

# Our commitment to audit quality

Information for audit committees, investors and other stakeholders

Ernst & Young LLP  
January 2023

# Audit committees, investors and other stakeholders

We are pleased to present the 2022 audit quality report of Ernst & Young LLP (EY US or the Firm).

Our commitment to audit quality is unwavering and motivates us to continuously improve. As leaders, we set clear expectations for all our professionals about meeting our high standards for audit quality. We also foster a culture of integrity, based on strong ethics and our shared values of respect, teaming and inclusiveness.

Over the last couple of years, we have adapted to rapid changes in the business environment. Like many entities, we have been challenged by the pandemic, the Great Resignation and other significant macroeconomic trends. Based on our inspection findings, our monitoring processes and other inputs, we have identified a need to drive greater consistency in our audit execution. In response, we have taken decisive and immediate action. We have enhanced certain aspects of our approach to auditing information technology (IT) controls. Recognizing the challenge of the remote working environment, we are strengthening coaching and supervision by executives, with a focus on audit execution, professional skepticism and project management.

We also have a multiyear transformation strategy. These efforts include simplifying and standardizing aspects of our audit approach, building centralized teams to provide audit support on various topics, and embedding a continuous improvement mindset in our culture. We are also continuing to refine our digital audit approach, which our teams have been applying to develop a deeper understanding of the companies we audit.

Many of our actions are designed to address the issues identified in our Public Company Accounting Oversight Board (PCAOB) inspection report in 2021 and the preliminary results for 2022, which each show an increase in findings. We are focused on reversing this trend in the current audit cycle (generally audits of periods ended 31 December 2022). While we recognize that we have work to do, we are confident that the actions we are taking are the right ones.

We are also reinforcing the importance of executing every audit with objectivity and independence and acting with integrity in everything we do, which are foundational to our ability to serve the public interest by promoting trust and confidence in the capital markets. Learning is also fundamental to the profession, and we are helping our people make time for required learning and professional development.

Retaining and supporting our people is vital to who we are as an employer and to sustaining audit quality over the long run. We are committed to further strengthening our culture and maintaining an environment where our professionals can do their best work. Our EY Way of Working allows our teams to determine the right mix of in-person and remote work. We are also advancing our commitment to diversity, equity and inclusion (DEI) through initiatives focused on career access, mentorship and dialogue.

We understand the enormous trust that is placed in us as auditors. We recognize that each of our audit professionals plays an important role in earning that trust, every day and on every audit. To help accomplish this, we continue to invest in our system of quality control, our processes and our digital innovation, including the EY global organization's \$1 billion investment in next-generation audit technology that will be used by all EY member firms.

We recognize the need to constantly evolve to address the dynamic risks faced by the companies we audit and meet the expectations of investors and others in the financial reporting ecosystem. We continue to engage with regulators and other stakeholders to address key topics such as reporting on environmental, social and governance (ESG), cybersecurity and other technology-related matters and to shape the audit of the future.

As you may be aware, the partners at EY member firms are evaluating a proposal to separate the firms into two distinct multidisciplinary organizations. We want to assure you that if the transaction moves forward, EY US and the global network of assurance firms will continue to have the necessary multidisciplinary capabilities to perform high-quality audits in the years ahead. As we consider our plans for the future, our people remain fully focused on executing high-quality audits today.

In closing, we embrace our responsibility to perform audits that promote trust in the capital markets and investor confidence. From our most senior leaders to the most junior members of our audit teams, all of our people are accountable for the quality of the Firm's audits. We continue to reinforce this message in our communications about driving greater consistency in audit execution and in our coaching and training.

Please reach out to any of our partners or managing directors if you would like to learn more.



*Julie A. Boland*

**Julie A. Boland**  
US Chair and Managing Partner  
Ernst & Young LLP



*John L. King*

**John L. King**  
US Vice Chair – Assurance  
Ernst & Young LLP

## Key focus areas in 2022

Reinforcing the cornerstones of our audit culture: independence and objectivity, integrity, professional skepticism and accountability

Focusing on ESG, cybersecurity and other emerging topics

Continuously innovating to attract, retain, develop, support and inspire our people

Continuing to strengthen our system of quality control

Continuing to promote diversity, equity and inclusion

Expanding our use of data to manage risks in our audit portfolio

Enhancing our audit approach to drive greater consistency

Expanding our use of audit technology

Reinforcing the importance of project management

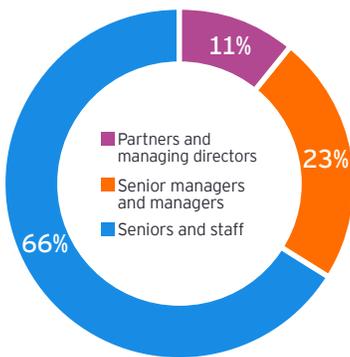
Instilling a continuous improvement mindset on our audits

# A snapshot of key metrics

## Our people

**10,750**

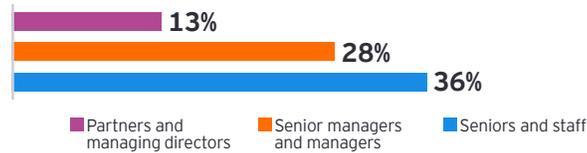
US audit professionals, by rank



US audit professionals by rank who are women



US audit professionals by rank who are racially and ethnically diverse



Percentage of newly promoted US audit partners and managing directors who are women

**46%**

or racially and ethnically diverse

**25%**

**4 of the 7** partners who manage our audit practice at the regional level are women or racially and ethnically diverse

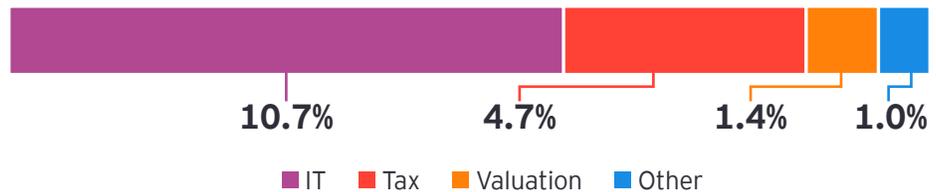
## Innovating and executing high-quality audits

Ratio of Quality Network and Professional Practice partners and managing directors to audit partners and managing directors

**1:6**

Percentage of US public company audit hours generated by EY US specialists

**17.8%**





# Our commitment to the public interest

We strive to continuously improve the quality of our audits to protect investors and are taking actions to drive greater consistency in the execution of our audits. We are also reinforcing the cornerstones of our audit culture: being independent and objective, acting with integrity, exercising professional skepticism and being accountable for the quality of our work.

## How we define audit quality

We are committed to performing high-quality audits, which we define as providing reliable and independent audit opinions and informative communications that promote trust and confidence in financial reporting and the capital markets.

As auditors, we understand and take seriously our important role in the financial reporting ecosystem, and we embrace our responsibility to serve the public interest. We view audit quality through the lens of the audit committees and investors we serve, and we are confident that the actions we are taking will enable us to consistently perform high-quality audits, innovate the audit and strengthen our system of quality control.

We also understand the importance of providing transparency about how we conduct our audits. In this report, we describe the factors that drive audit quality for EY US and how we measure our performance at the individual partner level, the engagement level and firmwide.

## Leadership, tone at the top and mindset

We set a clear tone from the top that executing high-quality audits is our top priority. In their communications, our leaders reinforce the cornerstones of our culture – maintaining our independence and objectivity, acting with integrity, exercising professional skepticism and being accountable for the quality of our work – in addition to values such as respect, teaming and inclusiveness. All of our audit professionals participate in quarterly quality webcasts, and our leaders have clearly communicated the importance of the actions we are taking to drive consistency in the execution of our audits.

EY professionals in the US, like those at all EY member firms, are required to affirm their commitment to upholding the EY Global Code of Conduct each year. The Code stresses the importance of performing quality work, acting with integrity, maintaining our objectivity and independence, and protecting confidential information, among other things. In the US, our professionals also sign a pledge to uphold the Firm's values. In addition, all EY US professionals and certain others affirm their compliance with our independence policies each quarter, as discussed below. All of our professionals are held accountable for living our values and adhering to the Code of Conduct.

**Our values: who we are**

- ▶ People who demonstrate integrity, respect, teaming and inclusiveness
- ▶ People with energy, enthusiasm and the courage to lead
- ▶ People who build relationships based on doing the right thing

We investigate potential violations of our Code of Conduct. In June 2022, the Securities and Exchange Commission (SEC) announced a settled order against EY US concerning conduct that was discovered in an extensive internal investigation and voluntarily shared with the PCAOB. The order refers to incidents in the past of inappropriate and unacceptable answer sharing on continuing professional education and, by some individuals, on the ethics exams required to earn or maintain a license as a certified public accountant (CPA). Our response to this unacceptable behavior has been thorough, extensive and effective. EY has reinforced our commitment that all of our people act with integrity and ethics through training, communications, ongoing monitoring and discipline. The order also states that EY US failed to update information that was provided

to the SEC in response to a voluntary request in June 2019 and that we should have updated that response.

Our partners and managing directors are evaluated based on factors such as the tone they convey to their teams, including their emphasis on the behaviors that contribute to audit quality, their level of consistent and direct involvement in the audit, the results of inspections, achievement of milestones on their audits and their mentoring activities.

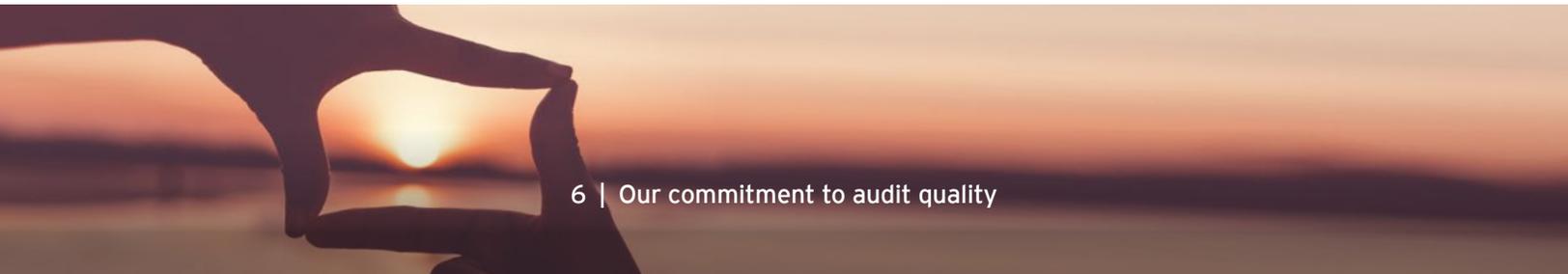
### Meet our new Chair

After starting her career as an auditor and CPA, Julie worked in investment banking and then served as chief financial officer at public and private companies before joining EY. She brings to our leadership team a deep understanding of the role an audit plays in a company's ability to raise capital and the importance of operating with ethics and integrity and upholding the values of the profession. Her commitment to investments in our people and our audit process enables us to keep striving to raise the bar on audit quality and contribute to trust and confidence in the capital markets.

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Our culture promotes performing high-quality work with integrity in all of our audits.”



**Julie A. Boland**  
US Chair and Managing Partner





### **Our global organization**

EY US is a member of a global organization that is committed to conducting high-quality audits and requires each member firm to maintain a system of quality control that meets high standards. This structure provides a shared set of values for auditors at EY member firms around the world. It also enables large-scale investments in technology, training and methodology that would be difficult for member firms to achieve on their own.

The EY global organization, in fact, recently committed to invest another \$1 billion over the next four years in next-generation technologies for EY Assurance services, including artificial intelligence, predictive analysis and further integration of our existing suite of tools.

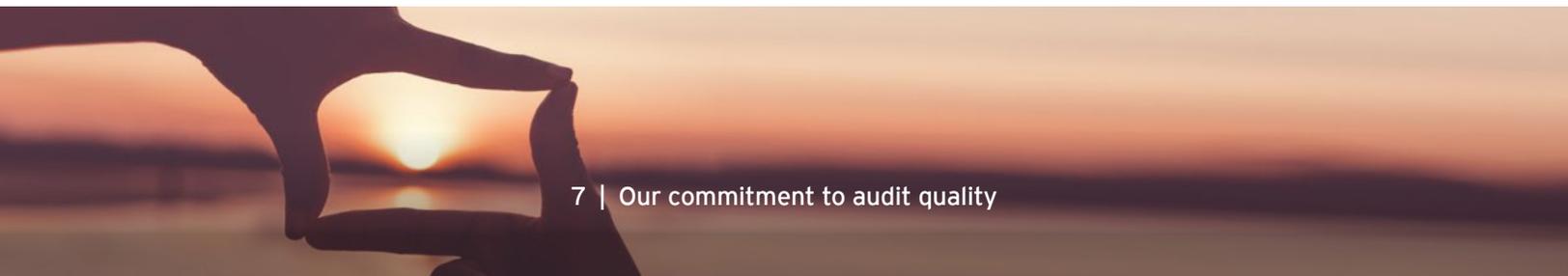
Auditors at all EY member firms use the same audit technology and the same foundational audit methodology, and they are evaluated against common quality objectives. They are all supported by regional Quality Network and Professional Practice professionals, and the EY global organization regularly tracks audit quality indicators at each member firm.

The EY global organization's [Sustainable Audit Quality \(SAQ\) program](#) remains a key focus for the audit practice at each EY member firm. The six pillars of the SAQ program are tone at the top, people capabilities, simplification and innovation, audit technology and digital, enablement and quality support, and accountability.

Auditors at all EY member firms are required to comply with the independence policies of the global network and local firm and to confirm compliance each year with the [Global Code of Conduct](#), as discussed above.

### **Looking ahead**

While EY US and other member firms are evaluating whether to separate their respective firms into two distinct multidisciplinary organizations, we remain focused on performing high-quality audits. Under the proposal the firms are considering, EY US and the global network of assurance firms will continue to have all the capabilities and technical support required to deliver high-quality audits and serve the public interest.



## Our system of quality control

Our system of quality control is designed to prevent and detect risks to audit quality. It's also designed to promote a culture that emphasizes the importance of performing high-quality audits and accountability for the quality of our work.

We continuously monitor our system of quality control and enhance our policies, processes and documentation when necessary. We use data analytical techniques to evaluate information about our audit practice and innovate how we identify, manage and respond to audit quality risks. We also monitor external risk factors and develop guidance and training to help our professionals address challenges such as how to evaluate fraud risk factors in the current environment.

Over the past year, we and all other EY member firms continued to prepare for compliance with the International Auditing and Assurance Standards Board's new quality control standard that went into effect on 15 December 2022. We are also considering the changes the PCAOB recently proposed making to its quality control standards.

## Independence and objectivity

Independence from the companies we audit, in fact and appearance, is foundational to our ability to provide trust and confidence to the capital markets.

We consider and evaluate independence with regard to our people and EY member firms. This includes evaluating the Firm's financial relationships and those of our people; employment relationships; business relationships; the permissibility of services we provide to companies we audit; partner rotation requirements; fee arrangements; audit committee preapproval of our services, where applicable; and partner remuneration.

Our policies, which are more stringent than regulatory standards, prohibit all US professionals and certain others from owning a financial interest in any audit client. Further, we require our managers through partners to report securities they (and their immediate family members) hold and their other financial relationships in the EY Global Monitoring System, which initially assesses and then monitors the permissibility of the investments and arrangements. Managers through partners are required to have automated daily feeds from their brokers to keep their records up to date.



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We continuously review and enhance our quality control processes to detect and prevent risks that impact audit quality.

John L. King  
US Vice Chair – Assurance

In 2022, we enhanced our Global Monitoring System to better enable professionals to comply with their obligation to report their financial relationships. We are emphasizing the importance of compliance with our policy on reporting financial relationships and interests in our messaging to our professionals, and we have set aside time for them to complete the necessary reporting. We have also raised the financial penalties for incomplete or inaccurate reporting. We have 49 partners and managing directors in our EY US independence group to support our audit teams.

All EY US professionals and certain others are also required to confirm compliance with our independence policies and procedures each quarter. In the most recent reporting year, we tested more than 2,600 US partners and other professionals for their compliance with our independence policies, as part of our firmwide system of quality control.

Our policies require that audit teams communicate with audit committees at least quarterly to affirm their independence and describe matters that may bear on independence. Our policies also address how we compete for audit work, including both new business and proposals to continue auditing a company we currently audit, and how many years certain of our professionals can work on a particular audit.



# Independent advice on audit quality

Leaders of the Firm meet regularly with our Independent Audit Quality Committee (IAQC) and seek the IAQC's feedback and advice about aspects of our business, operations, culture, talent strategy, governance and risk management that affect audit quality. The IAQC was created in January 2019 and comprises external leaders with extensive experience in the financial reporting ecosystem.

These independent experts provide actionable advice and valuable insights we use in our decision-making about how to continue to improve audit quality. For example, we have held robust discussions with the IAQC over the past year about our talent strategy, our digital transformation,

internal and external inspection results and other audit quality indicators, our readiness to comply with the new international standard on an audit firm's system of quality management, key changes we are making to our processes to enhance audit quality, and governance and succession matters. In addition, our discussions have focused on what the proposed changes to the reporting requirements for climate-related matters and cybersecurity matters will mean for the Firm and the profession.

We are completing the process of filling a vacancy on the IAQC that was created when the IAQC's inaugural chair, F. William (Bill) McNabb III, completed his term.



IAQC member **Jeanette M. Franzel** is a CPA, a former board member of the PCAOB and a former managing director at the Government Accountability Office. She is currently a board member of the North Carolina Association of CPAs.



IAQC member **Dina Dublon** is a former chief financial officer at JPMorgan Chase & Co. and currently serves on the boards of directors of PepsiCo, T. Rowe Price and Motive Capital Corp II.

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We believe our advice helped EY US shape the strategies it is implementing to enhance audit quality in both the short term and long term.

**Jeanette M. Franzel** – IAQC member

**Dina Dublon** – IAQC member

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The IAQC's input is especially valuable to me. I am focused on enhancing our audit quality, and the IAQC provides me with an independent perspective on key topics that impact audit quality. I expect to continue to benefit from their advice and insights on a variety of topics, including emerging issues that affect financial reporting and the profession.

**Julie A. Boland** – US Chair and Managing Partner

# Engagement with stakeholders

Our leaders actively engage in discussions with regulators and standard setters such as the SEC, the PCAOB and the Financial Accounting Standards Board (FASB) to share our perspective on emerging issues that impact audits and financial reporting. We weigh in on rulemaking and standard setting, which we believe is a critical part of our efforts to promote meaningful financial reporting and high-quality audits.

For example, we continue to engage with the SEC as it considers requiring companies to disclose their greenhouse gas emissions and other matters relating to climate change and to make more robust disclosures about cybersecurity incidents, risk management and governance. We also continue to engage with the FASB as it considers standard setting on accounting for environmental credits, digital assets and other topics.

We also share our views with investors and other groups that are interested in financial reporting. For example, we engage directly with investors to promote an understanding of the audit and to exchange views on current corporate reporting topics. Through our global organization, we also provide input to groups, such as the International Sustainability Standards Board, that are seeking to standardize the disclosures companies make about ESG matters.

We also issue thought leadership publications aimed at improving the quality of financial reporting. Over the past year, we addressed topics such as accounting for transactions and arrangements related to climate change initiatives, accounting for digital assets, accounting and financial reporting considerations related to macroeconomic factors, and accounting for the direct and indirect effects of the war in Ukraine.

The EY Center for Board Matters publishes articles and hosts webcasts to help board members address complex

topics in addition to publishing analyses of governance data on US public companies. Our Audit Committee Forum aims to inform and educate audit committee members on topics such as climate-related disclosure and other ESG matters, cybersecurity and data privacy. In collaboration with Tapestry Networks, EY US sponsors networks of audit committee chairs representing more than 250 companies. They meet regularly to discuss their work and sometimes engage with experts, regulators and policymakers.

## **Information security and privacy**

Member firms in the EY global organization use a globally consistent and regionally based approach to information security that incorporates aspects of people, process and technology in how we protect information and technology assets.

EY US maintains robust information security and data privacy programs, consistent with industry standards and applicable legal requirements, designed to protect against unauthorized disclosures of data and attacks on our network.

One of the most important elements of our strategy is maintaining a security-aware culture enabled by training and risk management communications. We provide annual training focused on the latest security risks, including tests of whether our people can identify phishing emails.

Safeguarding the confidentiality of the information we receive from the companies we audit is critical. Data is transferred using industry standard solutions designed to securely transfer large files between EY US and the companies we audit. The EY Canvas Client Portal also provides a secure platform for communication and file transfers between the companies we audit and our audit teams. Client data is encrypted, both during transfer and while at rest.

# Looking ahead

## Cybersecurity

With cyber attacks on the rise, our partners proactively engage management and audit committees at the companies we audit in discussions about the heightened risks. We also provide our audit teams with guidance so they can assess the effects of cyber incidents when they arise and adjust their audit plans as necessary. We generally support the SEC's proposal to require public companies to make more robust disclosures about material cyber incidents and to provide disclosures about their cybersecurity risk management and governance. In addition, we continue to offer the companies we audit separate cyber-related services that provide an independent and objective assessment of the company's cyber risk management activities to support board and management oversight of this issue.

## ESG

We are sharing our perspective with the SEC and other regulators on which climate disclosures would provide reliable information to investors. Our auditors are prepared to provide assurance on greenhouse gas emission disclosures, and we have shared our recommendations for improvements to climate-related disclosures the SEC has proposed requiring. We believe certain disclosures about greenhouse gas emissions and other material climate-related matters would be useful to investors because they address long-term value. We already offer a separate service of providing assurance on a company's voluntary ESG disclosures, and our sustainability specialists advise companies on reporting on these topics. Senior members of our audit teams are also proactively helping management and audit committee members understand the evolving ESG reporting landscape.

## Future of the profession

We continue to engage with high school and college students to generate excitement about careers in auditing. We explain that EY auditors have opportunities to use cutting-edge technology, specialize in auditing certain complex areas, and be at the forefront of reporting on emerging topics such as ESG matters and cybersecurity. Our goal is to make a career in auditing attractive and more attainable for a larger group of professionals, and we are taking the following steps:

Through our EY Career Path Accelerator program, we're expanding access to a career as a CPA by providing our interns with a way to earn the extra college credits they need to meet the licensing requirements and, in many cases, providing need-based scholarships.

We're developing a pipeline of racially and ethnically diverse accounting professionals through our partnerships with organizations such as the National Association of Black Accountants and the Association of Latino Professionals For America.

We are working with the Center for Audit Quality to generate excitement about the profession among both racially and ethnically diverse individuals and those with a degree in accounting and a major or minor in data analytics, management information systems or computer information systems.



## Innovating and executing the audit

Our data-first approach and innovative technology help us drive audit quality and execute our audits with objectivity and professional skepticism.

### **Our focus on consistency**

We are laser-focused on driving consistency in how we apply our audit methodology, how we manage our audits and how we use innovative technology. To do that, we have clarified our methodology in certain areas, simplified and standardized aspects of our audit approach, and created centralized teams that provide audit support on specific topics. We are also placing a greater emphasis on timely supervision by executives, project management and accountability.

### **Our data-first mindset**

Our data-first approach enhances audit quality because our teams see the big picture and focus on the key risks in

the audit, including potential fraud risks, that arise during the year. It allows us to see trends and anomalies and understand how anomalies occur and how prevalent they are.

Our US public company audit teams use our digital audit methodology to enhance their risk assessments for all significant accounts and key business processes. That means they start their audit planning with a full population of data about the company's transactions recorded in the general ledger. They also used data-driven audit procedures to better understand key business processes and to obtain substantive audit evidence for many of the company's account balances.



## EY Helix analyzers for use on all financial statement audits

### Consolidated trial balance

- ▶ Scoping for multilocation audits
- ▶ Interim review

### General ledger

- ▶ Used to identify anomalies in journal entries

### Subledger

- ▶ Trade receivables
- ▶ Trade payables
- ▶ Inventory
- ▶ Payroll
- ▶ Property, plant and equipment

Starting with data gives us a better understanding of how transactions are processed. By evaluating data and applying professional skepticism and judgment, we can better identify changes in processes and unusual journal entries that require follow-up than if we used traditional sampling techniques.

As a result, we are asking better, more timely questions of management and improving the experience for our professionals. Management of the companies we audit also benefits by spending less time pulling documentation of transactions and answering basic questions. In some cases, management gains new insights into the company's processes or operations based on information we share with them.

### EY Helix data analyzers

We have a robust library of EY Helix data analyzers that our teams use to perform risk assessments, identify anomalies and obtain audit evidence. They include our EY Helix general ledger analyzers and our subledger analyzers.

Our newest general ledger analyzer provides enhanced visualizations, including highlighting changes in the data from the previous year, and allows team members to quickly drill into the data so they can discuss it in real time with audit team executives. It also allows our teams to analyze very large populations of data from the companies we audit. In addition, the analyzer helps our teams identify significant or unusual patterns in journal entries, grouping them by combinations of characteristics, such as the same posting details.



We continue to maximize our use of data and technology. Our teams are building on the knowledge they have gained by working with data, and they are focusing on changes that may indicate new risks.

William R. Strait  
US Deputy Vice Chair – Assurance

## Sector-specific analyzers

- ▶ Investment analyzer
- ▶ Lease revenue analyzer for lessors of real estate
- ▶ Health revenue analyzer
- ▶ Life sciences gross-to-net analyzer
- ▶ Premiums and claims non-life insurance analyzer
- ▶ Mortgage loan analyzer
- ▶ Commercial loan analyzer
- ▶ Automotive warranty liability and expense analyzer





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We believe a data-driven audit is a higher-quality audit. It allows us to ask better questions in team meetings and in conversations with management of the companies we audit.

Cale L. Whittington  
US Assurance Digital Leader

We also have sector-specific EY Helix data analyzers that help our teams evaluate transactions and metrics that are unique to the company’s industry. These analyzers are often developed by EY auditors who want to address the needs of their own teams that aren’t addressed by existing analyzers. We then test the analyzers and certify them for use by other US teams auditing companies in the same industry.

The general ledger, subledger, transaction and sector-specific analyzers can be used to perform risk assessments and a variety of substantive audit procedures.

We also have a robust pipeline of ideas in development to create new tools, and we encourage our professionals to continue to innovate.

We evaluate the latest technology businesses are using and develop tools to address new issues that may arise. For example, our blockchain analyzer gathers a company’s cryptocurrency transaction details from public blockchain ledgers using public addresses supplied by the company and reconcile the data with the company’s records. The latest version of the analyzer has a digital signature verification feature that allows companies to demonstrate ownership of digital wallet addresses without needing to move cryptocurrencies.

The analyzer supports data for five blockchains: Bitcoin, Bitcoin Cash, Litecoin, Ethereum and Ethereum Classic.

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We use the latest data analytic technology in our audits. This gives us more insight into companies that use cutting-edge technology and analytics to manage their operations and results in a higher-quality audit.



Jeffrey Lang  
Partner in charge of a large multinational public company audit





### EY Canvas audit platform

All EY US teams use our cloud-based audit platform, EY Canvas, to apply the EY global audit methodology and manage day-to-day audit work. This global platform helps our teams track their progress and review the work of auditors from other EY member firms who participate in multinational audits. Our teams also use the EY Canvas Client Portal to communicate securely with the companies we audit.

EY Canvas is designed to help our teams manage their audits more effectively and reduce the effort required to perform administrative tasks. Our teams can easily track their progress against key audit milestones, view the key risks they identified and track the audit procedures they planned so they can more easily see whether key risks have been appropriately addressed.

The EY global organization continues to make enhancements to add functionality to EY Canvas. For example, the Canvas engagement dashboard was recently enhanced to make it easier for team members to see the tasks that require attention.

### Automation

We continue to automate aspects of the audit to improve audit quality by collecting evidence and enhancing project management to allow our people to focus on higher-risk areas of the audit. For example, our custom confirmation solution allows teams to automate parts of the

confirmation process, including sending digital requests, tracking responses and reconciling confirmed balances to the company's records.

We also have solutions that populate certain information from our EY Helix Analyzers into workpaper templates to help our teams document their work consistently.

Teams can use our EY Canvas Smart Automation to create Intelligent Checklists that help streamline the preparation and review of financial statement disclosure checklists, among other things.

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I feel fortunate to work at a firm that invests in analytical tools I can use to perform audit procedures and get a better understanding of what's happening at the company I'm auditing. This gives me the confidence to discuss what I'm seeing in the data and contribute valuable insights to the team.



Lexi M. Ott  
Audit senior



### **Working with the right companies**

We focus on making sure the companies we audit share our commitment to quality and transparency in financial reporting, and we do not pursue audits of companies that do not share our values. Every year, there are many companies we decline to audit.

We perform rigorous risk assessments and obtain approval from regional leadership before we accept audit engagements and then again annually to continue our audit work. These assessments help us identify the companies we want to audit, considering factors such as management's integrity and approach to meeting its financial reporting responsibilities, the company's financial condition and the strength of its audit committee.

As part of the process, which is an important element in our system of quality control, we develop an overall risk designation for each audit. It is based on the risk factors specific to the company, which might include risks associated with adopting new accounting standards, entering into a business combination, going public, accounting for complex income tax matters, and holding and/or transacting using digital assets, among other factors.

Throughout the audit cycle, our teams reassess risks using evidence they gather from their audit procedures. We also alert our teams about fraud risk indicators such as short selling and adverse news reports.

### **Establishing the right team**

Each public company team has a partner in charge, who sets the tone and has overall responsibility for the direction, supervision and performance of the audit. On all public company audits, another partner serves as engagement quality reviewer and evaluates significant judgments

made by the team. The engagement quality review is an important element in our system of quality control.

The factors we consider when we assign partners to these roles include data about their workloads and their experience with both the industry and public companies, their skills and the SEC's partner rotation requirements. We also consider the company's risk designation identified in our firmwide assessment process.

About 63% of our audit partners serve as the partner in charge of a public company audit. If audit partners who serve as engagement quality reviewers on public company audits are included, the percentage rises to 82%.

Our other audit partners help manage our public company audits or serve in quality or leadership roles, or as partners in charge of private company audits. We have additional partners on 33% of our public company audits to assist the partner in charge of our larger and more complex audits.

To make sure our partners have enough time to lead quality audits, we review their workloads semiannually and when the scope of an audit changes significantly due to a major transaction or when there is significant turnover on the team. We perform a comprehensive annual review of each team to make sure we are staffing our audits with audit professionals and specialists who have the right skills and capacity to execute quality audits, given the risk factors identified in each engagement. We also monitor the composition of our teams throughout the audit and determine what actions to take to respond to potential audit risks.

We believe that timely executive involvement is a key driver of audit quality, and we track and evaluate hours incurred by managers and above at various points during the audit.

## The right skills

We include in our audit teams EY professionals who focus on tax matters, IT and valuation matters, and, in certain audits, forensic accounting. Having specialists in these areas collaborate with our audit professionals helps us deliver high-quality audits at a time when IT environments, business models, transactions and worldwide tax regimes are increasing in complexity.

In fiscal 2022, EY US specialists, who are members of our audit teams and are highly valued by EY, accounted for a total of 17.8% of our US public company audit hours, which is consistent with 2021. IT specialists accounted for 10.7% of US public company audit hours. Tax, valuation and other specialists' time represented 4.7%, 1.4% and 1.0% of total US public company audit hours, respectively.

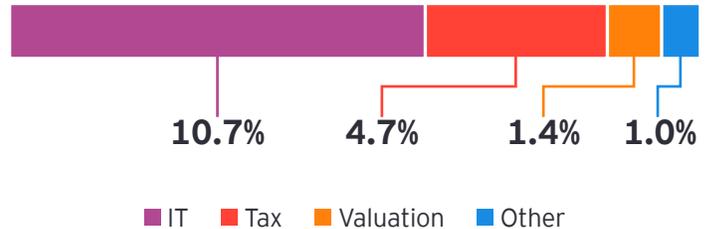
In some cases, our specialists may spend considerably more time working on audits than these percentages indicate, depending on the complexity of the audit. For example, our IT specialists typically spend more time auditing internal controls when the company has a more complex IT environment or performing procedures related to cyber incidents. As part of our collaboration, we involve our IT specialists early and often in the audit to develop and execute the audit plan.

EY US and other members of the EY global network will continue to have the outstanding multidisciplinary capabilities to support our audits now and in the years ahead, even if the member firms separate into two distinct organizations.

Offshore professionals who support the EY global organization perform certain audit procedures and other tasks under the supervision of our US audit teams and

Percentage of US public company audit hours generated by EY US specialists

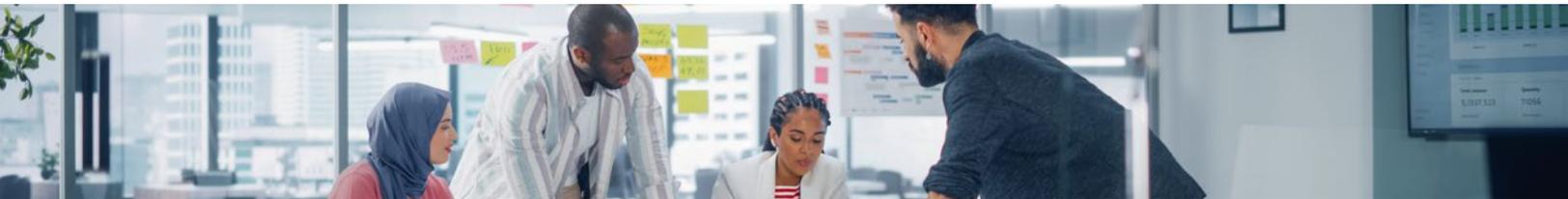
# 17.8%



the specialists who work on our teams. In fiscal 2022, these professionals accounted for 20% of US audit hours, compared with 18% the previous year.

In the US, we are driving consistency in our approach and documentation by building centralized teams that provide audit support on various topics. Our Service Delivery Center (SDC) currently supports audit teams by performing routine independence procedures such as reviewing the services we provide to a company we audit and making sure they are all pre-approved. Having individuals who specialize in performing these procedures frees up our core audit team members to spend more time on other areas of the audit that require more judgment.

We are also developing US-based groups to support our teams in certain areas of the audit that require judgment or pose a higher risk. Specially trained auditors in these groups will perform key procedures related to certain complex topics, in close collaboration with engagement team members, as well as more-complex independence procedures such as researching potential independence conflicts. We are prioritizing the development of these groups.



### **Managing the audit**

We believe that timely pacing of the audit and strong project management, including timely supervision and review by audit executives, are important drivers of audit quality. Our experience indicates that teams that complete their work at the appropriate time, including reviews by audit executives, execute higher-quality audits.

We emphasize the importance of project management through our milestones program, which promotes discipline and timely executive involvement by focusing our teams on completing procedures, documentation and reviews by a specified date for key phases of the audit. We have enhanced how we analyze real-time data for our milestones program, which helps us proactively reach out to teams ahead of deadlines and provide additional support when necessary. To facilitate timely reviews, we also require our teams to set specific executive discussion and approval points throughout the audit cycle to make sure the partner in charge holds discussions with the right people at the right time.

While a significant amount of audit work needs to be completed at or after a company's year-end, our milestones program helps our teams perform as many tasks as possible before that busy period. Performing work earlier in the audit cycle gives teams more time to address any issues that arise before the year-end crunch.

In fiscal 2022 (mostly audits of 2021 financial statements), our teams performed 36% of their work three months before the company's year-end and 62% of their work before the company's year-end. Our teams, including our

partners and other audit executives, use EY Canvas to track the progress of their audits and completion of tasks in real time. This visibility enables executives to provide more targeted supervision and to better identify team members in need of coaching.

Over the past year, we stressed the importance of a continuous improvement mindset to further enhance audit quality. Our teams use Lean Six Sigma principles to manage their audits more effectively so they can focus on the risks that matter most in each audit, eliminate rework and drive greater consistency in our audit execution.

### **Cybersecurity**

Cyber risks are a major threat to businesses. A breach of an organization's systems can disrupt operations, significantly increase costs and harm an organization's reputation.

On every audit, we obtain an understanding of a company's processes and controls that relate to IT and are relevant to the audit. We also perform procedures to understand management's approach to identifying, evaluating, investigating and communicating cybersecurity breaches. If information about a material breach is identified, we consider the effect on the financial statements, including disclosures, and the effect on internal control over financial reporting.

EY US also offers the companies we audit separate cyber-related services that provide an independent and objective assessment of a company's cyber risk management activities to support board and management oversight of this issue.



## EY digital audit technology

Our digital technology enables audit teams to perform the digital audit using a secure platform. Our suite of analyzers helps teams analyze data with advanced and emerging technologies.



Click on  
the tools to  
learn more.





## Our people

Our people are essential to our ability to execute high-quality audits. We focus on creating diverse teams of audit professionals, supporting their wellbeing and providing them with career development opportunities.

### Putting our people first

Our hybrid model of remote and in-person working that we call the EY Way of Working, or EY WoW, requires our teams to consider the needs of the companies we audit and their personal needs to determine when and where to work.

It allows us to continue performing high-quality audits while providing predictable flexibility for our people. It also enables us to provide more opportunities for our professionals to work on engagements outside their geography.

We are focusing on making sure our teams use their time together for activities that are most impactful in person, such as engaging with management of a company we audit at critical points in the process and getting together as a team to reinforce our culture and emphasize the

importance of having a continuous improvement mindset. Our people are also gathering in person with EY leaders to celebrate their achievements. For example, we hosted our celebration for newly promoted audit executives in person this fall for the first time since 2019. We are also returning to in-person learning.

We continue to enhance the experience of working at EY US and empower our people to innovate. We held our first-ever Assurance Super Day in June 2022 to discuss new career opportunities in our audit practice and offer opportunities to learn more about the investments we continue to make in our people and their benefits.



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We remain focused on creating the right opportunities to help our audit professionals develop and providing them with experiences to become tomorrow's leaders.

Rebecca A. Burke  
US Assurance Talent Leader

## Highlights of our benefits

### Time off

- ▶ 19 paid holidays, including week-long breaks in summer and winter
- ▶ A flexible vacation policy that allows our professionals to decide how much vacation they need

### Emotional wellbeing

- ▶ \$1,000 annual reimbursement for wellbeing activities that now include travel in addition to fitness and health activities
- ▶ Fitness discounts and access to top-quality fitness centers at reduced rates
- ▶ Free counseling for our people and their families (25 sessions per family member)
- ▶ Mindfulness community group sessions

### Physical wellbeing

- ▶ \$50,000 in lifetime family-building support for EY professionals and their dependents (up from \$25,000)
- ▶ Immediate eligibility for 16 weeks of paid parental leave
- ▶ Reimbursement of up to \$50,000 for eligible gender affirmation care
- ▶ Access to a free second opinion

### Daily-life resources

- ▶ 24 days of subsidized backup child/adult or self-care, up from 12 days before the pandemic
- ▶ \$800 annual reimbursement for child/adult/pet care or commuting expenses
- ▶ Coaching for new parents returning to work
- ▶ Assistance to navigate the college application process

To promote a sense of belonging, we assign our audit professionals to small groups, which we call EY Circles, so they can meet several times a year to discuss matters that impact them. We have over 350 of these circles in the US audit practice.

**Corporate responsibility and social equity initiatives**

EY US continues to promote equity inside our organization and in our communities. By leveraging the power of our people and collaborating with like-minded organizations, we aim to solve societal challenges facing our world today.

Through our Bridging the Digital Divide initiative, we collaborate with other organizations to help provide underserved populations with devices and broadband access, as well as mentors so they can develop the necessary skills to participate in the digital age. Our College MAP program matches underserved students with EY mentors who help them navigate the path to higher education.

We also provide pro bono services to impact entrepreneurs who use business as a force to address poverty, inequality and environmental issues, among other things. And, each year, thousands of EY people team with Earthwatch to combat climate change and environmental injustice.

Another way we effect change is through the EY Social Justice Fund, a platform where EY people can

recommend nonprofit organizations or contribute funding to organizations focused on addressing inequity, discrimination or racism. The fund builds on our existing and longstanding corporate responsibility efforts to address the root causes of social injustice.

**Leveraging diversity and promoting equity and inclusion**

[Diversity, equity and inclusion](#) are key pillars of the US Firm's strategy and commitment to delivering high-quality audits. We believe diverse perspectives, combined with an equitable and inclusive culture, drive better decision-making, stimulate innovation and increase our agility.

We also foster a sense of belonging for all of our people by making sure everyone's voice is heard. We staff our audits with diverse teams and sponsor nine professional networks that provide opportunities to bring our diverse workforce together for connections, support and engagement. One example is Unity, our professional network supporting lesbian, gay, bisexual, transgender and other professionals (LGBT+) and their allies.

We are committed to attracting and developing women and racially and ethnically diverse professionals and recognize individuals who serve as role models and sponsors, live our values and demonstrate inclusive leadership.



**Percentage of newly promoted audit partners/managing directors who are women**



**Percentage of newly promoted audit partners/managing directors who are racially and ethnically diverse**



In 2022, 46% of the audit professionals we promoted to partner or managing director were women and 25% were racially and ethnically diverse (R&ED). R&ED includes individuals who identify as American Indian/Alaskan Native, Black or African American, Asian, Hispanic or Latinx, Native Hawaiian or other Pacific Islander, or two or more races or ethnicities.

In our campus hiring, 50% of our recruits in fiscal 2022 were women and 40% were R&ED.

Our retention rates for both women and R&ED professionals at the senior manager/manager ranks exceeded our overall retention rate of 74% for these ranks. At the senior/staff

ranks, our retention rate for women was consistent with our overall retention rate of 73%, but our retention rate for R&ED professionals in this group was slightly lower.

We also monitor the percentage of partners and managing directors in leadership positions who are women and R&ED professionals. In 2022, 28% of the partners in charge of public company audits were women and 11% were R&ED, up from 25% and 8% two years earlier, respectively. The percentage of women and R&ED partners who lead our most complex multinational public company audits is also rising. We expect women or R&ED partners to lead 30% of these audits for periods beginning in 2023, up from 28% two years earlier.

### DEI in our leadership

- ▶ Four out of the seven partners who manage our audit practice at the regional level are women or R&ED professionals.
- ▶ Ten of the 15 current members of our US Executive Committee are women or R&ED professionals.

We are proud of the recognition we have received for our efforts, including recognition from DiversityInc, a leading source of business information on diversity management.

In 2022, we were once again recognized as a member of DiversityInc's Top 50 Hall of Fame made up of companies that have achieved a No. 1 ranking in its annual list of Top 50 Companies for Diversity. We were also recognized on several of DiversityInc's 2022 specialty lists, including mentoring and sponsorship, where we continued to hold the **No. 1 spot**.

We are actively pursuing the Management Leadership for Tomorrow (MLT) Racial Equity at Work Certifications. We reached plan-approved status for the Black Equity at Work Certification, a key milestone in our journey to be a more equitable, inclusive workplace for Black professionals. We are also among the initial launch employers pursuing the Hispanic Equity at Work Certification. These certifications focus on five core pillars: representation at every level, compensation equity, workplace culture, business practices, and contributions and investments.

#### Other DEI accolades we have received

- ▶ Seramount (formerly Working Mother) – 100 Best Companies (Hall of Fame, Top 10)
- ▶ Seramount Inclusion Index – Pinnacle Inclusion Index Organization
- ▶ Human Rights Campaign Corporate Equality Index – “Best Places to Work for LGBTQ+ Equality” (100% rating)
- ▶ Disability Equality Index – Best Places to Work (100% score)

#### Percentage of women in our US audit practice

	2022	2021	2020
Partners and managing directors	34%	32%	32%
Senior managers and managers	48%	48%	47%
Seniors and staff	50%	49%	47%
<b>Total</b>	<b>47%</b>	<b>47%</b>	<b>45%</b>

#### Percentage of R&ED professionals in our US audit practice

	2022	2021	2020
Partners and managing directors	13%	12%	11%
Senior managers and managers	28%	27%	28%
Seniors and staff	36%	34%	33%
<b>Total</b>	<b>32%</b>	<b>30%</b>	<b>29%</b>



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We are committed to building a robust pipeline of exceptional leaders who will continue to strengthen our diverse, equitable and inclusive culture.

Sangita Kasturi  
US Assurance Diversity, Equity and Inclusiveness Leader



### The right people at the right time

We continuously analyze macroeconomic data and information about our audit practice to forecast the number of people at each rank we will need to deliver high-quality audits. Geography is no longer the key consideration. Our professionals can now work remotely on audits in other locations, and we're incorporating this flexibility into our planning.

We have a process to identify partners with high potential so we can make sure they have the experiences they need to move into leadership roles, such as leading our most complex and challenging multinational audits.

We recognize and reward our top performers to help us retain professionals with the skills and experience to perform high-quality audits. We also promote top performers when they're ready and when the Firm needs them, rather than using the traditional approach of requiring them to complete a specified number of years of service in each rank.

Number of US audit professionals (on a full-time equivalent, or FTE, basis)

	Fiscal 2022	Fiscal 2021	Fiscal 2020
Partners and managing directors	1,159	1,142	1,181
Senior managers and managers	2,458	2,575	2,564
Seniors and staff	7,133	7,218	7,325
<b>Total</b>	<b>10,750</b>	<b>10,935</b>	<b>11,070</b>

The table above does not include offshore professionals who support the EY global organization. The number of hours these professionals worked on US public and private company audits was the equivalent of having another 2,618, 2,291 and 2,064 full-time auditors in fiscal years 2022, 2021 and 2020, respectively.



**US audit overall staff through senior manager retention rate by rank**

	Fiscal 2022	Fiscal 2021	Fiscal 2020
Senior managers and managers	74%	72%	85%
Seniors and staff	73%	69%	79%

We retained a higher percentage of our audit professionals in fiscal 2022 than we did the previous year, but our total retention rate of 74% was still below our historical rate of approximately 78%, due to the Great Resignation and the strong job market. To continue to boost retention, we are investing in our culture and our people. For example, we are providing more opportunities for our professionals to work on more challenging assignments as we expand our focus on analyzing data and expand our teams that specialize in certain auditing topics. Over the past two years, the US firm has increased compensation, bonuses, recognition awards and wellbeing benefits.

Our retention rate for top-rated senior managers and managers is 79%, which is higher than our overall retention rate for professionals at these ranks. Our retention rate for

top-rated seniors and staff is similar to the overall retention rate for professionals at these ranks.

We track how our professionals feel about their experience at EY by surveying them three times a year. In our survey in November 2022, 79% of our people said "my EY experience is exceptional," a substantially higher percentage than in 2021. We believe this improvement indicates that our continuing investments in our people are having a positive effect.

Our professionals' average annual hours in excess of 40 hours per week by rank are generally consistent with the previous year.

**Average annual hours in excess of 40 hours per week by rank**

	Fiscal 2022	Fiscal 2021	Fiscal 2020
Partners and managing directors	373	401	393
Senior managers and managers	287	290	298
Seniors and staff	203	212	226





**Developing our people**

We are committed to enhancing the growth and development of our professionals. We focus on making sure they have the right skills to succeed and become transformative leaders who can continue to innovate and drive audit quality.

Our approach to performance management supports the growth of our professionals by providing them with meaningful career conversations, along with regular feedback about their performance.

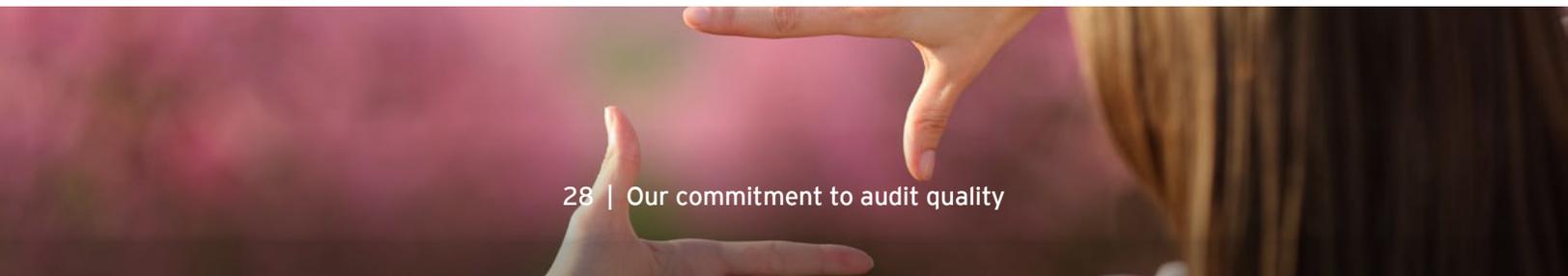
On-the-job coaching and supervision for less-experienced professionals is critical to delivering high-quality audits. That’s why we focus on maintaining appropriate ratios of executives to less-experienced members of our audit teams. We note that our ratios have remained consistent over the last two years despite higher than normal attrition rates. Our partners and managing directors who coach, mentor and supervise more junior professionals have on average 21.0 and 18.5 years of service, respectively.

**Ratios of audit executives to other audit professionals**

	Fiscal 2022	Fiscal 2021	Fiscal 2020
Partners and managing directors to staff through senior managers	1 to 8.3	1 to 8.6	1 to 8.4
Senior managers and managers to seniors and staff	1 to 2.9	1 to 2.8	1 to 2.9

Our learning program is designed to make sure our audit professionals receive the right training at the right time.

To help our people complete their learning requirements, we set aside half days each quarter for them to focus on training. We also have a calendar of requirements and deadlines by rank to help our professionals complete their training throughout the year. In 2022, we added a navigation feature to make it easier for them to find courses in which they are interested.



Our professionals can also earn EY master's degrees online from Hult International Business School, free of charge, in Business Analytics, Sustainability or Tech.

In 2022, our audit professionals completed approximately 115,000 hours of training on digital auditing, much of it embedded in our core audit training. This training followed the 190,000 hours of training on digital auditing our professionals completed in 2021, when we fully implemented our digital audit methodology on public company audits. Our junior audit team members were required to complete a fraud training that focused on asking better questions, while audit partners and senior managers were required to complete a training on professional skepticism. We also required our more experienced team members to complete training on cybersecurity and ESG topics.

As they have in the past, our audit professionals substantially exceeded our requirement to complete 40 hours of continuing professional education in any given year.

#### Average hours of continuing professional education by fiscal year

2022	2021	2020
85	97	96

#### Attracting exceptional talent

We focus on attracting a talented and diverse group of people who share our values and our commitment to executing high-quality audits. In our campus recruiting, we stress the importance of the work we do as auditors in serving the public interest, the value that DEI brings, the opportunities to develop digital skills and grow as a leader, as well as the value of EY's reputation as a great place to build a career.

In fiscal year 2022, we hired more than 2,200 people from college and university campuses. We continue to actively hire people who have both an accounting degree and a major or minor in data analytics, management information systems or computer information systems.

Our professionals are rewarded financially for passing the CPA exam early in their careers. We also reward professionals who are recognized by the American Institute of Certified Public Accountants (AICPA) with Elijah Watt Sells Awards for achieving exceptional results on the CPA exam. We are proud to report that **eight EY US professionals** were among the 57 people who received this honor in 2022.

## Intern to partner

**Jamelia Livingston**, a newly promoted audit partner, got her first taste of life at EY as a sophomore in college. She joined the inaugural class of 50 Launch interns who rotated through each of EY's service lines, building relationships, soaking up the Firm's culture and gaining the confidence to pursue a career in a field they felt passionate about. For Jamelia, that was our audit practice, where she did a summer internship the following year. She credits her internships with preparing her to quickly become a high performer when she joined the EY audit practice full time in 2009. Since then, she has audited large multinational companies and worked with colleagues around the world.

Throughout her career, Jamelia has also focused on diversity, equity and inclusion and helping the Firm expand the Launch program. In June, Jamelia addressed this year's class of more than 500 Launch interns and encouraged them to be authentic as they pursue their careers.

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The Launch internship creates an environment where you gain enriching experiences that propel your career forward.



Jamelia Livingston  
Audit partner

We also have internship programs that prepare college students for a career in accounting. Students just beginning their college careers can gain exposure to EY through our Expedition internship, in which they participate in workshops and activities. Students who are two years or more away from graduation can become Launch interns, who are exposed to our Assurance practice and other service lines. We also have winter and summer audit internships. In 2022, about 700 winter interns and more than 1,400 summer interns gained experience working in our audit practice.

Our reputation as a great place to work and our culture of belonging enhance our ability to attract exceptional people. For example, we are the only Big Four firm to have made Fortune magazine's 100 Best Companies to Work

For list for 24 consecutive years. EY US also continues to be among the top 20 employers for business graduates in Universum's annual Most Attractive Employers ranking.

### EY US is widely recognized as a great place to work, as demonstrated by the following:

- ▶ Fortune magazine's 100 Best Companies to Work For list for the 24th consecutive year
- ▶ DiversityInc's Top 50 Hall of Fame recognition for the fourth consecutive year for companies that have achieved a No. 1 ranking on its Top 50 Companies for Diversity list

# Supporting our teams

We support our teams by providing coaching, interpretive guidance and enablement, and our technical support groups consult with them on difficult accounting, auditing, and SEC and other regulatory matters.



## Our Quality Network

Our Quality Network focuses on proactively improving audit quality by coaching our audit teams, performing workpaper reviews, advising our teams on audit methodology matters, providing training, and executing various risk management and quality control procedures.

Throughout the audit cycle, the Quality Network uses data analytical techniques to evaluate a wide range of information about individual engagements and identify teams for coaching or other help. The information is updated frequently.

The roughly 120 professionals who make up our national Quality Network are embedded in our Regions. They have frequent contact with teams and identify and proactively address emerging risks, including industry-specific risks. They're also able to share that knowledge across the practice.

In fiscal 2022, our Quality Network coaches focused on our teams' use of data in our audits, audits of internal control over financial reporting for companies that were subject to this requirement for the first time, material business combinations and risks related to increased turnover on our audit teams. Nearly 600 public company audit teams received coaching or workpaper reviews in fiscal 2022.



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In fiscal 2023, we are continuing to invest in supporting our teams through coaching, workpaper reviews, learning and other quality control activities.

This is especially important in the current environment as our audit teams evaluate macroeconomic and other risk factors.

Linda Lam  
US Assurance Director of Quality Implementation





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Our independent and objective consultation process drives audit quality by helping our teams work through new and complex accounting, auditing and reporting issues and making sure we comply with all relevant standards, rules and regulations.

James R. Estes  
US Vice Chair – Professional Practice

In the current audit cycle, our Quality Network coaches are focusing on our IT audit approach, given the increasingly complex IT environment, and other audits we identified in our risk assessment process. They are also focusing on our first-year audits of internal control over financial reporting and our work on material business combinations.

#### **Our Professional Practice group**

Our Professional Practice group, which includes approximately 100 partners and 30 managing directors, supports our audit practice by consulting with our teams on difficult accounting, auditing, and SEC and other regulatory matters. Partners and managing directors who consult with audit teams are independent of those teams.

Our Professional Practice group provides audit teams and the companies we audit with guidance and thought leadership on a wide range of financial reporting topics, including current issues such as reporting on ESG matters. The group also develops guidance and enablement to help our teams deliver high-quality audits, performs risk management activities, evaluates and tests our quality control system, and operates

our monitoring and internal inspections programs, which are described in the next section of this report.

Over the last three years, our Professional Practice partners have conducted an average of 2,200 formal consultations annually with audit teams on audit and accounting topics.

#### **Other support**

Our Innovation Network, the centralized data service delivery model for EY US, continues to provide our teams with access to approximately 600 data analytics professionals who can help them efficiently capture data from the companies we audit and use it effectively in the audit.

As discussed earlier, professionals in our US Independence group also support our US audit teams by consulting with them on various independence matters.

Offshore professionals who support the EY global network also work with our teams to make sure they are using all of the project management functions in EY Canvas effectively.

Our ratio of Quality Network and Professional Practice partners and managing directors to audit partners and managing directors was **1 to 6**.





# Monitoring

Monitoring the effectiveness of our actions and performing robust root cause analyses of positive and negative audit performance are key components of our system of quality control. The results provide valuable information about how we can continuously improve audit quality.

## **Early assessment of in-progress audits**

Our reviews of certain public company audits before we issue our auditor's reports are an important component of our system of quality control. We conduct these pre-issuance reviews to provide timely feedback to teams and to help us determine whether the actions we are taking to improve audit quality are achieving our objectives or whether enhancements to our training, guidance or tools are required during the current audit cycle.

## **Internal inspections of completed audits**

We conduct internal inspections of selected engagements after we issue our auditor's report. We perform many of these inspections in the first half of the calendar year to obtain information that we can use to continue to enhance the quality of upcoming audits.

In these inspections, we focus on specific areas of an audit and evaluate our compliance with professional standards, regulatory requirements and our policies. Audits are selected for review based on several factors, including how long it has been since a partner's last inspection and the results of that inspection.

In 2022, we inspected approximately 200 public and private company audits (generally of financial statements for the year ended 31 December 2021). We learn from both public and private company internal inspection results.



### **Turning root cause analyses into actions**

We analyze the root cause of internal and external inspection findings and positive and negative quality events by interviewing teams and analyzing data about our audit practice. We use the results to design the actions we take to improve audit quality. We also use this information to obtain meaningful insights into the effectiveness of actions the Firm has taken to improve our system of quality control.

This comprehensive process helps us confirm that we are taking the right actions to drive greater consistency in our audit execution.

We also analyze the root cause of positive quality events, which we define as (1) exceptional performance in an audit area that was inspected, (2) best-in-class interactions with our Professional Practice group or the Quality Network, or (3) a clear demonstration of the behaviors we believe contribute to quality, especially in a difficult situation.

### **Other monitoring**

We continue to monitor our professionals' compliance with our independence policies and enhance our monitoring of the effectiveness of our system of quality control, as discussed earlier in this report.

### **Restatements**

We monitor restatements of the financial statements of the companies we audit and evaluate whether there are any trends that require additional action or changes to our system of quality control.

In 2021, 18 of the companies we audit (1.7%) disclosed restatements and reissued their financial statements, including 17 related to accounting for warrants issued by special purpose acquisition companies (SPACs). In 2020, three of the companies we audit (0.3%) reissued their financial statements, and in 2019, only one (0.1%) did. The percentages are based on the approximately 1,650 issuers we audit, which includes about 550 mutual fund issuers in each of the past three years in addition to the SEC registrants we audit.

Our 2021 increase in restatements reflected an industry-wide trend: Research firm Audit Analytics said the total number of restatements nearly doubled in 2021, and more than 77% of them related to SPAC-centered issues (i.e., accounting for warrants and redeemable shares) after the SEC staff issued statements about the appropriate accounting for these instruments.



## External inspections

PCAOB inspections have led to improvements in audit quality, and we expect the PCAOB to focus on further improvements.

### **The role of the PCAOB**

The PCAOB, which was created 20 years ago, plays an important role in maintaining and improving audit quality. Through annual inspections and standard setting, the PCAOB identifies areas where firms can enhance audit quality.

### **Part I.A of the PCAOB inspection report**

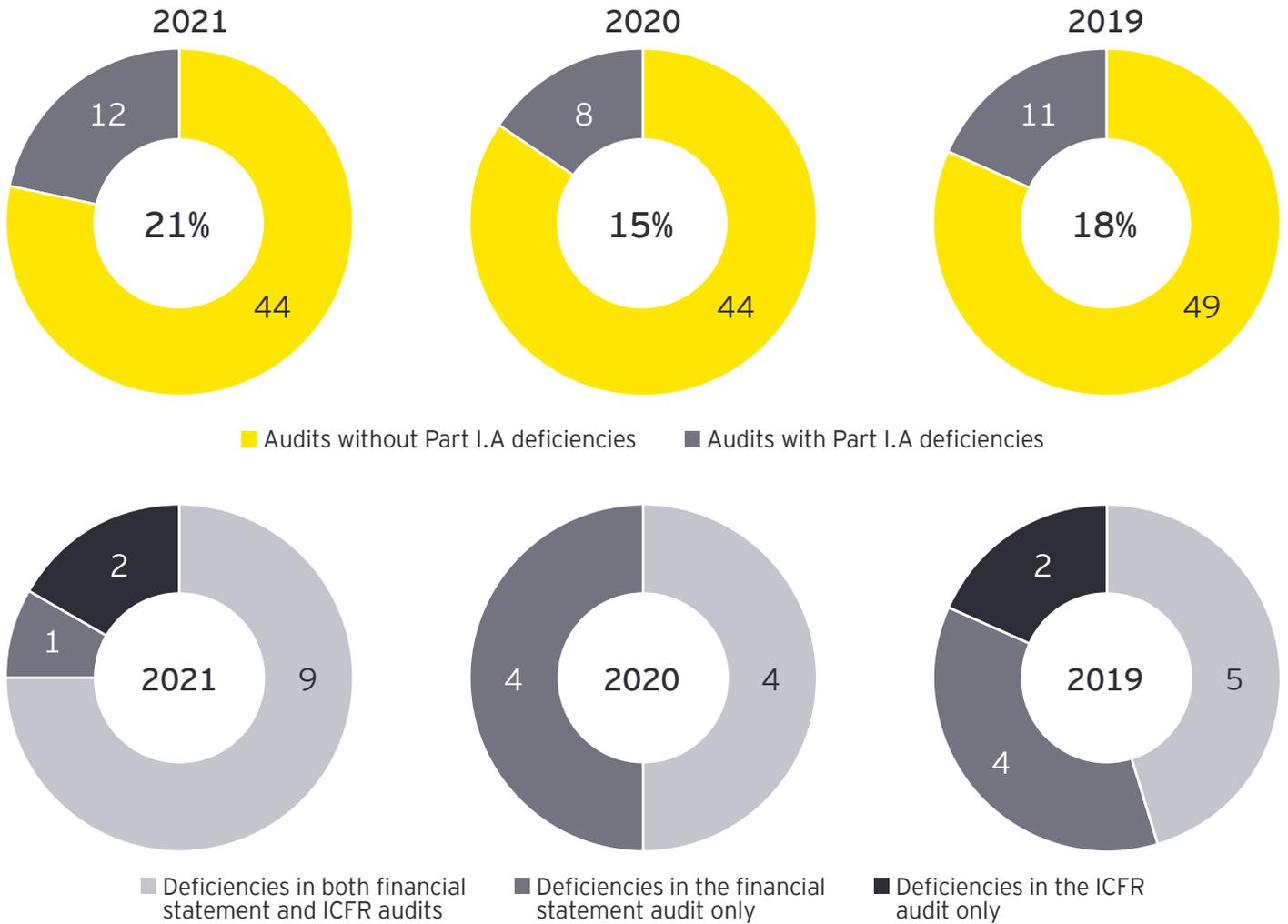
This section of a PCAOB report, which is released to the public, describes the procedures the PCAOB staff performed during the inspection and certain observations regarding audit deficiencies on these engagements.

The PCAOB focuses its inspections primarily on higher-risk audits, and the inspections are designed to identify deficiencies in audit work. As a result, the Board cautions against using the number of audits with deficiencies in this

portion of the report to draw conclusions about a firm's entire practice and says the results aren't necessarily comparable over time or from firm to firm.

We learn from every deficiency identified in inspections. Some deficiencies require us to perform more work on a particular audit. To address others, we make changes to our processes or reconsider elements of our system of quality control.

The graphics and discussion below reflect results of our PCAOB inspections through the 2021 inspection cycle, which generally covers our audits of 2020 financial statements and is the latest report the PCAOB has released.



As shown above, overall inspection findings increased in the 2021 inspection cycle. The number of audits with deficiencies in both the financial statement audit and the audit of internal control over financial reporting (ICFR) also increased.

We have addressed these 2021 inspection findings and those we expect to be identified in our 2022 inspection report with the actions described throughout this report. We are enhancing certain aspects of our approach to auditing IT controls, strengthening supervision by executives, simplifying and standardizing aspects of our audit approach, and creating centralized teams to provide audit support on various topics.



The PCAOB has said it identified a collective increase in the number of deficiencies in its 2021 inspections of audit firms, and the preliminary results of its 2022 inspections indicate even more deficiencies.

#### **Part I.B of the 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). In our latest report, we had these findings related to audit committee communications about participants in the audit, the population of matters we considered as potential critical audit matters and inaccurate information we reported to the PCAOB on Form AP, among other topics. We have taken steps to address these matters.

#### **Part II of the PCAOB report and status of inspection reports**

Part II observations about a firm's system of quality control are only released publicly if the PCAOB determines that a firm has not addressed the deficiencies to its satisfaction within 12 months of the report date.

In October 2022, the PCAOB updated our 2018 inspection report on its website to include one Part II criticism after determining that the Firm had unsatisfactorily addressed its criticism about compliance with the Firm's independence policies for reporting personal financial relationships. We understand and accept the criticism and are taking actions, including proactively reaching out to our professionals and working with them to update their reporting. While the remedial measures we have taken have contributed to improvements in compliance, we agree with the PCAOB that we have more work to do.



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We learn from every PCAOB finding and make changes to our approach when necessary. We are confident that the actions we have already taken and those we are taking now will enhance audit quality.

Denise M. Pelli

US Director of Professional Practice Quality and Regulatory Matters

The PCAOB's assessment of a firm's system of quality control is derived from 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. Certain firm practices, policies and processes related to audit quality are reviewed, including those in the following areas:

- ▶ Management structure and processes, including tone at the top
- ▶ Practices for partner management, including allocation of partner resources and partner evaluation, compensation, admission and disciplinary actions
- ▶ Policies and procedures for considering and addressing the risks involved in accepting and retaining the companies a firm audits, including the application of the firm's risk-rating system
- ▶ Processes related to a firm's use of audit work performed by its foreign affiliates on the foreign operations of US issuers
- ▶ A firm's processes for monitoring audit performance, including processes for identifying and assessing indicators of deficiencies, independence policies and procedures, and processes for responding to defects or potential defects in quality control

The PCAOB's 2020 report is dated September 2021, and we submitted our final remediation response in September 2022. The PCAOB is reviewing our final responses to its 2019 and 2020 inspection reports.

### Peer review

We participate in the AICPA peer review program that requires a robust review every three years of a firm's system of quality control for its private company audit practice. Grant Thornton is performing our review this year (primarily of audits for the year ended 31 December 2021), and that review is underway.

In its 2019 report on our last peer review, Grant Thornton concluded that our system of quality control for engagements not subject to PCAOB permanent inspection was suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

### International regulators

The International Forum of Independent Audit Regulators (IFIAR) has issued a challenge to the global audit networks to further reduce the number of audits with at least one significant finding as reported by 25 countries (including the US) that are members of IFIAR by at least 25% over the four years ending with IFIAR's 2023 survey of inspection results. When IFIAR published its survey of 2021 inspection results, which is the most recent survey, the EY network was on track to meet that reduction.

IFIAR had previously challenged the global audit networks to achieve a 25% reduction in inspection findings by 2019 for listed public interest entities. The EY network achieved this goal in 2019.



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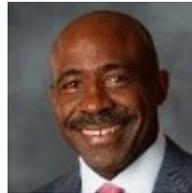
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