2023 Inspection Ernst & Young LLP

(Headquartered in New York, New York)

June 12, 2024

PCAOB RELEASE NO. 104-2024-095

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

EXECUTIVE SUMMARY

Our 2023 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).

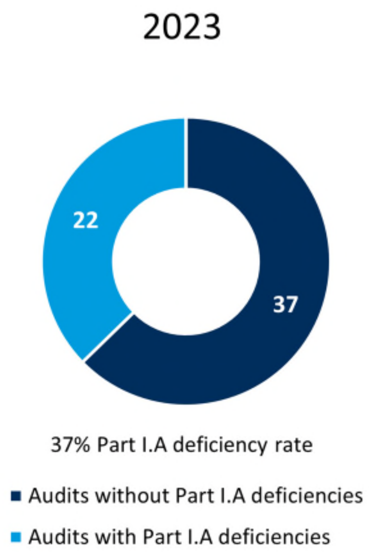
- Part I.B of the report discusses certain deficiencies ("Part I.B deficiencies") that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances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

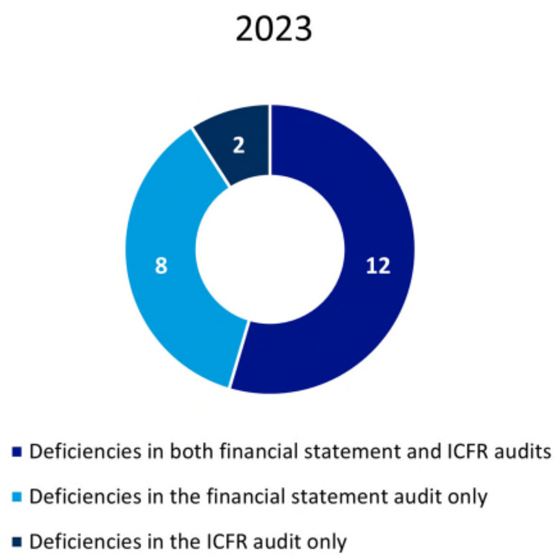
- Part I.C of the report discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence ("Part I.C deficiencies").

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 2023 Deficiencies Included in Part I

Twenty-two of the 59 audits we reviewed in 2023 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.





In connection with our 2023 inspection procedures for two audits, the issuer revised its report on ICFR, and the firm revised its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

The most common Part I.A deficiencies in 2023 related to performing substantive testing to address a risk of material misstatement, testing controls over the accuracy and completeness of data or reports used in the operation of controls, testing the design or operating effectiveness of controls selected for testing, and testing data or reports used in substantive testing.

The Part I.B deficiencies in 2023 related to retention of audit documentation, audit committee communications, risk assessment, communications to management, consideration of fraud, the firm's audit report, critical audit matters, and Form AP.

The most common Part I.C deficiencies in 2023 related to financial relationships, employment relationships, and non-audit services.

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2023 INSPECTION

In the 2023 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 59 audits of issuers with fiscal years generally ending in 2022. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

We also selected for review two reviews of interim financial information ("interim reviews"). Our reviews were performed to gain a timely understanding of emerging financial reporting and auditing risks associated with issuers in the banking industry. We did not identify any instances of non-compliance with PCAOB standards related to these reviews.

What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2023 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.
- **Part I – Inspection Observations:**
  - **Part I.A:** Deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR.
  - **Part I.B:** Certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.
  - **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.

2023 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 2023, our target team focused primarily on the planning and execution of multi-location audits, on audits of issuers engaged in distributed ledger technology activities, and on interim reviews of issuers in the banking industry.

For the interim reviews, similar to our approach for reviewing audits, our target team did not review every aspect of the interim review.

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

OVERVIEW OF THE 2023 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2023 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.

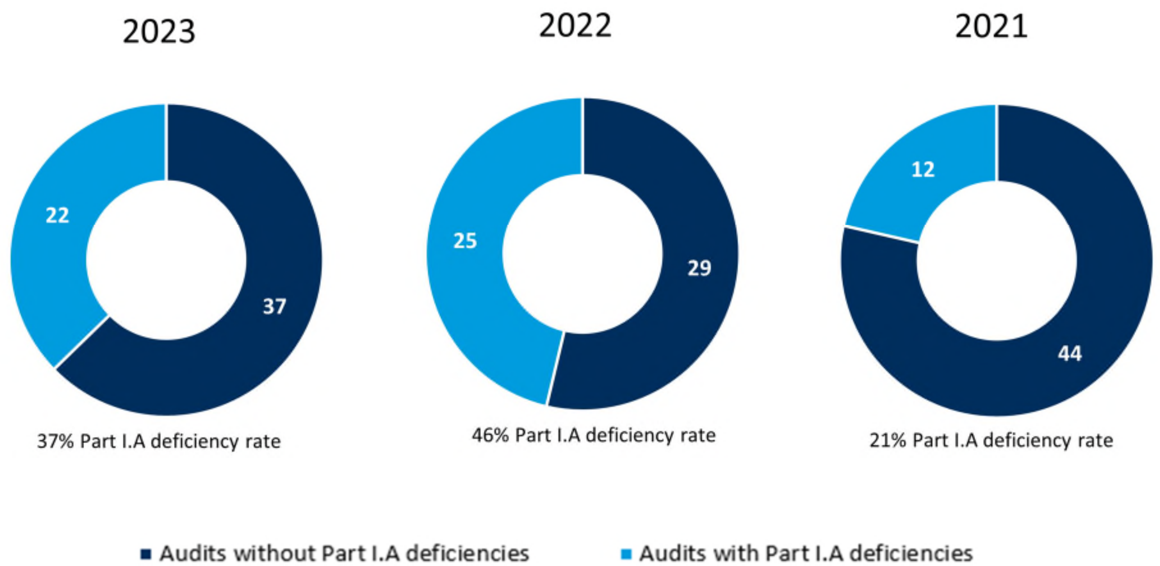
Audits Selected for Review

	2023	2022	2021
Total audits reviewed			
Total audits reviewed	59	54	56
Selection method			
Risk-based selections	43	37	25
Random selections	10	13	25
Target team selections[1]	6	4	6
Total audits reviewed	**59**	**54**	**56**
Principal auditor			
Audits in which the firm was the principal auditor	58	53	56
Audits in which the firm was not the principal auditor	1	1	0
Total audits reviewed	**59**	**54**	**56**
Audit type			
Integrated audits of financial statements and ICFR	51	47	48
Financial statement audits only	8	7	8
Total audits reviewed	**59**	**54**	**56**

[1] For further information on the target team's activities in 2022 and 2021, refer to those inspection reports.

Part I.A Deficiencies in Audits Reviewed

In 2023, 19 of the 22 audits appearing in Part I.A were selected for review using risk-based criteria. In 2022, 21 of the 25 audits appearing in Part I.A were selected for review using risk-based criteria. In 2021, eight of the 12 audits appearing in Part I.A were selected for review using risk-based criteria.

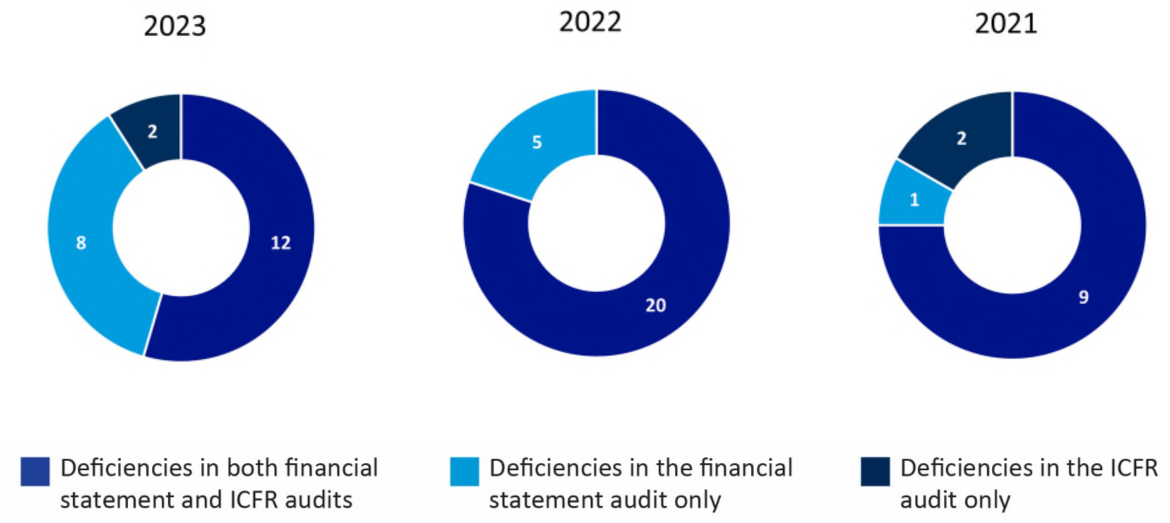


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional 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



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

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

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 special purpose acquisition company. 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 2023 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		
	2023	2022	2021
Did not perform sufficient testing related to a significant account or disclosure or to address an identified risk	13	10	2
Did not perform sufficient testing of data or reports used in the firm's substantive testing	8	9	3
Did not sufficiently test an estimate	4	5	0

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2023	2022	2021
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	9	11	4
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	8	14	8
Did not identify and test any controls that addressed the risks related to a significant account or assertion	7	8	5

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.

2023			2022			2021		
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	45	11	**Revenue and related accounts**	42	15	**Revenue and related accounts**	28	7
Business combinations	13	5	**Business combinations**	26	4	**Goodwill and intangible assets**	16	1
Inventory	13	3	**Inventory**	12	4	**Long-lived assets**	15	2
Goodwill and intangible assets	10	1	**Debt**	10	1	**Accruals and other liabilities**	14	0
Investment securities	9	2	**Accruals and other liabilities**	10	0	**Debt**	13	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	2023		2022		2021	
	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	11	45	15	42	7	28
Business combinations	5	13	4	26	0	5
Inventory	3	13	4	12	1	6
Long-lived assets	1	4	1	4	2	15

Revenue and related accounts: The deficiencies in 2023, 2022, and 2021 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 2023 and 2022 primarily related to evaluating the reasonableness of assumptions the issuer used to determine the fair values of assets acquired and liabilities assumed; substantive testing of, and testing controls over, the accuracy and completeness of data used; and testing controls over the issuer's review of assumptions used to value assets acquired and liabilities assumed.

Inventory: The deficiencies in 2023, 2022, and 2021 primarily related to substantive testing of, and testing controls over, inventory, including controls over information technology systems associated with inventory.

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

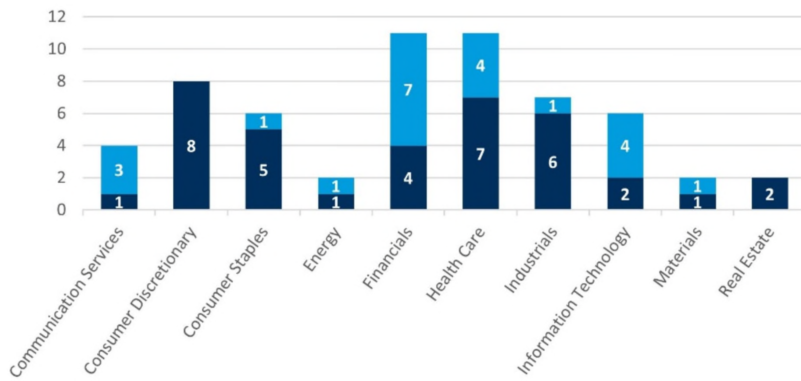
The following lists the auditing standards referenced in Part I.A of the 2023 and the previous two inspection reports, and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2023	2022	2021
AS 1105, *Audit Evidence*	14	19	13
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	49	63	33
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	17	17	9
AS 2305, *Substantive Analytical Procedures*	1	7	5
AS 2310, *The Confirmation Process*	0	0	2
AS 2315, *Audit Sampling*	7	11	3
AS 2401, *Consideration of Fraud in a Financial Statement Audit*	1	0	0
AS 2410, *Related Parties*	0	1	0
AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements* (effective for fiscal years ending on or after December 15, 2020)	4	5	0
AS 2510, *Auditing Inventories*	1	1	0
AS 2810, *Evaluating Audit Results*	2	3	5

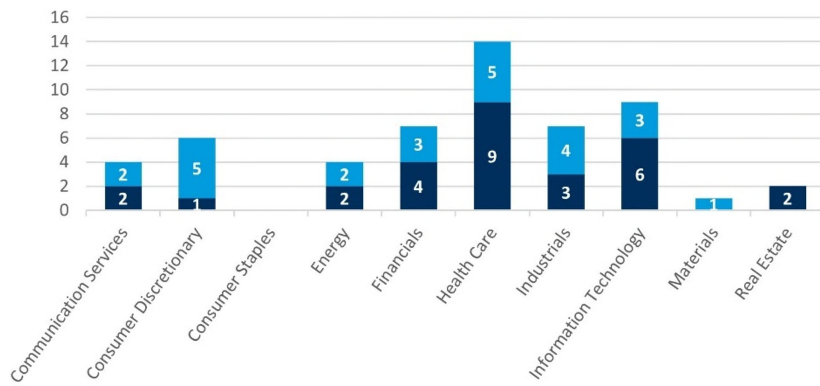
Inspection Results by Issuer Industry Sector

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

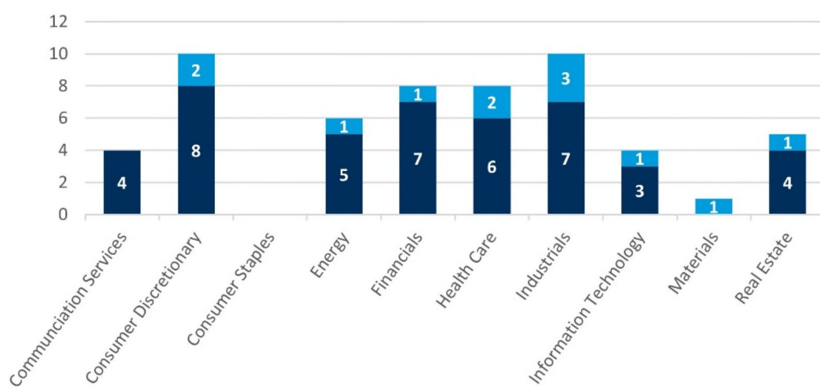
2023



2022

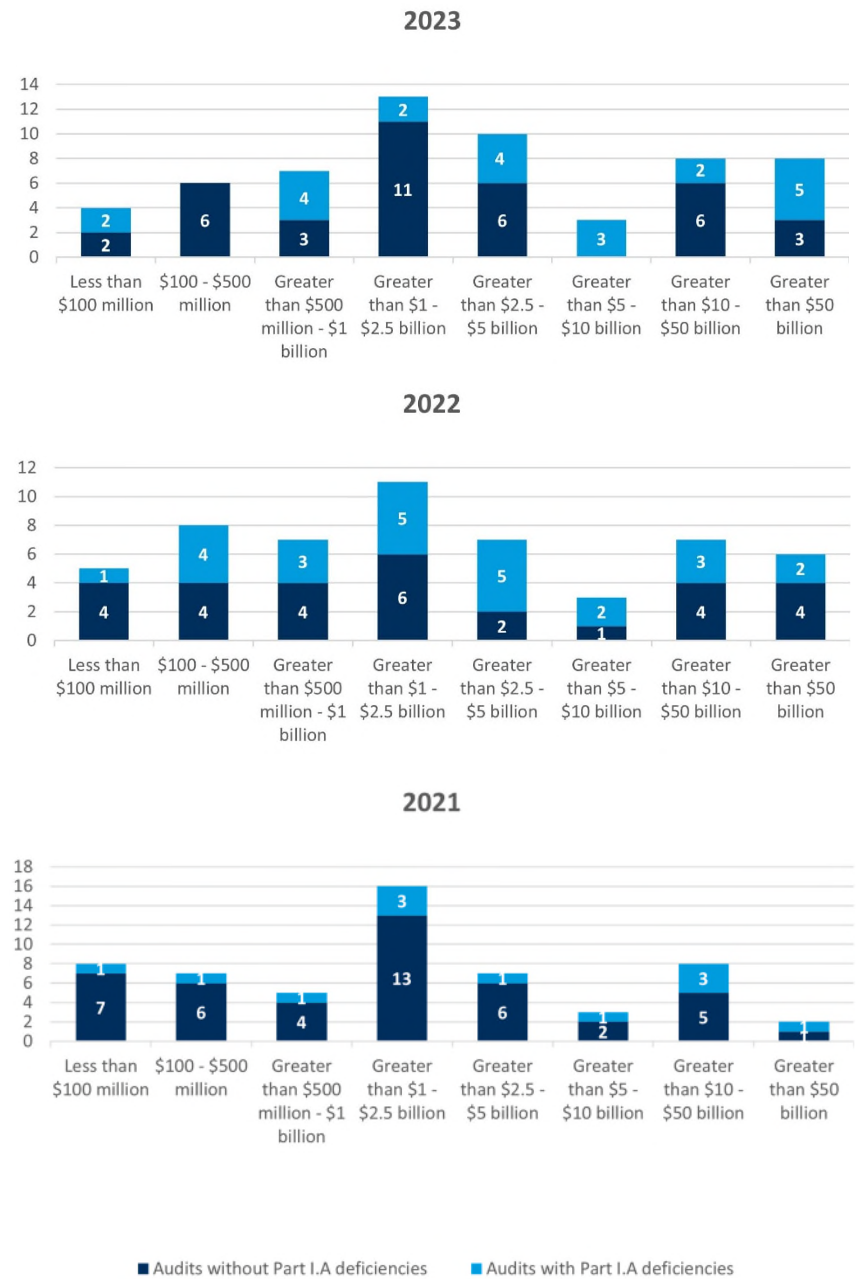


2021

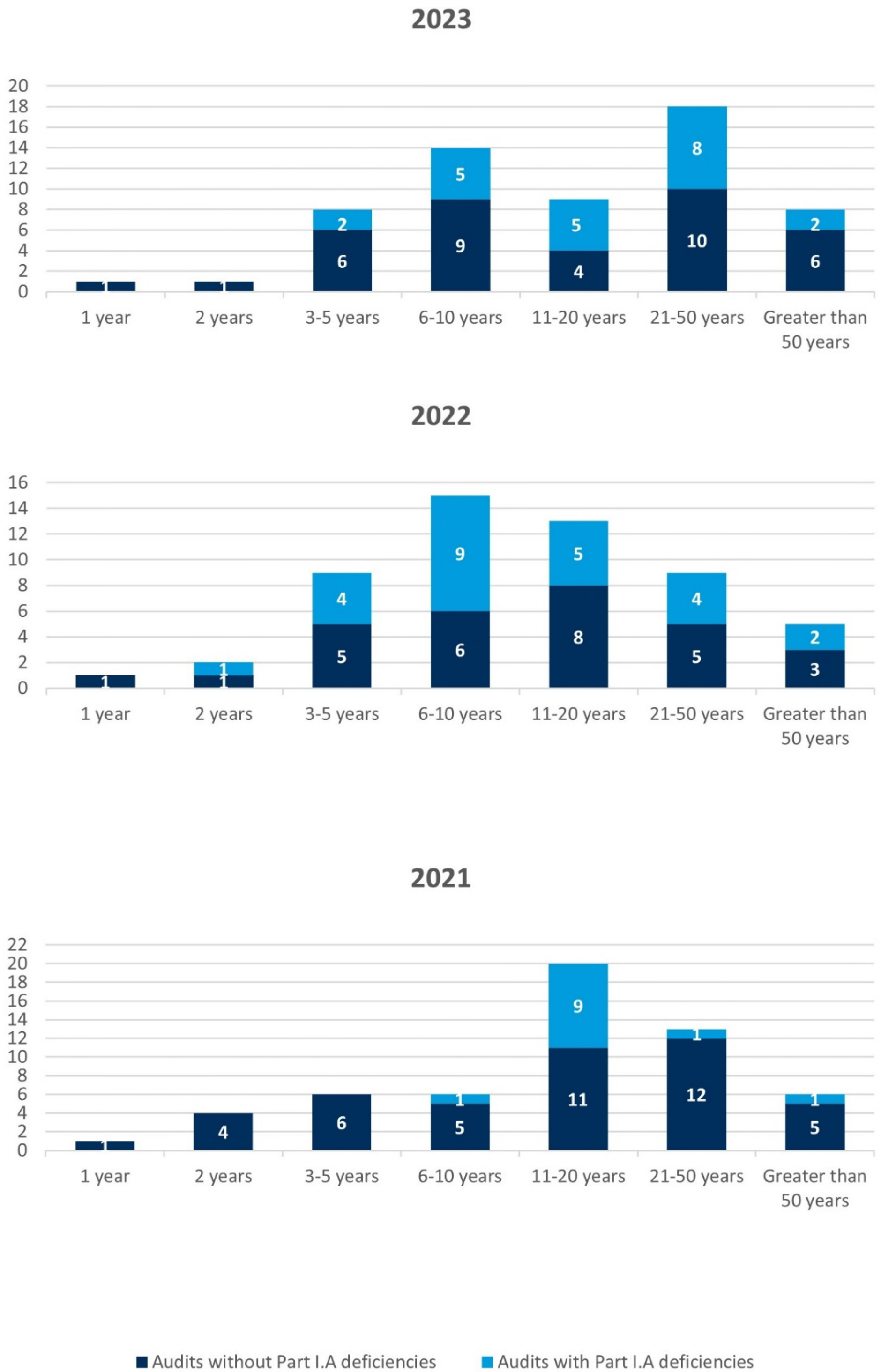


■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

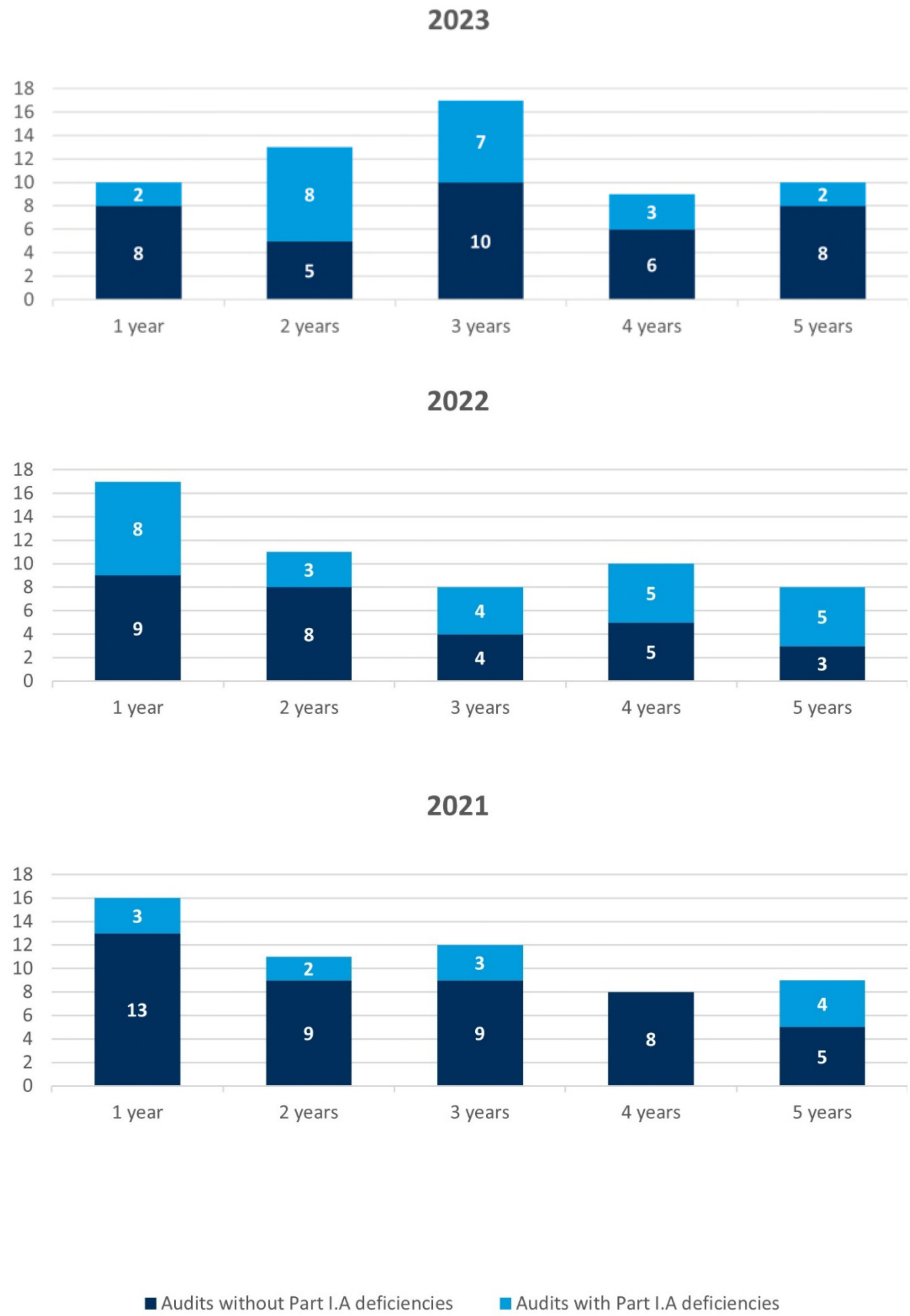
Inspection Results by Issuer Revenue Range



Inspection Results by the Firm’s Tenure on the Issuer



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



Classification of Audits with Part I.A Deficiencies

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

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

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

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

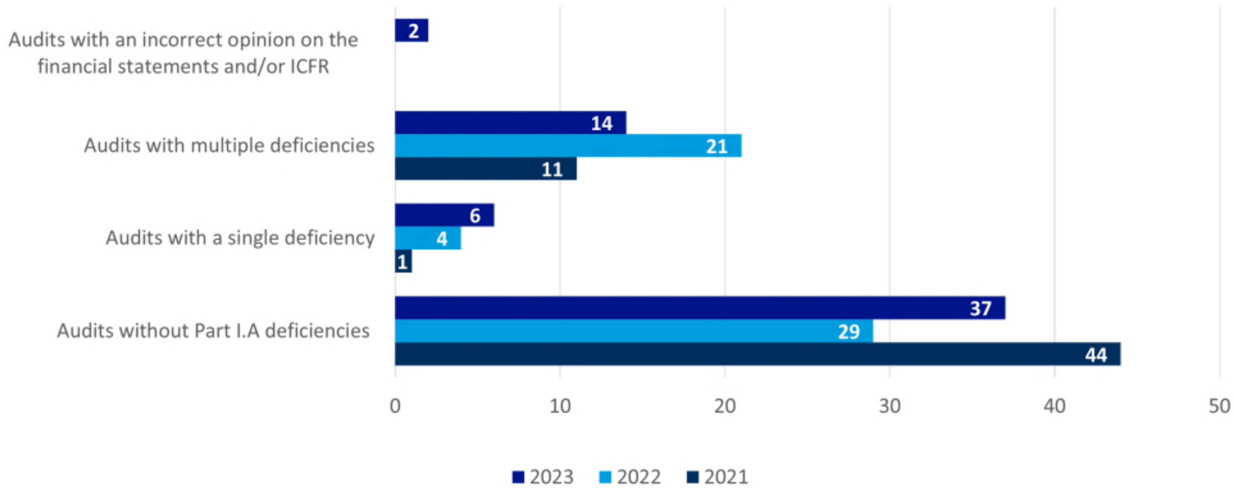
Audits with Multiple Deficiencies

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

Audits with a Single Deficiency

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

Number of Audits in Each Category



PART I: INSPECTION OBSERVATIONS

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

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

Issuer A – Information Technology

Type of audit and related areas affected

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

Description of the deficiencies identified

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

The issuer used an information-technology (IT) system to initiate, process, and record transactions related to certain revenue and inventory. In its testing of controls over these accounts, the firm tested various automated and IT-dependent manual controls that used data and reports generated or maintained by this IT system. As a result of the 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)

The firm selected for testing a control that consisted of the issuer's reviews of changes made to this IT system through administrative user access. The firm did not evaluate the specific review procedures that the control owners performed to assess whether (1) users performed appropriate actions when granted this access and (2) this access was appropriately granted for the instances selected for testing. Further, the firm did not determine whether the control owners possessed the necessary authority and competence to perform this control. (AS 2201.42 and .44)

The firm selected for testing controls over managing changes to the issuer's production environment. The following deficiencies were identified:

- The firm did not identify and test any controls over the completeness of certain data that the control owners used in the operation of these controls. (AS 2201.39)
- The firm did not perform any procedures to test, or test any controls over, the completeness of the population of items from which it selected its samples for testing these controls. (AS 1105.10)
- One of these controls consisted of the issuer's review and approval of changes made to this IT system. The firm did not evaluate the specific review procedures that the control owners performed to assess whether these changes had met the necessary criteria to be implemented into the production environment. (AS 2201.42 and .44)

The sample sizes that the firm used in certain of its substantive procedures to test this inventory were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to 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 **Revenue and Related Accounts**, for which the firm identified a fraud risk:

The firm selected for testing various controls over the processing and recording of certain revenue. The firm did not identify and test any controls over the accuracy and/or completeness of certain data and reports the control owners used in the operation of these controls. (AS 2201.39)

The firm selected for testing an automated control over the appropriateness of the prices that the issuer used to record revenue. The firm did not test the programming of this automated control or perform other procedures to test this control that would have provided sufficient appropriate audit evidence that the control was designed and operating effectively. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy and completeness of certain pricing data used in the operation of this control. (AS 2201.39)

The issuer offered various forms of sales incentives to customers that were recorded as deductions from revenue with a corresponding liability for sales incentives. The firm selected for testing controls that consisted of the issuer's review and approval of these sales incentives. The following deficiencies were identified:

- For one of these controls, the firm did not test the aspect of the control that addressed the control owner's review of the accuracy of certain sales incentives. (AS 2201.42 and .44)
- For another of these controls, the control owner used an automated tool to assess the accuracy of certain other sales incentives. The firm did not test the configuration or programming of this tool or perform other procedures to test this tool that would have provided sufficient appropriate audit evidence that this aspect of the control was designed and operating effectively. (AS 2201.42 and .44)
- The firm's testing of an aspect of these controls that addressed whether these sales incentives were appropriately recorded in the general ledger was not sufficient because the number of items the firm selected for testing did not provide sufficient appropriate audit evidence given the frequency with which the controls operated. (AS 2201.46)
- The firm did not perform any procedures to test, or test any controls over, the completeness of the population of items from which it selected its samples for testing these controls. (AS 1105.10)

In connection with our review, the issuer reevaluated its controls over certain of these sales incentives and concluded that a material weakness existed that had not been previously identified. The issuer subsequently reflected this material weakness in a revision to its report on ICFR, and the firm revised its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

The firm performed substantive procedures to test the accuracy of certain issuer-produced data the firm used in its testing of the sales incentive liability. The sample sizes the firm used in certain of these substantive procedures were smaller than the ones the firm determined necessary to provide sufficient appropriate audit evidence. Further, the firm did not perform any procedures to test, or test any controls over, the completeness of these data. (AS 1105.10)

With respect to **Inventory**:

The issuer held certain inventory at external warehouses. The firm selected for testing controls that consisted of the issuer's review and reconciliation of this inventory to the general ledger. The firm did not identify and test any controls over the (1) accuracy and completeness of certain issuer-produced data and reports and (2) reliability of data and reports that the issuer obtained from the external warehouses that were used in the operation of these controls. (AS 2201.39) In addition, the firm did not evaluate the specific review procedures that the control owners performed to determine whether items that met the criteria for investigation were identified for review. (AS 2201.42 and .44)

With respect to a **Business Combination**:

The firm selected for testing a control that consisted of the issuer's review of the assets acquired and liabilities assumed. The firm did not evaluate the specific review procedures that the control owner performed to assess the appropriateness of the recorded amounts of certain assets acquired and liabilities assumed. (AS 2201.42 and .44)

Issuer B – Information Technology

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

Certain of the issuer's revenue arrangements included multiple performance obligations. The issuer allocated the total transaction price for each of these arrangements to the separate performance obligations based on the relative standalone selling prices. The following deficiencies were identified:

- The firm did not identify and test any controls that addressed whether the methods that the issuer used to estimate the standalone selling prices were in conformity with FASB ASC Topic 606, *Revenue from Contracts with Customers*. (AS 2201.39)
- The firm did not evaluate whether the methods that the issuer used to estimate the standalone selling prices were in conformity with FASB ASC Topic 606. (AS 2501.10)
- The firm did not perform substantive procedures to evaluate the accuracy of the issuer's disclosures related to standalone selling prices under FASB ASC Topic 606. (AS 2301.08)

In connection with our review, the issuer reevaluated its controls over the methods it used to estimate standalone selling prices and concluded that a material weakness existed that had not been previously identified. The issuer subsequently reflected this material weakness in a revision to its report on ICFR, and the firm revised its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report. The issuer also reevaluated its disclosures related to standalone selling prices and determined that a disclosure was misstated. The issuer corrected this misstatement in an amended Form 10-K.

Audits with Multiple Deficiencies

Issuer C – Consumer Staples

Type of audit and related areas affected

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

Description of the deficiencies identified

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

The firm did not identify and test any controls over long-lived assets and depreciation expense. (AS 2201.39)

The firm did not perform any substantive procedures to test certain long-lived assets and depreciation expense. (AS 2301.08)

For certain other long-lived assets, the following deficiencies were identified:

- The firm did not perform any substantive procedures to test these long-lived assets for possible impairment, beyond reading an issuer-prepared memorandum. (AS 2301.08)
- The sample sizes the firm used in certain of its substantive procedures to test these long-lived assets were too small to provide sufficient appropriate audit evidence because, in determining the sample sizes, 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 **Pension Assets and Liabilities**:

The firm did not identify and test any controls over the issuer's domestic pension assets and liabilities. (AS 2201.39)

The firm did not perform any substantive procedures to (1) test the fair value of these pension assets and (2) evaluate the appropriateness of the issuer's categorization of these pension assets within the fair value hierarchy set forth in FASB ASC Topic 820, *Fair Value Measurement*, beyond obtaining a confirmation from the pension asset custodian. (AS 2301.08; AS 2501.07)

With respect to **Business Combinations**:

During the year, the issuer acquired multiple businesses and engaged specialists to determine the fair value of certain acquired intangible assets using various assumptions. The following deficiencies were identified:

- The firm selected for testing three controls that consisted of the issuer's reviews of the fair value of these acquired intangible assets. For two of these controls, the firm did not evaluate the criteria the control owners used to identify items for follow-up when assessing the reasonableness of certain assumptions used. (AS 2201.42 and .44) For the third control, 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. (AS 2201.42 and .44)
- The firm did not identify and test any controls over the accuracy and completeness of certain issuer-produced data that the company's specialist used to develop certain of these assumptions. (AS 2201.39)
- The firm did not test, or (as discussed above) test any controls over, the accuracy and completeness of certain issuer-produced data that the company's specialist used to develop certain of these assumptions. (AS 1105.A8a)
- The firm did not evaluate whether the issuer was required to make certain disclosures related to these business combinations in conformity with FASB ASC Topic 805, *Business Combinations*, beyond asserting that these disclosures were either not material to the financial statements or not applicable. (AS 2301.08)

Issuer D – 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**, for which the firm identified a fraud risk.

Description of the deficiencies identified

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

The firm selected for testing a control over managing changes to the issuer's production environment for each of these IT systems. The following deficiencies were identified:

- For two IT systems, the firm did not identify and test any controls over the completeness of the populations of changes that the control owners used in the operation of the control. (AS 2201.39)
- For two other IT systems, the firm did not perform sufficient procedures to test controls over the completeness of the populations of changes that the control owners used in the operation of the control because it limited its procedures to inspecting evidence that the control owner traced one system change into the populations used. (AS 2201.46)
- For another IT system, when evaluating the design of the control, the firm did not assess whether the control owner's review of system changes was sufficiently precise to achieve the control's objective. (AS 2201.42)

The issuer used a service organization to maintain databases that the issuer used in the recognition of revenue and the related deferred revenue. The firm obtained a service auditor's report and identified complementary user entity controls that the service auditor's report described as necessary. The firm did not perform procedures to evaluate whether the issuer had implemented these controls with respect to one of these databases. (AS 2201.39 and .B22)

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

- The sample sizes the firm used in certain of its substantive procedures to test revenue were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported. (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)

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 estimated standalone selling prices were based on the expected cost plus a margin approach, which included significant assumptions related to the expected costs of satisfying each of the performance obligations. The following deficiencies were identified:

- The firm selected for testing controls that included the issuer's reviews of the estimated standalone selling prices, including the significant assumptions. The firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of these significant assumptions. (AS 2201.42 and .44)
- The firm's approach for substantively testing the estimated standalone selling prices was to test the issuer's process. The firm did not perform procedures to evaluate the reasonableness of the expected costs of satisfying each of the performance obligations. (AS 2501.16)

With respect to **Deferred Revenue**:

The firm selected for testing various manual controls over the issuer's deferred revenue calculation. The following deficiencies were identified:

- For three 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 the controls. (AS 2201.39)
- For another of these controls, the firm did not test, or test any controls over, the completeness of the population of items from which it selected its samples for testing. (AS 1105.10)

The firm's testing of an automated control over deferred revenue was not sufficient because the firm did not test the configuration or programming of this control or perform other procedures to test this control that would have provided sufficient appropriate audit evidence that this control was designed and operating effectively. (AS 2201.42 and .44)

Issuer E – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the ICFR audit related to **Revenue** and a **Certain Asset and Liability.**

Description of the deficiencies identified

With respect to **Revenue** and a **Certain Asset and Liability**:

The issuer used multiple IT systems to initiate, process, and record transactions related to certain revenue and a certain asset and liability. In its testing of controls over these accounts, the firm tested various automated and IT-dependent manual controls that used data and reports generated or maintained by these IT systems. As a result of the following deficiencies in the firm's testing of 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 change management that consisted of the review and testing of changes to certain IT systems prior to implementation into the production environment. The following deficiencies were identified:

- For certain of these controls, the firm did not test, or test any controls over, the completeness of the population of items from which it selected its samples for testing. (AS 1105.10)
- When testing the operating effectiveness of certain of these controls, the firm did not determine whether the control owners possessed the necessary competence to perform these controls effectively. (AS 2201.44)
- The firm's testing of an aspect of one of these controls that involved the use of automated tools was not sufficient because the firm did not test the configuration of these tools or perform other procedures to test these tools that would have provided sufficient appropriate audit evidence that this aspect of the control was designed and operating effectively. (AS 2201.42 and .44)
- The firm's testing of one of these controls was not sufficient because it did not evaluate whether the changes it selected were appropriately tested by the issuer prior to implementation into the production environment. Further, the firm's testing of another control was not sufficient because its procedures to test the control were limited to inquiry. (AS 2201.42 and .44)

The firm selected for testing a control that consisted of the issuer's review of user access to another IT system. The firm did not identify and test any controls over the accuracy of certain information that the control owners used in the operation of the control. (AS 2201.39) In addition, the firm did not identify and test any controls that addressed the risk that inappropriate changes could be made to data in this IT system by users with certain access. (AS 2201.39)

With respect to a **Certain Asset and Liability**:

During the year, the issuer implemented an IT system that was used to initiate, process, and record transactions related to this asset and liability. The firm did not identify and test any controls that addressed certain risks related to the configurations within this IT system. (AS 2201.39)

The firm selected for testing a control that consisted of the issuer's reconciliation of a portion of this asset and liability to supporting documentation and review of variances. The firm did not evaluate whether the control owners' review of certain variances at an aggregated level was sufficient to address the risks of material misstatement. (AS 2201.42 and .44)

The firm selected for testing an automated control over transactions related to this asset and liability. The firm did not identify and test any controls over the accuracy and completeness of certain information that was used in the operation of this automated control. (AS 2201.39)

The firm selected for testing two additional controls over transactions related to this asset and liability but did not 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 firm did not identify and test any controls that addressed certain risks related to the issuer's ability to hold or control rights to this asset. (AS 2201.39)

Issuer F – Health Care

Type of audit and related area affected

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

Description of the deficiencies identified

For one type of revenue, the firm did not identify and test any controls over the issuer's identification and evaluation of contract terms that could affect revenue recognition. (AS 2201.39)

The firm's substantive procedures to test this revenue included selecting a sample of transactions for testing. For certain of the transactions selected for testing, the firm did not obtain and evaluate the customer contract to assess whether revenue was appropriately recognized. (AS 2301.08)

For another type of revenue, the issuer used models to estimate certain contractual adjustments. The firm selected for testing a control that consisted of the issuer's review of these models. The firm did not evaluate the specific review procedures the control owners performed to assess the reasonableness of the output of these models. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy and completeness of certain data that the control owners used in the operation of this control. (AS 2201.39)

Issuer G – Health Care

Type of audit and related areas affected

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

Description of the deficiencies identified

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

The firm selected for testing two automated controls over certain revenue, accounts receivable, and inventory. The firm's testing of these automated controls was not sufficient because the firm did not test the programming of these controls or perform other procedures to test these controls that would have provided sufficient appropriate audit evidence that these controls were designed and operating effectively. (AS 2201.42 and .44)

The sample 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 **Goodwill**:

The firm did not evaluate whether the issuer was required to disclose the amount of goodwill allocated to reporting units with zero or negative carrying amounts in conformity with FASB ASC Topic 350, *Intangibles – Goodwill and Other*, beyond asserting that this disclosure would not be material to the financial statements. (AS 2301.08)

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 a **Business Combination** and **Revenue**.

Description of the deficiencies identified

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

During the year, the issuer acquired a business and determined the fair value of certain acquired intangible assets using cash-flow forecasts. The issuer recorded subsequent adjustments to the provisional fair value of these acquired intangible assets during the measurement period. The following deficiencies were identified:

- The firm selected for testing controls that consisted of the issuer's reviews of the fair value of these acquired intangible assets, including the assumptions used in these cash-flow forecasts. The firm did not evaluate the specific review procedures that the control owners performed to assess (1) the reasonableness of certain of these assumptions and (2) whether the subsequent adjustments were based on new information obtained about facts and circumstances that existed as of the acquisition date. (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 substantive procedures to evaluate whether the issuer's subsequent adjustments were based on new information obtained about facts and circumstances that existed as of the acquisition date. (AS 2301.08)

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

The issuer recognized revenue from one of its products net of rebates and other sales incentives that it estimated based on certain historical data. The firm did not sufficiently test the completeness of these data because it did not test whether these data included all contractual rebates and other sales incentives owed to the customer. (AS 1105.10)

Issuer I – Communication Services

Type of audit and related areas affected

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

Description of the deficiencies identified

For certain revenue and deferred revenue, the firm did not perform any procedures to test, or test any 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)

The firm's procedures to test the accuracy of certain other issuer-produced data the firm used in its substantive testing of certain of this revenue consisted of selecting a sample of items for testing. 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)

Issuer J – Communication Services

Type of audit and related area affected

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

Description of the deficiencies identified

With respect to two types of revenue, the following deficiencies were identified:

- The firm did not identify and test any controls that addressed whether the performance obligation was satisfied before revenue was recognized. (AS 2201.39)
- For the first type of revenue, the firm did not perform any substantive procedures to test whether the performance obligation was satisfied before revenue was recognized. (AS 2301.08)
- For the second type of revenue, the firm used issuer-produced delivery data in its substantive testing but did not perform any procedures to test, or test any controls over, the accuracy and completeness of these data. (AS 1105.10)

The firm did not perform procedures, beyond inquiring of management and reading an issuer-prepared memorandum, to evaluate whether the issuer's balance sheet presentation of certain customer deposits and sales commissions was in conformity with GAAP. (AS 2301.08)

Issuer K – Information Technology

Type of audit and related area affected

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

Description of the deficiencies identified

During the year, the issuer acquired multiple businesses 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 that consisted of the issuer's reviews of the fair value of these acquired intangible assets, including the assumptions and data used in these cash-flow forecasts. For one of these controls, the firm did not evaluate the specific review procedures that the control owner performed to assess the reasonableness of certain of these assumptions. (AS 2201.42 and .44) For another of these controls, the firm did not identify and test any controls over the accuracy and completeness of certain of these data for one of these acquired businesses. (AS 2201.39)

- The firm used certain data in its substantive testing of one of these acquired businesses, but did not perform any procedures to test, or (as discussed above) test any controls over, the accuracy and completeness of these data. (AS 1105.10)

Issuer L – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to the **Allowance for Credit Losses (ACL)** and **Loans**.

Description of the deficiencies identified

With respect to the **ACL**:

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 was too small to provide sufficient appropriate audit evidence because, in determining its sample, the firm did not consider the characteristics of the population. (AS 2315.16, .23, and .23A)

With respect to **Loans**:

The firm did not identify and evaluate a misstatement in a required disclosure under FASB ASC Topic 820 related to the carrying value of loans compared to their fair value. (AS 2810.30 and 31)

Issuer M – 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 entered into a transaction and engaged a specialist to assist it in determining the fair value of certain long-lived assets recorded in connection with the transaction. The following deficiencies were identified:

- The firm did not identify and test any controls over the accuracy of certain issuer-produced data that the company's specialist used to determine the fair value of these long-lived assets. (AS 2201.39)

- The firm did not test, or (as discussed above) test any controls over, the accuracy of these issuer-produced data that the company's specialist used to determine the fair value of these long-lived assets. (AS 1105.A8a)

Issuer N – Materials

Type of audit and related area affected

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

Description of the deficiencies identified

The issuer recorded the cost of certain manufactured inventory based on the weight of the raw materials included in the inventory items. The firm did not identify and test any controls over the accuracy of these weights. (AS 2201.39)

The firm's substantive procedures to test the existence of inventory at one of the issuer's locations were not suitable because they did not provide any evidence of the quantity and physical condition of the inventory. (AS 2510.09)

Issuer O – Financials

Type of audit and related area affected

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

Description of the deficiencies identified

The issuer used multiple service organizations to initiate, process, and record transactions related to MSRs. The valuation of MSRs was determined based on certain loan data that these service organizations provided to the issuer. The following deficiencies were identified:

- The firm did not identify and test any controls over the accuracy of these data. (AS 2201.39 and .B19)
- The firm used these loan data in its substantive testing of MSRs but did not test, or (as discussed above) test any controls over, the accuracy of these data. (AS 2301.08)

Issuer P – Financials

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to **Derivatives**.

Description of the deficiencies identified

The firm did not evaluate whether the issuer had appropriately calculated and presented certain derivative losses in the statement of cash flows. (AS 2301.08) In addition, the firm did not identify and evaluate the issuer's omission of certain disclosures related to these derivative losses that were required under FASB ASC Topic 230, *Statement of Cash* Flows. (AS 2810.30 and .31)

Audits with a Single Deficiency

Issuer Q – Information Technology

Type of audit and related area affected

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

Description of the deficiency identified

The firm's substantive procedures to test certain revenue included selecting a sample of transactions for testing. The firm did not perform sufficient procedures to test these transactions because its procedures were limited to comparing the transactions to information from the same system from which the transactions were selected. (AS 2301.08)

Issuer R – Financials

Type of audit and related area affected

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

Description of the deficiency identified

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 was too small to provide sufficient appropriate audit evidence because, in determining its sample, the firm did not consider the relationship of the sample to the relevant audit objective and the allowable risk of incorrect acceptance. (AS 2315.16, .23, and .23A)

Issuer S – Industrials

Type of audit and related area affected

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

Description of the deficiency identified

For certain revenue, the firm selected for testing a control that consisted of the issuer's reviews of monthly revenue compared to the corresponding prior-period revenue. The firm did not identify and test any controls over the accuracy and completeness of certain data that the control owners used in the operation of this control. (AS 2201.39)

Issuer T – Financials

Type of audit and related area affected

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

Description of the deficiency identified

To identify and select journal entries for testing, the firm identified fraud characteristics and obtained a list of all journal entries with these characteristics. The firm did not perform sufficient procedures to test those journal entries because it examined the underlying support for only certain journal entries, without having an appropriate rationale for limiting its testing to those certain journal entries. (AS 2401.61)

Issuer U – Health Care

Type of audit and related area affected

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

Description of the deficiency identified

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

Issuer V – Financials

Type of audit and related area affected

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

Description of the deficiency identified

To test the fair value of certain investment securities, the firm selected a sample of investments for testing. The firm did not select sample items in such a way that could be expected to be representative of the population because it excluded a portion of the population when selecting sample items to test. (AS 2315.24)

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 two of 59 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 one of 29 audits reviewed, the firm did not make certain required communications related to the names and locations of other accounting firms or other persons not employed by the firm that performed audit procedures in the audit. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 29 audits reviewed, the firm did not communicate to the audit committee certain significant changes to the planned audit strategy that had initially been communicated to the audit committee and the reasons for such changes. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees.*
- In two of 29 audits reviewed, the firm did not make a required communication to the audit committee in a timely manner and/or prior to the issuance of the auditor's report. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 59 audits reviewed, the firm did not evaluate certain factors when determining that there were no risks of material misstatement related to certain significant accounts and disclosures. In this instance, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In one of 59 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 three of 51 audits reviewed, the firm did not communicate to management, in writing, all control deficiencies identified during the audit and/or inform the audit committee when such communication had been made prior to the issuance of the auditor's report. In these instances,

the firm was non-compliant with AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.

- In one of 37 audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not have an appropriate rationale for limiting its testing of entries it identified as having certain fraud risk characteristics to certain entries. In this instance, the firm was non-compliant with AS 2401, *Consideration of Fraud in a Financial Statement Audit*.

- In one of 37 audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not appropriately consider the characteristics of potentially fraudulent journal entries in determining the criteria it used to identify and select journal entries for testing. In this instance, the firm was non-compliant with AS 2401, *Consideration of Fraud in a Financial Statement Audit*.

- In one of 58 audits reviewed, the firm’s audit report omitted one of the issuer’s financial statements. 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 43 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 audit committee and that related to accounts or disclosures that were material to the financial statements. In one additional audit reviewed, the engagement team did not take into account certain required factors in determining whether or not certain matters were critical audit matters. 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 one of 43 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 this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

- In one of 43 audits reviewed, the firm’s communication of a critical audit matter in the audit report omitted aspects of how the critical audit matter was addressed in the audit that the firm had determined were necessary to communicate. 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 three of 31 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*.

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, for a nine-month period, 66 instances across 45 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(b) and/or 2-01(c) of Regulation S-X or PCAOB Rules 3523 or 3500T related to maintaining independence. Approximately 29% 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 41 instances of potential non-compliance with Rule 2-01(c)(1) of Regulation S-X regarding financial relationships, seven of which involved non-U.S. associated firms. Of these 41 instances, 38 related to investments in audit clients, 20 of which involved a member of an engagement team and 11 of which were instances where a partner or manager provided more than 10 hours of non-audit services to the audit client. Of the total 38 instances related to investments in audit clients, 19 instances related to investments in broad-based funds.
- The firm reported nine instances of potential non-compliance with Rule 2-01(c)(2) of Regulation S-X regarding employment relationships. Of these instances, six related to employees of the firm who were also employed by an audit client, the majority of whom were staff-level employees of

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

the firm. Two instances related to a close family member of a partner or professional employee of the firm who was employed at an audit client in an accounting or financial reporting oversight role.

- The firm reported five 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 the firm or by non-U.S. associated firms that the firm determined to be prohibited, consisting of performing management functions or legal services 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. The firm also reported to us that it communicated these instances to the issuers' audit committees as required by PCAOB Rule 3526.

PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

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

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

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

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

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

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

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

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

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April 26, 2024

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

Re: Response to Part I of the Draft Report on the 2023 Inspection of Ernst & Young LLP

Dear Ms. Gunia:

We appreciate the opportunity to respond to Part I of the Public Company Accounting Oversight Board's (PCAOB) Draft Report (the Report) on the 2023 Inspection of Ernst & Young LLP (the Firm). We hold our responsibility to serve the public interest in the highest regard by performing high-quality audits that promote confidence in the capital markets.

We recognize we are on a multiyear transformation journey and have more work to do to continue to drive improvements to audit quality. We have thoroughly evaluated the matters described in Part I of the Report and for the affected engagements 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 are confident that our comprehensive action plan developed as a result of the in-depth review of our audit practice will result in continued improvement in audit quality in both the short term and sustained over the long term. We have restructured our Assurance practice, incorporated our technology risk professionals into our Assurance practice and centralized decision-making to help us implement both immediate actions to improve audit quality and continue on our multiyear transformation journey. We continue to focus on simplifying and standardizing our audit approach and embedding a continuous improvement mindset in our practice. To underscore our commitment to improving audit quality, we refreshed our accountability framework and consequences for partners. We have made investments in the learning and development of our people, with a particular focus on foundational learning. We will continue to evaluate our approach as it relates to the content of our learning programs as well as how, when and where the learning is delivered.

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

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

Respectfully submitted,

Julie A. Boland
US Chair and Managing Partner

Dante D'Egidio
US Vice Chair of Assurance