THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO
THE CHARTERED ACCOUNTANTS ACT, 2010

DISCIPLINE COMMITTEE

IN THE MATTER OF: Charges against **RICHARD STEVEN STEIGINGA, CA** a member of the Institute, under **Rules 202 and 206** of the Rules of Professional Conduct, as amended.

TO: Mr. Richard S. Steiginga, CA

AND TO: The Professional Conduct Committee, ICAO

REASONS
(Decision and Order made October 14, 2010)

1. This panel of the Discipline Committee of the Institute of Chartered Accountants of Ontario met on July 14, 15, October 13 and 14, 2010, to hear charges of professional misconduct brought by the Professional Conduct Committee against Richard S. Steiginga, CA, a member of the Institute.

2. Paul Farley appeared on behalf of the Professional Conduct Committee. Mr. Steiginga attended and was represented by his counsel, Chris Hluchan. Elizabeth Cowie attended the hearing on July 14 and 15, and Glenn Stuart attended the hearing on October 13 and 14, 2010, as counsel to the Discipline Committee.

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 October 21, 2010. These reasons, given pursuant to Bylaw 574, contain the charges, the decision, the order, and the reasons of the panel for its decision and order.

CHARGES

4. The following charges were laid against Mr. Steiginga by the Professional Conduct Committee on December 14, 2009:

> 1. THAT, the said Richard S. Steiginga, in or about the period March 1, 2008 through July 31, 2008, while engaged to perform an audit of the financial statements of FCBIA. for the year ended March 31, 2008, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, including the Recommendations set out in the *CICA Handbook*, contrary to Rule 206 of the rules of professional conduct, in that;
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> (a) he failed to conduct sufficient and appropriate audit procedures to support the Statement of Operations item “Wages and benefits 300,677”;
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> (b) he failed to exercise sufficient professional skepticism during the audit;

(c) he failed to ensure that assistants employed on the audit were properly supervised and that the audit work was properly executed.

2. THAT, the said Richard S. Steiginga, in or about the period March 1, 2008 through July 31, 2008, while engaged to perform an audit of the financial statements of FCBIA. for the year ended March 31, 2008, failed to perform his professional services with due care, contrary to Rule 202 of the rules of professional conduct, in that;

a) having presented a representation letter to management which included the name of the bookkeeper C.B. for signature he took no further audit steps when the bookkeeper refused to sign stating concerns about the payroll;

b) having received information from the bookkeeper that certain management representations could not be relied upon he performed no further audit procedures.

PLEA

5. Mr. Steiginga entered a plea of not guilty to the charges.

EVIDENCE

6. The Professional Conduct Committee called as a witness “CB”, the bookkeeper referenced in the charges who brought the allegations to the attention of the Institute, and Linda Robinson, CA, the investigator retained in this matter. The Professional Conduct Committee filed a Document Brief (Exhibit 1) to which Ms. Robinson referred in the course of her evidence. Mr. Hluchan, on behalf of Mr. Steiginga, called “AF”, the co-op student employed by Mr. Steiginga’s firm, “DP”, the firm’s staff accountant, and Mr. Steiginga testified on his own behalf.

7. It was common ground before the Discipline Committee that Mr. Steiginga was the engagement partner in charge of the 2008 audit for FCBIA, a government-funded organization, which had been a client of his firm for 12 years. Mr. Steiginga had been the lead engagement partner of the client since 2005. The fieldwork for this audit was performed by the firm’s staff accountant, DP, and the co-op student, AF.

Evidence of CB

8. CB was the part-time bookkeeper and administrator at FCBIA. She had worked at FCBIA for more than 13 years (until she left on March 3, 2009). She explained the bookkeeping procedures in place at FCBIA during her time at the organization. Of note, she indicated that cheques were to be double signed by MM, the Executive Director of FCBIA, and a board member. However, the cheques were pre-signed in blank by a board member and left with MM,

9. She testified that she had handled payroll until 2003, when she had gone on maternity leave. MM assumed responsibility for payroll at that time and continued with the responsibility even after CB returned.

10. CB testified that MM had taken a number of pay cheques in advance – enough that she had taken all of her pay for the fiscal year ending March 31, 2008, by the beginning of January

2008. MM instructed CB to post the cheques to the month in which they were due, rather than the month in which they were taken. For example, MM would take a cheque in July and instruct CB to expense it in September, thereby posting the cheque as prepaid in July and then expensing it in the month it should have been issued. CB posted these items as she was instructed.

11. CB later made handwritten notes on photocopies of the cheques in question, transcribed from MM's notations on the cheque stubs. Based on the irregularities of the advanced cheques, the bookkeeper suspected that the managing director did not have board approval for these advances.

12. CB had been aware in 2007 that MM was taking advance payments and additional pay, but she had not come forward to the auditors. She also did not go to the board until other staff raised other issues later in 2008. CB explained her hesitation as a result of the fact that the board had not been receptive in the past when staff raised concerns about MM with them.

13. CB testified that she expressed to DP her concerns about MM taking "a bunch of" advance and extra cheques during the field work on June 11 and 12, 2008. She raised these concerns with DP when DP had gone outside for a cigarette, as she did not want MM to overhear. She testified that she told DP that, while MM had assured her that these were approved by the Board, she had concerns that they were not. DP initially told her that it was okay and she could overlook this. CB testified that she then raised the concern with DP again the following day and indicated that she believed that this would impair the integrity of her work. CB testified that DP told her not to worry, since she was not a signing officer and, consequently, could not be held liable as she was "just following orders".

14. CB testified that MM had told her that MM was receiving extra pay as a result of covering for an injured worker who served clients in Haliburton County. CB testified that this position required the staff person to drive, which MM could not do due to a visual impairment. She also noted that this position was 30 hours per week, which would have been added to the at least 40 hours each week for MM's primary job.

15. After the conclusion of the 2008 audit, around July 9, 2008, CB was asked by MM to sign a representation letter, although such a request had not been made of her in prior audits. She asked for time to read it before signing and took a copy home to read.

16. On the following Monday, July 14, 2008, CB contacted Mr. Steiginga to ask him if signing the letter would mean that she agreed with the contents of the letter. When Mr. Steiginga told her that it did, she indicated to him that she had raised concerns with DP about MM's handling of the payroll. Mr. Steiginga indicated that DP had not relayed these concerns to him, but if she was not comfortable signing the letter, she should not, and he would speak with DP on her return from holiday. CB indicated to Mr. Steiginga that MM had been taking advance pay cheques; although she originally indicated that she told Mr. Steiginga that MM had taken some extra pay, she later acknowledged that she would have only said that the payroll was a concern. She testified that she did not say more as she did not believe Mr. Steiginga wanted to hear more. She testified that she did not raise the issue of the lack of board authorization for the extra pay because she was under the impression that they would have a follow-up meeting.

17. Mr. Steiginga did not follow-up with CB after the call. CB also did not follow-up or make any notes of conversation because she thought Mr. Steiginga would get back to her, as she

believed this was only a preliminary contact.

18. CB subsequently told MM that she had spoken with Mr. Steiginga regarding the letter; MM indicated that there must be a misunderstanding about the nature of the letter. CB understood from her discussion with MM that MM was going to arrange a meeting with Mr. Steiginga to discuss the letter.

19. Prior to CB calling Mr. Steiginga, she had been advised by another staff member who prepared and kept the original Board's minutes that MM had asked for the memory stick on which the minutes were kept and that staff member was concerned the minutes had been altered. CB thereafter obtained a hard copy of the original minutes of the Board from this staff person. These minutes were different from the minutes provided to DP by MM in that they did not show that the Board had authorized the extra pay advanced to MM. The altered set of minutes was presented by the managing director to DP for the audit.

20. A meeting was arranged by MM for July 30, 2008. CB assumed that Mr. Steiginga would attend, although that assumption was unconfirmed. CB, MM and DP attended the meeting. CB denied being angry or yelling at the meeting. At the meeting, CB attempted to advise DP that original minutes had been altered by MM and that the Board was not aware of the issues with payroll. CB also offered to give DP the original board minutes on July 30, 2008. DP did not look at them or take them, and there was no follow-up by DP on this matter. Thereafter, CB made no further efforts to contact Mr. Steiginga or DP because she assumed they would follow up with her.

Evidence of Linda Robinson

21. Linda Robinson, the investigator for the Professional Conduct Committee, who detailed her extensive credentials in relation to forensic accounting, provided a timeline of significant events to assist the panel. This timeline was not disputed. DP did the planning for the audit on June 4 and 5, 2008, and the fieldwork took place on June 11 and 12. Mr. Steiginga reviewed the file on June 22, as shown by his initials on the working papers, and DP returned to FCBIA on June 23 to clear queries. Mr. Steiginga met with DP and MM on June 26, 2008, to review the financial statements, and, in the absence of any changes, the statements were released at FCBIA's AGM that night. The audit report provided at that time indicated that there were no disagreements with management, and there were no issues involving internal controls.

22. Ms. Robinson also testified to her discussions with the individuals involved in this audit and her own review of the audit conclusions and related materials.

23. Ms. Robinson identified the management representation letter with the names of both CB and MM on it. Mr. Steiginga had indicated to her that, although her name had not been included in the past, CB's name had been included on the representation letter only because he had thought she would be at the meeting to review the statements.

24. Mr. Steiginga indicated to her that he had spoken with CB on July 14th, but he had only made a handwritten note of the conversation on July 31st, after DP attended at the organization. Mr. Steiginga's note indicated that the only issue raised by CB was that advance pay was taken, and not that additional pay was being taken. The note also indicated that Mr. Steiginga asked CB for proof of the allegations. Mr. Steiginga's note, which was tendered in evidence, continued as follows:

> I also said I would discuss this with [DP] when she returned from holidays. I check[ed] our files for any unreconciled bank items, [accounts receivable] or [accounts payable] from the Program Manager but there was nothing in the file. When [DP] returned from holidays, I discussed this with her and she indicated that [CB] seemed annoyed that the Program Manager had not filled the position that she was filling in for.
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> On July 30th, [DP] went to FCBIA to assist them with the Quickbooks statements and classes. During the meeting [DP] indicated that [CB] got upset that we had not discussed internal controls without [*sic*] her.
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> [CB] did not provide me with any documentation of her allegation, so I believed we did not have anything to proceed with as it was not consistent with our file findings.

25. Ms. Robinson testified that there was no basis for Mr. Steiginga to be suspicious during the course of the audit and up to the original signing of the financial statements. However, this changed after he received the call from CB.

26. Ms. Robinson expressed the opinion that Mr. Steiginga had an obligation to make inquiries after the call from CB, especially because it was unusual that CB would call him. She referenced Handbook section 5135, paragraphs 039 and 042 with regard to the obligation to make inquiries beyond management, particularly where the representations come from one person, and to exercise professional skepticism. She noted that the auditor's first obligation in this situation would be to assess whether the concern was valid, based on a review of the client's documents, and, if so, restate the financial statements. From Ms. Robinson's investigation, Mr. Steiginga did not take any steps to assess the concern, other than reviewing some of the working papers.

27. As indicated in his note on file, Mr. Steiginga did look at the audit file after this call to see if there were any outstanding matters at year end. There were not. However, in Ms. Robinson's view, this did not eliminate the obligation to inquire further, given that it would not address the issue of advance payments.

28. While there was only one instance of advance pay reflected in the working papers, Ms. Robinson noted that this should have been sufficient to have put Mr. Steiginga and his staff on notice that advance pay could have been an issue. Ms. Robinson also expressed the view that Mr. Steiginga, faced with the unusual situation of a payment made two months in advance to the director, as shown in the working papers, had an obligation to look into more payroll cheques, as it would be reasonable to expect there could be others. When Ms. Robinson analyzed the payroll records and cheques, she determined that MM had received 45 paycheques – not the regular 26 – over a year, and she had received all her pay for the year ending March 31st by January.

29. Ms. Robinson confirmed from the working papers that extra pay to MM was consistent with prior years; however, she expressed the view that a review of the minutes to confirm the correctness of any extra pay was required. In Ms. Robinson's opinion, minimal testing of the wage payments had been done, and more was needed given they could not rely on internal controls (as a high risk audit) and once it was flagged that salary was being paid in advance.

For example, Ms. Robinson testified that Mr. Steiginga had not confirmed whether the overtime claimed by MM – up to 80 hours/month - was reasonable.

30. Based on all of these considerations, Ms. Robinson expressed the opinion that the audit procedures employed in relation to wages were not sufficient.

31. Mr. Steiginga told Ms. Robinson that he also spoke to DP about advances after the call from CB and that DP said that she wasn't aware of any. Conversely, DP had no recollection of such a discussion. DP told her that she was surprised on July 30th when confronted with the documents that were the original unaltered minutes. As a result, she did not advise Mr. Steiginga that they had been offered to her.

32. While Ms. Robinson confirmed that an auditor was entitled to rely on the competence of staff, it was Ms. Robinson's evidence that the auditor needed to have evidence of competence first, rather than assuming it. She noted that she had seen no evidence that Mr. Steiginga had questioned or properly assessed DP's competence for the responsibility she was given.

33. Ms. Robinson also testified that the obligation of supervision is related to the obligation to ensure that staff are properly trained. The necessary supervision level is determined through an assessment of both the expertise of staff and the complexity of engagement.

34. Ms. Robinson testified that DP had indicated to her that she had a college business degree and, in that program, had taken some accounting courses. She had also taken annual updates through the firm since working there. DP had estimated that about 10% of her work was audit. AF, who had reviewed payroll on the audit, was a co-op student.

35. Given the level of experience and training of AF and DP, and the level of risk in the audit, Ms. Robinson expressed the view that the supervision of staff in circumstances was not adequate.

36. Ms. Robinson noted that Mr. Steiginga had a long-standing professional relationship with MM and trusted her. While this did not mean he was unable to exercise professional skepticism as needed, it is a consideration when he failed to exercise that skepticism.

Evidence of AF

37. AF gave evidence that she had worked at Collins Barrow as a summer student for four months in 2007 and returned for a further work term in May 2008. AF had taken business and a basic accounting course, and she had participated in some in-house seminars at the firm.

38. She gave evidence that she worked on audits and reviews in both work terms, but with increased responsibility in her second work term. AF worked on the audit of FCBIA in both work terms, in particular the payroll testing. In 2007, she worked with DP and a review accountant named Jori McMahon on the audit. She conducted the audit work in 2008 for FCBIA with DP alone; no CA reviewed the field work as Ms. McMahon was on a maternity leave. She told the panel that if she had any questions she asked DP who would have relayed any questions to Mr. Steiginga. She also noted that she did her work in the same room as DP.

39. In performing payroll testing, AF reviewed the cancelled cheques and the hourly rates of the employees, including the Director. She looked at one cheque with regard to the Director, but she did not look at any of the cheque stubs, as she did not consider that to be one of the audit procedures. AF was unaware from her work as to whether the Director had been paid in advance and did not notice that the payroll cheques were out of date sequence.

40. AF had noted that the Executive Director had received pay of $21,000 in excess of her established gross rate of pay. She subsequently asked the Director for the reason for this discrepancy and, after being advised that it was due to the Director covering the work of another employee, reviewed a summary of the board's minutes to confirm this had been approved. The summary she reviewed had been prepared by DP from the minutes provided by MM.

Evidence of DP

41. DP gave evidence that she started at Collins Barrow in 2000 as a staff accountant and progressed to audits of not for profit organizations. DP said she had gone to college for a business administration program and taken accounting courses in that process, and she had also taken in-house training courses at Collins Barrow. She gave evidence that she did field work on smaller audits, but the partner or senior staff would do the main planning for those audits. She estimated that she spent 15-18% of her time on audit-related work by 2008. She had had no problems in the audits on which she had worked; if she had questions, she asked. DP also provided software support to Collins Barrow clients. She has no accounting designation.

42. DP started working on the FCBIA audit in her first year at the firm. She never encountered any problems with MM's cooperation. In 2008, she performed the field work on the audit with AF. Mr. Steiginga reviewed the audit. When he did review the material, he raised a few points for which she had to return to obtain clarification.

43. DP and Mr. Steiginga planned the audit together. In the planning, they did not identify any serious issues, and there was no concern that MM controlled the whole operation.

44. DP testified that MM had signed her own cheques with a second signature from a board member. DP denied knowing that the board members had been signing cheques in blank.

45. One of her tasks on the audit was to prepare a summary of the relevant portion of the board minutes, which she had been provided to her by MM. None of the minutes were signed. These minutes indicated that MM was receiving extra pay for work that she was performing on behalf of an injured staff member and that extra pay had been approved by the Board.

46. DP had not inquired as to the work that the injured staff performed and the qualifications required, or whether MM had those qualifications. She was aware that the job required a significant amount of driving and that MM did not have a driving licence due to a visual impairment. She testified that she understood that MM had someone drive her, although she had not questioned this.

47. She denied encountering any problems with the reliability of the minutes provided to her by MM. She did indicate that she had not spoken to anyone on the Board.

48. DP acknowledged in cross-examination that, even based on the summary of minutes that she had prepared, the number of hours of overtime that were paid to MM was more than the number of hours approved by the board. In fact, only five months were supported, and DP conceded that overtime claimed in any other months, and it was claimed in every month, was not authorized. However, she also indicated that the calculations around the number of hours worked were not completed in any of the working papers.

49. DP had not reviewed the payroll cheques or cheque stubs as AF was reviewing payroll. She did not discuss the hours worked by MM as an audit concern, although the overtime MM paid was assessed against a standard of 12 months working 80 hours of overtime each month.

50. DP did not perform a full analysis comparing the dates of all of the cheques paid to MM and when they were earned, similar to the analysis subsequently performed by the investigator.

51. DP denied that CB had mentioned to her that MM was receiving extra pay. She did acknowledge that CB had asked her a question about MM taking pay in advance, one day outside. However, in the end, as she did not believe there was anything unusual in the payment of wages, she did not raise any concerns with Mr. Steiginga or anyone else about the wages or note this concern anywhere in the working papers.

52. DP testified that when she returned from vacation in July 2008, Mr. Steiginga did speak to her regarding the FCBIA audit. She indicated that he only asked her to follow-up with MM and CB with regard to Quickbooks training. Moreover, she testified that he did not mention that there were any concerns regarding the representation letter or advanced pay, and he did not mention that he had spoken to CB.

53. In regard to the meeting on July 30th, DP testified that CB was very agitated and had thrown some papers at DP, but she did not understand why. She described CB as irrational and “rambling and yelling”. She indicated that she was being defensive and did not pay attention to CB during this episode. DP acknowledged that CB had never acted in this irrational way before. However, DP testified that she did not ask CB to calm down during this period and did not ask her why she was so upset.

54. DP further testified that she did not know at the time what the papers were and that CB did not ask her to do anything with the papers. In cross-examination, DP acknowledged that she had previously told the investigator that CB had indicated that the papers were board minutes that DP did not have and that were different from the ones DP had been given by MM.

55. It was DP’s evidence that, after 20 minutes to half an hour, CB calmed down, and they returned to a discussion regarding Quickbooks.

56. DP testified that, when she returned to the office, she told Mr. Steiginga that he would have been proud of her because she did not react when the client began to yell at her. She did not tell him why she thought CB might be upset, and they did not discuss it further.

Evidence of Member

57. Mr. Steiginga had been the engagement partner on the FCBIA since 2005. As engagement partner, he acknowledged that he had an ongoing obligation, even after the statements were presented, to ensure that the financial statements fairly represented the

position of the organization.

58. Mr. Steiginga acknowledged that he was responsible for the work done by DP and AF on the audit. He testified that DP was a staff accountant and that her role had evolved over time from being a junior to being in charge on site. He testified that she had significant experience with not for profit audits, and that she worked on approximately 30 per year. The Collins Barrow firm offered a range of training programs, and DP had attended them. He testified that he had never had any problems with DP's work and believed that she was competent to do the work assigned to her.

59. Mr. Steiginga indicated that AF was in an accounting program at school and had gone through a weeklong session on audit procedure at Collins Barrow. He considered that she had the abilities to do what was asked in relation to payroll.

60. Mr. Steiginga stated there had been no previous problems with MM. He had first met MM in the early nineties, but he had not had contact with her at FCBIA until 2005. She was in charge of FCBIA and the only staff person with cheque-signing authority. He indicated that it was his impression that MM did a good job and managed the budget for FCBIA effectively.

61. Mr. Steiginga also indicated that he had no previous problems with this audit, including the accuracy of the minutes of the board. He and DP had planned it together, and no particular issues had been identified. No one had raised a concern with the salary or benefits prior to the audit. However, he agreed that the audit was designated as "high risk" because they could not rely on the internal controls.

62. At the outset of the audit, Mr. Steiginga had met with MM and DP to review the various letters, including the representation letter. Mr. Steiginga testified that CB did not attend this meeting. This was no different than previous years when she had also not attended.

63. Mr. Steiginga testified that he prepared the representation letter. In prior years, MM had signed the letter as management. However, he indicated that the computer program puts two contact names on the letter, and, consequently, CB's name was added. He did not discuss with CB that she was to sign the letter; MM had told him that she would take the representation latter and have CB sign it.

64. Mr. Steiginga testified that during the audit he had recommended that the board member signing cheques also sign the supporting documents for the expenditure. He indicated this to MM, who assured him that she would implement this process. The recommendation was not communicated to any of the board members or the AGM by Mr. Steiginga, nor was it mentioned in the reporting letter, dated June 26, 2008, to the board.

65. Mr. Steiginga testified that he was unaware that board members were pre-signing cheques and would have advised them to change that practice if it had been brought to his attention. He acknowledged that he had not asked the question as to when the cheques were signed.

66. Mr. Steiginga reviewed the fieldwork and checklists prepared by DP. His review on June 22 took 2 ½ hours, followed by a second-partner review by a senior partner. He raised a few points with DP for follow-up, although none of them related to payroll.

67. Mr. Steiginga had DP obtain minutes from MM, and he reviewed the summary she prepared. He noted that additional pay was approved for MM, and paid to MM, and he did not find this unusual as it had happened the previous year as well. He also knew that a staff person had been injured, so he was not surprised that MM was getting additional pay. Based on the minutes, the fact that board members were signing cheques and that the board was reviewing monthly financial statements provided by MM, he had no concerns regarding these payments.

68. Mr. Steiginga testified that he did not know what the injured staff person, whom MM was purportedly replacing, did or if MM had the skills to replace her. He also indicated that he did not know that MM did not have a driving licence or that driving was a requirement of that position. In cross-examination, Mr. Steiginga conceded that he had not reviewed whether MM had worked the amount of time claimed; he had only reviewed whether the amount claimed was below the approved amount. He indicated that, as auditor, he was not concerned with the amount of overtime claimed. However, Mr. Steiginga also agreed that the summary of the board minutes relied on in the audit did not support the position that the time paid to MM was authorized.

69. Mr. Steiginga agreed that the fact that the board minutes were false, if known, would be important audit evidence, and if the correct minutes had been given to DP that would also be important. However, he indicated that, while DP should have recognized the significance of the minutes he did not.

70. Mr. Steiginga stated that it was usual to review cashed cheques, and this was done in this audit. Cheque stubs were not reviewed, and he indicated that he knew of no requirement to review stubs.

71. Mr. Steiginga acknowledged that the statements were released without receiving a signed representation letter. He agreed that it was unusual to receive the representation letter back – unsigned - after the statements were released.

72. Mr. Steiginga attended the AGM in June 2008 at which time the financial statements were presented. There were no questions about MM's pay, and no issue was raised about the statements as revenue and expenses were roughly comparable between 2007 and 2008.

73. Prior to CB's telephone call on July 14, 2008, Mr. Steiginga had not been contacted by CB at any time when he had been at the client's office. CB was not at the meeting with DP and MM to discuss the financial statements, and she was not at the AGM.

74. Mr. Steiginga testified that CB called him on July 14, 2008. His recollection of the call was recorded in the handwritten note provided to the investigator. He testified that CB did not refer to "bunches of" cheques being taken by MM or any concern of that magnitude. The only issues raised were the signing of the representation letter and pay being taken early by MM. He testified that CB did not raise any issue of unauthorized pay.

75. Mr. Steiginga testified that CB had never called him regarding an audit, although she had been involved with the audits as long as he had. It was unusual that she called him.

76. Mr. Steiginga testified that his concern at the time of CB's call was whether the financial statements had been materially misstated. He concluded that they had not.

77. CB never called Mr. Steiginga after July 14th and never provided any other information to

Mr. Steiginga regarding advance pay. Mr. Steiginga reviewed the file after the call, but he found no indication that pay was taken early based on a review of the portions of the balance sheet where it would have appeared if not expensed in the year. He acknowledged that advance pay would not be shown on the balance sheet if the payments were expensed as an expense of the March 31, 2008 year

78. Mr. Steiginga indicated that he did not follow-up with CB because there were no outstanding items and all cheques had been signed by the board. Moreover, he did not consider an advance cheque to be significant given, although he acknowledged in cross-examination that it could be an item of concern. He testified that CB had not mentioned more than one or two instances of advance pay.

79. Mr. Steiginga also did not follow up with CB regarding the signing of the representation letter. He stated that he did not do so because only one issue was raised, which he did not consider significant, and her name was only on the letter due to a computer error.

80. Mr. Steiginga did not follow up with CB regarding the internal control issue raised in his note of the call from CB and subsequent events.

81. Mr. Steiginga did not ask MM regarding the issue of advance pay or discuss it with any Board members. Mr. Steiginga also agreed that the fact MM was receiving advance payments was important audit evidence. However, he testified that they only did tests on the payroll, DP did not raise the issue with him, and CB did not raise it in a way that struck him as important.

82. In cross-examination, Mr. Steiginga denied that the fact that a cheque to MM that was dated after a cheque to another employee had an earlier cheque number was an indication of pretaking. He indicated that there could be other reasons for this. However, he acknowledged that he did not review the working paper when CB called; he further acknowledged that his review of the file was directed to identifying any problems with the quantum of pay MM received, not whether there was advance payment, which issue he did not review further.

83. He spoke with DP when she returned during the week of July 21st. He testified that she did not recollect any issue regarding advance cheques. He added the essence of his discussion with DP to his handwritten note about CB's call.

84. He testified that, as of his discussion with DP, he had no proof to support CB's concerns. He was waiting to receive documents from CB, as he believed that she would have access to the relevant material as bookkeeper. He believed that she was the logical person from whom to obtain the material.

85. Mr. Steiginga testified that he only learned that DP was going to another meeting at FCBIA when she was walking out the door on July 30, 2008. According to Mr. Steiginga, the meeting was arranged directly between DP and the client. He understood that she was assisting with training on Quickbooks. He did not attend, and no one asked him to attend.

86. After the meeting on July 30, 2008, DP told Mr. Steiginga that CB had been angry with her. He understood that CB was angry because the internal controls suggested in their June 26th letter to the board had not been reviewed with her first. DP made no mention to him of unauthorized pay being taken by MM, board minutes being provided to DP or the board minutes provided previously being inaccurate. Based on what DP told him, Mr. Steiginga stated that

there were no issues that caused him concern.

87. Mr. Steiginga also testified that he first learned that MM's pay may not have been authorized when he received the complaint in July 2009. He received no contact from FCBIA.

DECISION

88. After deliberating, the panel made the following decision:

> THAT having seen, heard and considered the evidence, the Discipline Committee finds Richard Steven Steiginga guilty of the charges.

REASONS FOR FINDING

89. Certain general arguments were advanced before the Committee with respect to the test we should apply to determine if the facts of this case support findings of professional misconduct. Of particular note, it was argued before the Committee that we needed to ensure that we were not assessing Mr. Steiginga's conduct through the lens of "after the fact thinking".

90. It is the Committee's view that the issue of "after the fact thinking" does not arise on the evidence before us because the recurring theme was that, based on the evidence available and concerns stated at the time, Mr. Steiginga did not ask adequate questions or take adequate steps to satisfy his professional duties. If Mr. Steiginga had made the necessary inquiries, and concluded that he was satisfied with the evidence so obtained, the issue would have been different. But, it was not the issue raised on the evidence.

91. In a similar vein, it was argued that the errors that were made were errors of judgment, and did not amount to professional misconduct. Again, as will be discussed below, the problem was that Mr. Steiginga did not make necessary inquiries once he was alerted to concerns. It was his clear professional obligation to make those inquiries, particularly when dealing with a public entity using public funds. A consideration of the exercise of judgment was not triggered because Mr. Steiginga did not take the preliminary steps required of him as an accountant to obtain the minimum information he required to exercise judgment. In other words, Mr. Steiginga's omissions were a significant departure from the standards expected of him and were not simply errors in judgment.

92. There were several points on which the evidence of one witness before the Committee contradicted the evidence of another witness. On consideration of the evidence as a whole, it is this Committee's assessment that these contradictions were often secondary to the issues before the Committee and did not bear directly on the assessment of the issue of whether or not there had been professional misconduct in relation to the charges. Specific conflicts in the evidence are not addressed in these reasons except where they are necessary to the determination of an issue.

93. However, the panel did find that evidence offered by DP was unreliable and where her evidence conflicted with that of another witness, the evidence of the other witness, generally either CB or Mr. Steiginga himself was accepted. There are several reasons for this conclusion. First, there were portions of DP's evidence that were simply unbelievable when considered in light of human experience. Her evidence regarding the July 30th meeting, suggesting that she neither understood what was upsetting CB nor did she ask is a good example. Second, it is

significant that DP acknowledged that she had made prior inconsistent statements to Ms. Robinson during the investigation with regard to what went on at that meeting. Third, her evidence in places starkly contrasted with that of Mr. Steiginga, such as in relation to their discussion of his call with CB. DP denied that this conversation took place. This contradicted Mr. Steiginga, Mr. Steiginga's note and the common sense expectations that would have flowed from Mr. Steiginga's conversation with CB.

94. For ease of reference, the Committee findings with respect to the individual charges are set out in reference to each sub-paragraph.

Failure to perform professional services in accordance with generally accepted standards of profession (Rule 206)

Failure to conduct sufficient audit procedures to support Wage item

95. In his evidence, Mr. Steiginga agreed that, as engagement partner, he was responsible for the firm's opinion on the financial statements of FCBIA. Although the evidence indicated that he and DP had undertaken the planning of the audit, he acknowledged that he was also responsible for the audit procedures undertaken to reach that opinion.

96. Mr. Steiginga agreed that the FCBIA audit was assigned as a high risk and that indicated that internal controls would not be relied on. However, he nonetheless relied on the control that the payroll cheques had to be signed by a board member in reaching his opinion.

97. The working papers with regard to payroll indicated on their face that at least one cheque had been issued to the Director in advance of the relevant pay period. Despite this, no inquiries were made into these advance payments.

98. Similarly, the working papers confirmed that the extra pay given to the Director was consistent with prior years. However, this was not, in itself, adequate; as indicated by Ms. Robinson, further evidence needed to be obtained by the audit team, such as confirmation from the minutes. While DP and AF both testified that they reviewed the minutes, it was apparent from DP's cross-examination that the exact amounts authorized by the minutes had not been compared to the (greater) amounts actually paid. In addition, no efforts were made to assess whether 80 hours per month was reasonable for an individual who was already working full time.

99. Ms. Robinson testified that minimal testing of the wage payments was done. She further testified that this was a particular concern once it had been determined that they could not rely on controls, and once the information had been assembled to show that salary was being paid in advance. It is the view of this panel that, in these circumstances, the audit procedures employed were not sufficient.

100. This Committee does not accept Mr. Steiginga's position that he did not need to be concerned by the prospect of advance pay, even when it was raised by CB, because everything balanced out at year end. This position did not address the concerns regarding the possibility of manipulation of salary records prior to year end. Sufficient audit procedures required that further steps be taken to explore the advance pay entries. For example, the cheques that were reviewed did not contain any details about the payments; however, AF testified that she did not look at the cheque stubs that would have offered further information. Mr. Steiginga also testified that he did not consider it necessary to look at these stubs; however, the evidence here

indicated why it can be appropriate to do so when there is a need to gather further audit evidence.

Failure to exercise professional skepticism during audit

101. The obligation to exercise professional skepticism during this engagement did not fall on DP or AF, nor did it fall on Mr. Steiginga indirectly through the actions of those staff. The obligation fell directly on Mr. Steiginga by virtue of his responsibility for the opinion expressed in the audit. The essence of this duty is that the accountant must question the information provided to him to ensure that he has adequate information. There are several examples of Mr. Steiginga's failure to meet this obligation.

102. First, Mr. Steiginga relied on the representations of MM in the course of the audit and did not seek out corroborating evidence or challenge the representations. Whether this was a result of his past interaction with MM or not, he failed to question the representations made to him. In particular, after CB had raised the issue of advance pay with him on July 14th, Mr. Steiginga did not inquire with MM as to the accuracy of her earlier representations.

103. Second, the information provided to Mr. Steiginga by CB was not filtered through either DP or AF. Rather, the information came directly to him from staff at the client, and, consequently, it should have raised his professional skepticism in the audit findings that had been otherwise reached by staff. However, rather than questioning the findings – beyond reviewing the information in the working papers that, by definition, would support the audit finding – he let the findings go unchallenged.

104. Third, the auditor was aware that the minutes were prepared by the office support staff. Yet, despite the limited segregation of duties at FCBIA, Mr. Steiginga gave evidence that no one spoke to that person about the accuracy of the minutes, even though, on the face of the minutes reviewed there was a discrepancy between the pay claimed and the amounts authorized.

105. Fourth, Mr. Steiginga testified that DP told him after her meeting on July 30, 2008, with MM and CB that CB had been rambling and irrational. However, he further testified that this did not concern him. Given the absence of any prior interactions of this nature with CB, and the unusual nature of this interaction, this information should have raised Mr. Steiginga's professional skepticism and caused him to look for an explanation for this incident. Mr. Steiginga did not raise any questions as a result of this information and thereby failed to exercise the professional skepticism expected of an accountant.

106. It is also significant to the Committee that Mr. Steiginga did not document his July 14th call with CB until after DP's meeting with MM and CB on July 30th. Although no explanation for this delay was provided by Mr. Steiginga, the delay suggests that Mr. Steiginga considered the concerns raised by CB to be unresolved until DP had met further with CB. Notwithstanding that Mr. Steiginga appears to have considered the meeting of July 30th to have some significance, there is no evidence that he discussed the meeting with DP in any detail or inquired as to whether there was any further information provided regarding CB's stated concerns.

Failed to ensure that assistants employed on audit were properly supervised

107. In the course of an audit, an accountant will need to rely on others to assemble the information on which the opinion will be based. Given the importance of that information being

reliable for the integrity of the audit, the accountant has an obligation to ensure that the staff are properly trained and properly supervised. Where staff are less experienced, there is a heightened obligation on the accountant to actively supervise those staff.

108. AF was a co-op student working for Mr. Steiginga's firm for a second summer. Although she had taken some accounting courses as part of a business program, and had taken introductory training sessions at the firm, she had no formal accreditation and, as a student, she required rigorous supervision.

109. DP was the senior on the 2008 audit of FCBIA. She had worked at the firm for almost ten years and during that time she had always worked on the FCBIA audit. She does not have an accounting designation. She told the investigator that approximately ten per cent of her work was audit related. In her testimony, DP stated that fifteen percent of her work was audit related. By either estimation, this was not a significant portion of her work.

110. In previous years, a staff accountant had supervised and reviewed the work of DP and others on the audit. Due to a maternity leave, that CA was not involved in 2008, meaning that 2008 was the first year in which DP's work on this audit, which had been identified as high risk, was not reviewed before it was presented to Mr. Steiginga. This put a heightened obligation on Mr. Steiginga to review her work. This obligation was not met.

111. One of the most notable examples of the failure to supervise is Mr. Steiginga's failure to have a process in place to ensure that all information gathered during the audit was provided to him. During the course of the fieldwork for the 2008 audit, CB had raised concerns with DP about payroll advances and cheques being taken by MM. However, this information was not relayed to Mr. Steiginga, and there was apparently no expectation that it would be.

112. Similarly, when DP told Mr. Steiginga of the incident with CB on July 30th, Mr. Steiginga took no steps to review the incident in more detail with DP to ensure that any underlying issues being raised by CB were properly addressed.

113. In turn, DP testified that, while she was available to AF to answer questions, she did not directly review the work completed by AF. This was an inadequate level of supervision of a student and ought to have been questioned by Mr. Steiginga.

114. Mr. Steiginga and DP both testified that there had been no problems previously with DP's work, and, consequently, Mr. Steiginga did not see a need to question DP's work. However, given her relatively limited experience, the fact that this was a high risk audit and the fact that DP's prior work had been supervised by another accountant, there was not an adequate basis on which Mr. Steiginga could establish this confidence.

115. While counsel for Mr. Steiginga argued that other cases show more extensive failures to supervise, amounting to complete abdication, the existence of more serious cases does not justify Mr. Steiginga's failure here.

Failure to perform professional services with due care (Rule 202)

No further audit steps when bookkeeper refused to sign

116. It was unclear on the evidence before the Committee how the name of CB came to be inserted into the management representation letter in 2008. She had not signed the management letter in previous years and did not hold a position. Mr, Steiginga testified before the panel that it was the result of a computer error, although no further explanation as to how this could be was offered, However, he indicated in his note regarding his interactions with CB, and when speaking to Ms. Robinson, that he had included her name because he expected her to attend the initial audit meeting. To the extent that it may bear on our conclusion, the panel finds the statement by Mr. Steiginga in his note and to Ms. Robinson more reliable, given that it provides a more reasonable explanation than a non-specific computer error.

117. For the primary purposes of this proceeding, however, the relevant and undisputed fact is that CB's name was one of two names placed on the management letter. Although she was not management, this was not unreasonable. CB was one of the employees at FCBIA who played an important role in the system of internal control; she had been at FCBIA for thirteen years and had knowledge of their operations. Therefore, she was an appropriate person to sign the management letter.

118. Once the management letter called for CB's signature, the financial statements should not have been released without either her signature or a documented justification why her signature had not been obtained. In this case, neither happened. MM assured Mr. Steiginga that CB would sign the letter. There was no follow-up, and there was no documentation of any efforts made to have CB sign the letter. There was no documentation explaining why there was no follow-up.

119. Mr. Steiginga argued that it was not important that the letter was not signed by CB, and implicitly that no further audit steps were consequently taken, because CB's name should not have been on the letter. It is not open to Mr. Steiginga to argue that CB did not have to sign unless there was documentation as to a justifiable basis for that decision.

No further audit steps after issue raised concerning management representations

120. There was some dispute on the evidence as to what information was conveyed to Mr. Steiginga by CB in her telephone call to him on July 14^{th}. Mr. Steiginga indicated that CB only raised the issue of advance payroll being taken by MM and her concerns with signing the representation letter. CB testified that she also told him that she had communicated information to DP. For the purposes of our decision, this issue need not be resolved because it was common ground between the witnesses that she did communicate to him, at a minimum, that there were concerns around advance taking of salary by MM, and that it was highly unusual that she would have contacted Mr. Steiginga.

121. CB attempted to advise the auditors of her concerns and did not sign the management representation letter. This should have alerted Mr. Steiginga and caused him to take further audit steps. As noted above, the steps that he did take only involved reviewing some of the working papers that had been assembled in support of the original audit conclusion. This did not amount to further audit steps to address the issues raised in a high risk audit.

122. The existence of other factors, such as pay cheques being signed by a board member, that could have been consistent with the audit opinion rendered by Mr. Steiginga does not overcome the clear and non-routine warning raised by CB. While the evidence indicated that

Mr. Steiginga had not been flagged to question the audit opinion before that point, that warning put him on notice and required further steps to be taken by Mr. Steiginga.

123. CB did communicate her concerns to Mr. Steiginga and he had the responsibility to address those concerns. Mr. Steiginga did not respond appropriately to CB's concerns. His testimony that he decided to wait for proof was not the action that he should have taken given that the audit was assessed as high risk. The Committee does not accept Mr. Steiginga's position that CB was responsible for providing proof of her concerns surrounding payroll procedures and approvals and doctored minutes.

124. Mr. Steiginga testified that after when he received the call from CB on July 14th that he did not follow up further because he had no proof to support her allegations and expected CB to provide specific evidence to support her allegations. This, however, was not CB's role. It was the role of Mr. Steiginga as the engagement partner to ensure that further steps were taken, and additional evidence gathered, to rebut or confirm the concern raised by CB. He did not do so.

125. It was contended by Mr. Steiginga that more inquiries could not be made without some proof in hand given that this arose in a small town where unfounded allegations could be devastating to all involved. While this argument may indicate why allegations would only be made on solid evidence, this does not justify the failure to make further inquiries in a professional way to determine what evidence existed.

126. Given the potential significance of the information provided by CB, and the risk assigned to the audit, it would also be expected that the issues would be raised by Mr. Steiginga in some way with the Board. This did not happen, however.

127. Mr. Steiginga allowed this engagement to be performed to the level of a review, rather than an audit. There was clearly an audit failure and "red flags" should have been followed up. FCBIA received public funding and Mr. Steiginga did not follow up appropriately when concerns were communicated to him.

SANCTION

128. Mr. Farley, for the Professional Conduct Committee, submitted that an appropriate sanction would include: a written reprimand; a fine in the amount of $5,000; specified professional development courses; and publicity. He also sought 50% of the costs of the investigation, prosecution and hearing, and filed an Outline of Costs indicating that the costs totalled $94,922.63.

129. Mr. Farley asked the panel to consider general deterrence, specific deterrence and rehabilitation, in determining sanction. Mr. Farley submitted that the Professional Conduct Committee felt the member was capable of rehabilitation and did not seek suspension or expulsion of Mr. Steiginga. Public protection could be achieved through the principles of specific deterrence and rehabilitation.

130. Mr. Farley expressed the Professional Conduct Committee's concerns with the audit failures, especially by an experienced partner who did not appear to have a real understanding of the seriousness of matters raised that should have acted as a "red flag". Another aggravating factor is that financial statements of not-for-profit organizations are relied upon by the government when funding such organizations.

131. Mr. Farley referred to precedents circulated to the panel in support of the sanctions requested. He stated that supervision of practice was not suggested since the member is a partner in a large firm. The fine requested is at the low end of the range. The costs in this matter were extensive, and the general rationale established is that the member responsible should bear part of the costs.

132. Mr. Hluchan stated that his client had no objection to the fine, publicity and reprimand requested. However, he did feel that three rather than four professional development courses would be more reasonable.

133. With respect to costs, Mr. Hluchan stated that this hearing had taken up four days for a not overly complex matter. He submitted that the cost outline showed an excessive amount of preparation time and costs for the prosecutor, not in proportion to the nature of the case. He further submitted that the costs should be reduced, and the member be given one year to pay.

ORDER

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

IT IS ORDERED in respect of the charge:

1. THAT Mr. Steiginga be reprimanded in writing by the chair of the hearing.

2. THAT Mr. Steiginga be and he is hereby fined the sum of $5,000 to be remitted to the Institute within twelve (12) months from the date this Decision and Order becomes final under the bylaws.

3. THAT Mr. Steiginga be and he is hereby required to complete, by paying for and attending in their entirety, on or before January 31, 2012, the following professional development courses made available through the Institute:
   (a) *Not-for-Profit Organizations & Registered Charities – Accounting, Auditing & Taxation Issues*
   (b) *Fraud Happens! What to Do When You Suspect Fraud*
   (c) *Professional Risk Management – A Practical Perspective*
   or, in the event a course listed above becomes unavailable, the successor course which takes its place.

4. THAT notice of this Decision and Order, disclosing Mr. Steiginga'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;
   (b) to the Public Accountants Council for the Province of Ontario; and
   (c) to all provincial institutes/Ordre;
   and shall be made available to the public.

IT IS FURTHER ORDERED:

5. THAT Mr. Steiginga be and he is hereby charged costs fixed at $30,000 to be

remitted to the Institute within twelve (12) months from the date this Decision and Order becomes final under the bylaws.

AND IT IS FURTHER ORDERED:

6. THAT in the event Mr. Steiginga fails to comply with any of the requirements of this Order, he shall be suspended from the rights and privileges of membership in the Institute and his public accounting licence shall be suspended until such time as he does comply, provided that he complies within thirty (30) days from the date of his suspension, and in the event he does not comply within the thirty (30) day period, he shall be expelled from membership in the Institute and his public accounting licence shall be revoked, and notice of his expulsion and licence suspension and revocation, disclosing his name, shall be given in the manner specified above, and in a newspaper distributed in the geographic area of Mr. Steiginga's practice, employment and/or residence. All costs associated with the publication shall be borne by Mr. Steiginga and shall be in addition to any other costs ordered by the committee.

REASONS FOR SANCTION

135. This case deals with an important issue, namely the responsibility of a member to review and take responsibility, especially for work performed by junior employees.

136. The panel accepted the reduction requested by counsel for the member in the number of PD courses, as it believed that three courses would be sufficient as Mr. Steiginga attends other courses as part of his firm's professional development procedures.

137. The costs requested by the PCC were reduced to $30,000 in part to address the member's issue that the costs claimed were not reasonable. This argument was accepted and the costs were reduced to an amount that the panel considered reasonable. The facts in question were not complex, but the investigator did interview three Individuals, and this was a factor in the total costs of $94,922.

DATED AT TORONTO THIS 2nd DAY OF MAY 2011
BY ORDER OF THE DISCIPLINE COMMITTEE

J.A. CULLEMORE, FCA – DEPUTY CHAIR
DISCIPLINE COMMITTEE

<u>MEMBERS OF THE PANEL</u>:
G.G. IRELAND, CA
S.R. LOWE, CA
S.B. WALKER (PUBLIC REPRESENTATIVE)
R.A. WORMALD, FCA