

Report on

**2010 Inspection of Grant Thornton LLP
(Headquartered in Chicago, Illinois)**

Issued by the

Public Company Accounting Oversight Board

March 29, 2012

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

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SECTIONS 104(g)(2) AND 105(b)(5)(A)
OF THE SARBANES-OXLEY ACT OF 2002**



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.

2010 INSPECTION OF GRANT THORNTON LLP

Preface

In 2010, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Grant Thornton LLP ("GT" 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.

^{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.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.^{4/} To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of certain aspects of the firm's quality control system. 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 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.

^{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.

^{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 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. 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 September 2010 through March 2011. The inspection team performed field work at the Firm's National Office and at 21 of its approximately 51 U.S. practice offices.

A. Review of Audit Engagements

The 2010 inspection of the Firm included reviews of aspects of 41 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,^{6/} as well as failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures. In one instance, follow-up between the Firm and the issuer led to a change in the issuer's accounting. 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.^{7/}

^{6/} 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.

^{7/} 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.

One of the deficiencies described below relates to auditing aspects of the issuer's financial statements that the issuer restated after the primary inspection procedures.^{8/}

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 internal control over financial reporting ("ICFR"). The audit deficiencies that reached these levels of significance are described below.^{9/}

1. Issuer A

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

- The Firm failed to perform sufficient procedures to test information technology general controls ("ITGCs"). Specifically, with respect to certain important financial applications, the Firm failed to test the ITGCs over the databases and operating systems supporting them, test whether the issuer had appropriate segregation of duties over program changes, test whether the population used for testing program changes was complete, and test certain controls that the Firm had identified as compensating controls for an ITGC deficiency. As a consequence, the Firm lacked an appropriate basis for the reliance it placed, in its control testing, on certain data and reports generated by those applications.

^{8/} The Board inspection process did not include review of any additional audit work related to the restatements and adjustments.

^{9/} 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.

- The Firm failed to perform procedures to extend its conclusions on the operating effectiveness of certain internal controls, including ITGCs over significant applications, from the interim date when they were tested to the balance sheet date.
- The Firm failed to sufficiently test revenue. The Firm's planned approach for testing revenue included the performance of substantive analytical procedures. The analytical procedures consisted of comparing the current year's revenue to the prior year's revenue, but the Firm did not establish that the prior year's revenue could be expected to be predictive of the current year's revenue. In addition, the Firm failed to establish the amount of the difference from the prior year's revenue that could be accepted without further investigation, and failed to obtain corroboration of management's explanations of certain significant differences between the prior year's revenue and the current year's revenue. The Firm also failed to test the completeness and accuracy of certain of the data used in the analytical procedures. As a result of these failures, the analytical procedures provided little to no substantive assurance.
- The Firm failed to perform sufficient procedures to test the existence and valuation of inventory. Specifically, the Firm failed to test the controls over the issuer's physical inventory process on which the Firm relied to determine the extent of the substantive procedures that it performed regarding the existence of inventory for one significant division. In addition, for two significant divisions, including the one mentioned above, the Firm relied on manual controls over the valuation of inventory that used data that the Firm did not test, and the Firm also used those data in its substantive testing. Further, the Firm failed to test the inventory valuation allowance for two other significant divisions.
- The Firm failed to perform procedures to extend to the balance sheet date its conclusions on the existence assertions for certain inventory and accounts receivable, which the Firm had tested as of an interim date.
- In the year under audit, the issuer recorded adjustments in its financial statements to correct misstatements in the prior year's financial statements, and in so doing, understated the current year's income before taxes and net income. The Firm failed to perform procedures, beyond discussions with management, to

evaluate whether, as a result, the current year's financial statements were misstated by a material amount.

- The Firm failed to perform sufficient procedures to evaluate whether the issuer's reduction of a deferred tax asset valuation allowance related to a tax credit was appropriate and recorded in the correct year. Specifically, the Firm failed to evaluate the estimate of future pretax income that the issuer used to support the reduction of the valuation allowance, and the Firm failed to evaluate evidence that suggested it may have been appropriate to reduce the valuation allowance in the prior year. In addition, the Firm failed to evaluate whether the issuer had appropriately considered the tax credit in its calculation of its state deferred taxes.

2. Issuer B

In this audit, the Firm failed to identify a departure from GAAP that it should have identified and addressed before issuing its audit report. The issuer recorded certain adjustments to the fair value of the contingent consideration in an acquisition of another entity as adjustments to goodwill. The Firm failed to recognize that the adjustments to the fair value were the results of events that occurred after the acquisition date, and therefore should have been recorded in earnings.

3. Issuer C

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

- The Firm failed to test the completeness and accuracy of certain system-generated data and reports that the Firm used in its control and substantive procedures to test the existence and completeness of revenue and commissions expense.
- The Firm failed to sufficiently evaluate control deficiencies related to the review of certain spreadsheets. Specifically, the Firm identified a mitigating control, but did not test whether this control was operating at a level of precision that would prevent or detect errors or fraud that could result in a material misstatement. In

addition, the Firm failed to evaluate the magnitude of a potential misstatement that could result from the deficiencies.

- There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had identified and tested any controls to address the completeness of deferred revenue.

4. Issuer D

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

- The Firm failed to identify and evaluate certain control deficiencies related to segregation of duties, and failed to recognize that an ITGC deficiency that it had concluded existed during the year continued to exist at the end of the year. Further, the Firm identified mitigating controls for certain ITGC deficiencies related to the issuer's revenue systems; however, its tests of those mitigating controls did not include procedures to obtain evidence regarding whether the controls were operating at a level of precision that would prevent or detect errors or fraud that could result in a material misstatement.
- The Firm failed to test the completeness and accuracy of certain reports from the issuer's revenue systems that the Firm used in its control testing, and failed to test the accuracy of a report from the issuer's revenue systems that the Firm used in its substantive testing.
- The Firm failed to test a computer program that the issuer used in an important revenue control.

5. Issuer E

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR. The Firm placed excessive reliance on certain data that the issuer used to record certain revenue and that the Firm used for its control testing and substantive testing of that revenue. Specifically, the Firm identified multiple deficiencies, aggregating to what

the Firm determined to be two significant deficiencies, in ITGCs over two of the issuer's billing systems that served as the data sources for significant amounts of revenue. While the Firm identified and tested three compensating controls for these deficiencies, the Firm's test of one of the compensating controls addressed only the data transfer from the billing system to the general ledger and did not test the accuracy and completeness of the data in the billing system. Further, the other two compensating controls relied, at least in part, on system-generated data that had not been tested, and, in addition, the Firm failed to perform procedures to determine whether these controls were operating at a level of precision that would prevent or detect errors or fraud that could result in a material misstatement.

6. Issuer F

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements. Specifically –

- The Firm did not rely on controls when testing revenue, and its procedures to test revenue throughout the period consisted of analytical procedures. Due to deficiencies in the analytical procedures, however, they provided little to no substantive assurance. Specifically, the Firm failed –
 - For certain analytical procedures, in which the Firm compared the current-year amounts with those for a prior period, to establish that the prior-period amounts could be expected to be predictive of the current period's amounts;
 - To determine the differences from its expectations, or from the prior-period amounts, that could be accepted without further investigation;
 - To obtain corroboration of management's explanations of certain significant differences related to revenues and gross margins; and
 - To sufficiently test the completeness and accuracy of certain non-financial data in the reports used in the analytical procedures. Specifically, for a significant portion of the issuer's business, the Firm's selection of only one transaction was insufficient to test the non-financial data in light of the Firm's decisions not to rely on controls.

- For a significant portion of the issuer's revenue, the Firm failed to test whether the revenue was recorded in the appropriate period.

7. Issuer G

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements. The Firm's failures related to testing revenue and the potential impairment of goodwill.

- The Firm did not rely on controls when testing revenue, and its procedures to test revenue throughout the period consisted of analytical procedures. The Firm failed to develop appropriate expectations, because its expectations were based on the prior month's unaudited revenue. In addition, the Firm failed to obtain corroboration of management's explanations of certain significant unexpected differences between expected and actual revenues and gross margins. The Firm also failed to test the completeness and accuracy of the data in certain reports that it used to obtain corroboration of certain of management's other explanations. As a result of these failures, the analytical procedures provided little to no substantive assurance.
- The Firm failed to sufficiently test the revenue projections, which contemplated significant revenue growth, that the issuer used in its goodwill impairment analysis. Specifically, the Firm failed to test certain data that the issuer used to support its revenue growth projections. In addition, the Firm failed to evaluate the effect that non-recurring events had on the revenue growth projections. Further, in evaluating the reasonableness of the revenue growth projections, the Firm failed to take into account the decline in revenue in the past year, as well as the fact that the issuer did not meet its revenue projections for that year.

8. Issuer H

In this audit, in addition to the deficiencies described in Part I.A.13 related to testing the fair value measurements and disclosures of financial instruments without readily determinable fair values ("hard-to-value financial instruments"), the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its opinions on the financial statements and on the effectiveness of ICFR. The Firm failed

to perform sufficient procedures related to the issuer's allowance for loan losses ("ALL"). Specifically –

- The Firm failed to sufficiently test controls over the issuer's ALL. Specifically, the Firm failed to test controls over the timely identification and assessment of impaired loans, including controls over the timeliness of appraisals, and failed to test controls over the timely identification and recording of loan charge-offs. In addition, the Firm failed to test controls over the qualitative factors management used in calculating the ALL. Further, the Firm failed to sufficiently test controls over the issuer's internal loan review process. Specifically, the Firm failed to assess the competence and objectivity of the internal loan review department's personnel, and there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had obtained an understanding of the internal loan review department's procedures and the basis for its loan-grade conclusions. Finally, the Firm failed to identify and test any controls over the grading of the population of loans that had not been reviewed by the issuer's internal loan review department.
- The Firm failed to perform sufficient procedures to substantively test the portion of the ALL that was allocated to specific impaired loans. Given the deficiencies discussed above, the Firm placed excessive reliance on controls relating to impaired loans. As a result, the Firm's loan review sample size was insufficient to conclude on the valuation and completeness of the issuer's impaired loans. In addition, the Firm failed to perform sufficient procedures to test the fair value of the collateral that the issuer used to determine the specific allowances for impaired collateral-dependent loans. Specifically, the Firm failed to obtain an understanding of the specific methods and assumptions the issuer's appraisers used to value the collateral, and the Firm failed to evaluate the reasonableness of the adjustments the issuer made to the appraised values to account for the time since the date of the appraisal.
- The Firm failed to perform sufficient procedures to extend to the balance sheet date its conclusions on the allowances for certain impaired loans that the Firm tested as of an interim date. Specifically, the Firm's procedures to test certain impaired loans from the interim date to year end were limited to reviewing minutes of internal meetings and related schedules, and inquiring of management.

- The Firm failed to test the completeness and accuracy of certain data that the issuer used in the calculation of the ALL and to assess whether the information regarding trends or changes in the issuer's loan portfolio supported the changes the issuer made in the qualitative factors used in that calculation.

9. Issuer I

In this audit, in addition to the deficiencies described in Part I.A.13 below related to testing the fair value measurements and disclosures of hard-to-value financial instruments, the Firm failed to perform sufficient procedures to test the valuation of the issuer's ALL. The Firm documented that the issuer determined not to make significant changes to the qualitative factors used in the calculation of the ALL to adjust for conditions not adequately captured by the historical losses in the portfolio. While the Firm noted a number of circumstances that indicated declining economic conditions in the areas served by the issuer's lending activities, the Firm's procedures with respect to the qualitative loss factors were limited to inquiring of management, comparing the factors to those for a prior period and to the aggregation of the quantitative and qualitative factors that the issuer used to calculate the ALL, and noting that the issuer had determined that the aggregated factors were consistent with recent loss history.

10. Issuer J

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements. Specifically –

- The Firm failed to sufficiently evaluate whether certain revenue was presented appropriately in the financial statements. Specifically, the Firm failed to review contracts or perform other procedures, beyond inquiry of management, to determine whether revenue from the sales of certain goods that were subject to consignment arrangements involving the issuer and certain of its significant vendors and customers should be presented on a net basis rather than on a gross basis.
- The Firm failed to review contracts or perform other substantive procedures, beyond inquiry of management, to test the completeness of deferred sales and the completeness and accuracy of adjustments to revenue for promotional and rebate allowances. In addition, the Firm failed to obtain corroboration of

management's explanations for significant changes in the accruals for promotional and rebate allowances.

Further, the Firm failed to perform sufficient procedures to test the issuer's allowance for sales returns. Specifically, the Firm failed to test, beyond inquiry of management, certain assumptions that the issuer used in its calculation of the allowance.

- The Firm's planned approach for testing revenue included the performance of substantive analytical procedures, consisting of a comparison of the current year's revenue and gross margin, disaggregated by product line and quarter, to those for the prior period. The Firm failed to develop its expectations at the level of precision needed to obtain the necessary level of assurance. Specifically, the Firm's expectations were merely directional in nature (for example, that revenue would decrease from the prior period's amount). Further, the Firm's threshold for investigating differences was based in part on a percentage change in the account balance; as a result, the Firm failed to investigate certain individual differences that exceeded its established level of materiality. Also, the Firm failed to obtain corroboration of management's explanations of certain significant differences between the current period's amounts and those for the prior period. As a result of these failures, the analytical procedures provided little to no substantive assurance.
- The Firm failed to perform sufficient procedures to test the existence of certain inventory. The Firm's procedures to test the existence of inventory that had been consigned to the issuer's customers consisted of testing the issuer's reconciliation of that inventory to reports from the customers. This procedure, however, was insufficient, as the Firm failed to investigate an unreconciled difference that was approximately six times larger than the Firm's established level of materiality. Further, the Firm failed to consider whether the unreconciled difference described above indicated that the amount recorded for estimated consigned sales at year end may not be complete and accurate.
- The Firm failed to perform sufficient procedures to test whether revenue was recorded in the appropriate period. Specifically, the Firm failed to test the accuracy of the identifiers that were associated with certain transactions in the issuer's systems and that the Firm used in testing the appropriateness of the

issuer's inclusion or exclusion of certain revenue transactions in the current year's revenue.

11. Issuer K

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its opinion on the financial statements. Specifically –

- The Firm was aware that the issuer had determined not to test a significant portion of its property and equipment for impairment, despite indicators that the carrying amount may not be recoverable. These indicators included operating losses for the relevant segment for the last three years, substantial charges for the impairment of goodwill and other intangible assets during the year, a projected loss for the segment for the upcoming year, and reduced and delayed customer orders. The Firm failed to evaluate the effects on the financial statements of the failure to test the assets for impairment.
- The Firm failed to sufficiently test the issuer's projections, which showed significant growth in revenue and improvements in margin, that the issuer used in its analyses of the potential impairment of goodwill and other intangible assets for certain of its reporting units. Specifically, the Firm failed to test certain data and assumptions that the issuer used to support its projections. In addition, the Firm did not evaluate, in light of inconsistencies with historical results, the reasonableness of the issuer's revenue and margin projections.

12. Issuer L

In this audit, the Firm failed to perform sufficient procedures to test the valuation of a significant portfolio of receivables that the issuer had purchased. Specifically, the Firm failed to perform procedures to test certain assumptions that were used to develop cash flow projections for, and forecasted sales of, the receivables in order to estimate the net realizable value of the portfolio.

13. Deficiencies in Testing the Fair Value Measurements and Disclosures of Financial Instruments Without Readily Determinable Fair Values

In five audits,^{10/} due to deficiencies in testing the fair value measurements of, and the disclosures related to, hard-to-value financial instruments, including asset-backed securities, collateralized debt obligations, collateralized mortgage obligations, and other mortgage-backed securities, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions. The deficiencies are as follows -

- In four of these audits,^{11/} the Firm failed to obtain an understanding of the specific methods and/or assumptions underlying certain fair value measurements that were obtained from pricing services or other third parties and used in the Firm's testing of the hard-to-value financial instruments. In addition, in three of these audits,^{12/} the Firm's primary substantive procedure to test the fair values of certain financial instruments was to obtain prices from outside pricing services, but the fair value measurements the Firm obtained were from the same pricing services the issuer had used either as the sole source of the recorded value or as a significant input to the recorded value.
- In addition, in the following three audits, the Firm failed to evaluate the implications of significant differences in the fair value measurements from different sources for individual financial instruments –
 - In one of these audits,^{13/} for certain financial instruments, the Firm determined to use in its testing the price obtained from the source the issuer had used after the initial price the Firm received for these instruments was significantly different from the issuer's price.

^{10/} Issuers H, I, M, N, and O

^{11/} Issuers H, I, M, and N

^{12/} Issuers I, M, and N

^{13/} Issuer I

- In one of these audits,^{14/} for certain financial instruments, both the issuer and the Firm received prices that were significantly different from the model-based valuation prepared by the issuer's external specialist, and chose to rely on the model-based valuation.
- In one of these audits,^{15/} for certain financial instruments, the Firm obtained multiple prices and used the price closest to the issuer's recorded price in testing the fair value measurements, without evaluating certain significant differences between the other prices obtained and the issuer's prices.
- There were additional deficiencies related to the Firm's testing of the fair value of hard-to-value financial instruments in three of the five audits:
 - In one of these audits,^{16/} the Firm failed to sufficiently test the valuation of the issuer's investments in collateralized loan obligations. Specifically, the Firm failed to evaluate whether the models the issuer developed to price these financial instruments were accurately allocating cash flows based on the underlying structures of each financial instrument.
 - In two of these audits,^{17/} the Firm failed to test the fair value of certain financial instruments for which it had requested, but not received, a price from its pricing services. In one of the two audits,^{18/} the pricing service specifically flagged these financial instruments as having credit and liquidity issues.

^{14/} Issuer H

^{15/} Issuer M

^{16/} Issuer O

^{17/} Issuers H and I

^{18/} Issuer H

- In one of these audits,^{19/} the Firm tested the fair value of certain of the financial instruments as of four months before year end, but the Firm failed to perform sufficient procedures to provide a reasonable basis for extending its conclusions to year end. Specifically, the Firm's roll-forward procedures were limited to comparing the recorded amounts of these financial instruments at year end to their recorded amounts at the date of the Firm's interim testing, without establishing expectations for the values of the specific financial instruments at year end.

Further, the service auditor's report for the external service organization that the issuer used to price certain of its financial instruments indicated that pricing is determined using a mid-month price, unless the customer specifically requests a month-end price. The Firm failed to determine which date was used to value the issuer's securities.

In addition, in this audit, the Firm failed to perform sufficient tests of controls over the valuation of the issuer's financial instruments to support its opinion on the effectiveness of ICFR. Specifically, the Firm failed to evaluate controls at sub-service organizations that the service organization used to price certain financial instruments. In addition, the Firm did not test controls over the valuation of level 3 financial instruments.

- Finally, in four of the five audits,^{20/} the Firm failed to adequately test the issuer's disclosures of certain hard-to-value financial instruments as level 2 or level 3 because it failed to obtain an understanding of whether significant inputs used to value the financial instruments were observable or unobservable.

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 processes 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

^{19/} Issuer H

^{20/} Issuers H, I, M, and N

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, including the application of the Firm's risk-rating system; (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 and 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, AND APPENDIX B 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, observations during the course of the 2010 inspection, 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.^{21/}

^{21/} 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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March 15, 2012

Re: Response to Part I of the Draft Report on the 2010 Inspection of Grant Thornton LLP

Dear Ms. Munter:

We are pleased to respond to Part I of the Public Company Accounting Oversight Board's ("PCAOB") Draft Report on the 2010 Inspection of Grant Thornton LLP (the "Report"). We support the PCAOB's mission and further believe its inspection process is integral to improving audit quality, serving investors and safeguarding the public interest. We share these goals. Our Firm's objectives include delivering high quality audits and continually improving our processes and quality controls. The PCAOB inspection report and dialogue with the inspections staff is an integral component in focusing our efforts.

We carefully considered each of the report findings for the Issuer audits described in Part I of the Report. Accordingly, we took all steps necessary to fulfil 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*.

We look forward to the continuing dialogue as we pursue our shared goals of improving audit quality across the profession and protecting the investing public.

Respectfully submitted,

A handwritten signature in cursive script that reads "Grant Thornton LLP".

By:

A handwritten signature in cursive script that reads "Stephen M. Chipman".

Stephen M. Chipman
CEO

A handwritten signature in cursive script that reads "R. Trent Gazzaway".

R. Trent Gazzaway
National Managing Partner of Audit Services