CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

THE CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

IN THE MATTER OF: ALLEGATIONS OF PROFESSIONAL MISCONDUCT AGAINST **STEPHEN SUTHERLAND, CPA, CA**, BEFORE THE DISCIPLINE COMMITTEE

SETTLEMENT AGREEMENT

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

Introduction

1. The Professional Conduct Committee (PCC) filed Allegations of Professional Misconduct against Stephen Sutherland, CPA, CA (Sutherland) on or about September 21, 2022, (Allegations) the particulars of which are set out below. The documents referred to in this Settlement Agreement (Agreement) are found in the Document Brief (**Doc**). The applicable CPA Handbook sections are found in the Standards Brief (**Tab**).

2. The Allegations (**Doc 1**) pertain to Sutherland's failure to perform his professional work in accordance with generally accepted standards of the profession, contrary to Rule 206.1 of the Chartered Professional Accountants of Ontario Code of Professional Conduct (Code), with respect to the following engagements:

a. The review of the financial statements of STM for the year ended March 31, 2019 (**Doc 2**);

b. The audit of the financial statements of DCC89 for the year ended April 30, 2020 (**Doc 3**);

c. The audit of the financial statements of DCC82 for the year ended October 31, 2021 (**Doc 4**);

d. The review of the financial statements of PVAC for the year ended April 30, 2021 (**Doc 5**).

3. The PCC and Sutherland agree with the facts and conclusions set out in this Agreement for the purpose of this proceeding only, and further agree that this Agreement of facts and conclusions is without prejudice to Sutherland 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. Sutherland obtained his Chartered Accountant designation in 1977.

5. Sutherland operates through a professional corporation as a partner at Sutherland and Company, Chartered Professional Corporation, along with his daughter. As of June 27, 2022, Sutherland's professional practice consisted of four audits of Ontario Condominium Corporations, three reviews, approximately 250 compilation engagements, consulting and approximately 1000 personal tax clients. His annual professional fee revenue is approximately $950,000.

6. As of December 1, 2022, Sutherland and Company merged with Grant Thornton LLP.

7. Sutherland's practice maintains its working papers using CaseWare software and checklists from the CPA Canada Professional Engagement Guide.

8. Sutherland maintains a current Public Accounting Licence (PAL), firm registration and liability insurance.

The Complaint

9. On April 9, 2021, the Practice Inspection Committee (PIC) advised the PCC that following an inspection of Sutherland's practice, it concluded that his failure to maintain professional standards was sufficiently serious to reflect adversely upon his professional competence.

10. The PIC also provided a detailed listing of reportable deficiencies with respect to the review of STM and the audit of DCC89, that are subject of the Allegations.

11. On April 11, 2022, the PCC appointed Jennifer Fisher, FCPA, FCA, (Investigator) to investigate Sutherland's standards of practice and the circumstances surrounding the complaint.

12. As part of her investigation, the Investigator reviewed Sutherland's standards of practice in relation to the two engagements inspected by the PIC and two additional assurance engagement files: DCC82, for the year ended October 31, 2021, and PVAC, for the year ended April 30, 2021. The Investigator released her report on June 27, 2022.

Failure to Maintain Professional Standards

13. Sutherland and the PCC agree that Sutherland failed to perform his professional services in accordance with generally accepted standards of practice of the profession as described below.

14. Sutherland admits that the Allegations, set out below, accurately particularize his failure to perform his professional services in accordance with generally accepted standards of practice of the profession.

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Generally Accepted Auditing Standards in 2019 to 2021

15. The auditing standards applicable to the two audits and two reviews detailed above are described by generally accepted auditing standards (GAAS). During 2019-2021, GAAS were published in the Assurance section of the CPA Canada Handbook.

16. GAAS requires auditors to obtain reasonable assurance that an entity's audited financial statements are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high, but not absolute, level of assurance that reduces to an acceptably low level, the risk of incorrectly opining on misstated financial statements.

17. To obtain reasonable assurance, GAAS set out various standards to be met, requirements to be fulfilled and steps to be taken. They include obtaining sufficient appropriate audit evidence while exercising professional skepticism, as well as completing Engagement Quality Control Reviews (EQCR) as required by GAAS.

18. CAS 200 "Overall objectives of the independent auditor and the conduct of an audit in accordance with Canadian Auditing Standards" describes the sufficiency and appropriateness of audit evidence as being interrelated, as follows:

> A31. Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit) or through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor and

therefore, also constitutes audit evidence. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

A32. The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate for its poor quality.

A33. Appropriateness is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature and is dependent on the individual circumstances under which it is obtained.

19. Further, GAAS requires auditors to plan and perform their audits using professional skepticism, recognizing that circumstances may exist that cause the financial statements to be materially misstated. Professional skepticism requires a questioning attitude which is alert to conditions which may indicate a possible misstatement due to error or fraud. Professional skepticism requires an auditor to conduct a critical assessment of the audit evidence.

20. Pursuant to CAS 200.18-23, compliance with CAS is not optional.

The Allegations

Allegation 1 – Stephen Sutherland, in or about the period March 1, 2019 to July 17, 2019, while acting as the engagement partner for the review of the financial statements of STM, for the year ended March 31, 2019, failed to perform his professional services in accordance with generally accepted standards of practice for the profession, contrary to Rule 206.1 of the Code in that:

21. The financial statements for STM for the year ended March 31, 2019, **(Doc 2, pp. 6)** together with the Review Engagement Report **(Doc 2, pp. 12)**, were issued on July 17, 2019.

a. ***<u>He failed to adequately document inquiry and analytical procedures performed to support Balance Sheet item "Cash – 355,569" .</u>***

22. CSRE 2400 outlines the practitioner's responsibilities when engaged to perform a review of annual or interim historical financial statements and the form and content of the practitioner's report on the financial statements.

23. CSRE 2400.56 requires the practitioner to obtain evidence that the financial statements agree with, or reconcile to, the entity's underlying accounting records.

24. CSRE 2400.104 requires the preparation of documentation of specific aspects of the engagement to enable an experienced practitioner, with no prior connection to the engagement, to understand the procedures performed, the results obtained and the conclusions reached in the report.

25. CSRE 2400.A111 requires the practitioner to reconcile the financial statements to the underlying accounting records.

26. The financial statements reflect an accounting entry made to record an outstanding deposit to the bank and a credit to shareholder loan of $41,600. As a result of this entry the balance due from shareholder of $41,311 changed into a credit balance of $289. This accounting entry was material to the financial statements. The due from shareholder balance may result in an income inclusion for the shareholder. By way of this accounting entry that cleared this due from shareholder balance, the income tax inclusion for the shareholder is not required.

27. The bank reconciliation working paper for STM as at March 31, 2019 reported outstanding bank deposits of $36,000, $5,000, $7,000, $1,854.76 and $41,600 with descriptions in the working papers for only the $1,854.76 amount. There was nothing in the working papers to support the $36,000, $5,000, $7,000 and $41,600 amounts. The cheque stub details for the two outstanding cheques were identified for $1,401, and $1,607.93.

28. In the PDF of the working papers provided, there were documents to support the $41,600 outstanding deposit. These documents did not have the same numbering sequence as the other working papers. On June 14, 2022, Sutherland advised the Investigator that these working papers had been added as a result of the December 2020 Practice Inspection when this transaction was questioned.

b. ***He failed to document a change to the Bank Reconciliation working paper item 41,600 post engagement report release lock down date of September 17, 2019.***

29. Canadian Standard on Quality Control (CSQC) 1.46 and A57 identifies a sixty-day period from the issuance of the assurance engagement reports before the file must be "locked down". Any changes to the working papers after the sixty-day lock down date, must be supported by a memo that details the specific reason for the change and when and who made the changes.

30. The financial statements were released on July 17, 2019 and after September 17, 2019, there should not have been any changes to the working papers. Sutherland confirmed that there was no memo prepared to support the changes made to the file.

31. The working papers that were added consisted of a memo detailing a discussion Sutherland had with the shareholder on July 12, 2019; a copy of a deposit of $40,000 on October 10, 2019 on the October 31, 2019 bank statement and copies of two letters from IVARI, a life insurance company, to STM detailing a withdrawal from the life insurance policy. These documents would not have been available before September 17, 2019 to include in the working papers.

32. The memo was directed to the impact of the shareholder loan debit balance and how a request for a withdrawal from a life insurance policy would result in the shareholder loan having a credit balance of $289.

33. On June 14, 2022, Sutherland advised the Investigator that the shareholder said she was waiting for a claim from her insurance to be deposited by March 31, 2019, so he

felt treating this as an outstanding deposit was appropriate. This information contradicted the working paper memo which stated “the client indicated that she was going to request a withdrawal from a life insurance policy. The intention is to withdrawl [sic] $41,600 and this amount will be deposited in the company bank account”. Sutherland later said that the client did not want to take the $41,600 as additional personal dividends and wanted to report the outstanding deposit and credit to shareholder loan to avoid that.

34. The added working papers report a deposit from IVARI of $40,000 in October 2019 not $41,600. The two letters from IVARI are addressed to STM and refer to “your life insurance policy”. The name of the Life insured is B.D., the spouse of the shareholder. The insurance expense working paper reports payments to IVARI during 2019. If the insurance policy was owned by STM and the premiums on the policy paid by STM, these proceeds of $40,000 would not be as a credit to shareholder, but rather as income of the company, STM.

35. The documentation and adjustment to the financial statements relating to this $41,600 amount do not adhere to the requirements of CSRE 2400.56, .104, .107 and A113.

c. ***He failed to adequately document inquiry and analytical procedures performed to support Balance Sheet item “Liabilities- Long Term - Due to Shareholder - 289.”***

36. CSRE 2400.104 requires the practitioner to sufficiently document specific aspects of the engagement to enable an experienced practitioner with no previous connection to the engagement to understand the basis for the conclusions.

37. Contrary to the requirement, the balance sheet reports the prior year’s balance due to shareholder as credit $217. The comparative amounts on the working paper for the shareholder loan balance is a debit of $65,782.

d. ***<u>He failed to adequately document inquiry and analytical procedures performed to support Balance Sheet item "Assets - Accounts Receivable – 82,592."</u>***

38. CSRE 2400.104 requires the practitioner to sufficiently document specific aspects of the engagement to enable an experienced practitioner with no previous connection to the engagement to understand the basis for the conclusions.

39. CSRE 2400.43, .44 and .45 require the practitioner to perform inquiry procedures to enable an understanding of the entity and to identify potential areas of material misstatements.

40. The working paper for accounts receivable reports a current balance due from DDC for $48,242 and supporting detail. The additional accounts receivable, also due from DDC of $32,963, which was due over 90 days had no supporting documentation.

41. The working paper for income for the year includes fee for service revenue from various customers, including DDC (operated by the shareholder's spouse). Rental revenue is from D H (operated by the shareholder's daughter-in-law) and from BD (the shareholder's spouse.) The accounts receivable is exclusively owed from DDC. The details of these related party transactions should be but were not reported in the notes to the financial statements.

e. ***<u>He failed to ensure correct disclosure of the financial instruments including the risks and uncertainties arising therefrom.</u>***

42. CSRE 2400.104 requires the practitioner to sufficiently document specific aspects of the engagement to enable an experienced practitioner with no previous connection to the engagement to understand the basis for the conclusions.

43. Note 4 to the financial statements references to investments as measured at fair value. The working papers support that the investments in equity instruments are reported at book value, not fair value.

f. ***He failed to ensure adequate disclosure of significant accounting policies. (36) (CPAH 3856.53).***

44. CPAH 3856.53 requires the practitioner to disclose an entity's financial instrument's exposure to risk, the origin of the risk and assess any risk change from the previous period.

45. CPAH 3465.03 requires the practitioner to disclose the entity's selection of an accounting policy to account for income taxes.

46. The financial statements report neither the required disclosure related to financial instruments exposure to risk, nor the origin of risk, nor any change in risk exposure from the previous period.

47. In the notes to the financial statements for income taxes there is neither an accounting policy reported nor the required disclosure – the practitioner is required to disclose the method used either the taxes payable method or the future income tax method. Based on calculated income taxes per the T2 Corporation income tax return, it appears that the taxes payable method was used.

g. ***He failed to perform adequate inquiry and analytical procedures to support Balance Sheet item "Government remittances payable – 2,303."***

48. CSRE 2400.104 requires the practitioner to sufficiently document specific aspects of the engagement to enable an experienced practitioner with no previous connection to the engagement to understand the basis for the conclusions.

49. The working papers include an analysis of HST taxes owed. There were identified errors in reporting of sales for two quarters. Sutherland stated that this would have no impact on the HST owed, as the supply of dentures is not subject to HST. The

working papers did not reflect any analysis of the HST collected to ensure the appropriate amount of HST was collected.

h. ***He failed to ensure required documentation and disclosure of related party transactions.***

50. CSRE 2400.104 requires the practitioner to sufficiently document specific aspects of the engagement to enable an experienced practitioner with no previous connection to the engagement to understand the basis for the conclusions.

51. CPAH 3840.51 details required disclosure of certain information about transactions between enterprises and related parties.

52. The financial statements do not report related party transactions notwithstanding that the working paper for income for the year includes fee for service revenue from various entities, including DDC, operated by the shareholder's spouse, rental revenue from DH, operated by the shareholder's daughter-in-law, and from BD, the shareholder's spouse. The accounts receivable is exclusively owed from DDC. The details of these related party transactions should be but were not appropriately disclosed in the notes to the financial statements.

Allegation 2 – Stephen Sutherland, in or about the period April 1, 2020 to October 20, 2020, while acting as the engagement partner for the audit of the financial statements of DCC89, for the year ended April 30, 2020, failed to perform his professional services in accordance with generally accepted standards of practice for the profession, contrary to Rule 206.1 of the CPA Code of Professional Conduct in that:

53. The financial statements for DCC89 for the year ended April 30, 2020 **(Doc 3, pp. 13)** together with the Independent Auditor's Report **(Doc 3, pp. 22),** were issued on October 20, 2020.

a. ***He failed to identify and assess the risk of material misstatement at the assertion level.***

54. CAS 240 addresses an auditor's responsibilities relating to fraud in an audit of financial statements. CAS 240.26 requires the auditor to identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures.

55. CAS 315 addresses an auditor's responsibility to identify and assess risks of material misstatement in the financial statements. CAS 315.32 specifically requires the auditor to determine whether any of the assessed risks of material misstatement are significant risks.

56. The risk of material misstatement was not identified and assessed at the assertions level. The working paper entitled "Engagement scoping/summary of assessed risk at the assertion level" was not completed. The significant (assertion level) risks for each financial statement area were left blank.

b. <u>He failed to test journal entries for authorization and management override.</u>

57. In assessing fraud in an audit of financial statements CAS 240.33 requires the auditor to design and perform specific audit procedures to test the appropriateness of journal entries.

58. Journal entries were not tested for authorized entries and management override. The working papers included a completed questionnaire related to the use of journal entries – but there was no documentation related to testing of the journal entries for authorization and management override.

c. <u>He failed to properly complete documentation to support the release of the Independent Auditor's Report on October 20, 2022.</u>

59. CAS 230 addresses the auditor's responsibility to prepare audit documentation. CAS 230.14 requires the auditor to assemble the audit documentation in an audit file and to complete the final audit file after the date of the auditor's report, in a timely manner.

60. According to Sutherland, the documentation to control the release of the financial statements is the working paper 100 Report Transmittal. This form has signatures and dates entered electronically by the preparer and the file reviewer. The form for this engagement did not have any "signatures" by either the preparer or the reviewer. The dates on the form are for completion July 30, 2020, but the Independent Auditor's Report is dated October 20, 2022. The checklist for subsequent events review to October 20, 2020 was completed – but the authorizing document to issue the audited financial statements was not updated.

d. *He failed to properly complete documentation to support the subsequent events review to October 20, 2020.*

61. CAS 230.10 requires the auditor to document discussions of significant matters, including the nature, timing and parties to the matters discussed, with management and those charged with governance.

62. The working papers included only one set of minutes for board of director meetings during the year – which was for the Annual General Meeting held April 30, 2019. There was no record of reviewing minutes of Board of Directors meetings held during the year.

e. *He failed to adequately assess and disclose the determination of performance materiality used to assess client accounting errors noted in the audit.*

63. CAS 320.11 requires the auditor, when planning the audit, to determine performance materiality for the purpose of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.

64. The working paper for materiality did not include the determination of performance materiality, nor was it used for assessing the client errors noted during the audit.

f. ***He failed to disclose as an "Other Matter" in the Independent Auditor's Report, a delinquent Reserve Fund Study, as required by the Condominium Act, 1998.***

65. CAS 706 addresses circumstances where the auditor is required to provide additional disclosure in their report to aid users' understanding of the financial statements, the audit, the auditor's responsibilities or the report. CAS 706.10 requires the auditor to include an Other Matter paragraph in their report when it is necessary to communicate a relevant matter that is not addressed in the financial statements.

66. The last DCC89 Reserve Fund Study was completed in November 2016. Under the provisions of the *Condominium Act, 1998,* a Reserve Fund Study is required every three years. For the year ended April 30, 2020, the circumstances of this delinquency should have been but was not reported as an "Other Matter" in the Independent Auditor's Report.

Allegation 3 – THAT the said Stephen Sutherland, in or about the period October 1, 2021 to February 18, 2022, while acting as the engagement partner to perform an audit of the financial statements of DCC82, for the year ended October 31, 2021, failed to perform his professional services in accordance with generally accepted standards of practice for the profession, contrary to Rule 206.1 of the Code of Professional Conduct in that:

67. The financial statements for DCC82 for the year ended October 31, 2021 **(Doc 4, pp. 24)** together with the Independent Auditor's Report **(Doc 4, pp. 33)**, were signed by Sutherland and issued on February 18, 2022.

a. ***He failed to appropriately document and disclose as an "Other Matter" in the Independent Auditor's Report the Statement of Financial Position item "Due from operating account - 36,500."***

68. CAS 706 addresses circumstances where the auditor is required to provide additional disclosure in their report to aid users' understanding of the financial statements, the audit, the auditor's responsibilities or the report. CAS 706.10 requires the auditor to include an Other Matter paragraph in their report when it is necessary to communicate a relevant matter that is not addressed in the financial statements.

69. The DCC82 Reserve Fund assets included cash plus an amount due from the General Fund of $36,500; this underfunding of the Reserve Fund is contrary to the provisions of the *Condominium Act, 1998*. This underfunding of the Reserve Fund should have been but was not reported as an "Other Matter" in the Independent Auditor's Report.

Allegation 4 - THAT the said Stephen Sutherland, in or about the period April 1, 2021 to November 16, 2021, while acting as the engagement partner for the review of the financial statements of PVAC, for the year ended April 30, 2021, failed to perform his professional services in accordance with generally accepted standards of practice for the profession, contrary to Rule 206.1 of the Code of Professional Conduct in that:

70. The financial statements for PVAC for the year ended April 30, 2021 **(Doc 5, pp. 35)** together with the Review Engagement Report **(Doc 5, p. 49)**, were signed by Sutherland and issued on November 16, 2021.

a. ***He failed to ensure complete and correct disclosure of Significant Accounting Policies.***

71. CPAH 1505 establishes standards for the disclosure of accounting policies. CPAH 1505.03 requires the practitioner to provide a clear and concise description of an entity's significant accounting policies.

72. CPAH 1505.06 sets a minimum requirement for the disclosure of accounting policies, commencing with a section between alternative acceptable accounting principles and methods.

73. CPAH 3465.03 requires the practitioner to disclose the entity's selection of an accounting policy to account for income taxes.

74. The accounting policies do not include the policy for trademark licence – how cost is determined and how it is amortized to expenses.

75. The accounting policies do not include the policy for how the amount for cash and equivalents on the Statement of Cash Flows is determined.

76. The accounting policy for income taxes reports that the future income taxes are provided for using the liability method. However, it appears that the taxes payable method is being used, as there are no future income tax assets reported for the benefit of the income tax loss carry forward, nor for the difference between the net book value and the undepreciated capital cost of capital assets.

b. *He failed to ensure correct disclosure of the amount of the allowance for doubtful accounts reported as an impairment of the Balance Sheet item "Accounts receivable – 238,732."*

77. CPAH 3856.42 requires the practitioner to disclose any allowance for impairment of an entity's financial assets.

78. The amount of $6,000, for the allowance for doubtful accounts applied to reduce the accounts receivable balance should have been but was not disclosed on the Balance Sheet.

c. *He failed to ensure correct disclosure of amounts owing to governments in support of Balance Sheet item "Liabilities – Accounts payable and accrued charges 64,827."*

79. CPAH 1510 addresses presentation and disclosure standards for current assets and current liabilities. CPAH 1510.15-.16 requires the practitioner to disclose the amount payable at the end of the period in respect of government remittances excluding income taxes.

80. The amounts owing to governments should be reported separately on the Balance Sheet. The balance of $29,463 for 2021 and the comparative for 2020 of $4,740 should be but were not reported separately.

d. *<u>He failed to ensure correct disclosure of Inventory at the beginning of the year and at the end of the year as part of Statement of Loss and Deficit item “Cost of Goods Sold.”</u>*

81. CPAH 1520 establishes line items are to be separately presented in the income statement. CPAH 1520.04 lists, among other items, the amount of inventories recognized as an expense during the period as an item that is to be presented separately on the face of the income statement or disclosed in the notes or supporting schedules to the financial statements.

82. The amounts for inventories – beginning of the year and end of the year must be but were not reported as part of the Cost of Goods Sold.

e. *<u>He failed to adequately document inquiry and analytical procedures performed to support Balance Sheet item “Bank indebtedness – 257,506.”</u>*

83. CPAH 3856 establishes standards for the reporting of financial assets, liabilities and special contracts. CPAH 3856.44 requires the practitioner to disclose the carrying amount, collateral and terms of any secured financial liabilities.

84. PVAC’s bank indebtedness was a business line of credit. The notes to the financial statements should but do not include the details of the line of credit of $313,000.

f. *<u>He failed to perform adequate inquiry and analytical procedures to support Balance Sheet item “Accounts receivable –238,732.”</u>*

85. CSRE 2400 addresses the practitioner’s responsibilities in performing a review of annual financial statements and the required form and content of the practitioner’s report. CSRE 2400.20 highlights the requirement that the practitioner must plan and perform the engagement with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.

86. In the Balance Sheet, Accounts Receivable is reported at $238,732. PVAC included $37,042 as Accounts receivable - other. The working paper to support this was a comparative of the year-end balance for 2020 and 2021, which had not changed. On June 20, 2022 Sutherland provided the Investigator a memo referring to the balance being outstanding due to a dispute which occurred on the job. The shareholder was hopeful that the dispute could be resolved, and that the payment would be made by the customer. PVAC has continued to do work with this company and the shareholder has stated that he now believes that this amount will be paid. Sutherland should have applied professional skepticism in determining whether an allowance for doubtful accounts should have been recognized for any, or all, of this balance.

g. ***He failed to perform adequate inquiry and analytical procedures to support Balance Sheet item "Inventory (Note 1) 188,878."***

87. CSRE 2400 addresses the practitioner's responsibilities in performing a review of annual financial statements and the required form and content of the practitioner's report. If during the engagement the practitioner identifies information that is inconsistent with the practitioner's findings regarding significant matters, CSRE 2400.107 requires the practitioner to document how the inconsistency was addressed.

88. The working paper for inventories and notes to the financial statements include a balance in work in progress of $167,034, which was the same balance as the 2020-year end. Work in progress would likely change from year over year. When asked about the lack of any change to the work in progress balance, Sutherland advised the Investigator that the work in progress had been incorrectly reported and undertook to provide a listing of inventory to support the total inventory balance. This listing was not provided, resulting in insufficient documentation for this material asset.

h. ***He failed to correctly classify website development costs as an asset in Balance Sheet item "Prepaid expenses 23,982" instead of as an expense in***

Statement of Loss and Deficit Expenses item "Advertising and promotion 18,143."

89. CPAH 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. CPAH 3064.29 identifies expenditures that are not to be considered part of the cost of an intangible asset.

90. The working paper for prepaid expenses for the 2020- and 2021-year ends includes the same amounts: Advertising (2015 Adj) of $13,575.34 and Damages (2015 Adj) of $3,600. The statement "Account balance appears plausible" was included on the working paper. In support of this reporting Sutherland provided an excel work sheet with a notation relating to the advertising: "reviewed the above amounts with LD who indicated that the costs related to the company website should continue to be disclosed as an asset on the company's balance sheet". The costs of the website development do not meet the CPA Handbook definition of an asset and should be recorded as an expense on the Statement of Loss.

i. ***He incorrectly reported a 16,956 balance due to shareholders as part of Balance Sheet item "Accounts payable and accrued charges 64,827."***

91. CPAH 3840 establishes standards for the measurement of non-financial items in a related party transaction and disclosure of related party transactions in the financial statements of a profit-oriented enterprise. CPAH 3840.51 lists seven required elements of disclosure regarding an entity's transactions with related parties.

92. The Vendor Aged Summary reports two balances owed to the shareholders, which total $16,956 aged 91 or more days. These should be reported on the balance sheet as due to shareholders, not as part of the accounts payable and accrued charges balance.

j. ***He failed to perform adequate inquiry and analytical procedures to support the determination of income tax liabilities and income tax assets as Balance Sheet item "Income taxes recoverable - 0."***

93. CSRE 2400 addresses the practitioner's responsibilities in performing a review of annual financial statements and the required form and content of the practitioner's report. CSRE 2400.104 requires the practitioner to sufficiently document specific aspects of the engagement to enable an experienced practitioner with no prior connection to understand the procedures performed, the results obtained, and the conclusions reached.

94. The working papers to support the income expense of $nil, and the income taxes payable of $nil comprised the Canada Revenue Agency account transactions that support a $nil balance for the income taxes payable. There was no documentation to support the determination of income tax liabilities and income tax assets.

k. *He failed to perform adequately inquiry and analytical procedures to support Statement of Loss and Deficit item "Forgivable portion of CEBA loan – 20,000."*

95. CSRE 2400 addresses the practitioner's responsibilities in performing a review of annual financial statements and the required form and content of the practitioner's report. CSRE 2400.106 requires the practitioner to document discussions with management, and others charged with governance relevant to the performance of the review of significant matters arising during the engagement, including the nature of those matters.

96. PVAC received a refundable Canada Emergency Business Account (CEBA) loan of $20,000. Sutherland reported the forgiveness of this loan as a source of income in 2021. If the remaining balance of the CEBA loan is repaid on or before December 31, 2023, this will result in loan forgiveness of the $20,000. The forgiveness of the CEBA loan, therefore, will not be confirmed until December 2023. In reporting this early forgiveness of the CEBA loan, PVAC would need to address its ability to repay the loan at that time. As at April 30, 2021, PVAC reported a CEBA loan liability of $40,000 plus a bank indebtedness balance of $257,506, against a bank line of credit of $313,000. In the working papers, there was no assessment of the ability to repay this loan in approximately two years and no documentation of a discussion on this issue

with management. Sutherland advised the Investigator that the company has never defaulted on a loan in the past therefore the recording of the forgiveness was appropriate. He also reported that "when the CEBA loan first came out our tax expert who works for a large accounting firm advised us to report the forgiveness for tax and accounting."

I. ***He failed to perform adequate inquiry and analytical procedures to support the evaluation of going concern issues.***

97. CSRE 2400.46 requires the practitioner to design and perform inquiry and analytical procedures to address all material items in the financial statements with a focus on areas in the financial statements where material misstatements are likely to arise.

98. CPAH 1400.07 requires the practitioner to direct management to assess the entity's ability to continue as a going concern.

99. PVAC had an accumulated deficit of $21,949 at the end of the year. If accounts receivable – other and prepaid expenses were written off as not supportable assets, the accumulated deficit would be $76,166. This does not consider the effect if the work in progress amounts were overstated. There was no documentation of evaluation of going concern issues for the year end for PVAC.

Acknowledgement

100. Sutherland admits that, while acting as the engagement partner for the following engagements:

a. the review of the financial statements of STM for the year ended March 31, 2019;

b. the audit of the financial statements of DCC89 for the year ended April 30, 2020;

c. the audit of the financial statements of DCC82 for the year ended December 31, 2021;

d. the review of the financial statements of PVAC for the year ended April 30, 2021; and

generally, that as owner/principal of Stephen L. Sutherland, Chartered Accountant, Chartered Professional Accountant, formerly operating within Sutherland and Company failed to perform his professional services in accordance with generally accepted standards of practice for the profession, including the recommendations set out in the CPA Canada Handbook, in the manner described above, contrary to Rule 206.1 of the Code.

Mitigating Factors

101. Sutherland has been cooperative throughout the CPA Ontario investigation. It is not alleged in this proceeding that Sutherland acted dishonestly in the conduct of the assurance engagements which are the subject of the Allegations, or during the PCC's investigation of same.

102. In making the admissions herein, Sutherland has saved the PCC and the Discipline Committee the time and expense of a lengthy hearing.

Terms of Settlement

103. Sutherland and the PCC agree to the following Terms of Settlement:

a) Sutherland shall pay a fine of $7,500 to CPA Ontario;

b) Sutherland 's practice shall be restricted by prohibiting him from carrying out any assurance engagements;

c) Sutherland shall immediately and irrevocably surrender, and not seek any renewal of, his Public Accounting Licence to CPA Ontario at the time he executes this Agreement;

d) Notice of the terms of this Settlement is to be published in the manner set out in CPA Ontario Regulation 6-2 sections 45, 50 and 52 with notice to be given to all members of CPA Ontario, the Public Accounting Standards Committee, and all provincial CPA Bodies;

e) Notice of Sutherland's voluntary restriction from assurance practice shall be published in the Oshawa Express, with all costs borne by Sutherland;

f) Sutherland shall pay costs in the amount of $15,000 to CPA Ontario;

g) Sutherland will be allowed 18 months from the time the Discipline Committee accepts this Agreement to pay the fine and costs referred to herein; and

h) a failure by Sutherland to comply with any of the terms of settlement will result in the immediate suspension of his CPA Ontario membership until he complies, if his suspension under this section exceeds 30 days his membership in CPA Ontario will be revoked forthwith without further notice to him.

104. The PCC and Sutherland expressly consent to and authorize the Registrar to take any actions associated with Sutherland 's membership in CPA Ontario as prescribed and agreed to herein.

105. The PCC and Sutherland expressly authorize and consent to CPA Ontario providing notice of the terms of this Agreement to all CPA Ontario members and all provincial CPA Bodies.

a. Should the Discipline Committee accept this Agreement, Sutherland agrees to and hereby waives his right to a full hearing, judicial review or appeal of the matter subject to the Agreement. Upon Sutherland 's fulfillment of the requirements of this Agreement, the Allegations filed with the Discipline Committee, dated September 21, 2022, shall be withdrawn.

106. If for any reason this Agreement is not approved by the Discipline Committee, then:

a) The terms of this Agreement, including all settlement negotiations between the PCC and Sutherland leading up to its presentation to the Discipline Committee, shall be without prejudice to the PCC and Sutherland; and

b) The PCC and Sutherland 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 Agreement or the settlement negotiations.

<u>Disclosure of Agreement and Independent Legal Advice</u>

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

108. Any obligations of confidentiality shall terminate upon approval of the Agreement by the Discipline Committee.

109. Sutherland agrees and confirms that he has been assisted by independent legal counsel in negotiating and entering this Agreement.

All of which is agreed to for the purpose of this proceeding alone this __13th__ day of January 2023.

Kelvin Kucey

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Kelvin Kucey, J.D.

On behalf of
The Professional Conduct Committee

Michael Burokas

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Michael Burokas, J. D
On behalf of Stephen Sutherland, CPA ,CA