



Founded 1879

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO

IN THE MATTER OF:

DRAFT ALLEGATIONS AGAINST T.
ROBERT HAMBLEY, CA, A MEMBER OF
THE INSTITUTE, BEFORE THE
DISCIPLINE COMMITTEE

Handwritten notes: "Doc 1", "ROBERT HAMBLEY", "in 2009/10", "15/11/11"

SETTLEMENT AGREEMENT

*made pursuant Section 34 (1)(c) of the Chartered
Accountants Act, 2010, and to ICAO Regulation 7-1, s. 22.4*

Introduction

1. The Professional Conduct Committee ("PCC"), at their meeting of March 6, 2012, approved the drafting of allegations against T. Robert Hambley, CA ("Hambley").
Doc 1 (All references to "Doc" numbers are references to the document brief attached to this Settlement Agreement).
2. Hambley is a sole practitioner who obtained his CA designation in 1972 after articling with Pricewaterhouse. He left Pricewaterhouse in 1979 and has been in private practice since then. Since 1985 he has practiced as a sole practitioner.

Background

3. In April of 2011 the Practice Inspection Committee advised Standards Enforcement that matters arising from the re-inspection of Hambley's practice involving two audit files required investigation by the PCC.
4. The audit files in question involved Pope & Company Limited (P&C Ltd.) for the year ended December 31, 2009 **Doc 2** and Park Lawn Income Trust (PL Income Trust) for the year ended December 31, 2009. **Doc 4**

5. In carrying out its investigation the PCC also reviewed the Maison Placements Canada Inc. (MPC Inc.) audit working paper file for the year ended August 31, 2011.
Doc 7

The First Allegation

The first allegation is that T. Robert Hambley, in or about the period December 1, 2009 through March 1, 2010, while engaged to perform an audit of the financial statements of P&C Ltd. for the year ended December 31, 2009 (Doc 2), 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 206.2 of the rules of professional conduct.

The Particulars to the Allegation

Allegation 1 (a) – He failed to conduct sufficient and appropriate audit procedures to properly assess the risk of material misstatement of the financial statements

6. It is agreed that the standards of practice of the profession require a member engaged to audit financial statements to assess the risk on the audit through undertaking a number of procedures including understanding the entity (*CICA Handbook* 5141.002 **Tab 1**), assessing risk by assertion (*CICA Handbook* 5141.101 **Tab 1**) and considering risk of material misstatement due to fraud (*CICA Handbook* 5135.003 **Tab 2**) (all references to “Tab” numbers are references to the brief of authorities attached to this Settlement Agreement).
7. While in this case there was a schedule of analysis of risk in the file, there was no consideration of fraud.
8. *CICA Handbook* 5142.24 **Tab 3** requires a written response from management that it believes the effects of uncorrected misstatements are immaterial. In this case the member did not present to management the summary of uncorrected misstatements.

Allegation 1 (b) – He failed to make a preliminary decision with respect to materiality

9. There was no preliminary determination of materiality as required (*CICA Handbook* 5142.12 **Tab 3**).

Allegation 1 (c) – He failed to establish policies and procedures to require an engagement quality review be completed before the issuance of the report on the financial statements of P&C, a public enterprise.

10. No engagement quality review was completed before the issuance of the report on the financial statements of P&C Ltd. which was a public enterprise and therefore required an engagement quality review (*CICA Handbook* GSF-QC.068 **Tab 4**)

Allegation 1 (d) – he failed to make enquiries of management with respect to related party transactions

11. No enquiries were made of management regarding related party transactions as required (*CICA Handbook* 6010.09 **Tab 5**)

Allegation 1 (e) – He failed to refer to Canadian standards of practice in the audit report

12. The auditor's report is not in accordance with the standard report as it does not refer to Canadian standards of practice as required (*CICA Handbook* 5400.22 **Tab 6**).

Allegation 1 (f) – He failed to obtain an adequate response to the legal enquiry letter

13. The enquiry letter to the law firm is dated February 2, 2010 **Doc 3**. The response is dated February 9, 2010 with an effective date of February 8, 2010 **Doc 3**. Because the auditor's report is dated February 22, 2010 **Doc 2**, the response to the legal enquiry letter is inadequate (*CICA Handbook* 6560 A-6 **Tab 7**)

Allegation 1 (g) – He failed to ensure disclosure in the financial statements of references to the notes

14. The member failed to include note references in the financial statements (*CICA Handbook* 1000.04 **Tab 8**).

Allegation 1 (h) – He failed to ensure disclosure in the financial statements of the basis of valuation of securities

15. The member failed to disclose the basis of valuation of securities in the financial statements (*CICA Handbook* 3051.25 **Tab 9**).

Allegation 1 (i) – He failed to ensure disclosure in the financial statements of the amount of future income tax asset and the valuation allowance

16. The member agrees that the disclosure required in the financial statements of the amount of future income tax asset and the valuation allowance was not given as required (*CICA Handbook* 3465.24, 3465.30 **Tab 10**).

Allegation 1 (j) – He failed to ensure disclosure in the financial statements of the details of related party transactions

17. With respect to related party transactions regarding rent and management fees described in Note 4 to the financial statements **Doc 2**, the member failed to disclose the measurement basis for the amounts charged for rent and management fees and accounts payable or receivable arising from these transactions (*CICA Handbook* 3840.46 **Tab 11**)
18. In addition, the member failed to disclose that the subordinated loan shown on the financial statements in the amount of \$1.5 million is due to a related party and he failed to disclose the existence of a brokerage account with related parties through which securities trades are done (*CICA Handbook* s. 3840.46, **Tab 11**).

Allegation 1 (k, l, m) – He failed to ensure disclosure in the financial statements of authorized share capital and that the “Comfort Deposit” funds referred to in Note 8 were restricted and should not be included in the current assets. And he failed to ensure disclosure in the financial statements of the terms of a subordinated loan

19. The member agrees that he failed to ensure disclosure in the financial statements of the authorized share capital of P&C Ltd. (*CICA Handbook* 3240.02 **Tab 12**).
20. In Note 8 to the financial statements there is a reference to “Comfort Deposit” **Doc 2**. The note provides that “the company has lodged a comfort deposit with NBC in the amount of \$255,000 to provide assurance that all outstanding transactions will settle.”
21. The member has failed to disclose that these funds are restricted and not available for current purposes. Consequently those funds should not be included in current assets as was done in this case (*CICA Handbook* 3000 **Tab 13**)
22. The balance sheet contained the item “Subordinated Loan \$1.5 million”. There was no disclosure of the terms of the loan as required (*CICA Handbook* 3210.02 **Tab 14**)

Allegation 1 (n) – He failed to document matters important to support the audit opinion

23. The member failed to document the substantial completion of the examination to support the date of the auditor’s report (*CICA Handbook* s. 5405.06 **Tab 15**)
24. The member failed to document his assessment of auditor independence as required. (*CICA Handbook* GSF-QC.018-022 **Tab 16**)

25. The member failed to document procedures providing reasonable assurance that he identified and assessed potential sources of risks associated with the client relationship on the engagement. (*CICA Handbook* GSF-QC.029 **Tab 17**)

The Second Allegation

The second allegation is that T. Robert Hambley, in or about the period December 1, 2009 through April 30, 2010, while engaged to perform an audit of the financial statements of PL Income Trust for the year ended December 31, 2009 (Doc 4), 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 206.2 of the rules of professional conduct

The Particulars to the Allegation

Allegation 2 (a) – He failed to conduct sufficient and appropriate audit procedures to properly assess the risk of material misstatement of the financial statements

26. It is agreed, as stated above, that the standards of practice of the profession require a member engaged to audit financial statements to assess the risk on the audit through undertaking a number of procedures including understanding the entity (*CICA Handbook* 5141.002 **Tab 1**), assessing risk by assertion (*CICA Handbook* 5141.101 **Tab 1**) and considering risk of material misstatement due to fraud. The member did not undertake the procedures required by the Handbook.
27. In addition the member failed to document the substantial completion of the examination to support the date of the auditor's report. The auditor's report was dated April 10, 2010 **Doc 4** but subsequent events were examined only to March 16, 2010 **Doc 6**, which becomes the date of substantial completion. Either the report date should have been March 16, 2010 or subsequent events should have been updated to April 10, 2010 (*CICA Handbook* 5405.06 **Tab 15**).

Allegation 2 (b) – He failed to make a preliminary decision with respect to materiality

28. There was no preliminary determination of materiality as required (*CICA Handbook* 5142.12 **Tab 3**).

Allegation 2 (c) – He failed to establish policies and procedures to require an engagement quality review be completed before the issuance of the report on the financial statements of PL Income Trust, a public enterprise

29. No engagement quality review was completed before the issuance of the report on the financial statements of PL Income Trust which was a public enterprise and therefore required an engagement quality review (*CICA Handbook* GSF-QC.068 **Tab 4**)

Allegation 2 (d) – He failed to make enquiries of management with respect to related party transactions

30. No enquiries were made of management regarding related party transactions as required (*CICA Handbook* 6010.09 **Tab 5**)

Allegation 2 (e) – He failed to ensure disclosure in the financial statements of the details of related party transactions

31. Note 7 discloses the payment of fees to a related party **Doc 4**. Hambley failed to disclose the measurement basis for the fees charged and the accounts payable or receivable resulting from these transactions (*CICA Handbook* 3840.46 **Tab 11**).

Allegation 2 (f) – He failed to ensure disclosure on the income statement of depreciation

32. It is agreed that the member failed to separately disclose depreciation on the income statements as required (*CICA Handbook* 1520.03(f) **Tab 18**).

Allegation 2 (g) – He failed to ensure proper disclosure in the financial statements of the basis of recording “Land held for development \$3,302,281”

33. There is no disclosure in the financial statements “Note 13 – FIXED ASSETS” **Doc 4** of the basis of recording “Land held for development” referred to in Note 12 as required (*CICA Handbook* 3061.38 **Tab 19**). In addition the amounts shown in Note 12 to the financial statements with respect to land held in development do not agree to amounts shown on the balance sheet.

Allegation 2 (h) – He failed to ensure disclosure in the financial statements of the due date, interest rate and five year repayments of mortgages payable

34. It is agreed that the member failed to make proper disclosure in the financial statements of the due date, interest rate and five year repayments of the mortgages payable.

Allegation 2 (j) – He failed to document matters important to support the audit opinion

35. He failed to document his assessment of auditor independence (*CICA Handbook* GSF-QC.018-.025 **Tab 16**).
36. The member failed to document auditor procedures providing reasonable assurance that he identified and assessed potential sources of risks associated with the client relationship on the engagement. (*CICA Handbook* GSF-QC.029 **Tab 17**)

The Third Allegation

The third allegation is that T. Robert Hambley, in or about the period August 31, 2011 through December 31, 2011, while engaged to perform an audit of the financial statements of MP Canada Inc. for the year August 31, 2011 (Doc 7), 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 206.2 of the rules of professional conduct.

The Particulars to the Allegation

Allegation 3 (a) – He failed to conduct sufficient and appropriate audit procedures to properly assess the risk of material misstatement of the financial statements

37. It is agreed that Hambley failed to conduct sufficient appropriate audit procedures to properly assess the risk of material misstatement of the financial statements. There was no assessment of risk by assertion – (Canadian Auditing Standards (“CAS”) 315.25 **Tab 20**) and no audit work with performed with respect to related parties – (CAS 550 **Tab 21**). (CAS is applicable to audits of financial statements ending on or after December 14, 2010.)

Allegation 3 (b) – He failed to ensure legal response letters had an effective date no more than five days before the audit report date of December 9, 2011

38. The effective dates of the three legal response letters were September 30, 2011 and August 31, 2011 **Doc 8**, while the audit report was dated December 9, 2011 **Doc 7**. As required by the standards of the profession (*CICA Handbook* AUG-46 **Tab 22**)

Allegation 3 (c) – He failed to obtain a representation letter prior to signing the audit report

39. It is agreed that the member obtained a representation letter on December 14, 2011 **Doc 9**, only after the signing of the audit report, contrary to the standards of the profession which require that the date of the written representation be as near as practicable to, but not after, the date of the auditor's report on the financial statements (CAS 580.14 **Tab 23**).

Allegation 3 (d) – He failed to carry out a sufficient and appropriate subsequent events review

40. Subsequent events were reviewed to October 12, 2011 **Doc 10**. The auditor's report was dated December 9, 2011 **Doc 7**. The standards require (CAS 560 **Tab 24**) that the auditor perform audit procedures designed to obtain audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements be identified. Unless a subsequent event review is performed up to the date of the auditor's report, there is no assurance that all such events have been identified.

Allegation 3 (e) – He failed to obtain sufficient and appropriate evidence with respect to related party transactions and to disclose same

41. There was no disclosure of related party transactions with respect to subordinated loans, interest paid on subordinated loans and broker accounts with related parties. The subordinated loans shown on the balance sheet in the amount of \$72,300 **Doc 7** were payable to officers or directors of the corporation or companies controlled by them. It was not disclosed that these loans were due to related parties, nor were the terms disclosed, i.e. interest rate and due date. In addition there was no disclosure of the brokerage accounts with officers or directors, the measurement basis was not disclosed, nor any balances payable or receivable (CAS 550 **Tab 21**).

Allegations 3 (f, g) – He failed to obtain evidence that the financial statements were approved by the Audit Committee or the Board of Directors and failed to provide the schedule of unadjusted errors to the client so that the errors could be corrected

42. Hambley failed to obtain evidence that the financial statements were approved by the Audit Committee or the Board of Directors (CAS 700 para. 41(b) **Tab 25**).
43. While the representation letter refers to approval of unadjusted errors, the schedule of unadjusted errors was not given to the client with a request to correct any misstatements (CAS 450.5 to .14 **Tab 26**)

Allegation 3 (h) – He failed to ensure the “Statement of Cash Flows” disclosed the amount of income tax refunded

44. The Statement of Cash Flows **Doc 7** does not disclose the amount of income tax refunded as required (*CICA Handbook* 1540.38-.39 **Tab 27**)

Allegation 3 (i) – He failed to ensure proper disclosure of significant accounting policies regarding cash and cash equivalents

45. Note 2(g) to the financial statements **Doc 7** headed “Cash and Cash Equivalents” states “Cash and cash equivalents include short-term investments, such as money market deposits, certificates of deposit or similar type highly liquid instruments with maturities of 3 months or less from the date of purchase.”
46. Note 3 to the financial statements “Securities Owned” included “money market instruments with a term to maturity of less than 3 months - \$4,328,844”. Money market instruments with a term of less than 3 months should have been included in cash and cash equivalents, based on the company’s accounting policy in Note 2(g).

Allegation 3 (j) – He failed to ensure the financial statements included an accounting policy note with respect to the balance sheet item “Capital Assets – 16”

47. While the balance sheet contains an item “Capital Assets – \$16” **Doc 7**, there is no further disclosure nor is there documentation in the file as to what this represents. In fact the amount is an investment in another company where the shareholders of that company mirror the shareholders of Maison. The item had to do with the transfer of stock exchanged from MPC Inc. to MB.
48. This being the case there should be an accounting policy note indicating how the investment is accounted for. There was no such note (*CICA Handbook* 3051.29 **Tab 9**).

Terms of Settlement

49. Hambley and the Professional Conduct Committee agree to the following Terms of Settlement:

- a) Hambley will pay a fine in the amount of \$5,000 within three months of this agreement receiving approval of the Discipline Committee;
- b) Hambley will restrict his practice to exclude assurance engagements. This proviso of the Settlement Agreement constitutes an Undertaking by Hambley not to carry out assurance engagements from the time of signing the Settlement Agreement;
- c) Hambley will pay costs in the amount of \$12,700 within three months of this agreement receiving approval of the Discipline Committee;
- d) Notice of the terms of this Settlement Agreement will be given in accordance with the provisions of ICAO Regulation 7-3, section 22, including to the Public Accountants' Council, the CICA and in *Checkmark Magazine*;
- e) A failure by Hambley to comply with sub-sections (a) and/or (c) of this paragraph will result in his suspension from membership in the Institute which suspension will continue until he complies. If his suspension under this section continues for three months he will be expelled from membership with full publicity in accordance with Regulation 7-3(23).

50. Should the Discipline Committee accept this Settlement Agreement, Hambley agrees to waive his right to a full hearing, judicial review or appeal of the matter subject to the Settlement Agreement. The allegations approved by the Professional Conduct Committee attached to this agreement shall be stayed.

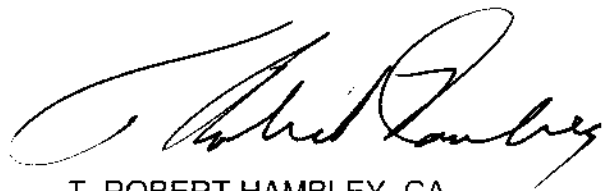
If Settlement Agreement Not Approved

51. If, for any reason, this Settlement Agreement is not approved by the Discipline Committee, then;
- a) This Settlement Agreement and its terms, including all settlement negotiations between the Professional Conduct Committee and Hambley leading up to its presentation to the Discipline Committee, shall be without prejudice to the Professional Conduct Committee and Hambley;
 - b) The Professional Conduct Committee and Hambley shall be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing on the merits of the allegations, or negotiating a new Settlement Agreement, unaffected by this Settlement Agreement or the settlement negotiations;
 - c) The terms of this Settlement Agreement will not be referred to in any subsequent proceeding, or disclosed to any person, except with the written consent of the Professional Conduct Committee and Hambley or as may be required by law.
52. Any obligations of confidentiality shall terminate upon approval of the Settlement Agreement by the Discipline Committee.

All of which is agreed to for the purpose of this proceeding alone this 16th day of

July 2012.


 PAUL F. FARLEY
 SENIOR COUNSEL,
 PROFESSIONAL CONDUCT COMMITTEE
 On behalf of the Committee


 T. ROBERT HAMBLEY, CA
 on his own behalf