

**IN THE MATTER OF:      ALLEGATIONS OF PROFESSIONAL MISCONDUCT  
AGAINST DELOITTE LLP, BEFORE THE DISCIPLINE  
COMMITTEE**

**SETTLEMENT AGREEMENT**

Made pursuant to Section 34 (3) (c) of the *Chartered Professional Accountants of Ontario Act, 2017* and CPA Ontario Regulations 15-1, s. 26.4 and 6-2, s.19

**A.      Overview**

1.      The Professional Conduct Committee ("**PCC**") approved draft Allegations ("**Allegations**") against Deloitte LLP ("**Deloitte**" or the "**Firm**") (attached as **Schedule "A"**). Documents referred to in this Settlement Agreement ("**Agreement**") are found in the Document Brief (**Doc**). The applicable Canadian Auditing Standards (**CAS**) sections and Canadian Standards on Quality Control (**CSQC1**) are found in the Brief of Authorities (**Tab**).
2.      Deloitte, a member of the global network Deloitte Touche Tohmatsu Limited ("**DTTL**"), is a public accounting firm organized as a limited liability partnership under the laws of Ontario, headquartered in Toronto. At all material times, the Firm was registered with CPA Ontario and served as the auditor for approximately 800 reporting issuer clients and private entities.
3.      The Allegations concern Deloitte's failure, in Ontario, to establish, maintain, and uphold appropriate policies and procedures to ensure that its services were performed in accordance with generally accepted standards of practice of the profession, specifically the requirement to maintain accurate and timely audit

documentation, and to ensure that CPA Ontario members carrying out the Firm's professional services complied with the CPA Ontario Code of Professional Conduct ("**Code**").

4. In September 2019, the Firm reported to CPA Ontario that a number of its partners and professional staff had changed the sign-off<sup>1</sup> dates in numerous audit working papers. In response to this disclosure by the Firm, the PCC engaged Ms. Jodie Wolkoff, CPA, CA, DIFA, CBV, CFF, Mr. Dirk Joustra, B.Com., MBA, CPA, CA, and Mr. Paul LeVay, LLB, to investigate the conduct of Deloitte and 42 members of Deloitte's professional staff.
5. Between November 2016, and May 2018 ("**Backdating Period**"), a group of Deloitte's auditors changed the date and time settings on their computer clocks (referred to by Deloitte as "**Clock Adjusting**" (**Doc -1**)) in order to manually override the date/time controls in the Firm's audit software to change working paper sign-off dates ("**Backdating**"). In most instances, working paper sign-off dates were Backdated to dates prior to the physical sign-off date. Deloitte identified 930 instances of backdating by CPA Ontario members impacting at least 39 audit engagements of public and private entities.
6. The PCC and Deloitte agree with the facts and conclusions set out in this Agreement for the purpose of this proceeding only, and that this Agreement of facts and conclusions is without prejudice to Deloitte in any other proceedings of

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<sup>1</sup> References herein to "sign-off" include sign-offs by the auditors who performed audit work and by reviewers of audit work

any kind, including, but without limiting the generality of the foregoing, any civil or other proceedings which may be brought by any other person, corporation, regulatory body, or agency. It is further agreed that the relevant generally accepted standards of practice of the profession are those identified in this Agreement.

7. The matters resolved by this Agreement relate only to those activities of the Firm in Ontario and to the activities of CPA Ontario members and students involved in Backdating, not to Firm activity outside of Ontario.
8. Deloitte acknowledges that the facts and circumstances surrounding the practice of Backdating at the Firm constituted breaches of the Code and of generally accepted standards of practice of the profession during the period from October 1, 2016 to September 30, 2019 ("**Relevant Period**").

***B. Requirements of the Code specific to firms***

9. There are two Rules in the Code which apply specifically to the conduct of firms.
10. Rule 501 of the Code requires firms to establish, maintain, and uphold appropriate policies and procedures designed to ensure that its services are performed in accordance with generally accepted standards of practice of the profession. Having these policies and procedures in place and ensuring that they are upheld is critical to ensuring audit quality and that the services performed by a firm's auditors comply with the requirements of Rule 206.1 of the Code.
11. Rule 502 of the Code requires firms to establish, maintain, and uphold appropriate policies and procedures designed to ensure that, in the conduct of the practice, the

members who are associated with the firm and any other employees of the firm comply with the Code. Such policies and procedures are the mechanism by which ethical culture is supported and maintained within a firm.

**C. *Relevant Generally Accepted Auditing Standards (GAAS) and CSQC1***

12. GAAS, which includes Canadian Audit Standards (CAS) and CSQC1, requires accurate and timely documentation of procedures performed, the evidence obtained, and the conclusions reached with respect to relevant financial statement assertions. Auditors are required to provide a sufficient and appropriate record through their audit documentation to support the auditor's report and to evidence that the audit was planned and performed in accordance with CAS and applicable legal and regulatory requirements.

**1. CAS 230**

13. CAS 230 emphasizes the importance of accurate and timely audit documentation to a reliable audit. The reliability of an independent auditor's report is founded on CAS requirements of accurate timely audit documentation to substantiate the effective review and evaluation of the audit evidence in support of the conclusions reached.
14. CAS 230 contains the following relevant requirements (Tab - 2):
  7. The auditor shall prepare audit documentation on a timely basis. (Ref: Para. A1)
  8. The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para. A2-A5, A16-A17)
    - (a) The nature, timing and extent of the audit procedures performed to comply with the CASs and applicable legal and regulatory requirements; (Ref: Para. A6-A7)

- (b) The results of the audit procedures performed, and the audit evidence obtained; and
- (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

...

9. In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:

- (a) The identifying characteristics of the specific items or matters tested;
- (b) Who performed the audit work and the date such work was completed; and
- (c) Who reviewed the audit work performed and the date and extent of such review.

...

16. In circumstances other than those envisaged in paragraph 13 where the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, the auditor shall, regardless of the nature of the modifications or additions, document:

- (a) The specific reasons for making them; and
- (b) When and by whom they were made and reviewed.

...

A1. Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.

15. CAS requires audit working papers to be signed-off to signify the completion of each step in the audit process. Auditors are expected to accurately record the date on which that sign-off occurs. The audit working paper sign-off should reflect the actual date on which the sign-off was recorded in the working paper file to ensure the integrity of the audit documentation.
16. Conduct such as Backdating creates questions about the accuracy or timeliness of audit documentation. Such conduct creates uncertainty as to the accuracy,

validity and integrity of the work performed and the conclusions reached by obscuring when the work was actually performed and reviewed.

17. When circumstances arise that preclude an auditor from physically recording the sign-off of working papers on the date that the related audit work was completed, an auditor is expected to record the actual date of the physical sign-off, while making a note in the working paper file of the date on which the work was completed.

## 2. CSQC 1

18. Canadian Standards on Quality Control 1 (CSQC1) details a firm's responsibilities for its system of quality control for all assurance engagements. It contains the following relevant requirements (Tab - 3):

11. The objective of the firm is to establish and maintain a system of quality control to provide it with reasonable assurance that:

(a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and

(b) Reports issued by the firm or engagement partners are appropriate in the circumstances.

16. The firm shall establish and maintain a system of quality control that includes policies and procedures that address each of the following elements:

(a) Leadership responsibilities for quality within the firm.

(b) Relevant ethical requirements.

[...]

...

17. The firm shall document its policies and procedures and communicate them to the firm's personnel.

...

20. The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements.

...

32. The firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include:

- (a) Matters relevant to promoting consistency in the quality of engagement performance; (Ref: Para. A32-A33)
- (b) Supervision responsibilities; and (Ref: Para. A34)
- (c) Review responsibilities. (Ref: Para. A35)

A4. The firm's leadership and the examples it sets significantly influence the internal culture of the firm. The promotion of a quality-oriented internal culture depends on clear, consistent and frequent actions and messages from all levels of the firm's management that emphasizes the firm's quality control policies and procedures, and the requirement to: (a) perform work that complies with professional standards and applicable legal and regulatory requirements; and (b) issue reports that are appropriate in the circumstances.

Such actions and messages encourage a culture that recognizes and rewards high quality work. These actions and messages may be communicated by, but are not limited to, training seminars, meetings, formal or informal dialogue, mission statements, newsletters or briefing memoranda. They may be incorporated in the firm's internal documentation and training materials, and in partner and staff appraisal procedures such that they will support and reinforce the firm's view on the importance of quality and how, practically, it is to be achieved.

A57. Whether engagement documentation is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the firm's knowledge, or if it could be permanently lost or damaged. Accordingly, controls that the firm designs and implements to avoid unauthorized alteration or loss of engagement documentation may include those that:

- Enable the determination of when and by whom engagement documentation was created, changed, or reviewed;
- Protect the integrity of the information at all stages of the engagement, especially when the information is shared within the engagement team or transmitted to other parties via the Internet;
- Prevent unauthorized changes to the engagement documentation; and

- Allow access to the engagement documentation by the engagement team and other authorized parties as necessary to properly discharge their responsibilities.

**D. *Deloitte's internal audit guidance and Code of Conduct***

**1. Audit Documentation Guide**

19. Audit guidance is issued by DTTL and updated by Deloitte to reflect Canadian professional standards. Audit guidance is available to Deloitte's audit practitioners through Deloitte's technical library, an online repository for reference materials. Deloitte issues a weekly newsletter to explain any new or updated audit guidance and to highlight key changes and effective dates.
20. Deloitte maintains an Audit Documentation Guide (Audit Public) ("**ADG**"), which explains the purpose of maintaining appropriate and accurate audit documentation that meets the requirements of professional standards and legal and regulatory requirements:
  - To provide the written record of support for the representations in the audit report, including evidence of the auditor's basis for a conclusion about the achievements of the overall objectives of the auditor, and that the audit was planned and performed in accordance with all requirements;
  - Assisting the engagement team to plan and perform the audit.
  - Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities.
  - Enabling the engagement team to be accountable for their work.
  - Retaining a record of matters of continuing significance to future audits.
  - Enabling the conduct of quality control reviews and inspections at the level required.
  - Enabling the conduct of external inspections in accordance with applicable legal, regulatory, or other requirements. (**Doc - 2**)



## 2. Deloitte's internal Code of Conduct

21. Deloitte's internal Firm Code of Conduct ("**Firm Code**") requires compliance with applicable professional standards, laws, and regulations. Deloitte requires annual written confirmation from its partners and staff of their compliance with the Firm Code (**Doc - 3**). The Firm Code in place in 2017 included a section on "Professional Behaviour" which stated:

- We comply with applicable professional standards, laws and regulations and seek to avoid actions that may discredit ourselves or our professions; and
- We foster a culture of appropriate professional skepticism and personal accountability which supports clients and drives quality in the services we provide.

22. The Firm Code includes a section titled "Your responsibilities":

"You are personally responsible for knowing, understanding and complying with both Deloitte Canada's Code of Conduct and the Global Principles of Business Conduct.

You also have a responsibility to uphold the [Firm] Code of Conduct."

23. All Deloitte partners and staff are required to confirm that they have read, understood, and will comply with the Firm Code, and that they are responsible to report non-compliant actions or behaviours. Every member of CPA Ontario identified by the Firm as having engaged in the practice of Backdating gave these required confirmations annually throughout the Relevant Period.

## **E. Deloitte's Changes to its EMS System**

24. In response to findings by the United States' Public Company Accounting Oversight Board ("**PCAOB**") of an incident where archived audit documentation had been improperly altered outside of Canada, DTTL required all its global

members, including Deloitte, to conduct a mandatory conference call focused on audit quality and integrity with all audit partners before the end of October 2016.

25. The Engagement Management System (“**EMS**”) was the audit software system used by Deloitte during the Backdating Period. Prior to November 7, 2016, EMS permitted a user to manually select a sign-off date for an audit working paper.
26. Until November 2016 Deloitte’s ADG provided in section 2.7:

In documenting the nature, timing and extent of audit procedures performed, the auditor shall record [...] who performed the audit work and the date such work was completed [...]

When dating the preparer sign-off, use the actual date when the sign-off occurs. It’s not appropriate to date working papers with a date other than the date on which the physical sign-off occurs. If necessary, notate the file if the sign-off date differs from the date on which the documentation is substantially completed. (**Doc – 2**)

27. In October 2016, DTTL informed Deloitte of pending changes to EMS. One planned change was to disable the selection of sign-off dates by users. After the change, the date a sign-off was physically entered into EMS would be limited, by default, to the date of the user’s computer clock.
28. Deloitte’s National Office, which supports implementation of new policies and training, was responsible for communicating with Deloitte staff and partners about the EMS changes.
29. The National Office conducted the mandatory call required by DTTL with its audit partners on October 23, 2016. DTTL issued the National Office a script (“**Script**”) to be read to call participants (**Doc - 4**).

30. In accordance with the Script, the National Office first set out the regulatory context of the call, referencing:

- (a) the emphasis placed by the PCAOB on integrity, and PCAOB's recent public statements about how integrity was "as important, if not more important, than audit quality issues;"
- (b) many discipline orders issued by PCAOB to date involving a failure to cooperate included the improper alteration of documents;
- (c) that PCAOB inspectors uncovered evidence of the creation of documents shortly before or during a PCAOB inspection which were then backdated and provided without disclosing when they were created, resulting in firm sanctions for improperly deleting, adding, or altering documentation in connection with an inspection.

31. The National Office then expressed Deloitte's zero tolerance policy for the type of behaviour found by PCAOB, focused on recently introduced DTTL quality processes for archiving and forensics, and informed call participants that:

Going forward we are enhancing EMS such that the undocumented alteration of a previously archived engagement file will be identified as part of a process prior to the provision of a file for inspection.

Effective immediately, "back-dating" of working papers is not allowed. DTTL is mandating that this function be discontinued at each DTTL member firm, so that it will no longer be available.

32. The National Office script did not make it clear that backdating of all sign-off dates, and not just those that might be under scrutiny during a regulatory inspection, was

not permitted and was conduct which violated professional standards and the Code. This omission led, at a minimum, to confusion, with some call participants understanding that the prohibited “back-dating” referred specifically to archived working papers, rather than the broader focus of the pending EMS change to disable the selection of working paper sign-off dates.

33. On October 26, 2016, Deloitte issued an audit practice alert to all audit staff, indicating, among other things, that the ability to choose a sign-off date in EMS was being removed (**Doc - 5**).
34. The EMS update was released on November 7, 2016, disabling a user’s ability to use the software to both choose the date of their sign-off and the ability to sign-off on someone else’s behalf.
35. On November 7, 2016, a second audit alert email was issued indicating that the EMS changes would be pushed to users’ laptops that day to disable the “edit sign-off date” and “sign-off on behalf” features (**Doc - 6**).
36. Certain personnel in the Firm’s National Office were aware of a risk that the new software restrictions could potentially be bypassed by individuals manually changing the date and/or time on a user’s computer clock . They took steps to determine if it was possible to detect or prevent any effort to avoid the new EMS functionality, and they concluded that there was no solution available (**Doc - 7**).
37. Having identified that the new EMS restrictions could potentially be bypassed by a user changing their computer clock, the National Office considered whether to

expressly address this issue in its communications, and to be explicit that doing so was prohibited.

38. Instead, the National Office decided not to communicate this message on the basis that such communication could instead “socialize” inappropriate conduct if it were made known that Clock Adjusting in order to Backdate sign-off dates remained possible.<sup>2</sup>

39. Section 2.7 of the ADG in effect after the EMS update provided:

As outlined in DTTL AAM00200.23, “In documenting the nature, timing and extent of audit procedures performed the auditors shall record...Who performed the audit work and the date such work was completed. (emphasis in original) (See PCAOB AAM00200.10)

If the procedures were performed by multiple engagement team members, include all necessary sign-offs as “preparers” of the audit documentation in order to meet the requirements of the DTTL AAM or PCAOB AAM. If the sign-off date differs from the date on which the documentation was substantially completed notate the reason for the delay in sign-off within the file.

40. The language “when dating the preparer sign-off, use the actual date when the sign-off occurs” no longer appeared in the section (**Doc – 8**). The requirements of CAS 230 had not changed.
41. No messages were conveyed by the National Office between November 2016 to February 2018 to communicate that: it was inappropriate for auditors to bypass the function of the audit software by changing the computer clock; highlighting why the EMS sign-off date edit function had been disabled; or that Backdating was unacceptable and contrary to the Code.

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<sup>2</sup> Doc - 7

42. Deloitte incorrectly assumed that the two practice alerts sent October 26 and November 7, 2016, about the changes to EMS were sufficient communication to the audit practice, and that no additional communication was required about the changes to the ADG in November 2016.
43. Deloitte did not provide specific training to its audit practitioners to address the risks of continued Backdating after the changes to EMS in November 2016, despite being aware of the risk that EMS restrictions could be bypassed to permit Backdating, and of the resulting potential risks to audit quality and the ethical risks this created.
44. Deloitte did not offer specific audit staff training regarding the changes to the EMS sign-off feature; it did not identify and socialize the impropriety of Backdating working papers; nor did Deloitte direct its audit partners to discuss the changes to EMS, and the reasons behind it, with their staff.
45. Deloitte missed a fresh opportunity, presented by the 2016 change to EMS, to clearly identify and prohibit Backdating to Deloitte's audit practitioners to ensure they performed their work to the standards expected of Chartered Professional Accountants, including establishing, maintaining and upholding appropriate policies and procedures to ensure those auditors conducted themselves in a manner which would maintain the good reputation of the profession and serve the public interest, and that they performed their professional services with due care.

**F. *Clock Adjusting to Backdate sign-offs***

46. Certain Deloitte audit practitioners identified the opportunity to bypass the new limits imposed by the November 7, 2016 EMS update and began adjusting the clock on their computers to Backdate the sign-off dates of audit working papers. A number of students, staff, managers, engagement partners, and engagement quality control review partners in the audit practice changed their computer clocks to Backdate sign-offs in the course of performing assurance engagements for private and public entities. This conduct continued until March 2018.
47. During this period at least 35 Deloitte CPAO members engaged in Backdating, and in some cases instructed others to do so, in over 930 audit working papers in 39 audit engagements.
48. Sign-off dates were changed from after the date of the audit report to a date prior to the audit report, or before the date of the audit report to an earlier date, or after the audit report date to another date after the audit report date.
49. More than half of the identified Backdating took place after the issuance of the relevant Independent Auditor's Report, adding working paper sign-off dates to a date prior to the date of the Report. In most cases, the date selected for Backdating was either a date on or before the date of the auditors' report, or a date at a point in time when the individual thought the work would have been completed, or a date consistent with a colleague's sign-off.
50. In early 2017, two Ontario audit partners learned that audit practitioners were engaging in the practice of Backdating. Both partners communicated to members

of their respective audit teams that the practice was not acceptable. Neither partner took steps to address the issue with other partners or with Firm leadership. Moreover, a number of audit partners took part in the practice themselves.

**G. *Deloitte's Investigation and Self Report to CPAO***

51. In February 2018, a Firm audit partner raised a concern with senior Firm personnel about auditors altering the dates on their computers to backdate work paper sign-offs at one of the Firm's offices in another province ("**Whistleblower**").
52. Prior to the Whistleblower, no issue was identified or raised with the audit leadership or the National Office.
53. The Firm took immediate action in early March 2018 by removing personnel's ability to change the date settings on their computers, to prevent the use of Clock Adjusting to Backdate work paper sign-offs. Despite this, at least one audit partner continued to Backdate sign-offs until May 2018.
54. On March 6, 2018, the firm released an audit practice-wide communication reminding all auditors of the accepted procedures around sign-off including to "[a]lways use the actual date on when the physical sign-off occurs."
55. Deloitte commenced an internal investigation (the "**Deloitte Investigation**") into Backdating in March 2018. Independent external counsel was retained to conduct the investigation. The Deloitte Investigation took more than a year, ending in the spring of 2019.



56. The Deloitte Investigation covered conduct that spanned 17 months at Deloitte offices in two provinces. It included:
- (a) a forensics team reviewing event logs looking back for up to six months;
  - (b) an email review from November 2016 forward, with a review of approximately 83,000 emails;
  - (c) approximately 100 interviews, of which 32 involved Deloitte personnel from Ontario; and
  - (d) secondary reviewers reviewing the significance of some of the impacted working papers on the audit file.
57. In September 2019 the Firm reported to the CPA Ontario that:
- (a) In February 2018 the Firm became aware that practitioners may be changing the date on their computers and as a result altering the date of the electronic sign off on audit working papers;
  - (b) The Firm had retained independent external counsel to conduct an investigation which concluded that Backdating was not done with malicious or fraudulent intent but rather with the intent to more accurately reflect the date the work was actually performed;
  - (c) The Firm's audit work was not compromised;
  - (d) The Firm did not find any evidence that warranted withdrawing any audit report; and

- (e) The Firm had concluded that the conduct was contrary to Firm guidance and thus warranted discipline by the Firm, but did not constitute a contravention of the Code or a breach of professional standards.
58. No written interim or final reports of findings and conclusions of the Deloitte Investigation were prepared. All reporting was done orally which is consistent with some investigation practices. Given the Investigation's breadth of scope, not having a written report may have affected the thoroughness of the Firm's reporting both internally and to external regulators.
59. The Deloitte Investigation identified 25 Ontario CPAs and CPA students who they reported to CPA Ontario as having engaged in Backdating in the course of their work on various audit engagements. The CPA Ontario investigators subsequently identified 35 members who engaged in Backdating.
60. Deloitte concluded that the Backdating by its auditors was not unethical. Deloitte's disciplinary response was based on the conclusion that those disciplined were attempting to document when work was actually done and therefore "tried to do the right thing but in the wrong way".
61. At its conclusion, the Deloitte Investigation established an internal discipline panel ("**Panel**") to assess the conduct of the partners and staff identified as Backdating participants who were current partners and employees of the Firm. The Firm Ethics Partner served as the fairness monitor of Panel decisions. The Firm Ethics Partner had not been involved in the Deloitte Investigation until this point. The discipline imposed ranged from written reprimand to significant career and compensation

penalties. In determining the appropriate level of discipline, the Panel considered factors including the extent and frequency an individual engaged in Backdating, their role, and knowledge of EMS and auditing standards. Twelve partners and twelve employees of the Firm were disciplined by Deloitte for Backdating.

***H. Limitations in Deloitte Investigation and its ensuing conclusions***

62. Backdating obscures when and what work was performed and reviewed. The act of Backdating creates questions about the accuracy or timeliness of audit documentation and the quality of the audit.
63. It is not possible to determine the full scope of the Backdating at Deloitte and the extent of its potential implications on affected audit engagements and audit reports undertaken and issued during the Relevant Period for a variety of reasons, described below.

**1. Lack of available data**

64. The Deloitte Investigation was restricted in its scope by a lack of available data, due primarily to technological reasons outside of the control of the Deloitte Investigation. Relevant historical electronic information necessary to identify and assess the impact of Backdating through the event log analysis did not exist for the entirety of the Backdating Period but was technologically restricted to, at most, the six months prior to the Deloitte Investigation timeframe.
65. Event logs record only the length of time a user's clock was adjusted to engage in Backdating. Some of the event logs showed times ranging up to two hours, a period of time in which substantive work could have been undertaken. An event

log does not show if an individual performed hours of work in relation to a working paper, and then adjusted their clock back only long enough to enter a sign-off. Deloitte's event log analysis placed reliance on the duration of time a user's computer clock was adjusted as support for the conclusion that substantive work had not been performed.

## **2. Email review**

- 66. Most of the Backdating was discovered through the subsequent email review, which did not indicate the period of time for which a user's clock was adjusted.
- 67. Emails alone could not determine whether participants may have Backdated without communicating about it in writing or at all. If any Backdating occurred that was not discussed in emails it would not be captured by the email review. Moreover, where an email referred to Backdating but did not identify the relevant engagement or working paper, Deloitte did not in every case make a direct inquiry of the authors of the email.

## **3. Second reviewers**

- 68. For 731 of 930 identified instances of Backdating, the significance of the impacted working paper sign-off was not assigned by the Deloitte second reviewers for its relative significance to the impacted audit.

## **4. Interviews**

- 69. The auditors who were interviewed indicated that they Backdated sign-off dates in an effort to more accurately reflect the date the work was done. The CPA Ontario investigators subsequently determined, however, that the dates selected in many

cases did not represent the actual dates on which the audit work was completed. The interviewees also indicated that Backdating was done to avoid the inconvenience of following the ADG guidance to notate within the file if the sign-off date differed from the date on which the documentation was substantially completed, and because of a lack of clear direction on best practices.

70. Although members of National Office were aware in 2016 of the risk that auditors would engage in inappropriate conduct by bypassing the newly imposed EMS restrictions, the Firm accepted the representations of those interviewed by the independent investigator that they had no intent to deceive when Backdating. Outside of the email review, and the interviews by the independent investigator, Deloitte did not obtain other independent evidence to support or refute those representations. Deloitte should have employed a higher level of skepticism in the circumstances.

**5. Engagement partners and audit leadership not informed**

71. Deloitte did not inform lead engagement partners on 7 of the 39 engagements in which Backdating had been identified that the conduct had taken place, nor consult with those partners in the course of the Deloitte Investigation. These lead engagement partners were unaware that their engagements were subject to the investigation and were thus unable to assist in assessing the impact of the Backdating on the assurance provided in their independent auditor reports, despite

being responsible for<sup>3</sup> and the most knowledgeable about their audit engagements.

72. Similarly, Deloitte did not seek input during the Deloitte Investigation from all members of its audit leadership about the potential impact Backdating may have had on audit engagements, either broadly or specifically. Certain members of audit leadership were informed in circumstances where their staff members were interviewed by the independent investigator. Deloitte's full audit leadership was only informed about the Backdating after Deloitte's Investigation had drawn its conclusions about the impact of Backdating on the integrity of audit engagements and reports.
73. Reliance on the knowledge of affected lead engagement partners and on others in audit leadership could have enhanced the results of the Deloitte Investigation and reduced uncertainties inherent in Deloitte's conclusions, in particular its conclusion that Backdating did not impact audit quality.

#### **6. Ethics partner not involved**

74. The Deloitte Investigation approached the practice of Backdating as one of potential professional standards implications with a particular focus on audit quality. It was not specifically identified as an ethics related matter, and the ethics review team and ethics review protocols were not involved.

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<sup>3</sup> CAS 220 (Tab – 1) and CSQC1 par. 11 (Tab - 3).

- 75. This particular focus raised the potential for confirmation bias in the Firm's overall conclusion that its auditors did not behave unethically in Backdating but rather, "tried to do the right thing but in the wrong way."
- 76. The willingness of at least 35 participants to Backdate despite the EMS restrictions, some on a regular basis, rather than using alternative permissible and appropriate audit documentation procedures, damages the reputation of the profession because auditors are expected to perform their role with integrity and in accordance with generally accepted standards of practice of the profession.

#### **7. Impact of Deloitte Investigation limitations**

- 77. Despite the limitations inherent in the Deloitte Investigation and the remaining uncertainties as to when substantive work may have been performed on Backdated working papers, Deloitte reported to CPA Ontario that Backdating did not compromise audit work or audit reports and was not a breach of the Code or of professional standards but a mere policy breach. In reaching these conclusions Deloitte should have applied greater skepticism to its analysis of the impact of Backdating.
- 78. Deloitte's focus on Backdating as an issue of audit quality and not professional ethics in the manner described herein and not undertaking a more nuanced analysis of the participants' motivation for engaging in such conduct detracted from the findings and conclusions made in the Deloitte Investigation in respect of the implications of Backdating on audit quality.

79. Investigative procedural shortcomings did not fulfil the requirement for the Firm to maintain an adequate system of quality control and to ensure that its personnel complied with the ethical requirements of the Code.

***I. Breaches of the Code***

80. For the reasons set out above, Deloitte acknowledges and admits that:
- (a) Deloitte failed to satisfy the requirements of CSCQ 1 (Tab – 3) by failing to establish and maintain a system of quality control to provide it with reasonable assurance that its audit practitioners did not Backdate their sign-off of the preparation and review of audit work in contravention of CAS 230 (Tab – 2), contrary to Rule 501.
  - (b) By failing to adequately communicate its audit documentation and quality control policies and procedures to its audit practitioners, Deloitte failed to maintain and uphold such policies and procedures, contrary to Rule 501.
  - (c) The Firm failed to adequately train its audit practitioners as to the purpose of changes to its internal electronic working paper system associated with documentation of working paper sign-offs, thereby failing to establish, maintain and uphold appropriate policies and procedures designed to ensure that its services were performed in accordance with generally accepted standards of practice of the profession, contrary to Rule 501.
  - (d) By failing to adequately communicate with the Firm's audit leadership and/or lead engagement partners whose engagements were affected by



Backdated audit working papers to ensure the integrity of the audit process and audit reports for those engagements Deloitte failed to establish, maintain, and uphold appropriate policies and procedures to ensure its services were performed in accordance with professional standards, contrary to Rule 501.

- (e) By choosing to exclude relevant lead engagement partners and audit leadership in the identification of the impact of the Backdating on the related audit engagements and audit reports, Deloitte failed to take all available steps to gain an understanding of the potential implications of Backdating on affected audit engagements and audit reports, contrary to Rule 501.
- (f) Deloitte failed to take sufficient and appropriate action to address potential issues of audit quality upon becoming aware that a number of its audit practitioners were engaged in Backdating, contrary to Rule 501.
- (g) Deloitte failed to establish, maintain, and uphold appropriate policies and procedures designed to ensure that, in the conduct of the practice, its audit practitioners conducted themselves in a manner which would maintain the good reputation of the profession and serve the public interest and perform their professional services with integrity and due care in compliance with the Code, contrary to Rule 502.
- (h) Deloitte, in its Investigation, failed to establish appropriate procedures to adequately consider and address the risk of ethical issues arising from

deliberate Backdating by its audit practitioners, contrary to Rules 501 and 502.

**J. Other Regulatory Outcomes**

81. On September 28 and 29, 2021, respectively, Deloitte entered into settlement agreements with the Canadian Public Accountability Board (“CPAB”) (**Doc – 9**) and the PCAOB (**Doc – 10**) regarding Backdating of working papers in the course of conducting audits of reporting issuers. Deloitte neither admitted nor denied the findings of CPAB or the PCAOB. Both CPAB and PCAOB acknowledged Deloitte’s “extraordinary cooperation”.
82. CPAB determined that Deloitte violated CAS 230 (Tab - 2) and CSQC 1 (Tab – 3) in that it 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 control with respect to documenting the dating of work paper sign-offs as required.
83. CPAB determined that it was appropriate, in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports to impose the following requirements, restrictions and sanctions on the Firm:
  - (a) The Firm was publicly censured, pursuant to section 601(h) of the CPAB Rules;

- (b) The Firm was required to pay \$100,000 to CPAB for the costs of CPAB's investigation and any costs associated with monitoring the Firm's compliance;
  - (c) The Firm was required to review, 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 applicable audit documentation requirements and Firm policies concerning the dating of the completion of work performed and the dating of the review or work papers;
  - (d) The Firm was required to ensure that all firm professionals involved in any audit of a Canadian reporting issuer had received cumulatively four hours of additional training concerning compliance with auditing standards, including CAS 230; and
  - (e) Within 150 days of the effective date of the settlement agreement, the Firm was required to certify in writing its compliance with the above two paragraphs, along with additional evidence and information concerning compliance as CPAB may reasonably require.
84. PCAOB also determined that Deloitte violated PCAOB's audit documentation standards in that the Firm failed 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 applicable professional standards, regulatory requirements, and the Firm's standards of quality.

85. PCAOB deemed 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, to institute disciplinary proceedings against Deloitte. As part of the settlement agreement, the PCAOB issued an order imposing the following sanctions on the Firm:

- (a) The Firm was censured;
- (b) The Firm was required to pay a civil monetary penalty of US\$350,000;
- (c) The Firm was required to establish, revise, or supplement, as necessary, its 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; and
- (d) The Firm was required to ensure that all Firm professionals involved in any "audit" as defined by the Sarbanes-Oxley Act, 2002 had received four hours of additional training concerning compliance with PCAOB audit documentation standards.

**K. *Mitigating Factors***

86. The PCC recognizes Deloitte's cooperation by way of self-reporting these allegations to CPA Ontario.
87. Deloitte undertook an internal investigation conducted by external counsel on its own initiative, prior to making its self-report to CPA Ontario.
88. Following the Deloitte Investigation, Deloitte disciplined a number of individuals involved in the conduct in issue and in some cases imposed serious financial sanctions.
89. Since the Deloitte Investigation, the Firm has implemented numerous remediation measures.
90. In March 2018, Deloitte implemented a technological solution that prevented firm personnel from changing the date and time on their computer, preventing the practice in issue from occurring again.
91. In August 2019, Deloitte issued an email to its audit practice informing them of the completed investigation (**Doc - 11**), and cautioned:

Adjusting computer clocks for the purpose of changing EMS sign-off dates is a violation of our audit guidance. Although personnel who clock-adjusted explained during our investigation they were attempting to more accurately reflect the date of their work, the act of clock-adjusting, in itself, is unacceptable.

Under Deloitte guidance there is no circumstance that justifies altering or adjusting the sign-off dates in EMS in this fashion. As a result, an extensive discipline process has been undertaken to address this behaviour.
92. Following the Deloitte Investigation, the Firm implemented training that included hypothetical fact scenarios involving various ethical dilemmas, one of which

involved Backdating. That scenario emphasized that the EMS sign-off date should be the date the sign-off is physically entered into EMS, and that changing the sign-off date is unacceptable for any reason. This training is in addition to the mandatory annual training already required of audit practitioners.

93. Following the Deloitte Investigation, the Firm amended its mandatory training for partners entitled "Leading with Integrity". All partners who were identified as having participated in the practice in issue, and who remain at Deloitte, have now completed the training.
94. In making the admissions herein, Deloitte has saved the PCC and the Discipline Committee the time and expense of a lengthy hearing.

**L. Terms Of Settlement**

95. Deloitte and the PCC agree to the following Terms of Settlement:
  - (a) Deloitte shall pay a fine of \$900,000 to CPA Ontario;
  - (b) Notice of the terms of this Settlement shall be published by CPA Ontario including notice to be given to all members of CPA Ontario, the Public Accounting Standards Committee, all provincial CPA bodies, in the *Globe and Mail* and *National Post* newspapers, the cost of which shall be borne by Deloitte, and shall be made available to the public;
  - (c) Deloitte shall pay costs in the amount of \$695,000 to CPA Ontario;
  - (d) Deloitte shall pay the costs of the newspaper publication set out in paragraph 95(b) to CPA Ontario, as the PCC directs, within 30 days of when

Deloitte is provided with written notice of the amounts incurred by CPA Ontario; and

- (e) Deloitte shall, by no later than three days in advance of the date set for the approval of the Settlement Agreement by the Discipline Committee, pay the fine and costs amounts detailed herein to its counsel, Lenczner Slaght LLP, to hold in trust pending approval of the Settlement Agreement, and provide confirmation of same to the PCC. If this Settlement Agreement is approved by the Discipline Committee, Deloitte hereby irrevocably directs Lenczner Slaght LLP to pay the fine and costs amounts to CPA Ontario as the PCC directs.

96. For greater certainty, the PCC and Deloitte expressly authorize and consent to CPA Ontario:

- (a) providing notice of this Settlement Agreement and its terms to all CPA Ontario members, to the Public Accounting Standards Committee, and to all provincial CPA bodies; and
- (b) publishing notice of the Settlement Agreement and the Terms of Settlement as set out herein.

97. Should the Discipline Committee approve this Settlement Agreement, Deloitte agrees to and hereby waives its right to a full hearing, judicial review, or appeal of the matter subject to the Agreement. Upon Deloitte's fulfillment of the requirements

of this Agreement, the draft Allegations attached as Schedule "A," approved by the PCC, shall be forever stayed.

98. Should the Discipline Committee approve this Settlement Agreement, no party will make any public statement that is inconsistent with this Settlement Agreement. Following approval, CPA Ontario and Deloitte may, each in its sole discretion, issue a release in respect of this outcome.
99. If for any reason this Agreement is not approved by the Discipline Committee, then:
- (a) the terms of this Agreement, including all settlement negotiations between the PCC and Deloitte leading up to its presentation to the Discipline Committee, shall be without prejudice to the PCC and Deloitte; and
  - (b) the PCC and Deloitte shall be entitled to all available proceedings, remedies, and challenges, including proceeding to a hearing on the merits of the allegations, or negotiating a new settlement agreement, unaffected by this Agreement or the settlement negotiations.

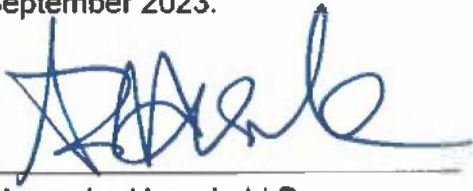
***M. Disclosure of Agreement and Independent Legal Advice***

100. This Agreement and its terms will be treated as confidential by the PCC and Deloitte, until approved by the Discipline Committee, and forever if for any reason whatsoever this Agreement is not approved by the Discipline Committee, except with the written consent of the PCC and Deloitte, or, as may be required by law.
101. Any obligations of confidentiality shall terminate upon approval of the Agreement by the Discipline Committee.

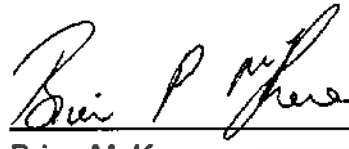


102. Deloitte confirms that it has utilized independent legal counsel in negotiating and entering this Agreement.

All of which is agreed to for the purpose of this proceeding alone this 28<sup>th</sup> day of September 2023.

A handwritten signature in blue ink, appearing to read 'Alexandra Hersak', written over a horizontal line.

Alexandra Hersak, LL.B.  
Vice President  
Investigations and Prosecutions  
on behalf of the  
Professional Conduct Committee

A handwritten signature in blue ink, appearing to read 'Brian McKenna', written over a horizontal line.

Brian McKenna  
Risk Officer  
on behalf of Deloitte LLP

**CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO**

***CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017***

**TO:** Deloitte LLP

**AND TO:** The Discipline Committee of CPA Ontario

The Professional Conduct Committee hereby makes the following allegations of professional misconduct against DELOITTE LLP, a firm registered with CPA Ontario ("Firm"):

1. THAT the said Firm, in or about the period October 1, 2016 to September 30, 2019, failed to establish, maintain, and uphold appropriate policies and procedures designed to ensure that its services are performed in accordance with generally accepted standards of practice of the profession contrary to Rule 501 of the CPA Ontario Code of Professional Conduct in that the Firm:
  - a. failed to establish and maintain a system of quality control to provide it with reasonable assurance that its audit practitioners did not backdate their signoff of the preparation and review of audit work;
  - b. failed to ensure that the Firm's audit documentation and quality control policies and procedures were adequately communicated to its audit practitioners;
  - c. failed to adequately train its audit practitioners as to the purpose of changes to its internal electronic working paper system associated with documentation of working paper sign-offs;
  - d. failed to adequately communicate with the Firm's audit leadership or lead client engagement partners whose engagements were affected by backdated audit working papers to ensure the integrity of the audit process and audit reports for those engagements;
  - e. failed to take sufficient appropriate action to identify and address potential issues of audit quality upon becoming aware that a number of its audit

practitioners were backdating their signoff of the preparation and review of audit work; and

- f. failed to adequately consider and address ethical issues arising from the deliberate circumvention of the Firm's quality control processes by its audit practitioners.

2. THAT the said Firm, in or about the period October 1, 2016 to September 30, 2019, failed to establish, maintain and uphold appropriate policies and procedures designed to ensure that, in the conduct of the practice, the members who are associated with the Firm complied with the CPA Ontario Code of Professional Conduct, contrary to Rule 502 of the CPA Ontario Code of Professional Conduct in that the Firm:

- a. failed to ensure that its audit practitioners conducted themselves in a manner which will maintain the good reputation of the profession and serve the public interest;
- b. failed to ensure that its audit practitioners performed their professional services with integrity and due care; and
- c. failed to adequately consider and address ethical issues arising from the deliberate circumvention of the Firm's quality control processes by its audit practitioners.

Dated at Toronto, Ontario this                      day of August 2022

A.J. Sokic, CPA, CA, DEPUTY CHAIR  
PROFESSIONAL CONDUCT COMMITTEE