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## Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

*In the Matter of Grant Thornton LLP, Gary  
Homsley, CPA, and Larry Dana Leslie, CPA,*

Respondents.

PCAOB Release No. 105-2020-019

November 5, 2020

By this Order, the Public Company Accounting Oversight Board (“Board” or “PCAOB”) is imposing sanctions upon Grant Thornton LLP (the “Firm” or “GT”), Gary C. Homsley, CPA, and Larry Dana Leslie CPA (collectively, “Respondents”). The Board is:

- (1) imposing a \$750,000 civil money penalty on the Firm;
- (2) barring Homsley from being associated with a registered public accounting firm,<sup>1</sup> if Homsley is permitted to associate once again with any registered public accounting firm, limiting his activities in connection with any “audit,” as that term is defined in Section 110(1) of the Sarbanes-Oxley Act of 2002, as amended (the “Act”), until three years from the date of this Order by prohibiting Homsley from serving in certain capacities in any audit, as described in Section IV hereto, and imposing a \$15,000 civil money penalty on Homsley; and
- (3) limiting Leslie’s activities in connection with any “audit,” as that term is defined in Section 110(1) of the Act, for a period of two years.

The Board is imposing these sanctions based on its findings that: (1) Homsley and the Firm violated PCAOB rules and standards<sup>2</sup> in connection with the Firm’s audits of the financial

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<sup>1</sup> Homsley may file a petition for Board consent to associate with a registered public accounting firm after two years from the date of this Order.

<sup>2</sup> All references to PCAOB rules and standards in this Order are to the versions of those rules and standards, and to their organization and numbering, in effect at the time of audits discussed herein. As of December 31, 2016, the PCAOB reorganized its auditing standards using a topical structure and a

statements of Erickson Inc. (“Erickson” or the “Company”) for the fiscal years (“FYs”) ended December 31, 2015, 2014, and 2013 (together, the “Audits” and each an “Audit”); (2) Leslie violated PCAOB rules and standards in connection with the Firm’s audits of the financial statements of Erickson for the FYs ended December 31, 2015 and 2014; and (3) the Firm violated PCAOB rules and standards by failing to design, implement, and maintain appropriate quality control policies and procedures related to the Firm’s documentation of audit remediation in its hard copy working papers.

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Act and PCAOB Rule 5200(a)(1) against Respondents.

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (collectively, “Offers”) that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board’s jurisdiction over Respondents and the subject matter of these proceedings, which is admitted, Respondents consent to the entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (“Order”), as set forth below.<sup>3</sup>

III.

On the basis of Respondents’ Offers, the Board finds that:<sup>4</sup>

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single, integrated numbering system. See *Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015).

<sup>3</sup> The findings herein are made pursuant to the Offers and are not binding on any other person or entity in this or any other proceeding.

<sup>4</sup> The Board finds that Respondents’ conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of: (1) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of

## A. Respondents

1. **Grant Thornton LLP** is a limited liability partnership organized under the laws of the state of Illinois and headquartered in Chicago, Illinois. The Firm has offices in multiple locations, including Portland, Oregon, and Seattle, Washington. The Firm is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules. Grant Thornton LLP was Erickson's external auditor, including for the Audits. The Firm issued unqualified audit opinions on Erickson's consolidated financial statements for FYs 2013, 2014, and 2015.

2. **Gary C. Homsley** is a certified public accountant licensed by the Oregon Board of Accountancy (License No. 6311). At all relevant times, Homsley was an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i). Until July 31, 2019, Homsley was a Partner of the Firm, resident in its Portland, Oregon, office. Homsley was the engagement partner on the Audits.

3. **Larry Dana Leslie** is a certified public accountant licensed by the Washington State Board of Accountancy (License No. 20946). At all relevant times, Leslie was an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i). Until October 31, 2018, Leslie was a Partner of the Firm, resident in its Seattle, Washington, office. From 2009 through August 1, 2016, Leslie served as the Pacific Northwest Audit Practice Leader, or equivalent position. Leslie conducted the engagement quality reviews ("EQRs") of the Audits.

## B. Issuer

4. Erickson, Inc., was, at all relevant times, an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). Erickson provided aviation services, mainly in the logging, firefighting, construction, and defense sectors. Erickson filed a voluntary petition for relief under chapter 11 of the U.S. Bankruptcy Code on November 8, 2016. Erickson emerged from bankruptcy in April 2017 and is now under private ownership.

## C. Summary

5. This matter concerns, among other things, the Firm's and Homsley's violations of PCAOB rules and standards in auditing Erickson's liabilities resulting from aircraft lease agreements and Erickson's ability to continue as a going concern. Specifically, the Firm and

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negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

Homsley failed to exercise due professional care, including professional skepticism, and failed to obtain sufficient appropriate audit evidence in connection with certain Erickson lease-related liabilities. These lease-related liabilities concerned Erickson's contractual obligations to maintain or return aircraft to conditions specified under the relevant aircraft lease agreements. The Firm and Homsley failed to evaluate sufficiently whether Erickson's financial statements correctly reported its lease-related liabilities. The Firm and Homsley also failed, in the FY2015 Audit, to evaluate adequately Erickson's ability to continue as a going concern. As a result of these failures, the Firm lacked an appropriate basis to issue an unqualified opinion in each Audit.<sup>5</sup>

6. This matter also concerns Leslie's failure to perform his role as EQR partner with due professional care. Specifically, Leslie violated Auditing Standard ("AS") No. 7, Engagement Quality Review ("AS 7") by, among other things, failing to evaluate appropriately the engagement teams' significant judgments with respect to planning, including consideration of the risk of certain Erickson lease-related liabilities and consideration of Erickson's ability to continue functioning as a going concern.<sup>6</sup> As a result of the inadequacy of his engagement quality review, Leslie lacked an appropriate basis for his concurring approval of the issuance of GT's unqualified opinion in the FY2014 Audit and FY2015 Audit.<sup>7</sup>

7. Finally, the Firm and Homsley violated the auditing standards on documentation by failing to ensure that portions of each Audit's working papers in connection with audit remediation bore correct dates. As a result, certain hard copy remediation work papers for the Audits (the "Remediation Work Papers"), when archived, reflected that those work papers had been completed earlier than they actually had been.<sup>8</sup>

8. The documentation violations involving the Remediation Work Papers resulted, at least in part, from the Firm's insufficient QC system related to audit documentation, which failed to provide reasonable assurance that the engagement teams would document their audit work in accordance with professional standards.<sup>9</sup>

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<sup>5</sup> See AU § 508.07, *Reports on Audited Financial Statements*.

<sup>6</sup> See AS 7 ¶ 10.a.

<sup>7</sup> See AS 7 ¶ 12.

<sup>8</sup> See AS No. 3, *Audit Documentation* ("AS 3").

<sup>9</sup> See Quality Control Standard 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* ("QC § 20").

## D. Background

### i. Erickson's Aircraft Leases

9. Erickson had 21 aircraft in its fleet as of December 31, 2012. On May 2, 2013, Erickson acquired Evergreen Helicopters, Inc. ("EHI") for a total purchase price of approximately \$298 million (the "EHI Acquisition"), including 35 leased aircraft.

10. Erickson's aircraft leases contained provisions requiring Erickson to maintain the leased aircraft in a specified condition during the term of the lease, *i.e.*, a Return to Service Obligation ("RTS Obligation"), and/or to return the aircraft to the lessor in a specified condition at the end of the lease, *i.e.*, a Lease Return Obligation. These obligations could give rise to corresponding liabilities for Erickson. For example, should an aircraft be in a non-airworthy condition at the end of or during its lease, Erickson could be liable for the cost of returning the aircraft to an airworthy condition.<sup>10</sup>

11. Following the EHI Acquisition, Erickson recorded a liability relating to some of its newly acquired leases. This post-acquisition liability was initially \$20.4 million and related to nine specific EHI aircraft (the "2013 EHI Liability"). Erickson subsequently amortized the 2013 EHI Liability. As of December 31, 2013, the remaining 2013 EHI Liability, included in Erickson's accrued and other current liabilities, totaled around \$9.7 million. By the end of FY2014, Erickson had reduced the 2013 EHI Liability to zero. From the time of the EHI Acquisition through December 31, 2015, Erickson did not record any liabilities for RTS Obligations or Lease Return Obligations other than the 2013 EHI Liability. As of December 31, 2014 and 2015, Erickson had zero recorded liabilities for RTS Obligations and Lease Return Obligations.

12. On November 9, 2016, Erickson filed a Form 8-K reporting, among other things, that it had: (1) filed for bankruptcy under Chapter 11; (2) failed to make its November 2016 interest payments on its 2020 Senior Notes; and (3) concluded that its previously issued consolidated financial statements for the years ended December 31, 2015 and 2014 and for each of the quarterly and year-to-date periods ended in 2014 and 2015 and through June 30, 2016 should no longer be relied upon because of certain errors in the financial statements. Erickson reported that the errors resulted from not accruing an expense when various leased aircraft fell into non-airworthy condition, despite certain of the Company's aircraft lease agreements requiring that it maintain its leased aircraft in an airworthy condition at all times.

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<sup>10</sup> Alternatively, Erickson could negotiate with the lessor to buy out the aircraft from its lease, which may have been economically beneficial for Erickson if the purchase price was lower than the repair-related cost.

Erickson reported that it had “discovered an estimated \$13.8 million understatement of current liabilities and return-to-service expense as the net cumulative effect of these errors through June 30, 2016.”<sup>11</sup> Erickson has now emerged from bankruptcy and is privately owned.

## **ii. The Engagement Teams**

13. Prior to joining the Erickson engagement for the FY2012 Audit, Homsley had no experience auditing companies that operated aircraft or with the applicable GAAP for the aviation industry, *i.e.*, ASC Topic 908, Airlines. The engagement teams’ members also lacked aviation industry audit experience outside the Erickson engagement. GT offered no aviation industry training to the engagement teams working on the Audits.

14. The Firm had audit quality concerns about Homsley before retaining him as engagement partner for the FY2015 Audit. Indeed, the Firm placed Homsley on a Partner Support Plan in September 2015, due to issues with Homsley’s FY2013 and FY2014 Audits. The Firm and Homsley discussed reducing Homsley’s client workload in connection with his transition to a different role at the Firm, but the Firm did not notify Homsley that it had placed him on the Partner Support Plan.

15. The Firm considered removing Homsley from all issuer audits before the FY2015 Audit, but, among other things, determined that doing so “could also negatively impact the workload of the partner the work was transferred to.” The Firm decided to retain Homsley as the engagement partner for Erickson’s FY2015 Audit, despite being aware of Homsley’s audit quality issues. Likewise, the Firm chose to retain Leslie as EQR partner on the FY2015 Audit despite its awareness of audit quality issues relating to the FY2013 Audit and FY2014 Audit, on which Leslie had been the EQR partner.

## **E. The Firm and Homsley Violated PCAOB Standards in Auditing Erickson’s Liabilities Relating to its Lease Agreements**

### **i. Failure To Adequately Assess Risks**

16. In connection with the preparation or issuance of any audit report, PCAOB rules require that registered public accounting firms and their associated persons comply with

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<sup>11</sup> Form 8-K filed by Erickson on November 9, 2016.

applicable auditing and related professional practice standards.<sup>12</sup> An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.<sup>13</sup>

17. PCAOB standards require auditors to perform risk assessment procedures that are sufficient to provide a reasonable basis for identifying and assessing the risks of material misstatement, whether due to error or fraud, and designing further audit procedures.<sup>14</sup> Auditors are required to obtain an understanding of the company and its environment to understand the events, conditions, and company activities that might reasonably be expected to have a significant impact on the risk of material misstatement.<sup>15</sup> Under those standards, auditors should obtain an understanding of the nature of the company, the selection and application of accounting principles, business risks, and company performance measures.<sup>16</sup>

18. The Firm and Homsley failed to ensure that the engagement teams obtained an adequate understanding of certain Erickson lease-related liabilities, as was required under AS 12.<sup>17</sup> AS 12 specifically provides that obtaining an understanding of a company includes understanding a company's industry, along with the company's objectives and strategies and those related business risks that might reasonably be expected to result in risks of material misstatement.<sup>18</sup> However, with the exception of the 2013 EHI Liability, the engagement teams failed to obtain an understanding of any of Erickson's individual lease terms that may have given rise to RTS Obligations or Lease Return Obligations.

19. During the FY2014 and FY2015 audits, the Firm and Homsley did not consider management's estimate of any aircraft lease liabilities in connection with RTS Obligations or Lease Return Obligations to be significant. Despite knowing that Erickson's fleet had expanded to include leased aircraft, GT's engagement teams did not identify a risk during the FY2014 and

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<sup>12</sup> PCAOB Rule 3100, Compliance with Auditing and Related Professional Practice Standards; PCAOB Rule 3200T, Interim Auditing Standards; PCAOB Rule 3400T, Interim Quality Control Standards.

<sup>13</sup> See AU § 508.07.

<sup>14</sup> See AS No. 12, *Identifying and Assessing Risks of Material Misstatement* ("AS 12"), ¶¶ 4, 59.

<sup>15</sup> See *id.* ¶ 7.

<sup>16</sup> See *id.* ¶¶ 7-17.

<sup>17</sup> See, e.g., *id.* ¶ 7.

<sup>18</sup> *Id.*

FY2015 audits that Erickson's liabilities for RTS Obligations or Lease Return Obligations could be materially understated,<sup>19</sup> whether caused by error or fraud.

20. The Firm and Homsley failed to evaluate appropriately, whether, and how, Erickson's aircraft leases affected the risks of material misstatement. The Firm and Homsley also failed to obtain a sufficient understanding of Erickson's selection and application of accounting principles about its leased aircraft. The Firm and Homsley failed to evaluate whether Erickson's selection and application of accounting principles was appropriate for its business and consistent with GAAP.

21. The Firm and Homsley never obtained an adequate understanding of how Erickson management accounted for RTS Obligations or Lease Return Obligations after the EHI Acquisition. Despite knowing that Erickson's aircraft leases might contain terms that could cause these types of material liabilities, the Firm and Homsley failed to take sufficient steps, including adequately reviewing the aircraft lease agreements, to understand Erickson's contractual obligations related to potential RTS Obligations and Lease Return Obligations. Further, Homsley did not instruct the engagement teams to document these potential liabilities included in the aircraft leases that they reviewed. Other than for the 2013 EHI Liability, the engagement teams failed to obtain an understanding of any individual lease terms that may have given rise to RTS Obligations or Lease Return Obligations.

**ii. Failure To Obtain Sufficient Audit Evidence To Support The Lack Of Liabilities**

22. PCAOB standards require, among other things, that an auditor plan and perform the audit with due professional care and to obtain sufficient appropriate audit evidence to provide a reasonable basis for the auditor's opinion.<sup>20</sup>

23. The Firm and Homsley failed to obtain sufficient appropriate evidence to support Erickson's determinations concerning certain lease-related liabilities. GT's engagement teams did not plan or perform procedures in the FY2014 or FY2015 Audits designed to identify unrecorded liabilities related to RTS Obligations or Lease Return Obligations. During the FY2014 and FY2015 Audits, the Firm and Homsley failed to test whether Erickson's conclusions in this

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<sup>19</sup> The risk of understatement related to the completeness and valuation or allocation assertions for Erickson's reported liabilities and expense accounts. See AS No. 15, *Audit Evidence*, ("AS 15") ¶ 11.

<sup>20</sup> See AU §§ 230.01-.02, .07, *Due Professional Care in the Performance of Work*; AS 15 ¶ 4.



area were correct, despite knowing that at least nine of Erickson's leased aircraft had previously been subject to RTS Obligations and/or Lease Return Obligations.

24. First, the Firm and Homsley failed to evaluate sufficiently, during the FY2014 or FY2015 audits, when the last major maintenance period was for any leased aircraft or when any of the aircraft leases terminated and the potential relevance of such information for Lease Return Obligations. They failed to evaluate adequately any leases for purposes of considering the timing of any potential Lease Return Obligations despite that the FY2014 and FY2015 work papers documented the scheduled termination of various aircraft leases in March 2015, March 2016, and December 2016. Nor did the work papers adequately demonstrate the interaction between last major maintenance periods or lease terminations and potential liabilities related to Lease Return Obligations. The Firm and Homsley lacked a basis on which to determine whether Erickson's failure to accrue costs to satisfy certain obligations was appropriate or not.

25. Second, the Firm and Homsley knew, or should have known, that Erickson needed to consider accruing a liability when an event occurred that damaged or otherwise caused a leased aircraft to enter into a state of disrepair which grounded the aircraft, rendering it non-airworthy. The Firm and Homsley knew that as of December 31, 2014, Erickson had fifteen non-airworthy aircraft. Despite this knowledge, the Firm and Homsley took no steps to determine whether any of those fifteen non-airworthy aircraft were leased for purposes of evaluating potential RTS Obligations. The Firm and Homsley knew, or should have known, that Erickson also had non-airworthy aircraft in 2015. However, the Firm and Homsley failed to test Erickson's determination that it had no liabilities related to RTS Obligations. Although the relevant aircraft leases revealed the potential for RTS Obligations on the face of the agreements, neither the Firm nor Homsley instructed anyone on the engagement teams to review the leases and perform procedures to identify and assess the impact of potential RTS Obligations included in the aircraft leases. As a result, Homsley and the engagement teams lacked a sufficient basis on which to assess whether Erickson's failure to record certain lease-related liabilities was appropriate.

26. As a result of these deficiencies, the Firm and Homsley failed to obtain sufficient appropriate audit evidence to determine whether all of Erickson's lease-related liabilities were fairly stated, in all material respects, in the FY2014 Audit and FY2015 Audit.<sup>21</sup>

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<sup>21</sup> See AS 15 ¶ 4; see also AU §§ 230.01-.02, .07.

## **F. The Firm and Homsley Failed to Adequately Evaluate Erickson's Ability to Continue as a Going Concern**

27. PCAOB standards required the Firm and Homsley to evaluate, based on their knowledge of relevant conditions and events that existed at or occurred before the date of the Firm's audit report, whether there was substantial doubt about Erickson's ability to continue as a going concern for a reasonable period of time, not to exceed one year, beyond the date of the financial statements being audited.<sup>22</sup> Ordinarily, information that significantly contradicts a going concern assumption relates to the entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of business, restructuring of debt, externally forced revisions of its operations, or similar actions.<sup>23</sup> An auditor may identify information about certain conditions or events that, when considered in the aggregate, indicate there could be substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.<sup>24</sup> Examples of such conditions or events include: negative trends; other indications of possible financial difficulties; internal matters (*e.g.*, labor difficulties, substantial dependence on the success of a particular project, etc.); and certain external matters (*e.g.*, loss of a principal customer or supplier, matters which might jeopardize an entity's ability to operate, etc.).<sup>25</sup>

28. The FY2015 Erickson audit report, issued on March 10, 2016, did not include a going concern explanatory paragraph concerning Erickson's ability to continue operating as a going concern throughout FY2016, *i.e.*, until December 31, 2016.

29. The Firm and Homsley violated PCAOB standards by failing to consider sufficiently conditions and events of which they were aware, or should have been aware, that, when considered in the aggregate, should have caused the engagement team to evaluate further whether there was substantial doubt about Erickson's ability to continue operating as a going concern.<sup>26</sup>

30. The Firm and Homsley failed to consider appropriately numerous red flags that ought to have caused them to evaluate more closely Erickson's ability to continue functioning as a going concern. For example, the Firm and Homsley failed to evaluate adequately Erickson's

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<sup>22</sup> AU § 341.02, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.

<sup>23</sup> AU § 341.01.

<sup>24</sup> AU § 341.06.

<sup>25</sup> AU § 341.06.

<sup>26</sup> See AU §§ 341.02-.04.

predicted cash flow in FY2016 and ability to meet its FY2016 debt payment obligations. Based on information available to the Firm and Homsley, Erickson lacked sufficient predicted cash flow in FY2016 to meet its debt payment obligations for its long-term debt, including payments required to be made in connection with its credit facility ("Line of Credit"). While Erickson's forecasted FY2016 principal and interest obligations totaled between \$44-45 million, its projected FY2016 cash flows, excluding principal and interest payments on its debt ("Net Debt-free Cash Flows"), totaled only around \$26 million. Therefore, the required FY2016 principal and interest payments exceeded projected Net Debt-free Cash Flows by around \$18-19 million. This shortfall exceeded Erickson's combined cash on hand of \$2.1 million and positive working capital of \$8.5 million by approximately \$8.4 million. While the \$22.9 million available under Erickson's Line of Credit exceeded the \$8.4 million shortfall, the audit team failed to analyze adequately Erickson's projections given the amount drawn down on the Line of Credit observed in the first month of 2016.

31. The Firm and Homsley failed to consider adequately the terms of Erickson's financial covenants and their impact on Erickson's Line of Credit borrowing capacity. Erickson's borrowing increased by around \$10 million in January 2016. As of January 31, 2016, Erickson's borrowing availability was around \$13 million without triggering a default, which affected Erickson's ability to make up the shortfall between its debt service obligations and projected cash flows, while using the Line of Credit as a method of funding operations. The Firm and Homsley failed to consider the limiting effect of the financial covenants on Erickson's borrowing capacity and the effective cap on Erickson's ability to borrow.

32. The Firm and Homsley also failed to consider adequately multiple negative trends affecting Erickson. For example, Erickson's revenue decreased 14 percent, from \$346.6 million in FY2014 to \$297.5 million in FY2015. Erickson also decreased its projected revenue. Management announced in Q1 2015 that their FY2015 revenue forecast was to be between \$330 to \$350 million, which they decreased to around \$300 million in Q3 2015. Another negative trend was that Erickson reported a net loss totaling \$86.7 million for FY2015, a 742 percent increase from the reported net loss totaling \$10.3 million for FY2014. The FY2015 net loss included impairment losses of around \$65 million, which had increased by 200 percent from the reported impairment losses of \$21.3 for FY2014.

33. Homsley and the engagement team also failed to consider adequately other indications of possible financial difficulties. For example, in FY2015 Erickson was considered to have an accounting and governance risk that was rated "Very Aggressive," in a research analysis report, from an outside data research firm that provided GT with analyst services. GT provided this report to the engagement team during the FY 2015 Audit. The report also placed Erickson

in the first percentile, indicating the Company had a higher likelihood of experiencing financial distress than 99 percent of other companies reviewed.

34. The Firm and Homsley also failed to adequately consider whether the following factors in the aggregate indicated that there could be substantial doubt about Erickson’s ability to continue as a going concern: (i) Erickson classified around 20 percent of its operating fleet (15 aircraft) as held for sale as of December 31, 2015; (ii) Erickson reduced employee headcount from December 31, 2013 to December 31, 2015 by around 400, or 33 percent; and (iii) Erickson received a determination from the U.S. Small Business Administration (“SBA”) on November 25, 2015 that concluded Erickson was no longer considered to have a “small business size” status. The SBA’s decision precluded Erickson from bidding on certain contracts as the prime contractor, resulting in lower margins and increased uncertainty over revenue for the affected contracts for Erickson. Ultimately, Erickson was not able to continue operating as a going concern until December 31, 2016; it filed for bankruptcy protection in November 2016.

35. As a result of these deficiencies, the Firm and Homsley failed to exercise due professional care and failed to obtain sufficient appropriate evidence concerning Erickson’s ability to continue as a going concern.<sup>27</sup>

## **G. Homsley Failed to Supervise Appropriately the Engagement Teams**

36. PCAOB standards hold the engagement partner responsible for the engagement and its performance.<sup>28</sup> Homsley was therefore responsible for the assignment of tasks to, and supervision of, members of the engagement teams.<sup>29</sup>

37. Homsley failed to determine appropriately the extent of supervision necessary for his engagement teams’ members to perform their work and form appropriate conclusions related to Erickson’s aircraft lease liabilities.<sup>30</sup> Homsley failed to evaluate appropriately his teams’ knowledge, skill, and ability.<sup>31</sup> For example, Homsley failed to take adequately into

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<sup>27</sup> AU §§ 230.01-.02, .07; AU §§ 341.01-.02, .05-.07; AS 15 ¶ 4.

<sup>28</sup> See AS No. 10, *Supervision of the Audit Engagement* (“AS 10”), ¶ 3; AU § 230.06.

<sup>29</sup> See AU § 230.06; see also AS 10 ¶¶ 3-4.

<sup>30</sup> See AS 10 ¶ 6.

<sup>31</sup> See *id.*

account his teams' lack of experience with aviation companies like Erickson, and, in particular, his teams' lack of auditing experience relating to aircraft leases.

38. PCAOB standards also required Homsley, in the absence of other engagement team members performing supervisory activities, to review the work of his engagement team members to evaluate whether the work was performed and documented, the objectives of the procedures were achieved, and the results of the work supported the conclusions reached.<sup>32</sup> Homsley failed to perform these responsibilities appropriately, including with regard to the engagement teams' work concerning certain Erickson lease-related liabilities and, in FY2015, the evaluation of Erickson's ability to continue operating as a going concern.

39. Homsley failed to supervise appropriately the engagement teams' review of Erickson's leases, including certain Erickson lease-related liabilities. Homsley failed to instruct the engagement teams to review Erickson's aircraft leases to examine potential RTS Obligations or Lease Return Obligations that might lead to liabilities, despite knowledge of similar obligations in Erickson's aircraft lease agreements that GT had reviewed in connection with the 2013 EHI Liability. Homsley also failed to direct the engagement teams to analyze the terms of the leases to identify when Erickson would incur such lease-related liabilities. Homsley further failed to instruct the FY2015 engagement team to perform sufficient work to support its conclusion as to Erickson's ability to continue functioning as a going concern. Homsley neglected to supervise the engagement team's work to ensure it had performed sufficient work to support its conclusion as to Erickson's ability to keep functioning as a going concern.

40. The audit deficiencies discussed above stemmed from, among other things, Homsley's failure to supervise properly the work of his engagement teams' members.

#### **H. Leslie Violated PCAOB Rules and Standards in Connection with his Engagement Quality Reviews for the FY2014 and FY2015 Audits**

41. The EQR partner is responsible for evaluating the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report.<sup>33</sup> The EQR partner's responsibilities include evaluating the engagement team's significant judgments that relate to engagement planning, including with respect to financial reporting risks.<sup>34</sup> In connection with an audit, the

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<sup>32</sup> See AS 10 ¶ 5.

<sup>33</sup> See AS 7 ¶ 9.

<sup>34</sup> See AS 7 ¶ 10.a.

EQR partner should evaluate whether the documentation that he or she reviewed supports the conclusions reached by the engagement team with respect to the matters reviewed.<sup>35</sup> The EQR partner must perform his or her responsibilities with due professional care and skepticism.<sup>36</sup>

42. Leslie violated PCAOB rules and standards by failing to evaluate appropriately the engagement teams' significant judgments relating to engagement planning with respect to financial reporting risks and the Company's ability to continue as a going concern.<sup>37</sup> Leslie also failed to exercise due professional care in performing his engagement quality reviews and thus, failed to have an appropriate basis to provide his concurring approval of issuance.<sup>38</sup>

43. Leslie failed to evaluate sufficiently the engagement teams' significant judgments relating to engagement planning in the FY2014 Audit and FY2015 Audit. Specifically, he failed to evaluate adequately the engagement teams' judgments not to plan in either the FY2014 Audit or FY2015 Audit to test whether Erickson may have understated certain of its liabilities arising from aircraft leases as described above. Leslie's omission occurred despite his knowledge that Erickson had previously recorded the lease-related liability of \$20.4 million following the EHI Acquisition.

44. During the FY2015 Audit, Leslie inquired whether Erickson might be understating its liabilities relating to its RTS Obligations. As a result, he raised questions with an audit manager about whether the team had tested Erickson's estimate of such lease-related liabilities by reviewing flight logs. Leslie requested that the audit manager look at the flight logs and obtain any additional support for Erickson's estimate of its lease-related liabilities which, at the time of the FY2015 Audit, was zero. Despite raising these concerns and questions, Leslie failed to evaluate adequately whether the engagement team's documentation was sufficient to assuage his concerns relating to the risk that Erickson may be understating its liabilities. Therefore, Leslie did not evaluate sufficiently the engagement team's response to the concern he raised, or whether the engagement documentation he reviewed when performing his required procedures supported the conclusions reached by the engagement team concerning the risk that Erickson's lease-related liabilities were understated as of December 31, 2015.<sup>39</sup>

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<sup>35</sup> See AS 7 ¶ 11.

<sup>36</sup> See AS 7 ¶ 12; AU §§ 230.07-.09.

<sup>37</sup> See Rule 3100; AS 7 ¶¶ 9, 10.a.; see also AS 7 ¶ 11.

<sup>38</sup> See AS 7 ¶ 12.

<sup>39</sup> See AS 7 ¶¶ 9-10.a., 11.

45. Leslie also failed to evaluate appropriately the significant judgments made by the engagement team concerning Erickson's ability to continue as a going concern.<sup>40</sup> Leslie considered the engagement team's conclusion that a going concern explanatory paragraph was not required in the FY2015 Audit report to be a significant judgment made by the engagement team. However, Leslie failed to evaluate appropriately the engagement team's consideration of Erickson's ability to continue as a going concern. Leslie did not adequately evaluate whether the engagement documentation supported the significant judgment made by the engagement team with respect to going concern. Leslie was aware from review of the engagement team's going concern documentation and his conversations with Homsley of conditions and events that may have contradicted the engagement's team conclusion. Leslie also failed to give sufficient weight to contradictory evidence in work papers that he reviewed.<sup>41</sup> In addition, Leslie failed to ensure his going concern considerations were sufficiently documented in the audit work papers.<sup>42</sup>

46. As a result of the deficiencies mentioned above, Leslie violated AS 7 and provided his concurring approval of issuance of the FY2014 Audit and FY2015 Audit reports without performing his EQRs with due professional care.<sup>43</sup>

## **I. The Firm and Homsley Violated PCAOB Rules and Auditing Standards Regarding the Dating of Audit Work Papers**

47. AS No. 3, *Audit Documentation*, ("AS 3") requires that audit documentation contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to determine the person who reviewed the work and the date of the review.<sup>44</sup> AS 3 also requires that any documentation added after the documentation completion date must indicate the date the information was added, the name of the person who prepared the additional documentation, and the reason for adding it.<sup>45</sup> Homsley understood this requirement when he signed off on the Remediation Work Papers for the Audits.

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<sup>40</sup> See AS 7 ¶¶ 9-10.a.

<sup>41</sup> See AS 7 ¶¶ 9, 11.

<sup>42</sup> See AS 7 ¶ 19.

<sup>43</sup> See AS 7 ¶ 12; AU § 230.01.

<sup>44</sup> AS 3 ¶ 6.

<sup>45</sup> AS 3 ¶ 16.

48. The Firm and Homsley completed the Remediation Work Papers because each of the Audits was found to have deficiencies. The Firm's internal inspection function determined that the FY2013 Audit and FY2015 Audit required remediation. The PCAOB's inspectors examined the FY2014 Audit and issued four comment forms on that audit. As a result, Homsley and the engagement team also performed remediation work relating to the FY2014 Audit.

49. Homsley bore ultimate responsibility for ensuring that audit remediation work papers were complete and accurate and were added to the hard copy work papers file. Homsley understood the importance that the Board and the Firm placed on timely remediation and understood that failing to complete the remediation timely could negatively impact his performance evaluation and compensation.

50. Homsley and the engagement teams failed to ensure that the Remediation Work Papers relating to the FY2013, FY2014, and FY2015 Audits bore correct dates. The FY2013 Audit remediation cover memorandum was dated September 16, 2014. While the engagement team drafted a version of the cover memorandum by that date, the engagement team did not complete the FY2013 Audit remediation by that date. The engagement team continued to work on the FY2013 remediation through at least November 9, 2014. Indeed, the FY2013 Audit remediation work papers had not been finalized or added to the FY2013 external file, and the remediation of the FY2013 Audit remained open, on the date that GT issued its FY2014 Erickson audit report.

51. Homsley and the engagement team also failed to ensure that the Remediation Work Papers for the FY2014 Audit bore correct dates. The FY2014 Audit remediation cover memorandum was dated September 18, 2015. While the engagement team drafted a version of the cover memorandum by that date, the engagement team had not completed all of the documented procedures as of September 18, 2015. Further, the FY2014 Audit remediation work papers reflect communications between Homsley and Erickson's management and audit committee chair that did not occur until after the date reflected in the FY2014 Audit remediation work papers.

52. In addition, the FY2015 Audit remediation work was also not completed by the date reflected on that remediation cover memo.

53. As a result of the foregoing, the Firm and Homsley violated PCAOB rules and audit documentation standards.



## J. The Firm Failed to Comply with PCAOB Quality Control Standards Relating to Certain Audit Remediation Documentation

54. PCAOB rules and standards require that registered firms establish and maintain an adequate system of quality control.<sup>46</sup> PCAOB quality control standards require firms to design, implement, and monitor policies and procedures to “provide the firm with reasonable assurance that its personnel comply with applicable professional standards and the firm’s standards of quality.”<sup>47</sup>

55. “A firm’s system of quality control encompasses the firm’s organizational structure and the policies adopted and procedures established to provide the firm with reasonable assurance of complying with professional standards.”<sup>48</sup> “The nature, extent, and formality of a firm’s quality control policies and procedures should be appropriately comprehensive and suitably designed in relation to the firm’s size, the number of its offices, the degree of authority allowed its personnel and its offices, the knowledge and experience of its personnel, the nature and complexity of the firm’s practice, and appropriate cost-benefit considerations.”<sup>49</sup>

56. A firm should also establish policies and procedures to provide the firm with reasonable assurance that its quality control policies and procedures are suitably designed and are being effectively applied.<sup>50</sup> In addition, PCAOB quality control standards require that a firm “should communicate its quality control policies and procedures to its personnel in a manner that provides reasonable assurance that those policies and procedures are understood and complied with.”<sup>51</sup>

57. The Firm’s quality control system failed to meet the requisite standards with respect to the dating of hard copy remediation work papers. During the period of the violations described above, the Firm failed adequately to design, implement, maintain and monitor an

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<sup>46</sup> See Rule 3400T, *Interim Quality Control Standards*; QC § 20.

<sup>47</sup> QC § 20.03; *see also* QC §§ 20.01-.02.

<sup>48</sup> QC § 20.04.

<sup>49</sup> *Id.*

<sup>50</sup> See QC § 20.20; Quality Control Standard 30.02, *Monitoring a CPA Firm’s Accounting and Auditing Practice*.

<sup>51</sup> See QC § 20.23.

adequate QC system to ensure that personnel dated all hard copy work papers in compliance with professional standards.

58. Specifically, the Firm's quality control system failed to ensure that Firm personnel, including Homsley, accurately dated the Remediation Work Papers. Likewise, the Firm's QC system enabled Homsley and the engagement teams to access and finalize the Remediation Work papers without any significant controls to ensure certain professional standards related to the dating of remediation work papers were followed. Specifically, the Firm failed to monitor appropriately the access to, and dating of, hard copy Remediation Work Papers. As a result, the Firm failed to ensure that the Remediation Work Papers bore correct dates in each of the Audits.<sup>52</sup>

#### IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondents' Offers. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Homsley is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i);<sup>53</sup>

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<sup>52</sup> The Firm has represented to the Board that, since the events described in this Order, it has issued revised internal quality control policies requiring engagement teams to document remediation procedures in the electronic work paper file, which requires electronic signoffs and allows the Firm's electronic audit program to automatically track the date remediation work papers are archived. Under the revised policies, engagement teams are also required to use a standard remediation cover memorandum, which instructs engagement teams to date the memorandum with the date it is added to the audit work papers (which, unless impracticable, should be the same date the remediation file is archived) as opposed to any other date. The revised policies also require a member of the Firm's National Office to determine whether the remediation work papers were appropriately archived.

<sup>53</sup> As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Gary Homsley, CPA. Section 105(c)(7)(B) provides: "It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."

- B. Pursuant to PCAOB Rule 5302(b), Homsley may file a petition for Board consent to associate with a registered public accounting firm after two years from the date of this Order;
- C. If Homsley is permitted to associate once again with a registered public accounting firm, pursuant to Section 105(c)(4)(C) of the Act and PCAOB Rule 5300(a)(3), for a period of three years from the date of this Order, Homsley's role in any "audit," as that term is defined in Section 110(1) of the Act and PCAOB Rule 1001(a)(v), shall be restricted as follows: Homsley shall not (1) serve, or supervise the work of another person serving, as an "engagement partner," as that term is used in the Board's AS 1201, Supervision of the Audit Engagement; (2) serve, or supervise the work of another person serving, as an "engagement quality reviewer," as that term is used in the Board's AS 1220, Engagement Quality Review; (3) serve, or supervise the work of another person serving, in any role that is equivalent to engagement partner or engagement quality reviewer, but differently denominated (such as "lead partner," "practitioner-in-charge," or "concurring partner"); (4) exercise authority, or supervise the work of another person exercising authority, either to sign a registered public accounting firm's name to an audit report, or to consent to the use of a previously issued audit report, for any issuer, broker, or dealer; or (5) serve, or supervise the work of another person serving, as the "other auditor," or "another auditor," as those terms are used in the Board's AS 1205, Part of the Audit Performed by Other Independent Auditors;
- D. Pursuant to Section 105(c)(4)(C) of the Act and PCAOB Rule 5300(a)(3), for a period of two years from the date of this Order, Leslie's role in any "audit," as that term is defined in Section 110(1) of the Act and PCAOB Rule 1001(a)(v), shall be restricted as follows: Leslie shall not (1) serve, or supervise the work of another person serving, as an "engagement quality reviewer," as that term is used in AS 1220, Engagement Quality Review, or (2) serve, or supervise the work of another person serving, in any role that is equivalent to, but differently denominated from, engagement quality reviewer (such as "concurring partner"); and
- E. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), the Board imposes the following civil money penalties:
  - 1. Grant Thornton LLP, \$750,000; and
  - 2. Gary Homsley, \$15,000.

All funds collected by the Board as a result of the assessment of these civil money penalties will be used in accordance with Section 109(c)(2) of the Act. Respondents shall pay these civil money penalties within ten days of the issuance of this Order by (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter, which identifies the entity or person as a respondent in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006. **Respondent Gary Homsley understands that failure to pay the civil money penalty described above may alone be grounds to deny any petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm.**

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

November 5, 2020