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CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

THE CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017.

IN THE MATTER OF: ALLEGATIONS OF PROFESSIONAL
MISCONDUCT AGAINST JANET L. MCGHEE,
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 7-1, s.22.4*

Introduction

1. The Professional Conduct Committee has approved draft Allegations against Janet L. McGhee, CPA, CA ("McGhee") (Doc 1).
2. The draft Allegations pertain to McGhee's failure to perform professional work in accordance with generally accepted standards of practice of the profession with respect to the following engagements:
 - a) an audit of the financial statements of "Client A" for the year ended December 31, 2015 (Doc 2);
 - b) an audit of the financial statements of "Client B" for the year ended September 30, 2015 (Doc 3);
 - c) an audit of the financial statements of "Client C" for the year ended March 31, 2017 (Doc 4); and

- d) a review engagement of the financial statements of "Client D" for the year ended December 31, 2016 (**Doc 5**).
- 3. The documents referred to in this agreement are found in the **Document Brief ("Doc")**. The applicable *CPA Canada Handbook* sections are found in the **Brief of Authorities ("Tab")**.
- 4. The Professional Conduct Committee ("PCC") and McGhee 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 McGhee in any other proceedings of any kind, including, but without limiting the generality of the foregoing, any civil or other proceedings which may be brought by any other person, corporation, regulatory body or agency.

Background of the Member

- 5. In January 1998, McGhee joined KPMG in their financial institution practice. In the same year, McGhee successfully wrote the Uniform Final Examination.
- 6. Subsequently, McGhee joined Ernst & Young in their Tax Department and was mainly involved in Scientific Research and Experimental Development (SR&ED) claims. In 2005, McGhee joined Magna International with the responsibility for SR&ED claims.
- 7. In January 2007, McGhee started her practice as a sole practitioner. McGhee's current practice consists of 8 audit clients, 6 review engagement clients, 350 compilation/bookkeeping clients and 3,500 personal tax clients.
- 8. McGhee employs an office manager and two bookkeepers. During personal tax season, McGhee employs two assistants and McGhee has recently hired a CPA student to convert all engagements to electronic files.

Background of the Complaint

9. McGhee came to the attention of the PCC as a result of a report received from the Practice Inspection Committee ("PIC") of CPA Ontario dated February 8, 2017 relating to Client A and Client B (**Doc 6**). The referral was made following re-inspections of McGhee's practice in 2014, 2015 and 2016.
10. Mr. C. Dirk Joustra, CPA, CA was appointed to investigate PIC's complaint. He was asked to review the working paper files which were the subject of the PIC inspection, as well as one other audit file and one review file, as current as possible. Mr. Joustra reviewed the financial statements of "Client A" for the year ended December 31, 2015, the financial statements of "Client B" for the year ended September 30, 2015, the financial statements of "Client C" for the year ended March 31, 2017 and the financial statements of "Client D" for the year ended December 31, 2016.

Documentation of Audit Procedures and Evidence - Allegations 1(a), 2(a) and 3(a)

Client A, Client B and Client C

11. CAS 330, paragraphs 18, 25 to 28 and CAS 500, paragraph 6 (**Tabs 1 and 2**) require that the documentation of substantive audit procedures performed include: the overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing, and extent of the further audit procedures performed; the linkage of those procedures with the assessed risks at the assertion level; and the results of the audit procedures, including the conclusions where these are not otherwise clear.
12. McGhee did not sufficiently document substantive audit procedures performed on material classes of transactions and account balances with respect to the following:
- a) Client A: expenses, payroll and revenues;
 - b) Client B: payroll and revenues; and
 - c) Client C: expenses.

Documentation of Audit Sampling – Allegations 1(b), 2(b) and 3(b)

Client A, Client B and Client C

13. Audit sampling was used in the performance of audit procedures related to cash receipts and disbursements. McGhee did not document the sample design, sample size and selection of items for testing as required by CAS 530, paragraphs 6 to 8. McGhee also failed to evaluate the results of the sample to determine whether it provided a reasonable basis for conclusions about the population tested as required by CAS 530, paragraph 15. (Tab 3)

Events Occurring between the Date of the Financial Statements and the Date of the Auditor's Report - Allegations 1(c), 2(c) and 3(c)

Client A, Client B and Client C

14. CAS 560, paragraphs 6 to 8 require the auditor to perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. (Tab 4)

Client A

15. The date of the financial statements is December 31, 2015 and the date of the auditor's report is June 6, 2016.

16. The only documented review of events occurring between December 31, 2015 and June 6, 2016 is the review of Minutes of Board meetings to May 18, 2016 and the review of the bank statements for January 2016. There is no review of payments subsequent to January 2016 or a review of supplier invoices to ensure all accruals were made. There is no review of deposits subsequent to January 2016 to ensure all revenues related to 2016 were recorded.

Client B

17. The date of the financial statements is September 30, 2015 and the date of the auditor's report is December 10, 2015.
18. The only documented review of events occurring between September 30, 2015 and December 10, 2015 is the review of payments and deposits to October 31, 2015. There is no review of payments and deposits subsequent to October 31, 2015 to ensure all subsequent events that might impact the financial statements were identified.

Client C

19. The year-end of Client C is March 31, 2017 and the date of the auditor's report is June 13, 2017.
20. The only reference to audit procedures performed between March 31, 2017 and June 13, 2017 with respect to events occurring between those dates is found on the schedule entitled cash notes and procedures performed (**Doc 7**). The document states:
- "We tested deposits after the year end with the bank statements to ensure recorded in the proper period. No exceptions.
We tested the cheques after the year end with the bank statements and invoices to ensure recorded in the proper period. No exceptions."*
21. The schedules of deposits and cheques included in the working paper file do not include dates. It appears Schedule C-11 represents deposits and Schedules C12-13 represent cheques issued, although this is not clearly identified (**Doc 8**). Since there are no dates on the schedules, it cannot be determined whether or not transactions occurring between the dates of the financial statements and the auditor's report were examined.

Prior Period's Modified Opinion - Allegations 1(d) and 2(d)

Client A and Client B

22. The auditor's report on the prior period, as previously issued, included a modified opinion and the matter which gave rise to the modification was unresolved. McGhee modified the auditor's opinion in the current period financial statements but did not include a reference to the prior period's modified opinion in the Basis for Modification paragraph as required by CAS 710, paragraph 11, which states:

In the Basis for Modification paragraph in the auditor's report, the auditor shall either:

- a. Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or*
- b. In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures. (Tab 5)*

Related Parties- Allegations 1(e) and 2 (e)

Client A and Client B

23. CAS 550, paragraphs 12 to 17 require the auditor to inquire of management the identity of related parties and the nature of the relationship. (Tab 6)

24. There is no documentation in the files to indicate such an inquiry was made (other than the statement in the representation letters that the identity of the entity's related parties and all the related party relationships and transactions of which we are aware have been disclosed).

Classification of Cash Flows - Allegations 2(f), 3(d) and 4(a)

Client B, Client C and Client D

25. The statement of cash flows for each of the companies does not report cash flows classified by operating, investing and financing activities as required by CPA Canada Handbook Accounting, Part II, Section 1540, paragraph 12. (Tab 7)

Financial Liabilities - Allegations 2(g) and (h)

Client B

26. Client B purchased a property in Uxbridge, Ontario and obtained a mortgage secured by that property and another property owned by Client B. The note in the financial statement states: *"The mortgage payable bears interest at a variable rate, repayable interest and principal at \$3,027.27 principal and interest monthly."*

27. The disclosures for a mortgage liability as required by CPA Canada Handbook Accounting, Part II, Section 3856, paragraphs 43 to 45 (Tab 8) are deficient in that McGhee did not disclose:

- a. the maturity date;
- b. the carrying amounts of the assets pledged; and
- c. the amount of payments estimated to be required in each of the next five years to meet repayment provisions.

28. McGhee also disclosed incorrect information regarding assets pledged as security, in that McGhee did not disclose that another property owned by Client B was also pledged as security for the mortgage.

29. In addition, the note in the financial statement states that the organization is not generally exposed to any significant risks. However, the organization has a mortgage payable, bearing interest at a variable rate and is therefore exposed to

interest rate risk. Interest rate risk was not disclosed in the notes to the financial statements as required by CPA Canada Handbook Accounting, Part II, Section 3856, paragraphs 53 and 54. (Tab 8)

General Review Procedures - Allegation 4(b)

Client D

30. General Review Procedures are listed in Section 8200, paragraph 23 of CPA Canada Handbook Assurance. Paragraph 23(f) deals with the public accountant making enquiries of and having discussions with management concerning certain matters including the occurrence of events subsequent to the date of the financial statements that could have a material effect on such statements and the occurrence of transactions with related parties. (Tab 9)

31. There is no documentation in the working paper file to indicate McGhee made enquiries of management regarding subsequent events and related party transactions. In fact, CPEM checklist 380, Questions 18 and 19 dealing with subsequent events and related-party transactions were answered "N/A". (Doc 9)

Disclosure - Allegation 4(c)

Client D

32. Section 3465 of CPA Canada Handbook – Accounting, Part II, paragraph 88 lists the disclosure requirements when an enterprise applies the taxes payable method of accounting for income taxes. The disclosure requirements are as follows:

- a. a reconciliation of the income tax rate or expense related to income or loss for the period before discontinued operations to the statutory income tax rate or the dollar amount that would result from its application, including the nature and amount of each significant reconciling item;*
- b. the amount and timing of capital gain reserves and similar reserves to be included in taxable income within five years;*
- c. the amount of unused income tax losses carried forward and unused income tax credits; and*

- d. the portion of income tax expense (benefit) related to transactions charged (or credited) to equity. (Tab 10)*

33. Note 8 to the financial statements (**Doc 5**) purports to contain the reconciliation required in Section 3465, paragraph 88(a). However, the reconciliation prepared by McGhee is incorrect. McGhee used an incorrect amount as the loss before income taxes, used an incorrect income tax rate and did not correctly identify the reconciling items and their amounts.

34. In addition, the disclosure regarding losses carryforward and their expiry dates is also incorrect. The loss carryforward is shown as \$4,989 expiring in 2016, however the correct amount is \$4,247 expiring in 2036.

Preparation of Journal Entries and Source Documents - Allegation 4(d)

Client D

35. A management salary of \$109,961 was recorded on a 2016 T4 slip and the net amount was credited to the shareholder's loan account (**Doc 10**). The balance sheet prepared by the client shows shareholder loans in the amount of \$406,694. (**Doc 11**). McGhee changed the accounting for the management salary by debiting the shareholder's loan account, debiting withholdings payable and crediting management salary payable.

36. There is no documentation in the file to indicate McGhee obtained approval for changes made to the financial statements as required by Rule 204.4, paragraph 23 of the CPA Code of Professional Conduct. (**Tab 11**)

Acknowledgement

37. It is agreed that, with respect to the audit of the financial statements of "Client A" for the year ended December 31, 2015, McGhee failed to perform her professional services in accordance with generally accepted standards of practice of the profession, including the recommendations set out in the *CPA Canada Handbook*, in the manner described above.
38. It is agreed that, with respect to the audit of the financial statements of "Client B" for the year ended September 30, 2015, McGhee failed to perform her professional services in accordance with generally accepted standards of practice of the profession, including the recommendations set out in the *CPA Canada Handbook*, in the manner described above.
39. It is agreed that, with respect to the audit of the financial statements of "Client C" for the year ended March 31, 2017, McGhee failed to perform her professional services in accordance with generally accepted standards of practice of the profession, including the recommendations set out in the *CPA Canada Handbook*, in the manner described above.
40. It is agreed that, with respect to the review engagement of the financial statements of "Client D" for the year ended December 31, 2016, McGhee failed to perform her professional services in accordance with generally accepted standards of practice of the profession, including the recommendations set out in the *CPA Canada Handbook*, in the manner described above.

Terms of Settlement

41. McGhee and the PCC agree to the following Terms of Settlement:

- a) McGhee will be reprimanded in writing by the Chair of the Discipline Committee;**
- b) McGhee will pay a fine in the amount of \$5,000 within 12 months of this agreement receiving approval of the Discipline Committee;**
- c) McGhee will attend, within 12 months of the time the Discipline Committee accepts this Settlement Agreement, the following Professional Development courses offered by CPA Ontario (or their successor courses):**
 - * Audit Engagements – File review (3 hours – June 15)*
 - * Audit – A Survey of Standards with Practical Applications (14 hours, online)*
- d) McGhee shall, within 30 days of the approval of this Settlement Agreement, enter into a Supervision Agreement approved by the Director of Standards Enforcement ("the Director") with a Supervisor approved by the Director from outside of McGhee's practice who will review all assurance work undertaken by McGhee for a period of 18 months after the Discipline Committee accepts this Settlement Agreement, with the 18 month supervisory period to commence with the first assurance work undertaken by McGhee.**
- e) The Professional Conduct Committee will re-investigate McGhee following the period of supervised practice with the costs of the re-investigation, up to \$3,000, to be borne by McGhee;**
- f) Notice of the terms of this Settlement is to be published in accordance with the provisions of CPA Ontario Regulation 7-3, section 22, including notice to be given to all members of CPA Ontario, the Public Accountant's Council and to all provincial bodies;**
- g) McGhee will pay costs in the amount of \$12,000 within 12 months of this agreement receiving approval of the Discipline Committee; and**

- h) A failure by McGhee to comply with any of the terms of settlement will result in her suspension from membership in CPA Ontario which suspension will continue until she complies PROVIDED THAT if her suspension under this section continues for 3 months her membership in CPA Ontario will be revoked with full publicity in accordance with Regulation 7-3, section 23.
- 42. In the event that the Director finds McGhee's choice of supervisor unacceptable, or there is any other issue relating to the supervised practice plan about which McGhee and the Director cannot agree, either McGhee or the Professional Conduct Committee may give notice of the disagreement to the Chair of the Discipline Committee, who may move to have that aspect of the order reconsidered in accordance with Rule 21 of the Rules of Practice and Procedure.
- 43. Should the Discipline Committee accept this Settlement Agreement, McGhee agrees to waive her 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 February 2018, shall be forever stayed.
- 44. 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 McGhee leading up to its presentation to the Discipline Committee, shall be without prejudice to the Professional Conduct Committee and McGhee; and
 - b) The Professional Conduct Committee and McGhee 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

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

46. 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 19th day of June, 2018.



TAMARA B. CENTER
On behalf of:
THE PROFESSIONAL CONDUCT COMMITTEE



JANET L. MCGHEE, CPA, CA,
on her own behalf