

# Audit quality & transparency report 2021



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# Quality is not just a word. It is our word.

Quality is and always will be our nonnegotiable. It is the True North that has guided Grant Thornton through the tumult of the past two years, keeping us constantly aligned with our goals and our values and driving results we can be proud of as individual professionals and as a firm. But quality is a mission that is never accomplished. With each advance, we reset the bar ever higher, using the foundation of our accomplishments to drive a firm that is always better, always stronger and that always builds trust in every result.

## **COVID: From chaos to constant improvement**

COVID forced our firm and our clients to reimagine how audits are performed. We have overcome the challenges through agility and a collaborative team environment — all while creating new solutions that leverage technologies and creative work environments to deliver on our promises to both our clients and our people. Grant Thornton has transformed the challenge of COVID into resilient, flexible approaches that change how we work with and serve our clients — approaches that improve both results and our people's lives. The one constant in all this change? Quality first and always.

## **People: Growing leaders so we can continue to lead**

From changing how we work to keeping our people safe to leveraging those changes to help them balance their needs and our clients', Grant Thornton has relied on the resilience of our people as the fuel of our success. We've found new ways to combine virtual and experiential training to help our professionals build their skillsets in real time — and to constantly share that knowledge with our clients. We've redoubled our diversity, equity and inclusion efforts ([DE&I efforts](#)) to ensure our workforce represents and celebrates the full range and strength of our national character. Our people have pushed us to lead on environmental, social and governance (ESG) matters so that the business world our work underpins also helps to nourish the society on which it depends.

## **A tradition of excellence, a future of commitment**

Our firm's commitment to quality is built on the foundation of our firm's uncompromising heritage, reinforced by the experience and commitment of our partners, principals and managing directors and constantly renewed by training our staff at all levels. Quality is our mission and our mantra. From a new staff's first day to our most experienced partner's last, quality is the north star that guides our people and our firm. Through constant and effective training, we build a culture of quality from day one, focusing on continuous improvement and imbedding a rigorous root cause process. But quality is never static. With every new trend, regulatory change and emerging risk, we respond, never settling for just what's required, but always reaching toward the best, most effective response and then incorporating those changes into dependable, repeatable work products that our clients and constituencies can count on.

## **Vision-driven tools**

Technology is transforming audits. But at Grant Thornton, it will never transform our vision and commitment. Technology can and is making audits more efficient. It is driving better, faster and more meaningful insights. Using powerful technologies like our alyx™ platform, we work faster and smarter to deliver better service, better information and better value for our clients. But technology can never replace judgment. We use technology to distill, synthesize and deliver the cumulative knowledge and ability of our professionals in new ways across every engagement, to magnify and empower the capabilities of our professionals and to ensure quality in every outcome.

## **Embracing our role, leading our profession**

In a world wracked with uncertainty, trust in our capital markets and financial reporting has never been more important. The world relies on our word and our word depends on the quality of our work. Every step we take, every day, focuses on the quality necessary to ensure we deliver on that promise.



**Janet Malzone**  
National Managing Partner  
Audit Services, Grant Thornton LLP

# About Grant Thornton

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. With revenues approaching \$2 billion, Grant Thornton is the largest member firm in the GTIL network.

At Grant Thornton, how we work matters as much as what we do. We're collaborators who understand the value of strong relationships. Pursuing a strategy of profitable growth through organic expansion, together with mergers and acquisitions, revenues have recently been increasing in the double digits.

The firm's clients include dynamic publicly- and privately-held companies, government agencies, financial institutions, and civic and religious organizations. Core industries served include consumer and industrial products, financial services, not-for-profit, private equity, and technology.

At Grant Thornton, our purpose is to make business more personal and build trust into every result, while our vision is to be the most admired professional services firm in the industry. At the outbreak of the pandemic, we adopted three clear priorities for our firm that remain our focus today:



**To take care of our people**



**To be there for our clients**



**To keep our business strong**

## Our firm at a glance\*

Services

**Audit | Tax | Advisory**

Headquarters

**Chicago**



**606**

Partners/Principals



**6,729**

U.S. employees



**\$1.97 billion**

in annual revenue



**51**

Offices

Our industries

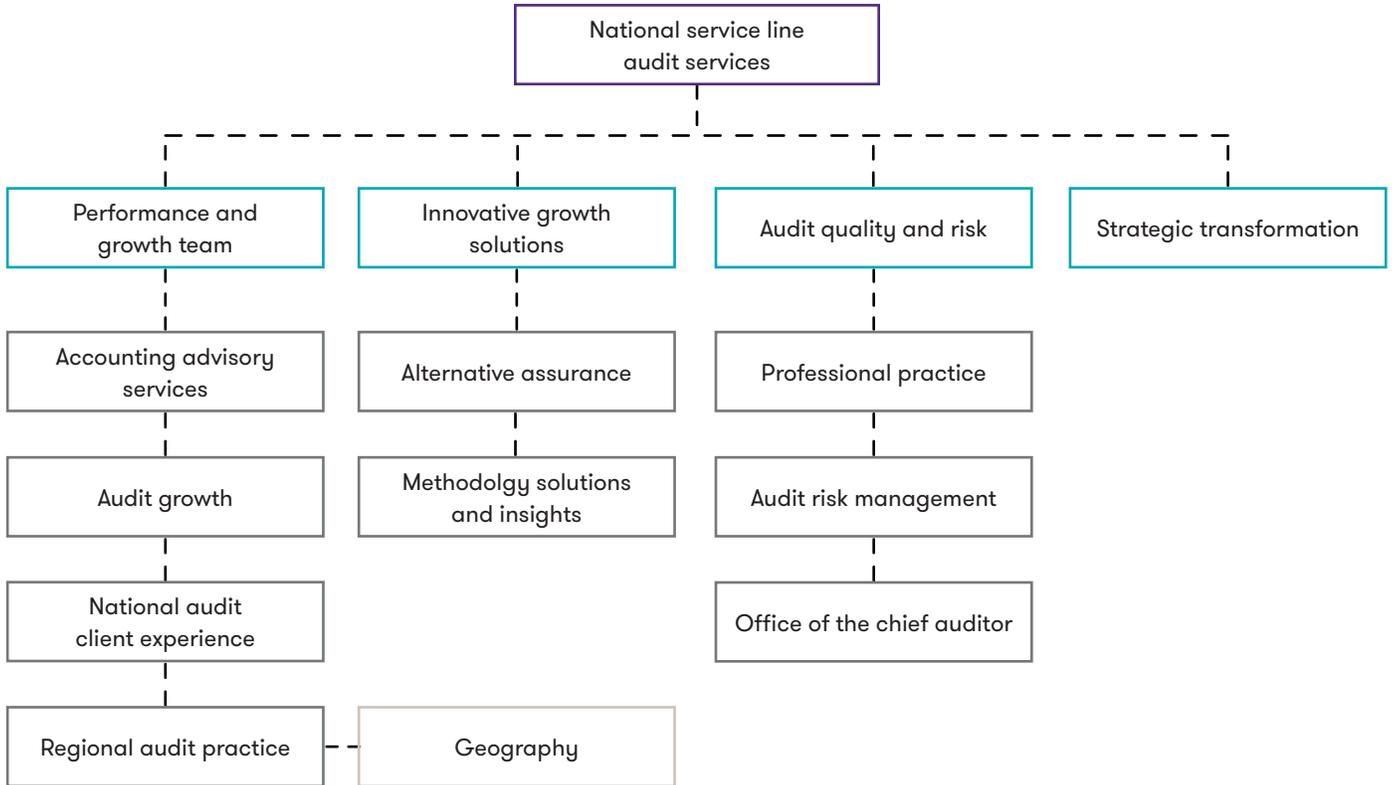
Asset management, banking, energy, healthcare, hospitality and restaurants, insurance, life sciences, manufacturing, media and entertainment, not-for-profit, private equity, real estate and construction, retail and consumer products, services, technology and telecommunications, and transportation.

\* Additional team members include 1,188 professionals employed by our shared services center in Bangalore, India. Data reflects fiscal year 2021.

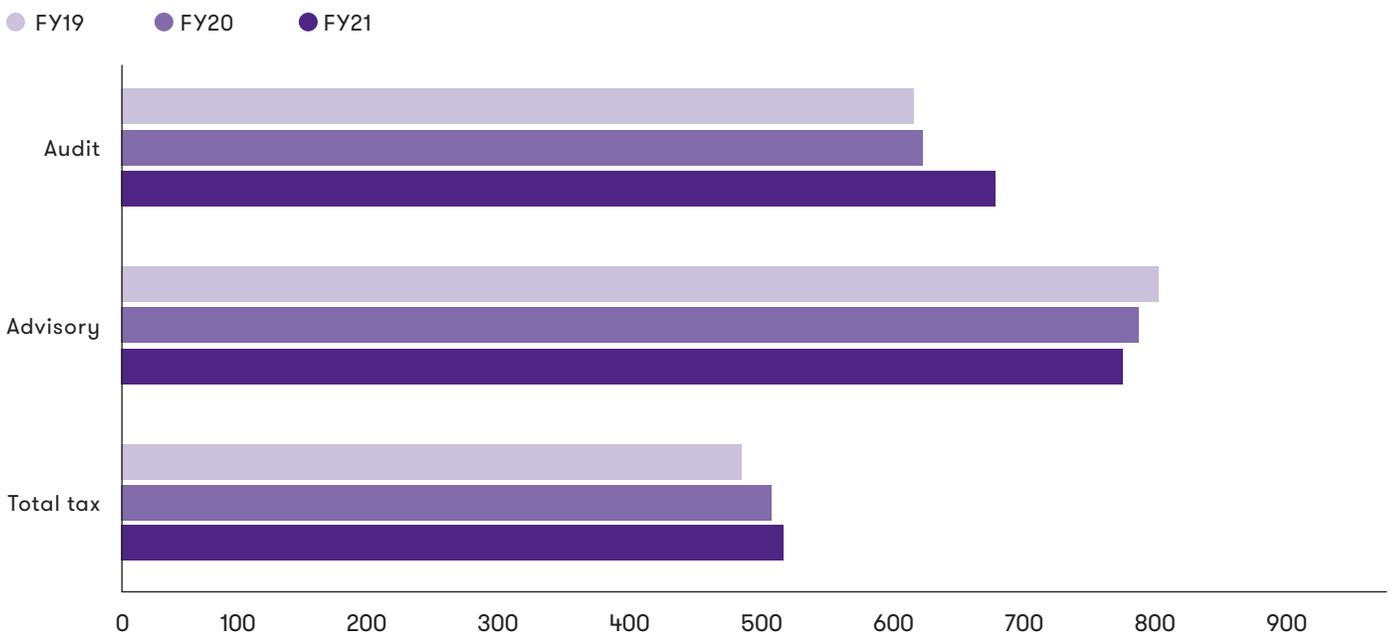
Our national managing partner of Audit Services leverages the East, Central and West Regional Audit practice leaders and geography practice leaders for the delivery of audit services, staffing, learning and operations. The professional practice network, led by the national managing partner of professional practice who reports to the national managing partner of Audit Quality and Risk, works closely with audit professionals and the leadership to ensure professional excellence.

The following figures show the structure of the audit services practice and the Audit Quality and Risk function (national office).

**Audit services**



**Net revenue dollars (\$ millions)**





## Our people

Our most valuable asset is our people, which is why one of the firm's key pillars is taking care of our people. It is also why we continue to invest in resources, including process improvement, technology and learning.

Technical excellence, audit quality and ethical behaviors are reinforced to all professionals that participate in assurance engagements starting day one and continue throughout their careers. Our learning programs reinforce that our professionals maintain an objective and skeptical mindset. The application of technical expertise is a key competency assessed within the mandatory annual performance appraisal process. In addition,

partners and key team members involved in the audit of certain clients, such as listed companies, must first be suitably accredited (for example, completion of mandatory learning programs, sufficient public company audit experience, industry experience and other criteria).

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 learning to our professionals. The mix of engagement personnel based on experience level is also a significant driver of audit quality; which includes leveraging the right work effectively to less experienced team members, which helps them develop.

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.

### Average FTE audit services personnel

Sum of FTE	FY19	FY20	FY21
Partners	257	254	260
Managing directors	27	37	43
Managers <sup>1</sup>	456	480	498
Associates <sup>2</sup>	1,366	1,437	1,533
<b>Total</b>	<b>2,106</b>	<b>2,208</b>	<b>2,334</b>

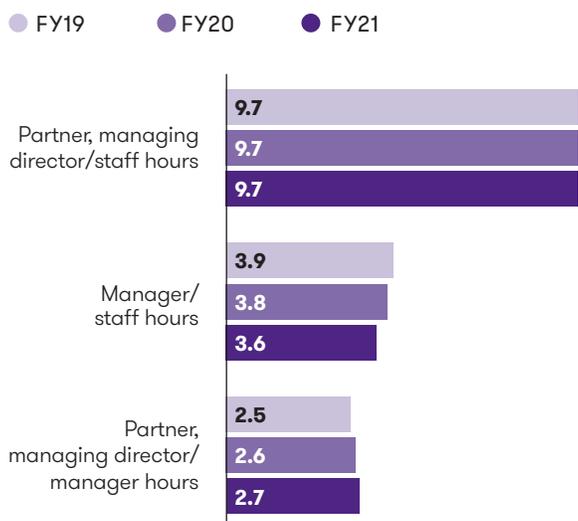
Ratio of partner to non-partner	FY19	FY20	FY21
	1:7.2	1:7.7	1:8

<sup>1</sup> Managers includes directors, senior managers and managers

<sup>2</sup> Senior associates, associates and interns

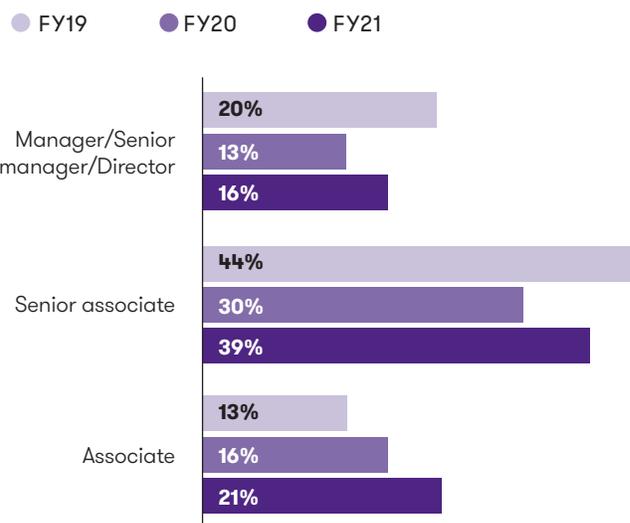
Another useful quality metric is the ratio of audit hours by supervisor compared with the total number of audit hours below the supervisory level.

### Ratio of audit services supervisory hours



Turnover of audit personnel is also a relevant influencer of audit quality. We have invested significantly in programs to help our team members have meaningful careers with Grant Thornton. We have also responded to the current environment by leveraging contractors, seasonal workers, and centers of excellence and through cooperative relationships with member firms and third parties. The chart below shows Grant Thornton's voluntary turnover experience below the partner/managing director level for the past three years.

### Average annual turnover rates by level



Today, most large firms utilize centralized service centers to perform certain audit procedures. The proper use of centralized services not only increases quality and efficiency but also enhances development opportunities for domestically based professionals. Grant Thornton operates a shared services center in Bangalore, India, which is a joint effort between Grant Thornton India and Grant Thornton and is named INDUS. The INDUS audit team includes a group over 500 professionals.

In FY 2021, we performed approximately 14% of our audit hours in INDUS. In December 2021, INDUS Audit crossed the two-million-hour mark for work performed there. Our INDUS professionals consistently deliver high-quality products. INDUS additionally developed the Center for Excellence (CFE) for Whole Ledger Analytics (WLA) and Innovations, which operates as the INDUS Lumen Team and caters to audit teams across the US. INDUS also developed CFEs for employee benefit plans and financial services.

## ESG

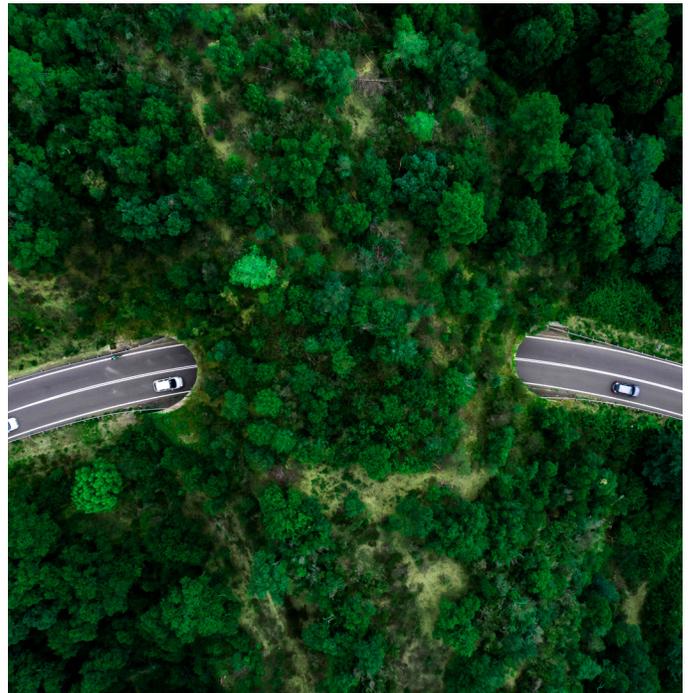
While not directly called for under generally accepted accounting principles or through other regulatory requirements, we see an increasing number of our clients voluntarily reporting data, policies, strategy, commitments — key performance indicators (KPIs) — and outcomes for a variety of topics around environmental, social and governance (ESG) matters. As such, our focus on ESG in our role as auditor and advisor continues to expand. To facilitate our role as auditor, we provide our engagement teams with data and information on ESG matters relevant to the entity under audit to assist with identifying the financial reporting and internal control risks that may be present at the entity or within the entity's industry sector. Recognizing these risks allows us to focus the audit effort in areas where material errors or discrepancies may arise.

This focus on the audit risks around ESG allows our audit teams to have in depth discussions with management, boards and audit committees on a variety of ESG subjects that are pertinent to the governance of the entity including:

- ESG strategy and execution
- Identification of material ESG subjects and KPIs
- Industry and peer benchmarking of ESG topics and disclosures
- Application of sustainability and ESG reporting frameworks and standards
- Climate-related commitments such as net-zero and emission reduction targets
- Greenhouse gas measurement
- Diversity, equity and inclusion (DE&I) programs and strategies
- Supply chain governance
- Data privacy and cybersecurity

Our clients are increasingly seeking assurance over their ESG disclosures to garner additional trust in the information reported. Our audit methodology includes supplemental guidance and approaches to delivering sustainability assurance over a wide variety of ESG subjects, disclosures, and measurements. Consistent with our role in the financial statement and ICFR audit process, the assurance we provide over ESG reporting increases the credibility of this information and aligns with our role in the capital markets.

In addition to providing ESG services, our firm has incorporated ESG programs into our commercial strategy and operations. Many of our ESG commitments align with those of the markets we serve to show the way on the importance of these topics on corporate stewardship and success. More about our firm's commitments can be found in our [Sustainability](#) and DE&I reports.



# System of quality management

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 learning and the most effective tools to build, earn and secure public trust.



## Initiating an engagement — client acceptance and continuance

Our audit quality control and risk management starts with our efforts to (1) verify that we are working with clients who share our commitment to excellence (client acceptance), (2) confirm 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 (engagement performance).

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 national office partners. Tax and advisory services also undergo a formal acceptance process to prevent any proposed non-audit 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.

The firm is subject to global client acceptance and continuance procedures that are designed to support member firms' acceptance of appropriate clients. Engagements meeting certain criteria require approval from a 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 representative from the firm proposing.

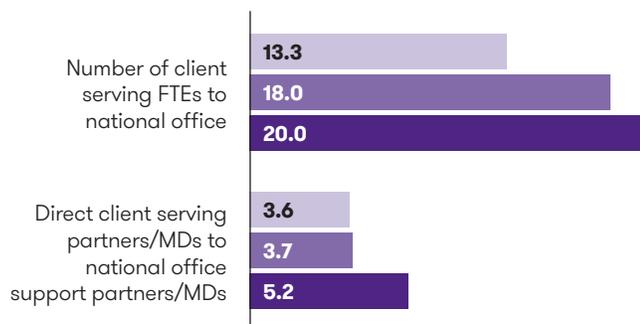


## Supervision, consultation and review

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 resolve issues. We average providing one national office professional for roughly every 20 direct client-serving audit professionals, and one national office partner or managing director for every four audit partners or managing directors.

### National office coverage

● FY19    ● FY20    ● FY21



We have a strong culture of consultation, supervision and support, which is embedded throughout our audit methodology. In FY 2021, we completed nearly 2,300 formal consultations throughout the Audit Services practice.

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

## Audit quality and risk

Our overall approach to quality control owes much to the work of our Audit Quality and Risk team, which consists of specialists in accounting principles, auditing and other attest standards, SEC and other regulatory, risk management, and ethics and independence. In addition, Grant Thornton Audit Quality and Risk professionals are heavily involved in AICPA and FASB standard-setting activities, including the Auditing Standards Board, the Assurance Services Executive Committee, the Peer Review Board, and National Peer Review Committee of the AICPA. We also support and are significantly involved in the activities of the Center for Audit Quality. Our involvement in the profession gives us firsthand knowledge of the current state of audit and accounting standards, and any pending changes.

The Audit Quality and Risk team is responsible for:

- Establishing policies related to accounting and auditing services, including client acceptance and continuance and independence
- 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 areas of accounting, auditing, ethics and independence, and regulatory actions and specialized industries
- Administering various professional and firm quality control functions, including various monitoring activities
- 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 sizes and risks. 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 review is necessary.

Engagement teams use a variety of automated and analytical capabilities from our ever-growing suite of Lumen innovations. WLA is our flagship automated analytic and represents a suite of separate analytic routines that can be applied on any general ledger dataset (as well as other datasets, such as subledger detail) to assist teams in performing risk assessment and substantive procedures, and in identifying other value-added insights. With WLA, our auditors can more easily and effectively examine a client's financial reporting activity and identify higher-risk transactions, human errors and reporting trends. WLA is available for use on all audit engagements and the routines include, among others, the following: transaction scoring analytics, account combination analytics, digital analytics, and text and letter analytics. In September 2021, the U.S. Patent and Trademark Office awarded Grant Thornton a patent for WLA. These tools allow engagement teams to identify areas of increased risk and facilitate more focused audit responses to improve audit quality.

Audit results are documented within a proprietary documentation software tool and supplemented with external documents that are accumulated and archived within 35 days following completion of the audit.

## 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 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

The audit practice has 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 learning 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

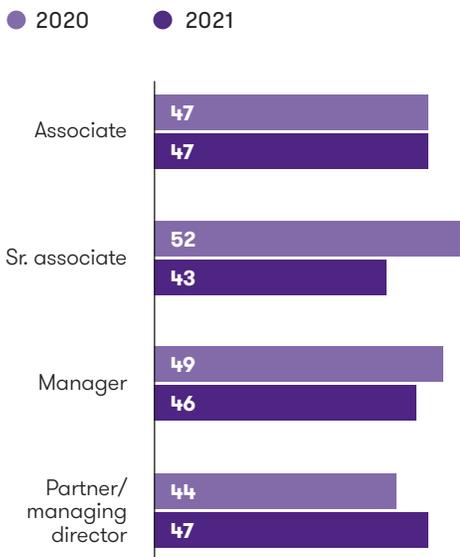


The firm uses a variety of methods to deliver national learning programs and courses — face-to-face (national, regional and local), virtual classrooms, webcasts and on-demand self-study programs. Where specific topics are not available through a firm-sponsored program, professionals attend courses and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

In response to COVID-19, beginning in 2020, all face-to-face learning programs were redesigned for virtual, webcast and on-demand learning deliveries. No face-to-face audit learning programs are planned through July 2022.

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 calendar year.

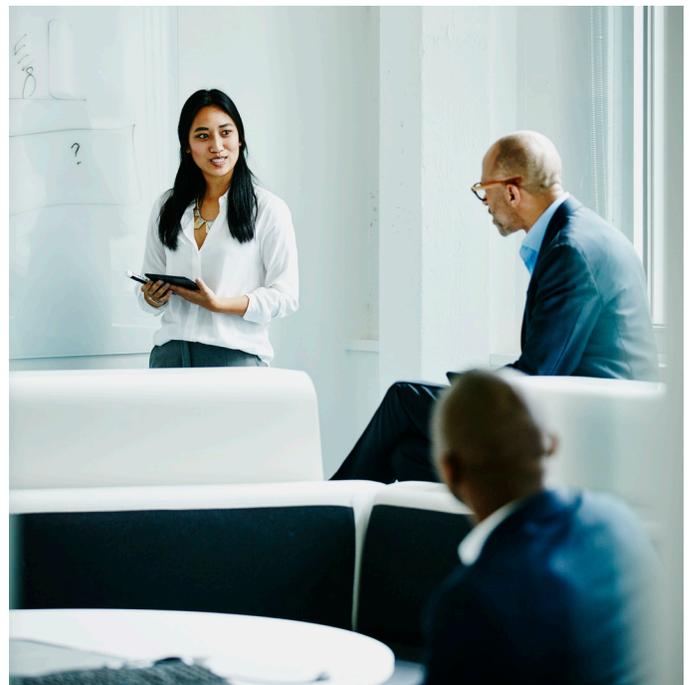
**Average training hours by level**



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

The firm has established corrective actions (minimum consequences) for noncompliance 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 CPE 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 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.

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 who are involved with providing and supporting audit services, we track positive and negative audit quality indicators and assign a range of points to those indicators. The tracking is a key factor in a partner’s quality rating and overall rating. For example, a partner who is assessed as not meeting expectations in quality will also be assessed as not meeting expectations overall. In addition, the accumulation of negative points may result in a reduction in a partner’s final year-end distribution.

Evidence of high quality is observed in many ways. In addition to tracking positive quality indicators, we also annually recognize professionals who have demonstrated their commitment to quality through Quality Awards.



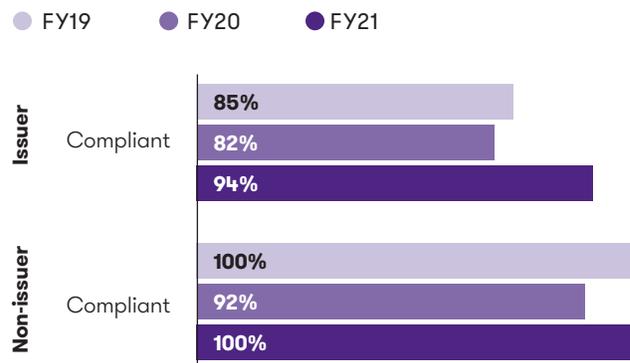
## Quality monitoring

We have various methods of monitoring our system of quality control and engagement quality, including real-time involvement of national office personnel on select audit engagements, self-assessment reviews of issuer audit engagements prior to archiving, and internal inspections of assurance engagements and the system of quality control. In addition, we have periodic meetings throughout the year to proactively assess audit practice risks, engagement-level risks, and environmental factors, such as market demand and talent needs. We also undergo inspections by various regulators. These activities provide an 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 and actions also provide inputs into 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 audit and attest engagements. In addition to determining compliance with the relevant rules, regulations and standards, the APR assesses the effectiveness of firm policies, tools, and learning and identifies opportunities to improve engagement performance. The chart below shows the three years of inspection results ending with FY21.

### Summary of Audit Services practice internal inspection results



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 a 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.

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 can be accessed on the AICPA website using the Firm Number 900010026656.

### 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 selection of our SEC issuer engagements.

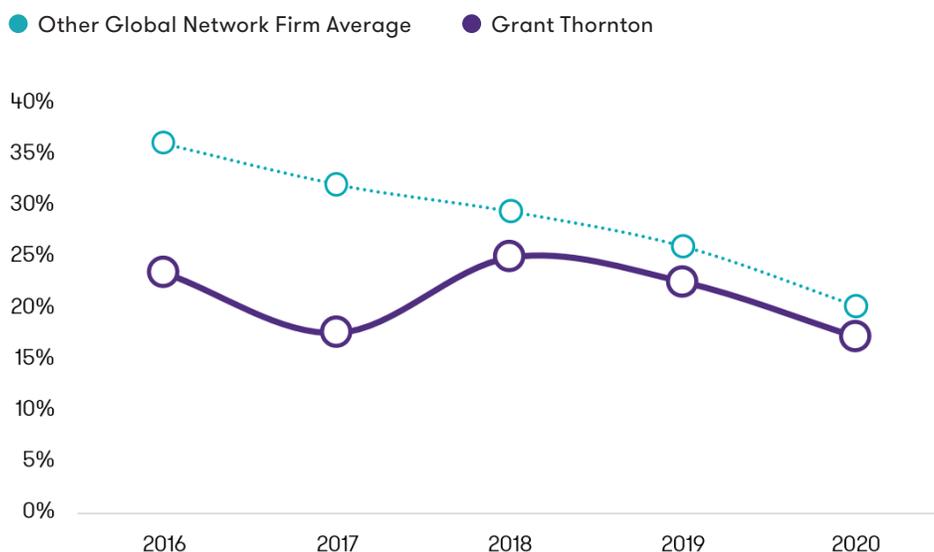
Inspection reports include two major parts. Part I is public and includes findings related to specific inspection engagements. Part II contains observations regarding a firm’s overall quality control processes, including comments on thematic issues. Part II remains non-public unless the PCAOB deems the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

Our most recent PCAOB public inspection report was the 2020 report issued in September 2021 that covered audits of companies with fiscal years generally ended on or around December 31, 2019. The figure below 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](#).

### 5-Year Comparison of PCAOB Inspection Report Part 1.a Findings:

Grant Thornton to Other Global Network Firms\*



**Continuous focus on improvement**

- Committed to investments and enhancements to processes, methodologies and innovation that support high-quality audits
- Audit Quality Advisory Council that includes external members and provides ongoing guidance

\* Findings are for the U.S. member firms [global network firms](#) designated by the PCAOB.

The most recently available report is from the 2020 inspection, which noted the following areas where deficiencies were most frequently identified in substantive testing and/or testing of internal controls

- Significant assumptions or data that the issuer used in developing an estimate
- Testing controls over the accuracy and completeness of data or reports used in the operation of controls
- Testing the design or operating effectiveness of controls selected for testing

Other deficiencies identified during the 2020 inspection that do not relate to the sufficiency or appropriateness of evidence obtained to support its opinion(s) related to

- Critical audit matters
- Form AP

### **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. For those firms that audit 200 or more plans, like ours, a DOL inspection 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 2021, with all inspected engagements being deemed acceptable.

### **Effectiveness of quality control system**

The firm evaluates findings and observations from all its monitoring activities, including inputs from both internal and external sources. 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. 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.

### **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.



## 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 independence threats. All partners, managing directors and client-facing managers are required to maintain real-time investment records in a GTIL global database (referred to as the Global Independence System (GIS)). Our ethical standards group identifies and helps to resolve any potential independence 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 learning, and all partners, managing directors, and other professionals complete at least annual learning thereafter. GTIL and its member firms also enforce policies and procedures designed to assist in the prevention and detection of independence threats.

The firm's independence policies and procedures require

- Maintenance of an updated list of restricted entities, including other related lists
- Independence self-reporting and annual certification by our partners, managing directors, and other professionals, as well as our professionals certifying their independence when submitting time through the firm's time capturing tools
- Self-reporting of other relationships in the firm's self-reporting tools (e.g., independence certification) that may be thought to have a bearing on our independence within seven days of entering into a new relationship
- 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 an offer may have on the work performed. In addition, personnel interviewing with such clients will be segregated from providing professional services during the interview process and while the offer is being considered.

Because "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. We perform independence audits of partners, managing directors and managers every year. 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 if more restrictive.

Another key element in our independence and ethical practices includes communications with audit committees and those charged with governance. Member firms have established policies and guidance for engagement teams to follow to comply with the applicable independence communication requirements. For each audit client, our engagement teams communicate with those charged with governance 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 the results of the audit with those charged with governance. For public audit clients, all permitted non-audit services are preapproved by the audit committee to ensure the independence and objectivity of the firm. In addition, for such clients, engagement teams are required to adhere to the audit committee independence communication requirements (verbal and written) established by the PCAOB and SEC, and engagement teams have a professional responsibility to explain how the performance of non-audit services may impact independence.



### 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 a record of their financial interests in the GIS. The GIS monitors compliance with our 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.

Grant Thornton has a policy in place that requires GIS users that have eligible investment accounts to use a brokerage firm that participates in the firm's GIS broker import program. This feature assists the firm in monitoring compliance with its financial interest policies and requirements.

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 non-audit 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.

## GTIL quality

GTIL has established a Global Quality Framework, which is an overarching standard that applies to all 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.

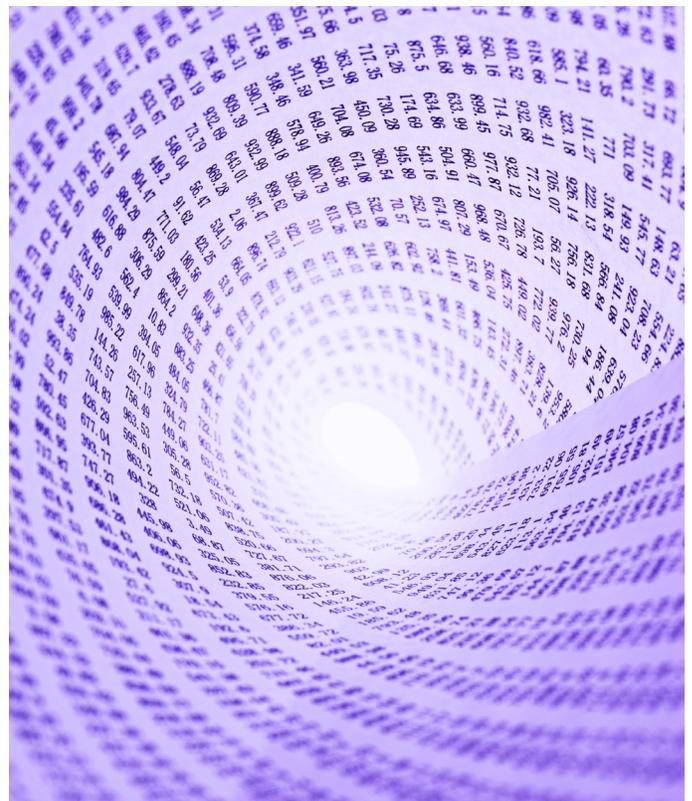
Member firms are focused on delivering high-quality engagements in an ever-changing environment. GTIL provides support and resources to help support quality, including

- An audit methodology, with supporting software, that is available 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

GTIL's Global Assurance Quality Steering Committee, composed of representatives from member firms, including the U.S., 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 Assessment and Review (GTAR), typically at least once every three years. The GTAR process is designed to monitor member firm compliance with professional standards and 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 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.



# Governance risk and compliance

Our CEO is ultimately responsible and accountable for the system of quality management and operational responsibility has been placed with the national managing partner of Audit Quality and Risk. The national managing partner of Audit Quality and Risk report quality and risk matters to the Partnership Board including, at least annually, 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.



## 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 firm grants the Quality Council full access to firm information to help them fully understand our system of quality control; the Quality Council sets an agenda each year to consider multiple quality control areas of the firm, including observing certain processes as they occur. The Quality Council also meets with the Audit practice and other leadership throughout the year.

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. Cathy Hyodo is the audit representative from our partnership board. Hyodo is an audit partner and the office managing partner for our Los Angeles office. She 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.

## 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 deal 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 ensure that we uphold our standards. Reports can be made anonymously and are forwarded to the appropriate personnel for review within 24 hours.

## 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.

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

- **Administrative** — New hire background checks, security and privacy policies, incident response procedures, learning, 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





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