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Report on

2016 Inspection of Crowe Horwath LLP
(Headquartered in Chicago, Illinois)

Issued by the

Public Company Accounting Oversight Board

July 27, 2017

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

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

PCAOB RELEASE NO. 104-2017-141

PCAOB
Public Company Accounting Oversight Board

2016 INSPECTION OF CROWE HORWATH LLP

Preface

In 2016, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Crowe Horwath 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 A and Appendix B. Appendix A 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 B 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.

Note on this report's citations to auditing standards: On March 31, 2015, the PCAOB adopted a reorganization of its auditing standards using a topical structure and a single, integrated numbering system. See *Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015). The reorganization became effective as of December 31, 2016. Citations in this report reference the reorganized PCAOB auditing standards.

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EXECUTIVE SUMMARY

This summary sets out certain key information from the 2016 inspection of Crowe Horwath LLP ("the Firm"). The inspection procedures included reviews of portions of 15 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. In five audits, 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 conformity 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"). These deficiencies are described in Part I.A of the report.

Effects on Audit Opinions

Of the five issuer audits that appear in Part I.A, deficiencies in each of these audits relate to testing controls for purposes of the ICFR opinion, and deficiencies in three audits relate to the substantive testing performed for purposes of the opinion on the financial statements, as noted in the table below. Of the three audits in which substantive testing deficiencies were identified, each of these audits included a deficiency in substantive testing that the inspection team determined was caused by a reliance on controls that was excessive 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	3 Audits: Issuers A, D, and E
Deficiencies included in Part I.A related to the ICFR audit only	2 Audits: Issuers B and C
Deficiencies included in Part I.A related to the financial statement audit only	-
Total	5

Most Frequently Identified Audit Deficiencies

The following table 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 the four 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.

Issue	Part I.A Audits
Failure to sufficiently test the design and/or operating effectiveness of controls that the Firm selected for testing	5 Audits: Issuers A, B, C, D, and E
Failure to sufficiently test controls over or sufficiently test the accuracy and completeness of issuer-produced data or reports	4 Audits: Issuers A, C, D, and E
Failure, in an ICFR audit, to identify and test any controls that addressed the risks related to a significant account or relevant assertion	3 Audits: Issuers A, C, and E
Design of substantive procedures, including sample sizes, was based on a level of control reliance that was not supported due to deficiencies identified in the testing of controls	3 Audits: Issuers A, D, and E

Areas in which Audit Deficiencies Were Most Frequently Identified

The financial statement account or auditing area in which the deficiencies that are included in Part I.A of this report most frequently occurred was loans, including the allowance for loan losses. There were four audits in which such deficiencies were identified.

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's staff ("the inspection team") conducted primary procedures[1] for the inspection from August 2016 to October 2016. The inspection team performed field work at the Firm's National Office and on reports issued from 12 of its approximately 32 U.S. practice offices.[2]

A. Review of Audit Engagements

The inspection procedures included reviews of portions of 15 issuer audits performed by the Firm.

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 B 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.

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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.

2 At the time of the inspection, the Firm was headquartered in Oakbrook Terrace, Illinois.

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 conformity with the applicable financial reporting framework and/or its opinion about whether the issuer had maintained, in all material respects, effective 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.[3]

The audit deficiencies that reached this level of significance are described in Part I.A.1 through I.A.5, below.

[3] 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.

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 -

- Documentation in the Firm's work papers included information that indicated the existence of a risk that certain users had system access to post journal entries without obtaining certain approvals required by the issuer's policy. The Firm failed to identify this risk, and therefore, failed to identify and test controls to address this risk. (AS 2201.34 and .39)

- The Firm identified significant risks related to changes in assigned loan grades and misstated non-accrual loans related to the allowance for loan losses ("ALL"), and a fraud risk related to the qualitative component of the general reserve. The Firm failed to perform sufficient procedures related to the ALL. Specifically -

  - The Firm failed to sufficiently test controls over the ALL. The Firm selected two controls related to the reasonableness of assigned loan grades that consisted of a quarterly evaluation by an external loan reviewer ("ELR") of the reasonableness of assigned loan grades, and management's review of changes in assigned loan grades for accuracy. The Firm's procedures to test these controls were insufficient, as follows -

    - To test the quarterly ELR control, the Firm's procedures consisted of inquiring of management, evaluating the competence and objectivity of the ELR, reading the quarterly ELR reports, obtaining an understanding of ELR's scope, and testing eight loans from each of the ELR's quarterly review procedures. The Firm tested the eight loans selected from the fourth quarter ELR review that was completed as of the end of the third quarter by performing an independent loan file review to test the reasonableness of the assigned loan grade at the end of the year under audit. The Firm noted that seven of the eight loans tested from the fourth quarter ELR review had been downgraded subsequent to the ELR's review. For these eight loans, the Firm failed to test whether the control owner performed the procedures for the ELR control. In addition, the Firm failed to evaluate whether the seven loans that had changes in assigned loan grades subsequent to the ELR reviews were indicative of a control deficiency that was a material weakness. (AS 2201.42, .44, and .62)

- To test management's review of the changes in assigned loan grades, the Firm's procedures consisted of inquiring of management and selecting a sample of changes to assigned loan grades from a system-generated report and testing whether the changes were properly approved. The control operated over submitted approved changes in loan grade forms; however, the Firm did not perform procedures to determine whether the control owner had obtained the approved changes in loan grade forms for all changes in assigned loan grades. (AS 2201.42 and .44)

- The Firm selected one control related to the accuracy and completeness of problem loans that consisted of management's review of problem loan and impaired loan reports. The Firm's procedures to test this control consisted of inquiring of management, determining that the control operated by noting signoffs and tick marks on reports, and tracing loans from various problem loan reports to the impaired loan report. The Firm, however, failed to evaluate whether the control operated at a level of precision that would prevent or detect material misstatements, as it failed to ascertain and evaluate the nature of the review procedures performed by the control owner to evaluate certain loans classified as non-impaired for impaired loan classification, including the criteria used to identify items for follow up, and the resolution of such matters. In addition, the Firm failed to identify and test any controls over the accuracy and completeness of the reports used in the operation of the control. (AS 2201.39, .42, and .44)

- The Firm selected one control over the qualitative component of the general reserve that consisted of management's review of the ALL calculation, including the qualitative component. The Firm's procedures to test this control were limited to inquiring of management and inspecting supporting documents for signoffs indicating that the control had operated. (AS 2201.42 and .44)

- The Firm failed to test any controls to address a significant risk that the Firm identified related to misstated non-accrual loans. (AS 2201.39)

- The Firm failed to perform sufficient substantive procedures to test the ALL. The Firm's procedures to test the reasonableness of the assigned loan grades, an important factor in estimating the ALL, included performing loan file review procedures over loans meeting certain criteria, including the largest loans in certain categories and other loans in excess of the Firm's established tolerable misstatement. The Firm's other procedures related to problem loans included (1) tracing loans greater than 90 days past due to the non-accrual loan report, and all troubled debt restructured loans ("TDRs") and non-accrual loans to the issuer's schedule of impaired loans, (2) comparing the current year watch list report to the prior year watch list to identify loans that were removed from the report and following up on the status of such loans, (3) comparing quarterly delinquency reports to identify loans removed from such reports to determine whether such loans were TDRs, and (4) inspecting the loan trial balance to identify loans with unusual interest rates, and interest rate or maturity date changes. The Firm failed to perform sufficient procedures to test the reasonableness of the assigned loan grades. Specifically, the Firm's loan file review procedures to test the reasonableness of the assigned loan grade were limited to a portion of the issuer's loan portfolio, and the Firm failed to perform any procedures to test the reasonableness of the assigned loan grades for the remaining portion of the loan portfolio. (AS 2501.11)

- The Firm failed to perform sufficient procedures related to loans.

  - The Firm failed to sufficiently test controls over the existence of loans. The Firm selected three controls, consisting of management's reviews over (1) a loan closing checklist to ensure the accurate recording of all new loans onto the issuer's loan system, (2) a month-end auto-reconciliation report to ensure all reconciling items were appropriately addressed in a timely manner, and (3) system-generated daily loan file maintenance change reports to ensure the accuracy of all changes made. The Firm's procedures to test these controls consisted of testing a selection of items from the loan system, the system-generated daily loan file maintenance change reports, and month-end auto-reconciliation reports. For the review of the auto-reconciliation reports, the Firm's procedures included inquiring of management, inspecting reports for signoffs indicating that the control had operated, and for five accounts within the auto-reconciliation report, comparing account balances to their respective sub-ledgers. The Firm's procedures to test these controls were insufficient. First, the control over the recording of new loans onto the issuer's loan system operated using a submitted loan closing checklist; however, the Firm did not perform procedures to determine whether the control owner had obtained completed loan checklists for all new loans recorded in the issuer's loan system. Second, for the control over auto-reconciliation reports, the Firm failed to perform procedures to determine whether differences identified in the auto-reconciliation reports selected for testing were appropriately addressed in a timely manner. Third, for the control over the daily loan file maintenance change reports, the Firm failed to identify and test any controls over the accuracy and completeness of the system-generated reports used in the operation of the control. (AS 2201.39, .42, and .44)

- o The Firm designed its substantive procedures to test the existence of loans - including sample sizes - based on a level of reliance on controls that was not supported due to the deficiencies in the Firm's testing of controls that are discussed above. As a result, the sample sizes the Firm used to test the existence of loans were too small to provide sufficient evidence. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

A.2. <u>Issuer B</u>

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 opinion on the effectiveness of ICFR –

- The Firm failed to perform sufficient procedures to test controls over the issuer's accounting for a business combination. The Firm selected four controls consisting of management's review of the valuations performed by issuer-engaged valuation specialists and security pricing services related to acquired real estate, loans, and investment securities, and to assumed deposit liabilities. The Firm's procedures to test those controls consisted of inquiring of management and testing whether the controls had operated, including inspecting valuation reports prepared by the issuer-engaged valuation specialists, inspecting spreadsheets, and reading issuer-prepared memoranda summarizing the results of the control owners' review of the valuations performed. The Firm, however, failed to ascertain and evaluate the nature of the review procedures performed by the respective control owners over the reasonableness of the significant assumptions used in the valuations, including the specific expectations applied in the reviews, the criteria used to identify items for follow up, and the resolution of such matters. (AS 2201.42 and .44)

- The Firm failed to perform sufficient procedures to test controls over the general reserve component of the ALL. The Firm selected three controls to test over the general reserve component. Two of the controls consisted of management's review of (1) the mathematical accuracy of the ALL calculation, including the accuracy of certain inputs by comparison to supporting documentation, and (2) the overall reasonableness and directional consistency of the ALL with underlying trends. The third control consisted of management's review of an ALL memorandum supporting the qualitative subcomponent of the general reserve. The Firm's procedures were insufficient, as follows -

  - For one of the controls over the ALL calculation, which considered the overall reasonableness and directional consistency of the ALL, the Firm's procedures were limited to inquiring of management and inspecting the ALL calculation for signatures indicating that the control had operated. (AS 2201.42 and .44)

  - For the control over the qualitative subcomponent of the general reserve, the Firm's procedures included inquiring of management, inspecting the ALL memoranda for signatures indicating that the control had operated, reading the ALL memoranda, and tracing certain data points to source documents. The Firm, however, failed to ascertain and evaluate the nature of the review procedures performed by the control owner, including the specific expectations applied in the reviews, the criteria used to identify items for follow up, and the resolution of such matters. (AS 2201.42 and .44)

A.3. Issuer C

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 opinion on the effectiveness of ICFR –

- The Firm failed to perform sufficient procedures to test controls over the ALL, as follows -
    - The Firm selected for testing three controls consisting of management's reviews of the ALL calculation, including the mathematical accuracy of the calculation, the accuracy of the source data, and the reasonableness of the specific reserves for impaired loans and the qualitative component of the ALL. The Firm's testing of those controls was limited to inquiring of management, and reading committee minutes and inspecting completed checklists for indications that the controls had operated. (AS 2201.42 and .44)
    - The Firm selected for testing three controls consisting of management's reviews of various problem loan reports used in the ALL calculation to determine whether such reports were accurate and complete. The Firm's testing of those controls was limited to inquiring of management and inspecting completed checklists for signoffs indicating that the controls had operated. (AS 2201.42 and .44)
    - The Firm failed to identify and test any controls over the identification of impaired loans. (AS 2201.39)
- The Firm failed to perform sufficient procedures to test controls over investment securities. The issuer engaged an outside service organization to provide recordkeeping services for its investment securities. The Firm read and evaluated the service auditor's report on the outside service organization. In addition, the Firm selected for testing three controls performed by the issuer that consisted of management's review of the investment trial balance reconciliations to the investment custodial statements and the general ledger. The Firm's testing of those controls was limited to inquiring of management and inspecting completed checklists for signoffs indicating that the controls had operated. (AS 2201.42 and .44)

A.4. Issuer D

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, as it failed to perform sufficient procedures related to the valuation of inventory, as follows -

- The Firm failed to perform sufficient procedures to test controls over the valuation of inventory. Specifically,
    - o The Firm selected for testing three manual controls over the valuation of inventory that consisted of management's (1) review of the year-end material cost adjustments based on the last invoice paid; (2) review and approval of quarterly financial statements, including inventory reserves; and (3) review and approval of monthly financial statements, including inventory reserves. The Firm's procedures consisted of inquiring of management; inspecting completed checklists and other documents for signoffs indicating that the control had operated; and, in the case of the annual review over the adjustments to material costs at year end, inspecting a purchase price variance report as of an interim date for signoffs indicating that the control operated. The Firm, however, failed to ascertain and evaluate the nature of the review procedures performed by the respective control owners, including the specific expectations applied in the reviews, the criteria used to identify items for follow up, and the resolution of such matters. For management's annual review of the material cost adjustments at year end, the Firm failed to perform any procedures to determine whether the control operated effectively at year end. Additionally, these manual controls used data and system-generated reports from the issuer's inventory system, which were not sufficiently tested as discussed below. (AS 2201.39, .42, and .44)
    - o The Firm identified a financially significant system supporting the inventory process. The Firm identified and tested controls related to program change management and security access over the inventory system. For these controls, the Firm used the work of internal audit and performed its own independent testing that included selecting items for testing from the issuer's ticketing system used by the issuer's Information Technology ("IT") personnel to manually log and track changes. The Firm identified a risk related to some of the issuer's IT personnel having privileged access

(access to IT environments, including programs that allowed them to both make and approve modifications without additional authorization) to the issuer's IT environment, including programs. In response to the privileged access, the Firm identified and tested a control that consisted of management's review and approval of a weekly IT report that listed the changes to the related IT environment. The Firm's procedures to test these controls were insufficient. Specifically, the Firm failed to identify that the control owner had privileged access and failed to identify and test different or mitigating controls that addressed this individual's privileged access. In addition, the Firm failed to identify and test any controls over the accuracy and completeness of the IT report used in the operation of this control. With respect to the program change management controls, the Firm failed to perform procedures to determine if the population used for its selection was complete. (AS 2201.34, .39, .42, and .44)

- The Firm failed to perform sufficient substantive procedures to test the valuation of inventory. Specifically, the Firm designed its substantive procedures - including sample sizes – to test raw material costs based on a level of control reliance that was not supported due to the deficiencies in the Firm's testing of controls that are described above. As a result, the sample sizes that the Firm used to test raw materials costs were too small to provide sufficient evidence. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

A.5. Issuer E

In this audit of an issuer in the financial services industry, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR, as it failed to perform sufficient procedures related to the ALL, as follows –

- The Firm failed to perform sufficient procedures to test controls over the ALL. The Firm selected for testing five controls related to problem loan identification and the qualitative reserve subcomponent of the general reserve. Three of these controls consisted of management's review of problem loan reports and analyses. A fourth control consisted of an internal loan review function's performance of periodic reviews of loans to determine whether the assigned loan grades were reasonable. A fifth control consisted of management's review of the issuer's qualitative reserve calculation and supporting information. The Firm's procedures to test these controls were insufficient. Specifically,

- o For the four controls over the problem loan reports and analysis and the qualitative reserve component of the ALL, the Firm's procedures to test those controls consisted of inquiring of management, inspecting documents for signatures or other indications that the controls had operated, and performing a comparison of certain amounts in management reports with amounts in the ALL calculation. The Firm, however, failed to ascertain and evaluate the nature of the review procedures performed by the respective control owners, including the specific expectations applied in the reviews, the criteria used to identify items for follow up, and the resolution of such matters. (AS 2201.42 and .44)

- o With respect to the internal loan review function control, the Firm noted that the control was not meeting its designed loan coverage; however, the Firm failed to identify that this was a control deficiency and evaluate its severity. (AS 2201.62)

- o The Firm failed to test any controls over the accuracy and completeness of the information produced by the issuer and used in the performance of controls over problem loan identification as discussed above. (AS 2201.39)

- o The Firm failed to test any controls over the reasonableness of the assigned loan grades not within the scope of the internal loan review function control. (AS 2201.39)

- The Firm failed to perform sufficient substantive procedures to test the ALL. Specifically, the Firm designed its substantive procedures - including sample sizes to test assigned loan grades and whether loans were properly identified as impaired - based on a level of control reliance that was not supported due to the deficiencies in the Firm's testing of the controls over the ALL that are described above. As a result, the sample sizes the Firm used to test the ALL were too small to provide sufficient evidence. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

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 deficiencies also may 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. Paragraphs .02, .05, and .06 of AS 1015, *Due Professional Care in the Performance of Work*, require the independent auditor to plan and perform his or her work with due professional care and set forth aspects of that requirement. AS 1015.07-.09 and paragraph .07 of AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*, 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 2301.03, .05, and .08 require the auditor to design and implement audit responses that address the risks of material misstatement. Paragraph .04 of AS 1105, *Audit Evidence*, 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. 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 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
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	Issuer A Issuer B Issuer C Issuer D Issuer E	7 3 4 2 4
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	Issuer A Issuer D Issuer E	1 1 1
AS 2315, *Audit Sampling*	Issuer A Issuer D Issuer E	1 1 1
AS 2501, *Auditing Accounting Estimates*	Issuer A	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 the deficiencies 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.

	AS 2201	AS 2301	AS 2315	AS 2501
Business Combinations	B			
Inventory and related reserves	D	D	D	
Investment securities, including derivatives	C			
Loans, including ALL	A, B, C, E	A, E	A, E	A
Risk of management override of controls	A			

B.3. Audit Deficiencies by Industry

The table below lists the industries[4] of the issuers for which audit deficiencies were discussed in Part I.A of this report and cross references the issuers to the specific auditing standards related to the deficiencies.[5]

	AS 2201	AS 2301	AS 2315	AS 2501
Financial Services	A, B, C, E	A, E	A, E	A
Industrials	D	D	D	

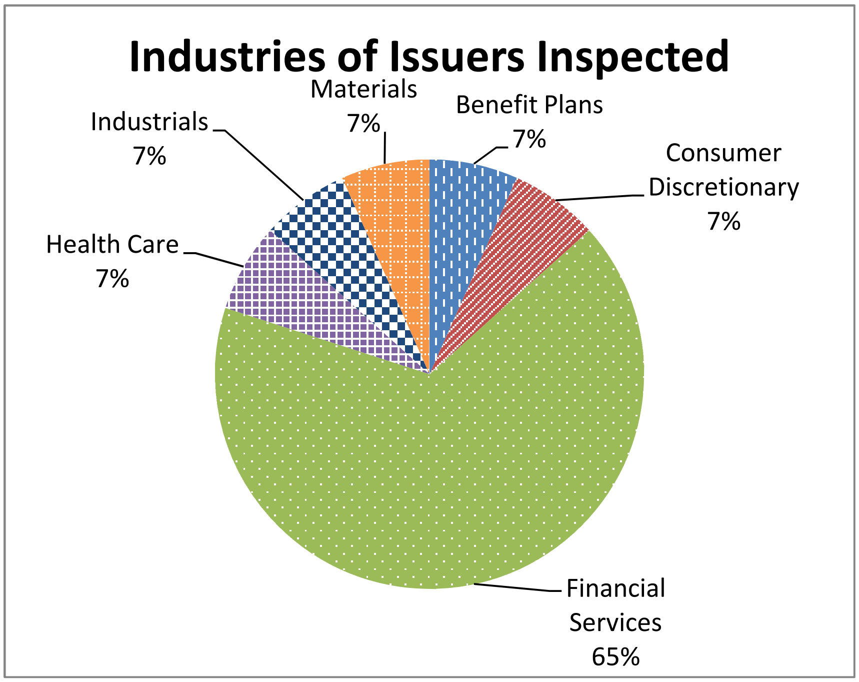
[4] The majority of industry sector data is based on Global Industry Classification Standard ("GICS") data obtained from Standard & Poor's ("S&P"). In instances where GICS for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data.

[5] 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.

C. Data Related to the Issuer Audits Selected for Inspection

C.1. Industries of Issuers Inspected

The chart below categorizes the 15 issuers whose audits were inspected in 2016, based on the issuer's industry.[6]

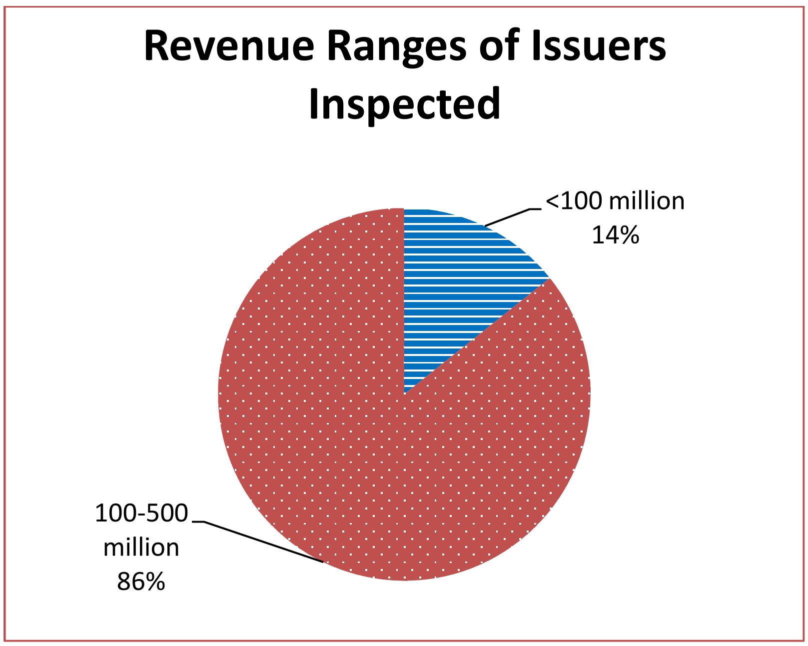


Industry	Number of Audits Inspected	Percentage
Benefit Plans	1	7%
Consumer Discretionary	1	7%
Financial Services	10	65%
Health Care	1	7%
Industrials	1	7%
Materials	1	7%

[6] See Footnote 4 for additional information on how industry sectors were classified.

C.2. Revenue Ranges of Issuers Inspected

The chart below categorizes, based upon revenue, the 14[7] issuers whose audits were inspected in 2016.[8] 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.



Revenue (in US$)	Number of Audits Inspected	Percentage
<100 million	2	14%
100-500 million	12	86%

7 The chart excludes one of the issuers whose audit was inspected because it is a benefit plan that has no revenue data.

8 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.

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. 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. For each specific portion of the audit that is selected, the inspection team 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. 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.[9]

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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. In addition, any references in this report to violations or potential violations of law, rules, or

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,[10] as well as a firm's failure to perform, or to perform sufficiently, certain necessary tests of controls and substantive 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.

In reaching its conclusions about whether a deficiency exists, 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 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 1215, *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 the case of every matter cited in the public portion of a final inspection

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professional standards are not a result of an adversarial adjudicative process and do not constitute conclusive findings for purposes of imposing legal liability.

[10] 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.

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.

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 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 may indicate a defect or potential defect in a firm's quality control system.[11] If identified deficiencies, when accumulated and evaluated, indicate defects or potential defects in the firm's system of quality control, the

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[11] 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.

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 considers the nature, significance, and frequency of deficiencies;[12] 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.

[12] 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.

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 commitment to audit quality. To assess this area, the inspection team may interview members of the firm's leadership and review significant management reports, communications, 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 of material misstatement 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

PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

APPENDIX A

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]

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[13] 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.

Crowe Horwath.

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June 2, 2017

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

Re: Response to Part I of the Draft Report on the 2016 Inspection of Crowe Horwath LLP

Dear Ms. Munter:

Crowe Horwath LLP appreciates the opportunity to respond to the Public Company Accounting Oversight Board's ("PCAOB") draft report on the 2016 Inspection of Crowe Horwath LLP (the "Report").

We believe the PCAOB's inspection process serves an important role in improving audit quality for the benefit of investors and the public interest. We take seriously the matters identified by the PCAOB, which we analyze and use in our ongoing efforts to strengthen our quality control processes and audit performance. We also wish to acknowledge the professionalism of the PCAOB's inspectors and staff in their interactions with our personnel.

We have carefully considered each matter identified in Part I of the Report, and have taken actions to address each matter in accordance with PCAOB standards and our policies. These actions include performing additional procedures when appropriate, and including additional documentation in our files to more completely describe and support procedures, evidential material, and our conclusions.

Crowe Horwath LLP is committed to performing high quality audits, and we have designed our quality control and monitoring systems to drive continuous improvement. We look forward to continued dialogue with the PCAOB to advance the shared goal of audit quality.

Sincerely,

Crowe Horwath LLP

Crowe Horwath LLP

APPENDIX B

AUDITING STANDARDS REFERENCED IN PART I.A

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 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*		
USING A TOP-DOWN APPROACH		
Understanding Likely Sources of Misstatement		
AS 2201.34	To further understand the likely sources of potential misstatements, and as a part of selecting the controls to test, the auditor should achieve the following objectives – ▪ Understand the flow of transactions related to the relevant assertions, including how these transactions are initiated, authorized, processed, and recorded; ▪ Verify that the auditor has identified the points within the company's processes at which a misstatement - including a misstatement due to fraud - could arise that, individually or in combination with other misstatements, would be material; ▪ Identify the controls that management has implemented to address these potential misstatements; and ▪ Identify the controls that management has implemented over the prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could	Issuers A and D

AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*		
	result in a material misstatement of the financial statements.	
Selecting Controls to Test		
AS 2201.39	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, C, D, and E
TESTING CONTROLS		
Testing Design Effectiveness		
AS 2201.42	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. 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.	Issuers A, B, C, D, and E
Testing Operating Effectiveness		
AS 2201.44	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. Note: In some situations, particularly in smaller	Issuers A, B, C, D, and E

AS 2201, ***An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements***		
	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.	
EVALUATING IDENTIFIED DEFICIENCIES		
AS 2201.62	The auditor must evaluate the severity of each control **deficiency** that comes to his or her attention to determine whether the deficiencies, individually or in combination, are material weaknesses as of the date of management's assessment. In planning and performing the audit, however, the auditor is not required to search for deficiencies that, individually or in combination, are less severe than a material weakness.	Issuers A and E

AS 2301, ***The Auditor's Responses to the Risks of Material Misstatement***		
TESTING CONTROLS		
Testing Controls in an Audit of Financial Statements		
AS 2301.16	*Controls to be Tested.* If the auditor plans to assess control risk at less than the maximum by relying on controls,[12] and the nature, timing, and extent of planned substantive procedures are based on that lower assessment, the auditor must obtain evidence that the controls selected for testing are designed effectively and operated effectively during the entire **period of reliance**.[13] However, the auditor is not required to assess control risk at less than the maximum for *all* relevant assertions and, for a variety of reasons, the auditor may choose not to do so.	Issuers A, D, and E

AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*

<u>Footnotes to AS 2301.16</u>

[12] Reliance on controls that is supported by sufficient and appropriate audit evidence allows the auditor to assess control risk at less than the maximum, which results in a lower assessed risk of material misstatement. In turn, this allows the auditor to modify the nature, timing, and extent of planned substantive procedures.

[13] Terms defined in Appendix A, *Definitions*, are set in **boldface type** the first time they appear.

AS 2301.18	*Evidence about the Effectiveness of Controls in the Audit of Financial Statements*. In designing and performing tests of controls for the audit of financial statements, the evidence necessary to support the auditor's control risk assessment depends on the degree of reliance the auditor plans to place on the effectiveness of a control. The auditor should obtain more persuasive audit evidence from tests of controls the greater the reliance the auditor places on the effectiveness of a control. The auditor also should obtain more persuasive evidence about the effectiveness of controls for each relevant assertion for which the audit approach consists primarily of tests of controls, including situations in which substantive procedures alone cannot provide sufficient appropriate audit evidence.	Issuers A, D, and E
SUBSTANTIVE PROCEDURES		
AS 2301.37	As the assessed risk of material misstatement increases, the evidence from substantive procedures that the auditor should obtain also increases. The evidence provided by the auditor's substantive procedures depends upon the mix of the nature, timing, and extent of those procedures. Further, for an individual assertion, different combinations of the nature, timing, and extent of testing might provide sufficient appropriate evidence to respond to the assessed risk of material misstatement.	Issuers A, D, and E

AS 2315, *Audit Sampling*		
SAMPLING IN SUBSTANTIVE TESTS OF DETAILS		
Planning Samples		
AS 2315.19	After assessing and considering the levels of inherent and control risks, the auditor performs substantive tests to restrict detection risk to an acceptable level. As the assessed levels of inherent risk, control risk, and detection risk for other substantive procedures directed toward the same specific audit objective decreases, the auditor's allowable risk of incorrect acceptance for the substantive tests of details increases and, thus, the smaller the required sample size for the substantive tests of details. For example, if inherent and control risks are assessed at the maximum, and no other substantive tests directed toward the same specific audit objectives are performed, the auditor should allow for a low risk of incorrect acceptance for the substantive tests of details.[3] Thus, the auditor would select a larger sample size for the tests of details than if he allowed a higher risk of incorrect acceptance.	Issuers A, D, and E
Footnote to AS 2315.19 [3] Some auditors prefer to think of risk levels in quantitative terms. For example, in the circumstances described, an auditor might think in terms of a 5 percent risk of incorrect acceptance for the substantive test of details. Risk levels used in sampling applications in other fields are not necessarily relevant in determining appropriate levels for applications in auditing because an audit includes many interrelated tests and sources of evidence.		
AS 2315.23	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 A, D, and E
AS 2315.23A	Table 1 of the Appendix describes the effects of the factors discussed in the preceding paragraph on sample sizes in a statistical or nonstatistical sampling approach. When circumstances are similar, the effect on sample size of	Issuers A, D, and E

AS 2315, *Audit Sampling*		
	those factors should be similar regardless of whether a statistical or nonstatistical approach is used. Thus, when a nonstatistical sampling approach is applied properly, the resulting sample size ordinarily will be comparable to, or larger than, the sample size resulting from an efficient and effectively designed statistical sample.	

AS 2501, *Auditing Accounting Estimates*		
EVALUATING ACCOUNTING ESTIMATES		
EVALUATING REASONABLENESS		
AS 2501.11	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: 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 comparable and consistent with data of the period under audit, and consider whether such data is sufficiently reliable for the purpose. f. Consider whether changes in the business or industry may cause other factors to become significant to the assumptions.	Issuer A

AS 2501, *Auditing Accounting Estimates*		
	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 (AS 1210, *Using the Work of a Specialist*). i. Test the calculations used by management to translate the assumptions and key factors into the accounting estimate.	