

**IN THE MATTER OF a Proceeding under  
the *Certified General Accountants Act, 2010*  
and the Association's Bylaws**

**IN THE MATTER OF a Complaint against Gerald Lane**

**BETWEEN:**

The Discipline Committee of The Certified General Accountants Association of Ontario

- and -

Gerald Lane

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**DECISION OF THE PROFESSIONAL CONDUCT TRIBUNAL**

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Members of the Professional Conduct Tribunal Panel:

Peter J Vaillancourt, CGA, Chair  
Jonathan Ragnauth, CGA  
Betty Kuchta, Public Representative

Pursuant to section 25, Article 9 of the Bylaws, the Professional Conduct Tribunal Panel has reviewed the Statement of Facts and Resolution proposed by the parties in this matter, signed by the Chair of the Discipline Committee Pierre Bocti on May 17<sup>th</sup>, 2011 and signed by Gerald Lane on June 2<sup>nd</sup>, 2011. The Professional Conduct Tribunal Panel accepts the attached proposal as set out by the parties. The attached proposal is hereby ratified.

Dated this 12<sup>th</sup> day of July, 2011

I, Peter J Vaillancourt, sign this Decision as Chair of the Panel of the Professional Conduct Tribunal on behalf of the members of the Panel that heard this matter.



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Peter J Vaillancourt, CGA

**THE CERTIFIED GENERAL ACCOUNTANTS  
ASSOCIATION OF ONTARIO**

**IN THE MATTER OF Gerald J. Lane, a member of the  
Certified General Accountants Association of Ontario**

**STATEMENT OF FACTS AND RESOLUTION**

**A. AGREED UPON STATEMENT OF FACTS**

1. I became a member of CGA Ontario in 1986.
2. My CGA Ontario certificate number is 5736 and my CGA Canada certificate number is 320579.
3. From approximately 1982 to 2010, I worked as the controller for Educator Supplies Limited operating as Scholar's Choice (the "Company"), a distributor of educational materials and toys.
4. As controller, I was responsible for managing the Company's accounting functions which included maintaining the Company's books and records, banking, the preparation of monthly and year end trial balances as well as financial statements and preparing information that was provided to the Company's outside accountants and lender.
5. From April 2006 to April 2008 I received employment bonuses from the Company totaling \$72,063 calculated based on the numbers I reported to the Company.

**GST Payments**

6. As part of my responsibilities, I was to ensure that the Company's GST was paid.
7. I did not pay the GST payment that was due December 2007 until August or September 2009.
8. I never did pay the GST payment that was due December 2008.
9. I did not send the Company's accountants the GST liability for December 2008. The GST liability for December 2008 was not recorded in the 2009 financial statements.

10. In a sample six month period from October 2008 to March 2009, inclusive, I was late filing the GST returns and paying the GST due a total of five of the six months.
11. I did not advise the Company that I had not paid the December 2008 GST payment.
12. The Company discovered the unpaid December 2008 GST liability in October 2009 while I was on holiday.

### **Accounts Receivable**

13. In the Company's accounts receivable listing for 2009, I transferred the accounts receivable numbers from the Company's computerized accounting system into an excel spreadsheet where I could alter them. I altered the amount of the accounts receivable in over 190 different customer accounts and inflated the amount of those accounts receivable by approximately \$304,000.
14. I delivered the altered, inflated accounts receivable listing to the Company's accountants who used it as the basis for the 2009 financial statements.
15. The listing I delivered was not an accurate representation of the amounts owed to the Company by its customers and, as a result, the financial statements were inflated and not accurate.
16. I also signed a Monthly Statement of Available Credit Limit to the Company's bank, CIBC, wherein I represented to the bank the accuracy of the Company's accounts receivable. Based on that figure, and others, CIBC calculated the credit available to the Company.
17. I certified to CIBC on behalf of the Company that the information set out in the Monthly Statement was "true and complete in all respects" and I "acknowledge[d] that CIBC [was] relying upon these representations and warranties and this certification".
18. For instance, on 12 February 2009, I certified to CIBC that the Company's accounts receivable were \$1,067,877 as at 31 December 2008.
19. On 6 May 2009 I certified to CIBC that the Company's accounts receivable were \$1,180,418 as at 31 March 2009.
20. On 6 May 2009 I signed a Covenants Compliance Certificate to CIBC whereby I certified to CIBC that the Company's current assets were \$9,529,633 as at 31 March 2009.

21. I knew when I signed these Monthly Statements of Available Credit Limit and the Covenants Compliance Certificate that the information was not accurate.
22. Based on my inflated information, the Company's accounts receivable were listed in the 2009 financial statements at \$1,043,052.
23. After my improper inflation was discovered, the accounts receivable in the restated 2009 financial statements were reduced by \$304,614 to \$738,438.
24. When asked, I did not provide the Company with any explanation of why I had altered the accounts receivable.

### **Accounts Payable**

25. With respect to the Company's accounts payable, I did not use the report generated by the Company's computerized accounting system, but again created my own excel spreadsheet where I altered the information.
26. I reduced the accounts payable owed by the Company for 2009 by approximately \$2,830,000. This reduced accounts payable amount was the basis for the numbers used by the Company's accountants to prepare the 2009 financial statements.
27. Among the alterations I made, I deleted a payable to the Receiver General of \$340,189.
28. I knew the accounts payable listing as I had altered it was inaccurate.
29. Based on my altered information, the Company's accounts payable and accrued liabilities were listed on the 2009 financial statements at \$3,737,645.
30. After my improper adjustments were discovered, the accounts payable and accrued liabilities on the restated 2009 financial statements were increased by \$2,830,272 to \$6,577,917.
31. After my employment was terminated, I acknowledged that I had altered the accounts payable figures inappropriately.

### **Inventory**

32. I became aware in or about January 2009 that the Company's inventory as recorded on its general ledger was incorrect. I did not advise the Company of this error.
33. The Company's computer accounting system listed the inventory as at 2 May 2009 at approximately \$10,367,936, which I knew or ought to have known was false. That figure was \$2,084,693 in excess of the actual inventory on hand.

34. In years 2004 through to 2008 inclusive, I increased the inventory balance as shown on the Company's computer accounting system by \$1,849,977 in 2004, \$1,274,700 in 2005, \$1,030,212 in 2006, \$1,228,800 in 2007 and by \$2,381,665 in 2008.
35. In addition, I failed to properly account for the exchange rate on inventory purchased from the United States.
36. When the exchange rate error was discovered after my departure, it resulted in a reduction in inventory valuations on the 2009 financial statements of \$466,125.
37. Further, I improperly accounted for inventory provided to the Company's sales force at the retail cost rather than the lower of cost or market.
38. I also included in the list inventory that did not exist.
39. In the Monthly Statement of Available Credit Limit that I signed in February 2009, I certified to CIBC that the Company's inventory was \$8,359,087 as of 31 December 2008.
40. On 6 May 2009 I certified to CIBC that the Company's inventory was \$7,134,985 as at 31 March 2009.
41. On 6 May 2009 I certified to CIBC that the Company's assets were \$9,529,633 as of 31 March 2009.
42. I knew when I signed these Monthly Statements of Available Credit Limit and the Covenants Compliance Certificate that the information was not accurate.
43. Based on my inflated inventory information, the Company's inventory was listed in the 2009 financial statements at \$8,332,500.
44. After my improper adjustments were discovered, the inventory in the restated 2009 financial statements was reduced by \$870,036 to \$7,462,464.
45. Based on the altered financial information I provided to the accountants, the Company's 2009 financial statements showed a net income of \$384,496.
46. After my improper adjustments to accounts receivable, accounts payable, inventory and other items were discovered and accounted for, the Company's 2009 restated financial statements showed a net loss of -\$3,847,138, a difference of \$4,231,634.

47. After receiving the 2009 restated financial statements, in or about November 2009 the Company filed a proposal under the *Bankruptcy and Insolvency Act*.

48. Rule 101 of The Association's Code of Ethical Principles and Rules of Conduct (the "Code") - Discredit - states:

*A member shall not permit the member's firm name or the member's name to be used with, participate in, or knowingly provide services to, any practice, pronouncement or act that would be of a nature to discredit the profession.*

49. In altering the Company's records to inflate the accounts receivable, decrease the accounts payable and inflate the inventory, the result of which was to cause the statements to be materially misstated by \$4,231,634 alone, I participated in a practice or act that was of a nature to discredit the profession.

50. In providing the Company's accountants and lender with financial information that I had altered and knew to be false, I participated in a practice or act that was of a nature to discredit the profession.

51. Rule 102 of the Code - Unlawful Activity - states:

*A member shall not permit the member's firm name or the member's name to be used with, participate in, or provide services to, any activity that the member knows, or which a reasonable and informed third party would believe, to be unlawful.*

52. In altering the Company's records to inflate the accounts receivable, decrease the accounts payable and inflate the inventory, the result of which was to cause the statements to be materially misstated by \$4,231,634 alone, I participated in an activity that I knew or which a reasonable and informed third party would believe to be unlawful.

53. In providing the Company's accountants and lender with financial information that I had altered and knew to be false, I participated in an activity that I knew or which a reasonable and informed third party would believe to be unlawful.

54. Rule 108 of the Association's Code -Conduct Unbecoming - states:

*It shall be unethical for a member, while acting in a professional capacity or otherwise, to engage in misconduct of a reprehensible or serious nature which reflects on the member's or student's honesty, integrity, or trustworthiness or, is relevant to the person's suitability as a member of the profession.*

55. In altering the Company's records to inflate the accounts receivable, decrease the accounts payable and inflate the inventory, the result of which was to cause the statements to be materially misstated by \$4,231,634 alone, I engaged in conduct of a reprehensible and serious nature which reflected on my honesty, integrity and trustworthiness and is relevant to my suitability as a member of the profession.
56. In providing the Company's accountants and lender with financial information that I had altered and knew to be false, I engaged in conduct of a reprehensible and serious nature which reflected on my honesty, integrity and trustworthiness and is relevant to my suitability as a member of the profession.
57. Rule 203 of the Association's Code -Information used for Personal Advantage - states:
- A member shall not, without an employer's or client's consent, use confidential information relating to the business of the member's employer or client to directly or indirectly obtain a personal advantage. Members shall not take any action, such as acquiring any interest, property or benefit, in connection with which unauthorized use is made of confidential knowledge of an employer's or client's affairs obtained in the course of his or her duties.*
58. By artificially inflating the income of the Company by an amount in excess of \$4,000,000 in 2009 alone, through inflating its accounts receivable, decreasing accounts payable and inflating inventory, I obtained a personal advantage by receiving a bonus from my employer based on the false, inflated numbers.
59. Rule 301 of the Association's Code - Competence - states:
- A member shall sustain professional competence by keeping informed of, and complying with, developments in the acknowledged standards of the profession in all areas in which the member practises or is relied upon because of the member's profession.*
60. In not filing the GST returns on time or at all, I did not competently carry out the duties which the Company relied on me to carry out.
61. In valuing the inventory using the incorrect exchange rate of 1.45 rather than the correct rate of 1.25 for goods purchased from the United States, I did not competently carry out the duties which the Company relied on me to carry out.
62. By including in the inventory value inventory that did not exist or by including inventory provided to sales staff at incorrect prices, I did not competently carry out the duties which the Company relied on me to carry out.

63. In failing to advise the Company or to deal with what I after the fact admitted I knew to be an inventory valuation problem, in particular a large inventory shortage, I did not competently carry out the duties which the Company relied on me to carry out.

64. Rule 401 of the Association's Code - Communication issued in Connection with Financial Information - states:

*A member shall not issue a communication on any financial information, whether for publication or not, when the information is prepared in a manner that may have a tendency to be misleading.*

65. By certifying to the Company's creditors the accuracy of the Company's accounts receivable figures, inventory figures and current assets that I knew to be false, I issued communications that had a tendency to be misleading.

66. Rule 402 of the Association's Code - Association with Financial Information - states:

*A member shall not be associated with any letter, report, statement, representation, financial statement or tax filing, whether written or oral, which the member knows, or should know, is false or misleading, regardless of any disclaimer of responsibility.*

67. By providing the Company's accountants with accounts receivable figures I had knowingly and falsely inflated, I was associated with information that I knew or should have known was false or misleading.

68. By providing the Company's accountants with accounts payable figures I had knowingly and falsely reduced, I was associated with information that I knew or should have known was false or misleading.

69. By providing the Company's accountants with inventory figures I had knowingly and falsely inflated, I was associated with information that I knew or should have known was false or misleading.

70. By providing the Company's bank with a signed statement certifying the accuracy of the accounts receivable, inventory and current assets, when I knew those figures were false, I was associated with information that I knew or should have known was false or misleading.

71. Rule 403 of the Association's Code -Known Omission - states:

*A member shall disclose any fact or information known to the member that is not disclosed in the financial information, the omission of which would make that information misleading.*

72. By not advising the Company or its accountants that I had falsely inflated the accounts receivable figures, I failed to disclose a fact known to me that was not disclosed in the financial information, the omission of which made that information misleading.
73. By not advising the Company or its accountants that I had falsely reduced the accounts payable figures, I failed to disclose a fact known to me that was not disclosed in the financial information, the omission of which made that information misleading.
74. By not advising the Company or its accountants that I had falsely inflated the inventory figures, I failed to disclose a fact known to me that was not disclosed in the financial information, the omission of which made that information misleading.
75. By signing statements to the Company's bank certifying the accuracy of the accounts receivable, the inventory and the current assets, when I knew those figures were false, I failed to disclose a fact known to me that was not disclosed in the financial information, the omission of which made that information misleading.
76. Rule 404 of the Association's Code - Material Misstatement - states:
- A member shall immediately disclose any material discrepancy that becomes known to the member concerning financial information on which the member has issued a communication, or with which the member is associated.*
77. By not advising the Company or its accountants of the material discrepancy between the false accounts receivable figures I had provided and what I knew to be the correct figures, I failed to disclose a material discrepancy concerning financial information with which I was associated and on which I had issued a communication to the Company's bank.
78. By not advising the Company or its accountants of the material discrepancy between the false accounts payable figures I had provided and what I knew to be the correct figures, I failed to disclose a material discrepancy concerning financial information with which I was associated.
79. By not advising the Company or its accountants of the material discrepancy between the false inventory figures I had provided and what I knew to be the correct figures, I failed to disclose a material discrepancy concerning financial information with which I was associated and on which I had issued a communication to the Company's bank.

80. By not disclosing the material discrepancy between the accounts receivable, the inventory figures and the current assets that I had certified to the Company's bank as accurate and what I knew to be the correct figures, I failed to disclose a materials discrepancy concerning financial information which with I was associated and on which I had issued a communication to the Company's bank.
81. Rule 606(a) of the Association's Code - Detrimental Action - states:
- A member shall not participate in any action that is detrimental to the Association or the profession.*
82. By (a) filing the Company's GST returns and remittances late or not at all; (b) falsely inflating the Company's accounts receivable; (c) falsely decreasing the Company's accounts payable; (d) falsely inflating the company's inventory; (f) failing to advise the Company of the false information; (g) providing the false information to the Company's accountants when I knew or ought to have known they would use that false information to prepare the Company's financial statements; and (h) certifying to the Company's bank financial information that I knew or ought to have known to be false, I participated in actions that were detrimental to the Association and the profession.
83. My conduct amounted to professional misconduct and conduct unbecoming a certified general accountant.

**B. AGREED UPON RESOLUTION**

1. I recognize that it was contrary to the Code for me to file late or not at all the Company's GST returns for which I was responsible.
2. I recognize that it was contrary to the Code for me to falsely inflate the value of the Company's accounts receivable.
3. I recognize that it was contrary to the Code for me to falsely decrease the Company's accounts payable liability.
4. I recognize that it was contrary to the Code for me to falsely inflate the value of the Company's inventory.
5. I recognize that it was contrary to the Code for me to deliver information I knew to be false or misleading to the Company's accountants for their use in preparing the Company's financial statements.
6. I recognize that it was contrary to the Code for me to certify to the Company's bank as true information about the Company's financial affairs that I knew to be false.

7. I agree that my conduct amounted to a violation of Rules 101, 102, 108, 203, 301, 401, 402, 403, 404 and 606(a) of the Code.
8. I accept an expulsion from membership in the Association as a result of my breaches of the Code.
9. Along with my acceptance of this resolution, I have enclosed both my CGA Ontario membership certificate and my CGA Canada membership certificate.
10. Recognizing that I have violated ten provisions of the Code, I accept a fine of \$10,000.
11. I understand that the committee is not seeking any costs payable from me. However, I understand that if I do not accept this resolution, the matter will proceed to a disciplinary hearing before the Professional Conduct Tribunal and the committee will be seeking costs of that hearing from me.
12. I understand that, as required by the bylaws, the terms of the resolution will be published in Statements and will also be published in a local newspaper.
13. I understand that, after a ten day waiting period from the date of acceptance of this proposed resolution, the Committee will present this proposed agreed resolution of this complaint to the Professional Conduct Tribunal. The Tribunal may accept or reject the resolution. If it accepts the resolution of the complaint, this ratification shall be the final disposition of the complaint. Where the Tribunal refuses to accept the proposed resolution, it may grant this committee an opportunity to return before it within 10 days or such other reasonable time as shall be stipulated by the Tribunal, with an amended proposed agreed resolution. Where the Tribunal refuses to ratify a proposed resolution and does not grant the committee an opportunity to return before it with an amended proposed agreed resolution, a Professional Conduct Tribunal panel of three members shall be appointed to conduct a formal hearing pursuant to sections 25 and 28 of Article 9 of the bylaws.
14. I further understand that if the committee and I are unable to resolve this complaint through an agreed upon resolution process, the matter will be referred to the Professional Conduct Tribunal for a hearing.