

## SUMMARY OF DISCIPLINE MEMBER A

On February 26, 2014 the Court of Appeal dismissed the appeal of **Member A**. Accordingly, the decision of 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 for the 3-month 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 concurring partner, of being 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

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

CICA Handbook section GSF-QC .073 states:

An engagement quality control review should include an objective evaluation of:

- (a) The significant judgements made by the assurance team;
- (b) The conclusions reached in formulating the practitioners report;
- (c) Other significant matters that have come to the attention of the engagement quality control reviewer during his or her review.

**Member A** did not carry out his concurring partner responsibilities appropriately or bring sufficiently objective or sceptical judgement to this engagement. Given the significance of the \$10 million return, **Member A** had a responsibility as the concurring partner to objectively and thoroughly assess whether

the revenue recognition policy was appropriate.

In signing off on the Concurring Review it is expected that **Member A** would have taken whatever steps were necessary to satisfy himself that it was appropriate to concur with their conclusions.

As a result of **Member A** not meeting the professional standard of a concurring partner, the misapplication of the revenue recognition policy resulted in material errors in the first quarter review financial statements.

## 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;
3. pay 33 $\frac{1}{3}$ % of the costs of the investigation and discipline hearing within 60 days from the date of service of the statement of costs, and;
4. pay 33 $\frac{1}{3}$ % 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 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 29, 2014**