2024 Inspection
Ernst & Young LLP

(Headquartered in New York, New York)

February 26, 2025

PCAOB RELEASE NO. 104-2025-037

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

EXECUTIVE SUMMARY

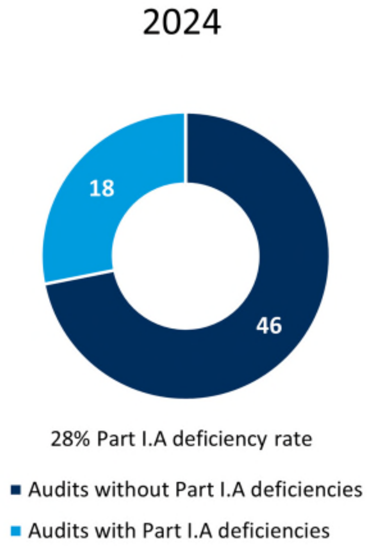
Our 2024 inspection report on Ernst & Young LLP provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board (PCAOB) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of what is included in this report:

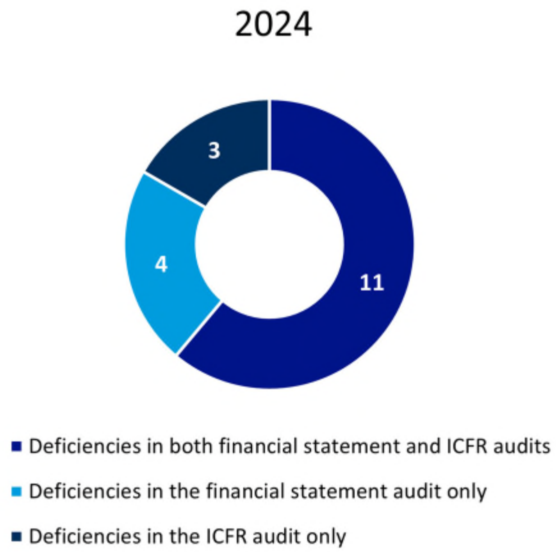
- Part I.A of the report discusses deficiencies ("Part I.A deficiencies") in certain issuer audits that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or internal control over financial reporting (ICFR).
- Part I.B of the report discusses certain deficiencies ("Part I.B deficiencies") that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of apparent non-compliance with rules related to maintaining independence.
- Part I.C of the report discusses instances of apparent non-compliance with rules related to maintaining independence ("Part I.C deficiencies").

If we include a Part I.A or Part I.B deficiency in this report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. If we include a Part I.C deficiency in this report, it does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. If we include a deficiency in Part I.A, Part I.B, or Part I.C of this report, it does not necessarily mean that the firm has not addressed the deficiency.

Overview of the 2024 Deficiencies Included in Part I

Eighteen of the 64 audits we reviewed in 2024 are included in Part I.A of this report due to the significance of the deficiencies identified. The identified deficiencies primarily related to the firm's testing of controls over and/or substantive testing of revenue and related accounts, inventory, and long-lived assets.





In connection with our 2024 inspection procedures for one audit, the issuer restated its financial statements to correct a misstatement and the firm revised and reissued its report on the financial statements. In addition, in connection with our 2024 inspection procedures for this audit and another audit, the issuer revised its report on ICFR, and the firm revised and reissued its report on the effectiveness of the issuer's ICFR to include one or more additional material weaknesses.

The most common Part I.A deficiencies in 2024 related to testing the design or operating effectiveness of controls selected for testing, testing controls over the accuracy and completeness of data or reports used in the operation of controls, and in some cases the resulting overreliance on controls when performing substantive testing.

The Part I.B deficiencies in 2024 related to audit committee communications, audit planning, management communications, consideration of fraud, the firm's audit report, critical audit matters, Form 2, and Form AP.

The most common Part I.C deficiencies in 2024 related to financial relationships, business relationships, and non-audit services.

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2024 INSPECTION

In the 2024 inspection of Ernst & Young LLP, the PCAOB assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of issuers.

We selected for review 64 audits of issuers with fiscal years generally ending in 2023. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2024 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.
- **Part I – Inspection Observations:**
  - **Part I.A:** Deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR.
  - **Part I.B:** Certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of apparent non-compliance with rules related to maintaining independence.
  - **Part I.C:** Instances of apparent non-compliance with rules related to maintaining independence.

  Consistent with the Sarbanes-Oxley Act ("Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II.
- **Part II – Observations Related to Quality Control:** Criticisms of, or potential defects in, the firm's system of quality control. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.
- **Appendix A – Firm's Response to the Draft Inspection Report:** The firm's response to a draft of this report, excluding any portion granted confidential treatment.

2024 Inspection Approach

In selecting issuer audits for review, we use both risk-based and random methods of selection. We make the majority of our selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. We also select audits randomly to provide an element of unpredictability.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed.

Our target team performs inspection procedures in areas of current audit risk and emerging topics and focuses its reviews primarily on evaluating the firm's procedures related to that risk or topic. In 2024, our target team focused primarily on the firm's initial audit of an issuer, on the firm's procedures to identify and assess risks of material misstatement, on audits of issuers with significant investment in artificial intelligence technologies, on audits of issuers in the biotechnology industry that had recently completed initial public offerings, and on the firm's procedures to test the statement of cash flows and segment reporting.

View the details on the scope of our inspections and our inspections procedures.

OVERVIEW OF THE 2024 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2024 inspection as well as data from the previous two inspections. We use a combination of risk-based and random methods to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from year to year and firm to firm. As a result of this variation, we caution that our inspection results are not necessarily comparable over time or among firms.

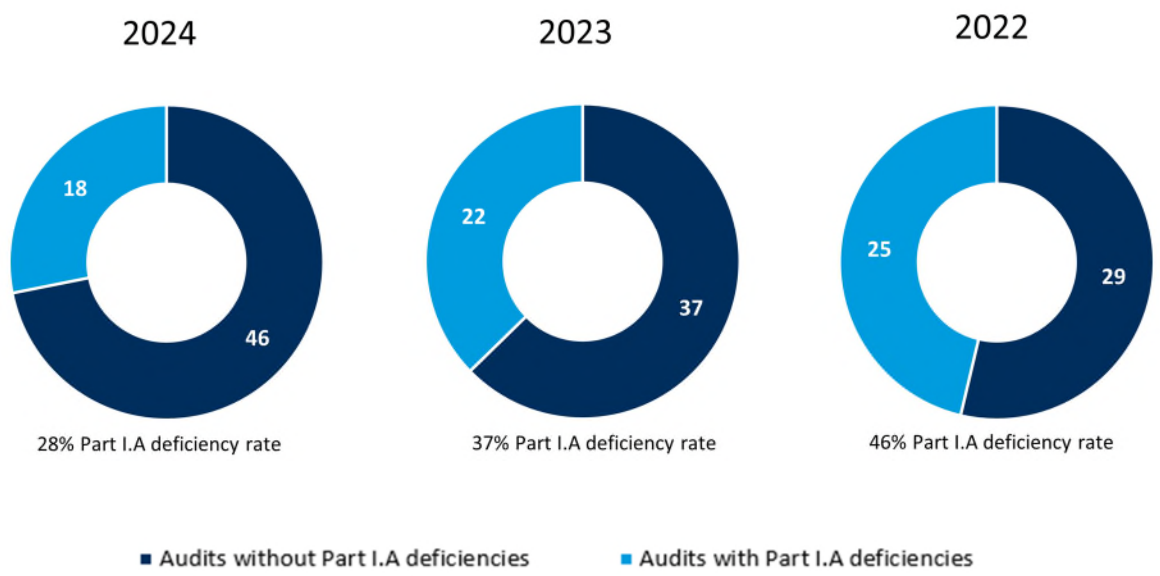
Audits Selected for Review

	2024	2023	2022
Total audits reviewed			
Total audits reviewed	64	59	54
Selection method			
Risk-based selections	48	43	37
Random selections	12	10	13
Target team selections[1]	4	6	4
Total audits reviewed	**64**	**59**	**54**
Principal auditor			
Audits in which the firm was the principal auditor	63	58	53
Audits in which the firm was not the principal auditor	1	1	1
Total audits reviewed	**64**	**59**	**54**
Audit type			
Integrated audits of financial statements and ICFR	59	51	47
Financial statement audits only	5	8	7
Total audits reviewed	**64**	**59**	**54**

[1] For further information on the target team's activities in 2023 and 2022, refer to those inspection reports.

Part I.A Deficiencies in Audits Reviewed

In 2024, 17 of the 18 audits appearing in Part I.A were selected for review using risk-based criteria. In 2023, 19 of the 22 audits appearing in Part I.A were selected for review using risk-based criteria. In 2022, 21 of the 25 audits appearing in Part I.A were selected for review using risk-based criteria.

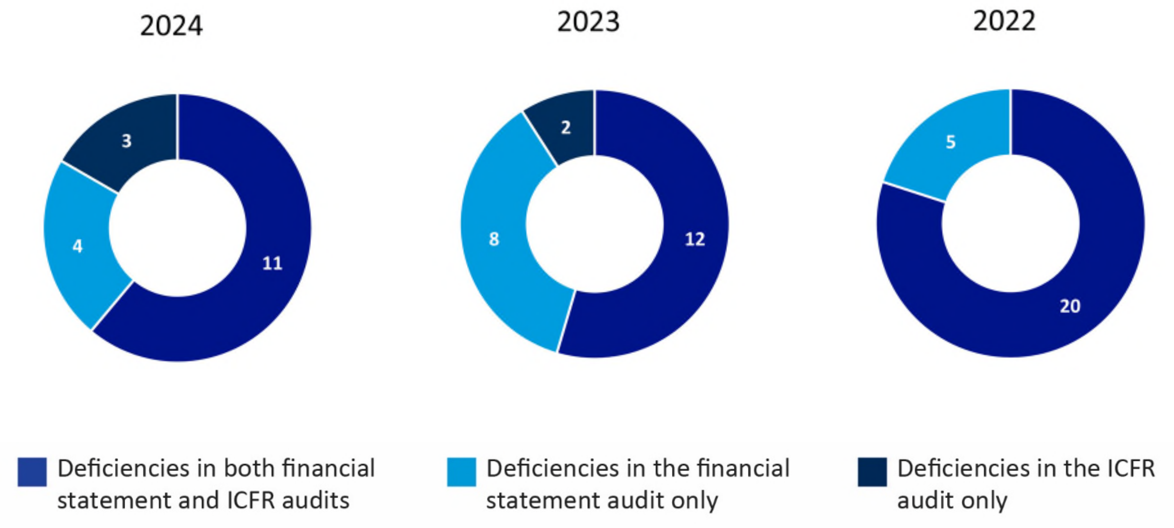


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In certain cases, the firm may have performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports.

Our inspection may include a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

If we include a Part I.A or Part I.B deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer's public disclosures. We do not have direct access to the issuer's management, underlying books and records, and other information.

Audits Affected by the Deficiencies Identified in Part I.A



In connection with our 2024 inspection procedures for one audit, the issuer restated its financial statements to correct a misstatement and the firm revised and reissued its report on the financial statements. In addition, in connection with our 2024 inspection procedures for this audit and another audit, the issuer revised its report on ICFR, and the firm revised and reissued its report on the effectiveness of the issuer's ICFR to include one or more additional material weaknesses.

In connection with our 2023 inspection procedures for two audits, the issuer revised its report on ICFR, and the firm revised its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report. In addition, in connection with our 2023 inspection procedures for one of these audits, the issuer corrected a misstatement in a required disclosure in an amended Form 10-K.

Our 2022 inspection procedures involved one audit for which the issuer, unrelated to our review, restated its financial statements to correct a misstatement and the firm revised and reissued its report on the financial statements. In addition, in connection with our 2022 inspection procedures for one audit, the issuer corrected an omission of a required disclosure in a subsequent filing.

The following tables and graphs summarize inspection-related information, by inspection year, for 2024 and the previous two inspections. We caution against making any comparison of the data provided without reading the descriptions of the underlying deficiencies in each respective inspection report.

Most Frequently Identified Part I.A Deficiencies

Deficiencies in audits of financial statements	Audits with Part I.A deficiencies		
	2024	2023	2022
Did not obtain sufficient evidence as a result of overreliance on controls (due to deficiencies in testing controls)	7	3	11
Did not perform sufficient testing related to a significant account or disclosure or to address an identified risk	6	13	10
Did not perform sufficient testing of data or reports used in the firm's substantive testing	5	8	9

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2024	2023	2022
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	13	8	14
Did not identify and/or sufficiently test controls over the accuracy and completeness of data or reports that the issuer used in the operation of controls	10	9	11
Did not identify and test any controls that addressed the risks related to a significant account or relevant assertion	6	7	8

Audit Areas Most Frequently Reviewed

This table reflects the five audit areas we have selected most frequently for review in each inspection year (and the related Part I.A deficiencies). For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2024			2023			2022		
Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies
Revenue and related accounts	44	9	**Revenue and related accounts**	45	11	**Revenue and related accounts**	42	15
Inventory	19	3	**Business combinations**	13	5	**Business combinations**	26	4
Goodwill and intangible assets	17	2	**Inventory**	13	3	**Inventory**	12	4
Expenses	10	0	**Goodwill and intangible assets**	10	1	**Debt**	10	1
Investment securities	9	2	**Investment securities**	9	2	**Accruals and other liabilities**	10	0

Audit Areas with Frequent Part I.A Deficiencies

This table reflects the audit areas with the most frequently identified Part I.A deficiencies in each inspection year with the corresponding results for the other two years presented.

Audit area	2024		2023		2022	
	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed
Revenue and related accounts	9	44	11	45	15	42
Inventory	3	19	3	13	4	12
Long-lived assets	3	8	1	4	1	4
Business combinations	1	7	5	13	4	26

Revenue and related accounts: The deficiencies in 2024, 2023, and 2022 related to substantive testing of, and testing controls over, revenue, including controls over information technology systems associated with revenue.

Inventory: The deficiencies in 2024 primarily related to testing controls over inventory. The deficiencies in 2023 and 2022 related to substantive testing of, and testing controls over, inventory, including controls over information technology systems associated with inventory.

Long-lived assets: The deficiencies in 2024 primarily related to substantive testing of, and testing controls over, the possible impairment of long-lived assets. The deficiencies in 2023 primarily related to substantive testing of, and testing controls over, long-lived assets and depreciation expense, including testing for impairment. The deficiencies in 2022 related to testing controls over whether any impairment indicators existed for certain long-lived assets.

Business combinations: The deficiencies in 2024 related to substantive testing of, and testing controls over, the valuation of acquired loans. The deficiencies in 2023 and 2022 primarily related to evaluating the reasonableness of assumptions the issuer used to determine the fair values of assets acquired and liabilities assumed; substantive testing of, and testing controls over, the accuracy and completeness of data used; and testing controls over the issuer's review of assumptions used to value assets acquired and liabilities assumed.

Auditing Standards Associated with Identified Part I.A Deficiencies

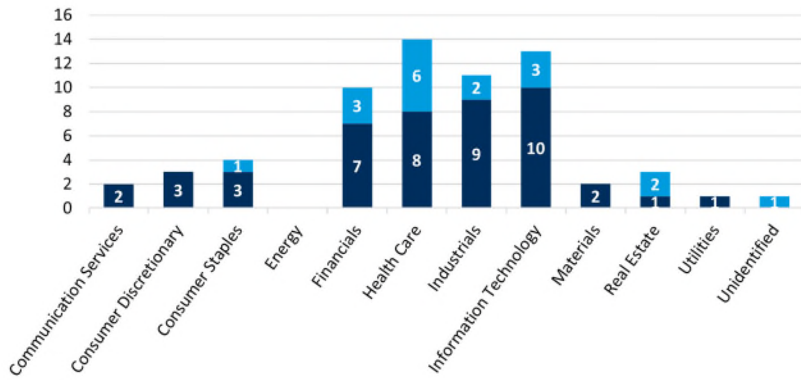
The following lists the auditing standards referenced in Part I.A of the 2024 and the previous two inspection reports, and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2024	2023	2022
AS 1105, *Audit Evidence*	10	14	19
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	54	49	63
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	11	17	17
AS 2305, *Substantive Analytical Procedures*	1	1	7
AS 2310, *The Confirmation Process*	1	0	0
AS 2315, *Audit Sampling*	4	7	11
AS 2401, *Consideration of Fraud in a Financial Statement Audit*	0	1	0
AS 2410, *Related Parties*	0	0	1
AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements*	3	4	5
AS 2510, *Auditing Inventories*	1	1	1
AS 2810, *Evaluating Audit Results*	1	2	3

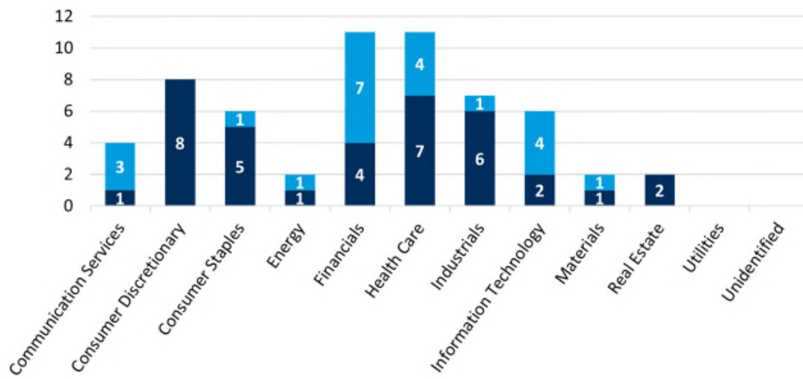
Inspection Results by Issuer Industry Sector

The majority of industry sector data is based on Global Industry Classification Standard (GICS) data obtained from Standard & Poor's (S&P). In instances where GICS data for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data. In instances where classifying an issuer using its industry sector could make an issuer identifiable, we have instead classified such issuer(s) as "unidentified."

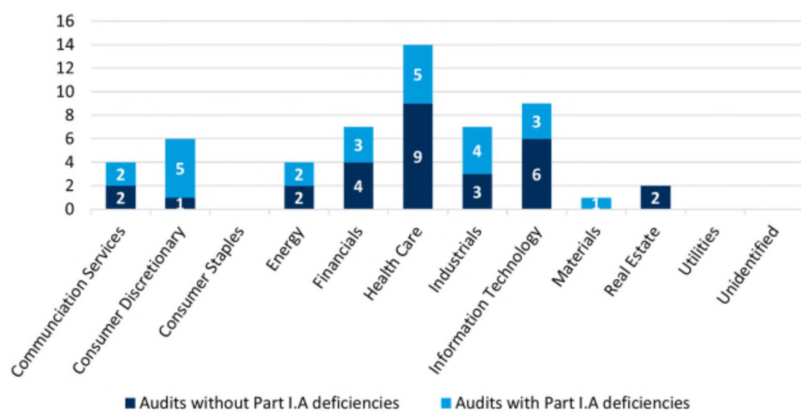
2024



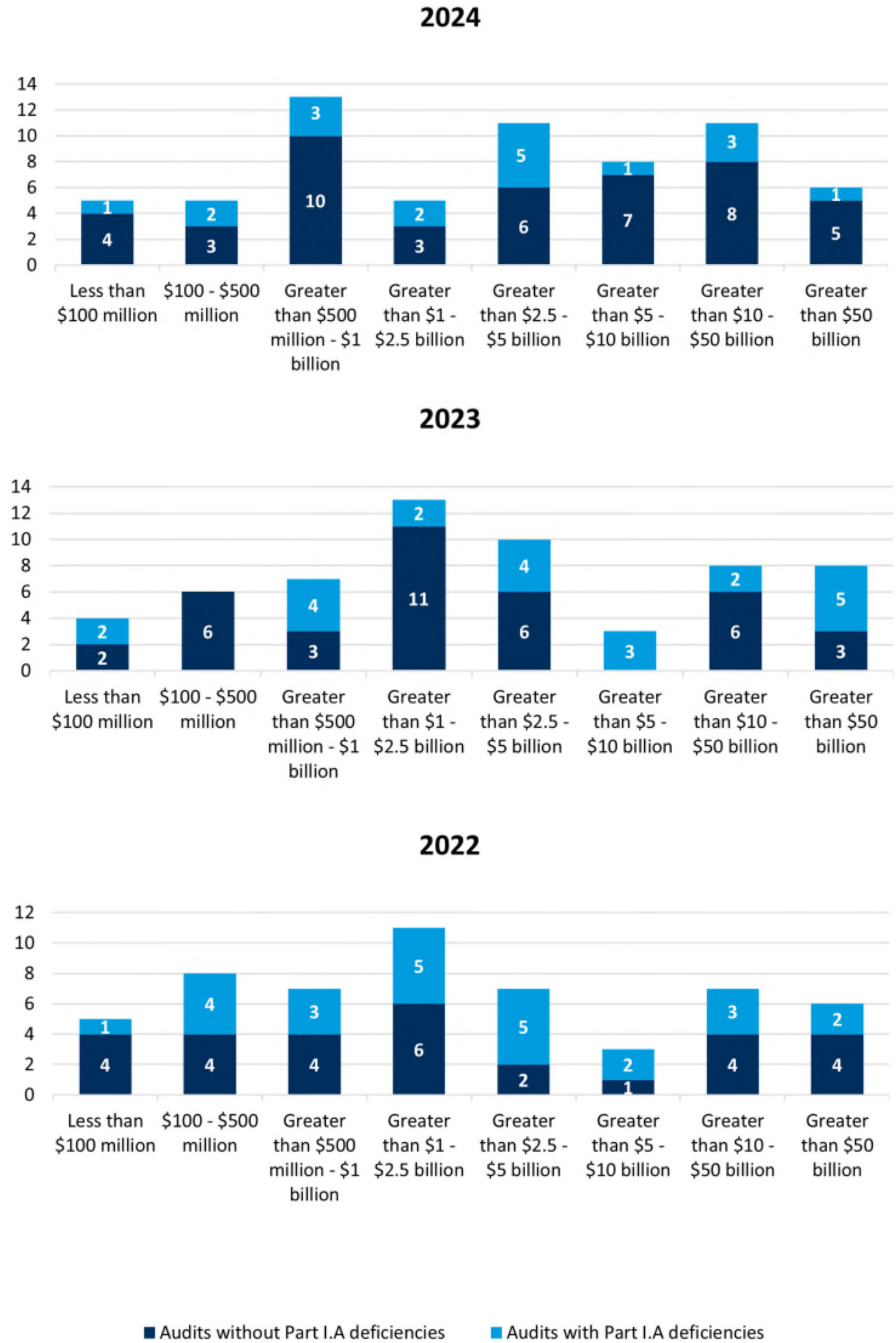
2023



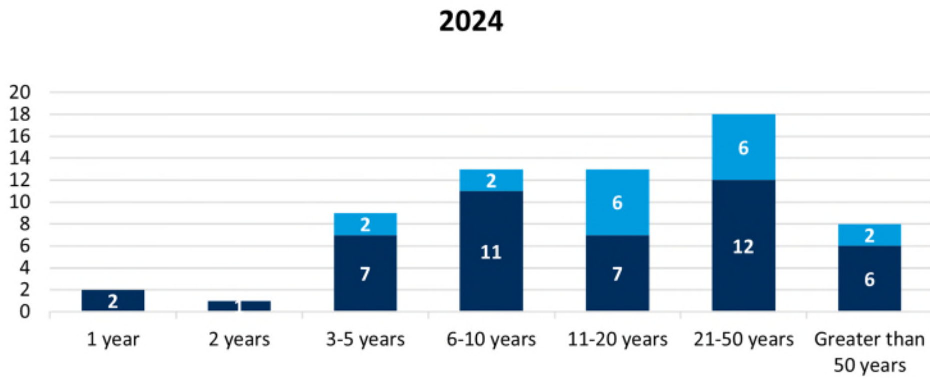
2022

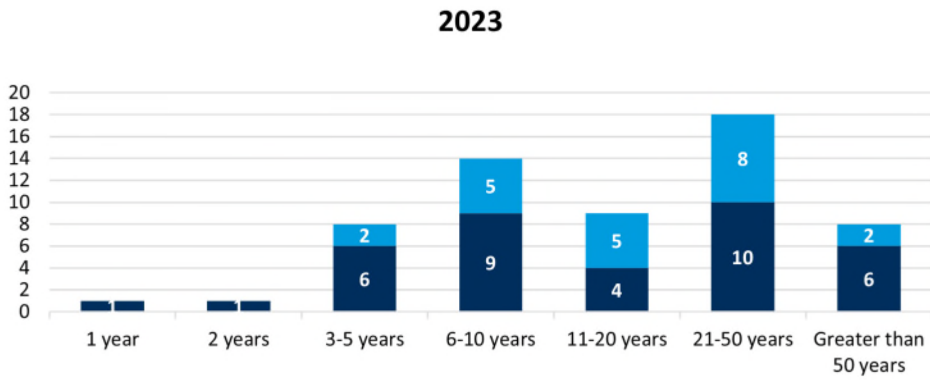


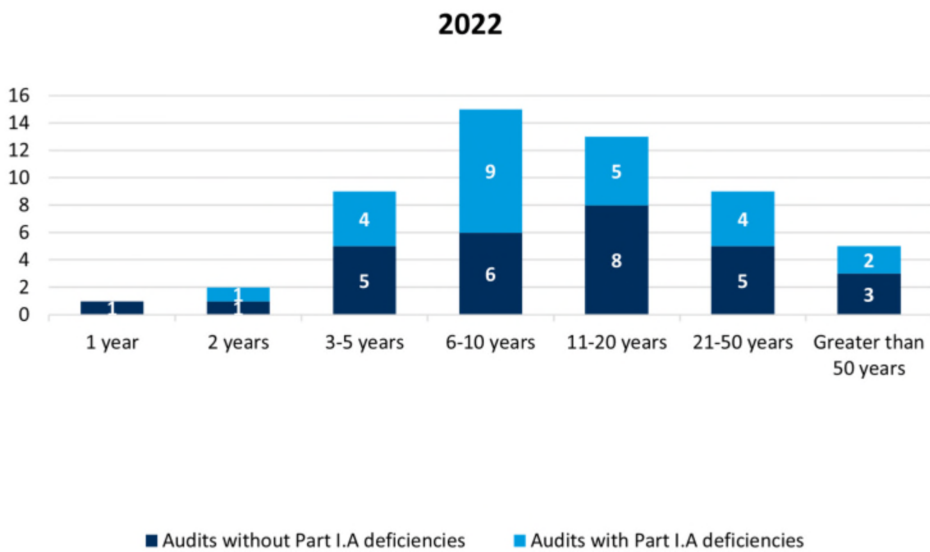
Inspection Results by Issuer Revenue Range



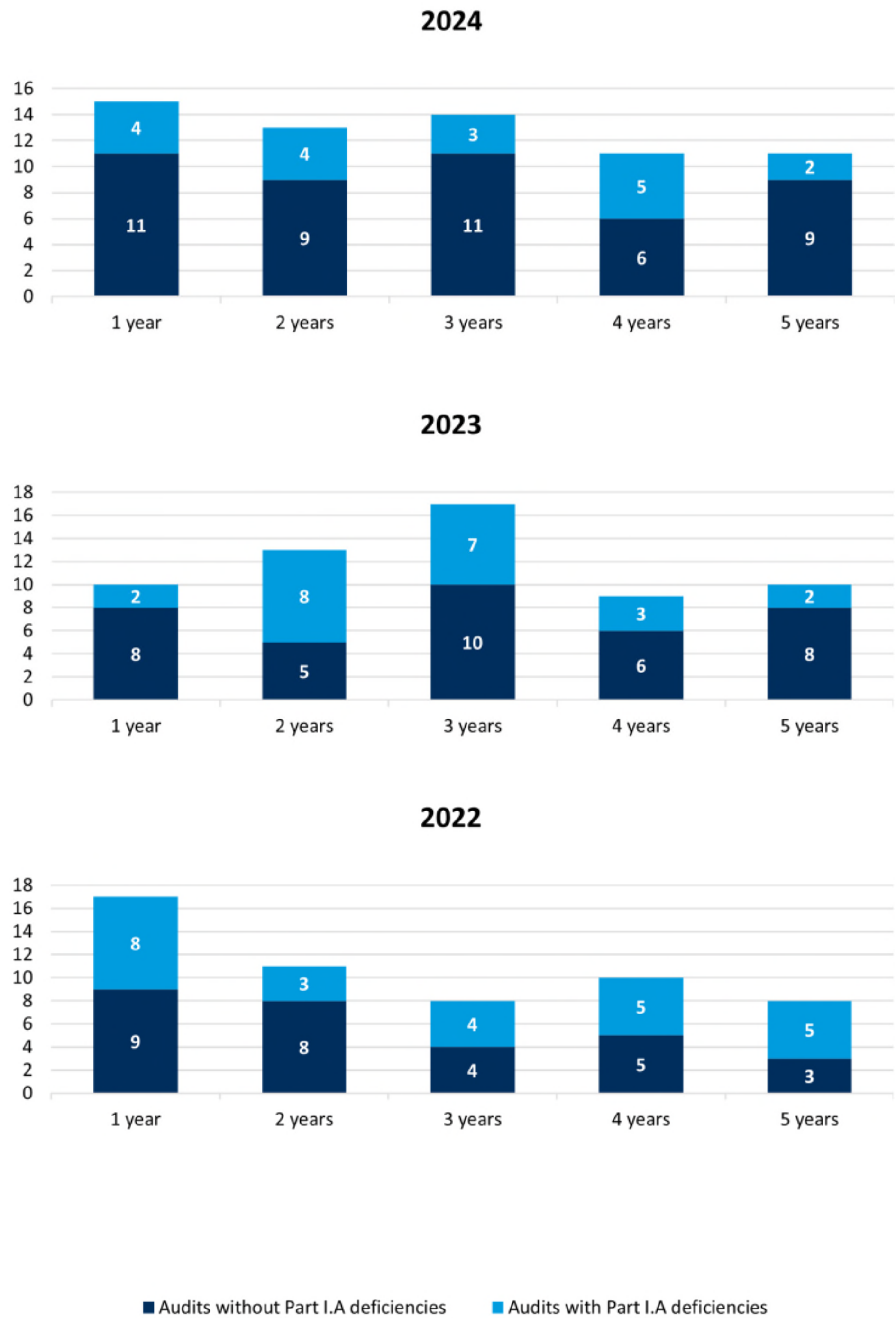
Inspection Results by the Firm’s Tenure on the Issuer







Inspection Results by the Engagement Partner's Tenure on the Issuer



Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or revised its report, on ICFR. This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. We include any deficiencies identified in connection with our reviews of these audits in the audits with multiple deficiencies or audits with a single deficiency classification below.

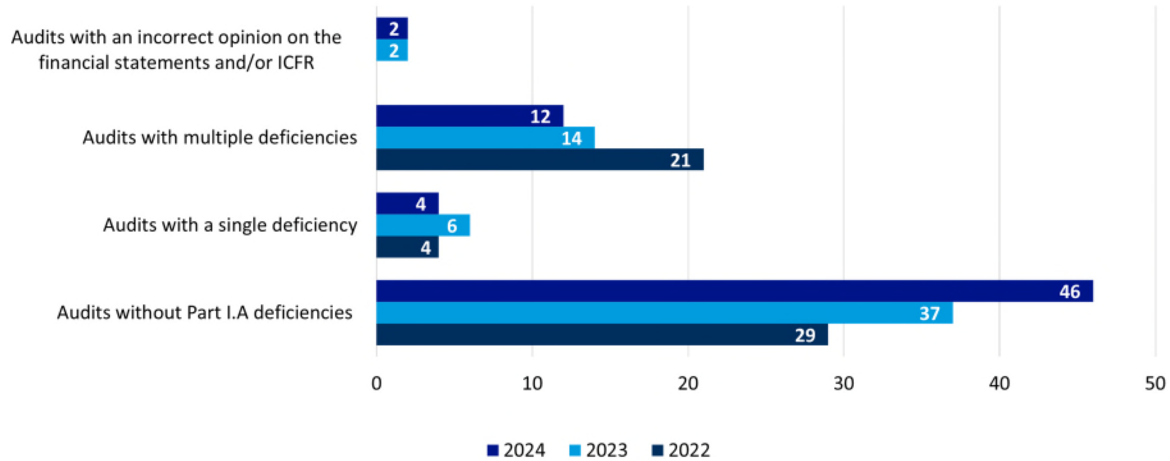
Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

Number of Audits in Each Category



PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR.

Part I.B discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of apparent non-compliance with rules related to maintaining independence.

Part I.C discusses instances of apparent non-compliance with rules related to maintaining independence.

Consistent with the Act, it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II.

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion(s) on the issuer's financial statements and/or ICFR.

We identify each issuer by a letter (e.g., Issuer A). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard(s) that most directly relates to the requirement with which the firm did not comply.

We present issuer audits below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies, taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

Issuer A – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue**, for which the firm identified a fraud risk, **Deferred Revenue**, and **Accounts Receivable**.

Description of the deficiencies identified

The issuer used multiple information-technology (IT) systems to initiate, process, and record transactions related to revenue and the related deferred revenue. In its testing of controls over these accounts, the firm tested various automated and IT-dependent manual controls that used data and reports generated or maintained by these IT systems. As a result of the following deficiencies in the firm’s testing of IT general controls (ITGCs), the firm’s testing of these automated and IT-dependent manual controls was not sufficient. (AS 2201.46)

- The firm selected for testing a control over the segregation of duties related to the ability to develop and implement changes to certain of these IT systems. The firm did not test whether users with the ability to implement code changes also had the ability to develop those changes. Further, the firm did not test whether the ability to implement configuration changes was appropriately restricted to authorized users. (AS 2201.42 and .44)
- The firm selected for testing controls that consisted of the issuer’s testing and approval of system changes prior to implementation into the production environment. In its testing of the operating effectiveness of certain of these controls, the firm excluded certain types of changes from its testing population. (AS 2201.44) In addition, for certain other of these controls, the firm did not test, or test any controls over, the completeness of the population of items from which it selected its sample for testing. (AS 1105.10)
- The firm selected for testing controls over the issuer’s monitoring of system changes. The firm did not identify and test any controls over the accuracy and completeness of certain reports that the issuer used in the operation of these controls. (AS 2201.39)

The firm selected for testing two controls over the transfer of data between certain of the issuer’s revenue systems and the general ledger. For the first control, the firm did not test the configuration or programming of certain automated aspects of the control or perform other procedures to test this control that would have provided sufficient appropriate audit evidence that these automated aspects of the control were designed and operating effectively. (AS 2201.42 and .44) For the second control, the firm did not identify and test any controls over the accuracy and completeness of certain data that the control owner used in the operation of this control. (AS 2201.39)

With respect to revenue and deferred revenue at certain business units that the firm subjected to more extensive audit procedures, the following deficiencies were identified:

The firm selected for testing two controls that consisted of the issuer’s (1) identification of matters at its business units that could affect revenue recognition and (2) review of certain new and modified contracts for appropriate revenue recognition. The issuer used the matters identified in the first control as the population of contracts to be reviewed in the second control. The firm did not evaluate whether the first control was designed to address whether a complete population of these new and modified contracts was identified for review in the second control. (AS 2201.42)

Certain of the issuer’s revenue arrangements included multiple performance obligations. The issuer allocated the total transaction price for each of these arrangements to the separate performance obligations based on the relative standalone selling prices. The relative standalone selling prices were determined based, in part, on the issuer’s categorization of its product offerings and pricing discounts it offered its customers. The following deficiencies were identified:

- The firm did not identify and test any controls over the issuer’s categorization of its product offerings and pricing discounts that were used to determine the standalone selling prices. (AS 2201.39)

- The firm selected for testing a control that included the issuer's review and approval of the selling price data used to determine the standalone selling prices. The firm did not evaluate the specific review procedures that the control owners performed to evaluate exceptions identified for certain items that were selected for testing. (AS 2201.44) In addition, the firm did not identify and test any controls over the accuracy and completeness of a system-generated report that the control owners used in the operation of this control. (AS 2201.39)

The firm selected for testing a control over the automated recognition of certain revenue when electronic delivery occurred. The firm did not identify and test any controls over the accuracy and completeness of the electronic delivery dates used in the operation of this control. (AS 2201.39)

As a result of the firm's control testing deficiencies discussed above, the firm did not perform sufficient substantive procedures over revenue, deferred revenue, and accounts receivable, as follows:

- The firm did not perform procedures to test, or sufficiently test controls over, the completeness of certain reports the firm used in its substantive testing. (AS 1105.10)
- The sample sizes the firm used in certain of its substantive procedures were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

With respect to revenue and deferred revenue at certain other business units that the firm subjected to less extensive audit procedures, the following deficiencies were identified:

- The firm selected for testing a control that consisted of the issuer's reconciliation of the business unit-level financial data to its consolidated general ledger. The firm did not identify and test any controls over the accuracy and completeness of the business unit-level data that the control owners used in the operation of this control. (AS 2201.39)
- The firm did not perform any substantive procedures to test revenue and deferred revenue for these business units. (AS 2301.08)

In connection with our review, the issuer reevaluated its controls over revenue, including IT controls, and concluded that material weaknesses existed that had not been previously identified. The issuer subsequently reflected these material weaknesses in a revision to its report on ICFR, and the firm revised and reissued its report on the effectiveness of the issuer's ICFR to include these additional material weaknesses.

Issuer B – Health Care

Type of audit and related area affected

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

Description of the deficiencies identified

The issuer recognized revenue from contracts with customers that included either standard or nonstandard terms. Certain contracts included an estimate of variable consideration in the transaction price. The following deficiencies were identified:

- The firm selected for testing controls that included the issuer's identification and evaluation of contracts with nonstandard terms. The firm did not identify and test any controls over the completeness of certain information that the control owners used in the operation of these controls. (AS 2201.39)

- The firm did not identify and test any controls over the issuer's accounting for variable consideration included in contracts with standard terms. (AS 2201.39)

During the year, the issuer received a one-time payment in connection with a contract modification that it recognized as revenue. The firm did not identify and evaluate that the issuer's accounting for this revenue was not in conformity with FASB ASC Topic 606, *Revenue from Contracts with Customers*. (AS 2810.30)

In connection with our review, the issuer reevaluated its accounting for this revenue and concluded that a material misstatement existed that had not been previously identified. The issuer subsequently corrected this misstatement in a restatement of its financial statements, and the firm revised and reissued its report on the financial statements. The issuer also reevaluated its controls over revenue and concluded that a material weakness existed that had not been previously identified. The issuer subsequently reflected this material weakness in a revision to its report on ICFR, and the firm revised and reissued its report on the effectiveness of the issuer's ICFR to include this additional material weakness.

Audits with Multiple Deficiencies

Issuer C – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Insurance-related Assets and Liabilities, Including Insurance Reserves** and **Investment Securities**.

Description of the deficiencies identified

With respect to **Insurance-related Assets and Liabilities, Including Insurance Reserves**, for which the firm identified a fraud risk:

The issuer used company-employed specialists to perform actuarial valuations of its insurance-related assets and liabilities, including insurance reserves. With respect to the insurance-related liabilities recorded for certain insurance products, the following deficiencies were identified:

- The firm selected for testing certain IT-dependent manual controls over the data used to develop and record these insurance-related liabilities. The firm did not test the configuration or programming of certain queries that the issuer used to generate data used in the operation of these controls or perform other procedures to test these controls that would have provided sufficient appropriate audit evidence that these controls were designed and operating effectively. (AS 2201.42 and .44)

- The firm selected for testing controls that consisted of the issuer's (1) reviews of the actuarial valuation methodologies, assumptions, and models and (2) recalculations of the insurance reserves for these products and review of these recalculations. The firm did not identify and test any controls over the accuracy and completeness of certain data that the control owners used in the operation of these controls. (AS 2201.39) In addition, the firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of certain of these reserve recalculations. (AS 2201.42 and .44)

- The firm did not test, or (as discussed above) sufficiently test controls over, the accuracy and completeness of certain issuer-produced data that the company's specialists used to determine these actuarial valuations. (AS 1105.A8a)
- The firm selected for testing controls that consisted of the issuer's comparisons and reviews of the current-period insurance reserves and related trends to the prior-period amounts. In evaluating the design of these controls, the firm did not evaluate whether the thresholds that the control owners used to identify items for investigation were sufficiently precise to detect material misstatements. (AS 2201.42)

With respect to the insurance-related assets and liabilities recorded for certain other insurance products, the following deficiencies were identified:

- The firm selected for testing a control that included the issuer's reconciliations of loss experience data to its actuarial valuations, which included the issuer's use of tools to transfer data and perform calculations. The firm did not sufficiently test the control attributes designed to address the accuracy of data transferred into these tools because the firm did not test whether these control attributes were designed to address and/or operated as designed for each relevant processing alternative. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy of the computations performed within these tools. (AS 2201.39)
- The firm selected for testing a control that consisted of the issuer's review of the actuarial valuation methodologies and assumptions. The firm did not identify and test any controls over the accuracy and completeness of certain data that the control owners used in the operation of this control. (AS 2201.39)
- The firm did not test, or (as discussed above) test any controls over, the accuracy and/or completeness of certain issuer-produced data that the company's specialists used to determine these actuarial valuations. (AS 1105.A8a)
- The firm selected for testing controls that consisted of the issuer's (1) recalculations of the insurance reserves for these products and review of these recalculations and (2) comparisons and reviews of the current-period insurance reserves and related trends to the prior-period amounts. The firm did not evaluate the specific review procedures that the control owners performed to investigate identified variances and determine whether items identified for follow up had been appropriately resolved. (AS 2201.42 and .44)
- The firm did not perform substantive procedures to test whether the issuer had appropriately calculated the gross amounts of these insurance-related assets and liabilities that were presented in the issuer's financial statements. (AS 2301.08)

With respect to **Investment Securities**:

The issuer used a service organization to perform recordkeeping and processing of transactions for certain investment securities. The firm sent positive confirmation requests to the custodians for these investment securities, but did not evaluate the nature of exceptions between the securities amounts included in the confirmation replies and the securities amounts that the issuer recorded. (AS 2310.33)

Issuer D – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Goodwill**, **Revenue**, **Inventory**, and **Journal Entries**.

Description of the deficiencies identified

With respect to **Goodwill**, for which the firm identified a significant risk:

The issuer performed its annual goodwill impairment assessment as of an interim date. The following deficiencies were identified:

- The firm selected for testing controls that included the issuer's assessment of triggering events between its annual assessment date and year end. The firm did not evaluate whether the controls were designed to address whether certain adverse market conditions and deteriorating financial results that arose before year end would have required an impairment test as of year end. (AS 2201.42)
- The firm did not sufficiently evaluate the issuer's determination that it did not need to test goodwill for impairment between its annual assessment and year end because it did not identify that the issuer's evaluation did not consider these adverse market conditions and deteriorating financial results that arose before year end. (AS 2301.08)

With respect to **Revenue** at two of the issuer's business units:

The firm's testing of certain automated controls over revenue at these business units was not sufficient because the firm did not test the configuration or programming of these controls or perform other procedures to test these controls that would have provided sufficient appropriate audit evidence that these controls were designed and operating effectively. (AS 2201.42 and .44)

For the first business unit, the firm identified control deficiencies related to the issuer's review of sales prices that were applied to certain customer orders and used to recognize revenue. The firm identified and tested various compensating controls that it believed would mitigate these deficiencies. The firm did not identify that these compensating controls did not address the risk of material misstatement related to the accuracy of these sales prices. (AS 2201.68)

For the second business unit, the firm selected for testing a control that consisted of the issuer's comparison of sales prices invoiced to the customer order. For electronically received customer orders, the firm did not identify and test any controls over the accuracy of the data included in the customer orders that were used in the operation of the control. (AS 2201.39) In addition, for manually received customer orders, the firm did not assess the effect of the same individual both entering and reviewing the sales prices in evaluating the design of the control. (AS 2201.42)

With respect to **Inventory**:

The issuer performed cycle counts of inventory held at one of its locations. The issuer used a service organization to host and maintain an IT system that was used in its cycle-count procedures. The firm did not obtain an understanding of, and test, any relevant controls at this service organization. (AS 2201.39 and .B19)

Due to the deficiency discussed above, the firm did not obtain sufficient appropriate audit evidence that the cycle-count procedures that the issuer used for this inventory were sufficiently reliable to produce results substantially the same as those that would have been obtained by a count of all items each year. (AS 2510.11)

With respect to **Journal Entries**:

For one of the issuer's business units, the firm selected for testing a control that consisted of the control owner's review of a selection of journal entries for appropriateness. When evaluating the design of this control, the firm did not evaluate the number of items the control owner reviewed to assess whether it was sufficient to address the risks of material misstatement. (AS 2201.42)

Issuer E – Health Care

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue and Related Accounts**, for which the firm identified a fraud risk.

Description of the deficiencies identified

The issuer recorded revenue net of customer rebates and chargebacks. The issuer estimated its accrued rebates and chargebacks using significant assumptions that were based, in part, on forecasts of expected future sales, rebates, and chargebacks. The following deficiencies were identified:

- The firm selected for testing various controls that included the issuer's reviews of the significant assumptions used to develop these accruals. The firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of the underlying forecasts. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy and completeness of certain issuer-produced data and reports used in the operation of two of these controls. (AS 2201.39)
- The firm's approach for substantively testing accrued rebates and chargebacks was to test the issuer's process. The firm did not perform sufficient procedures to evaluate the reasonableness of the significant assumptions used to develop these accruals because the firm did not evaluate the reasonableness of the underlying forecasts. (AS 2501.16)
- The firm used certain issuer-produced data and reports in its testing of accrued rebates and chargebacks but did not test, or (as discussed above) test any controls over, the accuracy and completeness of these data and reports. (AS 1105.10)

The issuer used an IT system to initiate, process, and record transactions related to revenue and related accounts, including accrued sales rebates and chargebacks. The firm selected for testing a control that included the issuer's reviews of changes made to this IT system through administrative user access. The firm did not evaluate the specific review procedures that the control owners performed to assess whether users performed appropriate actions when granted this access. (AS 2201.42 and .44)

In its testing of controls over these accounts, the firm tested various automated and IT-dependent manual controls that used data and reports generated or maintained by this IT system. As a result of the above deficiency in the firm's testing of ITGCs, the firm's testing of these automated and IT-dependent manual controls was not sufficient. (AS 2201.46)

The sample size that the firm used in certain of its substantive procedures to test accrued rebates was too small to provide sufficient appropriate evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's ITGC testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer F – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to the **Allowance for Credit Losses (ACL)** and a **Business Combination**.

Description of the deficiencies identified

With respect to the **ACL**, for which the firm identified a fraud risk:

The issuer developed the quantitative reserve component of the ACL using a model that was maintained by a service organization. The following deficiencies were identified:

- The firm obtained a service auditor's report but did not evaluate whether this auditor's report provided sufficient appropriate audit evidence because the firm did not assess certain controls that the service auditor tested and how those controls related to the issuer's controls over the quantitative component of the ACL. (AS 2201.B21)
- The firm did not identify and test any controls over the issuer's ongoing assessment and monitoring of the predictability and effectiveness of this ACL model. (AS 2201.39)

The firm selected for testing a control that consisted of the control owner's reperformance of certain ACL calculations. The number of instances that the firm selected for testing this control did not provide sufficient appropriate audit evidence given the frequency with which this control operated. (AS 2201.46)

The issuer determined the qualitative reserve component of the ACL using various qualitative factors. The firm's approach for substantively testing the ACL was to test the issuer's process. The firm did not evaluate whether the issuer had a reasonable basis for the significant assumptions that the issuer used to develop certain of these qualitative factors. (AS 2501.16)

With respect to a **Business Combination**:

During the year, the issuer acquired a business. The issuer assigned certain acquired loans a risk rating, which was a significant assumption in estimating the fair value of the acquired loans. The following deficiencies were identified:

- The firm selected for testing a control that consisted of the issuer's review of the credit quality of these acquired loans, including the assigned loan risk ratings. The firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of the assigned loan risk ratings. (AS 2201.42 and .44)

- The firm's approach for substantively testing the valuation of these acquired loans was to test the issuer's process. The firm selected a sample of acquired loans for testing. The firm did not evaluate whether the issuer had a reasonable basis for the assigned loan risk ratings for these acquired loans. (AS 2501.16)

Issuer G – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and **Accounts Receivable**.

Description of the deficiencies identified

The issuer used an IT system to initiate, process, and record transactions related to certain revenue and accounts receivable. The firm selected for testing controls that included the issuer's reviews of changes made to this IT system through administrative user access. When testing the design and operating effectiveness of these controls, the firm did not evaluate (1) certain criteria that the control owners used to determine which types of changes would be subject to the issuer's reviews and (2) whether the control owners' review of only certain types of system changes and permissions was sufficient to address the risk that unauthorized changes were made. (AS 2201.42 and .44)

In its testing of controls over these accounts, the firm tested various automated and IT-dependent manual controls that used data or reports generated or maintained by this IT system. As a result of the above deficiency in the firm's testing of ITGCs, the firm's testing of these automated and IT-dependent controls was not sufficient. (AS 2201.46)

The sample sizes that the firm used in certain of its substantive procedures to test this revenue and accounts receivable were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to (1) the deficiencies in the firm's control testing discussed above and/or (2) the firm not taking into account that the controls it relied upon were not designed and operating effectively during the entire period of reliance. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

The firm selected for testing a control at one of the issuer's locations that consisted of the issuer's review of source documentation prior to processing customer invoices and credit memos. The firm did not test, or test any controls over, the completeness of the population of items from which it selected its samples for testing this control. (AS 1105.10) In addition, the number of credit memos that the firm selected for testing did not provide sufficient appropriate evidence given the frequency with which the control operated. (AS 2201.46)

Issuer H

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Mortgage Servicing Rights (MSRs)** and **Revenue**.

Description of the deficiencies identified

The issuer used an IT system to retain certain data related to MSRs and loan servicing revenue. In its testing of controls over these accounts, the firm tested various IT-dependent manual controls that used reports generated by this IT system. As a result of the following audit deficiencies, the firm's testing of these IT-dependent manual controls was not sufficient. (AS 2201.46)

- The firm did not identify and test any controls that addressed the risk that certain users could make unauthorized changes to the data in this system. (AS 2201.39)
- The firm selected for testing (1) an automated control over the transfer of data from the issuer's source system into this IT system and (2) controls over the generation of the reports used in these IT-dependent manual controls. The firm did not test the configuration or programming of these controls or perform other procedures to test these controls that would have provided sufficient appropriate audit evidence that these controls were designed and operating effectively. (AS 2201.42 and .44)

The sample sizes the firm used in certain of its substantive procedures to test MSRs and loan servicing revenue were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer I – Information Technology

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Inventory**, for which the firm identified a significant risk.

Description of the deficiencies identified

The firm selected for testing a control that consisted of the issuer's review of forecasted sales that were used to estimate the valuation of certain inventory. The firm did not evaluate the specific review procedures that the control owners performed to assess the issuer's ability to achieve these forecasts. (AS 2201.42 and .44)

The firm selected for testing a control that consisted of the issuer's reconciliation of the inventory subledger to its general ledger and its review of this reconciliation. The firm did not evaluate the specific review procedures that the control owners performed to assess the appropriateness of certain inventory adjustments that the firm selected for testing that were included in this reconciliation. (AS 2201.42 and .44)

The firm's substantive procedures to test these inventory adjustments consisted of selecting a sample of items for testing. The firm used issuer-produced quantity information in these substantive procedures but did not perform any procedures to test, or (as discussed above) sufficiently test controls over, the accuracy and completeness of this information. (AS 1105.10)

Issuer J – Real Estate

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Long-Lived Assets** and **Other Investments**.

Description of the deficiencies identified

The firm selected for testing a control that consisted of the issuer's review of potential indicators of impairment for its long-lived assets and certain investments. The firm did not evaluate whether the thresholds that the control owner used to identify certain impairment indicators were sufficiently precise to prevent or detect material misstatements. (AS 2201.42) In addition, the firm did not identify and test any controls over the accuracy and/or completeness of certain data used in the operation of this control. (AS 2201.39)

The issuer performed a quantitative impairment assessment of certain long-lived assets and investments that had impairment indicators. The firm used certain issuer-produced data in its substantive testing of this impairment assessment but did not test, or test any controls over, the accuracy of these data. (AS 1105.10)

For another of the issuer's long-lived assets, the firm did not evaluate the appropriateness of the issuer's conclusion that an impairment assessment was not required even though an impairment indicator existed for this long-lived asset. (AS 2301.08)

Issuer K – Industrials

Type of audit and related areas affected

In our review, we identified deficiencies in the ICFR audit related to **Revenue** and **Inventory**.

Description of the deficiencies identified

The issuer recorded transactions related to revenue and inventory at numerous business units. To address the risks of material misstatement related to revenue and inventory for certain of these business units, the firm selected entity-level controls for testing, including two controls that consisted of the issuer's reviews of financial information. The following deficiencies were identified:

- For the first control, the firm did not evaluate the specific review procedures that the control owners performed to determine whether items that met the criteria for investigation were identified for review. (AS 2201.42 and .44)

- For the second control, the firm did not identify and test any controls over the accuracy and completeness of certain reports that the control owners used in the operation of the control. (AS 2201.39) In addition, the firm did not test the aspects of this control that addressed the accuracy or completeness of certain other reports used in the operation of the control. (AS 2201.44)

Issuer L – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the ICFR audit related to **Goodwill** and **Leases**. The firm's internal inspection program had inspected this audit, reviewed the goodwill area, and also identified the deficiency below.

Description of the deficiencies identified

With respect to **Goodwill**, for which the firm identified a significant risk:

For four of the issuer's reporting units, the firm selected for testing controls that consisted of the issuer's reviews of the forecasts and valuation model used in its goodwill impairment analysis, including the assumptions used. The firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of these assumptions. (AS 2201.42 and .44)

With respect to **Leases**:

The firm selected for testing a control that consisted of the issuer's review of the accounting for certain lease transactions. The firm did not identify and test any controls over the accuracy and completeness of a report used in the operation of this control. (AS 2201.39)

Issuer M – Real Estate

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Long-Lived Assets** and **Leases**. The firm's internal inspection program had inspected this audit, reviewed these areas, and also identified the deficiencies below.

Description of the deficiencies identified

With respect to **Long-Lived Assets**:

The firm used issuer-prepared schedules in its substantive testing of the issuer's (1) assessment of certain long-lived assets for possible impairment and (2) long-lived asset disclosures. The firm did not perform any procedures to test, or test any controls over, the accuracy of certain data included in these issuer-prepared schedules. (AS 1105.10)

With respect to **Leases**:

The firm performed substantive procedures to test the accuracy of a schedule that the issuer used to prepare certain of its lease disclosures. The sample size the firm used in these substantive procedures was smaller than the one the firm determined necessary to provide sufficient appropriate audit evidence. Further, the firm did not perform any procedures to test, or test any controls over, the completeness of this schedule. (AS 1105.10)

Issuer N – Health Care

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Long-Lived Assets**.

Description of the deficiencies identified

The firm selected for testing a control that consisted of the issuer's review of its asset groupings used in the evaluation of long-lived assets for possible impairment. The firm did not evaluate the specific review procedures that the control owner performed to assess the appropriateness of the specific assets that were included in the asset groupings. (AS 2201.42 and .44)

During the year, the issuer identified that events or changes in circumstances existed indicating that the carrying value of certain long-lived assets may not be recoverable. The firm did not evaluate whether these events or changes in circumstances indicated that the carrying amounts of certain other long-lived assets may not be recoverable. (AS 2301.08)

Audits with a Single Deficiency

Issuer O – Industrials

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Revenue**.

Description of the deficiency identified

Certain of the issuer's contracts provided for the reimbursement of costs for services performed on behalf of its customers, and the issuer did not recognize revenue from these services. The firm did not perform procedures to evaluate whether these services were part of the issuer's performance obligation under its customer contracts that should have been recognized as revenue in conformity with FASB ASC Topic 606. (AS 2301.08)

Issuer P – Health Care

Type of audit and related area affected

In our review, we identified a deficiency in the ICFR audit related to **Journal Entries**.

Description of the deficiency identified

The firm selected for testing a control that consisted of the control owner's review of certain journal entries. The firm did not evaluate whether the design of this control was sufficient to address whether journal entries prepared and posted by the same individual were authorized and appropriate. (AS 2201.42)

Issuer Q – Financials

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Investment Securities**.

Description of the deficiency identified

The issuer used a service organization for recordkeeping and processing of transactions related to investment securities. The firm did not perform any procedures that addressed the accuracy of certain data from the service organization that was used to determine the classification of investment purchases and sales in the statement of cash flows. (AS 2301.08)

Issuer R – Consumer Staples

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Revenue**.

Description of the deficiency identified

The firm performed a substantive analytical procedure to test certain revenue deductions. The firm did not determine whether the expectation used in this substantive analytical procedure was based on predictable relationships. (AS 2305.13 and .14)

PART I.B: OTHER INSTANCES OF NON-COMPLIANCE WITH PCAOB STANDARDS OR RULES

This section of our report discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of apparent non-compliance with rules related to maintaining independence.

When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not reviewed and include any instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In two of 62 audits reviewed, the firm did not determine that the audit committee acknowledged and agreed to the terms of the audit engagement. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 62 audits reviewed, the firm did not provide a copy of the management representation letter to the audit committee. In one additional audit reviewed, the firm did not make this required communication prior to the issuance of the auditor's report. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*, and/or AS 2805, *Management Representations*.
- In four of 63 audits reviewed, the firm did not perform procedures to determine whether all individuals who participated in the audit were in compliance with independence requirements. In these instances, the firm was non-compliant with AS 2101, *Audit Planning*.
- In one of 59 audits reviewed, the firm did not communicate to management, in writing, all control deficiencies identified during the audit. In six additional audits reviewed, the firm did not inform the audit committee when such communication had been made. In these instances, the firm was non-compliant with AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.
- In two of 62 audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not appropriately consider the characteristics of potentially fraudulent journal entries in determining the criteria it used to identify and select journal entries for testing. In these instances, the firm was non-compliant with AS 2401, *Consideration of Fraud in a Financial Statement Audit*.
- In one of 62 audits reviewed, the year the firm began serving consecutively as the company's auditor that was included in the firm's audit report was incorrect. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

- In one of 62 audits reviewed, the firm inappropriately determined that a matter was not a critical audit matter even though the matter was communicated to the audit committee and (1) related to an account that was material to the financial statements and (2) involved especially challenging, subjective, or complex auditor judgment. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.
- In two of 62 audits reviewed, the firm's communication of one or more critical audit matters in the audit report included language that was inconsistent with information in the firm's audit documentation. In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.
- The firm did not file its report on Form 2 by the relevant deadline. In this instance, the firm was non-compliant with PCAOB Rule 2201, *Time for Filing of Annual Report*.
- In one of 62 audits reviewed, the firm's report on Form AP included inaccurate information related to the participation in the audit by an other accounting firm. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

PART I.C: INDEPENDENCE

PCAOB Rule 3520, *Auditor Independence*, requires a firm and its personnel to be independent of the firm's audit clients. This requirement encompasses not only an obligation to satisfy the independence criteria set out in PCAOB rules and standards but also an obligation to satisfy all other independence criteria applicable to an engagement, including the independence criteria set out by the SEC in Regulation S-X, 17 C.F.R. § 210.2-01, *Qualifications of Accountants* ("Rule 2-01").

This section of our report discusses identified instances of apparent non-compliance with PCAOB Rule 3520. An instance of apparent non-compliance with PCAOB Rule 3520 does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. Although this section includes instances of apparent non-compliance with PCAOB Rule 3520 that we identified and the firm brought to our attention, there may be other instances of non-compliance with rules related to independence that were not identified through our procedures or the firm's monitoring activities.

PCAOB-Identified

We identified the following instances of apparent non-compliance with PCAOB Rule 3520:

- Under Rule 2-01(c)(7), an accountant is not independent if it is engaged to render audit or non-audit services to an issuer or its subsidiaries without that engagement having been pre-approved by the audit committee. In 62 audits reviewed, we identified two instances across two issuers in which the firm could provide no persuasive evidence of the necessary audit committee pre-approval.
- Under PCAOB ET Section 191, independence is considered to be impaired if, when the audit report on the current year is issued, fees remain unpaid for any professional services provided more than one year prior to the date of the audit report. In 63 audits reviewed, we identified six instances across six issuers in which this circumstance appears to have occurred.

Firm-Identified

During the inspection, the firm brought to our attention that it had identified, through its independence monitoring activities, for a 12-month period, 107 instances across 56 issuers,[2] representing approximately 4% of the firm's total reported issuer audits, in which the firm or its personnel appeared to have impaired the firm's independence because it may not have complied with Rule 2-01(b) and/or Rule 2-01(c) or PCAOB Rule 3500T related to maintaining independence. Approximately 36% of these instances of apparent non-compliance involved non-U.S. associated firms.

While we have not evaluated the underlying reasons for the instances of apparent non-compliance with PCAOB Rule 3520, the number, large or small, of firm-identified instances of apparent non-compliance may be reflective of the size of the firm, including the number of non-U.S. associated firms in the global network; the design and effectiveness of the firm's independence monitoring activities; and the size

[2] The firm-identified instances of apparent non-compliance do not necessarily relate to the issuer audits that we selected for review.

and/or complexity of the issuers it audits, including the number of affiliates of the issuer. Therefore, we caution against making any comparison of these firm-identified instances of apparent non-compliance across firms.

The most common instances of apparent non-compliance related to financial relationships, business relationships, and non-audit services:

- The firm reported 76 instances of apparent non-compliance with Rule 2-01(c)(1) regarding financial relationships, 19 of which involved non-U.S. associated firms. Of these 76 instances, 64 related to investments in audit clients, 41 of which involved a member of an engagement team, 12 of which were instances where a partner or manager provided more than 10 hours of non-audit services to the audit client, and 11 of which were instances where a partner in the same office as the engagement partner for an issuer had a financial relationship with that issuer. Of the total 64 instances related to investments in audit clients, 25 instances related to investments in broad-based funds.

- The firm reported 13 instances of apparent non-compliance with Rule 2-01(c)(3) regarding business relationships. Twelve of these instances related to business relationships between non-U.S. associated firms and an issuer audit client that the firm determined to be prohibited.

- The firm reported seven instances of apparent non-compliance with Rule 2-01(c)(4) regarding non-audit services. Four of these instances related to services provided by non-U.S. associated firms. All of these instances related to services that the firm determined to be prohibited, such as performing bookkeeping or legal services.

The firm has reported to us that it has evaluated the instances of apparent non-compliance for issuer audit clients in which the firm was the principal auditor and determined in all instances that its objectivity and impartiality were not impaired. In addition, the firm reported to us that it has communicated the remaining instances of apparent non-compliance to the respective principal auditor for the principal auditor to evaluate its objectivity and impartiality. The firm also reported to us that it communicated, or has plans to communicate, these instances to the issuers’ audit committees as required by PCAOB Rule 3526.

PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

We include deficiencies in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

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

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, we will make public any such deficiency.

APPENDIX A: FIRM’S RESPONSE TO THE DRAFT INSPECTION REPORT

Pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the firm provided a written response to a draft of this report. Pursuant to Section 104(f) of the Act and PCAOB Rule 4007(b), the firm’s response, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

The Board does not make public any of a firm’s comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm’s response is made publicly available.

In addition, pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm’s comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any portion of a firm’s response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

Shape the future
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February 18, 2025

Ms. Christine Gunia, Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006-2803

Re: Response to Part I of the Draft Report on the 2024 Inspection of Ernst & Young LLP

Dear Ms. Gunia:

We appreciate the opportunity to respond to Part I of the Public Company Accounting Oversight Board's (PCAOB) Draft Report (the "Draft Report") on the 2024 Inspection of Ernst & Young LLP (the firm). We hold our responsibility to serve the public interest in the highest regard by performing high-quality audits that promote confidence in the capital markets.

We have seen improvement in our inspection results due to our efforts taken through our multiyear transformation journey. While we recognize we still have work to do, we are confident that the actions we have taken and those we continue to take will drive greater consistency in our audit execution.

We have thoroughly evaluated the matters described in Part I of the Draft Report and for the affected engagements have taken appropriate actions to address the findings in accordance with relevant standards.

Redacted. Confidential Treatment Request Granted by the Board Pursuant to PCAOB Rule 4007(b)

We appreciate that our stakeholders may have a further interest in understanding the actions the firm is taking to improve audit quality. Our audit quality report describes factors that drive audit quality for the firm and how we measure our performance at the individual partner level, the engagement level and firmwide. Our current audit quality report is available at https://www.ey.com/ourcommitmenttoauditquality.

We look forward to continuing to work with the PCAOB and its staff to improve audit quality and serve the public interest.

Respectfully submitted,

Julie A. Boland
US Chair and Managing Partner

Dante D'Egidio
US Vice Chair of Assurance

Redacted. Confidential Treatment Request Granted by the Board Pursuant to PCAOB Rule 4007(b)