2019 Inspection
Grant Thornton LLP

(Headquartered in Chicago, Illinois)

December 17, 2020

PCAOB
Public Company Accounting Oversight Board

<u>THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT</u>

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. 104-2021-001A
(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2021-001)

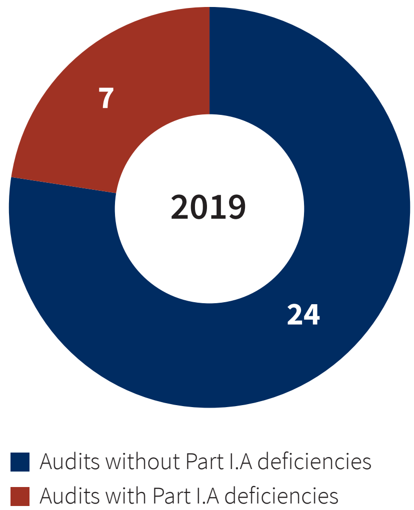
Executive Summary

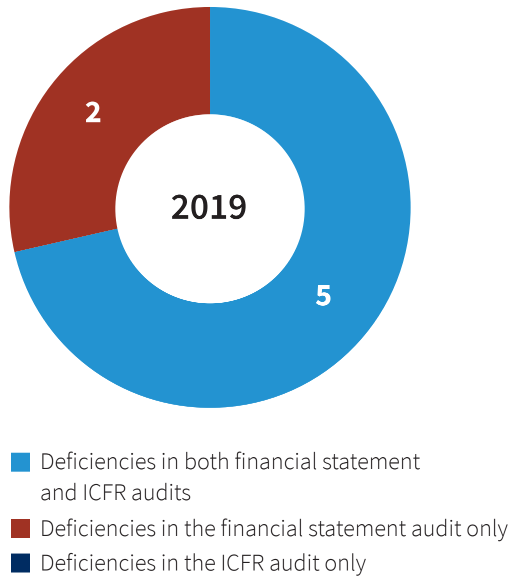
Our 2019 inspection report on Grant Thornton LLP provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board ("PCAOB") standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level 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 2019 Deficiencies Included in Part I

Seven of the 31 issuer audits we reviewed in 2019 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 goodwill and intangible assets.





The most common Part I.A deficiencies in 2019 related to evaluating the appropriateness of the issuer's accounting method or disclosure, testing the design or operating effectiveness of controls selected for testing, and identifying controls related to a significant account or relevant assertion.

Other deficiencies identified during the 2019 inspection that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s), which appear in Part I.B, related to audit committee communications, an audit report on the financial statements, management representation letters, and Form AP.

Table of Contents

2019 Inspection

During the PCAOB's 2019 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 31 audits of issuers with fiscal years generally ending in 2018. 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 2019 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.

2019 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 also select audits randomly to provide an element of unpredictability. In 2019, we established a target team to perform inspection procedures in areas of current audit risk and emerging topics. For our target team selections, our review focuses primarily on evaluating the firm's procedures related to that risk or topic.

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.

In 2019, our target team reviews focused, in part, on planning and execution of multi-location audits, including risk assessment, principal auditor considerations, and communications between the principal auditor and the other auditor. We also evaluated the firm's determination and communication of critical audit matters ("CAM"), in particular to understand the policies and procedures firms put in place to support and monitor the effective implementation of CAM requirements and how audit teams implemented CAM requirements.[1]

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.

[1] Refer to Staff Update and Preview of 2019 Inspection Observations and Critical Audit Matters Spotlight for observations from the target team reviews. Instances of non-compliance with PCAOB standards and rules identified during the target team reviews are included in Part I.A or Part I.B of this report.

Overview of the 2019 Inspection and Historical Data by Inspection Year

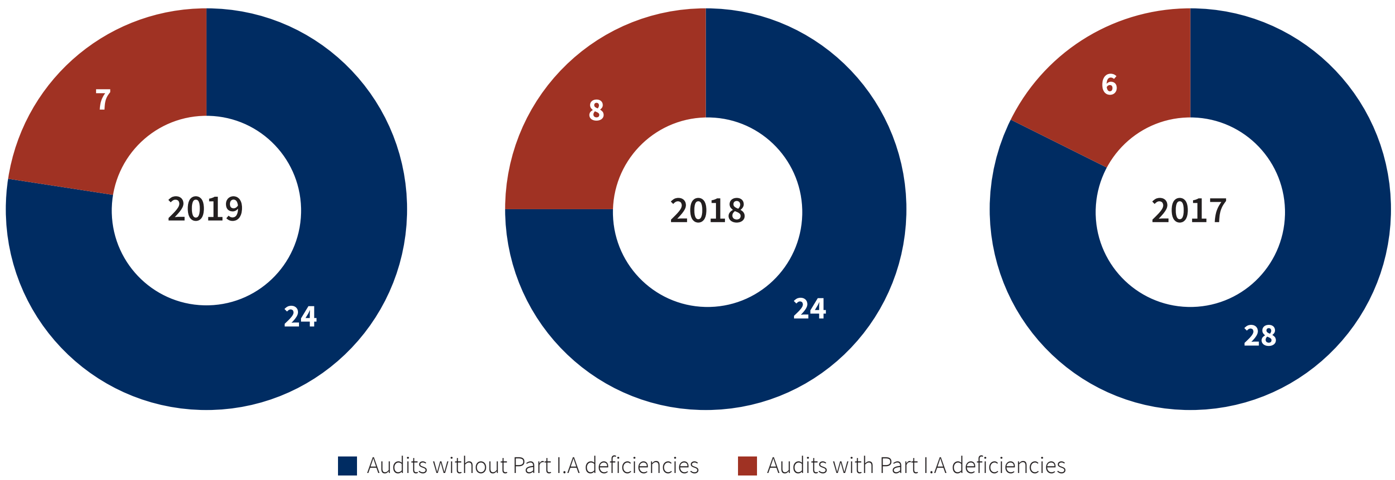
The following information provides an overview of our 2019 inspection as well as data from the previous two inspections. We use a combination of risk-based and random methods to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit 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

	2019	2018	2017
Total audits reviewed	31	32	34
Audits in which the firm was the principal auditor	31	32	34
Integrated audits of financial statements and ICFR	25	27	27
Risk-based selections	20	27	29
Random selections	8	5	5
Target team selections	3	0	0

Part I.A Deficiencies in Audits Reviewed

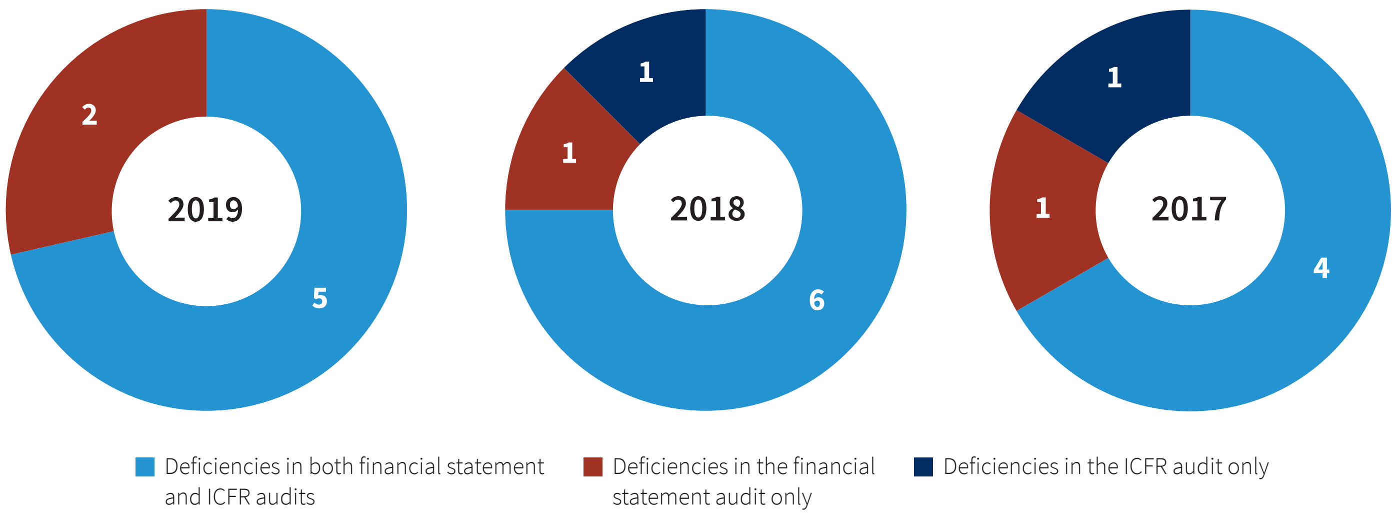
In 2019, four of the seven audits appearing in Part I.A were selected for review using risk-based criteria. In 2018, seven of the eight audits appearing in Part I.A were selected for review using risk-based criteria. In 2017, five of the six audits appearing in Part I.A were selected for review using risk-based criteria.



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 the current 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



Our 2019 inspection procedures involved one audit for which the issuer, unrelated to our review, restated its financial statements and revised its report on ICFR, and the firm revised and reissued its report on the financial statements and modified its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

The following tables and graphs summarize inspection-related information, by inspection year, for 2019 and the previous two inspections. We caution against making 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		
	2019	2018	2017
Did not sufficiently evaluate the appropriateness of the issuer's accounting method or disclosure for one or more transactions or accounts	5	2	3
Did not sufficiently evaluate significant assumptions or data that the issuer used in developing an estimate	3	4	0
Did not perform sufficient testing of the accuracy and completeness of data and reports used in the firm's substantive testing	3	0	3

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2019	2018	2017
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	4	5	3
Did not identify and test any controls related to a significant account or relevant assertion	4	5	0
Did not identify and/or sufficiently test controls over the accuracy and completeness of data or reports that the issuer used in the operation of controls	3	2	0

Audit Areas Most Frequently Reviewed

This table reflects the five audit 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.

2019			2018			2017		
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	26	6	**Revenue and related accounts**	29	5	**Revenue and related accounts**	33	3
Inventory	11	2	**Long-lived assets**	14	1	**Long-lived assets**	16	2
Long-lived assets	9	1	**Business combinations**	10	2	**Business combinations**	12	2
Investment securities	8	0	**Goodwill and intangible assets**	9	0	**Goodwill and intangible assets**	11	0
Goodwill and intangible assets	7	2	**Inventory**	7	3	**Inventory**	11	0

Audit Areas with Frequent Part I.A Deficiencies

This table reflects the audit 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	2019		2018		2017	
	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	6	26	5	29	3	33
Inventory	2	11	3	7	0	11
Goodwill and intangible assets	2	7	0	9	0	11
Business combinations	1	4	2	10	2	12
Long-lived assets	1	9	1	14	2	16

Revenue and related accounts: The deficiencies in 2019 and 2018 related to substantive testing of, and/or 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 2019 related to substantive testing of, and/or testing controls over, the issuer's inventory obsolescence reserve and the existence of inventory. The deficiencies in 2018 primarily related to substantive testing of the issuer's inventory obsolescence reserve and testing cycle-count controls.

Goodwill and intangible assets: The deficiencies in 2019 primarily related to substantive testing of, and/or testing controls over, reasonableness of assumptions and the accuracy and completeness of inputs used by the issuer in the valuation of goodwill and intangible assets.

Business combinations: The deficiency in 2019 primarily related to evaluating the reasonableness of assumptions used by the issuer to determine the fair values of acquired intangible assets. 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 deficiency in 2019 related primarily to substantive testing of, and testing controls over, the issuer's assessment of impairment indicators for long-lived assets. The deficiencies in 2018 and 2017 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

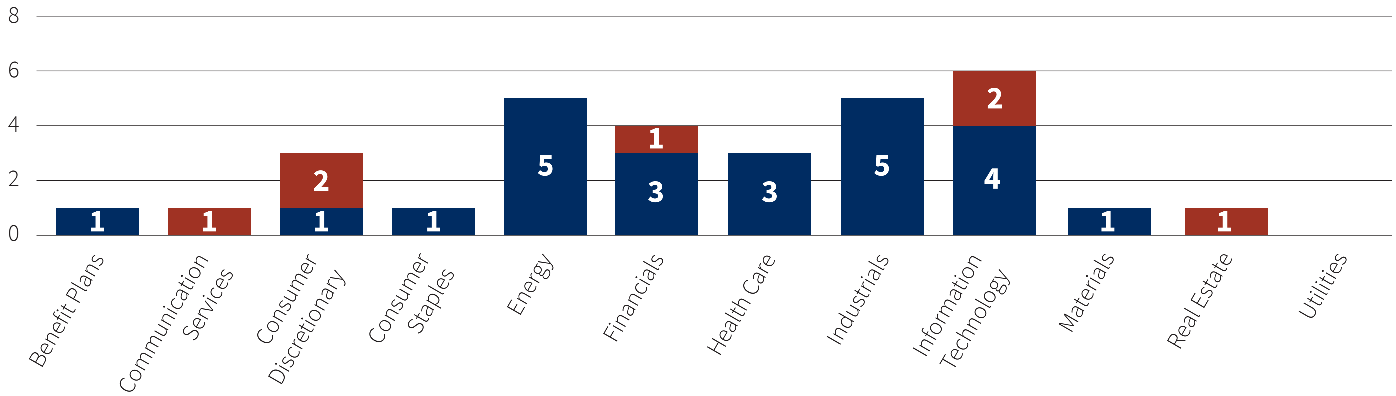
The following lists the auditing standards referenced in Part I.A of the 2019 and the previous two inspection reports and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2019	2018	2017
AS 1105, ***Audit Evidence***	6	0	3
AS 2101, ***Audit Planning***	0	1	0
AS 2201, ***An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements***	27	15	10
AS 2301, ***The Auditor's Responses to the Risks of Material Misstatement***	7	5	1
AS 2315, ***Audit Sampling***	2	2	1
AS 2401, ***Consideration of Fraud in a Financial Statement Audit***	1	0	0
AS 2501, ***Auditing Accounting Estimates***	4	5	0
AS 2502, ***Auditing Fair Value Measurements and Disclosures***	6	1	0
AS 2810, ***Evaluating Audit Results***	7	3	3

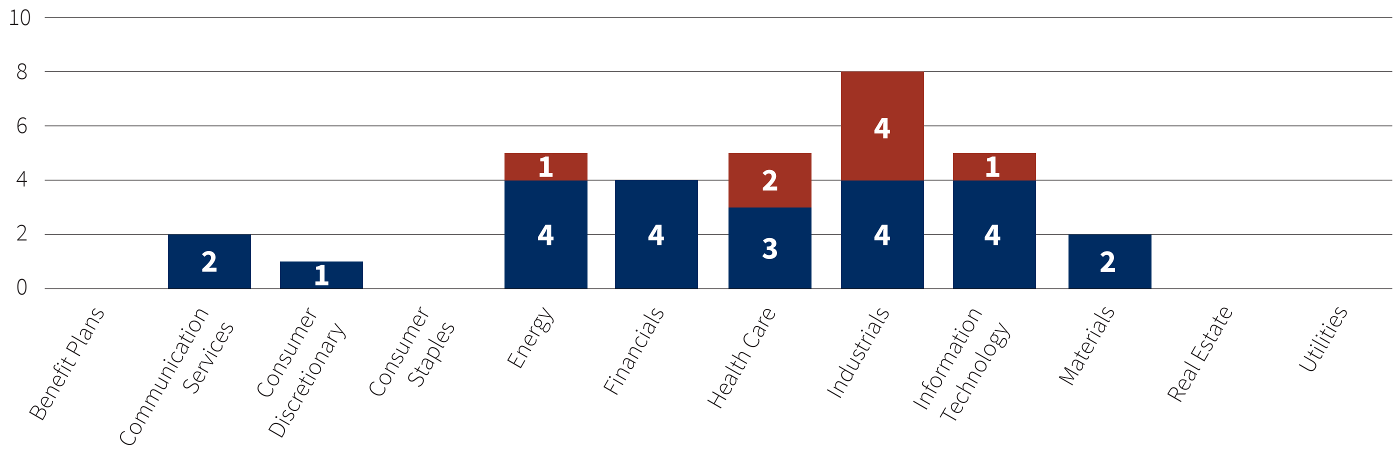
Inspection Results by Issuer Industry Sector

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.

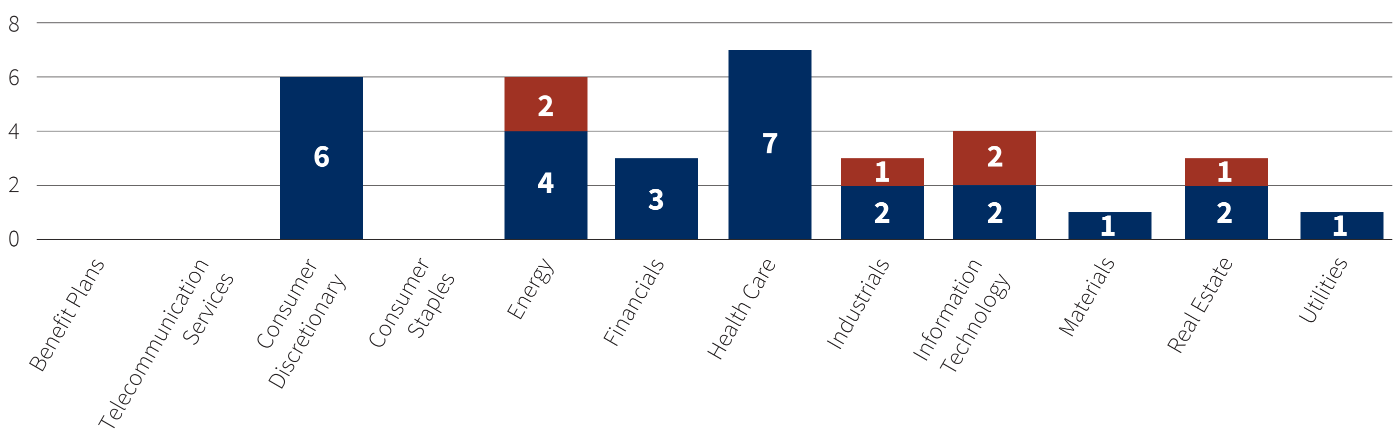
2019



2018



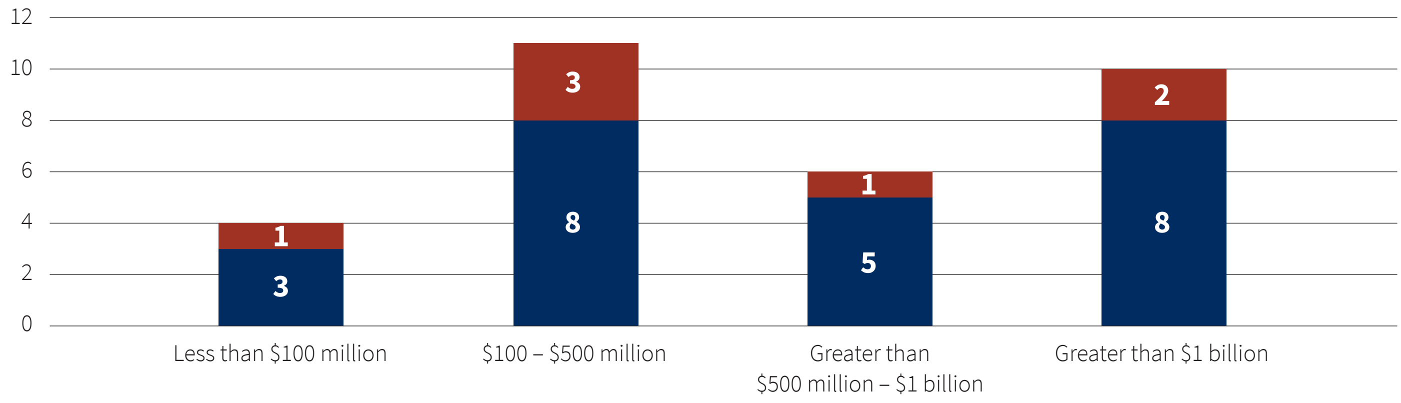
2017



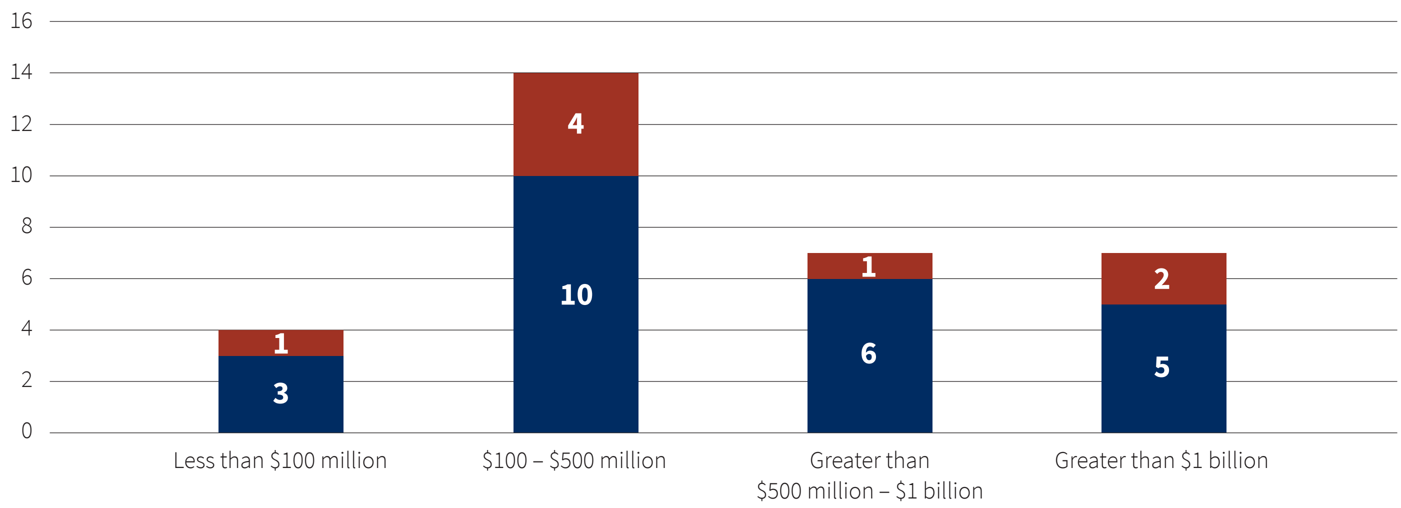
Audits without Part I.A deficiencies   Audits with Part I.A deficiencies

Inspection Results by Issuer Revenue Range

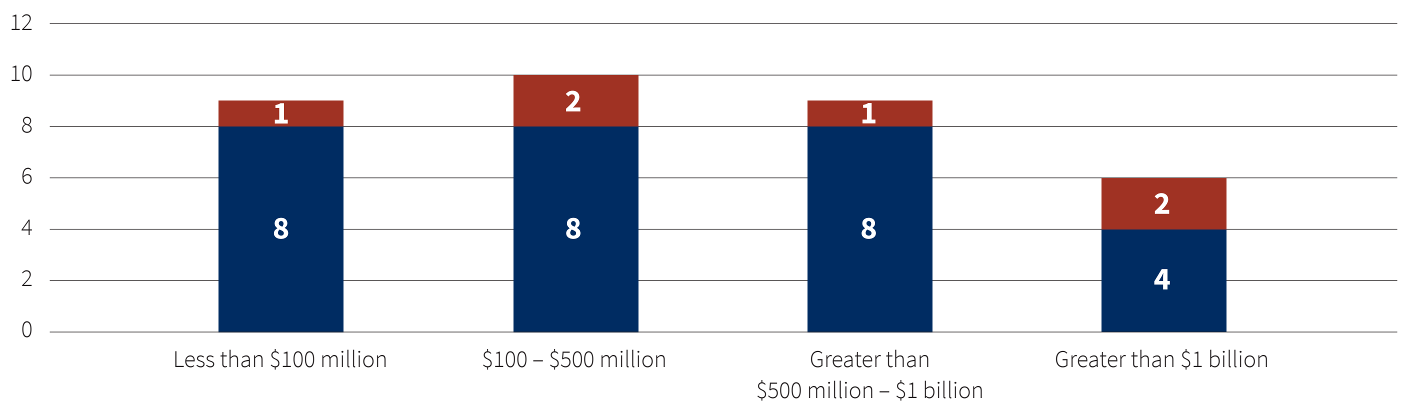
2019



2018



2017



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

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 a 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 a 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. This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer’s ICFR was determined to be ineffective. Any deficiencies identified in connection with our reviews of these audits would be included in the audits with multiple deficiencies or audits with a single deficiency classification below.

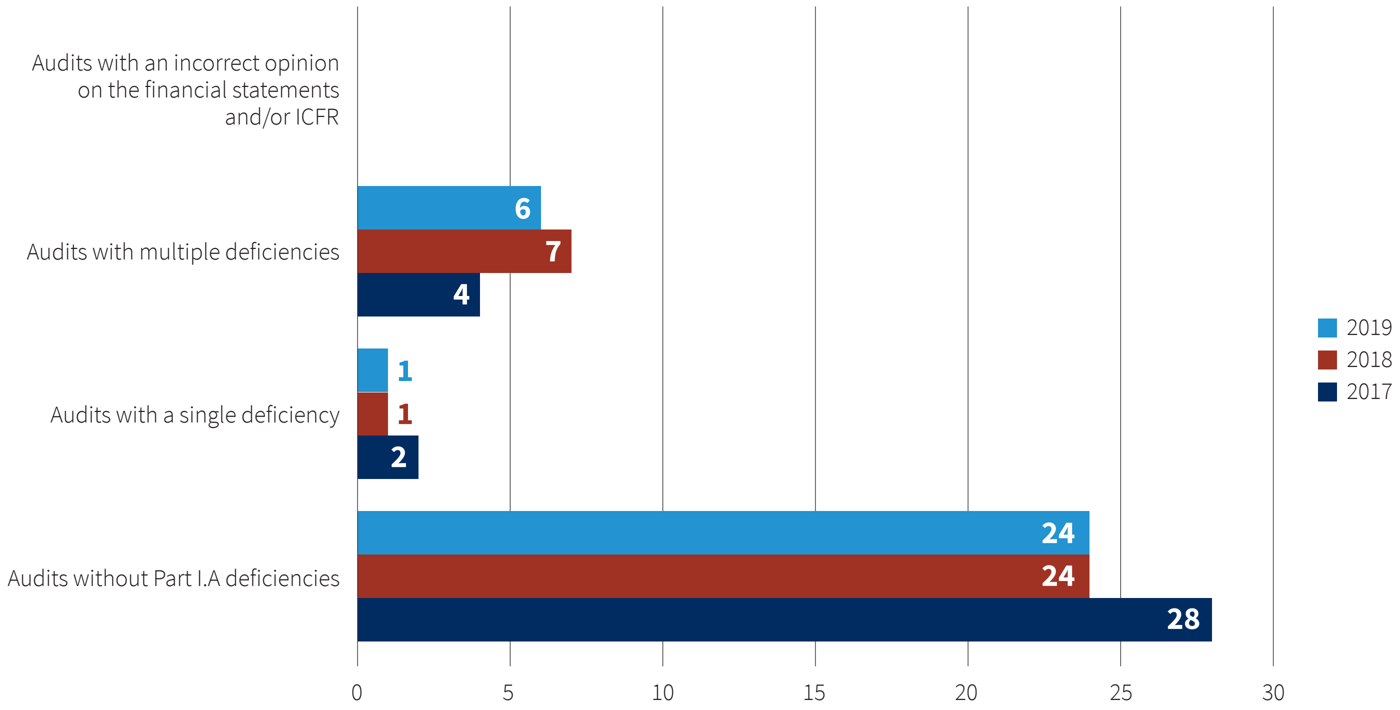
Audits with Multiple Deficiencies

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 – Communication Services

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**, **Income Taxes**, **Goodwill**, and **Long-Lived Assets**.

Description of the deficiencies identified

With respect to **Revenue**, **Accounts Receivable**, **Goodwill**, and **Long-Lived Assets**:

The firm identified deficiencies in the information technology general controls ("ITGCs") related to security administration for the issuer's general ledger system and two of its revenue systems and concluded that these deficiencies, in the aggregate, represented a significant deficiency. The firm also identified a deficiency in the ITGCs related to program maintenance over these revenue systems. The following audit deficiencies were identified:

- With respect to the security administration control deficiencies, the firm identified compensating controls but did not evaluate whether these controls would mitigate the risks, including fraud risks, posed by the ITGC deficiencies. Further, in performing its testing of the identified compensating controls, the firm did not (1) identify that the control owners used data and reports in the performance of certain of these controls that were produced by the systems that were subject to the ITGC deficiencies and (2) as discussed below, sufficiently test certain of these controls. (AS 2201.68)

- In its testing of controls over revenue, accounts receivable, goodwill, and certain long-lived assets, the firm tested certain automated controls and IT-dependent manual controls that used data and reports generated or maintained by these systems. As a result of the deficiencies discussed above, the firm's testing of these automated and IT-dependent manual controls was not sufficient. (AS 2201.46)

- The firm did not appropriately evaluate whether the ITGC deficiencies individually, or in combination, represented a material weakness. (AS 2201.62)

Unrelated to our review, the issuer reevaluated its controls over security administration and program maintenance ITGCs and concluded that a material weakness existed that had not been previously identified. The issuer subsequently revised its report on ICFR to reflect this material weakness and the other material weaknesses discussed herein, and the firm modified its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

With respect to **Revenue**:

For two types of revenue, the following deficiencies were identified:

- The firm selected for testing a control that consisted of the issuer's review of its billing rates for authorized approval. The firm did not test, or in the alternative, test any controls that addressed, the completeness of the report that it used to make its selections when testing this control. (AS 1105.10)

- The firm's substantive procedures to test this revenue consisted of recalculating the invoices it selected for testing using the billing rates in one of the revenue systems that was subject to the ITGC deficiencies discussed above. The firm did not perform sufficient substantive procedures to test, or (as a result of the control testing and ITGC deficiencies discussed above) sufficiently test controls over, the accuracy of these billing rates. (AS 1105.10)

- For one of these types of revenue, the firm did not identify and test any controls that addressed whether the performance obligation was satisfied before revenue was recognized. (AS 2201.39)

- For this same type of revenue, the firm did not perform any substantive procedures to test whether the performance obligation was satisfied before revenue was recognized. (AS 2301.08)

For a third type of revenue, consisting of three categories, the following deficiencies were identified:

- The firm did not identify and test any controls over the identification and evaluation of contract terms that would affect revenue recognition. (AS 2201.39)

- For two categories of this revenue, the firm selected for testing two controls that consisted of the (1) approval of standard billing rates and (2) review of standard billing rates after they are input into the system. The firm did not identify and test any controls over the completeness of the report the issuer used in the operation of these controls. (AS 2201.39) In addition, for these two controls, and two other controls the firm selected for testing over this type of revenue, the firm did not test, or in the alternative, test any controls that addressed, the completeness of certain reports it used to make its selections when testing these controls. (AS 1105.10)

- For one of these two categories of this revenue, the issuer used external parties to provide the service for the issuer's customer. The firm selected for testing a control that included the issuer obtaining delivery reports from the external parties as evidence that the performance obligation was met. The firm did not identify and test any controls over the accuracy and completeness of certain of these reports. (AS 2201.39)

- For the third category of this revenue, the firm selected for testing a control that consisted of the issuer's monthly review of pricing. The firm did not evaluate the review procedures that the control owner performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

- The firm did not perform substantive procedures to test, or (as a result of the control testing and the ITGC deficiencies discussed above) sufficiently test controls over, the completeness of system-generated reports that the firm used in its substantive testing of this type of revenue. (AS 1105.10)

Unrelated to our review, the issuer reevaluated its controls over revenue and concluded that a material weakness existed that had not been previously identified. The issuer subsequently revised its report on ICFR to reflect this material weakness and the other material weaknesses discussed herein, and the firm modified its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

The sample sizes the firm used in certain of its substantive procedures to test 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)

With respect to **Accounts Receivable** at one of the issuer's subsidiaries:

The firm selected for testing a control over the issuer's review of the allowance for doubtful accounts. The following deficiencies were identified:

- The firm did not evaluate the review procedures that the control owner performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)
- The firm did not identify and test any controls that addressed the reasonableness of the reserve percentage the issuer applied to certain past-due accounts receivable to determine the allowance for doubtful accounts during the operation of this control. (AS 2201.39)
- While performing its substantive procedures, the firm identified an error in the issuer's estimate of the allowance for doubtful accounts. As a result of this error, the firm identified that an aspect of this control was deficient but concluded that the remaining aspects of the control served as a compensating control. The firm did not perform procedures to evaluate whether the remaining aspects of this control would accomplish the control's objectives. (AS 2201.68)

The firm did not perform substantive procedures to test, or (as a result of the ITGC deficiencies discussed above) sufficiently test controls over, the accuracy of certain system-generated data it used in its substantive testing of the valuation of accounts receivable. (AS 2501.11)

With respect to **Income Taxes**:

The firm selected for testing a control that consisted of the issuer's review of the provision for income taxes, including the valuation of deferred tax assets. The firm did not evaluate the specific review procedures that the control owner performed to evaluate the reasonableness of the valuation of deferred tax assets. (AS 2201.42 and .44)

The issuer recorded a partial valuation allowance against recorded deferred tax assets based on an estimate of forecasted taxable income that included the expected sale of a certain asset. The firm did not evaluate whether the issuer considered all available evidence, both positive and negative, and the reasonableness of the issuer's weighting of that evidence as it related to the valuation of the asset held for sale. (AS 2501.11)

Unrelated to our review, the issuer reevaluated its accounting for the income tax provision and concluded that a material misstatement existed that had not been previously identified. The issuer subsequently restated its financial statements to correct this and other material misstatements, and the firm revised and reissued its report on the financial statements. The issuer also reevaluated its controls over the income tax provision and concluded that a material weakness existed that had not been previously identified. The issuer subsequently revised its report on ICFR to reflect this material weakness and the other material weaknesses discussed herein, and the firm modified its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

With respect to **Goodwill**:

The firm did not identify and/or test controls related to the issuer's (1) determination of the reporting units it used in its goodwill impairment analysis and (2) assignment of assets and liabilities to its reporting units in conformity with FASB ASC Topic 350, *Intangibles – Goodwill and Other*. (AS 2201.39)

The firm did not perform substantive procedures to evaluate the appropriateness of the issuer's reporting units and the issuer's assignment of assets and liabilities to its reporting units. (AS 2810.30)

The issuer performed an analysis to assess the possible impairment of goodwill using a combination of the income approach and the market approach. The firm selected for testing controls that consisted of the issuer's reviews of this analysis, including the significant inputs and assumptions. The firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of the EBITDA multiples used in the market approach and the issuer's cash-flow forecast used in the income approach. (AS 2201.42 and .44)

The forecast the issuer used in its analysis to assess the possible impairment of goodwill for one of the issuer's reporting units assumed significant revenue growth in the early years of the forecast. The firm concluded that the forecasted revenue growth rates were reasonable without performing any substantive procedures, beyond inquiring of management, to evaluate the issuer's ability to carry out its planned strategies to achieve the forecast. (AS 2502.26, .28, .31, and .36) In addition, the firm did not perform substantive procedures to test, or (as a result of the ITGC deficiencies discussed above) sufficiently test controls over, the accuracy and completeness of certain system-generated data it used to test the issuer's goodwill impairment analysis. (AS 2502.39)

Unrelated to our review, the issuer reevaluated its accounting related to the identification of reporting units and evaluation of the possible impairment of goodwill and concluded that a material misstatement existed that had not been previously identified. The issuer subsequently restated its financial statements to correct this and other material misstatements, and the firm revised and reissued its report on the financial statements. In conjunction with its reevaluation of controls over long-lived assets discussed below, the issuer also reevaluated its controls over the identification of reporting units and evaluation of the possible impairment of goodwill. The issuer concluded that a material weakness related to goodwill and long-lived assets existed that had not been previously identified. The issuer subsequently revised its report on ICFR to reflect this material weakness and the other material weaknesses discussed herein, and the firm modified its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

With respect to **Long-Lived Assets**:

The firm selected for testing a control that consisted of the issuer's review of possible impairment indicators for its finite-lived intangible assets. The firm did not evaluate the review procedures that the control owner performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

In performing its substantive testing of customer-relationship finite-lived intangible assets, the firm did not appropriately evaluate whether the attrition of certain customers represented events that indicated the assets' carrying value may not be recoverable. (AS 2301.08)

The firm did not perform substantive procedures to test, or (as a result of the ITGC deficiencies discussed above) sufficiently test controls over, the accuracy and completeness of certain system-generated data it used in its substantive testing of the valuation of finite-lived intangible assets. (AS 2502.39)

The firm selected for testing a control that included the issuer's review of possible impairment indicators for property, plant, and equipment at one of the issuer's subsidiaries. The firm did not evaluate (1) whether the control was appropriately designed to identify the impairment indicators that were present and (2) the review procedures that the control owner performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

In performing its substantive procedures related to the issuer's assessment of the possible impairment of this property, plant, and equipment, the firm did not evaluate the issuer's determination that there were no indicators of potential impairment beyond inquiring of management. (AS 2301.08)

Unrelated to our review, the issuer reevaluated its accounting related to the identification of possible impairment indicators and evaluation of impairment of finite-lived intangible assets and concluded that a material misstatement existed that had not been previously identified. The issuer subsequently restated its financial statements to correct this and other material misstatements, and the firm revised and reissued its report on the financial statements. In conjunction with its reevaluation of controls over goodwill discussed above, the issuer also reevaluated its controls over the identification of possible impairment indicators and evaluation of impairment of long-lived assets. As discussed above, the issuer concluded that a material weakness related to goodwill and long-lived assets existed that had not been previously identified. The issuer subsequently revised its report on ICFR to reflect this material weakness and the other material weaknesses discussed herein, and the firm modified its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

Issuer B – Consumer Discretionary

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**:

The firm selected for testing a control that consisted of the issuer's review of new or amended customer contracts for terms and conditions that may affect revenue recognition. The firm did not evaluate the specific review procedures that the control owner performed to identify and evaluate all relevant terms and conditions. (AS 2201.42 and .44)

The firm did not perform substantive procedures to evaluate contract modifications, variable consideration, and equity-based incentives included in certain customer contracts when evaluating whether the issuer recognized revenue in conformity with FASB ASC Topic 606, *Revenue from Contracts with Customers*. (AS 2810.30)

The issuer recognized revenue over time for custom products. The firm selected for testing a control that included the issuer's review of a listing of custom products for appropriate revenue recognition. The firm did not evaluate the specific procedures that the control owners performed to determine whether (1) these products had an alternative use to the issuer and (2) the issuer had an enforceable right to payment for performance completed to date for these products. (AS 2201.42 and .44)

The firm did not perform substantive procedures to evaluate (1) whether the issuer's custom products had an alternative use to the issuer and (2) whether the issuer had an enforceable right to payment for performance completed to date when evaluating whether the issuer recognized revenue for custom products in conformity with FASB ASC Topic 606. (AS 2810.30)

The firm did not identify, and evaluate the significance to the financial statements of, the issuer's omission of certain required disclosures under FASB ASC Topic 606. (AS 2810.30 and .31)

With respect to **Inventory** at one of the issuer's business units:

The firm selected for testing a control that consisted of the issuer's review of the reserve for excess and obsolete inventory. The firm did not identify and test any controls over the accuracy and completeness of the system-generated reports used in the operation of this control. (AS 2201.39) In addition, the firm did not identify and test any controls that addressed the reasonableness of the sales forecast the issuer used to develop the reserve for excess and obsolete inventory. (AS 2201.39)

The firm did not perform substantive procedures to test, or in the alternative, test any controls over, the accuracy and completeness of the system-generated reports it used to test the issuer's reserve for excess and obsolete inventory. (AS 2501.11) In addition, the firm did not perform any substantive procedures to evaluate the reasonableness of the sales forecast the issuer used to develop the reserve for excess and obsolete inventory. (AS 2501.11)

Issuer C – Consumer Discretionary

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Revenue**:

The issuer offered various forms of sales incentives to customers that were recorded as a reduction of revenue with a corresponding liability for sales incentives earned but not yet settled. The following deficiencies were identified:

- The firm did not identify and test any controls over the (1) identification and evaluation of sales incentives that may affect revenue recognition and (2) presentation and disclosure of sales incentives in the financial statements. (AS 2201.39)
- The firm did not perform sufficient substantive procedures to identify and evaluate the issuer's sales incentive programs because the firm's procedures consisted of (1) inquiring of certain issuer personnel about the population of sales incentives; (2) performing analytical procedures, which, as designed, did not provide sufficient appropriate audit evidence; and (3) selecting a sample of the issuer's sales incentive programs and tracing them to the issuer's sales incentive accrual without performing any procedures to test the accuracy and completeness of the population of sales incentive programs from which the sample was selected. (AS 2301.08)
- The firm did not perform substantive procedures to evaluate the appropriateness of the issuer's (1) presentation of accrued sales incentives as a liability and (2) disclosures related to sales incentives in order to evaluate whether the issuer's presentation and disclosures conformed with GAAP. (AS 2810.30 and .31)

With respect to **Goodwill and Intangible Assets**:

The firm selected for testing a control that included the issuer's reviews of analyses of the possible impairment of goodwill and indefinite-lived intangible assets. The firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of certain inputs and assumptions the issuer used in these analyses. (AS 2201.42 and .44)

The firm did not identify and test any controls that addressed whether corporate assets and liabilities were appropriately allocated to the issuer's reporting units. (AS 2201.39)

The firm did not perform sufficient substantive procedures to evaluate whether corporate assets and liabilities were appropriately allocated to the issuer's reporting units because its procedures were limited to reading the general ledger descriptions for the unallocated corporate assets and liabilities. (AS 2301.08)

With respect to **Inventory**:

The firm did not identify and test any controls that addressed whether inventory items held at certain warehouses owned by external parties were counted with sufficient frequency. (AS 2201.39)

Issuer D – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Business Combinations** and **Journal Entries**.

Description of the deficiencies identified

With respect to **Business Combinations**:

During the year, the issuer acquired multiple businesses and determined the fair value of the acquired intangible assets using cash-flow forecasts. The following deficiencies were identified:

- The firm did not perform sufficient substantive procedures to evaluate the reasonableness of the period of cash flows the issuer used to determine the fair value of customer-relationship intangible assets because the firm did not evaluate differences among the period of cash flows, the useful lives that the issuer used to amortize such assets, and the length of the issuer's historical customer relationships. (AS 2502.26, .28, .31, and .36)
- The firm did not perform substantive procedures, beyond reading a small number of customer contracts, to evaluate the reasonableness of certain other assumptions underlying these cash flow forecasts, including customer attrition rates for one of these acquisitions. (AS 2502.26 and .28)
- For one of these business combinations, the firm did not perform substantive procedures to test the accuracy and completeness of the historical data it used to evaluate the reasonableness of the revenue growth-rate assumptions, beyond vouching amounts to unaudited financial information and reading certain customer contracts. (AS 1105.10) In addition, the firm did not evaluate the appropriateness of the peer companies the firm used in its evaluation of the reasonableness of the forecasted revenue. (AS 2502.26 and .28)
- For one of these business combinations, the firm identified the issuer's omission of certain pro forma disclosures that were required under FASB ASC Topic 805, *Business Combinations*, but did not evaluate the significance of the omitted disclosures from the notes to the financial statements. (AS 2810.30 and .31)

With respect to **Journal Entries**:

The firm identified fraud risks related to the potential for management override of controls and undisclosed related party transactions. To address these fraud risks, the firm identified manual journal entries that met certain criteria, but it inspected the supporting documentation for only a small number of those journal entries, without having a basis for limiting its testing to these journal entries. For the remaining journal entries that met these criteria, the firm limited its procedures to inquiring of management and/or evaluating the journal entry descriptions. (AS 2401.61)

Issuer E – Financials

Type of audit and related area affected

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

Description of the deficiencies identified

The firm identified a significant deficiency in certain ITGCs over source code change management for the system that the issuer used to process revenue. The issuer implemented a control intended to mitigate the significant deficiency. This control consisted of the issuer's review of a report of source code changes to the system. The firm did not identify and test any controls over the accuracy and completeness of this report. (AS 2201.39)

The firm selected for testing various automated controls over the recording of revenue related to loans receivable. The firm designed its procedures, including its sample sizes, to test the operating effectiveness of these automated controls based on effective ITGCs. As a result of the ITGC deficiency discussed above, these sample sizes were too small to provide sufficient appropriate audit evidence. (AS 2201.44)

The sample sizes the firm used in certain of its substantive procedures to test 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)

Issuer F – Information Technology

Type of audit and related area affected

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

Description of the deficiencies identified

The firm did not identify and test any controls over the review of distributor and dealer arrangements to determine that relevant terms and conditions were identified and evaluated for appropriate revenue recognition. (AS 2201.39)

The firm did not perform sufficient substantive procedures to evaluate the issuer's identification of performance obligations in conformity with FASB ASC Topic 606 because it did not identify and evaluate certain relevant terms and conditions in the distributor and dealer arrangements that could affect revenue recognition. (AS 2810.30)

Audits with a Single Deficiency

Issuer G – Real Estate

Type of audit and related area affected

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

Description of the deficiency identified

With respect to the firm's substantive testing of one type of revenue, the firm did not perform any procedures to test, or in the alternative, test any controls that addressed, the accuracy and completeness of certain system-generated reports used in its testing. (AS 1105.10)

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 areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not otherwise selected for review and may include instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In one of 27 audits reviewed, the firm did not communicate to the issuer's audit committee a complete list of the uncorrected misstatements that were required to be provided. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 23 audits reviewed, the firm's audit report on the issuer's financial statements included incorrect explanatory language related to the audit of the issuer's ICFR. In this instance, the firm was non-compliant with AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.
- In one of 28 audits reviewed, the firm did not provide management with a complete list of uncorrected misstatements to be included in or attached to the management representation letter. In this instance, the firm was non-compliant with AS 2805, *Management Representations*.
- In two of 14 audits reviewed, the firm's report on Form AP contained inaccurate information and/or omitted information related to the participation in the audit by certain other accounting firms. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.
- In five of 11 audits reviewed, the firm did not document the substance of its discussions with the audit committee about the potential effects of certain permissible tax services on the independence of the firm. In these instances, 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 five audits,[2] four of which are included in Part I.A,[3] in the following areas: (1) identifying and testing controls that address risks of material misstatement and (2) testing controls that include a review element.

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,[4] both of which are included in Part I.A, 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 four audits,[5] all of which are included in Part I.A, the firm did not identify and test 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 four audits,[6] three of which are included in Part I.A,[7] 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

2 Issuers A, B, C, F, and H

3 Issuers A, B, C, and F

4 Issuers A and E

5 Issuers A, B, C, and F

6 Issuers A, B, C, and H

7 Issuers A, B, and C

material misstatements because the firm did not evaluate the review procedures that the control owners performed, including instances in which the firm did not evaluate the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved.

Reliance on Data or Reports

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 to establish a basis for reliance on data or reports will meet the requirements of AS 1105, AS 2201, and similar provisions of PCAOB auditing standards. (QC 20.03 and .17)

The inspection team identified six audits,[8] five of which are included in Part I.A,[9] with deficiencies related to unwarranted reliance on data and/or reports.

- In four of these audits,[10] three of which are included in Part I.A,[11] the firm did not identify and test, or sufficiently test, controls over the accuracy and/or completeness of certain data and/or reports that the issuer used in the operation of controls that the firm tested.
- In four of these audits,[12] all of which are included in Part I.A, the firm did not test the accuracy and completeness of certain data and/or reports that it used in its substantive testing, or in the alternative, test, or sufficiently test, controls over those data and/or reports.

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 seven audits,[13] six of which are included in Part I.A[14] and one of which is included in Part I.B,[15] the inspection team identified one or more deficiencies that the engagement partner should have identified and appropriately addressed but did not. In six of these audits,[16] 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)

---

8 Issuers A, B, D, E, G, and H

9 Issuers A, B, D, E, and G

10 Issuers A, B, E, and H

11 Issuers A, B, and E

12 Issuers A, B, D, and G

13 Issuers A, B, C, D, E, F, and I

14 Issuers A, B, C, D, E, and F

15 Issuer I

16 Issuers A, B, C, D, E, and F

In six audits,[17] five of which are included in Part I.A[18] and one of which is included in Part I.B,[19] the inspection team identified one or more deficiencies in an area that the EQR partner was required to evaluate. In five of these audits,[20] the EQR partner did not identify a deficiency in an area of significant risk, including in some cases a fraud risk.

* * * *

[17] Issuers A, B, C, D, F, and I

[18] Issuers A, B, C, D, and F

[19] Issuer I

[20] Issuers A, B, C, D, and F

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.

Grant Thornton LLP
171 N Clark St, Suite 200
Chicago, IL 60601

T 312.856.0200
F 312.565.4719
www.GrantThornton.com

November 19, 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 2019 Inspection of Grant Thornton LLP

Dear Mr. Botic:

On behalf of Grant Thornton LLP, we are pleased to provide our response to the Public Company Accounting Oversight Board's (the "PCAOB") Draft Report on the 2019 Inspection of Grant Thornton LLP, principally related to our 2018 audits (the "Draft Report").

Quality is our highest priority and is the foundation of all that we do at Grant Thornton. We are committed to seeking new ways to further advance high audit quality, including through the creation in 2019 of our Audit Quality Advisory Council ("Quality Council"). The Quality Council, which includes two outside members, advises our Partnership Board and Senior Leadership Team on our audit quality, and provides deep, practical, and objective advice regarding ways we can continue to deliver high 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*.

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 look forward to continuing our discussions with you and the inspections staff on improving audit quality at our firm and across the profession.

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.