



Founded 1879

# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO

IN THE MATTER OF:            DRAFT ALLEGATIONS AGAINST  
   KRISHAN SUNTHARALINGAM, CA, A  
   MEMBER OF THE INSTITUTE, BEFORE  
   THE DISCIPLINE COMMITTEE

## SETTLEMENT AGREEMENT

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

### **Background**

1. The Professional Conduct Committee ("PCC") approved the drafting of allegations against Krishan Suntharalingam ("Suntharalingam" or "the member"). **Schedule "A"**
2. Suntharalingam obtained his CA designation in 2000 after articling with KPMG. From 2002 he has been in public practice as a sole practitioner. His practice currently has three staff. Two are technicians (non-designated) and one is an administrative support employee. At the time of the audits described below a part-time Chartered Accountant, who had no responsibilities for the engagement, was employed with the member.
3. The complaint comes from the successor accountant acting for xxx032 Ontario Limited ("the company")

## **The First Allegation**

***Krishan Suntharalingam, in or about the period October 1, 2007 through  
November 30, 2007, while engaged to perform an audit of the financial statements***

*of xxx032 Ontario Limited for the year ended August 31, 2007, 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, contrary to Rule 206 of the rules of professional conduct.*

## **The Second Allegation**

*Krishan Suntharalingam, in or about the period September 1, 2008 through October 31, 2008, while engaged to perform an audit of the financial statements of xxx032 Ontario Limited for the year ended August 31, 2008, 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, contrary to Rule 206 of the rules of professional conduct.*

### **The Particulars to the Allegations**

*Allegation 1 (a) 2007 - Accounts receivable of \$3,110,438 were netted with a credit line of \$2,597,199 for financial statement presentation, and not reported individually.*

*Allegation 2 (a) 2008 - Accounts receivable of \$4,994,959 were netted with a credit line of \$3,802,884 for financial statement presentation, and not reported individually.*

4. The 2007 balance sheet shows an item "Accounts receivable (net) (Note 1 (h), 5) \$513,239" **Tab 1**. The 2008 balance sheet shows an item "Accounts receivable (net) (Note 1 (h), 5) \$1,192,124" **Tab 2**. In both years note 1(h) indicates that the accounts receivable consist of trade accounts and other receivables offset by a note payable to the state Bank of India. This is supported by the working paper files **Tab 3, Tab 4**.

5. Current assets should be segregated as between the main classes; cash, investments, accounts and notes receivable, inventories, prepaid expenses and future income tax assets. **CICA 1510.02, Authorities Tab 1**
  
6. Current liabilities should be segregated as between the main classes, for example, bank loans, trade creditors and accrued liabilities, loans payable, taxes payable, dividends payable, deferred revenues, current payments on long-term debt and future income tax liabilities. Amounts owing on loans from directors, officers and shareholders and amounts owing to parent and other affiliated companies, whether on account of a loan or otherwise, should be shown separately. **CICA 1510.09, Authorities Tab 1**
  
7. A financial asset and a financial liability should be offset and the net amount reported in the balance sheet *only* in circumstances where a company:
  - a) has a legally enforceable right to set off the recognized amounts; and
  - b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. **CICA 3861.27, Authorities Tab 2**

The criteria for offset were not present in this case and the entire receivables balance should have been disclosed on the balance sheet for each year.

***Allegation 1 (b) 2007 – Components of cash equivalents are not disclosed in the statement of cash flows.***

***Allegation 2 (b) 2008 – Components of cash equivalents are not disclosed in the statement of cash flows.***

8. The company should disclose the components of cash and cash equivalents and present a reconciliation of the amounts in its cash flow statement **Tab 1, Tab 2** with the equivalent items presented in the balance sheet. **CICA 1540.48, Authorities Tab 3.** This was not done.

***Allegation 1 (c) 2007 – Comparative information for the three components of inventory was not provided in the financial statements as required by CICA 1505.08.***

***Allegation 2 (c) 2008 – Comparative information for the three components of inventory was not provided in the financial statements as required by CICA 1505.08.***

9. The Financial statements should be prepared on a comparative basis, unless the comparative information is not meaningful or generally accepted principles permit otherwise. In this case comparative information is meaningful.
10. In both 2007 and 2008 the three components of inventory applicable to the company are described in Note 1 (b) **Tab 1, Tab 2**, an accounting policy note. Comparative information for these balances was not provided in the financial statements as required by **CICA 1505.08, Authorities Tab 4**.

***Allegation 1 (d) 2007 – Financing charges of \$126,144 are included as assets on the balance sheet and not expensed.***

***Allegation 2 (d) 2008 – Financing charges of \$64,738 are included as assets on the balance sheet and not expensed.***

11. The balance sheets include the item (2007) “Deferred financing charges (Note 1(c)) 126,144” **Tab 1** and (2008) “Deferred financing charges (Note 1(c)) 64,738” **Tab 2**. These charges represent professional and financing fees related to the set up of bank operating lines of credit and term loans and should have been expensed.

***Allegation 1 (e) 2007 - The disclosure and audit of related party transactions was deficient.***

***Allegation 2 (e) 2008 - The disclosure and audit of related party transactions was deficient.***

12. On the balance sheet (2007) **Tab 1** is an item, "Due from Related Company (Note 4) 1,344,110". Note 4 does not describe the relationship, or how the transactions were measured.
13. On the balance sheet (2008) **Tab 2** is an item, "Due from Related Company (Note 4) 1,344,110". Note 4 does not describe the relationship, or how the transactions were measured
14. The working papers with respect to related parties are found at (2007 **Tab 5**) (2008 **Tab 6**). The auditor did not confirm the carrying amount and the basis for its determination with the related party or the related party's auditor. No alternative procedures to obtain sufficient appropriate audit evidence were carried out. These procedures could include examining the related party's accounting records that deal with the transaction, or examining documentation originated by a third party supporting the reasonableness of the carrying amount.
15. Although enquiries were made of management regarding related party transactions no written representation was obtained by management as required. **CICA 6010.27, Authorities Tab 5**

***Allegation 1 (f) 2007 - An amount of \$1,655,890 was disclosed as Goodwill on the balance sheet in circumstances where it was not appropriate to do so.***

***Allegation 2 (f) 2008 - An amount of \$1,655,890 was disclosed as Goodwill on the balance sheet in circumstances where it was not appropriate to do so.***

16. Goodwill is the excess of the cost of an acquired enterprise over the net amounts assigned to assets acquired and liabilities assumed. The amount recognized as goodwill in this case includes acquired intangible assets that do not meet the criteria set out in the CICA Handbook. **CICA 1581, Authorities Tab 6**
17. By agreement of purchase and sale dated August 31, 2006 (2007 **Tab 7**), xxx466 Ontario Limited purchased 2 common shares of the company from an unrelated

corporation, xxx638, for \$3,000,000. The transaction should have been accounted for by xxx466 and not by the company.

18. The goodwill of \$1,655,890 was disclosed on the financial statements of the company (2007 **Tab 1**) (2008 **Tab 2**) on the basis that it provided funding to xxx466 to complete the purchase. The member's working papers regarding goodwill for 2008 are found at (2008 **Tab 8**) and for 2007 at **Tab 9**.
19. It was inappropriate to recognize Goodwill on this transaction in these circumstances. **CICA 3062, Authorities Tab 7**

***Allegation 1 (g) 2007 - There is no capital lease accounting policy listed under Note 1, Significant Accounting Policies.***

***Allegation 2 (g) 2008 - There is no capital lease accounting policy listed under Note 1, Significant Accounting Policies.***

20. A clear and concise description of the significant accounting policies of an enterprise should be included as an integral part of the financial statements. **CICA 1505.04, Authorities Tab 4**
21. There is no capital lease accounting policy listed under Note 1, Significant Accounting Policies.

***Allegation 1 (h) 2007 - There is no disclosure of minimum lease payments for each of the next five years in Note 5 of the financial statements.***

***Allegation 2 (h) 2008 - There is no disclosure of minimum lease payments for each of the next five years in Note 5 of the financial statements.***

22. For 2007 and 2008 there is no disclosure in Note 1, "Significant Accounting Policies" of the capital lease accounting policy.

23. Disclosure should be made of the future minimum lease payments in aggregate and for each of the five succeeding years. A separate deduction should be made from the aggregate figure for the amounts included in the minimum lease payments representing executory costs and imputed interest. The resultant net amount would be the balance of the unpaid obligation. **CICA 3065.24, Authorities Tab 8**
24. There is no disclosure of minimum lease payments for each of the next five years in Note 5 to the financial statements.

***Allegation 1 (i) 2007 - There is no disclosure of maturity dates of long term debt of \$1,943,240.***

***Allegation 2 (i) 2008 - There is no disclosure of maturity dates of long term debt of \$1,353,240.***

25. For bonds, debentures and similar securities, the title of the issue, the interest rate, maturity date, amount outstanding and the existence of sinking fund, redemption and conversion provisions should be disclosed. For mortgages and other long-term debt, similar particulars should be provided to the extent practical. **CICA 3210.02, Authorities Tab 9**
26. The 2007 financial statements disclose current portion of Long Term Debt of \$556,760 and Long Term Debt of \$1,943,240 (2007 **Tab 1**). In Note 5 (2007 **Tab 1**), there is no disclosure of maturity dates.
27. The 2008 financial statements disclose current portion of Long Term Debt of \$590,000 and Long Term Debt of \$1,353,240 (2008 **Tab 2**). In Note 5 (2008 **Tab 2**), there is no disclosure of maturity dates

***Allegation 1 (j) 2007 - There is no disclosure of the aggregate amount of payments required in each of the next five years to meet retirement provisions of debt.***

***Allegation 2 (j) 2008 - There is no disclosure of the aggregate amount of payments required in each of the next five years to meet retirement provisions of debt.***

28. The aggregate amount of payments estimated to be required in each of the next five years to meet sinking fund or retirement provisions should be disclosed. **CICA 3210.03, Authorities Tab 9**

29. In 2007 and 2008 there was no financial statement disclosure of the aggregate amount of payments required in each of the next five years.

***Allegation 1 (k) 2007 - Significant covenants attached to bank loans and other operating lines of credit are not disclosed.***

***Allegation 2 (k) 2008 - Significant covenants attached to bank loans and other operating lines of credit are not disclosed.***

30. For each class of financial assets, financial liabilities and equity instruments, both recognized and unrecognized, an entity should disclose information about the extent and nature of the financial instrument, including significant terms and conditions, including covenants, that may affect the amount, timing and certainty of future cash flows. **CICA 3861.43, Authorities Tab 2**

31. Significant covenants attached to bank loans and other operating lines of credit (2007 **Tab 10**) (2008 **Tab 11**) are not disclosed.

***Allegation 1 (l) 2007 - There is no disclosure of failed debt covenants.***

***Allegation 2 (l) 2008 - There is no disclosure of failed debt covenants.***

32. The details of any defaults of the entity in principal, interest, sinking fund or redemption provisions with respect to any outstanding obligation should be disclosed. When other defaults have occurred, it may be necessary to refer to them, particularly when they have not been subsequently waived. **CICA 3210.08, Authorities Tab 9**



33. Within the member's working paper file there are tests of covenants, and some were not met (2007 **Tab 12**) (2008 **Tab 4**) . Failed debt covenants are not disclosed in the financial statements for either year and in particular are not listed in Note 5 to the Financial Statements (2007 Doc 43) (2008 Doc 55).

***Allegation 1 (m) (2007) - The "Statement of Loss" disclosed as an extraordinary item "Restructuring expense 1,222,295" which should have been disclosed as discontinued operations, net of income tax as a separate element of loss.***

34. The results of discontinued operations, less applicable income taxes, should be reported as a separate element of income or loss before extraordinary items for both current and prior periods. **CICA 3475.30, Authorities Tab 10**
35. Within the statement of income, there are restructuring expenses of \$1,222,295, reported as an extraordinary item **Tab 1**. Restructuring expenses (working paper **Tab 13**) related to closure of the company's bindery division should have been disclosed as discontinued operations, net of income tax as a separate element of loss. **CICA 3475.27, Authorities Tab 10**

***Allegation 1 (n) (2007) - The member failed to obtain sufficient audit evidence to support the balance sheet item "Capital assets (Note 1(f), 3) 2,321,632".***

36. Inspection of tangible assets consists of physical examination of the assets. Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but not necessarily about the entity's rights and obligations or the valuation of the assets. **CICA 5300.32, Authorities Tab 11**
37. The balance sheet item "Capital Assets (Note 1(f), 3) 2,321,632", (net book value) included two printing presses the company acquired, for a total value of \$1,325,000, from R. M., a shareholder of the company's parent, xxx466. These presses were reflected on the company's records on October 18, 2006.

38. The appraisal used **Tab 14** was prepared by a third Party Corporation, but the invoice for one of the presses **Tab 15** which was subject to the appraisal **Tab 14** was from the appraiser to the company, not R.M. this called into question the value of the assets.
39. The title or ownership of these presses was not adequately verified. While the member did review the bank PPSA he did not document this step and he did not otherwise verify title of the assets or review a bill of sale.

***Allegation 1 (o) (2007) - The member failed to properly plan the audit and assess risk.***

40. The practitioner should consider the concept of significance and the relevant components of engagement risk when planning and performing the assurance engagement. **CICA 5025.48, Authorities Tab 12**
41. In 2007 the Audit Strategy Memorandum was incomplete and not used in its entirety (2007 **Tab 16**). There was no documentation of inherent risk, control risk assessment, level of substantive work required or description as to the nature and extent of substantive work to be performed.
42. The overall audit strategy and the audit plan should be updated and changed as necessary during the course of the audit. **CICA 5150.16, Authorities Tab 13**
43. The Audit Strategy Memorandum was not followed up at the end of the engagement to ensure all work was completed or amended accordingly.

***Allegation 1 (p) (2007) - The member failed to ensure the audit file was properly "locked down".***

***Allegation 2 (m) (2008) - The member failed to ensure the audit file was properly "locked down".***

44. In both the 2007 and 2008 year ends the member's first of three files for each year is referenced as his "TOP FILE". These files contain the final financial statement, all

draft financial statements, planning section, completion section and agreements. In each year, there is no working paper showing the final date of the file completion and there is no date reference for final closure of the audit.

45. The 2007 file was completed the first week of November, 2007. The audit report was dated November 17, 2007 but there was no formal procedure for lock-down. Similarly for 2008 there was no lock-down procedure.

46. The document completion date is the date at which a complete and final set of audit documentation is assembled and is not more than 45 days after the report release date, if a report is issued in connection with the engagement. **CICA 5145.02(b),**

**Authorities Tab 14**

**Terms of Settlement**

47. Suntharalingam and the Professional Conduct Committee agree to the following Terms of Settlement:

- a) Suntharalingam will pay a fine in the amount of \$5,000 within three months of this agreement receiving approval of the Discipline Committee;
- b) Suntharalingam will take the following courses, or if the course is no longer available, the successor course, within 18 months. The page reference is to the page reference number in the 2012-2013 Fall/Winter PD Catalogue. Those courses are as follows:
  - Financial Statement Presentation & Disclosure, under ASPE (1 day) (page 32);
  - Auditing in the CAS Environment (2 days) (page 35);
  - Effective Use of Analytical Procedures (1/2 day) (page 37); and
  - Understanding/Documenting Internal Controls for Auditing Smaller Entities (1/2 day) (page 42).

- c) For a period of eighteen months after the Discipline Committee approves this Agreement, all assurance work undertaken by Suntharalingam will be carried out under the supervision of a Chartered Accountant approved by the Director of Standards Enforcement. No assurance statements will be released without the express approval of the Supervisor noted in the working paper file;
  - d) Suntharalingam will be reinvestigated by the Professional Conduct Committee eighteen months after this agreement is approved by the Discipline Committee. The costs of the reinvestigation, up to \$2,500, will be borne by Suntharalingam.
  - e) Suntharalingam will pay costs in the amount of \$17,000 within three months of this agreement receiving approval of the Discipline Committee;
  - f) Notice of the terms of this Settlement Agreement will be given in accordance with the provisions of ICAO Regulation 7-3, section 22 including to the Public Accountants' Council, the CICA and in *Checkmark Magazine*;
  - g) A failure by Suntharalingam to comply with sub-sections (a), (b) and/or (c) of this paragraph will result in his suspension from membership in the Institute which suspension will continue until he complies. If his suspension under this section continues for three months he will be expelled from membership with full publicity in accordance with Regulation 7-3(23).
48. Should the Discipline Committee accept this Settlement Agreement, Suntharalingam agrees to waive his right to a full hearing, judicial review or appeal of the matter subject to the Settlement Agreement. The allegations approved by the Professional Conduct Committee attached to this agreement shall be stayed.

(e)  
ON CONSENT  
AMENDED  
NOV. 22/12  
KDW

**If Settlement Agreement Not Approved**

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

- b) The Professional Conduct Committee and Suntharalingam 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;
- c) The terms of this Settlement Agreement will not be referred to in any subsequent proceeding, or disclosed to any person, except with the written consent of the Professional Conduct Committee and Suntharalingam or as may be required by law.

50. 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 31<sup>st</sup> day of October, 2012.



KRISHAN SUNTHARALINGAM, CA

On his own behalf



PAUL F. FARLEY  
SENIOR COUNSEL,  
PROFESSIONAL CONDUCT COMMITTEE  
On behalf of the Committee