

2024 update on audit quality

Ernst & Young LLP
August 2024



At Ernst & Young LLP (EY US or the Firm), we are committed to continuously improving audit quality. We learn from our inspection results, and we are making progress in implementing the actions we described in our [2023 audit quality report](#) and our multiyear transformation strategy.

The Public Company Accounting Oversight Board (PCAOB) recently issued our 2023 inspection report (generally covering audits of 2022 financial statements), which shows a decline in Part I.A findings to 37% from 46% in 2022. While the results reflect progress, we are still not satisfied with this level of findings. Our analysis indicates that the improvement in our 2023 PCAOB inspection results is due to:

- ▶ The actions we took in 2022 to standardize our approach to auditing information technology (IT) controls and better integrate our professionals who specialize in IT into our audit teams
- ▶ Our efforts to embed a continuous improvement mindset in our culture, coupled with the concepts leveraged from Lean Six Sigma

We continue to work on standardizing our audit approach and centralizing support for our teams on both routine and complex audit topics. Further, all of our professionals who work on public company audits this year are required to apply our continuous improvement concepts.

We are confident that the actions we have taken and those we continue to take will further improve audit quality and strengthen our Firm's system of quality control.

We define audit quality as:

- ▶ **Being independent and objective, and acting with integrity and professional skepticism**
- ▶ **Complying** with professional standards, including exercising due professional care
- ▶ **Deploying** multidisciplinary teams, with appropriate skills and experience
- ▶ **Identifying** risks at the companies we audit and designing appropriate audit responses
- ▶ **Leveraging a continuous improvement mindset**, coupled with effective supervision and review, to pace our work and to address issues early
- ▶ **Using innovative technology** to deepen our understanding of a business and obtain better-quality audit evidence
- ▶ **Having honest, robust and timely communications** with the audit committee and management

The result:

Independent audit opinions that promote trust and confidence in the capital markets

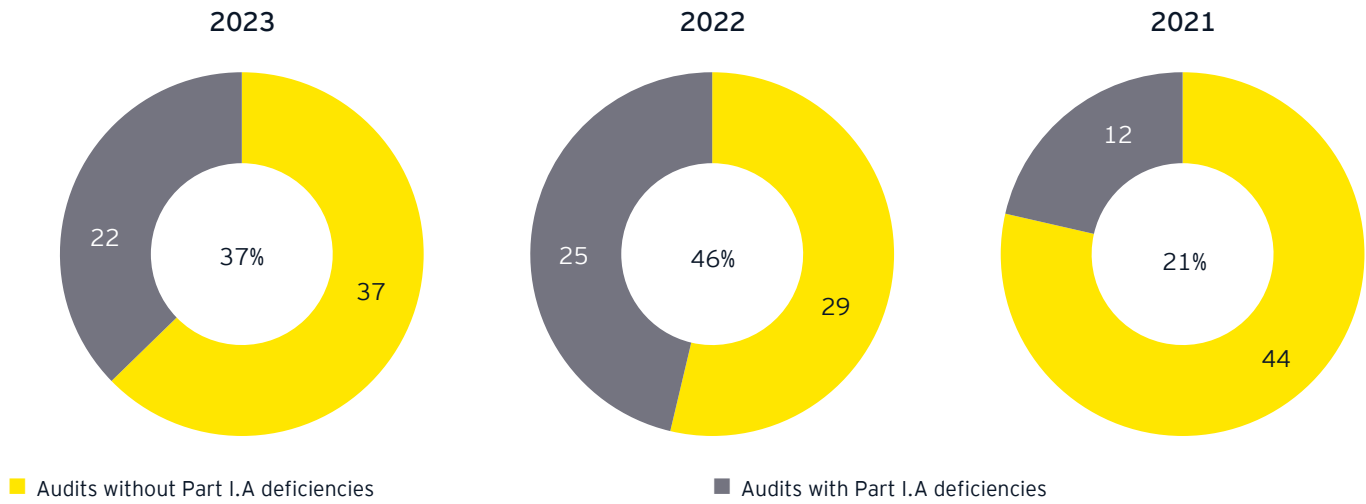


PCAOB inspection results

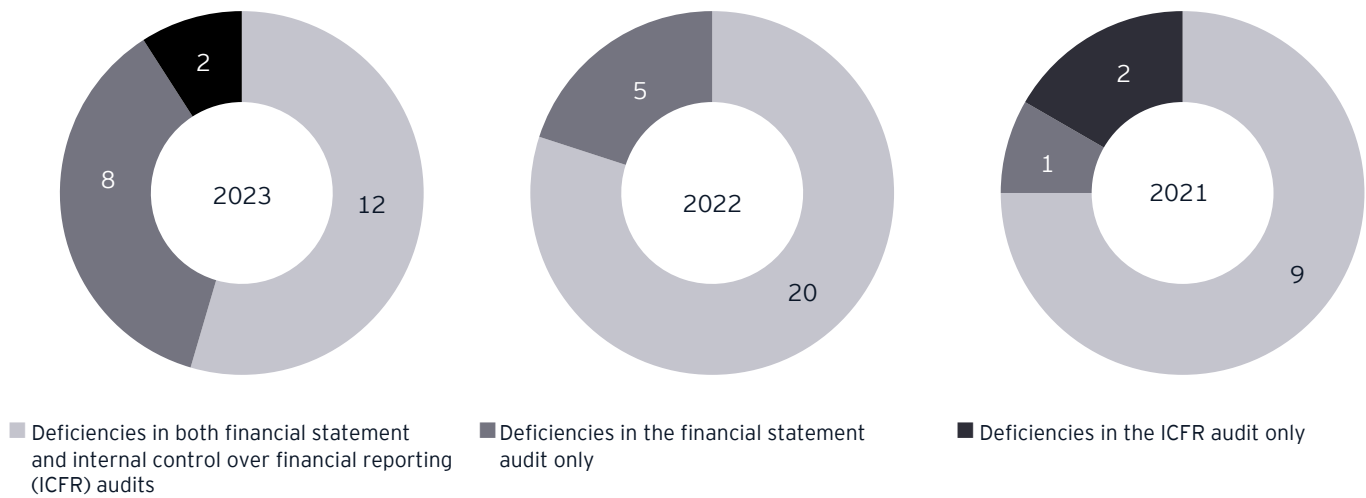
Part I.A of the PCAOB inspection report

The graphics below reflect the results of our PCAOB inspection for the 2023 inspection cycle, which generally covers our audits of 2022 financial statements, and the results for the 2022 and 2021 inspections.

Part I.A findings in audits reviewed



Part I.A findings by type



Part I.B of the 2023 PCAOB inspection report

Part I.B of the PCAOB's inspection report discusses noncompliance with PCAOB rules or standards that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its auditor's opinion(s). The Part I.B deficiencies in our 2023 inspection report relate to including all relevant workpapers in the final set of audit documentation, required communications with the audit committee and management, our reporting on critical audit matters and inaccurate information we reported to the PCAOB on Form AP, among other topics. We have taken steps to address each of these findings.

Part I.C of the 2023 PCAOB inspection report

Part I.C provides information on potential noncompliance with Securities and Exchange Commission (SEC) rules and noncompliance with PCAOB rules on maintaining independence that the PCAOB identified and that the firm identified and reported.

Part I.C cites noncompliance reported by EY US for the nine months ended 31 March 2023, representing approximately 3% of our issuer audits, in which the Firm or its personnel appeared to have impaired the Firm's independence because it may not have complied with the SEC or PCAOB rules. The potential noncompliance relates to financial relationships, employment relationships, and non-audit services. In each of these instances, EY US concluded that the Firm's objectivity and impartiality were not impaired.

Part II of the 2019 PCAOB report

This part of the inspection report addresses the PCAOB's observations about a firm's system of quality control, based on both the results of its review of the firm's quality control policies and inferences that can be drawn from deficiencies in the performance of individual audits. These observations are only released publicly if the PCAOB determines that a firm has not addressed the criticisms to its satisfaction during the remediation period.

In July 2024, the PCAOB updated our 2019 inspection report on its website after concluding that the Firm had unsatisfactorily addressed three criticisms that relate to our partners' supervision of the audit, our internal inspections program and compliance by managers with the Firm's policies for financial holding disclosures. We take these criticisms seriously and continue to take actions that we are confident will strengthen our system of quality control and improve audit quality.



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