2023 Inspection

Deloitte & Touche LLP

(Headquartered in New York, New York)

May 23, 2024

<u>THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT</u>

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

PCAOB RELEASE NO. 104-2024-077

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

EXECUTIVE SUMMARY

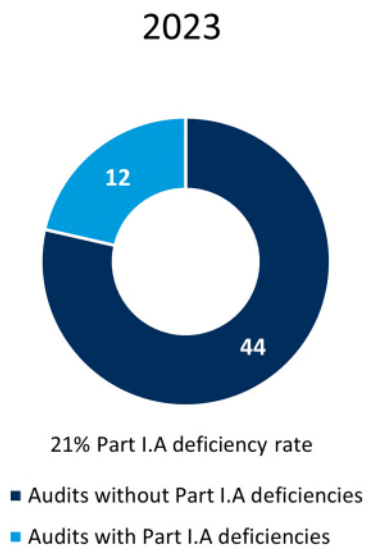
Our 2023 inspection report on Deloitte & Touche LLP provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board (PCAOB) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of what is included in this report:

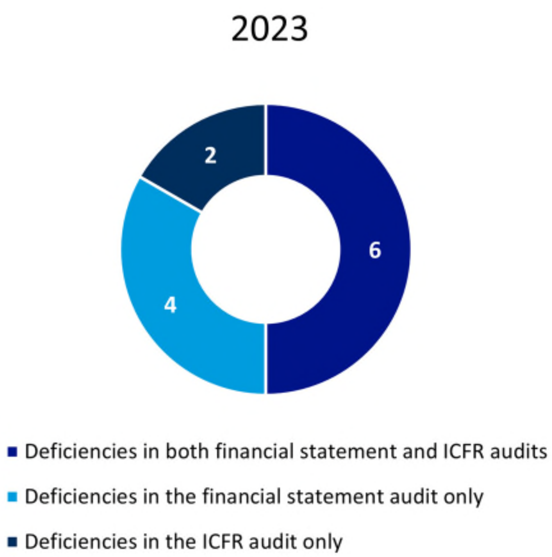
- Part I.A of the report discusses deficiencies ("Part I.A deficiencies") in certain issuer audits that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or internal control over financial reporting (ICFR).
- Part I.B of the report discusses certain deficiencies ("Part I.B deficiencies") that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.
- Part I.C of the report discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence ("Part I.C deficiencies").

If we include a Part I.A or Part I.B deficiency in this report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. If we include a Part I.C deficiency in this report, it does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. If we include a deficiency in Part I.A, Part I.B, or Part I.C of this report, it does not necessarily mean that the firm has not addressed the deficiency.

Overview of the 2023 Deficiencies Included in Part I

Twelve of the 56 audits we reviewed in 2023 are included in Part I.A of this report due to the significance of the deficiencies identified. The identified deficiencies primarily related to the firm's testing of controls over and/or substantive testing of revenue, inventory, investment securities, insurance-related liabilities, and allowance for credit losses/allowance for loan losses.





The most common Part I.A deficiencies in 2023 related to performing substantive testing to address a risk of material misstatement, testing the design or operating effectiveness of controls selected for testing, and identifying controls related to a significant account or relevant assertion.

The Part I.B deficiencies in 2023 related to retention of audit documentation, audit committee communications, audit planning, risk assessment, critical audit matters, the firm's audit report, and Form AP.

The most common Part I.C deficiencies in 2023 related to financial relationships, employment relationships, and audit committee pre-approval.

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2023 INSPECTION

In the 2023 inspection of Deloitte & Touche LLP, the PCAOB assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review 56 audits of issuers with fiscal years generally ending in 2022. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

We also selected for review one review of interim financial information ("interim review"). Our review was performed to gain a timely understanding of emerging financial reporting and auditing risks associated with issuers in the banking industry. We did not identify any instances of non-compliance with PCAOB standards related to this review.

What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2023 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.
- **Part I – Inspection Observations:**
  - **Part I.A:** Deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR.
  - **Part I.B:** Certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.
  - **Part I.C:** Instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

  Consistent with the Sarbanes-Oxley Act ("Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II.
- **Part II – Observations Related to Quality Control:** Criticisms of, or potential defects in, the firm's system of quality control. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.
- **Appendix A – Firm's Response to the Draft Inspection Report:** The firm's response to a draft of this report, excluding any portion granted confidential treatment.

2023 Inspection Approach

In selecting issuer audits for review, we use both risk-based and random methods of selection. We make the majority of our selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. We also select audits randomly to provide an element of unpredictability.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed.

Our target team performs inspection procedures in areas of current audit risk and emerging topics and focuses its reviews primarily on evaluating the firm's procedures related to that risk or topic. In 2023, our target team focused primarily on the planning and execution of multi-location audits, on audits of issuers engaged in distributed ledger technology activities, and on interim reviews of issuers in the banking industry.

For the interim reviews, similar to our approach for reviewing audits, our target team did not review every aspect of the interim review.

View the details on the scope of our inspections and our inspections procedures.

OVERVIEW OF THE 2023 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2023 inspection as well as data from the previous two inspections. We use a combination of risk-based and random methods to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from year to year and firm to firm. As a result of this variation, we caution that our inspection results are not necessarily comparable over time or among firms.

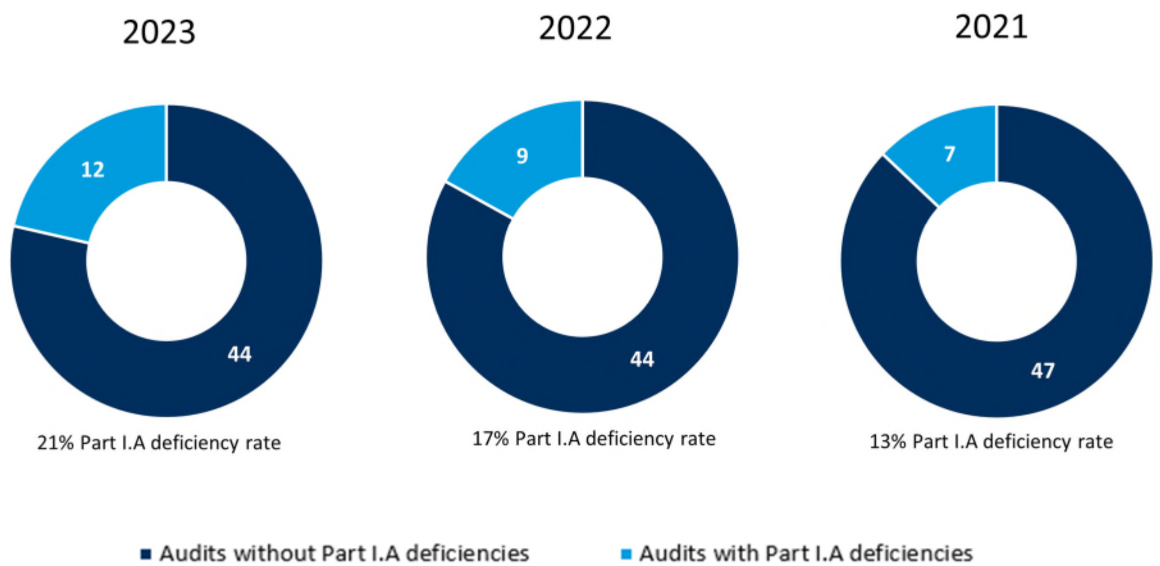
Audits Selected for Review

	2023	2022	2021
Total audits reviewed			
Total audits reviewed	56	53	54
Selection method			
Risk-based selections	42	37	25
Random selections	10	13	25
Target team selections[1]	4	3	4
Total audits reviewed	**56**	**53**	**54**
Principal auditor			
Audits in which the firm was the principal auditor	55	52	54
Audits in which the firm was not the principal auditor	1	1	0
Total audits reviewed	**56**	**53**	**54**
Audit type			
Integrated audits of financial statements and ICFR	50	37	43
Financial statement audits only	6	16	11
Total audits reviewed	**56**	**53**	**54**

[1] For further information on the target team's activities in 2022 and 2021, refer to those inspection reports.

Part I.A Deficiencies in Audits Reviewed

In 2023, nine of the 12 audits appearing in Part I.A were selected for review using risk-based criteria. In 2022, seven of the nine audits appearing in Part I.A were selected for review using risk-based criteria. In 2021, four of the seven audits appearing in Part I.A were selected for review using risk-based criteria.

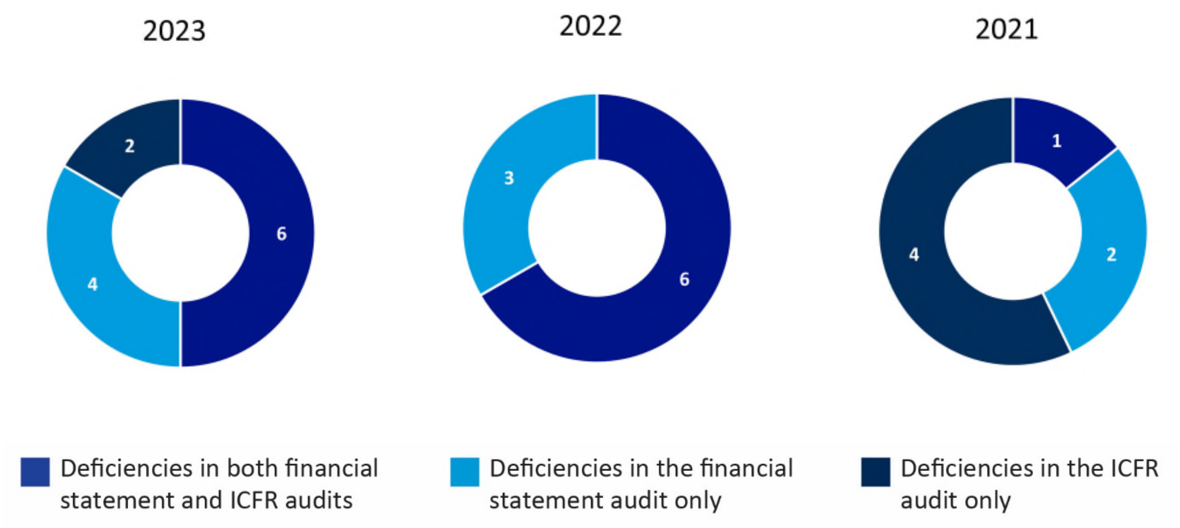


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports.

Our inspection may include a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

If we include a Part I.A or Part I.B deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer's public disclosures. We do not have direct access to the issuer's management, underlying books and records, and other information.

Audits Affected by the Deficiencies Identified in Part I.A



Our 2022 inspection procedures involved one audit for which the issuer, unrelated to our review, revised its report on ICFR and the firm revised its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

Our 2021 inspection procedures involved one audit of an issuer that was formed by a merger between a non-public operating company and a SPAC for which the issuer, unrelated to our review, restated its financial statements to correct a misstatement and the firm revised and reissued its report on the financial statements.

The following tables and graphs summarize inspection-related information, by inspection year, for 2023 and the previous two inspections. We caution against making any comparison of the data provided without reading the descriptions of the underlying deficiencies in each respective inspection report.

Most Frequently Identified Part I.A Deficiencies

Deficiencies in audits of financial statements	Audits with Part I.A deficiencies		
	2023	2022	2021
Did not perform sufficient testing related to a significant account or disclosure or to address an identified risk	5	5	1
Did not perform sufficient testing of data or reports used in the firm's substantive testing	3	1	0
Did not sufficiently test an estimate	2	2	0
Did not perform sufficient, appropriate substantive analytical procedures when used to address an identified risk	2	1	0

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2023	2022	2021
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	5	1	4
Did not identify and test any controls that addressed the risks related to a significant account or relevant assertion	4	4	1
Did not identify and/or sufficiently test controls over the accuracy and completeness of data or reports that the issuer used in the operation of controls	2	1	2

Audit Areas Most Frequently Reviewed

This table reflects the five audit areas we have selected most frequently for review in each inspection year (and the related Part I.A deficiencies). For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2023			2022			2021		
Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies
Revenue and related accounts	40	5	**Revenue and related accounts**	44	3	**Revenue and related accounts**	31	1
Inventory	20	2	**Business combinations**	18	0	**Long-lived assets**	17	0
Business combinations	14	1	**Inventory**	14	1	**Accruals and other liabilities**	14	0
Goodwill and intangible assets	12	1	**Goodwill and intangible assets**	8	0	**Goodwill and intangible assets**	13	0
Investment securities	8	2	**Long-lived assets**	6	3	**Debt**	12	0

Audit Areas with Frequent Part I.A Deficiencies

This table reflects the audit areas with the most frequently identified Part I.A deficiencies in each inspection year with the corresponding results for the other two years presented.

Audit area	2023		2022		2021	
	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed
Revenue and related accounts	5	40	3	44	1	31
Inventory	2	20	1	14	2	6
Investment securities	2	8	0	4	0	11
Insurance-related assets and liabilities, including insurance reserves	2	5	0	5	0	4
Allowance for credit losses/ Allowance for loan losses	2	4	0	2	1	3
Long-lived assets	0	3	3	6	0	17

Revenue and related accounts: The deficiencies in 2023 and 2022 primarily related to substantive testing of revenue. The deficiency in 2021 related to testing controls over revenue.

Inventory: The deficiencies in 2023, 2022, and 2021 primarily related to substantive testing of inventory and testing controls over the existence of inventory, including cycle count controls.

Investment securities: The deficiencies in 2023 primarily related to substantive testing of, and testing controls over, the valuation of investment securities.

Insurance-related assets and liabilities, including insurance reserves: The deficiencies in 2023 related to substantive testing of, and testing controls over, claims and other data used by the issuer to determine the estimated liabilities.

Allowance for credit losses/Allowance for loan losses: The deficiencies in 2023 related to substantive testing of, and testing controls over, the allowance for credit losses/allowance for loan losses. The deficiency in 2021 related to testing controls over the allowance for credit losses.

Long-lived assets: The deficiencies in 2022 related to substantive testing of, and testing controls over, long-lived assets.

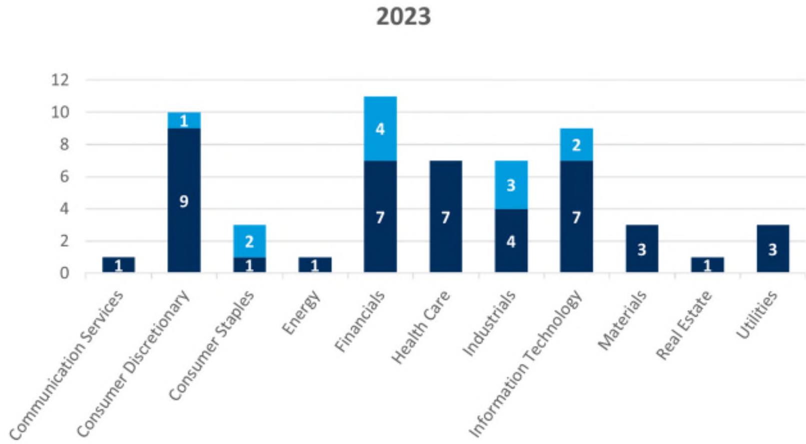
Auditing Standards Associated with Identified Part I.A Deficiencies

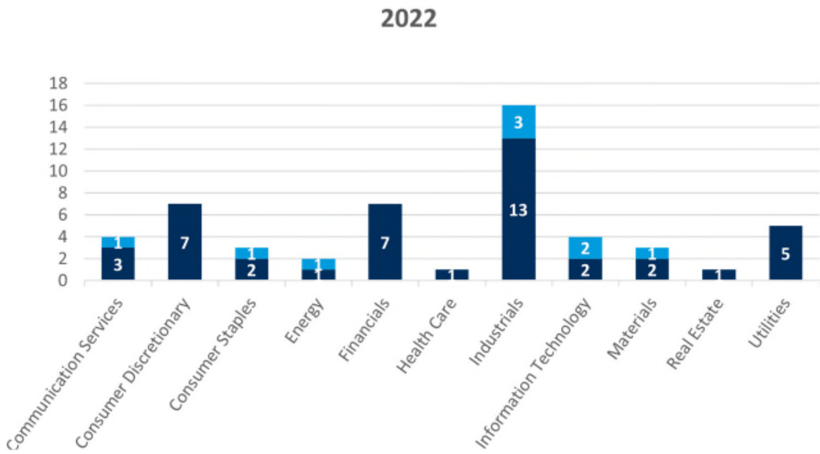
The following lists the auditing standards referenced in Part I.A of the 2023 and the previous two inspection reports, and the number of times that the standard is cited in Part I.A.

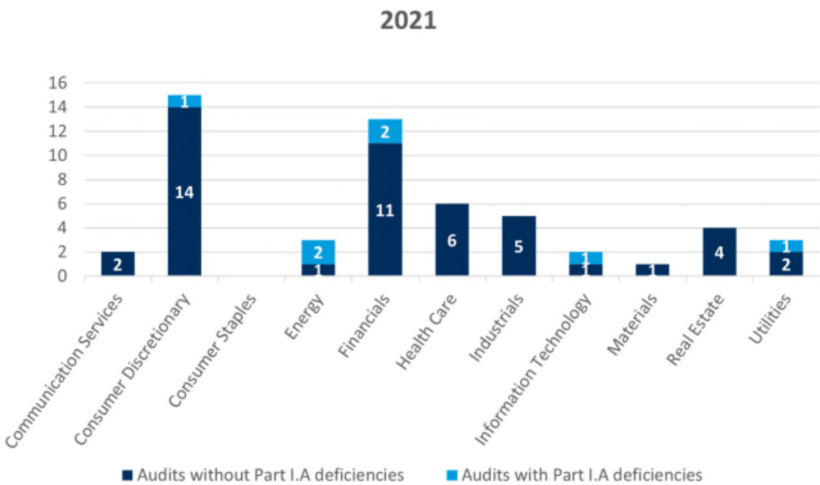
PCAOB Auditing Standards	2023	2022	2021
AS 1105, *Audit Evidence*	4	1	1
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	13	6	7
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	4	5	1
AS 2305, *Substantive Analytical Procedures*	2	1	0
AS 2315, *Audit Sampling*	1	0	0
AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*	0	0	1
AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements* (effective for fiscal years ending on or after December 15, 2020)	3	2	0
AS 2505, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*	1	0	0
AS 2510, *Auditing Inventories*	0	1	0
AS 2810, *Evaluating Audit Results*	1	0	1

Inspection Results by Issuer Industry Sector

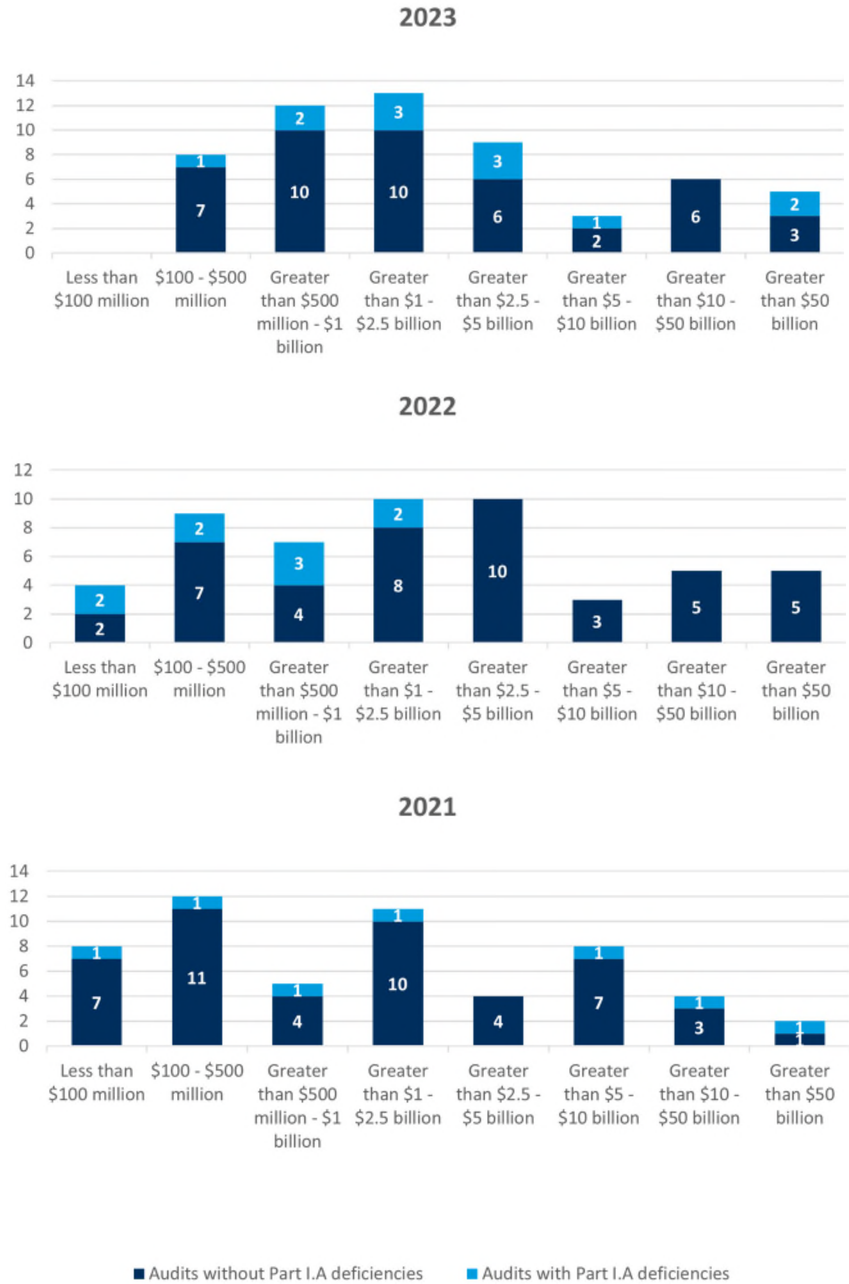
The majority of industry sector data is based on Global Industry Classification Standard (GICS) data obtained from Standard & Poor's (S&P). In instances where GICS data for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data.



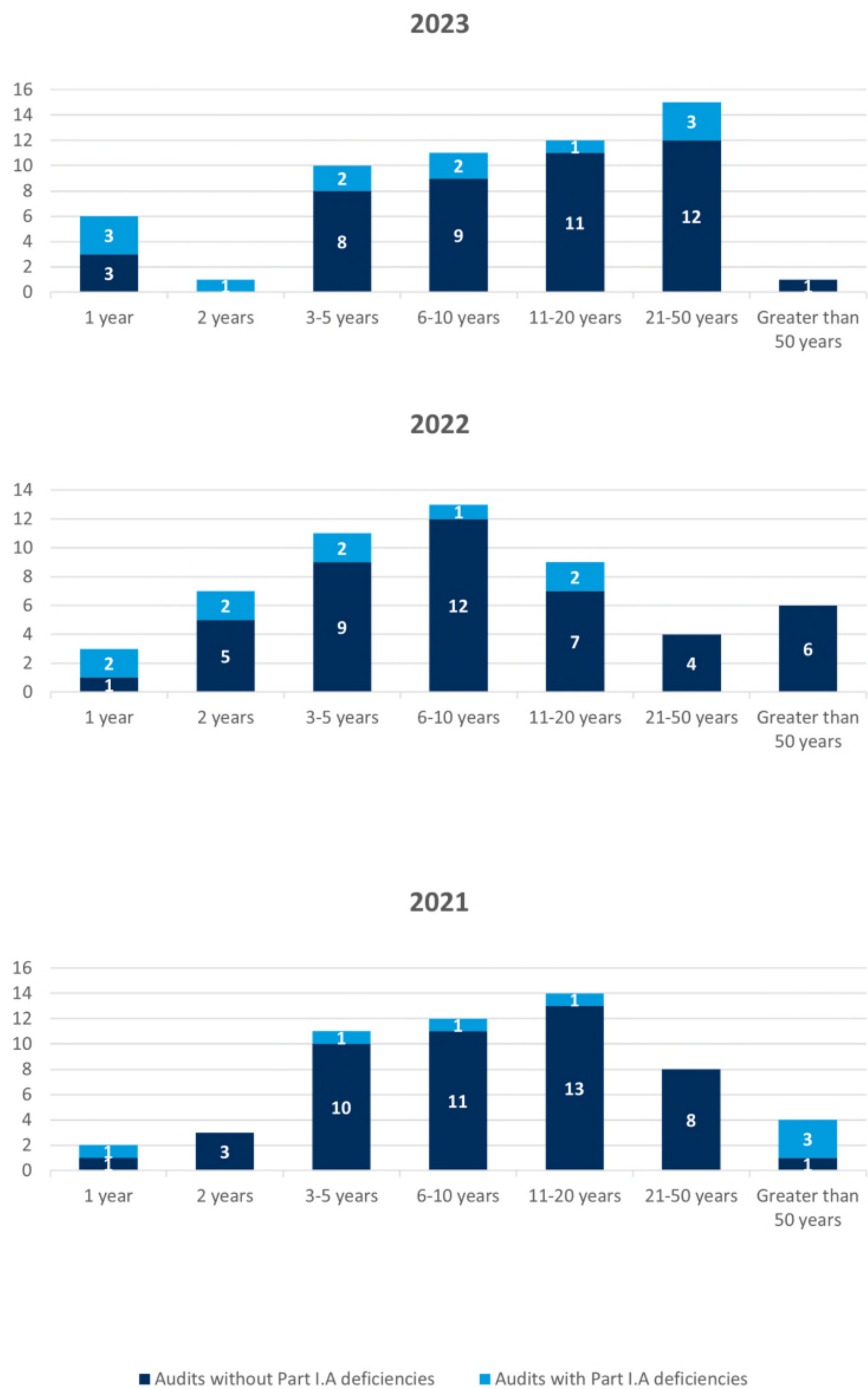




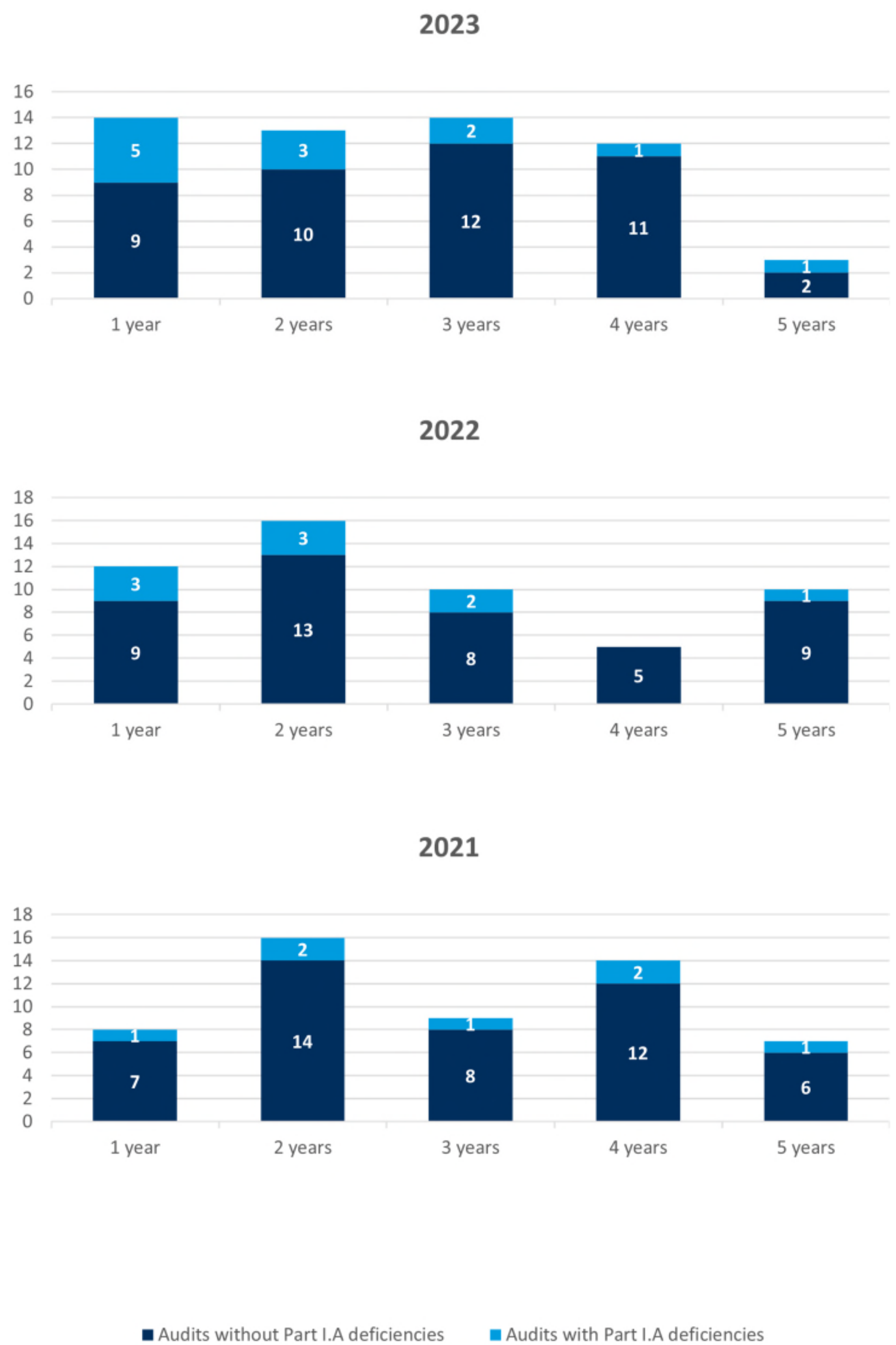
Inspection Results by Issuer Revenue Range



Inspection Results by the Firm's Tenure on the Issuer



Inspection Results by the Engagement Partner’s Tenure on the Issuer



Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or revised its report, on ICFR. This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. We include any deficiencies identified in connection with our reviews of these audits in the audits with multiple deficiencies or audits with a single deficiency classification below.

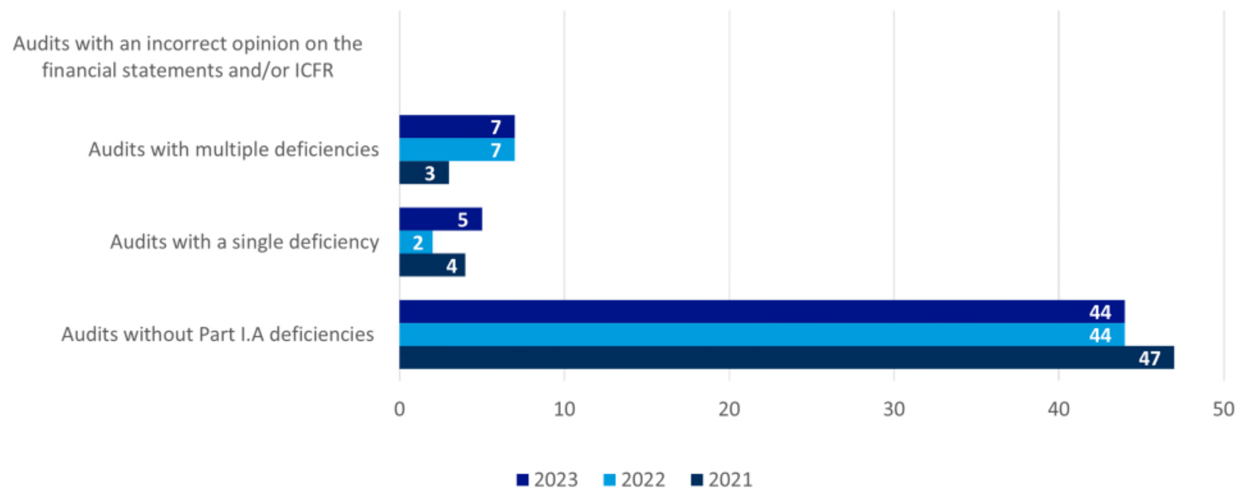
Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

Number of Audits in Each Category



PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR.

Part I.B discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Part I.C discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Consistent with the Act, it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II.

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion(s) on the issuer's financial statements and/or ICFR.

We identify each issuer by a letter (e.g., Issuer A) and industry sector. Each deficiency could relate to several auditing standards, but we reference the PCAOB standard(s) that most directly relates to the requirement with which the firm did not comply.

We present issuer audits below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies, taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

Audits with Multiple Deficiencies

Issuer A – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Business Combinations** and the **Allowance for Loan Losses (ALL)**.

Description of the deficiencies identified

With respect to **Business Combinations** and the **ALL**:

The firm's approach for substantively testing the valuation of acquired loans as of the acquisition date and at year end was to test the issuer's process. The firm did not evaluate whether the methods the issuer used to value these loans were in conformity with GAAP, including the requirements of FASB ASC Topic 310, *Receivables*, related to (1) whether the acquired assets included loans with deterioration in credit quality since origination and (2) the measurement of purchased impaired loans. (AS 2501.10)

With respect to the **ALL** at one of the issuer's subsidiaries:

The firm selected for testing a control that consisted of the issuer's review of the ALL. The firm did not identify and test any controls over the completeness of a manually prepared spreadsheet that was used in the operation of this control. (AS 2201.39)

The firm used this spreadsheet in its substantive testing of the ALL but did not perform any procedures to test, or (as discussed above) test any controls over, the completeness of this spreadsheet. (AS 1105.10)

Issuer B – Industrials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and **Goodwill**. The firm's internal inspection program had inspected this audit, reviewed these areas, and also identified the deficiencies below.

Description of the deficiencies identified

With respect to **Revenue**:

The firm's substantive procedures to test revenue at certain of the issuer's locations consisted of substantive analytical procedures. For these substantive analytical procedures, the firm developed its expectations, in part, using data derived from the recorded amounts of revenue. The firm did not evaluate whether these data were sufficiently relevant and reliable for the purpose of achieving its audit objectives. (AS 1105.04 and .06; AS 2305.16)

With respect to **Goodwill**:

For two of the issuer's reporting units, the firm selected for testing controls that consisted of the issuer's reviews of the forecasts used in its goodwill impairment analysis, including certain assumptions used in these forecasts. The firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of these assumptions. (AS 2201.42 and .44)

Issuer C – Consumer Staples

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and **Inventory**.

Description of the deficiencies identified

With respect to **Revenue**:

The firm did not perform any substantive procedures to test certain revenue. (AS 2301.08)

With respect to **Inventory**:

The issuer valued certain inventory using the last-in, first-out (LIFO) method. The following deficiencies were identified:

- The firm did not identify and test any controls over the LIFO inventory reserve. (AS 2201.39)
- The firm did not perform any substantive procedures to test the LIFO inventory reserve. (AS 2301.08)

Issuer D – Information Technology

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Investment Securities**.

Description of the deficiencies identified

The issuer recorded certain investment securities at fair value based on cash-flow models. The following deficiencies were identified:

- The firm did not identify and test any controls over these cash-flow models, including the data and assumptions the issuer used in these cash-flow models. (AS 2201.39)
- The firm did not perform any substantive procedures to test the fair value of these investment securities as of the issuer's year end. (AS 2501.07)
- The firm did not perform any substantive procedures to test certain required disclosures the issuer made under FASB ASC Topic 820, *Fair Value Measurement*. (AS 2301.08; AS 2501.07)

The issuer used a service organization for recordkeeping and processing of transactions related to certain other investment securities. The firm obtained a service auditor's report but did not assess how the controls that the service auditor tested related to the issuer's controls. Further, the firm did not perform any procedures, beyond inquiring of management, to ascertain whether there were any changes in the service organization's controls from the date of this service auditor's report, which was eight months before the issuer's year end. (AS 2201.B21, .B24, and .B25)

Issuer E – Consumer Staples

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Litigation Contingencies**, for which the firm identified a significant risk.

Description of the deficiencies identified

With respect to a significant litigation matter that was included in the issuer's contingencies disclosure, the following deficiencies were identified:

- The firm selected for testing controls that consisted of the issuer's reviews of litigation contingencies. The firm did not evaluate the specific review procedures that the control owners performed to assess the appropriateness of the accounting for and disclosure of this litigation matter, including the control owners' procedures to assess the degree of probability of an unfavorable outcome and the amount or range of potential loss. (AS 2201.42 and .44)

- The firm did not sufficiently evaluate whether the issuer's accounting for and disclosure of this litigation matter was appropriate in light of certain evidence the firm had obtained related to the probability of an unfavorable outcome and the amount or range of potential loss. (AS 2505.04; AS 2810.03)

Issuer F – Financials

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Insurance-related Liabilities**.

Description of the deficiencies identified

The issuer recorded a loss reserve for certain insurance claims that were reinsured. The following deficiencies were identified:

- The firm did not identify and test any controls that addressed whether these insurance claims were valid and in compliance with the terms of the reinsurance agreement. (AS 2201.39)

- The firm did not perform any substantive procedures to test whether these insurance claims were valid and in compliance with the terms of the reinsurance agreement. (AS 2301.08)

Issuer G – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the ICFR audit related to **Investment Securities**, the **Allowance for Credit Losses (ACL)**, and **Journal Entries**. This was the firm's initial audit of this issuer.

Description of the deficiencies identified

With respect to **Investment Securities**:

The issuer used a service organization to perform recordkeeping and pricing for its available-for-sale securities. The firm selected for testing a control that consisted of the issuer's comparison of prices this service organization used to prices that the issuer obtained from an external pricing service. The firm did not evaluate the specific review procedures that the control owners performed to determine whether items identified for follow up were appropriately resolved. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy and completeness of a system-generated report used in the operation of this control. (AS 2201.39)

With respect to the **ACL**:

The issuer assigned a risk rating to each of its commercial loans. The loan risk rating was an important input in estimating the ACL for commercial loans collectively assessed for impairment. The firm selected for testing a control that consisted of the issuer's review, for a sample of loans, of the loan risk ratings assigned to certain commercial loans. The firm did not evaluate (1) the criteria the control owners used to select loans for review and (2) whether the sample of loans that were reviewed was sufficient to address the risks of material misstatement presented by the different risk characteristics inherent in the population of these loans. (AS 2201.42) In addition, the firm did not identify and test any controls over the accuracy and completeness of certain loan information that the control owners used to select loans for review. (AS 2201.39)

With respect to **Journal Entries**:

The firm did not identify and test any controls that addressed the risk that certain types of journal entries could be posted to the issuer's general ledger system without review or approval. (AS 2201.39)

Audits with a Single Deficiency

Issuer H – Industrials

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Revenue**. This was the firm's initial audit of this issuer.

Description of the deficiency identified

The firm's substantive procedures to test certain revenue included performing substantive analytical procedures. The firm did not determine whether the expectations used in these substantive analytical procedures were based on predictable relationships. Further, the expectations the firm used were not sufficiently precise to identify differences that could be potential material misstatements, individually or in the aggregate, because the data used to develop the expectations did not address important factors that the issuer disclosed as having an effect on sales. (AS 2305.13, .14, and .17)

Issuer I – Information Technology

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Revenue**, for which the firm identified a fraud risk.

Description of the deficiency identified

The firm's substantive procedures to test certain revenue included selecting a sample of transactions for testing. The firm's sample was too small to provide sufficient appropriate audit evidence because, in determining the sample size, the firm did not take into account the allowable risk of incorrect acceptance. (AS 2315.16, .23, and .23A)

Issuer J – Industrials

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Revenue**. This was the firm's initial audit of this issuer.

Description of the deficiency identified

The issuer recognized certain revenue based on product volumes delivered to customers. The firm used volume data in its substantive testing of this revenue but did not perform any procedures to test, or test any controls over, the accuracy and completeness of these data. (AS 1105.10)

Issuer K – Financials

Type of audit and related area affected

In our review of an audit in which the firm played a role but was not the principal auditor, we identified a deficiency in the financial statement audit related to **Insurance-related Liabilities**, for which the firm identified a significant risk.

Description of the deficiency identified

The issuer used a significant assumption to estimate certain of its insurance-related liabilities. The firm did not perform any procedures to test, or test any controls over, the accuracy and completeness of certain issuer-produced data that was used to develop this significant assumption. (AS 1105.10)

Issuer L – Consumer Discretionary

Type of audit and related area affected

In our review, we identified a deficiency in the ICFR audit related to **Inventory**.

Description of the deficiency identified

The issuer performed cycle counts of certain inventory. The firm selected for testing controls that included the issuer's reviews of the cycle count results. When testing the operating effectiveness of these controls, the firm did not evaluate the specific review procedures that the control owners performed to investigate and resolve differences between the cycle counts and the quantities recorded in the issuer's inventory system. (AS 2201.44)

PART I.B: OTHER INSTANCES OF NON-COMPLIANCE WITH PCAOB STANDARDS OR RULES

This section of our report discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not reviewed and include any instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In three of 56 audits reviewed, the firm did not include all relevant work papers in the final set of audit documentation it was required to assemble. In these instances, the firm was non-compliant with AS 1215, *Audit Documentation.*
- In one of 55 audits reviewed, the firm did not make certain required communications to the audit committee related to uncorrected misstatements. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 36 audits reviewed, the firm did not perform procedures to determine whether all individuals who participated in the audit were in compliance with independence requirements. In this instance, the firm was non-compliant with AS 2101, *Audit Planning*.
- In two of 56 audits reviewed, the firm did not evaluate certain factors when determining that there were no risks of material misstatement related to certain significant accounts and disclosures. In these instances, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material* Misstatement.
- In one of 56 audits reviewed, the firm did not evaluate certain factors when determining whether certain of the identified and assessed risks of material misstatement related to a significant account were significant risks. In this instance, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In one of 44 audits reviewed, the engagement team performed procedures to determine whether or not matters were critical audit matters but, in performing those procedures, did not include a matter that was communicated to the audit committee and that related to accounts or disclosures that were material to the financial statements. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. This instance of non-compliance does not necessarily mean that other critical audit matters should have been communicated in the auditor's report.

- In three of 44 audits reviewed, the firm's communication of a critical audit matter in the audit report included language that was inconsistent with information in the firm's audit documentation. In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.
- In one of five audits reviewed, the firm's audit report did not include explanatory language about the firm's responsibilities with respect to ICFR in a non-integrated audit. In this instance, the firm was non-compliant with AS 3105, *Departures from Unqualified Opinions and Other Reporting Circumstances*.
- In one of 35 audits reviewed, the firm's report on Form AP omitted information related to the participation in the audit by an other accounting firm. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

PART I.C: INDEPENDENCE

This section of our report discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence. An instance of potential non-compliance with SEC rules or an instance of non-compliance with PCAOB rules does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. Although this section includes instances of potential non-compliance that the firm brought to our attention, there may be other instances of non-compliance with SEC or PCAOB rules related to independence that were not identified through our procedures or the firm's monitoring activities.

PCAOB-Identified

We did not identify any instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Firm-Identified

During the inspection, the firm brought to our attention that it had identified, through its independence monitoring activities, for a 10-month period, 83 instances across 50 issuers,[2] representing approximately 2% of the firm's total reported issuer audits, in which the firm or its personnel appeared to have impaired the firm's independence because it may not have complied with Rule 2-01(b) and/or 2-01(c) of Regulation S-X or PCAOB Rule 3500T related to maintaining independence. Approximately 30% of these instances of potential non-compliance involved non-U.S. associated firms.

While we have not evaluated the underlying reasons for the instances of potential non-compliance, the number, large or small, of firm-identified instances of potential non-compliance may be reflective of the size of the firm, including the number of non-U.S. associated firms in the global network; the design and effectiveness of the firm's independence monitoring activities; and the size and/or complexity of the issuers it audits, including the number of affiliates of the issuer. Therefore, we caution against making any comparison of these firm-identified instances of potential non-compliance across firms.

The most common instances of potential non-compliance related to financial relationships, employment relationships, and audit committee pre-approval:

- The firm reported 43 instances of potential non-compliance with Rule 2-01(c)(1) of Regulation S-X regarding financial relationships, all but three of which occurred at the firm or involved its personnel. Of these 43 instances, 40 related to investments in audit clients, 23 of which involved a member of an engagement team and 10 of which were instances where a partner in the same office as the engagement partner for an issuer had a financial relationship with that issuer. Of the 40 instances related to investments in audit clients, 23 instances related to investments in broad-based funds.

- The firm reported 13 instances of potential non-compliance with Rule 2-01(c)(2) of Regulation S-X regarding employment relationships. Of these instances, nine related to employees of the firm

[2] The firm-identified instances of potential non-compliance do not necessarily relate to the issuer audits that we selected for review.

who were also employed by an audit client, the majority of whom were staff-level employees of the firm. Four instances related to a former employee of the firm who was employed at an audit client in an accounting or financial reporting oversight role.

- The firm reported six instances of potential non-compliance with Rule 2-01(c)(7) of Regulation S-X regarding audit committee pre-approval, four of which related to services provided by non-U.S. associated firms. These instances primarily related to audit and tax services provided without the firm obtaining audit committee pre-approval.

The firm has reported to us that it has evaluated these instances of potential non-compliance and determined in all instances that its objectivity and impartiality were not impaired. The firm also reported to us that it communicated these instances to the issuers' audit committees as required by PCAOB Rule 3526.

PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

We include deficiencies in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

This report does not reflect changes or improvements to the firm's system of quality control that the firm may have made subsequent to the period covered by our inspection. The Board does consider such changes or improvements in assessing whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, we will make public any such deficiency.

APPENDIX A: FIRM'S RESPONSE TO THE DRAFT INSPECTION REPORT

Pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the firm provided a written response to a draft of this report. Pursuant to Section 104(f) of the Act and PCAOB Rule 4007(b), the firm's response, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available.

In addition, pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

Deloitte.

30 Rockefeller Plaza
New York, NY 10112
USA

April 11, 2024

Ms. Christine Gunia
Acting Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006

Re: Deloitte & Touche LLP – Response to Part I of Draft Report on 2023 Inspection (PUBLIC)

Dear Ms. Gunia:

Deloitte & Touche LLP is pleased to submit this response to Part I of the Public Company Accounting Oversight Board's (the PCAOB) draft report on the 2023 Inspection of Deloitte & Touche LLP (the Draft Report). We believe that the PCAOB's inspection process serves an important role in improving audit quality and serving investors and the public interest. We are committed to our shared objective to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

We have evaluated the matters identified by the PCAOB's inspection team for each of the issuer audits described in Part I of the Draft Report and have taken actions as appropriate in accordance with PCAOB standards to comply with our professional responsibilities under AS 2901, *Consideration of Omitted Procedures After the Report Date,* and AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*.

Our ability to protect investors and enable the capital markets is based in large measure on our steadfast commitment to integrity and ethical behavior. As described in our US Audit Quality Report, quality informs every aspect of our Audit & Assurance business and is the bedrock of our strategy. Our pursuit of audit quality is at the center of our culture of continuous improvement. In order to drive continuous improvements, we are digitizing the audit, transforming the way we work, and fostering the development of our people, to fulfill our role of providing high-quality audit and assurance services to the capital markets. Our quality is underpinned by a strong system of quality control that has been even further enhanced by the implementation of International Standard on Quality Management (ISQM) 1. We are confident that our ongoing transformation, inclusive of the investments we are making in our audit and assurance processes, our people, and our technology, is resulting in significant, sustainable enhancements to our audit quality.

Sincerely,

Dipti S Gulati

Dipti S. Gulati
Chair and Chief Executive Officer
Deloitte & Touche LLP

Jason M. Girzadas

Jason M. Girzadas
Chief Executive Officer
Deloitte