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Public Company Accounting Oversight Board

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Report on

2017 Inspection of Grant Thornton LLP

(Headquartered in Chicago, Illinois)

Issued by the

Public Company Accounting Oversight Board

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THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

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. 104-2019-043

2017 INSPECTION OF GRANT THORNTON LLP

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EXECUTIVE SUMMARY

In 2017, 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"). The inspection procedures included reviews of portions of the Firm's work on 34 issuer audits, which generally related to issuer year ends in 2016.

The inspection team identified matters that it considered to be deficiencies in the performance of the work it reviewed. In six audits, certain of these deficiencies 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. These deficiencies are described in Part I.A of the report.

The Board cautions against using the number of audits with deficiencies in the public portion of a report to draw conclusions about the frequency of deficiencies throughout the firm's practice. The audits to be reviewed are most often selected based on perceived risk and not through a process designed to identify a representative sample that could be extrapolated to the firm's entire practice. The portions of these audits that are reviewed often involve the most risky areas of the financial statements. Thus, much of the audit work that is inspected presents, in the inspection team's view, a heightened possibility of auditing deficiencies.

In the 2017 inspection, the inspection team also assessed the Firm's system of quality control related to issuer audits. Pursuant to the Act, any criticisms or discussions of defects or potential defects in that system will remain nonpublic unless the Firm fails to address those criticisms or defects to the Board's satisfaction, no later than 12 months after the issuance of this report.

Audit Opinions Affected by the Identified Deficiencies

Twenty-seven of the 34 engagements inspected were integrated audits of both internal control and the financial statements. As depicted in the table below, the inspection team identified deficiencies in both financial statement audits and audits of internal control over financial reporting ("ICFR").

	Number of Audits
Audits for which deficiencies included in Part I.A related to both the financial statement audit and the ICFR audit	<u>4 Audits</u>: Issuers A, B, C, and E

	Number of Audits
Audits for which deficiencies included in Part I.A related to the ICFR audit only	1 Audit: Issuer F
Audits for which deficiencies included in Part I.A related to the financial statement audit only	1 Audit: Issuer D
Total	6

Most Frequently Identified Audit Deficiencies

The following table lists, in summary form, the types of deficiencies that appear most frequently in Part I.A of this report and shows which issuer audits included these deficiencies.

Issue	**Part I.A Audits**
Failure to sufficiently test the design and/or operating effectiveness of controls that included a review element and that the Firm selected for testing	3 Audits: Issuers A, C, and F
Failure to sufficiently evaluate the issuer's compliance with GAAP for one or more transactions or accounts	3 Audits: Issuers A, C, and D
Failure to appropriately evaluate control deficiencies	2 Audits: Issuers A and B

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.

Area	**Part I.A Audits**
Revenue, including accounts receivable	3 Audits: Issuers A, B, and E
Business combinations	2 Audits: Issuers A and C
Property, plant, and equipment, including oil and gas properties	2 Audits: Issuers E and F

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Inspections are designed and performed to assess compliance with applicable standards and requirements. The inspection team reviews both (1) selected audits and (2) policies and procedures related to quality control processes. The primary procedures[1] for the inspection were performed from July 2017 to June 2018. Inspectors conducted field work at the Firm's National Office and inspected issuer audits performed by 20 of the Firm's approximately 58 U.S. practice offices.

Part I.A includes a description of all audit deficiencies that reach a defined level of significance, which is described below. These deficiencies are categorized in various ways in both Part I.B and the Executive Summary. Part I.C of this report provides certain demographic information about all of the audits inspected. Part I.D provides a general description of the procedures performed in an annual inspection.

Inspections are designed to identify deficiencies in audit work and defects or potential defects in the firm's system of quality control. This focus on deficiencies and defects necessarily carries through to inspection reports and, therefore, the reports are not intended as balanced report cards or overall rating tools. Further, the lack of discussion within a report of an aspect of the inspected firm's quality control system should not be interpreted to imply that the Board has reached a conclusion about that aspect. Similarly, 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, an 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 described in that report.

The inspection team's evaluation of the Firm's quality control system included both (1) a review of certain aspects of the Firm's quality control system and (2) an assessment of whether the deficiencies identified in individual audits indicate defects or potential defects in the Firm's system of quality control.

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

A. Review of Audit Engagements

The inspection procedures included reviews of portions of 34 issuer audits performed by the Firm. Certain of the deficiencies were of such significance that the inspection team determined that the Firm issued an opinion without obtaining sufficient appropriate audit evidence that the financial statements were free of material misstatement and/or the issuer maintained effective ICFR. These deficiencies are described in Part I.A. The descriptions in Part I.A include references to the auditing standards that most directly relate to those deficiencies. (See Appendix B for the text of these standards.) References to provisions of the auditing standards that generally address all aspects of the audit are provided only when lack of compliance with these standards is the primary reason for the deficiency.[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. In many cases, the Firm has since performed remedial actions intended to address the deficiencies.[3] That an audit deficiency reached the level of significance to be included in Part I.A of an inspection report does not mean that the financial statements are misstated or that there are undisclosed material weaknesses in ICFR. It is often not possible for the inspection team to reach a conclusion on those points because the inspection team usually has only the information the auditor retained and the issuer's public disclosures. Even when not associated with a disclosed misstatement or previously unidentified material weakness, an auditor's failure to obtain sufficient appropriate audit evidence is a serious matter.

The audit deficiencies that were so significant that it appeared that the audit opinion was unsupported are described in Parts I.A.1 through I.A.6, below. Issuer audits

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[2] These broadly applicable provisions are described in Part I.B of this report.

[3] 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. An inspection normally includes a review, on a sample basis, 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 could be a basis for criticisms of the firm's quality control system or Board disciplinary sanctions.

are generally presented in the order of significance of the deficiencies identified in the inspections of those audits; severity is assessed based on extent of the deficiencies identified in the audit, financial statement accounts affected, and/or potential consequences of the audit deficiency.

Audit Deficiencies

A.1. Issuer A

In this audit of an issuer in the information technology industry sector, 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 identified deficiencies in certain information technology general controls ("ITGCs") over privileged access to the system that the issuer used to process revenue, accounts receivable, and income taxes. Specifically, the issuer had multiple privileged access user accounts that were shared among a group of individuals or that allowed users to approve the entries they created or modified. The privileged access would allow these users to change programs, data, and records of user activity. In response to these deficiencies, the Firm reviewed user activity as recorded in the system and concluded that the deficiencies did not rise to the level of a significant deficiency or material weakness. The Firm failed to perform sufficient procedures related to revenue, accounts receivable, and income taxes. Specifically –

    - The Firm's procedures to evaluate the effect of the ITGC deficiencies, which were limited to considering the results of its review of user activity, were not sufficient because the ITGC deficiencies described above would allow the users with privileged access to change records of user activity. (AS 2201.65)

    - The Firm tested certain information technology ("IT") dependent manual controls over revenue, accounts receivable, and income taxes that used data from the system for which the deficiencies in ITGCs described above were identified, and the Firm failed to identify and test any other controls over the accuracy and completeness of these data. (AS 2201.39)

    - The Firm selected for testing certain automated controls over revenue and accounts receivable. The Firm's procedures to test the operating effectiveness of these automated controls consisted primarily of testing a sample of one transaction. The Firm failed to sufficiently test these automated controls, as follows –

  - As a result of the deficiencies in ITGCs that are described above, the Firm's testing of these automated controls using a sample of only one instance of the control's operation was not sufficient. (AS 2201.46 and .47)

  - For certain of these automated controls over revenue, the Firm tested its sample of one transaction in the issuer's IT testing environment, rather than in the production environment that the issuer used to record revenue, and the Firm's procedures to determine whether the testing environment was the same as the production environment were limited to inquiry. (AS 2201.44)

- The Firm designed certain of its substantive procedures – including the sample sizes used in those procedures – 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, certain of the sample sizes that the Firm used to test revenue, accounts receivable, and income taxes were too small to provide sufficient evidence. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

- The Firm failed to perform sufficient substantive procedures to test certain reserve accounts related to revenue and accounts receivable. Specifically, for its testing, the Firm relied on certain data that it obtained from the issuer's system, 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 1105.10)

• During the year, the issuer completed several acquisitions. The Firm selected for testing two controls over the valuation of the intangible assets acquired in these business combinations that consisted of a review of (1) the purchase accounting journal entries, supporting documentation, and memoranda and (2) the valuation report prepared by an external specialist. The Firm's procedures to test these controls were limited to (1) inquiring of the control owner, (2) reading purchase accounting memoranda and related documentation, (3) tracing the purchase accounting journal entries to supporting documentation, and (4) obtaining the valuation report prepared by the external specialist and inspecting communications between the issuer and the external specialist. The Firm failed to evaluate the nature of the review procedures performed by the control owner to evaluate the data and assumptions used to estimate the fair value of the acquired intangible assets, including the criteria used to identify matters for follow up and whether those matters were appropriately resolved. (AS 2201.42 and 44)

- The issuer recorded taxes at a discounted tax rate in one of the jurisdictions in which it operated under the premise that the criteria for using a discounted rate had been achieved. During the year, the issuer identified that it had falsified records in this jurisdiction and, in fact, the criteria for using the discounted tax rate had not been achieved. As a result, the issuer recorded a tax liability for the additional taxes and the related interest expense. In evaluating the issuer's determination that it did not need to accrue for potential tax penalties, the Firm considered that (1) a member of the audit committee with experience in these types of issues did not take exception to the issuer's conclusion; (2) there was a subsequent change in the qualifying criteria used by the taxing authorities, resulting in the issuer qualifying for the discounted tax rate going forward; (3) the issuer represented, without providing documentation, that it had orally discussed its determination with an external expert; and (4) a tax audit of the issuer's filing status before the issuer determined that it had not met the criteria had resulted in no findings. In addition, the Firm orally inquired of two internal experts; one of these provided reasons why a tax penalty might not be assessed, and the other expressed an expectation for an accrual at the low end of the possible penalties, which would not have been material to the issuer. These procedures were insufficient, as they did not provide evidence that it was a widely understood administrative practice that no tax penalties would be assessed by the taxing authorities in these circumstances, which would be necessary under generally accepted accounting principles ("GAAP") to support the lack of an accrual given the issuer's position that the penalties that were possible in the relevant jurisdiction would not be assessed. (AS 2810.30)

A.2. Issuer B

In this audit of an issuer in the information technology industry sector, the Firm failed 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 portion of its revenue based on electronic activity that was tracked and recorded using an internally developed IT system. The Firm identified deficiencies in the ITGCs over this system and concluded that these deficiencies, in the aggregate, represented a significant deficiency. The Firm's procedures related to this revenue were not sufficient. Specifically –

- In evaluating the severity of the identified ITGC deficiencies, the Firm failed to take into account the potential misstatement of this revenue resulting from the deficiencies. (AS 2201.65)

- The Firm tested certain IT-dependent manual controls over revenue that used data from the system for which the deficiencies in ITGCs described above were identified, and the Firm failed to identify and test any other controls over the accuracy and completeness of these data. (AS 2201.39)

- The Firm failed to perform sufficient substantive procedures to test this revenue. Specifically, the Firm relied on data that it obtained from the IT system, but it failed to test the accuracy and completeness, or (as described above) sufficiently test controls over the accuracy and completeness, of these data. (AS 1105.10)

A.3. <u>Issuer C</u>

In this audit of an issuer in the industrials industry sector, 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. During the year, the issuer completed multiple business combinations. The Firm's procedures related to the valuation of intangible assets acquired in these business combinations were insufficient. Specifically –

- The Firm failed to identify, and evaluate the significance to the financial statements of, a departure from GAAP related to the issuer's accounting for acquired intangible assets. The issuer calculated the amount allocated to these assets for each acquisition by subtracting the fair values of the tangible assets acquired, net of the liabilities assumed, from the total purchase price. As a result, the issuer did not record these assets at their fair value, as is required by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 805, *Business Combinations*. (AS 2810.30)

- The Firm selected for testing two controls over the valuation of acquired intangible assets that consisted of reviews of (1) certain information about each acquired business, including approvals and data related to the valuation and (2) journal entries to record the assets acquired and liabilities assumed. The Firm's procedures to test the first control were limited to inquiring of a control owner and, for a sample of transactions, comparing certain information to the preliminary purchase price allocation and verifying that the acquisitions were approved. The Firm's procedures to test the second control were limited to inquiring of the control owner and, for a sample of transactions, comparing the entries to the underlying agreements, other supporting documentation, and the general ledger. For both controls, the Firm failed to ascertain and evaluate the nature of any review procedures performed by the control owners to assess the reasonableness of the fair values recorded for acquired intangible assets. (AS 2201.42 and .44)

A.4. Issuer D

In this audit of an issuer in the energy industry sector, the Firm failed to identify, and evaluate the significance to the financial statements of, a departure from GAAP. Specifically, the issuer improperly classified interest payments as financing activities rather than operating activities in the issuer's consolidated statement of cash flows, in contravention of FASB ASC Subtopic 230-10, *Statement of Cash Flows - Overall*. (AS 2810.30)

A.5. Issuer E

In this audit of an issuer in the real estate industry sector, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR. The Firm's audit approach for testing property and one type of revenue included testing ITGCs over the system that the issuer used to maintain records for property and revenue. The issuer used a service provider to administer the system. The Firm failed to perform sufficient procedures related to property and this revenue. Specifically –

- The Firm failed to sufficiently test ITGCs over the system. First, the Firm failed to obtain evidence about controls that addressed the risk of unauthorized changes to applications or data in the system, either by obtaining a service auditor's report or performing its own identification and testing of relevant controls. Second, the Firm failed to sufficiently test controls over change management for the system. Specifically, the Firm's procedures were limited to making selections from the report that management used to track changes to the system, without evaluating whether the monitoring tool that generated the report was configured appropriately to log and report all changes to the system. The Firm tested certain IT-dependent manual controls over property and this revenue that used data from the system for which the deficiencies in ITGCs described above were identified, and the Firm failed to identify and test any other controls over the accuracy and completeness of these data. (AS 2201.39, .42, and .44)

- The Firm failed to perform sufficient substantive procedures to test property. Specifically, in its testing, the Firm relied on a report that it obtained from the system, but it failed to test the accuracy and completeness, or (as described above) to sufficiently test controls over the accuracy and completeness, of this report. (AS 1105.10)

A.6. Issuer F

In this audit of an oil and gas producer in the energy industry sector, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR, as it failed to perform sufficient procedures to test controls over the valuation of the issuer's proved properties. The Firm selected for testing a control that consisted of a review of the reasonableness of the assumptions and the accuracy of the data underlying the estimated future cash flows that the issuer used to calculate depletion expense and to evaluate the possible impairment of the proved properties. The Firm failed to sufficiently test this control, as its procedures were limited to (1) inquiring of the control owner, (2) inspecting evidence that a review had occurred, (3) tracing certain data to the general ledger, and (4) testing the mathematical accuracy of certain calculations. The Firm failed to evaluate the nature of the review procedures performed by the control owner, including the criteria used to identify matters for follow up and whether those matters were appropriately resolved. In addition, the Firm failed to test the aspect of this control that addressed the accuracy of certain data used in the performance of the control. (AS 2201.42 and .44)

B. Auditing Standards

Each deficiency described in Part I.A above could relate to several provisions of the auditing standards that govern the conduct of audits. The paragraphs of the standards that are cited in Part I.A for each deficiency are only 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. Appropriateness is the measure of the quality of audit evidence; to be appropriate, evidence must be both relevant and reliable in providing support for the related conclusions.

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 References per Audit
AS 1105, *Audit Evidence*	Issuer A Issuer B Issuer E	1 1 1

PCAOB Auditing Standards	Audits	Number of References per Audit
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	Issuer A Issuer B Issuer C Issuer E Issuer F	5 2 1 1 1
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	Issuer A	1
AS 2315, *Audit Sampling*	Issuer A	1
AS 2810, *Evaluating Audit Results*	Issuer A Issuer C Issuer D	1 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 2315	AS 2810
Business combinations		A, C			C
Cash flows					D
Property, plant, and equipment, including oil and gas properties	E	E, F			
Revenue, including accounts receivable	A, B	A, B, E	A	A	
Taxes		A	A	A	A

B.3. Audit Deficiencies by Industry

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

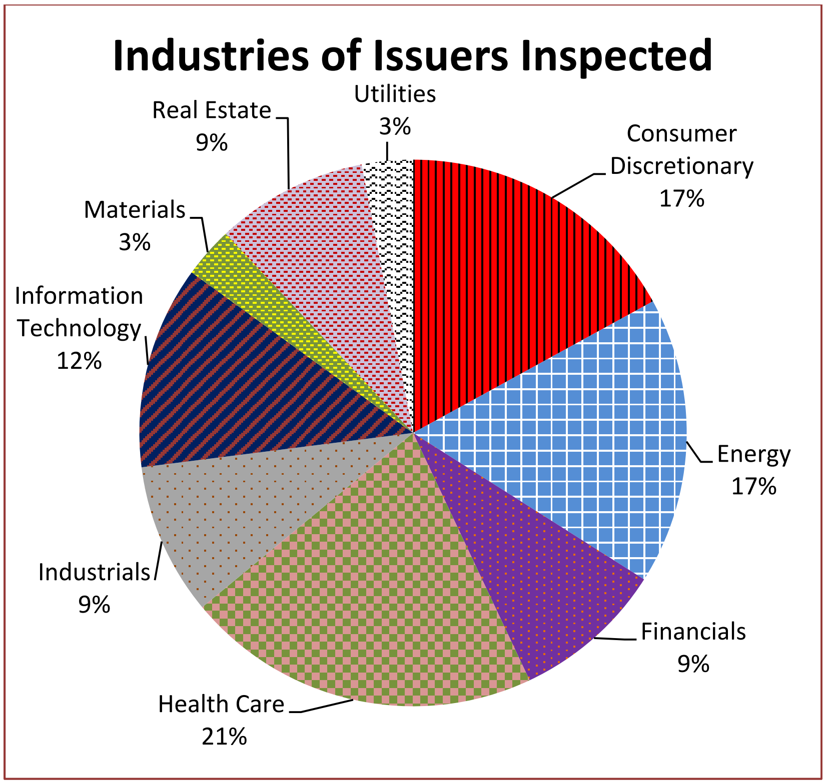
	AS 1105	AS 2201	AS 2301	AS 2315	AS 2810
Energy		F			D
Industrials		C			C
Information Technology	A, B	A, B	A	A	A
Real Estate	E	E			

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

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 2017, based on the issuer's industry.[5]

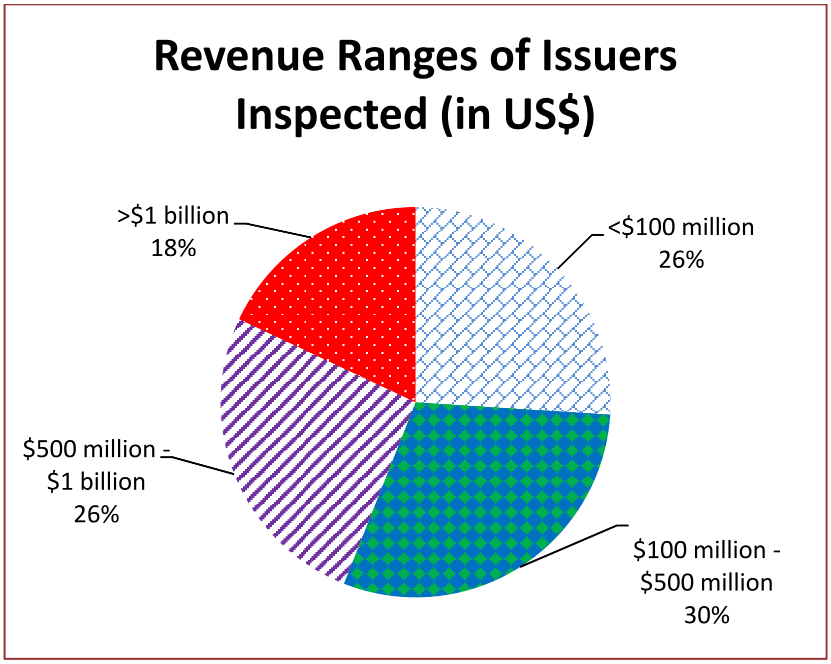


Industry	Number of Audits Inspected	Percentage
Consumer Discretionary	6	17%
Energy	6	17%
Financials	3	9%
Health Care	7	21%
Industrials	3	9%
Information Technology	4	12%
Materials	1	3%
Real Estate	3	9%
Utilities	1	3%
Total	34	100%

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

C.2. Revenue Ranges of Issuers Inspected

The chart below categorizes, based upon revenue, the 34 issuers whose audits were inspected in 2017.[6] This presentation of revenue data is intended to provide information related to the size of issuers whose audits were inspected and is not indicative of whether the inspection included a review of the Firm's auditing of revenue in the issuer audits selected for review.



Revenue (in US$)	Number of Audits Inspected	Percentage
<100 million	9	26%
100-500 million	10	30%
500 million -1 billion	9	26%
>1 billion	6	18%
Total	34	100%

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.

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

This section provides a brief description of the procedures that are often performed in annual inspections of auditing firms.

D.1. Reviews of Audit Work

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 review of any 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 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

to perform sufficiently, certain necessary risk assessment procedures, tests of controls, and substantive audit procedures.

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.

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

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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.

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.

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

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[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.

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 firm personnel, including firm 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 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 processes 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 and operation of the firm's internal inspection program, and may compare the results of its review to those from the internal inspection's review of the same audit work.

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

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

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

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

END OF PART I

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

APPENDIX A

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.[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 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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February 18, 2019

Mr. George Botic, 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 2017 Inspection of Grant Thornton LLP

Dear Mr. Botic:

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 2017 Inspection of our Firm, principally related to our 2016 audits (the "Draft Report").

Quality is the Firm's highest priority and is the foundation of all that we do at Grant Thornton. We continue to seek new ways to further advance high audit quality, including our newly created Audit Quality Advisory Council ("Quality Council"). The Quality Council, which includes two outside members, will advise our Partnership Board and leadership on the Firm's audit quality, and provide independent perspective on our unwavering focus on quality.

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 continues to be 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

J. Michael McGuire
Chief Executive Officer

Jeffrey L. Burgess

Jeffrey L. Burgess
National Managing Partner of Audit Services

APPENDIX B

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.	Issuers A, B, and E
<u>Footnote to AS 1105.10</u> [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		
Selecting Controls to Test		
AS 2201.39	The auditor should test those controls that are important to the auditor's conclusion about whether the	Issuers A, B, and E

AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*		
	company's controls sufficiently address the assessed risk of misstatement to each relevant assertion.	
TESTING CONTROLS		
Testing Design Effectiveness		
AS 2201.42	The auditor should test the design effectiveness of controls by determining whether the company's controls, if they are operated as prescribed by persons possessing the necessary authority and competence to perform the control effectively, satisfy the company's control objectives and can effectively prevent or detect errors or fraud that could result in material misstatements in the financial statements. Note: A smaller, less complex company might achieve its control objectives in a different manner from a larger, more complex organization. For example, a smaller, less complex company might have fewer employees in the accounting function, limiting opportunities to segregate duties and leading the company to implement alternative controls to achieve its control objectives. In such circumstances, the auditor should evaluate whether those alternative controls are effective.	Issuers A, C, E, and F
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, E, and F
Relationship of Risk to the Evidence to be Obtained		
AS 2201.46	For each control selected for testing, the evidence necessary to persuade the auditor that the control is effective depends upon the risk associated with the control.	Issuer A

<table>
<tr><th colspan="3">AS 2201, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</th></tr>
<tr><td></td><td>The risk associated with a control consists of the risk that the control might not be effective and, if not effective, the risk that a material weakness would result. As the risk associated with the control being tested increases, the evidence that the auditor should obtain also increases

Note: Although the auditor must obtain evidence about the effectiveness of controls for each relevant assertion, the auditor is not responsible for obtaining sufficient evidence to support an opinion about the effectiveness of each individual control. Rather, the auditor's objective is to express an opinion on the company's internal control over financial reporting overall. This allows the auditor to vary the evidence obtained regarding the effectiveness of individual controls selected for testing based on the risk associated with the individual control.</td><td></td></tr>
<tr><td>AS 2201.47</td><td>Factors that affect the risk associated with a control include –

▪ The nature and materiality of misstatements that the control is intended to prevent or detect;
▪ The inherent risk associated with the related account(s) and assertion(s);
▪ Whether there have been changes in the volume or nature of transactions that might adversely affect control design or operating effectiveness;
▪ Whether the account has a history of errors;
▪ The effectiveness of entity-level controls, especially controls that monitor other controls;
▪ The nature of the control and the frequency with which it operates;
▪ The degree to which the control relies on the effectiveness of other controls (e.g., the control environment or information technology general controls);
▪ The competence of the personnel who perform the control or monitor its performance and whether there have been changes in key personnel who perform the control or monitor its performance;
▪ Whether the control relies on performance by an individual or is automated (i.e., an automated control would generally be expected to be lower risk if relevant information technology general controls are effective); and</td><td>Issuer A</td></tr>
</table>

AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*		
	Note: A less complex company or business unit with simple business processes and centralized accounting operations might have relatively simple information systems that make greater use of off-the-shelf packaged software without modification. In the areas in which off-the-shelf software is used, the auditor's testing of information technology controls might focus on the application controls built into the pre-packaged software that management relies on to achieve its control objectives and the IT general controls that are important to the effective operation of those application controls. ▪ The complexity of the control and the significance of the judgments that must be made in connection with its operation. Note: Generally, a conclusion that a control is not operating effectively can be supported by less evidence than is necessary to support a conclusion that a control is operating effectively.	
EVALUATING IDENTIFIED DEFICIENCIES		
AS 2201.65	Risk factors affect whether there is a reasonable possibility that a deficiency, or a combination of deficiencies, will result in a misstatement of an account balance or disclosure. The factors include, but are not limited to, the following – ▪ The nature of the financial statement accounts, disclosures, and assertions involved; ▪ The susceptibility of the related asset or liability to loss or fraud; ▪ The subjectivity, complexity, or extent of judgment required to determine the amount involved; ▪ The interaction or relationship of the control with other controls, including whether they are interdependent or redundant; ▪ The interaction of the deficiencies; and ▪ The possible future consequences of the deficiency. Note: The evaluation of whether a control deficiency presents a reasonable possibility of misstatement can be made without quantifying the probability of occurrence as a specific percentage	Issuers A and B

AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*		
	or range. Note: Multiple control deficiencies that affect the same financial statement account balance or disclosure increase the likelihood of misstatement and may, in combination, constitute a material weakness, even though such deficiencies may individually be less severe. Therefore, the auditor should determine whether individual control deficiencies that affect the same significant account or disclosure, relevant assertion, or component of internal control collectively result in a material weakness.	

AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*		
TESTING CONTROLS		
Testing Controls in an Audit of Financial Statements		
AS 2301.16	*Controls to be Tested.* If the auditor plans to assess control risk at less than the maximum by relying on controls,[12] and the nature, timing, and extent of planned substantive procedures are based on that lower assessment, the auditor must obtain evidence that the controls selected for testing are designed effectively and operated effectively during the entire **period of reliance**.[13] However, the auditor is not required to assess control risk at less than the maximum for *all* relevant assertions and, for a variety of reasons, the auditor may choose not to do so.	Issuer A
<u>Footnotes to AS 2301.16</u> [12] Reliance on controls that is supported by sufficient and appropriate audit evidence allows the auditor to assess control risk at less than the maximum, which results in a lower assessed risk of material misstatement. In turn, this allows the auditor to modify the nature, timing, and extent of planned substantive procedures. [13] Terms defined in Appendix A, *Definitions*, are set in **boldface type** the first time they appear.		
AS 2301.18	*Evidence about the Effectiveness of Controls in the Audit of Financial Statements*. In designing and performing tests of controls for the audit of financial statements, the evidence necessary to support the auditor's control risk assessment depends on the degree of reliance the auditor plans to place on the effectiveness	Issuer A

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

AS 2315, *Audit Sampling*		
SAMPLING IN SUBSTANTIVE TESTS OF DETAILS		
Planning Samples		
AS 2315.19	After assessing and considering the levels of inherent and control risks, the auditor performs substantive tests to restrict detection risk to an acceptable level. As the assessed levels of inherent risk, control risk, and detection risk for other substantive procedures directed toward the same specific audit objective decreases, the auditor's allowable risk of incorrect acceptance for the substantive tests of details increases and, thus, the smaller the required sample size for the substantive tests of details. For example, if inherent and control risks are assessed at the maximum, and no other substantive tests directed toward the same specific audit objectives are performed, the auditor should allow for a low risk of incorrect acceptance for the substantive tests of details.[3] Thus, the auditor would select a larger sample size for the tests of details than if he allowed a higher risk of incorrect acceptance.	Issuer A
<u>Footnote to AS 2315.19</u>		

AS 2315, *Audit Sampling*		
[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.	Issuer A
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.	Issuer A

AS 2810, *Evaluating Audit Results*		
EVALUATING THE RESULTS OF THE AUDIT OF FINANCIAL STATEMENTS		
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*	Issuers A, C, and D

AS 2810, *Evaluating Audit Results*		
	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.	