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CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO  
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF  
ONTARIO

DISCIPLINE COMMITTEE - CPA ONTARIO

RE: JOHN S. PALOC

EX: 1 FILED JUNE 8 2015

rw

*THE CHARTERED ACCOUNTANTS ACT, 2010*

**IN THE MATTER OF: ALLEGATIONS OF  
PROFESSIONAL MISCONDUCT  
AGAINST JOHN S. PALOC, 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 John S. Paloc, CPA, CA ("Paloc") **Doc 1**.
  
2. The draft allegations pertain to professional work performed by Paloc with respect to :
  - a) the audit of the consolidated financial statements of "ELP" for the years ended December 31, 2012 and 2011 **Doc5**;
  - b) the audit of the consolidated financial statements of "ELP" for the years ended December 31, 2013 and 2012 **Doc7**;
  - c) the audit of the financial statements of "CHP Inc." for the years ended December 31, 2012 and 2011 **Doc11**;

- d) the audit of the financial statements of "VF Ltd." for the year ended July 2, 2013 **Doc12**;
  - e) the audit of the financial statements of "H&HS Limited" for the year ended July 31, 2013 **Doc13**.
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 Paloc 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 Paloc 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. Paloc received his CA designation in 1975.
6. Paloc served as an audit senior with Touche Ross & Co. in 1975 and then as an audit senior with Borden Wunder from 1975 to 1977. From 1977 to 2013 he practiced as a sole practitioner at first and then in partnership with Marvin N. Goldstein, CPA, CA. On November 30, 2013 he withdrew as a partner in Goldstein Paloc LLP and commenced practicing as a sole practitioner.
7. Paloc has no employees. His practice consists of five audit, nineteen compilation and forty-one tax engagements.

8. Paloc came to the attention of the PCC as a result of a complaint received from the Practice Inspection Committee dated November 27, 2013 **Doc2**.
9. Mr. Raymond G. Harris, FCPA, FCA, was appointed to investigate Paloc's standards of practice.

**Allegation 1 – The Audit of the Consolidated Financial Statements of ELP for the years ended December 31, 2012 and 2011**

10. ELP is a limited partnership registered in the Province of Manitoba and located in Toronto. Its consolidated financial statements include the financial statements of its wholly-owned limited partnerships "ESOLP" registered in the Province of Manitoba and "EUSLP" formed under the laws of the State of Delaware. The three partnerships invest in a mixture of hedge funds, managed accounts and securities of publicly held companies on behalf of the ELP limited partners. ELP has been a client of Paloc since 1999.
11. The consolidated financial statements of ELP for the years ended December 31, 2012 and 2011 are reproduced at **Doc5**.
12. Paloc signed the Auditors' Report dated March 22, 2013 and presented it and the consolidated financial statements to the Manager of ELP.

***Auditors' Report***

13. The report was not titled "Independent Auditors' Report" and does not correctly identify the statements that comprise the consolidated financial statements as required by *CICA Handbook* Sections CAS 700 21-23 Tab 1. In addition the Report refers only to the consolidated financial statements as at and for the year ended December 31, 2012 whereas the engagement letter specified an audit as at and for the years ended December 31, 2012 and 2011. **Doc 6**.

**Consolidated Statement of Cash Flows**

14. The items "Partners' contributions (withdrawals)", "Investment in hedge funds" and "Investment in securities" should not have been reported on a net basis because they did not qualify for that treatment as per *CICA Handbook* Sections IAS 7 22 **Tab 2**. In addition the item amortization of leasehold improvements was incorrectly reported as "Acquisition of leasehold improvements".

15. There was no disclosure of the components of cash and cash equivalents as required by *CICA Handbook* Section IAS 7 45 **Tab 3**.

**Related Party Transactions**

16. The nature of the relationship between the partnership and 56 ██████ Ontario Limited, H&HS Limited and E ██████ C ██████ M ██████ and details of any transactions and outstanding balances with them was not disclosed as required by *CICA Handbook* Sections IAS 24 18&19 **Tab 4**.

**Revenue Recognition**

17. There was inadequate disclosure of the revenue recognition policies used in the preparation of the financial statements as required by *CICA Handbook* *CICA Handbook* Sections IAS 18 30&35 **Tab 5**.

**Leasehold Improvements**

18. The depreciation method, depreciation rate, gross carrying amount and accumulated depreciation were not disclosed as required by *CICA Handbook* Section IAS 16 73 **Tab 6**.

**Risk Management**

19. A maturity analysis for financial liabilities and a sensitivity analysis for foreign currency, interest rate and other price risks were not disclosed as required by *CICA Handbook* Section IFRS 7 39&40 **Tab 7**.

***Date of Authorization for Issue***

20. The date when the financial statements were authorized for issue and the identity of the person who gave that authorization were not disclosed as required by *CICA Handbook* Section IAS 10 17 **Tab 8**.

***Managing Capital***

21. The objectives, policies and processes for managing capital were not disclosed as required by *CICA Handbook* Section IAS 1 134 **Tab 9**.

***New IFRSs***

22. Information regarding new IFRSs that have been issued but not yet effective and not applied was not disclosed as required by *CICA Handbook* Sections IAS 8 30&31 **Tab 10**.

***Audit Documentation***

23. There was no documentation of the alternative audit procedures performed as a result of the non-receipt of a reply to the letter sent to the partnership's lawyer regarding claims and possible claims as required by *CICA Handbook* Section CAS 501 10 **Tab 11**.

24. There was no documentation of any subsequent events review procedures carried out as required by *CICA Handbook* Sections CAS 560 6, 7&8 **Tab 12**.

25. There was no documentation of any analytical procedures performed at the end of the engagement as required by *CICA Handbook* Section 520 6 **Tab 13**.

26. There was no documentation of an assessment of whether or not an Engagement Quality Control Review was to be carried out as required by *CICA Handbook* Sections CSQC 1 35&57 **Tab 14**.

27. There was no documentation of the audit procedures carried out as required by *CICA Handbook* Sections CAS 230 8-11 **Tab 15** with respect to -

a) foreign exchange transactions,

- b) consolidation adjustments,
- c) partnership units redeemed, issued and outstanding,
- d) Consolidated Statement of Operations item "Revenues (5,596,282)",
- e) expenses disclosed on the Consolidated Statement of Operations as "(2,484,937)".

**Allegation 2 – The Audit of the Consolidated Financial Statements of ELP for the years ended December 31, 2013 and 2012**

28. The consolidated financial statements of ELP for the years ended December 31, 2013 and 2012 are reproduced at **Doc7**.

29. Paloc signed the Auditors' Report dated March 29, 2014 and presented it and the consolidated financial statements to the Manager of ELP.

***Material Prior Period Errors***

30. Disclosure was not made regarding the material prior period errors corrected retrospectively in the restated consolidated financial statements for the year ended December 31, 2012, as required by *CICA Handbook* Section IAS 8 49 **Tab 16**.

31. In his "Memo on Restatement of 2012 Financial Statements" **Doc 8** Paloc noted "A review of IAS8 indicates that under the circumstances, the 2012 financial statements need not be retracted. Only the comparative figures of 2012 need to be restated, with a note, in the 3013 [sic] financial statements." IAS 8 42, 43, 49 **Tab 16**. The note requirement was intended to be covered by the inclusion of Note 9 to the Consolidated Financial Statements for the years ended December 31, 2013 and 2012 "Restatement of Prior Year Figures" **Doc 7, p.44** but that note does not satisfy the requirements of IAS 8 49 **Tab 16**.

32. Also, with respect to his conclusions regarding the requirements of IAS 8, he noted in the Memo "This was confirmed by an outside consultant." Paloc did not however consider the provisions of CAS 560 15 & 16 Tab 17 dealing with the withdrawal and reissue of financial statements and the auditors' report thereon when material errors are discovered in the financial statements after they have been issued. In addition, he did not take into account the consultant's suggestion that the statements should be recalled and reissued. **Doc 9**

33. In order to provide information regarding the materiality of the errors the following comparisons of the 2012 comparative statements issued with the consolidated financial statements for the year ended December 31, 2013 with the original statements issued for the year ended December 31, 2012 are presented at **Doc 10**:

Consolidated Statement of Operations  
Consolidated Statement of Net Assets  
Consolidated Statement of Changes in Net Assets  
Consolidated Statement of Cash Flows

34. There was no review of the steps taken by management to ensure that anyone in receipt of the previously issued consolidated financial statements for the year ended December 31, 2012 and the auditors' report thereon was informed of the amendment of the financial statements as required by *CICA Handbook* Section CAS 560 15 Tab 17.

35. A new auditors' report was not issued on the amended consolidated financial statements for the year ended December 31, 2012 as required by *CICA Handbook* Sections CAS 560 15&16 Tab 17.

**Allegation 3 – The Audit of the Financial Statements of CHP Inc. for the years ended December 31, 2012 and 2011**

36. CHP Inc. is a corporation without share capital incorporated under the provisions of *the Ontario Corporations Act*. It is located in Toronto and its purpose is to produce historically and culturally significant educational video productions. CHP Inc. has been a client of Paloc since 2010.

37. The financial statements of CHP Inc. for the years ended December 2012 and 2011 are reproduced at **Doc11**.

38. Paloc signed the Auditors' Report dated February 5, 2013 and presented it and the financial statements to the President of CHP Inc.

***Preliminary Engagement Activities***

39. There was no documentation of the basis for the conclusions reached regarding the acceptance and continuance of the client relationship and audit engagement as required by *CICA Handbook* Sections CAS 220 24&CAS 300 6 **Tab 18**.

***Auditors' Report***

40. The report was not titled "Independent Auditors' Report", is not addressed to the shareholders who appointed the auditor and did not correctly identify the statements that comprised the financial statements as required by *CICA Handbook* Sections CAS 700 21-23 **Tab 1**. In addition in the second paragraph the financial statements were incorrectly referred to as being consolidated.

**Statement of Cash Flows**

41. The item "Accounts receivable (182,853)" should have been reported as "Increase in funding receivable (1,481)" and "Reduction in funding received in advance (181,372)" as required by *CICA Handbook* Section IAS 7 20 **Tab 19**.

42. The December 31, 2012 item "Net cash, beginning of year 193,948" does not agree with the December 31, 2011 item "Net cash, end of year 193,896".

**Statement of Changes in Financial Position**

43. The current liabilities as at December 31, 2011 as listed in the statement add to 193,948 not to the total of 193,896 as shown.

**Statement of Operations and Surplus**

44. The revenue items "Distribution revenues 65,847" and "Video sales 55,770" were incorrectly reported as revenue of CHP Inc. because they are amounts collected on behalf of the C██████ J██████ M██████ E██████ Foundation.

**Date for Authorization for Issue**

45. The date when the financial statements were authorized for issue and the identity of the person who gave that authorization were not disclosed as required by *CICA Handbook* Section IAS 10 17 **Tab 8**.

**New IFRSs**

46. Information regarding new IFRSs that have been issued but not yet effective and not applied was not disclosed as required by *CICA Handbook* Sections IAS 8 30&31 **Tab 10**.

***Audit Documentation***

47. There was no documentation of the identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level, the overall response to those risks at the financial statement level and the nature, timing and extent of audit procedures, and the linkage of those procedures with those risks at the assertion level as required by *CICA Handbook* Sections CAS 240 44, 45&CAS 315 32(c) **Tab 20**.

48. There was no documentation of the alternative audit procedures performed as a result of the non-receipt of a reply to the letter sent to the corporation's lawyers regarding claims and possible claims as required by *CICA Handbook* Section CAS 501 10 **Tab 11**.

49. There was no documentation of any subsequent events review procedures carried out as required by *CICA Handbook* Sections CAS 560 6, 7&8 **Tab 12**.

50. There was no documentation of any analytical procedures carried out at the end of the engagement as required by *CICA Handbook* CAS 520 6 **Tab 13**.

51. There was no documentation of an assessment of whether or not an Engagement Quality Control Review was to be carried out as required by *CICA Handbook* Sections CSQC 1 35&57 **Tab 14**.

52. There was no documentation of the audit procedures carried out as required by *CICA Handbook* Sections CAS 230 8-11 **Tab 15** with respect to –

- a) the method of confirmation of the bank balances and a description of the audit procedures applied to the bank transactions,
- b) the method of confirmation of the Statement of Changes in Financial Position items "Funding receivable – Note 7 2012 1,481" and "Advances – Note 6 2012 5,668",

- c) a description of the audit procedures applied to the Statement of Operations and Surplus items "Revenues – Note 7 2012 242,795" and "Expenditures 2012 242,795"

**Allegation 4 – The Audit of the Financial Statements of VF Ltd for the year ended July 2, 2013**

53. VF Ltd. is a corporation incorporated under the provisions of the Ontario Business Corporations Act. It is located in Vaughn and is in the mortgage brokerage business. VF Ltd. has been a client of Paloc for approximately fifteen years.

54. The financial statements of VF Ltd. for the year ended July 2, 2013 are reproduced at **Doc12**.

55. Paloc signed the Auditors' Report dated October 23, 2013 and presented it and the financial statements to the President of VF Ltd.

***Auditors' Report***

56. The report was not titled "Independent Auditors' Report and does not correctly refer to the balance sheet (refers to a statement of financial position) or the statement of shareholders' equity (refers to a statement of equity) as required by *CICA Handbook* Sections CAS 700 21-23 Tab 1.

***Income Taxes***

57. The disclosure of the determination of deferred tax assets (incorrectly referred to as future income tax assets) does not include the carryforward of unused tax losses and tax credits as specified in *CICA Handbook* Section IAS 12 5 Tab 21.

58. There was no disclosure of a reconciliation of Corporation income taxes – Note 1 54,593 and the product of the accounting net income before corporation income taxes multiplied by the applicable tax rates as required by *CICA Handbook* Section IAS 12 81(c) **Tab 22**.

### ***Related Parties***

59. There was no disclosure that U [REDACTED] C [REDACTED] E [REDACTED] Ltd., 20 [REDACTED] Ontario Ltd. and D [REDACTED] Limited are related parties, the nature of the relationships and information regarding outstanding balances and transactions as required by *CICA Handbook* Sections IAS 24 18&19 **Tab 4**.

### ***Date of Authorization for Issue***

60. The date when the financial statements were authorized for issue and the identity of the person who gave that authorization were not disclosed as required by *CICA Handbook* Section IAS 10 17 **Tab 8**.

### ***Managing Capital***

61. The objectives, policies and processes for managing capital were not disclosed as required by *CICA Handbook* Section IAS 1 134 **Tab 9**.

### ***New IFRSs***

62. Information regarding new IFRSs that have been issued but not yet effective and not applied was not disclosed as required by *CICA Handbook* Section IAS 8 30&31 **Tab 10**.

***Audit Documentation***

63. There was no documentation of subsequent events review procedures carried out as required by *CICA Handbook* Sections CAS 560 6,7&8 **Tab 12**.

64. There was no documentation of any analytical procedures carried out at the end of the engagement as required by *CICA Handbook* Section 520 6 **Tab 13**.

65. There was no documentation of an assessment of whether or not an Engagement Quality Control Review was to be carried out as required by *CICA Handbook* Sections CSQC 1 35&57 **Tab 14**.

66. There was no documentation of the audit procedures carried out as required by *CICA Handbook* Sections 230 8-11 **Tab 15** with respect to –

- a) the method of confirmation of the existence and valuation of the investment disclosed as Balance Sheet item "Other Assets U [REDACTED] C [REDACTED] E [REDACTED] – Notes 1, 5, 8 290,700",
- b) the method of confirmation of the Balance Sheet item "Management bonuses payable 155,000",
- c) the method of confirmation of the Balance Sheet item "Loans payable – shareholders – Note 7 28,734",
- d) the method of confirmation of the Balance Sheet item "Loan – 20 [REDACTED] Ontario Ltd. – Notes 1, 5, 8 8,000",
- e) the Statement of Operations item "Commissions earned 833,664",
- f) the Statement of Operations item "Operating expenses 486,674",
- g) the method of confirmation of the Statement of Shareholders' Equity and the Statement of Cash Flows items "Dividends 2013 (123,000)".

**Allegation 5 – The Audit of the Financial Statements of H&HS Limited for the year ended July 31, 2013**

67. H&HS Limited is a corporation incorporated under the provisions of the Ontario Business Corporations Act. It is located in Toronto and is inactive but formerly was in business as a limited market dealer. It has been a client of Paloc for approximately ten years.

68. The financial statements of H&HS Limited for the year ended July 31, 2013 are reproduced at **Doc13**.

69. Paloc signed the Auditors' Report dated September 24, 2013 and presented it and the financial statements to the President of H&HS Limited.

***Preliminary Engagement Activities***

70. There was no documentation of the conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions as required by *CICA Handbook* Sections CAS 220 24&CAS 300 6 Tab 18.

***Statement of Cash Flows***

71. The item "Decrease (increase) in trailer fees receivable 11,430" should read "Decrease (increase) in trailer fees receivable 1,430" and "Decrease in Due from 56 [REDACTED] Ontario Limited 10,000", the item "Increase (decrease) in payables and accrued liabilities (5,630) should read "Decrease in payables and accrued liabilities 2,630" and "Decrease in management fees payable 3,000" and the item "Investment in related parties 1,500" should read "Repayment received on Loan – 56 [REDACTED] Ontario Limited 1,500".

***Income Taxes***

72. In Note 1 Income Taxes the disclosure of the determination of deferred tax assets (incorrectly referred to as future income tax assets) does not include the carryforward of unused tax losses and tax credits as specified in *CICA Handbook* Section IAS 12 5 Tab 21.

73. There was no disclosure of the amount and expiry date of unused tax losses for which no deferred tax asset is recognized in the statement of financial position as required by *CICA Handbook* Section 12 81(e) Tab 23

***Related Parties***

74. There was no disclosure of the nature of the relationship with 56 [REDACTED] Ontario Limited and E [REDACTED] C [REDACTED] M [REDACTED] and information regarding outstanding balances and transactions with E [REDACTED] C [REDACTED] M [REDACTED], if any, as required by *CICA Handbook* Sections IAS 24 18&19 Tab 4.

***Risks Arising from Financial Instruments***

75. Note 8 Currency Risk and Note 9 Interest Rate and Fair Value Risk should not have been included in the Notes to Financial statements because they were not applicable to the years included in the financial statements.

***Managing Capital***

76. The objectives, policies and processes for managing capital were not disclosed as required by *CICA Handbook* Section IAS 1 134 Tab 9.

***New IFRSs***

77. Information regarding new IFRSs that have been issued but not yet effective and not applied was not disclosed as required by *CICA Handbook* Section IAS 8 30&31 **Tab 10**.

***Audit Documentation***

78. There was no documentation of subsequent events review procedures carried out as required by *CICA Handbook* Section CAS 560 6,7&8 **Tab 12**.

79. There was no documentation of any analytical procedures carried out at the end of the engagement as required by *CICA Handbook* Section 520 6 **Tab 13**.

80. There was inadequate documentation of audit procedures applied to the Statement of Operations item "Operating Expenses 2013 4,711" as required by *CICA Handbook* Sections CAS 230 8-11 **Tab 15**.

81. There was no documentation of an assessment of whether or not an Engagement Quality Control Review was to be carried out as required by *CICA Handbook* Sections CSQC 1 35&57 **Tab 14**.

## Terms of Settlement

82. Paloc and the Professional Conduct Committee agree to the following Terms of Settlement:
- a) Paloc will pay a fine in the amount of \$5,000 within 18 months of this agreement receiving approval of the Discipline Committee;
  - b) Paloc 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 the successor courses):
    - *Auditing Refresher*;
    - *Effective Audit Documentation Using C-PEM*;
    - *IFRS Immersion Program*; and
    - *IFRS Financial Statement Presentation & Disclosure*;
  - c) Paloc 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 Paloc's practice who will review all assurance work undertaken by Paloc 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 Paloc following approval of the Settlement Agreement;
  - d) The Professional Conduct Committee will re-investigate Paloc following the period of supervised practice with the costs of the re-investigation, up to \$2,500, to be borne by Paloc;
  - e) 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;

- f) Paloc will pay costs in the amount of \$5,000 within 18 months of this agreement receiving approval of the Discipline Committee; and
- g) A failure by Paloc 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).

83. In the event that the Director finds Paloc's choice of supervisor unacceptable, or there is any other issue relating to the supervised practice plan about which Paloc and the Director cannot agree, either Paloc 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 Rule 21 of the Rules of Practice and Procedure.

84. Should the Discipline Committee accept this Settlement Agreement, Paloc 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 October, 2014, shall be forever stayed.

85. 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 Paloc

leading up to its presentation to the Discipline Committee, shall be without prejudice to the Professional Conduct Committee and Paloc; and

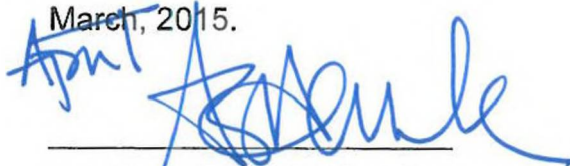
- b) The Professional Conduct Committee and Paloc shall be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing on the merits of the allegations, or negotiating a new Settlement Agreement, unaffected by this Settlement Agreement or the Settlement Negotiations.

**Disclosure of Settlement Agreement**

86. This Settlement Agreement and its terms will be treated as confidential by the Professional Conduct Committee and Paloc, 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 Paloc, or, as may be required by law.

87. 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 17 day of March, 2015.



ALEXANDRA E. HERSAK

On behalf of:  
THE PROFESSIONAL CONDUCT COMMITTEE



JOHN S. PALOC, CPA, CA on his own behalf