, PCAOB inspection observations, restatements, and litigation. In addition, the inspection team reviewed documents related to the design, operation, and evaluation of findings of the Firm's internal inspection program. The inspection team also reviewed certain audits that the Firm had inspected and compared the results to those of the Firm.

(ii) Review of Response to Weaknesses in Quality Control

The objectives of the inspection procedures in this area were to assess the design and test the effectiveness of the Firm's processes for addressing possible deficiencies in the Firm's system of quality control, including any deficiencies in the Firm's system of quality control that were noted in prior PCAOB inspection reports. Toward those objectives, the inspection team reviewed steps the Firm has taken in the past several years to address possible quality control deficiencies. The inspection team interviewed members of the Firm's national and regional leadership and conducted focused inspections of audits to assess the design and effectiveness of the processes identified. 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.

(iii) Review of Certain Other Policies and Procedures Related to Monitoring Audit Quality

In this area, the procedures included obtaining an update of the inspection team's understanding of policies, procedures, and guidance related to aspects of the Firm's independence requirements and its consultation processes and the Firm's compliance with them. In addition, the inspection team reviewed documents, including certain newly issued audit policies and procedures, and interviewed Firm management to update its understanding of the Firm's methods for developing audit policies, procedures, and methodologies, including internal guidance and training materials.

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.[33/]

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

July 23, 2010

RE: Grant Thornton LLP Response to Draft Report on 2009 Inspection

Dear Mr. Diacont:

Grant Thornton LLP is pleased to submit our response to the Public Company Accounting Oversight Board's (PCAOB) draft report (the Draft) on its 2009 inspection dated June 22, 2010. Continuously improving audit quality is a high priority. We fully support the PCAOB inspection process and its 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 inspection helps us focus these efforts.

We carefully considered each of the report findings for the Issuer audits described in Part I of the Draft. Accordingly, we took all steps necessary to fulfill our responsibilities under 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.* None of those steps changed overall audit conclusions or affected the related audit reports.

* * * * *

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

Respectfully submitted,

Grant Thornton LLP

By:

Stephen M. Chipman

Stephen M. Chipman, CEO

R. Trent Gazzaway

R. Trent Gazzaway, National Managing Partner of Audit Services