
2019 Inspection

Ernst & Young AB

(Headquartered in Stockholm, Kingdom of Sweden)

January 21, 2021



THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

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(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2021-032)

Table of Contents

- 2019 Inspection 2
- Overview of the 2019 Inspection and Historical Data by Inspection Year 3
- Part I: Inspection Observations 5
- Part I.A: Audits with Unsupported Opinions 6
- Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules 7
- Part II: Observations Related To Quality Control 8
- Appendix A: Firm’s Response to the Draft Inspection ReportA-1

2019 Inspection

During the Public Company Accounting Oversight Board (“PCAOB”)’s 2019 inspection of Ernst & Young AB, we assessed the firm’s compliance with laws, rules, and professional standards applicable to the audits of public companies. Our inspection was conducted in cooperation with the Swedish Inspectorate of Auditors.

We selected for review three audits of issuers with fiscal years ending in 2018. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm’s system of quality control.

2019 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make 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. In certain situations we may select all of the firm’s issuer audits for review.

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.

View the details on the [scope of our inspections and our inspections procedures](#).

Overview of the 2019 Inspection and Historical Data by Inspection Year

The following information provides an overview of our inspection in 2019 of the firm’s issuer audits as well as data from the previous inspection. We use a risk-based method 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 inspection to inspection and firm to firm. Further, a firm’s business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

Firm Data and Audits Reviewed

	2019	2016
Firm Data		
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures	5	5
Total issuer audits in which the firm was not the principal auditor	23	25
Total engagement partners on issuer audit work¹	18	16
Audits Reviewed		
Total audits reviewed²	3	3
Audits in which the firm was the principal auditor	2	1
Audits in which the firm was not the principal auditor	1	2
Integrated audits of financial statements and internal control over financial reporting (“ICFR”)	1	3
Audits with Part I.A deficiencies	1	0

¹ The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201) or for the firm’s role in an issuer audit during the twelve-month period preceding the outset of the inspection.

² The population from which audits are selected for review includes both audits for which the firm was the principal auditor and those where the firm was not the principal auditor but played a role in the audit. The population of issuer audits from which audits are selected for review may differ from the issuer audits at the outset of the inspection procedures due to variations such as new issuer audit clients for which the firm has not yet issued an opinion or issuer audit clients lost prior to the outset of the inspection.

If a deficiency is included in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the issue 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.

The fact that we have included a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — 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.

Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2019 inspection and the previous inspection. 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.

2019		2016	
Audit area	Audits reviewed	Audit area	Audits reviewed
Revenue and related accounts	3	Revenue and related accounts	3
Inventory	1	Inventory	1
Cash and cash equivalents	1	Cash and cash equivalents	1
Accruals and other liabilities	1		
Goodwill and intangible assets	1		

Part I: Inspection Observations

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, (1) at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR or (2) in audit(s) in which it was not the principal auditor, had not obtained sufficient appropriate audit evidence to fulfill the objectives of its role in the audit. Part I.B discusses deficiencies, if any, that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) or fulfill the objectives of its role in the audit(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. Consistent with the Sarbanes-Oxley Act ("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. Any such criticisms or potential defects are discussed in Part II. Further, you should not infer from any Part I deficiency or combination of deficiencies that a quality control finding is identified in Part II. 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.

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 sole 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 modified 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. Any deficiencies identified in connection with our reviews of these audits would be included 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.

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 (1) supporting the firm's opinion on the issuer's financial statements and/or ICFR and (2) in audit(s) in which it was not the principal auditor, to fulfill the objectives of its role in the audit.

We identify each issuer by a letter (e.g., Issuer A) and industry sector. 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.

Issuer audits are presented 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

None

Audits with Multiple Deficiencies

Issuer A – Consumer Discretionary

Type of audit and related areas affected

In our review of an audit in which the firm played a role but was not the principal auditor, we identified deficiencies in connection with the firm's role in the ICFR audit related to **Revenue** and **Inventory**.

Description of the deficiencies identified

With respect to **Revenue**:

The firm selected for testing controls over revenue, including certain automated controls related to the initiation, processing, and recording of revenue. The automated controls included (1) a three-way match between the customer purchase order, bill of lading, and invoice and (2) the generation of nightly exception reports. Certain of these automated controls included a manual element that consisted of the confirmation of shipment by warehouse staff. The firm's approach to testing these controls was to test a single transaction. The following deficiencies were identified:

- The firm did not evaluate whether each automated control was configurable and, if so, whether each control was configured appropriately within the system, and as a result, the firm's testing of these automated controls using a sample of only one instance was not sufficient. (AS 2201.42 and .44)
- The firm did not test all relevant scenarios of the automated controls to ensure the system processed transactions as designed for all scenarios. (AS 2201.42 and .44)
- The firm did not perform any procedures to test the manual element of the controls. (AS 2201.42 and .44)

- The firm did not identify and test any controls over the review of the system-generated exception reports resulting from the three-way match control. (AS 2201.39)

With respect to **Inventory**:

The firm selected for testing controls over inventory, including two automated controls related to (1) the recording of inventory at standard cost when warehouse staff marked inventory as received in the system and (2) the application of standard labor and overhead to materials inventory. The firm's approach to testing these controls was to test a single transaction.

The firm did not evaluate whether each automated control was configurable and, if so, whether each control was configured appropriately within the system, and as a result, the firm's testing of these automated controls using a sample of only one instance was not sufficient. Further, the firm did not perform any procedures to test the manual aspect of an automated control over inventory related to the manual confirmation of inventory received. (AS 2201.42 and .44)

Audits with a Single Deficiency

None

Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules

In the 2019 inspection, we did not identify any deficiencies related to other instances of non-compliance with PCAOB standards or rules.

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.

Deficiencies are included 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.

Any changes or improvements to its system of quality control that the firm may have brought to the Board's attention may not be reflected in this report, but are taken into account during the Board's assessment of whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

Criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified, are nonpublic when the reports are issued. 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, any such deficiency will be made public.

* * * *

Policies for Financial Holdings Disclosures

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm and its personnel will comply with the firm's policies and procedures with respect to independence-related regulatory requirements. (QC 20.04, .09, and .10)

The firm conducts periodic audits of a sample of its personnel to monitor compliance with certain of its independence policies. In the audits conducted, the firm identified that * * * * 44 percent of the executive directors, senior managers, and managers who were audited in 2018 and * * * * 53 percent of the executive directors, senior managers, and managers who were audited in 2019 had not reported, as of the dates of their confirmations of compliance with firm policy, financial relationships that were required to be reported in accordance with the firm's policies. These high rates of non-compliance with the firm's policies, which are designed to provide compliance with applicable independence regulatory requirements, provides cause for concern, especially considering that these individuals are required to certify on an annual or quarterly basis that they have complied with the firm's independence policies and procedures.

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.



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December 10 2020

Mr. George Botic
Director, Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Response to the Draft Inspection Report on the 2019 Inspection of Ernst & Young AB

Dear Mr. Botic,

We are pleased to provide our response to the draft inspection report (the Report) from the Public Company Accounting Oversight Board (the Board or PCAOB) pertaining to the 2019 inspection of Ernst & Young AB.

Our overriding objective is to make certain that all aspects of our auditing and quality control processes are of the highest quality for the continued benefit of the capital markets in which the public participates and on which they rely. The PCAOB's inspection process assists us in achieving that objective.

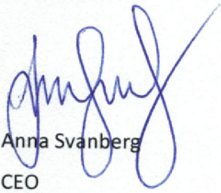
We respect the PCAOB's inspection process and understand that judgments are involved in performing audits, as well as in subsequent inspections of those audits. We have thoroughly evaluated all matters described in Part I, *Inspection Procedures and Certain Observations of the Report*, and have taken actions, where appropriate, in accordance with PCAOB standards and our policies. These actions did not change our audit conclusion, nor did the actions affect our report to the principal auditor with respect to our role in the audit. We have reviewed the remainder of the Report and have no further comments.

We will continue to work with the Director of the Division of Registration and Inspections and his staff over the twelve-month period following the issuance of the final inspection report. We are committed to working with the PCAOB to continue to strengthen our audit quality control system.

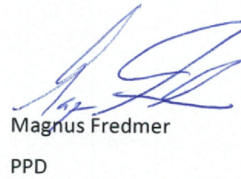


We appreciate the opportunity to provide our response to the Report and look forward to continuing to work with the PCAOB on matters of interest to our U.S. SEC issuer auditing practice.

Respectfully submitted,



Anna Svanberg
CEO

A blue ink signature of Anna Svanberg, consisting of a stylized, cursive script.

Magnus Fredmer
PPD

A blue ink signature of Magnus Fredmer, consisting of a stylized, cursive script.

