

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO  
*THE CHARTERED ACCOUNTANTS ACT, 1956*

**DISCIPLINE COMMITTEE**

**IN THE MATTER OF:** Charges against **PETER GEORGE LEE, CA**, a member of the Institute, under **Rules 201 and 205** of the Rules of Professional Conduct, as amended.

**TO:** Mr. Peter G. Lee, CA  
155 Brookdale Ave.  
Toronto, ON M5M 1P4

**AND TO:** The Professional Conduct Committee, ICAO

**REASONS**  
**(Decision and Order Made May 23, 2007)**

1. This panel of the Discipline Committee of the Institute of Chartered Accountants of Ontario met on May 23, 2007, to hear charges of professional misconduct brought by the Professional Conduct Committee against Mr. Peter George Lee, a member of the Institute.
2. Mr. Paul Farley appeared on behalf of the Professional Conduct Committee. Mr. Lee attended and was represented by counsel, Ms. Cynthia Amsterdam.
3. The decision of the panel was made known at the conclusion of the hearing and the written Decision and Order sent to the parties on May 25, 2007. These reasons, given pursuant to Bylaw 573, contain the charges, the decision, the order, and the panel's reasons for its decision and order.

**CHARGES**

4. The following charges were laid against Mr. Lee by the Professional Conduct Committee on February 21, 2007:
  1. THAT, the said Peter George Lee, in or about the period July 1, 2004 through April 30, 2005, while employed as CFO of "ABC Interactive Corp." failed to conduct himself in a manner which would maintain the good reputation of the profession and its ability to serve the public interest in that, having been made aware of an error in company inventory for the quarterly financial statements for Q1, Fiscal 2005, in the amount of approximately \$1.3 million, he did not take steps to ensure the error was corrected in the appropriate periods but instead embarked upon a scheme to conceal the error, including instructing an employee of the company to write down the inventory overstatement that had accumulated up to July 2004 in each of the months of October, November and December, 2004; contrary to Rule 201 of the Rules of Professional Conduct.

2. THAT, the said Peter George Lee, in or about August 2004, while employed as CFO of "ABC Interactive Corp."; signed a "Certificate of Interim Filings During Transition Period" which he knew was to be filed with the Ontario Securities Commission on behalf of "ABC Interactive Corp." knowing it contained false or misleading representations contrary to Rule 205 of the Rules of Professional Conduct.
3. THAT, the said Peter George Lee, in or about November 2004, while employed as CFO of "ABC Interactive Corp."; signed a "Certificate of Interim Filings During Transition Period" which he knew was to be filed with the Ontario Securities Commission on behalf of "ABC Interactive Corp." knowing it contained false or misleading representations, contrary to Rule 205 of the Rules of Professional Conduct.
4. THAT, the said Peter George Lee, on or about November 11, 2004, while employed as CFO of "ABC Interactive Corp."; signed a management representation letter addressed to PricewaterhouseCoopers, the auditors of "ABC Interactive Corp.", in which he represented that the interim financial statements for the period ended September 30, 2004 were fairly stated when he knew they were not, contrary to Rule 205 of the Rules of Professional Conduct.

## **PLEA**

5. Mr. Lee entered a plea of guilty to each of the charges, and acknowledged that he understood that, on the basis of the plea of guilty and on that basis alone, he could be found guilty of the charges.

## **EVIDENCE**

6. The evidence for the Professional Conduct Committee was presented by way of an Agreed Statement of Facts (Exhibit 2) and an accompanying Document Brief (Exhibit 3). Mr. Lee did not take issue with any of the evidence, nor did he call any evidence.

7. The evidence establishes that, while the Chief Financial Officer for a public company, Mr. Lee became aware that a glitch in the computer accounting program had created a "virtual" inventory of \$1.3 million. That inventory did not exist. Materiality had been set at \$125,000 by the company auditors.

8. Mr. Lee made a deliberate, conscious decision not to inform management or the auditors of the accounting error, but to conceal it and correct it later in the same fiscal year. He became aware of the error in June, 2004 (during Q1 of the fiscal year) and ordered it be corrected between October and December of that year (during Q3 of the fiscal year).

9. Shortly after Mr. Lee became aware of the error, he attended a meeting of the company's audit committee (on August 10, 2004) (Exhibit 3, Tab 2). At that meeting a number of concerns were raised with respect to the inventory figures. Mr. Lee provided information and opinions to the committee but at no time did he make the committee aware of the inventory error.

10. Mr. Lee signed two Certificates of Interim Filings During Transition Period, in August and November, 2004 (Exhibit 3, Tabs 5 and 6), for Q1 and Q2 of the company's fiscal year. These certificates, which stated that the financial statements fairly presented the company's financial position and contained no untrue statements, each had the \$1.3 million known inventory overstatement. The certificates were filed with the Ontario Securities Commission.

11. By letter dated November 11, 2004 (Exhibit 3, Tab 7), Mr. Lee represented to PricewaterhouseCoopers, the company auditors, that the interim consolidated financial statements for the company were accurate, and there were no difficulties or weaknesses to report. Those statements included the inventory overstatement.

12. Questions concerning the inventory were raised by the audit committee in April, 2005, and Mr. Lee disclosed the error at that time. The company immediately retained PricewaterhouseCoopers to investigate, and Mr. Lee was terminated.

## **DECISION**

13. The evidence in this matter is clear, cogent and compelling, and establishes the misconduct as set out in the charges. After deliberating, the panel made the following decision:

THAT, having seen and considered the evidence, including the agreed statement of facts, filed, and having heard the plea of guilty to charge Nos. 1, 2, 3 and 4, the Discipline Committee finds Mr. Peter George Lee guilty of charge Nos. 1, 2, 3 and 4.

## **SANCTION**

### ***Evidence***

14. The Professional Conduct Committee called no evidence on sanction. On behalf of the member, Ms. Amsterdam called Mr. Lee and Mr. Arindra Singh.

15. Mr. Lee testified that he had followed Mr. Singh from his previous employment to ABC at Mr. Singh's request. Mr. Singh had been made the CEO of ABC and was attempting to restructure the company to increase its viability. Mr. Lee assisted with the acquisition of a number of smaller companies and had responsibility for dealing with re-financing.

16. Each of the acquired companies brought with it its own accounting system, and there were weak overall accounting controls. Mr. Lee was responsible for this area but lacked the time or resources to address it appropriately.

17. When he became aware of the virtual inventory problem, Mr. Lee considered disclosing it to management and the Board. He decided not to because the company had already had to restate its financial statements as the result of an unrelated accounting problem and he was concerned that a second error would have caused such grave difficulties the company might not recover. In cross-examination, he stated that he considered the matter and his options carefully but not clearly.

18. At the time he made that decision he was working very long hours, frequently through the night, and was under a great deal of stress. He testified that signing the OSC filings made him sick to his stomach but that he felt he had to see the matter through.

19. He reported himself to the Institute in August, 2005, at the suggestion of a friend and colleague from PricewaterhouseCoopers.

20. Mr. Lee stated that he knows what he did was wrong, he regrets it very much, and it would never happen again. He also stated that he knows he has brought discredit on the profession and its members and has let down his friends and professional colleagues, and he apologized to each of them.

21. Mr. Singh testified that he holds an FCA from the Institute of Chartered Accountants of England and Wales, and that he worked with Mr. Lee both at the company which is the subject of the charges and at a previous employer. He has the greatest respect for Mr. Lee's abilities and integrity and stated the actions of Mr. Lee were totally out of character and the result of Mr. Lee being under tremendous pressure.

22. Mr. Singh further testified that he still trusts Mr. Lee, and that Mr. Lee is working with him on other matters.

### ***Submissions***

23. Mr. Farley, on behalf of the Professional Conduct Committee, submitted that this conduct is extremely serious and might lead to expulsion. He submitted that: a written reprimand; a fine in the range of \$15,000 to \$25,000; a suspension of 12 to 18 months; and full publicity of the matter would be an appropriate sanction in all the circumstances. He also sought costs in the amount of \$10,000.

24. Mr. Farley noted that one of the difficulties with dishonest behaviour is that it snowballs – the decision to cover up the accounting error led to Mr. Lee lying to the audit committee, to his instructing a subordinate to assist in the cover up and rectification, to signing two false filings with the OSC and to misleading the auditors.

25. Mr. Farley further noted that Mr. Lee had rationalized his behaviour as being necessary to save the company, and pointed out that chartered accountants are fundamentally honest people who require such rationalizations to commit dishonest acts. For that reason he submitted that general deterrence is crucial for such offences, that other members will be faced with high stress, high stakes decision and they must know the path Mr. Lee chose is never appropriate.

26. Mr. Farley noted a number of aggravating and mitigating factors in this case. In aggravation, he lists: the false statements were of a public company; Mr. Lee was the CFO of the company and not being directed by another person; Mr. Lee involved a subordinate; there was more than one transaction over a period of time; and Mr. Lee, even in April, 2005, in his presentation to the audit committee, lacked remorse and insight into the enormity of his actions. In mitigation, he noted Mr. Lee's full cooperation with the Professional Conduct Committee, his plea of guilty, his self-reporting, and his lack of personal gain.

27. It is the submission of the Professional Conduct Committee that, in all the circumstances, Mr. Lee is both capable of and deserving of the opportunity for rehabilitation, but that such rehabilitation should not come at the cost of the principles of general and specific deterrence, and that, therefore, a substantial fine and a significant period of suspension are both required.

28. Ms. Amsterdam submitted that Mr. Lee took no issue with the quantum of the costs being requested by the Professional Conduct Committee, or with the written reprimand or publicity. However, she submitted that the amount of the fine being sought was excessive, and suggested that \$7,500 to \$10,000 would be appropriate, and she urged the panel to consider a 12-month suspension, the lower end of the range sought by the Professional Conduct Committee.

29. Ms. Amsterdam urged the panel to bear in mind that Mr. Lee did not create the situation, but rather made a decision of poor judgment as to how to deal with a situation over which he had no control. He was in a position for which he lacked both expertise and experience, and was unprepared for its challenges.

30. Ms. Amsterdam submitted that the actions were uncharacteristic of Mr. Lee, and pointed out not only the character reference letters which she filed (Exhibit 4), but Mr. Lee's actions subsequent to his termination, which included assisting the auditors and reporting himself to the Institute. Mr. Lee, at no time, made any attempt to deflect responsibility for his actions.

### ***Order***

31. After deliberating, the panel made the following order:

IT IS ORDERED in respect of the charges:

1. THAT Mr. Lee be reprimanded in writing by the chair of the hearing.
2. THAT Mr. Lee be and he is hereby fined the sum of \$15,000 to be remitted to the Institute within twenty-four (24) months from the date this Decision and Order becomes final under the bylaws.
3. THAT Mr. Lee be and he is hereby charged costs fixed at \$10,000 to be remitted to the Institute within twenty-four (24) months from the date this Decision and Order becomes final under the bylaws.
4. THAT Mr. Lee be suspended from the rights and privileges of membership in the Institute for a period of twelve (12) months from the date this Decision and Order becomes final under the bylaws.
5. THAT notice of this Decision and Order, disclosing Mr. Lee's name, be given after this Decision and Order becomes final under the bylaws, in the form and manner determined by the Discipline Committee:
  - (a) to all members of the Institute; and
  - (b) to all provincial institutes/Ordre,and shall be made available to the public.
6. THAT Mr. Lee surrender his certificate of membership in the Institute to the Discipline Committee secretary within ten (10) days from the date this Decision and Order becomes final under the bylaws to be held during the period of suspension and thereafter returned to Mr. Lee.

7. THAT in the event Mr. Lee fails to comply with any of the requirements of this Order, he shall thereupon be suspended from the rights and privileges of membership in the Institute until such time as he does comply, provided that he complies within three (3) months from the date of his suspension, and in the event he does not comply within the three month period, 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 above, and in a newspaper distributed in the geographic area of Mr. Lee's practice, employment and/or residence. All costs associated with the publication shall be borne by Mr. Lee and shall be in addition to any other costs ordered by the committee.

## **REASONS**

### ***Reprimand***

32. Mr. Lee made a bad decision and allowed himself to fall into a pattern of deceit and dishonesty. A written reprimand will not only express the Institute's disapprobation of that conduct but will serve as a reminder to him that company loyalty must never be allowed to tarnish professional integrity.

### ***Fine and Suspension***

33. Mr. Lee lied, filed false documents and misled the auditors. Chartered accountants are retained and valued because of their probity and integrity. Mr. Lee's actions devalued every member of the profession, and the panel considered whether the public interest and professional reputation required he be expelled, as he very well could have been for such conduct. We decided against expulsion for a number of reasons: Mr. Lee did not manipulate the original records; he did have a plan to fix the problem; the financial statements given to the lender bank were accurate (according to Mr. Singh); when the virtual inventory burgeoned by a further \$700,000 he immediately corrected that error; and there was no evidence of perpetration or harm. The evidence indicates that he was thrust into a position for which he was unqualified and naïve, and that he was under tremendous pressures. The panel has also noted Mr. Lee's cooperation and remorse, and concluded he was both capable and deserving of rehabilitation and that he was governable.

34. Nevertheless, the amount of the fine and the length of the suspension must be such that they act as the sternest possible warning to each and every member of the profession that their professional integrity is their most valued possession and that they must never, for any reason, allow that integrity to be chipped or damaged. Doing so risks not only that member's designation, but the reputation of the entire profession. Taking into account Mr. Lee's personal circumstances, we have determined that a fine of \$15,000 and a suspension of 12 months is sufficient to send that caution without overwhelming any hope of rehabilitation.

### ***Publicity***

35. Mr. Lee's actions have brought disrepute to each and every member of this profession. The public needs to be assured that such conduct is not acceptable and will be treated seriously by the Institute. Only then can public trust be restored and maintained. As well, other members of the profession need to be aware of the consequences of such conduct, and reminded that members in industry are held to the same high standards, so that they are deterred from considering any similar action. The publication and notice as ordered will satisfy this requirement.

***Certificate of Membership***

36. The certificate of membership is provided by the Institute as a public indication that a person is a member in good standing. It remains the property of the Institute and it is appropriate that it be in the possession of the Institute during the time Mr. Lee is not a member in good standing.

***Failure to Comply***

37. To be effective, it is important that the order provide sanctions for any failure to abide by its terms. We have done so.

***Costs***

38. As it is the conduct of the member that has necessitated the investigation and hearing, it is appropriate that the member, rather than the membership as a whole, bear a portion of those costs. The amount of \$10,000 submitted by the parties is both fair and reasonable, and is so ordered.

DATED AT TORONTO THIS 5TH DAY OF JUNE, 2007  
BY ORDER OF THE DISCIPLINE COMMITTEE

D.W. DAFOE, FCA – DEPUTY CHAIR  
DISCIPLINE COMMITTEE

**MEMBERS OF THE PANEL:**

R.A. VICKERS, FCA  
S.M. DOUGLAS, FCA  
B.D. LOVE, CA  
P.W. WONG (PUBLIC REPRESENTATIVE)