CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

THE CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

IN THE MATTER OF: ALLEGATIONS OF PROFESSIONAL MISCONDUCT AGAINST **STEPHEN DIAMOND, 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

Contents

Introduction

1. On October 4, 2023, the Professional Conduct Committee (PCC) approved draft Allegations of Professional Misconduct (Allegations) against Stephen Diamond, CPA, CA (Diamond) the particulars of which are set out below. The documents referred to in this Settlement Agreement (Agreement) are found in the Document Brief. The applicable CPA Handbook sections are found in the Standards Brief.

2. The draft Allegations **[Doc 1]** pertain to Diamond'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 audit of the financial statements of "PCG Inc." for the year ended December 31, 2019 **[Doc 2]**
   b. the audit of the financial statements of "CCC Ltd." for the year ended December 31, 2019 **[Doc 3]**
   c. the review of the financial statements of "LI Inc." operating as "Bistro" for the year ended February 29, 2020 **[Doc. 4]**
   d. the audit of the financial statements of "CCC Ltd." for the year ended December 31, 2021 **[Doc 5]**

3. The PCC and Diamond 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 Diamond 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. Diamond obtained his Chartered Accountant designation in 1982. Diamond has been operating his sole proprietorship (now professional corporation) Diamond & Company, Chartered Professional Accountants. ("Firm") for approximately 35 years. The Firm currently operates in Toronto, Ontario. Diamond reported that he has two audit

engagements and three review engagements with assurance fees approximating $90,000. He also has compilation engagements totalling 1,600 hours. His staff complement is comprised of three technicians, administrative support and a CPA under a WA contract arrangement.

5. Diamond has an active Public Accounting Licence and has been subject to practice inspections ("PI" or "PIs") in November 2015, November 2018 and most recently, July 2021.

The Complaint

6. On November 26, 2021, the Practice Inspection Committee (PIC) advised the Standards Enforcement Branch of CPA Ontario that following an inspection of Diamond's practice in July 2021, it concluded that Diamond's failure to maintain professional standards was sufficiently serious to reflect adversely upon his professional competence.

7. The PIC also provided a detailed listing of reportable deficiencies with respect to the audit of the financial statements of "PCG Inc." for the year ended December 31, 2019, the audit of the financial statements of "CCC Ltd." for the year ended December 31, 2019, and the review of the financial statements of "LI Inc." operating as "Bistro" for the year ended February 29, 2020.

8. On June 6, 2023, the PCC appointed Jennifer Fisher, FCPA, FCA ("Fisher"), and Leigh Beijer, CPA, CA, DIFA, CFE, CFF ("Beijer") (collectively, the "Investigators") to investigate Diamond's standards of practice and the circumstances surrounding the complaint.

9. As part of their investigation, the Investigators reviewed Diamond's standards of practice in relation to the three engagements in which deficiencies were identified by the PIC and two additional assurance engagement files: audit of the financial statements of "CCC Ltd." for the year ended December 31, 2021, and the review of the financial statements of "PPP Inc." for the year ended December 31, 2021.

Failure to Maintain Professional Standards

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

11. Diamond 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.

Generally Accepted Auditing Standards

12. The auditing standards applicable to the three audits detailed above are described by generally accepted auditing standards (GAAS). During 2019-2023, GAAS were published in the Assurance section of the CPA Canada Handbook (CPAH).

13. 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.

14. 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.

15. 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, in 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.

16. 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.

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

Generally Accepted Standards for Review Engagements

18. The standards applicable to the one review engagement detailed herein are described by generally accepted standards for review engagements. During 2020-2022, these standards were published in the Assurance section of the CPA Canada Handbook.

19. The generally accepted standards for review engagements require practitioners to obtain limited assurance by performing inquiry and analytical procedures to determine whether an entity's reviewed financial statements as a whole are free from material misstatement. The practitioner may then express a conclusion on whether anything has come to the practitioner's attention that causes the practitioner to believe that the financial statements are not prepared in all material respects in accordance with an applicable financial reporting framework.

20. To obtain reasonable assurance, the Canadian Standard on Review Engagements CSRE 2400 – Engagements to review historical financial statements sets out the standards to be met, requirements to be fulfilled and steps to be taken. They include performing primarily inquiry and analytical procedures, obtaining sufficient appropriate evidence while exercising professional skepticism.

21. Further, the generally accepted standard for review engagements requires practitioners to plan and perform the review engagement with 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 the practitioner to conduct a critical assessment of the evidence.

22. Pursuant to CSRE 2400.7 to CSRE 2400.10, compliance with CSRE is not optional.

Canadian Standard on Quality Management

23. The Canadian Standard on Quality Management (CSQM) covers a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements. This standard is effective for audits or reviews of financial

statements as of December 15, 2022. The predecessor standard was the Canadian Standard on Quality Control (CSQC).

The Allegations

Allegation 1 – PCG Inc.

THAT the said Stephen A. Diamond, in or about the period of December 1, 2019 to June 30, 2020, while engaged to perform an audit of the financial statements of "PCG Inc." for the year ended December 31, 2019, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code of Professional Conduct, in that:

24. The independent auditor's report for the PCG Engagement was dated June 12, 2020. The financial statements were prepared using Canadian Accounting Standards for Private Enterprises ("ASPE").

a. **he failed to ensure proper disclosure of the rate used in the amortization of property, plant, and equipment;**

25. CPA Canada Handbook ("CPAH") 3061.24 requires, for each major category of property, plant and equipment, the disclosure of costs, accumulated amortization, including the amount of any write downs, and the amortization method used, including the amortization period or rate.

26. The significant accounting policy note reported that depreciation was calculated using the declining balance method but did not disclose the rate applied in determining amortization.

b. **he failed to ensure proper disclosure of the implicit interest rate in the Leases Receivable;**

27. CPAH 3065.78 requires the lessor's net investment in direct financing and sales-type leases to be disclosed along with the interest rates implicit in the leases.

28. PCG provides equipment leases under sales-type lease arrangements. In note 4 Leases, the interest rate was not reported.

c. **he failed to ensure proper disclosure of the terms, conditions and measurement basis used for related party leases;**

29. CPAH 3840.51 requires an enterprise to disclose information about its transactions with related parties including amounts due to or from related parties and the terms and conditions relating thereto.

30. Note 4 Leases reported that, included in leases receivable, were amounts due from a company that the president controls. The terms, conditions and measurement basis used for these related party leases were not reported.

d. **he failed to ensure Contributed and Other Surplus was disclosed in a positive amount;**

31. CPAH 3251.03 (b) defines Contributed Surplus as amounts paid in by equity holders.

32. The financial statements include a negative amount for Contributed and Other Surplus. During the year, the company received a recovery of fines previously paid to the Ontario Securities Commission related to a reorganization in a previous year. This refund was applied to reduce the negative Contributed and Other Surplus. The financial statements should not report a negative amount for Contributed and Other Surplus. Diamond stated that the negative amount was reported on the financial statements by the previous auditor and at the time of the initial audit engagement for PCG, Diamond did not change the reporting of this amount.

e. **he failed to include in the engagement letter a reference to the expected form of the auditor's report and failed to date the engagement letter; (34)**

33. CAS 210.10 requires the agreed terms of the audit engagement to be recorded in an audit engagement letter or other suitable form of written agreement and to reference the expected form and content of any reports to be issued by the auditor.

34. The engagement letter did not include the reference to the expected form of the

Independent Auditor's Report. In addition, the engagement letter was not dated by either Diamond or a PCG representative.

f. **he failed to document audit work regarding evaluation of compliance with ethical requirements, independence and continuance of the client relationship;**

35. CAS 300.6 requires the auditor, to complete prescribed activities at the beginning of an audit, including and performing procedures regarding the acceptance and continuance of the client relationship and audit engagement; and evaluating compliance with relevant ethical requirements, including those related to independence.

36. These procedures were not documented as completed.

g. **he failed to document risk assessment procedures regarding understanding the entity and its environment;**

37. CAS 250 and CAS 315 set out procedures for risk assessment with respect to obtaining an understanding of the entity and its environment, including internal controls should be documented and should include: compliance with laws and regulations; risks associated with information technology; financial reporting processes; industry, regulatory, and other external factors; and the nature of the entity.

38. These risk assessment procedures were not documented as completed in the working paper documentation.

h. **he failed to sufficiently document the auditor's understanding of internal controls affecting loans and leases receivable;**

39. CAS 315.21 requires the auditor to obtain an understanding of internal controls relevant to the preparation of the financial statements. The understanding of internal controls should include the loans and leases receivable cycle.

40. The working paper documentation did not include an understanding of the internal

controls, affecting loans and leases receivable.

i. **he failed to obtain sufficient appropriate audit evidence as to the effectiveness of internal controls relating to interest income on loans and leases receivable;**

41. CAS 330.08 requires the auditor to design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of controls, including the internal controls relating to interest income on loans and leases receivable.

42. The working papers did not report tests of the relevant controls.

j. **he failed to document discussions with management and those charged with governance regarding fraud risk;**

43. CAS 240.18 and 240.19 require the auditor to make inquiries of management regarding the areas prescribed relating to potential risk of fraud. CAS 240.40 requires the auditor to obtain prescribed written representations from management with respect to the prevention and detection of fraud. CAS 240.47 also requires the auditor to document communications about fraud made to management, those charged with governance, regulators and others.

44. Diamond did not document such communications and discussions with those charged with governance. The working papers included a copy of the minutes of a meeting of the Board of Directors held June 16, 2020. This meeting was held after the year end and after the date of the Independent Auditor's report. The minutes of meetings of the Board of Directors included in the working papers did not relate to the audit process and its pertinent findings.

k. **he failed to evaluate the risk of material misstatement due to fraud related to revenue recognition;**

45. CAS 240.27 requires the auditor, when identifying and assessing the risks of material

misstatement due to fraud, to evaluate which types of revenue, revenue transactions or assertions give rise to such risks, based on a presumption that there are risks of fraud in revenue recognition. If the auditor concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified revenue recognition as a risk of material misstatement due to fraud the auditor is required to the reasons for that conclusion in the audit documentation.

46. Diamond did not document his evaluation of the risk of material misstatement due to fraud in revenue recognition, based on a presumption that there are risks of fraud in revenue recognition. Further, the documentation did not disclose whether he concluded that the presumption was not applicable or the reasons for his conclusion.

l. **he failed to perform audit tests for unauthorized entries and management override;**

47. CAS 240.33 and CAS 330.20 requires an auditor to test for unauthorized entries and management override. CAS 240.08 requires the auditor to maintain professional skepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud. CAS 240.34 requires the auditor to determine whether, in order to respond to the identified risks of management override of controls, the auditor needs to perform other audit procedures. CAS 240.46 sets out the requirement to document the results of the audit procedures with respect to the risk of management override of controls.

48. Diamond did not test for unauthorized entries and management override.

m. **he failed to document a subsequent events review;**

49. CAS 560 sets out the requirements for auditor procedures and documentation related to subsequent events and includes CAS 560.06 which requires the auditor to perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's

report that require adjustment of, or disclosure in, the financial statements have been identified.

50. This was not documented in the working papers.

n. **he failed to document sufficient appropriate audit procedures carried out to support the "Consumer Loans Receivable 5,156,670" and the "Leases Receivable 220,772" items on the financial statements;**

51. CAS 330.05 requires the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level. CAS 330.06 requires the auditor to design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

52. The PCG engagement did not include sufficient appropriate audit evidence with respect to consumer loans receivable and leases receivable.

53. Of the approximately 2,300 consumer loans receivable, Diamond selected a sample of 180 loans and reviewed the file documentation to support the original loan; agreed the details from this documentation for the loan amount, interest rate, payment amount and term to the Autopal system (report); and, for every sixth loan selected, followed the payments through to the source documentation. The working papers contained no documentation of checking the calculation of the balances at the year end and no documentation of the valuation of the balances where the accounts were indicated in arrears.

54. With respect to leases receivable, the working papers indicated that the eight leases were "examined 100%" and "[f]unds flow agreed to banking." However, the first lease on the schedule indicated that the original loan amount was $173,965, balance at the year-end was $39,867 and interest paid was $42,428. There was no explanation of this

rate of interest and no documentation of audit procedures to verify the rate of interest.

o. **he failed to document analytical procedures performed to assist in concluding whether the financial statements are consistent with the auditor's understanding of the entity;**

55. CAS 520.6 requires the auditor to design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

56. The working papers for PCG Inc. did not include an analytical review at the conclusion of the audit procedures.

p. **he failed to obtain a Type 1 or Type 2 report on the payroll service organization used by PCG Inc.;**

57. CAS 402.9 requires the auditor to obtain an understanding of how the entity uses the services of a service organization and permits the auditor to use a Type 1 or Type 2 report to support the auditor's understanding of the service organization. In determining the sufficiency and appropriateness of the audit evidence provided by a Type 1 or Type 2 report, CAS 402.13 requires the auditor to be satisfied as to the service auditor's professional competence and independence from the service organization; and the adequacy of the standards under which the Type 1 or Type 2 report was issued. CAS 402.14 requires the auditor to take further steps to evaluate the controls at the service organization.

58. PCG uses a payroll service organization for preparation of its payroll and remittances to Canada Revenue Agency. There was no Type 1 or Type 2 report for the use of the payroll service included in the file documentation.

q. **he failed to document the rationale used for the selection of performance materiality as 90 percent of materiality;**

59. CAS 320.11 requires the auditor to determine performance materiality for purposes of

assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.

60. Diamond did not document his rationale for selecting 90% of materiality as the performance materiality.

r. **he failed to obtain sufficient appropriate audit evidence to support the item "Allowance for doubtful accounts (52,615)" in Note 3 to the financial statements;**

61. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

62. The financial statements reported an allowance for doubtful accounts ("AFDA") for loans receivable of $52,615, an amount which had not change from the prior year. The working paper documentation included a note that read "reviewed with client and found that provision is adequate, reviewed old ar [accounts receivable] to be collected". The working papers did not document the specific accounts that were examined or the review with the client.

s. **he failed to obtain sufficient appropriate audit evidence to support the balance sheet item "Other current assets 44,336";**

63. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

64. PCG reported income taxes recoverable of $28,595 in Other Assets. The recoverable amount did not change from the previous year. The amount related to transactions from 2015 and 2016. The working papers did not document any assessment as to whether it was appropriate to continue to report this balance as an asset at year end.

t. **he failed to obtain sufficient appropriate audit evidence to support the**

balance sheet item "Shareholder's Equity 4,773,622";

65. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

66. PCG reported, as part of Note 9 - Shareholder's Equity – Share Capital, new special shares amounting to $4,478,452. The working papers did not report any audit procedures conducted to test the completeness of the total balance of shares outstanding, only the change during the year. The only audit procedure documented was a tracing of $594,816 of a total $869,773 of shares redeemed during the year, to bank statements. The working papers did not provide information as to how the transactions traced to bank statements were identified.

u. **he failed to obtain sufficient appropriate audit evidence to support the statement of income item "Interest Income 1,058,266";**

67. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

68. The supporting documentation for revenue income was a comparative lead sheet totaling $1,058,266 and detailed support for interest income of $77,587. There was no identification on this working paper for the deferred interest earned of $899,790. On the lead sheet for Consumer Loans Receivable, there was a notation of a revenue test. The working paper disclosed the revenue test as an arithmetic formula – a calculation of an amount labelled as "average consumer loans" ($6,018,423) multiplied by the "average rate (14.25%) (as per Autopal)". The interest ($857.625) was added to the income from leases ($59,813) totaling $917,483. This amount was compared with the general ledger balance ($918,002). The amount selected by Diamond as the average consumer loans was the year-end balance and not the average balance of the total loans outstanding during the year. He referred to the average interest rate (14.25%) but did not provide support for the average rate.

69. When asked for clarification regarding the interest rate used, Diamond reported that he extrapolated the interest rate. Instead of this calculation being an interest revenue test, Diamond used the end of year loan balance (incorrectly) and applied it to the interest revenue in the general ledger to calculate an interest rate. The Autopal report included various interest rates most of which were 19.95% or blank where the discount amount was used for the consumer loan (which was interpreted by Diamond incorrectly as 0%). Accordingly, the reasonableness of conclusion that the interest rate was 14.25% was questionable. In addition, this calculation did not address the reasonableness of revenue income.

v. **he failed to obtain sufficient appropriate audit evidence to support the Statement of Income item "Salaries and Wages 410,218".**

70. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

71. The largest expenditure for PCG was for Salaries and Wages totaling $410,218. The working papers to support this expense included a checklist for payroll audit procedures and a schedule reconciling T4s to the accounting records. The checklist was not completed, instead there was a single additional working paper added later referring to only three employees and a reference to scanning the general ledger to identify payments to "employees not part of payroll". The number of employees identified on the single working paper was contradicted by the payroll reconciliation which listed six employees for T4s. Furthermore, there was no documentation in the working papers as to how Diamond ensured that employees were paid at the approved rate, for the approved hours and that the payroll was calculated properly.

Allegation 2 – CCC Ltd. (2019)

THAT the said Stephen A. Diamond, in or about the period of December 1, 2019 to July 31, 2020, while engaged to perform an audit of the financial statements of "CCC Ltd." for the year ended December 31, 2019, failed to perform his

professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code of Professional Conduct, in that:

72. The independent auditor's report for the December 31, 2019, year ended financial statements for CCC Ltd. was dated July 14, 2020. The financial statements were prepared using ASPE.

a. **he failed to include in the engagement letter a reference to the expected form of the auditor's report;**

73. CAS 210.10 requires the agreed terms of the audit engagement to be recorded in an audit engagement letter or other suitable form of written agreement and to include, amongst other prescribed requirements, the expected form and content of any reports to be issued by the auditor.

74. The engagement letter signed by management did not include the appendix with the anticipated wording for the Independent Auditor's Report.

b. **he failed to ensure prominent disclosure, in the notes to the financial statements, that they were prepared in accordance with Accounting Standards for Private Enterprises (ASPE);**

75. CPAH 1400.16 requires an enterprise that prepares its financial statements in accordance with ASPE to state this basis of presentation prominently in the notes to its financial statements.

76. The notes to the financial statements for CCC Ltd. did not provide this disclosure.

c. **he failed to ensure proper disclosure in Note 5 to the financial statements of the amount of accumulated amortization related to the asset "Building (including $450,000 of assets under capital lease) 3,594,273";**

77. CPAH 3061.24 requires, for each major category of property, plant and equipment, disclosure of costs; accumulated amortization. Including the amount of any write-

downs; and the amortization method used, including the amortization period or rate.

78. In Note 5, the amount reported on the Balance Sheet as “Building” was identified as “including $450,000 of assets under capital lease”. The note did not disclose the amount of related accumulated amortization related to the assets.

d. **he failed to ensure proper disclosure of the maturity dates for long term debt, including capital leases;**

79. CPAH 3065.74 requires an entity to disclose the maturity date for an obligation under a capital lease. CPAH 3856.43 requires an entity to disclose the maturity date for long-term debt.

80. Diamond did not include the maturity dates for any of the long-term debts, including the capital lease obligations.

e. **he failed to ensure proper disclosure of the nature of the balance sheet item “Due to related parties 495,091”;**

81. CPAH 3840.51 requires an enterprise to disclose, with respect to related party transactions, a description of the relationship between the transacting parties and the measurement basis used.

82. On the Balance Sheet, CCC Ltd. reported an amount of $495,091 as Due to Related Parties. Note 13 of the financial statements addressed related party transactions and stated “The company, other than those disclosed elsewhere in these financial statements, did not have related party transactions”. The note did not address the nature of the related party balance.

f. **he failed to ensure proper disclosure of the aggregate amount of future minimum lease payments, including interest in each of the next five years to meet the yearly payments;**

83. CPAH 3065.76 requires disclosure of the aggregate amount of payments estimated to

be required in each of the next five years to meet repayment for capital leases reported by the lessee.

84. Note 7 to the financial statements reported the principal repayments over the five years but did not report the future minimum payments, including interest. Note 7 referred to blended monthly payments of $50,000, instead of the exact monthly payments of $50,836. In addition, the reference to the specific assets subject to capital lease obligations was reported as $7,150,000. This amount was contradicted by Note 5 of the financial statements which reported a total of $4,497,661 for net book value of assets under capital lease.

g. **he failed to ensure proper disclosure of on the Statement of Cash Flows "Payments to acquire property, plant and equipment (861,557)" since amounts included non-cash transactions of equipment purchased under capital leases;**

85. CPAH 1540.41 requires investing and financing transactions that do not require the use of cash or cash equivalents to be excluded from a cash flow statement ("Statement of Cash Flows" or "SCF").

86. During the year, there was considerable construction and excavating equipment purchased under capital leases. These capital assets were reported incorrectly on the SCF as "Payments to acquire property, plant and equipment" and the financing assumed on these purchases was incorrectly reported as long-term debt issued.

h. **he failed ensure separate disclosure on the Statement of Income, or in the notes, of the amount of inventories recognized as an expense during the period; (72) and he permitted the inclusion in "Material purchases (8,641,166)" amounts such as labour and vehicle costs and equipment rentals which are not materials;**

87. CPAH 1400.09 requires financial statements, including notes to such statements and supporting schedules to which the financial statements are cross-referenced, to include all information required for a fair presentation in accordance with generally accepted accounting principles. CPAH 1520.04(o) requires the amount of inventories recognized

as an expense during the period to be either presented separately on the face of the income statement or disclosed in the notes to the financial statements or supporting schedules.

88. The amount of inventories recognized as an expense was not disclosed in the financial statements. The Statement of Income referred to material purchases as an offset to Revenue. The gross profit was not labelled on the Statement of Income. The amount referred to as Material Purchases did not comprise exclusively of materials, but included significant direct labour costs, vehicle costs and equipment rentals.

i. **he failed to document the analytical procedures as part of the risk assessment procedures undertaken to obtain an understanding of the entity and environment;**

89. CAS 240.23 sets out a number of requirements for analytical procedures to be performed as part of the risk assessment process and for the auditor to obtain an understanding of the entity and its environment.

90. Diamond did not document the analytical procedures related to risk assessment.

j. **he failed to document his assessment of the risk of material misstatement to provide a basis for designing and performing further audit procedures;**

91. In addition to risk assessment analytical procedures, 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. CAS 315 sets out a number of requirements for procedures to identify and assess the risk of material misstatement through understanding the entity and its environment. CAS 315.5 requires the auditor to perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. The risk of material misstatement should be identified and assessed at the financial statement level and the assertion level for classes of transactions, account balances and disclosures to provide a basis for

designing and performing further audit procedures.

92. Diamond did not document this identification and assessment in the working papers.

k. **he failed to evaluate the risk of material misstatement due to fraud related to revenue recognition;**

93. CAS 240.27 requires the auditor, when identifying and assessing the risks of material misstatement due to fraud, to evaluate which types of revenue, revenue transactions or assertions give rise to such risks, based on a presumption that there are risks of fraud in revenue recognition. If the auditor concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified revenue recognition as a risk of material misstatement due to fraud, the auditor is required to document the reasons for that conclusion in the audit documentation.

94. Diamond did not document his evaluation of the risk of material misstatement due to fraud in revenue recognition, based on a presumption that there were risks of fraud in revenue recognition. Further, the document failed to disclose whether he concluded that the presumption was not applicable or the reasons for his conclusion.

l. **he failed to document his understanding of internal controls including inventories, expenditures, revenues, receivables and receipts cycle and the financial reporting processes;**

95. CAS 315 sets out a number of requirements for procedures to identify and assess the risk of material misstatement through understanding the entity and its environment and documentation of those procedures. Those requirements include documentation of the understanding of internal controls with respect to inventories, expenditures, revenues, receivables and receipts cycles.

96. The working papers did not include documentation of risk assessment procedures and internal controls affecting inventories, expenditures, revenues, receivables and receipts cycles.

m. **he failed to document a subsequent events review;**

97. CAS 560 sets out requirements concerning events occurring between the date of the financial statement and the date of the auditor's report. CAS 560.6 requires the auditor to perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified.

98. The working papers did not include documentation of any subsequent events review.

n. **he failed to document audit procedures to support the Statement of Income item "concrete cutting, drilling, corescan and excavating revenue 13,707,182";**

99. CAS 330 requires the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks. Specifically, CAS 330.5 requires the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

100. With respect to revenues, the audit procedures checklist did not include who completed the procedures nor the date when the steps were completed. The working paper to support the revenues was a lead sheet with prior year comparative general ledger accounts that comprise the amount reported on the Statement of Income. The audit comments on the page report "revenues are very comparable with prior year, tested revenue by going from GL to invoice and from invoice to GL-sales journal and AR". For 2019, there was a new general ledger account for "Pourback Revenue" of 509,951 and nothing noted as to what this material new revenue account represented. When asked about the testing and where documented, Diamond stated that he tested approximately 50 transactions and the procedures were not documented, and that the selection was

done randomly.

o. **he failed to obtain sufficient appropriate audit evidence with respect to the Statement of Income “material purchases 8,641,166”;**

101. CAS 330 requires the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks. Specifically, CAS 330.5 requires the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

102. With respect to the Statement of Income “material purchases 8,641,166”, the working papers identified as expense analysis and vouching did not include analysis or vouching for supplies, equipment, vehicle and related costs. The working papers included a grouping schedule for the costs of goods with the prior year comparatives. The accounts for which there were supporting analysis and vouching were limited to payroll, specific labour benefit costs and insurance.

p. **he failed to obtain sufficient appropriate audit evidence with respect to the Note 6 “Other tax withholding taxes payable 90,225”;**

103. CAS 330 requires the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks. Specifically, CAS 330.5 requires the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

104. Included in Note 6 Accounts Payable and accrued liabilities $1,237,133 is Other withholding taxes payable $90,225. The working papers did not include a test of

reasonableness of HST paid for the year, based on sales and amounts eligible for HST input tax credits.

q. **he failed to obtain sufficient appropriate audit evidence to support Statement of Income “Salaries and wages 3,291,694”;**

105. CAS 330 requires the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks. Specifically, CAS 330.5 requires the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

106. The working paper to support Statement of Income “Salaries and wages 3,291,694” (payroll) included a single page marked as “PBC” (prepared by CCC Ltd.) which was a comparison of the 2019 payroll per the T4 payroll summary of $6,372,247 and the amounts reported in the general ledger. There was a two-page Payroll Summary that was marked as “Memo Only”. There was no audit of individual payroll entries to test that the individuals were paid at the approved rate for approved hours, that payroll was calculated correctly, or that the expense was charged to the correct general ledger account. In addition, the reconciliation correctly took into account the accrued salaries at the beginning of the year but incorrectly did not take into account the accrued salaries at the end of the year.

r. **he failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item “Due to related parties 495,091”;**

107. CAS 330 requires the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks. CAS 330.28 sets out the documentation requirements for risk assessments.

108. The working paper to support the Balance Sheet item “Due to related parties 495, 091” consisted solely of a lead sheet with notation that the balance has not changed since 2009. This balance was comprised of a receivable from the shareholder’s holding company and a liability to a company named “the Bat” in which the shareholder has a 50% interest. For the receivable, there was no support that this balance could be recovered from the holding company. For the liability, there was no supporting documentation as to what comprised the balance owing to the Bat (the related company).

s. **he failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item; “Accounts payable and accrued liabilities 1,237,133”;**

109. CAS 330 requires the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks. CAS 330.28 sets out the documentation requirements for risk assessments. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

110. The working paper to support the Balance Sheet item “Accounts payable and accrued liabilities 1,237,133” did not include documentation for the search for unrecorded liabilities at the year end to ensure proper cut off for expenses. This balance included an amount for accrued liabilities of $362,225. The audit procedures completed for the accrued payroll totaling $113,000, consisted of a notation stating “reviewed client calculations to arrive at accrual, reviewed 2 employees for test basis to ensure time worked correct for accrual”. The details for the review of two employees for a test basis were not included in the working papers. There was no indication that the extent of testing for the two items was sufficient for sampling purposes. The notation for the bonus accrued of $230,000 “bonus set by ron, paid the following quarter” was insufficient documentation to support this liability.

t. **he failed to obtain sufficient appropriate audit evidence to support “Note 7 Long-term Debt” and in particular the amount shown for “Capital lease**

obligations 1,971,289";

111. CAS 330 requires the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks. CAS 330.28 sets out the documentation requirements for risk assessments. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

112. With respect to capital lease obligations, CCC Ltd. owed 42 outstanding capital leases to the Royal Bank. On the bank confirmation, the lease details included: Contract #, Amount, Rental Amount, Residual Amount and Rent Now Due. The bank confirmation contained no notations to demonstrate that the details of the confirmation were agreed to the amounts reported for the capital lease obligations in the general ledger. The summary schedule for the capital leases was supported by individual loan amortization schedules for each capital lease and calculated using both a straight-line method and a declining balance method.

113. CCC Ltd. recorded the majority of the lease obligations using a straight-line method despite the terms of the leases indicating the use of a declining balance method. As an example, the capital lease identified as RBC lease 26718 commencing in April 2016 with a seven-year lease period. CCC Ltd. expensed the interest on a straight-line basis. On the amortization schedule, the balance outstanding at the end of the year was $56,263 using the straight-line method and $60,684 using the declining balance method but on the bank confirmation the balance outstanding was $63,063. The use of the straight-line method versus the appropriate declining balance method resulted in liabilities being understated for the initial years of the lease.

114. Diamond assessed the difference in interest expense using both methods on a per lease basis and concluded that each difference was immaterial. However, Diamond's assessment failed to consider the potential for a misstatement on an aggregate basis over the 42 leases;

u. **he failed to obtain sufficient appropriate audit evidence to support "Note 3 Receivables…Allowance for doubtful accounts (28,326)";**

115. CAS 330 requires the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks. CAS 330.28 sets out the documentation requirements for risk assessments. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

116. The company reported a balance of $26,326 as the balance for the Allowance for Doubtful Accounts (AFDA) at the year end. The working papers prepared by CCC Ltd. consisted of the details of the customer's doubtful amounts and notes. Diamond's notes on the working paper referred to work completed for the balances reported, including reviewing documentation with "Sandra" for explanation as to whether amounts should be in the allowance. However, the supporting documentation did not include any procedures supporting Diamond's review of the old outstanding balances. The old outstanding balances over 90 days amounted to $437,799. The A/R Aging Summary reported accounts identified as "HOLD" which Diamond explained "means hit credit limit and need to pay further amounts for more work to occur". The 25 accounts marked as "HOLD" total $387,178. There was no indication on this aging report that these accounts have been reviewed for assessment as to whether the balances should be included in the AFDA;

v. **he failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item "Inventory 613,081";**

117. CAS 330 requires the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks. CAS 330.28 sets out the documentation requirements for risk assessments. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

118. CCC Ltd. has inventory on individual trucks and in the shop. Most of the inventory was comprised of diamond drills and bits which were inventoried as “% LEFT” (an assessment of the useful life taking into account the wear and tear on the drills and bits). CCC Ltd. staff provided a subjective assessment of the “% LEFT” and Diamond’s staff relied on the client’s assessment.

119. Diamond stated that his staff counted the inventory with a client employee. When asked how his staff would verify the correctness of the assessment of “% left”, (e.g. whether the % left was 50% or 100%) he said that the staff would have been told that it was 50% and then based on seeing enough of the inventory and relating it to 100% through interpolation, they would assume that the 50% is correct. Diamond stated that it would be very difficult for a person lacking the technical knowledge to assess whether it's 40, 50 or 60%. The inventory was the client’s best guess estimate. Diamond did not indicate in the working papers a concern as to the valuation of the inventory amount reported on the Balance Sheet and whether this uncertainty should be disclosed in his Independent Auditor’s Report.

w. **he failed to document an analytical review at the conclusion of the audit supporting the audit finding that the financial statements are consistent with the auditor’s understanding of the entity;**

120. CAS 520.6 requires the auditor to design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

121. The working papers did not include an analytical review at the conclusion of the audit procedures.

Allegation 3 – Bistro

THAT the said Stephen A. Diamond, in or about the period of February 1, 2020 to August 31, 2020, while engaged to perform a review of the financial statements of “LI Inc.” (o/a “Bistro”) for the year ended February 29, 2020, failed to perform his professional services in accordance with generally accepted standards of practice

of the profession, contrary to Rule 206.1 of the Code of Professional Conduct, in that:

122. The review engagement report for the February 29, 2020, year ended financial statements for Bistro was dated August 14, 2020. The financial statements were prepared using ASPE.

a. **he failed to ensure proper disclosure of the company's accounting policy adopted in determining the composition of cash and cash equivalents and failed to reconcile amounts presented in the cashflow statement with equivalent items in the balance sheet;**

123. CPAH 1540.43 requires an enterprise to disclose the policy that it adopts in determining the composition of cash and cash equivalents and present a reconciliation of the amounts presented in its cash flow statement with the equivalent items presented in the balance sheet.

124. The Bistro financial statements did not include either the accounting policy or the reconciliation. The Balance Sheet reported Cash at the end of the year as $66,962 compared to the year end balance of Cash and cash equivalents on the SCF of $25,952.

b. **he failed to ensure proper disclosure of related party transactions;**

125. CPAH 3840.51 requires an enterprise to disclose prescribed information about its transactions with related parties including the amounts due to or from related parties and the terms and conditions relating thereto; the measurement basis used; and. a description of the relationship between the transacting parties.

126. Included in the Accounts payable and accrued liabilities on the Balance Sheet was $170,000 owed to a related party "LSBOW" (Le Select Bistro on Wellington). This should have been included in the amount reported as Due to related parties. Note 7 reported a balance due to related parties as Loans payable of $345,500, without identifying the related party, or the measurement basis used.

c. **he failed to ensure proper disclosure of the company's accounting policy to account for income taxes following the taxes payable method and to ensure the Notes to the Financial Statements included a reconciliation of the income tax rate, or expense related to income for the period, to the statutory income tax rate that would result from its application;**

127. CPAH 3465.03 requires an enterprise to make an accounting policy choice to account for income taxes using either the taxes payable method or the future income taxes method. CPAH 3465.88 requires, when an enterprise applies the taxes payable method of accounting for income taxes, the financial statements to include a reconciliation of the income tax rate or expense related to income or loss for the period before discontinued operations to the statutory income tax rate or the dollar amount that would result from its application, including the nature and amount of each significant reconciling item a reconciliation of the income tax rate or expense related to income for the period to the statutory income tax rate or dollar amount that would result from its application.

128. The financial statements followed the taxes payable method, but the accounting policy reported that the company follows the liability method of accounting for income taxes. Further, the reconciliation of the income tax rate or expense related to income was not included in the notes to the financial statements.

d. **he failed to document an assessment with respect to the acceptance and continuance of the client relationship;**

129. CSRE 2400.27 sets out requirements to be met for a practitioner to accept a review engagement.

130. The file contained no documentation that Diamond had completed an assessment with respect to the acceptance and continuance of the client relationship and review engagement for Bistro.

e. **he failed to document his understanding of the client's accounting systems and records for revenues, receivables and receipts and for purchases,**

payables and payments or for the payroll system;

131. CSRE 2400.43 requires the practitioner to obtain an understanding of the entity and its environment, and the applicable financial reporting framework, to identify areas in the financial statements where material misstatements are likely to arise and thereby provide a basis for designing procedures to address those areas. CSRE 2400.44 prescribes the required areas of understanding, including the entity's accounting systems and accounting records.

132. Diamond did not document his understanding of the entity's accounting systems and accounting records for the revenues, receivables and receipts system; the purchases, payables and payments system or the payroll system.

f. **he failed to document sufficient and appropriate inquiries of management that were appropriate on the engagement, including inquiries related to significant, unusual or complex transactions, changes in business activities, existence of actual or suspected fraud, going concern issues and the impact of subsequent events;**

133. CSRE 2400.47 requires the practitioner to make and document their inquiries of management and others within the entity, as appropriate in prescribed areas including:

- whether there are significant, unusual or complex transactions, events or matters that have affected or may affect the entity's financial statements, including significant changes in the entity's business activities or operations;
- the existence of any actual, suspected or alleged fraud or illegal acts affecting the entity;
- Whether management has identified and addressed events occurring between the date of the financial statements and the date of the practitioner's report that require adjustment of, or disclosure in, the financial statements
- the basis for management's assessment of the entity's ability to continue as a going concern;
- Whether there are events or conditions that appear to cast doubt on the entity's ability to continue as a going concern;

134. Diamond did not document inquiries related to: significant, unusual or complex transactions that may affect the financial statements; any significant changes in the entity's business activities or operations; any significant journal entries or other adjustments to the financial statements; existence of any actual, suspected or alleged fraud or illegal acts affecting the entity; identification and addressing of the impact of subsequent events; and if there were conditions that appear to cast doubt on Bistro's ability to continue as a going concern. Note 10 to the financial statements referred to a subsequent event being the commencement of negotiations to sell the land and building held by a related company and the business assets of the company. However, there was no documentation in the working papers for this note disclosure.

g. **he failed to obtain in the letter of representation a summary of uncorrected misstatements and management's view as to whether the effects of uncorrected misstatements are material;**

135. CSRE 2400.68 to CSRE 2400.73 set out the requirements for a practitioner to obtain representation of management. CSRE 2400.70 requires the practitioner to request a written representation of management about whether they believe the effects of uncorrected misstatements are immaterial, individually or in the aggregate, to the financial statements as a whole. A summary of such items is required to be included in or attached to the written representation.

136. The letter of representation for the Bistro review engagement did not include the summary of uncorrected misstatements.

h. **he failed to perform sufficient and appropriate inquiry and analytical procedures with respect to the income statement, subsequent events, accounts receivable and income taxes receivable, as the basis for a conclusion on the financial statements;**

137. CSRE 2400.46 requires the practitioner, in obtaining sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, to design and perform inquiry and analytical procedures: to address all material items in the financial statements, including disclosures; and, to focus on addressing areas in the financial statements where material misstatements are likely to arise.

138. Diamond did not obtain sufficient appropriate evidence for the following financial statement areas:

- Due from related party and shareholder loan receivable – The working papers to document the inquiry and analytical procedures did not address all the material balances. The working papers did not identify the relationship between Bistro and the related parties for the amounts reported as loans on these schedules;
- Expenses – occupancy costs – Bistro paid rent to a related party and the rent expense for Bistro was agreed to the related party's rental income. The working papers did not record an analysis of the rent increase.
- Subsequent events – Included in the working papers was a subsequent events checklist. The checklist did not report who completed the form or the date of completion. For management inquiry, a response as to whether subsequent events have occurred stated "*discussed with Fred, no subs events that affect the FS*". This contradicted financial statement note 10 detailing a subsequent event being the commencement of negotiations to sell the land and building held by a related company and the business assets of the company. The checklist referred to the COVID Pandemic as a subsequent event, but the notes to the financial statement did not report the potential impact of Pandemic.
- Accounts receivable – The working papers included an A/R Aging Summary with all balances over 90 days. The notations on the schedule refer to some balances outstanding since 2011: house accounts, HST outstanding from 2011 and Toronto Hydro from 2013. The page included a notation "*old AR w/o ??*" These balances were reported as assets at the year end and there was no allowance for doubtful accounts applied. Diamond advised that he discussed the accounts with the client but did not provide documentation of the discussion.
- Income taxes receivable – This balance was an accumulation of corporate tax amounts for years commencing 2010, primarily for investment tax credits claimed but not applied to taxes otherwise owing. These unapplied tax credits should have been analyzed for valuation. Considering that the business assets were being negotiated to be sold after the year end, the potential recovery of the tax credits should have been appropriately considered.

- The income statement review procedures checklist noted a requirement to perform an analytical review. The note added subsequent to the date of the independent auditor's report referred to management comparing sales by day and by week, cost of sales and compared the gross profit to year before as well as month over month. The notations further stated "*when doing the year end we* [Diamond] *review the spreadsheets for each month and then reconcile our numbers to Fred's numbers in terms of sales*". This comparison was not included in the working papers.

Allegation 4 – CCC Ltd. (2021)

THAT the said Stephen A. Diamond, in or about the period of December 1, 2021 to August 31, 2022, while engaged to perform an audit of the financial statements of "CCC Ltd." for the year ended December 31, 2021, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code of Professional Conduct, in that:

139. The independent auditor's report for the December 31, 2021 year ended financial statements for CCC Ltd. was dated August 8, 2022. The financial statements were prepared using ASPE.

a. **he failed to ensure proper disclosure on the Statement of Cash Flows item "Purchases of available for sale securities (865,536)" by including the incorrect amount;**

140. CPAH 1540 sets out the requirements for the provision of information about the historical changes in cash and cash equivalents of an enterprise by means of a cash flow statement that classifies cash flows during the period arising from operating, investing, and financing activities. The prescribed disclosure requirements are set out in CPAH 1540.43 to 1540.48.

141. The amount reported as "Purchases of available for sale securities ($865,536)" was the difference between the beginning ($4,969,452) and end of year ($5,834,987) balance of short-term investments. This was inappropriate, as it excluded the investment income reinvested and the mark-to-market adjustment at the year end. The unrealized gain for the mark to market adjustment was $501,263;

b. **he failed to ensure proper disclosure on the Statement of Cash Flows item "Advances (repayments) of long term debt (594,634)" by including the incorrect amount; (99b)**

142. CPAH 1540 sets out the requirements for the provision of information about the historical changes in cash and cash equivalents of an enterprise by means of a cash flow statement that classifies cash flows during the period arising from operating, investing and financing activities. The prescribed disclosure requirements are set out in CPAH 1540.43 to 1540.48.

143. The Statement of Cash Flows item "Advances (repayments) of long-term debt (594,634)" incorrectly included the duplication of $594,634 as payments to acquire equipment on lease;

c. **he failed to ensure proper disclosure on the Statement of Cash Flows item "Payments to acquire property, plant and equipment 594,634" since amounts included non-cash transactions of equipment purchased under capital leases;**

144. CPAH 1540.41 requires investing and financing transactions that do not require the use of cash or cash equivalents to be excluded from a Statement of Cash Flows.

145. The Statement of Cash Flows item "Payments to acquire property, plant and equipment 594,634" incorrectly included the cost of capital assets acquired under capital lease and the associated increase in capital lease obligations, which should not have been included as they are non-cash transactions. The capital asset purchases during the year were all purchased under capital lease arrangements.

d. **he incorrectly included "Note 14 Subsequent events" when this note did not apply to these financial statements;**

146. CPAH 1400.04 (c) states that a fair presentation in accordance with generally accepted accounting principles is achieved by providing information in a manner that is clear and understandable.

147. Diamond incorrectly included “Note 14 Subsequent events” which was not applicable to the December 31, 2021 year. This Note was included in error.

e. **he failed to ensure proper disclosure in “Note 7 Long-term debt” the future minimum lease payments under a capital lease in each of the next five years and failed to ensure that “Note 7 Long Term Debt” and “Note 5 Property, plant and equipment” were consistent with respect to the value of assets under capital lease;**

148. CPAH 3065 establishes standards for methods of accounting for lease transactions and circumstances in which these methods are appropriate. CPAH 3065.76 requires the aggregate amount of payments estimated to be required in each of the next five years to meet repayment, sinking fund or retirement provisions to be disclosed.

149. Note 7 to the financial statements incorrectly reported the principal repayments based on the maturity dates over the remaining seven years and did not report the future minimum payments, including interest.

f. **he failed to ensure proper disclosure in “Note 7 Long-term debt” the five year principal repayments and loan maturity dates for “Vehicle loan obligations” and “Mortgage payable”;**

150. CPAH 3856.43(c) requires the enterprise to disclose the maturity date for bonds, debentures and similar securities, mortgages and other long-term debt. CPAH 3856.45 requires an enterprise to disclose the aggregate amount of payments estimated to be required in each of the next five years to meet repayment, sinking fund or retirement provisions of financial liabilities.

151. The financial statements of CCC Ltd. reported three items of long-term debt (capital lease obligations, vehicle loan obligations and mortgage obligation) but the principal repayments for each of the next five years was not reported. Further, the financial statements of CCC Ltd. did not disclose the maturity date for the vehicle loan obligations and the mortgage payable.

g. **he failed to ensure proper disclosure of the nature of the related party transaction referred to in the Balance Sheet item "Due to related parties 495,091";**

152. CPAH 3840.51 requires an enterprise to disclose prescribed information about its transactions with related parties including the amounts due to or from related parties and the terms and conditions relating thereto; the measurement basis used; and. a description of the relationship between the transacting parties.

153. On the Balance Sheet, CCC Ltd. reported an amount of $495,091 as Due to Related Parties. Note 13 to the financial statements in relation to Related Party Transactions stated "*The company, other than those disclosed elsewhere in these financial statements, did not have related party transactions".* This statement did not address the nature of the related party balance.

h. **he failed to obtain sufficient appropriate audit evidence to support "Note 7 Long-term Debt" and in particular the amount shown for "Capital lease obligations…1,797,405";**

154. CAS 330 requires the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks. CAS 330.28 sets out the documentation requirements for risk assessments. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

155. CCC Ltd. had 38 capital leases outstanding owing to the Royal Bank. On the bank confirmation, the details of leases included: Contract #, Amount, Rental Amount, Residual Amount and Rent Now Due. the bank confirmation also included a note "Agreed to leases 'kk'", but provided no specific references to the individual balances included in the capital lease working papers.

156. The schedule for the capital leases was supported by individual loan amortization

schedules using both a straight-line method and a declining balance method. CCC Ltd. recorded most of the lease obligations using a straight-line method despite the terms of the leases indicated the use of a declining balance method. As an example, the capital lease identified as RBC lease 26718 commencing in April 2016 with a seven-year lease and expensed interest straight line. On the amortization schedule, the balance outstanding at the end of the year was $30,945 using the straight-line method and $34,445 using the declining balance method. However, on the bank confirmation, the balance outstanding was indicated as $35,009.

157. The use of the straight-line method (as opposed to the appropriate declining balance method) resulted in liabilities being understated for the initial years of the lease. Diamond assessed the difference in interest expenses using both methods on a per lease basis and concluded each difference was immaterial. However, he failed to consider the potential for a misstatement on an aggregate basis over the 38 leases.

158. An additional matter related to capital lease obligations was the treatment of the capital lease payment deferral provided by the Bank for COVID relief. During the previous year, the Bank permitted the company to defer six months of payments as part of a COVID relief program. The schedule for long-term debt balances and interest expense included a notation "reviewed each lease, using the interest pre Covid and multiplied by the 6 months nonpayment interest reduced by $48k". Diamond was not able to provide working paper support for how the interest was assessed by the Bank during the payment deferral period.

159. The company reported no interest accrued but not paid during the relief period, but there was no audit support for this treatment of interest. Subsequent to the member interview, Diamond provided documentation from the Royal Bank indicating that the interest payment was deferred and would result in an increase in the remaining lease rental payments spreading but not eliminating the deferred lease rental adjustment cost across all payments for the balance of the lease term. Accordingly, balances owing for the capital leases was understated at the year end.

i. **he failed to document audit procedures related to the client's evaluation of allowance for doubtful accounts at year end;**

160. CAS 330 deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor. CAS 330 requires substantive audit procedures to be performed on material classes of transactions and account balances and sufficiently documented to address the assessed risks of material misstatements at the financial statement level, the linkage of those procedures with the assessed risks at the assertion level and the results of the audit procedures. CAS 330.28 sets out the documentation requirements for risk assessments. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

161. With respect to the Allowance for Doubtful Accounts, the company reported a balance of $49,293 as the balance for the AFDA at the year end. The working papers prepared by CCC Ltd. consisted of the details of the customer's doubtful amounts and notes. Diamond's notes on the working paper were "Discussed with Sandra and found ADA reasonable and consistent with prior years". There was no documentation of Diamond's procedures relating to the evaluation of the old outstanding balances – over 90 days that amounted to $519,141.

162. The A/R Aging Summary reported accounts identified as "HOLD" which Diamond noted in the 2019 working papers for this client that "HOLD" meant "hit credit limit and need to pay further amounts for more work to occur". The 11 accounts marked as "HOLD" totaled $28,063. There was no indication on this aging report that these accounts have been reviewed for assessment as to whether the balances should be included in the AFDA.

j. **he failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item "Accounts receivable, net of allowances 3,198,576";**

163. CAS 330 deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor. CAS 330

requires substantive audit procedures to be performed on material classes of transactions and account balances and sufficiently documented to address the assessed risks of material misstatements at the financial statement level, the linkage of those procedures with the assessed risks at the assertion level and the results of the audit procedures. CAS 330.28 sets out the documentation requirements for risk assessments. CAS 505.14 requires the auditor to investigate exceptions (a response that indicates a difference between information requested to be confirmed and information provided by the confirming party) to determine whether they are indicative of misstatements.

164. With respect to accounts receivable, the notes on the A/R Aging summary report indicated that confirmations were sent for 45.75% coverage of the balance and that subsequent receipts and confirmations covered 44.94% of the balance. The notations reflected on this document referred to "o = Okay" and a percentage. Some but not all of these balances were marked as "S" indicating "selected for sample". The working papers did not address the requirement to investigate exceptions to determine whether they are indicative of misstatements as required by CAS 505.14.

k. **he failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item "Inventory of consumable supplies 676,289"**

165. CAS 330 deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor. CAS 330 requires substantive audit procedures to be performed on material classes of transactions and account balances and sufficiently documented to address the assessed risks of material misstatements at the financial statement level, the linkage of those procedures with the assessed risks at the assertion level and the results of the audit procedures. CAS 330.28 sets out the documentation requirements for risk assessments. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

166. With respect to inventories, the working papers included a memo outlining the

"inventory costing 2021" which detailed the method to verify that the cost of inventory items was accurate by matching it with the price list given by the vendors. The matching was done on the Excel inventory file provided by CCC Ltd. The memo listed points under "Why 100% verification cannot be done using this method?" and under "Other notes: Approximately 90% of truck inventory can be price matched." This working paper was not sufficient to determine whether the inventory is valued accurately.

l. **he failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item "accounts payable and accrued liabilities 1,253,959"**

167. CAS 330 deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor. CAS 330 requires substantive audit procedures to be performed on material classes of transactions and account balances and sufficiently documented to address the assessed risks of material misstatements at the financial statement level, the linkage of those procedures with the assessed risks at the assertion level and the results of the audit procedures. CAS 330.28 sets out the documentation requirements for risk assessments. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

168. With respect to accounts payable and accrued liabilities, the working papers did not include documentation for the search for unrecorded liabilities at the year end to ensure proper cut off for expenses and accounts payable.

m. **he failed to obtain sufficient appropriate audit evidence to support the Statement of Income category "Concrete cutting, drilling, corescan and excavation revenue 13,268,933"**

169. CAS 330 deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor. CAS 330 requires substantive audit procedures to be performed on material classes of transactions and account balances and sufficiently documented to address the assessed risks of material misstatements at the financial statement level, the linkage

of those procedures with the assessed risks at the assertion level and the results of the audit procedures. CAS 330.28 sets out the documentation requirements for risk assessments. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

170. With respect to revenues, the working papers related to auditing revenues included a comparative lead sheet for categories of revenue and a short narrative analyzing the change in revenues and gross margins year over year. There was no documentation of the cut off for revenues and no vouching of revenue transactions.

n. **he failed to obtain sufficient appropriate audit evidence to support the Statement of Income item "Salaries and wages 2,882,148"**

171. CAS 330 deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor. CAS 330 requires substantive audit procedures to be performed on material classes of transactions and account balances and sufficiently documented to address the assessed risks of material misstatements at the financial statement level, the linkage of those procedures with the assessed risks at the assertion level and the results of the audit procedures. CAS 330.28 sets out the documentation requirements for risk assessments. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

172. With respect to salaries and benefits expense, the working paper to support the audit procedures and conclusion for payroll was a reconciliation of the amounts paid to employees reported on the annual T4s to the general ledger accounts. The year end bonus, which was added to the accounting expense but not to the T4s, was not reported as a reconciling item. There was no documentation to support that individuals were paid the correct amounts based on approved salary rates, approved time sheets, or that salaries were calculated accurately and recorded in the correct general ledger account.

Acknowledgement

173. Diamond admits that, while acting as the engagement partner for the following engagements:

   a. the audit of the financial statements of "PCG Inc." for the year ended December 31, 2019 **[Doc 2]**
   b. the audit of the financial statements "CCC Ltd." for the year ended December 31, 2019 **[Doc 3]**
   c. the review of the financial statements of "LI Inc." operating as "Bistro" for the year ended February 29, 2020 **[Doc. 4]**
   d. the audit of the financial statements of "CCC Ltd." for the year ended December 31, 2021 **[Doc 5]**

   generally, and as owner/principal of Diamond & Co., 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

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

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

Terms of Settlement

176. Diamond and the PCC agree to the following Terms of Settlement:

   a. Diamond shall pay a fine of $12,000 to CPA Ontario;
   b. Diamond 's practice shall be restricted by prohibiting him from carrying out any assurance engagements;
   c. Diamond 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 Diamond’s voluntary restriction from assurance practice shall be published in the Toronto Star, with all costs borne by Diamond;
f. Diamond shall pay costs in the amount of $20,000 to CPA Ontario;
g. Diamond will be allowed 24 months from the time the Discipline Committee accepts this Agreement to pay the fine and costs referred to herein; and
h. A failure by Diamond 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.

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

178. The PCC and Diamond 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.

179. Should the Discipline Committee accept this Agreement, Diamond agrees to and hereby waives his right to a full hearing, judicial review or appeal of the matter subject to the Agreement.

180. Should the Discipline Committee approve this Settlement Agreement, no party will make any public statement that is inconsistent with this Settlement Agreement. Following approval, CPA Ontario may in its sole discretion issue a release in respect of this outcome.

181. 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 Diamond leading up to its presentation to the Discipline Committee, shall remain confidential as between the PCC and Diamond and be without prejudice to the PCC and Diamond; and

b. The PCC and Diamond 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.

Disclosure of Agreement and Independent Legal Advice

182. This Agreement and its terms will be treated as confidential by the PCC and Diamond, 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 Diamond, or, as may be required by law.

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

184. Diamond agrees and confirms that he has received legal advice from his legal counsel. As a result, Diamond agrees and confirms that he fully understands the effect of this Agreement and the consequences of signing this Agreement.

All of which is agreed to for the purpose of this proceeding alone this 9 day of April, 2024.

Jean C. H. Iu, LL.B.
On behalf of
The Professional Conduct Committee

Stephen Diamond, CPA, CA
on his own behalf