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## Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

*In the Matter of Deloitte LLP,*

Respondent.

PCAOB Release No. 105-2021-014

September 29, 2021

By this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (“Order”), the Public Company Accounting Oversight Board (the “Board” or “PCAOB”) is:

- (1) censuring Deloitte LLP (“Deloitte Canada,” the “Firm,” or “Respondent”);
- (2) imposing a civil money penalty of \$350,000 on the Firm;
- (3) requiring the Firm to establish, revise, or supplement, as necessary, its quality control policies and procedures, including monitoring procedures, to provide the Firm with reasonable assurance that personnel comply with PCAOB audit documentation requirements, including those concerning the dating of the completion of work performed and the dating of the review of work papers; and
- (4) requiring the Firm to ensure that all Firm professionals involved in any “audit,” as that term is defined in Section 110(1) of the Sarbanes-Oxley Act of 2002, as amended (the “Act”), have received four (4) hours of additional training concerning compliance with PCAOB audit documentation standards.

The Board is imposing these sanctions on the basis of its findings that, from November 2016 through early March 2018, Deloitte Canada’s system of quality control failed to provide reasonable assurance that Firm personnel appropriately dated their preparation and review of audit work papers. As a result, during that period, the Firm failed to comply with PCAOB audit documentation standards in connection with certain audits and quarterly reviews.

In ordering these sanctions, the Board took into account the Firm’s extraordinary cooperation in this matter, including self-reporting, substantial assistance, and personnel and policy actions, as described in more detail below.

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Act, and PCAOB Rule 5200(a)(1) against Respondent.

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent has submitted an Offer of Settlement (“Offer”) that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board’s jurisdiction over Respondent and the subject matter of these proceedings, which is admitted, Respondent consents to entry of this Order as set forth below.<sup>1</sup>

III.

On the basis of Respondent’s Offer, the Board finds that:

**A. Respondent**

1. **Deloitte LLP** is a public accounting firm organized as a limited liability partnership under the laws of Ontario, Canada, and headquartered in Toronto, Ontario. It is a member firm of the Deloitte Touche Tohmatsu Limited (“DTTL”) global network of firms. The Firm is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules. During the period covered by this Order, the Firm served as the auditor for issuer audit clients and performed audit work that other PCAOB-registered firms, including member firms of DTTL, used or relied on in issuing audit reports for their issuer clients (“referred work”).

**B. Summary**

2. This matter concerns Deloitte Canada’s failure to establish, implement, and communicate appropriate quality control policies and procedures to provide the Firm with reasonable assurance that the work performed by engagement personnel complied with

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<sup>1</sup> The findings herein are made pursuant to Respondent’s Offer and are not binding on any other persons or entities in this or any other proceeding.

applicable professional standards, regulatory requirements, and the Firm’s standards of quality. These failures resulted in violations of PCAOB audit documentation standards concerning the dating of work papers over a 16-month period.

3. PCAOB standards require auditors to prepare audit documentation that accurately reflects when audit work was completed and reviewed. Prior to November 2016, Deloitte Canada’s electronic work paper system (“system” or “work paper system”) allowed Firm personnel to document their performance and review of work by manually selecting preparer and reviewer sign-off dates for each work paper. In November 2016, the Firm updated its work paper system and removed Firm personnel’s ability to manually select sign-off dates. Under the new system, when an auditor entered a sign-off, the current date was automatically generated. At the time the Firm adopted its new system, personnel from the Firm’s National Office were aware of a risk that individuals could override the new system by changing their computer date settings to backdate work paper sign-offs. Despite that awareness, the Firm did not take sufficient steps—through written policies, guidance, training, or otherwise—to address that risk.

4. During the 16 month-period following the adoption of the new work paper system, Firm personnel overrode the system and backdated their work paper sign-offs in at least six issuer audits and two quarterly reviews subject to PCAOB standards. This conduct occurred while teams were assembling a complete and final set of work papers for retention, or earlier, in these engagements. Additionally, some auditors on these engagements deleted and replaced sign-offs in order to ensure that reviewer sign-offs were dated after preparer sign-offs. Collectively, this conduct obscured the dates on which work had actually been completed and reviewed.

5. In light of the above-described conduct, the Firm violated PCAOB quality control and audit documentation standards.

## **C. The Firm Violated PCAOB Quality Control and Audit Documentation Standards**

### **i. Applicable Standards**

6. PCAOB rules require a registered public accounting firm to comply with all applicable auditing and related professional practice standards, including the Board’s quality

control standards.<sup>2</sup>

7. PCAOB quality control standards require a registered firm to have a system of quality control for its accounting and auditing practice.<sup>3</sup> The system should include policies and procedures to provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality.<sup>4</sup> Among other areas, a firm's policies and procedures should address the documentation of each engagement in accordance with applicable professional standards.<sup>5</sup> PCAOB quality control standards also provide that a firm should communicate its quality control policies and procedures to its personnel in a manner that provides reasonable assurance that those policies and procedures are understood and complied with.<sup>6</sup>

8. PCAOB auditing standards require an auditor to document the procedures performed, evidence obtained, and conclusions reached with respect to relevant financial statement assertions.<sup>7</sup> This audit documentation must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to determine who performed the work and the date such work was completed, as well as who reviewed the work and the date of such review.<sup>8</sup>

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<sup>2</sup> See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Auditing Standards* (applicable to audits for fiscal years ending before December 31, 2016); PCAOB Rule 3200, *Auditing Standards* (applicable to audits for fiscal years ending on or after December 31, 2016); and PCAOB Rule 3400T, *Interim Quality Control Standards*.

<sup>3</sup> See QC § 20.01, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

<sup>4</sup> See QC § 20.17.

<sup>5</sup> See QC § 20.18.

<sup>6</sup> See QC § 20.23.

<sup>7</sup> See AS 1215.06, *Audit Documentation*. As of December 31, 2016, the PCAOB reorganized its auditing standards using a topical structure and a single, integrated numbering system. See *Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015); see also *PCAOB Auditing Standards Reorganized and Pre-Reorganized Numbering* (Jan. 2017). The reorganization did not impose additional requirements on auditors or change substantively the requirements of PCAOB standards. While Respondent's conduct occurred both before and after the reorganization, the reorganized standards are cited herein for purposes of clarity.

<sup>8</sup> See AS 1215.06.

**ii. Firm Personnel Backdated Work Paper Sign-offs in Multiple Engagements**

9. Until November 2016, Deloitte Canada's work paper system allowed Firm personnel to select the date of their sign-off when documenting their preparation or review of each work paper. In November 2016, the Firm implemented an update to its work paper system, which restricted personnel from selecting sign-off dates. Under the updated system, when an auditor entered a sign-off, the system automatically generated the current date, as reflected on the auditor's computer, and prevented the auditor from manually entering a different date.

10. At the time the Firm was preparing to implement the update, certain personnel in the Firm's National Office were aware of the possibility of circumventing the new system's restriction on selecting sign-off dates. Specifically, the National Office personnel were aware of a risk that, although the updated system automatically generated sign-off dates based on a computer's settings, auditors could change the date settings on their computers and thereby alter sign-off dates.

11. Based on that awareness, National Office personnel responsible for implementing the new system considered issuing guidance instructing Firm auditors not to circumvent the new system's sign-off restrictions by changing their computer settings. Ultimately, they chose not to do so based on their understanding at the time that such changes could not be systematically prevented or detected.

12. Shortly after the Firm's implementation of the updated system, Firm personnel in certain engagements began changing the date setting on their computers to backdate work paper sign-offs. Specifically, from November 2016 through early March 2018, in connection with at least six issuer audits and two quarterly reviews subject to PCAOB standards, Firm personnel changed the settings on their individual computers to backdate numerous work paper sign-offs.

13. This backdating of sign-offs occurred in connection with engagement teams' assembling a complete and final set of work papers for retention,<sup>9</sup> or earlier, in the engagements. It often resulted from an engagement team member running a Deloitte software program to detect work papers with missing sign-offs or inconsistencies, such as a preparer sign-off that post-dated a reviewer sign-off. After running the program, the engagement team member would direct other team members, including partners, to insert missing sign-offs and

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<sup>9</sup> See AS 1215.15 (requiring the auditor to assemble a complete and final set of audit documentation for retention "as of a date not more than 45 days after the report release date (*documentation completion date*)"; see also AS 1215.14 (defining "report release date").

backdate them to earlier dates. Additionally, in certain instances, Firm personnel were instructed to delete existing work paper sign-offs, change the date settings on their computer clocks, and substitute new sign-offs, in order to indicate the sequential preparation and review of the work papers.

14. In February 2018, a Deloitte Canada auditor raised a concern with senior Firm personnel about auditors altering the dates on their computers to backdate work paper sign-offs. In response, the Firm identified and implemented in early March 2018 a method to remove personnel's ability to change the date settings on their computers, which prevented further backdating of work paper sign-offs. The Firm also promptly instructed personnel to "[a]lways use the actual date on when the physical sign-off occurs."

### **iii. Violations of PCAOB Quality Control and Audit Documentation Standards**

15. As a result of the conduct described above, Deloitte Canada violated PCAOB quality control standards. From November 2016 through early March 2018, the Firm failed to establish and communicate policies and procedures to provide reasonable assurance that the work performed by engagement personnel met applicable professional standards, regulatory requirements, and the Firm's standards of quality with respect to documenting the dating of work paper sign-offs.<sup>10</sup>

16. Specifically, when the Firm upgraded its work paper system to eliminate personnel's ability to manually select sign-off dates, it failed to establish and communicate appropriate and effective written policies and guidance and failed to provide sufficient training to personnel about the upgrade and its purpose. The Firm failed to do so, despite the fact that National Office personnel were aware of the risk that the new system's restrictions could be overridden to backdate work paper sign-offs.

17. The Firm's quality control violations, in turn, resulted in, or contributed to, violations of PCAOB audit documentation standards concerning the dating of work papers for audit, referred work, and quarterly review engagements. The practices in which Firm personnel engaged—changing their computer settings to backdate sign-offs, and deleting and re-ordering sign-offs—had the effect of obscuring the date when work was actually performed and reviewed, in violation of PCAOB standards.<sup>11</sup>

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<sup>10</sup> See QC §§ 20.17-.18, .23.

<sup>11</sup> See AS 1215.06.

#### IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondent's Offer.

In ordering sanctions, the Board took into account the Firm's extraordinary cooperation in this matter.<sup>12</sup> Specifically, the Firm: (a) voluntarily self-reported the conduct described in this Order; (b) provided substantial assistance to the PCAOB's investigation, including by conducting its own extensive internal investigation and sharing the results of that internal investigation with Board staff; (c) disciplined personnel identified by the Firm as involved in the conduct; and (d) implemented enhancements to its quality control policies and procedures in relevant areas, including by providing training to its personnel concerning PCAOB documentation standards. Absent that extraordinary cooperation, the civil money penalty imposed would have been significantly larger, and the Board may have charged the Firm with additional violations of PCAOB rules and standards.

Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Deloitte LLP is censured.
- B. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$350,000 is imposed upon Deloitte LLP. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act. Deloitte LLP shall pay this civil money penalty within ten (10) days of the issuance of this Order by: (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service money order, certified check, bank cashier's check, or bank money order (a) made payable to the Public Company Accounting Oversight Board; (b) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006; and (c) submitted under a cover letter which identifies Deloitte LLP as the Respondent in these proceedings, sets forth the title and PCAOB Release Number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to the Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public

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<sup>12</sup> See *Policy Statement Regarding Credit for Extraordinary Cooperation in Connection with Board Investigations*, PCAOB Rel. No. 2013-003 (Apr. 24, 2013).

Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006;

- C. Pursuant to Sections 105(c)(4)(F) and (G) of the Act and PCAOB Rules 5300(a)(6) and (9), Deloitte LLP is required:
1. within 120 days from the date of this Order, to establish, revise, or supplement, as necessary, policies and procedures, including monitoring procedures, to provide the Firm with reasonable assurance that personnel comply with applicable audit documentation requirements, including those concerning the dating of the completion of work performed and the dating of the review of audit documentation;
  2. within 120 days from the date of this Order, to ensure that all Firm professionals involved in any “audit,” as that term is defined in Section 110(1) of the Act, have received four (4) hours of additional training concerning compliance with PCAOB auditing standard AS 1215;<sup>13</sup> and
  3. to certify in writing to the Director of the Division of Enforcement and Investigations, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, the Firm’s compliance with paragraphs C(1) and C(2) above. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Firm shall submit such certification within 150 days from the date of this Order. The Firm shall also submit such additional evidence of and information concerning compliance as the staff of the Division of Enforcement and Investigations may reasonably request.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

September 29, 2021

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<sup>13</sup> This training is in addition to training the Firm provided prior to the date of this Order.