



ORDER

consents to entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order") as set forth below.¹

III.

On the basis of Respondent's Offer, the Board finds² that:

A. Respondent

1. José Domingos do Prado, 53, is a former partner at Deloitte Touche Tohmatsu Auditores Independentes ("Deloitte Brazil" or "Firm"). Prado was the lead engagement partner on Deloitte Brazil's audits and reviews of Gol Linhas Aéreas Inteligentes S.A., also known as Gol Intelligent Airlines, Inc. ("Gol" or "Company"), for 2009 through 2011, and was a partner on the Gol engagement for 2012 and 2013. He was also the engagement quality reviewer for certain audits and reviews of another Firm issuer client ("Issuer 2"). Prado served as a member of the Policy Committee, the governing board of the Firm, from February 23, 2010 through March 24, 2011. From February 23, 2011 through August 7, 2014, Prado was Audit Practice Leader of the Firm, and in that capacity also served on the Executive Committee. Prado stepped down as Audit Practice Leader on August 8, 2014 due to the pendency of the PCAOB investigation but continued to serve as Regions Leader and a member of the Executive Committee through October 31, 2015. On or about October 31, 2015, Prado was removed from the Executive Committee and placed on administrative leave due to his participation in the improper alteration of Gol work papers described herein, and on March 28, 2016, he separated from the Firm. At all relevant times, Prado was an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i). Prado is currently affiliated with another PCAOB-registered public accounting firm in Brazil.

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

² The Board finds that Respondent's conduct described in this Order meets the condition set out in Section 105(c)(5)(A) of the Act, which provides that certain sanctions may be imposed in the event of intentional or knowing conduct, including reckless conduct, that results in violation of the applicable statutory, regulatory, or professional standard.



ORDER

B. Other Relevant Persons and Entities

2. Deloitte Touche Tohmatsu Auditores Independentes is a partnership organized under the laws of Brazil, and is headquartered in São Paulo, Brazil. The Firm registered with the Board on June 2, 2004, pursuant to Section 102 of the Act and PCAOB rules.³

3. Gol Linhas Aéreas Inteligentes S.A., a/k/a Gol Intelligent Airlines, Inc., is a Brazil corporation headquartered in São Paulo, Brazil. Its common stock is listed on the BM&F Bovespa exchange in Brazil and its American Depositary Shares are listed on the New York Stock Exchange under the symbol "GOL." At all relevant times, Gol was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). Deloitte Brazil served as the external auditor for Gol for the fiscal years ended December 31, 2009 through December 31, 2013, after which the Firm rotated off the Gol engagement pursuant to Brazilian audit firm rotation requirements.

4. "Senior Partner 2" is a partner of Deloitte Brazil. At all relevant times, Senior Partner 2 held a leadership position in the Firm's Audit function.⁴

5. "Senior Partner 3" is a partner of Deloitte Brazil. At all relevant times, Senior Partner 3 held multiple senior leadership positions at the Firm, including at certain relevant times a position on the Policy Committee. By virtue of his specific leadership positions, Senior Partner 3 was one of the Firm partners most responsible for ensuring the compliance by Firm personnel with ethical and regulatory requirements.⁵

6. The "Gol Senior Manager" is a partner of Deloitte Brazil. The Gol Senior Manager was a senior manager for the Firm's audit of Gol's financial statements and ICFR for the year ended December 31, 2010.⁶

7. The "GIOS Managers" were at all relevant times two senior managers in the Global IFRS and Offering Services ("GIOS") group within the Deloitte entities in

³ See *Deloitte Touche Tohmatsu Auditores Independentes*, PCAOB Rel. No. 105-2016-031 (Dec. 5, 2016).

⁴ See *Wanderley Olivetti*, PCAOB Rel. No. 105-2016-034 (Dec. 5, 2016).

⁵ See *Maurício Pires de Andrade Resende*, PCAOB Rel. No. 105-2016-033 (Dec. 5, 2016).

⁶ See *André Ricardo Aguillar Paulon*, PCAOB Rel. No. 105-2016-035 (Dec. 5, 2016).



ORDER

Brazil.⁷

8. "Issuer 2" is an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). Deloitte Brazil served as the external auditor for Issuer 2 for fiscal year 2010, among others.

9. The "Issuer 2 Partner" is a partner of Deloitte Brazil, and was a partner on the Firm's audit of Issuer 2's financial statements and ICFR for fiscal year 2010.⁸

C. Summary

10. This matter concerns Prado's abdication of his responsibilities as a partner and leader of Deloitte Brazil. By engaging in intentional and reckless wrongdoing, Prado himself violated a number of PCAOB rules and standards, and he also directly and substantially contributed to Deloitte Brazil's violation of federal securities laws as well as PCAOB rules and standards.

11. For fiscal years 2009 through 2011, Prado served as the engagement partner for Deloitte Brazil's audits and reviews of Gol. In that capacity, Prado authorized the issuance of unqualified audit reports concerning Gol's 2010 financial statements and internal control over financial reporting ("ICFR"). As Prado knew, those reports falsely stated that Deloitte Brazil had conducted the audit of Gol's 2010 financial statements and ICFR ("2010 Gol Audit") in accordance with PCAOB standards. Prado's violations of PCAOB standards during that audit included the failure to exercise due professional care and professional skepticism and the failure to obtain sufficient competent audit evidence concerning Gol's "maintenance deposit" assets, passenger revenue, and advance ticket sales. In light of his knowledge of significant unresolved problems with those accounts, Prado's authorization to issue the unqualified reports directly and substantially contributed to the Firm's commission of securities fraud.

12. In March and April 2012, the PCAOB Division of Registration and Inspections ("Inspections") performed primary field work procedures for an inspection of Deloitte Brazil. The audits inspected included the 2010 Gol Audit and the 2010 audit of Issuer 2, an issuer client for which Prado had served as engagement quality reviewer ("Issuer 2 Audit"). In advance of the inspection, Prado directed the Gol Senior Manager that he and certain other Firm personnel should improperly alter numerous 2010 Gol

⁷ See *Joao Rafael Belo de Araujo Filho*, PCAOB Rel. No. 105-2016-037 (Dec. 5, 2016); *Leonardo Fonseca de Freitas Maia*, PCAOB Rel. No. 105-2016-038 (Dec. 5, 2016).

⁸ See *Marco Aurelio Paulino Neves*, PCAOB Rel. No. 105-2016-041 (Dec. 5, 2016).

ORDER

Audit work papers to conceal the nature of the engagement team's audit work on Gol's maintenance deposits, passenger revenue, advance ticket sales, and ICFR. Prado also made certain improper alterations to the Gol work papers himself. Additionally, in connection with the inspection, Prado approved the improper addition of documentation for the Issuer 2 Audit. Prado thereby failed to cooperate with a Board inspection and directly and substantially contributed to the Firm's failure to cooperate with the inspection.

13. After the PCAOB Division of Enforcement and Investigations ("Division") opened an investigation into the 2010 Gol Audit, Prado continued his efforts to prevent detection of the Firm's wrongdoing. Prado also provided false testimony under oath to the Division on October 5 through 9, 2015.

14. Finally, in November 2015, after the Division learned of the improper alteration of the 2010 Gol Audit work papers, it issued an Accounting Board Demand to Prado requiring him to appear again for testimony. Prado did not appear.

D. Respondent Violated Applicable PCAOB Rules and Standards in Connection with the 2010 Gol Audit, and Caused the Firm to Commit Securities Fraud

Applicable Securities Laws and PCAOB Rules and Standards

15. Section 10(b) of the Exchange Act prohibits the use of "any manipulative or deceptive device or contrivance in contravention of such rules and regulations as the [U.S. Securities and Exchange Commission ("Commission" or "SEC")] may prescribe as necessary or appropriate in the public interest or for the protection of investors."⁹ In implementing that section, the Commission has prohibited the making of "any untrue statement of a material fact" or the omission of "a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading."¹⁰

16. To violate Exchange Act Section 10(b) or Exchange Act Rule 10b-5, a respondent must act with scienter,¹¹ which the Supreme Court has defined as "a mental

⁹ Exchange Act § 10(b), 78 U.S.C. § 78j(b). All references to laws, regulations, and PCAOB rules and standards are to the versions of those laws, regulations, and PCAOB rules and standards in effect at the time of the relevant conduct.

¹⁰ Exchange Act Rule 10b-5(b), 17 C.F.R. § 240.10b-5(b).

¹¹ See Aaron v. SEC, 446 U.S. 680, 695, 701-02 (1980).

ORDER

state embracing intent to deceive, manipulate, or defraud."¹² *Scienter* encompasses knowing or intentional conduct, or recklessness.¹³ An auditor violates Section 10(b) and Rule 10b-5 thereunder by issuing an audit report stating that the audit has been performed in accordance with PCAOB standards when he or she knows, or is reckless in not knowing, that the statement is false.¹⁴

17. PCAOB rules prohibit associated persons of registered public accounting firms from taking or omitting to take any action "knowing, or recklessly not knowing, that the act or omission would directly and substantially contribute to a violation by that registered public accounting firm of," among other things, the provisions of the securities laws relating to the preparation and issuance of audit reports and the Board's rules and standards.¹⁵

18. In connection with the preparation or issuance of an audit report, PCAOB rules require that registered public accounting firms and their associated persons comply with applicable auditing and related professional practice standards.¹⁶ Among other things, those standards require that an auditor express an opinion concerning an issuer's financial statements only when the auditor has performed the audit in compliance with PCAOB standards.¹⁷

19. PCAOB standards also require that auditors exercise due professional care and professional skepticism, and plan and perform audit procedures to obtain sufficient competent evidential matter to provide a reasonable basis for the audit

¹² *Ernst & Ernst v. Hochfelder*, 425 U.S. 185, 193 n.12 (1976).

¹³ *See, e.g., IIT v. Cornfeld*, 619 F.2d 909, 923 (2d Cir. 1980).

¹⁴ *See Eugene M. Egeberg III, CPA*, Exchange Act Rel. No. 71348, at *7-9 (Jan. 17, 2014); *Hood & Associates CPAs, P.C.*, PCAOB Rel. No. 105-2013-012, at *16-17 (Nov. 21, 2013); *Harris F Rattray CPA, PL*, PCAOB Rel. No. 105-2013-009, at *4-5 (Nov. 21, 2013); *Richard P. Scalzo, CPA*, Exchange Act Rel. No. 48328, 2003 WL 21938985, at *14 (Aug. 13, 2003).

¹⁵ PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*.

¹⁶ *See* PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Interim Auditing Standards*.

¹⁷ *See* AU § 508.07, *Reports on Audited Financial Statements*.

ORDER

report.¹⁸ While that evidential matter can include management representations, such representations "are not a substitute for the application of those auditing procedures necessary to afford a reasonable basis for an opinion regarding the financial statements under audit."¹⁹

20. PCAOB standards also establish requirements for auditors who audit, and express an opinion regarding, an issuer's ICFR.²⁰ Among other things, "the auditor must plan and perform the audit to obtain competent evidence that is sufficient to obtain reasonable assurance about whether material weaknesses exist" in the issuer's internal control as of the date specified in management's internal control assessment.²¹ PCAOB standards provide that "a company's internal control cannot be considered effective if one or more material weaknesses exist."²² In order to obtain reasonable assurance about whether a material weakness exists, the auditor must evaluate the severity of each control deficiency that is identified during the audit "to determine whether the deficiencies, individually or in combination, are material weaknesses."²³

21. PCAOB standards state that an auditor needs to consider audit risk, including control risk, to assist in determining the scope of auditing procedures.²⁴ Assessment of control risk at below the maximum level may support the auditor's decision to reduce the scope of substantive audit procedures.²⁵ If a control deficiency is identified, however, an auditor "should determine the effect of the deficiency, if any, on the nature, timing, and extent of substantive procedures to be performed."²⁶

¹⁸ See AU § 150.02, *Generally Accepted Auditing Standards*; AU § 230.01, .07 - .08, *Due Professional Care in the Performance of Work*; AU § 326.01, *Evidential Matter*.

¹⁹ AU § 333.02, *Management Representations*.

²⁰ See PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with an Audit of Financial Statements* ("AS5").

²¹ AS5 ¶ 3 (footnote omitted).

²² Id.

²³ Id. ¶ 62.

²⁴ See AU §§ 312.26 - .27, *Audit Risk and Materiality in Conducting an Audit*.

²⁵ See AU §§ 319.05, .86 - .89, .106 - .107, *Consideration of Internal Control in a Financial Statement Audit*.

²⁶ AS5 ¶ B6; see also AU § 312.33.

ORDER

22. PCAOB standards provide that "[t]he auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud."²⁷ The possibility of a material misstatement due to fraud requires the auditor to exercise professional skepticism when gathering and evaluating audit evidence, and to engage in "an ongoing questioning of whether the information and evidence obtained suggests that a material misstatement due to fraud has occurred."²⁸

23. PCAOB standards direct that identified fraud risks be taken into account when conducting an audit, including (a) in the auditor's consideration of management's selection and application of significant accounting principles, and (b) in assessing the nature, timing, and extent of the procedures to be performed, including whether controls over revenue recognition are required to be tested.²⁹ Those standards also state that, when planning the audit, an auditor "should ordinarily presume that there is a risk of material misstatement due to fraud relating to revenue recognition."³⁰

24. PCAOB standards also state that an auditor's "assessment of the risks of material misstatement due to fraud should be ongoing throughout the audit."³¹ Among the indications of potential fraud that may arise during an audit are "[t]ransactions that are not recorded in a complete or timely manner or are improperly recorded as to amount, accounting period, classification, or entity policy"; "unsupported or unauthorized balances or transactions"; and "significant unexplained items on reconciliations."³²

25. Additionally, under PCAOB standards, if an auditor identifies misstatements in the financial statements, the auditor should consider whether those misstatements are indicative of fraud; if fraud may be present, the auditor should perform certain additional procedures, even if the misstatements do not appear to be material to the financial statements.³³

²⁷ AU § 316.01, *Consideration of Fraud in a Financial Statement Audit*.

²⁸ Id. § 316.13.

²⁹ See id. §§ 316.48, .50 - .54.

³⁰ Id. § 316.41.

³¹ See id. § 316.68.

³² See id.

³³ See id. §§ 316.75 - .78.

ORDER

Overview of the 2010 Gol Audit

26. During the relevant time period, Gol operated an airline that offered service primarily in Brazil but also to certain other countries in the Americas. Deloitte Brazil became the external auditor for Gol during the second quarter of 2009. The Firm issued audit reports expressing unqualified opinions on Gol's financial statements and ICFR for both 2009 and 2010, and Gol included those audit reports in Forms 20-F that it filed with the Commission for each of those years. Prado was the engagement partner for the Firm's audits in each of those years.

27. The 2010 Gol Audit was conducted as an integrated audit of Gol's financial statements and its ICFR. Prado set planning materiality for the 2010 Gol Audit at 54.6 million Brazilian reais ("R\$") (US\$32.8 million).³⁴

Prado Improperly Acquiesced in Gol's Accounting for its Maintenance Deposit Assets

28. During the 2010 Gol Audit, Prado violated numerous PCAOB standards in connection with his audit work on Gol's maintenance deposit assets. Among other violations, Prado failed to exercise due professional care and professional skepticism and failed to obtain sufficient competent audit evidence to support Gol's accounting for its maintenance deposits. Prado then caused the Firm to issue unqualified opinions concerning Gol's 2010 financial statements and ICFR while knowing that these material failures had occurred.

29. As part of its operations, Gol leased aircraft and engines. In connection with these leases, Gol deposited monies with the lessor to be used in future aircraft and engine maintenance work. Gol reported these monies as maintenance deposit assets. For the years ended December 31, 2009 and 2010, Gol reported maintenance deposits of R\$522.7 million and R\$456.7 million, respectively, which amounted to 6 percent and 5 percent of Gol's total reported assets for those respective years.³⁵

30. During the 2009 audit of Gol, Prado concluded that Gol had failed to appropriately track its use of maintenance deposits on a contract-by-contract basis, thereby preventing the Firm from obtaining sufficient competent evidence to support

³⁴ Amounts provided in U.S. dollars relating to the 2010 Gol Audit are based on the exchange rate at December 31, 2010 of approximately R\$1 = US\$0.60. As of November 30, 2016, the exchange rate was approximately R\$1 = US\$0.30.

³⁵ Certain amounts in this Order are rounded, which may affect the outcome of described calculations.



ORDER

Gol's reported 2009 maintenance deposits. Prado was also on notice that Gol's reported maintenance deposit assets may have been overstated and that its ICFR may not have been operating effectively at year-end 2009. Based on Gol's representation that it intended to hire a consultant to analyze its maintenance deposit records during 2010, however, Prado acquiesced in the Company's accounting and caused Deloitte Brazil to issue audit reports expressing unqualified opinions on Gol's financial statements and ICFR for 2009.

31. During the reviews of Gol's quarterly financial statements for 2010, Prado monitored Gol's progress in both quantifying the amount of maintenance deposits that were unsupported and writing down those deposits. Prado understood, however, that Gol was treating those write-downs as current period expenses despite the fact that most of the unsupported deposits related to prior periods.

32. During the 2010 Gol Audit, Prado understood that Gol still planned to report R\$52.6 million (US\$31.6 million) of unsupported maintenance deposits related to aircraft and equipment already returned to lessors as assets on its 2010 balance sheet. Prado further understood that Gol planned to improperly spread its write-off of that remaining R\$52.6 million of unsupported maintenance deposits over its quarterly financial statements in 2011.

33. During the 2010 Gol Audit, Prado failed to obtain sufficient competent audit evidence concerning either the R\$52.6 of remaining unsupported maintenance deposits (which represented 14 percent of reported pre-tax income) or the amounts written off during 2010 as current year expenses (which totaled R\$116.5 million, or 30 percent of reported pre-tax income). Prado also: (a) failed to consider whether the misstatements in Gol's accounting for its maintenance deposits were indicative of fraud; (b) failed to assess the materiality to Gol's 2010 financial statements of either the R\$52.6 million in unsupported deposits or the amounts written off in 2010 that he understood to represent prior-year expenses; and (c) failed to evaluate controls over Gol's accounting for its maintenance deposits, including whether there was a deficiency in its ICFR, and whether that deficiency, individually or in combination with other deficiencies, represented a material weakness. Instead, Prado knowingly acquiesced in Gol's unsupported reporting of both expenses and a potentially material amount of assets.

Prado Failed to Obtain Sufficient Evidence Concerning Gol's Reported Advance Ticket Sales and Passenger Revenue

34. During the 2010 Gol Audit, Prado also violated numerous PCAOB standards in connection with Gol's reported passenger revenue and its advance ticket sales liability. Among other violations, Prado failed to exercise due professional care

ORDER

and professional skepticism and failed to obtain sufficient competent evidence concerning Gol's accounting for and controls over passenger revenue and advance ticket sales.

35. Gol's financial statements included two related accounts, passenger revenue and advance ticket sales. Advance ticket sales was a deferred revenue liability account that represented passenger tickets sold for future travel dates. Gol reduced the advance ticket sales liability and recorded passenger revenue either when transportation was provided or when an unused ticket expired. In its 2010 Form 20-F, Gol reported passenger revenue of R\$6.3 billion (US\$3.8 billion) and an advance ticket sales liability of R\$517 million (US\$310 million).

36. In planning the engagement team's audit procedures for passenger revenue and advance ticket sales for the 2010 Gol Audit, Prado identified both accounts as significant accounts, and concluded that a control reliance approach was appropriate as to each account, meaning that the engagement team would reduce its level of substantive testing based on a belief that the controls over those accounts were operating effectively. Additionally, Prado identified significant risks of material misstatement relating to those accounts, including: (a) for passenger revenue, the risk that revenue would not effectively correspond to embarkations made; and (b) for advance ticket sales, the risk that the estimates used by management would be incorrect. Prado planned that each risk would be addressed by both control procedures and substantive procedures.

37. Despite the instruction in PCAOB standards that an "auditor should ordinarily presume that there is a risk of material misstatement due to fraud relating to revenue recognition,"³⁶ Prado did not, during his planning of the 2010 Gol Audit, identify improper revenue recognition as presenting a risk of material misstatement due to fraud. Prado also did not document any basis for overcoming the presumption that improper revenue recognition presented a risk of material misstatement due to fraud.

38. During the 2010 Gol Audit, one of the engagement team's procedures to audit the advance ticket sales liability balance was to review a reconciliation between the advance ticket sales balance reported in Gol's accounting system and the balance reported by its separate reservation system. Prado did not, however, obtain sufficient competent evidence to support the nature or appropriateness of material adjustments and reconciling items included in that reconciliation.

³⁶

AU § 316.41.



ORDER

39. For example, the reconciliation included an adjustment that reduced the liability balance by R\$74.8 million, or 15 percent, based only on Gol management's representation that a certain subset of advance ticket sales—"interline" tickets booked by partner airlines rather than customers—were being properly excluded from the reported advance ticket sales liability. Prado failed to obtain any evidence to corroborate either (a) how the adjustment was reflected in Gol's accounting system; or (b) whether management's accounting treatment was appropriate, especially given that Gol had not made a similar adjustment for interline tickets in the prior year.

40. Even after the adjustments and reconciling items, including the "interline" adjustment described above, the reconciliation still identified a significant difference between the reservation and accounting system balances of R\$38.3 million (US\$23.0 million). That difference represented ten percent of Gol's reported pre-tax income, seven percent of its reported advance ticket sales liability, and 70 percent of the engagement team's planning materiality. Prado directed his engagement team to describe the difference in the work papers as an unexplained misstatement ("Potential Misstatement") and to document that the difference caused Gol's passenger revenue to be overstated and its advance ticket sales to be understated. Prado was aware, however, that the R\$38.3 million Potential Misstatement amount was still only a preliminary figure, and that at the time it filed its Form 20-F, Gol had not completed its analysis of the Potential Misstatement.

41. Prado proposed to Gol management that it reduce its reported 2010 revenue by the preliminary R\$38.3 million figure, and increase the advance ticket sales liability by the same amount, to reflect the Potential Misstatement. Management declined, however, stating, according to the engagement team's work papers, that it preferred to complete the analysis of the Potential Misstatement before making any adjustment. Although the team included that R\$38.3 million amount as a known misstatement in its Summary of Uncorrected Misstatements (the work paper in which the team listed and evaluated the materiality of uncorrected misstatements), Prado did not otherwise address his inability to obtain sufficient competent evidence concerning Gol's passenger revenue and advance ticket sales liability while Gol's analysis was pending.

42. Prado was aware that he was causing the Firm to issue unqualified audit reports while the analysis of the Potential Misstatement was still pending. In fact, even using the preliminary amount of R\$38.3 million, the engagement team's analysis of the identified misstatements indicated that it should consider performing additional procedures before issuing the audit reports. Prado determined, however, that the team should not perform any additional procedures.

ORDER

43. Prado's conduct of the 2010 Gol Audit was deficient in other ways related to its reported passenger revenue as well. For example, in addition to failing to identify improper revenue recognition as presenting a fraud risk (as he should have), Prado and the engagement team abandoned procedures they planned to perform that might have addressed, at least in part, that risk. For example, Prado planned that the team would test the electronic interface by which the reservation system reported to the accounting system what tickets had been used and what revenue should be recognized, yet neither he nor the team ever carried out such a test. Prado also relied to an inappropriate extent on analytical procedures to test passenger revenue, for example by relying solely on substantive analytical procedures to test revenue from credit card sales, which represented a significant portion of Gol's passenger revenue. Moreover, even the substantive analytical procedures that the team did perform indicated a potential overstatement of passenger revenue by as much as R\$76.4 million. Prado failed to take any steps to respond to the results of that procedure, including failing to evaluate whether the nature, timing, and extent of audit procedures needed to be modified.

44. The results of the engagement team's substantive procedures, including the identification of the Potential Misstatement, put Prado on notice that a significant deficiency existed in Gol's controls over passenger revenue and advance ticket sales. Additionally, a team of specialists that was engaged by the audit team to test the IT general controls and automated business process controls applicable to Gol's accounting system and reservation system identified other deficiencies. Prado failed, however, to appropriately evaluate the severity of the identified deficiencies, both individually and in the aggregate. Further, Prado failed to consider whether the results of the team's audit procedures, and the deficiencies that those procedures had identified, called into question the appropriateness of his control reliance approach to the passenger revenue and advance ticket sales accounts.

Prado Improperly Caused Deloitte Brazil to Issue Unqualified Reports on Gol's Financial Statements and ICFR, in Violation of Securities Laws and PCAOB Rules and Standards

45. On February 23, 2011, while the 2010 Gol Audit was ongoing, Prado was promoted to Audit Practice Leader of Deloitte Brazil, placing on him substantial responsibility for the culture and the tone at the top within the Firm's audit practice.

46. On April 8, 2011, Prado authorized Deloitte Brazil's issuance of two audit reports containing unqualified opinions on Gol's 2010 financial statements and ICFR. Gol included those reports in a Form 20-F that it filed with the Commission the same day. The audit reports stated that the 2010 Gol Audit had been conducted in accordance with PCAOB standards. Prado knew that those statements were materially false, given the audit deficiencies described above concerning maintenance deposits,

ORDER

advance ticket sales, passenger revenue, and ICFR. Specifically: (a) Prado knew that he had not obtained sufficient competent evidence concerning Gol's reported maintenance deposits; (b) Prado knew that he had not obtained sufficient competent evidence concerning Gol's passenger revenue and advance ticket sales; and (c) Prado knew that he had not adequately evaluated the severity of all identified control deficiencies, and had not re-evaluated his reliance on controls, or the nature and scope of his audit procedures, in light of those identified deficiencies.

47. In the face of this knowledge, Deloitte Brazil's issuance of two unqualified audit reports, which falsely stated that the 2010 Gol Audit had been conducted in accordance with PCAOB standards, violated Exchange Act Section 10(b), Exchange Act Rule 10b-5, and AU Section 508. In authorizing the issuance of those two reports, Prado knew, or was reckless in not knowing, that he was directly and substantially contributing to the Firm's commission of securities fraud and its violation of PCAOB standards. As a result, Prado violated PCAOB rule 3502.

48. During the 2010 Gol Audit, Prado also violated numerous PCAOB standards, specifically by: (a) failing to act with due professional care, including professional skepticism, and failing to obtain sufficient competent evidential matter in the procedures concerning Gol's maintenance deposits, passenger revenue, advance ticket sales, and ICFR;³⁷ (b) failing to plan and perform the audit to obtain reasonable assurance about whether one or more material weaknesses existed in Gol's ICFR;³⁸ (c) failing to adequately evaluate the severity of identified control deficiencies and to adequately determine the effect of those deficiencies on the nature, timing, and extent of the procedures to be performed;³⁹ and (d) failing to perform adequate procedures relating to fraud risks, including by failing to respond adequately to indications of fraud and failing to treat Gol's revenue recognition as presenting a risk of material misstatement due to fraud.⁴⁰

E. After the 2010 Gol Audit, Prado Became Aware of a New Accounting Treatment for the Potential Misstatement

49. Months after issuing Deloitte Brazil's unqualified audit reports concerning Gol's 2010 financial statements and ICFR, members of the Firm, including Prado, belatedly became aware of a provision in the accounting literature that they believed

³⁷ See AU § 150.02; AU §§ 230.01, 07; AU § 326.01.

³⁸ See AS5 ¶ 3.

³⁹ See *id.* ¶¶ 62, B6; AU § 312.33.

⁴⁰ See AU §§ 316.13, .41, .46 - .68, .74 - .78.

ORDER

would have applied to the Potential Misstatement. As discussed below, Prado later directed and participated in the improper alteration of the 2010 Gol Audit work papers to suggest that the accounting provision had in fact been considered at the time of the audit.

50. During the first quarter of 2011, Gol completed its analysis of the Potential Misstatement. Its quantification of that misstatement rose from R\$38.3 million to R\$56.8 million. On May 10, 2011, Gol announced that it would reduce its reported first-quarter 2011 revenue by R\$56.8 million to account for the misstatement.

51. On December 2, 2011, the Commission's Division of Corporation Finance ("Corporation Finance") issued a comment letter to Gol concerning certain aspects of its 2010 Form 20-F and 2011 quarterly filings. Among the issues raised by the comment letter was the R\$56.8 million write-down of revenue for the first quarter of 2011. The comment letter requested an explanation concerning how International Accounting Standard 8, *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8"), under International Financial Reporting Standards ("IFRS") applied to the write-down.

52. During December 2011 and early 2012, Prado participated in meetings to discuss how to provide assistance to Gol in responding to the comment letter and follow-up correspondence. In connection with those meetings, Prado became aware that a particular provision of IAS 8, Paragraph 44, might have applied to the Potential Misstatement. IAS 8 Paragraph 44 directs that, if it is "impracticable" for an entity "to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate" the opening balance sheet "for the earliest period for which retrospective restatement is practicable (which may be the current period)."⁴¹ Although Prado had not considered IAS 8 Paragraph 44 at the time of the 2010 Gol Audit, he adopted the view that IAS 8 Paragraph 44 would have been the correct way to account for the Potential Misstatement at year-end 2010. Specifically, he concluded that IAS 8 Paragraph 44 would have directed Gol to book the Potential Misstatement as a reduction to shareholders' equity in the Company's opening 2011 balance sheet, rather than as a reduction in revenue and increase in advance ticket sales in 2010. After Prado communicated this conclusion to Gol, Gol cited IAS 8 Paragraph 44 to Corporation Finance in arguing that its 2010 accounting had been materially correct.

53. As explained below, in connection with the 2012 PCAOB inspection, Prado participated in providing misleading documents and information to PCAOB inspectors. Among other things, the misleading documents and information falsely

⁴¹ IAS 8 ¶ 44.

ORDER

indicated that, during the 2010 Gol Audit, the engagement team had considered IAS 8 Paragraph 44 and had concluded that the Potential Misstatement was a multi-period error whose allocation was impracticable, thereby purportedly necessitating its treatment exclusively as a balance-sheet error (with no income statement impact).

F. Prado Approved and Participated in a Widespread Effort to Improperly Alter Work Papers in Connection with the Board's 2012 Inspection

Applicable PCAOB Rules and Standards

54. Auditing Standard No. 3, *Audit Documentation* ("AS3"), requires that the complete and final set of documentation for an audit be assembled for retention by the "documentation completion date," a date no later than 45 days from the date on which the auditor grants permission to use its report.⁴² After the documentation completion date, audit documentation must not be deleted or discarded from the audit file, but it may be added as long as the auditor documents the date of the addition, the person who prepared the additional documentation, and the reason for adding the documentation.⁴³

55. PCAOB Rule 4006, *Duty to Cooperate with Inspectors*, requires registered firms and their associated persons to cooperate with inspections conducted by the Board. The cooperation requirement of Rule 4006 includes an obligation "not to provide misleading documents or information in connection with the Board's inspection processes."⁴⁴

Prado Approved and Participated in the Concealment of the Firm's Audit Violations from Board Inspectors

56. The Board conducted an inspection of Deloitte Brazil in 2012. On or about March 8, 2012, Inspections notified the Firm that the 2010 Gol Audit and the Issuer 2 Audit would be two of the audits inspected, and that the focus areas for Gol would be revenue, deferred revenue, accounts receivable, and property, plant, and equipment. On or about the same day, Prado learned of Inspections' notification. Primary field work procedures for the inspection commenced on March 26, 2012.

⁴² AS3 ¶¶ 14, 15.

⁴³ See id. ¶ 16.

⁴⁴ *Nathan M. Suddeth, CPA*, PCAOB Rel. No. 105-2013-007, ¶ 4 (Sept. 10, 2013).

ORDER

57. In response to Inspections' notification, Prado initiated an effort to thwart the Board's oversight of Deloitte Brazil's audit work by improperly altering the work papers for the 2010 Gol Audit. He instructed the Gol Senior Manager to carry out the improper alterations and also determined that the GIOS Managers, two senior managers from the GIOS group, would also participate.

58. After receiving from the Gol Senior Manager a set of the 2010 Gol Audit work papers with the improper alterations that he had ordered, Prado made even more improper alterations on his own. In total, 56 work papers from the 2010 Gol Audit were improperly altered, as were fourteen work papers from the 2010 quarterly reviews. The altered documents included work papers relating to the engagement team's auditing of Gol's maintenance deposits, passenger revenue, advance ticket sales, accounts receivable, and ICFR, as well as its Summary of Uncorrected Misstatements and its presentation to the Gol Audit Committee.

59. Among the improper alterations were (1) changes to multiple work papers that concealed Prado's acquiescence in what he understood to be Gol's plan to improperly manage the write-off of unsupported maintenance deposits over time; and (2) changes to other work papers that created the appearance that Prado and his team had considered IAS 8 Paragraph 44 to apply to the Potential Misstatement at the time of the 2010 Gol Audit, when in fact he had not become aware of the potential applicability of that accounting provision until months later.

60. After the improper alterations of the 2010 Gol Audit work papers were complete, Prado participated in the Firm's making the altered work papers available to Inspections for use in the inspection. Prado also provided other misleading documents and information during the inspection. For example, when Inspections asked for additional support for the engagement team's treatment of the Potential Misstatement during the audit, Prado improperly altered a presentation that he had used during a consultation with Senior Partner 2 during the 2010 Gol Audit ("Technical Presentation") so that it cited IAS 8, thereby providing further false support for his claim that he had considered that provision at the time of the audit. Prado then caused the Firm to provide the improperly altered Technical Presentation to Inspections.

61. Prado also approved the improper alteration of the work papers for the Issuer 2 Audit in connection with the 2012 Board inspection. In advance of the inspection, the Issuer 2 Partner informed Prado (who was still the Firm's Audit Practice Leader and had been the engagement quality reviewer on the Issuer 2 audit) that certain work papers from the audit contained on CDs were missing. The Issuer 2 Partner proposed to improperly alter non-final versions of numerous Issuer 2 Audit work papers, save those work papers onto new CDs, and present those new CDs to PCAOB inspectors as documentation that had been prepared in a timely manner and in



ORDER

accordance with PCAOB standards. Prado approved the plan, which the Issuer 2 Partner then carried out.

62. Through the conduct described above, Prado both failed to cooperate with the Board's 2012 inspection of the Firm, in violation of PCAOB Rule 4006, and directly and substantially contributed to the Firm's repeated failures to cooperate with the inspection, in violation of PCAOB Rule 3502.

G. Prado Failed to Cooperate with the Board's Investigation

Applicable Statutory Provision and PCAOB Rules

63. Section 105(b)(3)(A) of the Act authorizes the Board to sanction a registered public accounting firm for "refus[ing] to...cooperate with the Board in connection with an investigation."⁴⁵ Board rules include procedures for implementing that authority.⁴⁶ Noncooperation with a Board investigation includes: (a) "fail[ing] to comply with an accounting board demand"; (b) "knowingly mak[ing] any false material declaration or mak[ing] or us[ing] any other information, including any book, paper, document, record, recording, or other material, knowing the same to contain any false material declaration"; (c) "abus[ing] the Board's processes for the purpose of obstructing an investigation"; and (d) "otherwise [failing] to cooperate in connection with an investigation."⁴⁷

Prado Failed to Cooperate with the PCAOB's Formal Investigation

64. On October 15, 2013, the Division issued a request to Deloitte Brazil ("2013 Request") for, among other things, "the complete and final set of audit documentation assembled for retention" concerning the 2010 Gol Audit.

65. After the Firm received the 2013 Request, Prado continued the effort to thwart the PCAOB's oversight, an effort that expanded to concealing both his Gol audit violations and the improper alteration of documents in connection with the 2012 PCAOB inspection. In furtherance of this effort, Prado participated in causing the Firm to produce the improperly altered 2010 Gol Audit work papers to the Division, and to withhold the original versions.

⁴⁵ 15 U.S.C. § 7215(b)(3)(A).

⁴⁶ See PCAOB Rules 5110, 5200(a)(3).

⁴⁷ PCAOB Rule 5110(a).

ORDER

66. In addition, by no later than February 2014, Prado discussed the improper alteration of the Gol work papers with other senior partners at Deloitte Brazil, including Senior Partner 2 and Senior Partner 3. Prado subsequently engaged in various meetings and conversations with senior partners at which they discussed the Firm's concealment of the Gol work paper alteration and crafted a false story of the 2010 Gol Audit to present to the Division to reflect the improperly altered work papers that had been produced.

67. In June 2014, the Board issued an Order of Formal Investigation, and the Division issued a document demand covering the 2010 Gol Audit work papers. In response, Prado continued to participate in the Firm's obstruction, including by causing the Firm to continue to withhold the original versions of the Gol work papers and to make repeated false material statements to the Division. Among the false material statements were representations contained in a July 2014 presentation that Deloitte Brazil made to the Division. For example, the presentation provided a false explanation for Prado's treatment of the Potential Misstatement during the 2010 Gol Audit that was consistent with the improperly altered, but not with the original, work papers. Prado reviewed the presentation in advance and knew that it contained false material statements.

68. In April 2015, the Division informed Deloitte Brazil that it believed Prado may have used a presentation when consulting with Senior Partner 2 about the Potential Misstatement during the 2010 Gol Audit. Prado knew that the Firm possessed the Technical Presentation, and that he had altered it during the 2012 inspection, yet he allowed the Firm to deny that the presentation existed.

69. Prado provided testimony to the Division under oath from October 5 through 9, 2015. During that testimony, he falsely stated that the improperly altered work papers he was shown were the original work papers from the 2010 Gol Audit. He also made other false statements, which included a description of the engagement team's treatment of the Potential Misstatement during the 2010 Gol Audit that was consistent with the altered, but not with the original, work papers.

70. On November 12, 2015, the Division issued an Accounting Board Demand to Prado requiring him to appear for additional testimony. Prado did not appear.

71. Through the conduct described above, Prado failed to cooperate with a Board investigation, warranting the imposition of sanctions against him pursuant to Section 105(b)(3) of the Act and PCAOB Rule 5300(b), and he directly and substantially contributed to Deloitte Brazil's failure to cooperate with a Board investigation, in violation of PCAOB Rule 3502.

ORDER

IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondent's Offer. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(b)(3)(A)(iii) and 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5) and (b)(1), José Domingos do Prado is censured; and
- B. Pursuant to Sections 105(b)(3)(A)(i) and 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2) and (b)(1), José Domingos do Prado is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).⁴⁸

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

December 5, 2016

⁴⁸ As a consequence of the bar imposed in this Order, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Prado. Section 105(c)(7)(B) provides: "It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."