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Report on

2014 Inspection of Grant Thornton LLP
(Headquartered in Chicago, Illinois)

Issued by the

Public Company Accounting Oversight Board

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THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

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FROM THIS DOCUMENT IN ORDER TO COMPLY WITH
SECTIONS 104(g)(2) AND 105(b)(5)(A)
OF THE SARBANES-OXLEY ACT OF 2002**

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2014 INSPECTION OF GRANT THORNTON LLP

Preface

In 2014, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Grant Thornton LLP ("the Firm") pursuant to the Sarbanes-Oxley Act of 2002 ("the Act").

Inspections are designed and performed to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to auditing issuers. For a description of the procedures the Board's inspectors may perform to fulfill this responsibility, see Part I.D of this report (which also contains additional information concerning PCAOB inspections generally). The inspection included reviews of portions of selected issuer audits. These reviews were intended to identify whether deficiencies existed in the reviewed work, and whether such deficiencies indicated defects or potential defects in the Firm's system of quality control over audits. In addition, the inspection included a review of policies and procedures related to certain quality control processes of the Firm that could be expected to affect audit quality.

The Board is issuing this report in accordance with the requirements of the Act. The Board is releasing to the public Part I of the report, portions of Appendix B, and Appendix C. Appendix B consists of the Firm's comments, if any, on a draft of the report. If the nonpublic portions of the report discuss criticisms of or potential defects in the Firm's system of quality control, those discussions also could eventually be made public, but only to the extent the Firm fails to address the criticisms to the Board's satisfaction within 12 months of the issuance of the report. Appendix C presents the text of the paragraphs of the auditing standards that are referenced in Part I.A in relation to the description of auditing deficiencies there.

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's staff ("the inspection team") conducted primary procedures¹ for the inspection from July 2014 to July 2015. The inspection team performed field work at the Firm's National Office and at 20 of its approximately 57 U.S. practice offices.

A. Review of Audit Engagements

The inspection procedures included reviews of portions of 34 issuer audits performed by the Firm. The inspection team identified matters that it considered to be deficiencies in the performance of the work it reviewed.

The descriptions of the deficiencies in Part I.A of this report include, at the end of the description of each deficiency, references to specific paragraphs of the auditing standards that relate to those deficiencies. The text of those paragraphs is set forth in Appendix C to this report. The references in this sub-Part include only standards that primarily relate to the deficiencies; they do not present a comprehensive list of every auditing standard that applies to the deficiencies. Further, certain broadly applicable aspects of the auditing standards that may be relevant to a deficiency, such as provisions requiring due professional care, including the exercise of professional skepticism; the accumulation of sufficient appropriate audit evidence; and the performance of procedures that address risks, are not included in the references to the auditing standards in this sub-Part, unless the lack of compliance with these standards is the primary reason for the deficiency. These broadly applicable provisions are described in Part I.B of this report.

¹ For this purpose, the time span for "primary procedures" includes field work, other review of audit work papers, and the evaluation of the Firm's quality control policies and procedures through review of documentation and interviews of Firm personnel. The time span does not include (1) inspection planning, which may commence months before the primary procedures, and (2) inspection follow-up procedures, wrap-up, analysis of results, and the preparation of the inspection report, which generally extend beyond the primary procedures.

Certain of the deficiencies identified were of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion that the financial statements were presented fairly, in all material respects, in accordance with the applicable financial reporting framework and/or its opinion about whether the issuer had maintained, in all material respects, effective internal control over financial reporting ("ICFR"). In other words, in these audits, the auditor issued an opinion without satisfying its fundamental obligation to obtain reasonable assurance about whether the financial statements were free of material misstatement and/or the issuer maintained effective ICFR.

The fact that one or more deficiencies in an audit reach this level of significance does not necessarily indicate that the financial statements are misstated or that there are undisclosed material weaknesses in ICFR. It is often not possible for the inspection team, based only on the information available from the auditor, to reach a conclusion on those points.

Whether or not associated with a disclosed financial reporting misstatement, an auditor's failure to obtain the reasonable assurance that the auditor is required to obtain is a serious matter. It is a failure to accomplish the essential purpose of the audit, and it means that, based on the audit work performed, the audit opinion should not have been issued.²

² Inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Depending upon the circumstances, compliance with PCAOB 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 its previously expressed audit opinions. The Board expects that firms will comply with these standards, and an inspection may include a review of the adequacy of a firm's compliance with these requirements, either with respect to previously identified deficiencies or deficiencies identified during that inspection. 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.

The audit deficiencies that reached this level of significance are described in Part I.A.1 through I.A.12, below.

Effects on Audit Opinions

Of the issuer audits that appear in Part I.A, deficiencies in seven audits relate to testing controls for purposes of the ICFR opinion, and deficiencies in ten audits relate to the substantive testing performed for purposes of the opinion on the financial statements, as noted in the table below.³ Of the audits in which substantive testing deficiencies were identified, one audit included a deficiency in substantive testing that the inspection team determined was caused by a reliance on controls that was too high in light of deficiencies in the testing of controls.

	Number of Audits
Deficiencies included in Part I.A related to both the financial statement audit and the ICFR audit	6
Deficiencies included in Part I.A related to the financial statement audit only	4
Deficiencies included in Part I.A related to the ICFR audit only	1
Total	11

Most Frequently Identified Audit Deficiencies

The following table⁴ lists, in summary form, the types of deficiencies that are included most frequently in Part I.A of this report. A general description of each type is provided in the table; the description of each deficiency in Part I.A contains more specific information about the individual deficiency. The table includes only four of the most frequently identified deficiencies that are in Part I.A of this report and is not a summary of all deficiencies in Part I.A.

³ For important information concerning this table, see Part I A.12.

⁴ For important information concerning this table, see Part I A.12.

Issue	Part I.A Audits
Failure to sufficiently test the design and/or operating effectiveness of controls that the Firm selected for testing.	<u>6 Audits:</u> A, B, D, F, H, and J
Failure to perform sufficient testing related to an account or significant portion of an account or to address an identified risk.	<u>5 Audits:</u> B, C, D, E, and I
Failure to identify and test any controls that addressed the risks related to a particular account or assertion.	<u>5 Audits:</u> A, B, D, E, and H
Failure to sufficiently evaluate whether the financial statements were presented in conformity with generally accepted accounting principles ("GAAP").	<u>4 Audits:</u> C, E, F, and G

Audit Deficiencies

A.1. Issuer A

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

- The issuer's non-performing loans, and other loans that the issuer had determined were at higher risk of default, had decreased significantly from the prior year. As a result, the amount of the allowance for loan losses ("ALL") that was based on these and other historical factors had also decreased significantly during the year. The amount of the ALL related to qualitative factors, however, had increased significantly from the prior year. The Firm failed to perform sufficient procedures related to the ALL. Specifically –

- The Firm failed to perform sufficient procedures to test three controls over the ALL that it selected. These controls consisted of (1) a management committee's review of reports used in the ALL calculation, (2) the Chief Financial Officer's ("CFO") review of the ALL calculation, and (3) the issuer's Board of Director's review and approval of the ALL calculation. The Firm's procedures to test these controls were limited to (1) inquiring of certain of the control owners and (2) obtaining minutes of meetings and noting that the minutes had been approved. In addition, the Firm obtained a memorandum prepared by the CFO that described the methodology used in determining the ALL and the results of the application of that methodology. For each of the three controls, however, the Firm failed to ascertain and evaluate the nature of the review procedures that the control owners performed to assess the reasonableness of the ALL, including the criteria used by the control owners to identify matters for follow up and whether those matters were appropriately resolved. As a result, the Firm failed to determine whether the controls operated at a level of precision that would prevent or detect material misstatements. In addition, the Firm failed to identify and test any controls over the accuracy and completeness of certain reports used in the operation of the controls described above. (AS No. 5, paragraphs 39, 42, and 44)
- The Firm failed to perform sufficient procedures to evaluate the reasonableness of the qualitative factors that the issuer used in calculating the ALL. Specifically, the Firm's procedures were limited to reading the issuer's memorandum that described its considerations regarding the individual qualitative factors, comparing certain data to external sources, and noting that management's conclusions appeared reasonable. The Firm failed to evaluate how the information considered by the issuer resulted in the qualitative factors used to determine the ALL. In addition, in assessing the reasonableness of the increase in the qualitative portion of the ALL from the prior-year amount, the Firm failed to take into account the recent improvements in certain economic and environmental trends that it observed and the decrease in the portion of the ALL that was calculated based on historical losses. (AU 342, paragraph .11)

- The Firm failed to test the accuracy and completeness of the historical charge-off data that the issuer used in developing the historical loss factor assumptions that were part of the issuer's calculation of the ALL. (AU 342, paragraph .11)
- The issuer used a service organization to service the majority of its loans. The Firm obtained a service auditor's report regarding controls at this service organization. The service auditor's report stated that the service organization used several sub-service organizations for the processing of various transactions and that the controls for the sub-service organizations were not addressed in the report. The Firm failed to obtain an understanding of whether any of the issuer's transactions were processed by the sub-service organizations and whether it was necessary to obtain an understanding of, or test, any relevant controls at the sub-service organizations. (AS No. 5, paragraphs B19 and B21)
- The Firm failed to sufficiently test controls over the valuation of available-for-sale securities, as follows –
 - For certain available-for-sale securities, the issuer used external valuation specialists to determine the fair value of the securities and to assess the securities for other-than-temporary impairment ("OTTI"). The Firm identified and selected for testing two controls, both of which consisted of the CFO's review of the valuation of these securities by the external specialists. The Firm's procedures to test these controls consisted of inquiring of the CFO and inspecting the reports prepared by the specialists, noting sign-offs as evidence of review by the CFO. In addition, the Firm stated that its reviews of the OTTI analysis were dual-purpose in nature and that these tests provided evidence of the effectiveness of these controls. The Firm, however, failed, through any of its procedures, to ascertain and evaluate the specific criteria used by the CFO to identify matters for follow up and whether such matters were appropriately resolved. As a result, the Firm failed to evaluate whether the controls operated at a level of precision that would

prevent or detect material misstatements. (AS No. 5, paragraphs 42 and 44)

- For certain other available-for-sale securities, the issuer determined the fair value by obtaining prices from a pricing service. The Firm selected a control for testing these securities that consisted of the issuer's preparation and review of an analysis of changes in the securities' values from month to month based on the prices it obtained from the pricing service. The Firm, however, failed to identify and test any controls that were designed to assess whether the issuer had obtained current prices for all of the securities subject to this control, rather than using a price that the issuer had obtained in a prior month. (AS No. 5, paragraph 39)

A.2. Issuer B

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

- The Firm's procedures related to the valuation of work-in-process ("WIP") and finished goods inventory were insufficient in the following respects –
 - The issuer allocated a significant amount of labor and overhead costs to the WIP and finished goods inventory during the year. The Firm failed to identify and test any controls over the accumulation of labor and certain overhead costs allocable to inventory, including any controls over the calculation of the idle capacity charges that were removed from those allocable costs. (AS No. 5, paragraph 39)
 - The Firm selected for testing a control consisting of the review of the monthly calculation of the accumulated costs allocated to each unit of WIP and finished goods inventory. The Firm's procedures to test this control were insufficient, as they were limited to (1) inquiring of management, (2) observing signatures as evidence that the review had occurred, (3) reading certain documents used in the performance of the control, and (4) comparing certain information used in the performance of the control to supporting documents.

The Firm's testing did not include (1) ascertaining the nature of the review procedures that the control owner performed or (2) ascertaining and evaluating the criteria used by the control owner to identify matters for investigation and whether those matters were appropriately investigated and resolved. As a result, the Firm failed to evaluate whether the control operated at a level of precision that would prevent or detect material misstatements. In addition, the Firm failed to identify and test any controls over the accuracy and completeness of certain data the issuer used in the operation of this control. (AS No. 5, paragraphs 39, 42, and 44)

- The Firm's substantive testing of the issuer's calculation of labor and overhead costs that were capitalized to inventory, including the calculation of idle capacity charges that the issuer subtracted from the amounts to be capitalized, was insufficient. Specifically –
 - For one important input that was used both in the issuer's calculation of labor and overhead costs that were capitalized to inventory and the calculation of the idle capacity charges, the Firm's procedures were limited to comparing the input to a report; however, the Firm had not tested the accuracy of this report as it related to this input. (AS No. 15, paragraph 10)
 - The Firm's procedures to test another important input to the issuer's calculation of the idle capacity charges were limited to testing only one month. (AS No. 15, paragraph 10)
- The Firm identified an impairment indicator related to property and equipment. The Firm's procedures related to the possible impairment of property and equipment were insufficient. Specifically –
 - The Firm failed to test any controls over the issuer's process for assessing property and equipment for possible impairment. (AS No. 5, paragraph 39)
 - The Firm failed to perform any procedures to evaluate the reasonableness of two important assumptions used in the issuer's

analysis to support the issuer's conclusion that there were no events or circumstances that would require an assessment of property and equipment for possible impairment. (AU 342, paragraph .11)

A.3. Issuer C

In this audit of an investment company, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements –

- For certain available-for-sale securities, the issuer recorded significant unrealized losses at year end in other comprehensive income because it considered the unrealized losses to be temporary. The Firm failed to perform sufficient procedures to assess whether any of the unrealized losses at year end were other-than-temporary. Specifically, the Firm failed to perform any procedures, beyond obtaining a representation from management that no events with respect to such securities that would indicate an other-than-temporary impairment had occurred, to evaluate management's assertion that it intended to hold these securities until recovery or maturity. Moreover, the Firm was aware that the issuer sold one of these securities shortly after year end at a loss that totaled approximately 28 times the Firm's established materiality level, and the Firm did not evaluate the relationship between this sale and management's assertion. (AS No. 13, paragraph 8; AS No. 14, paragraph 3)
- The Firm failed to perform sufficient procedures to test whether the issuer was the primary beneficiary with respect to any of its investments in variable interest entities ("VIEs"). The Firm's evaluation was limited to considering that the issuer's practice with respect to these investments was generally to purchase the more senior tranches of securities. The Firm failed to consider other relevant factors, described in Accounting Standards Codification 810-10-25-38 through 25-41, in assessing whether the issuer was the primary beneficiary of the VIEs. (AS No. 14, paragraph 30)

A.4. Issuer D

In this audit, the Firm failed in the respects described below to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR. In addition, see the deficiency described in Part I.A.12.

- The issuer recognized certain revenue, which totaled more than 70 times the Firm's established level of materiality, based on transactions that occurred at retail locations that were not operated by the issuer. Periodically, the issuer uploaded transaction data from these locations and used the transaction data to calculate and record revenue. The Firm's procedures to test controls over this category of revenue, for which the Firm had identified a fraud risk, were insufficient. Specifically –
 - Although the Firm performed testing of information technology general controls ("ITGCs"), certain automated application controls, and certain reconciliation controls, the Firm failed to identify and test any controls that were designed to address the risk that revenue was not calculated in accordance with the related contractual arrangements. While the Firm tested whether the issuer's system accurately calculated revenue from one transaction, it did not identify specific relevant controls evaluated through this test, nor did it test whether automated controls accurately calculated revenue from the various types of relevant revenue transactions. (AS No. 5, paragraph 39)
 - The Firm failed to sufficiently test the one control it selected that addressed the accuracy and completeness of the transaction data that the issuer obtained from the retail locations. The control consisted of field audits performed for a sample of locations. The Firm's procedures to test this control were limited to (1) obtaining the list of locations that were subjected to field audits during the year, (2) reading the documentation of the testing procedures performed by the control owners, and (3) assessing the competence and objectivity of the control owners. The Firm failed to ascertain the nature, extent, and timing of the field audit procedures and evaluate whether they were appropriate and sufficient to

identify misstatements that could be material. (AS No. 5, paragraphs 42 and 44)

- The Firm failed to perform sufficient substantive procedures to test the category of revenue discussed above. The Firm's primary substantive procedure related to this revenue consisted of selecting a sample of transactions and comparing the amount of recorded revenue to certain internal reports; however, the Firm failed to test the accuracy and completeness of the data and reports it used in this testing. The Firm also considered subsequent cash receipts for certain transactions at year end that represented a small portion of the revenue recognized during the year, and tested whether the system accurately reported and calculated revenue for one transaction; these procedures, however, addressed only a small portion of revenue in this category. (AS No. 13, paragraphs 8 and 13; AS No. 15, paragraph 10)
- The Firm failed to perform sufficient testing related to revenue from the issuer's foreign locations that, in the aggregate, presented a reasonable possibility of material misstatement. Specifically –
 - The Firm selected one control over this revenue. The Firm's testing of this control, which involved a monthly review of operating results by management, was not sufficient. The Firm's procedures were limited to (1) observing that management had documented explanations for certain variances between the current-period financial results and those of the prior period and budgeted amounts, and (2) noting whether management had reviewed and approved the analysis. The Firm, however, failed to evaluate whether the control operated at a level of precision that would prevent or detect material misstatements, in that it failed to evaluate the nature of the review procedures performed, the criteria used by the control owner to identify items for investigation, and whether those items were appropriately resolved. Further, the Firm failed to identify and test any controls over the accuracy and completeness of certain data used in the operation of this control. (AS No. 5, paragraphs 39, 42, 44, and B10)

- Based on a level of control reliance that was unsupported due to the deficiency described above, the Firm inappropriately limited its procedures related to this revenue to analytical procedures that were not designed to provide substantive assurance. (AS No. 13, paragraph 8)

A.5. Issuer E

In this audit, the Firm failed in the respects described below to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR. In addition, see the deficiency described in Part I.A.12. Some of the products sold by the issuer were included as components of products manufactured by certain of its customers. In certain situations, the issuer had a right to purchase, at specified prices, some of the products from these customers that incorporated the issuer's products as components. The issuer's policy was not to recognize revenue upon the sale of components that it intended to repurchase as part of products manufactured by the customer. The Firm identified improper accounting for contractual revenue arrangements as a fraud risk.

The Firm's control and substantive testing related to sales transactions with the issuer's customers noted above were insufficient, as follows –

- The Firm failed to identify and test any controls that would prevent or detect the recognition of revenue for shipments of products that the issuer intended to repurchase. (AS No. 5, paragraph 39)
- With respect to the sale of products that the issuer intended to repurchase, the Firm's substantive testing was not sufficient, as the Firm failed to determine whether all transactions within this category had been identified. (AS No. 13, paragraph 8)
- With respect to the sale of products that the issuer was uncertain whether it would repurchase, the issuer's accounting policy provided for revenue to be recognized generally at the time of shipment to the customers. There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had evaluated whether the issuer's analysis

considered whether all the requirements for revenue recognition had been met. (AS No. 14, paragraph 30)

A.6. Issuer F

In this audit, the Firm failed in the respects described below to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR. In addition, see the deficiency described in Part I.A.12.

- The Firm failed to evaluate whether the issuer had considered all the relevant factors necessary to determine whether the revenue recognition method the issuer used for a significant category of transactions, which the Firm identified as having multiple elements, was appropriate. Specifically, the Firm limited its procedures to inquiring of the issuer whether any changes were made to the revenue recognition policy during the year. (AS No. 14, paragraph 30)
- The Firm selected for testing a control that consisted of management's monthly reviews of financial and operational matters. The Firm indicated that this control was the means by which the issuer identified long-lived assets that needed to be tested for recoverability because events or changes in circumstances indicated that the carrying amount of the long-lived assets might not be recoverable. The Firm, however, failed to sufficiently test this control, as the Firm's procedures were limited to (1) attending two meetings that constituted part of the operation of the control, (2) inquiring of meeting participants, and (3) reading documents used in the operation of the control. There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had evaluated whether the review performed by the control owners was designed and operated effectively to identify the events or changes in circumstances described above. (AS No. 5, paragraph 42 and 44)

A.7. Issuer G

Revenue recognized under the percentage-of-completion ("POC") method of accounting represented the majority of the issuer's revenue. In applying the POC method of accounting, the issuer (1) excluded certain direct contract costs from the

POC calculation and (2) recognized a fixed percentage of the total revenue to be earned under the contract upon reaching a milestone that was not reflective of the actual progress towards completion of the contract. These accounting practices were inconsistent with GAAP. The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements –

- The Firm failed to identify, and evaluate the significance to the financial statements of, the departure from GAAP related to the practice of excluding certain direct costs. (AS No. 14, paragraph 30)
- The Firm failed to sufficiently evaluate the significance to the financial statements of the departure from GAAP related to the practice of recognizing a fixed percentage of the total revenue. In concluding that the resulting misstatement was not material, the Firm took into account only the amount of the misstatement in the current year's income statement, and failed to estimate and consider the amount of the misstatement in the issuer's year-end balance sheet resulting from this practice. In addition, in its evaluation of whether the uncorrected misstatements in the issuer's financial statements were material, individually or in combination with the other misstatements it identified, the Firm failed to include the amount it had estimated for this misstatement. (AS No. 14, paragraph 17)

A.8. Issuer H

In this audit, the Firm failed in the respects described below to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR. In addition, see the deficiency described in Part I.A.12. The Firm's procedures to test controls over certain significant categories of revenue were insufficient, as follows –

- The Firm selected for testing two controls over a significant category of revenue that consisted of (1) the monthly review of daily sales information to identify and investigate variances from calculated monthly averages and (2) the analysis of certain sales data to identify and evaluate unusual sales transactions. The Firm's procedures to test these controls, which consisted of inquiring of the control owners, obtaining certain schedules used as part of the operation of these controls, and inspecting documents

to determine whether the reviews had occurred and certain variances were investigated and resolved, were not sufficient. Specifically –

- For the first control, although the Firm understood the nature of the review procedures that were supposed to be performed, its testing did not address the specific criteria used by the control owners to identify matters for investigation, nor did it ascertain the review procedures actually performed. (AS No. 5, paragraphs 42 and 44)
- For the second control, the Firm failed to evaluate whether the criteria used by the control owners to identify matters for investigation could be expected to identify errors that could indicate potential material misstatements. (AS No. 5, paragraphs 42 and 44)
- For another significant category of revenue, the Firm selected for testing two controls that involved verifying that the contractual terms were accurately entered into the issuer's system. There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had performed procedures to determine that these controls, or any other control that the Firm tested, addressed whether delivery had occurred before revenue was recognized. (AS No. 5, paragraph 39)

A.9. Issuer I

In this audit of a retailer, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements, as its procedures to test the existence of inventory were insufficient. The issuer used an external service provider to perform physical inventory count procedures at each of its retail locations. The Firm's approach included relying on the counts performed by the service provider and, as a result, the Firm performed inventory observation procedures at only a small number of locations. The Firm, however, failed to perform sufficient procedures to rely on the counts performed by the service provider. Specifically, the Firm failed to obtain evidence about the service provider's count procedures at the remaining locations. In addition, for the locations where the Firm performed procedures, the Firm failed to determine whether the quantities observed agreed to the issuer's inventory records. (AU 331, paragraph .09)

A.10. Issuer J

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. During the year, the issuer completed a transaction in which it sold a significant portion of its long-lived assets and recognized a gain on the sale of only certain of these assets. The amount of the gain was based, in part, on the allocation of the sales proceeds to these assets. The sales proceeds were allocated to all the separate assets sold based on their relative fair values, and the issuer determined the relative fair values of the assets using a discounted cash-flow model that projected future cash flows to be generated from the assets. The Firm failed to perform sufficient procedures related to the sale of these assets. Specifically –

- The Firm identified and selected for testing three controls over the accounting for the sale of long-lived assets. The controls consisted of (1) the issuer's Board of Directors' ("BOD") review and approval of non-routine transactions, (2) management's performance of due diligence procedures on proposed non-routine transactions and the presentation of the results of these procedures to the BOD, and (3) management's review and approval of the sales price allocation. The Firm's procedures to test these controls consisted of reading minutes of the meetings of the BOD and noting written approval of the transaction as evidence of review, reading certain documents prepared in connection with the due diligence procedures, and inquiring of management. The Firm's testing related to the nature and extent of the procedures that the control owners performed to evaluate an important assumption included in the projected cash flows was limited to comparing the assumption to reports prepared by the issuer's internal specialists. As a result, the Firm failed to sufficiently evaluate whether the controls that it selected for testing were designed to provide the control owners with a sufficient understanding of the methodologies used by the internal specialists to develop this assumption. (AS No. 5, paragraphs 42 and 44)
- The Firm's substantive procedures to test the relative fair values of the assets sold, which were used to allocate the sales proceeds to the separate assets and in turn to calculate the gain on the sale of certain of these assets, were insufficient. Specifically, the Firm failed to obtain an

understanding of the methodology used by the issuer's internal specialists to develop the assumption used to estimate the projected future cash flows noted above. (AU 336, paragraph .12)

A.11. Issuer K

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements. In addition, see the deficiency described in Part I.A.12. The Firm's primary procedure to test accounts receivable balances consisted of testing a sample that was selected from the balances outstanding at year end. The Firm's sample size to test accounts receivable was too small to provide sufficient evidence because it did not appropriately consider tolerable misstatement for the population. (AU 350, paragraphs .16, .18, .18A, and .23)

A.12. Deficiencies Related to Substantive Testing of Revenue

In 11 audits, plus five additional audits included in Part 1.A above,⁵ due to deficiencies related to testing revenue, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements. In these audits, when determining the size of the sample to test certain revenue amounts, the Firm considered certain factors, but did not appropriately take into account tolerable misstatement for the population. The resulting sample was too small to provide sufficient evidence. (AU 350, paragraphs .16, .18, .18A, and .23)

The table on page 4 does not include the 11 audits for which the only deficiency relates to determining the sample sizes used to test revenue. The tables on pages 5 and 19 through 22 do not include the deficiencies related to sampling in either these or the five additional audits.

B. Auditing Standards

Each deficiency described in Part I.A above could relate to several provisions of the standards that govern the conduct of audits. The paragraphs of the standards that are cited for each deficiency are those that most directly relate to the deficiency. The

⁵ Issuers D, E, F, H, K, L, M, N, O, P, Q, R, S, T, U, and V

deficiencies also relate, however, to other paragraphs of those standards and to other auditing standards, including those concerning due professional care, responses to risk assessments, and audit evidence.

Many audit deficiencies involve a lack of due professional care. AU 230, *Due Professional Care in the Performance of Work*, paragraphs .02, .05, and .06, requires the independent auditor to plan and perform his or her work with due professional care and sets forth aspects of that requirement. AU 230, paragraphs .07 through .09, and AS No. 13, *The Auditor's Responses to the Risks of Material Misstatement*, paragraph 7, specify that due professional care requires the exercise of professional skepticism. These standards state that professional skepticism is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence.

AS No. 13, paragraphs 3, 5, and 8, requires the auditor to design and implement audit responses that address the risks of material misstatement. AS No. 15, *Audit Evidence*, paragraph 4, requires the auditor to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the audit opinion. Sufficiency is the measure of the quantity of audit evidence, and the quantity needed is affected by the risk of material misstatement (in the audit of financial statements) or the risk associated with the control (in the audit of ICFR) and the quality of the audit evidence obtained. The appropriateness of evidence is measured by its quality; to be appropriate, evidence must be both relevant and reliable in providing support for the related conclusions.

The paragraphs of the standards that are described immediately above are not cited in Part I.A, unless those paragraphs are the most directly related to the relevant deficiency.

B.1. List of Specific Auditing Standards Referenced in Part I.A

The table below lists the specific auditing standards that are referenced in Part I.A of this report, cross-referenced to the issuer audits for which each standard is cited.⁶ For each auditing standard, the table also provides the number of distinct deficiencies for which the standard is cited for each of the relevant issuer audits. This information

⁶ For important information concerning this table, see Part I A.12.

identifies only the number of times that the standard is referenced, regardless of whether the reference includes multiple paragraphs or relates to multiple financial statement accounts.

PCAOB Auditing Standards	Audits	Number of Deficiencies per Audit
<i>AS No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i>	Issuer A Issuer B Issuer D Issuer E Issuer F Issuer H Issuer J	4 3 3 1 1 3 1
<i>AS No. 13, The Auditor's Responses to the Risks of Material Misstatement</i>	Issuer C Issuer D Issuer E	1 2 1
<i>AS No. 14, Evaluating Audit Results</i>	Issuer C Issuer E Issuer F Issuer G	2 1 1 2
<i>AS No. 15, Audit Evidence</i>	Issuer B Issuer D	2 1
<i>AU 331, Inventories</i>	Issuer I	1
<i>AU 336, Using the Work of a Specialist</i>	Issuer J	1
<i>AU 342, Auditing Accounting Estimates</i>	Issuer A Issuer B	2 1
<i>AU 350, Audit Sampling</i>	Issuer K	1

B.2. Financial Statement Accounts or Auditing Areas Related to Identified Audit Deficiencies

The table below lists the financial statement accounts or auditing areas related to each deficiency included in Part I.A of this report and identifies the audits described in Part I.A where deficiencies relating to the respective areas were observed.⁷

	AS No. 5	AS No. 13	AS No. 14	AS No. 15	AU 331	AU 336	AU 342	AU 350
Inventory and related reserves	B			B	I			
Investment securities	A	C	C					
IT-related	D							
Loans, including ALL	A						A	
Long-lived assets, including amortization, depreciation, or depletion	B, F, J					J	B	
Revenue, including accounts receivable, deferred revenue, and allowances	D, E, H	D, E	E, F, G	D				K

B.3. Audit Deficiencies by Industry

The table below lists the industries⁸ of the issuers for which audit deficiencies were discussed in Part I.A of this report, along with the specific auditing standards related to the deficiencies and the number of issuer audits where those deficiencies

⁷ For important information concerning this table, see Part I A.12.

⁸ The majority of industry sector data is based on Global Industry Classification Standard ("GICS") data obtained from Standard & Poor's ("S&P"). In instances where GICS for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data.

were observed.⁹ Because an issuer audit may have deficiencies that relate to more than one standard, the total for each row should not be read as the total number of issuers.¹⁰

	AS No. 5	AS No. 13	AS No. 14	AS No. 15	AU 331	AU 336	AU 342	AU 350
Consumer Discretionary	1	1		1	1			1
Energy	2					1		
Financial Services	1	1	1				1	
Health Care	1	1	1					
Industrials			1					
Information Technology	1			1			1	
Materials	1		1					

C. Data Related to the Issuer Audits Selected for Inspection¹¹

C.1. Industries of Issuers Inspected

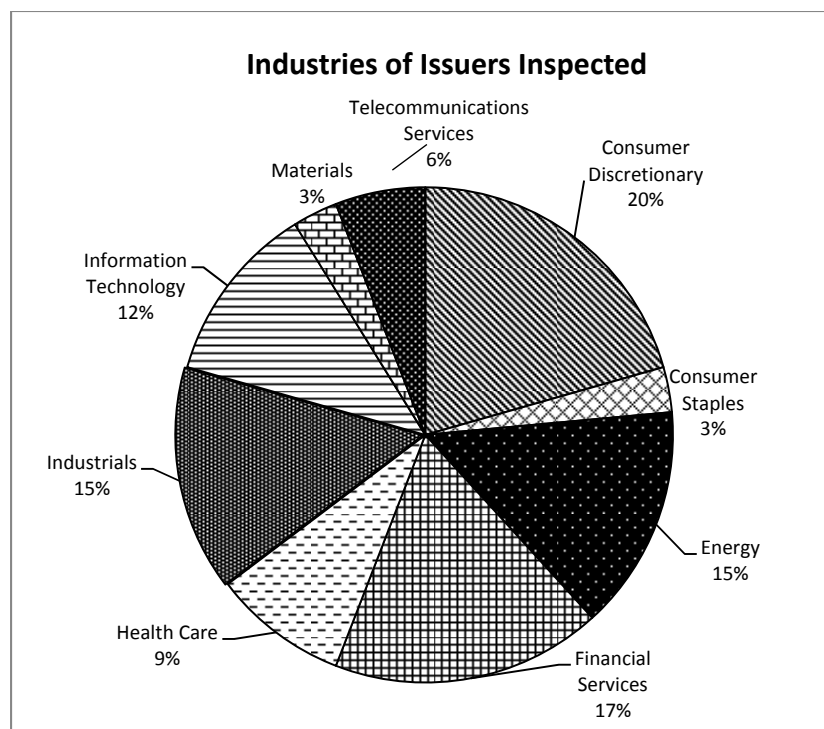
The chart below categorizes the 34 issuers whose audits were inspected in 2014, based on the issuer's industry.¹²

⁹ Where identifying the industry of the issuer may enhance the understanding of the description of a deficiency in Part I.A, industry information is also provided there, unless doing so would have the effect of making the issuer identifiable.

¹⁰ For important information concerning this table, see Part I A.12.

¹¹ As discussed above, the inspection process included reviews of portions of 34 selected issuer audits completed by the Firm.

¹² See Footnote 8 for additional information on how industry sectors were classified.

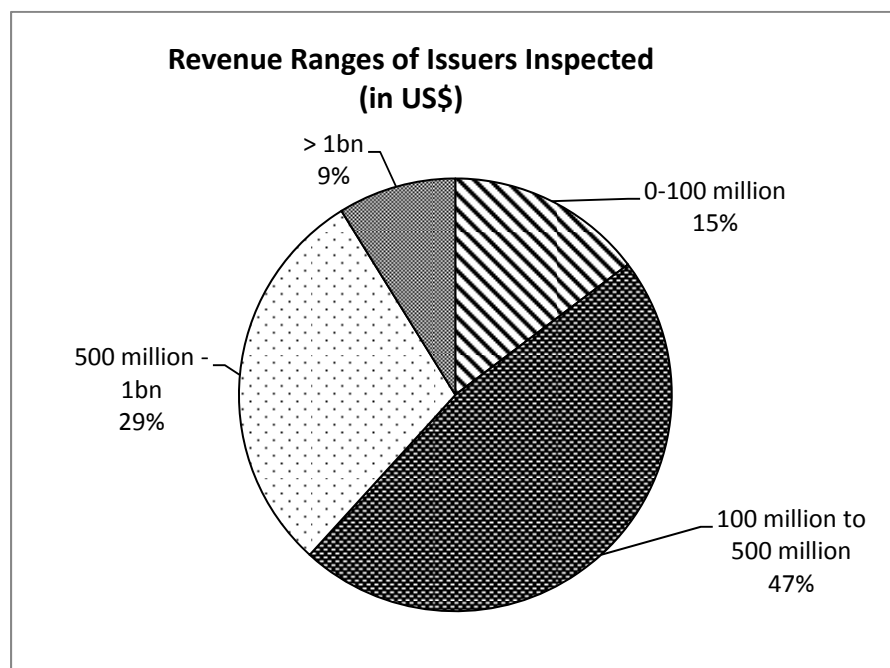


Industry	Number of Audits Inspected	Percentage
Consumer Discretionary	7	20%
Consumer Staples	1	3%
Energy	5	15%
Financial Services	6	17%
Health Care	3	9%
Industrials	5	15%
Information Technology	4	12%
Materials	1	3%
Telecommunications Services	2	6%

C.2. Revenue Ranges of Issuers Inspected

The chart below categorizes, based upon revenue, the 34 issuers whose audits were inspected in 2014.¹³ This presentation of revenue data is intended to provide information about the size of issuer audits that were inspected and is not indicative of whether the inspection included a review of the Firm's auditing of revenue in the issuer audits selected for review.

¹³ The revenue amounts reflected in the chart are for the issuer's fiscal year end that corresponds to the audit inspected by the PCAOB. The revenue amounts were obtained from S&P and reflect a standardized approach to presenting revenue amounts.



Revenue (in US\$)	Number of Audits inspected	Percentage
0-100 million	5	15%
100 million to 500 million	17	50%
500 million - 1bn	9	26%
> 1bn	3	9%

D. Information Concerning PCAOB Inspections that is Generally Applicable to Annually Inspected Firms

Board inspections include reviews of certain portions of selected audit work performed by the inspected firm and reviews of certain aspects of the firm's quality control system. The inspections are designed to identify deficiencies in audit work and defects or potential defects in the firm's system of quality control related to the firm's audits. The focus on deficiencies, defects, and potential defects 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. Further, the inclusion in an inspection report of certain deficiencies, defects, and potential defects should not be construed as an indication that the Board has made any determination about other aspects of the inspected firm's systems, policies, procedures, practices, or conduct not included within the report.

D.1. Reviews of Audit Work

Inspections include reviews of portions of selected audits of financial statements and, where applicable, audits of ICFR. For these audits, the inspection team selects certain portions of the audits for inspection, and it reviews the engagement team's work papers and interviews engagement personnel regarding those portions. If the inspection team identifies a potential issue that it is unable to resolve through discussion with the firm and any review of additional work papers or other documentation, the inspection team ordinarily provides the firm with a written comment form on the matter and the firm is allowed the opportunity to provide a written response to the comment form. If the response does not resolve the inspection team's concerns, the matter is considered a deficiency and is evaluated for inclusion in the inspection report.

The inspection team selects the audits, and the specific portions of those audits, that it will review, and the inspected firm is not allowed an opportunity to limit or influence the selections. Audit deficiencies that the inspection team may identify include a firm's failure to identify, or to address appropriately, financial statement misstatements, including failures to comply with disclosure requirements,¹⁴ as well as a firm's failure to perform, or to perform sufficiently, certain necessary audit procedures. An inspection of an annually inspected firm does not involve the review of all of the firm's audits, nor is it designed to identify every deficiency in the reviewed audits. Accordingly, a Board inspection report should not be understood to provide any assurance that a firm's audit work, or the relevant issuers' financial statements or reporting on ICFR, are free of any deficiencies not specifically described in an inspection report.

¹⁴ 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 the applicable financial reporting framework, the Board's practice is to report that information to the Securities and Exchange Commission ("SEC" or "the Commission"), which has jurisdiction to determine proper accounting in issuers' financial statements. Any description in this report of financial statement misstatements or failures to comply with SEC disclosure requirements should not be understood as an indication that the SEC has considered or made any determination regarding these issues unless otherwise expressly stated.

In some cases, the conclusion that a firm did not perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if the firm claimed to have performed the procedure. 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. In reaching its conclusions, an inspection team considers whether audit documentation or any other evidence that a firm might provide to the inspection team supports the firm's contention that it performed a procedure, obtained evidence, or reached an appropriate conclusion. In the case of every matter cited in the public portion of a final inspection report, the inspection team has carefully considered any contention by the firm that it did so but just did not document its work, and the inspection team has concluded that the available evidence does not support the contention that the firm sufficiently performed the necessary work.

Identified deficiencies in the audit work that exceed a significance threshold (which is described in Part I.A of the inspection report) are summarized in the public portion of the inspection report.¹⁵

The Board cautions against extrapolating from the results presented in the public portion of a report to broader conclusions about the frequency of deficiencies throughout the firm's practice. Individual audits and areas of inspection focus are most often selected on a risk-weighted basis and not randomly. Areas of focus vary among selected audits, but often involve audit work on the most difficult or inherently uncertain areas of financial statements. Thus, the audit work is generally selected for inspection based on factors that, in the inspection team's view, heighten the possibility that auditing

¹⁵ 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. In addition, 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 for purposes of imposing legal liability.

deficiencies are present, rather than through a process intended to identify a representative sample.

D.2. Review of a Firm's Quality Control System

QC 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*, provides that an auditing firm has a responsibility to ensure that its personnel comply with the applicable professional standards. This standard specifies that a firm's system of quality control should encompass the following elements: (1) independence, integrity, and objectivity; (2) personnel management; (3) acceptance and continuance of issuer audit engagements; (4) engagement performance; and (5) monitoring.

The inspection team's assessment of a firm's quality control system is derived both from the results of its procedures specifically focused on the firm's quality control policies and procedures, and also from inferences that can be drawn from deficiencies in the performance of individual audits. Audit deficiencies, whether alone or when aggregated, may indicate areas where a firm's system has failed to provide reasonable assurance of quality in the performance of audits. Even deficiencies that do not result in an insufficiently supported audit opinion or a failure to obtain sufficient appropriate audit evidence to fulfill the objectives of the firm's role in an audit may indicate a defect or potential defect in a firm's quality control system.¹⁶ If identified deficiencies, when accumulated and evaluated, indicate defects or potential defects in the firm's system of quality control, the nonpublic portion of this report would include a discussion of those issues. When evaluating whether identified deficiencies in individual audits indicate a defect or potential defect in a firm's system of quality control, the inspection team

¹⁶ Not every audit deficiency suggests a defect or potential defect in a firm's quality control system, and this report does not discuss every audit deficiency the inspection team identified.

considers the nature, significance, and frequency of deficiencies;¹⁷ related firm methodology, guidance, and practices; and possible root causes.

Inspections also include a review of certain of the firm's practices, policies, and processes related to audit quality, which constitute a part of the firm's quality control system. The inspection team customizes the procedures it performs with respect to the firm's practices, policies, and processes related to audit quality, bearing in mind the firm's structure, procedures performed in prior inspections, past and current inspection observations, an assessment of risk related to each area, and other factors. The areas generally considered for review include (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 issuer audit engagements, 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 audits; and (5) the firm's processes for monitoring audit performance, including processes for identifying and assessing indicators of deficiencies in audit performance, independence policies and procedures, and processes for responding to defects or potential defects in quality control. A description of the procedures generally applied to these areas is below.

D.2.a. Review of Management Structure and Processes, Including the Tone at the Top

Procedures in this area are designed to focus on (1) how management is structured and operates the firm's business, and the implications that the management structure and processes have on audit performance and (2) whether actions and communications by the firm's leadership – the tone at the top – demonstrate a

¹⁷ An evaluation of the frequency of a type of deficiency may include consideration of how often the inspection team reviewed audit work that presented the opportunity for similar deficiencies to occur. In some cases, even a type of deficiency that is observed infrequently in a particular inspection may, because of some combination of its nature, its significance, and the frequency with which it has been observed in previous inspections of the firm, be cause for concern about a quality control defect or potential defect.

commitment to audit quality. To assess this area, the inspection team may interview members of the firm's leadership and review significant management reports and documents, as well as information regarding financial metrics and other processes that the firm uses to plan and evaluate its business.

D.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 are designed to focus on (1) 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 distinct from marketing or other activities of the firm; (2) the firm's processes for allocating its partner resources; and (3) the accountability and responsibilities of the different levels of firm management with respect to partner management. The inspection team may interview members of the firm's management and review documentation related to certain of these topics. In addition, the inspection team's evaluation may include the results of interviews of audit partners regarding their responsibilities and allocation of time. Further, the inspection team may review a sample of partners' personnel files.

D.2.c. Review of Policies and Procedures for Considering and Addressing the Risks Involved in Accepting and Retaining Issuer Audit Engagements, Including the Application of the Firm's Risk-Rating System

The inspection team may consider the firm's documented policies and procedures in this area. In addition, the inspection team may select certain issuer audits to (1) evaluate compliance with the firm's policies and procedures for identifying and assessing the risks involved in accepting or continuing the issuer audit engagements and (2) observe whether the audit procedures were responsive to the risks identified during the firm's process.

D.2.d. Review of Processes Related to a Firm's Use of Audit Work that the Firm's Foreign Affiliates Perform on the Foreign Operations of the Firm's U.S. Issuer Audits

The inspection team may review the firm's policies and procedures related to its supervision and control of work performed by foreign affiliates on the firm's U.S. issuer audits, review available information relating to the most recent internal inspections of foreign affiliated firms, interview members of the firm's leadership, and review the U.S. engagement teams' supervision concerning, and procedures for control of, the audit work that the firm's foreign affiliates performed on a sample of audits.

D.2.e. Review of a 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 Defects or Potential Defects in Quality Control

D.2.e.i. Review of Processes for Identifying and Assessing Indicators of Deficiencies in Audit Performance

Procedures in this area are 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 may interview members of the firm's management and review documents relating to the firm's identification and evaluation of, and response to, possible indicators of deficiencies in audit performance. In addition, the inspection team may review documents related to the design, operation, and evaluation of findings of the firm's internal inspection program, and may compare the results of its review of audit work to those from the internal inspection's review of the same audit work.

D.2.e.ii. Review of Response to Defects or Potential Defects in Quality Control

The inspection team may review steps the firm has taken to address possible quality control deficiencies and assess the design and effectiveness of the underlying processes. In addition, the inspection team may inspect audits of issuers whose audits had been reviewed during previous PCAOB inspections of the firm to ascertain whether the audit procedures in areas with previous deficiencies have improved.

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

The inspection team may assess policies, procedures, and guidance related to aspects of independence requirements and the firm's consultation processes, as well as the firm's compliance with these requirements and processes. In addition, the inspection team may review documents, including certain newly issued policies and procedures, and interview firm management to consider the firm's methods for developing audit policies, procedures, and methodologies, including internal guidance and training materials.

END OF PART I

PART II, PART III, AND APPENDIX A THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

APPENDIX B

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.¹⁸

¹⁸ The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available. 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.

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Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington D.C. 20006

May 10, 2016

Re: Response to Part I of the Draft Report on the 2014 Inspection of Grant Thornton LLP

Dear Ms. Munter:

We appreciate the opportunity to respond to Part I of the Public Company Accounting Oversight Board's ("PCAOB") Draft Report on the 2014 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 recognize the important role the PCAOB's inspection process plays in improving audit quality, serving investors and safeguarding the public interest. The PCAOB inspection report and dialogue with the inspections staff is an integral component in focusing our efforts.

The Firm continues to invest resources on improving audit quality and has implemented substantive actions to address the areas of deficiencies cited in the report.

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,

By:



J. Michael McGuire
Chief Executive Officer



Jeffrey L. Burgess
National Managing Partner of Audit Services

APPENDIX C

AUDITING STANDARDS REFERENCED IN PART I

This appendix provides the text of the auditing standard paragraphs that are referenced in Part I.A of this report. Footnotes that are included in this appendix, and any other Notes, are from the original auditing standards that are referenced. While this appendix contains the specific portions of the relevant standards cited with respect to the deficiencies in Part I.A of this report, other portions of the standards (including those described in Part I.B of this report) may provide additional context, descriptions, related requirements, or explanations; the complete standards are available on the PCAOB's website at <http://pcaobus.org/STANDARDS/Pages/default.aspx>.

AS No. 5, <i>An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i>		
USING A TOP-DOWN APPROACH		
Selecting Controls to Test		
AS No. 5.39	The auditor should test those controls that are important to the auditor's conclusion about whether the company's controls sufficiently address the assessed risk of misstatement to each relevant assertion.	Issuers A, B, D, E, and H
TESTING CONTROLS		
Testing Design Effectiveness		
AS No. 5.42	<p>The auditor should test the design effectiveness of controls by determining whether the company's controls, if they are operated as prescribed by persons possessing the necessary authority and competence to perform the control effectively, satisfy the company's control objectives and can effectively prevent or detect errors or fraud that could result in material misstatements in the financial statements.</p> <p>Note: A smaller, less complex company might achieve its control objectives in a different manner from a larger, more complex organization. For example, a smaller, less complex company might have fewer employees in the accounting function, limiting opportunities to segregate duties and leading the company to implement alternative controls to achieve its control objectives. In such circumstances, the auditor should evaluate whether those alternative controls are effective.</p>	Issuers A, B, D, F, H, and J

AS No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements		
Testing Operating Effectiveness		
AS No. 5.44	<p>The auditor should test the operating effectiveness of a control by determining whether the control is operating as designed and whether the person performing the control possesses the necessary authority and competence to perform the control effectively.</p> <p>Note: In some situations, particularly in smaller companies, a company might use a third party to provide assistance with certain financial reporting functions. When assessing the competence of personnel responsible for a company's financial reporting and associated controls, the auditor may take into account the combined competence of company personnel and other parties that assist with functions related to financial reporting.</p>	Issuers A, B, D, F, H, and J
APPENDIX B - Special Topics		
MULTIPLE LOCATIONS SCOPING DECISIONS		
AS No. 5.B10	<p>In determining the locations or business units at which to perform tests of controls, the auditor should assess the risk of material misstatement to the financial statements associated with the location or business unit and correlate the amount of audit attention devoted to the location or business unit with the degree of risk.</p> <p>Note: The auditor may eliminate from further consideration locations or business units that, individually or when aggregated with others, do not present a reasonable possibility of material misstatement to the company's consolidated financial statements.</p>	Issuer D
USE OF SERVICE ORGANIZATIONS		
AS No. 5.B19	<p>AU sec. 324.07 through .16 describe the procedures that the auditor should perform with respect to the activities performed by the service organization. The procedures include -</p> <p>a. Obtaining an understanding of the controls at</p>	Issuer A

AS No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*

	<p>the service organization that are relevant to the entity's internal control and the controls at the user organization over the activities of the service organization, and</p> <p>b. Obtaining evidence that the controls that are relevant to the auditor's opinion are operating effectively.</p>	
AS No. 5.B21	<p>If a service auditor's report on controls placed in operation and tests of operating effectiveness is available, the auditor may evaluate whether this report provides sufficient evidence to support his or her opinion. In evaluating whether such a service auditor's report provides sufficient evidence, the auditor should assess the following factors -</p> <ul style="list-style-type: none"> • The time period covered by the tests of controls and its relation to the as-of date of management's assessment, • The scope of the examination and applications covered, the controls tested, and the way in which tested controls relate to the company's controls, and • The results of those tests of controls and the service auditor's opinion on the operating effectiveness of the controls. <p>Note: These factors are similar to factors the auditor would consider in determining whether the report provides sufficient evidence to support the auditor's assessed level of control risk in an audit of the financial statements, as described in AU sec. 324.16.</p>	Issuer A

AS No. 13, *The Auditor's Responses to the Risks of Material Misstatement*

Responses Involving the Nature, Timing, and Extent of Audit Procedures		
AS No. 13.8	<p>The auditor should design and perform audit procedures in a manner that addresses the assessed risks of material misstatement for each relevant assertion of each significant account and disclosure.</p>	Issuers C, D, and E

AS No. 13, *The Auditor's Responses to the Risks of Material Misstatement*

RESPONSES TO FRAUD RISKS		
AS No. 13.13	<p><i>Addressing Fraud Risks in the Audit of Financial Statements.</i> In the audit of financial statements, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed fraud risks. If the auditor selects certain controls intended to address the assessed fraud risks for testing in accordance with paragraphs 16-17 of this standard, the auditor should perform tests of those controls.</p>	Issuer D

AS No. 14, *Evaluating Audit Results*

Evaluating the Results of the Audit of Financial Statements		
AS No. 14.3	<p>In forming an opinion on whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework, the auditor should take into account all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements.</p>	Issuer C
ACCUMULATING AND EVALUATING IDENTIFIED MISSTATEMENTS		
AS No. 14.17	<p><i>Evaluation of the Effect of Uncorrected Misstatements.</i> The auditor should evaluate whether uncorrected misstatements are material, individually or in combination with other misstatements. In making this evaluation, the auditor should evaluate the misstatements in relation to the specific accounts and disclosures involved and to the financial statements as a whole, taking into account relevant quantitative and qualitative factors.^{7/} (See Appendix B.)</p> <p>Note: In interpreting the federal securities laws, the Supreme Court of the United States has held that a fact is material if there is "a substantial likelihood that the ...fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available."^{8/} As the Supreme Court has noted, determinations of materiality require "delicate</p>	Issuer G

AS No. 14, <i>Evaluating Audit Results</i>		
	<p>assessments of the inferences a 'reasonable shareholder' would draw from a given set of facts and the significance of those inferences to him^{9/}</p> <p>Note: As a result of the interaction of quantitative and qualitative considerations in materiality judgments, uncorrected misstatements of relatively small amounts could have a material effect on the financial statements. For example, an illegal payment of an otherwise immaterial amount could be material if there is a reasonable possibility^{10/} that it could lead to a material contingent liability or a material loss of revenue.^{11/} Also, a misstatement made intentionally could be material for qualitative reasons, even if relatively small in amount.</p> <p>Note: If the reevaluation of the established materiality level or levels, as set forth in Auditing Standard No. 11,^{12/} results in a lower amount for the materiality level or levels, the auditor should take into account that lower materiality level or levels in the evaluation of uncorrected misstatements.</p>	
EVALUATING THE PRESENTATION OF THE FINANCIAL STATEMENTS, INCLUDING THE DISCLOSURES		
AS No. 14.30	<p>The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.</p> <p>Note: AU sec. 411, <i>The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles</i>, establishes requirements for evaluating the presentation of the financial statements. Auditing Standard No. 6, <i>Evaluating Consistency of Financial Statements</i>, establishes requirements regarding evaluating the consistency of the accounting principles used in financial statements.</p> <p>Note: The auditor should look to the requirements of the Securities and Exchange Commission for</p>	Issuers C, E, F, and G

AS No. 14, *Evaluating Audit Results*

	the company under audit with respect to the accounting principles applicable to that company.	
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AS No. 15, *Audit Evidence*

Sufficient Appropriate Audit Evidence		
USING INFORMATION PRODUCED BY THE COMPANY		
AS No. 15.10	<p>When using information produced by the company as audit evidence, the auditor should evaluate whether the information is sufficient and appropriate for purposes of the audit by performing procedures to:^{3/}</p> <ul style="list-style-type: none"> • Test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information; and • Evaluate whether the information is sufficiently precise and detailed for purposes of the audit. 	Issuers B and D

Footnote to AS No. 15.10

^{3/} When using the work of a specialist engaged or employed by management, see AU sec. 336, *Using the Work of a Specialist*. When using information produced by a service organization or a service auditor's report as audit evidence, see AU sec. 324, *Service Organizations*, and for integrated audits, see Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.

AU 331, *Inventories*

Inventories		
AU 331.09	<p>When inventory quantities are determined solely by means of a physical count, and all counts are made as of the balance-sheet date or as of a single date within a reasonable time before or after the balance-sheet date, it is ordinarily necessary for the independent auditor to be present at the time of count and, by suitable observation, tests, and inquiries, satisfy himself respecting the effectiveness of the methods of inventory-taking and the measure of reliance which may be placed upon the client's representations about the quantities and physical condition of the inventories.</p>	Issuer I

AU 336, *Using the Work of a Specialist*

Using the Findings of the Specialist		
AU 336.12	<p>The appropriateness and reasonableness of methods and assumptions used and their application are the responsibility of the specialist. The auditor should (a) obtain an understanding of the methods and assumptions used by the specialist, (b) make appropriate tests of data provided to the specialist, taking into account the auditor's assessment of control risk, and (c) evaluate whether the specialist's findings support the related assertions in the financial statements. Ordinarily, the auditor would use the work of the specialist unless the auditor's procedures lead him or her to believe the findings are unreasonable in the circumstances. If the auditor believes the findings are unreasonable, he or she should apply additional procedures, which may include obtaining the opinion of another specialist.</p>	Issuer J

AU 342, *Auditing Accounting Estimates*

Evaluating Reasonableness		
AU 342.11	<p>Review and test management's process. In many situations, the auditor assesses the reasonableness of an accounting estimate by performing procedures to test the process used by management to make the estimate. The following are procedures the auditor may consider performing when using this approach:</p> <ul style="list-style-type: none"> a. Identify whether there are controls over the preparation of accounting estimates and supporting data that may be useful in the evaluation. b. Identify the sources of data and factors that management used in forming the assumptions, and consider whether such data and factors are relevant, reliable, and sufficient for the purpose based on information gathered in other audit tests. c. Consider whether there are additional key factors or alternative assumptions about the factors. d. Evaluate whether the assumptions are consistent with each other, the supporting data, relevant historical data, and industry data. e. Analyze historical data used in developing the assumptions to assess whether the data is 	Issuers A and B

AU 342, Auditing Accounting Estimates

	<p>comparable and consistent with data of the period under audit, and consider whether such data is sufficiently reliable for the purpose.</p> <ul style="list-style-type: none"> f. Consider whether changes in the business or industry may cause other factors to become significant to the assumptions. g. Review available documentation of the assumptions used in developing the accounting estimates and inquire about any other plans, goals, and objectives of the entity, as well as consider their relationship to the assumptions. h. Consider using the work of a specialist regarding certain assumptions (section 336, Using the Work of a Specialist). i. Test the calculations used by management to translate the assumptions and key factors into the accounting estimate. 	
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AU 350, Audit Sampling

Sampling In Substantive Tests Of Details		
Planning Samples		
AU 350.16	<p>When planning a particular sample for a substantive test of details, the auditor should consider</p> <ul style="list-style-type: none"> • The relationship of the sample to the relevant audit objective. • Tolerable misstatement. (See paragraphs .18-.18A.) • The auditor's allowable risk of incorrect acceptance. <p>Characteristics of the population, that is, the items comprising the account balance or class of transactions of interest.</p>	Issuers D, E, F, H, K, L, M, N, O, P, Q, R, S, T, U, and V
AU 350.18	<p>Evaluation in monetary terms of the results of a sample for a substantive test of details contributes directly to the auditor's purpose, since such an evaluation can be related to his or her judgment of the monetary amount of misstatements that would be material. When planning a sample for a substantive test of details, the auditor should consider how much monetary misstatement in the related</p>	Issuers D, E, F, H, K, L, M, N, O, P, Q, R, S, T, U, and V

AU 350, Audit Sampling		
	account balance or class of transactions may exist, in combination with other misstatements, without causing the financial statements to be materially misstated. This maximum monetary misstatement for the account balance or class of transactions is called <i>tolerable misstatement</i> .	
AU 350.18A	Paragraphs 8 - 9 of Auditing Standard No. 11, <i>Consideration of Materiality in Planning and Performing an Audit</i> , describe the auditor's responsibilities for determining tolerable misstatement at the account or disclosure level. When the population to be sampled constitutes a portion of an account balance or transaction class, the auditor should determine tolerable misstatement for the population to be sampled for purposes of designing the sampling plan. Tolerable misstatement for the population to be sampled ordinarily should be less than tolerable misstatement for the account balance or transaction class to allow for the possibility that misstatement in the portion of the account or transaction class not subject to audit sampling, individually or in combination with other misstatements, would cause the financial statements to be materially misstated.	Issuers D, E, F, H, K, L, M, N, O, P, Q, R, S, T, U, and V
AU 350.23	To determine the number of items to be selected in a sample for a particular substantive test of details, the auditor should take into account tolerable misstatement for the population; the allowable risk of incorrect acceptance (based on the assessments of inherent risk, control risk, and the detection risk related to the substantive analytical procedures or other relevant substantive tests); and the characteristics of the population, including the expected size and frequency of misstatements.	Issuers D, E, F, H, K, L, M, N, O, P, Q, R, S, T, U, and V