
2020 Inspection Grant Thornton LLP

(Headquartered in Chicago, Illinois)

September 30, 2021

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. 104-2021-152A

(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2021-152)



EXECUTIVE SUMMARY

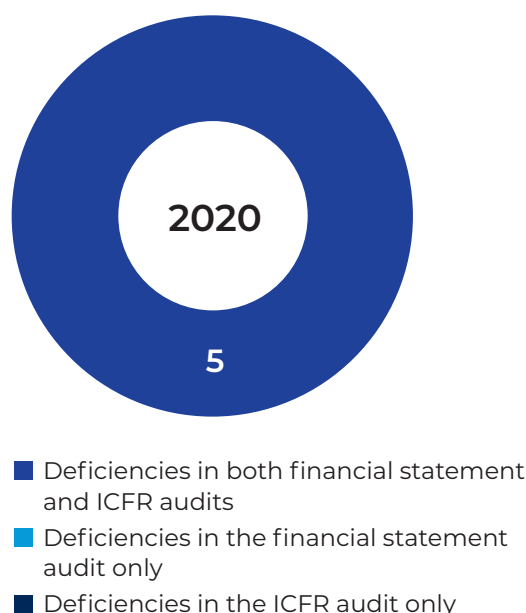
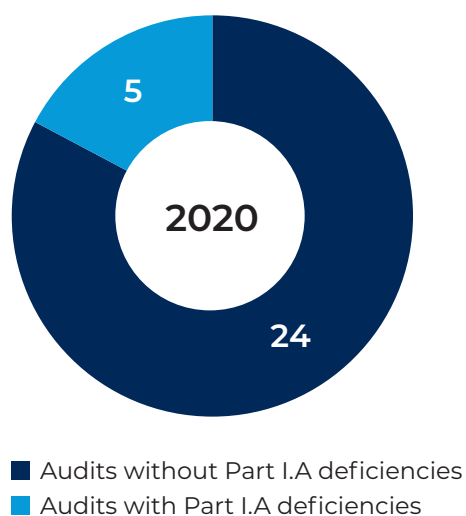
Our 2020 inspection report on Grant Thornton LLP provides information on our inspection to assess the firm’s compliance with Public Company Accounting Oversight Board (PCAOB) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of:

- 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
- 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.

If we include a deficiency in this report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer’s financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. If we include a deficiency 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 2020 Deficiencies Included in Part I

Five of the 29 audits we reviewed in 2020 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 substantive testing of revenue and related accounts and business combinations.



The most common Part I.A deficiencies in 2020 related to evaluating significant assumptions or data that the issuer used in developing an estimate, testing controls over the accuracy and completeness of data or reports used in the operation of controls, and testing the design or operating effectiveness of controls selected for testing.

Other deficiencies identified during the 2020 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 critical audit matters and Form AP.

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2020 INSPECTION

In the 2020 inspection of Grant Thornton LLP, the PCAOB assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review 28 audits of issuers with fiscal years generally ending in 2019. In addition, to gain an understanding of how COVID-19 affected the firm's performance of audits, we selected for review an audit of an issuer with a fiscal year end of June 30, 2020. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

We also selected for review two reviews of interim financial information ("interim reviews"). Our reviews were performed to gain a timely understanding of COVID-19's effect on firms and their procedures and to determine if we needed to issue guidance or other information to assist firms in completing audits and interim reviews during the pandemic. Although the identification of deficiencies was not the primary objective of these reviews, we did not identify any instances of non-compliance with PCAOB standards related to the interim reviews that we reviewed.

What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2020 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.
- **Part I – Inspection Observations:**
 - o **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(s) on the issuer's financial statements and/or ICFR.
 - o **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 ("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.

2020 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.

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.

Our target team performs inspection procedures in areas of current audit risk and emerging topics and focuses its reviews primarily on evaluating the firm's procedures related to that risk or topic. In 2020, to gain an understanding of how COVID-19 affected how the firm performed its procedures, our target team focused on an audit of an issuer with a fiscal year ending on June 30, 2020 and interim reviews of issuers for quarterly periods ending on or before June 30, 2020.¹

For the interim reviews, similar to our approach for reviewing audits, we did not review every aspect of the interim review. Rather, our review procedures focused on a portion of the firm's procedures.

View the details on the [scope of our inspections and our inspections procedures](#).

¹ Refer to [Staff Observations and Reminders during the COVID-19 Pandemic](#) for observations from the target team reviews.

OVERVIEW OF THE 2020 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2020 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.

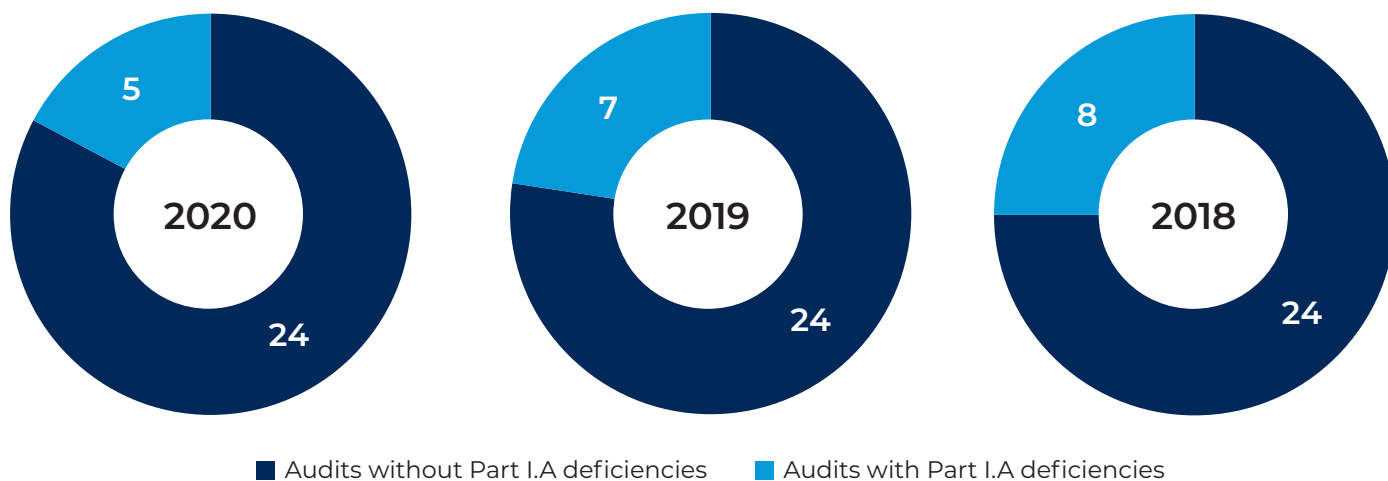
Audits Selected for Review

	2020	2019	2018
Total audits reviewed			
Total audits reviewed	29	31	32
Selection method			
Risk-based selections	21	20	27
Random selections	7	8	5
Target team selections ²	1	3	0
Total audits reviewed	29	31	32
Principal auditor			
Audits in which the firm was the principal auditor	29	31	32
Audits in which the firm was not the principal auditor	0	0	0
Total audits reviewed	29	31	32
Audit type			
Integrated audits of financial statements and ICFR	27	25	27
Financial statement audits only	2	6	5
Total audits reviewed	29	31	32

² For further information on the target team's activities in 2019, refer to that inspection report.

Part I.A Deficiencies in Audits Reviewed

In 2020, three of the five audits appearing in Part I.A were selected for review using risk-based criteria. 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.

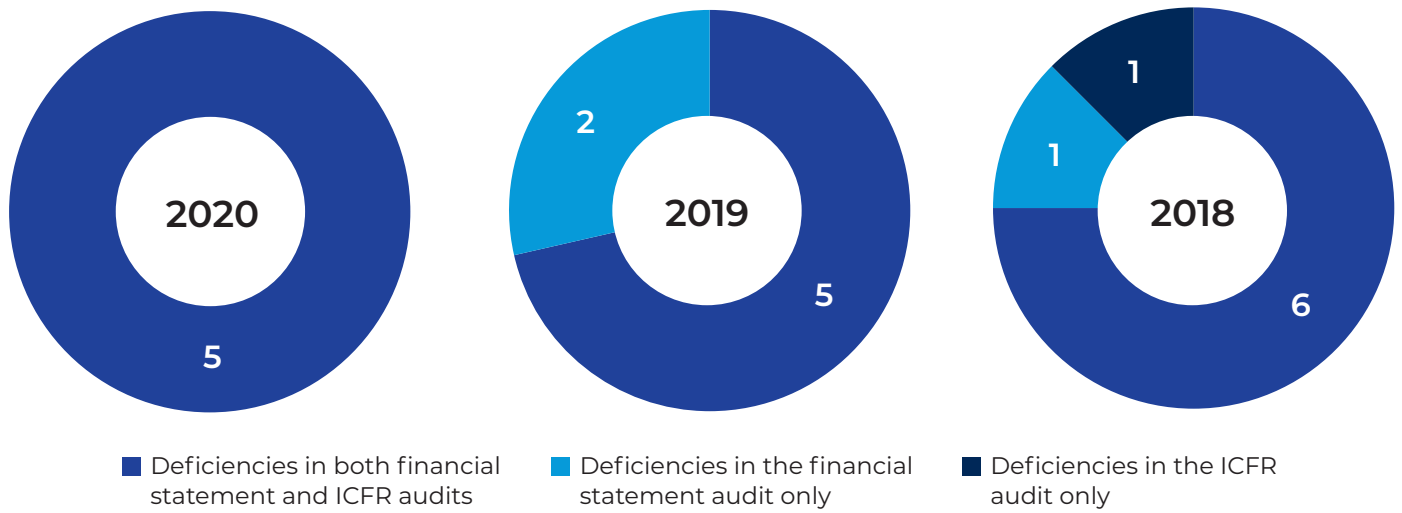


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the issue was identified. Depending on the circumstances, remedial actions may include performing additional 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.

If we include a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it 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 revised 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 2020 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		
	2020	2019	2018
Did not sufficiently evaluate significant assumptions or data that the issuer used in developing an estimate	5	3	4
Did not perform sufficient testing of data or reports used in the firm's substantive testing	1	3	0
Did not obtain sufficient evidence as a result of overreliance on controls (due to deficiencies in testing controls)	1	2	3
Did not perform sufficient testing related to an account or significant portion of an account or to address an identified risk	1	2	2

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2020	2019	2018
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	4	3	2
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	3	4	5
Did not appropriately evaluate control deficiencies	2	1	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.

2020			2019			2018		
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	25	3	Revenue and related accounts	26	6	Revenue and related accounts	29	5
Business combinations	8	1	Inventory	11	2	Long-lived assets	14	1
Inventory	7	0	Long-lived assets	9	1	Business combinations	10	2
Cash and cash equivalents	5	1	Investment securities	8	0	Goodwill and intangible assets	9	0
Goodwill and intangible assets	4	0	Goodwill and intangible assets	7	2	Inventory	7	3

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	2020		2019		2018	
	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	3	25	6	26	5	29
Business combinations	1	8	1	4	2	10
Inventory	0	7	2	11	3	7
Goodwill and intangible assets	0	4	2	7	0	9

Revenue and related accounts: The deficiencies in 2020, 2019, and 2018 related to substantive testing of, and testing controls over, revenue.

Business combinations: The deficiencies in 2020, 2019, and 2018 primarily related to substantive testing of, and testing controls over, the reasonableness of assumptions used by the issuer to determine the fair values of acquired intangible assets.

Inventory: The deficiencies in 2019 related to substantive testing of, and 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 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.

Auditing Standards Associated with Identified Part I.A Deficiencies

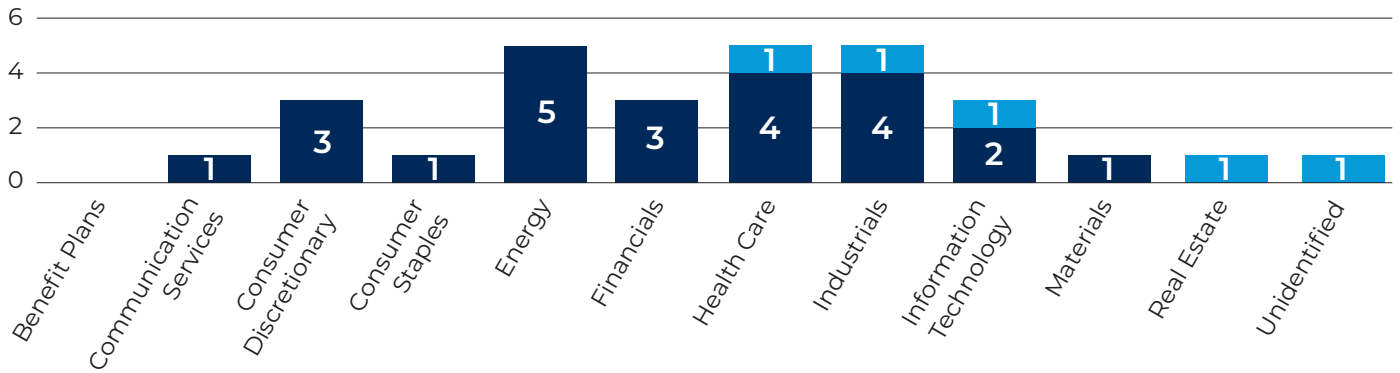
The following lists the auditing standards referenced in Part I.A of the 2020 and the previous two inspection reports and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2020	2019	2018
<i>AS 1105, Audit Evidence</i>	3	6	0
<i>AS 2101, Audit Planning</i>	0	0	1
<i>AS 2201, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i>	14	27	15
<i>AS 2301, The Auditor's Responses to the Risks of Material Misstatement</i>	2	7	5
<i>AS 2315, Audit Sampling</i>	1	2	2
<i>AS 2401, Consideration of Fraud in a Financial Statement Audit</i>	0	1	0
<i>AS 2501, Auditing Accounting Estimates</i>	5	4	5
<i>AS 2502, Auditing Fair Value Measurements and Disclosures</i>	2	6	1
<i>AS 2810, Evaluating Audit Results</i>	0	7	3

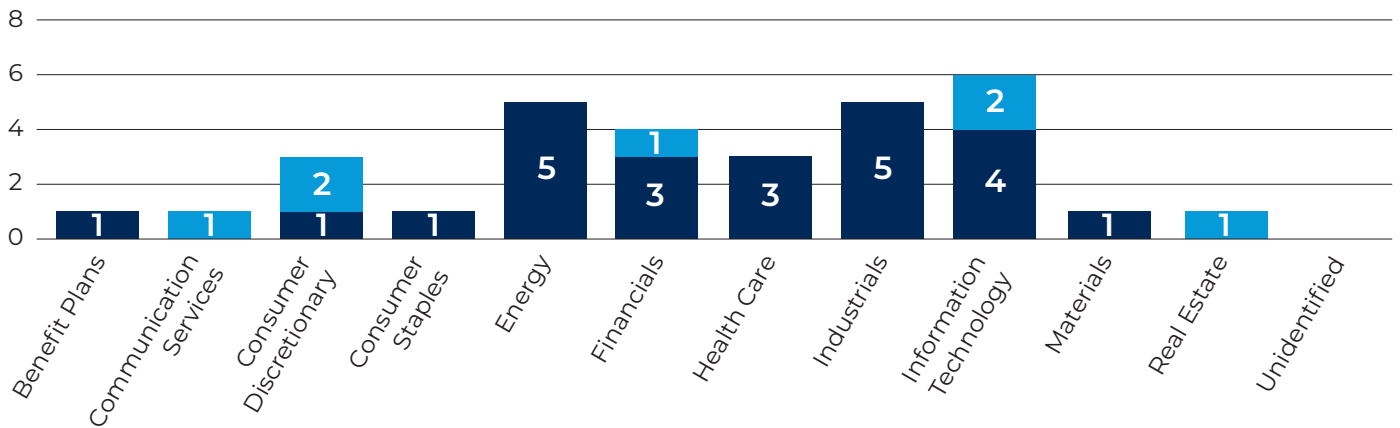
Inspection Results by Issuer Industry Sector

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. In instances where classifying an issuer using its industry sector could make an issuer identifiable, we have instead classified such issuer(s) as "unidentified."

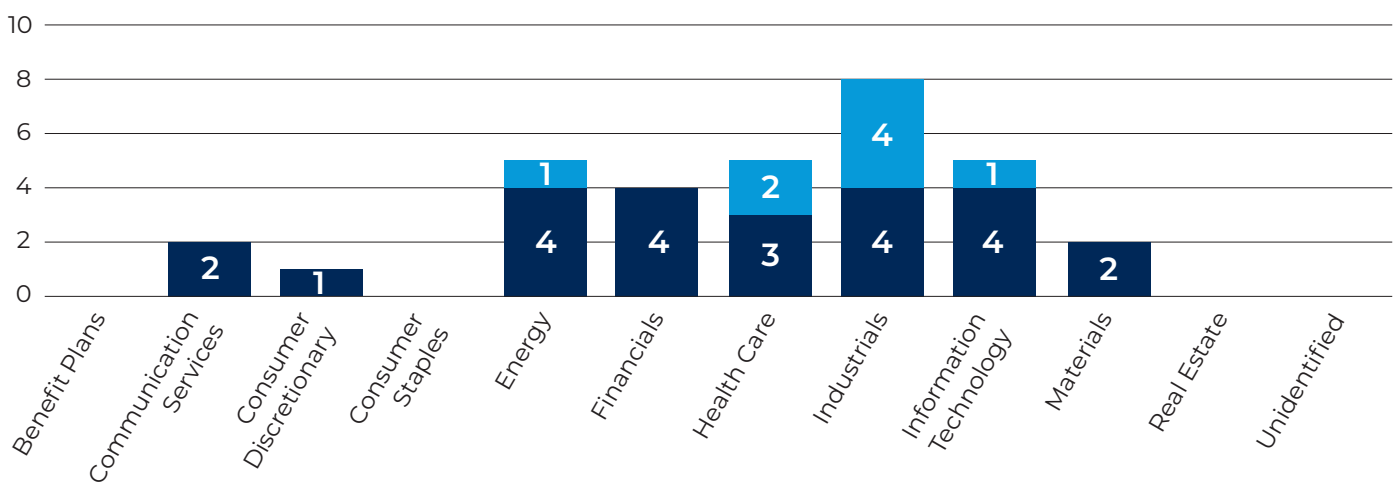
2020



2019



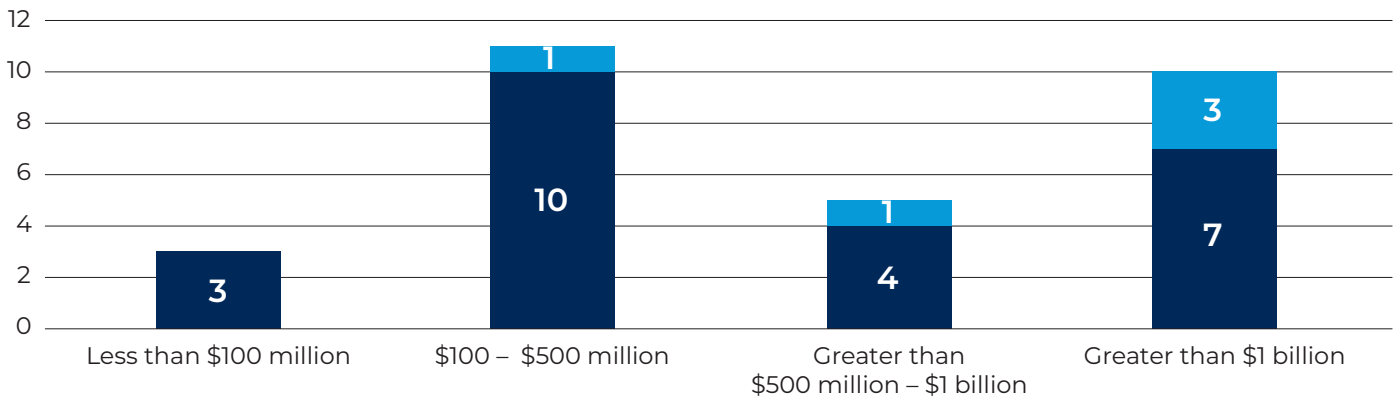
2018



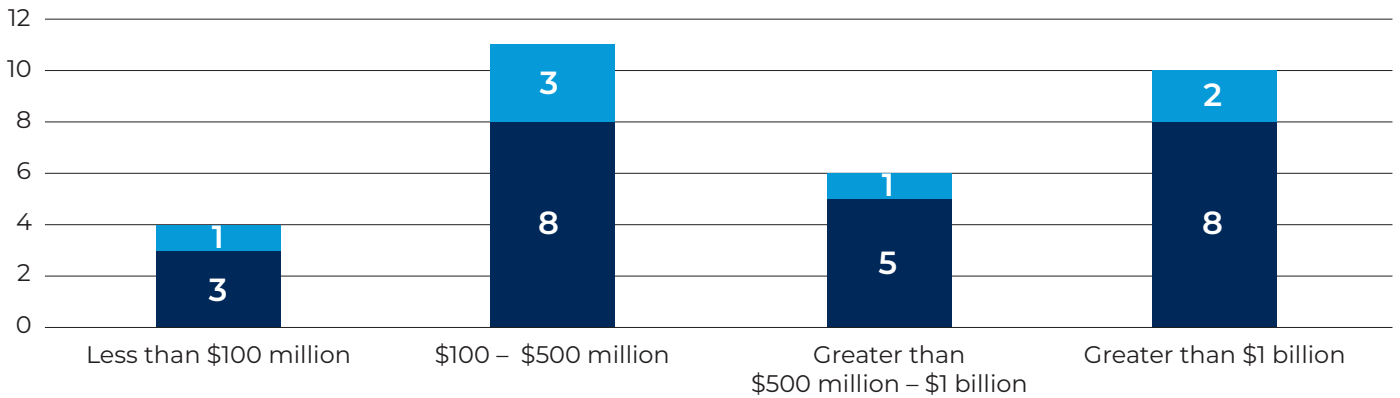
■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

Inspection Results by Issuer Revenue Range

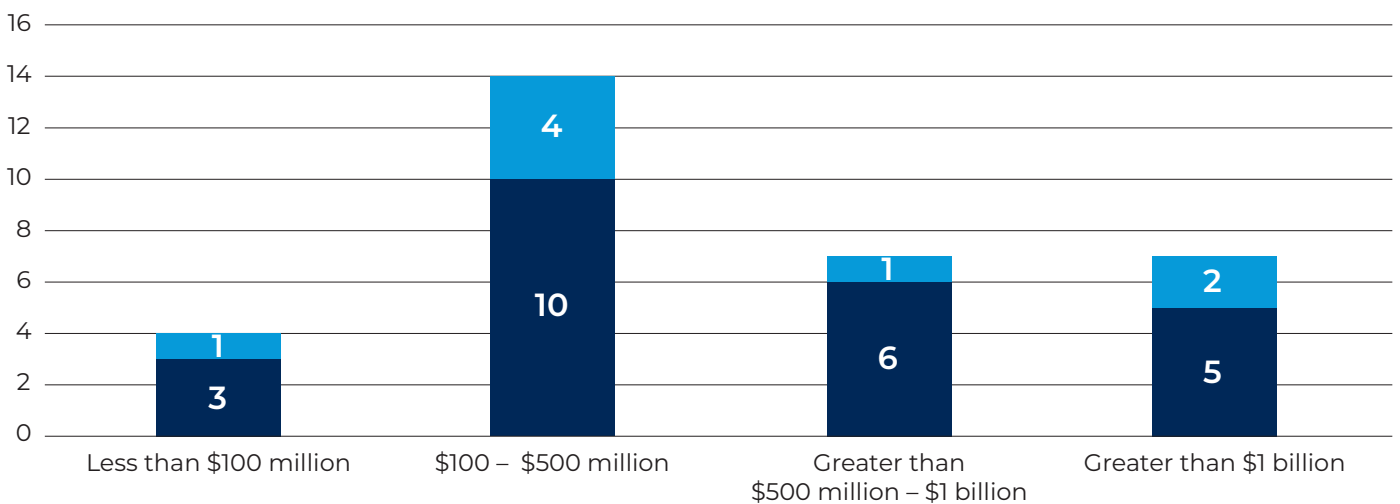
2020



2019



2018



■ 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 revised 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. We include any deficiencies identified in connection with our reviews of these audits in the audits with multiple deficiencies or audits with a single deficiency classification below.

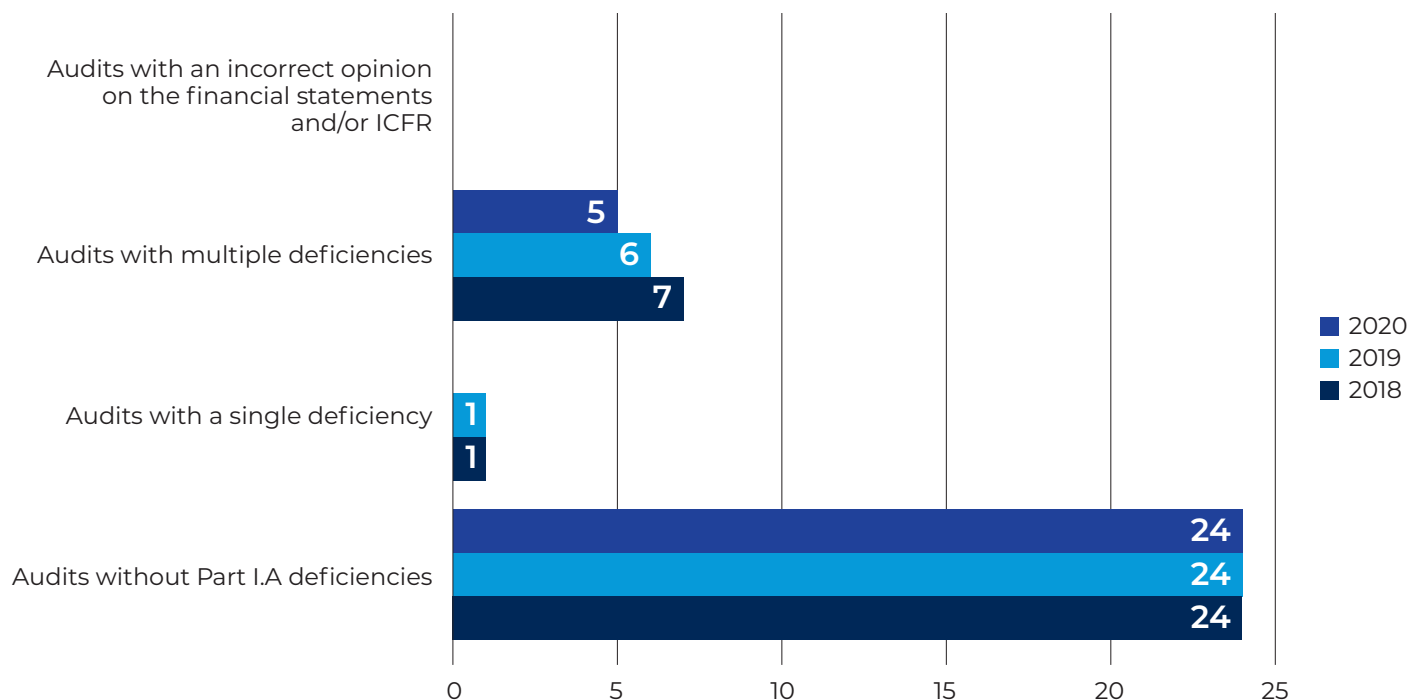
Audits with Multiple Deficiencies

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. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding 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). 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.

We present issuer audits 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**, and **Cash**.

Description of the deficiencies identified

The issuer used an information technology (IT) system to process and record transactions related to revenue, accounts receivable, and cash. The firm identified control deficiencies in certain IT general controls (ITGCs) over this IT system related to individuals having segregation of duties conflicts that provided these individuals with security administration privileges and the ability to both develop changes and migrate them into production. The following audit deficiencies were identified:

- The firm identified and tested a compensating control that it believed would mitigate these ITGC deficiencies. The firm did not identify that this compensating control did not address the risks related

to these deficiencies because the control owners performing the compensating control were among the individuals that the firm identified as having the segregation of duties conflicts. (AS 2201.68)

- The firm tested certain automated and IT-dependent manual controls over revenue, accounts receivable, and cash that used data and reports generated or maintained by this IT system. As a result of the audit deficiency discussed above, the firm's testing of these automated and IT-dependent manual controls was not sufficient. (AS 2201.46)
- The sample sizes the firm used in certain of its substantive procedures to test revenue and accounts receivable 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 deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

With respect to **Revenue**:

The issuer recognized certain revenue upon shipment of its products to distributors and estimated an accrual for rebates it had not yet paid based on a rolling average of actual rebates paid in previous months. The following deficiencies were identified:

- The firm did not identify and test any controls that addressed the reasonableness of the assumptions the issuer used to estimate this accrual. (AS 2201.39)
- The firm's approach for substantively testing the rebate accrual was to review and test management's process. The firm did not sufficiently evaluate the reasonableness of the rebate accrual because the firm did not test, beyond inquiry of management, whether the time period that the issuer used to calculate the rolling average was reasonable. (AS 2501.09, .10, and .11)

The firm used reports generated or maintained by the IT system discussed above in performing certain of its substantive procedures to test revenue. The firm did not perform any substantive procedures to test, or (as a result of the compensating control testing deficiency discussed above) sufficiently test controls over, the accuracy and completeness of these reports. (AS 1105.10)

Issuer B – 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 issuer recorded a sales returns reserve based, in part, on customer data that the issuer obtained from a service organization. Certain relevant controls at this service organization were not operating effectively. The firm identified and tested a control that consisted of the issuer's review of customer data for certain customers that the firm believed would compensate for these ineffective controls. The firm did not evaluate whether the issuer's review was sufficient to address the risk of material misstatement given not all customers were covered by this control. (AS 2201.68)

The firm selected for testing a control that consisted of the issuer's review of the calculation of the sales returns reserve. The firm did not evaluate the specific review procedures that the control owner performed to assess the reasonableness of the adjustments that the issuer made to this reserve. (AS 2201.42 and .44) In addition, as the compensating control discussed above did not address certain customers, the firm did not sufficiently test controls over the accuracy and completeness of certain customer data that were used in the operation of this control. (AS 2201.46)

The firm selected for testing a control that consisted of the issuer's review of certain sales incentive reserves. The firm did not evaluate the specific review procedures that the control owner performed to assess the reasonableness of certain assumptions the issuer used to determine these reserves. (AS 2201.42 and .44)

The firm's approach for substantively testing the sales returns reserve was to review and test management's process. The firm did not sufficiently evaluate the reasonableness of this reserve because the firm did not test, beyond inquiry of management, the adjustments that the issuer made to this reserve. (AS 2501.09, .10, and .11)

The firm did not perform any substantive procedures to test, or (as discussed above) sufficiently test controls over, the accuracy and completeness of certain data that it used in its substantive testing of the sales returns and sales incentive reserves. (AS 1105.10; AS 2501.11)

Issuer C

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and the **Allowance for Loan Losses (ALL)**.

Description of the deficiencies identified

With respect to **Revenue**:

The issuer recognized certain revenue based on customer contracts that included financing arrangements with the customer. The firm selected for testing a control over this revenue that consisted of the issuer's review of these customer contracts, including the review of the credit application supporting the customer's ability and intent to pay. The firm did not evaluate the specific review procedures that the control owners performed to evaluate whether these customer contracts met the collectability criteria required to recognize revenue. (AS 2201.42 and .44)

The firm did not perform any substantive procedures to evaluate whether these customer contracts met the collectability criteria required to recognize revenue. (AS 2301.08)

With respect to the **ALL**:

For loans that the issuer assessed collectively for impairment, the issuer estimated the ALL using a model that included loan charge-offs as inputs; these charge-offs were determined based, in part, on the fair value of the underlying assets. The following deficiencies were identified:

- The firm selected for testing a control that consisted of the issuer's reviews of the fair values of the underlying assets. The firm did not evaluate the review procedures that the control owners 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's approach for substantively testing the ALL was to review and test management's process. The firm did not sufficiently evaluate the reasonableness of the ALL because the firm did not test certain information that the issuer used to determine the fair value of the underlying assets. (AS 2501.09, .10, and .11)

Issuer D – Industrials

Type of audit and related area affected

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

Description of the deficiencies identified

The issuer acquired multiple businesses and determined the fair value of the acquired intangible assets using cash-flow forecasts. The firm's approach for substantively testing the valuation of the acquired intangible assets was to review and test management's process. The following deficiencies were identified:

- To evaluate the reasonableness of certain assumptions used in these cash-flow forecasts, the firm compared these assumptions to both historical and industry information and identified certain differences. The firm did not perform procedures, beyond inquiring of management and obtaining industry growth information used by the issuer, to evaluate these differences. (AS 2502.26, .28, .31, and .36)
- The firm did not perform procedures to test the accuracy and/or completeness of certain data and reports that (1) the issuer used to develop certain assumptions underlying these cash-flow forecasts and/or (2) the firm used in its procedures. (AS 2502.39)

For one of these acquired businesses, the firm selected for testing a control over the accounting for the business combination, including the issuer's reviews of the valuation of acquired intangible assets. The firm did not evaluate the review procedures that the control owners 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 addition, the firm did not identify and test any controls over the accuracy and completeness of certain information that the control owners used in the operation of this control. (AS 2201.39)

Issuer E – Real Estate

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Liabilities for Self-Insurance Reserves**.

Description of the deficiencies identified

The issuer estimated certain liabilities for self-insurance reserves using loss triangles that were developed based on the issuer's claims data. The following deficiencies were identified:

- For certain types of claims, the firm selected for testing two controls that included the issuer's reviews of the accuracy of the claims data from the claims systems. The firm did not evaluate the specific procedures that the control owner performed to assess the accuracy of certain attributes of these data, including the claims' incident and reported dates. (AS 2201.42 and .44)
- For certain other types of claims, the firm did not identify and test any controls that addressed the accuracy and completeness of the claims data from the claims systems. (AS 2201.39)
- The firm selected for testing a control that consisted of the issuer's review of the determination of these liabilities. The firm did not evaluate the specific procedures that the control owner performed to assess the accurate development of the loss triangles. (AS 2201.42 and .44)
- The firm's approach to substantively test these liabilities was to review and test management's process. The firm did not perform any procedures to test, or (as discussed above) to sufficiently test controls over, the accuracy of the claims data included in the loss triangles. (AS 1105.10; AS 2501.11)

Audits with a Single Deficiency

None

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 reviewed and include any 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 two of 15 audits reviewed, the firm's communication of a critical audit matter in the audit report included language that was inconsistent with information in the firm's audit documentation. In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.
- In one of 11 audits reviewed, the firm's report on Form AP omitted information related to the participation in the audit by certain other accounting firms. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

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.

We include deficiencies 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.

This report does not reflect changes or improvements to the firm's system of quality control that the firm may have made subsequent to the period covered by our inspection. The Board does consider such changes or improvements in assessing whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. 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, we will make public any such deficiency.

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)

In three audits,³ 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 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.

In addition, as discussed below (Part II.B, *Reliance on Data or Reports*), the inspection team identified instances in which the firm did not identify and test, or sufficiently test, controls over the accuracy and completeness of data or reports used in the operation of controls.

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.

³ Issuers B, C, and D

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, AS 2501, and AS 2502.⁴ (QC 20.03 and .17)

The inspection team identified four audits,⁵ all of which are included in Part I.A, with deficiencies related to unwarranted reliance on data or reports.

- In all of these audits,⁶ the firm did not identify and test, or sufficiently test, controls over the accuracy and completeness of certain data or reports that the issuer used in the operation of controls that the firm tested.
- In all of these audits,⁷ the firm did not perform procedures to test the accuracy and/or completeness of certain data or reports that it used in its substantive testing, or in the alternative, test, or sufficiently test, controls over those data 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 five audits,⁸ all of which are included in Part I.A and two of which are also included in Part I.B,⁹ the inspection team identified one or more deficiencies that the engagement partner should have identified and appropriately addressed but did not. In all five of these audits, the engagement team had identified a significant risk, including in some cases a fraud risk, in an area in which a deficiency was identified.

* * * *

⁴ AS 2501, *Auditing Accounting Estimates*, and AS 2502, *Auditing Fair Value Measurements and Disclosures*, which were in effect at the time of the audits that were the subject of this inspection, were replaced by AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements*, which is effective for audits of financial statements for fiscal years ending on or after December 15, 2020.

⁵ Issuers A, B, D, and E

⁶ Issuers A, B, D, and E

⁷ Issuers A, B, D, and E

⁸ Issuers A, B, C, D, and E

⁹ Issuers A and B

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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September 23, 2021

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 2020 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 2020 Inspection of Grant Thornton LLP, principally related to our 2019 audits (the "Draft Report").

Quality is our highest priority at Grant Thornton and we are committed to its continual advancement. One of the ways we advance quality is through our robust root cause program wherein causal factors are identified for both positive and negative quality results, combined with an analysis of quality indicators. The ongoing cycle of monitoring, identifying where improvements are warranted, recognizing causal factors, and developing actions drives continual improvement in our audit approach and execution. In addition, our Audit Quality Advisory Council, which includes two outside members, advises our Partnership Board and Senior Leadership Team on our audit quality, and provide 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 fully 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

Janet Malzone
National Managing Partner of Audit Services

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

