2022 Inspection Ernst & Young LLP

(Headquartered in New York, New York)

December 8, 2023

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. 104-2024-033

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

EXECUTIVE SUMMARY

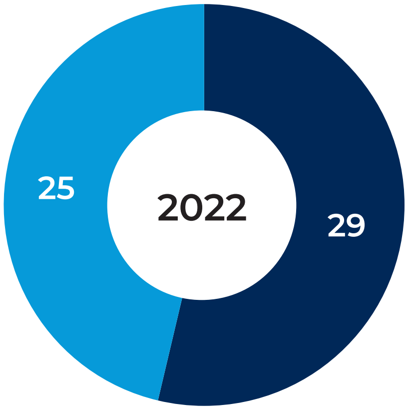
Our 2022 inspection report on Ernst & Young LLP provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board (PCAOB) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of what is included in this report:

- Part I.A of the report discusses deficiencies ("Part I.A deficiencies") in certain issuer audits that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or internal control over financial reporting (ICFR).
- Part I.B of the report discusses certain deficiencies ("Part I.B deficiencies") that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.
- Part I.C of the report, which is new commencing with our 2022 inspection reports, discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence ("Part I.C deficiencies").

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

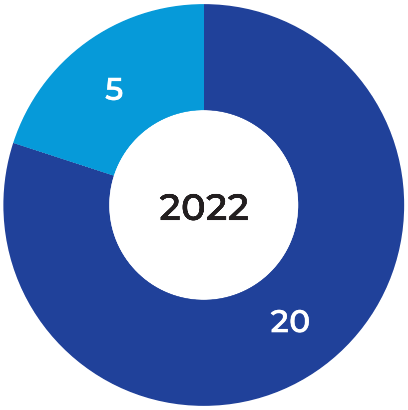
Overview of the 2022 Deficiencies Included in Part I

Twenty-five of the 54 audits we reviewed in 2022 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, business combinations, and inventory.



46% Part I.A deficiency rate

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



- Deficiencies in both financial statement and ICFR audits
- Deficiencies in the financial statement audit only
- Deficiencies in the ICFR audit only

The most common Part I.A deficiencies in 2022 related to testing the design or operating effectiveness of controls selected for testing, testing controls over the accuracy and completeness of data or reports used in the operation of controls, and in some cases the resulting overreliance on controls when performing substantive testing.

The Part I.B deficiencies in 2022 related to retention of audit documentation, audit committee communications, risk assessment, management representation letters, critical audit matters, and Form AP.

The Part I.C deficiencies in 2022 related to financial relationships, employment relationships, and non-audit services.

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2022 INSPECTION

In the 2022 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 54 audits of issuers with fiscal years generally 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.

What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2022 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.
- **Part I – Inspection Observations:**
    - o **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.
    - o **Part I.B:** Certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.
    - o **Part I.C:** Instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

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

2022 Inspection Approach

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

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

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

Our target team performs inspection procedures in areas of current audit risk and emerging topics and focuses its reviews primarily on evaluating the firm's procedures related to that risk or topic. In 2022, our target team focused primarily on audits of issuers that had recently completed initial public offerings and issuers that were recently formed by mergers between non-public operating companies and special purpose acquisition companies (SPACs).

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 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.

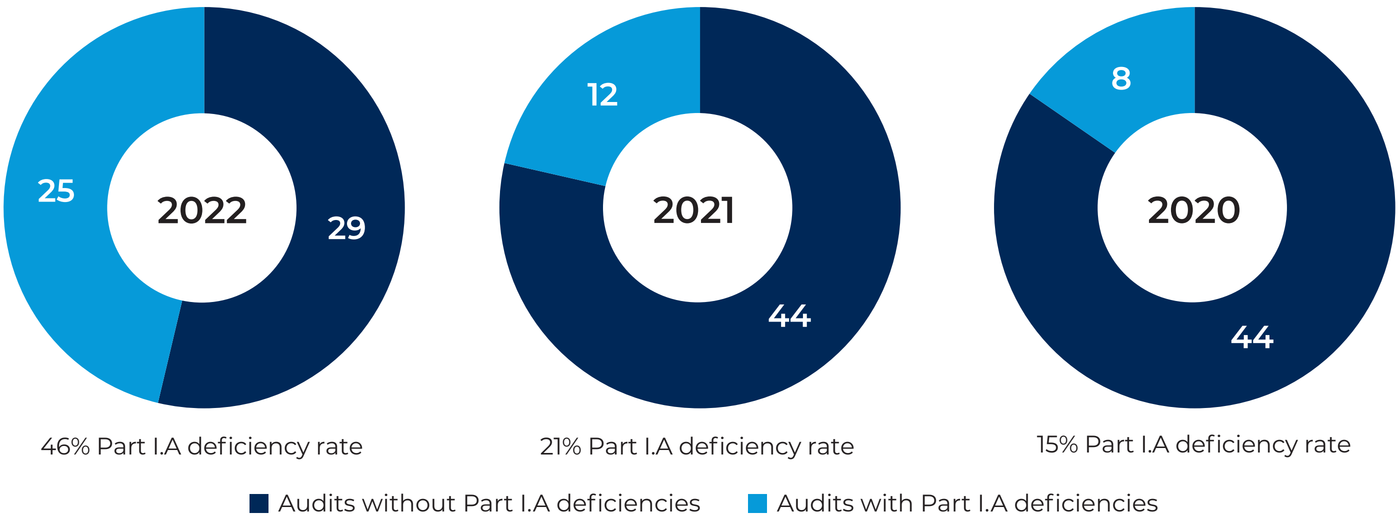
Audits Selected for Review

	2022	2021	2020
Total audits reviewed			
Total audits reviewed	54	56	52
Selection method			
Risk-based selections	37	25	37
Random selections	13	25	13
Target team selections[1]	4	6	2
Total audits reviewed	**54**	**56**	**52**
Principal auditor			
Audits in which the firm was the principal auditor	53	56	51
Audits in which the firm was not the principal auditor	1	0	1
Total audits reviewed	**54**	**56**	**52**
Audit type			
Integrated audits of financial statements and ICFR	47	48	47
Financial statement audits only	7	8	5
Total audits reviewed	**54**	**56**	**52**

[1] For further information on the target team's activities in 2021 and 2020, refer to those inspection reports.

Part I.A Deficiencies in Audits Reviewed

In 2022, 21 of the 25 audits appearing in Part I.A were selected for review using risk-based criteria. In 2021, eight of the 12 audits appearing in Part I.A were selected for review using risk-based criteria. In 2020, seven of the eight audits appearing in Part I.A were selected for review using risk-based criteria.

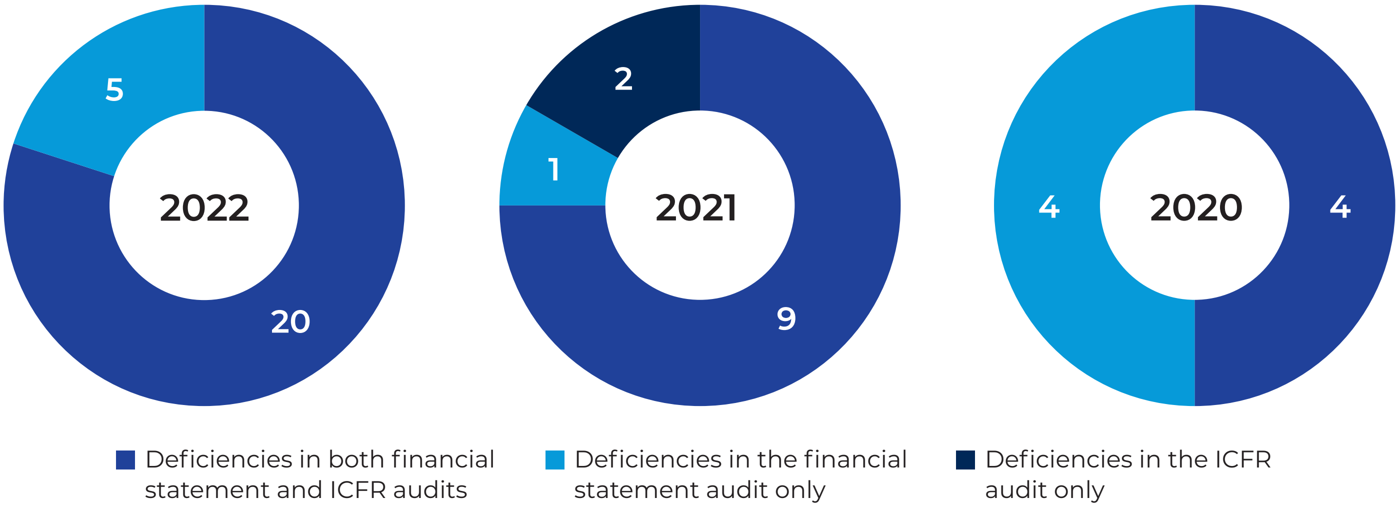


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional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

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

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

Audits Affected by the Deficiencies Identified in Part I.A



Our 2022 inspection procedures involved one audit for which the issuer, unrelated to our review, restated its financial statements to correct a misstatement and the firm revised and reissued its report on the financial statements. In addition, in connection with our 2022 inspection procedures for one audit, the issuer corrected an omission of a required disclosure in a subsequent filing. Our 2021 inspection procedures involved two audits for which each issuer, unrelated to our review, restated its financial statements to correct a misstatement and the firm revised and reissued its report on the financial statements. One of these two audits related to an issuer that was formed by a merger between a non-public operating company and a SPAC. For both of these audits, the issuer also revised its report on ICFR, and the firm revised its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

The following tables and graphs summarize inspection-related information, by inspection year, for 2022 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		
	2022	2021	2020
Did not obtain sufficient evidence as a result of overreliance on controls (due to deficiencies in testing controls)	11	4	3
Did not perform sufficient testing related to a significant account or disclosure or to address an identified risk	10	2	0
Did not perform sufficient testing of data or reports used in the firm's substantive testing	9	3	4

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2022	2021	2020
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	14	8	3
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	11	4	1
Did not identify and test any controls that addressed the risks related to a significant account or relevant assertion	8	5	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.

2022			2021			2020		
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	42	15	**Revenue and related accounts**	28	7	**Revenue and related accounts**	40	5
Business combinations	26	4	**Goodwill and intangible assets**	16	1	**Inventory**	19	2
Inventory	12	4	**Long-lived assets**	15	2	**Long-lived assets**	16	0
Debt	10	1	**Accruals and other liabilities**	14	0	**Business combinations**	12	0
Accruals and other liabilities	10	0	**Debt**	13	1	**Goodwill and intangible assets**	10	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	2022		2021		2020	
	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	15	42	7	28	5	40
Business combinations	4	26	0	5	0	12
Inventory	4	12	1	6	2	19
Leases	3	4	0	8	1	10
Long-lived assets	1	4	2	15	0	16

Revenue and related accounts: The deficiencies in 2022, 2021, and 2020 primarily related to substantive testing of, and testing controls over, revenue, including controls over information technology systems associated with revenue.

Business combinations: The deficiencies in 2022 primarily related to evaluating the reasonableness of assumptions the issuer used 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.

Inventory: The deficiencies in 2022, 2021, and 2020 primarily related to substantive testing of, and testing controls over, inventory, including controls over information technology systems associated with inventory.

Leases: The deficiencies in 2022 related to substantive testing of, and testing controls over, leases. The deficiencies in 2020 related to substantive testing of, and testing controls over, the possible impairment of lease right-of-use assets.

Long-lived assets: The deficiencies in 2022 related to testing controls over whether any impairment indicators existed for certain long-lived assets. The deficiencies in 2021 related to testing controls over the valuation of long-lived assets and the evaluation of misstatements related to long-lived assets.

Auditing Standards Associated with Identified Part I.A Deficiencies

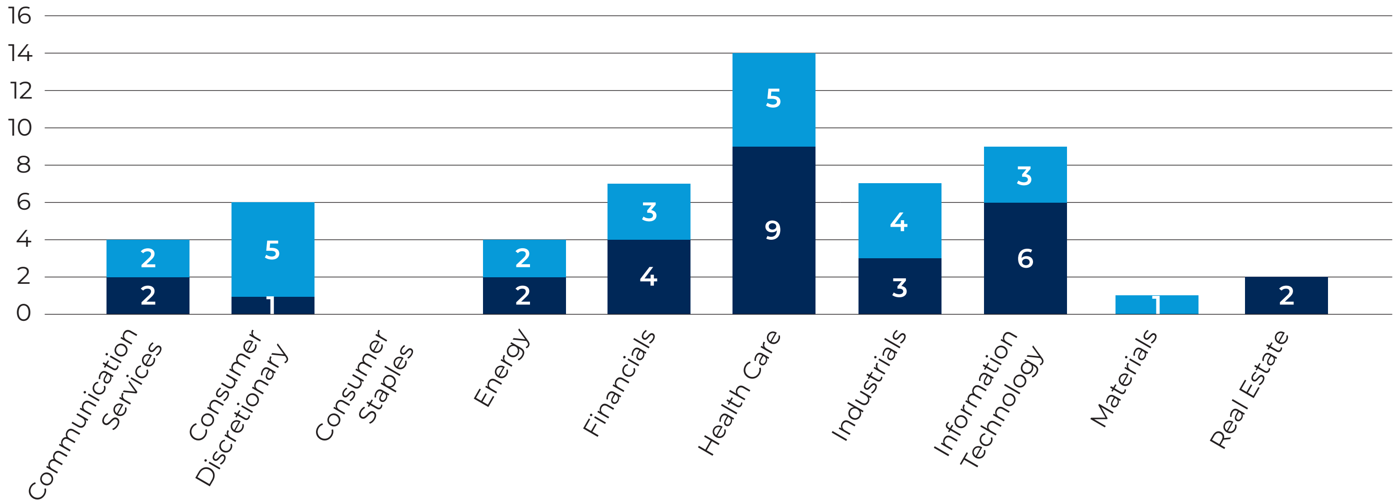
The following lists the auditing standards referenced in Part I.A of the 2022 and the previous two inspection reports, and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2022	2021	2020
AS 1105, *Audit Evidence*	19	13	5
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	63	33	6
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	17	9	4
AS 2305, *Substantive Analytical Procedures*	7	5	0
AS 2310, *The Confirmation Process*	0	2	1
AS 2315, *Audit Sampling*	11	3	3
AS 2410, *Related Parties*	1	0	0
AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements* (effective for fiscal years ending on or after December 15, 2020)	5	0	-
AS 2502, *Auditing Fair Value Measurements and Disclosures* (effective for fiscal years ending before December 15, 2020)	-	0	2
AS 2510, *Auditing Inventories*	1	0	0
AS 2810, *Evaluating Audit Results*	3	5	0

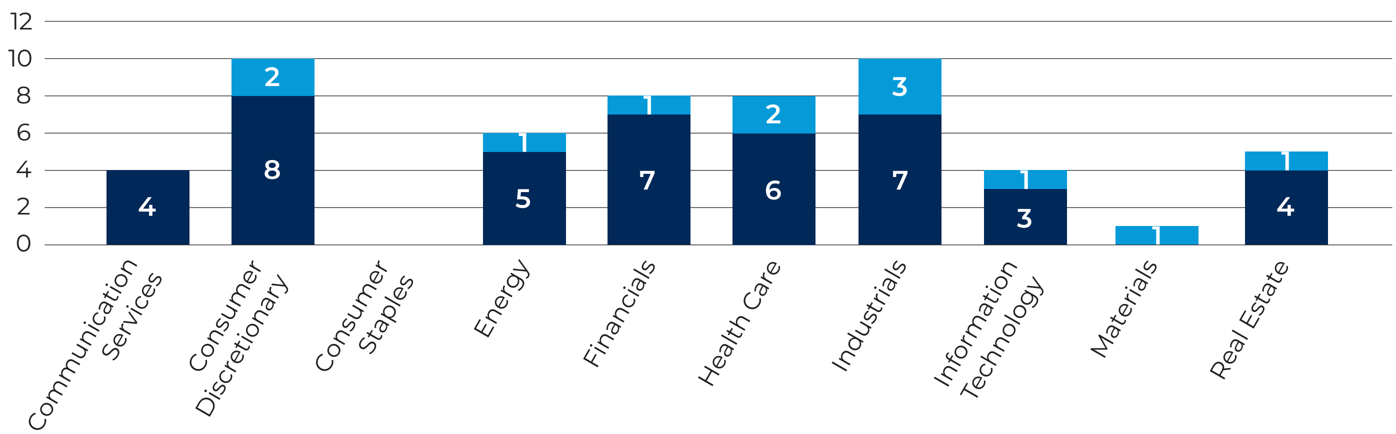
The majority of industry sector data is based on Global Industry Classification Standard (GICS) data obtained from Standard & Poor's (S&P). In instances where GICS data for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data.

Inspection Results by Issuer Industry Sector

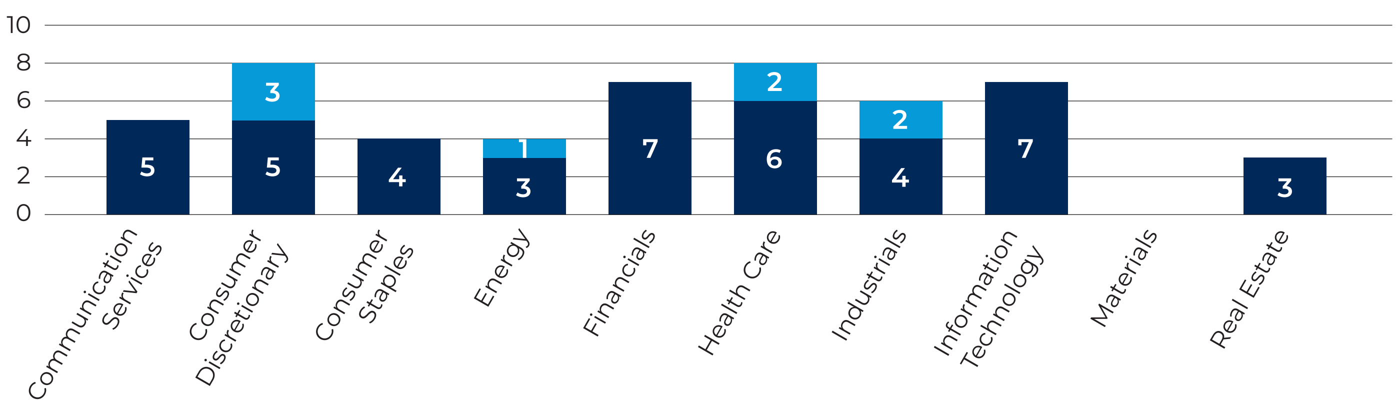
2022



2021



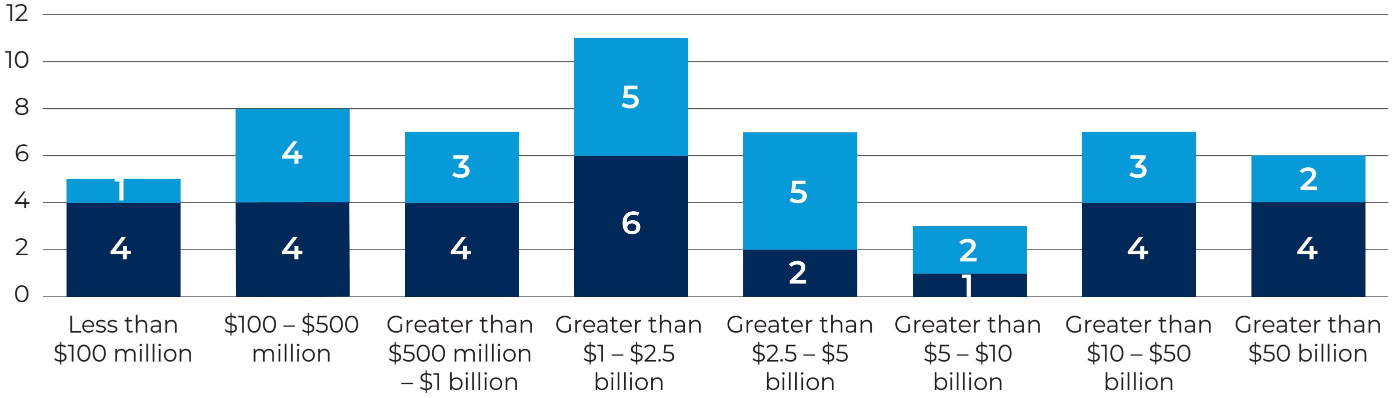
2020



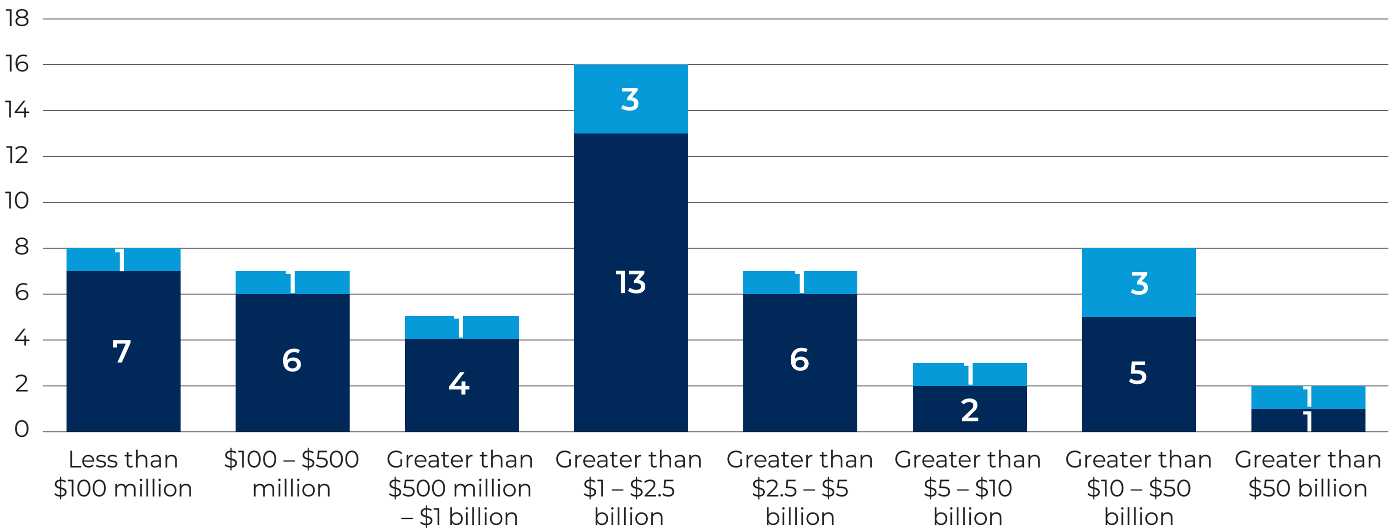
Audits without Part I.A deficiencies   Audits with Part I.A deficiencies

Inspection Results by Issuer Revenue Range

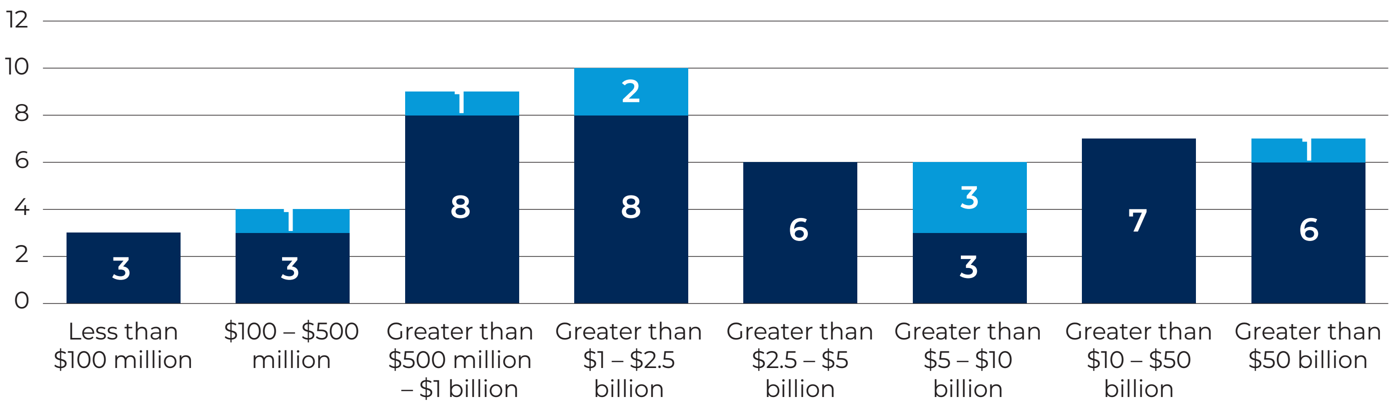
2022



2021



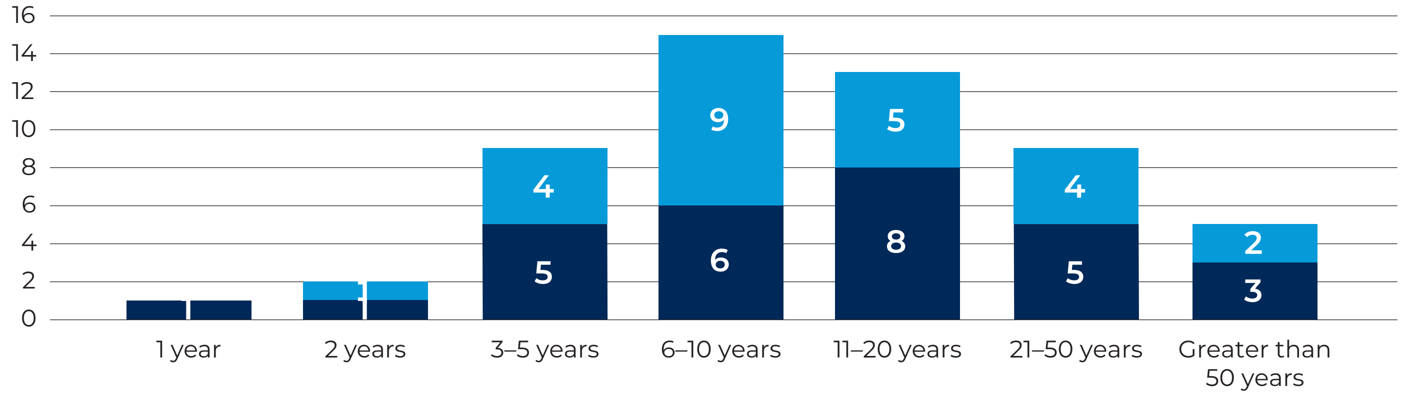
2020



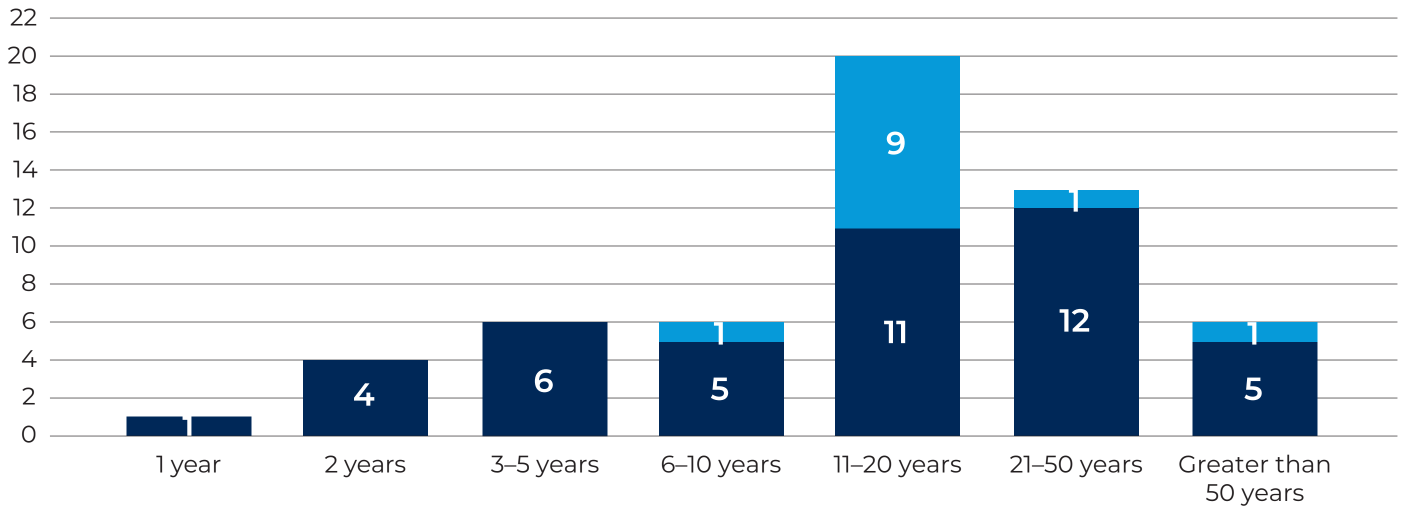
■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

Inspection Results by the Firm's Tenure on the Issuer

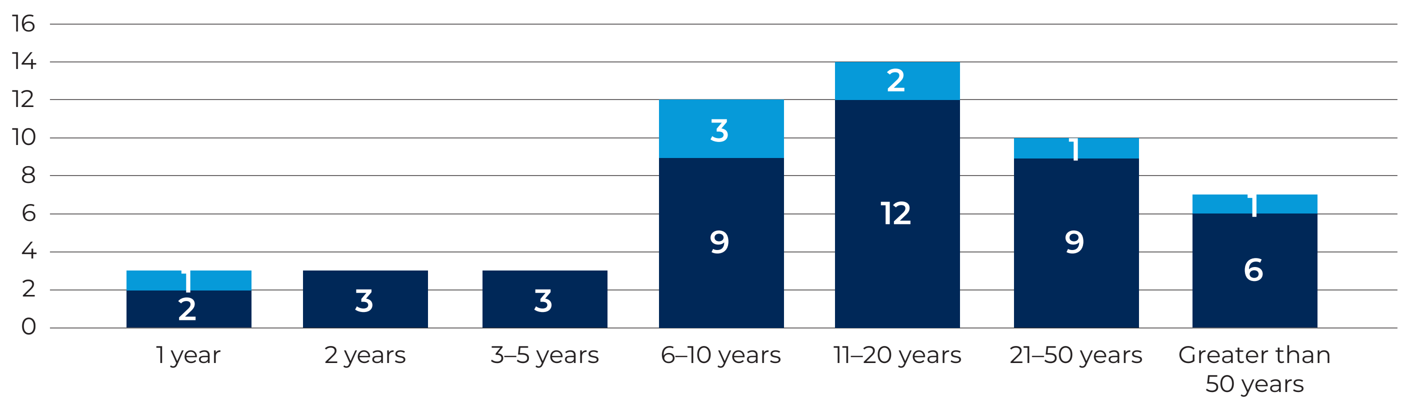
2022



2021



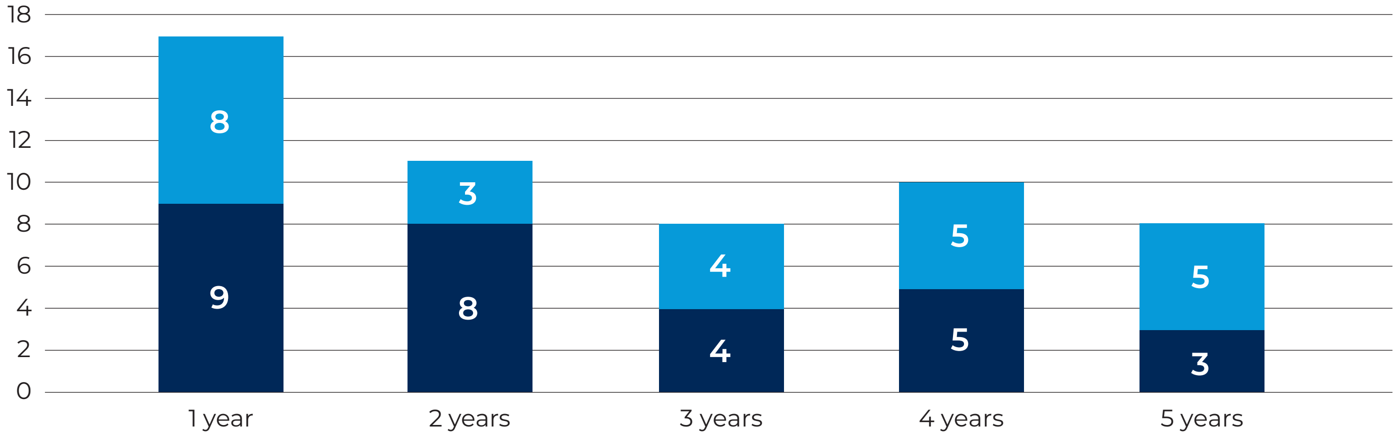
2020



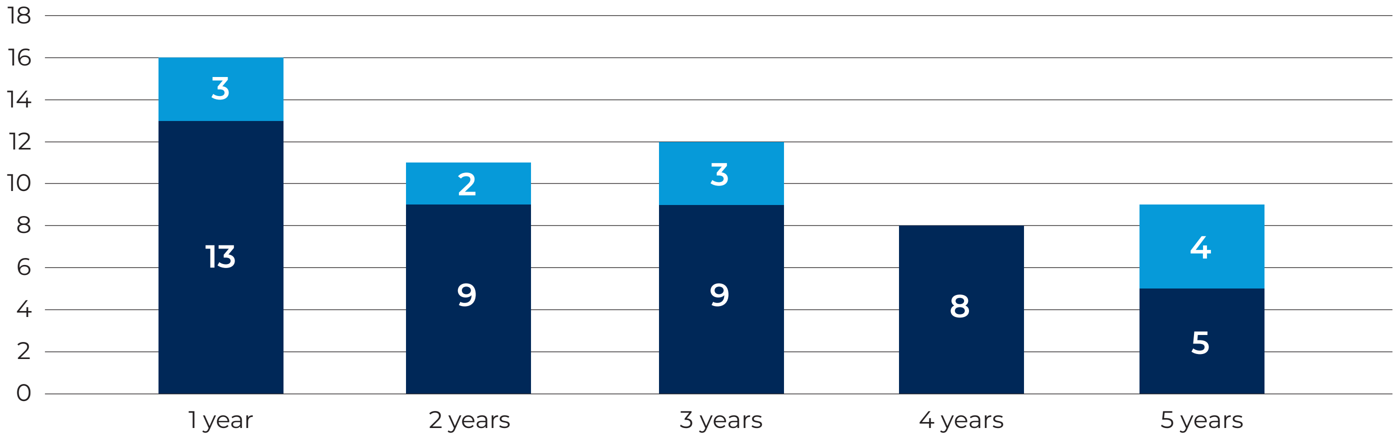
■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

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

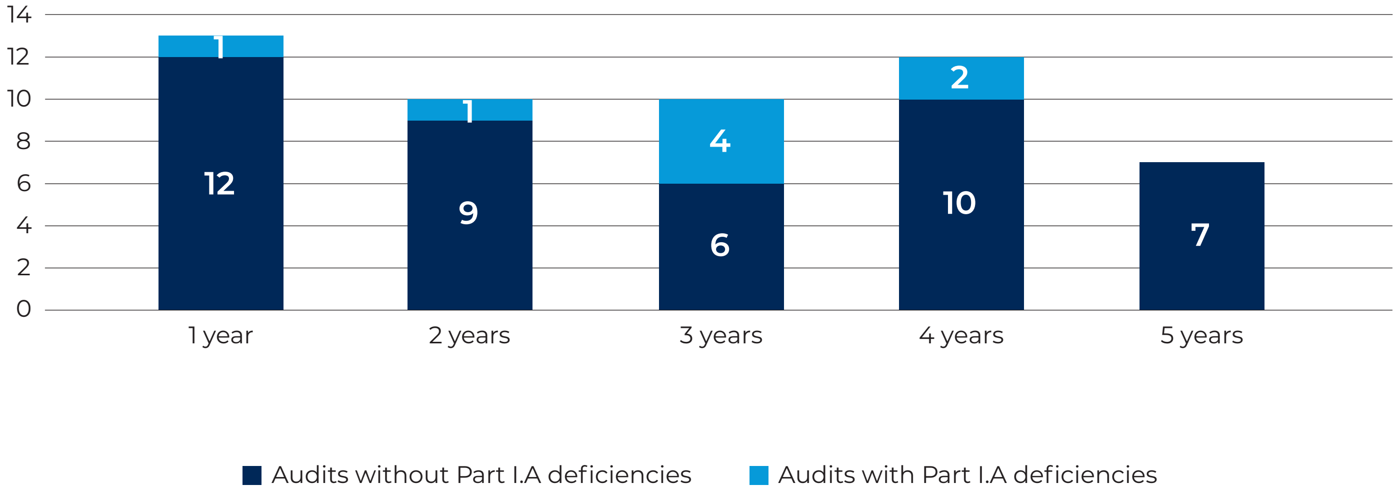
2022



2021



2020



Classification of Audits with Part I.A Deficiencies

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

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

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

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

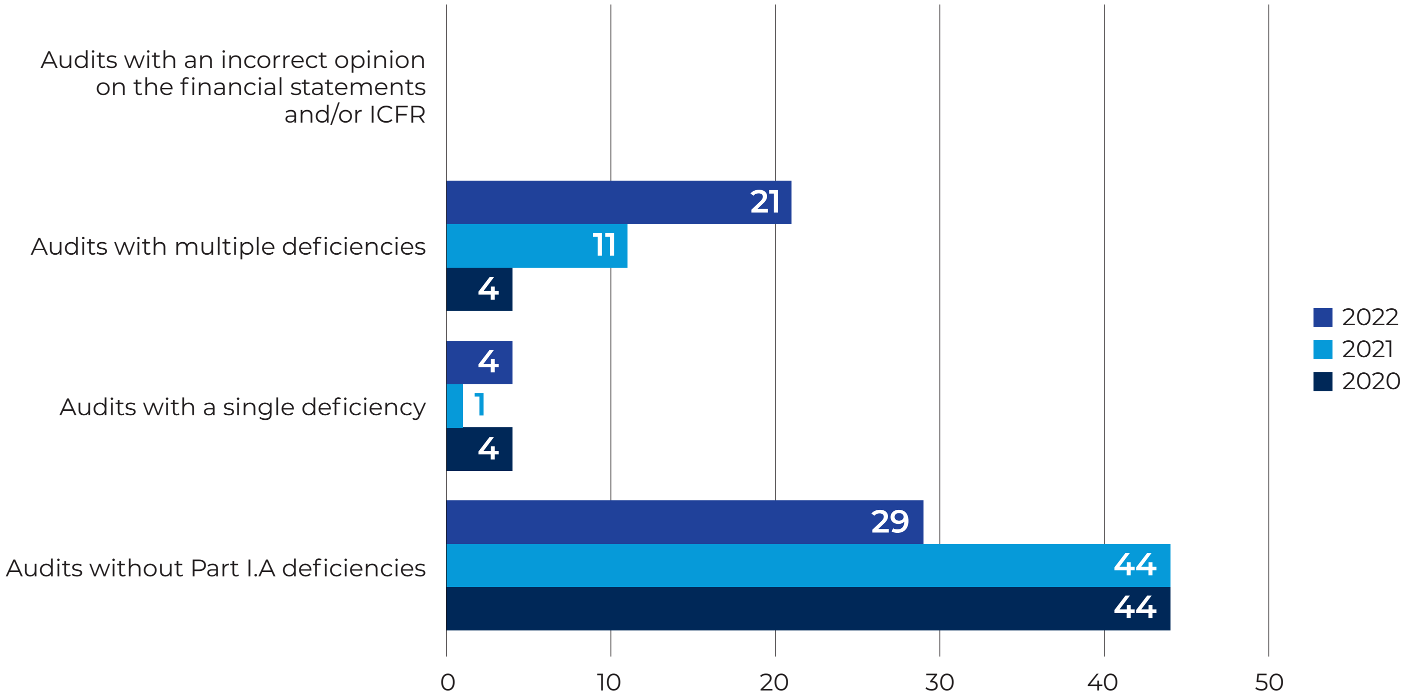
Audits with Multiple Deficiencies

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

Audits with a Single Deficiency

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

Number of Audits in Each Category



PART I: INSPECTION OBSERVATIONS

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

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

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

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

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

We identify each issuer by a letter (e.g., Issuer A) 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 – Communication Services

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**, **Investment Securities**, and **Cash**.

Description of the deficiencies identified

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

With respect to change management:

- For certain IT systems, the firm selected for testing controls that included the issuer's review of changes to these IT systems. For certain of these IT systems, the firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. Further, the firm did not determine whether the control owners possessed the necessary competence to perform these controls. (AS 2201.42 and .44)
- For another IT system, the firm selected for testing controls over change management but did not perform procedures to test, or test any controls over, the completeness of the population of items from which it selected its samples for testing. (AS 1105.10)

With respect to user access:

- The issuer used tools to manage user access to certain IT systems. The firm selected for testing controls over user access for these IT systems but did not test whether user access to certain of these IT systems was appropriately granted based on the permissions defined in these tools. (AS 2201.44)
- The firm selected for testing controls that included the issuer's review of administrative access to certain tools the issuer used to manage access to certain IT systems. The firm did not perform procedures to assess the control owners' (1) determination of whether administrative access to these tools was appropriate and (2) evaluation of certain users' access. (AS 2201.42 and .44)

With respect to **Revenue** and **Accounts Receivable**:

For revenue and the related accounts receivable, which were affected by the audit deficiencies discussed above, the following additional deficiencies related to the firm's testing of controls were identified:

- The firm selected for testing certain automated controls that the issuer used to process and record revenue transactions. The firm did not sufficiently test these controls because the firm did not test whether these controls were designed to address and/or operated as designed for each relevant processing alternative. (AS 2201.42 and .44)
- The firm selected for testing certain other controls that the issuer used to process and record revenue transactions. The firm did not identify and test any controls over the accuracy and completeness of certain data used in the operation of these controls. (AS 2201.39)

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

- The firm did not perform sufficient procedures to test, or sufficiently test controls over, the accuracy and completeness of certain system-generated data or reports the firm used (1) to make its selections to test certain controls or (2) in its substantive testing. (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. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer B – Information Technology

Type of audit and related areas affected

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

Description of the deficiencies identified

The issuer used an IT system to retain certain data related to revenue and deferred revenue. The firm tested certain IT-dependent manual controls that used data from this IT system. As a result of the following deficiencies in the firm's testing of controls, the firm's testing of these IT-dependent manual controls was not sufficient. (AS 2201.46)

- The firm did not identify and test any controls that addressed the risk that inappropriate changes could be made to the data in this IT system. (AS 2201.39)
- The firm selected for testing a control that included the issuer's review of the configuration of the tool the issuer used to transfer data into this IT system. The firm did not evaluate the specific review procedures that the control owners performed to assess the configuration of this tool. (AS 2201.42 and .44) In addition, in evaluating the design of this control, the firm did not assess whether the issuer's review occurred with sufficient frequency to address the risks of material misstatement. (AS 2201.42)

For certain revenue and deferred revenue, the firm did not perform procedures to test, or (as discussed above) sufficiently test controls over, the accuracy and/or completeness of certain system-generated data or reports the firm used in its substantive testing, including substantive analytical procedures. (AS 1105.10; AS 2305.16)

Certain of the issuer's revenue arrangements included multiple performance obligations. The issuer allocated the total transaction price for each of these arrangements to the separate performance obligations based on the issuer's estimate of the relative standalone selling prices. The firm performed substantive procedures to test the accuracy of certain issuer-produced data the firm used in its testing of the relative standalone selling prices. The sample sizes the firm used in these substantive procedures were smaller than the ones the firm determined necessary to provide sufficient appropriate audit evidence. (AS 1105.10)

The issuer recognized certain of this revenue based on the date when electronic delivery occurred. The firm did not identify and test any controls over the accuracy of these delivery dates. (AS 2201.39)

Issuer C – Health Care

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to three of the issuer's business units, the following deficiencies were identified:

The firm's testing of certain automated controls over revenue and accounts receivable 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 2201.46)

For two of these business units, the firm selected for testing a control that included the issuer's reviews of adjustments to the contract prices that were used to recognize revenue. The following deficiencies were identified:

- For the first business unit, when evaluating the design of the control, the firm did not evaluate (1) the criteria the control owners used to identify items for follow-up and (2) the number of items the control owner reviewed to assess whether it was sufficient to address the risk of material misstatement. (AS 2201.42)
- For the second business unit, the firm did not identify and test any controls over the completeness of the report the control owners used in the operation of this control. (AS 2201.39)

For two of these business units, the firm selected for testing controls over contract pricing but did not perform any substantive procedures to test, or test any controls over, the completeness of the population of items from which it selected its samples for testing. (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)

The firm's approach for substantively testing 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 tests of details of certain data underlying the analysis. The sample sizes the firm used in certain of these tests of details were smaller than the ones the firm determined necessary for these procedures. (AS 1105.10)

Issuer D – Consumer Discretionary

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to one type of **Inventory**:

The issuer used multiple IT systems to initiate, process, and record transactions related to this inventory. In its testing of controls over this account, the firm tested various automated and IT-dependent manual controls that used data and reports generated or maintained by these IT systems. The firm did not identify and test any controls that addressed the risk that unauthorized changes were made to the databases that supported certain of these systems. (AS 2201.39) As a result of this deficiency in the firm's testing of ITGCs, the firm's testing of these automated and IT-dependent manual controls was not sufficient. (AS 2201.46)

The firm selected for testing controls over the transfers of data between certain of the issuer's inventory systems and the general ledger. The firm did not identify and test any controls over the accuracy and completeness of certain reports used in the operation of these controls. (AS 2201.39)

The firm selected for testing certain automated controls over this inventory. The firm's testing of only one instance of these automated controls was not sufficient because the firm did not test the 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 2201.46)

As a result of the firm's control testing deficiencies discussed above, the firm did not perform sufficient substantive procedures over this inventory, as follows:

- The firm's substantive procedures to test this inventory included substantive analytical procedures. The firm established its thresholds for investigating differences based on a level of control reliance that was not supported. As a result, the thresholds that the firm used did not provide the desired level of assurance that misstatements that could have been material would be identified. (AS 2301.16, .18, and .37; AS 2305.20)

- The firm did not perform sufficient procedures to test, or sufficiently test controls over, the accuracy and completeness of certain system-generated data or reports the firm used in its substantive testing, including substantive analytical procedures. (AS 1105.10; AS 2305.16)

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

The issuer used cash-flow forecasts to evaluate whether any impairment indicators existed for certain long-lived assets. The firm selected for testing two controls that consisted of the issuer's reviews of (1) the methodology it used to prepare these cash-flow forecasts and (2) certain of these cash-flow forecasts. The firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of certain assumptions the issuer used in these cash-flow forecasts. (AS 2201.42 and .44) In addition, when evaluating the design of the second control, the firm did not evaluate the number of items the control owner reviewed to assess whether it was sufficient to address the risks of material misstatement. (AS 2201.42)

Issuer E – Communication Services

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to one type of revenue and the related deferred revenue, the following deficiencies were identified:

- The issuer recognized certain of this revenue using contractual rates input into the system the issuer used to recognize revenue. The firm did not identify and test any controls over the accuracy of these contractual rates. (AS 2201.39)

- The firm selected for testing a control over the automated calculation of certain of this revenue. The firm did not test whether this control operated as designed for each relevant processing alternative. (AS 2201.44)

- The firm selected for testing controls related to the issuer's allocation of certain transactions between this revenue and the related deferred revenue. For two of these controls, the firm did not evaluate the specific review procedures that the control owners performed to assess the appropriateness of this allocation. (AS 2201.42 and .44) For a third control, the firm did not identify and test any controls over the accuracy and completeness of certain data that the control owner used in the operation of the control. (AS 2201.39)

- The firm's approach for substantively testing this 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 evaluate whether the cash receipts related to this revenue. (AS 1105.10)

With respect to a second type of revenue and the related deferred revenue, the following deficiencies were identified:

- The firm selected for testing controls that consisted of the issuer's reviews of this revenue and the related deferred revenue. The firm did not identify and test any controls over the accuracy of certain data and reports that the control owners used in the operation of these controls. (AS 2201.39)
- The sample size that the firm used in certain of its substantive procedures to test this deferred revenue 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)

For these two types of deferred revenue, the firm used certain reports in its substantive testing but did not perform any procedures to test, or (as discussed above) test any controls over, the accuracy of these reports. (AS 1105.10)

With respect to a third type of revenue, the firm's substantive procedures included performing substantive analytical procedures. The threshold that the firm established to investigate differences was too high to identify misstatements that could be material, either individually or in the aggregate. (AS 2305.20) In addition, the firm identified certain differences in excess of the firm's established threshold but did not obtain any evidential matter to corroborate the differences. (AS 2305.21)

Issuer F – Health Care

Type of audit and related areas affected

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

Description of the deficiencies identified

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

- The firm selected for testing controls that consisted of the issuer's reviews of new user access and changes made to its production environment for these IT systems. The number of items the firm selected for testing did not provide sufficient appropriate audit evidence given the frequency with which the control operated. (AS 2201.46)
- The firm selected for testing a control over the periodic review of user access for each of these IT systems. The firm did not identify and test any controls over the accuracy and completeness of certain information included in manually prepared spreadsheets that the control owners used in the operation of this control. (AS 2201.39)

The firm's testing of certain automated controls over this revenue and accounts receivable 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 2201.46)

For certain revenue, which was affected by the audit deficiencies discussed above, the following additional deficiencies related to the firm's testing of controls were identified:

- The firm selected for testing controls over certain of this revenue that consisted of the issuer's reviews of financial results. The firm did not evaluate whether the design of these controls was sufficiently precise to detect material misstatements. (AS 2201.42)
- The firm selected for testing three IT-dependent manual controls over the processing of certain customer orders and invoices. For two of these controls, the firm did not identify and test any controls over the accuracy and completeness of certain data used in the operation of these controls. (AS 2201.39) For the third control, the firm's testing of controls over the accuracy and completeness of a report used in the operation of this control using a sample of only one instance was not sufficient because the firm did not test whether changes to configurations within these controls were subject to effective ITGCs over these IT systems. (AS 2201.46)
- The firm did not test, or test any controls over, the completeness of the system-generated reports that it used to make selections for testing certain controls over this revenue. (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)

The firm performed substantive procedures to test certain revenue as of an interim date. The firm did not perform sufficient procedures to extend its conclusions from the interim date to year end because it did not (1) compare relevant information about this revenue at the interim date with comparable information at year end to identify amounts that appear unusual and investigate such amounts and (2) perform audit procedures to test the remaining period, beyond performing a correlation analysis without testing the underlying data used in this analysis. (AS 2301.45)

Issuer G – Information Technology

Type of audit and related areas affected

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

Description of the deficiencies identified

For certain revenue and the related deferred revenue, the firm did not identify and test any controls over certain data that the issuer used to determine whether the performance obligation was satisfied before revenue was recognized. (AS 2201.39)

The firm's approach for substantively testing this revenue and the related deferred revenue included performing a software-assisted analysis to test the relationships among revenue, accounts receivable, deferred revenue, 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 sample the firm tested for the second half of the year was smaller than the one the firm determined necessary for these procedures. (AS 1105.10)

The firm used issuer-produced delivery data in its substantive testing of certain other revenue and the related deferred revenue, but did not perform any procedures to test, or test any controls over, the accuracy and completeness of these data. (AS 1105.10)

Issuer H – Health Care

Type of audit and related areas affected

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

Description of the deficiencies identified

The issuer used an IT system to process and record transactions related to inventory and debt. The firm selected for testing a control that consisted of the issuer's reviews of instances where administrative access was granted that allowed the issuer's IT personnel to make changes to this system. The firm did not evaluate the specific review procedures that the control owners performed to assess whether (1) users performed appropriate actions when granted this access and (2) this access was appropriately granted for certain instances selected for testing. (AS 2201.42 and .44) In addition, the number of instances selected for testing did not provide sufficient appropriate audit evidence given the frequency with which the control operated. (AS 2201.46)

In its testing of controls over this inventory and debt, 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 deficiencies in the firm's testing of ITGCs discussed above, the firm's testing of these automated and IT-dependent manual controls was not sufficient. (AS 2201.46)

With respect to **Inventory**:

The issuer performed cycle counts of certain inventory held at one of its warehouses. The following deficiencies were identified:

- The firm did not identify and test any controls that addressed whether all of this inventory was assigned a frequency to be counted. (AS 2201.39)
- The firm selected for testing a control that included the issuer's review and approval of count frequencies that had been assigned to this inventory. The firm did not identify and test any controls that addressed whether these approved count frequencies were entered into the system accurately and completely. (AS 2201.39) In addition, the firm did not identify and test any controls over the accuracy and completeness of certain system-generated reports used in the operation of this control. (AS 2201.39)
- The firm selected for testing an automated control over the selection of items for cycle counting this inventory. The firm did not test whether the system was appropriately configured to achieve the frequency schedule established by management. (AS 2201.42 and .44)

The firm selected for testing a control that included the issuer's cycle-count procedures for certain inventory held at other locations. The firm did not identify and test any controls over the accuracy and completeness of a system-generated report used in the operation of this control. (AS 2201.39)

As a result of the firm's control testing deficiencies discussed above, the firm did not perform sufficient other audit procedures, as follows:

- The firm did not obtain sufficient appropriate audit evidence that the cycle-count procedures the issuer used for certain inventory were sufficiently reliable to produce results substantially the same as those that would have been obtained by a count of all items each year. (AS 2510.11)
- The sample sizes the firm used in certain of its substantive procedures to test 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. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

- The firm did not perform sufficient procedures to test, or sufficiently test controls over, the accuracy and completeness of certain system-generated data or reports the firm used in its substantive testing. (AS 1105.10)

The firm's substantive procedures to test the unit cost of certain inventory included selecting a sample of inventory items for testing. For certain items in its sample, the firm did not perform any procedures to test the cost of the raw materials included in the unit costs. (AS 2301.08)

Issuer I – Industrials

Type of audit and related area affected

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

Description of the deficiencies identified

The issuer's revenue included revenue recognized from contracts over time based on costs incurred to date relative to total estimated costs to complete. The following deficiencies were identified:

- The firm selected for testing controls that consisted of the issuer's reviews of revenue, including the estimated costs to complete. The firm did not identify and test any controls over the accuracy and/or completeness of certain data that the control owners used in the operation of these controls. (AS 2201.39)
- The firm used certain data in its substantive testing of revenue, but did not perform any procedures to test, or (as discussed above) test any controls over, the accuracy and/or completeness of these data. (AS 1105.10)
- The firm's sample size for testing revenue was too small to provide sufficient appropriate audit evidence because, in determining the sample size, the firm did not take into account tolerable misstatement, the allowable risk of incorrect acceptance, and the characteristics of the population. (AS 2315.16, .23, and .23A)

Issuer J – Industrials

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Revenue**, **Deferred Revenue**, and **Accounts Receivable**:

The firm selected for testing certain automated controls that the issuer used to process and record transactions related to revenue, deferred revenue, and accounts receivable. The firm did not sufficiently test these controls because the firm did not test the programming of these controls or perform other procedures that would have provided sufficient appropriate evidence that these controls were designed and operating effectively. (AS 2201.46) In addition, for certain of these controls, the firm did not test whether these controls operated as designed for each relevant processing alternative. (AS 2201.44)

With respect to a **Business Combination**:

During the year, the issuer acquired a business. The following deficiencies were identified:

- The firm selected for testing controls that consisted of the issuer's reviews of the fair values of assets acquired and liabilities assumed, including the assumptions and data the issuer used. The firm did not evaluate the specific review procedures that the control owners performed to assess (1) the fair values of certain tangible assets acquired and liabilities assumed and (2) the reasonableness of certain of these assumptions. (AS 2201.42 and .44) In addition, the firm did not test the aspects of one of these controls that addressed the accuracy and completeness of certain of these data. (AS 2201.42 and .44)

- The firm's approach for substantively testing the fair values of these acquired intangible assets was to test the issuer's process. The firm did not sufficiently evaluate the reasonableness of certain of the significant assumptions the issuer used because the firm did not evaluate whether these assumptions were consistent with certain industry factors and the issuer's historical experience. (AS 2501.16) In addition, the firm did not perform any procedures to test the accuracy and completeness of certain issuer-produced data that the company's specialist used to determine the fair value of certain of these acquired intangible assets. (AS 1105.A8a)

With respect to **Inventory**:

The firm selected for testing a control that consisted of the issuer's review of capitalized cost variances for certain inventory. The firm did not identify and test any controls over the accuracy of certain data that the control owners used in the operation of this control. (AS 2201.39)

Issuer K – Consumer Discretionary

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Business Combinations** and **Revenue**.

Description of the deficiencies identified

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

During the year, the issuer acquired multiple businesses and determined the fair value of certain acquired intangible assets using cash-flow forecasts. The firm's approach for substantively testing the valuation of these acquired intangible assets was to test the issuer's process. The following deficiencies were identified:

- For one of these acquired intangible assets, the firm did not evaluate the reasonableness of a significant assumption that the issuer used in these cash-flow forecasts. (AS 2501.16)
- For another of these acquired intangible assets, the firm did not test the accuracy and completeness of certain issuer-produced data that a company's specialist used to develop a significant assumption that was used in these cash-flow forecasts. (AS 1105.A8a)

The firm's substantive procedures to test certain acquired deferred revenue consisted of selecting a sample of transactions for testing. The firm's sample was too small to provide sufficient appropriate audit evidence because, in determining the sample size, the firm did not take into account tolerable misstatement, the allowable risk of incorrect acceptance, and the characteristics of the population. (AS 2315.16, .23, and .23A)

With respect to **Revenue**:

The firm did not identify and evaluate that the issuer's omission of the disclosure of revenue recognized from contracts with customers separately from its other sources of revenue was not in conformity with FASB ASC Topic 606, *Revenue from Contracts with Customers*. (AS 2810.30 and .31)

In connection with our review, the issuer reevaluated its disclosure of revenue recognized from contracts with customers and determined a disclosure was omitted. The issuer did not file an amended Form 10-K or Form 8-K indicating that its previously issued financial statements should not be relied on. Instead, the issuer corrected this omission in a subsequent filing.

Issuer L – Industrials

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Revenue** and **Inventory**:

The issuer used an IT system to initiate, process, and record transactions related to revenue and inventory at one of the issuer's locations. In its testing of controls over these accounts, the firm tested various automated and IT-dependent manual controls that used data and reports generated or maintained by this IT system. The firm selected for testing an ITGC that consisted of the issuer's review of changes made to this IT system. The firm did not evaluate the specific review procedures that the control owner performed to determine which of these changes required approval prior to implementation into the production environment. (AS 2201.42 and .44) As a result of this deficiency in the firm's testing of ITGCs, the firm's testing of these automated and IT-dependent manual controls was not sufficient. (AS 2201.46)

With respect to **Revenue**:

The issuer used multiple IT systems to initiate, process, and record transactions related to revenue at certain of the issuer's locations. The following deficiencies were identified:

- The firm did not identify and test any controls over the accuracy of certain price and quantity information that was entered into these IT systems and used to generate customer invoices and recognize revenue. (AS 2201.39)
- The firm selected for testing controls that consisted of the issuer's review and approval of changes to prices maintained in these IT systems. The firm did not evaluate the specific review procedures that the control owner performed to assess the appropriateness of certain of these price changes. (AS 2201.42 and .44) In addition, the number of price changes the firm selected for testing did not provide sufficient appropriate audit evidence given the frequency with which the control operated. (AS 2201.46)
- For certain of these locations, the firm selected for testing an automated control over the generation of customer invoices. The firm did not test the programming of this automated control or perform other procedures that would have provided sufficient appropriate audit evidence that the control was designed and operating effectively. (AS 2201.46)

The sample size that the firm used in certain of its substantive procedures to test this revenue 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)

The issuer recorded revenue at certain of the issuer's locations net of customer discounts, rebates, and other deductions. The following deficiencies were identified:

- For certain of these locations, the firm did not perform any substantive procedures to test these sales deductions. (AS 2301.08)

- For another of these locations, the firm's substantive procedures to test these sales deductions consisted of substantive analytical procedures. The firm used data to develop its expectations but did not test, or test any controls over, the accuracy and completeness of certain of these data. (AS 2305.16) In addition, the firm identified differences in excess of the firm's established threshold but did not evaluate these differences beyond inquiring of management. (AS 2305.21)

Issuer M – Consumer Discretionary

Type of audit and related area affected

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

Description of the deficiencies identified

For certain revenue, the issuer used a service organization to fulfill certain customer orders and the remaining customer orders were fulfilled by the issuer. The issuer recognized this revenue based on the date when delivery occurred. The following deficiencies were identified:

- The firm did not identify and test any controls over these delivery dates. (AS 2201.39 and .B19)
- The firm used these delivery dates in certain of its substantive procedures to test this revenue. The firm did not perform substantive procedures to test these delivery dates, beyond comparing the dates to system-generated reports. (AS 2301.08 and .13)

Issuer N – Financials

Type of audit and related area affected

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

Description of the deficiencies identified

For loans that were collectively evaluated for impairment, the issuer determined the qualitative reserve component of the ACL using qualitative factors. With respect to one of these qualitative factors, the following deficiencies were identified:

- The firm selected for testing controls that consisted of the issuer's reviews of the ACL, including an assessment of this qualitative factor for reasonableness. The firm did not evaluate the specific review procedures that the control owner performed to assess the reasonableness of the significant assumptions the issuer used to develop this qualitative factor. (AS 2201.42 and .44)
- The firm's approach for substantively testing the ACL was to test the issuer's process. The firm did not evaluate whether the issuer had a reasonable basis for the significant assumptions the issuer used to develop this qualitative factor. (AS 2501.16)

The issuer assigned certain loans a loan risk rating, which was an important input in estimating the quantitative component of the ACL. The firm's substantive procedures to test the reasonableness of the assigned loan risk rating for these loans included selecting a sample of loans for testing. The firm's sample size was too small to provide sufficient appropriate audit evidence because, in determining the sample size, the firm did not take into account tolerable misstatement, the allowable risk of incorrect acceptance, and the characteristics of the population. (AS 2315.16, .23, and .23A)

Issuer O – Information Technology

Type of audit and related area affected

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

Description of the deficiencies identified

The issuer recorded its investment securities and related disclosures based on data it obtained from a service organization. The firm selected for testing controls that included the issuer's comparisons of its recorded investment securities to these data. The firm did not identify and test any controls over the accuracy and completeness of these data. (AS 2201.39)

The firm did not perform any substantive procedures to evaluate the appropriateness of the issuer's categorization of these securities within the fair value hierarchy set forth in FASB ASC Topic 820, *Fair Value Measurement*. (AS 2301.08)

For investment securities tested at an interim date, the firm did not perform any procedures to extend its conclusions from the interim date to year end. (AS 2301.45)

Issuer P – Financials

Type of audit and related area affected

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

Description of the deficiencies identified

The issuer recognized certain revenue based on rates automatically applied to various transaction types and volumes. The firm selected for testing a control that consisted of the issuer's reviews of changes to these rates. The firm did not test the aspect of this control that addressed whether all applicable rate changes were made and appropriately applied to the corresponding transaction types and volumes. (AS 2201.42 and .44)

The sample size the firm used in certain of its substantive procedures to test this revenue 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)

Issuer Q – Energy

Type of audit and related area affected

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

Description of the deficiencies identified

During the year, the issuer acquired a business. The issuer accounted for an acquired investment using the equity method and determined the fair value of certain acquired intangible assets using cash-flow forecasts. The following deficiencies were identified:

- The firm selected for testing controls over the accounting for this business combination, which included the issuer's review of assumptions used in these cash-flow forecasts. The firm did not evaluate the specific review procedures the control owner performed to assess (1) the appropriateness of the accounting for this investment and certain acquired assets and (2) the reasonableness of certain of these assumptions. (AS 2201.42 and .44)

- The firm's approach for substantively testing the valuation of these acquired intangible assets was to test the issuer's process. The firm did not perform any procedures to evaluate the reasonableness of certain significant assumptions used in these cash-flow forecasts. (AS 2501.16)

- The firm did not perform any procedures to evaluate whether the accounting for this acquired investment and certain acquired assets was in conformity with FASB ASC Topic 323, *Investments – Equity Method and Joint Ventures*, and FASB ASC Topic 970, *Real Estate – General*. Further, the firm did not perform any substantive procedures to test the existence of these acquired assets. (AS 2301.08)

Issuer R – Consumer Discretionary

Type of audit and related area affected

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

Description of the deficiencies identified

During the year, the issuer identified misstatements in its accounting for certain leases and control deficiencies associated with these misstatements. The following audit deficiencies were identified:

- The firm did not evaluate the severity of these control deficiencies individually, or in combination, to determine whether they represented a material weakness. (AS 2201.62)

- The firm performed substantive procedures to test certain of these misstatements but did not test, or test any controls over, the completeness of the lease data that the issuer used to calculate these misstatements. (AS 1105.10)

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

Issuer S – Consumer Discretionary

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Leases**. The firm's internal inspection program inspected this audit and reviewed this area but did not identify the deficiencies below.

Description of the deficiencies identified

The issuer used store-level operating results to evaluate whether any impairment indicators existed for its operating lease right-of-use assets and to perform an impairment analysis. The following deficiencies were identified:

- The firm selected for testing a control that included the issuer's reviews of the accuracy and completeness of these operating results and this impairment analysis. When evaluating the design of this control, the firm did not evaluate the number of items the control owner reviewed to assess whether it was sufficient to address the risks of material misstatement. Further, the firm did not identify that the control owner did not assess whether these operating results were accurately entered into this impairment analysis. (AS 2201.42)

- The firm used these operating results in its substantive testing of the potential impairment of these lease right-of-use assets but did not perform any procedures to test, or (as discussed above) sufficiently test controls over, the accuracy and completeness of these operating results. (AS 1105.10)

Issuer T – Health Care

Type of audit and related area affected

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

Description of the deficiencies identified

During the year, the issuer acquired a business and determined the fair value of certain acquired intangible assets using cash-flow forecasts. The following deficiencies were identified:

- The firm selected for testing a control that included the issuer's review of assumptions used in these cash-flow forecasts. The firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of certain of these assumptions. (AS 2201.42 and .44)

- The firm's approach for substantively testing the valuation of these acquired intangible assets was to test the issuer's process. The firm did not sufficiently evaluate the reasonableness of certain significant assumptions used in these cash-flow forecasts because its procedures were limited to inquiring of management and, for one of these assumptions, comparing the current-year forecasted results to actual results. (AS 2501.16)

Issuer U – Energy

Type of audit and related area affected

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

Description of the deficiencies identified

During the year, the issuer entered into and disclosed transactions with related parties. The issuer conducted surveys of directors and officers of the company in determining its related parties and relationships and transactions with related parties. The following deficiencies were identified:

- The firm selected for testing controls that included the issuer's reviews of these surveys and its related party listing. The firm did not evaluate the specific review procedures that the control owner performed to assess (1) whether related parties were properly identified and evaluated and (2) the completeness of certain information used in the operation of these controls. (AS 2201.42 and .44) In addition, in testing the operating effectiveness of these controls, the firm did not evaluate whether the control owner identified and addressed certain differences between the issuer's survey results and its related party listing. (AS 2201.44)

- The firm did not sufficiently evaluate whether the issuer had properly identified and evaluated its related parties and relationships and transactions with related parties because the firm did not take into account whether the issuer had evaluated certain information, including differences between its survey results and related party listing. (AS 2410.14)

Audits with a Single Deficiency

Issuer V – 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

During the audit, the firm did not identify and evaluate that the issuer's accounting for certain transactions as revenue was not in conformity with FASB ASC Topic 840, *Leases*. (AS 2810.30)

Unrelated to our review, the issuer reevaluated its accounting for these transactions and concluded that a material misstatement existed that had not been previously identified. The issuer subsequently corrected this misstatement in a restatement of its financial statements, and the firm revised and reissued its report on the financial statements.

Issuer W – Financials

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Revenue**, for which the firm identified a fraud risk.

Description of the deficiency identified

The issuer recognized one type of revenue from arrangements with related parties that provided for the reimbursement of certain costs that the issuer incurred. The firm identified a fraud risk related to the issuer's allocation of costs to these arrangements. For these costs, the firm did not perform a test of details to address this fraud risk. (AS 2301.13)

Issuer X – Health Care

Type of audit and related area affected

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

Description of the deficiency identified

During the year, the issuer entered into an amendment to an existing lease agreement. The firm did not identify and evaluate that the issuer's accounting for this lease amendment was not in conformity with FASB ASC Topic 842, *Leases*. (AS 2810.30)

Issuer Y – Materials

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Revenue**, for which the firm identified a fraud risk.

Description of the deficiency identified

The issuer recognized certain revenue from contracts based on labor hours recorded in the issuer's time system. The firm used these labor hours in its substantive testing of this revenue but did not test, or test any controls over, the accuracy and completeness of these labor hours. (AS 1105.10)

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

This section of our report discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of 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 three of 54 audits reviewed, the firm did not include all relevant work papers in the final set of audit documentation it was required to assemble. In these instances, the firm was non-compliant with AS 1215, *Audit Documentation*.
- In two of 14 audits reviewed, the firm did not make certain required communications related to the names, locations, and/or planned responsibilities of other accounting firms and/or other persons not employed by the firm that performed audit procedures in the audit. In seven audits reviewed, the firm did not make these required communications in a timely manner. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 14 audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to the issuer's critical accounting policies and practices and critical accounting estimates. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 54 audits reviewed, the firm did not evaluate certain factors when determining that there were no risks of material misstatement related to relevant assertions for certain significant accounts and disclosures. In these instances, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In one of 54 audits reviewed, the firm did not evaluate certain factors when assessing the risks of material misstatement related to a significant account. In this instance, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In one of 11 audits reviewed, the firm did not obtain from management a complete list of uncorrected misstatements included in or attached to the management representation letter. In this instance, the firm was non-compliant with AS 2805, *Management Representations*.
- In eight of 47 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 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.

- In two of 47 audits reviewed, the firm's communication of a critical audit matter in the audit report included language that was inconsistent with information in the firm's audit documentation. In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

- In one of 47 audits reviewed, the firm's communication of a critical audit matter in the auditor's report did not refer to the relevant financial statement accounts or disclosures related to the critical audit matter. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

- In two of five audits reviewed, the firm's report on Form AP included inaccurate information related to the participation in the audit by certain other accounting firms. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

- In one of 10 audits reviewed, the firm described in writing to the audit committee certain relationships that may have been reasonably thought to bear on the firm's independence but then affirmed that it was independent in compliance with PCAOB Rule 3520, *Auditor Independence*. In this instance, the firm was non-compliant with PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*.

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, 93 instances across 62 issuers,[2] representing approximately 3% of the firm's total reported issuer audits, in which the firm or its personnel appeared to have impaired the firm's independence because it may not have complied with Rule 2-01(c) of Regulation S-X or PCAOB Rules 3523 or 3500T related to maintaining independence. Approximately 35% of these instances of potential non-compliance involved non-U.S. 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 the number of non-U.S. associated firms in the global network; the design and effectiveness of the firm's independence monitoring activities; and the size and/or complexity of the issuers it audits, including the number of affiliates of the issuer. Therefore, we caution against making any comparison of these firm-identified instances of potential non-compliance across firms.

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

- The firm reported 53 instances of potential non-compliance with Rule 2-01(c)(1) of Regulation S-X regarding financial relationships, 16 of which involved non-U.S. associated firms. Of these 53 instances, 41 related to investments in audit clients, 20 of which involved a member of the engagement team. Of the total 41 instances related to investments in audit clients, 23 instances related to investments in broad-based funds.

- The firm reported 14 instances of potential non-compliance with Rule 2-01(c)(2) of Regulation S-X regarding employment relationships. Of these instances, 11 related to an employee of the firm who was also employed by an audit client, the majority of whom were staff-level employees of the firm. Of these 14 instances, one involved an engagement team member who was previously employed at the audit client.

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

- The firm reported 12 instances of potential non-compliance with Rule 2-01(c)(4) of Regulation S-X regarding non-audit services. All but one of these instances related to services provided by non-U.S. associated firms that the firm determined to be prohibited, such as legal services or performing management functions for a company that was an affiliate of an issuer.

The firm has reported to us that it has evaluated these instances of potential non-compliance and determined in all instances that its objectivity and impartiality were not impaired.

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.

October 30, 2023

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

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

Dear Ms. Gunia:

We appreciate the opportunity to respond to Part I of the Public Company Accounting Oversight Board (the "PCAOB") Draft Report (the "Report") on the 2022 Inspection of Ernst & Young LLP (the "Firm"). We understand the enormous trust that is placed in us as independent auditors, and we embrace our responsibility to perform audits that promote confidence in financial reporting and help make the US capital markets the largest and most trusted in the world.

The rate of findings identified in the Report does not reflect our high standards and is unacceptable to us. As leaders, we set clear expectations for audit quality, and we foster a culture of integrity and accountability. To underscore that point, we recently appointed a Chief Ethics and Compliance Officer who reports directly to the US Chair and Managing Partner. Our expectations are clear: we execute every audit with objectivity, independence, and integrity in accordance with professional standards. In response to the issues raised in the Report, we performed an in-depth review of our audit practice and developed a comprehensive action plan that we are confident will improve and sustain audit quality in both the short and long-term.

The action plan we developed and began implementing builds on the changes we made to our audit approach in 2022 and continues in 2023. Our plan is a multi-year transformation journey which includes embedding a continuous improvement mindset into our culture, enhancing and simplifying our audit methodology, tools and technology, standardizing and centralizing aspects of our audit execution, and refreshing our approach to learning and development of our people (which includes more in person teaming and learning). Among other steps, we are focused on driving more consistency across our Assurance practice and enhancing the integration of our information technology professionals into our Assurance practice. Continuously improving audit quality remains our top priority.

Starting last year and increasingly in the current audit cycle, we are bringing our teams together, in person, so our executives can provide more on-the-job coaching and reinforce our culture after three years of working mostly remotely. To underscore our commitment to improving audit quality, we have

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refreshed our accountability framework for Firm leaders and audit partners and amplified our messaging that the quality of audits affects compensation.

We understand that we have work to do, but we are confident that the actions we have already taken and those we plan to take will improve audit quality and further strengthen our Firm's system of quality control. Our monitoring indicates that the actions we took last year are realizing our goal of more consistent audit execution.

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*.

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

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

Respectfully submitted,

Julie A. Boland

Julie A. Boland
US Chair and Managing Partner

Dante D'Egidio

Dante D'Egidio
US Vice Chair of Assurance