2021 Inspection Ernst & Young LLP

(Headquartered in New York, New York)

November 21, 2022

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. 104-2022-220

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

EXECUTIVE SUMMARY

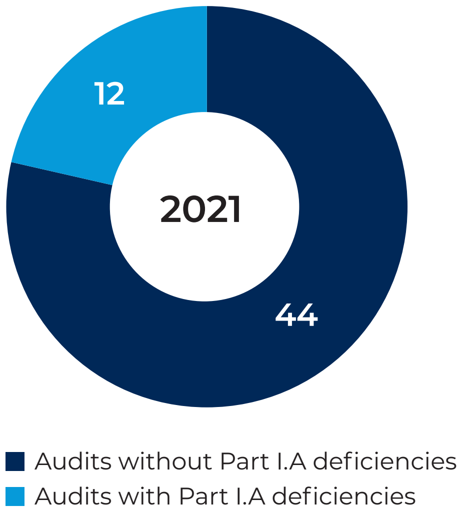
Our 2021 inspection report on Ernst & Young LLP provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board (PCAOB) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of:

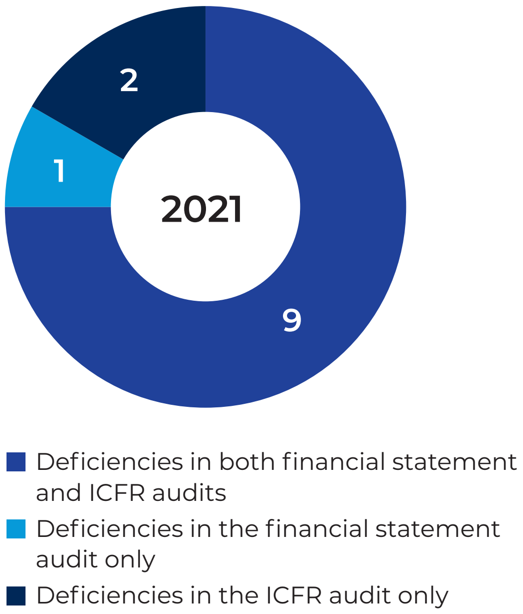
- Part I.A of the report, which discusses deficiencies ("Part I.A deficiencies") in certain issuer audits that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or internal control over financial reporting (ICFR); and
- Part I.B of the report, which discusses deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

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

Overview of the 2021 Deficiencies Included in Part I

Twelve of the 56 audits we reviewed in 2021 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, long-lived assets, and equity and equity-related transactions.





The most common Part I.A deficiencies in 2021 related to testing the design or operating effectiveness of controls selected for testing, identifying controls related to a significant account or relevant assertion, and testing the accuracy and completeness of information used to make selections for testing controls.

Other deficiencies identified during the 2021 inspection that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s), which appear in Part I.B, related to retention of audit documentation, audit committee communications, the firm's audit report, critical audit matters, and Form AP.

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2021 INSPECTION

In the 2021 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 56 audits of issuers with fiscal years generally ending in 2020. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

We also selected for review three 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 that were formed by mergers between non-public operating companies and special purpose acquisition companies (SPACs). We did not identify any instances of non-compliance with PCAOB standards related to the interim reviews that we reviewed.

What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2021 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:** Deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.
- **Part II – Observations Related to Quality Control:** Criticisms of, or potential defects in, the firm's system of quality control. Section 104(g)(2) of the Sarbanes-Oxley Act ("Act") restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.
- **Appendix A – Firm's Response to the Draft Inspection Report:** The firm's response to a draft of this report, excluding any portion granted confidential treatment.

2021 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 2021, our target team focused primarily on audit areas affected by COVID-19, such as fraud and going concern, and on interim reviews of issuers that were formed by mergers between non-public operating companies and SPACs.[1]

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

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

1 Refer to Observations From the Target Team's 2021 Inspections for observations from the target team reviews.

OVERVIEW OF THE 2021 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2021 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.

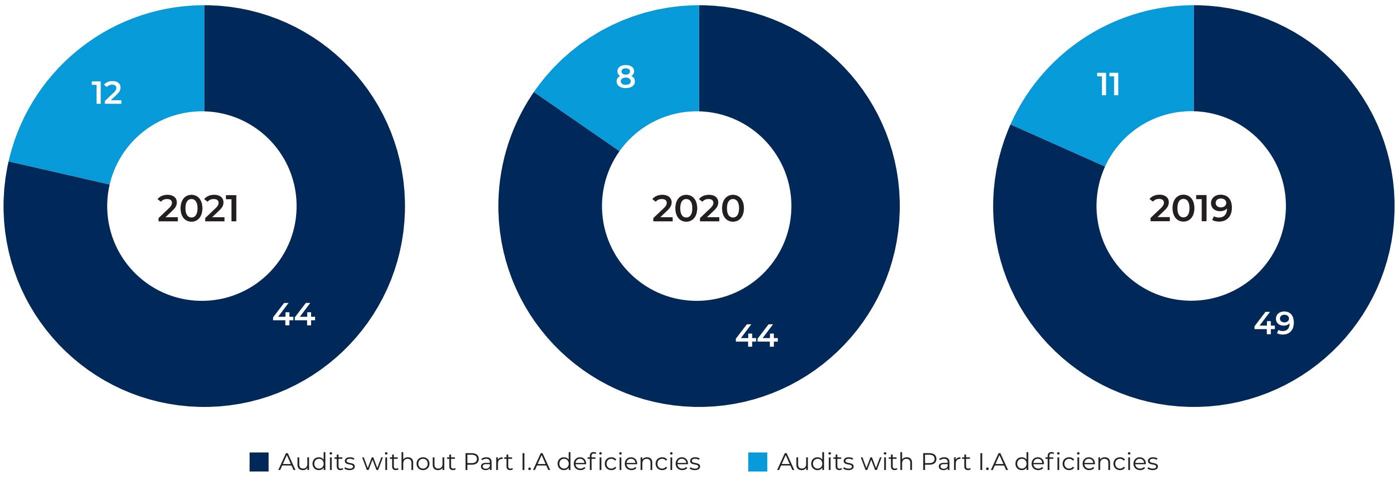
Audits Selected for Review

	2021	2020	2019
Total audits reviewed			
Total audits reviewed	56	52	60
Selection method			
Risk-based selections	25	37	41
Random selections	25	13	14
Target team selections[2]	6	2	5
Total audits reviewed	**56**	**52**	**60**
Principal auditor			
Audits in which the firm was the principal auditor	56	51	58
Audits in which the firm was not the principal auditor	0	1	2
Total audits reviewed	**56**	**52**	**60**
Audit type			
Integrated audits of financial statements and ICFR	48	47	54
Financial statement audits only	8	5	6
Total audits reviewed	**56**	**52**	**60**

[2] For further information on the target team's activities in 2020 and 2019, refer to those inspection reports.

Part I.A Deficiencies in Audits Reviewed

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. In 2019, 10 of the 11 audits appearing in Part I.A were selected for review using risk-based criteria.

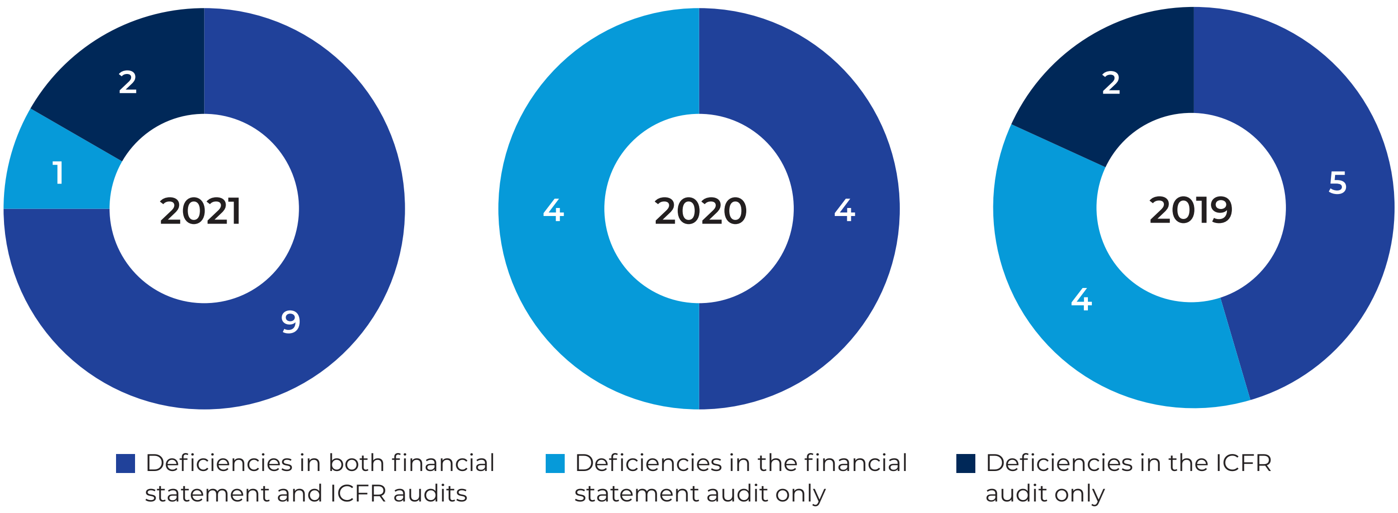


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional 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 normally includes a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

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

Audits Affected by the Deficiencies Identified in Part I.A



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. In connection with our 2019 inspection procedures for two audits, the issuers revised their reports on ICFR, and the firm revised its opinions on the effectiveness of the issuer's ICFR to express adverse opinions and reissued its reports.

The following tables and graphs summarize inspection-related information, by inspection year, for 2021 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		
	2021	2020	2019
Did not obtain sufficient evidence as a result of overreliance on controls (due to deficiencies in testing controls)	4	3	1
Did not sufficiently evaluate the appropriateness of the issuer's accounting method or disclosure for one or more transactions or accounts	4	0	1
Did not perform sufficient testing of data or reports used in the firm's substantive testing	3	4	5

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2021	2020	2019
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	8	3	6
Did not identify and test any controls that addressed the risks related to a significant account or relevant assertion	5	0	3
Did not test the accuracy and completeness of information that the firm used to make selections for testing the operating effectiveness of a control	5	1	2

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.

2021			2020			2019		
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	28	7	Revenue and related accounts	40	5	Revenue and related accounts	39	7
Goodwill and intangible assets	16	1	Inventory	19	2	Business combinations	18	2
Long-lived assets	15	2	Long-lived assets	16	0	Investment securities	13	1
Accruals and other liabilities	14	0	Business combinations	12	0	Inventory	12	0
Debt	13	1	Goodwill and intangible assets	10	1	Goodwill and intangible assets	9	0

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	2021		2020		2019	
	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	7	28	5	40	7	39
Long-lived assets	2	15	0	16	2	7
Equity and equity-related transactions	2	10	0	4	0	1
Inventory	1	6	2	19	0	12
Business combinations	0	5	0	12	2	18

Revenue and related accounts: The deficiencies in 2021, 2020, and 2019 primarily related to substantive testing of, and testing controls over, revenue, including controls over information technology systems associated with revenue.

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. The deficiencies in 2019 primarily related to substantive testing of property, plant, and equipment and testing controls over various types of long-lived assets, including controls over information technology systems associated with long-lived assets.

Equity and equity-related transactions: The deficiencies in 2021 related to substantive testing of, and testing controls over, the appropriateness of the issuer's accounting for certain warrants and transactions.

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

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

Auditing Standards Associated with Identified Part I.A Deficiencies

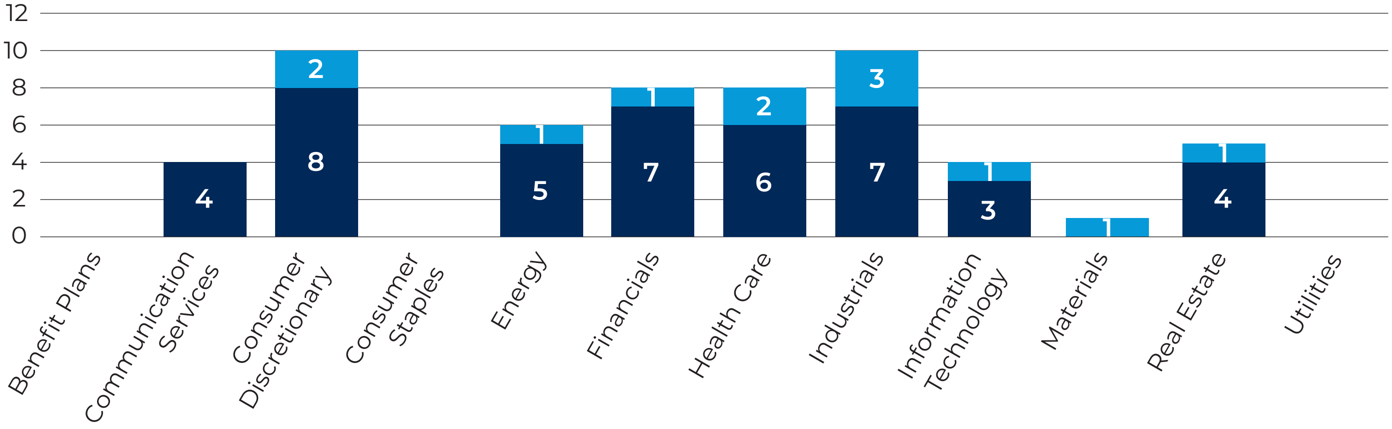
The following lists the auditing standards referenced in Part I.A of the 2021 and the previous two inspection reports, and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2021	2020	2019
AS 1105, *Audit Evidence*	13	5	7
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	33	6	20
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	9	4	3
AS 2305, *Substantive Analytical Procedures*	5	0	0
AS 2310, *The Confirmation Process*	2	1	1
AS 2315, *Audit Sampling*	3	3	1
AS 2501, *Auditing Accounting Estimates* (effective for fiscal years ending before December 15, 2020)	0	0	2
AS 2502, *Auditing Fair Value Measurements and Disclosures* (effective for fiscal years ending before December 15, 2020)	0	2	4
AS 2605, *Consideration of the Internal Audit Function*	0	0	1
AS 2810, *Evaluating Audit Results*	5	0	0

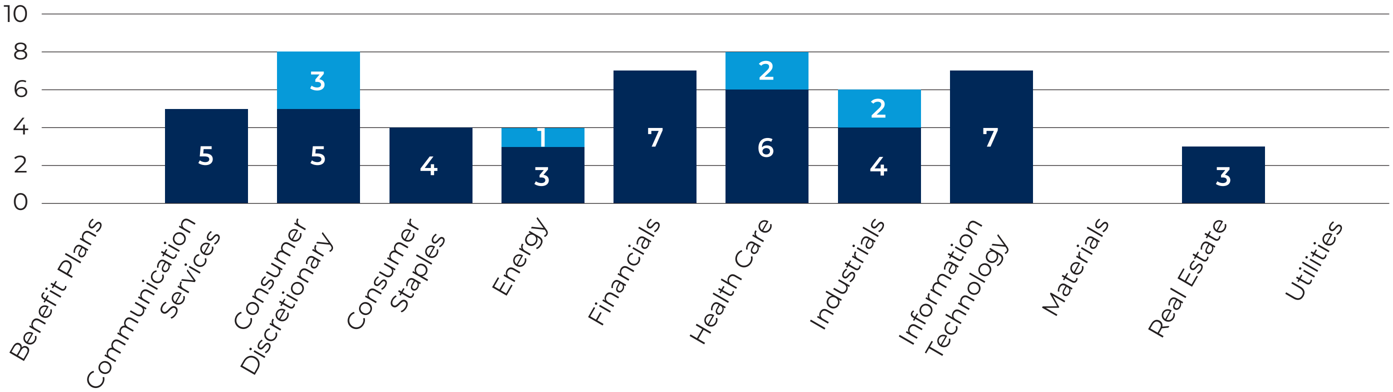
Inspection Results by Issuer Industry Sector

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.

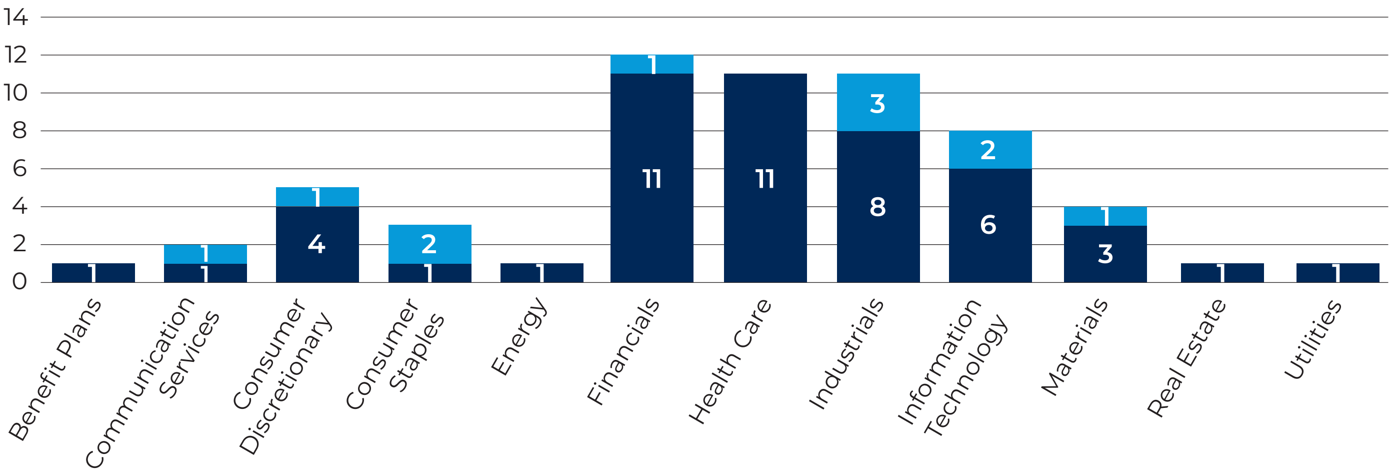
2021



2020



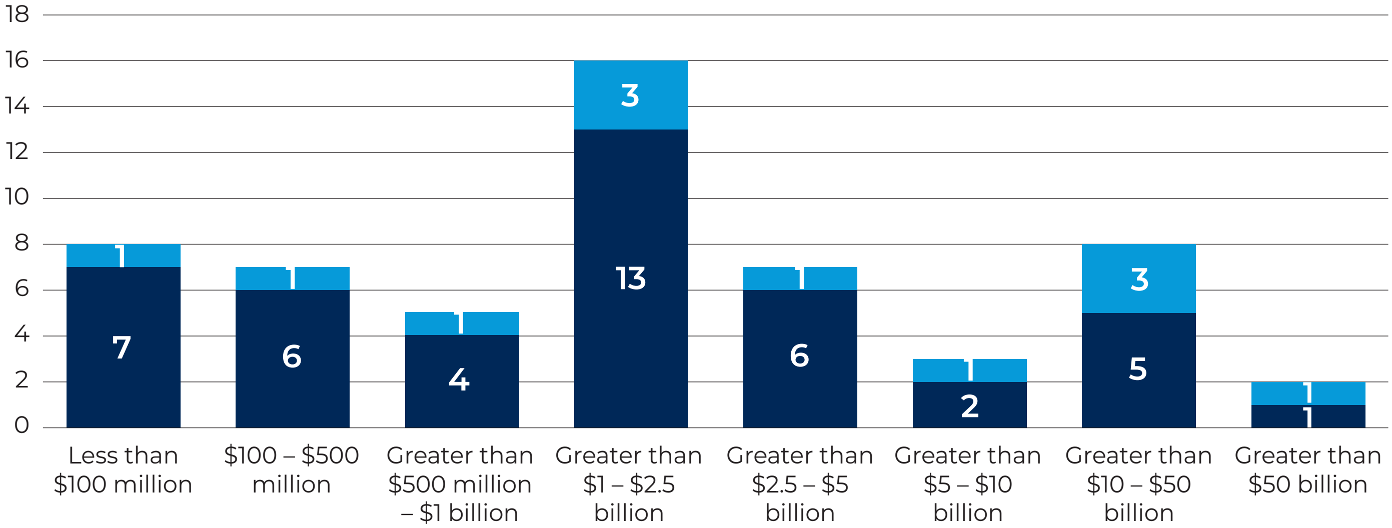
2019



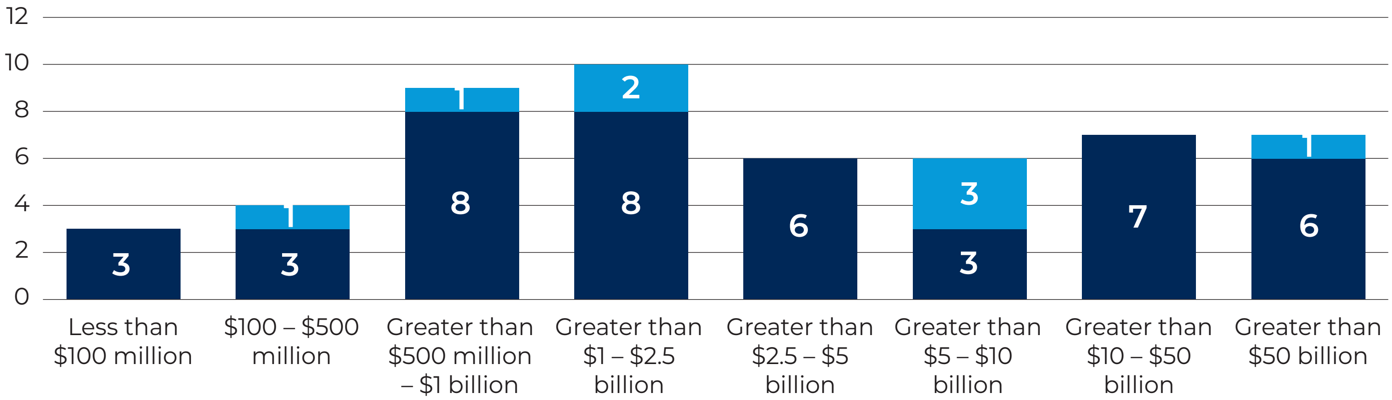
■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

Inspection Results by Issuer Revenue Range

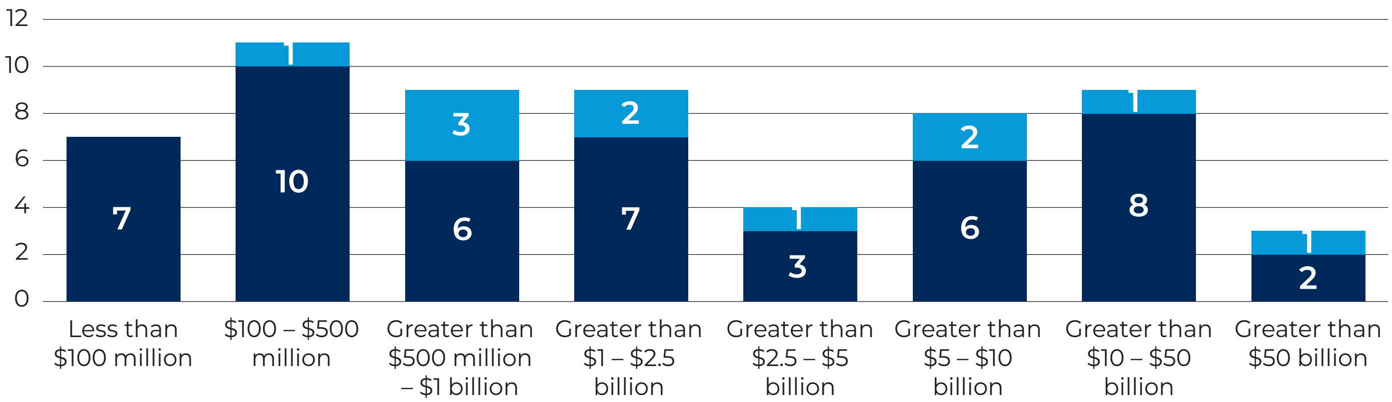
2021



2020



2019



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

Classification of Audits with Part I.A Deficiencies

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

The 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.

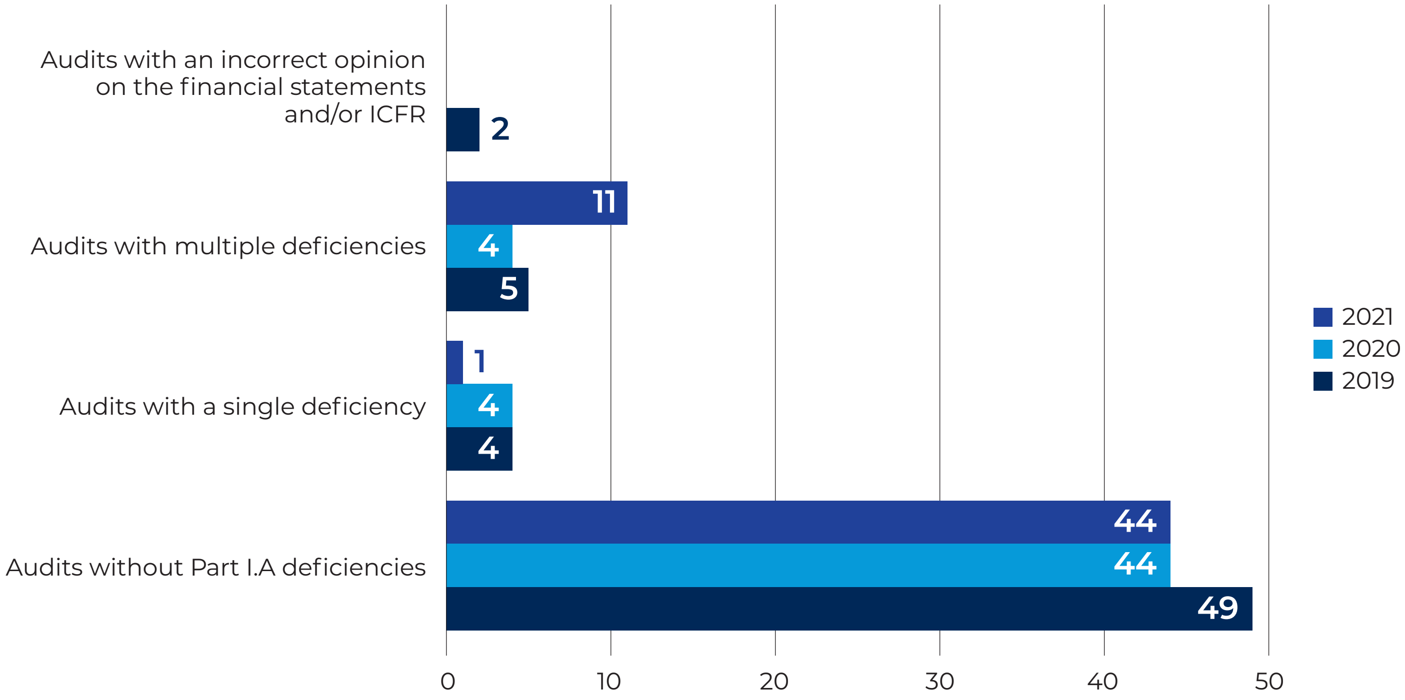
Audits with Multiple Deficiencies

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

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

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion(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 – 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**, **Accounts Receivable**, **Deferred Revenue**, and **Investment Securities**.

Description of the deficiencies identified

The issuer used multiple information-technology (IT) systems to initiate, process, and record transactions related to two types of revenue and the related accounts receivable, deferred revenue related to one of these types of revenue, and/or investment securities. 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 one IT system, the firm selected for testing controls over managing changes to the production environment. The firm did not identify and test any controls over the accuracy and completeness of certain access logs used in the operation of these controls. (AS 2201.39) In addition, the firm did not identify and test any controls that were designed to address the risk related to unapproved changes being made to this environment. (AS 2201.39)
- For the other IT systems, the firm selected for testing controls over change management but did not perform any substantive procedures to test, or in the alternative, test any controls over, the completeness of the population of items from which it selected its samples for testing. (AS 1105.10) In addition, the firm did not identify and test any controls designed to address the risk related to unauthorized users having administrative access to certain tools the issuer used to manage changes to the production environments. (AS 2201.39)

With respect to user access:

- The firm selected for testing certain controls over user access for the issuer's IT systems. The firm did not identify and test any controls over the accuracy and completeness of the information the control owners used in the operation of these controls. (AS 2201.39) In addition, the firm selected for testing another control over privileged access in which certain control owners reviewed their own access. The firm did not evaluate whether this resulted in a lack of segregation of duties. (AS 2201.42)

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

For one type of revenue and the related deferred revenue, 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's testing of certain automated controls 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. Further, the firm's testing of certain automated controls was not sufficient because its testing of certain aspects of the controls was limited to inquiry. (AS 2201.42 and .44) In addition, for two of these controls, the firm did not perform any substantive procedures to test, or in the alternative, test any controls over, the completeness of the lists from which it selected items for testing. (AS 1105.10)
- The firm selected for testing automated controls over customer set up, modification, and credit approval. The firm did not test the aspects of these controls related to the timing of approvals and the established credit limits. Further, the firm's testing of the aspects of the controls related to possible override was not sufficient because the firm's procedures were limited to inquiry. (AS 2201.42 and .44)
- The firm selected for testing automated controls over contract approval and product delivery. The firm's testing of these controls was not sufficient because the firm's procedures did not address certain types of contract scenarios and delivery types. (AS 2201.42 and .44)
- The firm selected for testing certain IT-dependent manual controls but did not identify and test any controls over the accuracy and completeness of certain data or reports that the control owners used in the operations of these controls. (AS 2201.39) In addition, for one control, the firm did not perform any substantive procedures to test, or in the alternative, test any controls over, the completeness of the lists from which it selected items for testing. (AS 1105.10)

- The firm's testing of certain other IT-dependent manual controls was not sufficient because it did not sufficiently test the queries or programming the issuer used to generate certain data or reports that the control owners used in the operations of these controls. (AS 2201.42 and .44)
- For certain other IT-dependent manual controls, the firm tested the accuracy and completeness of certain reports used in the operation of these controls in the issuer's IT testing environment, rather than in the production environment. The firm's testing was not sufficient because the firm did not perform procedures to determine whether the testing environment was consistent with the production environment. (AS 2201.44)

As a result of the firm's control testing deficiencies discussed above, the firm did not perform sufficient substantive procedures for two types of revenue and the related accounts receivable and for deferred revenue related to one of these types of revenue, as follows:

- The firm's substantive procedures to test these accounts included analytical procedures. The firm used data from the issuer's systems to develop its expectations but did not test, or sufficiently test controls over, the accuracy and completeness of these data. Further, the firm established its thresholds for investigating differences based on a level of control reliance that was not supported due to the deficiencies in the firm's testing of controls described above. As a result, the analytical procedures 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 2305.16 and 20)
- The firm performed substantive procedures to test certain arrangements with multiple performance obligations. The firm's testing of the reasonableness of the relative stand-alone selling prices the issuer used to allocate this revenue to the performance obligations was not sufficient because the firm did not test, or sufficiently test controls over, the accuracy and completeness of the data it used in its testing. (AS 1105.10)

For one of these two types of revenue, the firm developed its expectation for one of its analytical procedures using data derived from the recorded amounts of revenue. The firm did not evaluate whether this data was sufficiently reliable for purposes of achieving its audit objectives. (AS 2305.16)

With respect to **Investment Securities**:

The issuer managed a portion of its investment securities portfolio and used external parties to manage the remaining portion. The issuer used one service organization to perform recordkeeping and processing of all investment transactions and a second service organization to maintain custody of the overall portfolio.

With respect to the custodial service organization, the firm obtained a service auditor's report and identified certain complementary user controls that the service auditor's report described as necessary. The firm did not perform any procedures to evaluate whether the issuer had implemented these controls. (AS 2201.39 and .B22)

With respect to information received from the recordkeeping service provider, the following deficiencies were identified:

- The firm did not identify and test any controls over the relevance and reliability of the pricing information the issuer received from this service organization and used to record the fair values of the investment securities the issuer managed. (AS 2201.39)
- The firm selected for testing a control over the relevance and reliability of the pricing information the issuer received from this service organization related to the portion of the portfolio managed by external parties. This control included the issuer's comparison of certain pricing information it received

from the service organization to information it received from the external parties. The firm did not evaluate the specific review procedures the control owner performed to assess the relevance and reliability of the pricing information received from the external parties. (AS 2201.42 and .44)

The sample sizes the firm used in certain of its substantive procedures to test the valuation of investment securities 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)

Issuer B – Real Estate

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Revenue**:

The firm did not perform any substantive procedures to test one type of revenue. (AS 2301.08)

The firm's approach for substantively testing another type of revenue consisted primarily of performing a software-assisted analysis to test the relationships among revenue, accounts receivable, and cash receipts. The reliability of the audit evidence obtained from this analysis was dependent upon the firm's testing of the cash receipts data underlying the analysis. The firm did not sufficiently test this underlying data because it did not evaluate whether it was appropriate to include in the analysis certain cash receipts not related to the revenue being tested. (AS 1105.10)

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

The firm identified that the issuer's accounting for, and presentation and disclosure of, certain long-lived assets was not in conformity with FASB ASC Topic 205, *Presentation of Financial Statements*, and FASB ASC Topic 360, *Property, Plant, and Equipment*. The firm did not sufficiently accumulate, and evaluate the effect of, this accounting because it limited its evaluation to assessing the effect on certain financial statement line items and disclosures but did not evaluate certain other financial statement line items and disclosures that were also affected by the same accounting. (AS 2810.10, .17, .30, and .31)

With respect to **Debt**:

The firm selected for testing a control that consisted of the review of certain debt issuances and modifications. The firm did not perform any substantive procedures to test, or in the alternative, test any controls over, the completeness of the population of debt issuances and modifications that the firm used to make its selections to test this control. (AS 1105.10)

The firm sent positive confirmation requests to the issuer's lenders for a sample of debt. For certain confirmations that were returned with exceptions, the firm did not evaluate the nature of those exceptions. (AS 2310.33)

Issuer C – Consumer Discretionary

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**, **Goodwill**, and **Intangible Assets**.

Description of the deficiencies identified

The issuer used multiple IT systems to initiate, process, and/or record transactions related to certain revenue, deferred revenue, goodwill, and/or intangible assets. 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 manual controls was not sufficient. (AS 2201.46)

With respect to segregation of duties:

- For certain IT systems, the firm did not identify and test any controls that addressed the risk related to whether users with the ability to develop changes also had the ability to implement these changes. (AS 2201.39)
- For certain other IT systems, the firm selected for testing a control that consisted of the review of segregation of duties. The firm did not test the aspect of the control that addressed whether certain users with the ability to implement changes also had the ability to develop those changes. (AS 2201.42 and .44)

With respect to change management:

- For certain IT systems, the firm selected for testing an automated control over change management. The firm did not sufficiently test the operating effectiveness of this control because the firm did not test whether the control operated as designed for each processing alternative. (AS 2201.44)
- For certain IT systems, the firm did not test, or in the alternative, test any controls over, the completeness of the system-generated reports that it used to make its selections for testing certain controls over change management. (AS 1105.10)

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

- For certain revenue, deferred revenue, goodwill, and intangible assets, the firm did not perform sufficient substantive procedures to test, or sufficiently test controls over, the accuracy and completeness of certain system-generated data or reports (1) the firm used to make its selections to test certain controls; (2) the firm used in its substantive testing, including analytical procedures; or (3) the company's specialists used. (AS 1105.10 and .A8a; AS 2305.16)
- The firm's substantive procedures to test certain revenue and deferred revenue included substantive analytical procedures. The firm established its thresholds for investigating differences based on a level of control reliance that was not supported due to the above deficiencies in the firm's testing of controls. 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 sample size the firm used in certain of its substantive procedures to test certain 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. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer D – Consumer Discretionary

Type of audit and related area affected

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

Description of the deficiencies identified

The firm selected for testing a control that consisted of the issuer's review of the accounting for, and disclosure of, a reverse merger. The firm did not (1) evaluate the specific review procedures that the control owner performed to assess whether all relevant terms of the transaction agreements were considered and (2) identify that the control owner did not detect that the issuer's accounting for warrants as equity was not in conformity with FASB ASC Topic 815, *Derivatives and Hedging*. (AS 2201.42 and .44)

During the audit, the firm did not identify, and appropriately address, that the issuer's accounting for warrants as equity was not in conformity with FASB ASC Topic 815. (AS 2810.30)

Unrelated to our review, the issuer reevaluated its accounting for these warrants 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. The issuer also reevaluated its controls over warrants and concluded that a material weakness existed that had not been previously identified. The issuer subsequently revised its report on ICFR to reflect this material weakness, and the firm modified its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

Issuer E – Industrials

Type of audit and related area affected

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

Description of the deficiencies identified

The firm selected for testing a control that consisted of the issuer's review of the calculation of outstanding shares, which was used to calculate earnings per share. The firm did not identify that this control was not designed to consider whether certain financial instruments should be included in these calculations in conformity with GAAP. (AS 2201.42)

The firm did not identify, and appropriately address, that the issuer's accounting for certain financial instruments was not in conformity with FASB ASC Topic 260, *Earnings Per Share*, and FASB ASC Topic 815, *Derivatives and Hedging*. (AS 2810.30)

Unrelated to our review, the issuer reevaluated its accounting for these financial instruments 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. The issuer also reevaluated its controls over these financial instruments and concluded that a material weakness existed that had not been previously identified. The issuer subsequently revised its report on ICFR to reflect this material weakness, and the firm modified its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

Issuer F – 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 **Deferred Revenue**.

Description of the deficiencies identified

The issuer used multiple IT systems to initiate, process, and/or record transactions related to certain revenue and/or 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 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 manual controls was not sufficient. (AS 2201.46)

With respect to segregation of duties:

- For two IT systems, the firm selected for testing a control that consisted of the review of segregation of duties. The firm did not test the aspect of the control that addressed whether certain users with administrative access to the tool used to implement changes also had the ability to develop these changes. (AS 2201.42 and .44)
- For another IT system, the firm selected for testing two controls that consisted of the review of segregation of duties. The firm did not test, beyond inquiry, the aspect of the controls that addressed whether certain users with access to the tools used to implement changes also had the ability to develop these changes. (AS 2201.42 and .44)
- For an additional IT system, the firm selected for testing an automated control that was designed to address the risk of developers being able to implement changes. The firm's procedures were not sufficient because they did not test the configuration or programming of the automated control or perform other procedures that would have provided sufficient appropriate audit evidence that the control was designed and operating effectively. (AS 2201.42 and .44)

With respect to change management for one of these IT systems, the firm did not identify and test any controls over changes to the underlying master data. (AS 2201.39)

As a result of the firm's ITGC testing deficiencies discussed above, for certain revenue and deferred revenue, the firm did not perform sufficient substantive procedures to test, or sufficiently test controls over, the accuracy and completeness of certain system-generated data or reports (1) the firm used to make its selections to test certain controls; (2) the firm used in its substantive testing, including analytical procedures; or (3) the company's specialists used. (AS 1105.10 and .A8a; AS 2305.16)

Issuer G – Industrials

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 firm selected for testing a control over the issuer's review of contracts for appropriate revenue recognition. The firm did not evaluate the specific review procedures that the control owners performed to assess whether the allocation of revenue to separate performance obligations was based on standalone selling prices. (AS 2201.42 and .44)

The firm did not perform any substantive procedures to evaluate whether the issuer's allocation of revenue to separate performance obligations was based on standalone selling prices. (AS 2301.08)

Issuer H – 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 selected for testing certain automated controls that the issuer used to process and record transactions related to this revenue. The firm did not sufficiently test the operating effectiveness of these controls because its procedures consisted of testing, for each control, a sample of one transaction in the issuer's IT testing environment without performing any procedures to determine whether the testing environment was the same as the production environment at the time of its testing. (AS 2201.44)

The firm's approach for substantively testing the above revenue and another type of revenue consisted primarily of performing a software-assisted analysis to test the relationships among revenue, accounts receivable, and cash receipts. The firm did not perform sufficient procedures to test this revenue, as follows:

- For the first type of revenue discussed above, the reliability of the audit evidence obtained from this analysis was dependent upon the firm's testing of a control over the data underlying the analysis. The firm did not evaluate whether the control selected for testing addressed all the cash receipts used in this analysis. (AS 1105.10)
- For the second type of revenue, the reliability of the audit evidence obtained from this analysis was dependent upon the firm's testing of details of certain data underlying the analysis. The sample the firm tested for the fourth quarter was smaller than the one the firm determined necessary for these procedures. (AS 1105.10)

Issuer I – Health Care

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 firm selected for testing controls over the recording of inventory. 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 used certain reports in its substantive testing of inventory but did not perform any procedures to test, or (as discussed above) test controls over, the accuracy and completeness of this information. (AS 1105.10)

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

The firm did not identify and test any controls that addressed whether the issuer's fixed overhead was expensed or capitalized appropriately in accordance with FASB ASC Topic 330, *Inventory*. (AS 2201.39)

In addition, the firm did not perform any substantive procedures to evaluate whether the issuer's fixed overhead was expensed or capitalized appropriately in accordance with FASB ASC Topic 330. (AS 2810.30)

The issuer changed its method of valuing certain inventory during the year. The firm did not identify and test any controls over the issuer's evaluation of whether this change represented a change in accounting principle. (AS 2201.39) In addition, the firm did not perform any substantive procedures to evaluate whether this change represented a change in accounting principle under FASB ASC Topic 250, *Accounting Changes and Error Corrections*. (AS 2810.30)

Issuer J – Materials

Type of audit and related area affected

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

Description of the deficiencies identified

The firm selected for testing a combination of automated and manual controls to address the risk that revenue was not accurately recorded. The firm did not sufficiently test certain of these manual controls, which consisted of the issuer's reviews of (1) customer credit requests, (2) customer rebates, and (3) the accounts receivable aging, as follows:

- For the controls related to customer credit requests and rebates, the firm did not test, or in the alternative, test any controls over, the completeness of the system-generated reports that it used to select its samples for testing these controls. (AS 1105.10)
- For the control related to the accounts receivable aging, the firm did not identify and test any controls that addressed the application of cash receipts to accounts receivable balances. (AS 2201.39)

Issuer K – Financials

Type of audit and related area affected

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

Description of the deficiencies identified

To test certain deposit liabilities, the firm sent either positive or negative confirmation requests to the issuer's customers for samples of deposit liabilities as of an interim date and year end. For positive confirmations that were not returned and for negative confirmations that were undeliverable, the firm did not perform procedures that provided sufficient appropriate audit evidence that the recorded amounts of the deposit liabilities were accurate as of the confirmation date. (AS 2310.21 and .31)

For certain other deposit liabilities selected for testing as of an interim date and year end, the firm did not perform substantive procedures that provided sufficient appropriate audit evidence that the recorded amounts of the deposit liabilities were accurate. (AS 2301.08)

For deposit liabilities tested at an interim date, the firm's procedures to extend its conclusions from the interim date to year end included comparing the deposit liabilities balances as of the interim date to the corresponding year-end balances. The firm identified differences in excess of the firm's established threshold but did not investigate these differences. (AS 2301.45)

Audits with a Single Deficiency

Issuer L – Energy

Type of audit and related area affected

In our review, we identified a deficiency in the ICFR audit related to **Long-Lived Assets**.

Description of the deficiency identified

The firm selected for testing a control that consisted of the issuer's review of its assessment of certain long-lived assets for potential impairment, including the underlying cash-flow forecasts. The firm did not evaluate the specific review procedures that the control owner performed to assess the reasonableness of certain assumptions underlying these cash-flow forecasts. (AS 2201.42 and .44)

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

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

When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not reviewed and include any instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In one of 56 audits reviewed, the firm did not include all relevant workpapers in the final set of audit documentation it was required to assemble. In this instance, the firm was non-compliant with AS 1215, *Audit Documentation*.
- In 11 of 15 audits reviewed, the firm did not make certain required communications to the issuer's audit committee 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 these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 48 audits reviewed, the firm's audit report on the issuer's financial statements included incorrect language related to the audit of the issuer's ICFR. In this instance, 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 48 audits reviewed, the firm's audit report on ICFR was dated earlier than the date on which the firm had obtained sufficient appropriate evidence to support its opinion. In this instance, 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 seven of 49 audits reviewed, the engagement team performed procedures to determine whether or not matters were critical audit matters but did not include in those procedures 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 one of 49 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 49 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 four of 13 audits reviewed, the firm's report on Form AP contained 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 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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November 7, 2022

Mr. George Botic, 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 2021 Inspection of Ernst & Young LLP

Dear Mr. Botic:

We appreciate the opportunity to respond to Part I of the Public Company Accounting Oversight Board (PCAOB) Draft Report (the Report) on the 2021 Inspection of Ernst & Young LLP (the Firm).

From our most senior leaders to the most junior members of our audit teams, all of our people are accountable for the quality of the Firm's audits and embrace the responsibility to perform high-quality audits that promote trust in the capital markets and investor confidence.

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 respect and value the PCAOB's inspection process, which helps firms identify areas where further improvements can be made. In addition to the PCAOB inspections, the Firm also routinely conducts internal audit quality reviews and root cause analyses of internal and external findings. Together, these efforts help us continuously strengthen our audit practice. As a result of the 2021 inspection process, including internal audit quality reviews and our root cause analysis, we have enhanced certain aspects of our audit approach, including the auditing of information technology related controls. Recognizing the challenge of the remote and hybrid working environment, we also are strengthening coaching and supervision by audit engagement team executives, with a focus on audit execution, professional skepticism and project management. Assurance leaders have reinforced these actions with our partners and are continuing to emphasize the importance of enhancing audit quality in a meaningful way in our 2022 audits.

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 public interest.

Respectfully submitted,

Julie A. Boland
US Chair and Managing Partner

John L. King
US Vice Chair of Assurance

A member firm of Ernst & Young Global Limited