2023 Inspection Deloitte LLP

(Headquartered in Toronto, Canada)

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PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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2023 INSPECTION

In the 2023 inspection of Deloitte LLP, the Public Company Accounting Oversight Board (PCAOB) assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies. Our inspection was conducted in cooperation with the Canadian Public Accountability Board.

We selected for review five audits of issuers with fiscal years 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.

2023 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make 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. In certain situations, we may select all of the firm's issuer audits for review.

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 necessarily 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 or of all of the audit procedures performed for the audits reviewed.

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 inspection. We use a risk-based method 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 inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

Firm Data and Audits Selected for Review

	2023	2021
Firm data		
Total issuer audit clients in which the firm was the principal auditor	37	35
Total issuer audits in which the firm was not the principal auditor	62	24
Total engagement partners on issuer audit work[1]	44	41
Audits reviewed		
Total audits reviewed[2]	5	5
Audits in which the firm was the principal auditor	4	4
Audits in which the firm was not the principal auditor	1	1
Integrated audits of financial statements and internal control over financial reporting (ICFR)	4	4
Audits with Part I.A deficiencies	1	1
Percentage of audits with Part I.A deficiencies	20%	20%

[1] The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201, *Supervision of the Audit Engagement*) or for the firm's role in an issuer audit during the twelve-month period preceding the outset of the inspection.

[2] The population from which audits are selected for review includes both audits for which the firm was the principal auditor and those where the firm was not the principal auditor but played a role in the audit.

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 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.

Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2023 inspection and the previous inspection. 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		2021	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Revenue and related accounts	4	**Revenue and related accounts**	3
Long-lived assets	3	**Long-lived assets**	2
Use of other auditors	1	**Inventory**	2
Business combinations	1	**Business combinations**	1
Investment securities	1	**Investment securities**	1

PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, (1) 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]or (2) in audit(s) in which it was not the principal auditor, had not obtained sufficient appropriate audit evidence to fulfill the objectives of its role in the audit.

Part I.B discusses certain deficiencies, if any, 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) or fulfill the objectives of its role in the audit(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, if any, 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. 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.

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.

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). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard 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

Type of audit and related area affected

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

Description of the deficiencies identified

The firm's approach for substantively testing certain revenue was to test the issuer's process. To substantively test this revenue, the firm performed tests of details over a sample of revenue transactions, including recalculating the revenue and deferred revenue for the selected transactions. The following deficiencies were identified:

- The firm did not perform procedures to test, or test any controls over, the accuracy and completeness of certain information it used to substantively test the revenue transactions. (AS 1105.10)

- The firm did not perform sufficient procedures to evaluate whether the revenue transactions were recorded in the proper period because it did not consider the appropriateness of the delivery dates used to recognize the revenue. (AS 2301.08 and .13)

- The firm did not compare the recalculated revenue and deferred revenue to the issuer's general ledger for the revenue transactions selected for testing. (AS 2301.08 and .13)

- The firm did not evaluate the reasonableness of a significant assumption used to estimate the amount of revenue to recognize. (AS 2501.16)

Audits with a Single Deficiency

None

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) or fulfill the objectives of its role in the audit(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 one audit reviewed, the firm did not exercise due professional care when planning and performing the audit because it 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 1015, *Due Professional Care in the Performance of Work*.

- In one of four audits reviewed, the firm did not make a required communication to the audit committee related to corrected misstatements. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In four of four 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 these instances, the firm was non-compliant with AS 2101, *Audit Planning*.

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, 13 instances across seven issuers,[3] 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) or Rule 2-01(c) of Regulation S-X or PCAOB Rule 3521 related to maintaining independence. Approximately 46% of these instances of potential non-compliance involved 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 any associated firms; 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 those issuers. Therefore, we caution against making any comparison of these firm-identified instances of potential non-compliance across firms.

The instances of potential non-compliance related to financial relationships, non-audit services, contingent fees, audit committee pre-approval, and indemnification clauses in engagement letters:

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

- The firm reported five instances of potential non-compliance with Rule 2-01(c)(1) of Regulation S-X regarding financial relationships, one of which occurred at the firm or involved its personnel. Of these instances, three related to investments in audit clients and two related to other financial relationships with an audit client. All of these instances related to a member of an engagement team.

- The firm reported two instances of potential non-compliance with Rule 2-01(c)(4) of Regulation S-X regarding non-audit services that the firm determined to be prohibited.

- The firm reported one instance of potential non-compliance with Rule 2-01(c)(5) of Regulation S-X and PCAOB Rule 3521 regarding non-audit services that the firm determined to be prohibited. This instance related to a service provided by the firm on a contingent fee basis for a company that was a subsidiary of an issuer.

- The firm reported three instances of potential non-compliance with Rule 2-01(c)(7) of Regulation S-X regarding audit committee pre-approval.

- The firm reported two instances of potential non-compliance regarding indemnification clauses that appear to be inconsistent with the general standard of independence set out in Rule 2-01(b) of Regulation S-X. These instances related to an associated firm including clauses in its 2020 and 2021 engagement letters with a subsidiary of an issuer audit client that may have resulted in the subsidiary agreeing to indemnify the associated firm with respect to certain liabilities for the audits.

The firm has reported to us that it has evaluated the instances of potential non-compliance for issuer audit clients in which the firm was the principal auditor and determined in all instances that its objectivity and impartiality were not impaired. In addition, the firm reported to us that it has communicated the remaining instances of potential non-compliance to the respective principal auditor and that the principal auditor determined in all instances that its objectivity and impartiality were not impaired. The firm also reported to us that, where applicable, it has communicated all of these instances to the issuers' audit committees in accordance with 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.

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March 18, 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 LLP – Response to Part I of the Draft Report on 2023 Inspection (PUBLIC)

Dear Ms. Gunia,

Deloitte LLP ("Deloitte" or the "Firm") is pleased to submit this response to the draft Report on the 2023 Inspection of the Firm (the Draft Report) of the Public Company Accounting Oversight Board (the PCAOB or the Board). We believe that the PCAOB's inspection process serves an important role in the achievement of our shared objectives of improving audit quality and serving investors and the public interest. We are committed to continuing to work with the PCAOB to further strengthen trust in the integrity of the independent audit.

We have evaluated the matters identified by the Board's inspection team for each of the issuer audit described in Part I.A 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*.

We have evaluated the matters identified by the Board's inspection team for the issuer audits described in Part I.B of the Draft Report and have taken actions, where appropriate, in accordance with PCAOB standards and our policies.

We acknowledge the independence matters described in Part I.C of the Draft Report and note that these matters were disclosed by the Firm during the inspection and were identified as part of our robust system of quality control. In each instance, the matter was evaluated and appropriate actions, including communication with and obtaining the concurrence of the audit committee, were taken in concluding that there was no impact to integrity, objectivity, impartiality and professional skepticism. Independence is a cornerstone of the audit profession, and we are committed to maintaining compliance with relevant rules and requirements.

Executing high quality audits is our number one priority. We are dedicated to continuous improvement at all levels of our organization and unwavering in our efforts to enhance quality at every step in the audit process. In order to drive continuous improvements in quality, 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 continues to be enhanced by the implementation of Canadian Standard on Quality Management (CSQM) 1. We are confident that our ongoing digital transformation, inclusive of the investments we are making in our audit and assurance processes, our people, and our technology, are resulting in significant, sustainable enhancements to our audit quality.

We also would like to recognize the efforts and cooperation of the Canadian Public Accountability Board during the inspection process.

Sincerely,

Matthew Welchinski
Deloitte LLP