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## **Report on**

# **2013 Inspection of Ernst & Young Incorporated (Headquartered in Johannesburg, Republic of South Africa)**

**Issued by the**

**Public Company Accounting Oversight Board**

**August 1, 2013**

PCAOB RELEASE NO. 104-2013-170

## **2013 INSPECTION OF ERNST & YOUNG INCORPORATED**

In 2013, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Ernst & Young Incorporated<sup>1/</sup> ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The inspection process is designed, and inspections are performed, to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to issuer audit engagements. The issuer audit engagements and aspects of that work inspected were selected based on a number of risk-related and other factors. The inspection process included reviews of aspects of selected issuer audit work completed by the inspected firm. The reviews were intended to identify whether deficiencies existed in those aspects of the audit work, and whether such deficiencies indicated weaknesses or defects in the firm's system of quality control over issuer audit work. In addition, the inspection included reviews of policies and procedures related to certain quality control processes of the firm that could be expected to affect audit quality.

The Act restricts the Board from publicly disclosing portions of an inspection report that discuss certain types of deficiencies or certain other nonpublic information. Because the inspection did not identify instances of such deficiencies, and because the report does not otherwise disclose protected information, the Board is making the entire report available to the public.<sup>2/</sup>

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<sup>1/</sup> The Firm has issued audit reports under the name of Ernst & Young Inc. Registered Auditor.

<sup>2/</sup> In its *Statement Concerning the Issuance of Inspection Reports*, PCAOB Release No. 104-2004-001 (August 26, 2004), the Board described its approach to making inspection-related information publicly available consistent with legal restrictions.

## PART I

### INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from February 25, 2013 to March 7, 2013. These procedures were tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

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|--|--|
| Number of offices                            | 10 (Bellville, Bloemfontein, Cape Town, Durban, George, Johannesburg, Kimberley, Pietermaritzburg, Port Elizabeth, Pretoria, Republic of South Africa) |
| Ownership structure                          | Unlimited liability corporation  |
| Number of partners                           | 66   |
| Number of professional staff <sup>3/</sup>   | 812  |
| Number of issuer audit clients <sup>4/</sup> | 1  |

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<sup>3/</sup> "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

<sup>4/</sup> The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act. For information about audit reports issued by the Firm, see Item 4.1 of the Firm's annual reports on PCAOB Form 2, available at [www.pcaobus.org](http://www.pcaobus.org).

Number of other issuer audits in which the Firm plays a role<sup>5/</sup> 13

A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of one issuer audit client and the Firm's audit work on one other issuer audit engagement in which it played a role but was not the principal auditor. This review did not identify any audit performance issues that, in the inspection team's view, resulted in the Firm failing to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements or internal control over financial reporting of the issuer audit client or to fulfill the objectives of its role in the other engagement.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance and the following eight functional areas (1) tone at the top; (2) practices for partner evaluation, compensation, admission, assignment of responsibilities, and disciplinary actions; (3) independence implications of non-audit services; business ventures, alliances, and arrangements; personal financial interests; and commissions and contingent fees; (4) practices for client acceptance and retention; (5) practices for consultations on accounting, auditing, and SEC matters; (6) the Firm's internal inspection program; (7) practices for establishment and communication of audit policies, procedures, and methodologies, including training; and (8) the supervision by the Firm's audit engagement teams of the work performed by foreign affiliates. The inspection team did not identify anything that it considered to be a quality control defect that warrants discussion in a Board inspection report.

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<sup>5/</sup> The number of other issuer audits encompasses audit work performed by the Firm in engagements for which the Firm was not the principal auditor, including audits, if any, in which the Firm plays a substantial role as defined in PCAOB Rule 1001(p)(ii).

C. General Information Concerning PCAOB Inspections

Board inspections are designed to identify whether weaknesses and deficiencies exist related to how a firm conducts audit work and address any such weaknesses and deficiencies. To achieve that goal, Board inspections include reviews of certain aspects of selected audit work performed by the firm and reviews of other matters related to the firm's quality control system. The scope of the inspection procedures is determined according to the Board's criteria, and the firm is not allowed an opportunity to limit or influence the scope. The focus on weaknesses and deficiencies necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools. Further, the inclusion in an inspection report of certain deficiencies and potential deficiencies should not be construed as an indication that the Board has made any determination about other aspects of the firm's systems, policies, procedures, practices, or conduct not included within the report.

In the course of reviewing aspects of selected audit work, an inspection may identify ways in which particular audit work is deficient, including failures by the firm to identify, or to address appropriately, departures from Generally Accepted Accounting Principles ("GAAP"), or, as applicable, International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").<sup>6/</sup> It is not the purpose of an inspection, however, to review all of a firm's audit work or to identify every respect in which an audit performed by the firm, or in which the firm played a role, is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audit work, or the relevant issuer financial statements or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

END OF PART I

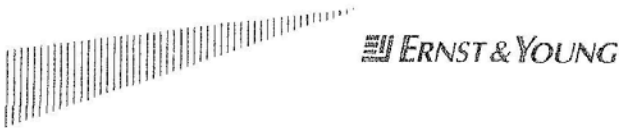
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<sup>6/</sup> When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with GAAP or IFRS, the Board's practice is to report that information to the Securities and Exchange Commission, which has jurisdiction to determine proper accounting in issuers' financial statements.

**PART II**

**RESPONSE OF THE FIRM TO 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, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.



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Ms. Helen A. Munter  
Director  
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Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

7 June 2013

**Response to Report on the 2012 Inspection of Ernst & Young Inc**

Dear Ms. Munter,

We are pleased to have received the draft report of the Public Company Accounting Oversight Board (PCAOB) pertaining to the 2012 inspection of Ernst & Young Inc. Our overriding objective is to make certain that all aspects of our auditing and quality control processes are of high quality for the continued benefit of the capital markets in which the public participates and on which they rely. The PCAOB's inspections assist us in achieving this objective.

We look forward to continuing to work with the PCAOB on matters of interest to our U.S. SEC issuers auditing practice.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'M F J Bourne'.

Mr M F J Bourne  
ASA PPD Director

Level two, AAA B-BBEE rating. As a recognised value adding enterprise, our clients are able to claim B-BBEE recognition of 156.25%

Chief Executive: Ayon Sita  
A full list of Directors is available from our website

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