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# 2019 Inspection Ernst & Young Chartered Accountants

(Headquartered in Dublin, Ireland)

February 11, 2021

**PCAOB**

Public Company Accounting Oversight Board

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. 104-2021-058

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## 2019 Inspection

During the Public Company Accounting Oversight Board (“PCAOB”)’s 2019 inspection of Ernst & Young Chartered Accountants, we assessed the firm’s compliance with laws, rules, and professional standards applicable to the audits of public companies. Our inspection was conducted in cooperation with the Irish Auditing and Accounting Supervisory Authority.

We selected for review three audits of issuers with fiscal years ending in 2018. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm’s system of quality control.

### 2019 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 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 2019 Inspection

The following information provides an overview of our inspection in 2019 of the firm's issuer audits, which was our first inspection of this firm. 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 Reviewed

	2019
<b>Firm Data</b>	
<b>Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures</b>	2
<b>Total issuer audits in which the firm was not the principal auditor</b>	35
<b>Total engagement partners on issuer audit work<sup>1</sup></b>	26
<b>Audits Reviewed</b>	
<b>Total audits reviewed<sup>2</sup></b>	3
<b>Audits in which the firm was the principal auditor</b>	2
<b>Audits in which the firm was not the principal auditor</b>	1
<b>Integrated audits of financial statements and internal control over financial reporting ("ICFR")</b>	3
<b>Audits with Part I.A deficiencies</b>	2

If a deficiency is included 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 issue was identified. Depending on the circumstances, remedial actions may include performing additional audit

<sup>1</sup> 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) or for the firm's role in an issuer audit during the twelve-month period preceding the outset of the inspection.

<sup>2</sup> 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 opinion or issuer audit clients lost prior to the outset of the inspection.

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.

The fact that we have included a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — 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.

Our 2019 inspection procedures involved one audit for which the issuer, unrelated to our review, restated its financial statements to correct a misstatement and revised its report on ICFR and the firm revised and reissued its report on the financial statements and revised its opinion on the effectiveness of the issuer’s ICFR to express an adverse opinion and reissued its report.

## Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2019 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.

2019	
Audit area	Audits reviewed
Revenue and related accounts	3
Business combinations	1
Inventory	1
Long-lived assets	1
Use of other auditors	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 ("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. Any such criticisms or potential defects are discussed in Part II. Further, you should not infer from any Part I deficiency or combination of deficiencies that a quality control finding is identified 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 sole 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 modified 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. Any deficiencies identified in connection with our reviews of these audits would be included 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 (1) supporting the firm's opinion on the issuer's financial statements and/or ICFR and (2) in audit(s) in which it was not the principal auditor, to fulfill the objectives of its role in the audit.

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.

Issuer audits are presented 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 of an audit in which the firm played a role but was not the principal auditor, we identified deficiencies in connection with the firm's role in the financial statement and ICFR audits related to **Revenue, Accounts Receivable, and Inventory**.

##### Description of the deficiencies identified

The firm was instructed by the principal auditor of the issuer to test specific controls of the component in the areas of revenue, accounts receivable, and inventory. During the audit, the principal auditor provided additional information to the firm regarding certain of these controls, including the existence of additional control attributes and changes to the description of the controls. The firm did not perform procedures to (1) understand if the revised control descriptions, as communicated by the principal auditor, were indicative of changes to the controls, and if so, change its tests of design and operating effectiveness and (2) test the additional control attributes communicated by the principal auditor, including one such attribute related to the component's monitoring of the accuracy and frequency of inventory cycle counts. (AS 2201.42 and .44)

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

The firm selected for testing, as instructed by the principal auditor, a control that consisted of the review and approval of price quotes. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

The sample size the firm used in certain of its substantive procedures to test accounts receivable was too small to provide sufficient appropriate audit evidence because these procedures were designed based on a

level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

With respect to **Inventory**:

The firm selected for testing, as instructed by the principal auditor, a control that consisted of the performance of periodic cycle counts and the review and approval of related adjustments. The firm did not evaluate whether the documentation it inspected for unobserved inventory cycle counts provided evidence that all steps related to those counts were performed as designed. (AS 2201.44)

The firm did not obtain sufficient appropriate audit evidence that the issuer's inventory cycle count procedures were sufficiently reliable to produce results substantially the same as those that would have been obtained by a count of all items during the year due to the deficiencies in the firm's control testing discussed above. (AS 2510.11)

## Audits with a Single Deficiency

### Issuer B – Energy

#### Type of audit and related area affected

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

#### Description of the deficiency identified

The issuer reported a loss from operations that did not include a loss recognized on a long-lived asset held for sale that was not a discontinued operation (the "loss"). The firm did not identify, and appropriately address, a departure from GAAP related to the issuer's presentation of the loss, which was not in conformity with FASB ASC Topic 360, *Property, Plant, and Equipment*. (AS 2810.30)

Unrelated and prior to our review, the issuer reevaluated its presentation of the loss in its consolidated statements of operations and concluded that a material misstatement existed that had not been previously identified. The issuer subsequently restated its financial statements, and the firm revised and reissued its report on the financial statements. The issuer also reevaluated its controls over financial reporting 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 revised its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

## Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules

In the 2019 inspection, we did not identify any deficiencies related to other instances of non-compliance with PCAOB standards or rules.



## 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.

Deficiencies are included 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.

Any changes or improvements to its system of quality control that the firm may have brought to the Board's attention may not be reflected in this report, but are taken into account during the Board's assessment of whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

Criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified, are nonpublic when the reports are issued. 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, any such deficiency will be made public.

# 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.



Ernst & Young  
Chartered Accountants  
Harcourt Centre  
Harcourt Street  
Dublin 2  
D02 YA40  
Ireland

Tel: + 353 1 475 0555  
Fax: + 353 1 475 0599  
ey.com

Mr. George Botic  
Director, Division of Registration and Inspections  
Public Company Accounting Oversight Board  
1666 K Street, NW  
Washington, DC 20006-2803

10 December 2020

**Response to the Draft Inspection Report on the 2019 Inspection of Ernst & Young Chartered Accountants (Headquartered in Dublin, Ireland)**

Dear Mr. Botic

We are pleased to provide our response to the draft inspection report (the Report) from the Public Company Accounting Oversight Board (the Board or PCAOB) pertaining to the 2019 inspection of Ernst & Young Chartered Accountants (Headquartered in Dublin, Ireland).

Our overriding objective is to make certain that all aspects of our auditing and quality control processes are of the highest quality for the continued benefit of the capital markets in which the public participates and on which they rely. The PCAOB's inspection process assists us in achieving that objective.

We respect the PCAOB's inspection process and understand that judgments are involved in performing audits, as well as in subsequent inspections of those audits. We have thoroughly evaluated all matters described in Part I, Inspection Observations, 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 the actions affect our reports on the issuers' financial statements or our report to the principal auditor with respect to our role in the audit.

We have the following additional item regarding the matters described in the report:

Issuer B: The matter described in the report was identified prior to the inspection taking place. During the firm's quarterly review for the period ended June 30, 2019, the engagement team identified this matter and determined that the related control deficiency elevated to the level of a material weakness and brought this matter to the attention of the issuer. The appropriate actions, as described in the report, were then taken by the issuer and the firm.

Redacted pursuant to Section 104(f) and/or (g)(2) of the Sarbanes-Oxley Act.

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 to our U.S. SEC issuer auditing practice.

Respectfully submitted

Dermot Quinn  
Partner

N Barrett, V Bergin, L Charlton, R Clinton, D Daly, K Daly, G Deegan, F de Freina, D FitzGerald, J Higgins FCCA, L Kealy, M Keane, H Kerr, B Lenihan, T Lillywhite, B Maguire, E MacManus, L McCaul, J McCormack FCCA, C McDonagh, C McKenna, F McNally, C Murphy, P O'Driscoll, F O'Keefe FCCA, P O'Neill, M Purcell, D Quinn, R Ramanathan FCCA, G Reid, A Tiernan, M Treacy, I Vanmer, V Wall, R Wallace.

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