

**NEW ZEALAND INSTITUTE OF CHARTERED ACCOUNTANTS
NOTICE OF DECISION AND ORDER OF THE PROFESSIONAL CONDUCT COMMITTEE**

At a meeting of the Professional Conduct Committee of the New Zealand Institute of Chartered Accountants held in private on 1 November 2010, the Committee considered matters relating to the conduct of Richard John White of Timaru, a Chartered Accountant in public practice. The Committee found that the following matters would otherwise warrant being referred to the Disciplinary Tribunal.

In his role as a Chartered Accountant in public practice, Richard White:

- 1) Breached the Fundamental Principle of Competence and/or Rule 7 of the Code of Ethics in that he did not conduct his audit assignments with the requisite competence as evidenced by particulars 3 to 5 below; and/or
- 2) Breached the Fundamental Principle of Quality Performance and/or Rule 9 and/or Rule 11 of the Code Ethics in that he did not conduct his audit assignments with due care and diligence and/or in accordance with relevant technical and professional standards, as evidenced by particulars 3 to 5 below; and/or
- 3) In relation to his audit of the financial statements of Company A (an issuer) for the year ended 31 March 2008, he:
 - a) Was the lead engagement partner and/or involved in the audit of an issuer, being Company A for a period of between 10 to 15 years, in breach of Rule 4 of the Code of Ethics and/or paragraph 121 of the Code of Ethics: Independence and/or paragraph 33 of AS-100 *Objective of and General Principles Governing an Audit*; and/or
 - b) Did not obtain and/or document sufficient appropriate audit evidence to support his assessment of the recoverability of finance receivables, in breach of paragraph 8 of AS 500 *Audit Evidence* and/or paragraph 8 of AS 204 *Documentation*; and/or
 - c) Did not obtain and/or document sufficient appropriate audit evidence to support his assessment of the reports issued to the trustee in accordance with the requirements of the Trust Deed, in breach of paragraph 8 of AS 500 *Audit Evidence* and/or paragraph 8 of AS 204 *Documentation*; and/or
 - d) Did not perform audit procedures and/or document audit evidence, to support his assessment of the reliability of the computer systems, in breach of AS 210 *Auditing in a Computer Information Systems Environment* and/or paragraph 8 of AS 204 *Documentation*; and/or
 - e) Prepared and signed an audit report for inclusion with Company A's prospectus which did not comply with legislative requirements, in that:
 - i) It initially incorrectly included references to section 16 of the Financial Reporting Act 1993; and/or
 - ii) It did not comply with clause 36(1) of the second schedule of the Securities Regulations 1983;
in breach of the Fundamental Principle of Quality Performance and/or Rule 9 of the Code of Ethics; and/or

- f) Signed an audit report for Company A for the year ended 31 March 2008 which asserted that the financial statements complied with generally accepted accounting practice when the reported interest received on the cash flow statement had not been adjusted to reflect the capitalised interest on loans, in breach of NZ IAS7 *Statement of Cash Flows*; and/or
- 4) In relation to his audit of the financial statements of Company B (an issuer) for the year ended 31 March 2008, he:
- a) Did not perform audit procedures and/or document audit evidence to support his assessment of the reliability of the computer systems in breach of AS 210 *Auditing in a Computer Information Systems Environments* and/or AS 204 *Documentation*; and/or
- b) Failed to perform audit procedures to assess going concern and/or document reasons why such procedures were not performed, to support his conclusion that the adoption of the going concern assumption was appropriate, in breach of AS -520 *Going Concern*; and/or
- c) Failed to complete audit programs included on his file and/or document what audit procedures were applied, to assess key audit areas relating to Debenture Stock and/or Contingent Liabilities and/or Retained Income and/or Share Register and/or Unrecorded Liabilities, in breach of paragraph 8 of AS 500 *Audit Evidence* and/or paragraph 8 of AS 204 *Documentation*; and/or
- d) Failed to obtain and/or document sufficient appropriate audit evidence to support his assessment of the assertion in the financial statements that there were no restructured and/or impaired loans, in breach of paragraph 8 of AS-500 *Audit Evidence* and/or paragraph 8 of AS 204 *Documentation* and/or FRS-33 *Disclosure of Information in Financial Institutions*; and/or
- e) Failed to document evidence to support satisfaction of audit concerns in respect of related party transactions in breach of paragraph 8 of AS 500 *Audit Evidence* and/or paragraph 8 of AS 204 *Documentation* and/or AS-510 *Related Parties*; and/or
- f) Signed an audit report for Company B for the year ended 31 March 2008 which asserted that the financial report complied with generally accepted accounting practice when the reported interest received on the cash flow statement had not been adjusted to reflect the capitalised interest on loans in breach of FRS 10 *Statement of Cash Flows*; and/or
- g) Prepared and signed an audit report for inclusion with Company B's prospectus which did not with comply with clause 36(1) of the second schedule of the Securities Regulations 1983 in breach of the Fundamental Principle of Quality Performance and/or Rule 9 of the Code of Ethics; and/or
- h) Failed to consider and/or document his consideration of the application of professional standards relevant to the engagement, specifically paragraphs 55 to 60 of PS-2 *Client Monies* as the entity is an Associated Finance Entity, in breach of AS-302 *Knowledge of the Audit Environment*; and/or
- 5) In relation to his audit of the financial statements of Company C for the year ended 31 March 2008, he:
- a) Did not obtain and/or document sufficient appropriate audit evidence to conclude that stock, a material figure in the financial statements, was fairly stated, in breach of paragraph 8 of AS 500 *Audit Evidence* and/or paragraph 8 of AS 204 *Documentation*; and/or

- b) Did not obtain and/or document sufficient appropriate audit evidence to conclude that debtors were fairly stated in the financial statements, in breach of paragraph 8 of AS 500 *Audit Evidence* and/or paragraph 8 of AS 204 *Documentation*; and/or
- c) Failed to perform audit procedures and/or document evidence obtained from such procedures, to identify unrecorded liabilities, in breach of paragraph 8 of AS 500 *Audit Evidence* and/or paragraph 8 of AS 204 *Documentation*; and/or
- d) Failed to document in his planning memoranda procedures to assess specific areas of risk including, Company C's diminished financial situation and/or independence and/or critical audit areas, in breach of paragraph 18 of AS 300 *Planning an Audit of Financial Reports*; and/or
- e) Failed to consider key indicators that suggested the company was an issuer with due regard to relevant legislation, in breach of Rules 7 and/or 9 of the Code of Ethics.

With the written consent of Richard White, the Committee made the following orders, which shall be entered on his record:

- 1) In accordance with Rule 21.6(d)(v) and (vii) that he be severely reprimanded and pay costs to the Institute in the sum of \$2675.00 (plus GST);
- 2) In accordance with Rule 21.10 that the Practice Review Board be directed to conduct a review of his practice in November 2011, and report its findings directly to the Professional Conduct Committee;
- 3) In accordance with Rule 21.54A(b) that the Committee accept his written undertaking that he will not do issuer audits, other than under the supervision of a mentor approved by Practice Review.

In reaching its decision to exercise powers under Rule 21.6(d), the Committee took into account the fact that Mr White had approached the criticism of him in a responsible manner, that he had engaged a mentor who was overseeing his audit work and that his firm will be practice reviewed in December 2010. The Committee also noted that Mr White intended to retire from practice in 2011.

The Committee considered it was in the public interest to direct publication of its decision and the orders made with mention of Mr White's name and locality, but suppression of identifying details of any third parties including clients.

Details of the decision and the Professional Conduct Committee's orders are published in the February 2011 edition of the *Chartered Accountants Journal* and on the Institute's website www.nzica.com/dt.

DJ Barker
Chairman
Professional Conduct Committee
New Zealand Institute of Chartered Accountants
1 December 2010