



Our commitment to audit quality

Information for audit committees,
investors and other stakeholders

Ernst & Young LLP

November 2023

EY

Building a better
working world

Audit committees, investors and other stakeholders

We are pleased to present the 2023 audit quality report of Ernst & Young LLP (EY US or the Firm).

At EY US, we understand the enormous trust that is placed in us as independent auditors, and we embrace our responsibility to perform audits that promote confidence in financial reporting and help make the US capital markets the most trusted in the world. Our commitment to audit quality is unwavering.

As leaders, we set clear expectations for the quality of work our professionals do each day, and we foster a culture of integrity and accountability. To underscore that message, we recently appointed a Chief Ethics and Compliance Officer who reports directly to our US Chair and Managing Partner and is focused on making sure all of our people understand the importance of doing the right thing, which in our audit practice means executing every audit with objectivity, independence and integrity in accordance with professional standards.

Developing and retaining our professionals is vital to who we are as a firm and to sustaining audit quality over the long run. We continue to focus on career development and the well-being of all of our professionals. While we are now bringing our audit teams together in person more often, we are committed to maintaining a hybrid work environment that gives our people the flexibility to work remotely part of the time. Further, our diversity, equity and inclusion (DEI) efforts remain a top priority because we believe diverse teams drive better decision-making and stimulate innovation.

We are focused on the future and are investing in innovative technologies to continuously enhance audit quality. Using cutting-edge technology to help us analyze large amounts of data about a company's accounts and financial reporting processes remains an important part of our strategy, and we continue to benefit from our global organization's investment in new technologies, the enhancement and integration of our current tools, and the automation of routine aspects of the audit.

In the spirit of transparency, we are sharing information about our 2022 Public Company Accounting Oversight Board (PCAOB) inspection report (audits of 2021 financial statements), which we expect the PCAOB will release in the coming weeks. We expect the PCAOB report to show that our findings rate more than doubled from a year earlier. This rate of findings does not reflect our high standards and is unacceptable to us, driving us to perform an in-depth analysis of both the findings and how we manage our audit practice.

The action plan we developed and began implementing builds on the changes we made to our audit approach in 2022. We have restructured our Assurance practice to centralize decision-making

and help us implement both the immediate actions we are taking and our multiyear transformation strategy. That strategy is focused on simplifying and standardizing our audit approach, building centralized teams to provide audit support on various topics and embedding a continuous improvement mindset in our culture. As discussed in the first section of this report, we are also enhancing portions of our audit methodology and tools and refreshing our approach to learning and the development of our people.

Our preliminary PCAOB findings for the 2023 inspection cycle (audits of 2022 financial statements), which will not be released until next year, show some improvement that we attribute to the actions we took in 2022. But it will take time before all of the audit quality enhancements we are making are fully reflected in the inspection findings the PCAOB issues publicly.

We believe it is important to provide this information to our stakeholders in a timely fashion, along with information about our actions that we are confident will drive audit quality in both the short and long term. While the past year has been challenging, everyone from our EY US leadership team to our audit teams is fully committed to executing high-quality audits.

In 2023, we performed our first annual evaluation of our system of quality management in accordance with International Standard on Quality Management (ISQM) 1, which was effective 15 December 2022. We concluded that as of our fiscal year end on 30 June 2023, our system of quality management provided us with reasonable assurance that the system's objectives were being achieved. In reaching this conclusion, we determined that the actions we have designed and implemented appropriately address the deficiencies we identified.

Looking ahead, we will continue to engage with regulators, investors, audit committees and other stakeholders to address key topics for our capital markets, including the responsible use of artificial intelligence (AI) and reporting on environmental, social and governance (ESG) matters. We are also focusing on shaping the audit of the future and helping solve the profession-wide challenge of fewer people entering the profession.

In closing, we take our responsibility to serve the capital markets very seriously. From our most senior leaders to the most junior members of our audit teams, we are each accountable for the quality of the Firm's audits.

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



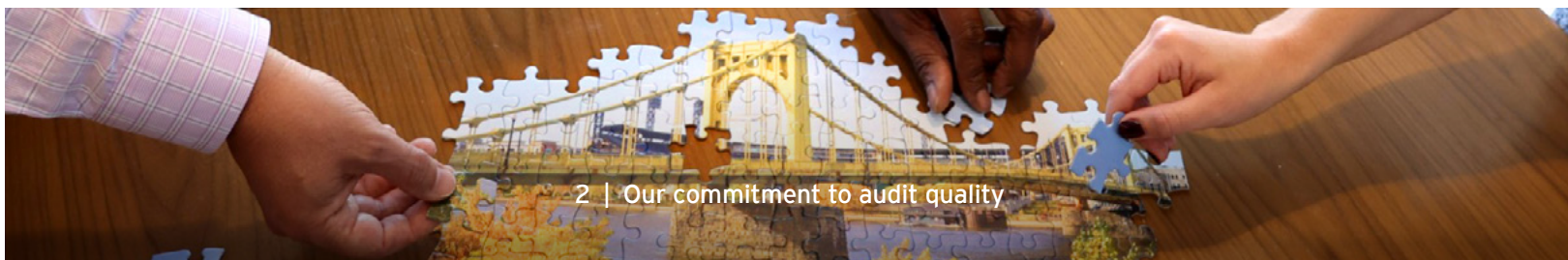
Julie A. Boland

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



Dante P. D'Egidio

Dante P. D'Egidio
US Vice Chair - Assurance
Ernst & Young LLP



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:

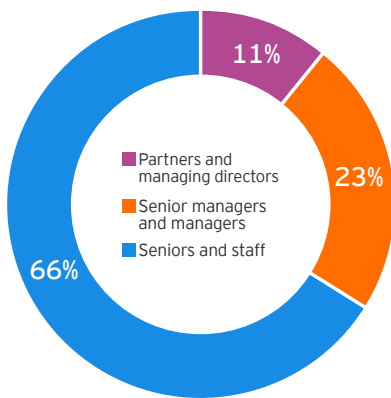
Independent audit opinions that promote trust and confidence in the capital markets

A snapshot of key metrics

Our people

11,270

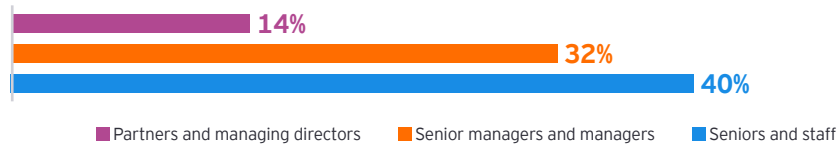
US audit professionals, by rank



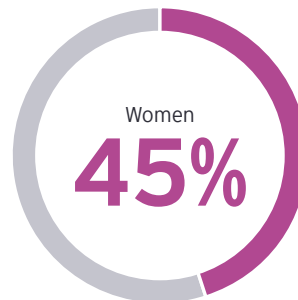
US audit professionals by rank who are women



US audit professionals by rank who are racially and ethnically diverse



Percentage of newly promoted US audit partners and managing directors



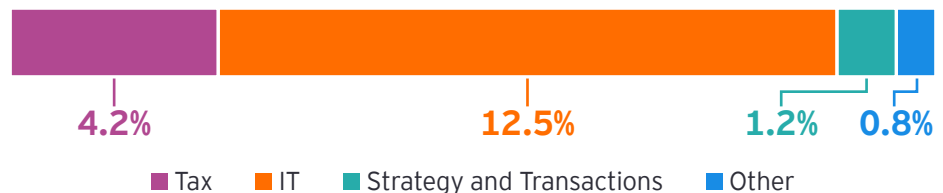
Executing the audit

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

1:6

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

18.7%



Our commitment to audit quality

We are committed to performing high-quality audits. We are taking actions to improve the consistency of our audit execution and reinforce for all of our people the cornerstones of our culture – being independent and objective, acting with integrity, exercising professional skepticism and being accountable for the quality of their work.

Our action plan

We have a comprehensive plan of actions to improve audit quality in both the short and long term. Our plan addresses the issues identified in our 2022 PCAOB inspection cycle (audits of 2021 financial statements) and in the current inspection cycle (audits of 2022 financial statements).

We have restructured our Assurance practice to centralize decision-making and help us implement both the immediate actions described below and our multiyear transformation strategy. That strategy is focused on simplifying and standardizing our audit approach, building centralized teams to provide audit support on various topics and embedding a continuous improvement mindset in our culture.

In the 2023 audit cycle, we are bringing our teams together, in person, at least three days a week so our executives can provide more on-the-job coaching and reinforce our culture after a couple of years of working mostly remotely. We have revamped our approach for evaluating risks of material misstatement for both accounts and financial reporting processes and the internal controls that mitigate those risks.

We also standardized how we document both risks and internal controls and developed standardized work programs for our teams to use when auditing certain financial statement accounts. In addition, we have increased the number of internal reviews we are performing of in-progress audits to provide timely feedback to our teams and help us determine whether further action is needed.

To underscore our commitment to improving audit quality, we have refreshed our accountability framework for partners, including Firm leaders, and amplified our messaging that the quality of audits affects compensation.



We are also enhancing our foundational training and continuing to train teams on how to embed a continuous improvement mindset in their audits by applying the Lean Six Sigma principles with a purpose of driving higher audit quality. In addition, we are reevaluating our overall approach to training by reconsidering everything from the content of our courses to how, when and where that training is delivered.

While we continue to implement our plan, we are confident that the actions we have already taken and those in process have and will continue to drive consistent audit quality and further strengthen our Firm’s system of quality control. Our monitoring and inspection results indicate that the actions we took last year to standardize our approach to auditing information technology (IT) controls and better integrate our professionals who specialize in IT into our audit teams have improved our execution in that area. Our continuous improvement program, which includes training and coaching, is also having a measurable positive impact on our inspection findings. That is, teams that have gone through this program are completing tasks in a more timely and effective manner, resulting in fewer PCAOB inspection findings.

We note it will take time before changes we are making are fully reflected in our publicly issued inspection findings. For annually inspected firms such as EY US, there is roughly a two-year lag between the date of financial statements that were audited and the date the PCAOB releases its inspection findings on those audits. As a result, the effect of the actions we are taking in 2023 won’t be fully reflected in the inspection findings the PCAOB releases publicly until 2025, when the PCAOB is expected to issue findings on inspections of our audits of 2023 financial statements. (See the timeline in the *External inspections* section.)

We 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.

Tone at the top

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.

Over the past year, our leaders demonstrated their commitment to audit quality by performing an in-depth analysis of our audit practice to identify and address any impediments to consistent audit execution and position our audit practice for the future. One result is that we have centralized decision-making about key aspects of the practice.

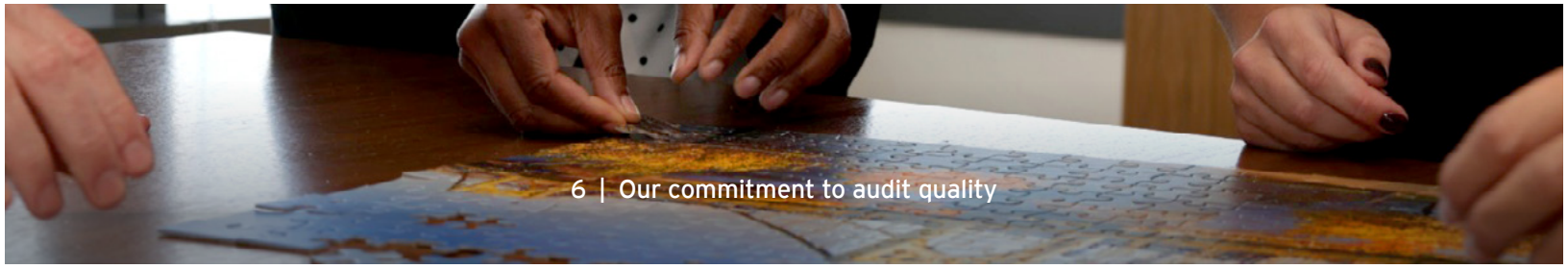
Our Firm also demonstrated our commitment to ethics and integrity by appointing a Chief Ethics and Compliance Officer, who is responsible for the development of programs and training that promote and sustain ethical behavior and a culture of compliance. This senior-level executive reports directly to our US Chair and Managing Partner.



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We are confident our action plan will result in sustainable audit quality over the long term. We are determined to address the root causes of our inspection findings, while strengthening our culture.

Julie A. Boland
US Chair and Managing Partner



Meet our Chief Ethics Officer

Tony Jordan, our Chief Ethics and Compliance Officer, works closely with our Chair and Managing Partner to champion our commitment to integrity and ethical business behavior.

Mr. Jordan previously led our Forensic & Integrity Services practice that helps clients mitigate risk and protect and restore their reputations. He has more than 25 years of experience in forensic accounting investigations, fraud risk compliance and general business-related disputes, including serving in the Enforcement Division of the Securities and Exchange Commission (SEC) as Accounting Branch Chief at the SEC's Boston Regional Office.



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I'm focused on reinforcing our culture and making sure it is well understood and valued by all members of the Firm. This is critically important in today's complex business environment.

Tony Jordan
US Chief Ethics and Compliance Officer

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. Our professionals also sign a pledge to uphold the Firm's values.

In the US, we reinforce these behaviors in both training and messaging across the Firm. We also maintain an ethics hotline that our people can use to anonymously report any potential unethical behavior they encounter.

In addition, all EY US professionals who work on audits or other engagements and certain others, based on their role, affirm their compliance with our independence policies each quarter, as discussed in the *Independence and objectivity* section below.

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

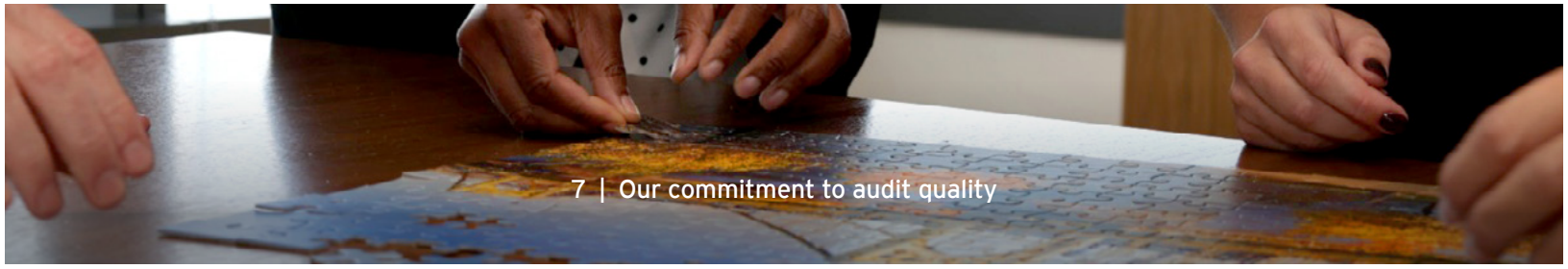
Our global organization

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 is demonstrating its commitment to the audit practice by investing more than \$1 billion over four years in next-generation technologies for EY Assurance services, including AI, predictive analysis and further integration of our existing tools.

Auditors at all EY member firms use the same audit technology, 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.

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.



Our system of quality control

The EY US system of quality control is designed to identify and assess risks to audit quality and design, implement and operate responses to those risks. It is also designed to promote a culture of 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 analyze data about our audit practice to identify, manage and respond to audit quality risks. We also monitor external risk factors such as macro-economic trends that heighten fraud risks and risks associated with a company's ability to continue as a going concern, and we develop guidance and training to help our professionals address these and other challenges in their audits.

In 2023, we performed our first annual evaluation of our system of quality management in accordance with International Standard on Quality Management 1. We evaluated the results of tests of our controls in our system of quality management, internal and external inspections, and personal independence compliance testing, and other inputs.

We concluded, as of our fiscal year end on 30 June 2023, that our system of quality management provides us with reasonable assurance that the system's objectives are being achieved.

ISQM 1 is designed to promote continuous improvement in audit quality by requiring firms to proactively identify and assess risks, implement appropriate responses, monitor the effectiveness of those responses and timely remediate any deficiencies. While the number of findings we expect the PCAOB to report for the 2022 inspection cycle (audits of 2021 financial statements) is high, we determined that our conclusion was appropriate because of the actions that we designed and implemented in both 2022 and 2023. That is, we concluded that these actions address the root causes of the inspection findings and the quality control criticisms the PCAOB has shared with us. (See section on External inspections.)

The PCAOB has proposed updating its quality control standard. We are considering what additional steps we would need to take to comply with the proposal.

Meet our new Vice Chair - Assurance

Dante D'Egidio became US Vice Chair - Assurance on 1 July 2023 and is implementing our plan to improve audit quality, including changes to the structure of our audit practice that centralized decision making.

Mr. D'Egidio, who previously was a regional Assurance Managing Partner, has spent his entire career as an audit professional at EY. He has a deep appreciation for the breadth of our audit portfolio, having worked on audits of large public companies in various industries as well as audits of private companies and those conducting initial public offerings.



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Audit quality is at the very top of my agenda. It is the driver for every business decision we make and the North Star for our practice.

Dante P. D'Egidio
US Vice Chair - Assurance





Independence and objectivity

As auditors, we are required by the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants, the PCAOB and SEC rules, and the standards of the American Institute of Certified Public Accountants (AICPA) to be independent from the companies we audit, in fact and appearance. Independence is foundational to an auditor’s ability to provide trust and confidence in financial reporting and ultimately the capital markets.

We embrace these requirements and have strict policies in place to make sure we avoid potential conflicts of interest and maintain our independence from the companies we audit. We recognize the importance of making sure all of the work we perform under our multidisciplinary model is consistent with our independence objective, including permissible tax and other consulting services we provide to companies we audit and their affiliates. To protect our independence, we have tools in place to help us evaluate the independence of our people and the Firm. 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.

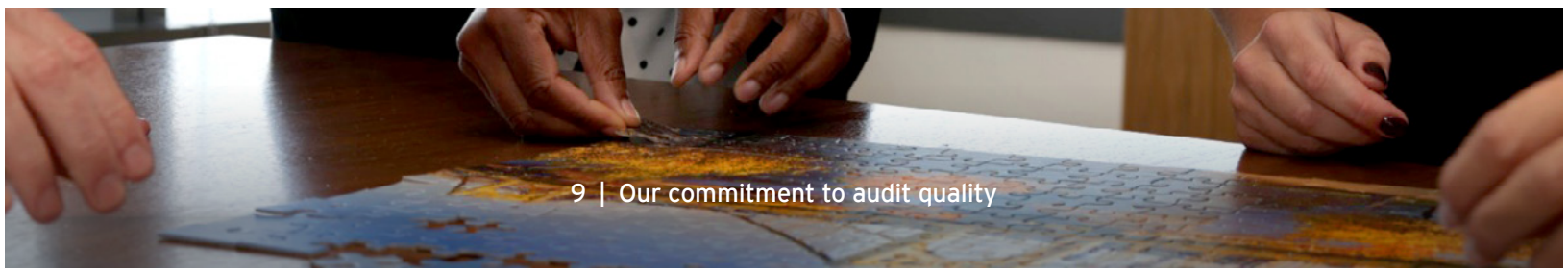
We also consider and evaluate independence with regard to our people. Our policies, which are more stringent than regulatory standards, prohibit all US professionals who work on audits and certain others, based on their role, from owning a financial interest in any audit client. Further, we require our

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.

All EY US professionals who work on audits and certain others, based on their role, are also required to confirm compliance with our independence policies and procedures each quarter. In the most recent reporting year, we tested more than 2,250 US partners and other professionals for their compliance with our independence policies, as part of our firmwide system of quality control.

We take compliance with our independence policies seriously and impose financial penalties for incomplete or inaccurate reporting. We have 48 partners and managing directors in our EY US independence group who support our audit teams in assessing both the Firm’s and personal independence. Our new Chief Ethics and Compliance Officer oversees these efforts, along with our entire leadership team.

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 advisers provide actionable advice and valuable insights we use in our decision-making about how to improve audit quality. Over the past year, we have held robust discussions with the IAQC about actions we are taking to address our internal and external inspection results, our first annual evaluation of our system of quality control under the new international standard, our talent strategy, the changes we are making to our audit approach, and the structure and governance of our Assurance practice.



IAQC member **Jeanette M. Franzel** is a certified public accountant (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 and T. Rowe Price. She previously served on the boards of Microsoft and Accenture and the supervisory board of Deutsche Bank.



IAQC member **Carol Anthony "John" Davidson** is the lead independent director and chair of the audit committee of TE Connectivity Ltd. and a director of FMC Corp. and International Flavors & Fragrances Inc. He previously served on the boards of several other companies, was vice chair of the Financial Accounting Foundation and was a member of the senior leadership team at Tyco International Ltd. and Dell Inc.

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Our focus is on giving EY US advice about how to improve audit quality in a sustainable way.

Jeanette M. Franzel, Dina Dublon and Carol Anthony "John" Davidson
IAQC members



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I regularly engage with our IAQC — their independent perspective and advice are invaluable as we navigate our multiyear transformation strategy.

Julie A. Boland
US Chair and Managing Partner

Engagement with stakeholders

Our leaders actively engage in discussions with the PCAOB and the SEC staff on audit quality developments and our related initiatives. We also engage with our regulators and standard setters, such as the Financial Accounting Standards Board (FASB), to share our perspective on emerging issues that impact audits and financial reporting. We believe weighing in on these matters is a critical part of our mission of promoting transparent financial reporting.

Examples of topics on which we provided input to standard setters and regulators:

- ▶ **Federal regulators** – the responsible use of AI
- ▶ **SEC** – rule requiring more robust disclosures about cybersecurity incidents, risk management and governance and proposal on climate-related disclosures, including disclosures about greenhouse gas emissions
- ▶ **FASB** – proposals on accounting for digital assets and environmental credits, and income tax disclosures
- ▶ **PCAOB** – proposals on a firm’s system of quality controls, the use of technology-assisted analysis in audits, noncompliance with laws and regulations, and general responsibilities of the auditor when conducting the audit

In addition, we 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. 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 publications and host webcasts aimed at improving the quality of financial reporting and helping management, board members and investors understand complex issues. During the fiscal year ended 30 June 2023, we published guidance and thought leadership on topics such as accounting for transactions related to climate change initiatives; accounting for digital assets; the accounting and financial reporting implications of rising interest rates, inflation and disruptions in the banking sector; ESG reporting requirements that multinational companies may need to comply with; and what companies need to do to prepare for

the 15% global minimum tax that members of the Organisation for Economic Co-operation and Development (OECD) are expected to enact to implement the OECD’s Pillar Two Global Anti-Base Erosion model rules. We also published a reference guide on the Greenhouse Gas Protocol, which regulators and standard setters are likely to require or allow companies to apply in any mandatory climate-related reporting.

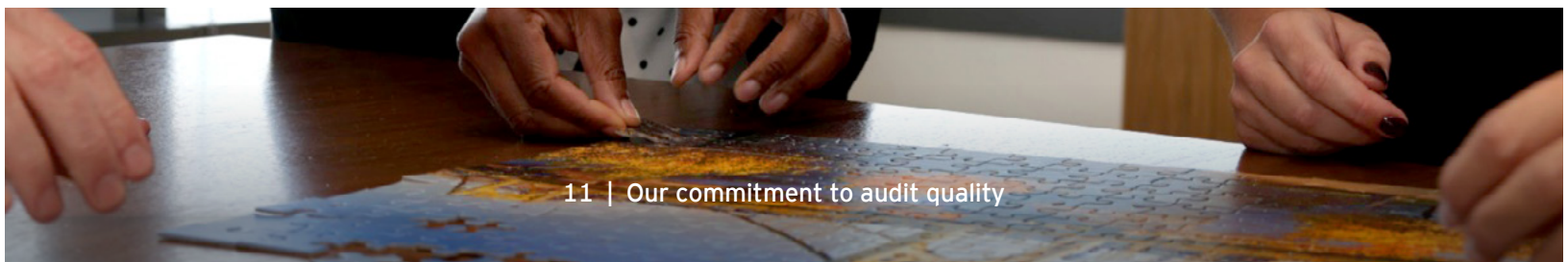
Our EY Center for Board Matters, meanwhile, focuses on hot topics for board members, and our Audit Committee Forum aims to inform and educate audit committee members on topics such as climate-related disclosure and other ESG matters, cybersecurity and data privacy. In collaboration with Tapestry Networks, EY US sponsors networks of audit committee chairs representing more than 250 companies, who meet regularly to discuss their work.

Information security and privacy

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. We also perform due diligence procedures for all potential vendors. Our approach is consistent with that of the other member firms in the EY global organization and incorporates aspects of people, process and technology.

An important element of our strategy is maintaining a security-aware culture enabled by training and communications. Our people receive annual training focused on the latest security risks, including frequent tests of whether they can identify phishing emails.

Safeguarding the confidentiality of the information we receive from the companies we audit is critical. Client data is encrypted, both during transfer and while at rest.



Looking ahead

ESG

Our auditors are prepared to provide assurance on greenhouse gas emission disclosures and other climate-related disclosures that would be mandatory under rules the SEC has proposed and the regulations the European Commission has begun issuing. We already offer a separate service of providing assurance on the ESG information many companies report voluntarily, and our sustainability specialists advise companies on this reporting. Senior members of our audit teams are also proactively helping management and audit committee members understand the ESG reporting landscape, including the new laws in California that will require new climate-related disclosures.

Artificial intelligence

We are engaging with policymakers, regulators, industry executives, board members and investors to discuss the responsible use of AI. We have also developed a framework our auditors use to evaluate the risks to an organization's financial statements that may arise from its deployment of AI systems, and professionals in our data analytics and risk practices help organizations determine whether their AI systems meet their goals and comply with applicable laws, standards and regulations. In addition, we are developing ways to use AI to help our auditors analyze data and make decisions.

Cybersecurity

Our partners proactively engage management and audit committees in discussions about cyber risks. When a company we audit has a breach, our audit teams evaluate whether financial reporting systems were affected and adjust their audit plans as necessary. In addition, we continue to offer a separate service of providing an assessment of a company's cyber-risk management activities to inform the board and management about this issue.

Future of the profession

Our goal is to make a career in auditing attractive and more attainable for a larger group of people. To generate interest in auditing, we meet with high school and college students and highlight the vital role of auditors in the capital markets, as well as opportunities to use cutting-edge technology and be at the forefront of reporting on emerging topics such as ESG and cyber matters. We are also taking the following steps:

Our EY Career Path Accelerator program is expanding access to careers in audit by providing our interns with a way to earn the extra college credits they need to meet the CPA licensing requirements and, in many cases, providing need-based scholarships. To date, this program has reached over 500 participants.

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're working with the Center for Audit Quality to connect with racially and ethnically diverse students and highlight the benefits of becoming a CPA.

We're providing resources to higher education professionals to help prepare students for a career in accounting.

Executing the audit

The changes we are making in our Assurance practice are designed to drive consistency in how we apply our audit methodology, how we manage and staff our audits, and how we use technology.

Improving our audits

To make sure our audit teams execute consistently, we continue to enhance our methodology in certain areas, standardize aspects of our audit approach, enhance our risk assessments and expand the centralized teams we are developing to provide audit support on specific topics. We are also continuing to emphasize timely supervision by executives, project management and accountability, as we expand our training on continuous improvement.

Working with the right companies

We focus on making sure the companies we audit share our commitment to transparent and high-quality financial reporting. Every year, there are many audits we do not pursue and companies we decline to audit.

We perform rigorous risk assessments before we accept new audit engagements and then again annually to continue to audit those companies in our portfolio. These assessments are an important element in our system of quality control.

As part of the process, we develop a risk designation for each 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 well as event-driven risks such as those associated with a business combination, an initial public offering, a complex tax matter or a transaction involving digital assets.



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We aim to not only improve audit quality in the short term, but to set the standard for audit quality in the future.

Natalie Deak Jaros
EY US Deputy Vice Chair - Assurance

Throughout the audit cycle, our teams reassess risks considering the economic environment and evidence they gather from their audit procedures and external sources, such as short seller reports and news reports.

Establishing the right team

Each of our audit teams has a partner in charge, who emphasizes the importance of integrity, professional skepticism and objectivity and is responsible 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 either of these roles include their experience with both the industry and public companies, the risk designation identified in our firmwide assessment process, the SEC's partner rotation requirements and whether they have sufficient time to perform their responsibilities.

Audit partners also serve in quality or leadership roles, as partners in charge of private company audits, or as additional partners helping the partner in charge to lead our larger and more complex audits. We have additional partners on 34% of our public company audits to assist the partner in charge.

Partner evaluations

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 external and internal inspections (both positive and negative), achievement of milestones on their audits and their mentoring activities.

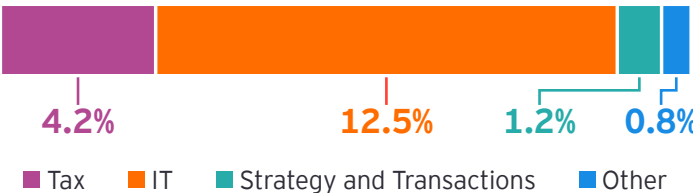
Specialized skills

We include in our audit teams EY professionals who focus on IT, tax and valuation matters, and, in certain audits, forensic accounting. Having specialists in these areas collaborate with our audit professionals helps us address the increasing complexity of IT environments, worldwide tax regimes, business models and transactions.

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.

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

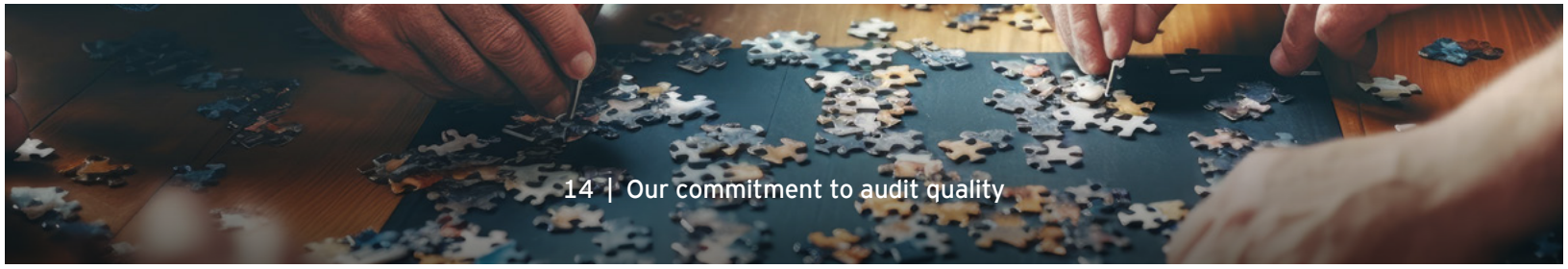
18.7%



Offshore professionals who support the EY global organization perform certain audit procedures and other tasks under the supervision of our US audit teams. In fiscal 2023, these professionals accounted for 22% of US audit hours, compared with 20% the previous year.

In the US, we are expanding our centralized teams that provide audit support on various topics. Our Service Delivery Center (SDC) currently performs routine quarterly and annual independence procedures for teams on most public company audits and compiles certain information for audit committee communications.

We are also expanding our US-based groups that support our teams in areas of the audit that require judgment or pose a higher risk. Specially trained auditors in these groups are performing key procedures related to certain complex topics, in close collaboration with core audit team members.



Managing the audit

Timely pacing of the audit and strong project management, including timely supervision and review by audit executives, are important drivers of audit quality.

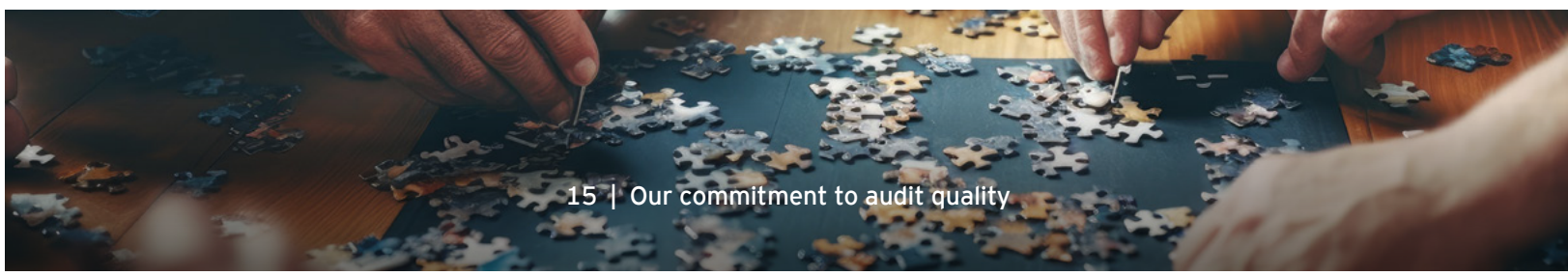
We emphasize the importance of project management through our Milestones program, which sets deadlines for teams to complete procedures, documentation, and executive and partner reviews for key phases of the audit. To facilitate timely decisions by partners, we require our teams to set specific executive discussion and approval points throughout the audit cycle.

Our continuous improvement training has had a measurable positive impact. Our experience indicates that teams that focus on these principles complete their work, including reviews by audit executives, earlier in the audit cycle than they previously did and avoid a year-end crunch. These teams also have a better understanding of the risks they identify and how those risks are mitigated, enabling them to execute high-quality audits.

Starting with data

Our teams on public company audits use data to obtain a deeper understanding of the company they are auditing. This enhances audit quality by allowing them to see the big picture and focus on the key risks in the audit, including potential fraud risks. By focusing on data, our teams can see trends and understand how anomalies occur and how prevalent they are.

Our teams apply this approach to 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 and use our analyzers to understand how transactions are processed, to identify anomalies and to select items for testing.



EY Helix data analyzers

Our teams use our EY Helix general ledger analyzers and our subledger analyzers to perform risk assessments, identify anomalies and obtain audit evidence.

Our newest general ledger analyzer, which is integrated with our other tools, provides enhanced visualizations of trends and allows team members to quickly drill into the data so they can discuss it in real time with audit team executives.

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.

We evaluate how businesses are using technology and develop guidance and tools to address new issues that may arise. For example, we have issued guidance on how to audit a company's use of robotic process automation in its financial reporting and a framework for evaluating a company's use of AI in its financial reporting.

We continue to look for ways to incorporate new technology into our audit tools to help our teams make better decisions. For example, our blockchain analyzer gathers details about a company's cryptocurrency transactions from public blockchain ledgers using public addresses supplied by the company, reconciles the data with the company's records and allows companies to demonstrate ownership of digital wallet addresses without needing to move cryptocurrencies.

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

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

EY Canvas audit platform

All EY US teams use our secure, cloud-based audit platform, EY Canvas, to apply the EY global audit methodology and manage their audit. This global platform helps our teams track their progress, easily see the tasks that require attention and, in audits of multinational companies, review the work of auditors from other EY member firms who participate in the audits.

Automation

We continue to automate aspects of the audit to help our teams focus on higher risk areas. Examples include:

- ▶ Selecting samples for testing
- ▶ Creating Intelligent Checklists that help streamline the preparation and review of financial statement disclosure checklists
- ▶ Sending confirmations, tracking responses and reconciling confirmed balances to a company's records

Our people

Our people are essential to our ability to execute high-quality audits, and we remain committed to creating diverse teams and supporting our people with the career development opportunities, flexibility and benefits they need.

Putting our people first

While we remain committed to a hybrid model of remote and in-person working, we are now bringing our audit teams together at least three days a week so our audit executives can provide additional training and mentoring and reinforce the EY culture. In determining where our teams will work, our professionals also consider when they need to meet with management and other employees at the companies we audit.

We are also enhancing our talent model to provide an alternative to the traditional career path to partnership. This will allow professionals to specialize in certain topics; develop key skills such as financial expertise, strategic thinking skills and technology skills; and have fulfilling careers.

We continue to invest in the well-being of our professionals. We offer benefits, such as a flexible vacation policy that allows people to decide how much vacation they need and reimbursement for well-being activities.

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 about 350 of these circles in the US audit practice.

Leveraging diversity and promoting equity and inclusion

Diversity, equity and inclusion are key pillars of the US Firm's strategy. We believe diverse perspectives, combined with an equitable and inclusive culture, drive better decision-making and stimulate innovation.

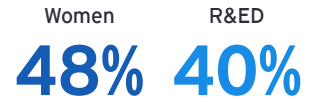


DEI metrics at a glance

Percentage of newly promoted audit partners/managing directors who are women and racially and ethnically diverse (R&ED)



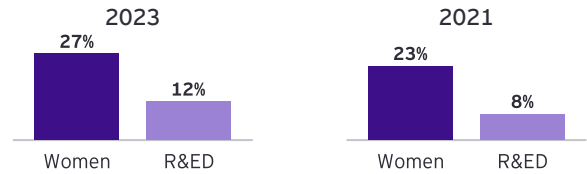
Percentage of campus hires who are women and R&ED in fiscal 2023



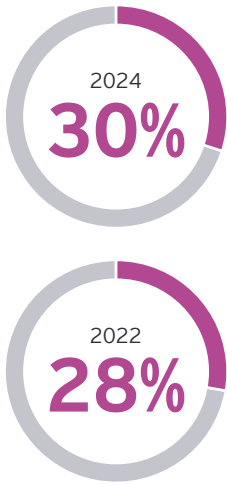
9 of the **14**

members of our US Executive Committee are women or R&ED professionals

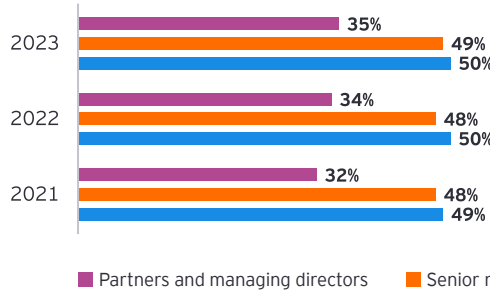
Percentage of partners in charge of public company audits who are women and R&ED



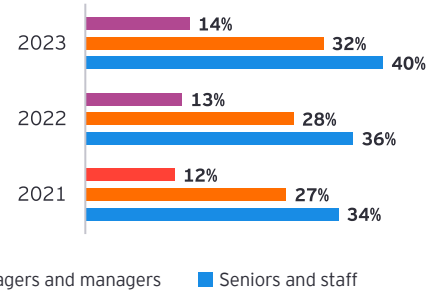
Percentage of women or R&ED partners we expect to lead our most complex multinational audits



Percentage of women in our audit practice by rank



Percentage of R&ED professionals in our audit practice by rank



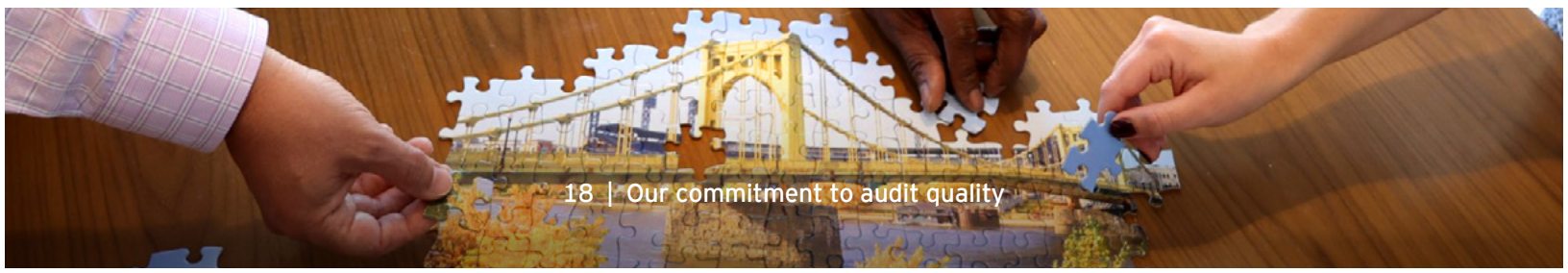
We have **9 professional networks** to promote connections and provide support for our diverse workforce

Retention rate for women and R&ED professionals at the senior manager/manager ranks

84%

Retention rate for women and R&ED professionals at the senior/staff ranks

77%



Awards we have received

- ▶ Fair360's (formerly DiversityInc's) Top 50 Hall of Fame (companies that have achieved a No. 1 ranking in its annual list of Top 50 Companies for Diversity)
- ▶ No. 1 on Fair360's 2023 mentoring and sponsorship specialty lists
- ▶ Seramount (formerly Working Mother) - 100 Best Companies (Hall of Fame, Top 10) - ranked No. 1 for 2023
- ▶ Disability Equality Index - Best Places to Work (100% score)

Developing our people

We recognize and reward our top performers to help us retain professionals with the skills and experience to perform high-quality audits. Top performers are promoted when they are ready, rather than after spending a set period of time in a rank. In addition, we identify partners with high potential and make sure they have the experiences they need to move into leadership roles, such as leading our most complex and challenging multinational audits.

Number of US audit professionals (on a full-time equivalent or FTE basis)			
	Fiscal 2023	Fiscal 2022	Fiscal 2021
Partners and managing directors	1,187	1,159	1,142
Senior managers and managers	2,555	2,458	2,575
Seniors and staff	7,528	7,133	7,218
Totals	11,270	10,750	10,935

These numbers do 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 3,056, 2,618 and 2,291 full-time auditors in fiscal years 2023, 2022 and 2021, respectively.

We retained a higher percentage of our audit professionals in fiscal 2023 than we did the previous two years, and our retention rate of top-rated professionals also improved.

Retention of US audit staff through senior manager by rank						
	Fiscal 2023		Fiscal 2022		Fiscal 2021	
	Top-rated	Overall	Top-rated	Overall	Top-rated	Overall
Senior managers and managers	85%	82%	79%	74%	79%	72%
Seniors and staff	83%	78%	70%	73%	65%	69%

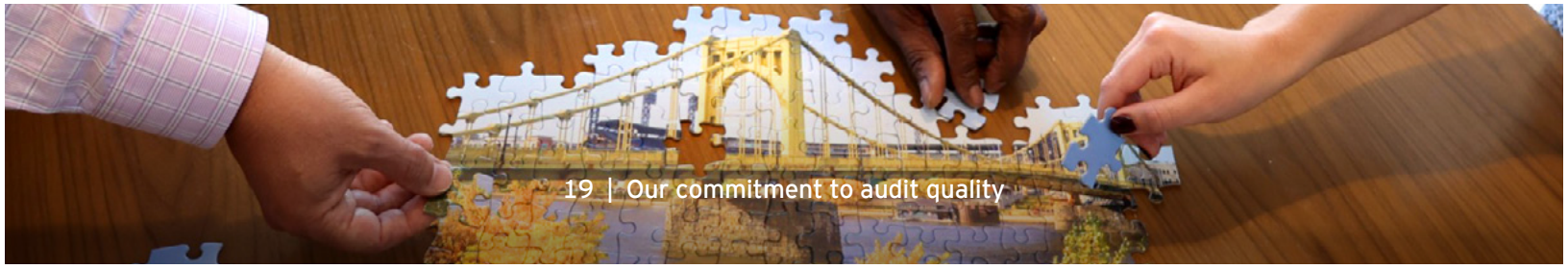
Our retention at all ranks below partner (including managing directors) was 80%, 74% and 70% for fiscal 2023, 2022 and 2021, respectively.

Our approach to performance management supports our professionals' development by providing them with meaningful career conversations and coaching, along with regular feedback about their performance and training opportunities.



“ We are committed to providing our professionals with the skills and opportunities they need to become leaders in the profession.

Diana Kutz
US Assurance Talent Leader



On-the-job coaching and supervision for early career 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. Our partners and managing directors who coach, mentor and supervise more junior professionals have on average 21.3 and 18.7 years of service, respectively.

Ratios of audit executives to other audit professionals			
	Fiscal 2023	Fiscal 2022	Fiscal 2021
Partners and managing directors to staff through senior managers	1 to 8.5	1 to 8.3	1 to 8.6
Senior managers and managers to seniors and staff	1 to 2.9	1 to 2.9	1 to 2.8

Our learning program is designed to provide our audit professionals with the right training at the right time. In the spring, all of our audit professionals attended in-person training that focused on risk assessments and focus areas. This fall, our more junior auditors got together in person for three-day foundational training sessions that went beyond their annual technical training. Our executives also participated in learning sessions focused on aspects of our action plan.

To help our people complete their learning requirements, we have a calendar of requirements and deadlines by rank to help our professionals spread their training throughout the year.

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

As they have in the past, on average, 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		
2023	2022	2021
97	85	97

Our professionals are rewarded financially for passing the CPA exam early in their careers. We also reward professionals who are recognized by the AICPA with Elijah Watt Sells Awards for achieving exceptional results on the CPA exam. Three EY US professionals were among the 50 people who received this honor in 2023.

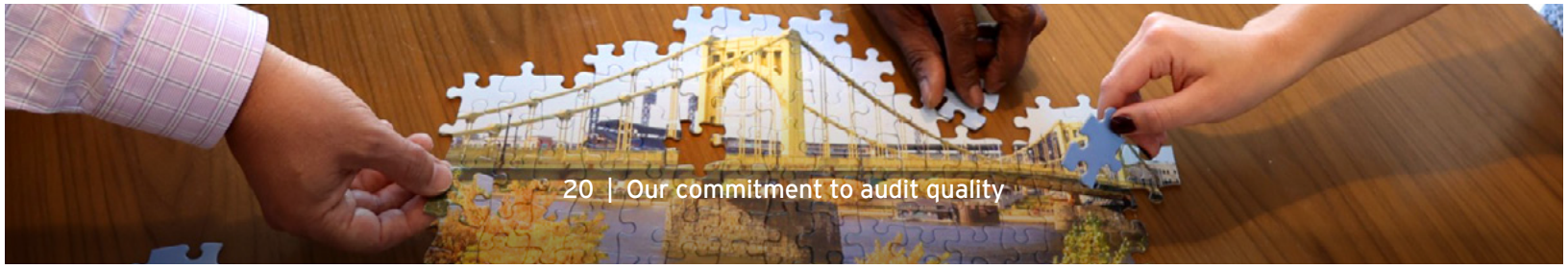
Attracting exceptional talent

In our campus recruiting, we stress the importance of the work we do as auditors and the trust and confidence we deliver to investors and the capital markets, the value that DEI brings, the opportunities to develop critical analysis 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 2023, we hired almost 2,200 people from college and university campuses. We continue recruiting people with both an accounting degree and a major or minor in data analytics or management information systems.

We also have internship programs to expose college students to EY and prepare them for careers in accounting. In 2023, over 500 winter interns and more than 1,500 summer interns gained experience working in our audit practice. During the year, over 450 interns focused on learning how to work with Power BI and Alteryx, and how to tell stories with data, and brought these skills back to their audit teams.

Our reputation as a great place to work and our culture of belonging help us with recruiting. For example, we are the only Big Four firm included on Fortune magazine's 100 Best Companies to Work For list for 25 consecutive years. EY US also continues to be among the top 20 employers for business graduates in Universum's annual Most Attractive Employers ranking.



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, SEC and independence matters.



Our Quality Network

Our Quality Network coaches our audit teams, performs workpaper reviews, advises our teams on audit methodology matters, provides training, and executes various risk management and quality control procedures.

The more than 130 professionals in our national Quality Network have frequent contact with teams and identify and proactively address emerging risks, including industry-specific risks.

In fiscal 2023, our Quality Network coaches focused on our IT audit approach, our work on key financial statement accounts and business combinations, and audits of internal control over financial reporting (ICFR) for companies that were subject to this

requirement for the first time. Nearly 550 public company audit teams received coaching or workpaper reviews in fiscal 2023.

In the current audit cycle, our Quality Network coaches are focusing on our teams' risk assessments, their evaluation of internal controls and their work on business combinations.

Our Professional Practice group

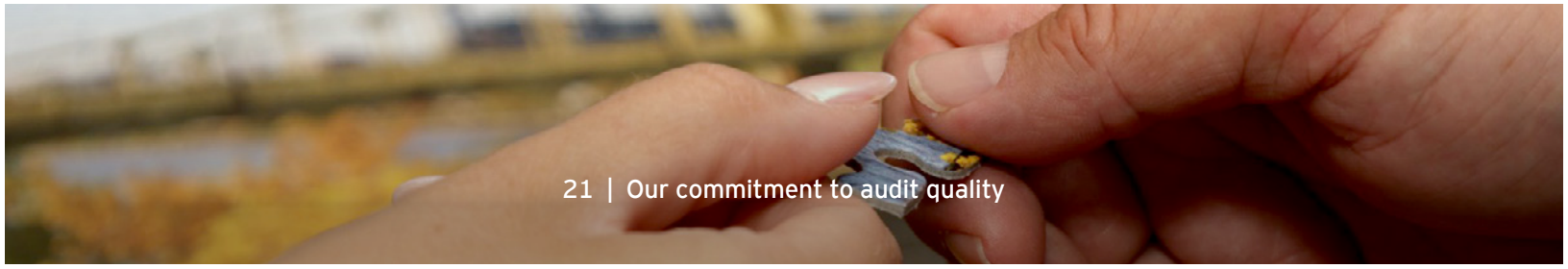
Our Professional Practice group, which includes approximately 105 partners and 30 managing directors, is independent from our audit teams and drives audit quality by providing guidance, enablement and training to our audit teams and monitoring their performance.



“

Our focus is on how we drive change and support our teams as we lead from the center.

Linda Lam
US Assurance Director of Quality Implementation





Our Professional Practice group has deep technical and industry knowledge and consults with audit teams on complex accounting, auditing and disclosure matters. Over the last three years, the group conducted an average of 2,200 formal consultations annually with audit teams on topics such as revenue and debt and equity.

Our Professional Practice group also develops and deploys guidance, enablement and training on the application of new accounting, auditing and financial reporting standards and issues identified through our inspections and other monitoring. In addition, the group conducts internal inspections of both completed and in-progress audits and performs root cause analyses of both positive and negative results. The group also tests and evaluates the Firm's system of quality control.

To promote high-quality financial reporting, Professional Practice also regularly issues thought leadership and hosts webcasts on a wide range of topics. The group also engages with standard setters and regulators and prepares the Firm's responses to standard-setting and regulatory proposals.

Other support

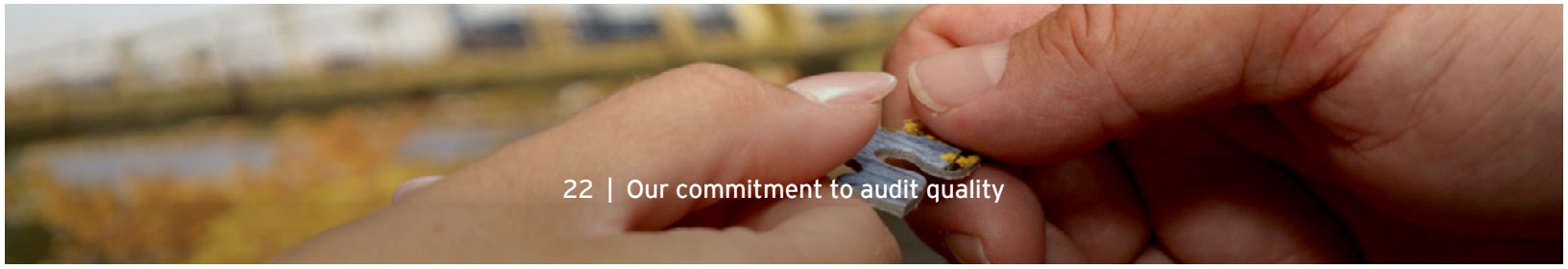
Our Data and Intelligence Delivery group, staffed by approximately 500 data analytics professionals, continues to help our teams efficiently capture data from the companies we audit and use it effectively.

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

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



“
 Our purpose in Professional Practice is to guide the Firm's audit teams so they can execute audits that promote confidence in the capital markets.
 Katrina Kimpel
 US Vice Chair - Professional Practice



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

We perform audit quality reviews of a number of our public company audits before we issue our auditor's report. We use a risk-based approach to select the audits for these reviews, which provide timely feedback to our audit teams and help us determine whether the actions we are taking are achieving our objectives. In response to the findings in our 2022 PCAOB inspection cycle and the preliminary results in the current inspection cycle, we are increasing the number of pre-issuance audit quality reviews we are performing in the current audit cycle.

these inspections in the first half of the calendar year to obtain information that we can use to improve 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.

Internal inspections of completed audits

We also conduct internal inspections of selected engagements after we issue our auditor's report. We perform many of

In 2023, we inspected approximately 200 public and private company audits (generally of financial statements for the year ended 31 December 2022).

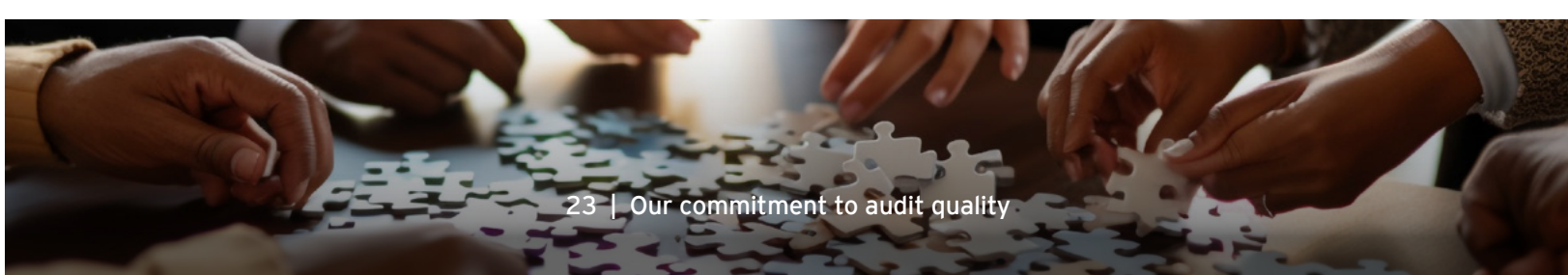


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We are devoting more resources to perform more pre-issuance audit quality reviews than we have in the past and make sure our actions are effective and our teams are getting it right.

Denise M. Pelli

US Director of Professional Practice Monitoring and Analysis





Turning root cause analyses into actions

In addition to the top-to-bottom review of our audit practice that we performed over the past year, we continue to analyze the root cause of findings in both internal and external inspections. In the current audit cycle, we are accelerating these root cause analyses so we can respond with timely communication, new guidance or new enablement when necessary.

As part of our root cause process, 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. We then share best practices to promote the behaviors that result in positive outcomes.

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 fiscal 2023, 12 of the issuers we audited (0.8%) disclosed restatements and reissued their financial statements. In fiscal 2022, five of the issuers we audited (0.3%) reissued their financial statements. In fiscal 2021, 19 of the issuers we audited (1.1%) reissued their financial statements, and 17 of them involved accounting for warrants issued by special purpose acquisition companies after the SEC staff issued a statement outlining the staff's view of the appropriate accounting for these instruments. The percentages are calculated based on the number of SEC registrants and mutual fund issuers we audit.

External inspections

Since its creation 21 years ago, the PCAOB has focused on the importance of audit quality to protect investors.

The role of the PCAOB

Through annual inspections, standard setting and staff guidance, the PCAOB identifies areas where firms can improve audit quality and respond to emerging risks. To be transparent, we are sharing the information below that we expect to be in our 2022 PCAOB inspection report (audits of 2021 financial statements). This report, which likely will be released in the coming weeks, will show that our findings rate more than doubled from a year earlier.

Part I.A of the PCAOB inspection report

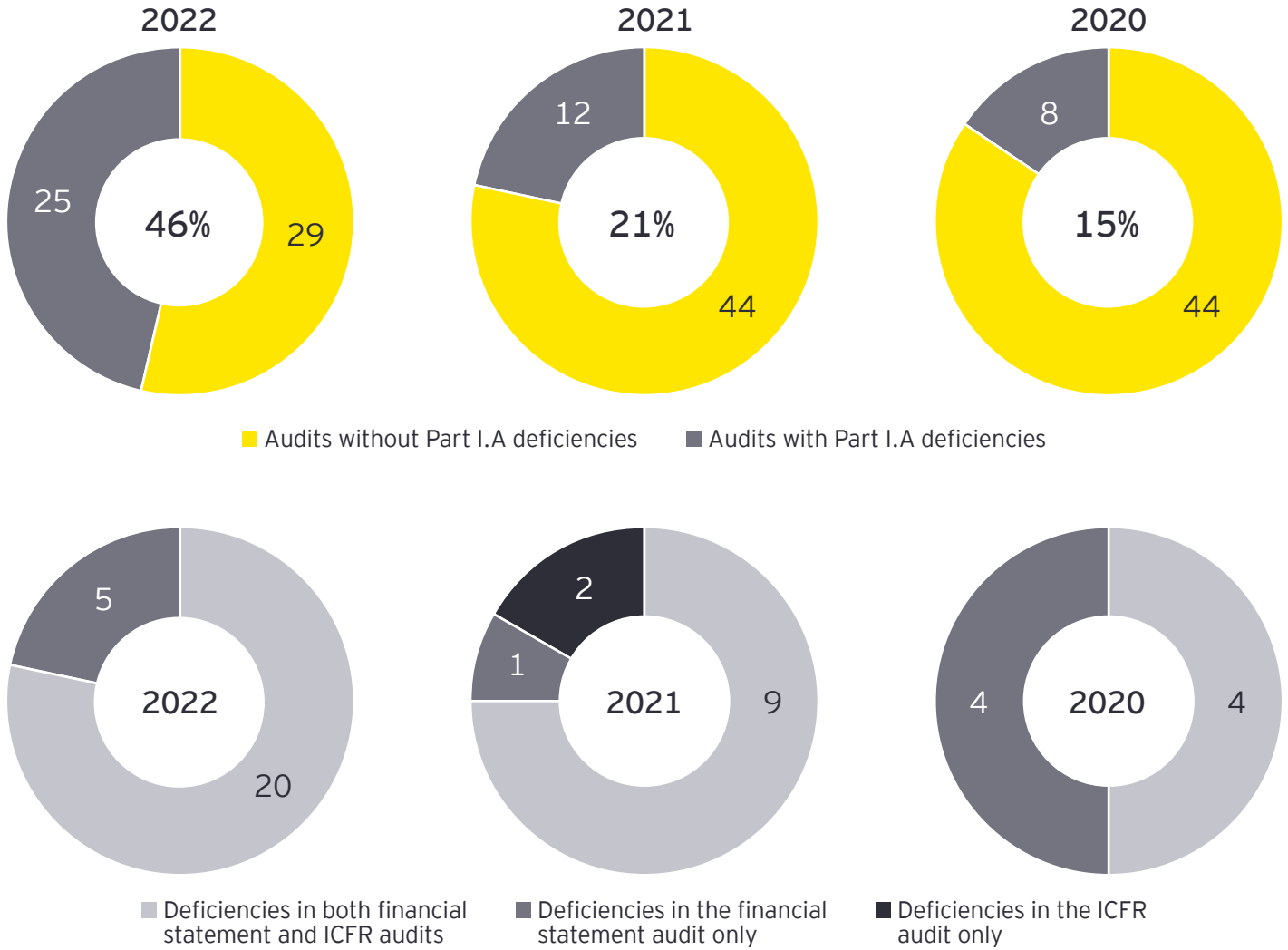
This publicly released section of a PCAOB report describes the procedures the PCAOB staff performed during the inspection and observations regarding findings it identified on these engagements.

While the PCAOB focuses its inspections primarily on higher-risk audits, and the inspections are designed to identify deficiencies in audit work, PCAOB Chair Erica Y. Williams has said that the overall rate of Part I.A deficiencies across the profession rose to a “completely unacceptable” level in 2022 (audits of 2021 financial statements), after rising in 2021 (audits of 2020 financial statements).

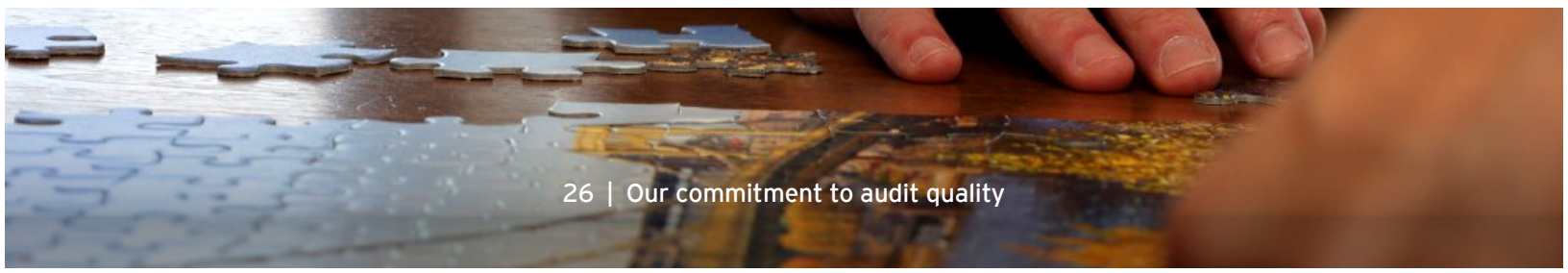
The PCAOB has been calling on all audit firms to improve the quality of their audits. We agree that audit committees and investors should understand the reasons for our higher PCAOB inspection findings as well as what we are doing to address them, which is why we are including this information in this year’s audit quality report in anticipation of the PCAOB’s public release of our inspection report.



The graphics below reflect the anticipated results of our PCAOB inspection for the 2022 inspection cycle, which generally covers our audits of 2021 financial statements and are expected to be publicly released in the coming weeks, and the results for the 2021 and 2020 inspections.

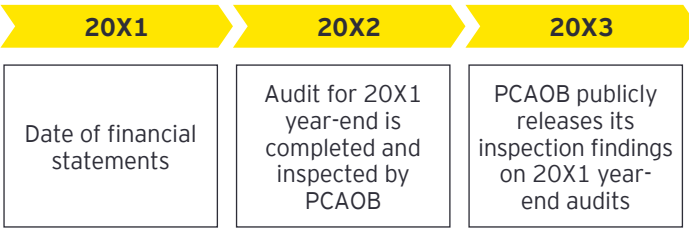


We view these anticipated 2022 inspection results (audits of 2021 financial statements), as well as the preliminary results in the 2023 PCAOB inspection cycle (audits of 2022 financial statements), as too high, and we are learning from every finding identified. We are encouraged that actions we have already taken are having a positive impact on our 2023 inspection findings, based on the preliminary results. We expect the number of findings related to auditing IT controls to drop significantly due to changes we made in our approach last year. Our continuous improvement program is also having a measurable positive impact.



As discussed throughout this report, our comprehensive plan of actions addresses the root cause of the 2022 and preliminary 2023 findings. As more fully described in the *Our commitment to audit quality* section, these actions include restructuring our Assurance practice to centralize decision-making, standardizing our audit approach and embedding a continuous improvement mindset in our culture.

It will take time before changes we are making are fully reflected in our publicly issued inspection findings due to the roughly two-year lag between the date of financial statements we audit and the date the PCAOB releases its inspection findings on our audits.



Part I.B of the PCAOB inspection report

Part I.B of the PCAOB’s inspection report, which is also released to the public, 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). We expect the Part I.B deficiencies in our 2022 inspection report, when released by the PCAOB, will relate to audit documentation, 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 each of these findings.

Part I.C of the PCAOB inspection report

The PCAOB has expanded the public portion of its 2022 inspection report to include a new section called Part I.C that provides information on potential noncompliance with SEC rules and noncompliance with PCAOB rules on maintaining independence that the PCAOB identified and that the firm identified and reported.

We expect the report to be issued by the PCAOB in the coming weeks to cite noncompliance reported by EY US on 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 PCAOB report and status of inspection reports

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 within 12 months of the report date.

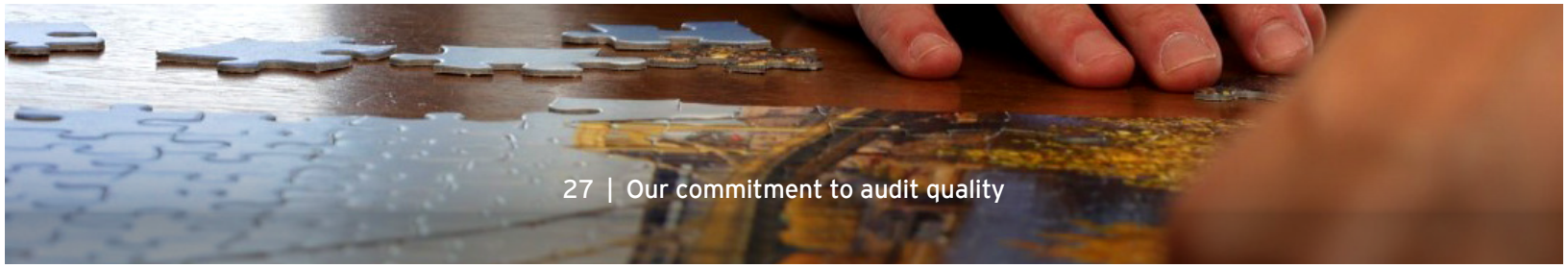
The PCAOB is still reviewing our responses to its 2019 and 2020 inspection reports. We plan to submit our response to Part II of the 2021 PCAOB inspection report in November 2023.



“

We continue to learn from every PCAOB finding and believe we have developed a comprehensive action plan to address the root causes of the issues identified in our inspections.

Michael J. Fischer
US Director of Professional Practice PCAOB Regulatory Matters



Employee benefit plans

We perform annual audits of about 700 employee benefit plans that are subject to the Employee Retirement Income Security Act of 1974 (ERISA), and our audits therefore are subject to inspection by the US Department of Labor (DOL). In 2023, the DOL completed a firm inspection of EY that included ERISA plan audits. The results for those audits were all acceptable.

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 engagements that are not subject to permanent PCAOB inspection, including private company audits. Grant Thornton LLP completed its 2022 peer review of EY US' accounting and auditing practice for these engagements (primarily audits for the year ended 31 December 2021) and concluded that our system of quality control for these engagements 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. Firms can receive a rating of pass, pass with deficiency(ies) or fail. EY US received a peer review rating of pass.

International regulators

The International Forum of Independent Audit Regulators (IFIAR) has issued a challenge to the global audit networks to 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 2022 inspection results, which is the most recent survey, the EY network was on track to meet that reduction.



EY US Executive Committee



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US Chair and Managing Partner



Marcelo B. Bartholo
US Deputy Chair



Dante P. D'Egidio
US Vice Chair,
Assurance



Rajesh Sharma
US Vice Chair,
Consulting



Mitchell R. Berlin
US Vice Chair,
Strategy and Transaction Services



Kevin D. Flynn
US Vice Chair,
Tax



Samuel R. Johnson
US Vice Chair,
Accounts



Leslie D.J. Patterson
US Diversity,
Equity and Inclusiveness Leader



James Hsu
US Vice Chair,
Office of Strategic Execution



Ginnie L. Carlier
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Talent



Angela L. Christie
US Regional Vice Chair,
US-Central



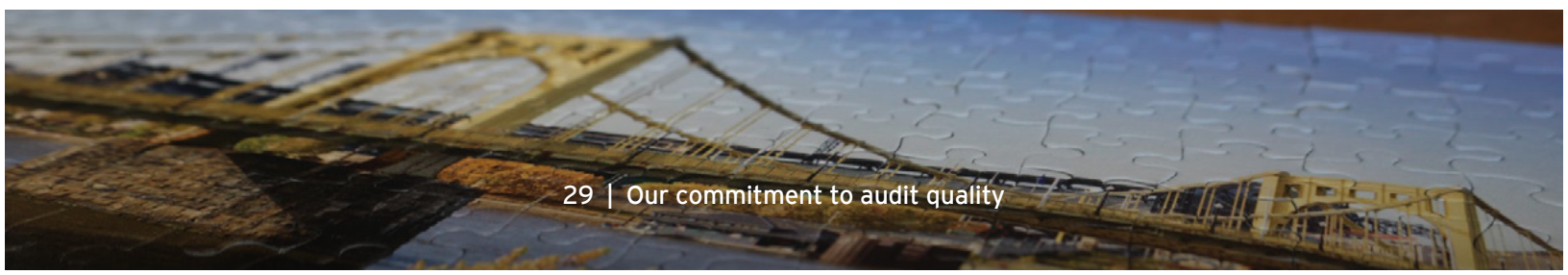
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Janet E. Truncale
US Regional Vice Chair,
Financial Services Organization



Francis C. Mahoney
US Regional Vice Chair,
US-West



EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

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