

**CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO
(THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO)
*THE CHARTERED ACCOUNTANTS ACT, 2010***

DISCIPLINE COMMITTEE

IN THE MATTER OF: Allegations against **JOHN WILLIAM MORGAN, CPA, CA**, under Rule 206.1 of the Rules of Professional Conduct, as amended.

TO: Mr. John W. Morgan, CPA, CA

AND TO: The Professional Conduct Committee

**REASONS
(Decision and Order made July 15, 2014)**

1. This tribunal of the Discipline Committee met on July 15, 2014 to hear allegations of professional misconduct brought by the Professional Conduct Committee against John William Morgan, a Member.

2. Ms. Alix Hersak appeared on behalf of the Professional Conduct Committee (PCC), accompanied by the investigator, Mr. Raymond Harris FCPA, FCA. Mr. Morgan was not represented by counsel and did not attend. Mr. Robert Peck attended the hearing as counsel to the Discipline Committee.

Proceeding in Mr. Morgan's absence

3. Ms. Hersak filed an email dated July 11, 2014, from Mr. Morgan (Exhibit 1) to Ms. Hersak, which indicated he would not be participating in the process. Ms. Hersak had replied that the PCC would be seeking to proceed in this matter.

4. Mr. Morgan's email of July 11 asserted that there had been procedural irregularities and unfairness and that he took the position that he considered "your actions from January 14, 2014 to be ultra vires". Ms. Hersak filed a Chronology of Documents between the PCC and Mr. Morgan (Exhibit 2) and the Secretary of the Discipline Committee and Mr. Morgan. This correspondence and the Affidavit of Service of the Allegations on April 3, 2014 (Exhibit 3); the Affidavit of Service of Notice of the Hearing served on June 10, 2014 (Exhibit 4); and the disclosure made in February and Mr. Morgan's comments make it clear that he had proper notice of the allegations, the required disclosure and the notice of hearing. In fact he had the opportunity to suggest dates for the hearing which would be convenient to him. He had not done so.

5. Ms. Hersak stated that Mr. Morgan had attended before the PCC accompanied by a professional colleague who is a financial consultant, and was aware of his right to legal counsel. Mr. Morgan seems to have confused the meeting with the PCC with a hearing before a tribunal rather than an investigative committee. Ms. Hersak advised that Mr. Morgan, along with his colleague, did attend a subsequent meeting with her in March 2014 to discuss a possible Settlement Agreement. As terms could not be agreed upon, the allegations were signed and served on Mr. Morgan.

6. The tribunal determined that Mr. Morgan had received proper notice of the hearing and decided to proceed in his absence.

7. The decision of the tribunal was made known at the conclusion of the hearing on July 15, 2014, and the written Decision and Order sent to the parties on July 17, 2014. These reasons, given pursuant to Rule 20.04 of the Rules of Practice and Procedure, include the allegations, the decision, the order, and the reasons of the tribunal for its decision and order.

Allegations

8. The following allegations were made against Mr. Morgan by the Professional Conduct Committee on March 31, 2014. At the hearing, particular (g) of Allegation No. 2 and particular (b) of Allegation No. 4 were withdrawn by the PCC:

1. THAT the said John W. Morgan, in or about the period December 1, 2011 through January 1, 2012, while engaged to perform an audit of the financial statements of "ECSA" for the year ended December 31, 2011, 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 ensure that his Auditor's Report was accurate and in the form prescribed by the *CICA Handbook*;
 - (b) he failed to ensure disclosure of the basis of presentation of the financial statements in accordance with the Canadian accounting standards for not-for-profit organizations;
 - (c) he failed to document the basis for his conclusion to accept and to continue the client relationship and audit engagement;
 - (d) he failed to document the identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level, the identified risks and related internal controls, the substantive analytical procedures followed, the audit procedures used to address those risks and the results thereof; and
 - (e) he failed to document what, if any, steps were taken to mitigate threats to independence resulting from preparing adjusting journal entries.
2. THAT the said John W. Morgan, in or about the period December 31, 2011 through May 31, 2012, while engaged to perform an audit of the financial statements of "YFM Limited" for the year ended December 31, 2011 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 ensure that his Auditor's Report was accurate and in the form prescribed by the *CICA Handbook*;
 - (b) he failed to ensure disclosure of the basis of presentation of the financial statements in accordance with the Canadian accounting standards for private enterprises;

- (c) he failed to document the basis for his conclusion to accept and to continue the client relationship and audit engagement;
 - (d) he failed to ensure compliance with the requirements of Part II of the *CICA Handbook* with respect to first-time adoption of Accounting Standards for Private Enterprises;
 - (e) he failed to ensure correct disclosure of the Comparative Statement of Cash Flows items "Net income before income taxes 2011 (11,996)" and "Changes in working capital 2011 (21,728)";
 - (f) he failed to ensure complete disclosure of the financial instruments;
 - (g) *WITHDRAWN BY PCC*
 - (h) he failed to ensure complete disclosure of significant accounting policies;
 - (i) he failed to ensure the disclosure of a reconciliation of the income tax rate or expense related to the "Income (loss) before taxes" for the period to the statutory income tax rate or the dollar amount that would result from its application, including the nature and amount of each significant reconciling item;
 - (j) he failed to ensure that prepaid insurance in the amount of \$3,034 was recorded as an asset;
 - (k) he failed to document the identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level, the identified risks and related internal controls, the substantive analytical procedures followed, the audit procedures used to address those risks and the results thereof;
 - (l) he failed to document confirmation of the Comparative Balance Sheet item "Deferred revenue 2,587";
 - (m) he failed to document any subsequent events review procedures carried out; and
 - (n) he failed to document what, if any, steps were taken to mitigate threats to independence resulting from preparing adjusting journal entries.
3. THAT the said John W. Morgan, in or about the period December 31, 2012 through May 31, 2013, while engaged to perform an audit of the financial statements of "YFM Limited" for the year ended December 31, 2012 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 ensure that his Auditor's Report was accurate and in the form prescribed by the *CICA Handbook*;

- (b) he failed to ensure disclosure of the basis of presentation of the financial statements in accordance with the Canadian accounting standards for private enterprises;
- (c) he failed to ensure correct disclosure of the Comparative Statement of Cash Flows items "Net income before income taxes 2011 (11,996)" and "Changes in working capital 2011 (21,728)";
- (d) he failed to ensure complete disclosure of the financial instruments;
- (e) he failed to ensure required disclosure of risks and uncertainties arising from the financial instruments;
- (f) he failed to ensure the disclosure of a reconciliation of the income tax rate or expense related to the "Income (loss) before taxes" for the period to the statutory income tax rate or the dollar amount that would result from its application, including the nature and amount of each significant reconciling item;
- (g) he failed to ensure that prepaid insurance in the amount of \$3,034 was recorded as an asset;
- (h) he failed to ensure that the Comparative Balance Sheet items "Accounts receivable (note 5) 4,876," "Recovery of income tax 997," and "Retained Earnings (Exhibit "B") 5,386" agreed with the recording of the same items on the company's T2 Schedules;
- (i) he failed to ensure that the Comparative Income Statement items "Revenue 185,473" and "Provision for income taxes (800)" agreed with the recording of the same items on the company's T2 Schedules;
- (j) he failed to document the identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level, the identified risks and related internal controls, the substantive analytical procedures followed, the audit procedures used to address those risks and the results thereof;
- (k) he failed to document any subsequent events review procedures carried out; and
- (l) he failed to document what, if any, steps were taken to mitigate threats to independence resulting from preparing adjusting journal entries.

4. THAT the said John W. Morgan, in or about the period October 31, 2012 through January 31, 2013, while engaged to perform a review of the financial statements of "RRF Inc." for the year ended October 31, 2012, 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 ensure that his Review Engagement Report was accurate and in the form prescribed by the *CICA Handbook*;

- (b) *WITHDRAWN BY PCC*
- (c) he failed to ensure compliance with the requirements of Part II of the *CICA Handbook* with respect to first-time adoption of Accounting Standards for Private Enterprises;
- (d) he failed to ensure disclosure of significant accounting policies;
- (e) he failed to ensure complete disclosure of the financial instruments;
- (f) he failed to ensure required disclosure of risks and uncertainties arising from the financial instruments;
- (g) he failed to adequately document enquiry, analysis and discussion performed to establish the plausibility of Unaudited Combined Balance Sheet item "Estimated liability for income taxes 43,369" and Unaudited Combined Income Statement and Statement of Retained Earnings item "Provision for taxes current 76,000";
- (h) he failed to document enquiry, analysis and discussion performed to establish the plausibility of Unaudited Combined Balance Sheet items "accumulated depreciation 2,133,238," "Shareholders loans 121,333," Share Capital 150," and "Current portion of long term debt 363,000";
- (i) he failed to document enquiry, analysis and discussion performed to establish the plausibility of Unaudited Combined Income Statement and Statement of Retained Earnings item "Depreciation 512,523" ;
- (j) he failed to document enquiry, analysis and discussion performed to establish the plausibility of Notes to Combined Financial Statements items "Note 4 Loans GE 67,633" and "Note 4 Loans Instalment contract 30,235";
- (k) he failed to disclose in "Note 4 Loans" the amount of the payments estimated to be required in each of the next five years, and failed to disclose that "Mortgage loan 472,344" and "Term loan 384,328" are payable in US funds;
- (l) he failed to ensure that the method applied in "Note 8 Foreign Exchange Gains or Losses" for translation of the integrated US operations complied with the requirements of the *CICA Handbook*;
- (m) he failed to document what, if any, steps were taken to mitigate threats to independence resulting from preparing adjusting journal entries; and
- (n) he failed to document subsequent events review procedures carried out.

Plea

9. A plea of not guilty to the allegations was entered on Mr. Morgan's behalf.

The case for the PCC

10. In her opening statement, Ms. Hersak advised the tribunal that the case for the PCC would be presented by way of the testimony of the investigator, Mr. Harris. She filed a Document Brief (Exhibit 5) and an Authorities Brief (Exhibit 6).

11. Ms. Hersak called Mr. Harris, the investigator appointed by the PCC, and filed Mr. Harris' CV (Exhibit 7) for the tribunal's review. After consideration, the tribunal accepted Mr. Harris as an expert witness qualified to give opinion evidence on the standards of practice of the profession. In the course of his evidence, Mr. Harris referred to the Document Brief, and to the authorities from the *Member's Handbook* and the *CICA Handbook* found in the Authorities Brief.

12. Mr. Harris stated that this matter had been referred by Practice Inspection after a second reinspection of Mr. Morgan's practice where a number of deficiencies were identified. Mr. Morgan had provided a detailed response to the deficiencies outlined by the Practice Inspection Committee (PIC) in his letter of March 20, 2013 to the Director of Professional Standards which is found at Exhibit 5, Tab 2.

13. Mr. Harris stated that as part of his investigation, he had reviewed all material provided. He met with Mr. Morgan and selected files, financial statements and cost billing of clients. Mr. Harris did an in-depth review of the financial statements and files, and met again with Mr. Morgan to review his findings.

14. By way of background, Mr. Harris stated that Mr. Morgan became a Member in 1971, working in public accounting firms and in industry, and in 1975 he opened his firm as a sole practitioner. His home office was well-equipped. Mr. Morgan had two audit clients, three reviews, and performed a number of compilations and tax returns, following the CCH guidelines. Mr. Morgan did not consult with other Members and carried out all the work on his own.

15. Mr. Harris reviewed in considerable detail the documents in the Document Brief which were relevant to the particulars of the four allegations with reference to the relevant authorities in Exhibit 6. He also opined that the four allegations had been proven, that Mr. Morgan had failed to perform his professional services in accordance with generally accepted standards of practice of the profession.

Submissions of the PCC

16. At the conclusion of Mr. Harris's evidence, which included answers to questions posed by the members of the tribunal, Ms. Hersak submitted that the uncontested evidence provided by Mr. Harris and contained in the Document Brief and Authorities was clear, cogent and convincing. She submitted that Mr. Morgan failed to perform his professional services in accordance with generally accepted standards of practice of the profession and should be found guilty of professional misconduct.

The relevant facts

17. The tribunal accepted the evidence of Mr. Harris. We set out the pertinent points of his evidence about the specific particulars of each allegation and his conclusions about each of the four allegations, as we find them to be, in paragraphs 18 to 62 below. We also include, in many instances, the admission or explanation which Mr. Morgan gave Mr. Harris.

Particular 1(a)

18. Mr. Harris stated that Mr. Morgan has been the auditor for this association since 1997. The auditor's report is not addressed to the shareholders, fails to identify statement of revenues and expenditures, and no changes in equity are shown in the financial statements. Mr. Morgan

had acknowledged the deficiencies during his interview with Mr. Harris.

Particular 1(b)

19. In expressing an opinion on the financial statements, Mr. Morgan failed to disclose the basis of presentation in accordance with Canadian standards for not-for-profit organizations. Mr. Morgan did acknowledge the deficiency.

Particular 1(c)

20. Mr. Harris stated that Mr. Morgan acknowledged there was no documentation in his working paper file as a basis for his acceptance and continuation of the client relationship and the audit engagement.

Particular 1(d)

21. Mr. Harris stated that the documentation required by Canadian Auditing Standards was not contained in the working paper files and the representation letter did not satisfy the requirements. Mr. Morgan had told Mr. Harris that due to his long association with the client, he had complete knowledge of the client's business but had not documented his procedures. Mr. Morgan was confident that there was no risk of fraud but did not document his assessment of risks and internal controls.

Particular 1(e)

22. During the interview, Mr. Morgan had advised Mr. Harris that the president of the association had given approval for the adjusting journal entries but Mr. Morgan acknowledged it was not documented. Mr. Harris stated that Mr. Morgan should have documented the approval or there should have been written approval in the file from the president.

23. In summary, Mr. Harris stated that in his opinion the financial statements and working paper file did not meet the requirements of generally accepted standards of the profession. In response to queries from the tribunal on Allegation No. 1, Mr. Harris stated that no harm was done to third parties. Practice Inspection felt that Mr. Morgan was not following the accepted standards of practice which raised competence questions. A reinspection had been done because of deficiencies found and a second inspection was done after one year. Continuing deficiencies were again noted from the second inspection.

Particular 2(a)

24. Mr. Harris stated that Mr. Morgan had been performing an audit since 1973 for this client which owns and leases spaces for markets. The audit report in the file was unsigned and addressed to the business, rather than the shareholders. Mr. Morgan told Mr. Harris that the report was signed and delivered to the client for the year ended December 30, 2011. Mr. Morgan acknowledged this deficiency to Mr. Harris.

Particular 2(b)

25. Mr. Harris stated that the description of the audit in the auditor's report was not supported by the comparative balance sheet and comparative income statements, due to lack of documentation in the working paper file. Mr. Morgan had acknowledged that there were deficiencies but did not feel they were too important.

Particular 2(c)

26. Mr. Morgan had advised Mr. Harris that his long-time experience with the client made it unnecessary for him to consider and document any conclusions reached regarding the acceptance and continuance of the client engagement.

Particular 2(d)

27. With respect to requirements for the first time adoption of Accounting Standards for Private Enterprises, Mr. Harris said required disclosure was missing which would indicate the financial statements had been prepared in accordance with Accounting Standards for Private Enterprises. An opening balance sheet was not prepared and presented at the date of transition. Mr. Morgan told Mr. Harris he had reviewed the standards but thought there were no changes required from the previous audit.

Particular 2(e)

28. Mr. Morgan was unable to explain to Mr. Harris why the net income before taxes on the Cash Flow Statement did not equal the income (loss) before taxes on the income statement.

Particular 2(f)

29. Mr. Morgan had acknowledged to Mr. Harris that he had failed to ensure complete disclosure of the financial instruments.

Particular 2(h)

30. Mr. Harris stated that Mr. Morgan had failed to ensure complete disclosure of accounting policies as there was no clear disclosure of taxes payable policy being used for accounting for income taxes.

Particular 2(i)

31. Mr. Harris stated that the reconciliation of the income tax rate or expenses related to income (loss) before taxes was not shown in the notes to the financial statements. Mr. Morgan acknowledged this omission but said that the reconciling amounts were not material.

Particular 2(j)

32. When queried why he had failed to ensure that prepaid insurance in the amount of \$3,034 was recorded as an asset, Mr. Morgan told Mr. Harris it was consistent with what had been done in the past.

Particular 2(k)

33. Mr. Harris stated that there was no documentation in the working paper file identifying and assessing risks due to fraud. Mr. Morgan had acknowledged the lack of documentation but had confidence in his familiarity with this long-standing client.

Particular 2(l)

34. Mr. Harris stated that Mr. Morgan had seen the deferred revenue of \$2,587 in the company records but had not documented this in the working paper files.

Particular 2(m)

35. Mr. Harris had questioned Mr. Morgan about his failure to document his subsequent events review procedures carried out for the audit of the client. Mr. Morgan said he met regularly with management and was aware of all events. He did a review at year end and was satisfied that nothing would affect the financial statements, but failed to document his findings.

Particular 2(n)

36. Mr. Morgan advised Mr. Harris that he had reviewed the adjusting journal entries with the company's accountant. Mr. Harris stated that there was no documentation to indicate what steps had been taken to mitigate threats to independence in accordance with the CPA Canada auditing standards and the *Member's Handbook Council Interpretations*.

37. In respect of Allegation No. 2, Mr. Harris stated that in his opinion the financial statements and working paper file did not meet the requirements of generally accepted standards of the profession.

Particular 3(a)

38. Mr. Harris stated that the auditor's report for the year ended December 31, 2012 was not prepared in the form prescribed by the *CICA Handbook* and that Mr. Morgan had failed to ensure that the report was accurate. Mr. Harris stated that Mr. Morgan acknowledged this deficiency.

Particular 3(b)

39. Mr. Morgan had failed to ensure disclosure of the basis of presentation of the financial statements in accordance with the Canadian accounting standards for private enterprises. Instead, Mr. Morgan had referred to the guidelines of International Financial Reporting Standards in his audit report. Mr. Morgan acknowledged this deficiency to Mr. Harris.

Particular 3(c)

40. As in the previous year, Mr. Morgan had failed to ensure that net income before taxes was the same on the cash flow and income statements for the 2011 year.

Particular 3(d)

41. Mr. Harris confirmed that the failure to ensure complete disclosure of the financial instruments was similar to the deficiencies in the previous year's audit. Mr. Morgan had failed to include key deposits and unclaimed dividends in the company's financial instruments.

Particular 3(e)

42. Mr. Harris stated that credit risks were not disclosed arising from the financial instruments of the company. Mr. Morgan had acknowledged that the accounts receivable amount of \$4,876 on the balance sheet which could involve a credit risk was not disclosed.

Particular 3(f)

43. Mr. Harris stated that Mr. Morgan had failed to ensure disclosure of a reconciliation of the income tax rate or expense related to the income (loss) before taxes. Mr. Morgan indicated to Mr. Harris that he thought it was not material but did acknowledge the omission.

Particular 3(g)

44. Mr. Morgan failed to record prepaid insurance in the amount of \$3,034 as an asset as it was the same prepayment each year.

Particulars 3(h) and (i)

45. Mr. Harris stated that items on the Comparative Balance Sheet and Comparative Income Statement did not agree with what was recorded on the T2 schedules. Mr. Morgan told Mr. Harris that the T2 schedules had been prepared by the company's accountant prior to the release of the financial statements and adjustments had not been made.

Particular 3(j)

46. Mr. Harris stated that the failure to document the identified and assessed risks of material misstatement due to fraud was similar to the previous year's audit. Mr. Morgan failed to document assessment of risk due to his knowledge of the client.

Particular 3(k)

47. As in the previous year's audit, Mr. Morgan said he met regularly with management and

was aware of all events. His year-end review satisfied Mr. Morgan that nothing would affect the financial statements, but he failed to document his findings.

Particular 3(l)

48. Mr. Morgan told Mr. Harris he had reviewed the adjusting journal entries with the company's accountant but had failed to document the steps taken in the working paper file.

49. Mr. Harris stated that, in his opinion, the financial statements and working paper file referred to in Allegation No. 3 did not meet the requirements of generally accepted standards of the profession.

50. In response to questions of the tribunal, Mr. Harris stated that Mr. Morgan had used more recent templates for the 2012 audit but there was still a long list of deficiencies even after some improvements.

Particular 4(a)

51. Mr. Harris stated that Mr. Morgan had performed a review engagement for the year ended October 31, 2012 for a farming business that has corporations in Canada and the United States, under the same ownership. Mr. Morgan has been involved with this client since the 1990s. There are separate accounting records for each jurisdiction and the revenue is split. Mr. Harris noted that the review engagement report is signed by Mr. Morgan but is not addressed to the shareholders. Mr. Morgan issued the review engagement report as an unaudited combined balance sheet, statements of income, retained earnings and cash flows with operations in Canada and the United States. Mr. Morgan acknowledged the deficiency to Mr. Harris.

Particular 4(c)

52. Mr. Morgan failed to ensure compliance with the requirements of the *CICA Handbook* for first time adoption of accounting standards for private enterprises. Mr. Morgan told Mr. Harris that he had reviewed the *Handbook* and thought the requirements were the same as in previous years.

Particular 4(d)

53. Mr. Harris stated that Mr. Morgan provided no clear explanation for his failure to ensure disclosure of significant accounting policies that would affect the company's financial position due to future taxes and foreign exchange rates.

Particular 4(e)

54. Mr. Morgan had disclosed certain financial instruments but neglected to list loans payable and shareholders' loans. Mr. Harris said Mr. Morgan had agreed that these were deficiencies.

Particular 4(f)

55. Mr. Harris stated that there can be credit risks involved in dealing regularly with two currencies, Canadian and American, due to foreign exchange rates. Mr. Morgan did not agree with Mr. Harris' opinion.

Particular 4(g)

56. Mr. Harris stated that there was inadequate documentation on enquiry, analysis and discussion to establish plausibility of estimated liability for income taxes and current taxes. Mr. Morgan had said he examined the US tax returns but there was no indication of steps taken in the working papers.

Particulars 4(h), (i) and (j)

57. Mr. Harris stated that there was no documentation in the working papers regarding enquiry, analysis, and discussion to determine the plausibility of accumulated depreciation, shareholders' loans, share capital and current portion of long-term debt recorded in the financial statements. Similarly, there was no documentation to establish plausibility of loan items in the notes to combined financial statements.

Particular 4(k)

58. Mr. Morgan had failed to disclose the amount of estimated payments required in the next five years for loans, and that the mortgage and term loans are payable in US funds. Mr. Morgan acknowledged to Mr. Harris that there was no disclosure in the notes to the financial statements.

Particular 4(l)

59. Mr. Harris stated that Mr. Morgan had failed to use the temporal method for the translation of financial statements of an integrated foreign operation as required by the *CICA Handbook*. Mr. Harris noted that in 2012, Canadian and US dollar equivalent exchange rates varied from month to month.

Particular 4(m)

60. Mr. Morgan told Mr. Harris that he had discussed steps to mitigate possible threats to independence resulting from preparing adjusting journal entries with the company president, but there was no documentation in the file.

Particular 4(n)

61. Mr. Harris stated that there was no documentation in the file of subsequent events review procedures.

62. Mr. Harris stated that, in his opinion, the financial statements and working paper file referred to in Allegation No. 4 did not meet the requirements of generally accepted standards of the profession.

The Decision and Reasons for Decision

63. The tribunal found, on the uncontested evidence, that the allegations had been proven. After deliberating, the tribunal announced the following decision:

THAT having determined to proceed with the hearing in the absence of Mr. Morgan, being satisfied that he had proper notice of the hearing, and having entered on his behalf a plea of not guilty to each of the allegations, Allegation Nos. 2 and 4 having been amended at the hearing, and having seen, heard and considered the evidence, the Discipline Committee finds John William Morgan guilty of Allegation Nos. 1, 2, 3 and 4.

64. Given the evidence of Mr. Harris set out above, which we accepted including the acknowledgement of many of the deficiencies by Mr. Morgan to the investigator, the tribunal found the allegations made against Mr. Morgan to be proven. The allegations identify forty-three (43) deficiencies. In some instances Mr. Morgan explained or purported to justify the deficiencies and in doing so demonstrated he did not understand the requirements of the profession. In the tribunal's view, there is no question that collectively the departures from the required standard of practice fall well below the standard required of a CPA, CA and that a finding of professional misconduct must follow.

Sanction

65. Ms. Hersak made submissions on sanction but did not call further evidence.

66. Ms. Hersak, on behalf of the PCC, submitted that an appropriate sanction in this matter would be: a written reprimand; a fine in the amount of \$7,500; five professional development courses, supervised practice for 24 months with costs being paid by Mr. Morgan, followed by reinvestigation with costs up to \$2,500 and the usual order with respect to publicity. The PCC also sought an order for costs of \$12,500, which was approximately one-half of the costs incurred.

67. Ms. Hersak submitted that Mr. Morgan's response indicates he disagrees with some of the findings of Mr. Harris and shows a need for rehabilitation. Ms. Hersak stated that while Mr. Morgan may be reluctant to accept suggestions, it is hoped that he will be open to accepting guidance from a supervisor in order to bring up his standards of practice.

68. The aggravating factors, Ms. Hersak stated, include the totality of the particulars of the allegations and the number of corrective opportunities Mr. Morgan had received from Practice Inspection: The number of deficiencies found reflect adversely on the standards of practice exhibited by Mr. Morgan, and show a lack of acceptance or willingness to upgrade his procedures. Mr. Morgan chose not to attend the hearing before the discipline tribunal.

69. Ms. Hersak submitted that the mitigating factors are that Mr. Morgan did cooperate and was forthcoming with the investigator. He met with Mr. Harris on more than one occasion, attended the PCC meeting and met with Ms. Hersak.

70. Ms. Hersak stated that a reprimand addresses the professional misconduct of Mr. Morgan and would act as a specific deterrent by pointing out that his standards are below the level expected and need to be upgraded. The proposed fine would act as a specific and general deterrent to like-minded Members, and falls within the range of similar cases. Supervised practice for a 24-month period for all assurance engagements would assist Mr. Morgan, who does not appear to consult with other Members and works in an isolated environment. A reinvestigation of his practice, subsequent to the supervision, will indicate whether his standards of practice have improved. Publicity is appropriate as a general and specific deterrent, and there are no unusual circumstances to preclude publication.

71. Ms. Hersak submitted that the five suggested professional development courses will assist Mr. Morgan in upgrading his standards:

- *Financial Statement Presentation & Disclosure under ASPE*
- *Financial Instruments for Private Enterprises & Not-for-Profit Organizations*
- *Review Engagements*
- *The Micro Audit*
- *Effective Use of Analytical Procedures*

72. Ms. Hersak filed a Costs Outline (Exhibit 8) showing the costs to be approximately \$25,000, of which the PCC was seeking approximately half. The PCC was seeking \$12,500 in costs, and has no objection to Mr. Morgan being given a reasonable period of time to pay both the fine and the costs.

73. Ms. Hersak distributed an Authorities Brief containing similar cases under Rules 206.1. Ms. Hersak referred to the case brief containing *Hubbard, Pillo, Baker and Lange*, pointing out relevant items in each case. The precedents contained a common theme of failure to perform professional services in accordance with the standards of the profession where supervision and reinvestigation had been ordered.

Order

74. After deliberating, the tribunal made the following order:

IT IS ORDERED in respect of the allegations:

1. THAT Mr. Morgan be reprimanded in writing by the Chair of the hearing.
2. THAT Mr. Morgan be and he is hereby fined the sum of \$7,500, to be remitted to the Chartered Professional Accountants of Ontario (registered business name of The Institute of Chartered Accountants of Ontario) ("CPA Ontario") within twenty-four (24) months from the date this Decision and Order is made.
3. THAT Mr. Morgan be and he is hereby required to complete, by paying for and attending in their entirety, within twenty-four (24) months from the date this Decision and Order is made, the following professional development courses made available through CPA Ontario:
 - (a) *Financial Statement Presentation & Disclosure under ASPE*
 - (b) *Financial Instruments for Private Enterprises & Not-for-Profit Organizations*
 - (c) *Review Engagements*
 - (d) *The Micro Audit*
 - (e) *Effective Use of Analytical Procedures*
 or, in the event a course listed above becomes unavailable, the successor course which takes its place.
4. THAT Mr. Morgan be and he is hereby required to complete a twenty-four (24) month period of supervised practice at his own cost, upon the following terms and conditions:
 - a) Mr. Morgan shall, within thirty (30) days from the date this Decision and Order is made, file with the secretary of the Discipline Committee a supervised practice plan, which has been reviewed and approved by the Director of Standards Enforcement of CPA Ontario, and which sets out the name of the supervisor who must be a member of CPA Ontario who is licensed to practice public accounting in Ontario, and which contains the agreement in writing of the supervisor in a form acceptable to the Director of Standards Enforcement, to so act.
 - b) The responsibilities of the supervisor shall include, at a minimum, the review and approval of Mr. Morgan's working papers and financial statements or other assurance reports for assurance engagements prior to Mr. Morgan's issuance of any such reports.
 - c) In the event the Professional Conduct Committee finds Mr. Morgan's choice of supervisor unacceptable, or there is any other issue relating to the supervised practice plan about which Mr. Morgan and the Professional Conduct Committee cannot agree, either may give notice of the disagreement to the Chair of the Discipline Committee who may move to have that aspect of the order reconsidered in accordance with Rule 21 of the Rules of Practice and Procedure.
 - d) The twenty-four (24) month period of supervised practice shall commence on the day that Mr. Morgan files the approved supervised practice plan in accordance with paragraph 3(a) above, or on the day the supervised practice plan is settled, pursuant to paragraph 3(c) above, whichever of the days is later.

- e) The supervisor shall file a report in writing with the Director of Standards Enforcement of CPA Ontario, confirming that he or she has supervised Mr. Morgan for the stipulated period of time and provide the name(s) of the assurance engagement(s) reviewed and approved for release by him or her and confirming that there were no compliance issues with Mr. Morgan's practice. This report is to be provided within thirty (30) days of the conclusion of the supervised practice.
5. THAT Mr. Morgan be reinvestigated by the Professional Conduct Committee, or by a person retained by the Professional Conduct Committee, on one occasion between six (6) and twelve (12) months from the termination of the supervised practice, the cost of the reinvestigation, up to \$2,500, to be paid by Mr. Morgan within thirty (30) days of receiving notification of the cost of the reinvestigation.
 6. THAT notice of this Decision and Order, disclosing Mr. Morgan's name, be given in the form and manner determined by the Discipline Committee:
 - (a) to all members of CPA Ontario;
 - (b) to the Public Accountants Council for the Province of Ontario; and
 - (c) to all provincial bodies;
 and shall be made available to the public.
 7. THAT in the event Mr. Morgan fails to comply with the requirements of this Order, he shall be suspended from membership in CPA Ontario and his public accounting licence shall thereupon be suspended until such time as he does comply, provided that he complies within thirty (30) days from the date of his suspension. In the event he does not comply within the thirty (30) day period, his membership in CPA Ontario and public accounting licence shall thereupon be revoked, and notice of the revocation of his membership and public accounting licence, disclosing his name, shall be given in the manner specified above, and in a newspaper distributed in the geographic area of Mr. Morgan's practice. All costs associated with this publication shall be borne by Mr. Morgan and shall be in addition to any other costs ordered by the committee.

IT IS FURTHER ORDERED:

8. THAT Mr. Morgan be and he is hereby charged costs fixed at \$12,500, to be remitted to CPA Ontario within twenty-four (24) months from the date this Decision and Order is made.

Reasons for Sanctions

75. The tribunal agreed that the terms requested would be the appropriate sanction in this case. The public deserves and the profession demands practitioners who meet the standards of the profession. Despite the opportunities available through Practice Inspection and the chances the PIC gave Mr. Morgan, he did not bring his standards of practice up as required. The reprimand, fine, supervision of Mr. Morgan's assurance practice for 24 months, the requirement to take five professional development courses; and reinvestigation subsequent to his supervision being completed are intended to both allow Mr. Morgan to rehabilitate himself and protect the public while he does so.

76. No doubt Mr. Morgan will find the 24-month supervision of his assurance practice and his subsequent reinvestigation inconvenient, but the tribunal is convinced these provisions of the order are required to assure the public and the profession his standards of practice will be

appropriate. The tribunal felt that the sanctions directed towards rehabilitation, which also serve the purpose of specific deterrence, are within the range of those previously imposed in similar cases.

77. The principle of general deterrence is also relevant in this case and the reprimand, fine, the requirement to take professional development courses along with publication to the profession and the availability of publication to the public serve this purpose.

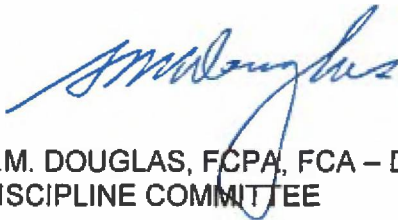
78. The tribunal set a time period of up to 24 months for Mr. Morgan to pay the fine and costs. The tribunal provided this time period as it is within time lines provided in previous cases and it coincides with the rehabilitation period set by PCC.

Costs

79. A costs outline was filed showing costs incurred by the PCC of approximately \$25,000. The tribunal agreed that costs of \$12,500 should be ordered against Mr. Morgan which represents a partial indemnity for the costs incurred.

80. For the reasons set forth above, the tribunal agreed that a period of up to 24 months for Mr. Morgan to pay the costs was appropriate.

DATED AT TORONTO THIS 24TH DAY OF SEPTEMBER, 2014
BY ORDER OF THE DISCIPLINE COMMITTEE



S.M. DOUGLAS, FCPA, FCA – DEPUTY CHAIR
DISCIPLINE COMMITTEE

MEMBERS OF THE TRIBUNAL:

P.A. BUSCH, CPA, CA
A.R. DAVIDSON, CPA, CA
C.M. MACLELLAN, FCPA, FCA
R.H. CARRINGTON (PUBLIC REPRESENTATIVE)