

2023

Audit Quality Unit

# **Report on 2022 quality assurance review of EY**

6 March 2023



## Vision

Public trust and confidence in quality auditing and accounting



## Mission

Upholding quality corporate reporting and an accountable profession

## Our Values



### Excellence

Striving to be the best we can be



### Independence

Regulating impartially and objectively



### Integrity

Being trustworthy and respectful

# Introduction

## Overview of EY (the Firm)



**5**  
offices in Dublin, Cork, Galway,  
Limerick and Waterford



**100**  
audits of public-interest  
entities in 2022



**31**  
audit partners



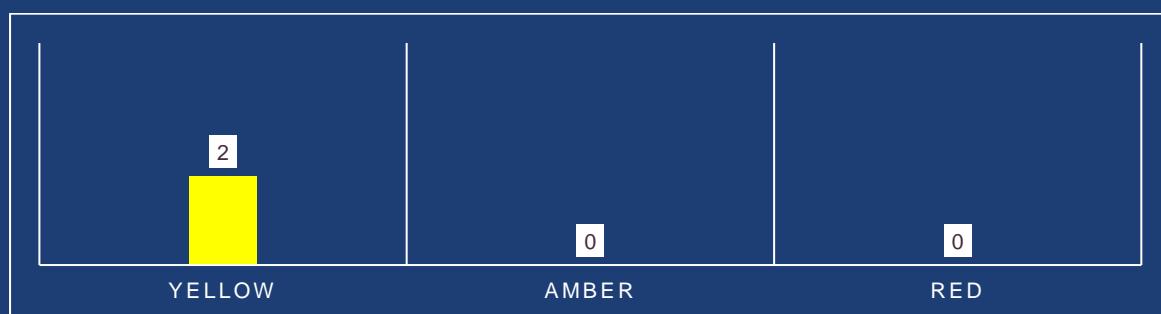
**16%**  
market share based on audit  
fees associated with public-  
interest entities in 2022



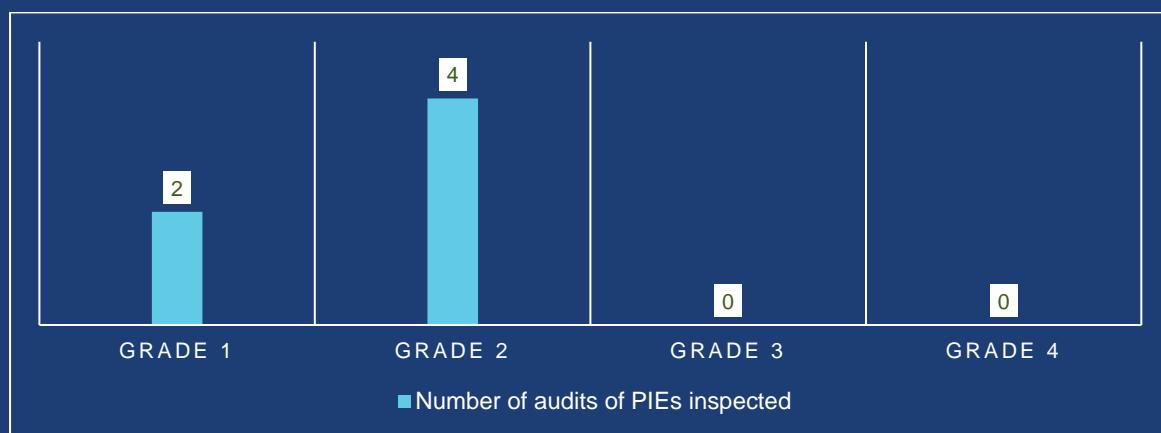
**1096**  
personnel working in the audit  
function

## Outcome of the quality assurance review

### Firm's system of quality control - findings with related recommendations<sup>1</sup>



### Audits of PIEs – grading<sup>1</sup>



<sup>1</sup> See Appendix for detailed description of ratings and grades.

## Guide to IAASA's reports on quality assurance reviews

A guide to assist readers in understanding IAASA's reports on quality assurance reviews of audit firms is available [here](#).

The guide sets out what users can expect from the quality assurance review report. It also explains how IAASA's quality assurance review process drives the form and content of these reports.

## Quality assurance review explained

The purpose of a quality assurance review is to assess the effectiveness of the Firm's system of quality control.

A quality assurance review:

- assesses the design of the Firm's system of quality control
- performs compliance testing around the implementation of the Firm's procedures
- evaluates the quality of a sample of audits of public-interest entities (PIEs)

Note that a quality assurance review is not designed to identify all weaknesses that may exist in the Firm's system of quality control.

Assessing the design of the Firm's system of quality control involves a review of the Firm's policies and procedures and their impact, if any, on audit quality. Compliance testing involves a review of the Firm's implementation of its policies and procedures.

The Authority selects the sample of audits of PIEs using a risk based approach. A risk based approach allows for audits with particular complexities to be selected, as well as audits of varying sizes. As the sample of audits of PIEs is not a representative sample, results cannot be extrapolated to make inferences about audits that have not been selected. In evaluating the quality of an audit of a PIE, the Authority considers the sufficiency and quality of audit evidence across a number of selected audit areas.

## Scope of the quality assurance review of the Firm

### The Firm's policies and procedures

The assessment of the Firm's system of quality control is performed across 13 areas on a three-year cyclical basis. In 2022, the quality assurance review assessed the design of the system of quality control in four areas:

- ethics and independence
- acceptance and continuance
- partner evaluation and compensation
- staff evaluation and compensation

For each of the four areas assessed, the Authority evaluated the Firm's policies and procedures and obtained evidence of the implementation of the Firm's policies.

## **Audits of public-interest entities**

In 2022, the Authority selected a sample of six audits of PIEs.

For each audit selected, the Authority evaluated the quality of the communications with those charged with governance, review of financial statements and the audit procedures performed in relation to related parties and analytical reviews. For each audit selected, the Authority also evaluated the quality of audit evidence across additional audit areas. The additional audit areas were selected at the discretion of the Authority, taking into consideration the specific risks pertaining to the audit as well as other areas of focus for the Authority.

## **Overview of findings**

There were two findings with related recommendations identified in the areas reviewed in relation to the effectiveness of the design or implementation of the Firm's system of quality control.

The Authority assigned a grade of 1 (good audit) to two audits of PIEs and a grade of 2 (limited improvements required) to four audits of PIEs.

The results of the quality assurance review are set out in detail in the next section of this report.

A description of ratings and grades is set out in the appendix to this report.

The Firm must implement each recommendation raised by the Authority within 12 months of the date of the recommendation. The Authority follows up to ensure each recommendation is implemented. Where the Firm fails to satisfactorily implement the recommendation within the 12 month timeframe, the Authority will refer the matter to its Enforcement Unit.

# Results of the quality assurance review

## Overview of areas

Ethics and independence	The Authority evaluated whether the Firm had adequate procedures to provide reasonable assurance that the Firm and its personnel comply with relevant ethical and independence requirements. The Authority performed a range of procedures to understand the Firm's policies around ethics and independence. These included examining policies regarding financial interests, conflicts of interest and the independence of partners and staff from the Firm's audit clients. The Authority obtained evidence of the Firm's implementation of its policies.
	<p><b>The Authority noted that from a sample of five new hires in 2021, one individual who joined the Irish firm from an overseas EY firm did not complete the independence training required by the Firm's policies in 2021. (Finding 1)</b></p> <p><b>The Authority noted that for one PIE audit client included in a sample of ten, the Firm did not provide in their communications to those charged with governance disclosure of the total amount of fees that the Firm and its network firms charged to the audited entity and its affiliates for the provision of services during the reporting period, analysed into appropriate categories. (Finding 2)</b></p>
Acceptance and continuance	The Authority evaluated whether the Firm had adequate procedures to ensure appropriate acceptance and continuance of audit clients. The Authority performed procedures to understand the Firm's policies around the acceptance and continuance of audit clients, including whether the Firm's policies ensure an appropriate response to any issues identified. The Authority obtained evidence of the Firm's implementation of its policies.
	<p><b>The Authority has no findings with related recommendations to report in this area.</b></p>
Partner evaluation and compensation	The Authority evaluated whether adequate remuneration policies were in place for audit partners to provide sufficient performance incentives to secure audit quality. The Authority performed procedures to understand the Firm's policies around the evaluation and compensation of audit partners. The Authority obtained evidence of a sample of partner appraisals, and the related remuneration, in order to ensure that audit quality was appropriately reflected.
	<p><b>The Authority has no findings with related recommendations to report in this area.</b></p>
Staff evaluation and compensation	The Authority evaluated whether adequate remuneration policies were in place for audit staff to provide sufficient performance incentives to secure audit quality. The Authority performed procedures to understand the Firm's policies around the evaluation and compensation of audit staff. The Authority obtained evidence of a

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sample of staff appraisals, and the related remuneration, in order to ensure that audit quality was appropriately reflected.

**The Authority has no findings with related recommendations to report in this area.**

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## Findings and recommendations on the Firm's system of quality control

Area and significance rating	Background	Issue	Recommendation
<b>Ethics and independence</b> <b>Finding 1</b> <span style="color: yellow;">● Yellow</span>	<p>The International Standard on Quality Control (Ireland) (ISQC 1) requires the Firm to establish policies and procedures designed to provide reasonable assurance that the Firm and its personnel comply with relevant ethical requirements.</p> <p>ISQC 1 further requires the Firm to establish policies and procedures designed to provide reasonable assurance that the Firm and its personnel maintain independence where required by relevant ethical requirements.</p> <p>The Firm's independence policy requires all professionals to complete training on independence. Supplementary guidance further requires all partners and professional staff to undergo regular mandatory training on the Firm's independence and ethical policies and procedures.</p> <p>The global independence learning administration guide sets out the practical application of the policy, including for new hires. For new hires, the independence</p>	<p>One individual included in our sample did not complete the required independence training in 2021.</p>	<p>The Authority notes that upon becoming aware of the individual's non-completion of the required independence training, the independence training was assigned to the individual for urgent completion. This was completed in February 2022.</p>

training requirements differ for those that are external hires and those that are hires from other EY offices.

As part of our review, we selected a sample of 5 new hires in 2021 and obtained records to verify completion of the required independence training.

**Ethics and independence**

**Finding 2**

 **Yellow**

The Ethical Standard for Auditors (Ireland) (the Ethical Standard) requires in the case of an audit engagement, the engagement partner to disclose to those charged with governance the total amount of fees that the Firm and its network firms have charged to the audited entity and its affiliates for the provision of services during the reporting period, analysed into appropriate categories. The appendix to the Ethical Standard includes an illustrative template for the provision of such information.

The Authority selected a sample of PIE audit clients and reviewed the Firm's communications with the audit committee in relation to ethics and independence.

In the case of one PIE audit client in the sample, the Firm and its network firms provided three permitted non-audit services in the reporting period.

The auditor did not provide disclosure of the total amount of fees that the Firm and its network firms charged to the audited entity and its affiliates for the provision of services during the reporting period, analysed into appropriate categories.

One permitted non-audit service, and details of the related fees charged, was not disclosed in the audit strategy report or the audit results report. The non-audit service and detail of the fees charged omitted from the audit strategy report and the audit results report was disclosed to those charged with governance in other communications. There is however no complete disclosure of the total amount of fees that the Firm and its network firms charged to the audited entity and its affiliates for the provision of services during the reporting period, analysed into appropriate categories.

The Authority notes that the Firm have issued an alert to the Assurance Practice reminding engagement teams of the requirements regarding disclosure of relationships (including the provision of non-audit or additional services) that may bear on the integrity, objectivity or independence of the Firm or covered persons and the fees charged in relation thereto.

The Authority recommends that going forward, the Firm ensure that the required disclosures to those charged with governance are provided.

In the related audit results report for the audited entity, the auditor included a section on independence which disclosed two of the three permitted non-audit services provided, and their respective fees.

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**Acceptance and continuance** The Authority has no findings with related recommendations to report in this area.

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**Partner evaluation and compensation** The Authority has no findings with related recommendations to report in this area.

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**Staff evaluation and compensation** The Authority has no findings with related recommendations to report in this area.

## Summary of audits of PIEs inspected

	Assigned grade <sup>2</sup>	Audit areas reviewed
Audit one	2	<ul style="list-style-type: none"><li>• Analytical reviews</li><li>• Communications and auditor's report</li><li>• Financial statement review</li><li>• Management override of controls</li><li>• Measurement of premiums written, gross and net of reinsurance</li><li>• Other debtors</li><li>• Related parties</li><li>• Valuation of claims outstanding, gross and net of reinsurance</li></ul>
Audit two	1	<ul style="list-style-type: none"><li>• Financial assets at fair value through profit or loss</li><li>• Related parties</li><li>• Analytical reviews</li><li>• Financial statement review</li><li>• Communications and auditor's report</li><li>• Management override of controls</li><li>• Statement of cash flows</li></ul>
Audit three	1	<ul style="list-style-type: none"><li>• Analytical reviews</li><li>• Statement of cash flows</li><li>• Communications and auditor's report</li><li>• Financial statement review</li><li>• Management override of controls</li><li>• Related parties</li><li>• Financial assets at fair value through profit or loss</li><li>• Income from investments and derivatives</li></ul>
Audit four	2	<ul style="list-style-type: none"><li>• Analytical reviews</li><li>• Communications and auditor's report</li><li>• Financial statement review</li><li>• Statement of cash flows</li><li>• Management override of controls</li><li>• Related parties</li><li>• Financial assets at fair value through profit or loss</li></ul>

<sup>2</sup> See Appendix for detailed description of ratings and grades

Audit five	2	<ul style="list-style-type: none"> <li>• Statement of cash flows</li> <li>• Communications and auditor's report</li> <li>• Financial statement review</li> <li>• Management override of controls</li> <li>• Related parties</li> <li>• IT environment</li> <li>• Valuation of loans and advances – ECL model</li> <li>• Valuation of level 3 derivative financial instruments</li> </ul>
Audit six	2	<ul style="list-style-type: none"> <li>• Statement of cash flows</li> <li>• Communications and auditor's report</li> <li>• Financial statement review</li> <li>• Management override of controls</li> <li>• Related parties</li> <li>• Financial assets</li> <li>• Analytical review</li> </ul>

## Key recommendations arising from the inspection of audits of PIEs

This table sets out the key recommendations for the Firm arising from the inspection of audits of PIEs. These are recommendations deemed by the Authority to be key to an individual inspection or which were recurring across inspections. Not all recommendations apply to all audits of PIEs inspected and not all recommendations issued are included in this table.

Audit area	Recommendation
Financial statement disclosures	The Authority recommends that, going forward, the audit file sufficiently evidences substantive procedures for each material financial statement disclosure.
Journal entry testing	The Authority recommends that, going forward, the audit file sufficiently evidences the procedures designed and performed to test the appropriateness of journal entries recorded in the general ledger.
Cash Flow statement	The Authority recommends that, going forward, sufficient evidence is included on the audit file on how non-cash items were tied back to client workings and on how the quantum of the non-cash adjustments was adequately assessed.
Management override of controls – identification of significant risk	The Authority recommends that, going forward, communicated fraud risk is clearly identified as a significant risk in

communications with those charged with governance and in audit working papers.

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Evidence of inquiries of management	The Authority recommends that, going forward, the auditor ensures that inquiries to management and those charged with governance of the entity be made in relation to obtaining information for use in identifying the risks of material misstatement due to fraud of the entity.
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## **Results of follow up procedures**

The Firm is required to implement the Authority's recommendations within 12 months. The Authority is satisfied that all recommendations made to the Firm in 2021 were appropriately implemented in 2022.

## **Purpose and limitations of this report**

The purpose of the quality assurance review is to assess the effectiveness of the Firm's system of quality control. The purpose of this report is to communicate any deficiencies identified through the quality assurance review and the recommendations arising.

This report is not intended to serve as a balanced scorecard or as an overall rating tool. Although this report on the quality assurance review may comment positively on certain items, it is not designed to give a balanced analysis of all areas of the Firm.

Where an inspection of an audit of a PIE identifies an area where the Firm did not obtain sufficient audit evidence, this does not necessarily indicate that the audit opinion is inappropriate or that the financial statements are misstated. Furthermore, it would be inappropriate to infer that any issues identified in this quality assurance review report are replicated in audits that have not been inspected by the Authority.

## Appendix – Detailed description of ratings and grades

### Ratings

Findings arising in relation to the effectiveness of the design or implementation of a firm's system of quality control have their significance rated by way of a red-amber-yellow (RAY) system.

● **Red** indicates that a finding is a significant deficiency<sup>3</sup>. Failure to implement a recommendation and/or remediation set out in a prior finding in relation to a firm's system of quality control, or, in relation to a matter arising from a PIE inspection is also likely to be assigned a red grading.

● **Amber** indicates that an improvement is required. This is a less than significant failure to:

- meet the requirements of the ethical standards and ISQC 1; or
- apply a firm's processes or procedures.

● **Yellow** indicates that a finding is a minor deficiency. This is:

- a minor failure in the application of a firm's procedures or processes; or
- a low level deficiency that has the potential to develop into a significant or less than significant failure to meet the requirements of the ethical standards and ISQC 1.

### Grades

Each of the audits of PIEs inspected as part of the quality assurance review is assigned a grade.

- 1 A 1 grade is a good audit with no concerns regarding the sufficiency and quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Any concerns are very limited in their implications (both individually and collectively).
- 2 A 2 grade is an audit that requires limited improvements. There are only limited concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Although there may be some concerns, their implications (both individually and collectively) are limited.
- 3 A 3 grade is an audit that requires improvements. There are some concerns, assessed as less than significant<sup>4</sup>, regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Although there may be concerns, their implications (both individually and collectively) are less than significant.
- 4 A 4 grade is an audit that requires significant improvements. There are significant concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit

<sup>3</sup> A significant deficiency is a significant failure to meet the requirements of the ethical standards or ISQC 1; or, a pervasive failure to apply a firm's processes or procedures where there is more than a remote likelihood that the deficiency could affect the firm's independence or the quality of audits performed by the firm.

<sup>4</sup> For audits of PIEs, four key factors will be considered in assessing 'significance' of findings, these are as follows: the materiality of the area or matter concerned; the extent of any concerns regarding the sufficiency or quality of audit evidence (e.g. whether they relate to specific elements of the audit evidence only or are more pervasive to the overall sufficiency or quality of audit evidence in the areas concerned); whether appropriate professional scepticism appears to have been exercised in forming audit judgements; and the extent of any non-compliance with standards or the firm's methodology identified.

judgements in the areas reviewed. There may be concerns in other areas, with implications that are individually or collectively significant.



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