CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

THE CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

IN THE MATTER OF: DRAFT ALLEGATIONS OF PROFESSIONAL MISCONDUCT AGAINST ADAM J. SHAW, CPA, CA, A MEMBER OF CPA ONTARIO, BEFORE THE DISCIPLINE COMMITTEE

SETTLEMENT AGREEMENT

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

Introduction

1. The Professional Conduct Committee ("PCC") has approved draft Allegations against Adam J. Shaw, CPA, CA ("Shaw") (attached as SCHEDULE "A") the particulars of which are set out below. The documents referred to in this settlement agreement are found in the Document Brief ("DOC"). The applicable CPA Handbook sections are found in the Standards Brief ("Standards").

2. The draft Allegations pertain to the failure of Shaw to perform professional work in accordance with generally accepted standards of the profession, contrary to Rule 206.1 of the Chartered Professional Accountants Code of Professional Conduct, with respect to the following engagements:

   a) the review of the financial statements of "[redacted] H" for the year ended December 31, 2018, (DOC);
   b) the review of the financial statements of "[redacted] H" for the year ended December 31, 2019, (DOC);
   c) the audit of the financial statements of "IFH" for the year ended December 31, 2018, (DOC); and
   d) the audit of the financial statements of "ICM" for the year ended August 31, 2018, (DOC).

3. The PCC and Shaw 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 Shaw 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.

4. The PCC and Shaw further agree that the audit deficiencies found on the audit engagement described in Allegation 1 are, in many cases, repeated in the audit engagement described in Allegation 2. Similarly, the review deficiencies described on the review engagement in Allegation 3 are repeated in the review engagement described in Allegation 4. Where the deficiencies described in the subsequent Allegations are the same as previous Allegations the agreed statement does not repeat the support for the standards breached but relies on the descriptions of the failures to comply with generally accepted standards of practice first described on each audit and each review.

5. Shaw and the PCC agree that the draft Allegations particularize the way Shaw failed to perform his professional services in accordance with generally accepted standards of practice of the profession.

6. It is further agreed that the deficiencies identified in the two review and two audit engagements referred to in this Settlement Agreement are typical of deficiencies on all of the assurance files that Shaw has been engaged to perform during this period.

7. Shaw and the PCC further agree that the failure to comply with generally accepted standards of practice described in the particulars to the Allegations resulted in breaches of Rule 206.1 of the Code of Professional Conduct with respect to each of the four engagements as alleged.

8. The relevant standards are those identified in this agreed statement of facts and referenced to the Standards Brief.

Background

9. Shaw obtained his Chartered Accountant designation in 2000 and practiced initially with a small sized public accounting firm until 2007. He started his own firm in 2003 in

Woodstock. In 2012, he purchased a small practice and about a year and a half ago, he acquired another small practice which resulted in him opening a Tillsonburg office. He has a current Public Accountants Licence (PAL) originally issued on September 4, 2003

10. Annual fees are approximately $1,100,000 made up of about $335,000 for Notice to Readers, $280,000 for personal income tax returns, $210,000 for bookkeeping services, $30,000 for the three reviews he is currently engaged to perform and the remainder for various advisory type services. He no longer has any audit engagements.

11. Shaw employs 9 people, including a recent CPA, of which two perform administrative duties. He approves all the financial statements and income tax returns that are issued by his offices.

The Complaint

12. Shaw's recent history with practice inspection resulted in the following:

   a) 2015: Inspection date: September 8, 2015; decision date March 23, 2016, Practice Inspection Committee ("PIC") recommended the normal reinspection schedule;
   b) 2018: Inspection date: October 18. 2018; decision date: April 9, 2019, PIC recommended a reinspection in one year; and
   c) 2019: Inspection date: October 26, 2019; decision date: April 6, 2020, PIC referred Shaw to the PCC.

13. On October 9, 2020, the PCC appointed Paul Gibel, FCPA, FCA, (the "Investigator") to investigate the member's standards of practice.

Failure to Maintain Professional Standards - Overview

14. References in this agreement to "Sections" are references to the Sections of the CPA Canada Handbook – General Accounting or the CPA Canada Handbook – Assurance.

15. References to "CAS" are to the Canadian Auditing Standards of the CPA Canada Handbook – Assurance for the applicable year. References to "CSRE" are to the Canadian Standards on Review Engagements.

16. References to "IFRS" are to the International Financial Reporting Standards and references to "IAS" are to the International Accounting Standards.

17. The deficiencies found in each of the engagements that are the subject of draft Allegations are similar. Shaw does not complete most of the checklists that are in his Caseware files and agrees that he has failed to document work done in accordance with the standards of practice of the profession.

18. In referring this matter to the PCC, the PIC was concerned that there was no evidence of improvement on the reinspection of Shaw's practice and there did not appear to be any attempt made to improve. Each of the reports Shaw issued were not in the recommended format and there were significant shortcomings in all the files reviewed.

19. Shaw and the PCC agree that Shaw failed to perform his professional services in accordance with generally accepted standards of practice of the profession as set out in the particulars to the Allegations as described below.

Allegation 1 – Adam J. Shaw, in or about the period December 1, 2018 through January 30, 2019, while engaged to review the financial statements of "[redacted] H" for the year ended December 31, 2018, failed to perform professional services in accordance with generally accepted standards of practice of the profession contrary to Rule 206.1 of the CPA Code of Professional Conduct.

20. The financial statements for [redacted] H for the year ended December 31, 2018 (DOC 001-015), together with the Review Engagement Report, were signed by Lopez and issued on January 30, 2019 (DOC 002).

21. The documentation standard for review engagements is in CSRE 2400.104 which states that:

"The preparation of documentation for the review provides evidence that the review was performed in accordance with this CSRE, and legal and regulatory requirements where relevant, and a sufficient and appropriate record of the basis for the practitioner's report. The practitioner shall document the following aspects of the engagement in a timely manner, sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand: (a) the nature, timing and extent of the procedures performed…(b) results obtained from the procedures and the practitioner's conclusions formed on the basis of those results; and (c) significant matters arising during the engagement, the practitioner's conclusions reached thereon, and significant professional judgments made in reaching those conclusions."

Particular a) - He failed to obtain an understanding of the entity and its environment sufficient to allow him to identify and document the areas in the financial statements where material misstatements are likely to occur;

22. 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.

23. CSRE 2400.44 provides a list of things that should be included in the practitioner's understanding. These include relevant industry, regulatory and external factors; the nature of the entity; the entity's accounting systems and accounting records; and the entity's selection and application of accounting policies.

24. CSRE 2400.45 then requires the practitioner, based on their understanding, to identify areas in the financial statements where material misstatements are likely to arise.

25. Shaw did prepare a Risk Assessment and Analytical Review working paper 510-3 (DOC 16-20) which identified risks and areas to be investigated based on Shaw's preliminary review of the financial statements and his responses. There is, however, no evidence that Shaw has considered the areas where material misstatements are likely to arise based on his understanding of the entity and its environment as required by the standards.

Particular b) - He failed to make sufficient and appropriate enquiries of management with respect to accounting estimates, related party transactions and significant, unusual or complex transactions;

26. CSRE 2400.47 lists the enquiries of management and others within the entity that shall be made by the practitioner, including how management makes significant accounting

estimates, identification of related parties and related party transactions and significant, unusual or complex transactions.

27. The Worksheet – Accounting estimates (DOC 021) is completed, however, it only identifies prepaids in the Estimate preparation section. There is no documentation of how management makes the estimates.

28. There is a list of the related parties in Shaw's file but there is no documentation of any discussions with management as required.

29. There is no documentation in the working papers of any discussions with management with respect to enquiries of management relating to significant, unusual or complex transactions, events or matters that have affected or may affect the entity's financial statements.

30. In particular there are no enquiries relating to i) significant changes in the entity's business activities or operations; ii) significant changes to the terms of contracts that materially affect the entity's financial statements; iii) significant journal entries or other adjustments; iv) significant transactions occurring or recognized near the end of the reporting period; v) the status of any uncorrected misstatements identified during previous engagements; and vi) the effects or possible implications of transactions or relationships with related parties.

Particular c) - He failed to make sufficient and appropriate enquiries of management with respect to commitments, contractual obligations or contingencies;

31. There is no documentation of discussions with management regarding material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements.

Particular d) - He failed to make sufficient and appropriate enquiries of management with respect to non-monetary transactions;

32. There is no documentation of discussions with management regarding material non-monetary transactions or transactions for no consideration in the period.

Particular e) - He failed to document his conclusions with respect to whether anything has come to his attention that caused him to believe that the financial statements are not prepared in accordance with the applicable financial reporting framework and are free from material misstatement;

33. CSRE 2400.76 requires the practitioner to form a conclusion on whether anything has come to the practitioner's attention that caused the practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework.

34. CSRE 2400.77 requires the practitioner to determine whether limited assurance has been obtained that the financial statements as a whole are free from material misstatement.

35. There is a Completion checklist included in the Professional Engagement Guide (PEG) but it was not completed for this engagement. Shaw did not adequately evaluate whether the overall presentation, structure and content of the financial statements are in accordance with the applicable framework (CSRE 2400.78 (a)) and whether the financial statements, including the related notes, appear to represent the underlying transactions and events in a manner that achieves fair presentation (CSRE 2400.78 (b)).

36. While Shaw tries to ensure the financial statements are accurate, informative and useful and would not sign the report unless he believed the financial statements were in accordance with ASPE and achieved fair presentation, there is no documentation of any support for these conclusions.

Particular f) - He failed to assess the appropriateness of the company's recognition of revenue with respect to bill and hold arrangements;

37. [redacted]H produces patio stones of standard sizes and design with a low cost per unit. The inventory is not differentiated by customer. Home Depot, Home Hardware and Canadian Tire will commit to orders, [redacted] H invoices these customers, so they match the revenue against the production expenses, and holds the inventory for them. The shipments are made towards the end of April per Shaw.

38. There is a note on the December 31, 2019 Aged Accounts Receivable List that says "All receivables are good per Robin amounts are due to contracts that are not payable and

deliverable until June. Contracts allow [redacted] H to work through the winter and stockpile inventory for Spring shipment when rush comes." (DOC 247) The revenue on these transactions is recognized in the financial statements. Shaw said these same arrangements were in place for the December 31, 2018 year and the method of accounting and revenue recognition was also the same.

39. Revenue from sales shall be recognized when the requirements as to performance as set out in paragraphs 3400.05-.06 are satisfied provided that at the time of performance ultimate collection is reasonably assured (3400.04).

40. 3400.05 states that in a transaction involving the sale of goods, performance shall be regarded as having been achieved when the following conditions have been fulfilled: (a) the seller of the goods has transferred to the buyer the significant risks and rewards of ownership, in that all significant acts have been completed and the seller retains no continuing management involvement in, or effective control of, the goods transferred to a degree usually associated with ownership; and (b) reasonable assurance exists regarding the measurement of the consideration that will be derived from the sale of goods, and the extent to which goods may be returned.

41. Performance would be regarded as being achieved under paragraphs 3400.05 - .06 when all of the following criteria have been met; (a) persuasive evidence of an arrangement exists; (b) delivery has occurred; and (c) the seller's price to the buyer is fixed or determinable per 3400.07.

42. These criteria are not met in this case. This is a bill and hold arrangement. Although there is an arrangement in place as this practice is followed on an annual basis and the price is fixed or determinable as the invoices have been issued, delivery has not occurred.

43. [redacted]H produces patio stones of standard sizes and design with a low cost per unit. The inventory is not differentiated by customer. The risks and rewards of ownership have not passed to the customer while the product is still at [redacted] H's plant. Even though the inventory is segregated, it cannot be differentiated by customer.

44. The revenue related to these invoices should not be recognized.

Particular g) - He failed to carry out sufficient review procedures to support the plausibility of the balance sheet item "Cash (note 2) $865,211";

45. The bank reconciliation shows outstanding cheques and charges of $233,319.93 and outstanding deposits and debits of $86,544.88 (DOC 025). These are the totals of the items that are not ticked off in the Reconciliation box at the far-left side of the working paper.

46. Although Shaw checks the subsequent month's bank statement there were not sufficient procedures performed to assess the plausibility of these reconciling items and there was no documentation of any procedures being performed at all.

Particular h) - He failed to carry out sufficient review procedures to support the plausibility of the balance sheet item "Inventory (note 4) $806,608";

47. All the procedures in the Analytical Review section of the Inventory – Review procedures checklist are noted as completed, no exceptions (DOC 027). This section of the checklist is referenced to working paper 680 which is the Financial ratios working paper (DOC 032). There was no documentation of this work being done.

48. Gross margin is identified as a risk area and there is a comment that materials inventory is relatively consistent and finished goods are down because the system is more efficient, and the company is building less ahead. There are no explanations for any variances in the financial ratios working paper (DOC 032).

49. There is no documentation of enquiries with management or analytical procedures and Shaw has not obtained sufficient appropriate evidence to determine the plausibility of inventory.

Particular i) - He failed to carry out sufficient review procedures with respect to unrecorded liabilities;

50. There was no search for unrecorded liabilities. Shaw did not consider this a large centre of risk as the company is profitable and in good standing with the bank and so there were no review procedures performed with respect to unrecorded liabilities.

Particular j) - He failed to carry out sufficient enquiry and analysis to determine the appropriate income tax rates and failed to document support for his rationale in choosing the 18.2% tax rate he used to calculate the future income tax liability;

51. The Future Income Taxes working paper (DOC 033) shows future income taxes calculated using an average tax rate of 18.2%. Shaw selected this rate because the company is over the small business limit and using the small business rate would understate this balance. There is no documentation of Shaw's rationale for choosing a rate of 18.2%.

52. 3465.51 requires income tax assets and income tax liabilities to be measured using the income tax rates and income tax laws that, at the balance sheet date, are expected to apply when the liability is settled, or the asset realized which are normally those enacted at the balance sheet date.

53. 3465.58 states that when different income tax rates apply to different levels of taxable income, future income tax assets and liabilities are measured using the rates that are expected to apply to the taxable income in the periods in which the temporary differences are expected to reverse.

54. In this case, Shaw used the tax rate based on the current year's income tax return and not the rate expected to apply in the periods in which the temporary differences are expected to reverse contrary to the requirements of the standards.

Particular k) - He failed to document the rationale for the disclosure of retractable or mandatorily redeemable shares issued in a tax planning arrangement shown on the financial statements;

55. The share capital note (DOC 013) discloses Class D and E shares which have a low paid up capital and a high redemption amount, so they appear to have been issued in a tax planning arrangement. Shaw believed this to be the case and understood this to be a part of an estate freeze.

56. 3856.23 states that an enterprise that issues retractable or mandatorily redeemable shares in a tax planning arrangement may choose to present those shares at par, stated

or assigned value as a separate line item in the equity section of the balance sheet only when all of the following conditions are met:

a) control is retained by the shareholder receiving the shares in the arrangement;

b) no consideration is received by the enterprise issuing the shares or the shares are exchanged; and

c) no other written or oral arrangement exists that gives the holder of the shares the contractual right to require the enterprise to redeem the shares.

57. There is no documentation in the working paper file with respect to these shares, so it is not possible to determine if they have been properly classified as equity.

Particular l) - He failed to adequately document support for the date of the review engagement report;

58. Shaw determined the date of his review engagement report to be the date when the financial statements are ready for printing. He releases the financial statements shorty after that.

59. CSRE 2400.103 requires the practitioner to date the report no earlier than the date on which the practitioner has obtained sufficient appropriate evidence as a basis for the practitioner's conclusion on the financial statements being satisfied that:

a) All the statements that comprise the financial statements including the related notes have been prepared; and

b) those with recognized authority have asserted that they have taken responsibility for those financial statements.

60. There is no documentation of when those recognized with authority took responsibility and therefore, no documentation to support the date of the report.

Particular m) - He failed to document discussions with management with respect to fraud;

61. CSRE 2400.47(de) requires a discussion with management with respect to fraud.

62. Shaw attempts to identify numbers that do not look right in his initial analytical review and has prepared a Risk Assessment and Analytical Review worksheet. (DOC 016-020) He was not, however, aware of the requirement to discuss compliance with laws and regulations with the client and did not do so.

63. Although there was a site visit as part of the review procedures, and a search for obsolete inventory and machinery, this does not constitute a discussion with management.

64. There is no documentation of any discussions with management with respect to fraud.

Particular n) - He failed to document a review for subsequent events;

65. CSRE 2400.47(e) requires enquiries into whether management 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.

66. Although Shaw always has a discussion with the client, usually on the last day of field work, there is not any documentation of a review for subsequent events in his working papers.

Particular o) - He failed to ensure adequate or proper disclosure in the financial statement of:

a) The cost formula used in Note 1(e) accounting policy for inventory;

b) The significant estimates used to prepare the financial statements in Note 1(g) use of estimates accounting policy;

c) The terms of a variable rate term loan described in Note 6;

d) The aggregate amount of payments estimated to be required over the next five years for demand debt described in Note 6; and

e) An accounting policy note with respect to Class D and E shares issued in a tax planning arrangement to describe the arrangement that gave rise to the shares.

67. Note 1 (e) (DOC 009) discloses the accounting policy for inventory. The cost formula used has not been disclosed as required by section 3031.35 (a).

68. Note 1 (g) (DOC 010) is the Use of estimates accounting policy. This Note discloses estimates in the recognition and valuation of accounts receivable, prepaid expenses and deposits, inventory, capital assets, accounts payable and current and future income tax estimates.

69. The Worksheet – Accounting estimates in his working papers (DOC 034) identifies amortization of capital assets and prepaids as the estimates for this client. Shaw has not identified the significant estimates used to prepare the financial statements including the rate of overhead applied to inventory as it is only applied as a year-end adjustment prepared by Shaw and the rate used to calculate future income taxes.

70. There is a variable rate term loan disclosed in note 6 (DOC 012) that discloses the payments as interest only. The principal balance was $500,000 in the previous year and $456,801 at the current year end. In fact, the loan repayment terms included principal and interest and this disclosure was incorrect.

71. The demand debt is disclosed in note 6 (DOC 012) but the aggregate amount of payments estimated to be required in each of the next five years to meet repayment provisions have not been disclosed as required by section 3856.45.

72. Section 3856.47 (c) (iii) requires disclosure of a description of the arrangement that gave rise to the Class D and E shares that appear to have been issued in a tax planning arrangement. An accounting policy note should have been included with respect to these shares. No such note was prepared.

Allegation 2 - Adam J. Shaw, in or about the period December 1, 2019 through January 30, 2020, while engaged to review the financial statements of "[redacted] H" for the year ended December 31, 2019, failed to perform professional services in accordance with generally accepted standards of practice of the profession contrary to Rule 206.1 of the CPA Code of Professional Conduct.

73. This Allegation pertains to the review of the same company "[redacted] H" that is the subject of the particulars contained in Allegation 1. The deficiencies found on this review engagement are similar to those found on the review of the December 31, 2018 year end.

74. Where a particular under this Allegation alleges the same failure to comply with generally accepted standards of practice, the PCC and Shaw agree that the standards that applied as described in the previous year-end apply here. It is further agreed that each particular sets out circumstances in which Shaw failed to perform professional services in accordance with generally accepted standards of practice of the profession.

Particular a) - He failed to make sufficient and appropriate enquiries of management with respect to accounting estimates and related party transactions;

75. These are the same deficiencies as described in allegation 1(b) and CSRE 2400.47 applies.

76. The estimates working papers included in the PEG were not completed for this year end.

77. The related party transactions checklists in the PEG were not completed.

Particular b) - He failed to make sufficient and appropriate enquiries of management with respect to commitments, contractual obligations or contingencies;

78. Same deficiencies as in allegation 1 (c).

79. There is no documentation of discussions with management regarding material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements.

Particular c) - He failed to make sufficient and appropriate enquiries of management with respect to non-monetary transactions;

80. Same deficiencies as in allegation 1(d).

Particular d) - He failed to document his conclusions with respect to whether anything has come to his attention that caused him to believe that the financial statements are not prepared in accordance with the applicable financial reporting framework and are free from material misstatement;

81. Same deficiencies as in allegation 1(e).

82. Shaw did not complete the Completion checklist for this engagement, so there is no documentation of how he evaluated whether the overall presentation, structure and content of the financial statements is in accordance with the applicable framework and whether the financial statements, including the related notes, appear to represent the underlying transactions and events in a manner that achieves fair presentation (CSRE 2400.78 (a) and (b)).

Particular e) - He failed to assess the appropriateness of the company's recognition of revenue with respect to bill and hold arrangements;

83. Same deficiencies as in allegation 1(f).

Particular f) - He failed to carry out sufficient review procedures to support the plausibility of "Inventory (note 4) $1,046,310";

84. All of the procedures in the Analytical Review section of the Inventory – Review procedures checklist (DOC 250) are noted as completed, no exceptions.

85. There are no explanations for any variances in the financial ratios working paper (DOC 256). This is not sufficient to determine the plausibility of inventory.

Particular g) - He failed to carry out sufficient review procedures with respect to unrecorded liabilities;

86. Same deficiencies as in allegation 1(i).

Particular h) - He failed to carry out sufficient enquiry and analysis to determine the appropriate income tax rates and failed to document support for his rationale in choosing the 18.2% tax rate he used to calculate the future income tax liability;

87. Same deficiencies as in allegation 1(j).

Particular i) - He failed to carry out sufficient review procedures to support the plausibility of revenue and expenses;

88. While there is some commentary on the Review procedures checklist (DOC 258-266) this checklist it is not signed off and, in any event, the date of the enquiries was January 22, 2019, *i.e.* this is the checklist from the 2018 working paper file which has been carried forward and not completed for the current year.

89. There is a reference in the working paper files to the operations memo which requires explanations for all changes between the current and prior period greater than $42,000 or 20%.

90. While sales decreased by $695,064 the explanation is that they are consistent year to year.

91. There is no explanation provided for accounts meeting the criteria including direct wages, delivery wages, equipment repairs and maintenance and interest on long-term debt.

92. Shaw has not obtained sufficient appropriate evidence to determine the plausibility of revenue and expenses.

Particular j) - He failed to adequately document support for the date of the review engagement report;

93. Same deficiencies as in allegation 1(l).

94. The date of the report is when the financial statements were ready for printing and not when all of the statements had been prepared and those with recognized authority had asserted that they have taken responsibility for those financial statements.

95. There is no documentation of when those recognized with authority took responsibility and therefore there is no documentation to support the date of the report. (CSRE 2400.103)

Particular k) - He failed to document discussions with management with respect to fraud;

96. Same deficiencies as in allegation 1(m).

Particular l) - He failed to document a review for subsequent events;

97. Same deficiencies as in allegation 1(n).

Particular m) - He failed to ensure adequate or proper disclosure in the financial statements of:

- ***a. The cost formula used in Note 1(e) accounting policy for inventory;***
- ***b. The significant estimates used to prepare the financial statements in Note 1(g) use of estimates accounting policy;***
- ***c. The shareholder loans described in Note 7 as current liabilities rather than long term liabilities;***
- ***d. The aggregate amount of payments estimated to be required over the next five years for demand debt described in Note 6; and***
- ***e. An accounting policy note with respect to Class D and E shares issued in a tax planning arrangement to describe the arrangement that gave rise to the shares.***

98. Allegation 2(m) a. - the same deficiencies as in allegation 1(o), a.

99. Allegation 2(m) b. – the same deficiencies as in allegation 1(o), b.

100. Allegation 2(m) e. – the same deficiencies as in allegation 1(o) e.

101. With respect to particular 2(m) c., there is an amount of $729,648 shown as due to shareholder on the balance sheet (DOC 232) which is referenced to note 7 (DOC 242) which discloses that these loans have no fixed repayment terms and the shareholders had waived any intention to demand repayments in the current fiscal year. Note 7 also states that in the subsequent year there is no intention to demand repayment. These loans are shown as long-term.

102. The shareholders signed waivers not to demand repayment at December 31, 2018 but were repaid $282,596. The waiver was required by the Credit Union in the prior year and the Credit Union waived their condition because there were substantial repayments of this debt. Waivers were not obtained for the current year.

103. Section 1510.13 states that if the creditor has the unilateral right to demand immediate repayment of any portion or all of the debt under any provision of the debt agreement, at the date of the balance sheet or within one year, the obligation is classified as current unless (a) the creditor has waived, in writing, or subsequently lost the right to demand repayment for more than one year from the balance sheet date; (b) the obligation has been refinanced on a long-term basis before the balance sheet is completed; or (c) he debtor has entered into a non-cancellable agreement to refinance the short-term obligation on a long-term basis before the balance sheet is completed and there is no impediment to the completion of the refinancing.

104. None of the exceptions have occurred so the shareholder loans should be included in current liabilities.

105. With respect to allegation 2(m) d., the demand debt is disclosed in note 6 (DOC 241) but the aggregate amount of payments estimated to be required in each of the next five years to meet repayment provisions have not been disclosed as required by section 3856.45.

Allegation 3 - Adam J. Shaw, in or about the period December 1, 2018 through April 30, 2019, while engaged to audit the financial statements of "IFH" for the year ended December 31, 2018, failed to perform professional services in accordance with generally accepted

standards of practice of the profession contrary to Rule 206.1 of the CPA Code of Professional Conduct.

106. Shaw was the auditor of IFH which is a not-for-profit organization funded in part by the municipality. The municipality relies on the audited financial statements to determine if there is a need to fund a revenue shortfall or claw back a surplus.

Particular a) - He issued two sets of financial statements for the same period containing different financial statement amounts;

107. There is a set of financial statements included in Shaw's file that has "Approved for Submission to County of Oxford" handwritten on the first page (DOC 063-075). An amount on the Account payable and accrued liabilities lead sheet for A/R Clawback Payable in the amount of $30,611 (DOC 089) does not appear on these statements.

108. Shaw issues the financial statements to the County, they review the filing and determine the amount of the funding shortfall or claw back and then Shaw records this amount and issues the final financial statements (DOC 076-088). Both audit reports are signed by Shaw and both balance sheets are signed by the Board. The first set of financial statements are released to the County and the organization.

109. It is not appropriate to issue two sets of financial statements for one entity for the same period having different figures.

Particular b) - He failed to document an audit planning meeting with the engagement team;

110. CAS 230 paragraph 8 contains the documentation standard for audit procedures performed and audit evidence obtained and requires audit documentation to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed, the results of those procedures and the audit evidence obtained and significant matters arising during the audit, the conclusions reached thereon and significant professional judgments made in reaching those conclusions.

111. For an audit planning meeting with the engagement team, Shaw had a discussion regarding what their focus should be, which was pay equity in the current year, based on his discussion with the Executive Director of the organization. There was no documentation of this meeting on the Risk Assessment and Analytical Review working paper (DOC 090-102).

112. CAS 300 paragraph 5 requires the engagement partner and other key members of the engagement team to be involved in planning the audit, including planning and participating in the discussion among the engagement team members.

113. There is no documentation of an audit planning meeting nor what was discussed as required by CAS 300 paragraph 12.

Particular c) - He failed to determine performance materiality for purposes of assessing the risk of material misstatement and determining the nature, timing and extent of audit procedures;

114. The performance materiality section of the Materiality working paper (DOC 103) is not completed. Shaw does not differentiate between the materiality and performance materiality and uses a single materiality throughout the audit.

115. CAS 320 paragraph 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 audit procedures. This has not been done.

Particular d) - He failed to obtain an engagement letter that referenced the expected form and content of the audit report to be issued;

116. An engagement letter was obtained.

117. In the "Form and Content of Audit Opinion" section of the engagement letter there is a reference to Appendix A (DOC 107). No Appendix A existed.

118. CAS 210 paragraph 10 (e) states there should be a reference to the expected form and content of any reports to be issued by the auditor included in the engagement letter. Shaw has not met this standard.

Particular e) - He failed to document meeting with the engagement team to discuss the susceptibility of the financial statements to material misstatement and the application of the financial reporting framework to the entity's facts and circumstances;

119. CAS 315 paragraph 10 requires the engagement partner and other key engagement team members to discuss the susceptibility of the entity's financial statements to material misstatement and the application of the financial reporting framework to the entity's facts and circumstances.

120. Although Shaw says he had a meeting with the engagement team there is no documentation of this.

Particular f) - He failed to document his understanding of the entity's selection and application of accounting policies and the measurement and review of the entity's financial performance;

121. CAS 315 paragraph 11 states that the auditor shall obtain an understanding of: (315 (11)(c)) the entity's selection and application of accounting policies including evaluating whether they are appropriate and consistent with applicable financial reporting framework and accounting policies used in the relevant industry; and (315 (11)(e)) the measurement and review of the entity's financial performance.

122. The client selected generally accepted accounting policies except with respect to amortization of the property which is required by the Ministry of Housing. Shaw said he looked at the budgets, confirmation of their funding and preparation of the organization's Annual Information Return (AIR) for performance measurement.

123. There is no documentation of any of this.

Particular g) - He failed to document his understanding of the organization's control environment, business processes and risk assessment process;

124. CAS 315 paragraph 14 states that the auditor shall obtain an understanding of the control environment and the auditor is to evaluate whether (315 (14)(a)) management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and (315 (14)(b)) the strength of the control environment elements collectively provide a foundation for the other components of internal control and whether those other components are undermined by deficiencies in the control environment.

125. CAS 315 paragraph 15 states that the auditor shall obtain an understanding of whether the entity has a process for: 315 (15)(a)) identifying business risks relevant to financial reporting objectives; (315 (15)(b)) estimating the significance of the risks; (315 (15)(c)) assessing the likelihood of their occurrence; and (315 (15)(d)) deciding about actions to address those risks.

126. CAS 315 paragraph 17 says that if the entity has not established a risk assessment process, the auditor shall discuss with management whether business risks relevant to financial reporting objectives have been identified and how they have been addressed.

127. Shaw said that the steps required by CAS 315 would be on his Risk Assessment and Analytical Review working paper (DOC 090-102). This working paper identifies areas of risk, Shaw's audit plan and the resolution.

128. In fact, there is no documentation of his understanding of the control environment, business processes and the organization's risk assessment process.

Particular h) - He failed to document his understanding of the entity's information system;

129. CAS 315 paragraph 18 requires the auditor to obtain an understanding of the information system, including the related business processes, relevant to financial reporting including: (315 (18)(e)) the financial reporting process used to prepare the entity's financial

statements, including significant estimates and disclosures; and (315 (18)(f)) controls surrounding journal entries.

130. Shaw said this would be recorded on the Identifying risks through understanding the entity checklist (DOC 112-116) and also explained that there were only 15 to 20 journal entries per year which the client kept in a manual book, which he reviewed, before being entered into the computer system. This checklist is only partially completed and references the enquiries to be made under CAS 315 paragraph 11.

131. There is no documentation of any of this work being done.

Particular i) - He failed to obtain an understanding of control activities relevant to the audit and how the entity has responded to risks arising from information technology;

132. CAS 315.20 requires the auditor to obtain an understanding of control activities relevant to the audit. CAS 315.21 requires the auditor to obtain an understanding of how the entity has responded to the risks arising from IT and paragraph 22 states that the auditor shall obtain an understanding of the major activities that the entity uses to monitor internal control.

133. There is no evidence in the working papers that Shaw fulfilled the requirements of CAS 315.

Particular j) - He failed to identify and assess the risks of material misstatement at the financial statement and assertion levels;

134. CAS 315.25 requires the auditor to identify and assess the risks of material misstatement 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. CAS 240.26 states this should be done for fraud risks. While Shaw has identified the risks for account balances (DOC 090-102) he has not identified the risks at the financial statement and assertion levels.

Particular k) - He failed to document his enquiries of management with respect to related parties and related party transactions and failed to identify the Board members as related parties;

135. As part of understanding the entity, CAS 550.13 requires the auditor to make enquiries of management regarding: (a) the identity of related parties; (b) the nature of the relationships; and (c) whether the entity entered into any transactions with these related parties.

136. CAS 550.14 requires enquiries of management as to the type and purpose of the transactions and to obtain an understanding of the controls that management has established with respect to related party transactions.

137. There is no documentation of this being done.

138. CAS 550.20 requires the auditor to design and perform further audit procedures to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement associated with related party relationships and transactions.

139. The related party checklists were not completed so Shaw has not documented the procedures performed to assess the risks or to identify related parties and related party transactions.

140. He failed to identify the Board of Directors as related parties.

Particular l) - He failed to document analytical review procedures during or near the end of the audit;

141. Analytical procedures were not performed as part of the risk assessment procedures.

142. CAS 315.6(b) requires the auditor to perform analytical procedures at the beginning of the audit to assist with identifying the risks of material misstatement through understanding the entity and it's environment.

143. CAS 240.23 requires the auditor to perform analytical procedures during the audit to identify any relationships that may indicate fraud risks and further procedures near the end of the audit to assist in forming the overall conclusion in accordance with CAS 520.6.

144. Although Shaw performs a risk assessment on his Risk Assessment and Analytical Review working paper (DOC 090-102) which he prepares at the beginning of the engagement, there is no documentation of the performance of analytical review procedures during or near the end of the audit.

Particular m) - He failed to discuss with management and others, including those charged with governance, knowledge of actual, suspected or alleged fraud;

145. CAS 240.18 requires the auditor to make enquiries of management regarding management's assessment that the financial statements may be materially misstated due to fraud, their process for identifying and responding to the risks of fraud, management's communication to those charged with governance regarding this and management's communication to employees.

146. CAS 240.19 requires the auditor to make enquiries of management and others within the entity to determine if they have any knowledge of any actual, suspected or alleged fraud affecting the entity.

147. Shaw did not have these discussions with management as required.

148. CAS 240.21 requires the auditor to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud. CAS 240.22 states that the auditor shall make inquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.

149. These enquiries were not made by Shaw.

Particular n) - He failed to address the presumed risk of fraud in revenue recognition;

150. CAS 315.27 requires the auditor to determine whether any of the risks identified are, in the auditor's judgement, significant. CAS 315.28 states that a fraud risk is a significant risk.

151. Significant risks require special audit consideration. CAS 240.27 requires the auditor, based on a presumption that there are risks of fraud in revenue recognition, to evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

152. Shaw has not addressed the presumed risk of fraud in revenue or the reasons for his conclusion that the presumption that there is a risk of material misstatement due to fraud is not applicable to this client, as required by paragraph CAS 240.48.

Particular o) - He failed to test journal entries for management override;

153. CAS 240.33 states that irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform procedures to test the appropriateness of journal entries.

154. There is no evidence in the working paper files of testing journal entries for management override.

Particular p) - He failed to discuss with the engagement team how and where the financial statements may be susceptible to material misstatement due to fraud;

155. CAS 315.10 requires a discussion among the engagement team with respect to fraud. CAS 240.16 states that this discussion shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatements due to fraud, including how fraud might occur setting aside the engagement team's beliefs that management and those charged with governance are honest and have integrity. This was not done.

156. In summary, with respect to fraud procedures, Shaw did not have the required discussions with respect to fraud with either management or the Board, did not consider the presumed

risk of fraud in revenue recognition, which is a significant risk, did not test journal entries for management override and did not have a fraud brainstorming session with the audit team.

Particular q) - He failed to document procedures performed to identify subsequent events;

157. CAS 560.6 requires the auditor to design procedures 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.

158. Subsequent events checklists have not been completed and there is no documentation of any procedures being performed to identify subsequent events.

Particular r) - He failed to document procedures performed to identify any litigation and claims;

159. CAS 501.9 requires the auditor to design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement including inquiring of management, reviewing minutes of meetings of those charged with governance and reviewing legal expense accounts.

160. There is no evidence in the working paper files of compliance with CAS 501.9.

Particular s) - He failed to document his communications with those charged with governance as to the responsibilities of the auditor, planned scope and timing of the audit, qualitative aspects of the audit and the form, timing and content of communications;

161. CAS 260 provides guidance for communication with those charged with governance. Paragraph 14 requires communication as to the responsibilities of the auditor in relation to the financial statement audit.

162. CAS 260.15 requires communication of an overview of the planned scope and timing of the audit. CAS 260.16 requires communication of the auditor's views about the significant

qualitative aspects of the entity's accounting policies, accounting estimates and financial statement disclosure, significant difficulties encountered, significant discussions with management, written representations being requested, circumstances affecting the form and content of the audit report and other significant matters.

163. CAS 260.18 requires communication of the expected form, timing and expected general content of communications.

164. There is no documentation of discussions with those charged with governance.

Particular t) - He failed to document procedures to resolve a material error on the bank confirmation with respect to the savings account balance;

165. The Donations – Savings account shows a balance of $9,472.54 on the Cash lead sheet. (DOC 117) The bank confirmed a balance of $99,472.54. (DOC 118)

166. Although a staff member followed up with the bank and was told an extra nine was included on the confirmation in error there is no documentation of this.

Particular u) - He failed to carry out sufficient appropriate audit procedures with respect to cash cut-off;

167. The Cut-off section of the Cash – Audit procedures checklist (DOC 132) has been completed with procedures marked as yes. These procedures were documented on the subsequent months' bank statements. (DOC 135-141) They are the circled amounts.

168. There is one amount circled, a credit memo from the County of Oxford for $28,155.00 (DOC 137) but there is no documentation as to what procedures were performed or what the results of those procedures were.

169. Shaw has not performed adequate audit procedures to verify cash cut-off.

Particular v) - He permitted the disclosure of mutual funds and GICs as cash equivalents when they do not meet the criteria to be recognized as cash equivalents;

170. The Cash lead sheet shows GIC – Replacement Reserve having a balance of $213,558.96. (DOC 117) It is disclosed as a GIC on the bottom of the statement of capital reserve revenue and expenses (DOC 069) and is included in cash on the balance sheet. (DOC 065) This is a Social Housing Short-Term Bond Fund Series A having a market value of $202,326.02 at year end. (DOC 122) It is listed as a mutual fund and should have been recorded at market value.

171. Section 1540.08 states that for an investment to qualify as a cash equivalent it must be readily convertible into a known amount of cash and subject to an insignificant risk of changes in value. An investment normally qualifies when it has a short maturity of, say, three months or less from the date of acquisition.

172. This investment does not qualify as a cash equivalent.

173. The Cash lead sheet also shows three other accounts which are GIC's (DOC 117) being the account 1096 GIC – Donation Fund 1 in the amount of $8,993.48, 1097 GIC – Donation Fund 2 in the amount of $56,909.23 and account 1095 Micheal Stoop Memorial GIC in the amount of $18,580.84. (DOC 124-126) All of these have terms of 1 year and 2 days.

174. None of these accounts should be included in cash equivalents.

Particular w) - He failed to obtain sufficient appropriate audit evidence to support the balance sheet item "Cash (note 6) $571,555";

175. The Social Housing Short-Term Bond Fund Series A has a market value of $202,326.02 at year end (DOC 122) and is recorded at $213,558.96. (DOC 117)

176. Section 3856.11 states that at each reporting date, an enterprise shall subsequently measure a financial instrument based on how it initially measured the instrument. If the enterprise initially measured it at fair value, it shall subsequently measure the investment at amortized cost as the GIC's are not equity investments.

177. Section 3856.16 states that at each year end the enterprise shall assess whether there are indications of impairment and when there is an indication, an enterprise shall determine whether a significant adverse change has occurred in the expected timing or amount of future cash flows. The fact that the market value is below the cost of the investment is an indication of impairment.

178. Shaw did not perform the procedures necessary to determine if there is an impairment.

179. CAS 330.18 states that irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure.

180. CAS 330.19 requires the auditor to consider whether external confirmation procedures are to be performed as substantive audit procedures. Paragraph A48 says that external confirmations are frequently relevant when addressing assertions associated with account balances and their elements and identifies investments held for safekeeping by third parties as an example of when external confirmation procedures may provide relevant audit evidence in responding to assessed risks of material misstatement.

181. This investment should have been confirmed.

182. The deficiencies with respect to cash can be summarized as not performing the impairment analysis and not confirming the mutual fund investment.

Particular x) - He failed to record a pay equity liability in the amount of $197,820;

183. Note 8 describes a pay equity future liability and discloses the total liability at $393,230 to be allocated between two organizations. (DOC 088)

184. Note 8 also discloses an agreement to distribute the payments over the 2018 and 2019 years to minimize the financial stress on the organization. In 2018 the pay equity pay out was a total of $195,410 for prior service years and the 2019 pay equity payout will be the balance. This expense will be allocated to their applicable departments in 2019.

185. Section 1000.28 defines a liability as an obligation of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future.

186. Section 1000.29 states liabilities have three essential characteristics…(a) they embody a duty or responsibility to others that entails settlement by future transfer or use of assets, provision of services or other yielding of economic benefits, at a specified or determinable date, on occurrence of a specified event, or on demand…(b) the duty or responsibility obligates the entity leaving it little or no discretion to avoid it; and…(c) the transaction or event obligating the entity has already occurred.

187. The pay equity obligation in this case meets the definition in section 1000.29 since it has the three essential characteristics of a liability and therefore, should have been recorded as a liability at December 31, 2018.

Particular y) - He failed to carry out sufficient appropriate audit procedures with respect to the search for unrecorded liabilities and to document those procedures undertaken;

188. The Search for unrecorded liabilities section of the Accounts payable and accruedliabilities – Audit procedures checklist is marked as not applicable. (DOC 146)

189. Shaw reviews subsequent transactions on the January and February 2019 bank statements. (DOC 135-141) He also selects at least one item near the end of the year as part of his purchases, payables and payments testing. (152-153)

190. The procedures performed to search for unrecorded liabilities have not been documented and are not sufficient as they would only include discovery of unrecorded liabilities that were paid, and the cheque cleared the bank. He has not performed any procedures to search for amounts paid that have not cleared the bank or any unpaid amounts.

Particular z) - He failed to obtain sufficient appropriate audit evidence to support the balance sheet item "Due from related parties $71,335"

191. There is an amount on the statement of financial position shown as due from related parties of $71,335. (DOC 078) The organization receives funding from multiple sources and some of them are on March year ends so there are timing differences. Some of these funds relate to pay equity. The organization paid these in good faith, but the various Ministries did not provide funding for this, so the organization is hoping to recover them through future funding.

192. Shaw has not obtained sufficient appropriate audit evidence to support these amounts.

Particular aa) - He failed to obtain sufficient appropriate audit evidence to support the long-term debt of $486,920 disclosed in Note 5;

193. A mortgage payable for $486,920 is disclosed in note 5. (DOC 087) The Validation of Long-term debt section of the Long-term debt – Audit procedures checklist (DOC 159) discloses that the balance was confirmed.

194. Shaw confirmed the amount to the mortgage statement, compared the balance with the amortization table, traced every payment for the year to the bank statement and said he had no reason to suspect fraud, so he accepted the balance. None of these procedures are documented in his file.

195. CAS 330.18-19 recommend external confirmation procedures be performed as substantive audit procedures. Paragraph A48 says that external confirmations are frequently relevant when addressing assertions associated with account balances and their elements and identifies accounts due to lenders, including relevant terms of repayment and restrictive conditions as an example of when external confirmation procedures may provide relevant audit evidence in responding to assessed risks of material misstatement.

196. This mortgage should have been confirmed in order to comply with generally accepted standards of practice.

Particular bb) - He failed to ensure proper disclosure of a transfer from operations to the capital reserve fund in the amount of $16,025 as a transfer and incorrectly included it in revenue and expenses;

197. The County Capital Budget Approval shows a mandatory transfer from operations to the capital reserve fund of $16,025. (DOC 165) This is shown as revenue in the capital reserve fund (DOC 082) and as an expense in the operating fund. (079)

198. This transfer should have been recorded in the financial statements as a transfer and should not have been included in revenue and expenses.

Particular cc) - He failed to obtain sufficient appropriate audit evidence to support the item "Rent income $61,277" in the operating fund statement;

199. The statement of the County operating fund revenue and expenses shows rental income of $61,277. (DOC 079) There was no evidence of any audit procedures being performed to verify this balance.

Particular dd) - He failed to document the sample design, rationale for the sample size, selection of items and results of testing for the purchase, payables and payments testing;

200. Shaw's file includes a working paper documenting the purchase, payables, payments testing. (DOC 152-153) They are selected for testing from a number of sources including the general ledger, bank statements and supplier invoices and are picked randomly.

201. This selection method is haphazard and there is no documentation of the sample design, rationale for the sample size, selection of items and results of the testing.

Particular ee) - He failed to prepare the Auditor's Report in the format required by the standards of practice;

202. The Auditor's Report is not in the format required by CAS 700. (DOC 077)

Particular ff) - He failed to adequately document support for the date of the auditor's report;

203. Shaw dates his audit report on the date the financial statements are ready for printing.

204. CAS 700 paragraph 49 requires the auditor's report to be dated no earlier than the date on which the auditor had obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that all the statements and disclosures that comprise the financial statements have been prepared; and those with the recognized authority have asserted that they have taken responsibility for those financial statements.

205. There is no documentation of when those with recognized authority took responsibility and therefore, no documentation to support the date of the report.

Particular gg) - He failed to ensure adequate or proper disclosure in the financial statements of:

a. Cash flows, as a statement of cash flows was not included;

206. A statement of cash flows has not been included with the financial statements but instead disclosures are provided at the bottom of each fund statement. (DOC 080-082) This is not sufficient to comply with standards.

207. Section 4400.05 states that a statement of cash flows shall be included.

b. Restricted funds;

208. The Organization follows the restricted fund method of accounting for contributions per note 2 (DOC 085). The fund description for the County of Oxford fund also discloses that it is restricted.

209. The statement of financial position does not show any restricted assets. (DOC 078)

210. Section 4400.19 states that the statement of financial position should disclose: net assets subject to restrictions requiring that they be maintained permanently as endowments, other restricted net assets, unrestricted net assets and total net assets.

211. 4400.28 further requires the disclosure of the amount of net assets subject to external restrictions as endowments, attributable to each major category of internal restrictions and, separate disclosure of external restrictions, with a description of the restrictions and the amount of deferred contributions attributable to each major category of external restriction. There are similar requirements for the statement of changes in net assets in .41.

212. These requirements have not been met as Shaw has not identified the restricted funds.

c. *The basis of presentation, being accounting standards for not-for-profit organizations;*

213. Section 1401.17 states that an organization that prepares its financial statements in accordance with Canadian accounting standards for not-for-profit organizations shall state this basis of presentation prominently in the notes to its financial statements.

214. There is no section 1401.17 disclosure in the notes.

d. *A description of the "Domestic Assault Review Team Fund" in Note 2;*

215. Section 4400.06 states that an organization that uses fund accounting in its financial statements should provide a brief description of the purpose of each fund reported.

216. There is no description provided for the Domestic Assault Review Team Fund in Note 2 as required. (DOC 085)

e. *The revenue recognition policies;*

217. The revenue recognition policy in note 2 (DOC 085) discloses a policy for restricted contributions. The policies for unrestricted contributions, rental revenue, interest income and fundraising are not disclosed.

218. Section 3400.31 requires an enterprise to disclose its revenue recognition policy and if it has different types of revenue transactions, the policy for each material type of transaction shall be disclosed. There was none of the required disclosure.

f. The basis and rates on which amortization of capital assets is provided.

219. Note 3 (DOC 086) discloses that amortization is provided on the basis and rates provided below but no basis or rates are disclosed.

Allegation 4 - Adam J. Shaw, in or about the period August 1, 2018 through December 30, 2018, while engaged to audit the financial statements of "ICM" for the year ended August 31, 2018, failed to perform professional services in accordance with generally accepted standards of practice of the profession contrary to Rule 206.1 of the CPA Code of Professional Conduct.

220. The failures to comply with generally accepted standards of practice described on the audit of the financial statements of IFH described under Allegation 3 are, in many cases, repeated on the audit of ICM.

221. Where a particular under this Allegation alleges the same failure to comply with generally accepted standards of practice as evidenced on the audit of ICM the PCC and Shaw agree that the standards that applied as described under Allegation 3 apply here. It is further agreed that each particular sets out circumstances in which Shaw failed to perform professional services in accordance with generally accepted standards of practice of the profession.

Particular a) - He failed to obtain an engagement letter in the form required by generally accepted standards;

222. Shaw obtained an engagement letter on this engagement. In the "Written Reports on Supplementary Matters" (DOC 184) there is a reference to the work being performed in accordance with Canadian Standards for Related Services (CSRS) 4460 – Reports on supplementary matters arising from an audit or a review engagement.

223. CAS 210.10(e) states there should be a reference to the expected form and content of any reports to be issued by the auditor included in the engagement letter. The reference referred to above should not be in the engagement letter as Shaw was engaged to issue a report on the financial statements, the form and content of which should be included in the engagement letter.

Particular b) - He failed to document his understanding of the organization's control environment, business processes and risk assessment process;

224. Same deficiencies as in Allegation 3(g).

225. Shaw failed to document his understanding of the company's control environment and business processes and risk assessment processes as required by CAS 315.14 and 315.15.

Particular c) - He failed to document his understanding of the entity's information systems;

226. Same deficiencies as in Allegation 3 (h).

227. There is no documentation of how Shaw obtained an understanding of the information system with respect to the financial reporting processes used to prepare the financial statements, significant estimates and disclosures and controls surrounding journal entries. (CAS 315.18)

Particular d) - He failed to obtain an understanding of control activities relevant to the audit and how the entity has responded to risks arising from information technology;

228. Same deficiencies as in Allegation 3 (i).

229. Shaw understood that there were no risks arising from IT due to the limited number of transactions. With respect to internal control Shaw indicates that there is only one person in the company and so this is not an issue. There is no documentation of his understanding

of these areas based on discussions with management in his working papers. (CAS 315.21 and 315.22)

Particular e) - He failed to identify and assess the risks of material misstatement at the financial statement and assertion levels;

230. Same deficiencies as in Allegation 3(j).

231. Shaw has identified the risks for account balances on his Risk Analysis and Analytical Review working paper (DOC 188-193) but not at the financial statement and assertion levels. (CAS 315.25 and 26)

Particular f) - He failed to document his enquiries of management with respect to related parties and related party transactions;

232. Same deficiencies as in Allegation 3(k).

233. Shaw had discussions with the shareholder. There is no documentation of these enquiries of management. (CAS 550.13 and 14)

Particular g) - He failed to address the presumed risk of fraud in revenue recognition;

234. Same deficiencies as in Allegation 3(n).

235. Shaw considered that most of the revenue is verifiable through Innerkip Equity Fund and he assessed this risk as low. As the presumed risk of fraud in revenue recognition is a fraud risk, it would also be a significant risk.

236. Shaw has not addressed the presumed risk of fraud in revenue recognition or the reasons for the conclusion that the presumption that there is a risk of material misstatement due to fraud is not applicable to this client and therefore, has not met the standard. (CAS 315.27, CAS 240.27 and .48)

Particular h) - He failed to test journal entries for management override;

237. Same deficiencies as in Allegation 3(o).

238. There is no evidence in the working paper files of testing journal entries for management override. (CAS 240.33)

Particular i) - He failed to document procedures performed to identify subsequent events;

239. The same deficiencies as in Allegation 3(q).

240. The subsequent events checklists have not been completed and there is no documentation of a review for subsequent events. (CAS 560.6)

Particular j) - He failed to document his communications with those charged with governance as to the responsibilities of the auditor, planned scope and timing of the audit, qualitative aspects of the audit and the form, timing and content of communications;

241. Same deficiencies as in Allegation 3(s).

242. Shaw has not communicated the following required by CAS 260: the responsibilities of the auditor (paragraph 14); communication of the planned scope and timing of the audit (paragraph 15); views about qualitative aspects (paragraph 16); and the expected form, timing and content of communications (paragraph 18) and accordingly, has not met these standards.

Particular k) - He failed to obtain sufficient appropriate audit evidence to verify the market value of securities held for sale;

243. Note 4 (DOC 178) discloses that the assets held for sale are publicly traded shares valued at closing market prices. The value was pulled directly from the investment statement and not confirmed.

244. Shaw has not performed any audit procedures to verify the market value of these securities and accordingly has not obtained sufficient appropriate audit evidence. He has also not obtained external confirmation of the existence of these securities. (CAS 330.18 and A48)

Particular l) - He failed to ensure adequate disclosure of the disposal of two investments during the year as a reclassification from other comprehensive income to profit and loss;

245. International Accounting Standard (IAS) 39 requires that investments be measured at fair value. Paragraph 55 states that a gain or loss arising from a change in fair value on an available for sale financial asset shall be recognized in other comprehensive income, except for impairment losses, until the financial asset is derecognized. At that time, the cumulative gain or loss previously recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment.

246. There were disposals of two investments during the year (DOC 228). The reclassification from other comprehensive income to profit and loss was not recorded.

Particular m) - He failed to evaluate investments for impairment, where the market value is less than cost, to determine if an impairment loss should be recorded;

247. IAS 39 paragraph 67 states that where an investment is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

248. There are a number of investments where the market value is less than the cost. (DOC 228)

249. Shaw should have evaluated these for impairment and if the decline in fair value was determined to be a significant or prolonged decline, an impairment loss should have been recorded. Shaw did not make this assessment; therefore, he has also not made any related reclassifications.

Particular n) - He failed to obtain sufficient appropriate audit evidence to support receivables from related parties of $315,908;

250. Note 5 discloses receivable from related parties of $315,908. (DOC 178) The only procedures performed to verify these amounts receivable was shown on the 2018 aged debtors listing (DOC 201-202) and include downloading the summary of the amounts owing from the client's accounting software and calculating the days outstanding.

251. The aged debtors listing is a listing of all the fees owing but there is not any evidence of any audit procedures being performed to verify these balances.

Particular o) - He failed to obtain sufficient appropriate audit evidence to support accounts payable and accrued liabilities;

252. Included in accounts payable and accrued liabilities are accounts payable of $8,237.20. (DOC 203) The 2018 aged creditors listing (DOC 204) shows this is six months of fees owed to one supplier.

253. There was no audit work done to verify this balance.

Particular p) - He failed to ensure amounts due from related parties and subordinated debt were accounted for correctly;

254. Note 6 discloses amounts due from related parties with 0% interest rates. (DOC 178) Note 7 discloses a subordinate debt to a shareholder which is without interest. (DOC 179)

255. IAS 39.43 states that when a financial asset or liability is recognized initially, an entity shall measure it at its fair value. IAS 39.43A states that if the fair value of the financial asset or liability at initial recognition differs from the transaction price, an entity shall apply paragraph AG76. Paragraph AG76 states that the entity shall account for the instrument at the measurement required by IAS 39.43, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognize that deferred difference as a gain or loss only to the extent that it arises

from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

256. A 0% interest rate would not be a market rate of interest, so these instruments were not recorded at fair value at the date of initial recognition.

Particular q) - He failed to ensure deferred tax assets and liabilities were accounted for correctly;

257. The future income taxes working paper (DOC 205) shows the calculation of future income taxes, but none are recorded on the balance sheet.

258. The net book value of the equipment does not agree to the financial statements as it is $4,043 on the statement of financial position (DOC 170) and $3,111 on this working paper. Also, the accounting value and tax values have been added together instead of being subtracted as appropriate.

259. In addition, this company has active and investment income so using the small business tax rate for active income in this calculation is not appropriate.

260. The analysis does not consider the temporary difference in the assets held for sale as these securities are recorded on the statement of financial position (DOC 170) at their market value of $304,874 while their tax value is $267,483 being their cost which is disclosed in note 4. (DOC 178)

261. The unrealized gain in 2017 was $47,325 and in 2018 was $37,391 for a change of $9,934 (DOC 206) which is greater than materiality of $2,200 (DOC 207). The difference between the accounting and tax bases at year end is $37,391 and so this is a material error.

262. IAS 12 paragraph 5 defines deferred income tax liabilities as the amounts of income taxes payable in future periods in respect of taxable temporary differences and temporary differences are defined as differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. The tax base is the amount attributed to that asset or liability for tax purposes.

263. IAS Paragraph 47 states that deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

264. There are mathematical errors in Shaw's calculations, he has not included the temporary difference in investments and he has not used the correct tax rate in his calculation.

Particular r) - He failed to obtain sufficient appropriate audit evidence with respect to the items advisory fees, accounting fees and interest income on the statement of comprehensive income/loss;

265. Revenue includes advisory fees, accounting fees, interest, dividends and gain on disposal of investments. (DOC 173, 209)

266. To verify revenue Shaw relied on the Innerkip Equity Fund financial statements. These statements are for the year ended December 31, 2017 while the company has an August 31, 2018 year end.

267. There was no reconciliation of the amounts for advisory and accounting fees between the two sets of financial statements and Shaw has not performed any audit procedures that would allow him to rely on the work done by the other auditors.

268. Almost all of the procedures on the Revenues – Audit procedures checklist (DOC 210-219) are marked as not applicable.

269. Shaw has not obtained sufficient appropriate audit evidence for advisory fees, accounting fees and interest revenue.

Particular s) - He failed to obtain sufficient appropriate audit evidence with respect to expenses;

270. The Analytical procedures section of the Other expenses – Audit procedures checklist (DOC 221) are marked as not applicable as is the Invalid or fictitious other expenses section which shows that neither a test of controls nor a test of details was performed.

271. There is no documentation of verifying expenses.

Particular t) - He failed to prepare the Auditor's Report in the format required by the standards of practice;

272. Same deficiencies as in Allegation 3(ee).

273. The Auditor's Report (DOC 169) is not in the format required by CAS 700. Shaw used an outdated audit report which was issued because he missed an update to the PEG.

274. Non-consolidated financial statements have been prepared. In these circumstances the opening paragraph of the auditor's report should include the following: "These non-consolidated financial statements have been prepared by management to meet the requirements of National Instrument 31-103 Registration Requirements and Exemptions, based on the financial framework specified in paragraph 3.2 (3) (a) of National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards for financial statements delivered by registrants."

275. The opinion should be that the financial statements are prepared in accordance with this framework and not IFRS and a basis of accounting and restriction on use paragraph should be added.

Particular u) - He failed to adequately document support for the date of the auditor's report;

276. Same deficiencies as in Allegation 3(ff).

277. Shaw dated his audit report on the date the financial statements are ready for printing. There is no documentation of when those with recognized authority took responsibility so there is no documentation to support the date of the report. (CAS 700.41)

Particular v) - He failed to ensure adequate or proper disclosure in the financial statements of:

a. ***The statement of changes in equity for the company which should have been combined with other comprehensive income and included share capital;***

278. IAS 1 paragraph 106 states that the entity shall present a statement of changes in equity including: (a) total comprehensive income for the period showing separately the total amounts attributable to owners of the parent and to noncontrolling interests and (d) for each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately (as a minimum) disclosing changes resulting from: (i) profit or loss; (ii) other comprehensive income; and (iii) transactions with owners in their capacity as owners and changes in ownership interests in subsidiaries that do not result in a loss of control. The statement of changes in equity for the company should be combined with accumulated other comprehensive income and also include share capital.

279. The requirements of IAS 1 paragraph 106 were not met.

b. ***Gain on disposal of investments and the related cash flows;***

280. The definition of revenue in IFRS 15 Appendix A is Income arising in the course of an entity's ordinary activities. Accordingly, the gain on disposal of investments shown on the statement of comprehensive income/(loss) (DOC 173) should be included in other income not revenues.

281. There is a gain on disposal of investments shown on the statement of comprehensive income/(loss). (DOC 173) This should be added back as a non-cash item on the statement of cash flows (DOC 174) with the proceeds on the sale being shown as an investing activity. The List of Equities shows the purchase of securities during the year in the amount of $15,510 (DOC 228) which should also be shown as an investing activity.

282. IAS 7 paragraph 16 states that examples of cash flows arising from investing activities include (c) cash payments to acquire equity or debt instruments of other entities and (d) cash receipts from sales of equity or debt instruments of other entities.

283. Also, the total of the Cash Flows from Investing Activities section is incorrectly described as Cash flows from (used in) financing activities instead of investing activities.

c. A basis of presentation and statement of compliance note;

284. A basis of presentation and statement of compliance note should be included in the notes to the financial statements stating that the financial statements have been prepared in accordance with paragraph 3.2(3)(a) of NI 52-107 and that they have been prepared on a non-consolidated basis which is an exception from IFRS that has been applied in order to comply with regulatory requirements.

285. The required note was not included.

d. Information about the assumptions made about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year;

286. Note 2 (b) (DOC 176) discloses that significant areas requiring the use of estimates include the recognition and valuation of short-term investments, accounts receivable, capital assets, long-term investments and current and future income taxes.

287. IAS 1 paragraph 125 states that an entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

288. In respect of those assets and liabilities, the notes shall include details of: (a) their nature, and (b) their carrying amount as at the end of the reporting period. None of this required disclosure has been made.

e. The revenue recognition policies;

289. The revenue recognition policy disclosed in note 2 (c) (DOC 176) is consistent with ASPE when it should be consistent with IFRS.

290. To comply with standards the policy note should be expanded to explain the point of revenue recognition for all types of revenue as well as how the amount of revenue to be recognized is determined in accordance with IAS 18 paragraph 14.

f. Information that enables users to evaluate the nature and extent of risks arising from financial instruments;

291. Note 2 (e) is the Financial Instruments – Risk Management note. (DOC 176-177). This note discloses the financial risks the company is exposed to and the principal financial instruments used by the company from which financial risk arises. This disclosure does not comply with IFRS 7 paragraph 31 which requires disclosure of information that enables users of financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.

292. IFRS 7 paragraph 33 states that for each type of risk arising from financial instruments, an entity shall disclose: (a) the exposures to risk and how they arise; (b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and (c) any changes in (a) or (b) from the previous period.

293. The disclosure made does not meet the standards.

g. An accounting policy for assets held for sale and the reclassification of securities sold during the year; and

294. Note 4 (DOC 178) discloses Assets Held for Sale. They should be classified as available for sale financial assets under IAS 39 where changes in value are recorded in other comprehensive income until they are sold or impaired at which time amounts in other comprehensive income are recorded in profit or loss as these are all investments quoted in an active market.

295. IFRS 7 paragraph 20 (a)(viii) requires separate disclosure of the amount of gain or loss recognized in other comprehensive income during the period and the amount reclassified from equity to profit or loss for the period.

296. There was no disclose of an accounting policy for assets held for sale and Shaw did not make the reclassification adjustment for securities sold during the year.

h. ***The major components of tax expense (income) and the amount of tax relating to each component of comprehensive income and an explanation of the relationship between tax expense (income) and accounting profits.***

297. IAS 12 paragraph 79 requires disclosure of the major components of tax expense (income). Paragraph 81 requires additional income tax disclosures including the amount of tax relating to each component of comprehensive income and an explanation of the relationship between tax expense (income) and accounting profits.

298. Shaw did not do this because he believed the amounts were immaterial, however, he set materiality for this engagement at $2,200 and the provision for income taxes is $5,248 so they are material.

299. The required disclosures with respect to income taxes have not been made.

Terms of Settlement

300. Shaw and the Professional Conduct Committee agree to the following Terms of Settlement:

a) A payment by way of fine in the amount of $10,000;

b) Shaw will attend, within 18 months of the date the Discipline Committee accepts this Settlement Agreement, the following professional development courses offered by CPA Ontario (or their successor courses):

- Review engagements – Application of the standard – 7.5 hours available only on demand

- Review engagements – File Review - 3.75 hours available on demand or by on-line seminar
- ASPE – Review of the Standards – 15 hours available on demand or by on-line seminar
- ASPE – Disclosure and Presentation - 7.5 hours available by on-line seminar
- ASPE – Update 2020 - 3.75 hours available only on demand

c) Shaw's practice shall be restricted to non-audit engagements;

d) Shaw 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 who will review all review engagements undertaken by Shaw for a period of 24 months after the Discipline Committee accepts this Settlement Agreement, with the 24 month supervisory period to commence with the first review engagement undertaken by Shaw following approval of the Settlement Agreement;

e) The Professional Conduct Committee will re-investigate Shaw following the period of supervised practice with the costs of the re-investigation, up to $3,500, to be borne by Shaw;

f) Notice of the terms of this Settlement is to be published, including notice to be given to all members of CPA Ontario, the Public Accounting Standards Committee, and all provincial CPA bodies. In addition notice of the restriction on Shaw's practice resulting from this Settlement will be published in the Woodstock Sentinel Review and the London Free Press newspapers with the costs of publication to be borne by Shaw in addition to any other costs required by this Settlement;

g) A payment by way of costs in the amount of $24,000;

h) Shaw will be allowed 12 months from the time the Discipline Committee accepts this Settlement Agreement to pay the fine and costs referred to in paragraphs 300 (a) and (g) above; and

i) A failure by Shaw to comply with any of the terms of settlement will result in his suspension from membership in CPA Ontario which suspension will continue until he complies PROVIDED THAT if his suspension under this section continues for three months his membership in CPA Ontario will be revoked with full publicity in accordance with Regulation 6-2 section 48.

301. The PCC and Shaw expressly consent and authorize the Registrar to take any actions associated with suspension or revocation of Shaw's membership in CPA Ontario as prescribed and agreed to herein.

302. In the event that the Director finds Shaw's choice of supervisor unacceptable, or there is any other issue relating to the supervised practice plan about which Shaw and the Director cannot agree, the parties may revise the Settlement Agreement and move for reconsideration.

303. Should the Discipline Committee accept this Settlement Agreement, Shaw 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 2021, shall be forever stayed.

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

b) The Professional Conduct Committee and Shaw 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

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

306. Any obligations of confidentiality shall terminate upon approval of the Settlement

CPA ONTARIO

Agreement by the Discipline Committee.

All of which is agreed to for the purpose of this proceeding alone this 23rd day of June 2021.

Paul F. Farley, LL.B On behalf of The Professional Conduct Committee	Adam J. Shaw, CPA, CA on his own behalf

Chartered Professional Accountants of Ontario
130 King Street West, Suite 3400
PO Box 358, Toronto ON M5X 1E1
T. 416.962.1841 F. 416.962.8900 Toll Free 1.800.387.0735
cpaontario.ca

CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

TO: Adam J. Shaw, CPA, CA

AND TO: The Discipline Committee of CPA Ontario

The Professional Conduct Committee hereby makes the following allegations of professional misconduct against ADAM J. SHAW, a member of CPA Ontario:

1. THAT the said Adam J. Shaw, in or about the period December 1, 2018 through January 30, 2019, while engaged to review the financial statements of "[redacted] H" for the year ended December 31, 2018, failed to perform professional services in accordance with generally accepted standards of practice of the profession contrary to Rule 206.1 of the CPA Code of Professional Conduct in that;

    a) He failed to obtain an understanding of the entity and its environment sufficient to allow him to identify and document the areas in the financial statements where material misstatements are likely to occur;

    b) He failed to make sufficient and appropriate enquiries of management with respect to accounting estimates, related party transactions and significant, unusual or complex transactions;

    c) He failed to make sufficient and appropriate enquiries of management with respect to commitments, contractual obligations or contingencies;

    d) He failed to make sufficient and appropriate enquiries of management with respect to non-monetary transactions;

    e) He failed to document his conclusions with respect to whether anything has come to his attention that caused him to believe that the financial statements are not prepared in accordance with the applicable financial reporting framework and are free from material misstatement;

f) He failed to assess the appropriateness of the company's recognition of revenue with respect to bill and hold arrangements;

g) He failed to carry out sufficient review procedures to support the plausibility of the balance sheet item "Cash (note 2) $865,211";

h) He failed to carry out sufficient review procedures to support the plausibility of the balance sheet item "Inventory (note 4) $806,608";

i) He failed to carry out sufficient review procedures with respect to unrecorded liabilities;

j) He failed to carry out sufficient enquiry and analysis to determine the appropriate income tax rates and failed to document support for his rationale in choosing the 18.2% tax rate he used to calculate the future income tax liability;

k) He failed to document the rationale for the disclosure of retractable or mandatorily redeemable shares issued in a tax planning arrangement shown on the financial statements;

l) He failed to adequately document support for the date of the review engagement report;

m) He failed to document discussions with management with respect to fraud;

n) He failed to document a review for subsequent events;

o) He failed to ensure adequate or proper disclosure in the financial statements of:

    a. The cost formula used in Note 1(e) accounting policy for inventory;
    b. The significant estimates used to prepare the financial statements in Note 1(g) use of estimates accounting policy;
    c. The terms of a variable rate term loan described in Note 6;
    d. The aggregate amount of payments estimated to be required over the next five years for demand debt described in Note 6; and
    e. An accounting policy note with respect to Class D and E shares issued in a tax planning arrangement to describe the arrangement that gave rise to the shares.

2. THAT the said Adam J. Shaw, in or about the period December 1, 2019 through January 30, 2020, while engaged to review the financial statements of "[redacted] H" for the year ended

December 31, 2019, failed to perform professional services in accordance with generally accepted standards of practice of the profession contrary to Rule 206.1 of the CPA Code of Professional Conduct in that;

a) He failed to make sufficient and appropriate enquiries of management with respect to accounting estimates and related party transactions;

b) He failed to make sufficient and appropriate enquiries of management with respect to commitments, contractual obligations or contingencies;

c) He failed to make sufficient and appropriate enquiries of management with respect to non-monetary transactions;

d) He failed to document his conclusions with respect to whether anything has come to his attention that caused him to believe that the financial statements are not prepared in accordance with the applicable financial reporting framework and are free from material misstatement;

e) He failed to assess the appropriateness of the company's recognition of revenue with respect to bill and hold arrangements;

f) He failed to carry out sufficient review procedures to support the plausibility of "Inventory (note 4) $1,046,310";

g) He failed to carry out sufficient review procedures with respect to unrecorded liabilities;

h) He failed to carry out sufficient enquiry and analysis to determine the appropriate income tax rates and failed to document support for his rationale in choosing the 18.2% tax rate he used to calculate the future income tax liability;

i) He failed to carry out sufficient review procedures to support the plausibility of revenue and expenses;

j) He failed to adequately document support for the date of the review engagement report;

k) He failed to document discussions with management with respect to fraud;

l) He failed to document a review for subsequent events;

m) He failed to ensure adequate or proper disclosure in the financial statements of:

a. The cost formula used in Note 1(e) accounting policy for inventory;
b. The significant estimates used to prepare the financial statements in Note 1(g) use of estimates accounting policy;
c. The shareholder loans described in Note 7 as current liabilities rather than long term liabilities;
d. The aggregate amount of payments estimated to be required over the next five years for demand debt described in Note 6; and
e. An accounting policy note with respect to Class D and E shares issued in a tax planning arrangement to describe the arrangement that gave rise to the shares.

3. THAT, the said Adam J. Shaw, in or about the period December 1, 2018 through April 30, 2019, while engaged to audit the financial statements of "IFH" for the year ended December 31, 2018, failed to perform professional services in accordance with generally accepted standards of practice of the profession contrary to Rule 206.1 of the CPA Code of Professional Conduct in that;

   a) He issued two sets of financial statements for the same period containing different financial statement amounts;

   b) He failed to document an audit planning meeting with the engagement team;

   c) He failed to determine performance materiality for purposes of assessing the risk of material misstatement and determining the nature, timing and extent of audit procedures;

   d) He failed to obtain an engagement letter that referenced the expected form and content of the audit report to be issued;

   e) He failed to document meeting with the engagement team to discuss the susceptibility of the financial statements to material misstatement and the application of the financial reporting framework to the entity's facts and circumstances;

   f) He failed to document his understanding of the entity's selection and application of accounting policies and the measurement and review of the entity's financial performance;

   g) He failed to document his understanding of the organization's control environment, business processes and risk assessment process;

   h) He failed to document his understanding of the entity's information system;

i) He failed to obtain an understanding of control activities relevant to the audit and how the entity has responded to risks arising from information technology; (90)

j) He failed to identify and assess the risks of material misstatement at the financial statement and assertion levels;

k) He failed to document his enquiries of management with respect to related parties and related party transactions and failed to identify the Board members as related parties;

l) He failed to document analytical review procedures during or near the end of the audit;

m) He failed to discuss with management and others, including those charged with governance, knowledge of actual, suspected or alleged fraud;

n) He failed to address the presumed risk of fraud in revenue recognition;

o) He failed to test journal entries for management override;

p) He failed to discuss with the engagement team how and where the financial statements may be susceptible to material misstatement due to fraud;

q) He failed to document procedures performed to identify subsequent events;

r) He failed to document procedures performed to identify any litigation and claims;

s) He failed to document his communications with those charged with governance as to the responsibilities of the auditor, planned scope and timing of the audit, qualitative aspects of the audit and the form, timing and content of communications;

t) He failed to document procedures to resolve a material error on the bank confirmation with respect to the savings account balance;

u) He failed to carry out sufficient appropriate audit procedures with respect to cash cut-off;

v) He permitted the disclosure of mutual funds and GICs as cash equivalents when they do not meet the criteria to be recognized as cash equivalents;

w) He failed to obtain sufficient appropriate audit evidence to support the balance sheet item “Cash (note 6) $571,555”;

x) He failed to record a pay equity liability in the amount of $197,820;

y) He failed to carry out sufficient appropriate audit procedures with respect to the search for unrecorded liabilities and to document those procedures undertaken;

z) He failed to obtain sufficient appropriate audit evidence to support the balance sheet item “Due from related parties $71,335”

aa) He failed to obtain sufficient appropriate audit evidence to support the long-term debt of $486,920 disclosed in Note 5;

bb) He failed to ensure proper disclosure of a transfer from operations to the capital reserve fund in the amount of $16,025 as a transfer and incorrectly included it in revenue and expenses;

cc) He failed to obtain sufficient appropriate audit evidence to support the item “Rent income $61,277” in the operating fund statement;

dd) He failed to document the sample design, rationale for the sample size, selection of items and results of testing for the purchase, payables and payments testing;

ee) He failed to prepare the Auditor’s Report in the format required by the standards of practice;

ff) He failed to adequately document support for the date of the auditor’s report;

gg) He failed to ensure adequate or proper disclosure in the financial statements of:

a. Cash flows, as a statement of cash flows was not included;
b. Restricted funds;
c. The basis of presentation, being accounting standards for not-for-profit organizations;
d. A description of the “Domestic Assault Review Team Fund” in Note 2;
e. The revenue recognition policies;
f. The basis and rates on which amortization of capital assets is provided.

4. THAT, the said Adam J. Shaw, in or about the period August 1, 2018 through December 30, 2018, while engaged to audit the financial statements of “ICM” for the year ended August 31, 2018, failed to perform professional services in accordance with generally accepted

standards of practice of the profession contrary to Rule 206.1 of the CPA Code of Professional Conduct in that;

a) He failed to obtain an engagement letter in the form required by generally accepted standards;

b) He failed to document his understanding of the organization's control environment, business processes and risk assessment process;

c) He failed to document his understanding of the entity's information systems;

d) He failed to obtain an understanding of control activities relevant to the audit and how the entity has responded to risks arising from information technology;

e) He failed to identify and assess the risks of material misstatement at the financial statement and assertion levels;

f) He failed to document his enquiries of management with respect to related parties and related party transactions;

g) He failed to address the presumed risk of fraud in revenue recognition;

h) He failed to test journal entries for management override;

i) He failed to document procedures performed to identify subsequent events;

j) He failed to document his communications with those charged with governance as to the responsibilities of the auditor, planned scope and timing of the audit, qualitative aspects of the audit and the form, timing and content of communications;

k) He failed to obtain sufficient appropriate audit evidence to verify the market value of securities held for sale;

l) He failed to ensure adequate disclosure of the disposal of two investments during the year as a reclassification from other comprehensive income to profit and loss;

m) He failed to evaluate investments for impairment, where the market value is less than cost, to determine if an impairment loss should be recorded;

n) He failed to obtain sufficient appropriate audit evidence to support receivables from related parties of $315,908;

o) He failed to obtain sufficient appropriate audit evidence to support accounts payable and accrued liabilities;

p) He failed to ensure amounts due from related parties and subordinated debt were accounted for correctly;

q) He failed to ensure deferred tax assets and liabilities were accounted for correctly;

r) He failed to obtain sufficient appropriate audit evidence with respect to the items advisory fees, accounting fees and interest income on the statement of comprehensive income/loss;

s) He failed to obtain sufficient appropriate audit evidence with respect to expenses;

t) He failed to prepare the Auditor's Report in the format required by the standards of practice;

u) He failed to adequately document support for the date of the auditor's report;

v) He failed to ensure adequate or proper disclosure in the financial statements of:

   a. The statement of changes in equity for the company which should have been combined with other comprehensive income and included share capital;
   b. Gain on disposal of investments and the related cash flows;
   c. A basis of presentation and statement of compliance note;
   d. Information about the assumptions made about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year;
   e. The revenue recognition policies;
   f. Information that enables users to evaluate the nature and extent of risks arising from financial instruments;
   g. An accounting policy for assets held for sale and the reclassification of securities sold during the year; and
   h. The major components of tax expense (income) and the amount of tax relating to each component of comprehensive income and an explanation of the relationship between tax expense (income) and accounting profits.

Dated at Toronto, Ontario this day of March 2021

H.G. FAGAN, FCPA, FCA, CHAIR
PROFESSIONAL CONDUCT COMMITTEE