PCAOB
Public Company Accounting Oversight Board

1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8433
www.pcaobus.org

# Report on

# 2010 Inspection of Crowe Horwath LLP
## (Headquartered in Oakbrook Terrace, Illinois)

**Issued by the**

## Public Company Accounting Oversight Board

**June 28, 2012**

**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. 104-2012-172

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**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 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 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.

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# 2010 INSPECTION OF CROWE HORWATH LLP

## Preface

In 2010, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Crowe Horwath LLP ("Crowe Horwath" or "the Firm") pursuant to the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is issuing this report in accordance with the requirements of the Act.[1/] The Board is releasing to the public Part I of the report, Appendix C, and portions of Appendix D. Appendix C provides an overview of the inspection process for annually inspected firms.[2/] Appendix D includes the Firm's comments, if any, on a draft of the report.[3/] A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system) is nonpublic, unless the firm fails to make sufficient progress in addressing those criticisms.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm performs audit work.[4/] To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of certain aspects of the firm's quality control system. It is not the purpose

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1/ In its Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004), the Board described its approach to making inspection-related information publicly available consistent with legal restrictions.

2/ The Act requires the Board to conduct an annual inspection of each registered public accounting firm that regularly provides audit reports for more than 100 issuers.

3/ 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.

4/ 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.

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 audit work, or the relevant issuers' financial statements or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

If the Board inspection team identifies deficiencies that exceed a certain significance threshold in the audit work it reviews, those deficiencies are summarized in the public portion of the Board's inspection report.[5/] The Board cautions, however, against extrapolating from the results presented in the public portion of the report to broader conclusions about the frequency of deficiencies throughout the Firm's practice. Audit work is selected for inspection largely on the basis of an analysis of factors that, in the inspection team's view, heighten the possibility that auditing deficiencies are present, rather than through a process intended to identify a representative sample.

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[5/] Inclusion of a deficiency in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. 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. 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. The inspection team may review, either in the same inspection or in subsequent inspections, the adequacy of the firm’s compliance with these requirements. Failure by a firm to take appropriate actions, or a firm’s misrepresentations, in responding to an inspection report, about whether it has taken such actions, could be a basis for Board disciplinary sanctions.

## PART I

## INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's staff ("the inspection team") conducted primary procedures for the inspection from August 2010 through November 2010. The inspection team performed field work at the Firm's National Office and on reports issued from nine of its approximately 26 U.S. assurance practice offices.[6/]

A. Review of Audit Engagements

The 2010 inspection of the Firm included reviews of aspects of 13 audits. The inspection team selected the audits and aspects to review, and the Firm was not allowed an opportunity to limit or influence the selections.

The inspection team identified matters that it considered to be deficiencies in the performance of the audit work it reviewed. Those deficiencies included failures by the Firm to identify, or to address appropriately, financial statement misstatements, including failures to comply with disclosure requirements,[7/] as well as 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 was based on the absence of documentation and the absence of persuasive other evidence, even if the Firm claimed to have performed the procedure.[8/] One of the deficiencies described below relates to auditing aspects of the issuer's internal control over financial reporting ("ICFR") on which the Firm issued a revised opinion after the primary inspection procedures.

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[6/] The Firm is organized by office for administrative purposes only. Partners and staff are assigned to client engagements based on their industry orientation, regardless of the office in which they practice.

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

[8/] PCAOB Auditing Standard No. 3, *Audit Documentation*, 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.

The inspection team considered certain of the deficiencies that it observed to be audit failures. Specifically, certain of the identified deficiencies were of such significance that it appeared that the Firm, at the time it issued its audit report, had failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements and/or on the effectiveness of ICFR. The audit deficiencies that reached these levels of significance are described below.

1. Issuer A

In this audit, the Firm failed to appropriately evaluate the severity of deficiencies in the issuer's internal controls over the allowance for loan losses ("ALL"). Specifically, the Firm identified errors not detected by the issuer's controls over the evaluation of credit quality and the measurement of impairment used to determine the specific component of the ALL but, in evaluating the severity of the related control deficiency, the Firm failed to consider the magnitude of the misstatement that might result from the deficiency.

2. Issuer B

In this audit of a new client, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- The Firm failed to sufficiently test controls over the ALL. Specifically:
  - The Firm failed to sufficiently test the design of the loan review controls performed by the issuer's internal loan review function ("ILR") over the loan credit quality grading process because the Firm failed to gain an understanding of and evaluate whether the extent and timing of the work performed by ILR was sufficient to meet the issuer's control objectives.
  - The Firm selected a sample of loans as part of a dual-purpose control test and substantive test to evaluate ILR's loan grades. The Firm's control testing was not sufficient, as it consisted of comparing conclusions from the Firm's independent evaluation of the loans rather than re-performing the procedures of ILR or otherwise evaluating the work of the ILR. In addition, the Firm failed to test the accuracy and completeness of the information ILR had used to determine the loan grades beyond reading ILR's loan review summaries.
  - The Firm failed to adequately test whether a control over the mathematical accuracy of the ALL calculation and the completeness and accuracy of the inputs used in the ALL calculation operated at a sufficient level of precision to detect potential misstatements in the financial statements that

could be material. Specifically, the Firm limited its procedures to observing that the president of the issuer signed the ALL analysis that included the ALL calculation but performed no procedures to evaluate the effectiveness of this individual's review. The Firm also failed to test controls over two significant loan systems that provided financial information used in the ALL calculation.

  - The Firm failed to identify and test any controls over the completeness and accuracy of the problem-loan report, which was prepared by ILR, and that the issuer used to identify impaired loans.

- The Firm failed to sufficiently test the ALL. The Firm relied on the work of ILR as a control to reduce its substantive testing of the ALL. The Firm inappropriately used the same work of ILR as a substantive test to reduce even further the firm's own substantive tests of the ALL.

- The issuer engaged an actuary to estimate the fair value of the pension liability and the net periodic pension costs for two pension plans. The Firm failed to identify and test any controls over the valuation of the pension liability and net periodic pension costs, beyond identifying and testing controls over the reconciliation of the pension liability to the actuarial report. The Firm also failed to test the demographic data for the participants of the pension plans and the fair value of the plan assets, both of which were provided by the issuer to the actuary for its use in estimating the fair value of the pension liability and the net periodic pension costs.

- The issuer used an external service provider to manage its portfolio of investment securities and used the prices obtained by this service provider to value the portfolio. The Firm failed to perform procedures to determine whether the controls over the pricing of the issuer's securities were operating effectively.

- The Firm failed to identify and test any controls over the issuer's process to evaluate securities for other-than-temporary impairment ("OTTI").

3. <u>Issuer C</u>

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- The Firm failed to sufficiently test the design and operating effectiveness of the controls over the issuer's ALL. The Firm identified loan review procedures performed by the issuer's ILR as the control over the loan credit quality grading process, but it failed to adequately evaluate the design of the control, as it did not sufficiently evaluate whether the extent and timing of the work performed by ILR met the issuer's control objectives. Further, the Firm failed to sufficiently test the operating effectiveness of the control. Specifically, although the Firm read the reports prepared and submitted to management by ILR and performed an independent evaluation of a sample of impaired loans to compare its conclusions to those of ILR, the Firm failed to test the work performed by ILR and evaluate the basis of ILR's loan grade conclusions on the underlying loans.

- The Firm failed to perform sufficient substantive procedures to test the valuation of the ALL. Specifically, the Firm relied on the work of ILR as a control to reduce its substantive testing of the ALL. The Firm inappropriately used the same work of ILR as a substantive test to reduce even further the Firm's own substantive tests of the ALL.

4. Issuer D

In this audit of a new client, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- The Firm failed to sufficiently test the design and operating effectiveness of the controls over the issuer's ALL. The Firm identified loan review procedures performed by the issuer's outsourced loan review function as the control over the loan credit quality grading process but failed to adequately evaluate the design of the control, as the Firm failed to evaluate whether the sample of loans reviewed met the issuer's control objectives and whether the issuer had a process to evaluate and conclude on the changes in the credit quality grades of certain loans, as proposed by the outsourced loan reviewer. Further, the Firm failed to sufficiently test the operating effectiveness of the control because the Firm failed to perform procedures, other than inquiries of management, to assess the criteria management used in reaching conclusions about loans identified by ILR as requiring revision to their credit quality grades.

- The Firm failed to sufficiently test the ALL. The Firm's approach to testing the ALL included a dual-purpose control and substantive test of the issuer's process for identifying problem loans in which the Firm selected a sample of loan relationships that were reviewed by the outsourced loan reviewer. The Firm used a sample size for the dual-purpose control and substantive test based on its criteria for control test sampling and failed to evaluate whether that sample provided sufficient evidence for substantive testing purposes. In addition, the Firm failed to select the loans for substantive testing purposes from the appropriate population of loans, because the Firm selected the sample from the subset of loans that had been tested by the outsourced loan reviewer.

5. Issuer E

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- The Firm failed to sufficiently test the design and operating effectiveness of the loan review procedures ILR performed as the control over the loan credit quality grading process. Specifically, the Firm failed to (a) gain an understanding of the criteria used to select the loans for review by ILR, beyond the total number of loans and outstanding principal balance of the loans reviewed, (b) evaluate the appropriateness of the timing of the work performed by ILR, and (c) define a loan-grading exception for the purpose of evaluating control deficiencies. In addition, the Firm selected too few occurrences of the control to support its control risk assessment of low. Finally, the Firm's testing consisted of comparing its conclusions to those of ILR without obtaining an understanding of the procedures performed by ILR.

- The Firm failed to perform sufficient substantive procedures to test the ALL. Specifically, the Firm relied on the work of ILR as a control to reduce its substantive testing of the ALL. The Firm inappropriately used the same work of ILR as a substantive test to reduce even further the Firm's own substantive tests of the ALL. Further, in concluding that ILR was sufficiently objective that it could use the work of ILR, the Firm failed to take into account that ILR determined the specific reserves on impaired loans, prepared the watch list, and calculated the ALL.

- The Firm's substantive testing indicated that the controls over the issuer's loan credit quality grading process failed to identify impaired loans. The Firm, however, failed to take this result into account in determining the nature and extent of substantive testing required to conclude on the ALL and in evaluating the effectiveness of ICFR.

6. Issuer F

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- The Firm failed to identify and test any controls over the valuation of investments or the evaluation of OTTI.

- The Firm failed to sufficiently test the qualitative factors used by the issuer in the development of the general ALL. Specifically, the Firm failed to test whether the data used to evaluate the effects of the qualitative factors were reliable and whether the qualitative factors were consistent with the observed trends in the historical data, such as loan delinquencies, loan charge-offs, loan concentrations, portfolio volume, quality of loan review, and loan extensions. In addition, the Firm's evaluation of the reasonableness of the estimate, through review and testing of management's process, was insufficient because the Firm failed to take into account that the estimate was significantly below what the issuer's formula, which employed both quantitative and qualitative factors, produced.

- The issuer used a pricing service to value its financial instruments without readily determinable fair values ("hard-to-value financial instruments"), including collateralized debt obligations and mortgage-backed securities. For hard-to-value financial instruments, the issuer's pricing service obtained the fair value measurements from another pricing service. The Firm failed to sufficiently test the valuation of the issuer's hard-to-value financial instruments in the following respects:

  - The Firm failed to obtain an understanding of the specific methods and/or assumptions used by the pricing service to value the collateralized debt obligations.

  - In an attempt to obtain independent fair value measurements of the issuer's mortgage-backed securities, the Firm obtained the fair values for a sample of securities from a pricing service. The Firm's testing was deficient in the following respects:

    - The fair values obtained by the Firm and used in its testing were from the same pricing service that the issuer had used.

    - To test the reasonableness of the fair values provided by the pricing service that the Firm used in its testing of the issuer's fair values, the Firm compared the fair values from that pricing service to the fair values obtained from an additional pricing service that was engaged by the Firm. The Firm failed to obtain fair values from that additional pricing service for any of the specific securities included in the issuer's investment portfolio.

- o The Firm failed to adequately test the issuer's disclosures of hard-to-value financial instruments as level 2 or level 3 because it failed to obtain an understanding of whether they were valued using significant inputs that were observable or unobservable.

7. Issuer G

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- The Firm failed to sufficiently identify and test controls over the valuation of investment securities. Specifically, the Firm (a) limited its testing of management's periodic review of the valuation of investment securities to inquiry of management, (b) failed to identify and test any controls over the determination of the placement within the fair value hierarchy of investment securities, (c) failed to identify and test any controls over the receipt, evaluation, and recording of market prices from the issuer's external pricing service, and (d) failed to identify and test any controls over the determination of the fair value of its investment securities for which pricing information was not provided by the external pricing service.

- The Firm failed to adequately test the control it identified over the recording of OTTI, as the Firm failed to determine whether the control was implemented and if it operated at an appropriate level of precision to prevent or detect errors or fraud that could result in a material misstatement of the financial statements.

- The issuer used pricing services to value certain of its investment securities, including its hard-to-value financial instruments, which included collateralized mortgage-backed securities and other mortgage-backed securities. The Firm used another pricing service to obtain comparative estimates of the fair values of certain of the issuer's hard-to-value financial instruments. The Firm failed to sufficiently test the valuation of the hard-to-value financial instruments in the following respects:

  - o The Firm failed to obtain an understanding of the specific methods and/or assumptions used by the pricing services to value the issuer's securities that were not based on quoted prices from an active market or observable inputs.

  - o When establishing its thresholds for investigation of pricing differences for further testing, the Firm failed to consider the possibility that a combination of individual differences could aggregate to an unacceptable amount. The aggregated uninvestigated differences for individual hard-to-value financial instruments exceeded the Firm's established materiality level by a significant amount.

- The Firm failed to adequately test the issuer's disclosures of hard-to-value financial instruments as level 2 or level 3, because it failed to obtain an understanding of whether the securities were valued using significant inputs that were observable or unobservable.

8. Issuer H

In this audit, the Firm failed to perform adequate procedures to test the ALL. The Firm identified a significant past-due collateral-dependent loan and, according to the Firm's work papers, the borrower's operations were unable to provide sufficient funds to service the debt. The issuer placed the loan on non-accrual status, but concluded that the loan was not impaired and that a specific impairment reserve was unnecessary. After the end of the year under audit, but before the release of the Firm's audit opinion, the issuer obtained a new appraisal of the loan collateral that indicated the fair value of the collateral was less than the outstanding loan principal. The Firm did not consider the new appraisal to indicate that an adjustment to the valuation of the loan was necessary because the issuer represented that potential buyers intended to use the property for other purposes. The Firm failed to obtain corroboration of this representation and, therefore, failed to adequately assess whether the loan should have been determined to be impaired, and whether the ALL should have been increased.

## 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 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

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

# APPENDIX C

## THE INSPECTION PROCESS FOR ANNUALLY INSPECTED FIRMS

The inspection process is designed, and inspections are performed, to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to auditing issuers. This Appendix describes the inspection process for those annually inspected firms that have multiple practice offices and a national office structure. While this appendix describes the general inspection process applied in the 2010 inspections of these firms, the process was customized to each firm's inspection, bearing in mind the firm's structure, past inspection observations, inspection results to date in 2010, and other factors. Accordingly, procedures described in this Appendix, while generally applicable to annual inspections, may not have been applied, or may not have been applied fully, in the inspection of any individual firm, and additional procedures, not described in this appendix, may have been applied in the inspection of an individual firm.

The inspection process included reviews of aspects of selected issuer audits completed by the inspected firm. These reviews were intended both to identify deficiencies, if any, in those aspects of the audits and to determine whether those deficiencies indicated weaknesses or defects in 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*

Inspections include reviews of aspects of selected audits of financial statements and ICFR. For each audit selected, the inspection team reviewed certain of the issuer's SEC filings. The inspection team selected certain aspects of the audits for review and inspected the engagement team's work papers and interviewed engagement personnel regarding those aspects. 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 and, for some engagements, the inspection team 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 was allowed the opportunity to provide a written response to the comment form.

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

The inspection team's review of a firm's system of quality control was intended to provide a basis for assessing whether that system was appropriately designed and implemented to achieve the goal of conducting audits that are in compliance with applicable standards. This review included an 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

Procedures in this area were designed to focus on (a) 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) whether actions and communications by the firm's leadership – the "tone at the top" – demonstrate a commitment to audit quality. The inspection team interviewed members of the firm's leadership to obtain an understanding of any significant changes in the firm's approach to, and processes for, its management, including the mechanisms, formal or informal, that assess, monitor, or affect audit performance. The inspection team also reviewed significant management reports and documents, as well as information regarding financial metrics and the budget and goal setting processes that the Firm uses to plan for, and 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

Procedures in this area were designed to focus on (a) whether 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) the firm's processes for allocating its partner resources; and (c) 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 documentation related to certain of these topics. In addition, the inspection team's interviews of audit partners included questions regarding their responsibilities and allocation of time and the interviews of firm management included the performance of partners being inspected, the evaluation and compensation process, any disciplinary actions, and any situations where a client requested a change in the lead audit partner. In addition, the inspection team reviewed a sample of partners' personnel files, including files of partners who resigned or took early retirement 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, Including the Application of the Firm's Risk-Rating System

The inspection team selected certain 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 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 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, interviewed members of the firm's leadership, 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. In some cases, the inspection team also reviewed, on a limited basis, certain of the audit work performed by the firm's foreign affiliates on the foreign operations of U.S. issuer clients.

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

Procedures in this area were designed to identify and assess the monitoring processes that the firm uses to monitor audit quality for individual engagements and for the firm as a whole. The inspection team interviewed members of the firm's management and reviewed documents regarding 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 its results to those from the internal inspection.

(ii) Review of Response to Weaknesses in Quality Control

The inspection team reviewed steps the firm has taken in the past several years to address possible quality control deficiencies. The inspection team then assessed the design and evaluated the 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

The inspection team assessed 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 policies and procedures, and interviewed firm management to consider the firm's methods for developing audit policies, procedures, and methodologies, including internal guidance and training materials.

## APPENDIX D

## 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.[9/]

[9/] 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.

Crowe Horwath LLP
Independent Member Crowe Horwath International

One Mid America Plaza, Suite 700
Post Office Box 3697
Oak Brook, Illinois 60522-3697
Tel 630.574.7878
Fax 630.574.1608
www.crowehorwath.com

June 8, 2012

Ms. Helen Munter
Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006

Dear Ms. Munter:

Crowe Horwath LLP appreciates the opportunity to respond to the Public Company Accounting Oversight Board's ("PCAOB") draft report on the 2010 Inspection of Crowe Horwath LLP (the "Report"). We want to acknowledge the professionalism of the PCAOB's inspectors and our appreciation of the Public Company Accounting Oversight Board's views regarding our audits. The PCAOB's inspection process and our reaction and response thereto, can serve an important role in improving audit quality.

Crowe Horwath LLP is committed to performing high quality audits, and we have designed our quality control and monitoring systems to drive continual improvement.

After careful consideration of each matter identified by the PCAOB's inspection team in Part I of the Report, we have determined that we have taken actions that address each matter in accordance with PCAOB standards to comply with our professional responsibilities; including additional procedures in accordance with AU390 when appropriate, and providing additional documentation in our files to more completely describe procedures, evidential material, and our conclusions.

We remain committed to continual improvement in our audit practice and making responsive changes in areas identified by the PCAOB for improvement, and look forward to further dialogue towards the shared goal of audit quality.

Sincerely,

Crowe Horwath LLP

Crowe Horwath LLP