

Report on
2011 Inspection of Grant Thornton LLP
(Headquartered in Chicago, Illinois)

Issued by the
Public Company Accounting Oversight Board

December 18, 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**

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.

2011 INSPECTION OF GRANT THORNTON LLP

Preface

In 2011, 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 audit work 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 2011 through March 2012. The inspection team performed field work at the Firm's National Office and at 19 of its approximately 51 U.S. practice offices.

A. Review of Audit Engagements

The 2011 inspection of the Firm included reviews of aspects of 35 audits performed by the Firm. 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 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 related to the deficiency led to a change in the issuer's accounting practices.

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 ("AS") 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 an 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/}

A.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 identify a departure from generally accepted accounting principles ("GAAP") that it should have identified and addressed before issuing its audit report. The issuer accounted for certain significant contracts using a revenue recognition method that was inconsistent with the requirements of GAAP.
- In concluding on the severity of an identified control deficiency, the Firm failed to evaluate the risk factors that affect whether there was a reasonable possibility that the issuer's controls would fail to prevent or detect a misstatement.

^{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 sufficiently evaluate whether all requirements for recognizing the sale of certain lease receivables had been satisfied. Specifically, the Firm failed to evaluate whether the issuer had continuing involvement in the lease arrangements and failed to assess whether the "true sale" legal opinion that the issuer relied on, which had been obtained in the prior year, continued to be relevant.
- The Firm failed to perform sufficient procedures to test revenue related to sales to resellers. Specifically, the Firm failed to evaluate (a) whether collectability was reasonably assured for sales to certain resellers, and (b) whether the issuer's history of providing financing to end customers indicated that the issuer should have deferred revenue for certain sales to resellers.
- The Firm failed to sufficiently test the issuer's reserve for excess and obsolete inventory. Specifically, the Firm limited its testing of the valuation of certain potential excess inventory, for which no reserve was recorded and which represented approximately one half of the issuer's total inventory, to inquiring of management. In addition, the Firm failed to test the accuracy of certain system-generated data the Firm used in its substantive testing of the inventory reserve.
- The Firm failed to sufficiently test the valuation of the issuer's deferred tax assets. Specifically, the Firm failed to evaluate the reasonableness of certain significant assumptions the issuer used in its projections to support the recoverability of the net deferred tax assets. Further, the Firm limited its testing of certain other assumptions to inquiring of management and considering certain industry trends. In addition, after the date of the issuer's balance sheet, but before the release of the Firm's audit opinion, the issuer had financial information available for the first quarter which appeared inconsistent with the high growth rate included in the projections. The Firm failed to take into account that financial information in assessing the reliability of the projections.

A.2. Issuer B

In this audit, in addition to the deficiencies described in Part I.A.14 related to testing the fair value measurements of, and disclosures related to, 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 –

- During the year, the issuer replaced its main financial application with two new applications, one of which supported loans receivable. The Firm failed to sufficiently test controls over these applications and, as a result, lacked an appropriate basis for the reliance it placed on certain data and reports generated by these applications when performing its control and substantive testing related to the allowance for loan losses ("ALL"). Specifically –
 - The Firm failed to perform procedures to test the design effectiveness of ITGCs over these applications;
 - There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had assessed the competence and objectivity of the issuer's internal audit group whose work the Firm used as evidence of the effectiveness of controls over the legacy system and the system conversions related to the new applications;
 - The Firm failed to test necessary user controls identified in the service auditor's report related to one of the new applications; and
 - There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had performed procedures to extend the conclusions reached regarding controls over one of the new applications from the date of the service auditor's report to the balance sheet date.
- The Firm failed to sufficiently test controls over the ALL. Specifically, the Firm failed to test certain controls over the identification of impaired loans beyond inquiring of management. In addition, the Firm failed to test a control over loan charge-offs beyond verifying that management had approved charging off the loans. Further, the Firm failed to test any controls that would address whether loans that met the issuer's criteria for being charged off were in fact charged off. Finally, the Firm failed to

sufficiently test the issuer's internal loan review control, because it excluded a significant portion of the loan portfolio from its testing.

- The Firm failed to identify and test any controls over the calculation of interest income.
- The Firm failed to perform sufficient tests of controls over the valuation of the issuer's financial instruments. Specifically –
 - The issuer engaged an external service organization to price its financial instruments. The service auditor's report stated that this external service organization used sub-service organizations to price certain of the financial instruments, and that the report did not address controls at these sub-service organizations. The Firm failed to perform procedures to obtain an understanding of, and to obtain evidence of the design and operating effectiveness of, any of the pricing controls at these sub-service organizations.
 - The Firm failed to test necessary user controls identified in the service auditor's report.
 - The service auditor's report stated that the external service organization provided prices using a mid-month price, unless the customer specifically requested a month-end price. The Firm failed to obtain an understanding of the date as of which the issuer's securities were valued.
- The Firm failed to perform sufficient procedures to substantively test the ALL. Specifically –
 - The Firm failed to sufficiently test impaired loans. The Firm limited its testing to those loans identified by the issuer as being impaired; however, in light of the deficiencies in testing controls described above, the Firm did not have assurance regarding the completeness of the population of impaired loans.
 - There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had obtained an

understanding of the methods and assumptions, and had tested the data, that the issuer's appraisers used to value real estate that served as collateral for impaired loans.

- The Firm failed to evaluate, beyond inquiring of management, the reasonableness of certain important assumptions the issuer used to calculate the general reserve component of the ALL.
- The Firm failed to perform sufficient procedures to test interest income. The Firm's procedures to test interest income throughout the year consisted of analytical procedures; however, due to deficiencies in these procedures, they provided little to no substantive assurance. Specifically, for certain analytical procedures, the Firm failed to develop expectations, and for others, it failed to develop appropriate expectations, as its expectations were merely directional in nature based on the prior year results. In addition, the Firm failed to obtain corroboration of management's explanations for certain differences between the current year's results and the prior year's results in excess of its established threshold.
- The Firm failed to perform sufficient procedures to substantively test loans receivable. The Firm performed confirmation procedures for all loans over a monetary threshold. This population represented approximately one quarter of the balance of loans receivable. The Firm's procedures to test the existence of the remaining loans receivable consisted of the analytical procedures described above, which provided little to no substantive assurance.

A.3. Issuer C

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. The Firm's failures related to control and substantive testing with respect to loans receivable, the ALL, and interest income.

- With respect to control testing –

- The Firm inappropriately inferred from the results of its substantive procedures the operating effectiveness of certain controls over processing loan payments and performing loan reviews, without directly testing those controls.
- The Firm's procedures to test an important control over the identification and assessment of impaired loans were limited to inquiring of management, and the Firm failed to test any controls over the completeness of the list of impaired loans used in the control.
- The Firm failed to test any controls over the accuracy of the data contained in certain reports used in the ALL calculation.
- The Firm failed to test any controls over whether all loans that met the issuer's criteria for being charged off were charged off.
- The Firm failed to sufficiently identify and test controls over the calculation of interest income, as its testing was limited to controls over the origination of loans and the identification of, and accounting for, problem loans.
- The Firm failed to perform sufficient substantive procedures to test interest income. The Firm's approach for testing interest income consisted of analytical procedures; however, due to deficiencies in these procedures, they provided little to no substantive assurance. Specifically, the Firm failed to develop appropriate expectations, because its expectations were merely directional in nature. The Firm investigated changes in monthly yields that exceeded a percentage threshold. The Firm's established threshold, however, allowed for the possibility that a combination of uninvestigated misstatements could aggregate to an unacceptable amount. The Firm also planned to investigate changes that were inconsistent with its directional expectation, but failed to do so.
- The Firm failed to perform sufficient procedures to substantively test the ALL. Specifically –

- The Firm failed to test the data provided by the issuer and failed to obtain an understanding of the assumptions that the issuer's appraisers used to estimate the value of real estate that served as collateral for impaired loans.
- The Firm failed to evaluate the reasonableness of certain important assumptions the issuer used in the ALL calculation related to loan payment delinquencies and loans charged off.
- The Firm failed to test the completeness and accuracy of certain reports used in the calculation of the ALL.
- The Firm failed to subject to testing loans representing approximately 55 percent of the impaired loans balance.
- The Firm failed to perform sufficient procedures to substantively test the existence of loans receivable. The Firm selected loans for confirmation from a population of loans that each exceeded a monetary threshold. The population of loans from which the Firm selected its sample represented approximately 35 percent of total loans receivable. The Firm did not perform any procedures on the remaining loans receivable.

A.4. Issuer D

In this audit, 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 sufficiently test certain important controls over the existence of loans and leases receivable and the valuation of the ALL, because it focused its testing on observing evidence of management's approval, without testing 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. Further, the Firm failed to assess whether certain findings identified by the issuer's loan-review specialist, such as appraisal issues, inadequate file documentation, and exceptions from the issuer's policies, were indicative of potential control deficiencies.

- The Firm failed to perform sufficient procedures to test the ALL. Specifically –
 - The Firm failed to evaluate the reasonableness of certain assumptions underlying the issuer's calculation of the general reserve.
 - The Firm used the work of the issuer's external loan-review specialists. The Firm, however, failed to evaluate the competence and objectivity of the specialists who performed the loan reviews, other than by considering the Firm's experience with the specialists in prior years. In addition, the Firm failed to evaluate whether certain loans should have been considered for potential impairment based on the findings of the specialist that are describe above.
 - The Firm failed to obtain an understanding of the methods and assumptions that the issuer's appraisers used to value real estate that served as collateral for impaired loans. In addition, the Firm failed to evaluate the reasonableness of adjustments that the issuer made to the appraised collateral values.
- The Firm failed to perform sufficient procedures to substantively test loans and leases receivable. The Firm selected for confirmation all loans over a monetary threshold. This population represented less than 10 percent of loans and leases receivable. The Firm's procedures to test the existence of the remaining loans and leases receivable consisted of analytical procedures; however, due to deficiencies in these procedures, they provided little to no substantive assurance. Specifically, the Firm established thresholds that would not have identified for investigation individual differences that exceeded the Firms established level of materiality.

A.5. Issuer E

In this audit, 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 sufficiently test controls over revenue and the ALL. Specifically, the Firm failed to –
 - Test any controls over the model and underlying assumptions that the issuer used to forecast future collections on loans in order to calculate revenue and the ALL;
 - Sufficiently test an important control over the accuracy of the data, including loan-system data, used in the model, because it failed to test a majority of the issuer's procedures performed as part of the control;
 - Test any controls that addressed whether loan information was accurately entered into the issuer's loan system;
 - Determine whether a review control that it tested was operating at a level of precision that would prevent or detect material misstatements; and
 - Test controls over the completeness and accuracy of a report used in an important control to identify departures from standard loan pricing.
- The Firm failed to perform sufficient procedures to substantively test revenue and the ALL. Specifically, the Firm failed to sufficiently evaluate the appropriateness of the model and reasonableness of the underlying assumptions the issuer used to calculate the ALL and revenue. The Firm limited its procedures to testing the mathematical accuracy of the model and performing analytical procedures.
 - The analytical procedures, however, provided little to no substantive assurance due to deficiencies in the procedures. Specifically, the Firm failed to develop its expectations at an appropriate level of precision because the Firm's expectations were merely directional in nature, and the Firm failed to establish thresholds for identifying differences for further testing. In addition, the Firm failed to obtain corroboration of management's explanations for certain trends that the Firm investigated.

- The Firm's testing of the mathematical accuracy of the model was as of an interim date, and it failed to perform procedures, beyond inquiring of management, to extend its conclusions to the balance sheet date.
- The Firm's primary substantive procedures to test the majority of the loans receivable consisted of testing disbursements and collections. The Firm, however, performed its testing of selected disbursements and collections at a summarized level, rather than at an individual account level, and therefore this procedure provided little evidence regarding the existence of individual loans receivable.

A.6. Issuer F

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 identify and test any controls over the valuation of revenue, other than a review control that did not operate at a level of precision to prevent or detect material misstatements.
- The Firm failed to sufficiently test an important automated control over the occurrence of revenue. Specifically, the Firm failed to test the configuration of the issuer's billing systems in order to support its approach of testing the control's operation by testing only two occurrences at two locations. In addition, the Firm tested only that the control would process an appropriate transaction, and not that it would reject an exception. Further, the Firm failed to test the issuer's process for resolving exceptions identified by the control.
- The Firm failed to sufficiently test controls over the existence of inventory. Specifically, the Firm failed to test whether the issuer's inventory system was configured to select for counting each of the issuer's inventory items in accordance with the issuer's cycle-count policy. In addition, the Firm failed to test the completeness and accuracy of a report used in a cycle-count review control. Further, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had

tested the issuer's control related to determining whether the cycle counts achieved the level of accuracy the issuer required in order not to perform full inventory counts.

- The Firm failed to perform sufficient procedures to test revenue and cost of sales. Specifically –
 - The Firm's approach for testing revenue and cost of sales throughout the period consisted of analytical procedures; however, due to deficiencies in these procedures, they provided little to no substantive assurance. Specifically, the analytical procedures consisted of comparing the current year's amounts to the prior year's amounts, but the Firm did not establish that the prior year's amounts could be expected to be predictive of the current year's amounts. Further, when establishing thresholds for investigating significant differences identified in certain analytical procedures, the Firm failed to consider the possibility that a combination of misstatements below the threshold could aggregate to an unacceptable amount. In addition, for certain other analytical procedures, the Firm established a threshold at a level that could have resulted in the Firm not investigating individual differences that exceeded its established level of materiality.
 - The Firm failed to sufficiently test revenue and cost of sales for a significant segment of the issuer. While the Firm performed certain high-level analytical procedures related to this segment, these procedures provided no substantive assurance, as they consisted of simply comparing quarterly amounts to annual amounts and to the same quarter for the prior year.
- The Firm failed to sufficiently test the existence of accounts receivable. The Firm selected customer accounts for confirmation that each exceeded a certain monetary threshold, and one customer account that had a significant balance that was below the threshold with invoices more than 90 days past due. The Firm tested only two invoices from each of these customer accounts; this approach resulted in the Firm testing only approximately five percent of the accounts receivable balance. The Firm did not perform any procedures on the remaining accounts receivable.

A.7. Issuer G

In this audit, 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. Specifically –

- The Firm failed to sufficiently test an important review control over the issuer's accounting for assets acquired and liabilities assumed in business combinations. Specifically, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had assessed the nature and extent of the review procedures that management performed in order to determine whether the control was operating at a level of precision that would prevent or detect errors or fraud that could result in a material misstatement.
- Regarding revenue, the Firm tested one control over the completeness of billings; however, that control did not operate at a level of precision that would prevent or detect errors or fraud that could result in a material misstatement.
- The Firm failed to perform sufficient procedures to substantively test revenue. The Firm performed various tests of revenue at or near year end (such as confirming accounts receivable, testing accrued revenue, and testing the timing of revenue recognition at year end). The Firm's only tests of revenue throughout the year consisted of analytical procedures; however, due to deficiencies in these procedures, they provided little to no substantive assurance. Specifically –
 - For certain analytical procedures, which consisted of comparing the current month's revenue to the prior month's unaudited revenue, the Firm failed to establish that the prior month's revenue would be predictive of the current month's revenue. For certain other analytical procedures, the Firm established expectations that were merely directional in nature.
 - For certain analytical procedures, the Firm failed to establish thresholds for investigating differences from its expectations. In addition, for certain other analytical procedures, the Firm

established thresholds for investigating significant differences that would allow a combination of uninvestigated differences to aggregate to an unacceptable amount. The uninvestigated differences identified in these procedures totaled an amount that was more than eight times the Firm's established materiality level.

- The Firm failed to perform procedures to obtain corroboration of explanations provided by management for certain differences in excess of the established thresholds.
- The Firm failed to perform sufficient procedures to test accounts receivable. The Firm calculated its sample size for confirming accounts receivable based on reliance on controls. The issuer, however, had identified a deficiency in an important control that the Firm relied on, but for which compensating controls were not identified and tested. As the Firm therefore lacked an appropriate basis for its reliance on controls, the sample size was insufficient. In addition, the Firm failed to perform sufficient procedures to extend to the balance sheet date its conclusion on accounts receivable from its interim testing. Specifically, the Firm failed to test the completeness and accuracy of the reports it used in its roll-forward procedures.
- The Firm failed to perform sufficient procedures related to the evaluation of goodwill for possible impairment. Specifically –
 - The Firm failed to test any controls over the issuer's goodwill impairment analysis, including controls over the issuer's process for developing its cash flow projections used in that analysis, as well as in the valuation of certain acquired intangible assets.
 - The Firm failed to evaluate the reasonableness of certain assumptions the issuer used in its goodwill impairment analysis.

A.8. Issuer H

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 issuer used an external service organization to service the enrollment of customers and to process transactions related to those customers, and data received from that service organization formed the basis for the issuer's recording of the majority of its revenue and accounts receivable, certain expenses, and the incurred-but-not-recorded ("IBNR") liability. The Firm failed to sufficiently test controls related to these accounts, as it failed to test the majority of the necessary user controls that the service auditor identified in its report on controls at the service organization.
- The Firm failed to perform sufficient procedures to substantively test revenue, certain receivables, certain medical claims expenses, and the IBNR liability. The Firm used data received from the service organization in its testing of these accounts but, due to the deficiency described above, it did not have a basis to rely on controls over the completeness and accuracy of those data, and it did not test the completeness and accuracy of the data it used.
- The Firm failed to identify and test any controls over the valuation of the issuer's investment securities. The Firm relied on controls at a service organization with respect to that assertion; the service auditor's report, however, excluded controls over the valuation of securities from its scope.

A.9. Issuer I

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 –

- A member of the issuer's audit committee had a regulatory disciplinary history based on misconduct related to financial reporting. There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had considered the effect of this on its assessment of the issuer's control environment.
- The Firm failed to evaluate the magnitude of the potential misstatement from identified control deficiencies related to the issuer's process for recording disposals of property and equipment. The Firm's conclusion was based on known errors identified in its testing, and the Firm failed to

include an evaluation of potential errors. In addition, the Firm failed to obtain evidence that a compensating control it had identified would have mitigated this deficiency.

- The Firm identified a risk related to the existence of property and equipment, but failed to perform sufficient substantive procedures to test for unrecorded disposals. Specifically, the Firm selected assets for testing, but its procedures to test these assets were limited to inquiry.

A.10. Issuer J

In this audit, the Firm failed to perform sufficient procedures to test revenue and goodwill. Specifically –

- The Firm did not rely on controls when testing revenue. The Firm performed various tests of revenue at or near year end (such as confirmations of accounts receivable, tests of larger sales transactions near year end, sales cut-off testing, and testing sales reserves). The Firm's only tests of revenue throughout the year were analytical procedures; however, due to deficiencies in these procedures, they provided little to no substantive assurance. Specifically –
 - The Firm failed to develop appropriate expectations, because certain of its expectations were based on unaudited revenue data from the same period the Firm was testing, and other expectations were that the amounts would be consistent with those for prior periods, without a rationale as to why those prior-period amounts could be expected to be predictive of current-period amounts.
 - For certain analytical procedures, when establishing thresholds for investigating significant differences, the Firm failed to take into account the possibility that a combination of misstatements below the threshold could aggregate to an unacceptable amount. The uninvestigated differences identified in these procedures totaled to an amount that was three times the Firm's established materiality level.

- For certain other analytical procedures, the Firm established a threshold that could have resulted in the Firm not investigating individual differences that exceed its established level of materiality.
- The Firm failed to perform procedures to investigate certain differences in excess of its established threshold.
- The Firm's procedures to test certain other differences in excess of its established threshold were not sufficient, as the Firm tested only a portion of the difference.
- The Firm failed to sufficiently test the revenue projections that the issuer used in its goodwill impairment analysis for a reporting unit that had been acquired in the preceding year. The issuer projected revenue growth for each of the next five years, despite that revenue for the reporting unit had generally declined since the acquisition date. The Firm, however, limited its testing of the projections for years two through five to reviewing management's memorandum describing the underlying assumptions, inquiring of management, and obtaining general external reports about the issuer's industry and industry growth prospects.

A.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 failed to perform sufficient procedures to test the issuer's analysis of the possible impairment of certain intangible assets. The Firm agreed with the issuer's conclusion that no indicators of impairment were present; however, it failed to evaluate whether declines in projected revenue, actual revenue that was lower than had been projected, or delays in product development were potential indicators of impairment.
- The Firm failed to perform sufficient procedures to test the issuer's accruals for sales returns and other sales adjustments. Specifically, the Firm failed to sufficiently test the accuracy and/or completeness of certain data the issuer used to calculate certain of the accruals, in that the Firm limited its procedures to comparing the data to (a) customer reports that

the Firm had obtained from the issuer or (b) the general ledger, without having a basis for relying on the relevant data in the general ledger. In addition, the Firm failed to sufficiently test the completeness of one of the issuer's sales-related accruals. Specifically, the only procedure directed at this assertion consisted of testing payments made after the year end but, when executing this procedure, the Firm did not identify and test any payments related to this accrual. Further, the Firm failed to test the assumption regarding expected returns that the issuer used to calculate one of these accruals, beyond inquiring of management and reading certain issuer-prepared memoranda.

- The Firm failed to perform sufficient procedures to test the issuer's analysis of the possible impairment of goodwill. The issuer used a discounted cash flow model as an important part of its fair value measurement of its single reporting unit; the Firm, however, failed to evaluate the reasonableness of several significant assumptions used in the model. In addition, the Firm failed to evaluate whether the difference between the value calculated using the discounted cash flow method and the issuer's market capitalization indicated that additional procedures were required.

A.12. Issuer L

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its opinion on the financial statements. The Firm's failures related to testing revenue from, and the existence and potential impairment of, purchased accounts receivable. Specifically –

- The Firm failed to perform any substantive procedures to test the existence of the purchased accounts receivable.
- The revenue from the purchased accounts receivable that the issuer recorded, and the valuation of those accounts, depended on the amount and timing of projected cash flows from the accounts and the resulting yield associated with those projections. The Firm failed to sufficiently test the assumptions and data underlying the projected cash flows. Specifically –

- The Firm failed to test whether the individual accounts receivable that the issuer had aggregated for the purpose of its analysis of the revenue from, and possible impairment of, the accounts receivable had similar risk characteristics, even though the various types of accounts receivable the issuer owned had different historical and expected collection patterns and the accounts were in varying stages of delinquency.
- The Firm failed to sufficiently test the accuracy and completeness of the historical cash collection data the issuer used in its projections. Specifically, the Firm limited its testing of the accuracy of the historical cash collection data to one pool of accounts receivable for one month.

A.13. Issuer M

In this audit, the Firm failed to sufficiently evaluate the reasonableness of the significant assumptions the issuer used in its analysis of the potential impairment of certain properties. Specifically, the Firm limited its evaluation of one assumption to inquiry of management. The Firm evaluated other assumptions underlying the issuer's cash-flow projections by comparing the assumptions used in the projections developed in the current year to the assumptions used in the projections for the same periods that had been developed in the prior year. While the Firm used certain actual results from the current year (which were lower than had been projected in the prior year) to form an expectation about how the issuer's projections would change from the prior year to the current year, it did not use actual results to assess the issuer's ability to make projections, nor did it otherwise assess the reasonableness of the issuer's projected growth rates.

A.14. Deficiencies in Testing the Fair Value Measurements and Disclosures of Financial Instruments Without Readily Determinable Fair Values

In three audits,^{10/} due to deficiencies in testing the fair value measurements of, and/or the disclosures related to, hard-to-value financial instruments, including asset-backed securities, collateralized mortgage obligations, other mortgage-backed

^{10/} Issuers B, N, and O

securities, and derivative collars, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions. The deficiencies are as follows –

- In each of these audits, 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 two of the audits,^{11/} 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. In one of these two audits,^{12/} the Firm based its concurrence with the issuer's classification of certain hard-to-value financial instruments as level 2 on the uncorroborated results of inquiries with management, even though the Firm's pricing service had indicated the financial instruments were valued using unobservable inputs.

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 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

^{11/} Issuers B and N

^{12/} Issuer B

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, 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 2011 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 2011 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.

2.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.

2.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.

2.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.

2.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.

2.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

2.e.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.

2.e.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.

2.e.iii. Review of Certain Other Policies and Procedures Related to Monitoring Audit Quality

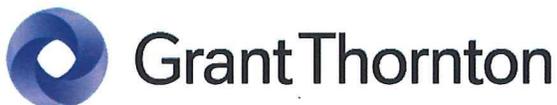
The inspection team assessed policies, procedures, and guidance related to aspects of the firm's independence requirements and its consultation processes and the firm's compliance with them. In addition, the inspection team reviewed documents, including certain newly issued policies and procedures, and 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.^{13/}

^{13/} 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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December 6, 2012

Re: Response to Part I of the Draft Report on the 2011 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 2011 Inspection of Grant Thornton LLP (the "Report"). We support the PCAOB's mission to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports. We share these goals and support the PCAOB's inspection process as an important role in improving audit quality, serving investors and safeguarding the public interest. 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