



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

Report on

2014 Inspection of Crowe Horwath LLP
(Headquartered in Oak Brook Terrace, Illinois)

Issued by the

Public Company Accounting Oversight Board

October 1, 2015

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

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

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2014 INSPECTION OF CROWE HORWATH LLP

Preface

In 2014, 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 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 August 2014 to October 2014. The inspection team performed field work at the Firm's National Office and on reports issued from 13 of its approximately 27 U.S. practice offices.²

A. Review of Audit Engagements

The inspection procedures included reviews of portions of 14 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

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 The Firm is organized by office for administrative purposes only. Partners and staff are assigned to client engagements based on their industry orientation, regardless of the office in which they practice. The Firm's National Office is located in Oak Brook Terrace, Illinois.

is the primary reason for the deficiency. These broadly applicable provisions are described in Part I.B of this report.

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.³

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.

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

Effects on Audit Opinions

Of the five issuer audits that appear in Part I.A, deficiencies in two audits relate to testing controls for purposes of the ICFR opinion, and deficiencies in five audits relate to the substantive testing performed for purposes of the opinion on the financial statements as noted in the table below. Of the five 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	2
Deficiencies included in Part I.A related to the financial statement audit only	3
Deficiencies included in Part I.A related to the ICFR 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 two 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 significant assumptions or data that the issuer used in developing an estimate.	<u>5 Audits:</u> Issuers A, B, C, D, and E
Failure to sufficiently test the design and/or operating effectiveness of controls that the Firm selected for testing.	<u>2 Audits:</u> Issuers A and B

Audit Deficiencies

A.1. Issuer A

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

- The Firm failed to sufficiently test the design and operating effectiveness of controls over the allowance for loan losses ("ALL"). Specifically, the Firm identified and tested two of the issuer's important controls related to the ALL, among others; however, the Firm failed to identify and test any controls over the accuracy and completeness of information used in the performance of these controls. In addition, the Firm failed to sufficiently test the control over the accuracy and completeness of the specific reserve loans report, which was used in the operation of the above controls. (AS No. 5, paragraphs 39 and 44)
- The Firm failed to perform sufficient procedures to test the reasonableness of the ALL. Specifically, in testing the additional general reserves for loans with increased risk characteristics, the Firm failed to perform procedures to evaluate the reasonableness of the issuer's adjustments to its historical loss factors applied to the pools of loans having increased risk characteristics. In addition, in testing the general reserve component, the Firm used the issuer-prepared historical loss factors spreadsheet, ALL activity spreadsheet, and specific reserve loans report as audit evidence but failed to test the accuracy and completeness of the spreadsheets and report. (AU 342, paragraph .11)

A.2. Issuer B

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

- The Firm failed to sufficiently test the design and operating effectiveness of controls over the ALL. Specifically, the Firm's testing of operating effectiveness of the one important control identified over the qualitative factors used in determining the general reserve component of the ALL was limited to inquiry and obtaining evidence that the control had operated. The Firm failed to evaluate, through any of its procedures, whether the control was designed and operated at a level of precision that would prevent or detect material misstatements. (AS No. 5, paragraphs 42 and 44)
- The Firm failed to perform sufficient procedures to test the reasonableness of the ALL. In testing the issuer's qualitative adjustments to the general reserve for non-impaired loans classified by the issuer as "special mention" or "substandard," the Firm read the issuer's qualitative adjustment memorandum, observed evidence of higher risk characteristics, and concluded that changes in the qualitative adjustments were directionally consistent. The Firm, however, failed to perform sufficient procedures to evaluate the reasonableness of those qualitative adjustments because the Firm failed to test the accuracy and completeness of the information used by the issuer to determine the qualitative adjustments, and failed to establish a basis for concluding that prior year amounts were a reasonable expectation of the current year amounts. (AU 342, paragraphs .11 and .12)

A.3. Issuer C

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements, as its procedures to test the reasonableness of the ALL were insufficient. Specifically,

- The Firm failed to sufficiently test the accuracy and completeness of residential real estate loans non-accrual information used by the issuer to determine the impairment status of its residential real estate loans. Specifically, the Firm failed to test (1) an automated application control for classifying loans as non-accrual during the year under audit or (2) the accuracy and completeness of certain information contained in an issuer-provided loan spreadsheet, including last payment due date and non-accrual date attributes that were used to determine that all loans past due 90 days or more were on a non-accrual status. (AU 342, paragraph .11)
- In testing the general reserve component of the ALL, the Firm failed to test the accuracy and completeness of certain information contained in certain issuer-prepared spreadsheets that were used by the issuer in determining the general reserve component of the ALL. In addition, the Firm failed to perform procedures to evaluate whether the peer groups used by the issuer to determine the historical loss factors were similar in nature to the issuer. (AU 342, paragraph .11)

A.4. Issuer D

In this audit, 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 perform sufficient substantive procedures to test the existence of loans. The Firm assessed control risk below the maximum for the existence of loans. Specifically, the Firm designed its substantive procedures to test the existence of loans – including its sample sizes - based on a level of control reliance that was not supported due to the deficiency in the Firm's testing of controls that is discussed below. As a result, the sample sizes that the Firm used to test the existence of loans were too small to provide sufficient evidence. (AS No. 13, paragraphs 16, 18, and 37; AU 350, paragraphs .19, .23, and .23A) The deficiencies in the

control testing involved the Firm's failure to obtain a service auditor's report that addressed controls over service organization applications used by the issuer. Specifically,

- o The Firm obtained a service auditor's report but failed to identify that the service auditor's report did not address controls over the applications used by the issuer. As a result, the Firm failed to gain an understanding of the issuer's control environment because it failed to obtain an understanding of the design of the controls in place at the outside service organization that supported the financially significant applications over the issuer's core banking and loan accounting functions. In addition, the Firm failed to perform any procedures to test the operating effectiveness of controls in place at the issuer's outside service organization that addressed the applications used by the issuer. (AS No. 12, paragraphs 18 and 28; AS No. 13, paragraphs 16 and 18)
- o The Firm's testing of the operating effectiveness of certain other controls related to loans relied on system-generated data and reports, but the relevant controls over such information resided at the issuer's outside service organization and the Firm neither obtained a service auditor's report that addressed those controls nor performed other procedures to test the accuracy and completeness of such system-generated data and reports. (AS No. 13, paragraphs 16 and 18; AS No. 15, paragraph 10)
- The Firm failed to perform sufficient substantive procedures to test the ALL. Specifically, the Firm used various system-generated data and reports to test the ALL; however, the Firm failed to test the accuracy and completeness of those system-generated data and reports or sufficiently test the controls over the accuracy and completeness of such reports (see deficiency in the Firm's testing of controls as discussed above). (AS No. 13, paragraphs 16 and 18; AU 342, paragraph .11)

A.5. Issuer E

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements, as it relates to the recording of two business combinations during the year under audit. Specifically,

- The Firm failed to perform sufficient procedures to test the valuation of the acquired loans and core deposit intangibles because it failed to sufficiently test the accuracy and completeness of the issuer-provided loan and deposit data used by the issuer-engaged valuation specialist in determining the fair value measurements of the acquired loans and core deposit intangibles. Specifically, the Firm's procedures were limited to comparing the total loans and deposit balances in the valuation specialist's report to the issuer's loan and deposit trial balances as of the respective acquisition dates. (AU 336, paragraph .12)
- The Firm failed to perform sufficient procedures to test the completeness and existence of loans acquired and deposits assumed in the business combinations at the date of acquisition. The Firm compared the acquired loans and assumed deposits trial balances as of the acquisition dates to supporting schedules provided by the issuer and confirmed a sample of acquired loans and assumed deposits as of an interim date approximately three months and ten months subsequent to the respective acquisition dates. During the year, but prior to the Firm's interim testing, the issuer converted the loan and deposits applications acquired in the business combinations to the issuer's core loan and deposits application. The Firm, however, failed to perform procedures to roll-back its interim confirmation procedures over loans and deposits that included the loans acquired and deposits assumed in the business combinations to the respective acquisition dates in testing the completeness and existence of those balances as of the acquisition dates. (AS No. 13, paragraph 8)

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 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. 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 No. 5, <i>An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i>	Issuer A Issuer B	1 1
AS No. 12, <i>Identifying and Assessing Risks of Material Misstatement</i>	Issuer D	1
AS No. 13, <i>The Auditor's Responses to the Risks of Material Misstatement</i>	Issuer D Issuer E	4 1
AS No. 15, <i>Audit Evidence</i>	Issuer D	1
AU 336, <i>Using the Work of a Specialist</i>	Issuer E	1
AU 342, <i>Auditing Accounting Estimates</i>	Issuer A Issuer B Issuer C Issuer D	1 1 2 1
AU 350, <i>Audit Sampling</i>	Issuer D	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.

	AS No. 5	AS No. 12	AS No. 13	AS No. 15	AU 336	AU 342	AU 350
Business combination, including contingent consideration			E		E		
Loans, including ALL	A, B	D	D	D		A, B, C, D	D

B.3. Audit Deficiencies by Industry

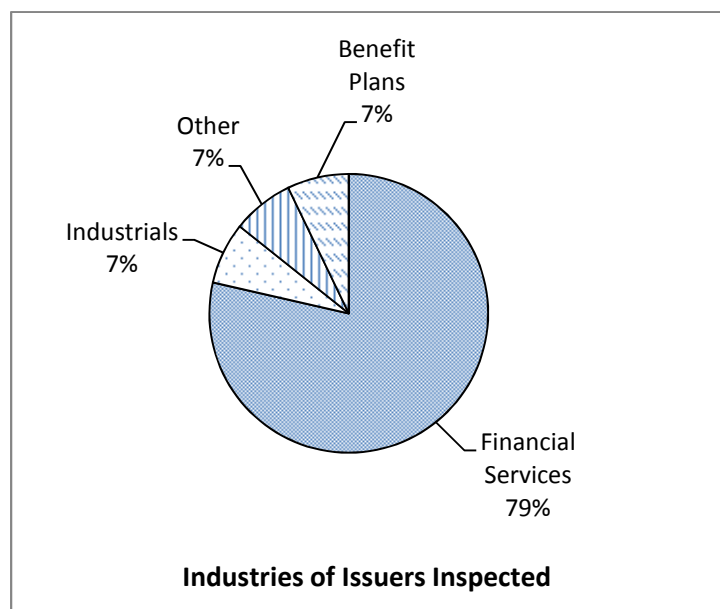
The table below lists the industries⁴ of the issuers for which audit deficiencies were discussed in Part I.A of this report, along with the specific auditing standards related to the deficiencies and the number of issuer audits where those deficiencies were observed. Because an issuer audit may have deficiencies that relate to more than one standard, the total should not be read as the total number of issuers.

	AS No.5	AS No. 12	AS No. 13	AS No. 15	AU 336	AU 342	AU 350
Financial Services	2	1	2	1	1	4	1

C. Data Related to the Issuer Audits Selected for Inspection

C.1. Industries of Issuers Inspected

The chart below categorizes the 14 issuers whose audits were inspected in 2014, based on the issuer's industry.

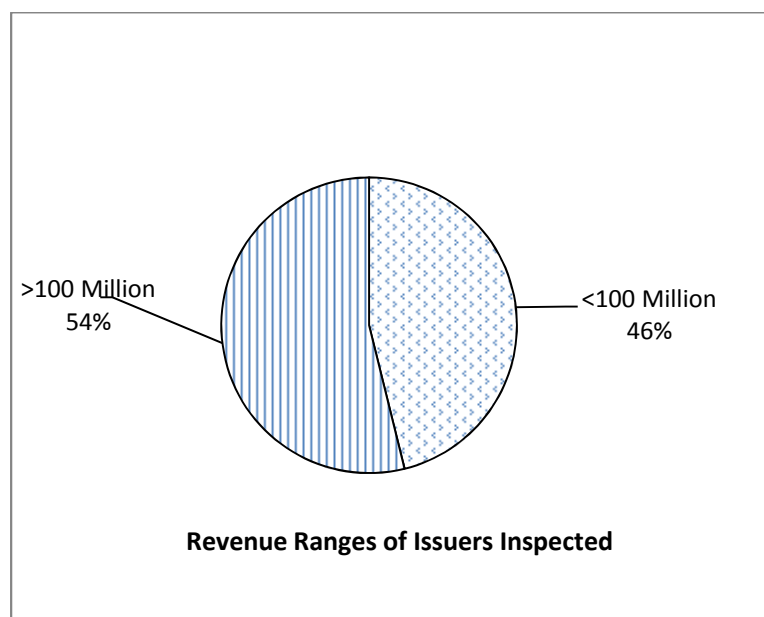


Industry	Number of Audits Inspected	Percentage
Financial Services	11	79%
Industrials	1	7%
Other	1	7%
Benefit Plans	1	7%

⁴ Identified industry sector data is based on Global Industry Classification Standard ("GICS").

C.2. Revenue Ranges of Issuers Inspected

The chart below categorizes, based upon revenue, the 13 relevant issuers whose audits were inspected in 2014.⁵ 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	Number of Audits inspected	Percentage
<100 Million	6	46%
>100 Million	7	54%

⁵ This number excludes a benefit plan that has no revenue data. The revenue amounts reflected in the chart are for the issuers' 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 a review 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,⁶ as well as a

⁶ When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with 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

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.

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.⁷

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.

⁷ 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

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.⁸ 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 considers the

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

⁸ 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.

nature, significance, and frequency of deficiencies;⁹ 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.

⁹ 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 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 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

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 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

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 OF 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.¹⁰

¹⁰ 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 LLP
Independent Member Crowe Horwath International
One Mid America Plaza, Suite 700
Post Office Box 3697
Oak Brook, Illinois 60522-3697
Tel 630.574.7878
Fax 630.574.1608
www.crowehorwath.com

August 5, 2015

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 2014 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 2014 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 by the PCAOB's inspection team 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 additional procedures when appropriate, and providing additional documentation in our files to more completely describe 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 continual improvement. We look forward to continued dialogue with the PCAOB to advance the shared goal of audit quality.

Sincerely,

Crowe Horwath LLP

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, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements		
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.	Issuer A
TESTING CONTROLS		
Testing Design Effectiveness		
AS No. 5.42	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.	Issuer B

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	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 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.	Issuers A and B

AS No. 12, Identifying and Assessing Risks of Material Misstatement

Obtaining An Understanding of Internal Control Over Financial Reporting		
AS No. 12.18	The auditor should obtain a sufficient understanding of each component^{8/} of internal control over financial reporting ("understanding of internal control") to (a) identify the types of potential misstatements, (b) assess the factors that affect the risks of material misstatement, and (c) design further audit procedures.	Issuer D
Footnote to AS No. 12.18 ^{8/} Paragraphs 21–22 of this standard discuss components of internal control over financial reporting.		

AS No. 12, Identifying and Assessing Risks of Material Misstatement		
INFORMATION AND COMMUNICATION		
AS No. 12.28	<i>Information System Relevant to Financial Reporting.</i> The auditor should obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including: a. The classes of transactions in the company's operations that are significant to the financial statements; b. The procedures, within both automated and manual systems, by which those transactions are initiated, authorized, processed, recorded, and reported; c. The related accounting records, supporting information, and specific accounts in the financial statements that are used to initiate, authorize, process, and record transactions; d. How the information system captures events and conditions, other than transactions,^{16/} that are significant to the financial statements; and e. The period-end financial reporting process. Note: Appendix B discusses additional considerations regarding manual and automated systems and controls.	Issuer D
<u>Footnote to AS No. 12.28</u> ^{16/} Examples of such events and conditions include depreciation and amortization and conditions affecting the recoverability of assets.		

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	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.	Issuer E

AS No. 13, The Auditor's Responses to the Risks of Material Misstatement		
Testing Controls		
TESTING CONTROLS IN AN AUDIT OF FINANCIAL STATEMENTS		
AS No. 13.16	<i>Controls to be Tested.</i> 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. 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.	Issuer D
<u>Footnote to AS No. 13.16</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.		
AS No. 13.18	<i>Evidence about the Effectiveness of Controls in the Audit of Financial Statements.</i> 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.	Issuer D
Substantive Procedures		
AS No. 13.37	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	Issuer D

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

	the assessed risk of material misstatement.	
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AS No. 15, *Audit Evidence*

Sufficient Appropriate Audit Evidence		
USING INFORMATION PRODUCED BY THE COMPANY		
AS No. 15.10	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/} • 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.	Issuer 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 336, *Using the Work of a Specialist*

Using The Findings Of The Specialist		
AU 336.12	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	Issuer E

AU 336, Using the Work of a Specialist

	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.	
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AU 342, Auditing Accounting Estimates

Evaluating Accounting Estimates		
Evaluating Reasonableness		
AU 342.11	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: - Identify whether there are controls over the preparation of accounting estimates and supporting data that may be useful in the evaluation. - 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. - Consider whether there are additional key factors or alternative assumptions about the factors. - Evaluate whether the assumptions are consistent with each other, the supporting data, relevant historical data, and industry data. - 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. - Consider whether changes in the business or industry may cause other factors to become significant to the assumptions. - 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	Issuers A, B, C, and D

AU 342, Auditing Accounting Estimates		
	consider their relationship to the assumptions. h. Consider using the work of a specialist regarding certain assumptions (section 336, <i>Using the Work of a Specialist</i>). i. Test the calculations used by management to translate the assumptions and key factors into the accounting estimate.	
AU 342.12	<i>Develop an expectation.</i> Based on the auditor's understanding of the facts and circumstances, he may independently develop an expectation as to the estimate by using other key factors or alternative assumptions about those factors.	Issuer B

AU 350, Audit Sampling		
Sampling In Substantive Tests Of Details		
Planning Samples		
AU 350.19	The second standard of field work states, "A sufficient understanding of the internal control structure is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed." 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.^{fn 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.	Issuer D
Footnote to AU 350.19 ^{fn 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		

AU 350, Audit Sampling		
in determining appropriate levels for applications in auditing because an audit includes many interrelated tests and sources of evidence.		
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.	Issuer D
AU 350.23A	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 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.	Issuer D