2018 Inspection Grant Thornton LLP

(Headquartered in Chicago, Illinois)

April 28, 2020

PCAOB
Public Company Accounting Oversight Board

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. 104-2020-010A
(Includes portions of Part II and Appendix A of the full report that were not included in PCAOB Release No. 104-2020-010)

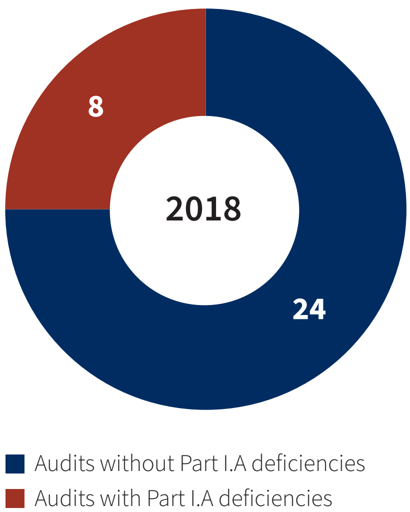
Executive Summary

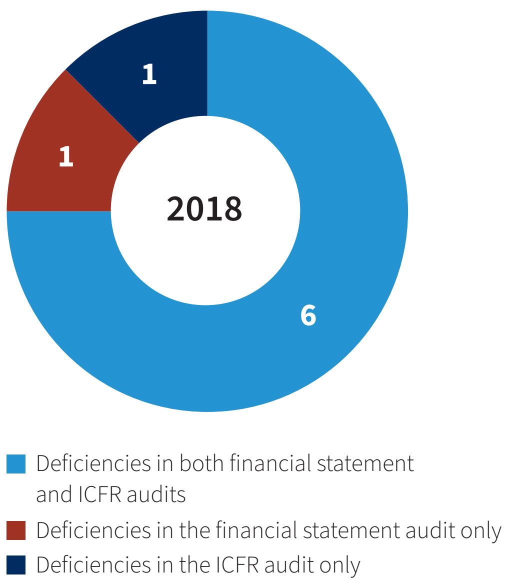
Our 2018 inspection report on Grant Thornton LLP provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board ("PCAOB") standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of: (1) Part I.A of the report, which discusses deficiencies ("Part I.A deficiencies") in certain issuer audits that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or internal control over financial reporting ("ICFR"), and (2) Part I.B of the report, which discusses deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

The fact that we have included a deficiency in this report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. If a deficiency is included in Part I.A or Part I.B of this report, it does not necessarily mean that the firm has not addressed the deficiency.

Overview of the 2018 Deficiencies Included in Part I

Eight of the 32 issuer audits we reviewed in 2018 are included in Part I.A of this report due to the significance of the deficiencies identified. The identified deficiencies primarily related to the firm's testing of controls over and/or substantive testing of revenue and related accounts, inventory, and business combinations.





The most common Part I.A deficiencies in 2018 related to testing the design or operating effectiveness of controls selected for testing, identifying controls related to a significant account or relevant assertion, and evaluating significant assumptions or data that the issuer used in developing an estimate.

An additional deficiency identified during the 2018 inspection that does not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s), which appears in Part I.B, related to audit committee communications.

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2018 Inspection

During the PCAOB's 2018 inspection of Grant Thornton LLP, we assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review 32 audits of issuers with fiscal years generally ending in 2017. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2018 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.
- **Part I – Inspection Observations:**
  - **Part I.A:** Deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR.
  - **Part I.B:** Deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.
- **Part II – Observations Related to Quality Control:** Criticisms of, or potential defects in, the firm's system of quality control. Section 104(g)(2) of the Sarbanes-Oxley Act ("the Act") restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.
- **Appendix A – Firm's Response to the Draft Inspection Report:** The firm's response to a draft of this report, excluding any portion granted confidential treatment.

2018 Inspection Approach

In selecting issuer audits for review, we use both risk-based and random methods of selection. We make most selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. We select the remaining audits randomly to provide an element of unpredictability.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed.

View the details on the scope of our inspections and our inspections procedures.

Overview of the 2018 Inspection and Historical Data by Inspection Year

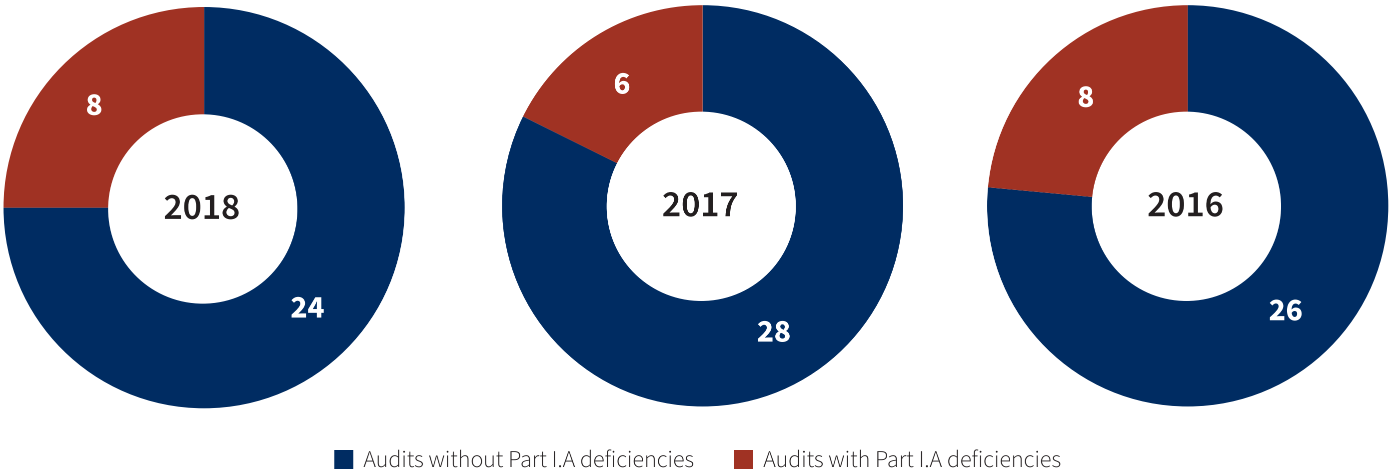
The following information provides an overview of our inspections in 2018 of the firm's issuer audits as well as data from the previous two inspections. We use a combination of risk-based and random methods to select audits for review and to identify areas on which we focus our inspection. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and focus areas from year to year and firm to firm. As a result of this variation, we caution that our inspection results are not necessarily comparable over time or among firms.

Audits Reviewed

	2018	2017	2016
Total audits reviewed	32	34	34
Audits in which the firm was the principal auditor	32	34	34
Integrated audits of financial statements and ICFR	27	27	26
Risk-based selections	27	29	29
Random selections	5	5	5

Part I.A Deficiencies in Audits Reviewed

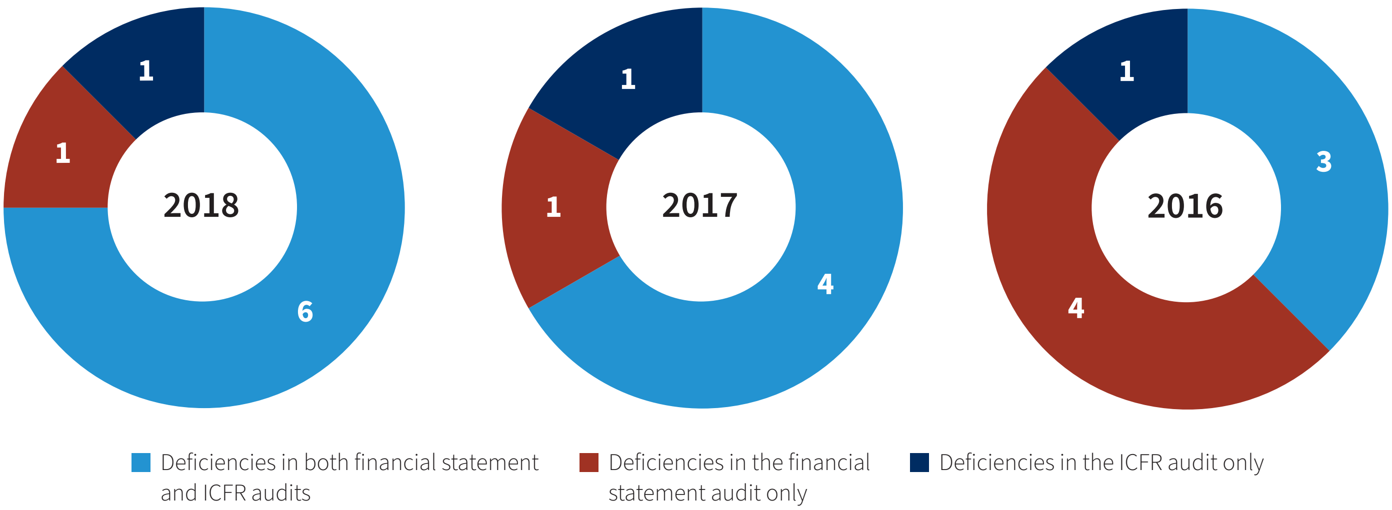
In 2018, seven of the eight audits appearing in Part I.A were selected for review using risk-based criteria. In 2017, five of the six audits appearing in Part I.A were selected for review using risk-based criteria. In 2016, seven of the eight audits appearing in Part I.A were selected for review using risk-based criteria.



If a deficiency is included in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the issue was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports. Our inspection normally includes a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during that inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

The fact that we have included a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer's public disclosures. We do not have direct access to the issuer's management, underlying books and records, and other information.

Audits Affected by the Deficiencies Identified in Part I.A



The following tables and graphs summarize inspection-related information, by inspection year, for 2018 and the previous two inspections. We caution any comparison of the data provided without reading the descriptions of the underlying deficiencies in each respective inspection report.

Most Frequently Identified Part I.A Deficiencies

Deficiencies in audits of financial statements	Audits with Part I.A deficiencies		
	2018	2017	2016
Did not sufficiently evaluate significant assumptions or data that the issuer used in developing an estimate	4	0	3
Did not perform substantive procedures to obtain sufficient evidence as a result of overreliance on controls (due to deficiencies in testing controls)	3	1	2
Did not sufficiently evaluate the appropriateness of the issuer's accounting method or disclosure for one or more transactions or accounts	2	3	2

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2018	2017	2016
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	5	3	3
Did not identify and test any controls related to a significant account or relevant assertion	5	0	4
Did not perform sufficient testing of controls over the accuracy and completeness of data or reports	2	0	0

Audit Areas Most Frequently Reviewed

This table reflects the five focus areas we have selected most frequently for review in each inspection year (and the related Part I.A deficiencies). For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2018			2017			2016		
Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies
Revenue and related accounts	29	5	**Revenue and related accounts**	33	3	**Revenue and related accounts**	31	2
Long-lived assets	14	1	**Long-lived assets**	16	2	**Long-lived assets**	13	3
Business combinations	10	2	**Business combinations**	12	2	**Inventory**	13	1
Goodwill and intangible assets	9	0	**Goodwill and intangible assets**	11	0	**Goodwill and intangible assets**	12	0
Inventory	7	3	**Inventory**	11	0	**Accruals and other liabilities**	6	0

Audit Areas with Frequent Part I.A Deficiencies

This table reflects the focus areas with the most frequently identified Part I.A deficiencies in each inspection year with the corresponding results for the other two years presented.

Audit area	2018		2017		2016	
	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed
Revenue and related accounts	5	29	3	33	2	31
Inventory	3	7	0	11	1	13
Business combinations	2	10	2	12	0	4
Long-lived assets	1	14	2	16	3	13

Revenue and related accounts: The deficiencies in 2018 and 2016 related to substantive testing of, and testing controls over, revenue. The deficiencies in 2017 primarily related to the evaluation of information-technology general controls deficiencies over systems that processed revenue.

Inventory: The deficiencies in 2018 primarily related to substantive testing of the issuer's inventory obsolescence reserve and testing cycle-count controls. The deficiencies in 2016 related to substantive testing of data used in the valuation of inventory and testing controls over the valuation of inventory.

Business combinations: The deficiencies in 2018 and 2017 primarily related to testing controls that included the issuer's review of assumptions used to value acquired intangible assets.

Long-lived assets: The deficiencies in 2018, 2017, and 2016 primarily related to substantive testing of, and/or testing controls over, assumptions the issuer used in the valuation of long-lived assets.

Auditing Standards Associated with Identified Part I.A Deficiencies

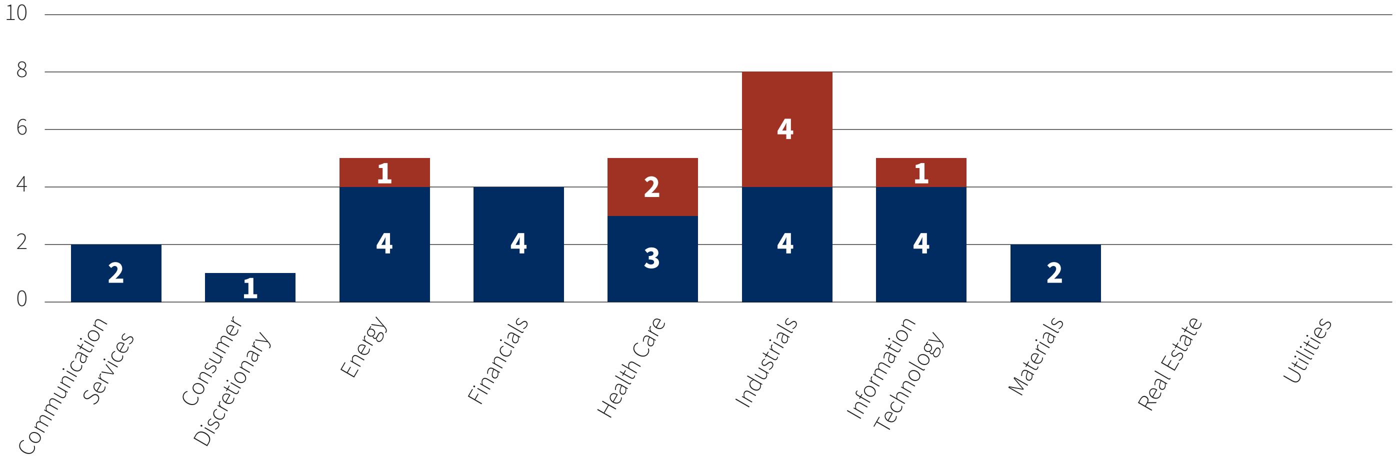
The following lists the auditing standards referenced in Part I.A of the 2018 and the previous two inspection reports and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2018	2017	2016
AS 1105, ***Audit Evidence***	0	3	1
AS 2101, ***Audit Planning***	1	0	0
AS 2201, ***An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements***	15	10	8
AS 2301, ***The Auditor's Responses to the Risks of Material Misstatement***	5	1	3
AS 2305, ***Substantive Analytical Procedures***	0	0	1
AS 2310, ***The Confirmation Process***	0	0	1
AS 2315, ***Audit Sampling***	2	1	2
AS 2501, ***Auditing Accounting Estimates***	5	0	5
AS 2502, ***Auditing Fair Value Measurements and Disclosures***	1	0	0
AS 2810, ***Evaluating Audit Results***	3	3	2

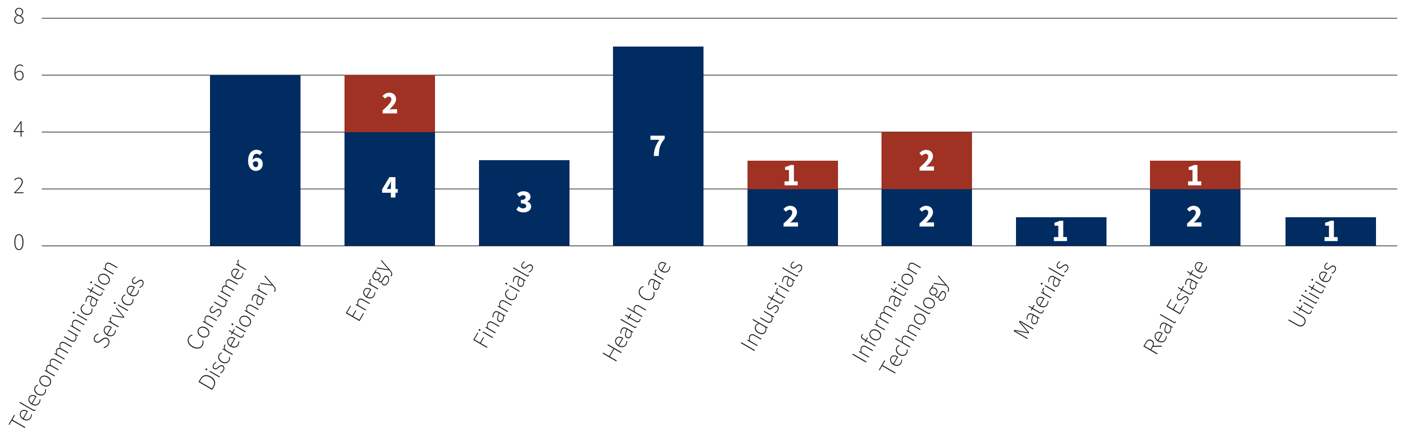
Inspection Results by Issuer Industry Sector

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 data for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data.

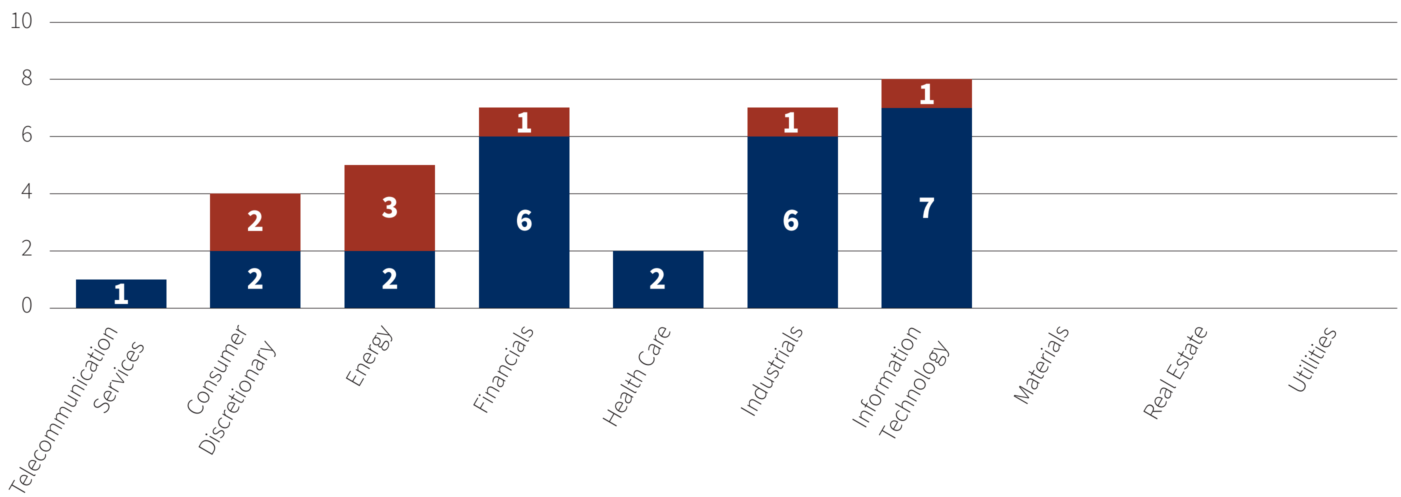
2018



2017



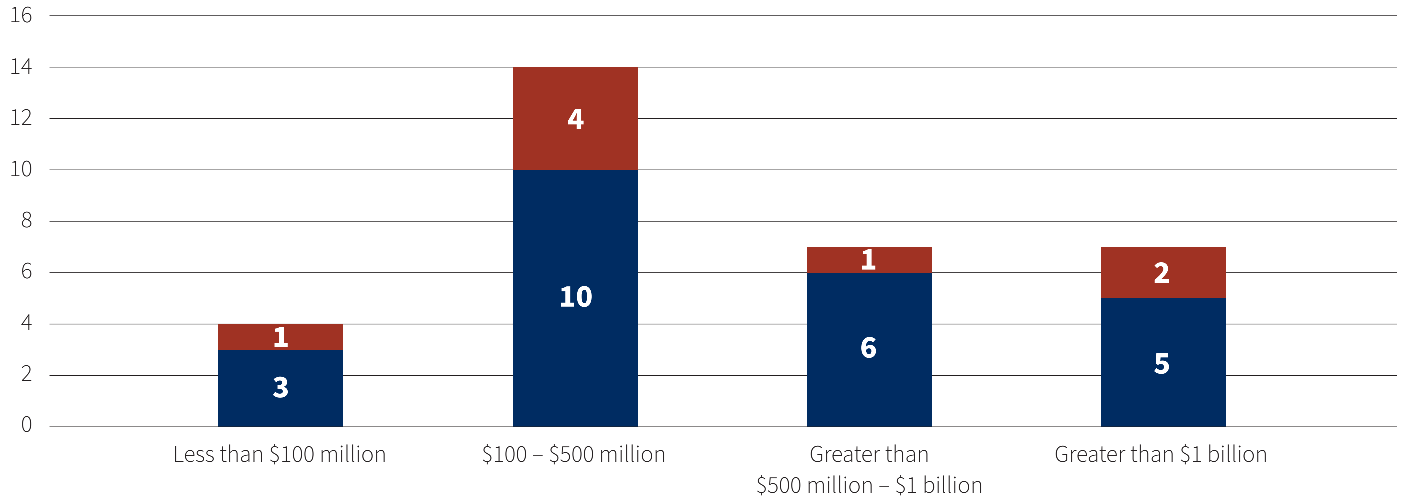
2016



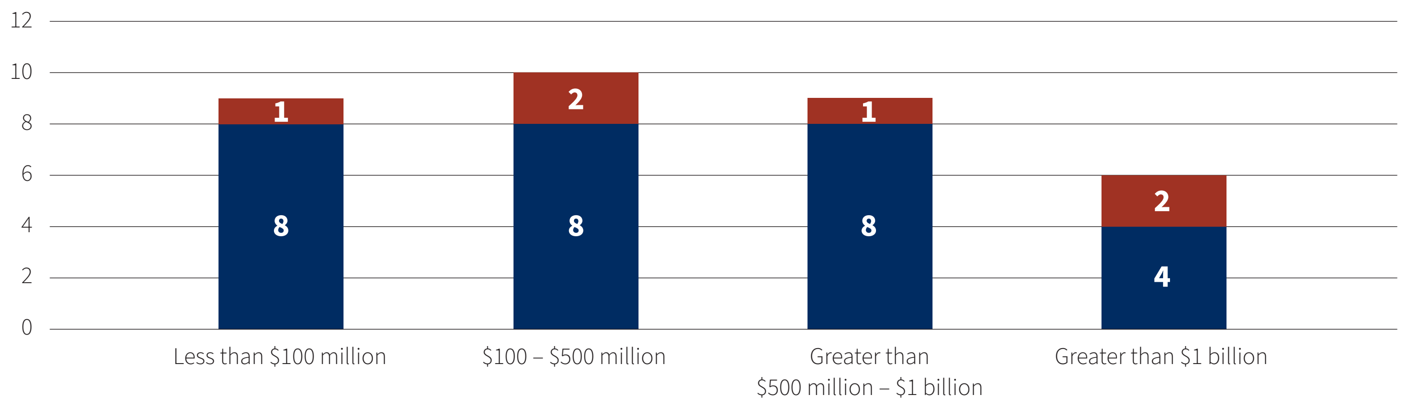
Audits without Part I.A deficiencies | Audits with Part I.A deficiencies

Inspection Results by Issuer Revenue Range

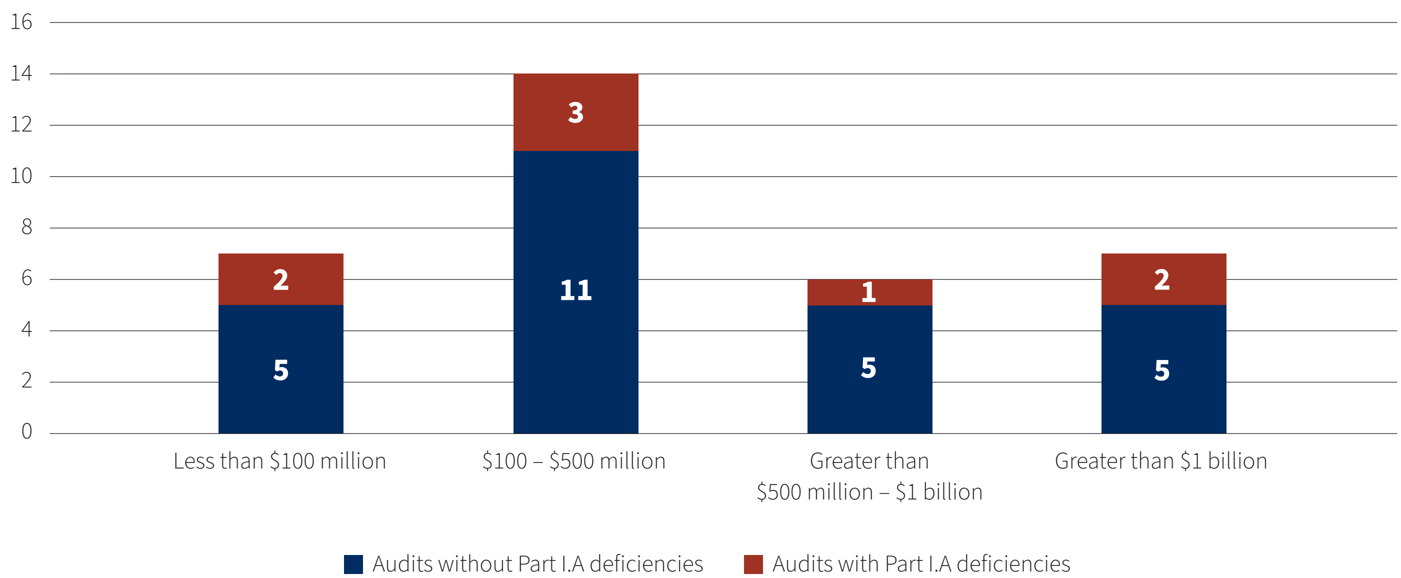
2018



2017



2016



Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The sole purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes instances where an audit deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where an audit deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or modified its report, on ICFR.

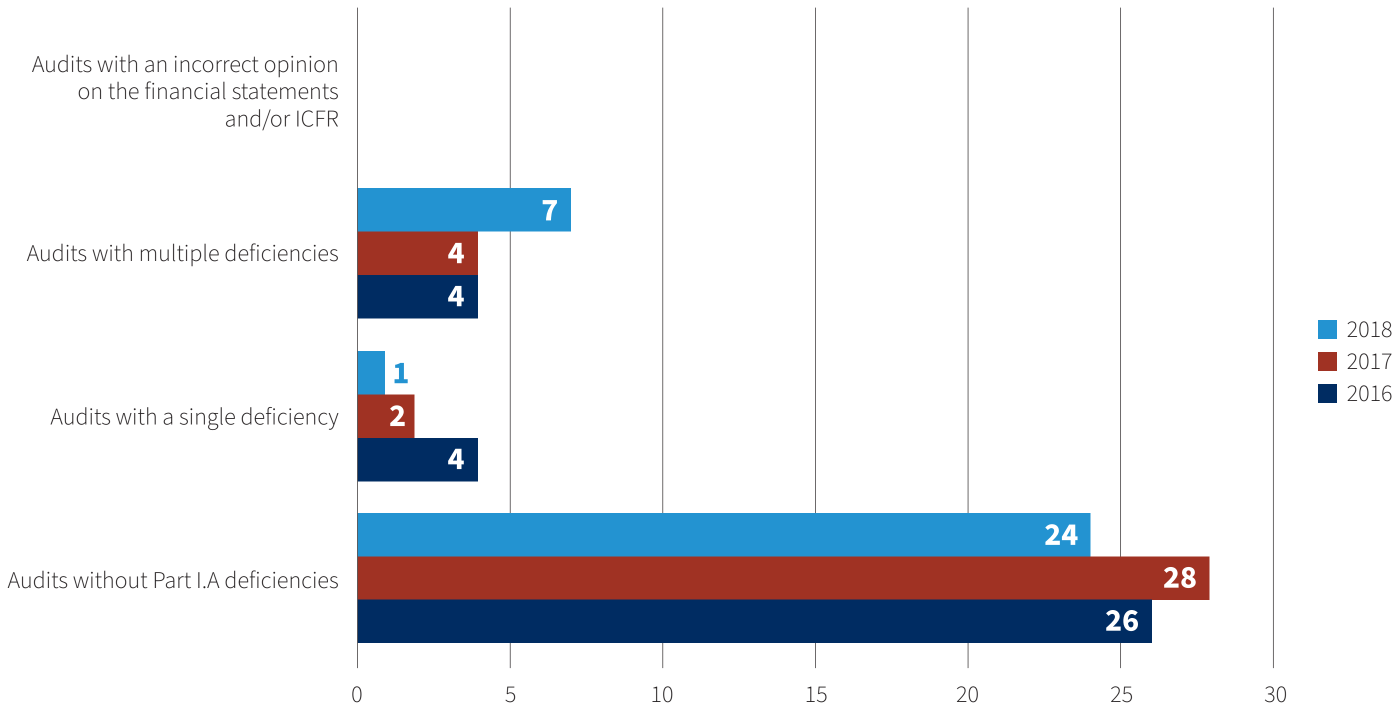
Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

Number of Audits in Each Category



Part I: Inspection Observations

Part I.A of our report discusses deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR. Part I.B discusses deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. Consistent with the Act, it is the Board's assessment that nothing in Part I of this report deals with a criticism of or potential defect in the firm's quality control system. Any such criticisms or potential defects are discussed in Part II. Further, you should not infer from any Part I deficiency or combination of deficiencies that a quality control finding is identified in Part II.

Part I.A: Audits with Unsupported Opinions

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion on the issuer's financial statements and/or ICFR.

We identify each issuer by a letter (e.g., Issuer A) and industry sector. Each deficiency could relate to several auditing standards, but we reference the PCAOB standard(s) that most directly relates to the requirement with which the firm did not comply.

Issuer audits are presented below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

Audits with Multiple Deficiencies

Issuer A – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue**, **Accounts Receivable**, **Partnership Interests**, and **Business Combinations**.

Description of the deficiencies identified

With respect to **Revenue** and **Accounts Receivable**:

The issuer recorded revenue net of estimated allowances for contractual adjustments. The firm selected for testing controls that consisted of the monthly review of (1) the reasonableness of the estimated allowances for contractual adjustments and (2) the comparison of net revenue to cash collections. The firm did not identify and test any controls over (1) the accuracy and completeness of a report used in the operation of one of these controls and (2) the accuracy and/or completeness of certain data that were used in the operation of both controls. (AS 2201.39)

The firm did not test the accuracy of the billing rates that the issuer used to determine the allowances for contractual adjustments. Further, the firm did not sufficiently test the accuracy and completeness of the cash collection data the issuer used to determine the allowances because the firm limited its procedures to comparing the data to a system-generated report that it had not tested. (AS 2501.11)

The issuer reclassified credit balances in accounts receivable to accounts payable at year end. The firm did not identify and test any controls that addressed the risk that these credit balances may have resulted from errors in the allowances for contractual adjustments. (AS 2201.39)

The firm did not perform any substantive procedures to corroborate management's assertion that the credit balances discussed above represented amounts due to third parties rather than errors in the amounts recorded as allowances for contractual adjustments. (AS 2301.08)

With respect to **Partnership Interests**:

During the year, the issuer extinguished certain partnership interests through the issuance of new interests. The issuer reported these new interests at fair value, which it determined to be equal to the redemption amounts of the extinguished interests. The following deficiencies were identified:

- The firm selected for testing a control over the valuation of the new partnership interests that consisted of the review of the appropriateness of the accounting for new, unusual, or infrequent transactions. The firm did not test the aspect of this control that addressed the control owners' evaluation of the conclusion that the fair value of the new partnership interests was equal to the redemption amounts of the extinguished interests. (AS 2201.42 and .44)
- The firm did not perform any substantive procedures to evaluate whether the fair value of the new partnership interests was equal to the redemption amounts of the extinguished interests. (AS 2810.30)

With respect to **Business Combinations**:

During the year, the issuer completed multiple business combinations. The firm selected for testing a control that included a review of the data and assumptions used to value the acquired intangible assets, but the firm did not test this aspect of the control for those business combinations for which the issuer had not yet received a final valuation report from an external valuation specialist as of year end. (AS 2201.42 and .44)

Issuer B – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and **Accounts Receivable**.

Description of the deficiencies identified

The issuer entered into revenue arrangements with multiple elements, including arrangements that contained fees contingent upon the resolution of certain matters that were beyond the issuer's control ("contingent fees"). The issuer's policy was to recognize revenue and the related receivable from certain arrangements that contained contingent fees when services were provided, which generally occurred before the resolution of the contingent matters. The following deficiencies were identified:

- For certain of the issuer's revenue, the firm did not identify and test any controls that addressed whether the issuer's revenue recognition policies for its multiple-element arrangements, including those with contingent fees, were in conformity with GAAP. (AS 2201.39)
- The firm did not evaluate whether the issuer's accounting for recognizing revenue for contingent fees prior to the resolution of the contingent matters and the determination of the amount to be collected was in conformity with FASB ASC Topic 605, *Revenue Recognition*, and with GAAP, as interpreted by the SEC Codification of Staff Accounting Bulletins, Topic 13, *Revenue Recognition*. (AS 2810.30) In addition, the firm did not identify and appropriately address the inconsistency between the issuer's accounting for this revenue and its disclosure that it recognized revenue when the fee was fixed or determinable and collectability was reasonably assured. (AS 2810.30 and .31)

- The firm did not evaluate whether (1) the issuer identified all elements in its arrangements and appropriately determined the units of accounting and (2) separate contracts entered into with the same individual customers within a short time frame should have been combined and accounted for as multiple-element arrangements. (AS 2301.08)

Issuer C – Industrials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and **Inventory**.

Description of the deficiencies identified

With respect to **Revenue**:

For certain revenue, the firm selected for testing an automated control within the general ledger system that was designed to generate invoices and recognize revenue once the shipment was confirmed in the general ledger system. The firm did not identify and test any controls over (1) confirmed shipment data that were manually entered into the general ledger system and (2) the completeness and accuracy of the shipment data transferred to the general ledger from the issuer's shipping tracking systems. (AS 2201.39)

The sample sizes the firm used in certain of its substantive procedures to test this revenue were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

For revenue at a foreign location reported as discontinued operations, the firm selected for testing two entity-level controls. The following deficiencies were identified:

- One of these controls consisted of the quarterly review of the financial reporting information for the issuer's segment that included this location. The firm did not evaluate the review procedures the control owner performed, including the criteria that the control owner used to identify items for follow up and whether those items were appropriately resolved. (AS 2201.42 and .44)

- The second control consisted of (1) a review of the issuer's consolidated financial statements, (2) a review of transactions over a threshold, (3) meetings with the controllers for all segments to discuss financial results, and (4) a review of revised consolidated financial statements as a result of adjustments identified as part of the review. The firm did not evaluate whether the criteria used by the control owner to identify items for follow up were sufficiently precise to detect misstatements in the revenue for this location that could be material to the consolidated financial statements. (AS 2201.42 and .44)

With respect to **Inventory**:

Certain of the issuer's inventory was subject to daily cycle counts, and the issuer used a system-generated report that specified which items to count each day. The firm selected for testing a control that consisted of the issuer's daily cycle-count procedures. The firm did not test whether the system was properly configured to achieve the frequency schedule established by management and did not test the aspects of this control that addressed (1) the review and approval of the assignment of the frequency to each item and (2) whether approved frequencies were completely and accurately entered into the system. (AS 2201.42 and .44)

Issuer D – Industrials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Environmental Liabilities** and **Business Combinations**.

Description of the deficiencies identified

With respect to **Environmental Liabilities**:

The firm selected for testing an annual control that consisted of the review of the valuation models that the issuer used to determine its environmental liabilities, including underlying inputs and assumptions. The firm did not test the aspect of this control that consisted of the review of an assumption that the issuer used in these models. (AS 2201.42 and .44)

The firm did not perform any substantive procedures to evaluate the reasonableness of the assumption discussed above that the issuer used as an input to the valuation models used to determine its environmental liabilities. (AS 2501.11)

With respect to **Business Combinations**:

During the year, the issuer completed multiple business combinations. The firm selected for testing a control that included a review of the cash-flow forecasts and assumptions that the issuer used in determining the fair value of the acquired intangible assets. The firm did not evaluate the review procedures the control owner performed to assess the reasonableness of the prospective financial information and certain assumptions used in determining the fair value of the acquired intangible assets, including the criteria that the control owner used to identify items for follow up and whether those items were appropriately resolved. (AS 2201.42 and .44)

The firm did not perform any substantive procedures to evaluate the reasonableness of the prospective financial information and certain assumptions underlying the valuation of the acquired intangible assets. (AS 2502.26, .28, .31, and .36)

Issuer E – Industrials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue** and **Inventory**.

Description of the deficiencies identified

With respect to **Revenue**:

The issuer recognized certain of its revenue from contracts using the percentage-of-completion method. While the firm performed certain procedures that provided some evidence about historical margins on contracts, these procedures provided little to no evidence regarding the estimated costs to complete the specific contracts open at year end. (AS 2501.07)

With respect to **Inventory**:

The firm limited its substantive procedures to test inventory at certain of the issuer's locations to analytical procedures, because of its reliance on an entity-level control that the firm selected for testing. This entity-level control consisted of the review of the financial statement level information for each of these locations. The firm identified two significant deficiencies and one control deficiency that were relevant to the issuer's controls over inventory. The firm's reliance on the entity-level control was not supported because the firm did not consider the implications of these deficiencies on the effectiveness of the entity-level control. As a result, for these locations, the firm inappropriately limited its substantive testing to analytical procedures that provided little to no substantive evidence. (AS 2101.11 and .12; AS 2301.16)

At another location, the issuer calculated a reserve for excess and obsolete inventory by applying established percentages to each inventory aging category. The firm did not (1) test the accuracy of the inventory aging and (2) evaluate the reasonableness of the established percentages applied to each of the inventory aging categories. (AS 2501.11)

Issuer F – Energy

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Oil and Gas Properties**.

Description of the deficiencies identified

The firm selected for testing a control that included a review of the assumptions underlying the forecasted cash flows that the issuer used in its evaluation of certain proved properties for possible impairment. The firm did not test the aspect of this control that addressed the reasonableness of certain of these assumptions and the accuracy of the historical data that the issuer used in developing these assumptions. (AS 2201.42 and .44)

The firm did not test (1) the reasonableness of certain assumptions that the issuer used in its evaluation of these properties beyond inquiry and (2) the accuracy of the historical data that the issuer used in developing one of these assumptions. (AS 2501.11)

Issuer G – Information Technology

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Inventory**.

Description of the deficiencies identified

The majority of the issuer's inventory was subject to daily cycle counts, and the issuer used its inventory system to determine the frequency of cycle counts. The firm selected for testing a control that consisted of the review of an analysis to monitor the frequency and accuracy of the counts. The firm did not evaluate whether items the control owners identified for follow up were appropriately resolved. (AS 2201.42 and .44) In addition, the firm did not test whether the system was properly configured to calculate inventory turnover, which was used to determine the frequency of cycle counts. (AS 2201.39)

The sample size the firm used in certain of its substantive procedures to test this inventory was too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Audits with a Single Deficiency

Issuer H – Industrials

Type of audit and related area affected

In our review, we identified a deficiency in the ICFR audit related to **Revenue**.

Description of the deficiency identified

For two of the issuer's operating units, the issuer used the percentage-of-completion method to recognize certain revenue and recognized other revenue upon delivery of its products to its customers or when installation services were rendered. The firm did not identify and test any controls that addressed the risk of improper recognition of this revenue. (AS 2201.39)

Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules

This section of our report discusses any deficiencies we identified that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. When we review an audit, we do not review every aspect of the audit. As a result, the area below was not reviewed on every audit inspected.

We identified the following deficiency:

In one of six audits reviewed, the firm did not make the required written communications to, and did not discuss with, the audit committee the potential effects of the permissible tax services provided by the firm on the independence of the firm. In this instance, the firm was non-compliant with PCAOB Rule 3524, *Audit Committee Pre-approval of Certain Tax Services*.

Part II: Observations Related To Quality Control

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

Deficiencies are included in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

Any changes or improvements to its system of quality control that the firm may have brought to the Board's attention may not be reflected in this report, but are taken into account during the Board's assessment of whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

Criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified, are nonpublic when the reports are issued. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, any such deficiency will be made public.

Testing Controls

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the work performed by the firm's personnel with respect to testing controls will meet the requirements of AS 2201 and AS 2301. (QC 20.03 and .17)

The inspection team identified deficiencies in the firm's testing of controls in seven audits,[1] all of which are included in Part I.A, in the following areas: (1) identifying and testing controls that address risks of material misstatement, (2) testing controls that include a review element, and (3) identifying and testing controls over the accuracy and completeness of data or reports.

Addressing the concerns and monitoring the effects of the actions taken regarding testing controls are critical because (1) the results of these procedures are used to support the firm's opinion on the effectiveness of ICFR and (2) control reliance is often used as the basis for modifying the nature, timing, and extent of substantive testing in audits of financial statements. The inspection team identified two audits, both of which are included in Part I.A,[2] in which the substantive procedures to test certain significant accounts did not provide sufficient appropriate audit evidence, at least in part because the firm designed those substantive procedures based on a level of control reliance that was not supported due to deficiencies in its testing of controls.

Identifying and Testing Controls that Address Risks of Material Misstatement

In seven audits,[3] all of which are included in Part I.A, the firm did not identify and test controls, or test aspects of certain controls, that sufficiently addressed the risks of material misstatement related to relevant assertions of certain significant accounts.

Testing Controls that Include a Review Element

In three audits,[4] all of which are included in Part I.A, the firm did not sufficiently evaluate whether controls that it selected for testing that included a review element operated at a level of precision that would prevent or detect

[1] Issuers A, B, C, D, F, G, and H

[2] Issuers C and G

[3] Issuers A, B, C, D, F, G, and H

[4] Issuers C, D, and G

material misstatements because the firm did not evaluate the review procedures the control owners performed, including instances in which the firm did not evaluate (1) the criteria used to identify items for follow up and (2) the resolution of such items.

Identifying and Testing Controls Over Data or Reports

In two audits,[5] both of which are included in Part I.A, the firm did not identify and test controls over the accuracy and completeness of data or reports that the issuer used in the operation of controls that the firm tested.

* * * *

Supervision of the Audit

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the supervisory activities, including reviews of audit work, performed by the firm's engagement partners will meet the requirements of AS 1201. (QC 20.03 and .17)

In eight audits,[6] all of which are included in Part I.A, the inspection team identified one or more audit deficiencies that the engagement partner should have identified and appropriately addressed but did not. In seven of these audits,[7] the engagement team had identified a significant risk, including in some cases a fraud risk, in the area in which a deficiency was identified.

Engagement Quality Review

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the review procedures performed by the firm's engagement quality review ("EQR") partners will meet the requirements of AS 1220. (QC 20.03 and .17)

In seven audits,[8] all of which are included in Part I.A, the inspection team identified one or more audit deficiencies in an area that the EQR partner was required to evaluate. In all of these audits, the EQR partner did not identify and appropriately address a deficiency in an area of significant risk, including in some cases a fraud risk.

Policies for Financial Holdings Disclosures

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm and its personnel will comply with the firm's policies and procedures with respect to independence-related regulatory requirements. (QC 20.04, .09, and .10)

The firm conducts periodic audits of a sample of its personnel to monitor compliance with certain of its independence policies. In the audits conducted during the twelve-month period ended July 31, 2018, the firm identified that 26 percent of the managers who were audited had not reported, as of the dates of their confirmations of compliance with firm policy, financial relationships that were required to be reported in accordance with the firm's policies. This high rate of non-compliance with the firm's policies, which are designed to provide compliance with applicable independence regulatory requirements, provides cause for concern, especially considering that these individuals are required to certify at least on an annual basis that they have complied with the firm's independence policies and procedures.

* * * *

[5] Issuers A and C

[6] Issuers A, B, C, D, E, F, G, and H

[7] Issuers A, B, C, D, E, F, and H

[8] Issuers A, B, C, D, E, F, and H

Appendix A: Firm’s Response to the 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, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

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. 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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March 26, 2020

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 2018 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 2018 Inspection of our Firm, principally related to our 2017 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 through our Audit Quality Advisory Council ("Quality Council"). The Quality Council, which includes two outside members, advises our board of directors and leadership on the Firm's audit quality, and provides 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:

Bradley J. Preber
Chief Executive Officer

Jeffrey L. Burgess
National Managing Partner of Audit Services

Grant Thornton LLP
U.S. member firm of Grant Thornton International Ltd.