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Our Governance structure

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Audit Quality and Transparency Report 2019
In order for our capital markets to function effectively, the public must have confidence in the reliability of financial information presented by businesses in the public markets; in the methodology used to produce that information; and in the independence, professional skepticism and quality applied to financial statement audits. At Grant Thornton we recognize that the market also needs robust, accurate and transparent information about the quality control systems of every audit firm. It is for that reason that we embarked on the path that led to this Audit Quality and Transparency Report.

A critical step in that path is our creation in 2019 of an Audit Quality Advisory Council. The three-person council comprises two independent executives and Grant Thornton Partnership Board member Seth Siegel. As advisers to the firm’s Partnership Board, council members provide deep, practical and objective advice regarding ways the firm can continue to deliver high audit quality.

The council champions the audit profession and its role in supporting our public markets. It supports our focus on the components of audit quality. Our efforts have centered on our tools and methodologies, training and technical competency, accountability for quality and linkage to compensation, client acceptance and risk management procedures, national office support and quality monitoring, internal inspection staffing and procedures, and the tone from the top regarding the importance and necessity of audit quality.

At Grant Thornton, we are committed to continually improving our audit quality and to providing an enlightening transparency report.

Jeff Burgess
National Managing Partner of Audit Services
Grant Thornton LLP
Who we are and what we do

Our ownership structure and business

Through its 57 offices, Grant Thornton LLP provides tax, audit and advisory services to a broad range of publicly and privately held companies, government agencies, financial institutions, and civic and religious organizations. The firm is entirely owned by its partners and principals. Partners are U.S. 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. Grant Thornton is a member firm of Grant Thornton International Ltd, an organization of independent audit, tax and advisory firms.

Grant Thornton is a leading professional services firm consisting of three primary lines of business: audit, advisory and tax services, which compose approximately 33%, 42% and 25%, respectively, of our net revenues. Our U.S. offices are structured around a broad range of industries. 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.

Unless otherwise noted, all full-year data in this report is as of our fiscal year ended July 31, 2019. Prior fiscal years’ data is shown for purposes of comparison where appropriate. The qualitative information 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.

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.

<table>
<thead>
<tr>
<th>Member firms worldwide</th>
<th>U.S. member firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues (USD)</td>
<td>$5.45 billion</td>
</tr>
<tr>
<td></td>
<td>$1.9 billion</td>
</tr>
<tr>
<td>Personnel (Incl. Partners)</td>
<td>52,686</td>
</tr>
<tr>
<td></td>
<td>8,953</td>
</tr>
<tr>
<td>Partners/Principals</td>
<td>3,535</td>
</tr>
<tr>
<td></td>
<td>619</td>
</tr>
<tr>
<td>Offices</td>
<td>745</td>
</tr>
<tr>
<td></td>
<td>57</td>
</tr>
<tr>
<td>Statistics as of:</td>
<td>Sept. 30, 2018</td>
</tr>
<tr>
<td></td>
<td>July 31, 2019</td>
</tr>
</tbody>
</table>
Figure 1: Audit Services organizational chart

Figure 2: Net revenue dollars ($ millions)
Figure 3: Audit revenue allocation by industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Private equity</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Services</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>20%</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>Not-for-profit</td>
<td>25%</td>
<td>30%</td>
<td>35%</td>
</tr>
<tr>
<td>CRHR</td>
<td>30%</td>
<td>35%</td>
<td>40%</td>
</tr>
<tr>
<td>Energy</td>
<td>35%</td>
<td>40%</td>
<td>45%</td>
</tr>
<tr>
<td>Technology</td>
<td>40%</td>
<td>45%</td>
<td>50%</td>
</tr>
<tr>
<td>Financial services</td>
<td>45%</td>
<td>50%</td>
<td>55%</td>
</tr>
<tr>
<td>Consumer and industrial products</td>
<td>50%</td>
<td>55%</td>
<td>60%</td>
</tr>
</tbody>
</table>
Quality control and external monitoring

For over 90 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 and external audit quality inspection results show solid improvement, and the rate of restatement of audit client financial statements has declined steadily in this 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 GTIL’s quality control procedures

Quality control system

GTIL and Grant Thornton have put in place professional standards, service delivery systems, quality controls and risk management systems 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 (1) ensure that we deal with clients who share our commitment to excellence (client acceptance), (2) ensure that we have the skills and capabilities to audit the client’s financial statements (engagement acceptance), and (3) plan and execute each engagement to meet or exceed the relevant auditing standards. You can read more about the first component in the discussion about our client acceptance procedures on page 23.

The last two components — skills and capabilities, and the audit planning and execution process — start with an appropriate risk assessment. Each audit engagement is categorized by reference to its risk, complexity and any specialized 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 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 preapproved 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 may be lacking, 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.

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 mind-set 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) head count by level and key ratios of engagement hours. On average, each of our partners supervises 7 nonpartner employees, compared to nearly 10 or more nonpartner 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**

<table>
<thead>
<tr>
<th></th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners</td>
<td>271</td>
<td>269</td>
<td>257</td>
</tr>
<tr>
<td>Managing directors</td>
<td>42</td>
<td>33</td>
<td>27</td>
</tr>
<tr>
<td>Managers²</td>
<td>464</td>
<td>449</td>
<td>456</td>
</tr>
<tr>
<td>Senior associates</td>
<td>695</td>
<td>638</td>
<td>558</td>
</tr>
<tr>
<td>Associates</td>
<td>998</td>
<td>907</td>
<td>809</td>
</tr>
<tr>
<td>Total</td>
<td>2,469</td>
<td>2,297</td>
<td>2,106</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ratio of partners to nonpartners</th>
<th>1-to-8.1</th>
<th>1-to-7.5</th>
<th>1-to-7.2</th>
</tr>
</thead>
</table>

1The average headcount numbers above exclude 193, 223 and 281 professionals in our shared services center in India for fiscal years 2017, 2018 and 2019, respectively. Collectively, the ratio of partners to nonpartners in each of those years was 1-to-8.8, 1-to-8.3 and 1-to-8.3.

²Managers 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 below shows that, on average, every 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 below shows Grant Thornton’s voluntary turnover experience below the partner/managing director level for the past three years.

Figure 6: Average annual turnover rates by level

<table>
<thead>
<tr>
<th>Level</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner, managing director</td>
<td>9.9</td>
<td>10.0</td>
<td>9.7</td>
</tr>
<tr>
<td>Mgr./Sr.mgrs./Dir.</td>
<td>4.5</td>
<td>4.5</td>
<td>3.9</td>
</tr>
<tr>
<td>Senior associate</td>
<td>3.2</td>
<td>4.3</td>
<td>4.4</td>
</tr>
<tr>
<td>Associate</td>
<td>2.2</td>
<td>2.2</td>
<td>2.5</td>
</tr>
</tbody>
</table>
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 13 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 six to seven audit partners or managing directors.

We have a strong culture of consultation, supervision and support, which is embedded throughout the audit methodology. During FY 2019 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 ISQC 1) by partners who are specially certified to perform such reviews. Our Engagement Quality 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 AICPA and FASB standard-setting activities, including chairing the Auditing Standards Board and the Assurance Services Executive Committee 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.

Figure 7: National office coverage

<table>
<thead>
<tr>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>National-to-client-serving FTEs</td>
<td>21.5</td>
<td>16.1</td>
</tr>
<tr>
<td>Ratio of national office support partners/MDs to direct client-serving partners/MDs</td>
<td>4.2</td>
<td>3.8</td>
</tr>
</tbody>
</table>
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 publications

• Providing timely information concerning current developments in the areas of accounting, auditing, ethics and independence, 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 responded, and how to develop an appropriate audit response. The methodology contains integrated quality control processes — for example, policies and procedures on conducting an engagement quality control review.

The methodology is applied using our Voyager™ software, manuals and policies. These are benchmarked against the U.S. and International Standards on Auditing, PCAOB Auditing Standards, International Standard on Quality Control (ISQC) 1, and the Code of Ethics for Professional Accountants (the IESBA Code).

Audit results are documented within the Voyager software tool and supplemented with external documents that are accumulated and archived within 45 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 INDUS.

In FY 2019 we performed approximately 10% of our audit hours 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.

**Reporting to the Partnership Board**
The quality of a client’s corporate governance and the robustness of its financial reporting systems are critical to audit quality. Our client acceptance procedures (see page 23) may raise concerns about a prospective client’s corporate governance processes, leading to careful consideration as to whether we accept that client. During the audit, if we identify weaknesses in governance and internal control systems, we work with our clients to develop actions for improvement. If necessary, we reconsider our continuing audit relationship.

The changing audit regulatory environment also has a clear impact on audit quality. We actively engage with regulators, standard setters and investors, shaping the dialogue for better reporting and supporting responsible regulatory change. Partners and staff participate in various boards, committees, working groups and forums, addressing a diverse range of topics and providing the firm’s view on developments and issues. In addition to supplying members to many FASB advisory committees and task forces, Grant Thornton professionals serve in a meaningful capacity in nearly 30 AICPA councils, committees and expert panels. We routinely send professionals on secondment to work with regulators, including the SEC, the FASB and the Office of the Comptroller of the Currency. And we have an active public policy function that works closely with lawmakers regarding topics that are important to the marketplace and the auditing profession. In matters that are important to financial reporting professionals and financial statement users, Grant Thornton is in the know, and we have a voice.

**Continuing professional development**
In addition to developing broad business insight, all our professionals are required to maintain their technical competence and comply with relevant regulatory and professional development requirements. This is reviewed with our professionals as part of the annual appraisal process. Most states require accountants to obtain a minimum of 40 hours of continuing professional education every year. Figure 8 shows the average number of yearly training hours per FTE, by level, for our audit professionals. The numbers are well in excess of state board requirements.

**Figure 8: Average training hours by level**

<table>
<thead>
<tr>
<th>Level</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
<th>Minimum required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Associate</td>
<td>104.0</td>
<td>96.0</td>
<td>95.1</td>
<td>69.7</td>
</tr>
<tr>
<td>Sr. associate</td>
<td></td>
<td></td>
<td>69.7</td>
<td></td>
</tr>
<tr>
<td>Manager</td>
<td></td>
<td></td>
<td>114.1</td>
<td>106.3</td>
</tr>
<tr>
<td>Partner/managing director</td>
<td></td>
<td></td>
<td></td>
<td>141.5</td>
</tr>
</tbody>
</table>

In matters that are important to financial reporting professionals and financial statement users, Grant Thornton is in the know, and we have a voice.
Within the audit service line, we have mandatory technical updates, as well as various courses on financial reporting, auditing matters, and ethics and independence. In addition, individuals with clients in particular sectors must attend industry-specific training, for example, on listed companies, financial services clients, benefit plans, not-for-profit entities and government entities.

We continually review the skills and competence of all our people and ensure that they meet the needs of their client engagements. We support professional development not only through structured learning programs, but also through opportunities for mentoring and secondment.

We aim to create an environment where our people are enthusiastic about what they do, perform to their best ability, and have the opportunities and support to develop their knowledge and skills.

Additional information about professional development at Grant Thornton can be found beginning on page 25.

**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.

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. 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.

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. Our goal is to reward long-term demonstrations of quality and to encourage and direct potential improvements to quality where appropriate.
Audit Quality and Transparency Report 2019

Audit Quality Advisory Council

In 2019 Grant Thornton 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 Services 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 audit representative from our partnership board. Siegel leads our Florida Audit Services practice and was previously a financial analyst with a Fortune 100 company, as well as the controller of a securities broker-dealer. He serves as a liaison between the Quality Council and the board, and provides insight to the independent members regarding our governance and system of quality controls.

Figure 9: Quality indicator examples

| 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, APR 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/re-acceptance process |
| Identification of a significant engagement deficiency | 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 re-acceptance | 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 |
GTIL quality control procedures
In addition to our own quality control procedures, as a member firm of GTIL we are required to abide by a system of quality control that encompasses, at a minimum, the following standards issued by the standard-setting boards of the International Federation of Accountants (IFAC), including:

• International Standard on Quality Control 1: Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements
• Financial Information, and Other Assurance and Related Services Engagements
• International Standard on Auditing 220: Quality Control for Audits of Historical Financial Information
• IESBA Code of Ethics for Professional Accountants

Each member firm’s system of quality control is designed to provide global and national management with reasonable assurance that audit engagements are conducted in accordance with applicable professional standards and global policies and procedures.

Member firms are required to have an effective internal inspection program in place that meets the requirements of ISQC 1. Member firms are provided with templates to assist them in adopting their internal quality control inspection. These templates include guidelines, work programs, forms and examples of reports — all of which have been benchmarked to ISQC 1. In addition, IFAC recently proposed a new International Standard on Quality Management (ISQM 1). Like many other firms, we are in the process of evaluating this proposal and mapping our existing quality control standards to it.

GTIL’s support of robust audit delivery
GTIL views audit quality as an essential element of our business. To that end, GTIL provides resources to assist member firms in maintaining audit 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 (IFRS) 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

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; enhancing supporting audit tools; and informing on current audit and accounting issues.
Grant Thornton Audit Review
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.

GTAR inspection teams review the conduct of audit work performed by each member firm. 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. The inspection team reviews financial statements, audit reports, and engagement work papers and files. The inspection team also interviews partners and staff on various matters.

Quality monitoring
Inspecting the quality control system and audit engagements
Because our quality control systems are integral to performing quality audits, we perform an annual internal inspection of our quality control system and audit engagements. We also undergo several external inspections required by regulatory and membership organizations. These inspection activities are designed to determine whether the firm’s system of quality control and audit engagements is 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 contribute to the quality aspect of our periodic partner performance evaluation.

Audit practice review
Grant Thornton’s annual internal inspection program, known as the audit practice review (APR), is overseen by a national partner-in-charge of practice quality. The APR includes comprehensive testing of engagements, and quality control policies and processes. The APR provides feedback on firm policy effectiveness and professional standards implementation, and identifies opportunities to improve engagement performance. Data gathered during the APR is used to benchmark partners and managers against their respective peers. Figure 10 shows the three years of inspection results ending with fiscal year 2018. As of the date of this report, the 2019 inspection results are still being analyzed and summarized.

<table>
<thead>
<tr>
<th>Figure 10: Summary of Audit Services practice internal inspection results</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY16</td>
</tr>
<tr>
<td>Compliant</td>
</tr>
<tr>
<td>Issuer</td>
</tr>
<tr>
<td>Noncompliant</td>
</tr>
<tr>
<td>Compliant</td>
</tr>
<tr>
<td>Non-issuer</td>
</tr>
<tr>
<td>Noncompliant</td>
</tr>
</tbody>
</table>
The review teams are selected from a combination of permanent internal inspection staff and audit professionals outside the office under review. Engagement partners are subject to possible engagement review every year, but no less frequently than once every three years. Reviews typically occur between April and September, and the engagements selected are biased toward those considered to be more complex or higher risk. At the completion of an office review, depending on the nature of any findings, the audit leader of the office may be required to develop and implement a targeted action plan to address the findings.

On an annual basis the findings are summarized centrally, and any themes or pervasive opportunities for improvement are communicated to the Audit Services practice through training events, conferences and other technical update channels.

The firm participates in the AICPA Peer Review Program, which requires a firm to undergo periodic external reviews of its audit quality control systems applicable to non-SEC issuer engagements. Our most recent Peer Review Report for the period ended May 31, 2017, is available on the AICPA website, using the Firm Number 900010026656.

**Public Company Accounting Oversight Board**

The Public Company Accounting Oversight Board (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 includes inspecting certain quality control elements and sampling SEC issuer engagements.

Inspection reports come in two parts. Part I is public and includes findings related to specific inspected engagements. Part II, which must remain private for at least 12 months after issuance, contains observations regarding a firm’s overall quality control processes, and/or comments regarding issues the PCAOB identified in Part I that they believe may be pervasive and warrant specific attention.

The PCAOB typically issues inspection reports for the large audit firms approximately 18-24 months after commencing an inspection. The inspection reports are dated for the calendar year in which the inspection began and cover audits of companies’ most recently issued annual financial statements. Accordingly, our most recent PCAOB public inspection report was the 2017 report covering audits of companies with fiscal years ending typically on or around Dec. 31, 2016. The 2017 report was issued in March 2019.

All of Grant Thornton’s PCAOB inspection reports are available on the PCAOB site.

**Figure 11: Summary of the most recent inspection reports**

<table>
<thead>
<tr>
<th>Inspection year</th>
<th>Audits inspected</th>
<th>Included in Part I</th>
<th>Percentage in Part I</th>
<th>Avg. of other global firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>34</td>
<td>14</td>
<td>41%</td>
<td>33%</td>
</tr>
<tr>
<td>2016</td>
<td>34</td>
<td>8</td>
<td>24%</td>
<td>36%</td>
</tr>
<tr>
<td>2017</td>
<td>34</td>
<td>6</td>
<td>18%</td>
<td>33%</td>
</tr>
</tbody>
</table>
Part II of our 2017 inspection report highlighted themes noted in Part I — namely, testing of internal control over financial reporting. The report also encouraged continued improvement of the components of our quality control system that are most likely to drive consistent audit quality — most notably, the application of professional skepticism, engagement supervision and review, and strict compliance with our internal independence tracking policies. We continue to make steady improvements in these areas.

**U.S. Department of Labor**
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 (ERISA). 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**
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 firm considers the following when evaluating the effectiveness of that system.

- Findings from:
  - The annual practice review program
  - PCAOB and any other regulatory inspections
  - Peer reviews in years subject to such reviews
  - GTARs in years subject to such reviews
  - Annually gathered input from the NPSG; Audit Risk Management; and the Risk, Regulatory and Legal Affairs group (RRLA) regarding audit quality indicators such as restatements inspection results, and the degree to which professionals appropriately consult on complex issues during the year
  - Findings published regarding the audit quality of other firms in the auditing profession

This flow of information provides the data necessary 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 debate on major industry issues.

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1. Our internal policies for tracking auditor independence are more robust than required by professional standards. The PCAOB has encouraged more stringent tracking of compliance with those policies.
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 firm-wide 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 to ensure that resources deployed on each engagement have the appropriate technical competency and proficiency in 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 periodic training thereafter. GTIL and its member firms also enforce policies and procedures designed to assist in the prevention and detection of independence concerns.

Independence policies and procedures require:

- Maintenance of an updated list of restricted entities
- Independence self-reporting and certification by our personnel when submitting timesheets
- 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.

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, prohibited by the independence rules 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.

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

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.
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 and managing directors; to help ensure fair and consistent treatment of partners, managing directors and other firm personnel; 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.
### 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

#### 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 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 policies and procedures represent a central element of our approach to quality control. Key partners actively participate in and approve the acceptance of every new client. Audit engagements that meet specific criteria require the approval of the national managing partner of Audit Quality and Risk Management; some require approval by a committee of senior partners. Tax, advisory and other services also undergo a formal acceptance process to prevent any proposed nonaudit services from creating independence conflicts.

Concerns are evaluated carefully so that we engage only clients whose profiles match our standards of integrity. The firm requires a determination, at least annually or as certain events occur, of whether our relationship with a client should be continued. We also employ a host of highly effective, custom data analytical tools to evaluate risk during the client acceptance and continuance evaluation process, especially related to public companies.

Achieving professional excellence means accepting and retaining member firm clients that share GTIL’s objectives of quality and integrity. The global client acceptance/continuance procedures integrate with member firm policies to provide member firms with information to judge whether the entity meets or exceeds necessary standards of integrity and whether the member firm has the capacity to perform a high-quality audit.

GTIL establishes key assurance assignment (KAA) criteria that member firms use to evaluate potential assignments. Member firms submit requests to an international assurance client acceptance review committee for consideration of the potential assignments that meet the KAA criteria.

The committee reviews submitted KAAs to judge whether the member firm has the ability to perform the audit with a high level of quality. This committee is chaired by the executive director of quality control and comprises risk management/quality control partners from a diverse group of selected member firms.

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

The Grant Thornton security program establishes policies, processes and organization structure necessary for the appropriate enablement and management of our information security requirements and risks. The tenets of the program are confidentiality, integrity and availability controls, which are selected based on the classification of the information our firm is entrusted to protect.

Confidentiality and integrity controls

Following are examples of Grant Thornton’s confidentiality and integrity controls:

- **Administrative** — New-hire background checks, security and privacy policies, incident response procedures, and change management processes
- **Physical** — Access control mechanisms to secure areas, 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 ensure 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 ensure 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 these key systems is also 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 carefully 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.
Continuing professional education

Audit training and professional development

Our partners and personnel work together to improve the technical and professional skills of all individuals in the firm through a program of coordinated continuing education. All partners and professionals must comply with state and firm continuing professional education (CPE) requirements — all of which are monitored. In addition, professionals at the manager level or above must qualify under the firm’s SEC Designation Program before being assigned to a lead role on an SEC audit engagement. Qualification requires certain experience and periodic training specific to public companies.

The firm provides our professionals with a wide variety of training programs to enhance the following:

• Technical accounting, SEC regulatory and auditing knowledge
• Skills in applying the firm’s audit policies, methodology and tools
• Fraud prevention and detection
• Leadership, communication and interpersonal skills
• Independence and ethics
• Industry expertise
• General business knowledge

The firm uses a variety of training delivery methods — including national conferences, local-office training programs, firm-wide webcasts and online self-study programs — as part of our learning outreach. The firm maintains an Audit Learning Library, which includes nationally developed training courses for local-office delivery. In addition, all personnel have access to my GTU, the firm’s learning portal, which provides relevant and timely webcasts and self-study programs. Where specific topics may not be available from a firm-sponsored program, professionals attend courses and events offered by qualified external providers.

NASBA certification

The National Registry of CPE Sponsors (the Registry) is a program offered by the National Association of State Boards of Accountancy (NASBA) to recognize CPE program sponsors that provide CPE programs in accordance with nationally recognized standards. In 2009, Grant Thornton was certified for CPE sponsorship through NASBA and is now listed on the Registry, demonstrating our commitment to offering only programs that will improve professional competence.

While the majority of technical training takes place within member firms, GTIL makes a significant investment in ongoing training for audit staff in all member firms in the global audit methodology and supporting technology, and in IFRS. Programs include such topics as quality monitoring, group audits, auditing revenue, analytical procedures, IFRS technical and interpretive guidance, and several other key audit quality topics. Supplemental guidance is provided via bulletins on current audit and accounting issues.
Appendix A
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

Senior Leadership Team
The Senior Leadership Team (SLT) sets strategy and oversees operations for the firm. Members 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.
About Grant Thornton LLP

Founded in Chicago in 1924, Grant Thornton LLP (Grant Thornton) is the U.S. member firm of Grant Thornton International Ltd, one of the world’s leading organizations of independent audit, tax and advisory firms. Grant Thornton, which has revenues in excess of $1.6 billion and operates 59 offices, works with a broad range of dynamic publicly and privately held companies, government agencies, financial institutions, and civic and religious organizations.

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