

PCAOB Announces \$8 Million Settlement with Deloitte Brazil for Violations Including Issuing Materially False Audit Reports and 12 Individuals Also Sanctioned for Various Violations

The firm admitted to certain violations, the first admissions the PCAOB has obtained from a global network firm

WASHINGTON, Dec. 5, 2016

The Public Company Accounting Oversight Board today announced that Brazil-based Deloitte Touche Tohmatsu Auditores Independentes will pay an \$8 million civil penalty, the largest ever imposed by the PCAOB, to [settle charges](#) including issuing materially false audit reports and attempting to cover up audit violations by improperly altering documents and providing false testimony.

The PCAOB also announced sanctions against 12 former partners and other audit personnel of the firm, including certain firm leaders, for violations including noncooperation with a PCAOB inspection and subsequent investigation. A former engagement partner also was charged with causing the firm to issue materially false audit reports.

Deloitte Brazil admitted that it violated quality control standards and failed to cooperate with a PCAOB inspection and investigation, the first admissions the PCAOB has obtained from a global network firm.

"Deloitte Brazil failed in its public watchdog role to protect the interests of investors by issuing materially false audit reports," said Claudius B. Modesti, director of the PCAOB Division of Enforcement and Investigations. "The orders released today detail some of the most serious misconduct the PCAOB has ever uncovered."

The PCAOB found that Deloitte Brazil knowingly issued materially false audit reports for the 2010 financial statements and internal control over financial reporting of its client, a Brazilian airline. In advance of a 2012 PCAOB inspection, a Deloitte Brazil engagement partner, who also served as the firm's audit practice leader, directed junior personnel to alter work papers from the 2010 audit to conceal known audit deficiencies. The firm presented the improperly altered work papers, as well as other misleading documents and information, to PCAOB inspectors.

After the PCAOB began an investigation of the audit, Deloitte Brazil took additional steps to conceal its audit deficiencies and work paper alterations, with the knowledge and participation of senior firm leaders. Multiple firm partners provided false testimony under oath and made false representations to PCAOB staff about the 2010 audit in an attempt to obstruct the PCAOB investigation.

In addition to the \$8 million civil penalty, Deloitte Brazil agreed to sanctions including:

- Censure
- Undertakings to improve the firm's system of quality control
- Appointment of an independent monitor to review and assess the firm's progress toward achieving remedial benchmarks

- Immediate practice limitations, including a prohibition on accepting certain new audit work until the monitor confirms the firm's progress in achieving its remedial benchmarks
- Additional professional education and training for the firm's audit staff

"The firm leaders who participated in the misconduct not only set a tone of disregard for compliance with PCAOB rules, standards, and oversight, but also actively subverted that oversight," noted Director Modesti.

The 12 former Deloitte Brazil partners and other audit personnel sanctioned in the case included partners who held the senior leadership positions of risk and reputation leader, national professional practice director, and audit practice leader, in addition to six other partners and three other audit personnel. All but one were barred or suspended from associating with a registered public accounting firm.

The Board granted significant credit for extraordinary cooperation to one individual — a senior manager on the audit — after he reported to PCAOB staff that senior firm management was obstructing the PCAOB investigation. The Board also granted credit to two other individuals for providing substantial assistance to the investigation.

The individual respondents and their sanctions can be found in an accompanying [attachment](#).

The investigation that uncovered the misconduct and resulted in the settlements announced today originated with information obtained through the PCAOB inspection program. PCAOB enforcement staff members David Ware, Carol Der Garry, Arthur Lowry, and Pamela Woodward conducted the investigation, which was supervised by William Ryan and Marion Koenigs.

The PCAOB oversees auditors' compliance with the Sarbanes-Oxley Act, professional standards, and PCAOB and Securities and Exchange Commission rules. Further information about the [PCAOB Division of Enforcement and Investigations](#) may be found on the PCAOB website. Firms or individuals wishing to report suspected misconduct by auditors, or to self-report possible misconduct, may do so using the [PCAOB Tip & Referral Center](#).

More Information

- [Individuals named in separate orders](#)
- [All settled disciplinary orders](#)