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Report on

2016 Inspection of Grant Thornton LLP

(Headquartered in Chicago, Illinois)

Issued by the

Public Company Accounting Oversight Board

December 19, 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. 104-2017-199

2016 INSPECTION OF GRANT THORNTON LLP

Preface

In 2016, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Grant Thornton LLP ("the Firm") pursuant to the Sarbanes-Oxley Act of 2002 ("the Act").

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

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

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 Grant Thornton LLP ("the Firm"). The inspection procedures included reviews of portions of 34 issuer audits performed by the Firm. Twenty-six of the 34 engagements were integrated audits of both internal control and the financial statements. Part I.C of this report provides certain demographic information about the audits inspected and Part I.D describes the general procedures applied in the PCAOB's 2016 inspections of annually inspected registered firms.

The inspection team identified matters that it considered to be deficiencies in the performance of the work it reviewed. In eight 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 of Audit Deficiencies on Audit Opinions

Of the eight issuer audits that appear in Part I.A, deficiencies in four audits relate to testing controls for purposes of the ICFR opinion, and deficiencies in seven audits relate to the substantive testing performed for purposes of the opinion on the financial statements, as noted in the table below. Of the seven audits in which substantive testing deficiencies were identified, two 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
Audits for which deficiencies included in Part I.A related to both the financial statement audit and the ICFR audit	<u>3 Audits</u>: Issuers A, C, and D
Audits for which deficiencies included in Part I.A related to the ICFR audit only	<u>1 Audit</u>: Issuer F

Audits for which deficiencies included in Part I.A related to the financial statement audit only	4 Audits: Issuers B, E, G, and H
Total	8

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 three 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 identify and test any controls that addressed the risks related to a particular account or assertion	4 Audits: Issuers A, C, D, and F
Failure to sufficiently test the design and/or operating effectiveness of controls that the Firm selected for testing	3 Audits: Issuers A, C, and D
Failure to sufficiently evaluate significant assumptions or test data that the issuer used in developing an estimate	3 Audits: Issuers A, C, and E

Areas in which Audit Deficiencies Were Most Frequently Identified

The following table lists, in summary form, the financial statement accounts or auditing areas in which the deficiencies that are included in Part I.A of this report most frequently occurred. The table includes only the two most frequently identified areas that are in Part I.A of this report and is not a summary of all deficiencies in Part I.A.

Area	Part I.A Audits
Property, plant, and equipment, including oil and gas properties	3 Audits: Issuers C, E, and F
Revenue	2 Audits: Issuers A and D

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's staff ("the inspection team") conducted primary procedures[1] for the inspection from June 2016 to August 2017. The inspection team performed field work at the Firm's National Office and at 18 of its approximately 60 U.S. practice offices.

A. Review of Audit Engagements

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

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

[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.

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 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.[2]

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[2] Inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Depending upon the circumstances, compliance with PCAOB standards may require the firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on its previously expressed audit opinions. The Board expects that firms will comply with these standards, and an inspection may include a review of the adequacy of a firm's compliance with these requirements, either with respect to previously identified deficiencies or deficiencies identified during that inspection. Failure by a firm to take appropriate actions, or a firm's misrepresentations in responding to an

The audit deficiencies that reached this level of significance are described in Parts I.A.1 through I.A.8, below.

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 issuer recognized a significant amount of revenue from commissions earned on the sale of inventory on behalf of third parties. The Firm's procedures related to this revenue were not sufficient. Specifically –

    - With respect to this revenue, the Firm selected for testing three controls that consisted of management's review of (1) the reconciliation of the general ledger to the commissions receivable sub-ledger, (2) the reconciliation of the general ledger to amounts collected from customers that were owed to third parties, and (3) an allowance for refunds to the third parties in the event of customers not complying with the terms of the contracts. In addition, the Firm selected for testing information technology general controls over the application used to calculate commission revenue. None of these controls, however, addressed (1) the risk of incomplete or inaccurate entry of commission rates into the issuer's systems or (2) whether an action that was necessary for revenue recognition had been completed, and the Firm failed to identify and test any other controls that addressed these matters. In addition, while the Firm asserted that another control that it tested, which consisted of the review of contract terms, operated over this category of revenue, there was no evidence in the audit documentation, and no

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inspection report about whether it has taken such actions, could be a basis for Board disciplinary sanctions.

persuasive other evidence, that the Firm had performed procedures, beyond inquiry, to establish that this control operated over this category of revenue. (AS 2201.39)

- o The Firm failed to perform sufficient substantive procedures to test this revenue. The Firm's procedures included, for a sample of revenue transactions, verifying associated contract rates and certain terms, and recalculating the gross sales amount and commission earned by comparing these amounts to the amounts in related agreements and the sales sub-ledger. In addition, the Firm performed (1) confirmation procedures for a sample of accounts receivable at year end, (2) cut-off procedures, and (3) a review of the allowance for refunds to the third parties. The Firm failed, however, to perform any procedures to evaluate whether an important action that was necessary for revenue recognition had been completed. (AS 2810.30)

- o The Firm designed its substantive procedures to test this revenue – including the size of the sample it used for the testing described above – 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 above. As a result, the sample size the Firm used to test the revenue transactions was too small to provide sufficient evidence. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

- The issuer also recognized revenue from the sale of its own inventory. The issuer's calculation of the value of inventory and the allocation of costs between year-end inventory and cost of sales was based, in part, on the development of certain estimates; significant inputs to these estimates included the quantity of inventory sold during the year and the quantity of inventory existing at year end. The Firm failed to perform sufficient procedures related to this inventory and cost of sales. Specifically –

  - o The Firm selected for testing various controls that consisted of (1) reviews of data and calculations, including comparisons to supporting documentation and the investigation of certain variances, and (2) an automated application control that recorded sales, cost of sales, and relief of inventory when sales were marked as complete in the system. The Firm failed to test any aspects of the controls that it selected that addressed the accuracy and completeness of the quantities of inventory sold and existing at year end. In addition, while the Firm asserted that a control that it tested included management's comparison of the units of inventory sold to the underlying sales contracts, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had tested this aspect of the control. (AS 2201.42 and .44)

- For one of the controls that the Firm selected, which consisted of a review of inventory calculations by location to identify and investigate cost of sales variances over an established threshold, the Firm's testing consisted of (1) inquiring of management, (2) comparing certain amounts in the issuer's inventory calculation to the general ledger and supporting documentation, and (3) determining whether there were explanations for variances over the established threshold and whether management had reviewed the inventory calculation. These procedures did not include evaluating whether the control operated at a level of precision that would prevent or detect material misstatements, as the Firm failed to evaluate whether the threshold used by the control owners to identify matters for investigation could be expected to identify matters that could indicate potential material misstatements. (AS 2201.42 and .44)

- The Firm failed to perform sufficient substantive procedures to test the valuation of inventory and cost of sales. Specifically, the Firm relied upon certain issuer-prepared reports that contained data about the quantities of inventory sold during the year and on hand at year end and the average price per inventory unit, but it failed to test the accuracy and completeness, or (as described above) to sufficiently test controls over the accuracy and completeness, of these data. (AS 2501.11)

A.2. Issuer B

In this audit, the Firm failed to appropriately address a departure from generally accepted accounting principles ("GAAP") that it identified and that appeared to the inspection team to be material. The GAAP departure, which was multiple times the Firm's established level of materiality, related to the issuer's accounting for a redeemable instrument. The issuer accounted for the increase in the value of the redeemable instrument as a reduction of additional paid-in-capital rather than as a reduction of retained earnings, as is required by Financial Accounting Standards Board Accounting Standards Codification Subtopic 480-10, *Distinguishing Liabilities from Equity - Overall*. In concluding that the misstatement was not material, the Firm failed to consider the effect of the misstatement on the aforementioned accounts. (AS 2810.17)

A.3. Issuer C

In this audit of an oil and gas exploration and production company, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR. The issuer performed quarterly and annual impairment analyses and calculations of depletion expense using assumptions that it developed, and it used certain information from its quarterly impairment analyses in its annual impairment analysis. As a result of its impairment analyses, the issuer recorded impairment charges related to proved properties at interim dates during the year. The Firm's procedures related to the issuer's proved properties were insufficient. Specifically –

- The Firm failed to identify and test any controls over the assumptions used in the issuer's quarterly impairment analysis and calculation of depletion expense. (AS 2201.27 and .39)

- The Firm selected for testing three controls over the issuer's annual impairment analysis that included the review of certain significant assumptions that the issuer used in evaluating the properties for impairment and calculating depletion expense. The Firm failed to sufficiently test these controls, as its procedures were limited to (1) testing the accuracy and completeness of certain reports used in the performance of these controls, (2) tracing a sample of certain information used in two of these controls to supporting documentation, (3) inquiring of the control owner for one of the controls, and (4) inspecting checklists and noting evidence of approval. The Firm failed, however, to ascertain and evaluate the nature of the review procedures performed by the control owners, including the expectations applied in the reviews of the reasonableness of these assumptions, the criteria used to identify matters for follow up, and the resolution of such matters. (AS 2201.42 and .44)

- The Firm failed to perform sufficient substantive procedures to evaluate the reasonableness of certain significant assumptions used in the impairment analysis and the calculation of depletion expense: production volume and lease operating expenses. For the production volume assumptions, the Firm failed to perform any procedures to test the accuracy of the historical data that the issuer used in developing these assumptions. To evaluate the lease operating expense assumptions, the Firm limited its procedures to, for a sample of wells, determining that the assumptions developed by the issuer's engineers were accurately entered into the issuer's IT systems and, for a different sample of wells, testing the mathematical accuracy of certain calculations. (AS 2501.11)

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 certain revenue, which constituted the majority of total revenue. Specifically –

- For the portion of this revenue that was generated at the issuer's domestic locations, the Firm selected for testing two controls that prevented items from being shipped and revenue from being recognized until the issuer received payment from the customer or the customer had a sufficient credit limit, or management approved the transaction. These controls consisted of (1) the automated procedure the issuer used to place all transactions on hold until any one of the conditions stated above was satisfied and (2) management's approval of the resolution of the hold. The Firm failed to identify that these controls were not designed to address (1) the accuracy of the quantity and price for the individual transactions, including manager approval of prices related to certain transactions; (2)

management's process to approve new credit limits or to make changes to existing credit limits; and (3) whether revenue transactions recorded in the revenue system were accurately posted to the general ledger. The Firm failed to identify and test any other controls that addressed these matters. (AS 2201.39)

- For the portion of this revenue that was generated at the issuer's foreign locations, the Firm selected for testing two controls that consisted of (1) the review and approval of journal entries, including those used to record revenue for the foreign locations, and (2) management's review of the foreign locations' financial statement reporting packages. The Firm's procedures to test the first control were limited to obtaining evidence that the journal entry was recorded by an employee authorized to do so and inspecting supporting documentation to determine whether the journal entry appeared appropriate and had been approved. The Firm's procedures to test the second control were limited to inspecting evidence that a review had occurred and comparing the amounts in the foreign locations' financial statement reporting packages to amounts included in the consolidated financial statements. For both controls, the Firm failed to ascertain and evaluate the nature and extent of the review procedures performed by the control owners, including the criteria used by the control owners to identify matters for follow up and how those matters were resolved. (AS 2201.42 and .44)

- The Firm designed its substantive procedures to test this revenue – including its sample size – based on a level of control reliance that was not supported due to the deficiencies in the Firm's testing of controls that are discussed above. As a result, the sample size the Firm used to test this revenue was 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 oil and gas exploration and production company, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements, as it failed to perform sufficient procedures to test the valuation of oil and gas properties. Specifically –

- The issuer performed an impairment analysis of its proved properties using cash-flow forecasts that were based on significant assumptions about commodity prices, lease operating expenses, and future development costs. The Firm failed to sufficiently evaluate the reasonableness of these assumptions. Specifically –

    - To evaluate the commodity price assumptions, the Firm compared the amounts included in the issuer's projections to certain historical and industry information. To evaluate the lease operating expense assumptions, the Firm compared total lease operating expenses as a percentage of estimated revenues to the historical rate and to the actual average rate for a sample of wells. For certain differences that the Firm identified, the Firm limited its procedures to inquiring of management or concluding that the differences were reasonable based solely on its general knowledge of the business and industry. The Firm did not calculate the effect of the differences on the cash-flow forecasts, even though it appeared that certain of them would have had a significant effect on the forecasted cash flows. (AS 2501.11)

    - To evaluate the future development cost assumptions, the Firm compared the assumptions to data in an issuer-prepared schedule of estimated future development costs and, for a sample of wells, compared the costs to the specific amounts that the issuer had authorized for expenditure. The Firm, however, failed to perform any procedures to test the accuracy and completeness of certain data included in the issuer-prepared schedule. (AS 2501.11)

- For unproved properties, the Firm failed to sufficiently evaluate the reasonableness of a significant assumption underlying the issuer's impairment analysis, which was the issuer's future exploration of certain of its unproved properties. The recorded value of the unproved properties that the issuer believed it would explore was, in the aggregate, multiple times the Firm's established level of materiality. The Firm's procedure to test this assumption was limited to inquiry of management, without obtaining evidence regarding management's ability to explore these properties. In addition, the Firm failed to test the accuracy of certain data that the issuer used in its impairment analysis for unproved properties. (AS 2501.11)

A.6. Issuer F

In this audit of an issuer in the energy industry, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR, as it failed to test controls over the existence and valuation of additions to property, plant, and equipment ("PPE") at certain locations. These additions to PPE, which primarily consisted of additions to projects under construction, were, in the aggregate, approximately 28 times the Firm's established level of materiality. The controls that the Firm selected for testing consisted of (1) the authorization of capital expenditures, (2) the approval of purchase orders, (3) a review to assess the appropriateness of access to the PPE system and the vendor master file, (4) a review to assess the appropriateness of changes made to the vendor master file, and (5) management's review and approval of PPE roll-forward schedules by location that included a comparison of the beginning and ending balances in the PPE system to the general ledger. None of these controls addressed the specific risks that the Firm had identified related to the existence and valuation of additions to PPE, and the Firm failed to identify and test any other controls that would address these risks. (AS 2201.39)

A.7. Issuer G

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements. During the year, the issuer disposed of a business, which was previously disclosed as a reportable segment, and reported this segment as discontinued operations. The Firm's procedures to test discontinued operations were not sufficient. The Firm's testing of the costs of revenue and operating expenses included in discontinued operations was limited to comparing the results for two quarters. These comparisons provided little to no substantive assurance, as the expectations that the Firm used for differences between the two quarters were only directional in nature. In addition, for one significant difference that the Firm identified, the Firm limited its procedures to inquiry of management, without obtaining corroboration of management's explanation. Further, the Firm failed to perform sufficient procedures to test the results of operations related to this segment for the prior years that were recast as discontinued operations in the financial statements. Specifically, the Firm limited its procedures to comparing (1) certain income statement amounts to prior-period unaudited segment disclosures and (2) other amounts to issuer-prepared supporting schedules that the Firm had not tested. (AS 1105.10; AS 2305.17 and .21)

A.8. Issuer H

In this audit of a financial institution, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements. The issuer's deposit liabilities consisted of (1) a small number of accounts with large balances and (2) a large number of accounts with small balances. The accounts with large balances were, in the aggregate, 165 times the Firm's established level of materiality, and most of these accounts individually were multiple times that level. The Firm's procedure to test the existence of the deposit liabilities consisted of sending negative confirmation requests for a selection of deposit accounts. None of the accounts with large balances were selected for testing, and the Firm failed to perform any other procedures to test the existence of the accounts with large balances. (AS 2301.08; AS 2310.22)

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 1105, *Audit Evidence*	Issuer G	1
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	Issuer A Issuer C Issuer D Issuer F	3 2 2 1
AS 2301, *The Auditor's Responses to the*	Issuer A	1

PCAOB Auditing Standards	Audits	Number of Deficiencies per Audit
Risks of Material Misstatement	Issuer D Issuer H	1 1
AS 2305, *Substantive Analytical Procedures*	Issuer G	1
AS 2310, *The Confirmation Process*	Issuer H	1
AS 2315, *Audit Sampling*	Issuer A Issuer D	1 1
AS 2501, *Auditing Accounting Estimates*	Issuer A Issuer C Issuer E	1 1 3
AS 2810, *Evaluating Audit Results*	Issuer A Issuer B	1 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 1105	**AS 2201**	**AS 2301**	**AS 2305**	**AS 2310**	**AS 2315**	**AS 2501**	**AS 2810**
Property, Plant and Equipment, including oil and gas properties		C, F					C, E	
Revenue		A, D	A, D			A, D		A
Inventory and cost of		A					A	

	AS 1105	AS 2201	AS 2301	AS 2305	AS 2310	AS 2315	AS 2501	AS 2810
sales								
Discontinued operations	G			G				
Deposit liabilities			H		H			
Redeemable instrument								B

B.3. Audit Deficiencies by Industry

The table below lists the industries[3] 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.[4]

	AS 1105	AS 2201	AS 2301	AS 2305	AS 2310	AS 2315	AS 2501	AS 2810
Consumer Discretionary		A, D	A, D			A, D	A	A
Energy		C, F					C, E	
Financial Services			H		H			
Industrials								B
Information Technology	G			G				

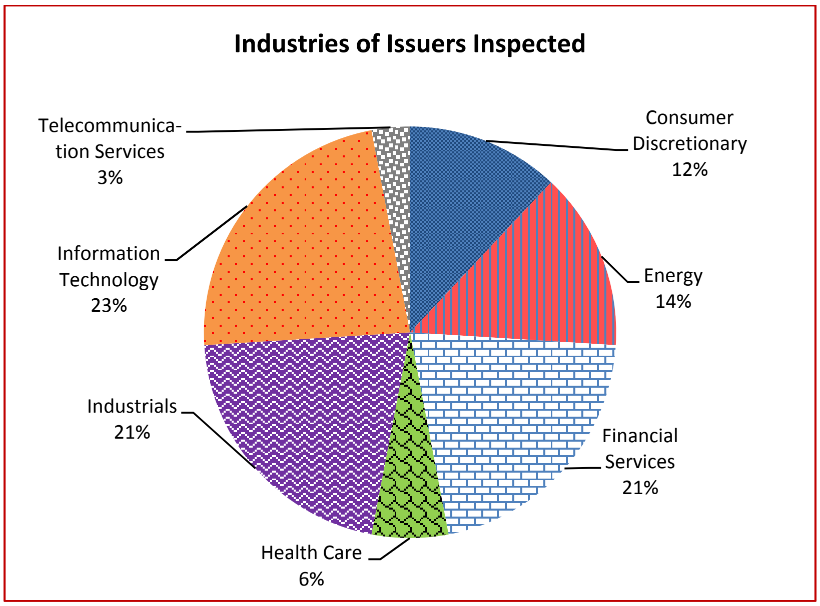
[3] The majority of industry sector data is based on Global Industry Classification Standard ("GICS") data obtained from Standard & Poor's ("S&P"). In instances where GICS for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data.

[4] 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 34 issuers whose audits were inspected in 2016, based on the issuer's industry.[5]



Industry	Number of Audits Inspected	Percentage
Consumer Discretionary	4	12%
Energy	5	14%
Financial Services	7	21%
Health Care	2	6%
Industrials	7	21%
Information Technology	8	23%
Telecommunication Services	1	3%

C.2. Revenue Ranges of Issuers Inspected

The chart below categorizes, based upon revenue, the 34 issuers whose audits were inspected in 2016.[6] This presentation of revenue data is intended to provide information about the size of issuer audits that were inspected and is not indicative of

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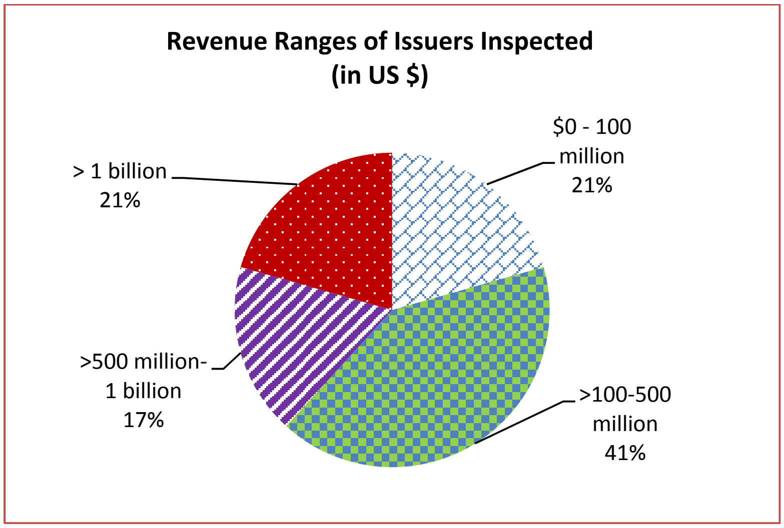
5 See Footnote 3 for additional information on how industry sectors were classified.

6 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.

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	7	21%
>100-500 million	14	41%
>500 million -1 billion	6	17%
>1 billion	7	21%

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.[7]

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,[8] as well as a firm's failure to perform, or

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

[8] 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.

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 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.[9] 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 nature, significance, and frequency of deficiencies;[10] related firm methodology, guidance, and practices; and possible root causes.

[9] 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.

[10] 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.

Inspections also include a review of certain of the firm's practices, policies, and processes related to audit quality, which constitute a part of the firm's quality control system. The inspection team customizes the procedures it performs with respect to the firm's practices, policies, and processes related to audit quality, bearing in mind the firm's structure, procedures performed in prior inspections, past and current inspection observations, an assessment of risk related to each area, and other factors. The areas generally considered for review include (1) management structure and processes, including the tone at the top; (2) practices for partner management, including allocation of partner resources and partner evaluation, compensation, admission, and disciplinary actions; (3) policies and procedures for considering and addressing the risks involved in accepting and retaining issuer audit engagements, including the application of the firm's risk-rating system; (4) processes related to the firm's use of audit work that the firm's foreign affiliates perform on the foreign operations of the firm's U.S. issuer audits; and (5) the firm's processes for monitoring audit performance, including processes for identifying and assessing indicators of deficiencies in audit performance, independence policies and procedures, and processes for responding to defects or potential defects in quality control. A description of the procedures generally applied to these areas is below.

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

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

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.[11]

[11] The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

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November 20, 2017

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

Re: Response to Part I of the Draft Report on the 2016 Inspection of Grant Thornton LLP

Dear Ms. Munter:

On behalf of Grant Thornton LLP (the "Firm"), we are pleased to provide our response to the Public Company Accounting Oversight Board's (the "PCAOB") Draft Report on the 2016 Inspection of our Firm, principally related to our 2015 audits (the "Draft Report").

Quality is the Firm's highest priority. We seek to demonstrate that quality objectively through continually improving inspection results, and transparently through the publication of a profession-leading audit quality transparency report, which can be found on our website at www.grantthornton.com.

Consistent with our commitment to quality, we support the PCAOB's mission to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports. The PCAOB inspection report and dialogue with the inspections staff is an integral component to our commitment to achieving the highest levels of audit quality.

We carefully considered each of the matters identified in Part I of the Draft Report. Accordingly, we took all steps necessary to fulfil our responsibilities under AS 2901, *Consideration of Omitted Procedures after the Report Date* and AS 2905 *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*.

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

Respectfully submitted,

By:

J. Michael McGuire
Chief Executive Officer

Jeffrey L. Burgess
National Managing Partner of Audit Services

APPENDIX C

AUDITING STANDARDS REFERENCED IN PART I

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

AS 1105, *Audit Evidence*		
SUFFICIENT APPROPRIATE AUDIT EVIDENCE		
Using Information Produced by the Company		
AS 1105.10	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 G

Footnote to AS 1105.10

[3] When using the work of a specialist engaged or employed by management, *see* AS 1210, *Using the Work of a Specialist.* When using information produced by a service organization or a service auditor's report as audit evidence, *see* AS 2601, *Consideration of an Entity's Use of a Service Organization*, and for integrated audits, *see* AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.

AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*		
USING A TOP-DOWN APPROACH		
Identifying Entity-Level Controls		
AS 2201.27	As part of evaluating the period-end financial reporting process, the auditor should assess - ▪ Inputs, procedures performed, and outputs of the processes the company uses to produce its annual and quarterly financial statements; ▪ The extent of information technology ("IT") involvement in the period-end financial reporting process; ▪ Who participates from management; ▪ The locations involved in the period-end financial reporting process; ▪ The types of adjusting and consolidating entries; and ▪ The nature and extent of the oversight of the process by management, the board of directors, and the audit committee. Note: The auditor should obtain sufficient evidence of the effectiveness of those quarterly controls that are important to determining whether the company's controls sufficiently address the assessed risk of misstatement to each relevant assertion as of the date of management's assessment. However, the auditor is not required to obtain sufficient evidence for each quarter individually.	Issuer C
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 F
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	Issuers A, C, and D

AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*		
	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.	
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 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, C, and D

AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*		
RESPONDING TO THE RISKS OF MATERIAL MISSTATEMENT		
RESPONSES INVOLVING THE NATURE, TIMING, AND EXTENT OF AUDIT PROCEDURES		
AS 2301.08	The auditor should design and perform audit procedures in a manner that addresses the assessed	Issuer H

AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*		
	risks of material misstatement for each relevant assertion of each significant account and disclosure.	
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 and D
Footnotes to AS 2301.16 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 and D

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

AS 2305, *Substantive Analytical Procedures*		
ANALYTICAL PROCEDURES USED AS SUBSTANTIVE TESTS		
Precision of the Expectation		
AS 2305.17	The expectation should be precise enough to provide the desired level of assurance that differences that may be potential material misstatements, individually or when aggregated with other misstatements, would be identified for the auditor to investigate (*see* paragraph .20). As expectations become more precise, the range of expected differences becomes narrower and, accordingly, the likelihood increases that significant differences from the expectations are due to misstatements. The precision of the expectation depends on, among other things, the auditor's identification and consideration of factors that significantly affect the amount being audited and the level of detail of data used to develop the expectation.	Issuer G
Investigation and Evaluation of Significant Differences		
AS 2305.21	The auditor should evaluate significant unexpected differences. Reconsidering the methods and factors used in developing the expectation and inquiry of management may assist the auditor in this regard. Management responses, however, should ordinarily be corroborated with other evidential matter. In those cases when an explanation for the difference cannot be obtained, the auditor should obtain sufficient evidence about the assertion by performing other audit procedures to satisfy himself as to whether the	Issuer G

AS 2305, *Substantive Analytical Procedures*		
	difference is a misstatement. In designing such other procedures, the auditor should consider that unexplained differences may indicate an increased risk of material misstatement. (*See* AS 2810.)	

AS 2310, *The Confirmation Process*		
THE CONFIRMATION PROCESS		
Form of Confirmation Request		
AS 2310.22	Although returned negative confirmations may provide evidence about the financial statement assertions, unreturned negative confirmation requests rarely provide significant evidence concerning financial statement assertions other than certain aspects of the existence assertion. For example, negative confirmations may provide some evidence of the existence of third parties if they are not returned with an indication that the addressees are unknown. However, unreturned negative confirmations do not provide explicit evidence that the intended third parties received the confirmation requests and verified that the information contained on them is correct.	Issuer H

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	Issuers A and D

AS 2315, *Audit Sampling*		
	for the tests of details than if he allowed a higher risk of incorrect acceptance.	
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 and D
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 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.	Issuers A and D

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:	Issuers A, C, and E

AS 2501, *Auditing Accounting Estimates*		
	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. 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.	

AS 2810, *Evaluating Audit Results*		
EVALUATING THE RESULTS OF THE AUDIT OF FINANCIAL STATEMENTS		
Accumulating and Evaluating Identified Misstatements		
AS 2810.17	*Evaluation of the Effect of Uncorrected Misstatements.* The auditor should evaluate whether uncorrected misstatements are material, individually or in	Issuer B

AS 2810, *Evaluating Audit Results*		
	combination with other misstatements. In making this evaluation, the auditor should evaluate the misstatements in relation to the specific accounts and disclosures involved and to the financial statements as a whole, taking into account relevant quantitative and qualitative factors.[7] (*See* Appendix B.) Note: In interpreting the federal securities laws, the Supreme Court of the United States has held that a fact is material if there is "a substantial likelihood that the …fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available."[8] As the Supreme Court has noted, determinations of materiality require "delicate assessments of the inferences a 'reasonable shareholder' would draw from a given set of facts and the significance of those inferences to him …."[9] Note: As a result of the interaction of quantitative and qualitative considerations in materiality judgments, uncorrected misstatements of relatively small amounts could have a material effect on the financial statements. For example, an illegal payment of an otherwise immaterial amount could be material if there is a reasonable possibility[10] that it could lead to a material contingent liability or a material loss of revenue.[11] Also, a misstatement made intentionally could be material for qualitative reasons, even if relatively small in amount. Note: If the reevaluation of the established materiality level or levels, as set forth in AS 2105,[12] results in a lower amount for the materiality level or levels, the auditor should take into account that lower materiality level or levels in the evaluation of uncorrected misstatements.	

Footnotes to AS 2810.17

7 If the financial statements contain material misstatements, AS 3101, *Reports on Audited Financial Statements*, indicates that the auditor should issue a qualified or an adverse opinion on the financial statements. AS 3101.35 discusses situations in which the financial statements are materially affected by a departure from the applicable financial reporting framework.

8 *TSC Industries v. Northway, Inc.,* 426 U.S. 438, 449 (1976). *See also Basic, Inc. v. Levinson*,

AS 2810, *Evaluating Audit Results*		
485 U.S. 224 (1988). [9] *TSC Industries*, 426 U.S. at 450. [10] There is a reasonable possibility of an event, as used in this standard, when the likelihood of the event is either "reasonably possible" or "probable," as those terms are used in the FASB Accounting Standards Codification, Contingencies Topic, paragraph 450-20-25-1. [11] AS 2405, *Illegal Acts by Clients.* [12] AS 2105.11-.12.		
Evaluating the Presentation of the Financial Statements, Including the Disclosures		
AS 2810.30	The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework. Note: AS 2815, *The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles,"* establishes requirements for evaluating the presentation of the financial statements. AS 2820, *Evaluating Consistency of Financial Statements,* establishes requirements regarding evaluating the consistency of the accounting principles used in financial statements. Note: The auditor should look to the requirements of the Securities and Exchange Commission for the company under audit with respect to the accounting principles applicable to that company.	Issuer A