



CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

THE CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

IN THE MATTER OF: ALLEGATIONS OF PROFESSIONAL MISCONDUCT
AGAINST **JOEL LIPCHITZ, 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. On October 21, 2021 the Professional Conduct Committee (PCC) issued Allegations of professional misconduct (Allegations) against Joel Lipchitz, CPA, CA (Lipchitz) (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 Allegations identify a period of May 1, 2014 to December 20, 2016 when Lipchitz was providing accounting services to PEFC, PEI and SS Inc., three related entities with shared management. The PCC alleges that Lipchitz committed multiple breaches of the Rules of Professional Conduct (Rules) and the Code of Professional Conduct (Code), in that he failed: to conduct himself with integrity, due care and objectivity (Rule 202); to adequately evaluate and safeguard against threats to auditor independence (Rule 204.3); to perform professional work in accordance with generally accepted standards of the profession (Rule 206.1); and, to abide the requirements of Rule 216 of the Rules and the Code by his improper acceptance of commission or referral fees from an audit client.

Integrity, due care and objectivity

3. While acting as the engagement partner for the audits of the financial statements of PEFC, for the years ended May 31, 2014 (Doc 1), 2015 (Doc 2) and 2016 (Doc 3), and the compilations of the financial statements of PEI, for the years ended May 31, 2015 (Doc 4) and 2016 (Doc 5), Lipchitz failed to exercise an appropriate level of professional skepticism regarding management's representations of value, ownership and financial statement presentation of specific balance sheet items.

Auditor independence

4. While acting as the engagement partner for the audits of the financial statements of PEFC for the years ended May 31, 2014 (Doc 1), 2015 (Doc 2) and 2016 (Doc 3), and the audit for the opening balance sheet of SS Inc. as at December 14, 2016 (Doc 6), Lipchitz failed to adequately evaluate and safeguard against threats to auditor independence arising from his referral of investors to PEFC, and its related entities, for compensation.
5. Additionally, while engaged to compile the financial statements for PEI, for the years ended May 31, 2015 (Doc 4) and 2016 (Doc 5), in preparing and issuing PEI's financial statements Lipchitz failed to disclose in his written communication accompanying the financial statements any activity, interest or relationship which, in respect of the engagement, would be seen by a reasonable observer to impair his or his firm's independence, in that he maintained a business relationship with PEFC, PEI and related entities, through which he received referral fees or commissions.

Generally Accepted Accounting Standards

6. While acting as the engagement partner, Lipchitz failed to perform his professional work in accordance with generally accepted standards of the profession, contrary to Rule 206.1 of the Rules and Code, with respect to the following engagements:
 - a. the audit of the financial statements of PEFC, for the year ended May 31, 2014 (Doc 1);

- b. the audit of the financial statements of PEFC, for the year ended May 31, 2015 (Doc 2);
- c. the audit of the financial statements of PEFC, for the year ended May 31, 2016 (Doc 3);
- d. the compilation of the financial statements for PEI, for the year ended May 31, 2015 (Doc 4);
- e. the compilation of the financial statements for PEI, for the year ended May 31, 2016 (Doc 5); and
- f. the audit of the opening balance sheet of SS Inc., as at December 14, 2016 (Doc 6).

Commissions or referral fees

- 7. While acting as the engagement partner for the audit of the financial statements of PEFC for the years ended May 31, 2014 (Doc 1), 2015 (Doc 2) and 2016 (Doc 3) and the opening balance sheet of SS Inc. as at December 14, 2016 (Doc 6), Lipchitz accepted over \$96,000 in commissions or referral fees (Doc 7 to 9) from PEFC, or a related entity, contrary to Rule 216 of the Rules and the Code.
- 8. The PCC and Lipchitz 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 Lipchitz 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

- 9. Lipchitz obtained his Chartered Accountant designation in 1980 and has been member of CPA Ontario since December 4, 1980.
- 10. Lipchitz began his accounting career with a small accounting firm that merged with Price Waterhouse.
- 11. In or about 1990, Lipchitz opened his own firm offering audit and tax services to the public.

12. On May 18, 2006, PEFC was incorporated as "210**** Ontario Inc." under the *Business Corporations Act of Ontario*. Effective May 9, 2014, the company changed its name to PEFC. PEFC was a registered mortgage brokerage that arranged and administered second mortgages on single-family properties.
13. In or about 2012, Lipchitz began providing accounting services to PEFC. Lipchitz prepared Notice to Reader financial statements and corporate tax returns for PEFC's fiscal years ended May 31, 2012 to May 31, 2014.
14. PEFC's May 31, 2014 year end financials (Doc 5) were upgraded to an audit, as the Financial Services Commission of Ontario ("FSCO") required a statutory audit of its trust funds with an accompanying audit report.
15. Commencing on or about September 2014, PEFC's principals, MR, BB and ML (Principals) began establishing various related, subsidiary corporations and investment funds including, but not limited to, PEI SS Inc. and SSMF.
16. The Principals utilized PEI to hold title to the development properties and mortgage loans. SSMF was a pooled investor fund, administered by PEFC, that was to be used to lend money to borrowers on the security of second mortgages. SS Inc. was intended to be licensed to operate as an Exempt Market Securities Dealer, as defined in the *Securities Act*, R.S.O. 1990, c.S.5. PEFC's income was generated from fees charged for its mortgage and fund administration.
17. Lipchitz PC performed audits for the 2014 (Doc 1), 2015 (Doc 2) and 2016 (Doc 3) PEFC year ends, and of the 2016 opening balance sheet of SS Inc. (Doc 6) , compilations of the 2015 and 2016 PEI year ends (Docs 4 and 5), as well as compilations and tax returns for various other PEFC related entities.
18. Lipchitz resigned as PEFC's auditor on October 31, 2016, "in recognition that my investor services work for PEFC had the potential to become a non-insignificant threat to my independence." (Doc 10)
19. In May 2017, the Ontario Securities Commission (OSC) obtained a receivership order over PEFC and its related companies, in part, to protect investors who were told their

money would be invested in second residential mortgages. The OSC followed its receivership order with a Statement of Allegations, in which it alleged that, contrary to PEFC's representations to its investors, approximately \$50 million of their funds were invested in higher risk land and property development projects. PEFC and the Principals allegedly engaged in hidden self-dealing by paying approximately \$3.87 million in fees on various development projects to the Principals and by the Principals either taking an indirect 50% ownership interest in such projects or agreeing to do so. Additionally, the OSC alleged that PEFC used investor funds reserved to pre-pay interest on mortgages for its own purposes, without disclosing this practice to its investors. (Doc 11)

20. On or about March 1, 2019, the Receiver, Grant Thornton Limited, filed a Statement of Claim against PEFC, its related companies and the Principals, seeking, among other things, \$50 million in damages for negligence, breach of fiduciary duty, breach of trust and knowing assistance of breach of trust.
21. On or about March 12, 2020 the OSC filed an Amended Statement of Allegations against PEFC, SSMF, multiple related entities and the Principals. The OSC sought significant remedies against the defendants citing fraud, misleading investors, unregistered trading, and the illegal distribution of securities. (Doc 11) That matter is ongoing.
22. As of the date of this Agreement, Lipchitz is not a named defendant in any regulatory action related to PEFC, and is currently the president of Lipchitz PC, located in Keswick, ON.

The Complaint

23. During the review of a complaint concerning another CPA Ontario member, Standards Enforcement staff (SE) became aware of related matters involving Lipchitz. SE opened a complaint against Lipchitz on January 11, 2021.
24. On February 14, 2021 the PCC appointed Patricia Harris, CPA, CA, CBV, DIFA, CFF, MFACC and Audrey Mercier, CPA auditor, CA, CFE, CFF, CBV (Investigators) to investigate allegations of misconduct, Lipchitz's standards of practice, and the circumstances surrounding the SE complaint against Lipchitz.

25. The investigation focused on Lipchitz's role as president of Lipchitz PC and Lipchitz's audit of PEFC and its related entity SS Inc., and his compilation of the financial statements of a second related entity, PEI.
26. On or about July 27, 2021, upon review of the Investigator's report, dated July 13, 2021, the PCC directed allegations of professional misconduct, pertaining to Lipchitz's professional conduct and his failure to perform professional work in accordance with generally accepted standards with respect to the four audits and two compilation engagements, detailed in para. 2 above.

Generally Accepted Auditing Standards in 2014 to 2016

27. The standards for auditing applicable to the audits are described by GAAS. During 2014-2016, GAAS were published in the Assurance section of the CPA Canada Handbook.
28. GAAS requires auditors to obtain reasonable assurance that an entity's audited financial statements are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high, but not absolute, level of assurance that reduces to an acceptably low level, the risk of incorrectly opining on misstated financial statements.
(Tab 1)
29. To obtain reasonable assurance, GAAS set out various standards to be met, requirements to be fulfilled and steps to be taken. They include obtaining sufficient appropriate audit evidence while exercising professional skepticism, as well as completing EQCRs as required by GAAS.
30. CAS 200 "Overall objectives of the independent auditor and the conduct of an audit in accordance with Canadian Auditing Standards" describes the sufficiency and appropriateness of audit evidence as being interrelated, as follows:

A28. Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the

current audit) or a firm's quality control procedures for client acceptance and continuance. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor and, therefore, also constitutes audit evidence. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

A29. The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate for its poor quality.

A30. Appropriateness is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature and is dependent on the individual circumstances under which it is obtained. (Tab 1)

31. Further, GAAS requires auditors to plan and perform their audits using professional skepticism, recognizing that circumstances may exist that cause the financial statements to be materially misstated. Professional skepticism requires a questioning attitude which is alert to conditions which may indicate a possible misstatement due to error or fraud. Professional skepticism requires an auditor to conduct a critical assessment of the audit evidence.

32. Pursuant to CAS 200.18-23, compliance with CAS is not optional. (Tab 1)

33. Lipchitz admits that the Allegations, set out below, accurately particularize Lipchitz's failure to comply with the Rules and Code and including his failure to perform his professional services in accordance with generally accepted standards of practice of the profession.

The Allegations

Allegation 1: Joel Lipchitz, in or about the period of May 1, 2014 to December 20, 2016, while providing accounting services to PEFC and PEI, two related entities with shared management, failed to conduct himself with integrity, due care and objectivity, contrary to Rule 202 of the CPA Ontario Rules of Professional Conduct (Rules) and CPA Ontario Code of Professional Conduct (Code) in that:

Particular a) While acting as the engagement partner for the audits of the financial statements of PEFC, for the years ended May 31, 2014, 2015 and 2016, he failed to exercise an appropriate level of professional skepticism regarding management's representations of value, ownership and financial statement presentation of the Balance Sheet items: "Construction in progress (2014) 2,451,186 and (2015) NIL"; "Due from related parties (2015) 2,185,250 and (2016) 4,420,628"; "Long term debt (2015) 4,811,819 and (2016) NIL"; and, "Assets Held in Trust (2014) 561,389 (2015) 654,704, and (2016) 997,815;

34. "Professional skepticism" is defined in CAS 200.13 as: "[a]n attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence." (Tab 1)

35. An auditor is required to plan and perform an audit with professional skepticism, recognizing that circumstances may exist that cause the financial statements to be materially misstated.(Tab 1)

36. Professional skepticism must be maintained throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist. (Tab 5)

37. Further, on the requirement to exercise professional skepticism, CAS 200.A18-20 states:

A18. Professional skepticism includes being alert to, for example:

- Audit evidence that contradicts other audit evidence obtained.

- Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence.
- Conditions that may indicate possible fraud.
- Circumstances that suggest the need for audit procedures in addition to those required by the CASs.

A19. Maintaining professional skepticism throughout the audit is necessary if the auditor is, for example, to reduce the risks of:

- Overlooking unusual circumstances.
- Over generalizing when drawing conclusions from audit observations.
- Using inappropriate assumptions in determining the nature, timing and extent of the audit procedures and evaluating the results thereof.

A20. Professional skepticism is necessary to the critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in the light of the circumstances, for example, in the case where fraud risk factors exist and a single document, of a nature that is susceptible to fraud, is the sole supporting evidence for a material financial statement amount. (Tab 1)

38. An auditor is required to consider the reliability of information to be used as audit evidence. In cases of doubt about the reliability of information or indications of possible fraud, an audit is required to investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter. (Tab 1)

39. On believing management's representations, CAS 200.A22 states:

A22. The auditor cannot be expected to disregard past experience of the honesty and integrity of the entity's management and those charged with governance. Nevertheless, a belief that management and those charged with governance are honest and have integrity does not relieve the auditor of the need to maintain

professional skepticism or allow the auditor to be satisfied with less-than-persuasive audit evidence when obtaining reasonable assurance. (Tab 1)

40. Lipchitz admits that he failed to ensure that the audits were conducted with sufficient professional skepticism. In particular, he failed to take account of contradictory audit evidence and other circumstances which ought to have caused the auditor to treat available appraisals and the Principal's representations with greater caution, obtain additional evidence from independent sources and perform additional procedures on that evidence.
41. As auditor Lipchitz was positioned to identify that PEFC's financial data lacked transparency considering its risk profile and financial data. Lipchitz identified select issues, but failed to adequately address them to ensure fair presentation of the financial information, specifically there was insufficient asset and liability validation and document analysis, of properties that PEFC was developing in Calgary,(Calgary Properties) which Lipchitz itemized as "Construction in progress"; inter-company loans, which Lipchitz itemized as "Due from related parties" and the use of prepaid trust funds, which Lipchitz itemized as "Assets held in trust". (Doc 1, 2, 3)
42. Lipchitz admits that his working paper files did not support his assessment of the value of the "Construction in progress" and acknowledges that he provided the Investigators a calculation of value that was neither in the working paper file, nor in the complete appraisal previously provided. (Doc 12 and Doc 33) Although Lipchitz states that MR showed him projections and appraisals which supported the reported values, he is unable to explain the transactions relating to the Balance Sheet item "Construction in progress" and breakdown the costs and debts for each property.
43. Regarding the veracity of the Balance Sheet item "Construction in progress", Lipchitz confirmed that he did not have complete copies of the appraisals prior to PEFC providing them to him in 2019, (Doc 15), despite completing calculations in October 2014.
44. Lipchitz admits that at the time of his value calculation for the Balance Sheet item "Construction in progress", he did not have appraisal reports for all the properties and

the limited work he performed relied on MR's representations of value and an appraisal report that assumed that the properties were 100% complete, although they were under construction.

45. Lipchitz admits that over the course of the PEFC audits, at the direction of the Principals, he recorded the Balance Sheet items "Construction in progress" and "Long term debt" in the incorrect corporate entity and acknowledges there were several errors and misrepresentations in the statements (Doc 16, 17, and 18).
46. In addition to recording the Calgary Properties and debt in the incorrect entity, Lipchitz concedes several associated errors and misrepresentations arising from his failure to exercise an appropriate level of professional skepticism (Doc 18):
 - a. In fiscal 2015, the loans from LM of approximately \$1.2 million were recorded on both PEFC and PEI;
 - b. The OT liens on the Calgary Properties (ie. debt related to investor funds) of approximately \$2 million were recorded on both PEFC and PEI in both fiscals 2015 and 2016; and
 - c. The construction pool loans (i.e., Due to Investors) were recorded in both PEFC and PEI in fiscal 2016. The amount recorded in PEI's 2015 fiscal year end was the balance at May 1, 2015 (rather than at May 31, 2015, the year-end date).
47. The Balance Sheet item "Construction in progress", which represented the largest asset for which PEFC investors lent funds, was included in the wrong company's financial statements after 2014 (PEI's rather than PEFC's), however, investor funds, direct investments and third-party debt were included in the financial statements of both PEI and PEFC in error. (Doc 18)
48. Regarding the Balance Sheet item "Due from related parties", although Note 8 to PEFC's 2016 Financial Statements (Doc 24) provides a listing of six related parties that together owe PEFC the stated amounts, (2015) 2,185,250 and (2016) 4,420,628, Lipchitz relied on management's representations with respect to the amounts and did not corroborate management's representations against sufficient and appropriate audit evidence.

49. Lipchitz acknowledges that he did not obtain sufficient appropriate audit evidence to support (2015) Balance Sheet item "Long term debt" and (2016) Balance Sheet item "Mortgages Payable-AC". Lipchitz states that these items were mischaracterized on PEFC's financial statements at the direction of the Principals. Based on his notes, Lipchitz recognized the connection between the AC liability and the misuse of the "Assets held in Trust", but he failed to assess the transaction with sufficient degree of depth.
50. With respect to the Balance Sheet item "Assets held in trust", also referred to as Prepaid Trust Funds, Lipchitz admits that he was aware the funds were used inappropriately. Although he states that he raised the misuse with MR, he did not document that knowledge or conversation in the file, neither was it reported in the management internal control letter, nor reported to the British Columbia Financial Institutions Commission (BCFIC) (Doc 19). His notes related to the "Assets held in trust" were not included in the audit file.
51. Lipchitz admits that he relied on MR's representations and assessment of the OSC's oversight and other regulatory requirements, including FSCO and BCFIC, and neither obtained sufficient evidence nor conducted a thorough validation of the governing laws and regulations in the audit of financial statements.
52. Lipchitz acknowledges that given his expertise, the extent of the work he completed for PEFC and his awareness of the use of Balance Sheet Item "Assets held in trust" (Prepaid Trust Funds), he should have alerted the appropriate stakeholders with respect to the financial structure, record keeping, oversight and operation of PEFC. However, he failed to do so.
53. Lipchitz admits that, despite his knowledge of the foregoing circumstances, the management letter did not reference the inappropriate use of the "Assets held in Trust", which was a significant internal control deficiency, and inappropriate management override. (Doc 20 paragraphs 3.i. 58 to 63)

54. Lipchitz did not demonstrate the required level of professional skepticism when auditing the Calgary Properties. He should have recognized, based on the information available to him, the possibility that a material misstatement due to fraud or error could exist with respect to the presentation of the Calgary Properties.

Particular b) While acting as the engagement partner for the compilations of the financial statements of PEI, for the years ended May 31, 2015 and 2016, he failed to exercise an appropriate level of professional skepticism regarding management's presentations of value, ownership and financial statement presentation of the Balance Sheet items: "Development Project (2015) 10,467,606 and (2016) 12,999,606" and, "Long term debt (2014) 10,827,208, and (2015) 10,938,065".

55. "Compilation engagements" states that, on occasion, despite the very limited involvement, an accountant may become aware that the information supplied is obviously incorrect, incomplete or otherwise unsatisfactory with the result that the financial statements would be false or misleading. In situations where the accountant believes the financial statements to be false or misleading, he or she should request additional or revised information to complete the statements. (Tab 2)

56. There was no evidence in Lipchitz's file to support management's assertion that PEI was the beneficial owner of the Calgary Properties, identified as Balance Sheet item "Development Project".

57. The PEFC Balance Sheet item "Construction in progress" was recorded on PEI's balance sheet as Balance Sheet item "Development Project" and valued, in 2016, at approximately \$13 million (Doc 14), although Lipchitz's 2014 rudimentary calculations concluded a value of \$7 million. The calculations were not included in the working paper file and were based on an appraisal that noted a hypothetical assumption that the properties were 100% completed when they were not. (Doc 15) Lipchitz provided the Investigators with meeting notes from the August 30, 2016, closing meeting (that were also not a component of the working papers) that state: "The value of the properties (per M about \$7.5M)" (Doc 21)

58. When asked by the Investigators to explain asset value, specifically how his \$7 million value calculation reconciled to the asset amount of approximately \$13 million on PEI's

balance sheet, Lipchitz responded: "I did a notice to reader on that company [PEI], so I didn't really pursue that". (Doc 36)

59. Lipchitz admits that over the course of the PEI compilations, at the direction of the Principals, he recorded the Balance Sheet items "Development Project" and "Long term debt" in the incorrect corporate entity and there were several associated errors and misrepresentations which could cause the statements to be false or misleading. (Doc 4 and 5)

- a. In fiscal 2015, the loans from LM of approximately \$1.2 million were recorded on both PEFC and PEI;
- b. The "OT" liens on the Calgary Properties (i.e. debt related to investor funds) of approximately \$2 million were recorded on both PEFC and PEI in both fiscals 2015 and 2016;
- c. The construction pool loans (i.e., Due to Investors) were recorded in both PEFC and PEI in fiscal 2016; and
- d. The amount recorded in PEI's 2015 fiscal year end was the balance at May 1, 2015 (not May 31, 2015, the year end date).

60. Lipchitz agrees that Balance Sheet item "Development Project", which represented the largest asset for which PEFC investors lent funds, was included in PEI's 2015 and 2016 financial statements, while investor funds, direct investments and third-party debt were wrongly included in both PEI's and PEFC's financial statements. (Doc 18)

61. Although Lipchitz prepared Notice to Reader financial statements for PEI, the reduced level of assurance, from that of an audit, did not remove the requirement to consider the implication that the values of the properties were likely significantly overstated.

62. Lipchitz failed to consider whether the overstatement of the value of the properties would result in the PEI financial statements to be false or misleading.

63. Lipchitz admits that he did not demonstrate the required level of professional skepticism when validating the Calgary Properties. He should have recognized based on the information available to him the possibility that a material misstatement due to fraud or

error could exist with respect to the presentation of the Calgary Properties, but he did not.

Allegation 2: Joel Lipchitz, in or about the period May 1, 2014 to December 20, 2016, while acting as the engagement partner for the audits of financial statements of PEFC for the years ended May 31, 2014, 2015 and 2016, failed to adequately evaluate and safeguard against threats to auditor independence arising from his referral of investors in PEFC for compensation, contrary to Rule 204.3 of the Rules and the Code.

Allegation 3: THAT the said Joel Lipchitz, in or about the period May 1, 2014 to December 20, 2016, while acting as the engagement partner for the audit the opening balance sheet of SS Inc. as at December 14, 2016, failed to adequately evaluate and safeguard against threats to auditor independence arising from his referral of investors in PEFC, a related entity, for compensation, contrary to Rule 204.3 of the Rules and the Code

64. The Rules and Code required Lipchitz to be independent of PEFC and SS Inc. while acting as engagement partner for the audits of their respective financial statements.

65. Guidance to Rule 204 of the Code provides:

- a. It is a fundamental principle of the practice of Chartered Professional Accountancy that a member who provides assurance services shall do so with unimpaired professional judgment and objectivity and shall be seen to be doing so by a reasonable observer. This principle is the foundation for public confidence in the reports of assurance providers.
- b. The confidence that professional judgment has been exercised depends on the unbiased and objective state of mind of the reporting accountant, both in fact and appearance. Independence is the condition of mind and circumstance that would reasonably be expected to result in the application by a member of unbiased judgment and objective consideration in arriving at opinions or decisions in support of the member's report. A member or firm is not considered to be independent if the member or firm does not comply with the provisions of Rules 204.1 to 204.4.
- c. "clearly insignificant" Throughout this Rule and Guidance, reference is made to "significant" and "clearly insignificant". In considering the significance of any particular matter, qualitative as well as quantitative factors should be taken into account. A matter should be considered clearly insignificant only if it is both trivial and inconsequential.
- d. Self-Interest Threats

A self-interest threat occurs when a firm or a person on the engagement team could benefit from a financial interest in, or other self-interest conflict with, an

assurance client. Examples of circumstances that may create a self-interest threat include, but are not limited to:

- a direct financial interest or material indirect financial interest in an assurance client;
- a loan or guarantee to or from an assurance client or any of its directors or officers;
- dependence by a firm, office or member on total fees from an assurance client;
- undue concern about the possibility of losing the engagement;
- evaluating performance or providing compensation for selling non-audit services to an assurance client;
- having a close business relationship with an assurance client; and
- potential employment with an assurance client.

66. During the audits of the financial statements of PEFC for the years ending May 31, 2014 to May 31, 2016, Lipchitz was also working with PEFC, referring potential investors to the Principals. In return for each party that Lipchitz referred who invested in a PEFC entity, PEFC or a related entity, would pay Lipchitz or Lipchitz PC a referral fee. Over the course of audits of PEFC and SS Inc., Lipchitz and Lipchitz PC received referral fees from PEFC, or its related entities, totalling \$96,314.

67. Lipchitz PC documented the independence threats present in the engagement as being non-significant. Lipchitz admits that he failed, prior to his resignation as auditor in October 2016, to recognize the impact of the referral fees on his independence and admits that totality of the referral fees he received from PEFC, or its related entities, were neither trivial nor inconsequential. (Doc 22)

68. With respect to the 2014, 2015 and 2016 PEFC Audits, given Lipchitz's collateral referral agent business relationship with PEFC and the referral fees received, Lipchitz and Lipchitz PC failed to demonstrate they undertook sufficient safeguards to ensure they were independent in fact and appearance.

69. In December 2016, while in receipt of referral fees from PEFC and its related entities, Lipchitz, after recognizing significant independence threats that necessitated his resignation as auditor of PEFC on October 31, 2016, expanded his audit engagement work to include the audit of the opening balance sheet of SS Inc., a related entity to PEFC. (Doc 6 and 37)
70. Lipchitz admits he failed to recognize the impact of the referral fees paid to him by PEFC, or a related entity, on his independence during the 2016 audit of the opening balance sheet SS Inc.
71. Lipchitz PC did not prepare or maintain any working paper file for the audit of the opening balance of SS Inc., and he admits that he failed to document any evaluation, including any independence threats present in the engagement.
72. Lipchitz admits that he incorrectly concluded that the referral fees were insignificant, and that there was no evidence in the audit documentation that Lipchitz PC applied sufficient safeguards to reduce these threats to an acceptable level.

Allegation 4: THAT the said Joel Lipchitz, in or about the period May 1, 2014 to December 20, 2016, while engaged to compile the financial statements for PEI, for the years ended May 31, 2015 and 2016, failed to carry out his professional services in accordance with Rule 204.10 of the Rules and Code, in that during the period he prepared and issued PEI's financial statements, he failed to disclose in his written communication accompanying the financial statements any activity, interest or relationship which, in respect of the engagement, would be seen by a reasonable observer to impair his or his firm's independence in that he maintained a business relationship with PEFC, a related entity to PEI, through which he received referral fees or commissions.

73. The Rules and Code required Lipchitz to be independent of PEI while acting as engagement partner for the compilation of its financial statements.
74. Guidance to Rule 204 of the Code provides:
- a. It is a fundamental principle of the practice of Chartered Professional Accountancy that a member who provides assurance services shall do so with unimpaired

professional judgment and objectivity and shall be seen to be doing so by a reasonable observer. This principle is the foundation for public confidence in the reports of assurance providers.

- b. The confidence that professional judgment has been exercised depends on the unbiased and objective state of mind of the reporting accountant, both in fact and appearance. Independence is the condition of mind and circumstance that would reasonably be expected to result in the application by a member of unbiased judgment and objective consideration in arriving at opinions or decisions in support of the member's report. A member or firm is not considered to be independent if the member or firm does not comply with the provisions of Rules 204.1 to 204.4.
- c. "clearly insignificant" Throughout this Rule and Guidance, reference is made to "significant" and "clearly insignificant". In considering the significance of any particular matter, qualitative as well as quantitative factors should be taken into account. A matter should be considered clearly insignificant only if it is both trivial and inconsequential.
- d. Self-Interest Threats

A self-interest threat occurs when a firm or a person on the engagement team could benefit from a financial interest in, or other self-interest conflict with, an assurance client. Examples of circumstances that may create a self-interest threat include, but are not limited to:

- a direct financial interest or material indirect financial interest in an assurance client;
- a loan or guarantee to or from an assurance client or any of its directors or officers;
- dependence by a firm, office or member on total fees from an assurance client;
- undue concern about the possibility of losing the engagement;
- evaluating performance or providing compensation for selling non-audit services to an assurance client;
- having a close business relationship with an assurance client; and
- potential employment with an assurance client.

75. During the compilation engagements of the financial statements of PEI, a related company to PEFC, for the years ending May 31, 2015, (Doc 4) and May 31, 2016, (Doc

5) Lipchitz and Lipchitz PC received referral fees from PEFC, or its related entities, totalling \$96,314.

76. Lipchitz admits that in preparing the compilations of the financial statements of PEI, he failed to recognize the existence of a threat to his independence arising from the referral fees he received from PEFC, or a related entity, and failed to mention his relationship with the entity in his Notice to Reader communications. (Doc 4 and Doc 5)

Allegation 5: THAT the said Joel Lipchitz, in or about the period May 1, 2014 to September 30, 2014, while acting as the engagement partner for the audit of the financial statements of PEFC for the year ended May 31, 2014, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Rules, in that:

Particular a) He failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item "Construction in progress 2,451,186"

77. CAS 580.4 states that "Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management's responsibilities, or about specific assertions." (Tab 3)

78. Note 3 to PEFC's 2014 Financial Statements provides: "Construction in progress includes development costs, long term debt interest, realty taxes, interest on general borrowing, and administrative and general expenses incurred in connection with the acquisition, development and construction of properties for sale." (Doc 23)

79. Lipchitz relied on management's representations with respect to the Calgary Properties and did not corroborate these representations against sufficient and appropriate audit evidence as required.

80. Lipchitz was unable to provide explanations of the transactions relating to the Calgary Properties and a breakdown of costs and debts by property.

Particular b) He failed to prepare sufficient audit documentation to enable an experienced auditor to understand significant matters arising during the audit, the conclusions reached, and significant professional judgements made in reaching audit conclusions.

81. 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. (Tab 4)

82. The audit documentation of the Calgary Properties transactions was minimal. In 2014, at the inception of the project, Lipchitz provided an explanation of the purchase transactions but did not include supporting documentation.

83. Lipchitz admits that he failed to prepare sufficient audit documentation to enable an experienced auditor to understand fundamental elements of the 2014 audit of the financial statements of PEFC.

Allegation 6: THAT the said Joel Lipchitz, in or about the period May 1, 2015 to August 25, 2015, while acting as the engagement partner for the audit of the financial statements of PEFC for the year ended May 31, 2015, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Rules, in that:

Particular a) He failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item "Due from Related Parties (Note 8) 2,185,250";

84. CAS 580.4 states that "Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other

audit evidence that the auditor obtains about the fulfilment of management's responsibilities, or about specific assertions." (Tab 3)

85. Although Note 8 to PEFC's Financial Statements (Doc 24) provides a listing of six related parties that together owe PEFC the stated amount, Lipchitz relied on management's representations with respect to the amounts and did not corroborate management representations against sufficient and appropriate audit evidence as required.

Particular b) He failed to adequately assess the risk of material misstatement due to fraud or error associated with excluding the item "Development Project" from the Balance Sheet;

86. CAS 240.26 requires that "the auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures." (Tab 5)
87. The Calgary Properties were listed in the 2014 Balance Sheet as a PEFC asset "Construction in Progress". In 2015, the Calgary Properties were included as PEI asset "Development Project" rather than "Construction in Progress" of PEFC (Doc 25 and Doc 26). There was no evidence in the file to support either the asset move from PEFC to PEI or management's assertion that PEI became the beneficial owner of the Calgary Properties in 2015. Lipchitz did not obtain sufficient audit evidence to support that the ownership moved from PEFC to PEI, instead his reporting was based solely on unsubstantiated management representations.
88. Lipchitz admits that he did not demonstrate the required level of professional skepticism when auditing the Calgary Properties. He should have recognized the possibility that a material misstatement due to fraud or error could exist with respect to the presentation of the Calgary Properties.

Particular c) He failed to obtain sufficient appropriate audit evidence to support the completeness of the Balance Sheet item "Development Project";



89. CAS 580.4 states that “Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management’s responsibilities, or about specific assertions.” (Tab 3)
90. PEFC owned the Calgary Properties. Originally, the Calgary Properties were recorded in the 2014 audit of the financial statements of PEFC as Balance Sheet item “Construction in progress 2,451,186”.
91. The 2015 audit of the financial statements of PEFC, recorded no value for “Construction in progress” while recording a new Balance Sheet item “Due from Related Parties 2,185,250” without explanation.
92. Lipchitz recorded the Calgary Properties on PEI’s 2015 Balance Sheet as “Development Project 10,467,606”. There was insufficient evidence in either file to support management’s assertion that PEI was the beneficial owner of the Calgary Properties instead of PEFC.
93. Lipchitz admits that he relied on management’s representations of a transfer of ownership of the Calgary Properties from PEFC to PEI with respect to his recording of the 2015 PEFC Balance Sheet item “Construction in progress” and 2015 PEI Balance Sheet item “Development Project” and did not corroborate those representations against sufficient and appropriate audit evidence.
94. Lipchitz admits that his failure to obtain sufficient and appropriate audit evidence to support the transfer of the Calgary Properties asset from PEFC to PEI required him to report the Calgary Properties as an asset in the 2015 PEFC financial statements, his failure to do so renders that PEFC 2015 Balance Sheet item incomplete.

Particular d) He failed to employ adequate professional skepticism in evaluating management's representations and property appraisals for the Balance Sheet item "Development Project".

95. CAS 240.13 requires that "the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance." (Tab 4)
96. Furthermore, in CAS 240.A8, maintaining professional skepticism requires an ongoing questioning of whether the information and audit evidence obtained suggests that a material misstatement due to fraud may exist. It includes considering the reliability of the information to be used as audit evidence and the controls over its preparation and maintenance where relevant. Due to the characteristics of fraud, the auditor's professional skepticism is particularly important when considering the risks of material misstatement due to fraud. (Tab 5)
97. Originally, the Calgary Properties were recorded in the 2014 audit of the financial statements of PEFC as Balance Sheet item "Construction in progress 2,451,186". In 2015 Lipchitz removed the Calgary Properties from PEFC's Balance Sheet and recorded it on PEI's 2015 Balance Sheet as item "Development Project 10,467,606".
98. During the investigation Lipchitz was asked to review his file to determine what work was done to assess the value of the Calgary Properties. In response, he provided a calculation of value. The calculation was not in the working paper file, nor was the completed appraisal. Lipchitz said he performed the calculation in October 2014.
99. Lipchitz admits that he did not have complete copies of the appraisals prior to 2019. Lipchitz confirms that, at the time of calculation, the Calgary Properties were not 100% complete which was the premise of the appraisal. Lipchitz states that MR showed him projections which supported the reported value of the Calgary Properties, however, Lipchitz does not have copies of those projections.



100. Lipchitz failed to corroborate MR's value representations of the Calgary Properties against other independent audit evidence. Given MR's use of the Prepaid Trust Funds, which Lipchitz was aware of, the reliability of the representations from MR were questionable and warranted further corroboration of his assertions.
101. Although written representations provide necessary audit evidence, they do not independently provide sufficient appropriate audit evidence. Lipchitz admits that he did not demonstrate the required level of professional skepticism while obtaining sufficient appropriate audit evidence with respect to the Balance Sheet item "Development Project" and should have recognized the possibility that a material misstatement due to fraud or error could exist with respect to the presentation of the Calgary Properties.

Particular e) He failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item "Long Term Debt 4,811,819"

102. CAS 240.33 requires that "For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and other information obtained during the audit, the auditor shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets." (Tab 5)
103. In reporting on PEFC's 2015 Balance Sheet Liabilities, Lipchitz disclosed an increase in "Long Term Debt" from 3,219,783 (2014) to 4,811,819. Note 10 to the Financial Statement disclosed multiple unidentified, unsecured loans. (Doc 2)
104. Prior to recording the adjusting journal entry which transferred third party debt from PEFC to PEI (Doc 27), Lipchitz failed to respond to the requirements of CAS 240.33 when analyzing this unusual transaction. He did not adequately evaluate the business rationale behind the adjustment and did not adequately consider whether this was indicative of fraudulent financial reporting or misappropriation of assets. This was significant given that this was a related party adjustment as PEFC was the 100% shareholder of PEI. (Doc 28)

Particular f) He failed to prepare sufficient audit documentation to enable an experienced auditor to understand significant matters arising during the audit, the conclusions reached, and significant professional judgements made in reaching audit conclusions.

105. 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. (Tab 4)

106. Lipchitz admits that the documentation of the Calgary Properties transactions in his 2015 audit working papers was insufficient to enable an experienced auditor to understand these transactions, which Lipchitz himself was unable to explain.

Allegation 7: Joel Lipchitz, in or about the period May 1, 2016 to August 30, 2016, while acting as the engagement partner for the audit of the financial statements of PEFC for the year ended May 31, 2016, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Rules, in that:

Particular a) He failed to obtain sufficient appropriate audit evidence and adequately document the audit testing to support the Balance Sheet item "Assets Held in Trust (Note 11) 997,815";

107. CAS 200.17 requires that "To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion." (Tab 1)

108. PEFC represented to its investors that Balance Sheet item "Assets held in Trust", also known as Prepaid Trust Funds, were monies that were isolated and reserved for specific loan repayment purposes.

109. To fund the "Assets Held in Trust", PEFC issued certain mortgages, identified as Developer Loans. With these loans PEFC would increase the individual loan balance by an amount calculated to cover the negotiated payment of the first year of interest and fees on the loan.

110. SSMF, a related entity to PEFC, would then advance the amount of the prepaid interest to the borrower, who immediately paid that amount to PEFC, ostensibly to be held in trust to pay the loan's interest debt and fees for the first year of its term. However, contrary to intended trust terms, the prepaid interest monies were not segregated or held in trust for the purposes of paying the first-year interest and fees of the loans, but rather were used by PEFC for operating expenses.

111. Lipchitz admits that insufficient audit evidence was gathered with respect to the "Assets held in Trust" and that he did not perform adequate testing on this item. Lipchitz was aware the funds were used inappropriately. Lipchitz states that he raised the misuse with MR, but neither the misuse nor the conversation was documented in the file or reported in the management internal control letter. His notes related to the Prepaid Trust Funds were not included in the audit file. (Doc 29)

Particular b) He failed to document evidence of communication with those charged with governance regarding the potential mismanagement of the Balance Sheet item "Assets Held in Trust (Note 11) 997,815";

112. CAS 265.10 requires auditors to communicate deficiencies to management or those charged with governance. (Tab 7)

113. Lipchitz was aware of the Principal's and PEFC's misuse of the Balance Sheet item "Assets held in Trust" and prepared a management letter at the end of the 2016 PEFC audit. (Doc 30) However, the inappropriate use of the "Assets held in Trust" was not disclosed as a deficiency in this letter. Given the significance of the issue, it should have been included in the letter. Lipchitz admits that he did not include the matter in the letter and recognizes it should have been communicated.

Particular c) He failed to document evidence of communication with those charged with governance regarding potential non-compliance with laws and regulations and consideration of the need to obtain legal advice;

114. CAS 250 outlines the obligations of the auditor when he becomes aware of a potential instance of non-compliance with laws and regulations:

If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

(a) An understanding of the nature of the act and the circumstances in which it has occurred; and

(b) Further information to evaluate the possible effect on the financial statements.

If the auditor suspects there may be non-compliance, the auditor shall discuss the matter, unless prohibited by law or regulation, with the appropriate level of management and, where appropriate, those charged with governance. If management or, as appropriate, those charged with governance, do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgment, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice. (CAS 250.19 and 20)

115. Contrary to the trust terms disclosed to investors regarding the "Assets Held in Trust", (Prepaid Trust Funds), PEFC did not isolate and reserve those funds to pay the first-year interest and fees of loans, but rather PEFC, at the direction of the Principals, used the Prepaid Trust Funds to pay PEFC's operating expenses.

116. Lipchitz admits that he did not report PEFC's use of the Prepaid Trust Funds and that there was no documentation in his audit working paper file regarding the inappropriate use of these funds.

117. Lipchitz asserts that he suggested to MR that he should obtain a legal opinion regarding the use of the Prepaid Trust Funds, but he did not pursue the issue when MR refused

to consult legal counsel. Lipchitz instead accepted MR's explanation for using the Prepaid Trust Funds for PEFC operating expenses, without further comment.

118. Lipchitz admits he did not obtain a sufficient understanding of the nature of the potential breach and did not perform sufficient procedures to assess whether this constituted non-compliance to laws and regulations. Given that MR did not provide sufficient information to support that PEFC was in compliance, Lipchitz should have considered the need to obtain legal advice.

119. Lipchitz admits that the 2016 PEFC audit file did not contain sufficient documentation with respect to his communications with MR or the other Principals regarding the use of the Prepaid Trust Funds and did not identify this event as a potential breach of laws and regulations.

Particular d) He failed to consider and document implications of the use of "Assets Held in Trust" on the reliability of the representations of those in charge of governance and on his risk assessment for the audit engagement;

120. CAS 250.22 requires that the auditor evaluate the implications of identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action.
(Tab 8)

121. Generally, if the auditor suspects non-compliance, the auditor will discuss the matter with management and those charged with governance. In this situation, contrary to intended trust terms, the Prepaid Trust Fund monies were not held in trust to pay the first-year interest and fees, but rather were used by PEFC for operating expenses.

122. Given that MR initiated the non-compliance, it was not sufficient for Lipchitz to only discuss the matter with management.

123. Having noted the issue of the misuse of "Assets Held in Trust", Lipchitz failed to appropriately consider and document the implications of the use of trust assets on his risk assessment and on the reliability of the representations obtained throughout the audit from MR.

Particular e) He failed to obtain sufficient appropriate audit evidence to support Balance Sheet item “Mortgage Payable - Aleria Capital (Note 8) 1,750,000” and failed to correctly disclose the title and description of the financial liability;

124. CAS 200.17 requires that “To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.” (Tab 6)
125. ASPE 3856.43 requires the auditor to disclose the title and description of a financial liability. (Tab 9)
126. BB's corporate entity, AC, made a \$1.75 million loan to PEFC (AC Loan). AC was funded by corporate entities of a third party, EM, who had an unsecured loan from PEFC for a related entity's the development project
127. The AC Loan is recorded on PEFC's Balance Sheet and notes to the financial statements as a mortgage payable (Doc 31), however it is not a mortgage because there is no real property collateral to the AC Loan. Lipchitz admits that this characterization was incorrect and should have been identified as a loan payable in accordance with ASPE 3856.43. (Tab 9)
128. The notes to PEFC's financial statements indicate that the loan agreement with AC was “officially finalized in June 2016”, which is after PEFC's year end; (Doc 32)
129. Lipchitz was aware that the AC Loan was connected to both the replenishment of the “Assets Held in Trust” as well as the Developer Loans, however, he failed to discuss the AC Loan with BB to gain appropriate clarity and understanding for the purpose of the audit.

130. Lipchitz admits that he failed to correctly identify the AC Loan in the 2016 financial statements of PEFC and failed to obtain audit evidence to support the AC Loan's purpose.

Particular f) He failed to communicate the circumstances surrounding the Balance Sheet item "Mortgage Payable - Aleria Capital (Note 8) 1,750,000" to those charged with governance;

131. CAS 260.16 requires that the auditor communicate with those charged with governance the auditor's views about significant qualitative aspects of the entity's accounting practices, significant matters arising from the audit that were discussed, or subject to correspondence with management; and other matters arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process. (Tab 10)

132. Note 8 to PEFC's financial statements states that the AC Loan was "officially finalized in June 2016", after PEFC's May 31 year end.

133. Lipchitz admits that the unsecured AC Loan to PEFC and the fact that it originated from a Principal's (BB's) company that, in turn, was funded, after PEFC's May 31 year end, by a corporate entity of a third party PEFC borrower (EM) contributed to his incorrect characterization of the AC Loan on PEFC's Balance Sheet and notes to the financial statements as a "Mortgage Payable - Aleria Capital" (Doc 31), despite a lack of security, rather than a loan payable in accordance with ASPE 3856.43. (Tab 9)

134. Lipchitz admits that the circumstances surrounding Balance Sheet item "Mortgage Payable - Aleria Capital" were a significant matter arising in the audit that he did not adequately communicate to those charged with governance and did not include as a matter in the management letter. (Doc 30)

Particular g) He failed to obtain sufficient appropriate audit evidence to evaluate and adequately document his understanding of the business rationale for and third-party use of the Balance Sheet item "Mortgages Payable - Aleria Capital (Note 8) 1,750,000";

135. CAS 240.33 specifies that an auditor shall design and perform audit procedures for significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and other information obtained during the audit. In those circumstances, the auditor must evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets. (Tab 5)

136. Given that the AC Loan, involved one of PEFC's Principals (BB), and a third party borrower EM, was established to replenish "Assets Held in Trust" funds that had been used for non-trust purposes, and was finalized after the end of the year, the AC Loan should properly be characterized as unusual and outside of the normal course of business.

137. Lipchitz was aware that PEFC had misused the "Assets Held in Trust" , and that the funds were replenished after the year end by the AC Loan. Although Lipchitz states that he raised the misuse with MR, he neither evaluated the business rationale for the transaction, nor documented his file regarding EM's knowledge of and participation in the use of the "Assets Held in Trust". Lipchitz admits that he failed to meet CAS 240.33 requirements.

Particular h) He failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item "Due to Related Parties (Note12) 581,722":

138. CAS 200.17 requires that "To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion." (Tab 6)

139. In Note 12 Lipchitz listed two new related parties and recorded a value increase of 530,766 in this Balance Sheet item.

140. The audit working paper file did not include any confirmations with the related parties, nor did the file include copies of any agreements. The terms and conditions of any of the “related party advances” were not adequately substantiated.

141. Insufficient audit evidence was gathered with respect to the Balance Sheet item “Due to Related Parties”. Lipchitz admits that he principally relied on management’s representations to support the value and ownership of this liability.

Particular i) He failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item “Due From Related Parties (Note 12) 4,420,628;

142. CAS 580.4 states that “Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management’s responsibilities, or about specific assertions.” (Tab 3)

143. Note 12 indicates that PEFC was owed an additional 2,235,378, over 2015, from six related corporations, two of which were new and two which purportedly no longer owed PEFC funds.

144. The audit working paper file did not include any confirmations with the related parties, nor did the file include copies of any agreements. The terms and conditions of any of the “related party advances” were not substantiated.

145. There was insufficient evidence in the file to support management’s assertion that either PEI or PEFC were the beneficial owner of the Calgary properties, which was the underlying asset supporting the “Due From Related Parties” amount.

146. Lipchitz failed to corroborate MR’s representations against other independent audit evidence. Given the misuse of the “Assets Held in Trust”, of which Lipchitz was aware and which he states he raised with MR, the reliability of MR’s representations regarding

the Calgary Properties were questionable and warranted further corroboration of his assertions.

147. Insufficient audit evidence was gathered with respect to the Balance Sheet item "Due From Related Parties". Lipchitz admits that he did not employ adequate professional skepticism and that he principally relied on management's representations and direction to support the value and ownership of this Balance Sheet item.

Particular j) He failed to adequately assess the risk of material misstatement due to fraud or error with respect to the completeness of Balance Sheet item "Development Project":

148. CAS 240.26 requires that "the auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures." (Tab 5)

149. Originally, the Calgary Properties were recorded in the 2014 audit of the financial statements of PEFC as Balance Sheet item "Construction in progress 2,451,186" .

150. The 2015 audit of the financial statements of PEFC recorded no value for "Construction in progress" while recording a new Balance Sheet item "Due from Related Parties 2,185,250" without explanation.

151. The 2016 audit of the financial statements of PEFC excluded reference to "Construction in progress" or the Calgary Properties. Lipchitz recorded the Calgary Properties on PEI's 2016 Balance Sheet as "Development Project 12,999,606".

152. As in 2015, there was no evidence in either file to support management's assertion that PEI was the beneficial owner of the Calgary Properties instead of PEFC. Absent that supporting evidence, Lipchitz did not demonstrate the required level of professional skepticism when auditing the Calgary properties. He should have recognized the possibility that a material misstatement due to fraud or error could exist with respect to the ownership of the Calgary Properties.

153. Lipchitz admits that he relied on management's representations of a 2015 transfer of ownership of the Calgary Properties from PEFC to PEI with respect to his exclusion of the 2016 PEFC Balance Sheet item "Construction in progress" and recording of 2016 PEI Balance Sheet item "Development Project" and did not corroborate those representations against sufficient and appropriate audit evidence, and in doing so failed to adequately assess the risk of material misstatement due to fraud or error.

Particular k) He failed to obtain sufficient appropriate audit evidence to support the completeness of the "Development Project" as a Balance Sheet item;

154. CAS 200.17 requires that "To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion." (Tab 6)

155. There was no evidence in the file to support management's assertion that either PEI or PEFC were the beneficial owner of the Calgary properties.

156. Insufficient audit evidence was gathered with respect to the Development Project. Lipchitz admits that he principally relied on management's representations to support the value and ownership of the Development Project.

157. Lipchitz admits that his failure to obtain sufficient and appropriate audit evidence to support the transfer of the Calgary Properties asset from PEFC to PEI required him to report the Calgary Properties as an asset in the 2016 PEFC financial statements, his failure to do so renders that PEFC 2016 Balance Sheet item incomplete.

Particular l) He failed to employ adequate professional skepticism in evaluating management's representations and property appraisals regarding the Development Project;

158. CAS 240.13 requires that "the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance." (Tab 5)

159. In CAS 240.A8, maintaining professional skepticism requires an ongoing questioning of whether the information and audit evidence obtained suggests that a material misstatement due to fraud may exist. It includes considering the reliability of the information to be used as audit evidence and the controls over its preparation and maintenance where relevant. Due to the characteristics of fraud, the auditor's professional skepticism is particularly important when considering the risks of material misstatement due to fraud. (Tab 5)
160. Although there was insufficient evidence in the file to support management's assertion that PEI or PEFC were the beneficial owner of the Calgary properties, based on management's assertions of ownership, Lipchitz recorded the 2016 value of the Balance Sheet item "Development Project" on PEI's financial statements as 12,999,606.
161. Other than a calculation that Lipchitz prepared in 2014 (Doc 12 and Doc 13), which was based on the appraisal that relied on a hypothetical assumption that the Calgary properties were 100% complete, which they were not, there was no evidence that Lipchitz audited the value.
162. Lipchitz failed to corroborate MR's representations against other independent audit evidence. Given Lipchitz's knowledge of PEFC's misuse of the Prepaid Trust Funds, the reliability of the representations from MR were questionable and warranted further corroboration of his assertions.
163. Lipchitz admits that he did not employ adequate professional skepticism and relied fully on MR's assertions in excluding the "Development Project" from the 2016 PEFC financial statements.

Particular m) He failed to prepare sufficient audit documentation to enable an experienced auditor to understand significant matters arising during the audit, the conclusions reached, and significant professional judgements made, in reaching audit conclusions.



164. 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. (Tab 4)

165. The audit documentation of the Calgary Properties transactions was minimal. For example, in 2014, at the inception of the project, Lipchitz provided an explanation of the purchase transactions but did not include supporting documentation. Similarly, in 2016, there was no documentation supporting the recording of the adjusting journal entry other than the journal entry itself.

166. Lipchitz admits that the documentation of the Calgary Properties transactions in his 2016 audit working papers was insufficient to enable an experienced auditor to understand the relevant transactions, which Lipchitz himself was unable to explain.

Allegation 8: Joel Lipchitz, in or about the period May 1, 2015 to November 20, 2015, while engaged to compile the financial statements for PEI, for the year ended May 31, 2015, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Rules, in that he failed to recognize that the Balance Sheet items "Development Project 10,467,606" and "Long Term Debt 10,938,065" could cause the financial statements to be false or misleading and failed to request additional or revised information to complete the financial statements, yet he issued the financial statements.

167. When the public accountant is aware that there are matters which the public accountant believes would cause the financial statements to be false or misleading, he or she should request additional or revised information in order to complete the statements. If management does not provide the information requested or does not agree with the statements, the public accountant should not release the statements and should withdraw from the engagement. [CPA Assurance Handbook Related Services, Section 9200. 20] (Tab 2)

168. In addition to not recording the Calgary Properties and debt in the correct entity, there were several associated errors and misrepresentations which could cause the statements to be false or misleading (Doc 18):

- a. In fiscal 2015, the loans from LM of approximately \$1.2 million were recorded on both PEFC and PEI;
- b. The OT liens on the Calgary Properties (i.e. debt related to investor funds) of approximately \$2 million were recorded on both PEFC and PEI in fiscals 2015; and
- c. The construction pool loans (i.e. Due to Investors) were recorded in both PEFC and PEI in 2015. The amount recorded in PEI's 2015 fiscal year end was the balance at May 1, 2015 (not May 31, 2015, the year-end date).

169. Lipchitz admits that the foregoing entries for PEI were incorrect and that the amounts should have been recorded in PEFC only, along with the assets reflecting the Calgary properties. Nonetheless, he issued the financial statements.

Allegation 9: Joel Lipchitz, in or about the period May 1, 2016 to December 20, 2016, while engaged to compile the financial statements for PEI, for the year ended May 31, 2016, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code, in that he failed to recognize that the Balance Sheet items "Development Project 12,999,606" and "Long Term Debt - 10,827,208" could cause the financial statements to be false or misleading and failed to request additional or revised information to complete the financial statements, yet he issued the financial statements.

170. The CPA Canada Assurance Handbook Related Services, Section 9200.20 requires that "when the public accountant is aware that there are matters which the public accountant believes would cause the financial statements to be false or misleading, he or she should request additional or revised information in order to complete the statements. If management does not provide the information requested or does not agree with the statements, the public accountant should not release the statements and should withdraw from the engagement." (Tab 2)

171. Lipchitz's working paper file for the PEFC 2016 year end sets out his limited understanding of the nature of the relationship between PEFC, PEI and the Calgary Properties (Doc 33):

PEI-per [M] -has agreement to develop the Calgary properties it is the beneficial owner. The Mortgages to investors were left in place and will be discharged on the sale of the properties. The properties are substantially complete and will be listed for sale. JL

172. Originally, the Calgary Properties were recorded in PEFC, in 2014. In 2015 and 2016, the Calgary Properties, which represented the largest asset for which PEFC investors lent funds, was included in the wrong company's financial statements. As at May 31, 2016, Lipchitz recorded PEI, rather than PEFC, with Balance Sheet items "Development Project 12,999,606" and related "Long Term Debt - 10,827,208".

173. Lipchitz recorded the 2016 value of the Calgary Properties on PEI's balance sheet at approximately \$13 million, although his rudimentary calculations concluded a value of \$7 million. The calculations were not included in the audit working paper file and were based on a "hypothetical assumption" that the property was 100% completed, when it was not.

174. Lipchitz made an adjusting entry to PEFC during the course of the 2016 PEFC audit that transferred third party debt of approximately \$3.1 million from PEFC to PEI, at the instruction of MR, even though PEFC was the mortgagor. The result to PEFC was that, after the adjustment, it held a receivable from PEI.

175. During the investigation Lipchitz was asked to review his file to determine what work was done to assess the value of the Calgary Properties. In response, he provided a calculation of value. The calculation was not in the working paper file and it did not include a complete appraisal. Lipchitz said he performed the calculation in October 2014 but there is no supporting documentation in the file detailing these calculations, and, no documented discussion related to the appraisal being based on a hypothetical assumption.

176. Lipchitz admits that he did not have complete copies of the appraisals prior to FC providing them to him in 2019. And Lipchitz confirms that, at the time of calculation, the Calgary Properties were not 100% complete which was the premise of the appraisal.

177. Lipchitz states that MR showed him projections which supported the recorded value but admits that he does not have copies of those projections.

178. Lipchitz admits he failed to corroborate MR's value representations of the Calgary Properties against other independent audit evidence and that the reliability of the representations from MR were questionable and warranted further corroboration of his assertions. When evaluating MR's responses, Lipchitz admits he did not employ adequate professional skepticism and relied fully on MR's assertions.

179. Lipchitz admits that he issued the compilation of the financial statements for PEI, for the year ended May 31, 2016, despite his failure to corroborate MR's representations against other independent evidence.

Allegation 10: Joel Lipchitz, in or about the period December 1, 2016 to December 20, 2016, while acting as the engagement partner for an audit of the opening balance sheet of SS Inc., as at December 14, 2016, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code, in that he failed to prepare any audit documentation and, as such, failed to demonstrate that he obtained sufficient appropriate audit evidence to support any of the findings of his unqualified auditor's report.

180. CAS 220.14 requires that "On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued."
(Tab 11)

181. CAS 220.24 requires the auditor to "include in the audit documentation:

- a. Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.

- b. Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions.
- c. Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.
- d. The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement.” (Tab 11)

182. 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. (Tab 4)

183. Lipchitz verbally resigned as PEFC’s auditor on October 31, 2016, citing significant threats to his independence (See para.18 above). Notwithstanding that resignation Lipchitz audited the opening balance sheet of SS Inc., an entity related to PEFC, as at December 14, 2016. (Doc 6)

184. In the course of the investigation, Lipchitz initially did not recall the SS Inc. audit of its opening balance sheet. He subsequently stated that SS Inc. was incorporated to be an “exempt market dealer” in response to OSC’s concern that PEFC required an exempt market dealer entity to sell units in the mortgage fund. An opening balance sheet was needed for the OSC registration process. Lipchitz performed the audit on the opening balance sheet and issued an auditor’s report for this purpose on December 20, 2016. (Doc 34)

185. Regarding the timing of the issuance of this report, specifically that it postdated his resignation as auditor, Lipchitz stated: “I made it clear to [MR] that I was not his auditor for [PEFC] or any of his other companies except for this favour. I would not be the auditor for SSI either”. (Doc 35)

186. Lipchitz did not have a working paper file to support this audit. He had limited documentation, such as select lead sheets, a subordination agreement, articles of incorporation, trial balance and adjusting entries, which do not constitute sufficient appropriate audit evidence to support his auditor's report.

187. Lipchitz admits that he did not meet the standards of practice with respect to audit documentation and acknowledges that the Investigators were unable to conclude that a proper audit was performed given that no working paper file was available. (Tab 4)

Allegation 11: Joel Lipchitz, in or about the period May 1, 2014 to May 31, 2016, while acting as the engagement partner for the audit of the financial statements of PEFC for the years ended May 31, 2014, 2015 and 2016 and for the audit of the opening balance sheet of SS Inc. as at December 14, 2016, accepted over \$96,000 in commissions or referral fees from PEFC, or a related entity, contrary to Rule 216 of the Rules and the Code.

188. Rule 216 of the Rules and the Code prohibits the acceptance of commission or referral fees by firms engaged in the provision of audit, assurance or other services that require a public accounting licence (PAL). In order to provide services to PAL clients, a firm must develop compensation procedures for services excluding receipt of commission or referral fees by the firm.

189. If a member or firm receives a commission or other compensation, such as a referral fee, from a third party in connection with the sale of investment products or services of an assurance client, the full amount of the payment is required to be paid back or credited to the client being referred.

190. Auditors are required to be independent in fact and appearance and are required to identify threats to independence arising from such circumstances, evaluate the significance of the threats and, if they are other than clearly insignificant, apply safeguards to reduce the threats to an acceptable level.

191. If a member or firm has a close business relationship with an entity an audit of that entity shall not be performed unless the close business relationship is limited to a financial interest that is immaterial and the relationship is clearly insignificant to the firm and either the entity or its management.

192. The table below summarized the total referral fees earned by an entity related to Lipchitz PC for the years ending May 31, 2014 to 2016. This table was calculated based on information provided by Lipchitz (Doc 7, 8 9).

Referral fees earned by Lipchitz and Lipchitz PC

Period	Amount
Year ending May 31, 2014	10,693
Year ending May 31, 2015	33,182
Year ending May 31, 2016	52,439
Total fees earned	\$ 96,314

193. In total, Lipchitz PC received \$96,314, from PEFC or a PEFC related entity, contrary to Rule 216.

194. Lipchitz admits that he received referral fees amounting to \$96,314 from PEFC and its related entities during the period when Lipchitz PC was auditor.

Acknowledgement

195. Lipchitz admits that, in or about the period of May 1, 2014 to May 31, 2016, in issuing four audited financial statements and two compilations of financial statements Lipchitz failed to conduct himself with integrity, due care and objectivity contrary to Rule 202 of the Rules and the Code.

196. Lipchitz admits that, in or about the period May 1, 2014 to December 20, 2016, while acting as the engagement partner for the audits of financial statements of PEFC for the years ended May 31, 2014, 2015 and 2016, and the audit for the opening balance sheet of SS Inc. as at December 14, 2016, Lipchitz failed to adequately evaluate and safeguard against threats to auditor independence arising from his referral of investors in PEFC for compensation, contrary to Rule 204.3 of the Rules and the Code.

197. Lipchitz admits that, in or about the period May 1, 2014 to December 20, 2016, while engaged to compile the financial statements for PEI, for the years ended May 31, 2015 and 2016, in preparing and issuing PEI's financial statements Lipchitz failed to disclose in his written communication accompanying the financial statements any activity, interest or relationship which, in respect of the engagement, that would be seen by a reasonable observer to impair his or his firm's independence in that he maintained a

business relationship with PEFC, PEI and related entities, while receiving referral fees or commissions, contrary to Rule 204.10 of the Rules and the Code.

198. Lipchitz admits that, while acting as the engagement partner with respect to the following audits of financial statements and compilations of financial statements:

- a. the audit of the financial statements of PEFC, for the year ended May 31, 2014;
- b. the audit of the financial statements of PEFC, for the year ended May 31, 2015;
- c. the audit of the financial statements of PEFC, for the year ended May 31, 2016;
- d. the compilation of the financial statements for PEI, for the year ended May 31, 2015;
- e. the compilation of the financial statements for PEI, for the year ended May 31, 2016, and
- f. the audit of the opening balance sheet of SS Inc., as at December 14, 2016.

Lipchitz failed to perform his 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 Rules and the Code.

199. Lipchitz admits that, while acting as the engagement partner for the audit of the financial statements of PEFC for the years ended May 31, 2014, 2015 and 2016 and the opening balance sheet of SS Inc. as at December 14, 2016, Lipchitz improperly accepted over \$96,000 in commissions or referral fees from PEFC, or a related entity, contrary to Rule 216 of the Rules and the Code.

Mitigating Factors

200. Lipchitz has been cooperative throughout the CPA Ontario investigation. It is not alleged in this proceeding that Lipchitz acted dishonestly in the conduct of the assurance engagements which are the subject of the Allegations, or during the PCC's investigation of same.

201. Lipchitz has not been the subject of any prior complaint, investigation or other proceedings before CPA Ontario or its predecessor bodies.

Terms of Settlement

202. Lipchitz and the PCC agree to the following Terms of Settlement:
- a. A payment by way of fine in the amount of \$75,000, payable to CPA Ontario by December 30, 2022;
 - b. A restriction of Lipchitz's practice prohibiting Lipchitz from carrying out any assurance engagements, effective the date this Agreement is approved by the Discipline Committee;
 - c. Notice of the terms of this Settlement is to be published, including notice to be given to all members of CPA Ontario, the Public Accounting Standards Committee, and all provincial CPA bodies. In particular, notice of the restriction on Lipchitz's practice resulting from this Settlement will be published in the *Globe and Mail* newspaper with the costs of publication to be borne by Lipchitz in addition to any other costs required by this Settlement, payable to CPA Ontario by December 30, 2022;
 - d. A payment by way of costs in the amount of \$30,000, payable to CPA Ontario by December 30, 2022; and
 - e. Any failure by Lipchitz to comply with any of the terms of settlement will result in his suspension from membership in CPA Ontario which suspension will continue until he complies provided that if his suspension under this section exceeds 30 days, his membership in CPA Ontario will be revoked forthwith.
203. The PCC and Lipchitz expressly consent to and authorize the Registrar to take any actions associated with Lipchitz's membership in CPA Ontario as prescribed and agreed to herein.
204. The PCC and Lipchitz expressly consent to and authorize 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.

205. Should the Discipline Committee accept this Agreement, Lipchitz agrees to waive his right to a full hearing, judicial review or appeal of the matter subject to the Agreement. Upon Lipchitz fulfilling the requirements of this Agreement, the Allegations, shall be permanently stayed.

206. 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 Lipchitz leading up to its presentation to the Discipline Committee, shall be without prejudice to the PCC and Lipchitz; and
- b. The PCC and Lipchitz 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

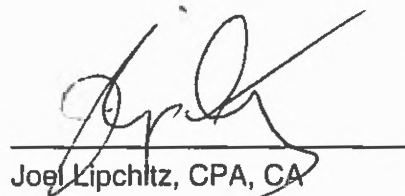
207. This Agreement and its terms will be treated as confidential by the PCC and Lipchitz, until approved by the Discipline Committee, and forever if for any reason whatsoever this Agreement is not approved by the Discipline Committee, except with the written consent of the PCC and Lipchitz, or, as may be required by law.

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

209. All of which is agreed to for the purpose of this proceeding alone this 25th day of February 2022.



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



Joel Lipchitz, CPA, CA

Schedule "A"



CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

TO: Joel Lipchitz, CPA, CA

AND TO: The Discipline Committee of CPA Ontario

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

1. THAT the said Joel Lipchitz, in or about the period of May 1, 2014 to December 20, 2016, while providing accounting services to PEFC and PEI, two related entities with shared management, failed to conduct himself with integrity, due care and objectivity, contrary to Rule 202 of the CPA Ontario Rules of Professional Conduct (Rules) and CPA Ontario Code of Professional Conduct (Code) in that:
 - a. While acting as the engagement partner for the audits of the financial statements of PEFC, for the years ended May 31, 2014, 2015 and 2016, he failed to exercise an appropriate level of professional skepticism regarding management's representations of value, ownership and financial statement presentation of the Balance Sheet items: "Construction in progress (2014) 2,451,186 and (2015) NIL"; "Due from related parties (2015) 2,185,250 and (2016) 4,420,628"; "Long term debt (2015) 4,811,819 and (2016) NIL"; and, "Assets Held in Trust (2014) 561,389 (2015) 654,704, and (2016) 997,815; and
 - b. While acting as the engagement partner for the compilations of the financial statements of PEI, for the years ended May 31, 2015 and 2016, he failed to exercise an appropriate level of professional skepticism regarding management's presentations of value, ownership and financial statement presentation of the Balance Sheet items: "Development Project (2015) 10,467,606 and (2016) 12,999,606" and, "Long term debt (2014) 10,827,208, and (2015) 10,938,065".
2. THAT the said Joel Lipchitz, in or about the period May 1, 2014 to December 20, 2016, while acting as the engagement partner for the audits of financial statements of PEFC for the years ended May 31, 2014, 2015 and 2016, failed to adequately evaluate and safeguard against threats to auditor independence arising from his referral of investors in



PEFC for compensation, contrary to Rule 204.3 of the Rules and the Code.

3. THAT the said Joel Lipchitz, in or about the period May 1, 2014 to December 20, 2016, while acting as the engagement partner for the audit the opening balance sheet of SS Inc. as at December 14, 2016, failed to adequately evaluate and safeguard against threats to auditor independence arising from his referral of investors in PEFC, a related entity, for compensation, contrary to Rule 204.3 of the Rules and the Code.
4. THAT the said Joel Lipchitz, in or about the period May 1, 2014 to December 20, 2016, while engaged to compile the financial statements for PEI, for the years ended May 31, 2015 and 2016, failed to carry out his professional services in accordance with Rule 204.10 of the Rules and Code, in that during the period he prepared and issued PEI's financial statements, he failed to disclose in his written communication accompanying the financial statements any activity, interest or relationship which, in respect of the engagement, would be seen by a reasonable observer to impair his or his firm's independence in that he maintained a business relationship with PEFC, a related entity to PEI, through which he received referral fees or commissions.
5. THAT the said Joel Lipchitz, in or about the period May 1, 2014 to September 30, 2014, while acting as the engagement partner for the audit of the financial statements of PEFC for the year ended May 31, 2014, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Rules, in that:
 - a. He failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item "Construction in progress 2,451,186"; and
 - b. He failed to prepare sufficient audit documentation to enable an experienced auditor to understand significant matters arising during the audit, the conclusions reached, and significant professional judgements made in reaching audit conclusions.
6. THAT the said Joel Lipchitz, in or about the period May 1, 2015 to August 25, 2015, while acting as the engagement partner for the audit of the financial statements of PEFC for the year ended May 31, 2015, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Rules, in that:
 - a. He failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item "Due from Related Parties (Note 8) 2,185,250";



- b. He failed to adequately assess the risk of material misstatement due to fraud or error associated with excluding the item "Development Project" from the Balance Sheet;
 - c. He failed to obtain sufficient appropriate audit evidence to support the completeness of the Balance Sheet item "Development Project";
 - d. He failed to employ adequate professional skepticism in evaluating management's representations and property appraisals for the Balance Sheet item "Development Project";
 - e. He failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item "Long Term Debt 4,811,819"; and
 - f. He failed to prepare sufficient audit documentation to enable an experienced auditor to understand significant matters arising during the audit, the conclusions reached, and significant professional judgements made in reaching audit conclusions.
7. THAT the said Joel Lipchitz, in or about the period May 1, 2016 to August 30, 2016, while acting as the engagement partner for the audit of the financial statements of PEFC for the year ended May 31, 2016, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Rules, in that:
 - a. He failed to obtain sufficient appropriate audit evidence and adequately document the audit testing to support the Balance Sheet item "Assets Held in Trust (Note 11) 997,815";
 - b. He failed to document evidence of communication with those charged with governance regarding the potential mismanagement of the Balance Sheet item "Assets Held in Trust (Note 11) 997,815";
 - c. He failed to document evidence of communication with those charged with governance regarding potential non-compliance with laws and regulations and consideration of the need to obtain legal advice;
 - d. He failed to consider and document implications of the use of "Assets Held in Trust" on the reliability of the representations of those in charge of governance and on his risk assessment for the audit engagement;



- e. He failed to obtain sufficient appropriate audit evidence to support Balance Sheet item "Mortgage Payable - Aleria Capital (Note 8) 1,750,000" and failed to correctly disclose the title and description of the financial liability;
 - f. He failed to communicate the circumstances surrounding the Balance Sheet item "Mortgage Payable - Aleria Capital (Note 8) 1,750,000" to those charged with governance;
 - g. He failed to obtain sufficient appropriate audit evidence to evaluate and adequately document his understanding of the business rationale for and third-party use of the Balance Sheet item "Mortgages Payable - Aleria Capital (Note 8) 1,750,000";
 - h. He failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item "Due to Related Parties (Note 12) 581,722";
 - i. He failed to obtain sufficient appropriate audit evidence to support the Balance Sheet item "Due From Related Parties (Note 12) 4,420,628";
 - j. He failed to adequately assess the risk of material misstatement due to fraud or error with respect to the completeness of Balance Sheet item "Development Project";
 - k. He failed to obtain sufficient appropriate audit evidence to support the completeness of the Development Project as a Balance Sheet item;
 - l. He failed to employ adequate professional skepticism in evaluating management's representations and property appraisals regarding the Development Project; and
 - m. He failed to prepare sufficient audit documentation to enable an experienced auditor to understand significant matters arising during the audit, the conclusions reached, and significant professional judgements made, in reaching audit conclusions.
8. THAT the said Joel Lipchitz, in or about the period May 1, 2015 to November 20, 2015, while engaged to compile the financial statements for PEI, for the year ended May 31, 2015, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Rules, in that he failed to recognize that the Balance Sheet items "Development Project 10,467,606" and "Long Term Debt 10,938,065" could cause the financial statements to be false or misleading and failed to request additional or revised information to complete the financial statements, yet he issued the financial statements.



9. THAT the said Joel Lipchitz, in or about the period May 1, 2016 to December 20, 2016, while engaged to compile the financial statements for PEI, for the year ended May 31, 2016, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code, in that he failed to recognize that the Balance Sheet items "Development Project 12,999,606" and "Long Term Debt - 10,827,208" could cause the financial statements to be false or misleading and failed to request additional or revised information to complete the financial statements, yet he issued the financial statements.

10. THAT the said Joel Lipchitz, in or about the period December 1, 2016 to December 20, 2016, while acting as the engagement partner for an audit of the opening balance sheet of SS Inc., as at December 14, 2016, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code, in that he failed to prepare any audit documentation and, as such, failed to demonstrate that he obtained sufficient appropriate audit evidence to support any of the findings of his unqualified auditor's report.

11. THAT the said Joel Lipchitz, in or about the period May 1, 2014 to May 31, 2016, while acting as the engagement partner for the audit of the financial statements of PEFC for the years ended May 31, 2014, 2015 and 2016 and to audit the opening balance sheet of PEI as at December 14, 2016, accepted over \$96,000 in commissions or referral fees from PEFC, or a related entity, contrary to Rule 216 of the Rules and the Code.

Dated at Toronto, Ontario this 21 day of October 2021.

A handwritten signature in black ink that reads "Ken McKay". The signature is written in a cursive, slightly slanted style.

K. A. McKay, CPA, CA, DEPUTY CHAIR
PROFESSIONAL CONDUCT COMMITTEE