



CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

THE CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

**IN THE MATTER OF:** DRAFT ALLEGATIONS OF PROFESSIONAL MISCONDUCT  
AGAINST FRANK ROSSO, 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") approved draft Allegations against Frank Rosso, CPA, CA ("Rosso") (SCHEDULE "A"). 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 Rosso's failure to perform professional services in accordance with generally accepted standards of the profession with respect to the following engagements:
  - a) the review of the financial statements of "CBMC" for the year ended July 31, 2018 (DOC 1-14);
  - b) the review of the financial statements of "AI" for the year ended July 31, 2018 (DOC 49-76);
  - c) the review of the financial statements of "AI" for the year ended July 31, 2020 (DOC 109-122); and
  - d) the review of the financial statements of "CBSF" for the year ended July 31, 2020 (DOC 155-169).

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3. The PCC and Rosso 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 Rosso 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 Rosso agree that the review deficiencies found on the review described in Allegation 1 are, in many cases, repeated in the reviews described in Allegations 2 and 3 and 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 review.

#### **Background**

5. Rosso obtained his CA designation in 2004 and his public accounting licence the same year. Shortly thereafter he began his practice as a sole practitioner which he continues to this day.
6. His practice includes four review engagements (all part of one group of companies) and no audits. The balance of his practice involves accounting, tax preparation and compilation engagements. Fees for the four review engagements are approximately \$50,000. Total fee volume is \$200,000 to \$250,000 annually.
7. Rosso has two employees. A CPA student and an administrative assistant who does some bookkeeping.
8. Rosso is up to date on his professional development.

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### **The Complaint**

9. This matter was referred to the Professional Conduct Committee ("PCC") by the Practice Inspection Committee ("PIC").
10. In June of 2014, Rosso was inspected, and the PIC recommended a normal reinspection to take place in 2017.
11. In February 2018, the PIC recommended a reinspection in one year.
12. In October 2019, the PIC referred Rosso to the PCC because of continuing standards deficiencies found on reinspection.
13. The files inspected during the 2019 Reinspection were:
  - a) "AI" for the year ended July 31, 2018 (DOC 63-76); and
  - b) "CBMC" for the year ended July 31, 2018 (DOC 1-14).
14. On December 29, 2020, the PCC appointed Mr. Paul Gibel, FCPA, FCA, (the "Investigator") to investigate the member's standards of practice.

### **Failure to Maintain Professional Standards**

15. Rosso and the PCC agree that Rosso failed to perform his professional services in accordance with generally accepted standards of practice of the profession as described below. The relevant standards are those identified in this settlement agreement and referenced to the Standards Brief.
16. Rosso and the PCC agree that the draft Allegations, attached as Schedule "A", particularize the way Rosso failed to perform his professional services in accordance with generally accepted standards of practice of the profession.
17. The documentation standard for review engagements is CSRE 2400.104:

*104. 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: (Ref: Para. A174)*

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- (a) The nature, timing and extent of the procedures performed to comply with this CSRE and applicable legal and regulatory requirements;*
- (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.*

**Allegation 1 – The review of the financial statements of “CBMC” for the year ended July 31, 2018.**

**Particular a) He failed to ensure the checklists included in the file were current.**

- 18. The checklists in Rosso's file have a cautionary note at the top: "This form is effective for reviews of financial statements for the periods on or before December 31, 2017." Since these financial statements are for the year ended July 31, 2018, they are out of date.

**Particular b) He failed to document his understanding of the entity's objectives and strategies**

- 19. CSRE 2400.43 states the practitioner shall 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. This will provide a basis for designing procedures to address those areas.
- 20. 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. CSRE 2400.45 states that based on the practitioner's understanding they shall identify areas in the financial statements where material misstatements are likely to arise.
- 21. Rosso did not document his understanding of the entity's objectives and strategies and accounting systems and accounting records.

**Particular c) He failed to document where material misstatements are likely to arise based on his understanding of the entity and its environment.**

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22. Rosso's file does not include any scoping working papers and he has not documented where material misstatements are likely to arise based on his understanding of the entity and its environment.

**Particular d) He failed to document his enquiries of how management makes the significant accounting estimates required under the applicable financial reporting framework.**

23. CSRE 2400.47 lists the enquiries of management and others within the entity that shall be made by the practitioner. That section states in part:

*47. The practitioner's inquiries of management and others within the entity, as appropriate, shall include the following: (Ref: Para. A96-A100)*

*(a) How management makes the significant accounting estimates required under the applicable financial reporting framework*

24. There is no documentation as to how management makes their estimates.

**Particular e) He failed to document his enquiries with management with respect to related parties, related party transactions, and significant, unusual or complex transactions.**

25. CSRE 2400.47 (c) provides:

*47. The practitioner's inquiries of management and others within the entity, as appropriate, shall include the following: (Ref: Para. A96-A100)...*

*(c) Whether there are significant, unusual or complex transactions, events or matters that have affected or may affect the entity's financial statements, including:*

- (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, including terms of finance and debt contracts or covenants;*
- (iii) Significant journal entries or other adjustments to the financial statements;*
- (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) Effects or possible implications for the entity of transactions or relationships with related parties;*

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26. Although the worksheet "Related party transactions" (Doc 30) has been completed there is no documentation of who this worksheet was discussed with or when.

**Particular f) He failed to document discussions with management relating to existence of fraud or illegal acts and non-compliance with provisions of laws and regulations.**

27. CSRE 2400.47 states:

*47. The practitioner's inquiries of management and others within the entity, as appropriate, shall include the following: (Ref: Para. A96-A100):*

- (d) The existence of any actual, suspected or alleged:*
- (i) Fraud or illegal acts affecting the entity; and*
  - (ii) Non-compliance with provisions of laws and regulations that are generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements, such as tax and pension laws and regulations.*

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

**Particular g) He failed to document the plausibility of accounts receivable.**

29. The accounts receivables are made up of amounts owing from three related companies and the amounts were agreed to their records (DOC 31). Working paper C-2 is the analytical work performed (DOC 32). This working paper shows accounts receivable have decreased by 10.53% while sales have increased by 16.40%. The explanation in the working papers is the decrease in accounts receivable is consistent with the increase in sales.
30. There is no documentation of the reason for the decrease in accounts receivable.
31. The procedures in the Allowance for doubtful accounts section of the Accounts receivable, trade and other - Review procedures checklist (DOC 34) are all completed as "not applicable". There is no documentation of the rationale for, or plausibility of, the conclusion that all of the accounts receivable are collectible.

**Particular h) He failed to carry out sufficient review procedures to support the plausibility of inventory.**

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**Particular i) He failed to document the plausibility of the costing of the inventory including the labour and overhead components.**

32. There is a working paper prepared by the client showing the make-up of the inventory with material, labour and overhead components for the work in process (DOC 36).
33. The Inventory - Review procedures checklist has been completed (DOC 38). In the listing section, it notes the inventory listing was obtained and references D-1. However, D-1 is only a summary of the inventory and not a detailed listing. There are no explanations for how the inventory costs are tracked, how the labour and overhead components are calculated, and the costing and labour rates sections of the checklist are marked as not applicable (DOC 39).
34. There is a note on D-3 (DOC 37) that notes the small dollar increase in work in process is consistent with the increase in cost of sales and consistent as a percentage of cost of sales. The working paper shows inventory has increased by \$333,000 or 53.8% from the prior year while cost of sales has increased by \$529,150 or 10.0%. Work in process as a percentage of cost of sales is 16.3% in the current year and 11.6% in the prior year. This explanation is not accurate and no explanations for the changes are documented.
35. There is no documentation to support the plausibility of the costing of the inventory including the labour and overhead components.

**Particular j) He failed to document the plausibility of the existence and valuation of an amount due from a related company.**

36. The balance sheet shows an amount due from related company of \$275,198 which is referenced to note 3 (DOC 4). There is a note on the lead sheet that there was no change from the prior year (DOC 41).
37. The collectability section of the loans and advances receivable – Review procedures checklist notes: “risk of uncollectable is assessed as low as amount due from a related company. Payment is at discretion of management; no write down necessary” (DOC 43) However there is no information provided to explain why the related company is able to repay this amount as payment is not assured solely because the companies are related.

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38. There is nothing documented with respect to an assessment of the plausibility of the existence and valuation of this amount.

**Particular k) He failed to document his assessment of the plausibility of the amount of a bank loan payable.**

39. A bank loan payable of \$85,000 is shown on the balance sheet. (DOC 4)
40. The working papers contain a bank statement for this loan dated July 26, 2018. (DOC 45) A reconciliation at the bottom of the bank statement shows an additional draw of \$5,000 on July 27 and a repayment of \$315,000 on July 30. There is no documentation that Rosso assessed the plausibility of the reconciling amounts.

**Particular l) He failed to document the plausibility of accounts payable and accrued liabilities.**

41. The accounts payable analysis working paper shows accounts payable decreased by \$162,022 or 11.0% from the prior year while cost of sales increased by \$529,150 or 10.0%. (DOC 46) The explanatory note states "Decrease in accounts payable consistent with increase in sales activity."
42. The days payable outstanding have decreased from 114 to 87 and the explanation is noted "Decrease in days o/s vs. adjusted F17 is consistent with increase in sales."
43. There is no documentation of steps taken by Rosso to satisfy himself as to the plausibility of the decrease in accounts payable and accrued liabilities. There is no documentation of discussions with the external bookkeeper.

**Particular m) He failed to accurately disclose the income tax method used.**

44. The income tax section of the working papers includes a lead sheet and the Income taxes - Review procedures checklist, which has not been completed. Instead, the balance is taken directly from the company's income tax returns which Rosso prepared.

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45. The company is using the taxes payable method even though note 1 (c) discloses they are using the future taxes method. (DOC 7)

**Particular n) He failed to document the inquiry and analytical procedures performed with respect to the statement of operations.**

46. The analytical review working paper shows several ratios but there are no explanations for any of the variances. (DOC 47)
47. There is a gross margin working paper which shows the gross margin has increased from 13.4% to 18.2%, the highest gross margin over the past six years. (DOC 48) A note on this working paper states "See AR & WIP for further analysis...Revenue appears plausible". However, the accounts receivable analytical working paper does not provide any additional information. (DOC 32) The work in process working paper (DOC 37) shows the increase in gross margin with the explanation "See 20.1 for further analysis...WIP turnover, days wip outstanding and gross margin are plausible in comparison with sales activity and prior year explanations".
48. The reference to working paper 20.1 is an error and the reference is in fact to 7-1 which is the gross margin analysis (DOC 48).
49. There are no explanations provided for the increase in sales, increase in cost of sales and any variances in expenses from the prior year.
50. There is no documentation of discussions with the external bookkeeper and/or management and no documentation of inquiry and analytical procedures performed.

**Particular o) He failed to include the required disclosure relating to management and administration fees paid to related parties.**

51. The statement of operations shows management and administration fees of \$192,000 (DOC 5). These fees were paid to related parties.

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52. Section 3840.51 requires disclosure of the related parties, a description of the transaction, the amount recognized, and the measurement basis used. None of this disclosure was made.

**Allegation 2 – The Review of the Financial Statements of “AI” for the year ended July 31, 2018.**

**Particular a) He failed to ensure the checklists included in the file were current.**

53. The checklists in the working paper file (DOC 86) have the same review deficiencies as described in 1 (a).

**Particular b) He failed to document his understanding of the entity’s objectives and strategies.**

54. The same review deficiencies as described in 1 (b) (CSRE 2400.43-45).
55. There is a working paper “Understanding the nature of the entity checklist” (DOC 86-91) which includes a description of the accounting systems and records but not the entity’s objectives and strategies.

**Particular c) He failed to document where material misstatements are likely to arise based on his understanding of the entity and its environment.**

56. The same review deficiencies as described in 1 (c) (CSRE 2400.43-45).

**Particular d) He failed to document his enquiries of management with respect to accounting estimates, related party transactions, and significant, unusual or complex transactions**

57. The same review deficiencies as described in 1 (d) and 1 (e) (CSRE 2400.47).
58. While there is a working paper regarding related party transactions (DOC 92) there is no documentation of enquiries of management.

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**Particular e) He failed to document his discussions with management relating to existence of fraud or illegal acts and non-compliance with provisions of laws and regulations.**

59. The same deficiencies as described in 1 (f) (CSRE 2400.47).

**Particular f) He failed to document the plausibility of accounts receivable.**

60. The same deficiencies as described in 1 (g).

61. The working papers dealing with accounts receivable are found at (DOC 93, 94, 95).

**Particular g) He failed to carry out sufficient review procedures to support the plausibility of inventory.**

**Particular h) He failed to document the plausibility of the costing of inventory including the labour and overhead components.**

62. The same deficiencies as described in 1 (h) and 1 (i).

63. The working papers dealing with inventory are found at (DOC 98-102).

**Particular i) He failed to document the plausibility of the property and equipment additions.**

64. The asset continuity schedule shows additions during the year of \$175,115 (DOC 103).

65. There is no documentation in the working paper file to support the plausibility of the additions.

**Particular j) He failed to document the plausibility of the accounts payable and accrued liabilities.**

66. The same deficiencies as in particular 1 (l).

67. The accounts payable analysis shows accounts payable increased by \$252,805 or 34.4% from the prior year while cost of sales increased by \$129,556 or 2.5% (DOC 104). The

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explanation states "Increase in A/P consistent with increase in sales activity." In fact, sales decreased by \$532,989 or 6.96% per the accounts receivable analysis (DOC 94).

68. The days payable outstanding have decreased from 81 to 59 and the explanation is that the days payable outstanding is comparable to the prior year.
69. There is no documentation of steps taken by Rosso to satisfy himself as to the plausibility of the increase in accounts payable and accrued liabilities. There is no documentation of discussions with the external bookkeeper.

**Particular k) He failed to accurately disclose the income tax method used.**

70. The same deficiencies as in particular 1 (m).
71. The company is using the taxes payable method even though note 1 (c) (DOC 69) discloses they are using the future taxes method.

**Particular l) He failed to sufficiently document the inquiry and analytical procedures performed with respect to the statement of operations.**

72. The same deficiencies as in particular 1 (n).
73. There is a gross margin working paper which shows the gross margin has decreased from 32.5% to 25.6% (DOC 108). There is a note on the working paper "See AR & WIP for further analysis." The conclusion is "Revenue appears plausible." However, the accounts receivable analytical working paper (DOC 94) does not provide any additional information.
74. The work in progress working paper (DOC 99) explains "Decrease in gross margin is as a result of a \$300,000 increase in design and development work for a \$10 million RBC job in cost of sales. (Per Matt, controller)".

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75. There is no documentation for this explanation and no documentation of explanations for the decrease in sales, increase in cost of sales and variances in expenses from year to year.

**Particular m) He failed to include the required disclosure relating to management and administration fees paid to and received from related parties**

76. The same deficiencies as in particular 1 (o).
77. The statement of operations shows management and administration fees of \$415,827 (DOC 67). These were paid to related parties and there was no related party disclosure. (3840.51). In addition, \$438,000 of management fee income has been netted against management salaries (DOC 108). These are related party transactions that should have been disclosed. (3840.51)

**Allegation 3 – The Review of the Financial Statements of “AI” for the year ended July 31, 2020.**

**Particular a) He failed to obtain a signed engagement letter prior to performing the engagement.**

78. CSRE 2400.34 states the practitioner shall agree the terms of the engagement with management or those charged with governance, as appropriate, prior to performing the engagement.
79. While there is an engagement letter in the working paper file (DOC 123-128) it is not on Rosso's letterhead, and it is not signed.

**Particular b) He failed to document where material misstatements are likely to arise based on his understanding of the entity and its environment.**

80. The same deficiencies as in 2 (c).
81. Rosso's file includes an engagement scope working paper (DOC 132-134).

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82. Accounts receivable, accounts payable, revenue, cost of sales and expenses are all identified as material amounts, but the remainder of the working paper is not completed for these areas including whether a material misstatement is likely and a description of the significant planned procedures.
83. Accordingly, Rosso has not documented where material misstatements are likely to arise based on his understanding of the entity and its environment. (CSRE 2400.45)

**Particular c) He failed to document the plausibility of accounts receivable.**

84. On the accounts receivable lead sheet is a note "The decrease in A/R results from the year-end sales volume being much lower than last year...the decrease is consistent with the decrease in sales for the year." (DOC 135) Accounts receivable decreased by 13% while sales decreased by 26% (DOC 135-136).
85. The accounts receivable - analysis working paper shows that arm's length receivables decreased from \$2,137,753.37 in 2019 to \$851,482.34 as at July 31, 2020 which is a decrease of 60% (DOC 138). The days sales in accounts receivable have increased from 104.49 to 184.43 and the explanation is "The number of days sales in accounts receivable has increased from the prior year's. The reason is the longer collectability times due to Covid and the shutdowns related to it." (DOC 137)
86. The reasons for the decrease in accounts receivable are not documented.
87. The company had \$430,791.87 receivable for Canada Emergency Wage Subsidy claims at July 31, 2020 (DOC 139). The lead sheet notes "...the funds were received subsequent to the year-end..." (DOC 135). The client prepared the claims and provided an excel spreadsheet in support. The client used the CRA template and Rosso filed the claims for them.
88. There is no documentation in the working paper file to support the plausibility of these claims.



**Particular d) He failed to carry out sufficient review procedures to support the plausibility of inventory.**

**Particular e) He failed to document the plausibility of the costing of inventory including the labour and overhead components.**

89. The same deficiencies as in 2 (g) and 2 (h).
90. There is a working paper showing the make-up of the inventory with material, labour, and overhead components for the work in process (DOC 140).
91. Working paper D-3 shows the analytical procedures performed (DOC 141). The only work is the calculation of the inventory turnover which increased from 55.60 to 69.83 days. The working paper provides two explanations. The first notes "The company decided to focus on inventory turnover and avoid overstocking. Better control over inventory allows for inventory to turn much quicker." The second explains "The days in inventory has increased due to the Covid pandemic as the jobs are taking longer to complete."
92. As with the other engagements that are the subject of the Allegations at Schedule "A", there are no explanations for how the inventory costs are tracked or how the labour and overhead components are calculated on the working papers or the Inventory – Review procedures checklist (DOC 142-146).
93. There is not sufficient documentation to support the plausibility of inventory.

**Particular f) He failed to document the plausibility of management fees payable in the amount of \$2,000,000.**

94. The balance sheet shows management fees payable of \$2,000,000 (DOC 112).
95. The working paper lead sheet shows \$800,000 owing to CBH, \$800,000 owing to B and \$400,000 owing to 314 Ontario (DOC 147).

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96. The management fees payable are said to be related to profitability because the company had completed a large \$10 million project for bank machines. The two senior people in the company arbitrarily decided how the profits were to be split and allocated them to these companies. There is no documentation of this.

**Particular g) He failed to include the required disclosure relating to management fees payable to related parties.**

97. The same deficiencies as in 2 (m).
98. Note 10 is the related party note (DOC 121). It shows the management fees paid to related parties, being \$800,000 to CBH and \$600,000 to CBRT for a total of \$1,400,000.
99. CBRT sponsors an automobile racing team. The \$1,400,000 is the amount of management fees for the prior year, not the current year, and the difference between the payable of \$2,000,000 and the amount in the note is that one of the companies is not really related, as 314 Ontario is an external management company, so it wasn't included in the note disclosure.
100. The related party portion of the payable is not disclosed in note 10.
101. The related party note discloses \$438,000 of management fees charged to related parties (DOC 120). The related lead sheet shows they have been netted against management salaries / administration fees (DOC 152) on the statement of income (DOC 113). While the fees are disclosed there is no disclosure of where they are recorded.
102. The operating expenses lead sheet also shows \$3,300,000 of management fee expenses (DOC 152). Of that amount \$1,300,000 has not been disclosed as related party transactions as required by Section 3840.51.

**Particular h) He failed to document the plausibility of accounts payable and accrued liabilities.**

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103. The same deficiencies as in 2 (j).
104. The accounts payable analysis shows accounts payable to arm's length parties have decreased from \$685,367.69 to \$244,482.24 (DOC 148).
105. There was no documentation of a search for unrecorded liabilities and no documentation of procedures performed to determine the plausibility of this decrease.
106. In addition, the Worksheet – Sales tax reasonability shows a difference from the amount expected of \$263,483.90 (DOC 149). The explanation is that the difference arises from sales to customers in other provinces where only 5% GST is charged instead of 13% HST.
107. Rosso did not attempt to quantify these sales even though the difference is material. The sales at lower GST/HST rates should have been quantified and the difference reduced to an amount lower than materiality.

**Particular i) He failed to include documentation to support the disclosure relating to compliance with bank covenants.**

108. Note 5 is the long-term debt note which discloses the company is in compliance with all financial covenants as at the year-end date (DOC 118).
109. There is no documentation to support the disclosure in the note.

**Particular j) He failed to sufficiently document the inquiry and analytical procedures performed with respect to the statement of income.**

110. The working papers include an expense as a percentage of sales working paper (DOC 153), but explanations are not provided for significant changes in purchases, direct labour and management wages. There is no documentation of a discussion with management.
111. The gross margin analysis (DOC 141) shows that the margin is the same for both years and offers an explanation in that the cost of materials increased because of shipping

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shortages but these were offset by wage subsidies. There is no analysis by component of cost of sales.

112. It is agreed that Rosso has not sufficiently documented the inquiry and analytical procedures performed with respect to the statement of income.

**Particular k) He failed to adequately document support for the date of the review engagement report.**

113. The date of the review engagement report is the date of substantial completion of the review.

114. CSRE 2400.103 states:

*The practitioner shall date the report no earlier than the date on which the practitioner has obtained sufficient appropriate evidence as the basis for the practitioner's conclusion on the financial statements, including being satisfied that;*

*(a) all the statements that comprise the financial statements under the applicable financial reporting framework, including the related notes where applicable, have been prepared; and*

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

115. 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.

**Particular l) He failed to disclose the carrying amount of inventory classifications appropriate to the entity.**

116. Section 3031.35 (b) requires disclosure of the total carrying amount of inventories and the carrying amount of classifications appropriate to the entity. This was not disclosed.

**Particular m) He failed to disclose the amount received in relation to government assistance and the relevant terms and conditions.**

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117. The Covid-19 note (DOC 122) discloses the company successfully applied for wage subsidies and has accounted for these as government assistance. It also notes that they have elected to show the subsidy as a reduction of salaries, wages and benefits.
118. This disclosure should be in the summary of accounting policies section of the notes. While Rosso has disclosed the amount receivable, he has not disclosed the amount received during the year and the relevant terms and conditions as required by Section 3800.31.

**Allegation 4 – The Review of the Financial Statements of “CBSF” for the year ended July 31, 2020.**

**Particular a) He failed to obtain a signed engagement letter prior to performing the engagement.**

119. Same deficiency as particular 3(a). The engagement letter (DOC 170-176) is not signed by the client and is not on Rosso’s letterhead (CSRE 2400.34).

**Particular b) He failed to document where material misstatements are likely to arise based on his understanding of the entity and its environment.**

120. Same deficiency as particular 3 (b).
121. The working paper file includes an engagement scope working paper (DOC 180-182). Accounts receivable is identified as a material amount but the remainder of the working paper is not completed for this area including whether a material misstatement is likely and a description of the significant planned procedures.
122. Accounts payable is identified as a material amount and the response as to whether a material misstatement is likely is “no”. There is no description of the significant planned procedures.
123. Revenue, cost of sales and expenses are identified as material amounts and the response as to whether a material misstatement is likely is “no”. The description of the significant planned procedures is marked as not applicable.

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124. All of these sections of the checklist should have been completed. Because they were not, Rosso has failed to document where material misstatements are likely to arise based on his understanding of the entity and its environment as required. (CSRE 2400.45)

**Particular c) He failed to document the plausibility of accounts receivable.**

125. Same deficiency as particular 3 (c).
126. The accounts receivable – analysis working paper (DOC 185) shows that arm's length receivables decreased from \$6,516,677.60 in 2019 to \$3,362,710.16 on July 31, 2020, a decrease of 48%. While Rosso indicated that the decrease was due to Covid, as 90% of the company's sales are to retail stores and their sales almost came to a complete stop as projects were put on hold, there was no documentation of this explanation.
127. The days sales in accounts receivable has increased from 111.77 to 131.78 days (DOC 186). Again, Rosso indicated that this was due to the longer collectability times due to Covid, and the shutdowns related to it. There was no documentation of this explanation.
128. CBSF had a \$248,909.38 receivable for Canada Emergency Wage Subsidy claims as at July 31, 2020 (DOC 187). There is a note in the working paper that these amounts were received after year end. The client prepared the claims and provided an excel spreadsheet in support. The client used the CRA template and Rosso filed the claims for them.
129. There is not any documentation in the working paper file to support the plausibility of these claims.

**Particular d) He failed to carry out sufficient review procedures to support the plausibility of inventory.**

**Particular e) He failed to document the plausibility of the costing of inventory including the labour and overhead components.**

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130. Same review deficiency as in 3 (d) and (e).
131. As in his other review engagements, there is a working paper showing the make-up of the inventory with material, labour, and overhead components for the work in process (DOC 188).
132. Working paper D-2 shows the analytical procedures performed (DOC 189). This working paper shows a calculation of the inventory turnover, which increased from 59.40 to 78.23 days. Two explanations are given. The first says the company was focusing on inventory turnover and better control allows for the inventory to turn much quicker. The second says the days in inventory has increased due to Covid as the jobs are taking longer to complete.
133. As with the other review engagements, there are no explanations for how the inventory costs are tracked or how the labour and overhead components are calculated on the working papers or the Inventory – Review procedures checklist (DOC 190-194).
134. There is not sufficient documentation to support the plausibility of inventory.
135. In addition, the inventory summary shows obsolete inventory of \$500,000 (DOC 188). There is a comment in the Valuation section of the Inventory – Review procedures checklist: "The obsolete inventory is separated from regular inventories and written down to net realizable value, by senior management" (DOC 190).
136. There is no documentation of a discussion with the client and no documentation of sufficient appropriate evidence as a basis for Rosso's conclusion on the value of obsolete inventory.

**Particular f) He failed to document the plausibility of accounts payable and accrued liabilities.**

137. Same deficiency as in 3 (h).

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138. The accounts payable analysis shows accounts payable to arm's length parties have decreased from \$589,100.84 to \$327,864.46 (DOC 195). There was no documentation of work done to support the plausibility of this decrease.
139. The Worksheet – Sales tax reasonability shows a difference from the amount expected of \$258,979.39 (DOC 196). The working paper notes that the difference arises from sales to customers in other provinces where only 5% GST is charged instead of 13% HST. There was no attempt made to quantify these sales as the difference is material.
140. The sales at lower GST/HST rates should have been quantified and the difference reduced to an amount lower than materiality. There is no documentation of this being done.

**Particular g) e failed to include documentation to support the disclosure relating to compliance with bank covenants.**

141. Same deficiency as in 3 (i).
142. Note 5 is the long-term debt note and discloses the company complies with all financial covenants as at the year-end date (DOC 164). There is no documentation to support the disclosure in this note.

**Particular h) He failed to sufficiently document the inquiry and analytical procedures performed with respect to the statement of loss.**

143. The only documentation with respect to the plausibility of revenue, cost of sales and expenses is in the schedules and some notes on the lead sheets.
144. There is an expense as a percentage of sales working paper, but explanations are not provided for significant changes in purchases, direct labour and wages and benefits (DOC 199). There was no documentation of a discussion with management and the external bookkeeper.

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145. The gross margin analysis shows that the margin dropped from 21% to 16% (DOC 189). The note on this working paper states that "...the cost of materials and freight has increased as it was more difficult to get goods due to shipping shortages and difficulties due to the pandemic, this has been offset a little by the CEWS".

146. There is no analysis by component of cost of sales and therefore Rosso has not sufficiently documented the inquiry and analytical procedures performed with respect to the statement of loss.

**Particular i) He failed to adequately document support for the date of the review engagement report.**

147. Same deficiency as in 3 (k).

148. The date of the review engagement report was the date of substantial completion of the review. There is no documentation of when those recognized with authority took responsibility, therefore, there is no documentation to support the date of the report (CSRE 2400.103).

**Particular j) He failed to disclose the carrying amount of inventory classifications appropriate to the entity.**

149. Same deficiency as in 3 (l).

150. Disclosure of the total carrying amount of inventories and the carrying amount of classifications appropriate to the entity has not been made as required by the standards (3031.35 (b)).

**Particular k) He failed to disclose the amount of the allowance for doubtful accounts.**

151. Section 3856.42 states that for current trade receivables, an enterprise shall disclose the amount of any allowance for impairment.



152. This company has an allowance for doubtful accounts of \$536,851.19 (DOC 184) which has not been disclosed.

**Particular l) He failed to accurately disclose the amounts for lease commitments.**

153. Note 9 shows lease commitments of approximately \$150,000 per annum (DOC 165). The rent and occupancy expense for the year shown on the financial statements is \$655,925 (DOC 159) which is not consistent with Note 9.
154. Note 9 has misdescribed the commitment under the short-term lease in the second paragraph as \$50,844 per annum when it should be \$50,844 per month.

**Particular m) He failed to disclose the amount of any unused income tax losses carried forward.**

155. Note 11 discloses that the company has a loss before income taxes of \$978,881 (DOC 167). No income tax recovery has been recorded from carrying these losses back to prior years.
156. Section 3465.88 (d) requires the disclosure of the amount of any unused income tax losses carried forward. This information has not been provided.

**Particular n) He failed to disclose the amount received in relation to government assistance and the relevant terms and conditions.**

157. Note 13 (The Covid-19 note) discloses the company successfully applied for wage subsidies and has accounted for these as government assistance (DOC 169). It also says "...the company has elected to show the subsidy as a reduction of salaries, wages and benefits."
158. This disclosure should be in the summary of accounting policies section of the notes. Rosso has disclosed the amount receivable but not the amount received during the year and the relevant terms and conditions as required by Section 3800.31.

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### **Terms of Settlement**

159. Rosso and the Professional Conduct Committee agree to the following Terms of Settlement:
- a) A payment by way of fine in the amount of \$7,500;
  - b) A restriction on Rosso's practice prohibiting Rosso from performing any assurance work, including audits and reviews;
  - c) 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 practice restriction on Rosso's practice prohibiting him from performing any assurance work, including audits and review, will be published in the *Vaughan Citizen* Newspaper, the costs of such publication to be borne by Rosso in addition to other costs required by this Settlement;
  - d) A payment by way of costs in the amount of \$10,000;
  - e) Rosso 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 a) and d) above; and
  - f) A failure by Rosso 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 one month, his membership in CPA Ontario will be revoked with full publicity in accordance with Regulation 6-2, section 48.
160. The Professional Conduct Committee and Rosso expressly consent and authorize the Registrar to take any actions associated with Rosso's membership in CPA Ontario as prescribed and agreed to herein.
161. The Professional Conduct Committee and Rosso expressly authorize and consent to CPA Ontario:

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- a) Providing notice of the terms of this Settlement Agreement to all CPA Ontario members, to the Public Accounting Standards Committee and to all provincial bodies; and
  - b) Publishing notice of the practice restriction in a newspaper distributed in the geographic area where Rosso lives, i.e. the *Vaughan Citizen*.
162. Should the Discipline Committee accept this Settlement Agreement, Rosso 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 attached at Schedule "A" shall be forever stayed.
163. 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 Rosso leading up to its presentation to the Discipline Committee, shall be without prejudice to the Professional Conduct Committee and Rosso; and
  - b) The Professional Conduct Committee and Rosso 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.
164. It is acknowledged that Rosso received an opportunity to access independent legal advice in relation to this Settlement Agreement

**Disclosure of Settlement Agreement**

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

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

All of which is agreed to for the purpose of this proceeding alone this 16 day of August 2021.

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Julia McNabb, J.D.  
On behalf of  
The Professional Conduct Committee

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Frank Rosso, CPA, CA  
On his own behalf

## SCHEDULE "A"



### CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

#### *CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017*

**TO:** Frank Rosso, CPA, CA

**AND TO:** The Discipline Committee of CPA Ontario

The Professional Conduct Committee of CPA Ontario hereby makes the following Allegations of professional misconduct against Frank Rosso, CPA, CA, a member of CPA Ontario:

1. THAT the said Frank Rosso, in or about the period of July 1, 2018 to December 31, 2018, while engaged to perform a review of the financial statements of "CBMC" for the year ended July 31, 2018, failed to perform his 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 ensure the checklists included in the file were current;
  - b. He failed to document his understanding of the entity's objectives and strategies;
  - c. He failed to document where material misstatements are likely to arise based on his understanding of the entity and its environment;
  - d. He failed to document his enquiries of how management makes the significant accounting estimates required under the applicable financial reporting framework;
  - e. He failed to document his enquiries with management with respect to related parties, related party transactions, and significant, unusual or complex transactions;
  - f. He failed to document discussions with management relating to existence of fraud or illegal acts and non-compliance with provisions of laws and regulations;
  - g. He failed to document the plausibility of accounts receivable;
  - h. He failed to carry out sufficient review procedures to support the plausibility of inventory;
  - i. He failed to document the plausibility of the costing of the inventory including the labour and overhead components;

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- j. He failed to document the plausibility of the existence and valuation of an amount due from a related company;
  - k. He failed to document his assessment of the plausibility of the amount of a bank loan payable;
  - l. He failed to document the plausibility of accounts payable and accrued liabilities;
  - m. He failed to accurately disclose the income tax method used;
  - n. He failed to document the inquiry and analytical procedures performed with respect to the statement of operations; and
  - o. He failed to include the required disclosure relating to management and administration fees paid to related parties.
2. THAT the said Frank Rosso, in or about the period of July 1, 2018 to December 31, 2018, while engaged to perform a review of the financial statements of "AI" for the year ended July 31, 2018, failed to perform his 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 ensure the checklists included in the file were current;
  - b. He failed to document his understanding of the entity's objectives and strategies;
  - c. He failed to document where material misstatements are likely to arise based on his understanding of the entity and its environment;
  - d. He failed to document his enquiries of management with respect to accounting estimates, related party transactions, and significant, unusual or complex transactions;
  - e. He failed to document his discussions with management relating to existence of fraud or illegal acts and non-compliance with provisions of laws and regulations;
  - f. He failed to document the plausibility of accounts receivable;
  - g. He failed to carry out sufficient review procedures to support the plausibility of inventory;
  - h. He failed to document the plausibility of the costing of inventory including the labour and overhead components;

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- i. He failed to document the plausibility of the property and equipment additions;
  - j. He failed to document the plausibility of the accounts payable and accrued liabilities;
  - k. He failed to accurately disclose the income tax method used;
  - l. He failed to sufficiently document the inquiry and analytical procedures performed with respect to the statement of operations; and
  - m. He failed to include the required disclosure relating to management and administration fees paid to and received from related parties.
3. THAT the said Frank Rosso, in or about the period of July 1, 2020 to January 31, 2021, while engaged to perform a review of the financial statements of "AI" for the year ended July 31, 2020, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the CPA Code of Professional Conduct in that:
- a. He failed to obtain a signed engagement letter prior to performing the engagement;
  - b. He failed to document where material misstatements are likely to arise based on his understanding of the entity and its environment;
  - c. He failed to document the plausibility of accounts receivable;
  - d. He failed to carry out sufficient review procedures to support the plausibility of inventory;
  - e. He failed to document the plausibility of the costing of inventory including the labour and overhead components;
  - f. He failed to document the plausibility of management fees payable in the amount of \$2,000,000;
  - g. He failed to include the required disclosure relating to management fees payable to related parties;
  - h. He failed to document the plausibility of accounts payable and accrued liabilities;
  - i. He failed to include documentation to support the disclosure relating to compliance with bank covenants;
  - j. He failed to sufficiently document the inquiry and analytical procedures performed with respect to the statement of income;

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- k. He failed to adequately document support for the date of the review engagement report;
  - l. He failed to disclose the carrying amount of inventory classifications appropriate to the entity; and
  - m. He failed to disclose the amount received in relation to government assistance and the relevant terms and conditions.
4. THAT the said Frank Rosso, in or about the period of July 1, 2020 to January 31, 2021, while engaged to perform a review of the financial statements of "CBSF" for the year ended July 31, 2020, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the CPA Code of Professional Conduct in that:
- a. He failed to obtain a signed engagement letter prior to performing the engagement;
  - b. He failed to document where material misstatements are likely to arise based on his understanding of the entity and its environment;
  - c. He failed to document the plausibility of accounts receivable;
  - d. He failed to carry out sufficient review procedures to support the plausibility of inventory;
  - e. He failed to document the plausibility of the costing of inventory including the labour and overhead components;
  - f. He failed to document the plausibility of accounts payable and accrued liabilities;
  - g. He failed to include documentation to support the disclosure relating to compliance with bank covenants;
  - h. He failed to sufficiently document the inquiry and analytical procedures performed with respect to the statement of loss;
  - i. He failed to adequately document support for the date of the review engagement report;
  - j. He failed to disclose the carrying amount of inventory classifications appropriate to the entity;
  - k. He failed to disclose the amount of the allowance for doubtful accounts;

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- l. He failed to accurately disclose the amounts for lease commitments;
- m. He failed to disclose the amount of any unused income tax losses carried forward;  
and
- n. He failed to disclose the amount received in relation to government assistance and the relevant terms and conditions.

Dated at Collingwood, Ontario, this    day of May 2021.

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J.E. CURRIE, FCPA, FCA, FCMA - CHAIR  
PROFESSIONAL CONDUCT COMMITTEE

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