PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

In the Matter of Martin Lundie, CPA,

Respondent.

PCAOB Release No. 105-2022-040

December 22, 2022

By this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order"), the Public Company Accounting Oversight Board ("Board" or "PCAOB") is:

(1) censuring Martin Lundie ("Lundie" or "Respondent");

(2) barring Lundie from being associated with a registered public accounting firm, and allowing him, after one year, to file a petition for Board consent to associate with a registered firm; and

(3) imposing a $65,000 civil money penalty on Lundie.

The Board is imposing these sanctions on Lundie on the basis of its findings that Lundie violated PCAOB rules and standards in connection with an audit of an issuer by inadequately evaluating a credit loss estimate used by management to calculate the issuer's allowance for doubtful accounts, as well as by inadequately testing various controls over that estimate and by failing to communicate certain matters to the issuer's audit committee concerning that estimate.

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), and PCAOB Rule 5200(a)(1) against Respondent.

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent has submitted an Offer of Settlement ("Offer") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over Respondent and the subject matter of these proceedings, which is admitted, Respondent consents to the entry of this Order as set forth below.[1]

III.

On the basis of Respondent's Offer, the Board finds that:[2]

A. Respondent

1. **Martin Lundie**, CPA, at all relevant times was a chartered professional accountant licensed in Ontario, Canada (public accountant license no. 1-21137). Lundie is a partner in the Toronto, Canada office of registered public accounting firm Ernst & Young LLP ("EY Canada") until his retirement, effective December 31, 2022. Lundie is, and at all relevant times was, an "associated person of a registered public accounting firm" as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

B. Issuer

2. **Just Energy Group Inc.** ("Just Energy") is a Canadian Business Corporations Act corporation headquartered in Ontario, Canada. Just Energy was, at all relevant times, publicly traded on the Toronto Stock Exchange and the New York Stock Exchange and an "issuer" as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). According to public filings, Just Energy provided retail energy to residential and commercial customers. As a corporation domiciled in Canada and with securities registered in the United States, Just Energy filed Forms 40-F with the Securities and Exchange Commission ("SEC"). Just Energy had a fiscal year-end of March 31 and prepared its financial statements in accordance with International

[1] The findings herein are made pursuant to Respondent's Offer and are not binding on any other person or entity in this or any other proceeding.

[2] The Board finds that Respondent's conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5).

Financial Reporting Standards ("IFRS"). EY Canada has served as Just Energy's auditor since 2011.

C. Summary

3. Lundie served as the engagement partner for EY Canada's integrated audit of Just Energy's financial statements as of and for the fiscal year ended March 31, 2019 ("2019 Audit"), and authorized the issuance of EY Canada's audit reports expressing unqualified opinions on Just Energy's financial statements and the effectiveness of Just Energy's internal control over financial reporting ("ICFR").

4. Lundie knew during the 2019 Audit that Just Energy identified its allowance for doubtful accounts or receivables allowance as a significant accounting estimate. Moreover, he and the engagement team identified the receivables allowance as a significant accounting and auditing issue. Yet Lundie failed to adequately evaluate the reasonableness of the receivables allowance, including by failing to sufficiently test the assumptions underlying the estimate and by failing to sufficiently test the accuracy and completeness of data on which that estimate was based. Lundie failed to do those things notwithstanding indications warranting further scrutiny as to whether Just Energy's receivables allowance might have been materially understated. Lundie accordingly failed to obtain sufficient appropriate audit evidence to support EY Canada's audit opinion on Just Energy's March 31, 2019 financial statements.

5. Moreover, in connection with EY Canada's audit of Just Energy's ICFR as of March 31, 2019, Lundie failed to adequately test controls that related to the receivables allowance. Furthermore, Lundie failed to communicate to the audit committee the significant management assumptions used to calculate the receivables allowance, as well as the basis for EY Canada's conclusions regarding the reasonableness of the estimate.

6. After the issuance of the financial statements for the year ended March 31, 2019, management determined that Just Energy's receivables allowance was understated and should be restated. On August 19, 2019, Just Energy filed restated financial statements. Taking into consideration all information available at the time of the restatement, the restated financial statements reflected that Just Energy's receivables allowance was understated by $111.2 million (Canadian dollars or "CAD"). The restated financial statements reflected a 97% increase in the loss for the year ended March 31, 2019, as compared to the loss previously reported, an increase driven primarily by Just Energy's correction of its understated allowance.

D. Lundie Violated PCAOB Rules and Standards

i. Background

7. Just Energy sold gas and electricity to residential and commercial customers in two regions: North America ("Just Energy NA") and the United Kingdom ("Just Energy UK"). The two largest markets within Just Energy NA were both located in Texas and known as "JE Texas" and "Fulcrum."

8. Just Energy recorded customer accounts receivable for amounts it had the right to invoice its customers, based on the number of units of gas and electricity consumed each month by each customer. Just Energy's policy for residential customers was, with certain exceptions, to write off those receivables that went unpaid for more than 120 days. Separately, Just Energy also recorded an allowance against its accounts receivable to reflect amounts not yet written off but not likely to be recovered.

9. As of March 31, 2019, customer accounts receivable constituted the largest asset category on Just Energy's balance sheet, representing more than 27% of Just Energy's total assets. More specifically, as of March 31, 2019, Just Energy reported total assets of CAD $1.75 billion, of which CAD $476.2 million were "trade account receivables, net," that is, gross customer accounts receivable less an allowance of CAD $71.2 million.

10. Before fiscal year 2019, Just Energy recorded its receivables allowance based on incurred losses, in accordance with the then-applicable IFRS accounting standard.[3] Starting with fiscal year 2019, Just Energy was required to—and did—adopt IFRS 9, *Financial Instruments*, which required loss recognition based on expected credit losses ("ECL"), versus incurred losses. Accordingly, for its receivables allowance, Just Energy was required to—and did—estimate the total credit losses expected to occur over the lifetime of the assets, and to recognize those expected lifetime losses at the time the assets were first recorded.

11. At the beginning of the 2019 fiscal year, Just Energy estimated its lifetime expected credit losses using an example methodology provided in IFRS 9 whereby credit losses are determined by applying estimated loss rates to each of the aging buckets in a company's period-end receivables balance (*i.e.*, a provision matrix). On April 1, 2018, Just Energy recorded an additional allowance of CAD $23.6 million to reflect those expected lifetime credit losses.

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[3] *See* International Accounting Standard ("IAS") 39, *Financial Instruments: Recognition and Measurement*.

12. At the end of the 2019 fiscal year, Just Energy did not determine its receivables allowance, recorded on its balance sheet, using a provision matrix. Instead, Just Energy chose to determine its receivables allowance by estimating its bad debt expense, recorded on its income statement, based on the application of a loss rate ("ECL Rate") to its current period revenue. Just Energy calculated the ECL Rate based on data indicating the percentage of revenue the company had historically written off. Lundie and the engagement team referred to Just Energy's method for determining its receivables allowance—estimating the bad debt expense recorded on its income statement rather than directly evaluating the credit risk of the receivables on its balance sheet as of year-end—as an "income statement approach."

13. Although Lundie preferred that Just Energy use a provision matrix to estimate its receivables allowance, Lundie understood that Just Energy chose to use the income statement approach because it lacked sufficiently reliable aging data on customer accounts receivable to calculate its ECL directly on its year-end receivables.

14. Just Energy in its filings with the SEC identified its receivables allowance as a critical accounting estimate, a critical accounting policy, and a significant accounting estimate. Just Energy also identified the adjustment of its receivables allowance to reflect previously recognized impairment loss—along with the write-off of receivables without a realistic prospect of future recovery—as significant accounting policies.

15. In connection with the 2019 Audit, Lundie and the engagement team identified the receivables allowance as a significant account and disclosure, a significant accounting and auditing issue, and an audit area requiring significant judgment. Lundie understood the receivables allowance to be a higher risk estimate, meaning it presented higher subjectivity, judgment, and/or inherent risk of material misstatement.

16. Moreover, Lundie and the engagement team identified Just Energy's impairment of financial assets—including its receivables allowance—as an "area of audit emphasis." Lundie communicated to Just Energy's audit committee (the "Audit Committee") that areas of audit emphasis included "those processes, accounts, contracts or transactions where we believe there is the greatest risk of material misstatement to the consolidated financial statements."

ii. Lundie Failed to Adequately Evaluate the Receivables Allowance and to Obtain Sufficient Appropriate Evidence to Support It

17. In connection with the preparation or issuance of an audit report, PCAOB rules require that the associated persons of a registered public accounting firm comply with the

Board's auditing and related professional practice standards.[4] An auditor may express an unqualified opinion on an issuer's financial statements when the auditor conducted an audit in accordance with PCAOB standards and concludes that the financial statements, taken as a whole, are presented fairly, in all material respects.[5]

18. PCAOB standards require that an auditor exercise due professional care in planning and performing an audit.[6] Auditors are required to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the opinion expressed in the auditor's report, including obtaining reasonable assurance about whether the financial statements are free of material misstatement.[7] The higher the risk of material misstatement, the more evidence the auditor should obtain, and the more persuasive that evidence should be.[8]

19. In order to be appropriate, "audit evidence must be both relevant and reliable in providing support for the conclusions on which the auditor's opinion is based."[9] Moreover, "[w]hen using information produced by the company as audit evidence, the auditor should evaluate whether the information is sufficient and appropriate for purposes of the audit by performing procedures to . . . [t]est the accuracy and completeness of the information, or test

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[4] *See* PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards.* All references to PCAOB rules and standards in this Order are to the versions of those rules and standards, and to their organization and numbering, in effect at the time of the 2019 Audit.

[5] *See* AS 3101.02, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

[6] AS 1015.01, *Due Professional Care in the Performance of Work*.

[7] AS 1001.02, *Responsibilities and Functions of the Independent Auditor*; AS 1105.04, *Audit Evidence*; AS 2401.01, *Consideration of Fraud in a Financial Statement Audit*; AS 2810.33, *Evaluating Audit Results*.

[8] AS 1105.05; *see also* AS 2301.09, *The Auditor's Responses to the Risks of Material Misstatement* ("In designing the audit procedures to be performed, the auditor should: a. Obtain more persuasive audit evidence the higher the auditor's assessment of risk . . . ."); *id.* at .37 ("As the assessed risk of material misstatement increases, the evidence from substantive procedures that the auditor should obtain also increases.").

[9] AS 1105.06.

the controls over the accuracy and completeness of that information; and . . . [e]valuate whether the information is sufficiently precise and detailed for purposes of the audit."[10]

20. With respect to any significant accounting estimate, the auditor's objective is "to obtain sufficient appropriate evidential matter to provide reasonable assurance" that the estimate is "reasonable in the circumstances," "presented in conformity with applicable accounting principles," and "properly disclosed."[11] In addition, when planning and performing procedures to evaluate accounting estimates, the auditor is required to consider, with an attitude of professional skepticism, both the subjective and objective factors on which the company's estimates are based.[12]

21. Audit evidence "consists of both information that supports and corroborates management's assertions regarding the financial statements" and "information that contradicts such assertions."[13] While an auditor may use inquiry to obtain information, "[i]nquiry alone does not provide sufficient appropriate evidence to support a conclusion about a relevant assertion."[14] Management representations "are not a substitute for the application of those auditing procedures necessary to afford a reasonable basis for an opinion regarding the financial statements under audit."[15] The auditor "should obtain corroboration for management's explanations regarding significant unusual or unexpected transactions, events, amounts, or relationships."[16]

22. If audit evidence obtained from one source is inconsistent with audit evidence obtained from another source, "the auditor should perform the audit procedures necessary to resolve the matter and should determine the effect, if any, on other aspects of the audit."[17] Moreover, if a representation made by management is contradicted by other audit evidence,

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[10] *Id.* at .10.

[11] AS 2501.07, *Auditing Accounting Estimates*.

[12] *Id.* at .04

[13] AS 1105.02.

[14] AS 2301.39; *see also* AS 1105.17, Note ("Inquiry of company personnel, by itself, does not provide sufficient audit evidence to reduce audit risk to an appropriately low level for a relevant assertion . . . .").

[15] AS 2805.02, *Management Representations*.

[16] AS 2810.08.

[17] AS 1105.29.

the auditor "should investigate the circumstances," "consider the reliability of the representation made," and "consider whether his or her reliance on management's representations relating to other aspects of the financial statements is appropriate and justified."[18] In addition, if management's responses to the auditor's inquiries appear to be "inconsistent with other audit evidence, imprecise, or not at a sufficient level of detail to be useful," the auditor "should perform procedures to address the matter."[19]

23. When evaluating audit results, the auditor is required to "conclude on whether sufficient appropriate audit evidence has been obtained to support his or her opinion on the financial statements."[20]

24. In evaluating Just Energy's receivables allowance during the 2019 Audit, Lundie's objective was to obtain sufficient appropriate evidential matter to provide reasonable assurance that, among other things, Just Energy's receivables allowance was (A) reasonable in the circumstances and (B) presented in conformity with applicable accounting principles.[21]

25. In evaluating the reasonableness of the receivables allowance, Lundie was required to use one or a combination of the following approaches:

a. Review and test the process used by management to develop the estimate.
b. Develop an independent expectation of the estimate to corroborate the reasonableness of management's estimate.
c. Review subsequent events or transactions occurring prior to the date of the auditor's report.[22]

26. Lundie relied on the first two approaches: testing management's process and developing an independent expectation. Lundie failed, however, to obtain sufficient evidence to support the receivables allowance under either of these approaches.

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[18] AS 2805.04.

[19] AS 2810.08.

[20] *Id.* at .33; *see also id.* at .02 (in forming an opinion on the financial statements, the auditor's objective is "to evaluate the results of the audit to determine whether the audit evidence obtained is sufficient and appropriate to support the opinion to be expressed in the auditor's report").

[21] *See* AS 2501.07

[22] *Id.* at .10.

27. Importantly, prior to the conclusion of the audit, as the engagement team performed procedures during the 2019 Audit to evaluate the reasonableness of the receivables allowance, Lundie had concerns about the accuracy and precision of the ECL Rate that Just Energy used in calculating the receivables allowance. Lundie also knew that management at Just Energy had "struggled to give" the engagement team "reliable loss data" during the audit.

28. In addition, Lundie was aware during the 2019 Audit that Just Energy's write-off practices needed improvement. He knew at the time that the company's write-offs were "lumpy," meaning they were not done on a regular basis with a systematic approach.

29. Just Energy was also unable to provide adequate support for its ECL Rate until a few days before issuance of the audit report. Indeed, just five days before authorizing EY Canada's issuance of an unqualified opinion on Just Energy's 2019 financial statements, Lundie informed the Audit Committee that the engagement team was still "[o]btaining certain audit support on critical areas of the audit including support for the rates used in Estimating Credit Losses."

30. Two days later, Lundie reported to the Audit Committee that, although "a significant deficiency was identified over the allowance for credit loss in accordance with the implementation of IFRS 9 Financial Instruments," he and the engagement team had "performed audit procedures over the accuracy and completeness of the data utilized in the [ECL Rate] calculation." Lundie and the engagement team, however, failed to perform adequate procedures over that data.

a. Failure to Adequately Test the Process Used by Management to Develop the ECL Estimate

31. Lundie's concerns about the company's ability to timely provide reliable data should have caused him to increase the rigor of his procedures to test management's process for developing the ECL Rate. But he failed to do so, and the procedures he performed were not adequate.

32. With respect to the ECL Rate for Just Energy NA, Lundie failed to sufficiently test management's assertion that Just Energy's more current collections experience was consistent with the write-off rates from the older historical periods used in its ECL Rate calculation. For example, for purposes of testing the allowance as of March 31, 2019, for JE Texas, Lundie and the engagement team obtained an ECL Rate calculation from management that showed that management calculated a historical write-off rate by using write-off data related to revenue recognized for the 18-month period April 2017 through September 2018.

33. As part of their testing, Lundie and the engagement team recalculated management's ECL Rate for JE Texas. Specifically, in recalculating the percentage of write-offs versus the revenue recognized by JE Texas each month from April 2017 through September 2018, Lundie and the engagement team weighted the write-off rates from the more recent 12-month period, showing they recognized the importance of using more recent data. Despite acknowledging the importance of recent write-off data versus older data, Lundie failed to adequately evaluate potential write-offs and aging information from the last six months of fiscal 2019 for JE Texas.

34. For Fulcrum, Lundie understood that Just Energy could not provide support for the write-offs after February 2017 used in the ECL Rate calculation. Lundie, therefore, relied instead on write-off data from the period from April 2015 through January 2017 to assess the reasonableness of Fulcrum's ECL Rate calculation. In other words, Lundie assessed the reasonableness of Just Energy's current ECL Rate calculation for Fulcrum by relying on write-off data that was more than two years old.

35. Moreover, Lundie and the engagement team failed to adequately test the completeness and accuracy of the write-off data that Just Energy did use for the ECL Rate for Just Energy NA. For example, with respect to JE Texas, Lundie and the engagement team failed to perform adequate procedures to test the completeness and accuracy of the write-off data for 17 of the 18 months in the period from April 2017 to September 2018. For the eighteenth month—September 2018—the engagement team received a report purporting to show the receivables required to be written off for that month, and performed some testing over that report, but failed to perform adequate procedures to test the completeness of the write-off amounts listed in the report.

36. With respect to Fulcrum, the engagement team obtained a summary report of write-offs from management and agreed the write-off amounts in the report to the amounts used for each month in the calculation. The engagement team performed insufficient procedures to test the completeness and accuracy of write-off or revenue amounts used in Just Energy's calculation of the ECL Rate for Fulcrum.

b. Failure to Adequately Develop an Independent Expectation of the ECL Estimate

37. With respect to Just Energy UK, the company calculated its receivables allowance in the same manner as it did for JE Texas and Fulcrum—by calculating an ECL Rate based on historical data and applying it to current period revenue. Lundie and the engagement team chose to evaluate Just Energy UK's ECL Rate by looking at loss rate information from a Just Energy competitor, British Gas. Specifically, Lundie and the engagement team compared British

Gas's loss rates to the write-off rates the company used in the ECL Rate calculation for Just Energy UK and, after that comparison, proposed a CAD $6.4 million increase in the receivables allowance.

38. Lundie and the engagement team, however, failed to adequately evaluate or obtain sufficient appropriate audit evidence to support their key assumption that the historical loss rates of British Gas were a reasonable proxy for Just Energy UK's potential future loss rates.

39. Lundie did not adequately test Just Energy UK's write-off data to determine whether British Gas's loss rate approximated Just Energy UK's historical or current loss rates or whether the use of British Gas's loss rate was more conservative than using Just Energy UK's ECL Rate. Lundie and the engagement team also failed to test or adequately evaluate the reliability of British Gas's loss rate information, which Just Energy management had provided.

iii. Indications that the Receivables Allowance May Have Been Materially Understated

40. Lundie's failure to adequately evaluate Just Energy's receivables allowance occurred despite his encountering certain indications warranting further scrutiny as to whether the receivables allowance may have been materially understated.

41. *First*, during the 2019 Audit, Just Energy's management provided the engagement team with a schedule reflecting the aging of customer receivables as of March 31, 2019. That schedule constituted management's support for a footnote to the financial statements that disclosed the aging of accounts receivable. The schedule showed that the balance for customer receivables that were past due more than 120 days (known as the "120+ days bucket") totaled CAD $85.1 million. In other words, Just Energy's customer receivables that were more than 120 days old, and therefore potentially at high risk of default, exceeded Just Energy's CAD $71.2 million receivables allowance by almost CAD $14 million—even before consideration of expected write-offs of overdue receivables not yet in the 120+ days bucket. Yet Lundie failed to adequately evaluate this potential understatement of Just Energy's receivables allowance.

42. *Second*, Lundie knew that the accuracy of the ECL Rate that Just Energy used to calculate its allowance was dependent on the completeness of the company's underlying write-off data, that is, whether the data included all amounts that Just Energy should have been writing off. Although Just Energy's policies did not require the write-off of all receivables aging past 120 days, the CAD $85 million in customer receivables in the 120+ days bucket as of March 31, 2019 may have indicated a risk that Just Energy may not have been consistently applying its policy of writing off most customer receivables that went unpaid for more than 120

days. Yet Lundie did not adequately respond to that risk and perform sufficient procedures to assess the completeness of the write-off data Just Energy used in its ECL calculation.

43. Finally, Lundie was aware of certain control deficiencies that called into question Just Energy's assertion that the data used in the ECL Rate calculation included all write-offs that *should* have been recorded. Indeed, one of the control deficiencies described "no timely write-off of uncollectable customer [receivables] currently in the North American Residential and the UK Markets."[23]

44. These factors should have caused Lundie to heighten his care and skepticism in planning and performing audit procedures concerning the receivables allowance. Lundie did not, however, respond appropriately to the risks he encountered, failed to adequately evaluate Just Energy's receivables allowance, and failed to obtain sufficient appropriate evidence to support his audit opinion.

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45. As a result of the deficiencies described above in subsections III.D.ii and .iii, Lundie failed during the 2019 Audit to obtain sufficient appropriate audit evidence to support Just Energy's receivables allowance and, in turn, its reported net customer receivables. Lundie therefore violated AS 1015, AS 1105, AS 2501, AS 2805, AS 2810, and AS 3101.

iv. Lundie Failed to Adequately Test and Evaluate Deficiencies in Just Energy's Controls Over the Receivables Allowance

46. PCAOB standards require the auditor to test the design effectiveness of a company's ICFR by determining whether the company's controls satisfy the control objectives and can effectively prevent or detect errors or fraud that could result in material misstatements in the financial statements.[24] PCAOB standards also require the auditor to test the operating effectiveness of a control by determining whether the control is operating as designed and whether the person performing the control possesses the necessary authority and competence to perform the control effectively.[25]

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[23] See Section III.D.iv below for a description of the control deficiencies and Lundie's failures in evaluating those deficiencies and performing related audit procedures.

[24] AS 2201.42, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.

[25] *Id.* at .44.

47. When control deficiencies come to an auditor's attention, the auditor must evaluate their severity to determine whether the deficiencies, individually or in combination with other deficiencies, are material weaknesses.[26] In doing so, the auditor should, among other things, "evaluate the effect of compensating controls."[27]

48. Lundie failed to sufficiently evaluate identified control deficiencies concerning Just Energy's receivables allowance estimation and write-off processes.

49. With respect to controls over Just Energy's receivables allowance estimation process, Lundie concluded during the 2019 Audit that those controls were designed and operating effectively as of March 31, 2019—with one exception. That exception was a control over the completeness, accuracy, and "reasonability" of the historical loss rates for customer receivables in the North American market ("ECL Rate Control"). Lundie identified a deficiency in the ECL Rate Control because the data used in the ECL Rate calculation for the North American market "had not been effectively reviewed for completeness and accuracy."

50. Lundie ultimately concluded that the deficiency in the ECL Rate Control was a significant deficiency and not a material weakness. Lundie lacked an adequate basis, however, for that determination. Though Lundie and the engagement team documented two assertions in connection with that determination—that the potential for a misstatement was remote because of a "redesigned" process, and that the magnitude of a potential misstatement resulting from failure of the control was less than material—neither of those propositions provided adequate support for Lundie's conclusion. With respect to the first proposition, Lundie and the engagement team failed to document their understanding of this "redesigned" process and failed to identify and test any controls over the process that purportedly reduced the risk of misstatement. With respect to the second, gross accounts receivable represented approximately 31% of Just Energy's total assets as of March 31, 2019, meaning that Lundie could not properly conclude that a misstatement that might result from a deficiency to which that amount was exposed was less than material.[28]

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26 *Id.* at .62.

27 *Id.* at .68.

28 *See id. at* .66 ("Factors that affect the magnitude of the misstatement that might result from a deficiency or deficiencies in controls include, but are not limited to, . . . [t]he financial statement amounts or total of transactions exposed to the deficiency . . . ."); *id.* at .67 ("In evaluating the magnitude of the potential misstatement, the maximum amount that an account balance or total of transactions can be overstated is generally the recorded amount, while understatements could be larger.").

51. With respect to Just Energy's controls over write-offs of receivables, Lundie identified a deficiency in a control over the calculation and review of write-offs in accordance with Just Energy policy. The deficiency identified was that "[t]here is no timely write-off of uncollectable customer [accounts receivable] currently in the North American Residential and the UK Market." Lundie determined that the deficiency had been remediated as of March 31, 2019, ostensibly based on the fact that management had "perform[ed] a year-end review of the write-offs in each market." Lundie and the engagement team, however, did not perform any testing of this purportedly remediated control. Accordingly, they failed to obtain sufficient evidence that there was an effective control ensuring that write-offs were being recorded timely in accordance with Just Energy policy as of fiscal year-end.

52. Furthermore, though Lundie concluded that the rest of the controls concerning the receivables allowance estimation process were designed and operating effectively, Lundie's testing with respect to one of those controls was deficient. Specifically, though Just Energy maintained a control over the historical loss rates for Just Energy UK, Lundie failed to test the completeness and accuracy of the write-off data used in the operation of that control or, alternatively, to test any control over the completeness and accuracy of such data.

53. As a result, Lundie violated AS 1015, AS 1105, and AS 2201.

v. Lundie Failed to Communicate to the Audit Committee Certain Matters Related to the Receivables Allowance

54. PCAOB standards require that the auditor make certain communications with the audit committee of an issuer. Lundie was required during the 2019 Audit to communicate to the Audit Committee, among other matters, "[m]anagement's significant assumptions used in critical accounting estimates that have a high degree of subjectivity."[29] Lundie was also required during the 2019 Audit to communicate to the Audit Committee the "basis for the auditor's conclusions regarding the reasonableness of the critical accounting estimates."[30]

55. As noted above, Just Energy identified the receivables allowance as a critical accounting estimate and a significant accounting estimate. Moreover, Lundie and the engagement team identified the receivables allowance as a significant account, a significant accounting and auditing issue, and an area of audit emphasis.

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29 AS 1301.12.c(2), *Communications with Audit Committees*.

30 *Id.* at .13.c.

56. Accordingly, Lundie was required to communicate to the Audit Committee the significant management assumptions used in the receivables allowance estimate. Lundie was also required to communicate to the Audit Committee the basis for his conclusions regarding the reasonableness of the receivables allowance. Lundie failed to make either of those required communications during the 2019 Audit. While Lundie communicated to the Audit Committee certain aspects of management's process to develop the receivables allowance—including, for example, that management assessed the ECL Rate by region and consumer segment—that description did not satisfy these specific requirements. Significantly, Lundie's failure to make those communications meant that he failed to inform the Audit Committee that Just Energy was using an income statement approach to calculate the receivables allowance and assuming, without verifying, that current collection and write-off rates were consistent with those of earlier periods.

57. As a result, Lundie violated AS 1015 and AS 1301.

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58. On August 19, 2019, Just Energy filed restated financial statements for the year ended March 31, 2019. The restated financial statements reflected an increase in the receivables allowance of CAD $111.2 million. Management had identified an understatement of the receivables allowance due to operational issues in customer enrollment and non-payment in the Texas residential market (resulting in additional required reserves of CAD $53.7 million) and operational and collection issues in the United Kingdom (requiring additional reserves of CAD $57.5 million).

IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondent's Offer. Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Martin Lundie is censured.

B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Martin Lundie is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).[31]

C. Pursuant to PCAOB Rule 5302(b), Martin Lundie may file a petition for Board consent to associate with a registered public accounting firm after one year from the date of this Order.

D. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of $65,000 is imposed on Martin Lundie.

1. All funds collected by the PCAOB as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act.

2. Respondent shall pay the civil money penalty within ten days of the issuance of this Order by (a) wire transfer in accordance with instructions furnished by PCAOB staff; or (b) United States Postal Service money order, bank money order, certified check, or bank cashier's check (i) made payable to the Public Company Accounting Oversight Board, (ii) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (iii) submitted under a cover letter, which identifies Martin Lundie as a respondent in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006.

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[31] As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Lundie. Section 105(c)(7)(B) provides: "It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."

3. If timely payment is not made, interest shall accrue at the federal debt collection rate set for the current quarter pursuant to 31 U.S.C. § 3717. Payments shall be applied first to post-Order interest.

4. Respondent understands that failure to pay the civil money penalty described above may alone be grounds to deny any petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

December 22, 2022