

Gerald Earl Cadesky: Summary, as Published in *CheckMark*

Gerald Earl Cadesky, of Richmond Hill, was found guilty of two charges of professional misconduct, under Rules 202 and 206, for failing to perform his professional services with due care, and in accordance with generally accepted standards of practice of the profession. He failed to adequately plan and properly execute and document the audit work undertaken on a specific audit. He did not verify the appropriateness of various amounts shown as costs and receivables, did not make preliminary decisions as to materiality and the components of audit risk, and did not ensure that the audit examination was performed with due care by a person having adequate technical training and proficiency in auditing. After determining at some point that his unqualified audit opinion should be withdrawn, he failed to take adequate steps to see that this was done.

Mr. Cadesky was fined \$4,000, and ordered to attend three professional development courses. It was also ordered that he be reinvestigated by the professional conduct committee within a specified time. The discipline committee decided not to order a suspension in this case, as the charges against Mr. Cadesky were not indicative of a pattern of unprofessional work, and as an examination by the professional conduct committee of some of the member's non-audit work had revealed no deficiencies.

Gerald Earl Cadesky, of Richmond Hill, was found guilty of two charges of professional misconduct, under Rules 202 and 206, for failing to perform his professional services with due care, and in accordance with generally accepted standards of practice of the profession. He failed to adequately plan and properly execute and document the audit work undertaken on a specific audit. After determining that his unqualified audit opinion should be withdrawn, he failed to take adequate steps to see that this was done. Among other things, Mr. Cadesky was fined \$4,000, payable within a specified time. His late payment of the fine resulted in his suspension from membership. He has since paid the fine and been reinstated. (This matter was first reported in the April 1995 issue of *CheckMark*)

Mr. Cadesky returned to MEMBERSHIP IN GOOD STANDING on November 22, 1995

CHARGE(S) LAID re Gerald Earl Cadesky

The Professional Conduct Committee hereby makes the following charges against Gerald E. Cadesky, CA, a member of the Institute:

1. THAT, the said Gerald E. Cadesky, in or about the period June 1990 through to February 1991, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206 of the rules of professional conduct, in that, being engaged to provide an audit opinion on the financial statements of Gasco Manufacturing Limited as at August 31, 1990, and having attached an unqualified audit report dated February 8, 1991 to those financial statements;
 - a) he failed to adequately plan and properly execute the audit work;
 - b) he failed to ensure that the examination was performed with due care by a person or persons having adequate technical training and proficiency in auditing;
 - c) he failed to obtain sufficient appropriate audit evidence to support the balance sheet item "Trade Accounts Receivable...\$1,436,004";
 - d) he failed to obtain sufficient appropriate audit evidence to support the balance sheet item "Loans Receivable \$1,763,338";
 - e) he failed to obtain sufficient appropriate audit evidence to support the balance sheet item "Deferred development tooling and preproduction costs \$371,282";
 - f) he failed to obtain sufficient appropriate audit evidence to support the balance sheet item "Start-up cost – Nova Scotia project \$1,877,575";
 - g) he failed to obtain sufficient appropriate audit evidence to support the balance sheet item "Start-up cost – special projects \$843, 480";
 - h) he failed to make any preliminary decisions as to materiality and the components of audit risk at the planning stage of the engagement;
 - i) he failed to document matters which were important in providing evidence to support the content of his report.
2. THAT, the said Gerald E. Cadesky, in or about the period June 1990 through to February 1991, failed to perform his professional services with due care, contrary to Rule 202 of the rules of professional conduct, in that, being engaged to provide an audit opinion on the financial statements of Gasco Manufacturing Limited as at August 31, 1990, and having attached an unqualified audit report dated February 8, 1991 to those financial statements;
 - a) he failed to sufficiently document his review of all of the audit working paper files;

- b) he failed to properly consider the appropriate capitalization of depreciation and interest costs and expenses incurred by Richard Summerfeldt;
- c) he failed to carry out sufficient work to enable him to assess the probability of repayment of loans to related corporations;
- d) after concluding that the financial statements of Gasco that had been audited by him should be withdrawn, he failed to take adequate steps to ensure that they were withdrawn.

DATED at Toronto this 8th day of July 1994

JENNIFER FISHER, CA – CHAIR
PROFESSIONAL CONDUCT COMMITTEE

DISCIPLINE COMMITTEE re Gerald Earl Cadesky

DECISION AND ORDER IN THE MATTER OF: Charges against **GERALD EARL CADESKY**, a suspended member of the Institute, under **Rules 202 and 206** of the Rules of Professional Conduct, as amended.

DECISION AND ORDER MADE NOVEMBER 2, 1994

DECISION

THAT, having seen and considered the evidence, including the agreed statement of facts, filed, particulars (a), (b) and (c) of charge No. 2 having been withdrawn, and having heard the plea of guilty to the charges, as amended, THE DISCIPLINE COMMITTEE FINDS Gerald Earl Cadesky guilty of charges Nos 1 and 2, as amended.

ORDER

IT IS ORDERED in respect of the charges:

1. THAT Mr. Cadesky be reprimanded in writing by the chair of the hearing.
2. THAT Mr. Cadesky be and he is hereby fined the sum of \$4,000, to be remitted to the Institute within six (6) months from the date this Decision and Order becomes final under the bylaws.
3. THAT Mr. Cadesky be and he is hereby required to complete, by attending in their entirety, within twelve (12) months from the date this Decision and Order becomes final under the bylaws, the following professional development courses made available through the Institute:
 1. Accounting and Auditing Update;
 2. Accounting Refresher; and
 3. Auditing and Related Services Refresher,or, in the event a course listed above becomes unavailable, the successor course which takes its place.
4. THAT Mr. Cadesky be reinvestigated by the professional conduct committee, or by a person retained by the professional conduct committee, on one occasion, within eighteen (18) months from the date this Decision and Order becomes final under the bylaws.
5. THAT notice of this Decision and Order, disclosing Mr. Cadesky's name, be given after this Decision and Order becomes final under the bylaws:
 - (a) by publication in *CheckMark*;
 - (b) to the Public Accountants Council for the Province of Ontario; and
 - (c) to the Canadian Institute of Chartered Accountants.

6. THAT in the event Mr. Cadesky fails to comply with any of the requirements of this Order within the time periods specified, he shall thereupon be suspended from the rights and privileges of membership in the Institute, and notice of his suspension, disclosing his name, shall be given in the manner specified in paragraph 5 hereof.
7. THAT in the event Mr. Cadesky is suspended pursuant to paragraph 6 hereof, the suspension shall terminate upon his compliance with the term of the Order in respect of which he was suspended, provided that he complies within six (6) months from the date of his suspension.
8. THAT in the event Mr. Cadesky fails to terminate a suspension imposed pursuant to paragraph 6 hereof within the six (6) month period specified in paragraph 7, he shall thereupon be expelled from membership in the Institute, and notice of his expulsion, disclosing his name, shall be given in the manner specified in paragraph 5 hereof.

DATED AT TORONTO THIS 9TH DAY OF NOVEMBER, 1994
BY ORDER OF THE DISCIPLINE COMMITTEE

BRYAN W. STEPHENSON, BA, LLB
SECRETARY - DISCIPLINE COMMITTEE

DISCIPLINE COMMITTEE re Gerald Earl Cadesky

REASONS FOR THE DECISION AND ORDER IN THE MATTER OF: Charges against **GERALD EARL CADESKY**, a suspended member of the Institute, under **Rules 202 and 206** of the Rules of Professional Conduct, as amended.

WRITTEN REASONS FOR THE DECISION AND ORDER MADE NOVEMBER 2, 1994

These proceedings before this panel of the discipline committee of the Institute of Chartered Accountants of Ontario were held on November 2, 1994.

Mr. Paul Farley attended on behalf of the professional conduct committee. Mr. Gerald E. Cadesky attended without counsel, and confirmed for the record that he had been advised of his right to counsel and that he understood that right.

Mr. Cadesky was charged with failing to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206 of the rules of professional conduct, and with failing to perform his professional services with due care, contrary to Rule 202 of the rules of professional conduct. He pleaded guilty to the two charges, and confirmed for the record that he understood that on the basis of his plea of guilty, and on that basis alone, he could be found guilty of the charges by the discipline committee.

Counsel for the professional conduct committee filed a document brief and an agreed statement of facts, which were entered as Exhibits 3 and 4, respectively. The agreed statement of facts stated, among other things, that Mr. Cadesky did not

- adequately plan and properly execute audit work to support his opinion given on financial statements for the year ended August 31, 1990;
- ensure that the audit examination was performed with due care by a person having adequate technical training and proficiency in auditing;
- adequately verify the amounts shown as Trade Accounts Receivable or Loans Receivable;
- verify, other than through discussions with management, the appropriateness of the amount of deferred and capitalized development tooling and preproduction costs;
- obtain sufficient audit evidence to support a determination as to why certain expenditures had a future value;
- independently verify research and development costs that had been capitalized;
- make any preliminary decisions as to materiality and the components of audit risk before undertaking the audit;
- document matters that were important in providing evidence to support the content of his report;
- document any evaluation of internal control or include in the working paper file any notes indicating the degree to which there was reliance on internal control;

- include in the working paper file any detailed review notes or notes from discussions with the audit staff; and
- take adequate steps to ensure that the financial statements on which he had given an audit opinion were withdrawn after concluding that they should be withdrawn.

After reviewing the evidence, the discipline committee found Mr. Cadesky guilty of the charges.

Before deliberating on the appropriate sanction, the committee heard submissions from counsel for the professional conduct committee and from Mr. Cadesky. Upon deliberation, the committee made the following order:

ORDER

IT IS ORDERED in respect of the charges:

1. THAT Mr. Cadesky be reprimanded in writing by the chair of the hearing.
2. THAT Mr. Cadesky be and he is hereby fined the sum of \$4,000, to be remitted to the Institute within six (6) months from the date this Decision and Order becomes final under the bylaws.
3. THAT Mr. Cadesky be and he is hereby required to complete, by attending in their entirety, within twelve (12) months from the date this Decision and Order becomes final under the bylaws, the following professional development courses made available through the Institute:
 1. Accounting and Auditing Update;
 2. Accounting Refresher; and
 3. Auditing and Related Services Refresher,

or, in the event a course listed above becomes unavailable, the successor course which takes its place.
4. THAT Mr. Cadesky be reinvestigated by the professional conduct committee, or by a person retained by the professional conduct committee, on one occasion, within eighteen (18) months from the date this Decision and Order becomes final under the bylaws.
5. THAT notice of this Decision and Order, disclosing Mr. Cadesky's name, be given after this Decision and Order becomes final under the bylaws:
 - (a) by publication in *CheckMark*;
 - (b) to the Public Accountants Council for the Province of Ontario; and
 - (c) to the Canadian Institute of Chartered Accountants.
6. THAT in the event Mr. Cadesky fails to comply with any of the requirements of this Order within the time periods specified, he shall thereupon be suspended from the rights and privileges of membership in the Institute, and notice of his suspension, disclosing his name, shall be given in the manner specified in paragraph 5 hereof.
7. THAT in the event Mr. Cadesky is suspended pursuant to paragraph 6 hereof, the suspension shall terminate upon his compliance with the term of the Order in respect of

which he was suspended, provided that he complies within six (6) months from the date of his suspension.

8. THAT in the event Mr. Cadesky fails to terminate a suspension imposed pursuant to paragraph 6 hereof within the six (6) month period specified in paragraph 7, he shall thereupon be expelled from membership in the Institute, and notice of his expulsion, disclosing his name, shall be given in the manner specified in paragraph 5 hereof.

The reasoning behind the discipline committee's order is set out below. In reaching its determinations, the committee considered the issues of general deterrence, specific deterrence and rehabilitation.

Reprimand

The committee believes that a reprimand in writing from the chair of the hearing is appropriate. Such a letter stresses to Mr. Cadesky the unacceptability of his conduct as a chartered accountant, and serves as a reminder to him that he failed to comply with the standards of the profession.

Fine

Counsel for the professional conduct committee requested a fine in the area of \$3,000-\$5,000. Mr. Cadesky requested that, if the discipline committee considered a fine to be appropriate, it allow him sufficient time to pay. Keeping in mind the principle of general deterrence, the committee ordered that Mr. Cadesky pay a fine of \$4,000, to emphasize to members of the profession and the general public that actions such as those of Mr. Cadesky are not tolerable. The committee granted Mr. Cadesky six months within which to pay the fine.

Suspension

Counsel for the professional conduct committee indicated that a suspension was not being requested in this case because:

- the charges stemmed from one audit and one client and were not, therefore, indicative of a pattern of disciplinable actions;
- an examination of some of the files of non-audit work done by Mr. Cadesky did not indicate deficiencies in review or compilation engagement work; and
- in the agreed statement of facts, Mr. Cadesky undertook never to conduct another audit engagement.

Upon deliberation, the discipline committee concurred with the reasoning of the professional conduct committee for not suspending Mr. Cadesky from membership in the CA profession.

Professional Development Courses

One of the purposes of a disciplinary process such as this one is to encourage rehabilitation. The committee therefore directed Mr. Cadesky to take the professional development courses *Accounting and Auditing Update*, *Accounting Refresher*, and *Auditing and Related Services Refresher*. Even though Mr. Cadesky has agreed not to perform audits in the future, the committee is of the view that, as he is a member of the CA profession, and as such entitled to practise in all areas in which members of the profession may engage, including the auditing

area, it is important to the general public that Mr. Cadesky be aware of the current pronouncements of the profession in this area.

Reinvestigation

In order to satisfy itself that Mr. Cadesky puts into practice those things learned in the course of this disciplinary process and through the prescribed professional development courses, the committee has ordered that Mr. Cadesky be reinvestigated by the professional conduct committee. The discipline committee believes that this will provide Mr. Cadesky with an opportunity to demonstrate that he has been able to rehabilitate himself.

Notice

Publication of the Decision and Order including Mr. Cadesky's name is, in the opinion of the discipline committee, a general deterrent. Communication of the fact that the profession views breaches of its bylaws and rules of conduct seriously is an important factor in the governance of the profession.

DATED AT TORONTO, THIS _____ DAY OF FEBRUARY, 1995
BY ORDER OF THE DISCIPLINE COMMITTEE

F.A. DROZD, FCA - DEPUTY CHAIR
THE DISCIPLINE COMMITTEE

MEMBERS OF THE PANEL:

P.B.A. CLARKSON, CA
J.J. DUNN, CA
P.J. FITZPATRICK, CA
J.J. LONG, CA
V.G. STAFL (Public representative)