2021 Inspection Ernst & Young Associates LLP

(Headquartered in Gurugram, Republic of India)

December 8, 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. 104-2023-032

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2021 INSPECTION

In the 2021 inspection of Ernst & Young Associates LLP, the Public Company Accounting Oversight Board (PCAOB) assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

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

2021 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. In certain situations, we may select all of the firm's issuer audits for review.

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

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

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

OVERVIEW OF THE 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 inspection. We use a risk-based method to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

Firm Data and Audits Selected for Review

	2021	2018
Firm data		
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures	3	3
Total issuer audits in which the firm was not the principal auditor	2	1
Total engagement partners on issuer audit work[1]	3	2
Audits reviewed		
Total audits reviewed[2]	3	2
Audits in which the firm was the principal auditor	2	2
Audits in which the firm was not the principal auditor	1	0
Integrated audits of financial statements and internal control over financial reporting (ICFR)	1	0
Audits with Part I.A deficiencies	1	0

[1] The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201, *Supervision of the Audit Engagement*) or for the firm's role in an issuer audit during the twelve-month period preceding the outset of the inspection.

[2] The population from which audits are selected for review includes both audits for which the firm was the principal auditor and those where the firm was not the principal auditor but played a role in the audit. The population of issuer audits from which audits are selected for review may differ from the issuer audits at the outset of the inspection procedures due to variations such as new issuer audit clients for which the firm has not yet issued an audit report or issuer audit clients lost prior to the outset of the inspection.

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

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

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

Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2021 inspection and the previous inspection. For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2021		2018	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Revenue and related accounts	3	**Revenue and related accounts**	2
Cash and cash equivalents	3	**Cash and cash equivalents**	2
Long-lived assets	1	**Long-lived assets**	1
Debt	1	**Goodwill and intangible assets**	1
Inventory	1	**Business combinations**	1

PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, (1) at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR or (2) in audit(s) in which it was not the principal auditor, had not obtained sufficient appropriate audit evidence to fulfill the objectives of its role in the audit.

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

Consistent with the Sarbanes-Oxley Act ("Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.

Classification of Audits with Part I.A Deficiencies

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

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

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

This classification includes 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.

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

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

We identify each issuer by a letter (e.g., Issuer A) and industry sector. Each deficiency could relate to several auditing standards, but we reference the PCAOB standard(s) that most directly relates to the requirement with which the firm did not comply.

We present issuer audits below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies, taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

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

None

Audits with Multiple Deficiencies

Issuer A – 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**, and **Inventory**.

Description of the deficiencies identified

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

With respect to change management:

- The firm selected for testing certain change management controls that consisted of (1) testing of changes in a test environment and (2) approval of these changes prior to their implementation into the production environment. The firm did not evaluate the procedures that the control owners performed to evaluate the appropriateness of certain types of changes made to the IT system, or otherwise, identify and test other controls to address the change management risks. (AS 2201.42 and .44)

- The issuer's IT personnel processed certain changes directly into the production environment of the IT system. The firm did not identify and test any controls over these direct changes. (AS 2201.39)

- The firm's testing of certain automated controls over customer orders was not sufficient because the firm did not test changes made into the production environment of the IT system for those controls after the date of testing. (AS 2201.44)

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

For revenue and accounts receivable, which were affected by the audit deficiencies discussed above related to change management, the following additional deficiencies were identified:

- The issuer recognized certain revenue net of chargeback and rebate accruals. The chargeback and rebate accruals were based on inventory quantity and claims data transmitted from certain of the issuer's customers to its IT system through an electronic data interface (EDI). In its testing of controls over chargeback and rebate accruals, the firm tested certain automated controls and IT-dependent manual controls that used this EDI data. The firm did not identify and test any controls over the accuracy and completeness of the inventory information received through EDI that was used in the operation of the controls. (AS 2201.39) In addition, the firm used a "test of one" approach to test an automated control over the claims data but did not perform testing of ITGCs over the EDI to allow for the use of such an approach. (AS 2201.42 and .44)

- The firm did not perform any substantive procedures to test or, in the alternative, identify and test any controls over, the accuracy and completeness of data and reports obtained from the issuer's IT system that it used to test certain revenue. (AS 1105.10)

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

With respect to **Inventory**:

For inventory, which was affected by the audit deficiencies discussed above related to change management, the following additional deficiencies were identified:

- The firm selected for testing a control over inventory that consisted of the performance of physical inventory counts at certain locations by a third-party stock counter. The issuer designed the control to exclude a portion of inventory from those counts. In evaluating the design of the control, the firm did not evaluate the effect of the issuer's exclusion of a portion of inventory from the physical counts on the control's ability to effectively prevent or detect a material misstatement. (AS 2201.42)

- The firm selected for testing controls over certain inventory that consisted of the issuer's review of the monthly weighted average cost per unit, as computed by the issuer's IT system through an automated control, that was used to record the value of inventory. The firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of the weighted average cost per unit. Further, the firm 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)

- The firm selected for testing a control over the determination and recording of a slow-moving inventory provision for certain inventory, which included an automated control that calculated the provision. The firm 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) In addition, the firm did not identify and test any controls over the accuracy and completeness of a system-generated report that was used in the operation of this control. (AS 2201.39) In addition, the firm did not perform any substantive procedures to test, or in the alternative, test controls over, the accuracy of the system-generated report, which it used to evaluate the reasonableness of the slow-moving inventory provision. (AS 1105.10)

  The firm did not perform any substantive procedures to test the cost of certain inventory, including the allocation of direct labor and overhead costs, beyond comparing the cost of the inventory at year end to cost of the inventory at the end of the prior year. (AS 2301.08) In addition, the firm did not perform any substantive procedures to test, or as discussed above with respect to change management, to sufficiently test controls over, the accuracy and completeness of information generated from the issuer's IT system that was used to substantively test the cost of certain inventory. (AS 1105.10)

- The firm selected for testing a control over the determination and recording of an obsolescence provision for certain inventory that consisted of the issuer's review of a system-generated provision report and approval of related adjustments to inventory. The firm did not identify and test any controls over the (1) data input into the issuer's IT system and used to calculate the provision and (2) accuracy and completeness of the system-generated report that was used in the operation of the control. (AS 2201.39)

Audits with a Single Deficiency

None

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

This section of our report discusses any deficiencies we identified that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) or fulfill the objectives of its role in the audit(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 three audits reviewed, the firm did not include all relevant work papers in the final set of audit documentation it was required to assemble. In this instance, the firm was non-compliant with AS 1215, *Audit Documentation.*

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

- In two of two audits reviewed, the firm incorrectly computed total audit hours used to complete its report on Form AP by excluding certain hours related to the audit. In addition, in one of these audits and in one other audit, the firm's report on Form AP omitted information related to 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 Board provided the firm an opportunity to review and comment on a draft of this report. The firm did not provide a timely written response.