

CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO
CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

DISCIPLINE COMMITTEE

IN THE MATTER OF: A proposed Settlement Agreement between the Professional Conduct Committee of the Chartered Professional Accountants of Ontario and **ALLAN E. McINNIS, CPA, CA.**

TO: Mr. Allan McInnis

AND TO: The Professional Conduct Committee

DECISION MADE AUGUST 9, 2019

DECISION

After considering the submissions of the parties and the proposed Settlement Agreement itself, the Panel hereby approves the Settlement Agreement, dated June 27, 2019.

DATED at Toronto, this 9th day of August, 2019.



A. Douglas Nichols, FCPA, FCA
Discipline Committee – Chair



CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

THE CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

IN THE MATTER OF: DRAFT ALLEGATIONS OF PROFESSIONAL MISCONDUCT
AGAINST ALLAN E. McINNIS, CPA, CA, A MEMBER OF CPA
ONTARIO, BEFORE THE DISCIPLINE COMMITTEE

SETTLEMENT AGREEMENT

**Made pursuant to Section 34 (3) (c) of the Chartered
Professional Accountants of Ontario Act, 2017 and to CPAO
Regulation 6-2, s.19**

Introduction

1. The Professional Conduct Committee ("PCC") has approved draft Allegations against Allan E. McInnis, CPA, CA ("McInnis") the particulars of which are set out below. The documents referred to in this settlement agreement are found in the Document Brief ("DOC"). The applicable CPA Handbook sections are found in the Standards Brief ("Standards").
2. The draft Allegations pertain to the failure of McInnis to perform professional work in accordance with generally accepted standards of the profession, contrary to Rule 206.1 of the Chartered Professional Accountants Code of Professional Conduct, with respect to the following engagements:
 - a) the review of the financial statements of "LD" for the year ended December 31, 2016 (DOC TAB 2);
 - b) the review of the financial statements of "TY Ltd." for the year ended September 30, 2016 (DOC TAB 3);
 - c) the review of the financial statements of "K&T Inc." for the year ended March 31, 2017 (DOC TAB 4); and
 - d) the review of the financial statements of "CBHA" for the year ended December 31, 2017 (DOC TAB 5).

3. The PCC and McInnis agree with the facts and conclusions set out in this settlement agreement for the purpose of this proceeding only, and further agree that this agreement of facts and conclusions is without prejudice to McInnis in any other proceedings of any kind, including, but without limiting the generality of the foregoing, any civil or other proceedings which may be brought by any other person, corporation, regulatory body or agency.

Background

4. McInnis began his current practice in 1978 as a sole proprietor.
5. As at February 2019 his practice consists of five (5) review engagements and approximately forty-one (41) compilation engagements (TAB 1 - DOC 12-14). He does no audits and has no intention to take on audit clients. He is currently winding down his practice in preparation for retirement.
6. McInnis has no full-time staff. His wife works in the practice entering data into tax returns, preparing invoices, and general administrative duties. In addition, McInnes has one contractor that has worked with him for approximately 35 years who will import the trial balance from the underlying bookkeeping software, usually Simply Accounting or QuickBooks, and prepare the base financial statements in CaseWare. McInnis performs all of the review engagement procedures.
7. McInnis also utilizes two bookkeeping services to perform bookkeeping before the review or compilation is performed. The bookkeeping services bill McInnis for the work performed.
8. McInnis' clients provide him with a complete copy of their general ledger for him to perform his work. As a result, he has access to all journal entries and any subledgers, including accounts receivable and accounts payable subledgers, when he performs his procedures.
9. If McInnis finds that any adjustments need to be made in order to correct the bookkeeping, such as calculating amortization, booking unrecorded payables, or adjusting a prepaid, he will make the journal entry directly into the bookkeeping before the trial balance is imported into CaseWare. As a result, there are no adjusting journal entries made in the CaseWare file.

10. McInnis attends each client's premises and explains the adjusting entries, and helps the client enter them into the live bookkeeping file.

The Complaint

11. McInnis' recent history with practice inspection resulted in the following (TAB 1 - DOC 2-5):
 - a. 2015: PIC recommended re-inspection;
 - b. 2016: Re-inspection
 - c. 2017: Re-inspection and referral to PCC
12. By Report dated April 4, 2018 the Practice Inspection Committee ("PIC") advised the PCC of the reinspection of McInnis "...whose failure to maintain professional standards is, in the committee's opinion, sufficiently serious as to reflect adversely on his professional competence." (TAB 1, DOC 2).
13. By letter dated April 18, 2018 the PIC notified McInnis that "...*little, if any, corrective action has been taken as a result of the initial inspection and subsequent reinspection of your practice...*" and advised of the referral of the matter to the PCC. (TAB 1, DOC 6).
14. The files inspected during the 2017 Reinspection were:
 - a) LD for the year ended December 31, 2016 (TAB 2); and
 - b) TY Ltd. for the year ended September 30, 2016 (TAB 3).
15. On October 23, 2018, the PCC appointed Ms. Trisha LeBlanc, CPA, CA, (the "Investigator") to investigate the member's standards of practice.
16. As part of her investigation, the Investigator reviewed the member's standards of practice in relation to the following review engagements:
 - a) LD (a not for profit) for the year ended December 31, 2016 (TAB 2);
 - b) TY Ltd. (a wholesale importer) for the year ended September 30, 2016 (TAB 3);
 - c) K&T Inc (a retailer) for the year ended March 31, 2017 (TAB 4);
 - d) CBHA (a not for profit) for the year ended December 31, 2017 (TAB 5).

Failure to Maintain Professional Standards - Overview

17. In 2016, the Auditing and Assurance Standards Board of Canada released Canadian Standard on Review Engagements CSRE 2400 *Engagements to review historical financial statements* (“CSRE 2400”). This new standard replaces CPA Canada Handbook III 8100 Review Engagements (“8100”) and CPA Canada Handbook 8200 Public Accountant’s Review of Financial Statements (“8200”) and is effective for reviews of financial statements for periods ending on or after December 14, 2017.
18. The review engagements for LD, TY Ltd. and K&T Inc. were performed under CPA Canada Handbook III 8100 & 8200.
19. The review engagement for Canadian Belgian was performed under CSRE 2400.
20. 8100.15 (iii) states that “The public accountant should perform a review with the limited objective of assessing whether the information being reported on is plausible in the circumstances within the framework of appropriate criteria. Such a review should consist of:
 - a) *Inquiry, analytical procedures and discussion; and*
 - b) *Additional or more extensive procedures when the public accountant’s knowledge of the business carried on by the enterprise and the results of the inquiry, and analytical procedures and discussion cause him or her to doubt the plausibility of such information.”*
21. Section 8200.23 provides that the analytical procedures would normally include:
 - a. Comparison to the prior year’s and budget figures;
 - b. Considering interrelationships of key elements of the financial statements; and
 - c. Obtaining explanations for relationships and individual items that appear to be unusual.
22. Section 8100.23 and .24 set out the documentation requirements for a review engagement and state that:

“Matters that in the public accountant’s professional judgment are important to support the content of the report would be documented. Supporting workpapers would describe the procedures being undertaken and any unusual matters considered during the performance of the review, including the disposition of such matters.”

23. The documentation requirements under CSRE 2400 are more prescriptive and are discussed in more detail below.
24. McInnis and the PCC agree that McInnis failed to perform his professional services in accordance with generally accepted standards of practice of the profession as described below.
25. McInnis and the PCC agree that the draft Allegations, set out below, particularize the manner in which McInnis failed to perform his professional services in accordance with generally accepted standards of practice of the profession. It is further agreed that the relevant standards are those identified in this agreed statement of facts.

Allegation 1 – Allan E. McInnis, in or about the period December 1, 2016 through March 31, 2017, while engaged to review the financial statements of LD as at December 31, 2016, failed to perform his professional services in accordance with generally accepted standards of practice of the profession contrary to Rule 206.1 of the Chartered Professional Accountants Code of Professional Conduct

26. The financial statements for LD for the year ended December 31, 2016 (TAB 2), together with the Review Engagement Report, were signed by McInnis and issued on July 27, 2016 (TAB 2 DOC 67).
27. The review of these financial statements was performed Under CPA Canada Handbook sections 8100 and 8200.
28. Locomotion is a daycare provider that rents space in a local school and is operated by a Board of Directors. There is one staff that does bookkeeping and data entry in Simply. The

client brings a box of records to Mr. McInnis' office, and he goes to the client's and downloads a copy of Simply and brings it back to use in his review.

Particular a) – Failed to recognize in a rational and systematic manner amortization of leasehold improvements with a net book value of \$29,223 at the greater of the cost less salvage value over the life of the asset, or the cost less residual value over the useful life of the asset.

29. In the notes to the financial statements Note 2, Property Plant and Equipment, shows leasehold improvements with a net book value of \$29,223. (TAB 2 DOC 75). These are amortized over ten years (TAB 2 DOC 77).
30. LD, however, rents space from the school under an informal agreement and does not currently have a lease signed for the space.
31. CPA Canada Handbook- Part II 3061.16, Property, Plant and Equipment (Standards TAB 3), requires that
“...amortization shall be recognized in a rational and systematic manner...and is the greater of:
 - a) *the cost less salvage value over the life of the asset; and*
 - b) *the cost less residual value over the useful life of the asset.”*
32. In applying the guidance in HB 3061.16, it is generally accepted practice to amortize over the life of the asset or the lease term, whichever is shorter. Because there was no lease, the leasehold improvements should have been written off when incurred.
33. Because the deferred grants related to the leasehold improvements (in the amount of \$26,537) (TAB 2 DOC 77), would be amortized into income at the same rate as the leasehold improvements were expensed the impact on net operating income would be minimal in any given year.

Allegation 2 – Allan E. McInnis, in or about the period September 1, 2016 through March 31, 2017, while engaged to review the financial statements of TY Ltd. as at September 30, 2016, failed to perform his professional services in accordance with generally accepted standards of practice of the profession contrary to Rule 206.1 of the Chartered Professional Accountants Code of Professional Conduct

34. The financial Statements of TY Ltd. For the year ended September 30, 2016 (TAB 3) were issued together with the Review Engagement Report signed by McInnis on June 26, 2017 (TAB 3 DOC 80).
35. TY Ltd. Is a chicken importer and has been a client of McInnis since 1979. There are three employees in addition to the shareholder working for the company. The bookkeeping is done by a subcontractor for McInnis in Simply Accounting. If McInnis finds any adjustments that need to be made, he makes them in his copy of Simply, and then enters the adjusted trial balance into CaseWare to prepare the financials. He then goes back to the client's premises, explains the adjustments, and posts them with the client
36. McInnis and the PCC agree that McInnis failed to perform his professional services in accordance with generally accepted standards of practice of the profession as described below.

Particular a) – Failed to ensure that the review engagement report was accurately dated March 17, 2017 rather than March 17, 2016

37. The review engagement report is dated March 17, 2016 (TAB 3 DOC 80) when it was actually signed March 17, 2017.

Particular b) – Failed to ensure that the U.S. dollar amount of \$106,136 included in the cash balance on the financial statements of \$234,487 was properly reconciled and converted from U.S. to Canadian dollars

38. The financial statements include the item “Cash note 1.f. \$234,487”. (TAB 3 DOC 81). Of that amount \$106,135.51 is in U.S. dollars (TAB 3 DOC 93) that has not been properly reconciled and converted to Canadian dollars.
39. The bank statement for the cash account shows \$174,345 U.S dollars at the end of the period (TAB 3 DOC 94), and the bank reconciliation shows that the bank balance should be \$105,778 U.S. dollars (TAB 3 DOC 94). The reconciliation to the underlying general ledger states that the ‘Simply’ balance is \$106,136, and the difference of \$356 is not being adjusted. As noted, there is no conversion to Canadian dollars in the reconciliation.
40. A print-out of the account from ‘Simply’ in Canadian dollars and U.S. dollars is found at (TAB 3 Doc 96-97). The print out shows that the bank balance in Canadian dollars is \$106,135, and the balance in U.S. dollars is \$117,012. Materiality for this engagement was \$1,000.
41. CPA Canada Handbook- Part II 1651.14 (Standards TAB 4) requires that transactions arising from a foreign currency be translated into Canadian dollars using the exchange rate on the date of the transaction. Paragraph 1651.16 (Standards TAB 4) requires monetary items denominated in a foreign currency to be adjusted to reflect the exchange rate in effect at the balance sheet date.
42. It is agreed that there is an error in the bank reconciliation with the result that the plausibility of the appropriate conversion into Canadian dollars of the U.S. bank account and related activity were not established as required by the general review standards (8100.15 and .31) (Standards TAB 1).

Paragraph c) – Failed to properly document material items with respect to the balance sheet item “loans and notes receivable \$40,000”, including who the loan was given to and the terms of repayment and failed to assess the plausibility of the amount recognized and sufficiency of related disclosures

43. The balance sheet contains the item “Loans and notes receivable \$40,000” (TAB 3 DOC 81)
44. McInnis failed to properly document material items with respect to this loan including who the loan was given to or the terms of the loan. Without this information the appropriate accounting treatment cannot be assessed.
45. In addition, the plausibility of the amount recognized has not been assessed and related disclosure has not been given as required by 8100.15 (Standards TAB 1).

Particular d) – Failed to disclose the amount and basis for measurement of related party transactions

46. Note 1.k to the financial statements “Related parties” (TAB 3 DOC 89) states “*The Company pays rent and provides cash advances to 1350358 Ontario Inc.*” Note 1.k also identifies 130358 Ontario Inc. as owned by the shareholder of the parent company of Tyoga. It is therefore a related party.
47. CPA Canada Handbook- Part II 3840.51 (c) and (d) Related Party Transactions (Standards TAB 5) requires the amount and the basis for measurement of related party transactions be disclosed.
48. The related party note on the financial statements does not specify the amount of rent paid to 1350358 nor does it specify the measurement basis used.
49. While the rent is disclosed on the income statement in the amount of \$53,097 (TAB 3 DOC 83) the income statement does not specify that the line item “Rent” is for related party rent only, as a result a reader of the financial statements would not know the amount of rent that was paid to related parties.

Allegation 3 – Allan E. McInnis, in or about the period March 1, 2017 through December 31, 2017, while engaged to review the financial statements of K & T Inc. as at March 31, 2017, failed to perform his

professional services in accordance with generally accepted standards of practice of the profession contrary to Rule 206.1 of the Chartered Professional Accountants Code of Professional Conduct

50. K&T Inc. has been a McInnis client for many years. The owner brings the bookkeeping to the office and provides underlying documents and records when requested by McInnis. If McInnis finds any adjustments that need to be made, he makes them in his copy of QuickBooks, and then enters the adjusted trial balance into CaseWare to prepare the financials. He then goes back to the client's premises, explains the adjustments, and posts them with the client.

Particular a) – Failed to ensure that the notes to the financial statements refer to the fact that the financial statements were prepared in accordance with “Canadian accounting standards for private enterprises

51. CPA Canada Handbook- Part II 1400.16 General Standards of Financial Statement Presentation (Standards TAB 6) requires that an entity that prepares its financial statements in accordance with Canadian accounting standards for private enterprises state this prominently in the notes to the financial statements.
52. Note 1.a.ii to the financial statements states “*The accounting policies of the company are in accordance with for private enterprise....*” (TAB 4 DOC 107) and is therefore missing the words “Canadian accounting standards” before the words “private enterprise”. As a result, the disclosure does not comply with the standard (1400.16) (Standards TAB 6).

Particular b) – Failed to ensure that the cash flow statement appropriately labelled the totals of the cash flows during the period by operating, investing and financing activities

53. CPA Canada Handbook- Part II 1540.12 Cash Flow Statements (Standards TAB 7) requires that the cash flow statement report cash flows during the period classified by operating, investing and financing activities.
54. The Statement of Cash Flows in the financial statements (TAB 7 DOC 106) is missing labels. As a result, a reader may not be able to determine the classification of cash flows.

Particular c) – Failed to ensure that the financial statements provided an accurate description of the significant accounting policies of the enterprise

55. CPA Canada Handbook- Part II 1505.03 Disclosure of Accounting Policies (Standards TAB 8) requires a clear and concise description of the significant accounting policies of an enterprise be included as an integral part of the financial statements.
56. Note 1.g to the financial statements (TAB 4 DOC 109) states that the company follows the liability method of accounting for income taxes. In fact, the financial statements do not reflect this accounting policy as the client actually applies the taxes payable method. The description in the note is inaccurate.

Particular d) – Failed to ensure disclosure of the redemption amount of the redeemable and retractable shares

57. Note 4.a to the financial statements (TAB 4 DOC 112) states that there are 100 preference shares outstanding and indicates the terms of those shares as redeemable and retractable. The amount at which the shares are redeemable and retractable is not disclosed.
58. CPA Canada Handbook- Part II 3240.20 (c) Share Capital (Standards TAB 9) requires that the redemption price of redeemable shares be disclosed.

Particular e) – Failed to ensure disclosure of the minimum lease payments for each of the succeeding five years

59. Note 9 to the financial statements (TAB 4 DOC 114) discloses additional rents for each of the current year (\$27,657) and prior year (\$27,544) as a result of gross revenues exceeding a minimum dollar amount. Note 9 does not disclose, however, the minimum lease payments for the next five years as required by generally accepted standards of practice.
60. CPA Canada Handbook- Part II 3065.77 Leases (Standards TAB 10) requires that the minimum lease payments for each of the succeeding five years be disclosed.

Allegation 4 - Allan E. McInnis, in or about the period December 1, 2017 through May 30, 2018, while engaged to review the financial statements of CBHA as at December 31, 2017, failed to perform his professional services in accordance with generally accepted standards of practice of the profession contrary to Rule 206.1 of the Chartered Professional Accountants Code of Professional Conduct

61. CBHA is a not-for-profit charity that has been set up to maintain the pedigree of Canadian Belgian horses. CBHA has been a client of McInnis for approximately 30 years. The initial data entry in Quickbooks is done by the staff, and then the office manager brings a copy of Quickbooks to McInnis and provides initial information such as accounts receivable, accounts payable, etc. to Mr. McInnis. Additional documents and records are then provided when requested by Mr. McInnis. If McInnis finds any adjustments that need to be made, he makes them in his copy of Quickbooks, and then enters the adjusted trial balance into CaseWare to prepare the financials. He then goes back to the client's premises, explains the adjustments, and posts them with the client.
62. In 2016, the Auditing and Assurance Standards Board of Canada released the Canadian Standard on Review Engagements CSRE 2400 Engagements (Standards TAB 11) to review historical financial statements. This new standard replaces 8100 and 8200 and is effective for reviews of financial statements for periods ending on or after December 14, 2017. This is the standard applicable to the CBHA December 31, 2017 review engagement.
63. CSRE 2400.5 (Standards TAB 11) states: *"The practitioner performs primarily inquiry and analytical procedures to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, expressed in accordance with the requirements of this CSRE."*
64. CSRE 2400.15 (Standards TAB 11) states:

"For the purposes of this CSRE, the following terms have meanings attributed below:

a. Analytical procedures- evaluations of financial information thorough analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.”

Particular a) – Failed to document the working paper file in a manner sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand the nature, timing and extent of the procedures performed and the results obtained

65. CSRE 2400.104 (Standards TAB 11) states:

“....The practitioner shall document the following aspects of the engagement in a timely manner, sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand:

a. The nature, timing and extent of the procedures performed to comply with the CSRE and applicable legal and regulatory requirements;

b. The results obtained from the procedures, and the practitioners conclusions formed on the basis of the results;

c. Significant matters arising during the engagement, the practitioners conclusions reached thereon, and significant professional judgements made in reaching those conclusions.”

66. CSRE 2400.105 (Standards TAB 11) states:

“In documenting the nature, timing and extent of the procedures performed as required in this CSRE, the practitioner shall record:

a. Who performed the work and the date such work was completed; and

b. Who reviewed the work performed for the purposes of quality control for the engagement, and the date and extent of the review.”

67. The working paper file for CBHA was not documented in a manner sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand the nature, timing and extent of the procedures performed and the results obtained as required by the standards.
68. By way of example only, members would often pay their patron dues in advance. McInnes prepares the adjustment required to defer the portion of the patron dues paid in the current year that relate to future years as well as the adjusting entry to bring into income that portion of dues that had been deferred in prior years related to the current year (TAB 5 DOC 127-130).
69. An experienced practitioner, having no previous connection with the engagement, would be unable to follow how the working paper supporting the deferral reconciled to the balance sheet or tied into revenue, and what procedures the member had performed in order to evaluate whether the deferral was complete.

Particular b) – Failed to properly document the inquiry and analytical procedures employed to address all material items in the financial statements and those areas in the financial statements where material misstatements are likely to arise

70. CSRE 2400.45 (Standards TAB 11) states:

“...the practitioner shall identify areas in the financial statements where material misstatements are likely to arise.”

71. CSRE 2400.46 (Standards TAB 11) states:

“In obtaining sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, the practitioner shall design and perform inquiry and analytical procedures:

- a. *To address all material items in the financial statements, including disclosures; and*
- b. *To focus on addressing areas in the financial statements where material misstatements are likely to arise.”*

72. McInnis identified, in a working paper “Understanding the entity- Basics” (TAB 5 DOC 131) and in “Understanding the entity- System” (TAB 5 DOC 132) areas in the FS where material misstatement is likely to arise. Those areas included:

“declining horse ownership will lead to continued membership and adv revenue decrease. Plan future cooperation with US similar agencies to help promotion. Lent funds to NABC Vii” (TAB 5 DOC 131), and;
“revenue could be received but taken by staff- use analytical procedures to find missing membership or adv” (TAB 5 DOC 132).

73. McInnis did not properly document in the working paper file the inquiry and analytical procedures employed to address these areas in the financial statements he had identified as areas where misstatements are likely to arise.

Particular c) – Failed to ensure that the report referred to “Canadian accounting standards for not-for-profit organizations

74. CSRE 2400.94 (d)(i) (Standards TAB 11) states that the practitioner’s report should include *“...their preparation in accordance with the applicable financial reporting framework....”*

75. CSRE 2400.94 (h) (ii) (Standards TAB 11) requires a *“...reference to the applicable financial reporting framework used to prepare the financial statements.....”*

76. The review engagement report attached to the financial statements (DOC 117) stated the financial statements are in accordance with “Canadian accounting standards for private enterprises”. The report should have referred to “Canadian accounting standards for not-for-profit organizations.”

Particular d) – Failed to ensure that the statement of financial position used terminology appropriate for a not-for-profit organization

77. CPA Handbook Part III 4400.19 Financial Statement Presentation by Not-for-Profit Organizations (Standards TAB 14) states that:

“The statement of financial position should present the following:

- a. (deleted)*
- b. Net assets subject to restrictions requiring that they be maintained permanently as endowments;*
- c. Other restricted net assets;*
- d. Unrestricted net assets; and*
- e. Total net assets.”*

78. CSRE 2400.77 (d) (i) (Standards TAB 11) requires a practitioner to evaluate whether the terminology used in the financial statements, including the title of each financial statement, is appropriate.

79. In this case the balance sheet (DOC 118) refers to “Shareholder’s Equity”, “Equity” and “Retained Earnings”, which terminology is not appropriate for a not-for-profit organization.

Particular e) – Failed to ensure that the cash flow statement appropriately labelled the totals of the cash flows during the period by operating, investing and financing activities

80. CPA Canada Handbook- Part III 4400.46 Financial Statement Presentation by Not-For-Profit Organizations (Standards TAB 14) requires the statement of cash flows to be prepared in accordance with Cash Flows Statements Section 1540 in Part II of the Handbook (Standards TAB 7)

81. CPA Canada Handbook- Part II 1540.12 Cash Flow Statements (Standards TAB 7) requires that the cash flow statement report cash flows during the period classified by operating, investing and financing activities.
82. In this case the Statement of Cash Flows is missing labels. As a result, a reader may not be able to determine the classification of cash flows.

Particular f) – Failed to assess and/or document the procedures performed, results obtained and professional judgements made with respect to determining the appropriateness, under accounting standards for not-for-profit organizations, of recognizing the “Advance to NABC 2020” as a long-term asset versus an expense

83. During the period under review, the CBHA had provided \$15,000 to the OBHA which was recorded on the balance sheet as a long-term asset “Advance to NABC 2020” (TAB 5 DOC 118) and referenced to Note 6 of the financial statements (TAB 5 DOC 126).
84. Meeting Minutes in the working paper file from a February 4, 2017 meeting of the Board of CBHA (TAB 5 DOC 134-135) discuss the advance and note *“Although there was not a motion made, each Director agreed that the above motion [to advance the \$15,000 to the OBHA] does not require the \$15,000 to be paid back to the CBHA.”*
85. The minutes also refer to sending two letters to OBHA (NABC 9), the first letter to cover the request for the \$15,000, and the second letter regarding *“....partnership between OBHA (NABC 9) and CBHA...Requesting the following:*
 - Detailed proposed budget covering income and expenses.
 - Potential sponsors
 - Dates as to conclusion of the agreement.”
86. CPA Canada Handbook- Part III 1001.25 Financial Statement Concepts for Not-For-Profit Organizations provides guidance on the definition of an asset and states (Standards TAB 13):

“Assets have three essential characteristics:

a) They embody a future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash flows or to provide services;

b) The entity can control access to the benefit; and

c) The transaction or event giving rise to the entity’s right to, or control of, the benefit has already occurred”.

87. Paragraph 1001.27 (Standards TAB 13) states:

“...when an entity incurs an expenditure, this may provide evidence that future economic benefits were sought but is not conclusive proof that an item satisfying the definition of an asset has been obtained.”

88. McInnis accounted for the \$15,000 as an advance (as opposed to an expense) because it was his understanding from discussions with the client that the money was not yet spent by the organization and therefore, it was not appropriate to expense it.

89. McInnis obtained the note disclosure from the client (TAB 5 DOC 135). No additional information was available from the client at the time and McInnis was not aware of an agreement being signed that would dictate the terms of the arrangement.

90. There is insufficient documentation in the working paper file to conclude that the accounting treatment of the Advance to NABC 2010 (TAB 5 DOC 118) is in accordance with the applicable accounting framework as required by CSRE 2400.12 (objective of the review) (Standards TAB 11) and CSRE 2400.104 (documentation) (Standards TAB 11).

Terms of Settlement

91. McInnis and the Professional Conduct Committee agree to the following Terms of Settlement:
- a) A payment by way of fine in the amount of \$5,000;
 - b) McInnis will attend, within 18 months of the time the Discipline Committee accepts this Settlement Agreement, the following professional development courses offered by CPA Ontario (or their successor courses):
 - *Review Engagements – Application of the Standard;*
 - *Review Engagements – Introduction to the New Standard;*
 - *ASPE – Review of the Standards.*
 - c) McInnis shall, within 30 days of the approval of this Settlement Agreement, enter into a Supervision Agreement approved by the Director of Standards Enforcement (“the Director”) with a Supervisor approved by the Director from outside of McInnis’s practice who will review all assurance work undertaken by McInnis for a period of 18 months after the Discipline Committee accepts this Settlement Agreement, with the 18 month supervisory period to commence with the first assurance work undertaken by McInnis following approval of the Settlement Agreement;
 - d) The Professional Conduct Committee will re-investigate McInnis following the period of supervised practice with the costs of the re-investigation, up to \$3,500, to be borne by McInnis;
 - e) Notice of the terms of this Settlement is to be published in the manner set out in CPAO Regulation 6-2 section 45, including notice to be given to all members of CPA Ontario, the Public Accountants’ Council and all provincial CPA bodies;
 - f) A payment by way of costs in the amount of \$15,000;
 - g) McInnis will be allowed 12 months from the time the Discipline Committee accepts this Settlement Agreement to pay the fine and costs referred to herein; and
 - h) A failure by McInnis to comply with any of the terms of settlement will result in his suspension from membership in CPA Ontario which suspension will continue until he

complies PROVIDED THAT if his suspension under this section continues for three months his membership in CPA Ontario will be revoked with full publicity in accordance with Regulation 6-2 section 48.

92. In the event that the Director finds McInnis's choice of supervisor unacceptable, or there is any other issue relating to the supervised practice plan about which McInnis and the Director cannot agree, either McInnis or the Professional Conduct Committee may give notice of the disagreement to the Chair of the Discipline Committee, who may move to have that aspect of the order reconsidered in accordance with Regulation 6-2 section 24.
93. Should the Discipline Committee accept this Settlement Agreement, McInnis agrees to waive his right to a full hearing, judicial review or appeal of the matter subject to the Settlement Agreement. Upon the member fulfilling the requirements of this Settlement Agreement, the draft allegations approved by the Professional Conduct Committee and dated July 2018, shall be forever stayed.
94. 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 McInnis leading up to its presentation to the Discipline Committee, shall be without prejudice to the Professional Conduct Committee and McInnis; and
 - b) The Professional Conduct Committee and McInnis 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.

Disclosure of Settlement Agreement

95. This Settlement Agreement and its terms will be treated as confidential by the Professional Conduct Committee and McInnis, until approved by the Discipline Committee, and forever if for any reason whatsoever this Settlement Agreement is not approved by the Discipline



Committee, except with the written consent of the Professional Conduct Committee and McInnis, or, as may be required by law.

96. 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 ^{27th June} ~~1st May~~ of May 2019.

A handwritten signature in black ink, appearing to read "Paul F. Farley", written over a horizontal line.

Paul F. Farley, LL.B
On behalf of
The Professional Conduct Committee

A handwritten signature in black ink, appearing to read "Allan E. McInnis", written over a horizontal line.

Allan E. McInnis CPA, CA
on his own behalf