



CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

THE CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

IN THE MATTER OF: DRAFT 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 6-2, s.19

Introduction

1. The Professional Conduct Committee ("PCC") approved draft Allegations of professional misconduct ("Allegations") against Janet L. McGhee, CPA, CA ("McGhee") (attached as Schedule "A") the particulars of which are set out below. The documents referred to in this Settlement Agreement ("Agreement") are found in the Document Brief ("**Doc**"). The applicable CPA Handbook sections are found in the Standards Brief ("**Tab**").
2. The draft Allegations pertain to McGhee's failure to comply with the practice supervision terms of a prior Settlement Agreement, approved September 27, 2018, and her failure to perform professional work in accordance with generally accepted standards of the profession, contrary to Rule 206.1 of the Chartered Professional Accountants of Ontario Code of Professional Conduct, with respect to the following engagements:
 - a) the audit of the financial statements of "Corp. A" for the year ended December 31, 2018 (**Doc 7**);
 - b) the audit of the financial statements of "HM Inc." for the year ended July 31, 2019 (**Doc 17**);
 - c) the audit of the combined financial statements of "HM Inc. and O&M" for the year ended July 31, 2019 (**Doc 20**);

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- d) the audit of the financial statements of "O&M" for the year ended July 31, 2020; (**Doc 24**); and
 - e) the review of the financial statements of "CCorp" for the year ended September 30, 2020 (**Doc 26**).
3. The PCC and McGhee agree with the facts and conclusions set out in this 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

4. McGhee obtained her Chartered Accountant designation in 1998 in Toronto, with KPMG.
5. In 2001, McGhee joined Ernst & Young's tax department and focused on Scientific Research and Experimental Development (SR&ED).
6. In 2005, McGhee joined Magna International and continued her practice in SR&ED.
7. In 2007, McGhee began practice as a sole practitioner in Uxbridge. In 2009, she commenced practice in Port Perry, incorporating as Janet L. McGhee Professional Corporation, in 2012.
8. In 2013, McGhee, through the CA Reciprocity Exam, obtained her Public Accounting Licence.
9. On or about September 11, 2020, McGhee entered into an agreement to sell her accounting practice. The sale was scheduled to close on October 31, 2020 but was delayed until approximately November 16, 2020.
10. On or about February 26, 2021 McGhee applied to CPA Ontario to discontinue her Public Accounting Licence.

11. On or about March 5, 2021, McGhee applied to CPA Ontario to close her firm registration.
12. McGhee is currently employed in a corporate accounting role.

The Complaint

13. On or about February 8, 2017, the Practice Inspection Committee (PIC) advised the PCC, that because of a third reinspection of the practice of Janet L. McGhee Professional Corporation, it concluded that her failure to maintain professional standards was sufficiently serious to reflect adversely upon McGhee's professional competence.
14. On August 9, 2017 the PCC appointed Mr. Dirk Joustra, CPA, CA to investigate allegations of misconduct made by the PIC against McGhee.
15. In or about January 2018, upon review of Mr. Joustra's investigative report, dated November 30, 2017, the PCC approved draft allegations of professional misconduct, pertaining to McGhee's failure to perform professional work in accordance with generally with respect to four audit engagements.
16. On or about June 19, 2018 McGhee and the PCC entered a Settlement Agreement that included a practice supervision period that required McGhee to arrange for the supervision of her practice by a CPA Ontario approved CPA (Supervision Agreement) (**Doc 1, para. 41(d)**). The approved supervisor (Supervisor) would review all assurance work undertaken by McGhee for a period of 18 months.
17. The Settlement Agreement was approved by the Discipline Committee on September 27, 2018 (**Doc 1**).
18. On or about March 18, 2019, McGhee finalized the terms of the Supervision Agreement between herself and her Supervisor, Wayne O'Connell, CPA, CA of Jones & O'Connell, LLP in St. Catharines, ON (**Doc 2**).

19. The Settlement Agreement required the PCC to re-investigate the practice of McGhee, following the expiry of the 18-month supervisory period, September 18, 2020 (**Doc 1, para. 41(e)**).
20. On or about October 30, 2020, the Supervisor submitted a report to Standards Enforcement of CPA Ontario, regarding the March 18, 2019 to September 18, 2020, period of supervised practice (**Doc 6**).
21. On January 27, 2021, the PCC appointed Ms. Jennifer Fisher, FCPA, FCA (the "Investigator") to investigate McGhee's standards of practice, and the circumstances surrounding the complaints. By letter dated February 12, 2021, the PCC expanded the Investigator's mandate to include the circumstances surrounding McGhee's sale of her practice.
22. As part of her investigation, the Investigator inquired into McGhee's standards of practice in relation to four audit engagements, one review engagement, and reviewed the Supervisor's October 30, 2020 report regarding his supervision of McGhee's practice.
23. McGhee and the PCC agree that McGhee failed to comply with the terms of the Supervision Agreement and failed to perform her professional services in accordance with generally accepted standards of practice of the profession as described below.
24. McGhee and the PCC agree that the draft allegations, set out below, particularize how McGhee failed to comply with the terms of the Supervision Agreement and failed to perform her professional services in accordance with generally accepted standards of practice of the profession.

The Allegations

Allegation 1: Janet McGhee, in or about the period of October 1, 2018 to April 30, 2020, having entered into a supervision agreement, dated March 18, 2019, pursuant to a

settlement agreement approved by the Discipline Committee on September 27, 2018, failed to conduct herself in a manner which will maintain the good reputation of the profession and serve the public interest, contrary to Rule 201.1 of the CPA Code of Professional Conduct (Code), in that she issued six audited financial statements without prior review and approval of the working papers and signing off of financial statements by her practice supervisor, as agreed in the supervision agreement.

25. The Supervision Agreement (**Doc 2**) was initiated on October 29, 2018 but not finalized until March 18, 2019. Over the 18-month supervision period the Supervisor reviewed 24 assurance engagements. The Supervision Agreement specifically required the review of the working paper files, financial statements and engagement reports prepared by McGhee prior to her issuance of a report and to the Supervisor's approved release of the financial statements, where appropriate to do so, only once all queries were cleared (**Doc 2, para.5**). Furthermore, the Supervisor was to sign off on all assurance engagements financial statements prior to being issued. Therefore, all documentation, financial statement presentation and disclosure deficiencies he identified were required to be addressed by McGhee and resolved with the Supervisor's approval prior to her issuance of the financial statements.

26. In the audit of the financial statements of Corp. A for year ended December 31, 2018 (**Doc 7**) and the audit of the financial statements of Corp. B for the year ended December 31, 2018, McGhee failed to provide the Supervisor the detailed year end audit file for review. Instead, McGhee sent him email correspondence outlining the audit procedures she performed and a copy of the year-end financial statements she prepared. The Supervisor responded to McGhee's email with follow up queries with respect to audit work performed but was not provided the assurance file itself to review the working papers to ensure they were properly documented. The Supervisor reviewed and provided comments on the financial statements provided, however, McGhee failed to share the revised financial statements with the Supervisor to permit their confirmation that suggested changes were made. This shortcut restricted the Supervisor to commenting on the financial statements and prevented him from commenting on the assurance file documentation. The Supervisor did not approve the issuance of the Corp. A financial statements (**Doc 7**).

27. In addition to the audits of the financial statements of Corp. A and Corp. B for year ended December 31, 2018, McGhee failed to provide amended files for the audit of the financial statements of The B Foundation, year ended December 31, 2018 (McGhee indicated that the engagement was completed June 27, 2019); the audit of the financial statements of Corp. B for the year ended December 31, 2018 (released August 4, 2019); the audit of the non-consolidated financial statements of HM Inc. for the year ended July 31, 2019 (released December 18, 2019) (**Doc 17**); and the audit of the combined financial statements of HM Inc. for the year ended July 31, 2019 (released January 19, 2020) (**Doc 20**).

28. For the six assurance engagements detailed above the Supervisor provided his file documentation and financial statement review comments to McGhee. McGhee failed to provide the Supervisor with the amended files to ensure his comments were implemented in the file documentation and/or financial statement preparation. Due to this shortfall, the Supervisor did not provide his approval for the issuance of these financial statements (**Doc 6**).

29. McGhee issued the foregoing financial statements and independent auditor's reports notwithstanding the Supervisor Agreement terms requiring the Supervisor's approval prior to issuance.

Allegation 2: Janet McGhee, in or about the period December 1, 2018 to June 30, 2019 while engaged to perform an audit of the financial statements of Corp. A, for the year ended December 31, 2018, failed to perform her professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code, in that:

30. The financial statements for Corp. A, for the year ended December 31, 2018, (**Doc 7, pp.28-42**) together with the Independent Auditor's Report (**Doc 7, pp.30-31**), were signed by McGhee and issued on June 19, 2019.

Particular a) She failed to properly disclose the Statement of Changes in Net Assets item "Adjustment for prior year amortization 34,109; (42)

31. CPA Handbook 1506.37 requires disclosure, where there is an error in the prior period, of the nature of the prior period error, for each prior period presented the amount of the correction for each financial statement line item affected and the amount of the correction at the beginning of the earliest prior period presented.
32. There is no disclosure in the financial statements (**Doc 7, p.34**) as to what this line item represents. If it was a correction for a prior period, then it should not have been reported as a current year adjustment. McGhee said she made this change at the direction of the Supervisor but was unaware of the requirement of additional note disclosure (**Tab 1, CPA Handbook 1506.37**).

Particular b) She failed to disclose, in Note 12 financial instruments, changes in the nature and/or extent of risks from the prior year; (44)

33. CPA Handbook 3856.53 requires disclosure for each significant risk arising from financial instruments, of any change in risk exposures from the previous period.
34. The Note 12 (**Doc 7, pp. 41-42**) financial instruments does not disclose whether the nature and /or extent of risks have changed from the prior year. McGhee agreed that she omitted this disclosure (**Tab 2, CPA Handbook 3856.53**).

Particular c) She failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item "Cash 891,185".

35. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.
36. McGhee included several checklists for audit procedures (**Doc 9**). Documentation of audit procedures for many items was "completed no exceptions" with no specific details as to results (**Doc 9, pp.49-52**). When questioned about why there were no 2018 bank

statements and bank reconciliations, McGhee stated that she was told, at a professional development course, that documents such as copies of bank reconciliations and bank statements were not required to be in the file. McGhee said she marked that she saw the documents in the audit procedures checklist. McGhee signed off on the bank reconciliation procedure checklist for all questions as “completed, no exceptions”. When asked about the answer to obtain copies of the bank reconciliations and agree the details to bank confirmations, she agreed that she did not have a bank confirmation. McGhee agreed that this was an error in her documentation (**Tab 3, CAS 230.8**).

Particular d) She failed to obtain sufficient appropriate audit evidence to support the completeness of the Statement of Financial Position item “Accounts Payable 23,489”; (55)

37. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.

38. There was no documentation to support that a search for unrecorded liabilities was completed (**Doc 12, p.61**). The specific audit procedures (**Doc 13**) outlined that McGhee verified the payment of payables after year end to ensure their validity. McGhee said that she reviewed the subsequent bank statements and requested minutes of the Board of Director meetings, but there is no documentation to demonstrate this (**Tab 3, CAS 230.8**).

Particular e) She failed to document her review of governance minutes and the application of those findings to the audit procedures; (53/54)

39. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant

matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.

40. A review of the minutes of governance meetings checklist (**Doc 11**) indicates that either copying relevant extracts from the minutes or including a copy of the entire minutes was completed, but there was no documentation in the file. The investigator asked McGhee what procedures she performed, McGhee advised that she normally received the Board of Director minutes electronically and would read them and if there was anything significant, she would summarize them. There is no summary in the file nor are there any copies of the minutes in the file (**Tab 3, CAS 230**).

Particular f) She failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item “Deferred revenue (Note 5) 43,374”; (57/58)

41. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.
42. Deferred revenue of \$43,374 represents prepaid aquatic fees and other programs. The documentation to support this is a copy of the general ledger transactions. There is no detail in this document that the receipts were properly classified as deferred and not as current year transactions.
43. McGhee advised that she reviewed the preliminary financial reports with the Executive Director at the commencement of the audit regarding the changes year over year. She enquired about the deferred revenue changes with commentary about year-end adjustments required. When asked how she verified that the balances in deferred revenue were appropriate, she stated that she went to the general ledger and the amounts were stated. She indicated that testing was done for the general ledger and



bank transactions; there is no documentation to support these procedures (**Tab 3, CAS 230**).

Particular g) She failed to obtain sufficient and appropriate audit evidence to support the Statement of Revenues and Expenditures item “Grants (Note 13) 1,669,035”; (59/60)

44. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.
45. The support for grants revenue of \$1,669,035 was a copy of the general ledger of transactions. There was no detail on this document that the revenue related to the current period. When the investigator questioned her on the entry McGhee stated that a lot of the grant revenue did not have any documentation. She would test to bank statements and what the client received. She said she would not necessarily trace the receipts to a grant document. If documentation was available McGhee would examine this and discuss same with the senior management about the grants received. She agreed that there is nothing on the working paper for the grants that demonstrates what audit work was done for the grant revenue verification (**Tab 3, CAS 230**).

Particular h) She failed to obtain sufficient and appropriate audit evidence to support the Statement of Revenues and Expenditures items “Donations 68,558” and “Fundraising 68,058”; (61)

46. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.

47. CAS 530.7 requires the auditor to determine a sample size sufficient to reduce sampling risk to an acceptably low level.
48. CAS 530.8 requires the auditor to select items for the sample in such a way that each sampling unit in the population has a chance of selection.
49. CAS 530.15 requires the auditor to evaluate the results of the sample and whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.
50. The support for the donation revenue was an Excel document labelled "2018 Donations – highlighted were vouched", the listing is not totaled to reconcile to the general ledger. There is no statement on this document as to what audit work was completed or any conclusion. The twenty items highlighted did not include the largest ones and there is no documentation as to why 20 was the sample size and how the sample was determined. McGhee explained that the list of donations was vouched to an initial listing of receipts, then to the donation receipt and to the bank deposit. Donations marked as "in kind" were for fundraising events donated door prizes (**Tab 3, CAS 230 and Tab 4, 530**).

Particular i) She failed to adequately document audit testing of payroll controls, failed to reconcile the conflicting payroll expense of 1,935,197 and the T4 summary of 2,058,403, and failed to verify individual pay rates; (63)

51. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.
52. Payroll expense was \$1,935,197 and the documentation (**Doc 14**) to support this expense was the T4 summary and individual T4s produced by Ceridian, which reported

employment income of \$2,058,403. There was no reconciliation of these two amounts. McGhee tested payroll controls – selecting five payrolls during the year- but failed to verify the authorized pay rate for the individuals. The conclusion incorrectly referred to 2017 payroll and not 2018. McGhee advised that her documentation for payroll was on the schedule of testing for five payrolls during the year. She advised that the number of employees varied between payroll periods. McGhee asserted that she verified each pay rate by relying on the approval of the Executive Director and on a reasonability review McGhee performed herself (**Tab 3, CAS 230**).

Particular j) She failed to document evidence of communication with those charged with governance regarding the audit plan; (65)

53. CAS 260.9 requires that the auditor communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit and an overview of the planned scope and timing of the audit.
54. McGhee failed to provide communications in writing (**Doc 15**) to the Board of Directors relating to the planning of the engagement (**Tab 5, CAS 260**).

Particular k) She failed to adequately document, at Note 14, a material contingency of potential litigation; (67)

55. CAS 501.9 requires that the auditor 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.
56. CAS 501.10 requires that where the auditor assesses a risk of material misstatement regarding litigation, that the auditor shall seek direct communication with the entity's external legal counsel.
57. The notes to the financial statements report a subsequent event lawsuit that will be commenced regarding an injury to a child at one of the sites in 2018. There is no documentation in the working papers related to this contingency other than a

commentary on the subsequent event checklist. McGhee explained that there was no legal letter or claim in the file, so there was no lawyer to send a confirmation to regarding the exposure on the claim. McGhee further explained that an insurance claim had been filed by the client with its insurer and was copied on the email chain between the client and the insurance company, but she did not include this documentation in the working paper file (**Tab 6, CAS 501.9**).

Particular J) She failed to document enquiries of management regarding subsequent events from the year end to the release date of the financial statements; (69)

58. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.
59. CAS 560.6 requires 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.
60. The working paper file did not include documentation to support the subsequent events review conducted from the year end to the date the financial statements were released. McGhee advised that she received an email from the Board of Directors and the executive Director, to query subsequent events – but these documents were not put into the working paper file (**Tab 3, CAS 230 and Tab 7, CAS 560.4**).

Particular m) She failed to date the audit findings letter and failed to document evidence of communication with those charged with governance regarding the findings of the audit. (73)



61. CAS 260.16 requires the auditor to communicate with those charged with governance the significant findings from the audit; including, qualitative aspects of the entity's accounting practice; and circumstances that affect the form and content of the auditor's report.
62. When matters are required to be communicated to those charged with governance are done so orally, CAS 260.23 requires the auditor to include the matters in the audit documentation, and when and to whom they were communicated.
63. The audit findings letter (**Doc 16**) by McGhee was not dated and did not include required communication to Those Charged with Governance: acknowledgement of the litigation and the circumstances that required the modification of the Auditor's Report. McGhee advised that she met with the Finance Committee prior to the financial statements being approved by the Board of Directors. At that meeting she presented the draft financial statements; the audit findings report and the adjusting journal entries (**Tab 5, CAS 260**).

Allegation 3: Janet McGhee, in or about the period July 1, 2019 to December 31, 2019, while engaged to perform an audit of the financial statements of HM Inc., for the year ended July 31, 2019, failed to perform her professional services in accordance with generally accepted standards of practice for the profession, contrary to Rule 206.1 of the Code in that:

64. The financial statements for HM Inc. for the year ended July 31, 2019 (**Doc 17, pp.74-89**) together with the Independent Auditor's Report (**Doc 17, pp.75-76**), were signed by McGhee and issued on December 17, 2019.

Particular a) She failed to disclose in Note 2 Summary of Significant Accounting Policies the significant accounting policy for inventory associated with the Balance Sheet item "Inventory – construction in progress 87,383": (81)

65. CPA Handbook 1505.06 requires disclosure of information on accounting policies that are significant to its operations and when a selection has been made from alternative acceptable accounting principles and methods.
66. Note 2 does not state the accounting policy for inventory (**Doc 17, pp. 83-85**). McGhee agreed that this disclosure was missing (**Tab 9, CPAH 1505.06**).

Particular b) She failed to disclose in Note 7 the nature of the relationship between two identified companies and HM Inc: (83)

67. CPA Handbook 3840.51 requires disclosure of related party transactions, including a description of the relationship between the transacting parties.
68. CPA Handbook 3840.54 states that terms such as “affiliate”, “associate” and “related company” are insufficiently precise relationships.
69. Note 7 refers to two numbered companies, which are related companies, but the relationship is not identified. (**Doc 17, p. 87**) McGhee agreed that this disclosure was missing (**Tab 10, CPAH 3840.54**).

Particular c) She failed to adequately disclose in Note 8 amounts reported as “Other differences between accounting and tax (31,951)”; (85)

70. CPA Handbook 3465.88 requires entities that apply the taxes payable method of accounting for income taxes, to provide a reconciliation of the income tax rate or expense related to income or loss for the period 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.
71. Note 8 income taxes reports the reconciliation of the income tax expense at the combined basic federal and provincial tax rate and the effective tax rate. An unidentified \$31,951 is reported as “other differences between accounting and tax”. (**Doc 17, p. 88**) McGhee advised that she obtained the information from the tax return, there is no documentation in the working papers to support this amount. McGhee agrees that the size of “other differences between accounting and tax” is inadequate disclosure (**Tab 11, CPAH 3465.88**).

Particular d) She failed to disclose in Note 9 changes in the nature and/or extent of risks from the prior year: (87)

72. CPA Handbook 3856.53 requires disclosure for each significant risk arising from financial instruments, of any change in risk exposures from the previous period.



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73. Note 9 financial instruments (**Doc 17, p.88**) does not disclose if the nature and/or extent of risks have changed from the prior year. McGhee concedes that she was not aware of this requirement (**Tab 2, CPAH 3856.53**).

Particular e) She failed to correctly determine materiality for planning purposes and performance of the audit; (89)

74. CAS 320.8 requires the auditor to determine materiality for the financial statements as a whole and is to apply the concept of materiality appropriately in planning and performing the audit.
75. In determining materiality, based on the current preliminary results and the prior year amounts, McGhee relied on incorrect prior year amounts; therefore, her commentary on consistency is not appropriate. McGhee concedes that she erred in failing to confirm the correctness of the calculation (**Tab 12, CAS 320**).

Particular f) She failed to adequately document performance of alternative procedures to support 2,012,994 of accounts receivable that did not agree to the general ledger by 47,324; (91)

76. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.
77. The documentation to support accounts receivable of \$2,012,994 includes a listing of accounts receivable that did not agree to the general ledger by \$47,324; a lead sheet that included comments by McGhee "reviewed the AR list for subsequent receipts and concerns noted. The client identified items to write -off at the start of the audit work, and so the entries were posted to reflect his instructions. Holdbacks were reviewed also for proper classification and posting", and completion of the audit procedures checklist. On

the checklist it was indicated that alternative procedures were performed, but there is no documentation to demonstrate that they were done (**Tab 3, CAS 230**).

Particular g) She failed to adequately document audit procedures for collectability of accounts receivable; (93)

78. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.

79. McGhee concedes that she did not document this appropriately and explained that her working paper comment “No concerns with collectability” referred to her looking at subsequent payments for support (**Tab 3, CAS 230**).

Particular h) She failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item “Holdback receivable 601,703”; (93)

80. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.

81. The documentation to support the holdback receivable of \$601,703 was a listing as part of the amounts of each contract, which is generated from the client's accounting system. No work was evidenced on this working paper. McGhee conceded that she did not document her audit procedures for this receivable (**Tab 3, CAS 230**).

Particular i) She failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item “Warranty reserve 150,000”; (95)

82. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.
83. The client has a warranty reserve for \$150,000 which was the same as the prior year. In support of this entry McGhee commented on the lead sheet that the client had confirmed that the warranty reserve should be the same year over year. There was no evidence that the applicability of this treatment had been audited by McGhee. McGhee explained how the warranty reserve was applicable from discussion with the president but did not have any supporting documentation in the file (**Tab 3, CAS 230**).

Particular j) She failed to correctly determine and evaluate the effect of the uncorrected misstatement from the understatement of Accounts Payable - holdback of 24,459; (97)

84. CAS 450.5 requires the auditor to accumulate misstatements identified during the audit.
85. CAS 450.11 requires the auditor to evaluate the effect of uncorrected misstatements, considering the size and nature of the misstatements, account balances and disclosures and the financial statements as a whole.
86. One of the invoices in the schedule of invoices received late includes a reduction in the amount of \$24,459 for a holdback. This amount was not recorded and represents an error of understatement of accounts payable, overstatement of net income and related income tax accounts. McGhee agrees that this was an error in the financial statements (**Tab 13, CAS 450**).

Particular k) She failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item "Payroll deductions payable 147,364"; (99)

87. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.

88. The client reports a payroll liability at the year-end of \$63,210 for which there is no documentation in the file. McGhee explained that it was probably the payroll for the days worked from the last pay day at the end of the year (**Tab 3, CAS 230**).

Particular l) She failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item “Progress billings on contracts 105,867”; (101)

89. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.

90. The balance sheet reports progress billings on contracts of \$105,867, which is supported by a schedule prepared by the client. There is no evidence that any audit work was completed on this schedule to ensure that its liability is properly valued. McGhee referred to a document prepared by the client and stated that she reviewed the document with the client but has no evidence of any procedures to ensure that the amounts are correct (**Tab 3, CAS 230**).

Particular m) She failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item “Income taxes payable (Note 8) 108,831”; (103)

91. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant

matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.

92. The income tax payable, income tax expense, refundable income taxes paid, and refundable income taxes refunded have no support in the working paper files, with one exception. There is a Canada Revenue Agency statement of transactions through the corporate tax account for the fiscal year which report payments made and refunds issued. McGhee advised that the amounts reported on the financial statements match the corporate tax return. However, the refunds of \$570,728 do not agree with the prior year recoverable on the balance sheet of \$577,549. There is no support in the working paper file for the information included in Note 8 – reconciliation of income tax expense.

93. McGhee advised that she prepared the income tax return and reported the income tax expense equal to the amount of the return. McGhee agreed that the working papers should have included supporting documentation for these amounts (**Tab 3, CAS 230**).

Particular n) She failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item “Capital Stock (Note 6)” totalling \$520,000; (105)

94. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.

95. The share capital of \$520,000 has no support in the working papers, other than a comment by McGhee that there were no changes to equity in the year. There is no detail as to the names of the shareholders or the attributes of the issued shares and confirmation that the shares are issued as at the year end. McGhee agreed that this supporting documentation was not in the file (**Tab 3, CAS 230**).

Particular o) She failed to obtain sufficient appropriate audit evidence to support the Statement of Income and Retained Earnings item “Dividend paid (1,000,000)”; (107)

96. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.

97. Dividends of \$1,000,000 are reported on the financial statements, but there is no support in the working paper file for the dividends. There is no information as to whom dividends were paid, on what class of shares the dividends were paid; the support for the payment and the Board of Directors' authorization of these. McGhee advised that the support was from conversations and seeing the journal entries for the payments in the company's general ledger. McGhee prepared the T5s, but the support for the T5s and copies of them are not included in the file (**Tab 3, CAS 230**).

Particular p) She failed to obtain sufficient appropriate audit evidence to support revenue and payroll testing; (109/111)

98. CAS 530.7 requires the auditor to determine a sample size sufficient to reduce sampling risk to an acceptably low level.

99. CAS 530.8 requires the auditor to select items for the sample in such a way that each sampling unit in the population has a chance of selection.

100. CAS 530.15 requires the auditor to evaluate the results of the sample and whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.

101. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant

matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.

102. Revenue testing was done based on a random sample of sales from the general ledger – 46 sales entries were selected, but there is no documented basis for the sample size and/or determination. Furthermore, there is no conclusion on the testing done. McGhee agreed that there was no documentation to support the sample size or how the sample was determined.

103. The payroll testing was a sample size of 14 items, but there is no documentation as to how the size was determined. There is no notation that the rate of pay and the gross pay was checked for these individual pays. The checklist completed by McGhee (**Doc 18, pp.90-99**) for the audit procedures for payroll is incomplete and several comments, as generic answers, are either not appropriate for this engagement or are not supported by the documentation in the working papers – e.g. Part 2 on Planned response to assessed risks at the assertion level; Completeness Q. 7 unrecorded payroll expenses; Completeness Q. 8 Adjustments; Existence Q. 10 invalid or fictitious payroll expenses; Existence Q. 11 Adjustments; Existence Q. 12 Non-monetary transactions; Accuracy Q. 13 Cut-off.

104. McGhee could not explain how the sample size was determined nor why the number of items tested was less than the planned number. (**Doc 19, p.100**) For rate of pay to the unionized employees, she advised they were union rates. For the two salaried employees she did see documentation from the owner; but did not document this in the working paper (**Tab 3, CAS 230 and Tab 4, CAS 530**).

Particular g) She failed to communicate to those charged with governance the responsibilities of the auditor in relation to the financial statement audit by including an incomplete and out of date wording for the Independent Auditor's Report in the October 3, 2019 engagement letter; (113)

105. CAS 210.10 requires that the agreed terms of the audit engagement shall be recorded in an audit engagement letter and shall include the reference to the expected form and content of any reports to be issued by the auditor.

106. The engagement letter dated October 3, 2019 and signed by the client on December 18, 2019 contains the outdated wording for the Independent Auditor's Report. McGhee advised that the incorrect wording was an oversight (**Tab 14, CAS 210**).

Particular r) She failed to document evidence of communication with those charged with governance regarding the findings of the audit. (115)

107. CAS 260.16 requires the auditor to communicate with those charged with governance the significant findings from the audit; including, qualitative aspects of the entity's accounting practice; and circumstances that affect the form and content of the auditor's report.

108. There is no evidence that planning documentation or audit findings at the conclusion were provided to the client. McGhee advised that she had verbal discussions with the owners, as she was onsite for the engagement and had those conversations at that time (**Tab 5, CAS 260.23**).

Allegation 4: Janet McGhee, in or about the period July 1, 2019 to January 19, 2020, while engaged to perform an audit of the combined financial statements of HM Inc. and O&M, for the year ended July 31, 2019, failed to perform her professional services in accordance with generally accepted standards of practice for the profession, contrary to Rule 206.1 of the Code in that:

109. The combined financial statements for HM Inc. and O&M for the year ended July 31, 2019 (**Doc 20, pp.101-118**) together with the Independent Auditor Report (**Doc 20, pp.103-104**), were signed by McGhee and issued on December 18, 2019.

Particular a) She failed to correctly refer to the financial statements of HM Inc. and O&M, prepared on a disclosed basis of accounting, as combined; (121)

110. CPA Handbook 1601.04 outlines that combined financial statements may be useful in certain circumstances such as when one individual owns a controlling interest in several corporations. This is the situation for HM Inc. and O & M.



111. The financial statements were prepared on a disclosed basis of accounting as required by the Ministry of Transportation. All references to consolidated, should be instead as combined. McGhee agrees that it was an oversight (Tab 15, CPAH 1601.04).

Particular b) She failed to correctly document, in Note 8 income taxes, the difference in adjustment for “holdbacks not taxed until received, 2,558” on the combined statement and 51,718 on the HM Inc. statement; (125)

112. CPA Handbook 3465.88 requires entities that apply the taxes payable method of accounting for income taxes, to provide a reconciliation of the income tax rate or expense related to income or loss for the period 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.

113. Note 8 income taxes, reports the reconciliation of the income tax expense at the combined basic federal and provincial tax rate and the effective tax rate. There is a significant difference between what was reported on the HM Inc. financial statements for the adjustment for holdbacks (\$2,558 on the combined statements and \$51,718 on the HM Inc. statements). McGhee said she was not aware of the reason for the change from the reporting for HM Inc (Tab 11, CPAH 3465).

Particular c) She failed to disclose, in Note 9 financial instruments, changes in the nature of risk and/or extent of risks from the prior year; (127)

114. CPA Handbook 3856.53 requires disclosure for each significant risk arising from financial instruments, of any change in risk exposures from the previous period.

115. Note 9 financial instruments does not disclose if the nature and/or extent of risks have changed from the prior year. McGhee said she was not aware of this requirement (Tab 2, CPAH 3856).

Particular d) She failed to communicate to those charged with governance the responsibilities of the auditor in relation to the financial statement audit by including an incomplete and out of date wording for the Independent Auditor’s Report in the October 3, 2019 engagement letter; (129)

116. CAS 210.10 requires that the agreed terms of the audit engagement shall be recorded in an audit engagement letter and shall include the reference to the expected form and content of any reports to be issued by the auditor.

117. The engagement letter dated October 3, 2019 and signed by the client on December 18, 2019 contains the outdated wording for the Independent Auditor's Report. McGhee said this was an oversight (**Tab 14, CAS 210**).

Particular e) She failed to document evidence of communication with those charged with governance regarding the audit plan and the findings of the audit; (131)

118. CAS 260.16 requires the auditor to communicate with those charged with governance the significant findings from the audit; including, qualitative aspects of the entity's accounting practice; and circumstances that affect the form and content of the auditor's report.

119. When matters are required to be communicated to those charged with governance are done so orally, CAS 260.23 requires the auditor to include the matters in the audit documentation, and when and to whom they were communicated.

120. There is no evidence that planning documentation or audit findings at the conclusion were provided to the client. McGhee said that she had many conversations with the owner while onsite for the audit (**Tab 5, CAS 260.23**).

Particular f) She failed to sufficiently document audit procedures to support the engagement continuance assessment, subsequent events procedures performed up to the Auditor's Report date, and final analytical review for the combined financial statements of HM Inc. and O&M. (133)

121. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.

122. The index to the file for the combined financial statements includes very few documents, but references to the files for the two source entities. There is still a requirement for this file to contain the following documents, which are not included in the file: engagement continuance assessment; engagement quality control review assessment; subsequent events procedures performed up to audit report date and final analytical review on the combined financial statements (**Tab 3, CAS 230**).

Allegation 5: Janet McGhee, in or about the period July 1, 2020 to January 31, 2021, while engaged to perform an audit of the financial statements of O&M, for the year ended July 31, 2020, failed to perform her 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:

123. The financial statements for O&M for the year ended July 31, 2020 (**Doc 24, pp.144-158**) together with the Independent Auditor Report (**Doc 24, p.146-147**), were signed by McGhee and issued on November 24, 2020.

Particular a) She failed to obtain sufficient appropriate audit evidence to support shareholder loans; (137)

124. CPA Handbook 1540.41 requires that investing and financing transactions that do not require the use of cash or cash equivalents to be excluded from a cash flow statement.

125. The Statement of Cash Flows reports advances from shareholders and repayments of shareholders of \$115,000 which are unnecessary to report. The \$115,000 is reported as dividends paid. McGhee disagreed and felt that this additional reporting was required, as the previous year the amounts were for different amounts. There is no documentation in the working paper file to support any payments through the shareholder loan accounts (**Tab 16, CPAH 1540.41**).

Particular b) She failed to reference the Balance Sheet to Note 4 security deposit and prepaid rent owed to a related party; (139)

126. CPA Handbook 3840.51 requires the enterprise to disclose the following information about its transactions with related parties – amounts due to or from related parties and the terms and conditions relating thereto.

127. The security deposit and prepaid rent are owed to a related party – which are identified in note 4. On the Balance Sheet these should be referenced to note 4 (**Tab 10, CPAH 3840.51**).

Particular c) She failed to correctly determine materiality for planning purposes and performance of the audit; (140)

128. CAS 320.8 requires the auditor to determine materiality for the financial statements as a whole and is to apply the concept of materiality appropriately in planning and performing the audit.

129. The determination of materiality as documented on form 420 has the wrong gross revenue and comparatives. Calculating materiality and performance materiality based on consistency year over year is not logical, if the factors being used for the calculation are incorrect. McGhee agreed that the amounts reported on the working paper to support the calculation are incorrect (**Tab 12, CAS 320**).

Particular d) She failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item “Accounts Receivable 20,964”; (142)

130. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.

131. Accounts receivable of \$20,964 is one month’s rent due from the related corporation. There is no evidence that this receivable was verified by confirming with the related corporation’s records. McGhee indicated she had no documentation to support this balance (**Tab 3, CAS 230**).

Particular e) She erroneously included an unrelated evaluation of accounting estimates not applicable to the engagement; (144)



132. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.

133. The evaluation of understanding accounting estimates appears to be a copy from another engagement, as references made to inventory obsolescence and warranty obligations, which are not applicable to this engagement. McGhee agreed that this evaluation was incorrect support (**Tab 3, CAS 230**).

Particular f) She failed to obtain sufficient appropriate audit evidence to support material balances related to income tax transactions; (146)

134. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.

135. There was no substantive work to support the material balances related to income tax transactions: income taxes recoverable, income tax expense, refundable taxes paid, and refundable taxes recovered, except for the prior year Notice of Assessment and the printout on November 24, 2020 of the period end balances showing the interim balance. The Notice of Assessment reports a \$17 refund interest which has not been accounted for properly. McGhee advised that she prepared the income tax return and reported the income tax expense equal to the amount of the return. No other documentation existed for these balances (**Tab 3, CAS 230**).

Particular g) She failed to obtain sufficient appropriate audit evidence to support the Balance Sheet items "Security Deposit 123,200" and "Prepaid Rent 33,408"; (148)

136. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.

137. The security deposit payable and prepaid rent are owed to a related company. The only documentation in the file to support these amounts is a lead sheet with a comment: "Balances comparable to PY: No concerns". McGhee agreed that no documentation was included (**Tab 3, CAS 230**).

Particular h) She failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item "Share Capital 800,100"; (150)

138. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.

139. There is no documentation in the file to support the amounts reported as share capital - \$800,103. McGhee agreed that no documentation was included (**Tab 3, CAS 230**).

Particular i) She failed to obtain sufficient appropriate audit evidence to support the Statement of Retained Earnings item "Dividends Paid 115,000"; (152)

140. CAS 230.8 requires the auditor to prepare audit documentation that is 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 the audit procedures performed, and the audit evidence obtained; and for significant matters that arose during the audit, the conclusions reached, and the significant professional judgements made in reaching these conclusions.

141. The documentation in the file for the dividends reported of \$115,000 is the summary information of the T5 from Canada Revenue Agency website which reports two T5 slips totalling \$115,000. There is no disclosure as to who received these dividends, when they were paid and when they were authorized by the Board of Directors. McGhee advised that she prepared the T5s (**Tab 3, CAS 230**).

Particular j) She failed to complete and document the analytical review of revenues and expenses; (156)

142. CAS 520.6 requires the auditor to design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

143. The analytical review of the revenues and expenses has not been completed. The working papers include a document that has generic calculations for performance ratios, but no commentary as to what these results aid in the audit conclusions. McGhee advised that she used them to identify trends (**Tab 8, CAS 520.5**).

Particular k) She failed to communicate to those charged with governance the responsibilities of the auditor in relation to the financial statement audit by including an incomplete and out of date wording for the Independent Auditor's Report in the September 30, 2020 engagement letter; (158)

144. CAS 210.10 requires that the agreed terms of the audit engagement shall be recorded in an audit engagement letter and shall include the reference to the expected form and content of any reports to be issued by the auditor.

145. The engagement letter signed by the director has the outdated wording for the Independent Auditor's Report and appears to be incomplete. (**Doc 25**) McGhee agreed that this was an error (**Tab 14, CAS 210**).

Particular l) She failed to document communications with those charged with governance regarding the findings of the audit. (160)

146. CAS 260.16 requires the auditor to communicate with those charged with governance the significant findings from the audit; including, qualitative aspects of the entity's accounting practice; and circumstances that affect the form and content of the auditor's report.

147. When matters are required to be communicated to those charged with governance are done so orally, CAS 260.23 requires the auditor to include the matters in the audit documentation, and when and to whom they were communicated.

148. There is no evidence that planning documentation or audit findings at the conclusion were provided to the client. McGhee advised that she reviewed the adjusting journal entries with the client at the sign off meeting (**Tab 5, CAS 260.23**).

Allegation: 6 Janet McGhee, in or about the period September 1, 2020 to December 31, 2020, while engaged to perform a review engagement of CCorp, for the year ended September 30, 2020, failed to perform her professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code, in that:

149. The financial statements for CCorp. for the year ended September 30, 2020 (**Doc 26, pp.162-177**) together with the Independent Practitioner's Review Engagement Report (**Doc 26, pp.164-165**), were signed by McGhee and issued on December 15, 2020.

Particular a) She failed to disclose that the comparative operating results for the Statements of Income, Retained Earnings and Cash Flows were all limited to a seven-month period ended September 30, 2019; (165)

150. CPA Handbook 1400.12 requires that the financial should be prepared on a comparative basis, unless the comparative information is not meaningful.

151. The comparative operating results are for the seven-month period ended September 30, 2019. The amounts for the statements of income, retained earnings and cash flows should report that these are for the shorter period. McGhee agreed that the comparative amounts were for a seven-month period and should have been reported appropriately on the financial statements (**Tab 17, CPAH 1400.12**).

Particular b) She failed to disclose the impact on the Balance Sheet Item “Accounts receivable from government subsidies Canada Emergency Wage Subsidy for pandemic support – 137,000”; (167)

152. CPA Handbook 1400.19 requires that an entity separately disclose revenue, expenses, gains or losses resulting from transactions or events that are not typical business activities of the entity.

153. The company earned \$513,483 from the Canada Emergency Wage Subsidy (CEWS) due to the government support during the COVID-19 pandemic. Of this amount approximately \$137,000 was included in accounts receivable at year end. These are material amounts and were as a result of the pandemic. It is appropriate to include a note to the financial statements detailing the impact of the pandemic and identify the government subsidies receivable and revenue. McGhee advised that she did not include disclosure because the sales increased in the final months before the year end were higher and she did not think disclosure was required (Tab 17, CPAH 1400.19).

Particular c) She failed to disclose on the Statement of Income the amount of interest on shareholder loans as “Interest on Long Term Debt” and the amount; (171)

154. CPA Handbook 1520.04 requires separate disclosure on the face of the income statement of the amount of interest expense on long term financial liabilities.

155. Note 6 refers to certain shareholder loans as incurring interest. The interest on these loans should be identified in amount and reported separately as interest on long term debt on the statement of income. McGhee thought the long-term interest expense was included in the “Interest and Bank Charges expense” (Tab 18, CPAH 1520.04).

Particular d) She failed to perform appropriate analytical procedures due to incompatible data periods in the planning analytical worksheet; (173)

156. CSRE 2400.43 requires the practitioner to obtain an understanding of the entity to identify areas in the financial statements where material misstatements are likely to arise.



157. The planning analytical worksheet reported “the company was improving through the efforts of the new management team. The income increased as did the profitability”. The comparison was based on seven months of comparative operations and using a prorated comparison, in fact the client’s income decreased as did the profitability. McGhee agreed that the comparison is incorrect (**Tab 19, CSRE 2400**).

Particular e) She failed to adequately document inquiry and analytical procedures for GST/HST transactions; (175)

158. CSRE 2400.46 requires the practitioner to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, by designing and performing inquiry and analytical procedures to address all material items in the financial statements.

159. The documentation to support the reasonableness of GST/HST referenced an approach taken to verify a sample of transactions to ensure that they were posted correctly, and no differences were found. This referenced testing was not documented in the working papers. McGhee advised that she made sure the client was not overriding the HST calculations and looking at the actual invoices – she did not have a specific working paper support (**Tab 19, CSRE 2400**).

Particular f) She failed to adequately document inquiry and analytical procedures to support the Balance Sheet item “Accounts Receivable” for material amounts of Canada Emergency Wage Subsidy and the Statement of Income item “CEWS Wage Subsidy”; (177)

160. CSRE 2400.46 requires the practitioner to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, by designing and performing inquiry and analytical procedures to address all material items in the financial statements.

161. There is no documentation in the working papers to support the accounts receivable for CEWS or the CEWS subsidy, both material amounts. McGhee advised that she assisted the client with the calculations and verified the calculations with the Canada Revenue Agency website; none of this was supported in the working paper files (**Tab 19, CSRE 2400**).

Particular g) She failed to correctly document inquiry and analytical procedures to support the Balance Sheet item “Inventory 649,887”; (179)

162. CSRE 2400.46 requires the practitioner to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, by designing and performing inquiry and analytical procedures to address all material items in the financial statements.

163. The working paper documentation for inventory did not agree with the amount reported on the client's general ledger and the balance sheet, by an amount of \$7,956. McGhee was not able to provide an explanation for the difference (**Tab 19, CSRE 2400**).

Particular h) She failed to document inquiry and analytical procedures to support the Balance Sheet items “Income Tax Payable 41,373” and “Statement of Income Tax Expense 46,993”; and (181)

164. CSRE 2400.46 requires the practitioner to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, by designing and performing inquiry and analytical procedures to address all material items in the financial statements.

165. There is no supporting documentation for the income taxes payable of \$41,373 or the income taxes expense of \$46,993. McGhee advised that she used the amounts reported on the income tax returns (**Tab 19, CSRE 2400**).

Particular i) She failed to perform adequate inquiry and analytical procedures in addressing an approximate 8% drop in gross profit. (183)

166. CSRE 2400.46 requires the practitioner to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, by designing and performing inquiry and analytical procedures to address all material items in the financial statements.

167. The company's gross profit decreased from 24.3% to 16.2% and the analytical review was a comment by McGhee of: *“Some of the change was due to a higher USD exchange rate as they purchased materials in the US during the year. Reasonable.”* This is

inadequate analytical review documentation. McGhee confirmed that this is the extent of her analytical work for this drop in gross profit (**Tab 19, CSRE 2400**).

Acknowledgement

168. It is agreed that, in or about the period of March 18, 2019 to April 30, 2020, McGhee issued six audited financial statements without prior review and approval of the working papers and signing off of financial statements by her practice supervisor, as agreed in the Supervision Agreement, thereby she failed to conduct herself in a manner which will maintain the good reputation of the profession and serve the public interest, contrary to Rule 201.1 of the Code.

169. It is agreed that, with respect to the audit of the financial statements of Corp. A for the year ended December 31, 2018, 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, contrary to Rule 206.1 of the Code.

170. It is agreed that, with respect to the audit of the financial statements of HM Inc for the year ended July 31, 2019, 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, contrary to Rule 206.1 of the Code.

171. It is agreed that, with respect to the audit of the combined financial statements of HM Inc. and O&M for the year ended July 31, 2019, 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, contrary to Rule 206.1 of the Code.

172. It is agreed that, with respect to the audit of the financial statements of O&M for the year ended July 31, 2020, McGhee failed to perform her professional services in accordance with generally accepted standards of practice of the profession, including the

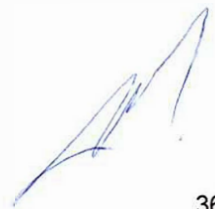
recommendations set out in the CPA Canada Handbook, in the manner described above, contrary to Rule 206.1 of the Code.

173. It is agreed that, with respect to the review of the financial statements of CCorp for the year ended September 30, 2020, 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, contrary to Rule 206.1 of the Code.

Terms of Settlement

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

- a) A payment by way of fine in the amount of \$7,500;
- b) A restriction of McGhee's practice prohibiting McGhee from carrying out any assurance engagements;
- c) Notice of the terms of this Agreement are to be published in the manner set out in CPA Ontario Regulation 6-2 section 45, 50 and 52 with notice to be given to all members of CPA Ontario, the Public Accountants' Council, all provincial CPA Bodies and in the Toronto Star, Port Perry circulation edition;
- d) A payment by way of costs in the amount of \$12,000;
- e) McGhee will be allowed 24 months from the time the Discipline Committee accepts this Agreement to pay the fine and costs referred to in paragraphs a) and d) above; and
- f) 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 exceeds 30 days, her membership in CPA Ontario will be revoked forthwith.



175. The PCC and McGhee expressly consent and authorize the Registrar to take any actions associated with McGhee's membership in CPA Ontario as prescribed and agreed to herein.
176. The PCC and McGhee expressly authorize and consent to CPA Ontario providing notice of the terms of this Agreement to all CPA Ontario members all provincial CPA Bodies and to publish notification in the newspaper identified above.
177. Should the Discipline Committee accept this Agreement, McGhee agrees to waive her right to a full hearing, judicial review or appeal of the matter subject to the Agreement. Upon McGhee's fulfillment of the requirements of this Agreement, the draft allegations approved by the PCC, shall be permanently stayed.
178. If for any reason this Agreement is not approved by the Discipline Committee, then:
- a) The terms of this Agreement, including all settlement negotiations between the PCC and McGhee leading up to its presentation to the Discipline Committee, shall be without prejudice to the PCC and McGhee; and
 - b) The PCC 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 Agreement or the settlement negotiations.

Disclosure of Settlement Agreement

179. This Agreement and its terms will be treated as confidential by the PCC and McGhee, until approved by the Discipline Committee, and forever if for any reason whatsoever this Agreement is not approved by the Discipline Committee, except with the written consent of the PCC and McGhee, or, as may be required by law.
180. Any obligations of confidentiality shall terminate upon approval of the Agreement by the Discipline Committee.



All of which is agreed to for the purpose of this proceeding alone this 22nd day of November 2021.

A handwritten signature in blue ink that reads "Kelvin Kucey".

Kelvin Kucey, J.D.
On behalf of
The Professional Conduct Committee

A handwritten signature in blue ink that reads "Janet L. McGhee".

Janet L. McGhee, CPA, CA
On her own behalf