



Founded 1879

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO

DISCIPLINE COMMITTEE - ICAO

RE: CLARA RADVANY

EX. 1 FILED MAY 22 2011

ROW

IN THE MATTER OF: DRAFT ALLEGATIONS OF PROFESSIONAL MISCONDUCT AGAINST CLARA M. RADVANY, CPA, CA, A MEMBER OF THE INSTITUTE, BEFORE THE DISCIPLINE COMMITTEE

SETTLEMENT AGREEMENT

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

Introduction

1. The Professional Conduct Committee approved the drafting of allegations against Clara M. Radvany, CPA, CA ("Radvany") which are **Schedule "A"** to this Agreement.
2. The draft allegations pertain to professional work performed by Radvany with respect to the audit of the financial statements of "CC6XX" for the year ended December 31, 2010, and to Radvany's failure to maintain a public accounting licence while engaged in the practice of public accounting.

Background

3. Radvany obtained her CA in 1981 and is 75 years of age. She was a sole practitioner until she became a partner in the firm Quick Radvany LLP in 1997.

4. Radvany remained a partner of the firm until 2005 when she retired and her partner David Quick arranged to purchase the practice. She continued to work on a *per diem* basis while transitioning her clients to Quick.
5. CC6XX is a condominium corporation located in Toronto, consisting of 63 units. Radvany was approached by the Board of CC6XX in December, 2010, to perform an audit on the financial statements for the year ended December 31, 2010.
6. Radvany came to the attention of the PCC following a complaint from a unit holder who was not satisfied with the completeness and clarity of the information contained in the financial statements.
7. The documents referred to in this agreement by "**Doc**" number are found in the Document Brief. The applicable statutory requirements and *CICA Handbook* sections referenced by "**Tab**" are found in the Standards Brief.

Allegation 1 – Practicing Public Accounting Without a Licence

8. Radvany was a partner in the firm Quick Radvany LLP from 1997 until 2005 when her partner, David Quick ("Quick"), agreed to purchase her practice.
9. Radvany retired from the partnership and allowed her Public Accounting Licence ("PAL") to lapse on October 31, 2008. She continued to work with the firm on a *per diem* basis.
10. The firm also had a CA staff member working on a *per diem* basis ("IC"). IC did not hold a PAL until April, 2012.

11. Quick had financial difficulties and discontinued paying Radvany for her practice. Accordingly, Radvany rejoined Quick Radvany LLP on July 1, 2009, in the formal capacity of a partner. Management of the firm remained with Quick. She intended to operate the practice to obtain a baseline for its valuation and to then find a new buyer. She did not renew her PAL.
12. In 2010, when the CC6XX engagement was accepted, Radvany acted as the client contact. Quick was to be the reviewing partner, and IC was going to act as the field auditor. **Doc 1**
13. Quick's membership in the ICAO was suspended on March 28, 2011, and accordingly his only involvement with the audit was the client acceptance in December, 2010, and an awareness of certain elements of the major issues which IC brought to his attention.
14. IC completed the audit field work in May, 2011 and advised Quick that the file was complete and ready for review. Around the same time, an office administrator advised IC that she had received inquiries about Quick's status with the ICAO. IC contacted the Institute and discovered that Quick had been suspended and did not have a PAL.
15. Radvany was advised by IC in May, 2011 that Quick had lost his designation and did not have a PAL. The ICAO had written to Radvany on March 29, 2012 to inform her that Quick's membership had been suspended, although Radvany states that she did not receive the correspondence. **Doc 2**
16. On May 10, 2011, Radvany was the remaining partner in Quick Radvany LLP who had a CA designation. She authorized the release of the financial statements for CC6XX for the year ended December 31, 2010 attached to an unqualified Auditor's Report dated May 10, 2011, bearing the firm stamp. Radvany knew at the time that she released the statements that she did not hold a PAL, nor did any member of the firm. **Tab A**

17. The release of the financial statements coincided with the disruption caused by Quick's suspension. At the time, Radvany had significant health problems, including arthritis and chronic back pain, which restricted her working hours.

Allegation 2 - Failure to Maintain Professional Standards - The Audit of the Financial Statements of CC6XX for the Year Ended December 31, 2010

18. The financial statements for CC6XX for the year ended December 31, 2010 together with the Auditor's Report are reproduced at **Doc 3**.

19. Radvany approved the release of the Auditor's Report bearing the firm signature and of the financial statements to the Board of CC6XX.

20. Materiality for this audit was set at \$5,000 based on 2.0% of common area fees.

Allegation 2(a) – Failure to Review Working Papers and Financial Statements

21. The Auditor's Report dated May 10, 2011 bearing the firm stamp was unqualified and was released by Radvany.

22. Radvany acknowledges that although she authorized the release of the financial statements, she did not conduct any review of those statements or of the working papers for the audit. The work on the audit was performed by IC, who was not a partner of the firm and who did not hold a PAL at the time the work was performed. Standards require that auditors supervise staff and review their work to satisfy themselves that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. *CICA Handbook CAS 220.15, .16, and .17 Tab B*

Allegation 2(b) – “Draft” Financial Statements Issued

23. On or about June 10, 2011, Radvany allowed a version of the CC6XX “draft” financial statements to be released to the client without any indication on the Auditor’s Report or on the statements that they were in “draft” form. **Doc 4**

24. These “draft” statements were then widely distributed to unsophisticated users who would not have an understanding that the statements were not finalized.

Allegation 2(c) – Improper Recording of Capitalization of Unit

25. Included in the 2010 financial statements was the addition of the value of a condominium unit at \$129,000, recorded as a debit to property (a fixed asset) and as a credit to gain on value of property (other operating revenue). This unit was never sold by CC6XX as it was previously used by the superintendent’s suite. In 2010, the unit began to be rented. The current value of the unit was determined to be \$129,000 based on the 2010 property tax assessment. Note 4 to the financial statements describes the capitalization of the unit and the accounting for rental income.

26. The unit was not a new asset and should have been added to the balance sheet at its historical value at the time it was acquired rather than at its current value.

27. Rather than treating the addition as a current gain to the operating income, the unit should have included in the financial statements as a correction of an error in accordance with *CICA Handbook* Section 1506.42, and the fund balance should have been adjusted. **Tab C**

Allegation 2(d) – Disclosure of Expenditures

28. The previous board of CC6XX had entered into a repair contract which was cancelled by the new board in 2010. There ensued a lien against the property

which was settled and the lien removed. The Statement of Reserve Fund Operations lists "Major repairs and replacements 83,475" as an Expense.

29. The audit working papers indicate that the amount of \$83,475 is made up of a \$20,000 deposit for electrical repairs, a \$45,000 deposit for balcony repairs, and a settlement of \$18,475. **Doc 5**

30. The amount of \$83,475 should have been divided between the expense for repairs and the charge for breaking the contract. As it was reported, a reader of the statement would incorrectly assume that the value of repairs performed for the year was \$83,475. The amounts are material and there is no note disclosure explaining the lien and the ensuing settlement.

31. Fair presentation requires adequate disclosure of information about transactions or events having an effect on an entity's financial position, particularly where the transactions or events do not typify normal business activities of the entity. The information provided should clearly convey the nature and extent of significant transactions in a way that is readily understandable to the reader. *CICA Handbook* Section 1400.04, .06 and .07
Tab D

Allegation 2(e) – Audit Evidence

32. *CICA Handbook* Section CAS 200.17, **Tab B** requires that the auditor obtain sufficient appropriate audit evidence to support the Auditor's Report.

33. The audit work on expenses consisted solely of calculating the increase or decrease between 2009 and 2010. There was no testing of internal controls. In order to obtain sufficient appropriate audit evidence in this instance, the audit work should have included vouching to invoices and other high quality evidence such as detailed substantive analytical procedures or confirmations. **Doc 6**

Terms of Settlement

34. Radvany and the Professional Conduct Committee agree to the following Terms of Settlement:

- a) A payment by way of fine in the amount of \$5,000;
- b) A restriction on Radvany's practice, wherein she shall not perform audit or review engagements;
- c) A payment of costs in the amount of \$5,000;
- d) Notice of the terms of this Settlement is to be published in accordance with the provisions of ICAO Regulation 7-3, s. 22, including notice to be given to the CICA, the Public Accountants' Council and in *CheckMark* Magazine;
- e) Radvany will be allowed 20 months from the time the Discipline Committee accepts this Settlement Agreement to pay the fine and costs referred to herein; and
- f) A failure by Radvany to comply with any of the terms of settlement will result in her suspension from membership in the Institute which suspension will continue until she complies PROVIDED THAT if her suspension under this section continues for three months her membership in the ICAO will be revoked with full publicity in accordance with Regulation 7-3(23).

35. Should the Discipline Committee accept this Settlement Agreement, Radvany agrees to waive her right to a full hearing, judicial review or appeal of the matter subject to the Settlement Agreement. Upon the member fulfilling the requirements of this Settlement Agreement, the draft allegations approved by the Professional Conduct Committee and dated October, 2012, shall be forever stayed.

36. If for any reason this Settlement Agreement is not approved by the Discipline Committee, then:

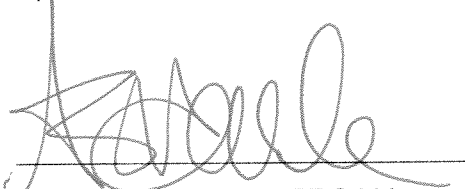
- a) This Settlement Agreement and its terms, including all Settlement Negotiations between the Professional Conduct Committee and Radvany leading up to its presentation to the Discipline Committee, shall be without prejudice to the Professional Conduct Committee and Radvany; and
- b) The Professional Conduct Committee and Radvany 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.

Disclosure of Settlement Agreement

37. This Settlement Agreement and its terms will be treated as confidential by the Professional Conduct Committee and Radvany, until approved by the Discipline Committee, and forever if for any reason whatsoever this Settlement Agreement is not approved by the Discipline Committee, except with the written consent of the Professional Conduct Committee and Radvany, or, as may be required by law.

38. 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 15TH day of April, 2013.



ALEXANDRA E. HERSAK
COUNSEL

On behalf of:

THE PROFESSIONAL CONDUCT COMMITTEE



CLARA M. RADVANY, CPA, CA
on her own behalf



Founded 1879

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO

SCHEDULE "A"

TO: CLARA M. RADVANY, CA

AND TO: The Discipline Committee of the Institute of
Chartered Accountants of Ontario

The Professional Conduct Committee hereby makes the following allegations of professional misconduct against Clara M. Radvany, a member of the Institute:

1. THAT the said Clara M. Radvany, in or about the period September 1, 2010 through June 30, 2011, while engaged in the practice of public accounting, failed to maintain the reputation of the profession and its ability to serve the public interest contrary to Rule 201.1 of the Rules of Professional Conduct in that she failed to maintain a public accounting license as required by the *Public Accounting Act*, S.O. 2004, c.8 as amended.
2. THAT the said Clara M. Radvany, in or about the period December 1, 2010 through June 30, 2011, while engaged to perform an audit of the financial statements of "CC6XX" for the year ended December 31, 2010, failed to perform her 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) she failed to review the working papers or financial statements prior to authorizing their release;
 - (b) she issued the financial statements prior to their being finalized without any indication that they were in draft form;
 - (c) she failed to ensure proper recording of the capitalization of a condominium unit which had been held for a number of years;

- (d) she failed to ensure adequate disclosure of expenditures out of the reserve fund; and
- (e) she failed to obtain sufficient appropriate audit evidence to support the unqualified opinion expressed with respect to the income statement.

Dated at Ottawa, Ontario this day of October, 2012

D.S. LOGAN - CHAIR
PROFESSIONAL CONDUCT COMMITTEE