



FOUNDED 1879

CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO  
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF  
ONTARIO

*THE CHARTERED ACCOUNTANTS ACT, 2010*

**IN THE MATTER OF:                    DRAFT ALLEGATIONS AGAINST BRYCE  
T. WALKER, CPA, CA, AND SPENCE G.  
WALKER, CPA, CA, MEMBERS OF THE  
INSTITUTE, BEFORE THE DISCIPLINE  
COMMITTEE**

**SETTLEMENT AGREEMENT**

*made pursuant Section 34 (1)(c) of the Chartered  
Accountants Act, 2010, and to ICAO Regulation 7-1, s. 22.4*

**Background**

1. The Professional Conduct Committee ("PCC") approved the drafting of Allegations against Bryce T. Walker ("Bryce") and Spence G. Walker ("Spence") Those allegations are attached. **(Exhibit 1)**
2. Bryce Walker obtained his CA designation in 2004. During the relevant period of time he was a partner with the DNTW Chartered Accountants LLP ("DNTW").
3. Spence Walker obtained his CA designation in 2003. During the relevant period of time he was a partner with DNTW. Spence Walker is also an Illinois CPA, licensed to practice in Illinois.
4. Bryce and Spence Walker are now partners with Kreston GTA LLP ("Kreston") a member of Kreston International.
5. From 2007 to 2010, DNTW served as the independent auditors of Subaye Inc. ("Subaye"), a publically traded company whose stock is registered with the United

States Securities and Exchange Commission ("SEC") and trades in the U.S. Bryce Walker, in particular was engaged to perform the audit of the financial statements of Subaye for the year ended September 30, 2010, in accordance with US GAAS. As the engagement partner he authorized the release of the opinion attached to the financial statements dated December 22, 2010 (**Exhibit 2**) which were included in the Form 10-K filing with the SEC.

6. Spence Walker acted as the quality review partner on the engagement to audit the financial statements of Subaye for the year ended September 30, 2010. As the quality review partner he authorized the release of the opinion attached to the financial statements (**Exhibit 2**) which were included in the Form 10-K filing with the SEC.
7. Subaye was a China based company which purported to have primary operations in the People's Republic of China. During 2010, Subaye promoted itself as "a leading online business services provider in China." These online services were initially said to include video advertising and entertainment media services, and subsequently a cloud computing business. Customers purportedly paid monthly for the service and sales agents supposedly interacted with the customers and collected the monthly fees in cash.
8. In its public filings for fiscal year 2010 ending September 30, 2010, Subaye claimed approximately \$39 million in revenues and over 1,500 employees. In addition, the company claimed that, as of the end of calendar year 2010, it had more than 14,600 customers.
9. On December 23, 2010, Subaye dismissed DNTW as its independent auditor and hired Pricewaterhouse Cooper Hong Kong as Subaye's new independent auditor. This set in motion a chain of events that by mid-2011 had exposed Subaye to be a fraud without infrastructure to support its claimed cloud, computing and other online businesses. It had few paying customers and few, if any, employees. The net revenue reported on the financial statements of \$39 million (**Exhibit 2 p. F3**) was virtually non-existent as was the cash, reported to be \$7.1 million (**Exhibit 2 p. F2**).

10. The United States Securities and Exchange Commission carried out an investigation and concluded that DNTW and Bryce and Spence Walker failed to conduct the 2010 audit of the financial statements of Subaye in accordance with PCAOB standards and US GAAS.
11. On or about April 28, 2014, Bryce and Spence Walker signed an offer of Settlement which was presented to and accepted by the SEC. The Offer of Settlement is reflected in the Order released by the SEC on May 20, 2014 and posted on the SEC website on May 22, 2014 ("the Order") (**Exhibit 3**). Bryce and Spence Walker agree that the financial statements of Subaye Inc. that are referred to in the SEC Order are those statements (**Exhibit 2**) contained within the Form 10 - K filing.
12. Bryce and Spence Walker do not contest the accuracy of the facts set out in the SEC Order (**Exhibit 3**) for the purposes of the disciplinary process of CPAO and those facts mirror the terms of the offers of Settlement made by Bryce and Spence Walker.
13. Bryce and Spence Walker do not contest any of the findings made by the SEC and set out in the SEC Order (**Exhibit 3**).

**Bryce Walker**

14. In or about the period September 1, 2010, through January 31, 2011, while engaged to perform an audit of the financial statements of Subaye Inc. for the year ended September 30, 2010 in accordance with U.S. GAAS, Bryce Walker failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Rules of Professional Conduct, in that;
  - a) he failed to properly supervise assistants (Exhibit 3 para. 15-16);
  - b) he failed to obtain sufficient competent audit evidence to support the balance sheet item "Cash \$7,120,000" (Exhibit 3 para. 17-19);
  - c) he failed to obtain sufficient competent audit evidence to support the expense item "Marketing Promotions \$22,153,000" (Exhibit 3 para. 20-22);
  - d) having determined that there was not sufficient competent audit evidence to support any amount for the balance sheet item "Deposit for Purchases of Inventoriable Assets" for the 2010 year end, he failed to take any action to

determine the effect of that lack of evidence on the 2009 financial statements audited by his firm and failed to consider whether the prior year comparative amount of \$8,152,000 should be adjusted (Exhibit 3 para. 23-24), and;

- e) he failed to maintain control over the accounts receivable confirmation process (Exhibit 3 para. 25-26).

15. In or about the period September 1, 2010, through January 31, 2011, while engaged to perform an audit of the financial statements of Subaye Inc. for the year ended September 30, 2010 in accordance with U.S. GAAS, Bryce Walker failed to perform his professional services with due care, contrary to Rule 202.1 of the Rules of Professional Conduct, in that;

- a) he failed to exercise an appropriate level of professional skepticism (Exhibit 3 para. 27-31), and;
- b) he failed to evaluate numerous significant risks including the fact that the company was unable to produce sufficient competent audit evidence to support a purported \$21 million asset during the 2010 audit (Exhibit 3 para. 32).

16. As the engagement partner on the audit of the financial statements of Subaye Inc., Bryce Walker failed to conduct the audit in accordance with generally accepted standards of practice of the profession and U.S. GAAS as required in the circumstances (Exhibit 3 para. 34).

#### **Spence Walker**

17. In or about the period September 1, 2010, through January 31, 2011, while acting as the quality review partner on the audit of the financial statements of Subaye Inc. for the year ended September 30, 2010, Spence Walker failed to perform his professional services with due care, contrary to Rule 202.1 of the Rules of Professional Conduct, in that;

- a) He failed to exercise an appropriate level of professional skepticism (Exhibit 3 para. 27-31);
- b) he failed to evaluate numerous significant risks including the fact that the company was unable to produce sufficient competent audit evidence to support a purported \$21 million asset during the 2010 audit (Exhibit 3 para. 32), and;
- c) he failed to become aware of numerous audit deficiencies and to recognize that

the audit was not conducted in accordance with U.S. GAAS as required (Exhibit 3 para. 32).

18. As the quality review partner on the audit of the financial statements of Subaye Inc., Spence Walker failed to recognize that the audit was not conducted in accordance with generally accepted standards of practice of the profession and U.S. GAAS as required in the circumstances (Exhibit 3 para. 35).

#### **Terms of Settlement**

19. Bryce Walker and the Professional Conduct Committee agree to the following terms of settlement:

- a) Bryce will pay a fine in the amount of \$40,000;
- b) Bryce will pay costs in the amount of \$3,250;
- c) One half of the fine and costs amounts will be paid within twelve months of the date of the Order of the Discipline Committee confirming the Settlement Agreement with the remaining one half to be paid within eighteen months of the date of the Order.
- d) In *addition* to meeting the annual requirement for professional development mandated by CPAO; Bryce will attend within twelve months the following Professional Development courses (or their replacement) set out in the 2015 Spring/Summer PD Catalogue:
  - *Accounting, Auditing & Professional Practice Update (p.56) (full day)*
  - *Auditing Refresher (p.56) (full day)*
  - *The Art of Making Good Inquiries (p.56) (half day)*
  - *Professional Practice - What Can Go Wrong and How to Avoid It! (p.56) (half day)*

- e) Notice of the terms of the Settlement Agreement will be given to all Members of CPA Ontario, the Public Accountant's Council, CPA Canada and to all provincial Institutes;
- f) Bryce Walker agrees to a period of supervised practice with respect to all public company audits for which he is the engagement or reviewing partner for not less than eighteen months from the date the Supervision Agreement is signed. The supervision will be carried out by a file quality reviewer who is a senior partner of a member firm within the Kreston Group, *outside* of the GTA. The supervisor and Bryce will enter into a Supervision Agreement in a form agreed to by the Director of Standards Enforcement and Bryce will not act as engagement partner on a public company audit until a signed Supervision Agreement is in place. If unable to reach agreement as to the terms of supervision the parties may bring the matter back to the Chair of this panel of the Discipline Committee for a decision as to the terms of supervision which decision shall be final.
- g) A failure by Bryce to comply with any of the terms of settlement will result in his suspension from membership in the Institute which suspension will continue for three months or until he complies. If his suspension under this section continues for three months he will be expelled from membership with full publicity in accordance with Regulation 7-3(23).

20. Spence Walker and the Professional Conduct Committee agree to the following terms of settlement:

- a) Spence will pay a fine in the amount of \$20,000;
- b) Spence will pay costs in the amount of \$3,250;
- c) One half of the fine and costs amounts will be paid within twelve months of the date of the Order of the Discipline Committee confirming the Settlement Agreement with the remaining one half to be paid within eighteen months of the date of the Order.

- d) In *addition* to meeting the annual requirement for professional development mandated by CPAO; Spence will attend within twelve months the following Professional Development courses (or their replacement) set out in the 2015 Spring/Summer PD Catalogue:
- *Accounting, Auditing & Professional Practice Update (p.56) (full day)*
  - *Auditing Refresher (p.56) (full day)*
  - *The Art of Making Good Inquiries (p.56) (half day)*
  - *Professional Practice - What Can Go Wrong and How to Avoid It! (p.56) (half day)*
- e) Notice of the terms of the Settlement Agreement will be given to all Members of CPA Ontario, the Public Accountant's Council, CPA Canada and to all provincial Institutes;
- f) Spence walker agrees to a period of supervised practice with respect to all public company audits for which he is the engagement or reviewing partner for not less than eighteen months from the date the Supervision Agreement is signed. The supervision will be carried out by a file quality reviewer who is a senior partner of a member firm within the Kreston Group, *outside* of the GTA. The supervisor and Spence will enter into a Supervision Agreement in a form agreed to by the Director of Standards Enforcement and Spence will not act as engagement partner on a public company audit until a signed Supervision Agreement is in place. If unable to reach agreement as to the terms of supervision the parties may bring the matter back to the Chair of this panel of the Discipline Committee for a decision as to the terms of supervision which decision shall be final.
- g) A failure by Spence to comply with any of the terms of settlement will result in his suspension from membership in the Institute which suspension will continue for three months or until he complies. If his suspension under this section continues for three months he will be expelled from membership with full publicity in accordance with Regulation 7-3(23).

21. Should the Discipline Committee accept this Settlement Agreement, Bryce and Spence Walker agree to waive their right to a full hearing, judicial review or appeal of the matter subject to the Settlement Agreement. The allegations approved by the Professional Conduct Committee attached to this agreement shall be stayed.

**If Settlement Agreement Not Approved**

22. If, for any reason, this Settlement Agreement is not approved by the Discipline Committee, then;
- a) This Settlement Agreement and its terms, including all settlement negotiations between the Professional Conduct Committee and Bryce and Spence Walker leading up to its presentation to the Discipline Committee, shall be without prejudice to the Professional Conduct Committee and Bryce and Spence Walker;
  - b) The Professional Conduct Committee and Bryce and Spence Walker shall be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing on the merits of the allegations, or negotiating a new Settlement Agreement, unaffected by this Settlement Agreement or the settlement negotiations;
  - c) The terms of this Settlement Agreement will not be referred to in any subsequent proceeding, or disclosed to any person, except with the written consent of the Professional Conduct Committee and Bryce and Spence Walker or as may be required by law.
23. Any obligations of confidentiality shall terminate upon approval of the Settlement Agreement by the Discipline Committee.

All of which is agreed to for the purpose of this proceeding alone this 14<sup>th</sup> day of July, 2015.

A handwritten signature in black ink, appearing to read "Bryce Walker", with a long horizontal flourish extending to the right.

BRYCE T. WALKER, CPA, CA

On his own behalf

A handwritten signature in black ink, appearing to read "Spence Walker", with a long horizontal flourish extending to the right.

SPENCE G. WALKER, CPA, CA

On his own behalf

A handwritten signature in black ink, appearing to read "Paul Farley", with a long horizontal flourish extending to the right.

PAUL F. FARLEY  
SENIOR COUNSEL,  
PROFESSIONAL CONDUCT COMMITTEE  
On behalf of the Committee