

Report on
2013 Inspection of Ernst & Young et Autres
(Headquartered in Paris, French Republic)

Issued by the
Public Company Accounting Oversight Board

December 2, 2014

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**

2013 INSPECTION OF ERNST & YOUNG ET AUTRES

In 2013, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Ernst & Young et Autres ("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 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 issuer 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 issuer audit engagements and aspects of that work inspected were selected based on a number of risk-related and other factors. Due to the selection process, the deficiencies included in this report are not necessarily representative of the Firm's issuer audit engagement practice.

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.¹

¹ 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. As described there, if the nonpublic portions of any inspection report discuss criticisms of or potential defects in a firm's system of quality control, those discussions also could eventually be made public, but only to the extent a firm fails to address the criticisms to the Board's satisfaction within 12 months of the issuance of the report.

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from May 21, 2013 to May 30, 2013, from July 8, 2013 to July 19, 2013, from October 7, 2013 to October 18, 2013 and from November 4, 2013 to November 15, 2013.² 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:

Number of offices	13 (Bordeaux, Grenoble, Lille, Lyon, Marseille, Montpellier, Nancy, Nantes, Nice, Paris, Rennes, Strasbourg, and Toulouse, French Republic)
Ownership structure	Limited liability company
Number of partners	281 ³
Number of professional staff ⁴	-

² The Board's inspection was conducted in cooperation with the French High Counsel for Statutory Auditors.

³ These partners are also partners of Ernst & Young Audit, a separate Firm registered with the PCAOB located in France.

⁴ The Firm does not employ personnel who provide professional services, but rather uses approximately 3,500 persons employed by another Ernst & Young entity with which it is under common ownership, to provide professional services on behalf of the Firm. The number of partners and professional staff is provided here as an indication of the number of persons who provide professional services on behalf of the Firm, and does not necessarily represent the number of such persons who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

Number of issuer audit clients⁵ 4
Number of other issuer audits in which the Firm plays a role⁶ 71

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 three other issuer audit engagements in which it played a role but was not the principal auditor. The inspection team identified what it considered to be audit deficiencies. The deficiencies identified in the audit performed by the Firm included a deficiency of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's internal control over financial reporting ("ICFR"). That deficiency was –

Issuer A

the failure, in an audit of ICFR, to perform sufficient procedures to test the design and operating effectiveness of controls over the completeness, occurrence, and allocation of revenue.

The deficiencies identified also included deficiencies of such significance that it appeared to the inspection team that, in two of the audits in which the Firm played a role

⁵ 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.

⁶ 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).

but was not the principal auditor, the Firm had not obtained sufficient appropriate audit evidence to fulfill the objectives of its role in the audits. Those deficiencies were—

Issuer B

the failure, with regard to its role in an audit of ICFR, to perform sufficient procedures to test the design and operating effectiveness of controls over the completeness, occurrence, and allocation of revenue.

Issuer C

the failure, with regard to its role in an audit of ICFR, to perform sufficient procedures to test the design and operating effectiveness of controls over the completeness and occurrence of revenue.

B. Auditing Standards

Each deficiency described above could relate to several applicable standards that govern the conduct of audit work.

AU 230, *Due Professional Care in the Performance of Work* ("AU 230"), requires the independent auditor to plan and perform his or her work with due professional care. AU 230 and PCAOB Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement* ("AS No. 13"), specify that due professional care requires the exercise of professional skepticism. This is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence.

AS No. 13 requires the auditor to design and implement audit responses that address the identified risks of material misstatement, and PCAOB Auditing Standard No. 15, *Audit Evidence* ("AS No. 15"), requires the auditor to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the audit opinion. Sufficiency is the measure of the quantity of audit evidence, and the quantity needed is affected by the risk of material misstatement and the quality of the audit evidence obtained. The appropriateness of evidence is measured by its quality; to be appropriate, evidence must be both relevant and reliable in support of the related conclusions.

PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* ("AS No. 5"), and AS No. 13 establish requirements regarding testing and evaluating ICFR. In an audit of ICFR in an integrated audit, AS No. 5 requires the auditor to plan and perform the audit to obtain appropriate evidence that is sufficient to support the auditor's opinion on ICFR as of the date of that opinion or to fulfill the objectives of the auditor's role in an audit of ICFR as of the date of the opinion. AS No. 13 also requires that, if the auditor plans to assess control risk at less than the maximum and to base the nature, timing, and extent of substantive procedures on that lower assessment, the auditor must obtain evidence that the controls tested were designed and operating effectively during the entire period for which the auditor plans to rely on controls to modify the substantive procedures.

C. 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. Any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

D. 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 U.S. Generally Accepted Accounting Principles ("GAAP"), or, as applicable, International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").⁷ 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.

In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so,

⁷ 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 applicable accounting principles, the Board's practice is to report that information to the Securities and Exchange Commission ("SEC" or "Commission"), which has jurisdiction to determine proper accounting in issuers' financial statements. Any description in this report of financial statement misstatements or failures to comply with SEC disclosure requirements should not be understood as an indication that the SEC has considered or made any determination regarding these issues unless otherwise expressly stated.

and that oral assertions and explanations alone do not constitute persuasive other evidence. See AS No. 3, paragraph 9 and Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

Inclusion of a deficiency in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Under PCAOB standards, when audit deficiencies are discovered after the date of the audit report, a firm must take appropriate action to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions.⁸ Depending upon the circumstances, compliance with these standards may require the firm to perform additional procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on previously expressed audit opinions. A firm also should consider whether there are actions the firm should take to alert another auditor that has expressed an opinion on financial statements or ICFR that the firm played a role in auditing. A Board inspection does not typically include review of a firm's actions to address deficiencies identified in that inspection, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take, action. If, through subsequent inspections or other processes, the Board determines that the firm failed to take appropriate action, that failure may be grounds for a Board disciplinary sanction.

END OF PART I

⁸ See AU 390, *Consideration of Omitted Procedures After the Report Date* ("AU 390"), and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* ("AU 561") (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T), and AS No. 5, paragraph 98.



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PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

PART IV

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.⁹

⁹ 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 at all. 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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October 23, 2014

Mr. Helen Munter
Director
Division of Registration and Inspections
1666 K Street, N.W.
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Response to Part I relating to Issuer A of the Draft Report on the 2013 Inspection of Ernst & Young et Autres.

We are pleased to provide our initial response to the Public Company Accounting Oversight Board (the “Board” or the “PCAOB”) regarding Part I relating to Issuer A of the Draft Report on the 2013 Inspection of Ernst & Young et Autres (the “Report”).

Our overriding objective is to make certain that all aspects to 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 inspection assists us in achieving this objective.

We will continue to work with the PCOAB over the twelve month period following the issuance of the final Report of the PCAOB. We are committed to working with the PCAOB to continue to strengthen our audit quality control system.

We respect the PCAOB’s inspection process and understand that judgments are involved both in performing an audit and in subsequently inspecting it. We have thoroughly evaluated all matters described in Part I – Inspection Procedures and Certain Observations of the Report and have taken actions, where appropriate, in accordance with PCAOB standards and our policies. These actions did not change our original audit conclusions, nor did they affect our reports on the issuer’s and other entities financial statements.



We appreciate the opportunity to provide our response to the Report and look forward to continuing to work with the PCAOB on matters of interest of our U.S.SEC issuer auditing practice.

We respectfully request that the attachment to this cover letter be not made public.

Respectfully submitted,

A handwritten signature in black ink, featuring several large, overlapping loops and a long horizontal stroke at the end.

Daniel Mary-Dauphin
Professional Practice Director JiraMaLux