2022 Inspection Ernst & Young LLP

(Headquartered in Toronto, Canada)

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PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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2022 INSPECTION

In the 2022 inspection of Ernst & Young LLP, the Public Company Accounting Oversight Board (PCAOB) 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 Canadian Public Accountability Board.

We selected for review four audits of issuers with fiscal years ending in 2021. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2022 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 necessarily 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 or 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 2022 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2022 inspection 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 Selected for Review

	2022	2020
Firm data		
Total issuer audit clients in which the firm was the principal auditor	30	30
Total issuer audits in which the firm was not the principal auditor	27	30
Total engagement partners on issuer audit work[1]	44	40
Audits reviewed		
Total audits reviewed[2]	4	4
Audits in which the firm was the principal auditor	3	3
Audits in which the firm was not the principal auditor	1	1
Integrated audits of financial statements and internal control over financial reporting (ICFR)	3	4
Audits with Part I.A deficiencies	2	2
Percentage of audits with Part I.A deficiencies	50%	50%

[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, *Supervision of the Audit Engagement*) 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.

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 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 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.

Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2022 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.

2022		2020	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Revenue and related accounts	3	**Revenue and related accounts**	4
Use of other auditors	2	**Long-lived assets**	3
Goodwill and intangible assets	1	**Goodwill and intangible assets**	1
Cash and cash equivalents	1	**Cash and cash equivalents**	1
Accruals and other liabilities	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(s) 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 certain deficiencies, if any, 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) or fulfill the objectives of its role in the audit(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Part I.C discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules, if any, 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. 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 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 audits 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 audits 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 audits 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 audits 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 audits 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(s) 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). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard 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

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 used an information technology (IT) system to process certain transactions related to revenue. In its testing of controls over revenue, 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 following deficiencies in the firm's testing of IT general controls (ITGCs), the firm's testing of these automated and IT-dependent controls was not sufficient. (AS 2201.46)

With respect to user access:

- The firm selected for testing a control that consisted of the annual review of user access. The firm did not identify and test any controls over the completeness of the user access listing used in the operation of the control. (AS 2201.39) In addition, the firm did not test an aspect of the control related to the role and functions assigned to users. (AS 2201.42 and .44)

- The firm selected for testing another control that consisted of the review of new and modified user access tickets. The firm did not perform sufficient procedures to test the completeness of the user access list from which it made its selections to test this control because it did not (1) evaluate whether the user access list was a customizable report and (2) test any customization used to generate the user access list. (AS 1105.10)

With respect to **Revenue**, which was affected by the audit deficiencies discussed above related to user access, the following additional deficiencies were identified for certain revenue:

- The firm selected for testing a control that consisted of the issuer's review of new and modified contracts for appropriate revenue recognition. The firm did not evaluate the specific review procedures that the control owners performed to assess the appropriateness of (1) the performance obligations identified and (2) the standalone selling price used to allocate revenue to separate performance obligations. (AS 2201.42 and .44)

- The firm did not perform any substantive procedures to (1) evaluate the reasonableness of the performance obligations identified and (2) test the standalone selling price used to allocate revenue to separate performance obligations. (AS 2301.08)

Issuer B – Industrials

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 financial statement and ICFR audits related to **Revenue**, **Accounts Receivable**, and **Other Liabilities**.

Description of the deficiencies identified

With respect to **Revenue**, for which the firm identified a fraud risk, and **Accounts Receivable**:

A component of the issuer ("component") entered into contracts with customers in which revenue was recognized over time based on the extent of progress towards completion of the performance obligation. The following deficiencies were identified:

- The firm selected for testing two controls that consisted of the component's review of contracts, including the review of new and modified contracts for appropriate revenue recognition. For one control, the firm did not identify and test any controls over the completeness of the new and modified contract data used in the operation of the control. (AS 2201.39) In addition, the firm did not (1) evaluate the specific review procedures that the control owner performed to assess the appropriateness of revenue recognition and (2) test an aspect of the control over the accuracy of the report used in the operation of the control. (AS 2201.42 and .44) For the other control, the firm did not test, or test any controls over, the completeness of the contract listing from which it made its selections to test the control. (AS 1105.10)

- The firm selected for testing a control that consisted of the component's review of invoices. The firm did not identify and test any controls over the accuracy and completeness of certain data used in the operation of the control. (AS 2201.39)

- The firm selected for testing a control that consisted of the component's review of manual journal entries. The firm did not sufficiently test the operating effectiveness of this control because it made its selections to test the control from an incomplete population of journal entries. (AS 2201.44) In addition, the firm did not identify and test any controls over the component's recording of the manual journal entries in the general ledger. (AS 2201.39)

- The firm selected for testing a control that consisted of the component's review of financial information. The firm did not evaluate the review procedures that the control owners performed to identify items for follow up. Further, the firm did not sufficiently evaluate whether items identified for follow up were appropriately resolved because it limited its testing to one item. (AS 2201.42 and .44)

- The firm selected for testing a control that consisted of the component's review of gross receivables. The firm did not sufficiently test the operating effectiveness of the control because it did not test an aspect of the control related to certain receivables. (AS 2201.44) In addition, the firm did not identify and test any controls over the accuracy and completeness of certain data used in the operation of the control. (AS 2201.39)

- The firm did not perform any substantive procedures to evaluate the appropriateness of certain revenue recognized for new and modified customer contracts. (AS 2301.08)

- 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 did not perform any substantive procedures to test the underlying revenue transactions for revenue with no relationship to accounts receivable. (AS 2301.08)

- The firm did not perform any substantive procedures to test certain revenue. (AS 2301.08 and .13)

- The firm used certain data to substantively test accounts receivable but did not test, or (as discussed above) test controls over, the accuracy and completeness of this data. (AS 1105.10)

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

With respect to **Other Liabilities**:

The firm did not identify and test any controls over certain other liabilities for the component. (AS 2201.39) In addition, the firm did not perform any substantive procedures to test certain other liabilities. (AS 2301.08)

Audits with a Single Deficiency

None

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) or fulfill the objectives of its role in the audit(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB 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 one of four audits reviewed, the firm did not include all relevant work papers in the final set of audit documentation it was required to assemble. In this instance, the firm was non-compliant with AS 1215, *Audit Documentation.*

- In three of three audits reviewed, the firm did not make, or make timely, certain required communications to the issuer's audit committee related to the name, location, and planned responsibilities of other accounting firms or other persons not employed by the firm that performed audit procedures in the audit. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In two of two audits reviewed, the engagement team performed procedures to determine whether or not matters were critical audit matters but, in performing those procedures, did not include one or more matters that were communicated to the issuer's audit committee and that related to accounts or disclosures that were material to the financial statements. In addition, in one of these audits, the engagement team did not take into account certain required factors in determining whether or not a matter was a critical audit matter. 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*. These instances of non-compliance do not necessarily mean that other critical audit matters should have been communicated in the auditor's report.

PART I.C: INDEPENDENCE

This section of our report discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence. An instance of potential non-compliance with SEC rules or an instance of non-compliance with PCAOB rules 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 potential non-compliance that the firm brought to our attention, there may be other instances of non-compliance with SEC or PCAOB rules related to independence that were not identified through our procedures or the firm's monitoring activities.

PCAOB-Identified

We did not identify any instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Firm-Identified

During the inspection, the firm brought to our attention that it had identified, through its independence monitoring activities, 19 instances across seven issuers,[3] 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(c) of Regulation S-X or PCAOB Rule 3500T related to maintaining independence. Approximately 37% of these instances of potential non-compliance involved associated firms.

While we have not evaluated the underlying reasons for the instances of potential non-compliance, the number, large or small, of firm-identified instances of potential non-compliance may be reflective of the size of the firm, including any associated firms; the design and effectiveness of the firm's independence monitoring activities; and the size and/or complexity of the issuers it audits, including the number of affiliates of those issuers. Therefore, we caution against making any comparison of these firm-identified instances of potential non-compliance across firms.

The instances of potential non-compliance related to financial relationships, business relationships, non-audit services, and negotiating prospective employment:

- The firm reported 13 instances of potential non-compliance with Rule 2-01(c)(1) of Regulation S-X regarding financial relationships, all but two of which occurred at the firm or involved its personnel. Of these instances, 10 related to investments in audit clients and three related to other financial relationships with an audit client. The majority of these financial relationships were instances where a partner in the same office as the engagement partner for an issuer had

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

a financial relationship with that issuer. Four of these instances related to a member of an engagement team. Of the total 10 instances related to investments in audit clients, nine instances related to investments in broad-based funds.

- The firm reported one instance of potential non-compliance with Rule 2-01(c)(3) of Regulation S-X regarding a business relationship with an issuer of the firm.

- The firm reported four instances of potential non-compliance with Rule 2-01(c)(4) of Regulation S-X regarding non-audit services. All of these instances related to services provided by an associated firm that the firm determined to be prohibited, such as legal services for companies that were subsidiaries of an issuer.

- The firm reported one instance of potential non-compliance with PCAOB Rule 3500T regarding firm personnel negotiating prospective employment with an audit client. This instance involved a member of an engagement team engaging in substantive employment discussions with, and accepting an offer of employment from, the audit client for an accounting role.

The firm has reported to us that it has evaluated the instances of potential 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 potential non-compliance to the respective principal auditor for the principal auditor to evaluate its objectivity and impartiality.

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.

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15 September 2023

Response to Part I of the Draft Report on the 2022 Inspection of Ernst & Young LLP

Dear Mr. Botic:

We are pleased to provide our response to the Public Company Accounting Oversight Board (the "Board" or the "PCAOB") regarding Part I of the Draft Report on the 2022 Inspection of Ernst & Young LLP (the "Report").

We have thoroughly evaluated all matters described in Part I – *Inspection Procedures and Certain Observations* of the Report and have taken actions to address 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*.

The PCAOB's inspection process assists us in identifying areas where we can continue to improve audit quality. We respect and benefit from this process as it aids us in fulfilling our responsibilities as auditors

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 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,

Jad Shimaly
Chairman

Zahid Fazal
Managing Partner, Canada - Assurance Services