

CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO
CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

DISCIPLINE COMMITTEE

IN THE MATTER OF: Allegations against **JOSEPH E. WATTIE, CPA, CA** a member of the Chartered Professional Accountants of Ontario, under **Rules 201.1 and 206.1** of the CPA Ontario Code of Professional Conduct.

BETWEEN:

**Chartered Professional Accountants of Ontario
Professional Conduct Committee**

-and-

Joseph E. Wattie

APPEARANCES:

For the Professional Conduct Committee: Kelvin Kucey, Counsel

For Joseph Wattie: Present
Emily Stock, Counsel

Heard: November 14, 2023

Decision and Order effective: November 14, 2023

Release of written reasons: December 5, 2023

REASONS FOR THE DECISION AND ORDER MADE NOVEMBER 14, 2023

I. OVERVIEW

- [1] The Professional Conduct Committee (PCC) of the Chartered Professional Accountants of Ontario (CPA Ontario) has made Allegations that Joseph Wattie (the Member), while acting as engagement partner for over fifty audits and review engagements, failed to fulfill his professional responsibilities and abrogated those responsibilities to an unlicensed accountant. The PCC alleges that by so doing the Member failed to uphold the reputation of the profession and serve the public interest contrary to Rule 201.1 of the CPA Ontario Code of Professional Conduct (the Code) and failed to perform his professional services in accordance with generally accepted standards of the profession contrary to Rule 206.1 of the Code.
- [2] The Member obtained his Chartered Accountant designation in 1984 while working at a predecessor firm to BT in Ottawa. Throughout his career the Member worked on assurance

and compilation engagements and also held tax and information technology roles.

- [3] From 1994 until his retirement in May of 2022, the Member was a BT assurance partner, focusing primarily on not-for-profit client audits and reviews. He held a Public Accounting Licence until September 30, 2022.
- [4] The Member had approximately 150 assurance clients, 70 to 80 annual compilation agreements, and 200 to 240 personal tax clients.

II. THE COMPLAINT AND THE ALLEGATIONS

- [5] Hedra Saparno (Saparno) was a Senior Manager of BT assigned to approximately half of the Member's not-for-profit engagements, amounting to about 50 to 70 assurance and compilation agreements. Saparno reported to the Member, and the Member was responsible for supervising Saparno's work on engagements for which the Member was the lead engagement partner.
- [6] Following an internal investigation, BT filed a complaint with CPA Ontario regarding the conduct of Saparno, focused on his unauthorized issuances of financial statements and accompanying audit or review reports to clients.
- [7] Approximately three weeks later, with the consent of the Member, BT filed a second complaint with CPA Ontario, focused this time on the conduct of the Member and his failure to appropriately supervise Saparno and prevent his conduct.
- [8] The investigation found that Saparno issued 55 financial statements, consisting of 52 audits and three reviews, to 21 of the Member's fixed-fee not-for-profit organizational clients (Impacted Engagements). Saparno was found to have circumvented BT's internal controls governing the issuance of financial statements for the Impacted Engagements, including the requirement to obtain partner review and approval, and was revoked by Order of the Discipline Committee on November 24, 2023.
- [9] Specific concerns about the Member's conduct included:
 - a) The Member's inattentiveness to the length of time it was taking Saparno to finalize files;
 - b) The Member's failure to help Saparno complete the impacted files;
 - c) The Member's insufficient client interaction, given the number of clients impacted;
 - d) The Member's failure to ask appropriate questions of Saparno about the status of the engagements;
 - e) The Member's increasing balance of unbilled engagement time in BT's time and billing system;
- [10] Saparno's conduct and the Member's failed oversight permitted the improper issuance of the Impacted Engagements with BT's signature, without the Member's review or approval and without having gone through BT's regular control processes.

- [11] During the investigation the Member admitted that he failed to have an appropriate level of oversight of Saparno and should have insisted on more complete answers from Saparno or otherwise conducted his own investigations independent of Saparno. The Member admitted that he should have caught and prevented Saparno's circumventions of BT's internal controls.
- [12] As a result of these findings, BT restricted the Member's authority and responsibility, including suspending him from all assurance and compilation work. BT also negotiated the Member's expedited retirement to occur on May 2, 2022 instead of December 31, 2022.
- [13] The PCC brought the following amended Allegations against the Member:
1. That from May 1, 2018 to December 31, 2021, while a partner at BT and engaged to perform 52 audit and three review engagements on behalf of 21 individual clients, he failed to conduct himself in a manner which will maintain the good reputation of the profession and serve the public interest, contrary to Rule 201.1 of the Code, in that:
 - a) He failed to take overall responsibility for managing and achieving quality on the audit engagements;
 - b) He failed to take responsibility for the overall quality of each review engagement;
 - c) He failed to execute the customary functions of the engagement partner for the audit of financial statements and abrogated his responsibility for the performance of those engagements to an unlicensed accountant;
 - d) He failed to execute the customary functions of the engagement partner for the review of financial statements and abrogated his responsibility for the performance of those engagements to an unlicensed accountant; and
 - h) He had no traceable involvement in forty-four of the fifty-five engagements.
 2. That from May 1, 2018 to February 1, 2022, while a partner of BT and engaged to perform 52 audit and three review engagements, he failed to perform his professional services in accordance with generally accepted standards of the profession, contrary to Rule 206.1 of the Code, in that:
 - a) In reviewing the relevant files, BT determined that twenty-nine of the engagement reports required re-issuance based on changes to the financial statements and/or to the accompanying notes;
 - b) He failed to take responsibility for the direction and supervision of the members of the engagement teams and the review of their work;
 - c) He failed to remain alert to evidence of breaches of relevant ethical requirements by members of the engagement teams;
 - d) He failed to take responsibility for the engagements being performed in accordance with BT's quality control policies;

- e) He failed to take responsibility for using the resources assigned to the engagement team appropriately; and
- f) He approved eight final invoices that were issued to clients without completing the required review and sign off of the related engagements.

III. PRELIMINARY ISSUES

- [14] The Parties raised no preliminary issues.

IV. ISSUES

- [15] The Panel identified the following issues arising from the Allegations:
- A. Did the evidence establish, on a balance of probabilities, the facts on which the Allegations by the PCC were based?
 - B. If the facts alleged by the PCC were established on the evidence on a balance of probabilities, did those facts constitute professional misconduct?

V. DECISION

- [16] The Panel found that the evidence established, on a balance of probabilities, the facts set out in the Allegations of professional misconduct.
- [17] The Panel was satisfied that the Allegations were proven and constituted breaches of Rule 201.1 and Rule 206.1 of the Code, and having breached the Code, the Member committed professional misconduct.

VI. REASONS FOR THE DECISION ON MISCONDUCT

- [18] Evidence in support of the Allegations was placed before the Panel through an Agreed Statement of Facts (ASF), signed by each party and dated November 8, 2023 (marked as Exhibit 1). The Document Book to the ASF was marked as Exhibit 2. The Member, who attended the hearing, confirmed orally that he admitted the allegations against him and that they constituted professional misconduct.
- [19] The parties tendered no further evidence.

The Applicable Professional Standards

- [20] Canadian Audit Standards (CAS) 220 details the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner, as specified below.
- CAS 220.13 requires the engagement partner to take overall responsibility for managing and achieving quality on the audit engagement, including taking responsibility for creating an environment for the engagement that emphasizes the firm's culture and expected behaviour of engagement team members. In doing so, the engagement partner is required to be sufficiently and appropriately involved throughout the audit engagement such that

the engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement.

- CAS 220.17 requires the engagement partner to take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures.
- CAS 220.18 requires the engagement partner to be alert to matters that indicate a threat to compliance with relevant ethical requirements and tasks the engagement partner to evaluate the threat through complying with the firm's policies or procedures, using relevant information from the firm, the engagement team or other sources, and take appropriate action.
- CAS 220.19 requires the engagement partner to remain alert throughout the audit engagement, through observation and making inquiries as necessary, for breaches of relevant ethical requirements or the firm's related policies or procedures by members of the engagement team.
- CAS 220.25 requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the audit engagement, the firm's policies or procedures, and any changes that may arise during the engagement.
- CAS 220.26 requires the engagement partner to determine and ensure that members of the engagement team, and any auditor's external experts and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement.
- CAS 220.28 requires the engagement partner to take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the audit engagement.
- CAS 220.29 requires the engagement partner to take responsibility for the direction and supervision of the members of the engagement team and the review of their work.

[21] Similarly, Canadian Standard on Review Engagements (CSRE) 2400 details the practitioner's responsibilities when engaged to perform a review of annual or interim historical financial statements.

[22] CSRE 2400.23 requires the engagement partner to take responsibility for:

- a) The overall quality of each review engagement to which that partner is assigned;
- b) The direction, supervision, planning and performance of the review engagement in

compliance with professional standards and applicable legal and regulatory requirements;

c) The practitioner's report being appropriate in the circumstances; and

d) The engagement being performed in accordance with the firm's quality control policies.

- [23] CSRE 2400.25 requires the engagement partner to remain alert, through observation and making inquiries as necessary, for evidence of breaches of relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have breached relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.

Findings Regarding the Conduct of the Member

- [24] The Member and Saparno had worked together since 1988. At all material times, the Member was the BT partner in charge of Saparno. Between 2018 and 2021, Saparno charged more than 95% of his time to engagements on which the Member was the engagement partner.
- [25] Between 2018 and 2021, the Member was responsible for Saparno's annual and semi-annual performance appraisals in accordance with the firm's Quality Assurance Manual (QAM). There is no written evidence that Saparno's performance appraisals were performed for the years 2019, 2020, and 2021.
- [26] Saparno's conduct in respect of the Impacted Engagements occurred between May 1, 2018 and December 31, 2021. The Member was unaware of Saparno's conduct until it was discovered by another BT partner in January 2022.
- [27] Saparno's backlog of files was identified in January 2020. The Member noticed that Saparno was falling behind and had not been providing him with files for review and requested that Saparno prepare a list of outstanding files and their status. Saparno and the Member began meeting monthly to address this list.
- [28] Saparno fell further behind on his files throughout 2020 following the initial impacts of the Covid-19 pandemic in mid-March 2020. The monthly meetings between the Member and Saparno were increased to weekly status meetings in mid-2020 and continued throughout 2021. The Member and Saparno were joined at these meetings by a BT principal who was expected to take over the Member's client list following his scheduled December 2022 retirement.
- [29] During these meetings, when the Member questioned Saparno about the delays, Saparno provided explanations that he was waiting on management representation letters or other information from clients or was in the final stages of cleaning up the files before providing the files to the Member for review.
- [30] The Member did not attend any client or board meetings in respect of the Impacted Engagements between 2018 and 2021.
- [31] Across all the Impacted Engagements the Member charged a total of ten hours and had

signoffs in the working paper files of eight of the 55 Impacted Engagements.

- [32] The Member could not demonstrate any traceable involvement in 44 of the 55 Impacted Engagements.
- [33] The Member and Saparno's conduct required BT to remediate the Impacted Engagements. BT assigned a remediation team of eight partners to review, and potentially correct and re-state each of the Impacted Engagements.
- [34] Of the 55 Impacted Engagements, BT determined that:
 - e) 21 Impacted Engagements required material changes to the financial statements and/or the accompanying notes;
 - f) Eight Impacted Engagements required only changes that were not material to the financial statements and/or the accompanying notes;
 - g) Seven Impacted Engagements did not require any changes to the financial statements and/or accompanying notes; and
 - h) As of March 9, 2023, 19 Impacted Engagements have not yet been remediated by BT.
- [35] BT determined that on eight occasions, the Member approved final client invoices for Impacted Engagements that were ultimately issued to clients without having completed his review and signoff of the related assurance engagements.
- [36] As of March 9, 2023, BT had remediated and re-issued final financial statements for 29 of the 55 Impacted Engagements. For seven of the 55 Impacted Engagements, BT identified material errors in the finalized statements but had not yet issued revised final financial statements.
- [37] BT billed on average approximately \$6,500 per Impacted Engagement prior to the discovery of Saparno's conduct. As of February 1, 2022 there was a total of \$380,128 work in progress across the Impacted Engagements, and the Member had not issued final invoices for 45 of the 55 Impacted Engagements.

Admissions

- [38] The Member admits that he abrogated his engagement partner duties to his clients to plan, execute, communicate and complete the assurance work of the Impacted Engagements.
- [39] The Member admits that he did not complete any of the work for 44 of the Impacted Engagements which had no partner signoffs.
- [40] The Member admits that he generally operated as a "hands-off" partner, particularly with Saparno, with whom he had a long and trusted working relationship. The Member admits that he was aware of BT's QAM requirement for partner review of client engagement files prior to the issuance of financial statements and admits that he did not meet BT's QAM requirement for partner review of client engagement files prior to the issuance of the financial statements

that were issued by Saparno for the impacted clients.

- [41] The Member admits that Saparno circumvented the QAM requirements, and that he failed to have an appropriate level of oversight of Saparno and that he should have insisted on more complete answers from Saparno to his questions or that he should have conducted his own investigations independent of Saparno.
- [42] The Member admits that in monitoring the ongoing work on the Impacted Engagements he was inattentive and relied on Saparno's representations and explanations rather than determining the status of the Impacted Engagements independently.
- [43] The Member relied on Saparno, who did not hold a Public Accounting Licence, to carry out some of the *de facto* engagement partner role for the Impacted Engagements and was not actively monitoring working papers as part of the audit process.
- [44] The Member admits that he moved ahead with new engagements when the prior year was not complete without having a good understanding of why the prior year had not been finished.
- [45] The Member admits that the aging engagement status list did raise red flags for him, but he never thought that Saparno was manipulating the financial statements.
- [46] The Member admits that he lacked professional skepticism in monitoring the Impacted Engagements. He admits that he expected Saparno to address how to deal with growing issues of backlog, work in progress, resourcing, QAM policy enforcement, client billings and client communication, through discussion with the Member in their regular meetings.
- [47] The Member admits that in failing to execute the customary role of an engagement partner on the Impacted Engagements he failed to maintain the good reputation of the profession and serve the public interest.
- [48] The Panel finds that the ASF provides clear and cogent evidence that the facts upon which the Allegations are based have been proven on a balance of probabilities.

Finding of Professional Misconduct

- [49] Through the ASF the Member admits the Allegations and that they constitute substantive breaches of Rule 201.1 and Rule 206.1 of the Code, amounting to professional misconduct.
- [50] The Panel finds that the Allegations, having been proven on the evidence, constitute breaches of Rules 201.1 and 206.1 of the Code and constitute professional misconduct.

VII. DECISION AS TO SANCTION

- [51] After considering the evidence, the law, and the joint submission of both parties, the Panel ordered the revocation of the Member's membership, a fine of \$50,000 payable within three months, a written reprimand from the Chair of the hearing, and publication of the Decision and Order on the CPA website as well as in the *Globe and Mail* newspaper circulated in the Ottawa and National Capital Region.

VIII. REASONS FOR THE DECISION AS TO SANCTION

- [52] The Panel accepted the position on sanction jointly submitted by the PCC and the Member.
- [53] The Panel recognizes that a joint submission is entitled to a high level of deference. A joint submission should be adopted unless it is contrary to the public interest or would bring the regulatory process into disrepute because it was beyond the reasonable range of sanction.
- [54] In the case of [R. v. Anthony Cook](#) the Supreme Court of Canada wrote at para. 34 that a joint submission should not be rejected lightly:

Rejection denotes a submission so unhinged from the circumstances of the offence and the offender that its acceptance would lead reasonable and informed persons, aware of all the relevant circumstances, including the importance of promoting certainty in resolution discussions, to believe that the proper functioning of the justice system had broken down. This is an undeniably high threshold.

- [55] The Panel finds that the joint submission of the parties falls within the reasonable range of sanction for the misconduct of the Member and is not contrary to the public interest.
- [56] The Panel acknowledges that the Member co-operated throughout the CPA Ontario investigation, and that there was no allegation of dishonesty against him. The Panel further recognizes that there is no evidence of a prior disciplinary history, and that the Member should be credited for accepting responsibility for his misconduct by admitting the allegations and agreeing to the statement of facts. In addition, the Member, through his counsel, apologized to all members of the profession for his misconduct.
- [57] The Panel finds that the fine of \$50,000 ensures that the objectives of specific and general deterrence are achieved. The fine is sufficiently large that it cannot be said to merely constitute the cost of doing business, and it is well within the range of fine for comparable cases (for example, [Re Vriend \(2021\)](#) and [Re Hinchcliffe \(2022\)](#)).
- [58] Revocation of membership is the most severe sanction that can be imposed by the Discipline Committee. It is warranted where the protection of the public interest or reputation of the profession requires that the member be removed from the profession. It is imposed most frequently in cases involving dishonesty, serious ethical misconduct, ungovernability, failure to recognize the conduct as improper, conduct that has caused significant harm to the public, or criminal or quasi-criminal misconduct.
- [59] The PCC referred to the case of [Re Horsley \(2016\)](#), where the Discipline Committee imposed the penalty of revocation based on the member's complete abdication of his professional duties, which amounted to a failure to maintain the reputation of the profession contrary to Rule 201.1 of the Code as well as a failure to exercise due care in the performance of his professional services contrary to Rule 202.1 of the Code. Horsley, as CFO of Sino-Forest, did not engage in fraud or dishonesty but ignored his responsibilities over an extended period of time, in the context of allegations of fraud and the collapse of a public company. The Panel held at para. 53 that:

Revocation was required to explicitly communicate to the public and the profession that the abdication by a CPA of his professional responsibilities over a prolonged

period, which resulted in a significant injury to the public interest, could not be reconciled with that person's continued membership in the profession.

- [60] The other cases referenced by the PCC, which involve failures to perform professional standards in accordance with generally accepted standards of practice of the profession, did not include as a sanction revocation of membership. Various of these cases did, however, include significant suspensions, and the revocation of Public Accounting Licences. The PCC submitted that this case is distinguishable by the extent of the abdication by the Member of his professional duties, which spanned 55 engagements, involving 21 separate clients, over a number of years. The PCC submitted that the sheer scope of this complete abdication of professional responsibility, in which the Member failed to complete any work whatsoever for 44 separate engagements, warranted the most extreme sanction of revocation of membership.
- [61] Counsel for the Member did not dispute that revocation of membership fell within the range of acceptable sanctions for this matter.
- [62] The Panel is cognizant of its role in considering a joint submission on sanction. The Panel does not have the discretion to craft the sanction it finds is most appropriate given the specific facts of the case but is restricted to considering whether the jointly proposed sanction is contrary to the public interest or would bring the regulatory process into disrepute because it was beyond the reasonable range of sanction.
- [63] It is the Panel's position that a strong message must be continually sent to the membership at large that the role of the engagement partner is a crucial one which cannot be abrogated or delegated. As emphasized by the Discipline Committee in *Re Hinchcliffe* (2022) at para. 73:
- It does not matter the size of the firm, or whether the engagement partner places exceptional trust in another partner's abilities. Significant professional responsibilities are assigned to the engagement partner and these responsibilities must be met by the engagement partner personally and without exception. Failure to abide by these professional responsibilities will lead to serious sanctions, up to and including the revocation of the engagement partner's Public Accounting Licence.
- [64] The Panel finds the Member's conduct in the case at hand, in completely abdicating his professional responsibilities and failing to uphold the good reputation of the profession, to be egregious and warranting serious sanction. The scope of the Member's failure to meet his professional obligations is staggering, including his complete lack of involvement in 44 of the 55 Impacted Statements. His near-total abdication of his role as engagement partner effectively permitted the circumvention of BT's internal controls by Saparno, resulting in the improper issuance of 55 financial statements, and, once the conduct was discovered, requiring BT to undertake a very significant remediation procedure to identify and correct the material errors in the improperly issued financial statements and accompanying notes.
- [65] In addition to the seriousness of the misconduct as described above, the Panel also considered that the Member had previously been suspended by his firm from all assurance

and compilation work and was subjected to an early retirement which commenced on May 2, 2022. Given all of these circumstances, the Panel accepts that the jointly proposed sanction of revocation of membership is not contrary to the public interest and would not bring the regulatory process into disrepute. The Panel wishes to emphasize, however, that the acceptance of this joint submission does not amount to an endorsement that revocation of membership should be a standard sanction where these types of allegations are made out, nor that revocation of membership is necessarily the sanction that this Panel would have arrived at in the absence of the joint submission.

IX. COSTS

- [66] An order for costs against the Member with respect to the disciplinary proceeding is not a penalty. Costs are intended to indemnify the PCC, based on the underlying principle that the profession as a whole should not bear all of the costs of the investigation, prosecution and hearing arising from the Member's misconduct.
- [67] Costs are ordered at the discretion of the Discipline Committee. It has become customary for the PCC to file a Costs Outline in the same form as used in civil proceedings, and to seek 2/3 of the costs incurred in the investigation and prosecution of the matter.
- [68] The PCC Costs Outline is found at Exhibit 3. It totals \$47,660. The PCC seeks 2/3 of this figure, rounded to \$30,000.
- [69] The Panel found the costs sought by the PCC to be reasonable in the circumstances and ordered costs of \$30,000 payable to CPA Ontario by February 14, 2024.

DATED this 5th day of December, 2023



Bernard S. Schwartz, FCPA, FCA
Discipline Committee – Deputy Chair

Members of the Panel

Jim Huang, CPA, CGA
Jaspreet Singh, CPA, LPA
Imran Kamal, Public Representative

Independent Legal Counsel

John Dent, Barrister & Solicitor