SUMMARY OF DISCIPLINE
MEMBER A

On February 26th, 2014 the Court of Appeal of Alberta dismissed the appeal of **Member A**. Accordingly, the decision an Appeal Tribunal of the Institute of Chartered Accountants of Alberta, was upheld that found **Member A** acting alone or as a representative of a public accounting firm, 'the Firm', guilty of unprofessional conduct with respect to his professional services regarding the unaudited financial statements of "A" Company Inc. for the interim period ended December 31, 2006, filed with the Alberta Securities Commission on February 8, 2007, in that:

1. the engagement failed to comply with CICA Handbook assurance recommendations as set out in section 7050 – Auditor Review of Interim Financial Statements in that, based on the risk assessment performed, there was a failure to identify and evaluate a potential material misstatement; mainly, that the application of the revenue recognition policy was inappropriate for the new market in which "A" Company began operating in 2006 and the product, sold, within that market, because:
    a) the review engagement was not appropriately planned;
    b) there was inadequate follow up on the impact of sales returns;
    c) there was insufficient exercise of skepticism to make appropriate enquiries of management with respect to sales, sales returns, and the revenue recognition policy, and;
    d) there was inadequate analysis and/or performance of other additional procedures to assess the sales returns expectations which formed the basis of the application of the revenue recognition policy.

2. as engagement partner, he was associated with financial statements that he knew or should have known were false and misleading in that US product sales were overstated by $2.5 million.

CONDUCT

For the review engagement of "A" Company, **Member A,** was the engagement partner on the review engagement of a publicly traded company, for the review of Q1 interim financial statements dated December 31, 2006.

During the first quarter review, **Member A** continued to view the United States revenue recognition policy, which was reviewed during the year-end audit, as one that applied to a new geographical area notwithstanding the fact that "A" Company clearly and consistently stated that the United States represented a new market. **Member A** stated that the Firm disagreed with the company on what the United States market represented. There is no evidence whether this disagreement was ever communicated to "A" Company's management or what the implications were regarding the United States revenue recognition policy or the Firms willingness to accept the policy. The evidence introduced, during the hearing, was that the United States represented a new market, with new customers and that there was insufficient sales history. This resulted in "A" Company recording US revenue on the basis of receipt by the customer. Sales returns were estimated at the time of recording of the sale based on the Canadian sales experience which was of limited relevance to the limited US sales experience. Clearly "A" Company did not have the ability to estimate US sales returns because of the limited sales period.

At some point **Member A** became aware of a guaranteed sales contract which required sales recognition after the product was sold to the end user. Only two contracts had been reviewed during the year end audit, yet he did not direct staff to review other contracts to determine whether there were additional guaranteed sales contracts. In fact there were three more guaranteed sale contracts.

Member A became aware of a quarterly sale, in the amount of $10 million which had been paid for but this same sale was reversed in the first quarter because the retailer wanted to return the product and "A" Company's management had agreed to accept the return notwithstanding inconclusive wording regarding returns in the US retailer's contract. Here was a significant example of a material sales transaction, in the first quarter, where clearly "A" Company's management did not have the ability to reasonably estimate future returns. Additionally this sales reversal represented "A" Company's business practice which represented a significant departure from any contractual right specified in a US sales contract. **Member A** gave evidence that the Firms understanding of sales terms should include the practical "right" of return or business practice of "A" Company. In fact no one on the Firms first quarter review engagement gave sufficient consideration to this event. The retailers return was also a contradiction of the Firms understanding of the contract and a material departure from management's revenue recognition policy. In addition **Member A** did not consult with anyone in the Firms professional assurance group to review the accounting implications of the retailer return.

Management's Discussion and Analysis which accompanied the first quarter financials includes additional cautionary statements on the "US Launch" which described "initial sales figures include initial inventory for the stores". It also includes a statement that "As is industry practice, customers may request to return product to balance inventory".

There is no evidence that **Member A** gave any consideration to these cautionary statements in assessing the plausibility of the first quarter's financial statements. In fact there were no memos setting out an analysis of any of the issues that arose or the reasons for the conclusions reached.

There was no evidence, whatsoever, that **Member A** exercised any professional scepticism regarding:

a) The continued application of the incorrect revenue policy for US sales as described in EIC 141 with respect to the inability to estimate future US sales returns;
b) The discovery of the existence of the contract with a guaranteed sale feature;
c) The retailer returns in the amount of $10 million which should have caused a complete review of the revenue recognition policy for US sales.

ORDERS

In accordance with Section 93(1) and 94(1) of *RAPA*, the Tribunal orders that **Member A**:

1. receive a written reprimand from the Chair;
2. pay a fine of $10,000 within 60 days from the date of service of the statement of costs; and
3. pay 33⅓% of the costs of the investigation and discipline hearing within 60 days from the date of service of the statement of costs;
4. pay 33⅓% of the costs of the appeal in accordance with Bylaw 1640 as set forth in the statement of costs and 100% of compliance with orders within 30 days from the date of service of statement of costs.

PUBLICATION

1. Publish a notification of a summary of the Appeal Tribunal's findings and any orders made be provided to all provincial institutes, the Institute of Chartered Accountants of Bermuda, and any other professional organizations **Member A** belongs to and the Institute is aware of, as of the date of this order;
2. A summary of the Appeal Tribunal's findings of unprofessional conduct be provided to anyone who makes a written request about the discipline history of **Member A;**
3. A summary of the Appeal Tribunal's findings, the nature of the conduct, any orders made as a result of the findings, and any conditions to be published on the ICAA public website on a named basis;
4. A Notice of Discipline, the nature of the conduct and orders made, be provided to all chartered accountants;
5. A Notice of Discipline shall be published to all chartered accountants by one time insertion in the Membership Activity Report;
6. The Appeal Tribunal's written decision, with the names of third parties replaced by pseudonyms
    a) be published on a named basis on the Institute Website
    b) be provided to Quicklaw.
7. That after the time allowed for appeal, a notice of the Appeal Tribunal's findings and orders be published in the Edmonton Journal and the Globe and Mail and that more information can be obtained from the Institute.

If **Member A**, fails to pay the costs and fines within the time stipulated, his registration will be immediately cancelled.

Discipline Tribunal Secretary
May 30, 2014