

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 95938 / September 29, 2022

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 4342 / September 29, 2022

ADMINISTRATIVE PROCEEDING
File No. 3-21178

In the Matter of

**DELOITTE TOUCHE
TOHMATSU CERTIFIED
PUBLIC ACCOUNTANTS,
LLP**

Respondent.

**ORDER INSTITUTING PUBLIC
ADMINISTRATIVE AND CEASE-AND-
DESIST PROCEEDINGS PURSUANT
TO SECTIONS 4C AND 21C OF THE
SECURITIES EXCHANGE ACT OF 1934
AND RULE 102(e) OF THE
COMMISSION'S RULES OF
PRACTICE, MAKING FINDINGS, AND
IMPOSING REMEDIAL SANCTIONS
AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted against Deloitte Touche Tohmatsu Certified Public Accountants, LLP (“Deloitte-China” or “Respondent”) pursuant to Sections 4C¹ and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) and Rules 102(e)(1)(ii) and 102(e)(1)(iii) of the Commission’s Rules of Practice.²

¹ Section 4C provides, in relevant part, that:

The Commission may censure any person, or deny, temporarily or permanently, to any person the privilege of appearing or practicing before the Commission in any way, if that person is found . . . (1) not to possess the requisite qualifications to represent others; (2) to be lacking in character or integrity, or to have engaged in unethical or improper professional conduct; or (3) to have willfully violated, or willfully aided and abetted the violation of, any provision of the securities laws or the rules and regulations issued thereunder.

² Rule 102(e)(1)(ii) provides, in pertinent part, that:

The Commission may . . . deny, temporarily or permanently, the privilege of appearing or practicing before it . . . to any person who is found . . . to be lacking in character or integrity or to have engaged in unethical or improper professional conduct.

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Public Administrative and Cease-and-Desist Proceedings Pursuant to Sections 4C and 21C of the Securities Exchange Act of 1934 and Rule 102(e) of the Commission’s Rules of Practice, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds³ that:

SUMMARY

1. This matter involves failures to comply with fundamental U.S. auditing requirements by Deloitte-China audit personnel. In failing to perform certain basic tasks required by professional standards, Deloitte-China audit personnel failed to meet their obligations to their clients, as well as to investors, whose confidence in the integrity of public company audits is vital to the proper functioning of our capital markets.

2. An integral component of public company audits is inspecting and assessing the support for entries in clients’ general ledgers to ensure those transactions were appropriately recorded. Completing this work is essential for an auditor to credibly opine on whether clients’ financial statements fairly present, in all material respects, the clients’ financial position and whether their internal control over financial reporting (ICFR) is effective.

3. In numerous instances, however, Deloitte-China audit personnel failed to perform audit procedures as required. This occurred in two ways.

4. First, engagement teams improperly concluded that certain client account balances and transactions were appropriately recorded without obtaining, or in some cases documenting that they obtained, supporting audit evidence. Deloitte-China audit personnel were required to document the work they performed to review the support for their clients’ balances and transactions. This documentation would show that the engagement teams had conducted the

Rule 102(e)(1)(iii) provides, in pertinent part, that:

The Commission may . . . deny, temporarily or permanently, the privilege of appearing or practicing before it . . . to any person who is found . . . to have willfully violated, or willfully aided and abetted the violation of any provision of the Federal securities laws or the rules and regulations thereunder.

³ 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.

necessary testing. In various audits, engagement teams asked their clients to complete this required documentation instead. This created the appearance that the Deloitte-China audit personnel had conducted the necessary testing when there was no evidence in the audit file that they had in fact done so.

5. Second, Deloitte-China audit personnel on certain audits failed to select and test samples properly. When sampling, auditors are required to do so using their own professional judgment. Deloitte-China audit personnel on these audits failed in their responsibility to select these samples. Instead, they asked the clients to select samples for testing. This fundamentally flawed practice defeated the purpose of audit sampling by creating the risk that clients could strategically choose only supported samples, thereby impairing the reliability of the testing.

6. And on certain audits, Deloitte-China audit personnel asked clients *both* to select samples of balances and transactions for testing *and* to prepare documentation purporting to support the required testing of those samples. The inclusion of that documentation in the audit workpapers created the appearance that the engagement teams had inspected and assessed the supporting evidence for those items when the audit file did not evidence that they had in fact done so.

7. Deloitte-China engagement partners and senior members of the impacted audit engagement teams failed to appropriately supervise the audit personnel who engaged in these inappropriate practices. The improper audit procedures described above demonstrate deficiencies in Deloitte-China's system of quality control over PCAOB engagements to provide reasonable assurance that the work performed by engagement personnel meets applicable U.S. professional standards.

8. Deloitte-China conducted an investigation that identified the audit failures described in this Order in multiple engagements that it reviewed. Of the engagements included in that review, Deloitte-China found the deficiencies described in this Order in nine component audits conducted for Deloitte-U.S. and in three audits of foreign private issuers for which Deloitte-China was the principal auditor.

9. These practices violated numerous elementary auditing standards of the Public Company Accounting Oversight Board ("PCAOB") and created a significant threat to U.S. investors, who rely on the opinions of independent auditors in making investment decisions.⁴ Deloitte & Touche LLP, the U.S.-based audit firm that engaged Deloitte-China to audit its clients' Chinese operations, relied on these deficient "component audits" in issuing its audit opinions. Deloitte-China is also the principal independent auditor for various foreign private issuers whose securities are registered on U.S. exchanges and who include Deloitte-China's audit opinions in their filings with the Commission. In all the impacted audit engagements, Deloitte-

⁴ "The SEC requires the filing of audited financial statements in order to obviate the fear of loss from reliance on inaccurate information, thereby encouraging public investment in the Nation's industries." *U.S. v. Arthur Young*, 465 U.S. 805, 819 (1984).

China incorrectly asserted that it had complied with PCAOB standards when it had not, threatening the reliability of the resulting audit opinions.⁵

RESPONDENT

10. **Deloitte Touche Tohmatsu Certified Public Accountants, LLP (“Deloitte-China”)** is an accounting firm registered in Shanghai, China. Referred to in the People’s Republic of China as “Deloitte Hua Yong,” Deloitte-China is an affiliate of a member of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“Deloitte-Global”) and part of the Deloitte network of firms. Deloitte-China is registered with the PCAOB. Among other things, Deloitte-China provides audit services upon which Deloitte & Touche LLP (“Deloitte-U.S.”) relies in connection with the audits of certain U.S. issuers that conduct business in China and is the independent auditor to various foreign private issuers whose securities are registered on U.S. exchanges (“FPIs”).

FACTS

Deloitte-China’s Role in the Audits of U.S. Registrants

11. Deloitte-U.S. is the independent auditor for various U.S. issuers that conduct business in China. For some of these clients, Deloitte-U.S. has concluded that it is necessary to audit the clients’ operations in China in order to issue its audit opinions. Deloitte-U.S. engages Deloitte-China to conduct this audit work. In doing so, Deloitte-U.S. instructs Deloitte-China on the audit scope and procedures to be performed.

12. Deloitte-U.S. expressly requires Deloitte-China to perform this work in accordance with PCAOB standards. This is because Deloitte-U.S. relies on the results of these “component audits” to opine on whether its clients’ financial statements are fairly presented in all material respects in accordance with U.S. Generally Accepted Accounting Principles and, where applicable, whether its clients’ ICFR is effective.

13. Separately, Deloitte-China is the principal independent auditor for various FPIs whose securities are listed on U.S. exchanges. In this role, Deloitte-China assumes responsibility for the entire audit and issues its own audit opinions on the FPIs’ financial statements and, when applicable, on the effectiveness of the FPIs’ ICFR. Deloitte-China is required to perform these audits in accordance with PCAOB standards. These FPIs file Deloitte-China’s audit opinions with their annual reports on Form 20-F.

14. In both its component audits and its audits of FPIs, Deloitte-China asserts that it has conducted its testing in accordance with PCAOB standards. As described below, for multiple U.S. issuers and FPIs, these assertions were not accurate.

Deloitte-China’s Deficient Audit Procedures

⁵ After learning of the audit problems described herein, Deloitte-China, at times working with Deloitte-U.S. as the principal auditor, remediated and re-performed the deficient and incomplete testing and did not identify any material errors or significant control deficiencies.

15. Among other things, PCAOB standards require auditors to exercise due professional care and skepticism in conducting their audit work,⁶ obtain sufficient appropriate evidence to support their audit opinions,⁷ and prepare appropriate audit documentation to support the work performed.⁸ When auditors select samples of account balances and transactions to test, PCAOB standards require them to select those samples using their own independent professional judgment and in a way that the sample can be expected to be representative of the population as a whole (i.e. without any bias).⁹ Auditors should¹⁰ also comply with professional standards relating to supervision, and audit firms must establish and maintain appropriate systems of quality control.¹¹

16. To assess the propriety of entries in clients' general ledgers, Deloitte-China audit personnel were required to inspect and assess supporting evidence for those entries. In numerous audits, however, there is no evidence in the audit workpapers that Deloitte-China did so. Indeed, during Deloitte-China's investigation of this matter, some audit personnel acknowledged that they did not review the supporting documentation.

17. Instead, Deloitte-China audit personnel asked clients to complete documentation that the engagement teams were required to prepare to show they had inspected and assessed the support for the general ledger entries. Engagement teams included this documentation in the firm's workpapers as though it had been prepared by Deloitte-China personnel.

18. Based on the information provided by its impacted clients, these engagement teams concluded that the clients' balances and transactions for the relevant accounts were not materially misstated when there is no reliable evidence in the audit workpapers that the engagement teams knew whether those balances were materially misstated or not.

19. In addition, Deloitte-China audit personnel violated the PCAOB standard that requires auditors to select audit samples using their own independent professional judgment. As is customary in PCAOB audits, Deloitte-China often selects and tests samples of client account balances and transactions, rather than testing all items within the relevant populations. This is

⁶ See AS 1015 (Due Professional Care in the Performance of Work).

⁷ See AS 1105 (Audit Evidence).

⁸ See AS 1215 (Audit Documentation).

⁹ See AS 2315 (Audit Sampling).

¹⁰ As used in PCAOB Rules, "the word 'should' indicates responsibilities that are presumptively mandatory. The auditor must comply with requirements of this type ... unless the auditor demonstrates that alternative actions he or she followed in the circumstances were sufficient to achieve the objectives of the standard." PCAOB Rule 3101. "Failure to discharge a presumptively mandatory responsibility is a violation of the relevant standard and Rule 3100 unless the auditor demonstrates that, in the circumstances, compliance with the specified responsibility was not necessary to achieve the objectives of the standard." *Id.*

¹¹ See AS 1201 (Supervision of the Audit Engagement) and QC 20 (System of Quality Control).

consistent with PCAOB standards. However, on certain impacted audits, rather than using the firm's independent professional judgment to select samples, Deloitte-China audit personnel asked employees of the companies they were auditing to select the samples to be tested.

20. This fundamentally flawed audit practice defeated the very purpose of sample testing because it created a risk that clients could avoid selection of account balances and transactions that may have been improperly recorded, and instead select samples the clients believed to be supported.

21. On certain audits, Deloitte-China audit personnel violated PCAOB standards in both ways: they asked client employees (i) to select samples of balances and transactions for testing, and (ii) to complete the documentation the audit teams were required to prepare to show they had performed the required tests.

22. These practices undermined the purpose of an independent audit and threatened the reliability of the resulting audit opinions.

23. The failures of Deloitte-China audit personnel on impacted audits to comply with PCAOB standards involved multiple audit areas, and involved the testing of various accounts on clients' balance sheets and income statements, as well as clients' ICFR, including their control for ensuring compliance with the Foreign Corrupt Practices Act.

24. In these impacted audits, Deloitte-China's senior engagement team members failed to properly supervise the conduct of junior audit personnel. Senior audit staff failed to properly evaluate whether the audit work was actually performed, and whether the firm had evidence sufficient to provide reasonable assurance for its audit conclusions.

25. Deloitte-China audit personnel engaged in these improper practices in both component audits it conducted for Deloitte-U.S., as well as in audits of FPIs for which Deloitte-China was the principal auditor.

26. Deloitte-China's quality control policies and procedures did not provide reasonable assurance that its audits were conducted in accordance with PCAOB standards as demonstrated by the improper practices described above. For example, Deloitte-China did not have in place sufficient policies and procedures to ensure that audits were adequately staffed with professionals who were properly trained in PCAOB standards, and that engagement teams had sufficient resources to complete the audit work they were required to do in the time frames demanded of them. The failure to establish and maintain adequate policies and procedures in such fundamental areas left Deloitte-China without reasonable assurance that its audits were being conducted in accordance with PCAOB standards.

Example of Deloitte-China’s Deficient Audit Procedures on a Component Audit

27. In connection with its fiscal year 2018 audit of a U.S. issuer (Client A), Deloitte-U.S. instructed Deloitte-China to test certain account balances at Client A’s China business. Deloitte-U.S. also instructed Deloitte-China to test Client A’s ICFR in China. Deloitte-U.S. instructed Deloitte-China to conduct this testing in accordance with PCAOB standards, and Deloitte-China agreed to do so.

28. In this component audit alone, Deloitte-China audit personnel asked Client A employees on at least twenty-one separate occasions to complete audit procedures that Deloitte-China was itself obligated to perform. This involved eighteen different accounts of Client A, including testing for sales; cash and cash equivalents; accounts receivable; inventory; accounts payable; cost of sales; and selling, general and administrative expenses.

29. For example, in January 2019, Deloitte-China’s Auditor-in-Charge¹² for this engagement emailed an excel spreadsheet to Client A in connection with the firm’s testing of fixed assets, asking the client to provide detailed information about fixed asset sales and purchases. The spreadsheet included instructions to provide the voucher numbers, invoice numbers and disposal dates of three samples – which Deloitte-China had not selected – of fixed assets that Client A no longer held. The spreadsheet also included instructions to provide certain detailed information regarding fixed asset purchases. One week later, Client A returned the spreadsheet to Deloitte-China with samples the client had selected and the requested information regarding three fixed asset disposals and purchases.

30. There is no evidence, however, that anyone on the Deloitte-China engagement team assessed whether any of the information that Client A provided in the spreadsheet was accurate. Nevertheless, the final workpapers related to the audit work included this information from Client A.

31. The improper conduct on this engagement involved both junior and senior audit staff. Supervisory members of the audit team – including audit managers and the Auditor-in-Charge – were copied on some of the improper requests. Although the managers claimed they expected the junior staff to review the supporting documents, neither the managers nor anyone else on the engagement properly evaluated whether the required audit work had, in fact, been performed, and whether the firm had support for its audit conclusions. The failure of senior engagement team members to properly supervise junior auditors’ work in this example is representative of Deloitte-China’s approach in the deficient engagements.

32. The Auditor-in-Charge confirmed that staff sent spreadsheets for clients to complete without performing the required audit procedures themselves. She attributed this improper practice to tight deadlines and insufficient staff for an audit of that size. She believed managers were aware and had approved of the practice. However, neither the managers nor the Auditor-in-Charge raised these issues to the engagement partner.

¹² “Auditor-in-Charge” is a Deloitte-China term for the audit staff member with at least three years of experience who coordinates the work of more junior audit staff members, under the supervision of managers and partners on the engagement.

33. Deloitte-China issued a “clearance memorandum” to Deloitte-U.S. in February 2019. The clearance memorandum incorrectly asserted that Deloitte-China had conducted its testing in accordance with PCAOB standards despite the improper audit procedures described above.¹³

Example of Deloitte-China’s Deficient Audit Procedures on a FPI Audit

34. Deloitte-China was engaged as the principal auditor to perform the fiscal year 2018 audit of both the financial statements and ICFR of a China-based FPI (Client B). In connection with this audit, Deloitte-China failed to conduct required audit procedures on at least eight occasions across twelve audit areas.

35. For example, Deloitte-China’s audit plan required the engagement team to test a sample of large bank transactions as part of the firm’s testing of significant non-recurring items. In October 2018, a Deloitte-China Senior¹⁴ on the engagement team sent several Client B employees a list of outstanding items required in connection with the audit, including a blank spreadsheet called “Q3 large bank transaction[s],” which was intended to document the firm’s work to test a sample of those transactions. The October 2018 email was copied to three additional members of the engagement team, including the Auditor-in-Charge and another Deloitte-China Senior.

36. The Deloitte-China Senior asked the Client B employees to complete the spreadsheet by selecting their own sample of bank transactions over five million Chinese Yuan Renminbi, and then, for each transaction they selected, filling in various data fields, including bank name, transaction date, and credit or debit amount.

37. After Deloitte-China sent additional outstanding item lists with the same blank spreadsheet attached, in November 2018 a Client B employee sent an email to a member of the Deloitte-China engagement team attaching a completed copy of the spreadsheet that included fifteen large bank transactions and related information in the previously blank data fields in the spreadsheet.

38. There is no evidence in the audit workpapers, however, that anyone on the Deloitte-China engagement team ever obtained or reviewed the source documents supporting the information Client B provided, or otherwise assessed whether that information supported the entries.

39. The fifteen large bank transactions selected by Client B were used in the final Deloitte-China work papers.

40. As with the audit of Client A described above, a Manager on the audit and the Auditor-in-Charge explained the use of the deficient audit procedures by stating that the

¹³ After learning of the audit problems described above, Deloitte-China worked with Deloitte-U.S., as the principal auditors, in connection with the re-performance of the deficient testing. No material errors or significant control deficiencies in the financial statements were identified as a result of this work.

¹⁴ Deloitte-China auditors follow a career progression from Associate to Senior to Manager to Partner.

engagement team did not have sufficient resources to complete the audit properly. The Auditor-in-Charge admitted that the engagement team’s conduct was inappropriate, and impaired the integrity of the testing. The supervisory personnel on the audit failed to properly evaluate whether the required audit work had, in fact, been performed, and whether the firm had support for its audit conclusions.

41. Despite these and other audit failings, Deloitte-China issued an audit report for Client B incorrectly attesting that it had conducted this audit in accordance with PCAOB standards despite the improper audit procedures described above.¹⁵

VIOLATIONS

42. AS 1015 (Due Professional Care in the Performance of Work) requires auditors to conduct their audit work with reasonable care and diligence, and to exercise professional skepticism — an attitude that includes a questioning mind and a critical assessment of audit evidence. Deloitte-China violated AS 1015 by failing to conduct independent testing of client accounts and transactions.

43. AS 1105 (Audit Evidence) requires auditors to “perform audit procedures to obtain sufficient appropriate audit evidence” and specifies that “the auditor should determine the means of selecting items for testing to obtain evidence that, in combination with other relevant evidence, is sufficient to meet the objective of the audit procedure.” Deloitte-China violated AS 1105 by failing to obtain appropriate audit evidence sufficient to support the opinions expressed in its audit reports.

44. AS 1215 (Audit Documentation) requires auditors to document the procedures performed, evidence obtained, and conclusions reached with respect to relevant financial statement assertions. Audit documentation must “clearly demonstrate that the work was in fact performed.” Deloitte-China violated AS 1215 by failing to maintain written records establishing that its audit personnel had performed the testing they were required to complete in support of the firm’s audit opinions.

45. AS 2201 (Integrated Internal Control and Financial Statement Audit) requires that, when an auditor conducts an audit of an issuer’s ICFR, the auditor must “plan and perform the audit to obtain appropriate evidence that is sufficient to obtain reasonable assurance about whether material weaknesses exist as of the date specified in management’s assessment.” Deloitte-China violated AS 2201 by failing to obtain appropriate evidence sufficient to obtain reasonable assurance about the existence of material weaknesses in impacted issuers’ ICFR.

46. AS 2315 (Audit Sampling) requires auditors to “use professional judgment in planning, performing, and evaluating a sample.” Where an auditor is unable to apply the planned audit procedures because supporting documentation is missing, AS 2315 outlines specific steps the auditor should take to address the impact of the missing documentation. In this case,

¹⁵ After learning of the audit problems described above, Deloitte-China re-performed the deficient and incomplete testing from the fiscal year 2018 audit of Client B. Deloitte-China did not identify any material errors or significant control deficiencies as a result of the re-performed work.

Deloitte-China violated AS 2315 by failing to independently select and evaluate audit samples. In addition, in at least one instance, where audit documentation was missing, Deloitte-China improperly had the client substitute other audit samples, instead of evaluating the impact of the missing documentation on the audit.

47. AS 1201 (Supervision of the Audit Engagement) requires auditors to supervise the work of engagement team members so that the work is performed as directed and supports the conclusions reached. Deloitte-China violated AS 1201 when partners and other supervisory staff on the deficient audits failed to supervise the work of engagement team members sufficiently to ensure the work required was properly performed and supported the conclusions reached.

48. PCAOB Quality Control Standards require an audit firm to effectively design, implement, and maintain a system of quality control for the firm's accounting and auditing practice. QC 20.01. A system of quality control is "broadly defined as a process to provide the firm with reasonable assurance that its personnel comply with applicable professional standards and the firm's standards of quality." QC 20.03. The quality control practices and procedures relevant to a firm's auditing practice include hiring, assigning personnel with appropriate technical training and proficiency to engagements, professional education and development, and engagement performance. QC 20.13 and 20.17.

49. Deloitte-China violated QC 20 by failing to establish policies and procedures sufficient to provide reasonable assurance that the work required to be performed by audit personnel met applicable professional standards and regulatory requirements. Among other things, Deloitte-China's personnel management policies and procedures failed to ensure audit staffing at sufficient levels of seniority to allow audit personnel on impacted audits to complete the audit work in a timely and competent manner. Moreover, certain of Deloitte-China's policies and procedures for PCAOB audits relating to engagement performance failed to provide reasonable assurance that the work performed by the audit teams would satisfy the applicable professional standards in their component audits and FPI audits.

50. Rule 2-02(b)(1) of Regulation S-X requires an accountant's report to state "the applicable professional standards under which the audit was conducted." An auditor violates Regulation S-X Rule 2-02(b)(1) when it issues a report stating that it has conducted its audit in accordance with PCAOB standards when it has not. In its audit opinions issued for FPIs, Deloitte-China willfully¹⁶ violated Regulation S-X Rule 2-02(b)(1) when it issued audit opinions for impacted audits stating that it had conducted its audits in accordance with PCAOB standards when in fact it had not.

¹⁶ "Willfully," for purposes of imposing relief under Exchange Act Section 4C and Rule 102(e) of the Commission's Rules of Practice "means no more than that the person charged with the duty knows what he is doing." *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)) (holding that "willfulness" does not require a knowing violation of the law). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Tager v. SEC*, 344 F.2d 5, 8 (2d Cir. 1965).

FINDINGS

51. Based on the foregoing, the Commission finds that Deloitte-China engaged in improper professional conduct pursuant to Exchange Act Section 4C(a)(2) and Rule 102(e)(1)(ii) of the Commission's Rules of Practice.

52. Based on the foregoing, the Commission finds that Deloitte-China willfully violated Regulation S-X Rule 2-02(b)(1) pursuant to Exchange Act Section 4C(a)(3) and Rule 102(e)(1)(iii).

COOPERATION AND REMEDIAL EFFORTS

53. In determining whether to accept the Offer, the Commission considered Deloitte-China's cooperation and remedial efforts. Deloitte-China cooperated extensively with the Commission staff. After Deloitte-China became aware of allegations of misconduct, it conducted an investigation through an international law firm that identified certain violative conduct and informed the PCAOB of the conduct. After the Commission learned of the matter through the PCAOB, Deloitte-China provided the Commission staff with prompt updates of its findings throughout its investigation. Deloitte-China notified impacted audit clients. The firm's audit personnel, at times working with Deloitte-U.S., re-performed the deficient testing it had found and did not identify any material errors or significant control deficiencies. Deloitte-China has also undertaken significant remedial efforts to improve its audit practice, including instituting enhanced procedures to improve the quality of its audits, its workload and personnel management, and its monitoring and communications of auditing standards.

54. The Commission also considered Deloitte-China's ongoing remedial efforts to assess the improvements the firm has made to its audit practice and to determine whether additional improvements to its policies and procedures relating to compliance with PCAOB auditing standards are warranted. In connection with these efforts, Deloitte-China is participating in an independent review of its policies and procedures that is being monitored by Deloitte-Global. Deloitte-China has committed to adopting, as soon as practicable, all of the recommendations arising from this independent review. Deloitte-China has committed to developing and implementing a plan, approved and overseen by Deloitte-Global, to address any deficiencies in its policies and procedures related to Deloitte-China's system of quality control, and will certify, through its Chief Executive Officer, to Deloitte-Global that it has adopted all of the recommendations from this independent review. Deloitte-China has committed, thereafter, to participating in three annual reviews overseen by Deloitte-Global to determine whether its policies and procedures are adequate and sufficient to provide reasonable assurance of compliance with all PCAOB auditing standards identified in this Order. Deloitte-China has committed to documenting these reviews and its improvements in reports certified by its Chief Executive Officer to Deloitte-Global that describe the nature and scope of the reviews; the Chief Executive Officer's review and evaluation of the firm's assessment and testing process; and whether, based on belief and after reasonable inquiry, the Chief Executive Officer believes that Deloitte-China's policies and procedures are adequate and sufficient to provide reasonable assurance of compliance with PCAOB auditing standards. Based on the findings of each of these annual reviews, Deloitte-China has committed to developing and implementing plans, approved

and monitored by Deloitte-Global, to address any deficiencies in its policies and procedures related to Deloitte-China's system of quality control.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED that:

- A. Deloitte-China shall cease and desist from committing or causing any violations and any future violations of Rule 2-02(b)(1) of Regulation S-X.
- B. Deloitte-China be, and hereby is, censured.
- C. For the next 36 months, each Deloitte-China audit professional serving U.S. public company audit clients shall complete a minimum of 16 training hours annually in topics covering all of the professional standards described in paragraphs 42 to 49 above in addition to any required continuing professional education credits. For audit professionals with supervisory responsibilities over such professionals, the training shall, in addition, include 8 training hours annually over the same 36-month period in topics covering paragraph 47 above.
- D. Deloitte-China shall complete all remedial efforts identified in paragraph 54.
- E. Respondent shall, within 60 days of the entry of this Order, pay a civil money penalty in the amount of \$20,000,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, interest shall accrue pursuant to 31 U.S.C. § 3717.

Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Deloitte Touche Tohmatsu Certified Public Accountants, LLP as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Melissa Hodgman, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549.

F. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary