
2020 Inspection Ernst & Young LLP

(Headquartered in New York, New York)

September 30, 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

PCAOB RELEASE NO. 104-2021-151A

(Includes portions of Part II and Appendix A of the full report that were not included in PCAOB Release No. 104-2021-151)



EXECUTIVE SUMMARY

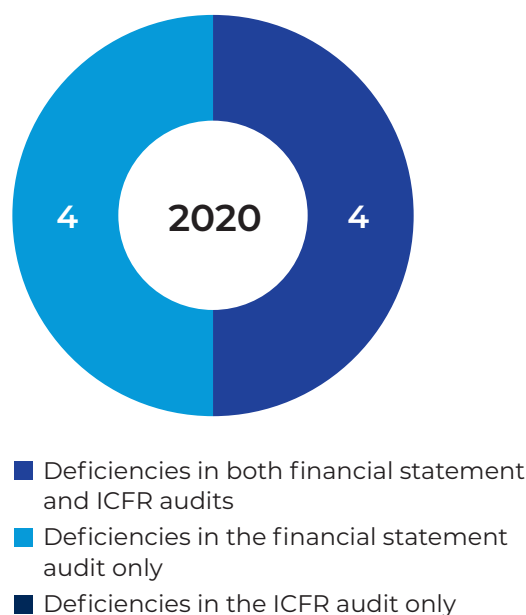
Our 2020 inspection report on Ernst & Young LLP provides information on our inspection to assess the firm’s compliance with Public Company Accounting Oversight Board (PCAOB) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of:

- Part I.A of the report, which 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 on the issuer’s financial statements and/or internal control over financial reporting (ICFR); and
- Part I.B of the report, which discusses deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

If we include a 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 deficiency in Part I.A or Part I.B of this report, it does not necessarily mean that the firm has not addressed the deficiency.

Overview of the 2020 Deficiencies Included in Part I

Eight of the 52 audits we reviewed in 2020 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 and inventory.



The most common Part I.A deficiencies in 2020 related to testing data or reports used in substantive testing and testing the design or operating effectiveness of controls selected for testing and in some cases the resulting overreliance on controls when performing substantive testing.

Other deficiencies identified during the 2020 inspection that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s), which appear in Part I.B, related to audit committee communications and Form AP.

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2020 INSPECTION

In the 2020 inspection of Ernst & Young LLP, the PCAOB assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review 46 audits of issuers with fiscal years generally ending in 2019. In addition, to gain an understanding of how COVID-19 affected the firm's performance of audits, we selected for review six audits of issuers with fiscal years ending between March 28 and June 30, 2020. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

We also selected for review five reviews of interim financial information ("interim reviews"). Our reviews were performed to gain a timely understanding of COVID-19's effect on firms and their procedures and to determine if we needed to issue guidance or other information to assist firms in completing audits and interim reviews during the pandemic. Although the identification of deficiencies was not the primary objective of these reviews, we did not identify any instances of non-compliance with PCAOB standards related to the interim reviews that we reviewed.

What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2020 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:** Deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.
- **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 Sarbanes-Oxley Act ("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.

2020 Inspection Approach

In selecting issuer audits for review, we use both risk-based and random methods of selection. We make most 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 2020, to gain an understanding of how COVID-19 affected how the firm performed its procedures, our target team focused on audits of issuers with fiscal years primarily ending between March 31 and June 30, 2020 and interim reviews of issuers for quarterly periods ending on or before June 30, 2020.¹

For the interim reviews, similar to our approach for reviewing audits, we did not review every aspect of the interim review. Rather, our review procedures focused on a portion of the firm's procedures.

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

¹ Refer to [Staff Observations and Reminders during the COVID-19 Pandemic](#) for observations from the target team reviews.

OVERVIEW OF THE 2020 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2020 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.

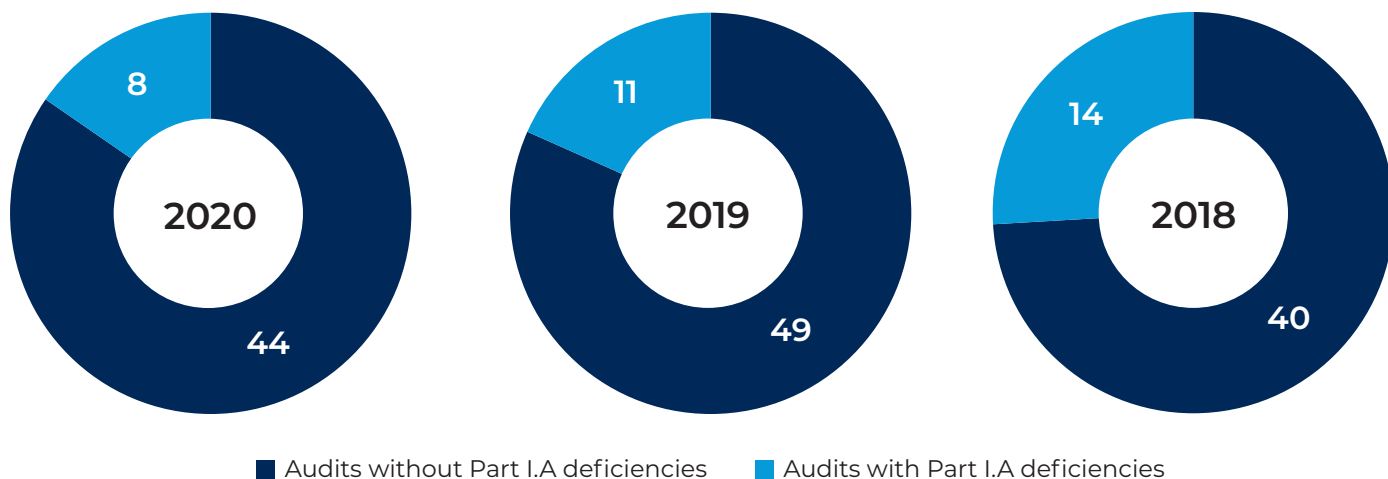
Audits Selected for Review

	2020	2019	2018
Total audits reviewed			
Total audits reviewed	52	60	54
Selection method			
Risk-based selections	37	41	44
Random selections	13	14	10
Target team selections ²	2	5	0
Total audits reviewed	52	60	54
Principal auditor			
Audits in which the firm was the principal auditor	51	58	54
Audits in which the firm was not the principal auditor	1	2	0
Total audits reviewed	52	60	54
Audit type			
Integrated audits of financial statements and ICFR	47	54	53
Financial statement audits only	5	6	1
Total audits reviewed	52	60	54

² For further information on the target team's activities in 2019, refer to that inspection report.

Part I.A Deficiencies in Audits Reviewed

In 2020, seven of the eight audits appearing in Part I.A were selected for review using risk-based criteria. In 2019, ten of the 11 audits appearing in Part I.A were selected for review using risk-based criteria. In 2018, all 14 audits appearing in Part I.A were selected for review using risk-based criteria.

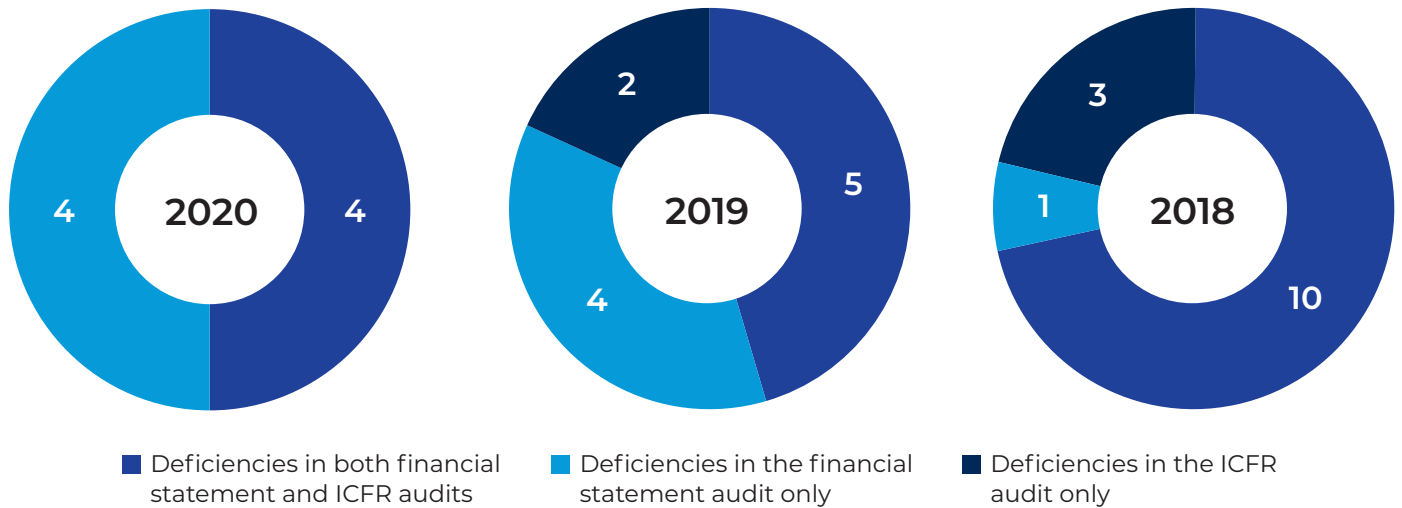


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the issue was identified. Depending on the circumstances, remedial actions may include performing additional 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 normally includes 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 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 2019 inspection procedures for two audits, the issuers revised their reports on ICFR, and the firm revised its opinions on the effectiveness of the issuer's ICFR to express adverse opinions and reissued its reports. In connection with our 2018 inspection procedures for one audit, the issuer revised its report on ICFR, and the firm revised its report on ICFR to include an additional material weakness.

The following tables and graphs summarize inspection-related information, by inspection year, for 2020 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		
	2020	2019	2018
Did not perform sufficient testing of data or reports used in the firm's substantive testing	4	5	3
Did not obtain sufficient evidence as a result of overreliance on controls (due to deficiencies in testing controls)	3	1	6
Did not sufficiently evaluate significant assumptions or data that the issuer used in developing an estimate	2	3	6

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2020	2019	2018
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	3	6	10
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	1	3	5
Did not test the accuracy and/or completeness of information that the firm used to make selections for testing the operating effectiveness of a control	1	2	0

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.

2020			2019			2018		
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	40	5	Revenue and related accounts	39	7	Revenue and related accounts	44	4
Inventory	19	2	Business combinations	18	2	Inventory	28	5
Long-lived assets	16	0	Investment securities	13	1	Business combinations	19	6
Business combinations	12	0	Inventory	12	0	Goodwill and intangible assets	12	1
Goodwill and intangible assets	10	1	Goodwill and intangible assets	9	0	Long-lived assets	12	1

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	2020		2019		2018	
	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	5	40	7	39	4	44
Inventory	2	19	0	12	5	28
Business combinations	0	12	2	18	6	19
Long-lived assets	0	16	2	7	1	12

Revenue and related accounts: The deficiencies in 2020, 2019, and 2018 primarily related to substantive testing of, and testing controls over, revenue, including controls over information technology systems associated with revenue.

Inventory: The deficiencies in 2020 related to substantive testing of, and testing controls over, inventory, including controls over information technology systems associated with inventory. The deficiencies in 2018 primarily related to testing controls over the existence of inventory, including cycle-count controls.

Business combinations: The deficiencies in 2019 and 2018 primarily related to evaluating the reasonableness of assumptions used by the issuer to determine the fair values of assets acquired and liabilities assumed and testing controls over the issuer’s review of assumptions used to value assets acquired and liabilities assumed.

Long-lived assets: The deficiencies in 2019 primarily related to substantive testing of property, plant, and equipment and testing controls over various types of long-lived assets, including controls over information technology systems associated with long-lived assets. The deficiencies in 2018 related to performing substantive procedures to test, and testing controls over, the existence of long-lived assets.

Auditing Standards Associated with Identified Part I.A Deficiencies

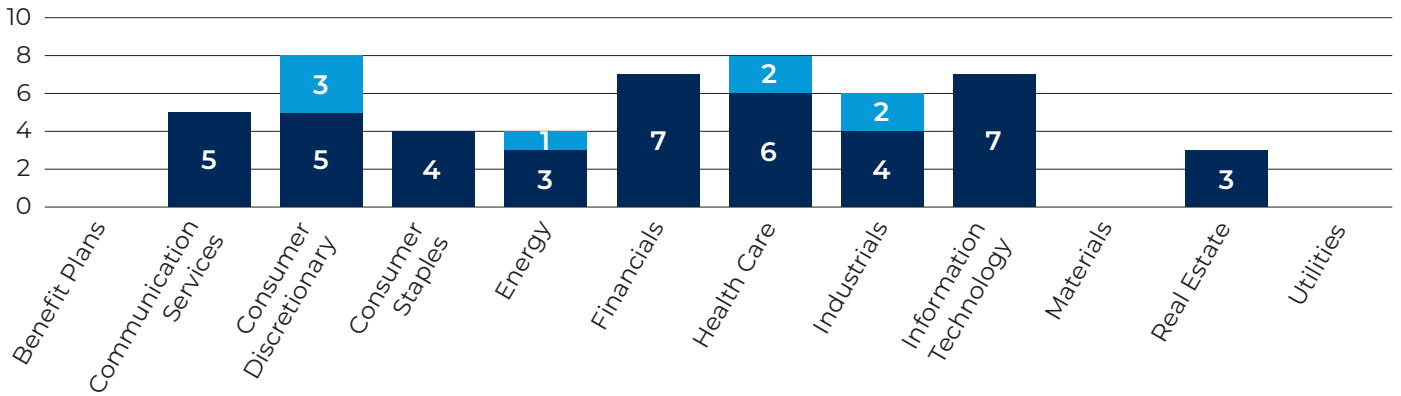
The following lists the auditing standards referenced in Part I.A of the 2020 and the previous two inspection reports and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2020	2019	2018
<i>AS 1105, Audit Evidence</i>	5	7	4
<i>AS 2201, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i>	6	20	37
<i>AS 2301, The Auditor’s Responses to the Risks of Material Misstatement</i>	4	3	9
<i>AS 2310, The Confirmation Process</i>	1	1	0
<i>AS 2315, Audit Sampling</i>	3	1	5
<i>AS 2501, Auditing Accounting Estimates</i>	0	2	2
<i>AS 2502, Auditing Fair Value Measurements and Disclosures</i>	2	4	5
<i>AS 2510, Auditing Inventories</i>	0	0	1
<i>AS 2605, Consideration of the Internal Audit Function</i>	0	1	0
<i>AS 2810, Evaluating Audit Results</i>	0	0	1

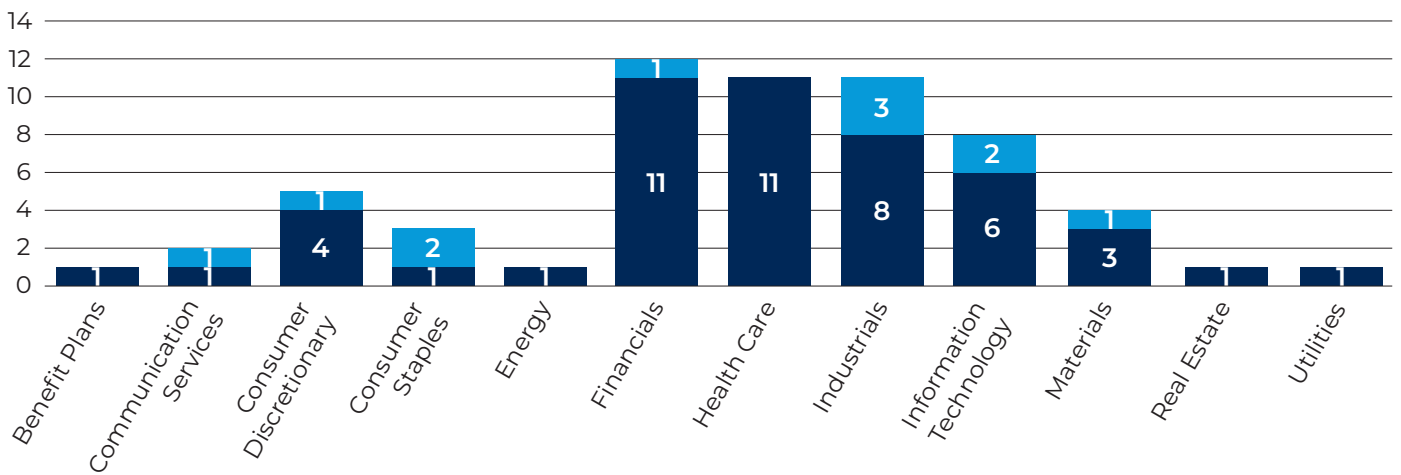
Inspection Results by Issuer Industry Sector

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.

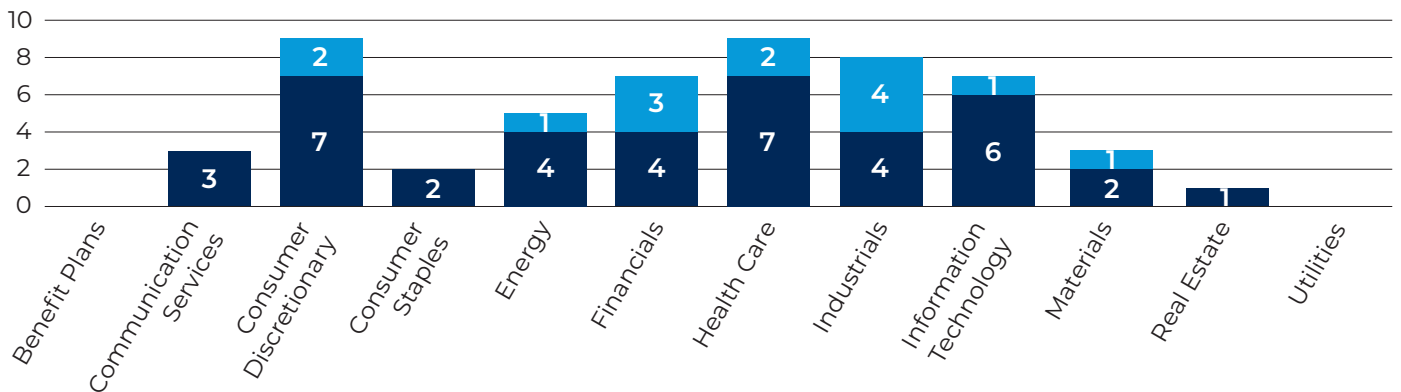
2020



2019



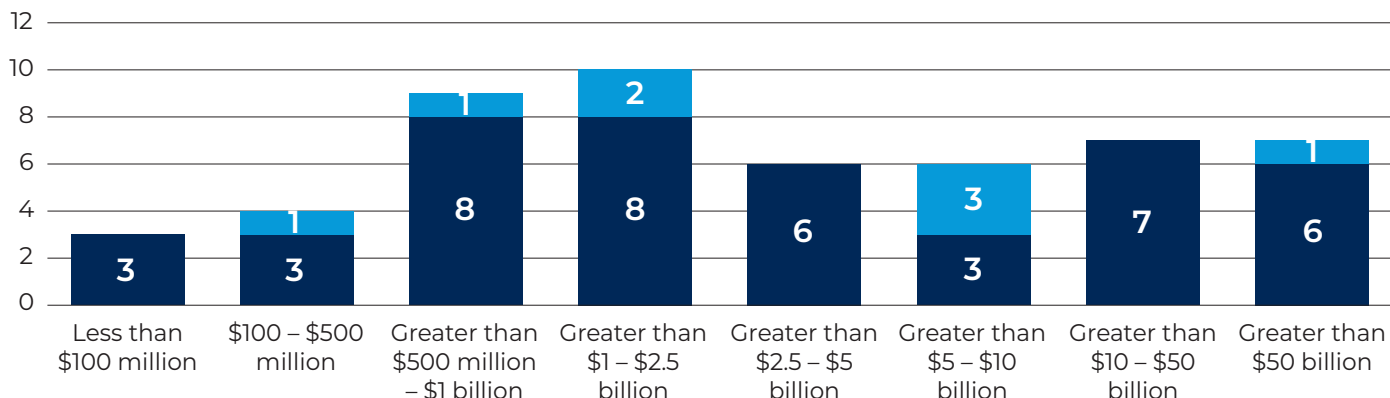
2018



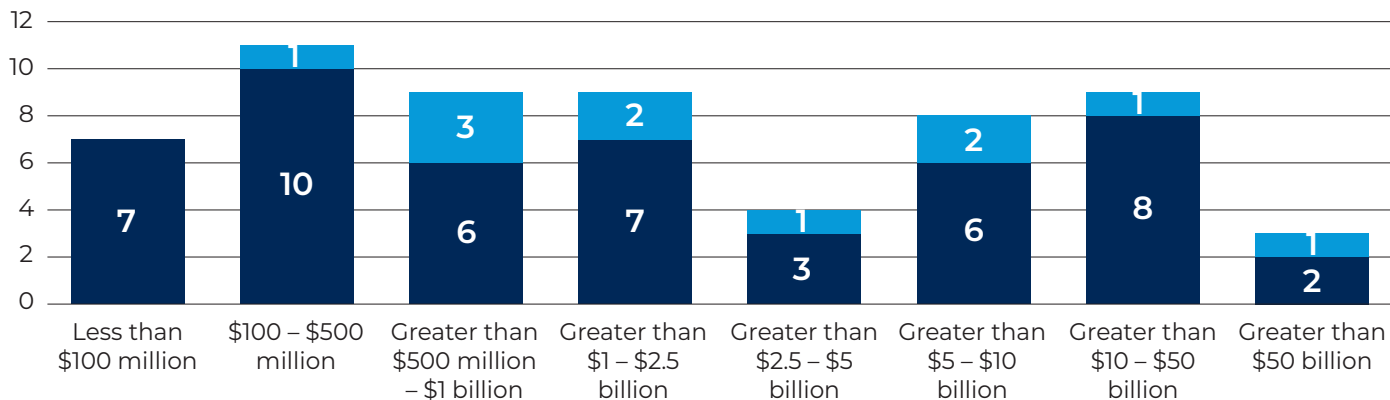
■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

Inspection Results by Issuer Revenue Range

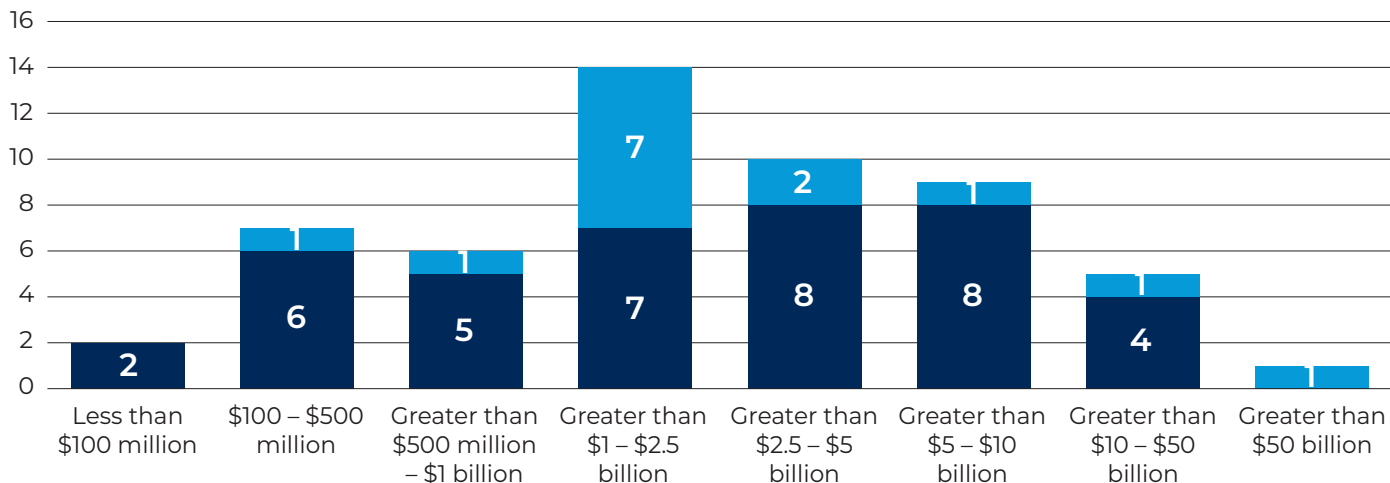
2020



2019



2018



■ Audits without Part I.A deficiencies
 ■ Audits with Part I.A deficiencies

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 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.

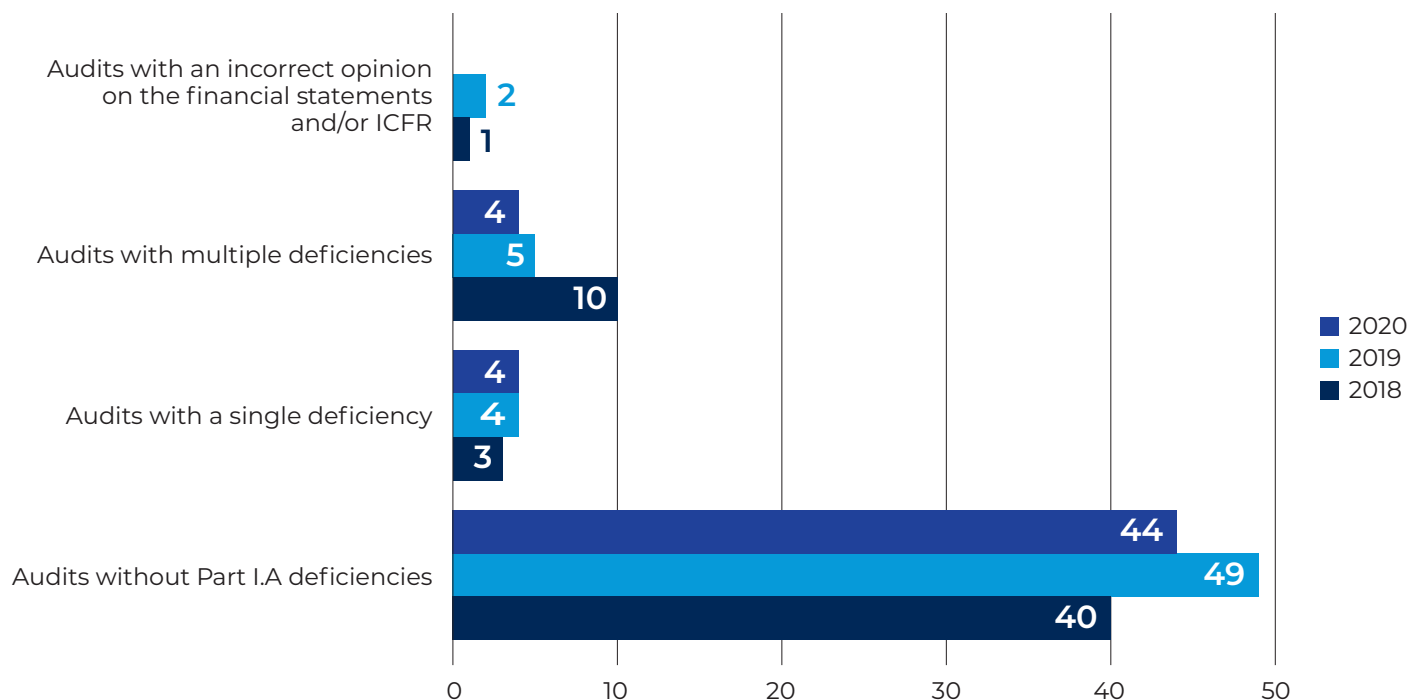
Audits with Multiple Deficiencies

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 on the issuer's financial statements and/or ICFR.

Part I.B discusses deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

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 on the issuer's financial statements and/or ICFR.

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.

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

None

Audits with Multiple Deficiencies

Issuer A – Consumer Discretionary

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Leases**:

In the current year, the issuer identified events indicating that its operating lease right-of-use assets may not be recoverable and performed an impairment analysis. The issuer determined that, for certain of these assets (the "valued assets"), the fair value of the individual assets would not be impaired by more than a pre-determined percentage of the asset's recorded value (a "maximum impairment percentage"). The following deficiencies were identified:

- The firm selected for testing a control that consisted of the issuer's review of its assessment of these assets for possible impairment. The firm did not evaluate the specific review procedures that the control owner performed to assess the reasonableness of the maximum impairment percentage. (AS 2201.42 and .44)
- The firm's substantive procedures to evaluate the reasonableness of the maximum impairment percentage consisted of reading the issuer's external valuation report for certain other operating lease right-of-use assets and an external industry report. The firm did not perform procedures to evaluate whether the information in these reports was (1) relevant to the valued assets and (2) precise enough to enable the firm to identify potential material misstatements. Further, the firm did not perform any procedures to evaluate whether the issuer's use of the same maximum impairment percentage for all of the valued assets was appropriate. (AS 2502.26, .28, and .31)

With respect to **Inventory**:

The issuer used information-technology (IT) systems to initiate, process, and record transactions related to certain inventory. The firm selected for testing certain automated controls but did not test the configuration or programming of these automated controls, or perform other procedures that would have provided sufficient appropriate audit evidence that these automated controls were designed and operating effectively. (AS 2201.42 and .44)

The sample size the firm used in certain of its substantive procedures to test this inventory was 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 deficiency in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

In addition, in the substantive testing discussed above, the firm identified differences in the unit costs of inventory between the issuer's inventory systems but did not perform procedures to evaluate the differences. (AS 2301.08)

Issuer B – Industrials

Type of audit and related areas affected

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

Description of the deficiencies identified

The issuer used an IT system to initiate, process, and record transactions related to certain revenue, accounts receivable, and inventory. The firm selected for testing various automated controls related to this revenue, accounts receivable, and inventory. The following deficiencies were identified:

- The firm's testing of certain automated controls using a sample of only one instance of the control's operation was not sufficient because the firm did not test the configuration or programming of these controls, or perform other procedures that would have provided sufficient appropriate audit evidence that these controls were designed and operating effectively. (AS 2201.42 and .44)
- The firm's testing of certain other automated controls using a sample of only one instance of the control's operation was not sufficient because the firm did not test whether changes to configurations within these controls were subject to the issuer's change management controls. (AS 2201.44)

- The sample sizes the firm used in certain of its substantive procedures to test this revenue, accounts receivable, and inventory 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 deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

With respect to **Revenue**:

The firm's approach for substantively testing certain revenue consisted primarily of performing a software-assisted analysis to test the relationships among revenue, accounts receivable, and cash receipts. The firm's approach to addressing the reliability of the audit evidence obtained from this type of analysis was dependent upon the firm's testing of certain data underlying the analysis. The firm did not sufficiently test this underlying data because, for certain cash selections, the firm did not inspect external evidence, or perform other procedures, to evaluate whether the cash receipts related to this revenue. (AS 1105.10)

Issuer C – Health Care

Type of audit and related area affected

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

Description of the deficiencies identified

The firm selected for testing a control that consisted of the review of forecasts used in the issuer's analyses of goodwill for possible impairment. For one of the issuer's reporting units, the firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of the forecasted revenue growth rates and gross margin percentages the issuer used in these forecasts. (AS 2201.42 and .44)

The forecasts the issuer used in its analyses to assess goodwill for possible impairment for this one reporting unit assumed significant revenue growth for certain years and improved gross margin percentages. The firm concluded that the forecasted revenue growth rates were reasonable without performing any substantive procedures to evaluate the issuer's ability to carry out certain of its planned strategies to achieve the forecasts, beyond inquiring of management. The firm's procedures to test the forecasted gross margin percentages were not sufficient because they were limited to inquiring of management about the issuer's planned strategies and comparing the forecasted gross margin percentages to the actual gross margin percentages of another reporting unit. (AS 2502.26, .28, .31, and .36)

Issuer D – Energy

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 various IT systems to initiate, process, and record transactions related to certain revenue and accounts receivable. The following deficiencies were identified:

- The firm selected for testing a control over change management for these IT systems, but did not perform sufficient procedures to test the completeness of the population of changes from which it made its selections for testing because it limited its procedures to testing the completeness of only one type of change. (AS 1105.10)

- The firm tested certain automated and IT-dependent manual controls that used data from these IT systems. As a result of the deficiency in the firm’s testing of IT general controls discussed above, the firm’s testing of these automated and IT-dependent manual controls was not sufficient. (AS 2201.46)
- The sample sizes the firm used in certain of its substantive procedures to test this 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 deficiencies in the firm’s control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Audits with a Single Deficiency

Issuer E – Consumer Discretionary

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’s approach for substantively testing certain revenue consisted primarily of performing a software-assisted analysis to test the relationships among revenue, accounts receivable, and cash receipts. The firm’s approach to addressing the reliability of the audit evidence obtained from this type of analysis was dependent upon the firm’s testing of certain controls over the data underlying the analysis and the firm’s tests of details of the underlying data. The firm did not perform sufficient procedures to test, and test controls over, this underlying data. Specifically, for one control, the firm did not test (1) an aspect of the control that addressed whether the cash receipts were related to this revenue and (2) whether the control addressed all cash receipts used in this analysis. Further, when performing its tests of details, the firm did not select its sample from the data that was used in this analysis. (AS 1105.10)

Issuer F – Consumer Discretionary

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’s approach for substantively testing certain revenue consisted primarily of performing a software-assisted analysis to test the relationships among revenue, accounts receivable, and cash receipts. The firm’s approach to addressing the reliability of the audit evidence obtained from this type of analysis was dependent upon the firm’s testing of certain data underlying the analysis. The firm did not sufficiently test this underlying data because it did not select its sample from the data that was used in this analysis. (AS 1105.10)

Issuer G – 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

The firm’s approach for substantively testing certain revenue consisted primarily of performing a software-assisted analysis to test the relationships among revenue, accounts receivable, and cash receipts. The firm’s approach to addressing the reliability of the audit evidence obtained from this type of

analysis was dependent upon the firm's testing of certain data underlying the analysis. The firm did not sufficiently test this underlying data because it tested a sample that was smaller than the one the firm determined necessary for these procedures. (AS 1105.10)

Issuer H – Health Care

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Research and Development Expenses**.

Description of the deficiency identified

In performing its substantive testing of research and development expenses, the firm planned to send positive confirmation requests to an external party that performed certain services for the issuer. The firm did not maintain control over the confirmation requests because the issuer sent the requests. Further, the responses were returned by email, but the firm did not consider performing procedures to verify the source of these responses. (AS 2310.28 and .29)

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

This section of our report discusses any deficiencies we identified that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

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 one of 10 audits reviewed, the firm did not make a required communication to the issuer's audit committee related to the basis for its conclusion that substantial doubt about the issuer's ability to continue as a going concern was alleviated, including elements it identified within management's plans that were significant to overcoming the adverse effects of the conditions and events. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 14 audits reviewed, the firm's report on Form AP omitted 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 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.

* * * *

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 during the twelve-month period ended March 31, 2020, the firm identified that 26% of the managers who were audited had not reported financial relationships that were required to be reported in accordance with the firm's policies. This high rate 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 a 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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Mr. George Botic
Director
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Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006-2803

September 21, 2021

Re: Response to Part I of the Draft Report on the 2020 Inspection of Ernst & Young LLP

Dear Mr. Botic:

Ernst & Young LLP (the Firm) is pleased to provide its response to Part I of the Public Company Accounting Oversight Board's (PCAOB) Draft Report on the 2020 Inspection of Ernst & Young LLP (the Report).

We respect and value the PCAOB's inspection process, which helps us identify areas where we can continue to improve and strengthen audit quality to the benefit of investors, other stakeholders and the capital markets in general. Our ongoing dialogue with the PCAOB inspection team, through both the inspection and reporting processes, continues to help us identify areas where we can enhance our auditing and quality control processes.

We have thoroughly evaluated the matters described in Part I of the Report and have taken appropriate actions to address the findings in accordance with AS 2901, *Consideration of Omitted Procedures After the Report Date*, and AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*.

Our top priority continues to be serving the public interest by executing high-quality audits with integrity, independence and professional skepticism. To this end, our commitment to continuous improvement in audit quality never wavers. We also understand the importance of providing transparency about how we conduct our audits and the efforts and investments the Firm brings to this important work. We provide such transparency through our audit quality report, which 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 can be found using the following link (<https://www.ey.com/ourcommitmenttoauditquality>).

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 public company auditing practice.

Respectfully submitted,

Kelly J. Grier
US Chair and Managing Partner

John L. King
US Vice Chair of Assurance

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September 21, 2021

Re: Response to Part II of the Draft Report on the 2020 Inspection of Ernst & Young LLP

Dear Mr. Botic:

Ernst & Young LLP is pleased to provide its response to Part II of the Public Company Accounting Oversight Board (PCAOB) Draft Report on the 2020 Inspection of Ernst & Young LLP (the Report).¹

We continuously review our quality control processes and enhance them because our system of quality control is the foundation for performing high-quality audits. We are committed to working with you and your staff over the 12-month period following the issuance of the final Report to address the matters described in Part II of the Report. We value the PCAOB inspection process, and we take comments received from the PCAOB and inspection staff seriously. We also make it a priority to interact constructively with the inspection staff on remediation plans and follow-up actions and, as a result of this dialogue, we have implemented changes to advance audit quality.

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 public company auditing practice.

Respectfully submitted,

Kelly J. Grier
US Chair and Managing Partner

John L. King
US Vice Chair of Assurance

¹ Section 104(g)(2) of the Sarbanes-Oxley Act requires that “no portions of the inspection report that deal with criticisms of or potential defects in the quality control systems of the firm under inspection shall be made public if those criticisms or defects are addressed by the firm, to the satisfaction of the Board, not later than 12 months after the date of the inspection report.” Accordingly, we understand that our comments on Part II of the Draft Report remain nonpublic as long as Part II of the Report itself is nonpublic.

