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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

In the Matter of Deloitte & Touche S.A.S.,

Respondent.

PCAOB Release No. 105-2023-025

September 26, 2023

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

- (1) censuring Deloitte & Touche S.A.S. (“DT Colombia,” the “Firm,” or “Respondent”), a registered public accounting firm;
- (2) imposing a \$900,000 civil money penalty on the Firm; and
- (3) requiring DT Colombia to undertake and certify the completion of certain improvements to its system of quality control.

The Board is imposing these sanctions on the basis of its findings that DT Colombia violated PCAOB rules and standards, including quality control standards, in connection with the audit of the December 31, 2016 financial statements of Bancolombia S.A. (“Bancolombia” or the “Bank”).

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 Sarbanes-Oxley Act of 2002, as amended (the “Act”), and PCAOB Rule 5200(a)(1) against Respondent.

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent has submitted an Offer of Settlement (the “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 the entry of this Order as set forth below.¹

III.

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

A. Respondent

1. **Deloitte & Touche S.A.S.** is, and at all relevant times was, a limited liability corporation organized under Colombian law and headquartered in Bogotá, Colombia.² The Firm is licensed in Colombia by the Junta Central de Contadores, part of the Colombian Ministry of Commerce, Industry and Tourism, and a member of the Deloitte Touche Tohmatsu Limited global network. The Firm is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules.

B. Issuer and Other Relevant Individual

2. **Bancolombia S.A.** is a financial institution based in Medellín, Colombia. According to its public filings, Bancolombia provides a wide range of financial products and services to a diversified individual, corporate, and government customer base throughout Colombia, Latin America, and the Caribbean region. At all relevant times, Bancolombia was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

3. The “**Lead Partner**” was a DT Colombia partner who retired from the Firm in 2021. The Lead Partner served as the engagement partner on the Firm’s integrated audit of Bancolombia for the fiscal year ended December 31, 2016 (“2016 Audit”). On May 1, 2017, the Lead Partner authorized the issuance of the Firm’s unqualified opinions on Bancolombia’s 2016 consolidated financial statements and internal control over financial reporting (the “Audit Reports”).

¹ The findings herein are made pursuant to Respondent’s Offer and are not binding on any other person or entity in this or any other proceeding.

² On January 31, 2023, the Firm filed a Form 4, *Succeeding to the Registration Status of Predecessor*, with the Board, disclosing that the Firm’s form of organization had changed to a simplified joint stock corporation, and that Deloitte & Touche S.A.S. had succeeded to the registration of Deloitte & Touche Ltda.

C. Summary

4. This matter concerns DT Colombia's failure to comply with PCAOB rules and standards, including quality control standards.

5. DT Colombia's system of quality control failed to provide the Firm with reasonable assurance that its personnel complied with applicable professional standards and the Firm's standards of quality. In connection with the 2016 Audit, the Lead Partner and the engagement team failed to complete and appropriately document all necessary procedures prior to issuance of the Audit Reports. Instead, the Lead Partner and the engagement team continued to perform certain audit procedures and obtain additional audit evidence after the issuance of the Audit Reports, and, with certain exceptions, failed to appropriately document who performed the post-issuance work and the date such work was completed, as well as who reviewed the work and the date of such review, in violation of AS 1215, *Audit Documentation*.

6. These violations evidenced the failure of the Firm's policies and procedures to provide reasonable assurance that the audit work would be performed and documented in accordance with PCAOB standards. DT Colombia's monitoring procedures were also not sufficient to identify the failure of the Lead Partner and the engagement team to timely perform and appropriately document their audit work.

7. Further, DT Colombia's system of quality control did not provide the Firm with reasonable assurance that its personnel would maintain independence (in fact or appearance) in all circumstances. Specifically, the Firm's 2016 Audit engagement letter incorporated language that, contrary to the independence criteria of the U.S. Securities and Exchange Commission (the "Commission" or "SEC"), indemnified the Firm against certain types of damages. In addition, the Firm failed to timely remove individuals with known impermissible financial relationships from the 2016 Audit engagement team.

D. DT Colombia Violated PCAOB Rules and Standards

8. PCAOB rules require that a registered public accounting firm comply with the Board's quality control standards,³ which provide that a registered firm "shall have a system of quality control for its accounting and auditing practice."⁴ As part of a firm's system of quality control, "[p]olicies and procedures should be established to provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional

³ See PCAOB Rule 3400T, *Interim Quality Control Standards*.

⁴ See QC § 20.01, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

standards, regulatory requirements, and the firm’s standards of quality.”⁵ Those policies and procedures should cover “planning, performing, supervising, reviewing, [and] documenting . . . the results of each engagement.”⁶

9. PCAOB quality control standards also require that firms establish policies and procedures “to provide the firm with reasonable assurance that personnel maintain independence (in fact and in appearance) in all required circumstances”⁷ PCAOB rules require that “[a] registered public accounting firm and its associated persons must be independent of the firm’s audit client throughout the audit and professional engagement period.”⁸ This requirement includes an obligation to satisfy “the independence criteria set out in the rules and regulations of the Commission under the federal securities laws.”⁹ Under relevant independence criteria, entering into an indemnity agreement with a client impairs an auditor’s independence.¹⁰

10. PCAOB quality control standards recognize that “[t]he elements of quality control are interrelated,”¹¹ and that monitoring procedures are necessary “to provide the firm with reasonable assurance that the policies and procedures related to each of the other elements of quality control are suitably designed and are being effectively applied.”¹² Under

⁵ See *id.* at .17.

⁶ See *id.* at .18.

⁷ See *id.* at .09.

⁸ Rule 3520, *Auditor Independence*.

⁹ *Id.* at Note 1.

¹⁰ See Rule 2-01(b) of SEC Regulation S-X; see also Section A, Question 1 of the Commission’s Frequently Asked Questions on Auditor Independence Section (issued Dec. 13, 2004) (“When an accountant and his or her client, directly or through an affiliate, enter into an agreement of indemnity which seeks to provide the accountant immunity from liability for his or her own negligent acts, whether of omission or commission, the accountant is not independent. Further, including in engagement letters a clause that a registrant would release, indemnify or hold harmless from any liability and costs resulting from knowing misrepresentations by management would also impair the firm’s independence.”).

¹¹ See QC § 20.08.

¹² See *id.*; QC § 30.02, *Monitoring a CPA Firm’s Accounting and Auditing Practice*; see also QC § 20.20.

PCAOB standards, monitoring involves an ongoing consideration and evaluation of, among other things, compliance with the firm's policies and procedures.¹³

11. As set out below, DT Colombia failed to comply with PCAOB rules and standards.

i. Failures Related to Compliance with Professional Standards

12. DT Colombia's system of quality control failed to provide the Firm with reasonable assurance that its personnel complied with applicable professional standards and the Firm's standards of quality. Specifically, DT Colombia's policies did not provide reasonable assurance that Firm personnel would comply with PCAOB standards related to the performance and documentation of audits.

13. These failures were evidenced by the fact that, after issuance of the Audit Reports, the Lead Partner and the engagement team revised certain audit documentation, and performed audit procedures or obtained supporting audit evidence. This post-issuance work prior to the documentation completion date¹⁴ included performing certain audit procedures and obtaining additional evidence from the client related to revenue, interest expenses, derivatives, fair value testing, and control testing.

14. The Lead Partner and the engagement team tracked changes to the work papers after issuance in a log, referred to as the "Bitácora," that was maintained outside of the 2016 Audit file. Although the number of entries in the Bitácora exceeded 1,000, the version of the Bitácora included in the archived work papers listed just 10 entries that the Lead Partner had classified as "omitted procedures" performed after issuance. Other than for these "omitted procedures," the Lead Partner and the engagement team failed to appropriately document in the 2016 Audit file who performed the post-issuance work and the date such work was completed, as well as who reviewed the work and the date of such review, as required by AS 1215.

15. As a result of this conduct, the 2016 Audit file did not accurately reflect the timing "of the procedures performed, evidence obtained, and conclusions reached," nor allow an experienced auditor to determine "the date such work was completed" or reviewed.¹⁵ The modifications and additional work prior to the documentation completion date involved a large

¹³ See QC § 20.20.d and QC § 30.02.d.

¹⁴ See AS 1215.15 (providing a period of 45 days from the report release date for the auditor to assemble for retention a complete and final set of audit documentation).

¹⁵ See *id.* at.06.

number of work papers and engagement personnel, and evidenced that the Firm's system of quality control did not provide it with reasonable assurance that its personnel would comply with PCAOB standards.

ii. Failures in Monitoring Compliance with Professional Standards

16. DT Colombia's monitoring procedures did not provide the Firm with reasonable assurance that the Firm's policies and procedures concerning engagement performance were suitably designed and were being effectively applied.¹⁶

17. DT Colombia relied on internal inspections to monitor ongoing compliance with its policies and procedures regarding engagement performance, and the 2016 Audit was selected for internal inspection. The Firm's monitoring procedures, however, failed to comply with PCAOB quality controls standards, and, therefore, did not identify the conduct described above with respect to the 2016 Audit.

18. For example, DT Colombia's then National Professional Practice Director ("NPPD"), a senior member of the Firm with significant quality control responsibilities, inappropriately informed the Lead Partner that the 2016 Audit had been selected for internal inspection immediately after the Audit Reports had been issued. The Lead Partner then told members of the engagement team about the internal inspection prior to their assembling a complete and final set of audit documentation for the 2016 Audit, which led to some engagement team members making certain changes to the work papers prior to the internal inspection. The actions of the NPPD, a member of the Firm's quality control apparatus, frustrated the performance of an appropriate internal inspection.

19. As a result, DT Colombia's monitoring procedures did not provide reasonable assurance that the Firm's policies and procedures concerning engagement performance were suitably designed and being effectively applied, in violation of PCAOB quality control standards.¹⁷

iii. Failures in the Firm's Independence Policies and Procedures

20. DT Colombia's system of quality control also failed to provide the Firm with reasonable assurance that it and its personnel maintained independence (in fact and appearance), as evidenced by the 2016 Audit engagement.

¹⁶ See QC § 30.02.

¹⁷ See QC § 20.17-.18, .20; QC § 30.02.

21. First, for example, the Firm signed a June 30, 2016 audit engagement letter incorporating an agreement with Bancolombia that, at variance with relevant independence criteria, indemnified the Firm against certain types of damages.¹⁸ After the internal inspection identified that problematic language during its inspection of the 2016 Audit, the Firm immediately sent a letter to Bancolombia retroactively amending the 2016 engagement agreement to exclude any “indemnity granted in favor of Deloitte & Touche Ltda.”

22. Second, although DT Colombia performed procedures during the 2016 Audit to assess whether assigned personnel were independent of Bancolombia, the Firm failed to timely remove personnel from the 2016 Audit engagement while they had impermissible financial relationships with the Bank.

23. For example, a senior manager on the 2016 Audit alerted the Lead Partner and the Firm in June 2016 that he had a mortgage loan on a second home through Bancolombia, which was an impermissible financial relationship under SEC Rule 2-01(c)(1)(ii)(A).¹⁹ Despite knowing of this independence issue, the Firm failed to timely remove the senior manager, who continued working on the engagement for over six months and recorded 216 hours to the 2016 Audit. The Firm eventually removed the senior manager from the engagement team in January 2017.

24. In another example, an individual from the Firm’s risk advisory practice, who was a member of the 2016 Audit engagement team, reported that she had an uninsured brokerage account with Bancolombia on January 4, 2017,²⁰ yet the Firm did not remove her from the 2016 Audit until sometime in February 2017, by which point she had recorded over 440 hours to the engagement.

¹⁸ See *supra* footnote 10.

¹⁹ Rule 2-01(c)(1)(ii)(A) of SEC Regulation S-X provides that an accountant is not independent when a member of the engagement team or his or her immediate family has any loan to or from an audit client, subject to certain exceptions. While Rule 2-01(c)(1)(ii)(A) contains an exception for mortgage loans from a financial institution made under its normal lending procedures, terms, and requirements, the exception only applies to a mortgage loan collateralized by a primary residence and not a secondary residence.

²⁰ Rule 2-01(c)(1)(ii)(C) of SEC Regulation S-X provides that an accountant is not independent when a member of the engagement team has a brokerage account that includes assets other than cash or securities, or the value of the account exceeds SIPC insurance coverage or its non-U.S. equivalent.

25. As evidenced by this conduct, DT Colombia's system of quality control failed to provide it with reasonable assurance that it and its personnel maintained independence (in fact and appearance) in all required circumstances.²¹

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. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Deloitte & Touche S.A.S. is hereby censured.
- B. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty of \$900,000 is imposed on Deloitte & Touche S.A.S.
 1. 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.
 2. Respondent shall pay the civil money penalty within ten days of the issuance of this Order by (a) wire transfer in accordance with instructions furnished by Board staff; or (b) United States Postal Service money order, bank money order, certified check, or bank cashier's check (i) made payable to the Public Company Accounting Oversight Board, (ii) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (iii) submitted under a cover letter, which identifies Deloitte & Touche S.A.S. as a 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 Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006.
 3. If timely payment is not made, additional interest shall accrue at the federal debt collection rate set for the current quarter pursuant to 31 U.S.C. § 3717. Payments shall be applied first to post-Order interest.

²¹ See QC § 20.09.

4. With respect to any civil money penalty amounts that Respondent shall pay pursuant to this Order, Respondent shall not, directly or indirectly, (a) seek or accept reimbursement or indemnification from any source including, but not limited to, any current or former affiliated firm or professional or any payment made pursuant to any insurance policy (except Respondent may seek or accept reimbursement or indemnification of any civil money penalty amounts from self-insurance provided through a captive insurer owned by Respondent and/or other firms within the network of which Respondent is a member that provides insurance solely to Respondent and other firms within that network); (b) claim, assert, or apply for a tax deduction or tax credit in connection with any federal, state, local, or foreign tax; nor (c) seek or benefit by any offset or reduction of any award of compensatory damages, by the amount of any part of Respondent's payment of the civil money penalty pursuant to this Order, in any private action brought against Respondent based on substantially the same facts as set out in the findings in this Order.
 5. Respondent understands that failure to pay the civil money penalty described above may result in summary suspension of its registration, pursuant to PCAOB Rule 5304(a), following written notice to Respondent at the address on file with the PCAOB at the time of the issuance of this Order.
- C. Pursuant to Sections 105(c)(4)(F), (G) of the Act and PCAOB Rules 5300(a)(6), (9), the Board orders that:
1. Review by Deloitte & Touche S.A.S.: Within 90 days of the entry of this Order, Deloitte & Touche S.A.S. shall establish, revise, or supplement, as necessary, quality control policies and procedures, including monitoring procedures, to provide the Firm with reasonable assurance that its personnel and other associated persons (a) comply with PCAOB standards concerning audit documentation, audit evidence, and evaluating audit results; and (b) maintain independence in all required circumstances.
 2. Training: Within 120 days of the entry of this Order, the Firm shall ensure that all Firm audit professionals involved in the performance of PCAOB audits who are considered audit seniors, audit team leaders, managers, directors, or partners have received 20 hours of training concerning U.S. GAAP, PCAOB rules and standards, and SEC reporting requirements, rules, and regulations since January 1, 2023.

3. Certification: Within 150 days of the entry of this Order, the Firm shall provide a certification, signed by its CEO, to the Director of the PCAOB's Division of Enforcement and Investigations, stating that the Firm has complied with paragraph IV.C.1-2 above. The certification shall identify the actions undertaken to satisfy the conditions specified above (including any remedial actions taken prior to the date of this Order), provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. 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.
- D. The Firm understands that the failure to satisfy these conditions may constitute a violation of PCAOB Rule 5000 that could provide a basis for the imposition of additional sanctions in a subsequent disciplinary proceeding.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

September 26, 2023