

ORDER

has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over Respondent and the subject matter of these proceedings, which are admitted, Respondent 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. Summary

1. This matter concerns Deloitte Turkey's improper and unethical conduct in connection with the Board's 2014 inspection of the Firm. Specifically, the Firm violated PCAOB rules and standards when former members of the Firm's management devised an improper audit document alteration plan and then implemented it in advance of the inspection, culminating in the Firm making that documentation available to PCAOB inspectors without revealing the alterations. The individuals responsible for devising and implementing the plan were, at the time, some of the Firm's most senior partners,³ who were entrusted with leadership and governance roles in the Firm. As a result of this misconduct, the Firm undermined the Board's inspection process, a critical tool for the Board's investor protection mission.

2. As part of the plan, former members of the Firm's management provided the opportunity to improperly alter work papers to all three of the engagement teams whose engagements had been selected for review in connection with the 2014

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.

³ The term "partner," as used in this Order refers to a Deloitte Turkey partner or shareholder.

ORDER

inspection. The engagement partner for one of those teams took the opportunity and improperly altered several work papers, which were then made available to PCAOB inspectors.

3. Through its actions, Deloitte Turkey violated PCAOB quality control standards requiring it to establish and maintain policies and procedures to provide it with reasonable assurance that its personnel would act with integrity and in compliance with professional standards. In addition, Deloitte Turkey violated PCAOB ethics standards, audit documentation standards, and the Firm's duty to cooperate with PCAOB inspections.

B. Respondent

4. **DRT Bagimsiz Denetim ve Serbest Muhasebeci Mali Musavirlik A.Ş.** is a public accounting firm organized as a joint stock corporation under the laws of Turkey, and is headquartered in Istanbul, Turkey. The Firm registered with the Board on September 15, 2004, pursuant to Section 102 of the Act and PCAOB rules. The Firm is currently the principal auditor for one "issuer," as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). During the period relevant to this matter, the Firm performed audits for one issuer client. In addition, as to four issuers, the Firm currently participates in audits led by other accounting firms, including by other member firms of the Deloitte Touche Tohmatsu Limited network ("Deloitte Global"). Those other accounting firms request the Firm to perform audit work that those other firms use or rely on in issuing their audit reports. The Firm has approximately 30 partners and 645 employees, and is managed by a Board of Directors, which together with the Executive Committee (the "Executive Committee") for Deloitte's operations in Turkey, is responsible for overseeing the Firm's operations, including its system of quality control and ethics.⁴

C. Other Relevant Persons and Entities

5. **Senior Partner 1** is a former partner of Deloitte Turkey. At all relevant times, Senior Partner 1 held senior leadership positions at the Firm, including serving on the Firm's Executive Committee, and acted as the Firm's primary contact with the

⁴ In the Fall of 2016, Deloitte Turkey began the process of installing new leadership, which has begun the process of implementing enhancements to the Firm's system of quality control and to reinforce the Firm's commitment to compliance with laws and professional standards.

ORDER

PCAOB on its 2014 inspection. As a result of the conduct described in this Order, the Firm placed Senior Partner 1 on administrative leave on or about August 19, 2016, and effective January 1, 2017, he separated from the Firm.

6. **Senior Partner 2⁵** is a former partner of Deloitte Turkey. At all relevant times, senior Partner 2 held a leadership position in the Firm's Audit function and had significant interactions with PCAOB staff during the 2014 inspection. As a result of the conduct described in this Order, the Firm placed Senior Partner 2 on administrative leave on or about August 19, 2016, and effective January 1, 2017, Senior Partner 2 separated from the Firm.

7. **Senior Partner 3** is a former partner of Deloitte Turkey. At all relevant times, Senior Partner 3 held senior leadership positions at the Firm including serving on the Firm's Executive Committee, and he also had significant interactions with PCAOB staff during the 2014 inspection. As a result of the conduct described in this Order, the Firm placed Senior Partner 3 on administrative leave on or about August 19, 2016, and effective January 1, 2017, he separated from the Firm.

8. **Senior Partner 4** is a former partner of Deloitte Turkey. At all relevant times, Senior Partner 4 held senior leadership positions at the Firm including serving on the Firm's Executive Committee. By virtue of his specific leadership positions, Senior Partner 4 was one of the Firm partners most responsible for ensuring compliance by Firm personnel with ethical and regulatory requirements. As a result of the conduct described in this Order, the Firm placed Senior Partner 4 on administrative leave on or about September 8, 2016, and, and on or about September 30, 2016, Senior Partner 4 retired from the Firm.

9. **Partner for Engagement A⁶** is a former partner of Deloitte Turkey. The Partner for Engagement A led Deloitte Turkey's audit work on the Turkish subsidiary of an issuer for December 31, 2013. On or about September 8, 2016, the Partner for Engagement A was placed on administrative leave due to her participation in the improper alteration of work papers for Engagement A, as described herein, and on February 14, 2017, the Partner for Engagement A separated from the Firm.

⁵ See Berkman Özata, PCAOB Release No. 105-2017-051 (Dec. 19, 2017).

⁶ See Şule Firuzment, PCAOB Release No. 105-2017-052 (Dec. 19, 2017).

ORDER

10. **IT Leader** is a former technology officer at Deloitte Turkey. As a result of the conduct described in this Order, the Firm placed the IT Leader on administrative leave on or about August 19, 2016, and on November 30, 2016, he separated from the Firm.

D. Deloitte Turkey Violated PCAOB Rules and Standards in Connection with the Board's 2014 Inspection of the Firm

The Improper Document Alteration Plan

11. The Board conducted its first inspection of Deloitte Turkey in 2014. On or about August 28, 2014, the Board's Division of Registration and Inspections ("Inspections") informed the Firm that its work in connection with three issuer audits would be inspected. At the time Inspections notified the Firm of the engagements it had selected for inspection, the documentation completion date⁷ for each of the audits had long since passed.⁸

12. Following the PCAOB's notification of the engagements it had selected for inspection, Senior Partner 1, Senior Partner 2, Senior Partner 3, and Senior Partner 4 held one or more discussions to address various issues, including the upcoming inspection. During one of those discussions, Senior Partner 4, who among the group held the most elevated position at Deloitte Turkey, approved a plan concerning the audit

⁷ PCAOB Standards state that: "A complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date (documentation completion date)." See Auditing Standard No. ("AS") 3, *Audit Documentation*, at ¶ 15. All references to PCAOB rules and standards are to the versions of those rules and standards in effect at the time of the relevant conduct. As of December 31, 2016, the PCAOB reorganized its auditing standards using a topical structure and a single, integrated numbering system. See Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules, PCAOB Rel. No. 2015-002 (Mar. 31, 2015).

⁸ One issuer filed its Form 20-F with the U.S. Securities and Exchange Commission ("SEC") on March 21, 2014, and thus the documentation completion date for that audit was no later than May 5, 2014. The other two issuers filed Forms 10-K with the SEC on February 28, 2014 and June 5, 2014, respectively, and thus the documentation completion dates for those audits were no later than April 14, 2014 and July 20, 2014, respectively.

ORDER

documentation for the engagements selected for inspection (the "previously archived work papers"). Under that plan, the engagement teams would be given the opportunity, in advance of the PCAOB's inspection, to improperly alter the previously archived work papers without indicating to the PCAOB that any such alterations had occurred (the "Improper Alteration Plan" or "Plan").

13. After Senior Partner 4 approved the Plan, Senior Partner 1 began the process of implementing it by seeking the assistance of the Firm's information technology ("IT") department, supervised by the IT Leader. However, before agreeing to provide the assistance requested, the IT Leader contacted Senior Partner 4 to confirm that Senior Partner 4 had approved and understood the implications of the Improper Alteration Plan. In response, Senior Partner 4 reiterated his approval. The IT Leader thereafter caused the Firm's IT department to download the previously archived work papers for each of the three engagements Inspections had selected onto separate laptop computers. Each of the laptops was disconnected from the Deloitte Turkey network so that the laptops' system date could be backdated in order to permit the previously archived work papers to be improperly altered without detection.

14. Senior Partner 2 then provided the laptops to the engagement teams for each of the three engagements selected for inspection. After doing so, Senior Partner 2 participated in a test designed to ensure that, after the work papers had been improperly altered and then restored to Deloitte Turkey's network and returned to the Firm's work paper archiving system, any alterations made on the laptops could not be detected.

Improper Alterations

15. In connection with the Improper Alteration Plan, Senior Partner 1 approached the Partner for Engagement A and informed her that deficiencies in the previously archived work papers for Engagement A would lead the PCAOB to issue negative comments that could affect her career and lead to monetary sanctions and reputational damage to the Firm. In response to Senior Partner 1's comments, the Partner for Engagement A made several improper alterations to the previously archived work papers on the laptop Senior Partner 2 had provided to her.

16. Senior Partner 2 then facilitated the transfer of the file containing the improperly altered work papers for Engagement A to the Firm's IT department, so that the file could replace the original file on the Deloitte Turkey network. The improperly altered file for Engagement A was then made available to the PCAOB inspectors.

ORDER

Misleading Engagement Profile

17. Before the Board's inspection field work began, Deloitte Turkey produced to the Board completed work sheets concerning Engagement A in a document entitled Public Company Accounting Oversight Board 2014 Inspection Period Substantial Role and Referred Work Engagement Profile ("Engagement Profile"). Firm representatives, including the Partner for Engagement A, signed the completed work sheets in the Engagement Profile.

18. One of the questions in the Engagement Profile work sheets asked: "Have there been any changes made to the audit documentation subsequent to the document completion date? If yes, please explain . . . the nature of the changes and provide a summary log of when the changes were made, or attach a summary memo of any such alterations." In response to this question, the completed Engagement Profile work sheet stated "No." The Partner for Engagement A knew that response was false when she signed the completed work sheets in the Engagement Profile, in light of the improper alterations she had made to the Engagement A work papers.

PCAOB Inspection Field Work

19. During the PCAOB inspection, Senior Partners 1, 2, 3, and 4, as well as the Partner for Engagement A, had discussions with the PCAOB inspectors, but they never informed the inspectors of the Improper Alteration Plan. Further, Senior Partners 1 and 2 and the Partner for Engagement A, all of whom knew that improper alterations had been made pursuant to the Plan, did not inform the inspectors of the improper alterations.

Applicable PCAOB Rules and Standards

20. PCAOB rules require that a registered public accounting firm comply with the Board's quality control standards as well the Board's ethics standards.⁹ PCAOB quality control standards require that a registered public accounting firm "have a system of quality control for its accounting and auditing practice."¹⁰ As part of its system of

⁹ See PCAOB Rules 3400T, *Interim Quality Control Standards*, and 3500T, *Interim Ethics and Independence Standards*.

¹⁰ QC § 20.02, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

ORDER

quality control, a firm should establish policies and procedures to provide the firm with reasonable assurance that (1) "personnel ... perform all professional responsibilities with integrity;"¹¹ and (2) "the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality."¹² PCAOB ethics standards require that, "[i]n the performance of any professional service, a [registered firm] shall maintain . . . integrity"¹³

21. PCAOB rules also require that registered public accounting firms and their associated persons comply with applicable auditing and related professional practice standards.¹⁴ As noted above, PCAOB audit documentation standards require 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.¹⁵ 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 the information was added, the name of the person who prepared the additional documentation, and the reason for adding the documentation.¹⁶

22. In addition, 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."¹⁷

¹¹ QC § 20.09.

¹² QC § 20.17.

¹³ ET § 102.01, *Integrity and Objectivity*.

¹⁴ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*.

¹⁵ AS 3 at ¶ 15.

¹⁶ See id. at ¶ 16.

¹⁷ *Deloitte Touche Tohmatsu Auditores Independentes*, PCAOB Rel. No. 105-2016-031, ¶ 62 (December 5, 2016); *José Domingos do Prado*, PCAOB Rel. No.

ORDER

Deloitte Turkey's Violations

23. As a result of the conduct described above, including former Firm management's devising of the Improper Alteration Plan, as well as the implementation of the Plan, through which documents were improperly altered and then made available to PCAOB inspectors, Deloitte Turkey violated PCAOB quality control standards. Specifically, the Firm failed to establish and maintain policies and procedures to provide it with reasonable assurance that its personnel would "perform all professional responsibilities with integrity" and that "the work performed by engagement personnel [would] meet[] applicable professional standards, regulatory requirements, and the firm's standards of quality."¹⁸ Through its conduct, Deloitte Turkey also violated PCAOB ethics standards requiring it to maintain integrity in the performance of professional services.¹⁹

24. In addition, through the action of former partners, including those holding senior management positions at the Firm, Deloitte Turkey violated PCAOB audit documentation standards by improperly altering previously archived work papers. Further, Deloitte Turkey violated its duty to cooperate with Inspections by making those improperly altered work papers available to PCAOB inspectors without informing the inspectors of the improper alterations.

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. In ordering sanctions, including the amount of the civil money penalty imposed upon the Firm, the Board took into account that the Firm provided extraordinary cooperation during the Board's investigation of this matter. Specifically, the Firm: (a) voluntarily and timely self-reported the entirety of the misconduct described in this Order;²⁰ (b) began the process of implementing enhancements to its quality

105-2016-032, ¶ 55 (December 5, 2016); *Arturo Vargas Arellano, CPC*, PCAOB Rel. No. 105-2016-045, ¶ 38.

¹⁸ QC § 20.09, 17.

¹⁹ See ET § 102.01; QC § 20.10.

²⁰ Specifically, in 2016, a former partner of the Firm received information from a senior partner of the Firm regarding misconduct that had occurred in connection

ORDER

control policies and procedures in relevant areas and separating from the Firm those personnel responsible for the misconduct identified by the Firm; and (c) provided substantial assistance to the PCAOB's investigation, including by conducting its own internal investigation and sharing the factual results of that internal investigation with Board staff. Absent that extraordinary cooperation, the monetary penalty imposed would have been significantly larger and the Board may have imposed other, additional sanctions. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Deloitte Turkey is censured;
- B. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rules 5300(a)(4), a civil money penalty in the amount of \$750,000 is imposed upon Deloitte Turkey. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act. Deloitte Turkey shall pay this civil money penalty within 20 days of the issuance of this Order by (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter, which identifies the Firm as a respondent in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006.

with the PCAOB's 2014 inspection. The former partner then contacted Deloitte Global, which passed the information onto the Firm. The Firm in turn reported the alleged misconduct to the Board. At the time of the Firm's self-reporting, the PCAOB had no indication that the Firm and its personnel had improperly altered documents.

ORDER

C. Pursuant to Sections 105(c)(4)(F) and (G) of the Act and PCAOB Rules 5300(a)(6) and (9), the Board orders that:

1. Undertakings: Deloitte Turkey shall carry out the following Undertakings:

(a) Initial Certification.

Within thirty (30) days of the entry of this Order, the Firm shall provide a certification, signed by the Chief Executive Officer of Deloitte's operations in Turkey (the "CEO"), and an additional appropriate signatory of the Firm, to the Director of the PCAOB's Division of Enforcement and Investigations ("Director"), stating that the Firm has adopted policies and procedures designed to provide the Firm with reasonable assurance that it will detect any improper alterations of previously archived work papers, including ensuring that any additions to audit documentation after the documentation completion date are made only in accordance with PCAOB rules and standards.

(b) Subsequent Certification.

Within ninety (90) days of the entry of this Order, the Firm shall provide to the Director a certification, signed by the CEO, and an additional signatory of the Firm, stating that all professionals involved in the performance of any audit, as that term is defined in Section 110(1) of the Act ("Audit"), have received eight (8) hours of additional training concerning compliance with AS3, PCAOB Rule 4006, and the obligation to perform all professional responsibilities with ethics and integrity.

(c) Other Undertakings

(1) For two (2) years from the date of this Order, the Firm will promptly report to the Board any allegations of improper document alterations in connection with any Audit subject to the PCAOB's jurisdiction ("PCAOB Audit") in which Respondent plays a role, or any ethics violations in connection with any PCAOB Audit in which Respondent plays a role.

(2) Beginning one year from the date of this Order and for a total period of two years, the CEO and an additional appropriate signatory of the Firm shall annually certify to the Director that the Firm has met its reporting obligations pursuant to (c)(1) above.

ORDER

(3) Within ninety (90) days of the entry of this Order, the Firm will, to the extent not already in place, adopt enhanced reporting procedures for the reporting and investigation of suspected wrongdoing by Firm personnel. Within that same time period, the Firm shall provide to the Director a certification, signed by the Firm's CEO, that the Firm has adopted such enhanced reporting procedures. The enhanced reporting procedures shall include processes for Firm personnel to report misconduct anonymously, and to report misconduct via telephone, email, website, or mail. The enhanced reporting procedures shall include a prohibition on retaliation against Firm personnel making good faith reports of suspected wrongdoing, to the same extent as the protections established by Section 806(a), (d), and (e) of the Act.

(4) No later than 30 days after the date of this Order, the Firm shall provide an electronic or paper copy of this Order to all of its associated persons.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

December 19, 2017