

# Audit quality and transparency report

DECEMBER 2020



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## Audit quality and transparency report

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# Quality at the foundation of all we do

This year's Audit Quality and Transparency Report encompasses a year of unparalleled challenges since our profession has faced the immense hardships COVID-19 posed to our work head on this year. Our Audit professionals pivoted rapidly to keep quality at our core despite an extraordinary environment for our clients and teams – moving key procedures and protocols to a virtual setup while making certain that the highest standards were rigorously maintained. Those efforts, including national office support, updates to key protocols and procedures in alignment with virtual environment auditing standards, quality monitoring and controls, and technology and methodology use all drove better outcomes and exceptional client service.

As a firm, we also boosted our dedication to diversity, equity and inclusion (DE&I) this year through these commitments. Within Audit and in line with these efforts, our leadership team is committed to recruiting, advancing and retaining greater diversity within our engagement teams and making sure our practice is an inclusive and welcoming place to work for all. Diversity supports that striving for quality and excellence within our firm – making sure that all our teams are as strong and inclusive as possible and enabled to deliver the best possible results.

Our Audit team members, leaders and national office members are dedicated to continuously improving audit quality, and using each year's findings as fuel for further progress in excellent engagement results. We're gratified to share these updates to our audit quality and transparency efforts this year, and to highlight the major commitments that made this year's accomplishments possible.



**Jeffrey L. Burgess**

National Managing Partner of Audit Services  
Grant Thornton LLP

# Who we are and what we do

## Our ownership structure and our business

Grant Thornton LLP (Grant Thornton) is the U.S. member firm of [Grant Thornton International Ltd \(GTIL\)](#), a global organization of independent audit, tax and advisory firms. Through nearly 9,000 U.S. professionals, Grant Thornton provides tax, audit and advisory services to a broad range of dynamic publicly and privately held companies, government agencies, financial institutions, and civic and religious organizations. The firm is entirely owned by its partners and principals.<sup>1</sup>

Grant Thornton operates through three service lines: audit, advisory and tax services, which compose approximately 33%, 41% and 26%, respectively, of our net revenues. Our U.S. service lines are structured around a broad range of industries that operate across more than 50 offices nationwide. This allows our partners and employees to provide personalized attention and quality service to public and private clients without regard to geographical boundaries. A full list of our services and current U.S. office locations can be found at [gt.com](#).

	Member firms worldwide	U.S. member firm
Revenues (USD)	\$5.72 billion	\$1.92 billion
Personnel (Incl. Partners)	56,028	8,669
Partners/Principals	3,608	603
Offices	756	55
Statistics as of:	Sept. 30, 2019	July 31, 2020

Unless otherwise noted, all full-year data in this report is as of our fiscal year ended July 31, 2020. Prior fiscal years' data is shown for purposes of comparison where appropriate. The qualitative information in this report is current as of the date of this report.

## Governance and management

Grant Thornton is structured as a limited liability partnership and is governed by the CEO, Senior Leadership Team and Partnership Board. Appendix A provides a summary of the responsibilities for each branch of governance.

In the Audit Services practice, Audit Services practice leaders (APLs) and professional practice directors (PPDs) are responsible locally for setting the proper tone of professional excellence. APLs and PPDs report up to the national managing partner of Audit Services, with APLs reporting through the regional APLs, and PPDs reporting through the national office. The APL is responsible for overseeing delivery of audit services in his or her market territory, including staffing, training and day-to-day audit operations. The PPD works with the APL to conduct local risk assessments and quality control reviews and deliver training. The PPD serves as a liaison between engagement teams and others in the national office regarding technical consultations.

<sup>1</sup> Partners are Certified Public Accountants (CPAs). Principals may have other designations but are not CPAs. Their rights and privileges as owners of the firm are the same. In this report, reference to partners is to both partners and principals.

Figure 1 shows how our Audit Services practice is organized, between engagement delivery (in orange) and our full suite of audit support groups within the national office (in purple).

Summaries of our revenue by service line and our audit revenue by industry are provided in Figures 2 and 3.

Figure 1: Audit Services organizational chart

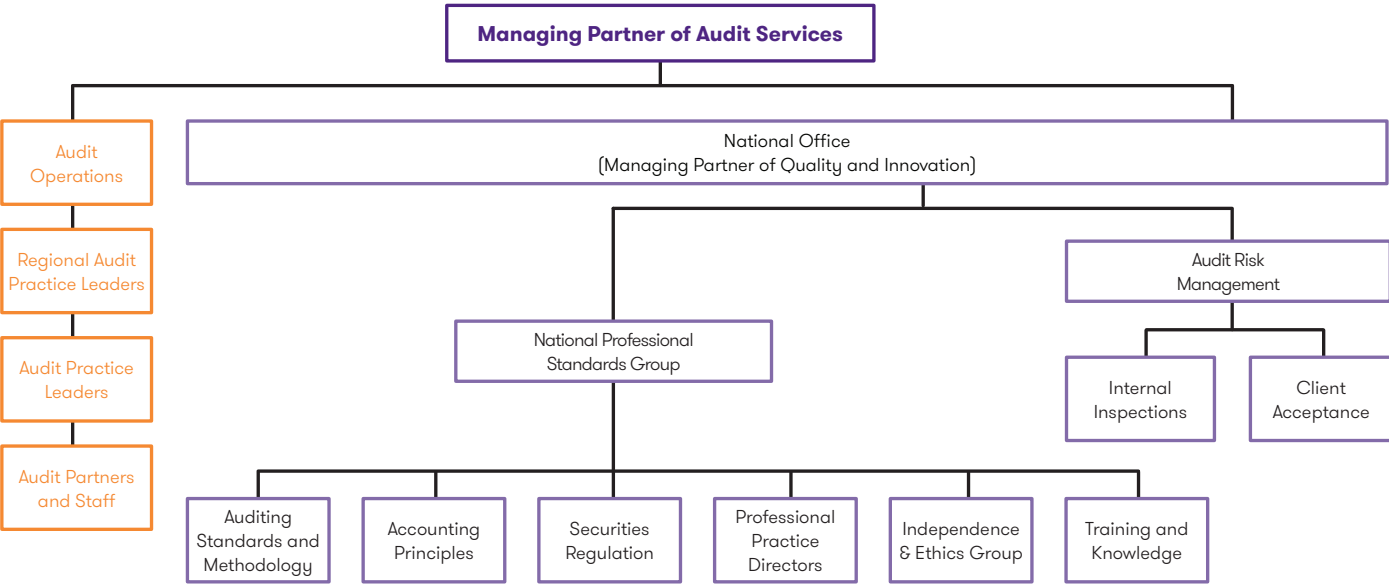
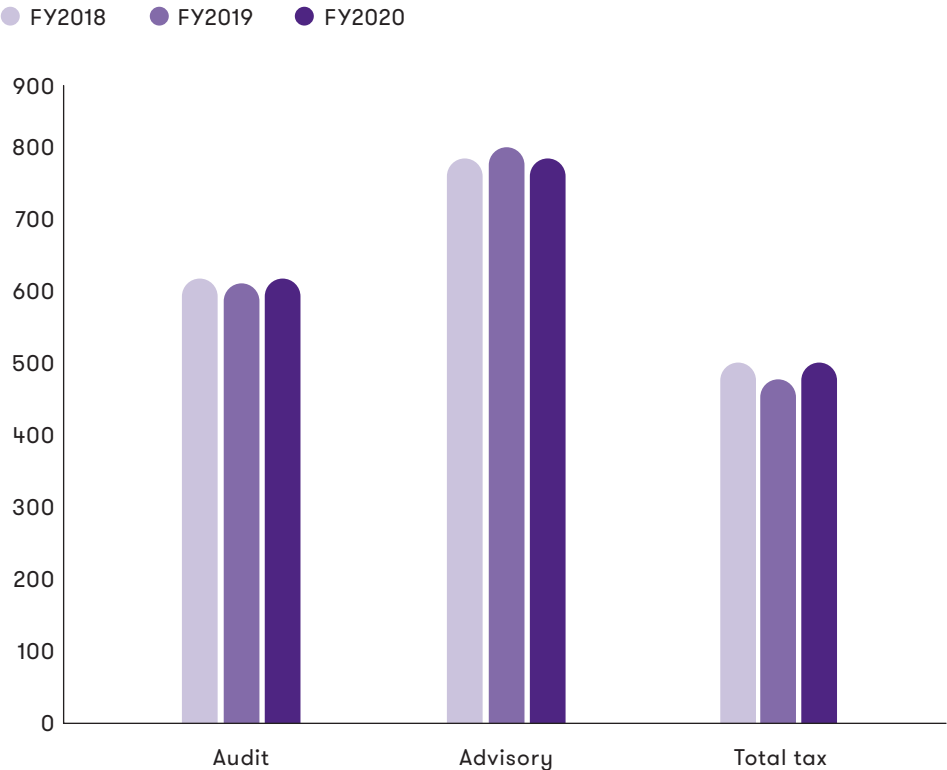
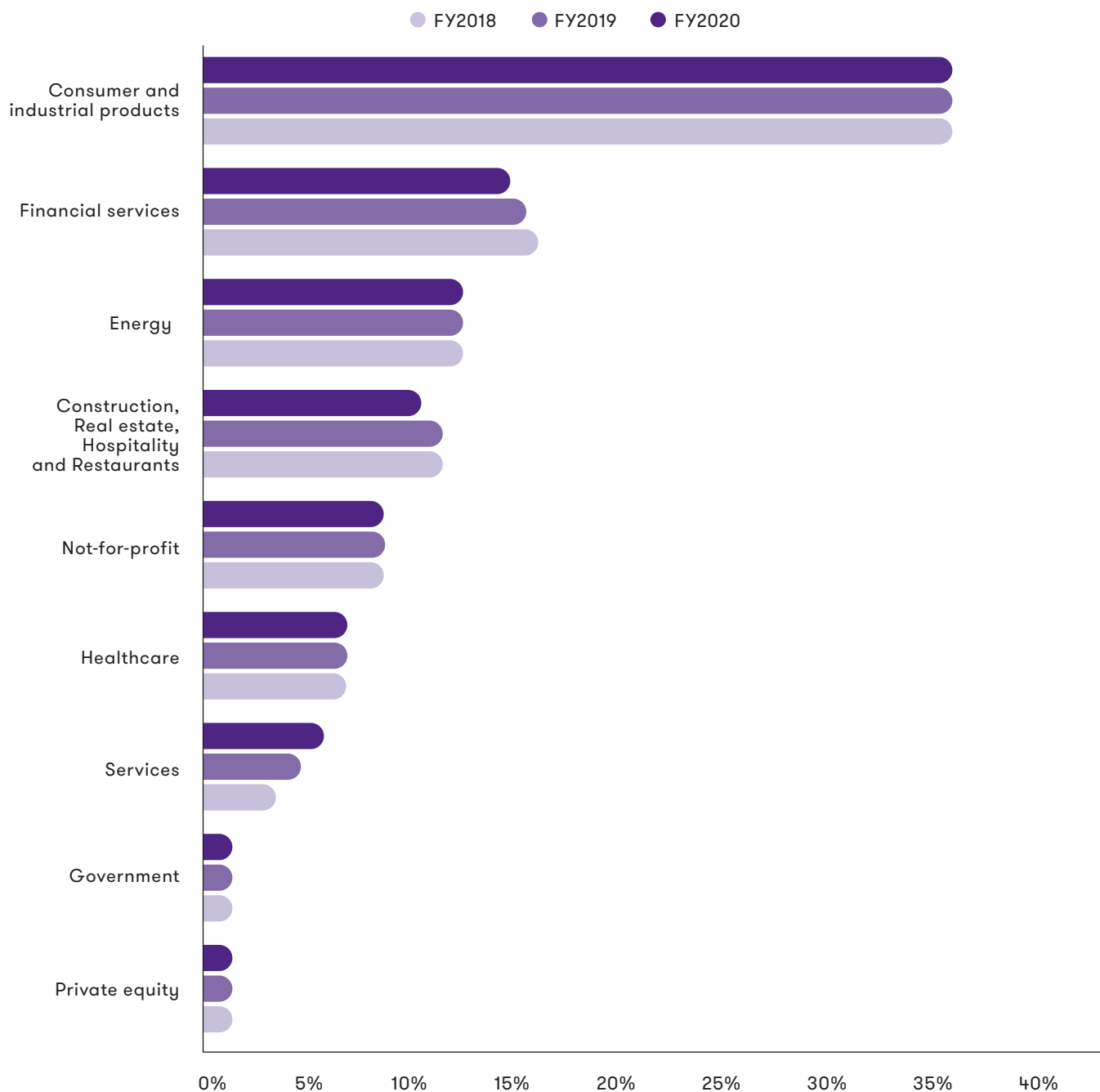


Figure 2: Net revenue dollars (\$ millions)



**Figure 3: Audit revenue allocation by industry**



# Quality control and external monitoring

For 96 years, Grant Thornton has been focused on delivering high-quality audits with exceptional client service in an ever-changing environment. Through our efforts to drive audit innovation and our focus on delivering a continually improving product, audit quality at Grant Thornton is the highest ever. Our internal inspection results show steady improvement year over year. Our Public Company Accounting Oversight Board (PCAOB) inspection results have been in the top one or two of all global auditing firms for the past three years; and the rate of restatement of audit client financial statements has declined steadily over the past decade — all while maintaining a superior level of service and personal attention.

In this section you will learn how we drive quality through the structure of our quality control system, including our:



**Processes for initiating audit engagements**



**Professional experience, staffing and turnover**



**Infrastructure designed to support high-quality audit delivery**



**Accountability and linkage of quality to compensation**



**Interaction with Grant Thornton International Ltd quality control procedures**

## Quality control system

GTIL and Grant Thornton have implemented service delivery systems, quality controls, and risk management tools to provide the necessary framework to meet the high-quality standards of the firm and the profession. Our people have both the latest training and the most effective tools to build, earn and secure the public trust.

### Initiating an engagement

Our audit quality control and risk management starts with our efforts to

- Verify that we are working with clients who share our commitment to excellence (client acceptance).
- Confirm that we have the skills and capabilities to audit the client's financial statements (engagement acceptance).
- Plan and execute each engagement to meet or exceed the relevant auditing standards (engagement performance).  
You can read more about the first component in the discussion about our client acceptance procedures on page 25.





The last two components — engagement acceptance and engagement performance — start with an appropriate risk assessment. Each audit engagement is categorized by reference to its risk, complexity and any specialized skill or experience requirements. This categorization is used to help set the agenda for the audit, including identifying additional quality control procedures and, where necessary, involvement of the firm’s technical and industry specialists. We also use this evaluation to drive the planned timing and staffing of our audit work.

The initial acceptance of audit engagements must be approved by a partner from outside the proposed audit team. Engagements with certain risk characteristics must also be approved by an objective committee of partners, and in certain circumstances, require consultation with GTIL.

A similar process for continuance of engagements is required on an annual basis. Significant changes in circumstances or the presence of other risk indicators requires approval by a partner outside of the audit team, an objective committee or GTIL. On rare occasions where a commitment to integrity might be lacking, or where we believe the audit risk may have elevated to an unacceptable level, we will reconsider our continuing audit relationship.

#### **Professional experience, staffing and turnover**

Substantial partner/managing director/manager involvement is required throughout the audit process. This includes giving honest feedback, coaching and mentoring, encouraging consultation, and providing on-the-job training to our professionals.

Technical excellence, audit quality and ethical behaviors are reinforced to all audit professionals during their induction and throughout subsequent learning programs. Included within these programs is a continual reminder that a foundational expectation on all audit engagements is to maintain an objective and skeptical mindset when conducting the audit. The application of technical expertise is a key competency assessed within the mandatory annual performance appraisal process. In addition, partners and staff involved in the audit of certain clients, such as listed companies, must first be suitably accredited (for example, completion of mandatory training programs, sufficient public company audit experience, industry experience and other criteria).

The mix of engagement personnel based on experience level is also a significant driver of audit quality. Having an appropriate level of partner/managing director time in relation to total engagement hours helps ensure proper oversight and provides our clients with the best level of service and advice. At the same time, leveraging the right work effectively to younger staff helps them develop and become bright leaders of the future. At Grant Thornton we strive to reach an optimal staffing model that provides more partner/managing director/manager time than our global competitors, yet still provides great learning opportunities for our professionals.

The following tables show our average full-time-equivalent (FTE) headcount by level and key ratios of engagement hours. On average, each of our partners supervises eight non-partner employees, compared to nearly 10 or more non-partner employees at other large professional services firms. This difference allows Grant Thornton partners to spend more quality time with our audit teams and with our clients.

**Figure 4: Average FTE Audit Services personnel<sup>1</sup>**

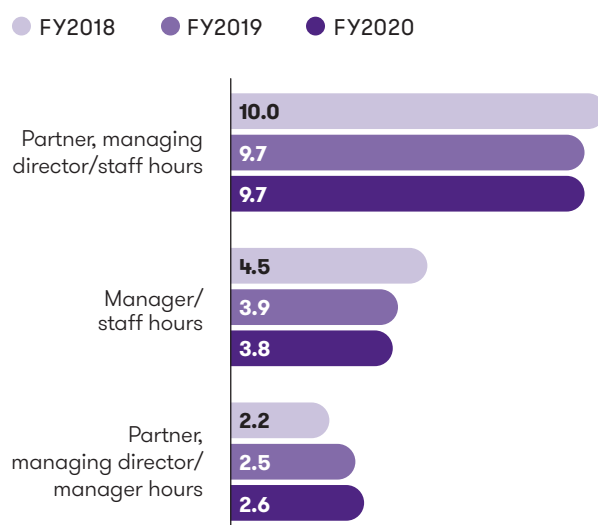
Sum of FTE	FY2018	FY2019	FY2020
Partners	269	257	254
Managing directors	33	27	37
Managers <sup>2</sup>	449	456	480
Senior associates	638	557	637
Associates and interns	907	809	800
<b>Total</b>	<b>2,296</b>	<b>2,106</b>	<b>2,208</b>
<b>Ratio of partner to non-partner</b>	<b>1-to-7.5</b>	<b>1-to-7.2</b>	<b>1-to-7.7</b>

<sup>1</sup> The average headcount numbers above exclude 223, 281 and 376 professionals in our shared services center in India for fiscal years 2018, 2019 and 2020, respectively. Collectively, the ratio of partners to non-partners in each of those years was 1-to-8.4, 1-to-8.3 and 1-to-9.2.

<sup>2</sup> Managers includes senior managers, managers and directors.

Another useful quality metric is the ratio of audit hours by supervisor compared with the total number of audit hours below the supervisory level. In general, lower ratios indicate a more concentrated and direct level of supervision. Figure 5 shows that, on average, roughly two hours of Grant Thornton manager audit time are covered by one hour of partner/managing director time. Likewise, four to five hours of staff time are covered by one hour of manager time, and approximately 10 hours of total staff time are covered by one hour of partner/managing director time. Our leverage model is designed to provide a high level of partner and senior team member involvement to drive quality and to facilitate staff development.

**Figure 5: Ratio of Audit Services supervisory hours**



Turnover of audit personnel is also a relevant influencer of audit quality. All large accounting firms are staffed in a pyramid structure, with the majority of professionals in the lower half of the pyramid. In most firms it takes approximately 12 to 15 years to progress from the lowest levels of the pyramid to the highest. Along the way, the pyramid narrows as professionals leave — usually for careers or opportunities outside of public accounting. Accordingly, the turnover rates at lower levels can be quite high compared to other professions. Figure 6 shows Grant Thornton’s voluntary turnover experience below the partner/managing director level for the past three years.

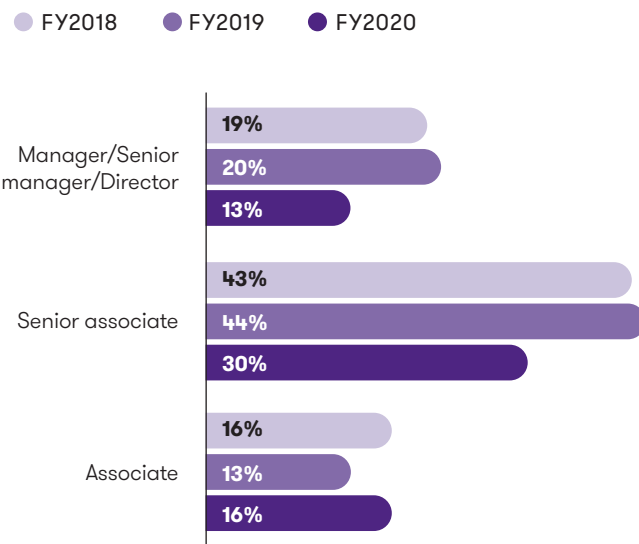
#### Supporting high-quality audit delivery

We seek to provide exceptional support to our audit teams through excellent national office support, an audit methodology that is compliant with relevant auditing standards and customizable to every audit, and audit technology that provides effective and efficient service delivery.

#### Supervision, consultation and review

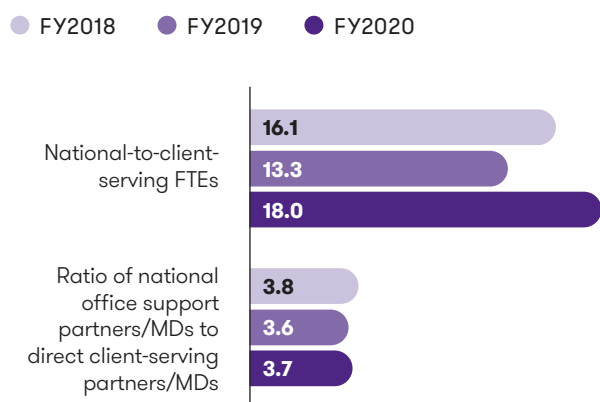
Every well-run audit firm has a staff of experts available to support engagement teams when complex accounting and audit situations arise. At Grant Thornton we take pride in our national office, which not only provides exceptional advice and counsel to our teams, but also gets involved directly with our clients to help think through issues. We average providing one national office professional for roughly every 18 direct client-serving audit professionals, and one national office partner or managing director (MD) for every four audit partners or managing directors. Other firms that publish similar statistics have one national office partner or managing director for every five to eight audit partners or managing directors.

**Figure 6: Average annual turnover rates by level**





**Figure 7: National office coverage**



We have a strong culture of consultation, supervision and support, which is embedded throughout our audit methodology. During FY2020 we completed nearly 2,000 formal consultations throughout the Audit Services practice.

Audit clients whose securities are publicly traded are subject to an engagement quality control review (as required by the PCAOB's Auditing Standards and the International Standard on Quality Control 1) by partners who are specially certified to perform such reviews. Our Engagement Quality Control Review partners are in place for these reviews and other complex or high-risk-category clients to address certain quality and risk management matters.

#### National Professional Standards Group

Our overall approach to quality control owes much to the work of our National Professional Standards Group (NPSG), which consists of specialists in accounting principles, auditing and other attest standards, SEC and other regulatory requirements, and ethics and independence guidelines. In addition, Grant Thornton NPSG professionals are heavily involved in American Institute of Certified Public Accountants (AICPA) and Financial Accounting Standards Board (FASB) standard-setting activities, including chairing the Auditing Standards Board, the Assurance Services Executive Committee and the Peer Review Board of the AICPA. Our involvement in the profession gives us firsthand knowledge of the current state of the audit and accounting standards, and any pending changes.

The NPSG is responsible for:

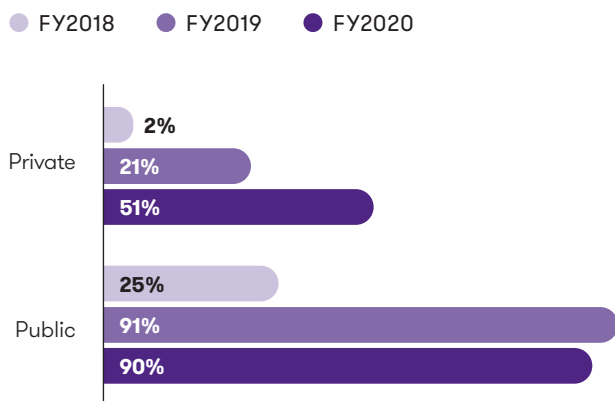
- Establishing policies related to accounting and auditing services
- Maintaining, updating and reviewing the firm's accounting, auditing, independence and ethics, regulatory and other audit services resources
- Providing timely information concerning current developments in the areas of accounting, auditing, ethics and independence, and regulatory actions and specialized industries
- Administering various professional and firm quality control functions and consulting on technical matters relating to accounting, auditing and SEC practices

### Audit methodology and technology

Our global audit methodology, which is used by all GTIL member firms, provides audit teams with a clear and direct link between identified financial reporting risks, internal controls that address the risk, and audit procedures. This approach enables audit teams to judge how the current environment affects an entity's financial reporting, how the entity's operations, policies and procedures may introduce audit risk, and how to develop an appropriate audit response. The methodology scales to allow the audit response to be applied across entities of various size and risk. Also, the methodology integrates quality control processes — for example, policies requiring certain types of procedures for certain risks or when an additional layer of engagement quality control review is necessary.

Engagement teams use a variety of automated and analytical capabilities from our ever-growing suite of Lumen innovation toolkit. These tools allow engagement teams to identify areas of increased risk and facilitate more focused audit responses to improve audit quality. Figure 8 shows the percentage of audit engagements using one or more Lumen tools as part of the audit.

**Figure 8: Lumen innovation adoption (% of total engagements)**



Audit results are documented within a proprietary documentation software tool and supplemented with external documents that are accumulated and archived within 40 days following completion of the audit. Audit files are retained for seven years following the completion of the audit in order to support our opinion and facilitate internal and external inspections.

### Use of centralized service centers

Today most large firms utilize centralized service centers to perform certain audit procedures. The proper use of centralized services helps to increase the quality and efficiency, while at the same time enhancing the development opportunities for domestically based professionals. In 2012 Grant Thornton opened a shared services center in Bangalore, India. This joint effort between Grant Thornton India and Grant Thornton is named INDUS.

In FY2020 we performed approximately 12% of our audit hours in INDUS, and crossed the million-hour mark for work performed in INDUS. Our INDUS professionals consistently deliver high-quality products.

### Reporting to the Partnership Board

The national managing partner of Audit Services and the national managing partner of quality and innovation for Audit Services annually report to the Partnership Board on the findings of our engagement quality review process and any planned remedial actions. The results are also disclosed to the firm's external regulatory bodies.

Individual engagement leaders are subject to both the firm's reviews and external quality assurance reviews. Review findings affect those individuals' annual audit quality grading, which in turn influences their compensation.

### Professional development

We support professional development not only through structured learning programs, but also through on-the-job learning across varied client assignments, coaching, national office rotations and international secondments. Further, we continually review the skills and competencies of all our professionals to confirm their qualifications for assigned engagements.

The firm provides professionals with a wide variety of learning programs to enhance knowledge and skills in the following areas, among others:

- Accounting, auditing, financial reporting and SEC regulatory
- Applying audit standards, policies, methodology and tools
- Fraud prevention and detection and professional skepticism
- Independence and ethics
- Industry — for example, financial services, benefit plans, not-for-profit and governmental
- Leadership, communication and interpersonal skills

### Learning development and delivery

The audit practice established robust policies and processes around learning development and delivery in the following areas to ensure learning programs are relevant and effective:

- The number of hours and type of training needed by professional level
- Identifying and prioritizing learning topics, by level
- Content development, technical reviews, and delivery, including identifying and preparing program leaders
- Monitoring enrollment and course completions
- Continuing Professional Education compliance

The firm uses a variety of delivery methods to deliver national learning programs and courses — face-to-face (national, regional and local), virtual classrooms, webcasts and on-demand self-study programs. Where specific topics are not available through a firm-sponsored program, professionals attend courses and events offered by qualified external providers.

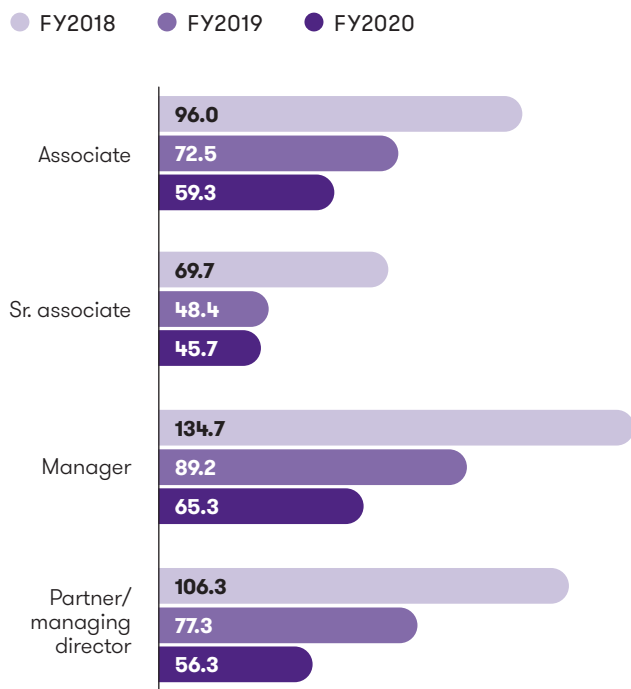
In response to COVID-19, all face-to-face learning programs were redesigned for virtual, webcast and on-demand learning deliveries. No face-to-face learning programs are planned through April 2021.



### Continuing professional education

All professionals in the firm, including CPAs and non-CPAs, are required to obtain at least 20 hours of qualifying continuing professional education (CPE) every year and at least 120 hours every three years. We strive to offer at least 40 hours of relevant CPE each year, with over 60 hours per year for associates and seniors in the audit practice. Given the high volume of changes in auditing standards over the years, in 2018, we rolled out a comprehensive auditing standards curriculum designed to further ground all our auditors in what the international, AICPA and PCAOB auditing standards require. That effort significantly increased our training hours per person, but it was a worthwhile investment in audit quality. The chart below shows that our average audit hours per professional is much higher than the average 40-hour state requirement.

**Figure 9: Average training hours by level**



In addition, all partners and professionals must comply with state licensing and other firm CPE requirements — all of which are monitored.

The firm established corrective actions (minimum consequences) for non-compliance with firm CPE policies, which may include disciplinary warnings, impact on performance ratings and removal from certain engagements, among other actions.

Grant Thornton is certified for CPE sponsorship through the National Association of State Boards of Accountancy (NASBA) and listed on the National Registry of CPE Sponsors. The registry recognizes CPE program sponsors who provide continuing professional education programs in accordance with nationally recognized standards.

### Accountability and partner compensation


Responsibility for audit quality rests with every professional involved in audits. The ability and the commitment to get the job done right is a determining factor in our promotion and compensation system at every level, resting finally and primarily with the partners. Accordingly, in 2014 we implemented a partner compensation program that more directly links compensation to audit quality. Over the years we have refined that program to continually inspire ownership of quality among our partners. Near the end of fiscal 2020, we started a comprehensive review of the program to make sure that our partner compensation process is fair and drives behavior consistent with our values.

As with most large accounting firms, our partners are owners of the business and share in the firm’s annual profit at a level equivalent to their percentage of ownership. All partners are paid based on the earnings of the entire firm. They are not paid based on the relative success of their respective service lines. Over time, and commensurate with their demonstrated contribution of value to the partnership, partners earn the right to increase their ownership percentage, and thus their annual compensation. For partners involved in delivering audit services, however, there is an additional step.


Annually, we track positive and negative audit quality indicators and assign a range of points to those indicators. Figure 10 lists some of the most significant points we track.

The points are tracked separately and not netted. Positive points, over time, demonstrate high quality and can serve as support for an increase in a partner’s overall share of the partnership. Negative points demonstrate need for improvement and can result in economic penalties and/or training and development plans. Our goal is to reward long-term demonstrations of quality and to encourage and direct potential improvements to quality where appropriate .

**Figure 10: Quality indicator examples**



Positive



Negative

Positive results from internal or external inspections	Negative results from internal or external inspections
Demonstrated effectiveness of handling difficult client situations	Restatements due to error or fraud
Demonstrated effectiveness as a participant in the internal inspection program	Presence of a significant engagement deficiency as defined by AS 1220
Demonstrated strong consultative approach, knowledgeable and timely involvement of appropriate specialists	Lack of full cooperation, or support in conjunction with PCAOB, audit practice review or other inspections
Positive results from personal independence audit	Inadequate consultations
Identification of a restatement in financials previously audited by someone else	Noncompliance with client acceptance/ reacceptance process
Identification of a significant engagement deficiency as defined by AS 1220	Resource allocations/ personnel assignments that are inconsistent with desired tone at the top relative to quality
Appropriate eye on quality in both client acceptance and in reacceptance	Failure to archive one or more engagements within the time prescribed by our policy
Appropriately considering client going-concern issues	Repeat findings or other pervasive issues



### Audit Quality Advisory Council

In 2019 we established the Grant Thornton Audit Quality Advisory Council (the Quality Council), comprising two independent council members and one audit representative from our Partnership Board. The purposes of the Quality Council are to advise the partnership board regarding ways to maintain and improve the firm's system of quality control in accordance with applicable professional standards, and to champion the public-interest nature of the audit practice.

The two independent members are Chris Mandaleris and Ann Yerger. Mandaleris is a retired audit partner from a global firm and was previously the senior deputy director of inspections for the PCAOB. Yerger has a rich history in both corporate governance and investor advocacy as the former executive director of the Council of Institutional Investors. Seth Siegel is the Grant Thornton Partnership Board representative on the Quality Council, serving as a liaison between the council and the board. He provides insights to the independent members regarding our governance and system of quality controls. He is currently the managing partner of the firm's South Florida practice and an active client service partner. He previously served as the Florida Audit practice leader.

### GTIL quality control

GTIL has established the Global Quality Framework, which is an overarching standard that applies to all the GTIL member firms. It sets common quality standards and is a permanent reference point setting the expectations of member firms to deliver services to agreed quality standards Figure 11 below.

**Figure 11: Global quality framework**



Member firms are focused on delivering high-quality engagements in an ever-changing environment. GTIL provides support and resources to help maintain quality, including:

- An audit methodology, with supporting software, that is used globally
- Policies and procedures contained in audit manuals that are benchmarked against international auditing, quality control, independence and ethics standards
- Protocols that enable member firms to consult with the global auditing standards team and, if necessary, with audit specialists in other member firms
- Protocols that enable member firms to consult with an International Financial Reporting Standards help desk
- A comprehensive intranet service that includes up-to-date information for member firms on auditing, financial reporting, ethics and independence standards, and guidance on applying them effectively

In response to the COVID-19 pandemic, GTIL has been proactive in assessing risk and providing guidance to member firms. Since March 2020, GTIL has issued more than 30 bulletins and alerts on topics such as strengthening risk management controls, auditing remotely, subsequent events, fraud, going concern, group audits and more.

Each year GTIL and Grant Thornton make significant investments in education and training, covering such items as quality monitoring, group audits, auditing revenue, analytical procedures and internal control over financial reporting; audit innovation; enhancing supporting audit tools; and informing on current audit and accounting issues.

GTIL has a Global Assurance Quality Steering Committee composed of representatives from member firms, including the U.S., that drives quality initiatives throughout the network. Examples of projects include:

- Preparing the network for implementation of International Standard on Quality Management 1
- Policy, guidance and tools for each member firm to perform root-cause analysis
- International accreditation policy
- Audit Quality Recognition framework
- Whistleblowing policy

Each GTIL member firm is obligated to submit to an inspection of its quality control system, referred to as the Grant Thornton Audit Review (GTAR), at least once every three years. The GTAR process is designed to monitor member firm compliance with professional standards, and the global audit policies and procedures. The GTAR is conducted by independent and suitably qualified partners and managers from other member firms under the overall direction of the global audit quality control leader. The inspection process includes an evaluation of policies and procedures of the member firm applicable to its audit practice and benchmarking those policies and procedures against relevant policies and procedures of the international organization and applicable audit standards. A report is issued based on the review findings and is evaluated as satisfactory (pass), or adverse (fail). Summary results are made available to a designated group in each member firm, which is accessible to group auditors for purposes of assessing qualifications of other member firms that perform work on group audits.

## Quality monitoring

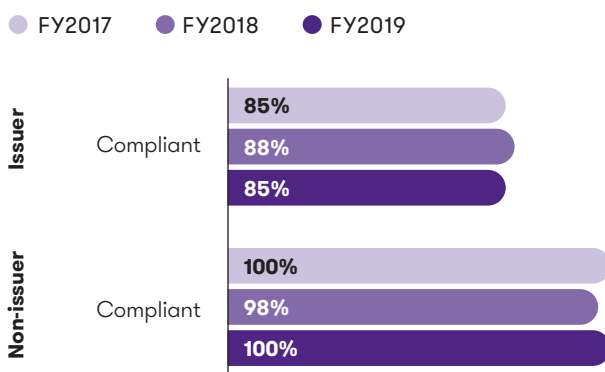
We have various methods of monitoring our system of quality control and engagement quality, including real-time involvement of coaches and national office personnel on select audit engagements, reviews of issuer audit engagements prior to archiving by someone outside of the engagement team, and internal inspections of assurance engagements and the system of quality control. We also undergo inspections by various regulators. These activities provide in-depth assessment of whether the firm's system of quality control and individual engagements are adhering to the standards promulgated by the various standard-setting bodies that oversee our profession, as well as compliance with our firm policies. The results of these reviews also contribute to the quality aspect of our periodic partner performance evaluation.

### Internal inspection

Grant Thornton's internal inspection program, known as the audit practice review (APR), is overseen by the Audit Risk Management group, and is performed throughout the year, with periodic, at least annual, reporting of results. The APR includes comprehensive testing of quality control policies and processes and a sample of assurance engagements. In addition to determining compliance with the relevant rules, regulations and standards, the APR assesses the effectiveness of firm policy, tools and training and identifies opportunities to improve engagement performance. Figure 12 shows the three years of inspection results ending with FY2020.

The inspection teams are selected from a combination of national office personnel and audit professionals outside the geography under review and include specialists as considered necessary. Engagement partners are subject to possible engagement review every year, but no less frequently than once every three years. Individual engagements are selected for inspection using a risk-based approach. Review procedures typically occur between April and September.

**Figure 12: Summary of Audit Services practice internal inspection results**



Findings from engagement inspections and testing of the various components of quality control, as well as observations from surveys and interviews, are captured and evaluated throughout the process. Identified themes or pervasive opportunities for improvement are communicated to the Audit Services practice through training events, conferences and other technical update channels.

### Peer review

The firm participates in the AICPA Peer Review Program, which requires a firm to undergo triannual external reviews of its audit quality control systems applicable to non-SEC issuer engagements. Our most recent Peer Review Report is available on the AICPA website, using the Firm Number 900010026656.

### Restatements

We evaluate any restatements of the financial statements of our issuer audits as part of our root cause program to consider any improvements to our system of quality control.

Year	2018	2019	2020
Restatements	0	2	1



### PCAOB inspections

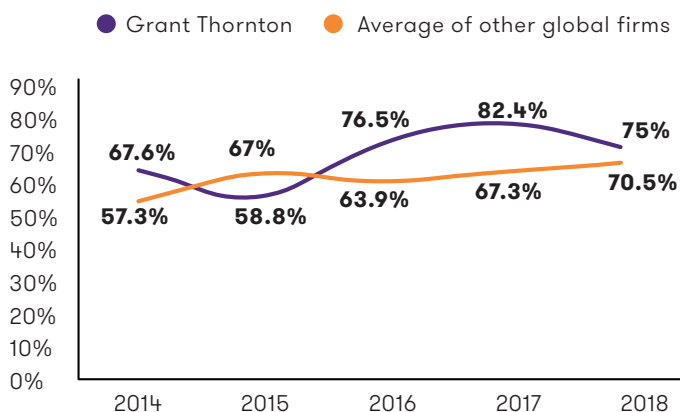
The PCAOB conducts periodic inspections of all registered public accounting firms, including annual inspections of firms such as Grant Thornton that audit 100 or more issuers. The PCAOB's process focuses on our system of quality control and inspections of a sampling of SEC issuer engagements.

Inspection reports include two major parts. Part I is public and includes findings related to specific inspection engagements. Part II contains observations regarding a firm's overall quality control processes, including comments on thematic issues. Part II remains non-public unless the PCAOB deems the actions taken to address those observations were insufficient, in which case such aspects of Part II are made public.

The inspection reports for the large network firms are typically issued approximately 18-24 months after commencing an inspection. Our most recent PCAOB public inspection report was the 2018 report issued in April 2020 and covered audits of companies with fiscal years generally ended on or around Dec. 31, 2017. Figure 13 shows the percentage of Grant Thornton's PCAOB-inspected audits that were deemed to be compliant with the PCAOB's standards in comparison to the average inspection results for the other five global auditing firms.

All of Grant Thornton's PCAOB inspection reports are available on the [PCAOB site](#).

**Figure 13: Percentage of PCAOB-inspected audits deemed compliant with standards**



The 2018 report noted the following areas where deficiencies were most frequently identified in substantive testing and/or testing of internal controls:

- Revenue recognition
- Inventory obsolescence and cycle counts
- Assumptions used in valuation of long-lived assets and acquired intangible assets

### U.S. Department of Labor Inspections

The Employee Benefits Security Administration of the U.S. Department of Labor (DOL) has established an Audit Quality Inspection Program covering audits of plans subject to the reporting and disclosure requirements of the Employee Retirement Income Security Act of 1974. Large firms like ours that perform more than 200 plan audits annually are subject to the “large firm” inspection approach, which includes reviewing firm policies and procedures, as well as inspecting a selection of employee benefit plan audits for compliance with professional standards and DOL rules and regulations. The DOL’s most recent inspection of our firm was completed favorably in 2017, with all inspected engagements being deemed acceptable.

### Effectiveness of quality control system

The firm evaluates findings and observations from all the monitoring activities, both internal and external. A key component of the assessment is a robust root cause program wherein causal factors are identified for positive and negative results, combined with analysis of quality indicators. Grant Thornton’s Senior Leadership Team, through the office of the national managing partner of Audit Services, is responsible for the firm’s quality control system. The ongoing cycle of monitoring, identifying where improvements are warranted, identifying causal factors, and developing actions provides a foundation to drive continual improvement in our audit approach and execution. An effective quality control system can provide only reasonable and not absolute assurance that a firm’s quality control objectives are met. On the basis of our review, the firm is satisfied that Grant Thornton’s internal quality control system is operating effectively.

### Engagement with regulators

GTIL member firms are expected to maintain an open and constructive relationship with their regulators. This is consistent with our global policy of embracing external oversight, along with our support of a balanced public reporting of external inspection programs. As a major international professional services organization, GTIL meets at least annually with the International Forum of Independent Audit Regulators and contributes regularly to the public discussion on major industry issues.

# Risk management and independence practices

Managing risk begins with our ability to plan and execute audit engagements in the most effective and rigorous manner. To accomplish this goal, Grant Thornton has established a comprehensive firmwide business process for identifying, quantifying, evaluating and responding to the multifaceted forms of risk faced in connection with each audit engagement. Our process begins with an initial evaluation that matches the risks of each engagement with the skills of the team in order to staff resources on each engagement that have the appropriate technical competency and proficiency under the circumstances. Our risks arise from or relate to:

- Independence and ethical guidelines
- Client acceptance and continuance
- Compliance with regulatory requirements
- Recruitment and retention of talent
- Data security
- Business continuity and disaster recovery

## Independence and ethical guidelines

Grant Thornton employs a robust independence quality control system that meets or exceeds regulatory requirements. Specific controls address audit partner rotation for listed and other public interest entities and identify potential conflicts of interest. All partners and client-facing managers are required to maintain real-time investment records in a GTIL global database, while our ethical standards group identifies and helps to resolve any potential conflicts.

Grant Thornton maintains written independence and ethical standards policies that are delivered to all personnel. In addition, all newly hired professionals are required to undergo independence and ethics training, and all professionals complete at least annual training thereafter. GTIL and its member firms also enforce policies and procedures designed to assist in the prevention and detection of independence threats.

Independence policies and procedures require:

- Maintenance of an updated list of restricted entities
- Independence self-reporting and certification by our personnel when submitting time sheets
- Self-reporting at least annually of other relationships that may be thought to bear on our independence
- Verification that the self-reporting of such independence and relationship matters is complete and accurate

Independence requirements include prompt reporting of any employment offer from an audit or other attest client, which then triggers a review and evaluation of the impact such offer may have on the work performed.



Because the “tone at the top” is central to an effective independence quality control system, the firm has developed a sanctioning process for noncompliance with our policies and procedures that is fully supported by our Senior Leadership Team and Partnership Board. Annually, we perform independence audits of partners, managing directors and managers. Partners in the audit chain-of-command, Senior Leadership Team members and Partnership Board members are audited at least every two years. Other partners and managing directors are audited at least every four years.

In addition to our own independence practices, GTIL requires member firms to adopt policies and procedures that have been designed to safeguard independence on audit engagements and identify circumstances that could pose a conflict of interest. The global independence policies and procedures are based on the International Ethics Standards Board’s Code of Ethics for Professional Accountants, with supplements to govern compliance with our global independence and international relationship-checking processes. Member firms are also required to adhere to their local regulatory requirements where more restrictive.

Another key element in our independence and ethical practices includes communications with audit committees and those charged with governance (collectively, TCWG). For each audit client, our engagement teams communicate with TCWG to discuss matters that may reasonably bear on the firm’s independence and the execution of the audit engagement. At the end of each audit, the engagement team reviews with TCWG the results of the audit. For public audit clients, all nonaudit services are preapproved by the audit committee to ensure the independence and objectivity of the firm.

#### **Global independence system**

Avoiding financial interests in an audit client, or its affiliate, is a key objective in maintaining the independence of member firms and the client service engagement teams. To help individuals and member firms achieve this objective, GTIL uses the Global Independence System (GIS), an automated tracking system that identifies restricted entities (issuers of publicly traded securities in which financial interests are prohibited or restricted). This information is made available to all personnel in all member firms.

Member firms and their partners, client-facing managers, spouses, spousal equivalents and dependents are required to maintain in the GIS a record of financial interests. The GIS monitors compliance with the financial interest policies by comparing financial interests recorded in the system with a regularly updated list of restricted entities. Individuals and those responsible for compliance monitoring are notified by the system in the event a recorded financial interest is in a restricted entity. The GIS provides a mechanism to assist the individual in determining, based on the facts and circumstances, whether it is appropriate to hold the financial interest. Where it is not appropriate to hold the financial interest, it must be disposed of.

GIS compliance monitoring is performed at both the member firm and global levels.



### **Relationship checking**

GTIL policy requires member firms and professional personnel from all service lines to maintain their objectivity when delivering services to clients. To avoid conflicts of interest and threats to independence arising from the provision of nonaudit services to audit clients or their affiliates, the identification of any existing client relationships prior to accepting an assignment is essential.

Policies and procedures at the member firm and global levels include processes designed to identify existing relationships. These processes also include requirements for appropriate consultation when relationships are identified prior to accepting new assignments.

### **Professional Excellence Committee**

The Professional Excellence Committee was established to further demonstrate the firm's commitment to our global values. Its purpose is to ensure full consideration by the firm of alleged misconduct and policy violations of partners, principals, and managing directors; to help ensure fair and consistent treatment; and to impartially and objectively evaluate alleged wrongdoing.

### **Code of Conduct**

Our Code of Conduct is an extension of Grant Thornton's global values, which provide the framework for the way in which we conduct business, serve our clients, and behave both within the firm and externally. A dedication to our global values of Collaboration, Leadership, Excellence, Agility, Respect and Responsibility (CLEARR) is the personal responsibility of every employee of Grant Thornton.

The Code of Conduct also includes policies that cover dealing with independence, conflicts, protecting confidential and proprietary information, records management, equal opportunity employment and diversity issues, complying with laws and regulations including the Foreign Corrupt Practices Act, government ethics and contracting, and political activities.

### **Ethics hotline**

At Grant Thornton, we believe ethical behavior is a necessary foundation for everything we do. Links to EthicsPoint, the independent third-party host of our Ethics Hotline, are available on our external website and on our intranet site to ensure that both our firm professionals and our clients have the opportunity to uphold our standards. Reports can be made anonymously and are forwarded to the appropriate personnel for review within 24 hours.



**FIGURE 14: OUR GLOBAL CLEARR VALUES**

#### **Collaboration**

- Provide distinctive client service to all Grant Thornton clients, regardless of origin
- Share knowledge, opportunity and best practices for the benefit of our clients and the development of our people
- Bring a global perspective to our advice and our actions
- Cooperate with others to get things done and achieve results
- Work together to bring resources and know-how to serve all clients
- Take pride in our global identity, and make it part of our everyday language

#### **Leadership**

- Represent Grant Thornton in a way that enhances our reputation and distinguishes our firm and our people in the marketplace
- Take a leadership position on issues of importance to our profession, the firm and the public interest
- Lead and communicate with clarity and confidence
- Exercise initiative to make a positive difference
- Have the courage to live our values without compromise in word and action; commit to doing what is right
- Challenge ourselves to be the best we can be, and inspire others to reach their full potential

#### **Excellence**

- Be better tomorrow than we are today, individually and collectively
- Continue investment in our own and others' development
- Attain the highest level of competence in our area of expertise
- Develop leading-edge solutions that set the benchmark in our profession
- Achieve the highest standards of quality and innovation in everything we do

#### **Agility**

- Understand the world in which we live and work, and anticipate how changes might affect our various stakeholders
- Create and communicate clear expectations, define roles and responsibilities, and empower each member of the team
- Ensure that the right people are doing the right work
- Thrive in change; understand the “why,” and help others to do so
- React positively and respond quickly to changes in direction
- Make objective, timely decisions, and act on them promptly

#### **Respect**

- Seek first to understand and then to be understood
- Treat others as we would like to be treated
- Consider, with an open mind, the perspective and opinion of others
- Give and seek regular, open and honest feedback so that we improve and grow at all levels
- Acknowledge and promote the mindset that work is only one part of life
- Express genuine appreciation for others' contributions
- Resolve differences promptly — with compassion and understanding

#### **Responsibility**

- Act as stewards to pass on a more valuable organization to the next generation
- Make decisions that look to the long term and consider the wider impact, in addition to our immediate objectives
- Act with integrity; be transparent in carrying out our duties, accept accountability for our results and use our influence wisely
- Honor our commitments; do what we say we will do, when we say we will do it
- Speak up if something “feels wrong”
- Acknowledge our contribution to mistakes, act promptly to rectify them, and, in so doing, gain new insights and awareness



## Client acceptance and continuance

The firm's client acceptance and continuance policies and procedures are foundational to our system of quality control and are designed to ensure acceptance and retention of clients that share Grant Thornton's values of quality and integrity. Key partners actively participate in and approve the acceptance of every new client. Additional review and approval occur for engagements that meet specified criteria, which may include the national managing partner of audit risk management and a committee of senior partners. Tax and advisory services also undergo a formal acceptance process to prevent any proposed nonaudit services from creating independence conflicts.

The firm requires a determination, at least annually and when certain events occur, of whether our relationship with a client should be continued. We employ a host of custom data analytical tools to evaluate risk during the client acceptance and continuance evaluation process, as well as continually throughout the year, especially related to public companies.

The global client acceptance and continuance procedures are designed to support member firm's acceptance of appropriate clients. Engagements meeting certain criteria require approval from the global Key Assurance Assignment committee, which considers whether these engagements represent an acceptable risk to the global network. The committee is chaired by GTIL's global head of quality and consists of partners from a group of geographically diverse member firms. Review and approval are performed on each engagement by a subset of the committee and excludes the representative from the firm proposing.

## Compliance with regulatory requirements

Grant Thornton considers compliance with applicable laws, industry regulations and codes to be an integral part of doing business. Rigorous policy statements, procedures, controls and codes of conduct foster compliance with all applicable regulatory requirements. In addition, partners and staff are dedicated to implementing, monitoring and maintaining an operationally effective control environment across all service lines.

- We work with organizations such as the AICPA, and state CPA and accountancy societies, to evaluate and improve the quality of our professional services.
- We meet with regulators — such as the SEC, the PCAOB and the IRS — to discuss matters of concern to audit and tax professionals, and we regularly issue public comments and other forms of thought leadership to address technical and policy issues.
- We maintain strong programs, protocols, and controls to satisfy statutory and regulatory compliance obligations.

## Recruitment and retention of talent

The people of Grant Thornton are essential to our firm's ability to deliver best-in-class services. In addition to measuring and compensating for performance, our talent management program identifies our firm's future leaders and helps our people achieve their highest career aspirations. We recruit new talent aggressively, provide continuous training and learning opportunities, and support our people with the experiences and environment to maximize the efficiency and reliability of our services. Role expectations and career opportunities are published for all levels to help employees and partners better understand the requirements of their positions.

## Data security

Confidential information relates to any non-public or proprietary information about our clients or personnel, or any non-public information that we have acquired during the course of business. We employ a variety of system controls and policies to avoid any improper or unauthorized use or disclosure of such information. We require a nondisclosure agreement and client consent when we engage outside resources to assist us in an audit that requires us to furnish them with confidential information. Data security also includes protecting data and systems from cyberthreats and attacks. The tenets of the program are security, confidentiality/privacy, integrity, and availability controls, which are selected based on the type and source of the information our firm is entrusted to protect.

### Confidentiality, privacy, and integrity controls

Following are examples of Grant Thornton's confidentiality, privacy, and integrity controls:

- **Administrative** — New-hire background checks, security and privacy policies, incident response procedures, training, and change management processes
- **Physical** — Access control mechanisms to secure areas, secure handling and disposal of hard-copy materials, environmental controls, and media disposal and sanitization procedures
- **Technical** — Laptop encryption, password requirements enforcement, two-factor authentication, patching processes, network intrusion detection systems, firewalls, encryption of information across untrusted networks, mobile device management, malware and virus detection software, and controls to track and disable lost or stolen equipment

## Availability controls

### Business continuity and disaster recovery

Because excellence in quality control encompasses a consistently stable and accessible business platform, Grant Thornton relies on enterprise-grade technologies designed to provide business continuity and disaster recovery. Grant Thornton's leadership places a strategic priority on the systems and information necessary to deliver our client services.

All enterprise systems are monitored 24/7 and are highly standardized to mitigate compatibility issues. Information stored within each Grant Thornton data center is backed up daily and maintained off-site. All workstation data backups are automated and utilize software to allow for the recovery of data that has been backed up, even if the computer is lost or stolen.

We provide protection for the availability of systems and information in a variety of ways, including:

- To resist single points of failure, high availability is incorporated into the architecture of mission-critical systems.
- Information processed by key systems is replicated to alternative processing facilities. Our disaster recovery strategy incorporates periodic testing of recovery plans.
- Network traffic is supported by diverse paths leveraging multiple carriers.
- Service continuity requirements are monitored with third parties that store or process Grant Thornton information.
- Backup power generators are installed at service centers to enhance infrastructure resiliency. Uninterruptible power systems are installed at site locations where controlled shutdown of equipment is necessary.

Grant Thornton includes workforce recovery management in our business continuity practices. We leverage an emergency notification system for rapid response to disruptive events. Grant Thornton operates an enterprise risk management council, which includes members of the firm's executive leadership team, to mitigate service delivery threats.

# Appendix A

## Our governance structure

### OUR GOVERNANCE STRUCTURE

Grant Thornton LLP is structured as a limited liability partnership and is governed by the CEO, Senior Leadership Team and Partnership Board. Below is a summary of our governance team's major responsibilities.

#### CEO

The CEO is responsible for managing the U.S. firm's business and making recommendations to the Partnership Board. The CEO is elected by the Partnership Board to serve a four-year term, for a maximum of two terms. The CEO:

- Manages the partnership's practice and business
- Makes recommendations to the Partnership Board regarding certain matters, including senior leadership appointments and compensation
- Appoints and removes partners and principals as members of national leadership or as managing partners or managing principals (other than senior leadership)
- Assigns partners and principals to offices or regions
- Appoints other persons and establishes committees to assist in the performance of the CEO's responsibilities
- Consults with any international organization of which the partnership is a member and with any other members of such international organization
- Provides the Partnership Board with initiatives for the partnership's policies, strategy and direction

- Borrows funds on behalf of the partnership
- Provides annual financial and settlement statements to the partners
- Presides at the annual and special meetings of the partners and principals
- Reports periodically to the partners and principals on the state of the partnership and its practice and business

#### National Leadership Team

The National Leadership Team (NLT) is comprised of the Senior Leadership Team (SLT) and the Executive Leadership Team (ELT). The SLT sets strategy and oversees operations for the firm. The ELT supports and counsels the SLT. Members of both teams are appointed by the CEO.

#### Partnership Board

The Partnership Board (the board) is the firm's governance body, consisting of 10 elected members and the CEO, who is appointed by the board. Elected Partnership Board members serve a three-year term and, while serving on the board, cannot be a member of the SLT.

The board has the duty and authority to approve the partnership's philosophy and direction; formulate governance guidance policies; and review and oversee the activities of the CEO, senior leadership and partnership operations. The board also approves the partnership's annual business plans and budgets, appoints and removes the chair of the board, appoints the CEO, and handles other related matters.

