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CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF

ONTARIO
DISCIPLINE COMMITTEE - CPA ONTARIO

RE: DENNIS PLATA, CA

EX: 1 FILED SEPT 30 2015

ADW

THE CHARTERED ACCOUNTANTS ACT, 2010

IN THE MATTER OF: ALLEGATIONS OF PROFESSIONAL
MISCONDUCT AGAINST DENNIS A.
PLATA, CPA, CA, A MEMBER OF CPA
ONTARIO BEFORE THE DISCIPLINE
COMMITTEE

SETTLEMENT AGREEMENT

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

Introduction

1. The Professional Conduct Committee approved draft Allegations against Dennis A. Plata, CPA, CA ("Plata") **Doc 1**.
2. The draft Allegations pertain to Plata's failure to ensure that a non-member associated with his public accounting practice abided by the Rules of Professional Conduct of the ICAO in performing professional services. The draft Allegations further pertain to professional work performed by Plata with respect to the following engagements:
 - a) the audit of the financial statements of "FP Limited" for the year ended April 30, 2012 **Doc 4**; and
 - b) the audit of the non-consolidated financial statements of "FG Inc." for the year ended April 30, 2012 **Doc 6**.

3. The documents referred to in this agreement are found in the Document Brief ("**Doc**"). The applicable *CICA Handbook* sections are found in the Brief of Authorities ("**Tab**").
4. The Professional Conduct Committee ("PCC") and Plata 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 Plata in any other proceedings of any kind, including, but without limiting the generality of the forgoing, any civil or other proceedings which may be brought by any other person, corporation, regulatory body or agency.

Background

5. Plata commenced employment with Withey Addison, Chartered Accountants, in April, 1986. He received his CA designation in 1990, and became a partner of the firm in 1997.
6. The firm, now Withey Addison LLP, has two offices, one in Kingston, and one in Mississauga, Ontario. Plata practices in the Withey Addison LLP Mississauga office (the "Mississauga Office"), which employs four CPA, CAs, one CPA, CA student, one non-designated technician, and two accounting clerks. At all material times, "RW" was a partner of Withey Addison LLP in the Mississauga Office, holding a CGA designation.
7. The practice composition of the Mississauga Office is approximately 40% audit and review engagements, 20-30% compilations, 10-15% taxation, with some additional consulting work performed.

8. Plata came to the attention of the PCC as a result of a complaint received from a successor accountant who had been retained by FP Limited and FG Inc. **Doc 2** The complaint related to Plata's standards of practice on audit engagements for the two companies for the year ended April 30, 2012.
9. Plata's response to the complaint against him is reproduced at **Doc 3**.
10. Mr. W. David Sanderson, FCPA, FCA, was appointed to investigate.

Allegation 1 – Failure to Ensure Staff Abide by Rules of Conduct in Performing Professional Services

11. Standards of practice and firm quality control in the Mississauga Office are overseen by Plata, with no professional input from the Kingston office.
12. The Mississauga Office has a Quality Assurance Manual ("QAM") which had been recently updated. The Office uses an online version of the Professional Engagement Manual, and maintains current copies of the ICAO Members Handbook and the *CICA Handbook* pronouncements, and subscribes to an online *CICA Handbook* service.
13. The Mississauga Office uses Caseware as their accounting file preparation software, along with QuickBooks, Excel, Dr. Tax and Practice.
14. Professional development logs are kept for all members of the Mississauga Office. The ICAO/CPA Ontario is the main provider of professional development courses for the Office, which are supplemented with courses offered by other outside providers.
15. Plata holds a valid Public Accounting Licence, however RW does not.

16. At all material times, RW was responsible for approximately 55 assurance engagements. Plata was responsible for the final review and sign-off on all of these engagements.
17. In particular, the audit of the financial statements of FP Limited for the year ended April 30, 2012, and the audit of the non-consolidated financial statements of FG Inc. for the year ended April 30, 2012, were identified as being engagements of RW (the "Engagements"). Both of the Engagements were staffed by CA staff and other technicians with five to ten years of audit experience.
18. The year ended April 30, 2011 was the first year for which the Mississauga Office performed the audits for both Engagements. Plata states that although the Mississauga Office had one other client in a similar industry and of similar size, the Engagements were well in excess of the average assurance engagement size for the Office.
19. The Engagement files were prepared by staff and reviewed by RW.
20. Plata's involvement in the Engagements was what he described as a "high level scan of the file," consisting of a non-in-depth review, with additional time spent on reviewing financial statement components and on discussions with RW.
21. Plata approved the release of the audited financial statements of FP Limited for the year ended April 30, 2012 in the name of the firm Withey Addison LLP, on or about August 20, 2012, and as to Note 19 of those statements as of October 31, 2012. **Doc 4**
22. Plata approved the release of the audited financial statements of FG Inc. for the year ended April 30, 2012 in the name of the firm Withey Addison LLP, on or about August 20, 2012. **Doc 6**

23. It is agreed that the standards of practice exhibited by the Engagements do not meet the standards of practice of the profession, and that RW failed to perform professional services in connection with the Engagements in accordance with generally accepted standards of practice of the profession.

24. It is further agreed that Plata, while engaged in the practice of public accounting and while associated in such practice with the non-member RW, failed to ensure that RW performed professional services in connection with the Engagements in accordance with generally accepted standards of practice of the profession, contrary to the Rules of Professional Conduct.

Allegation 2 – The Audit of the Financial Statements of FP Limited for the year ended April 30, 2012

25. FP Limited is a corporation performing road construction in Toronto and the surrounding area. At the year ended April 30, 2012 it was a wholly-owned subsidiary of FG Inc.

26. The financial statements of FP Limited for the year ended April 30, 2012 are reproduced at **Doc 4**.

27. Final materiality for FP Limited for the year ended April 30, 2012, was \$1.4 million.

28. Plata approved the release of the financial statements and the Auditors' Report dated August 20, 2012, except as to Note 19 which was as of October 31, 2012.

Disclosure: Property, Plant and Equipment; Long-Term Debt; Retained Earning; Net Income

29. Two capital leases and one financing loan for equipment were treated as operating leases, resulting in understatements of property, plant and equipment of \$600,220, loans payable of \$66,378, obligations under capital leases of \$273,396, understatements of net income of \$91,834, and beginning retained earnings of \$168,512. **Doc 4 pp 82, 84-85, 92, 95**
CICA Handbook ASPE Section 1000.29, 3065.06 **Tab 1**

30. These understatements resulted from a failure to update the 2012 schedule of leases for new or terminated leases. Updated lease information provided by the complainant did not appear in Plata's working papers. **Doc 2 pp. 15-17, 57-66**

Intercompany Sales

31. *CICA Handbook* Section ASPE Section 1601.23 **Tab 2** requires that intercompany receivable and payable balances be eliminated in the preparation of financial statements.

32. Intercompany sales of \$14,840,856 between FP Limited and FG Inc. were not removed in the preparation of the FP Limited financial statements. The Statement of Operations was therefore overstated. **Doc 4 p. 85, Doc 5 p. 149A**

Demand Loan Covenants

33. In the Summary of Assessed Risks, there is an indication that the company is highly leveraged, and that the demand loan covenants are in breach. **Doc 5, p. 121** Note 2 to the financial statements indicates that the company is in compliance with these covenants. **Doc 4 pp 90-91** There is no documentation indicating testing of the covenant calculations. *CICA Handbook* CAS 500.6. **Tab 3**

Defined Benefit Pension Plans

34. The company had two non-contributory defined benefit pension plans which were not disclosed in the financial statements. Although funding deficits and current service contributions were not material, the accrued pension benefits and value of fixed assets should have been disclosed as required by *CICA Handbook* Section ASPE 3462.115 **Tab 4**.

35. In addition, there was no documentation in the working papers to suggest that any inquiry was made of the client as to the existence of pension plans.

Disclosure of Asset Retirement Obligations

36. Accrued Rehabilitation fees of \$800,000 represent an Asset Retirement Obligation relating to restoration of a gravel pit. There is no indication in the working paper file of an estimate of future expenditures, discounting, inflation or timeline as examples, or composition of the amount as required. **Doc 5 pp.143-145** *CICA Handbook* CAS 500.6 and ASPE 3110.23 **Tab 5**

HST Reasonability

37. Although HST reasonability was considered for the "private general ledger," the main general ledger contains the majority of the HST activity. HST balances were not considered for the main general ledger and no documentation of HST reasonability is indicated in the working papers. *CICA Handbook* CAS 500.6. **Tab 3 Doc 5 pp 147-148**

Government Remittances

38. Included in Accounts Payable and Accrued Liabilities of \$15,715,777 are HST of \$1,264 and withholding taxes payable of \$2,319,675. **Doc 4 p. 93 and Doc 5 p. 143** Although these should be disclosed separately, they are grouped in note 6 to the financial statements. *CICA Handbook* ASPE Sections 1510.15, .16 **Tab 6**

Subsequent Events Review Procedures

39. Subsequent events, as addressed in the Audit Completion checklist, indicate that there are no subsequent events that could affect the financial statements. There is no documentation as to how this was determined.

Doc 5 pp. 135-137 CICA Handbook CAS 560.6 and .7 Tab 7

Analytical Procedures

40. The working paper file does not indicate that any final analytical procedures were performed at the end of the audit as required by *CICA Handbook CAS 520*.

Tab 8 Doc 5 pp 125-127

Litigation and Claims; Communication from Law Firm

41. Various checklists in the working papers make mention of legal claims

Doc 5 pp. 150-153 however the legal worksheet **Doc 5 p. 121** indicates no lawsuits. Additionally, the appropriate communication from the client's law firms was not obtained. *CICA Handbook CAS 500.6, 501.10* **Tab 9**

Audit Documentation

42. General journal entry testing indicated that the general ledger was scanned, however no documentation for support of any individual entries was provided. **Doc 5 pp. 138-140**

43. With respect to accounts payable cutoff testing, there is no indication of the period reviewed, nor the details of actual items tested. **Doc 5 p. 146**

44. Sales system testing was performed and the sample chosen was from the "gross sales account." The trial balance includes numerous sales accounts and it was not specified as to how the testing was chosen, or what accounts were included in the population of items tested. **Doc 5 pp. 129-131 CICA Handbook CAS 230.8 and.9 Tab 10**

Allegation 3 – The Audit of the Non-Consolidated Financial Statements of FG Inc. for the year ended April 30, 2012

45. FG Inc. performs road construction in Toronto and the surrounding area.
46. The non-consolidated financial statements of FG Inc. for the year ended April 30, 2012 are reproduced at **Doc 6**.
47. Final materiality for FG Inc. for the year ended April 30, 2012, was \$16,000.
48. Plata approved the release of the non-consolidated financial statements and the Auditors' Report dated August 20, 2012.

Amalgamation

49. The Notes to the financial statements indicate that at the start of the fiscal period on May 1, 2011, the company was formed from an amalgamation of seven separate corporations. There is no indication in the working papers as to whether the companies are under common control or are unrelated parties. **Doc 6 p. 162, Doc 7, pp. 172-196**
50. There is no documentation of work performed on opening balances on the financial statements of each company, whether the predecessor companies were previously audited by the Mississauga Office, or if any additional work was performed on amalgamation. **Doc 7, pp.197-198** The only reference to opening balance sheets of the amalgamated companies is one schedule detailing balances only. *CICA Handbook CAS 510.6 and .7 Tab 11.*

Goodwill

51. Goodwill is shown on the non-consolidated balance sheet in the amount of \$23,940,775, **Doc 6, pp. 157, 165** however the working papers indicate

only that there is "Goodwill upon Amalgamation" **Doc 7, p. 220** and there is no additional documentation as to how goodwill was determined. *CICA Handbook CAS 500.6 Tab 3*.

Long-Term Investments

52. Long-Term Investments are shown on the non-consolidated balance sheet in the amount of \$6,895,082 **Doc 6, p. 157** relating to an investment in FP Limited as disclosed in note 4 to the statements. **Doc 6, p. 166** FP Limited was not one of the seven companies amalgamated with FG Inc. on May 1, 2011.

53. Upon amalgamation and implementation of ASPE, the reporting method for long-term investments was changed from equity to the cost method. The amount disclosed did not represent the original cost of the investment as it should, but rather it represents the original cost plus any equity pick-ups that were not removed from the value. *CICA Handbook Sections 3840.29, .30, and .40 Tab 12*.

Share Capital

54. Share Capital is shown on the non-consolidated balance sheet in the amount of \$21,542,175 **Doc 6, p. 157** and is disclosed in note 9 to the statements. **Doc 6, p. 168** There was only one working paper related to share capital, which was a leadsheet which indicated the value of shares appearing on the financial statement. No additional notes or explanatory information was evident in this section, and there was no documentation for substantiation of the values. *CICA Handbook Section CAS 500.6 Tab 3*

Retained Earnings

55. Retained earnings are shown on the non-consolidated balance sheet in the amount of \$12,737,187. **Doc 6, p. 157** There are no working papers related to retained earnings. *CICA Handbook Section CAS 500.6 Tab 3*

Inventory

56. The non-consolidated balance sheet item "Inventory – note 1(h) – 138,538" consists of quarry aggregates. **Doc 6 pp. 157, 164** The physical count was undertaken by an external engineering firm and the Inventory Memo indicates that the Mississauga Office did not have the expertise to perform any type of test counting. **Doc 7 pp. 212-216** There is no documentation assessing how Plata could rely on the expertise of the engineering firm. *CICA Handbook* Section CAS 500.8 and .9 **Tab 13.**

Due from Associated Companies

57. The non-consolidated balance sheet of FG Inc. lists an amount of \$8,809,631, which includes the amount \$8,585,748 due from an Associated company (FP Limited), as reflected in note 3. **Doc 6 pp.157,165** The balance sheet of FP Limited lists an amount Due to Parent Company of \$8,118,096, and reflected in note 9. **Doc 4 pp. 82, 95** There is no documentation of the \$467,652 difference nor of additional audit procedures performed to determine the balances. **Doc 5 p. 108** *CICA Handbook* Sections CAS 500.6 **Tab 3.**

Accounts Payable and Accrued Liabilities

58. An amount representing taxes recoverable of \$119,473 **Doc 7 219A-219D** is netted with accounts payable in the non-consolidated balance sheet item "Accounts payable and accrued liabilities – note 6 – 3,906,045" **Doc 6 p. 157** rather than being shown separately as an asset as required by *CICA Handbook* ASPE 3856.24. **Tab 14**

Audit Documentation

59. General journal entry testing indicated that the general ledger was scanned, however no documentation for support of any individual entries was provided. **Doc 7 pp. 209-211**

60. Sales system testing was performed and the sample chosen was from the "gross sales account." The trial balance includes numerous sales accounts and it was not specified as to how the testing was chosen, or what accounts were included in the population of items tested. **Doc 7 pp. 204-205 CICA Handbook CAS 230.8 and .9 Tab 10**

Acknowledgement

61. It is agreed that, with respect to the audits of the financial statements of FP Limited and of FG Inc. for the year ended April 30, 2012, Plata failed to perform his professional services in accordance with generally accepted standards of practice of the profession, including the recommendations set out in the *CICA Handbook*, in the manner described above.

Additional Information

62. In the course of the PCC investigation, the investigator reviewed Plata's financial statements and files for four additional engagements. None of these reflected significant deficiencies.

63. Plata states that remedial action was taken by the Mississauga Office subsequent to the complaint by the successor accountant, including a second level of review of all assurance files prior to being reviewed by the engagement partner, and assistance from an outside firm of licensed public accountants in the form of a review of all complex files prior to finalization.

64. At the time of the PCC investigation, Plata indicated that Withey Addison LLP was in discussions to merge with another firm of chartered accountants. Plata states that subsequent to the conclusion of the investigation, that merger took place.

Terms of Settlement

65. Plata and the Professional Conduct Committee agree to the following Terms of Settlement:

- a) Plata will pay a fine in the amount of \$5,000 within 12 months of this agreement receiving approval of the Discipline Committee;
- b) Plata will attend, within 12 months of the time the Discipline Committee accepts this Settlement Agreement, the following professional development course offered by CPA Ontario (or the successor courses):
 - *Risk and Control for Small and Medium Sized Businesses*;
- c) Notice of the terms of this Settlement is to be published in accordance with the provisions of ICAO Regulation 7-3, s. 22, including notice to be given to CPA Canada, the Public Accountants' Council and in a CPA Ontario publication;
- d) Plata will pay costs in the amount of \$10,000 within 12 months of this agreement receiving approval of the Discipline Committee; and
- e) A failure by Plata to comply with any of the terms of settlement will result in his suspension from membership in the Institute which suspension will continue until he complies PROVIDED THAT if his suspension under this section continues for three months his membership in the ICAO will be revoked with full publicity in accordance with Regulation 7-3(23).

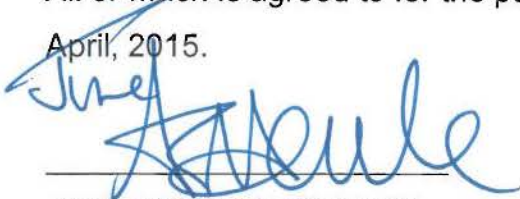
66. Should the Discipline Committee accept this Settlement Agreement, Plata agrees to waive his right to a full hearing, judicial review or appeal of the matter subject to the Settlement Agreement. Upon the member fulfilling the requirements of this Settlement Agreement, the draft allegations approved by the Professional Conduct Committee and dated February, 2015, shall be forever stayed.
67. 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 Plata leading up to its presentation to the Discipline Committee, shall be without prejudice to the Professional Conduct Committee and Plata; and
 - b) The Professional Conduct Committee and Plata 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

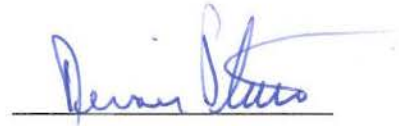
68. This Settlement Agreement and its terms will be treated as confidential by the Professional Conduct Committee and Plata, until approved by the Discipline Committee, and forever if for any reason whatsoever this Settlement Agreement is not approved by the Discipline Committee, except with the written consent of the Professional Conduct Committee and Plata, or, as may be required by law.

69. 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 5 day of April, 2015.



ALEXANDRA E. HERSAK



DENNIS A. PLATA, CPA, CA on his own behalf

On behalf of:
THE PROFESSIONAL CONDUCT COMMITTEE