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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO

IN THE MATTER OF: ALLEGATIONS OF PROFESSIONAL
MISCONDUCT AGAINST ISMAIL
EBRAHIM, CA, A MEMBER OF THE
INSTITUTE, BEFORE THE DISCIPLINE
COMMITTEE

SETTLEMENT AGREEMENT

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

Introduction

1. The Professional Conduct Committee approved draft allegations against Ismail Ebrahim, CA ("Ebrahim") **Doc 1**.
2. The draft allegations pertain to professional work performed by Ebrahim with respect to:
 - a) the audit of the financial statements of "DALF" for the year ended July 31, 2008;
 - b) the review of the financial statements of "ABMR" for the year ended February 29, 2008;
 - c) the review of the financial statements of "ABMR" for the year ended February 28, 2009; and
 - d) the review of the financial statements of "SGA Inc." for the six months ended July 31, 2009.

3. The documents referred to in this agreement are found in the Document Brief. The applicable *CICA Handbook* sections are found in the Brief of Authorities.
4. The Professional Conduct Committee (“PCC”) and Ebrahim agree with the facts and conclusions set out in this settlement agreement for the purpose of this proceeding only, and further agree that this agreement of facts and conclusions is without prejudice to Ebrahim 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

5. Ebrahim obtained his CA in South Africa in 1986 and became a member of the ICAO in 1992.
6. From 1988 – 1994, Ebrahim served as a manager with Rosenberg Smith & Partners in Toronto. He then moved to Arthur Gelgoot & Associates, serving as a manager from 1994-1996. Ebrahim also served as a manager at BDO from 1996-1997 and then at SF Partnership from 1998-2005.
7. In 2005, Ebrahim returned to Arthur Gelgoot & Associates where he was a partner until the partnership was dissolved and he established himself as a sole practitioner on February 1, 2010.
8. Ebrahim came to the attention of the PCC as a result of a referral from the Practice Inspection Committee following an initial inspection and a re-inspection. **Doc 2**

Allegation 1 - The Audit of the Financial Statements of DALF for the Year Ended July 31, 2008

9. The financial statements for DALF for the year ended July 31, 2008 are reproduced at **Doc 3**.
10. Ebrahim affixed the firm signature to the Auditor's Report and delivered it and the financial statements to the DALF Board of Directors.
11. DALF is a registered charitable foundation located in Toronto. It has been a client of Ebrahim since 1999.
12. Materiality for this audit was not calculated by Ebrahim.

Allegation 1(a) – Disclosure of Deferred Income

13. The deferred income balance (**Doc 3, p. 12**) was not presented outside the net assets on the Statement of Financial Position, and the nature of the change in the balance for the period was not disclosed as required by *CICA Handbook* 4410.52 and .53. **Tab 1**

Allegation 1(b) – Disclosure of Significant Accounting Policies

14. Although the deferral method of revenue recognition was employed, a description of the restriction was not given as required in *CICA Handbook* 4400.26(a). **Tab 2**

Allegation 1(c) – Financial Instruments

15. The Financial Instruments were not properly classified, disclosed or presented on the Statement of Financial Position, and Ebrahim failed to ensure adequate description of the financial risk management objectives and

policies in Note 6. **Doc 3 pp. 12, 16-17** *CICA Handbook* Section 3855.20-.35 and 3861.41. **Tab 3**

Allegation 1(d) – Statement of Financial Position

16. “Note 7 – Now Hear This Project” discloses \$31,378 as Donations from Foundations, (**Doc 3 p. 17**) whereas donations from foundations in the total amount of \$44,600 were recorded in the accounts as being designated for the Now Hear This Project and were reduced by the amount of \$13,221. **Doc 4** This amount was transferred as an offset against Undeposited Funds, which is a part of the item “Cash 79,963” on the Statement of Financial Position **Doc 3 p. 12**, rather than being properly disclosed as a deferral of restricted contribution for the Now Hear This Project. *CICA Handbook* 4400.18 and 4410.52 **Tab 4**

Allegation 1(e) – Management Representation Letter

17. *CICA Handbook* Section 5370.16 **Tab 5** requires that specific written representations be obtained from management of the entity being audited for the year-end in question. The management representation letter on the file related to the year ended July 31, 2007 rather than to the year ended July 31, 2008 as required. **Doc 5**

Allegation 1(f) – Independence Letter

18. *CICA Handbook* Section 5751.35 **Tab 6** requires that matters that bear on the auditor’s independence be communicated to those having oversight responsibility for the financial reporting process. Ebrahim did not issue an independence letter for this engagement.

Allegation 1(g) – Documentation

19. Items important to support the Auditor's Report are not adequately documented as required by *CICA Handbook* Section 5145.11, **Tab 7** including:

- a. assessment of independence and continuance of the engagement;
- b. substantive audit procedures which were noted in the planning working papers to be 100%;
- c. analytical procedures as described in *CICA Handbook* Section 5300.42;
- d. review of journal entries with the controller of the Foundation;
- e. understanding the entity and various risks including fraud; and
- f. discussion of fraud risk.

Allegation 2- The Review of the Financial Statements of ABMR for the Year Ended February 29, 2008

20. The financial statements for ABMR for the year ended February 29, 2008 are reproduced at **Doc 6**.

21. Ebrahim's partner affixed the firm signature to the Review Engagement Report and Ebrahim delivered it and the financial statements to the President of ABMR.

22. ABMR is located in Toronto and is in the business of qualitative and quantitative market research. It has been Ebrahim's client for more than ten years.

23. Materiality for this review engagement was not calculated by Ebrahim.

Allegation 2(a) – Review Engagement Report

24. Note 1(a) **Doc 6 p. 34** disclosed that the financial statements were not prepared in accordance with Canadian generally accepted accounting principles due to the fact that the “Investment in subsidiary” was accounted for using the cost basis of accounting, but Ebrahim did not include a reservation in his Review Engagement Report **Doc 6 p. 28** as required by *CICA Handbook* Section 8100.37 **Tab 8**

Allegation 2(b) – Advances to Subsidiary

25. Ebrahim failed to carry out sufficient and appropriate enquiry, analysis and discussion to satisfy himself as to the plausibility of the Non-Consolidated Balance Sheet item “Advances to subsidiary (note 2) 358,584.” **Doc 6 p. 31** Although Note 2 states that “...the recoverability of the advances is questionable,” **Doc 6 p. 35** the carrying amount of the advances to the subsidiary was not reduced as required by *CICA Handbook* Section 3025.03 in circumstances where a loan is recognized as impaired. **Tab 9**

Allegation 2(c) –Disclosure of Financial Instruments

26. *CICA Handbook* Section 3860.05(a) defines a financial instrument. **Tab 10** In “Note 5 – Financial Instruments” Work-in-progress was incorrectly identified as a financial instrument. Cash and term deposits, marketable securities, and management bonus payable were not so identified, but should have been. **Doc 6 p. 36**

27. Neither the fair value of the marketable securities nor the existence of foreign exchange risk were disclosed as required by *CICA Handbook* Section 3860.78 and .44(a). **Tab 10**

Allegation 2(d) – Cash Flows

28. The Non-Consolidated Statement of Cash Flows **Doc 6 p. 33** did not disclose the amounts of interest received and paid and income tax paid as required by *CICA Handbook* Section 1540.34 and .38. **Tab 11**

Allegation 2(e) – Significant Accounting Policies

29. The fact that the company followed the liability method for accounting for income taxes is a significant accounting policy, **Doc 6 p. 34** which was not disclosed as required by *CICA Handbook* Section 1505.04. **Tab 12**

Allegation 2(f) – Measurement Uncertainties

30. *CICA Handbook* Section 1508.06 **Tab 13** requires disclosure of the nature of measurement uncertainties that are material. In “Note 1 (g) – Use of Estimates in the Preparation of Financial Statements” the estimated useful lives of capital assets and the valuation of work-in-progress should have been noted as areas where management makes significant estimates and assumptions, but were not. **Doc 6 p. 35**

31. Goodwill and other intangible assets were reported to be areas where management makes significant estimates and assumptions, but those assets did not in fact exist.

Allegation 2(g) – Engagement Letter

32. Ebrahim failed to ensure that the engagement letter conformed to the requirements of *CICA Handbook* Sections 8200.02-.22. **Tab 14** The engagement letter complied with a recommended format which was replaced

in the *Handbook* in 2005 and accordingly did not cover many of the current requirements specified as at the date of the engagement letter. **Doc 7**

Allegation 2(h) – Independence Letter

33. *CICA Handbook* Section 8200.69 **Tab 15** requires that matters that bear on the accountant's independence be communicated to those having oversight responsibility for the financial reporting process. Ebrahim did not issue an independence letter for this engagement.

Allegation 2(i) – Management Representation Letter

34. The letter obtained from management **Doc 8** was undated and did not contain many of the requirements specified in *CICA Handbook* Section 8200.31. **Tab 16** Examples of matters not covered in the letter are:

- Management's acknowledgment of its responsibility for the fair presentation of the financial statements in accordance with generally accepted accounting principles;
- Management's belief that the financial statements are complete and presented fairly in accordance with generally accepted accounting principles;
- Management's acknowledgment of its responsibility for the design and implementation of internal control to prevent fraud and error;
- Management's knowledge of any known or probable instances of non-compliance with legislative or regulatory requirements, including financial reporting requirements; and
- Matters that are relevant to management's judgments or estimates that are, either individually or in aggregate, material to the financial statements.

Allegation 2(j) – Documentation

35. Items required to support the Review Engagement Report are not adequately documented as required by *CICA Handbook* Section 8100.24, **Tab 17** including:
- a. assessment of independence and retention of engagement;
 - b. knowledge of client's business;
 - c. enquiry, discussion and analytical procedures;
 - d. plausibility of work-in-progress;
 - e. completeness of accounts payable and accrued liabilities;
 - f. sales and cash cut-off procedures;
 - g. review with and approval of the journal entries obtained from the controller; and
 - h. GST & PST reasonableness test.

Allegation 3- The Review of the Financial Statements of ABMR for the Year Ended February 28, 2009

36. The financial statements for ABMR for the year ended February 28, 2009 are reproduced at **Doc 9**.
37. Ebrahim's partner affixed the firm signature to the Review Engagement Report and Ebrahim delivered it and the financial statements to the President of ABMR.
38. Materiality for this review engagement was not calculated by Ebrahim.

Allegation 3(a) – Review Engagement Report

39. Note 1(a) **Doc 9 p. 49** disclosed that the financial statements were not prepared in accordance with Canadian generally accepted accounting principles due to the fact that the "Investment in subsidiary" was accounted

for using the cost basis of accounting, but Ebrahim did not include a reservation in his Review Engagement Report **Doc 9 p. 43** as required by *CICA Handbook* Section 8100.37 **Tab 8**

Allegation 3(b) – Advances to Subsidiary

40. Ebrahim failed to carry out sufficient and appropriate enquiry, analysis and discussion to satisfy himself as to the plausibility of the Non-Consolidated Balance Sheet item “Advances to subsidiary (note 2) 539,146.” **Doc 9 p. 45** Although Note 2 states that “...the recoverability of the advances is questionable,” **Doc 9 p. 50** the carrying amount of the advances to the subsidiary was not reduced as required by *CICA Handbook* Section 3025.03 in circumstances where a loan is recognized as impaired. **Tab 9**

Allegation 3(c) – Unrealized Exchange Gains

41. Unrealized gains on translation of the USD and Euro cash, bank and accounts receivable accounts totaling \$37,461 should have been classified as income in accordance with *CICA Handbook* Section 1651.20 **Tab 18** but instead were incorrectly recorded as accounts payable. **Doc 9 p. 46**

Allegation 3(d) – Measurement Uncertainties

42. *CICA Handbook* Section 1508.06 **Tab 13** requires disclosure of the nature of measurement uncertainties that are material. In “Note 1 (g) – Use of Estimates in the Preparation of Financial Statements” the estimated useful lives of capital assets and the valuation of work-in-progress should have been noted as areas where management makes significant estimates and assumptions, but were not. **Doc 9 p. 50**

43. Goodwill and other intangible assets were reported to be areas where management makes significant estimates and assumptions, but those assets did not in fact exist.

Allegation 3(e) – Disclosure of Financial Instruments

44. *CICA Handbook* Section 3860.05(a) defines a financial instrument. **Tab 10** In “Note 5 – Financial Instruments” Work-in-progress was incorrectly identified as a financial instrument. Cash and term deposits, marketable securities, and management bonus payable were not so identified, but should have been.

Doc 9 p. 51

45. Neither the fair value of the marketable securities at February 29, 2008, nor the existence of foreign exchange risk were disclosed as required by *CICA Handbook* Section 3860.78 and .44(a). **Tab 10**

Allegation 3(f) – Significant Accounting Policies

46. The fact that the company followed the liability method for accounting for income taxes is a significant accounting policy, which was not disclosed as required by *CICA Handbook* Section 1505.04. **Tab 12, Doc 9 pp. 49-50**

Allegation 3(g) – Engagement Letter

47. Ebrahim failed to ensure that the engagement letter conformed to the requirements of *CICA Handbook* Sections 8200.02-.22. **Tab 14** The engagement letter complied with a recommended format which was replaced in the *Handbook* in 2005 and accordingly did not cover many of the current requirements specified as at the date of the engagement letter. **Doc 10**

Allegation 3(h) – Management Representation Letter

48. The letter obtained from management **Doc 11** was undated and did not contain many of the requirements specified in *CICA Handbook* Section 8200.31. **Tab 16** Examples of matters not covered in the letter are:

- Management's acknowledgment of its responsibility for the fair presentation of the financial statements in accordance with generally accepted accounting principles;
- Management's belief that the financial statements are complete and presented fairly in accordance with generally accepted accounting principles;
- Management's acknowledgment of its responsibility for the design and implementation of internal control to prevent fraud and error;
- Management's knowledge of any known or probable instances of non-compliance with legislative or regulatory requirements, including financial reporting requirements; and
- Matters that are relevant to management's judgments or estimates that are, either individually or in aggregate, material to the financial statements.

Allegation 3(i) – Documentation

49. Items required to support the Review Engagement Report are not adequately documented as required by *CICA Handbook* Section 8100.24, **Tab 17** including:

- a. review with and approval of the journal entries obtained from the controller; and
- b. GST & PST reasonableness test.

Allegation 4 - The Review of the Financial Statements of SGA Inc. for the Six Months Ended July 31, 2009

50. The financial statements for SGA Inc. for the six months ended July 31, 2009 are reproduced at **Doc 12**.

51. Ebrahim affixed the firm signature to the Review Engagement Report and sent it and the financial statements to the President of SGA Inc.

52. SGA Inc. is located in Toronto, and is in the business of providing architectural services. It has been a client of Ebrahim since 1994.

53. Materiality for this review engagement was set at \$40,000.

Allegation 4(a) – Significant Accounting Policies

54. The fact that the company followed the liability method for accounting for income taxes is a significant accounting policy, which was not disclosed as required by *CICA Handbook* Section 1505.04. **Tab 12, Doc 12 pp. 64-65**

Allegation 4(b) – Disclosure of Financial Instruments

55. *CICA Handbook* Section 3860.05(a) defines a financial instrument. **Tab 10** “Note 10 – Financial Instruments” does not identify cash, advances to joint venture and management bonus payable as financial instruments as required. **Doc 12 p. 67**

Allegation 4(c) – Note 7 - Related Party Transactions

56. The measurement basis used for the fees referenced in “Note 7 – Related Party Transactions” **Doc 12 p. 66** is not disclosed as required by *CICA Handbook* Section 3840.46(d). **Tab 19**

Acknowledgement

57. It is agreed that Ebrahim failed to perform his professional services in accordance with generally accepted standards of practice of the profession, including the recommendations set out in the *CICA Handbook*, in the manner described above with respect to the following engagements:

- a. the audit of the financial statements of “DALF” for the year ended July 31, 2008;
- b. the review of the financial statements of “ABMR” for the year ended February 29, 2008;
- c. the review of the financial statements of “ABMR” for the year ended February 28, 2009; and
- d. the review of the financial statements of “SGA Inc.” for the six months ended July 31, 2009.

Considerations Supporting Settlement

58. In addition to all of the circumstances described above, the Professional Conduct Committee took the following factors into consideration on entering into this Agreement:

- a. Ebrahim acknowledges the deficiencies in his audit and review engagement standards of practice as set out above; and
- b. Ebrahim has been fully cooperative in the Professional Conduct Committee’s investigation into his conduct.

Terms of Settlement

59. Ebrahim and the Professional Conduct Committee agree to the following Terms of Settlement:

- a) A payment by way of fine in the amount of \$5,000;
- b) Ebrahim will attend, within 18 months from the time the Discipline Committee accepts this Settlement Agreement, the following professional development courses offered by the Institute (or their successor courses):
 - *Review Engagements;*
 - *ASPE – A Comparison to Part V; and*
 - *Not-for-Profit Organizations: the New Accounting Standards (Part III)*
- c) Ebrahim shall, within 30 days of the approval of this Settlement Agreement, enter into a Supervision Agreement approved by the Director of Standards Enforcement (“the Director”) with a Supervisor approved by the Director from outside of Ebrahim’s practice who will review all assurance engagements undertaken by Ebrahim for a period of 18 months after the Discipline Committee accepts this Settlement Agreement, with the 18 month supervisory period to commence with the first assurance engagement undertaken by Ebrahim following approval of the Settlement Agreement;
- d) The Professional Conduct Committee will re-investigate Ebrahim at the end of the period of supervised practice with the costs of the re-investigation, up to \$2,500, to be borne by Ebrahim;
- e) Notice of the terms of this Settlement is to be published in accordance with the provisions of ICAO Regulation 7-3, s. 22, including notice to be given to the CICA, the Public Accountants’ Council and in *CheckMark Magazine*; and
- f) Ebrahim will be allowed 6 months from the time the Discipline Committee accepts this Settlement Agreement to pay the fine referred to herein.

60. Should the Discipline Committee accept this Settlement Agreement, Ebrahim agrees to waive his right to a full hearing, judicial review or appeal of the matter subject to the Settlement Agreement. Upon the member fulfilling the requirements of this Settlement Agreement, the draft allegations approved by the Professional Conduct Committee and dated March, 2011, shall be forever stayed.

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

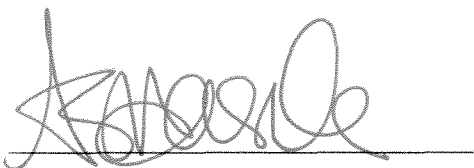
- a) This Settlement Agreement and its terms, including all Settlement Negotiations between the Professional Conduct Committee and Ebrahim leading up to its presentation to the Discipline Committee, shall be without prejudice to the Professional Conduct Committee and Ebrahim; and
- b) The Professional Conduct Committee and Ebrahim shall be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing on the merits of the allegations, or negotiating a new Settlement Agreement, unaffected by this Settlement Agreement or the Settlement Negotiations.

Disclosure of Settlement Agreement

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

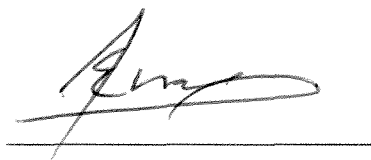
63. Any obligations of confidentiality shall terminate upon approval of the Settlement Agreement by the Discipline Committee.

All of which is agreed to for the purpose of this proceeding alone this 30 day of November 2011.



ALEXANDRA E. HERSAK
COUNSEL

On behalf of:
THE PROFESSIONAL CONDUCT COMMITTEE



ISMAIL EBRAHIM, CA
on his own behalf

CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

IN THE MATTER OF: ALLEGATIONS OF PROFESSIONAL
MISCONDUCT AGAINST ISMAIL
EBRAHIM CPA, CA, A MEMBER OF CPA
ONTARIO, BEFORE THE DISCIPLINE
COMMITTEE

ADDENDUM TO SETTLEMENT AGREEMENT

WHEREAS Mr. Ismail Ebrahim, CPA, CA ("Ebrahim") and the Professional Conduct Committee ("PCC") entered into a Settlement Agreement on November 30, 2011, which was approved by the Discipline Committee on January 19, 2012 (the "Settlement Agreement");

AND WHEREAS subparagraphs 59(b), (c) and (d) of the Settlement Agreement relate to rehabilitation of Ebrahim's standards of practice in the performance of assurance engagements;

AND WHEREAS, on or about April 17, 2012, Ebrahim provided an undertaking to the Institute of Chartered Accountants of Ontario (now CPA Ontario) not to accept or perform any assurance engagements in the future (the "Undertaking");

AND WHEREAS Ebrahim and counsel to the PCC requested that the Chair of the Discipline Committee approve the within Addendum to the Settlement Agreement;

AND IN CONSIDERATION OF the Undertaking;

1. EBRAHIM AND THE PCC agree that subparagraphs 59 (b), (c), and (d) of the Settlement Agreement are no longer of any force or effect.

Dated: October 26, 2017.