

CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

THE CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

IN THE MATTER OF: ALLEGATIONS OF PROFESSIONAL
MISCONDUCT AGAINST JOHN G. FROUIN, 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
CPA Regulation 7-1, s.22.4*

Introduction

1. The Professional Conduct Committee approved draft Allegations against John G. Frouin, CPA, CA ("Frouin") (**Doc 1**).
2. The draft Allegations pertain to professional work performed by Frouin with respect to:
 - a) the audit of the financial statements of "CIPP" for the years ended June 30, 2009 through to June 30, 2014 (**Docs 2 to 7**);
 - b) the audit of the financial statements of "NACC" for the year ended December 31, 2015 (**Doc 8**); and
 - c) the audit of the financial statements of "CHRI" for the year ended August 31, 2016 (**Doc 9**).

3. The documents referred to in this agreement are found in the **Document Brief** ("**Doc**"). The applicable *CICA Handbook* and *CPA Canada Handbook* sections are found in the **Brief of Authorities** ("**Tab**").
4. The Professional Conduct Committee ("PCC") and Frouin agree with the facts and conclusions set out in this settlement agreement for the purpose of this proceeding only, and further agree that this agreement of facts and conclusions is without prejudice to Frouin in any other proceedings of any kind, including, but without limiting the generality of the foregoing, any civil or other proceedings which may be brought by any other person, corporation, regulatory body or agency.

Background of the Member

5. Frouin obtained his CA designation in 1983 and has held a Public Accounting License since June 1986. Frouin articulated with Wilkinson & Company LLP and from 1983 to 1985, he was employed by Ginsburg Gluzman Fage & Levitz, LLP. From 1985 to 1996, Frouin was a partner in the firm of Connelly, Koshy & Frouin. From 1996 to 2001, Frouin practiced as sole practitioner and then from 2001 to 2003, he practiced with a partner under the name Frouin Group. Between 2003 and 2016, Frouin practiced as a sole practitioner, still under the name Frouin Group.
6. Frouin Group employs six CPA's, two students, two co-op students, one technician and one administrative person.
7. In fiscal 2016, Frouin Group performed approximately 90 audits, 20 review engagements, 390 compilation engagements and approximately 700 personal tax returns. Frouin Group also did bookkeeping for 4 clients.
8. On September 1, 2016, a long-time employee became Frouin's partner and became responsible for all audits. Frouin no longer has any responsibilities for audit engagements.

Background of the Complaint

9. Frouin came to the attention of the PCC as a result of a complaint made by his former client, CIPP (**Doc 10**), a not for profit organization, in connection with the audited financial statements prepared by the Frouin Group for the years ending June 30, 2009 through to June 30, 2014. CIPP was an audit engagement and Frouin was the partner responsible.

10. Frouin's response to the complaint from CIPP is reproduced at **Doc 11**.

11. Mr. C. Dirk Joustra, CPA, CA was appointed to investigate CIPP's complaint and to review Frouin's overall standards of practice on the CIPP engagement as well as two additional assurance working paper files. Mr. Joustra reviewed CIPP's financial statements for the years ended June 30, 2009 to June 30, 2014; the financial statements of NACC for the year ended December 31, 2015; and the financial statements of CHRI for the year ended August 31, 2016.

12. NACC was an audit engagement and Frouin was the partner responsible. NACC is a corporation without share capital and is a not-for-profit organization. NACC is a trade association founded by Canada's largest commercial airlines to ensure safe, sustainable and competitive air travel for Canadian Consumers. The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations.

13. CHRI was an audit engagement and Frouin was the partner responsible. The company is a not-for-profit organization that operates a radio station in Ottawa. The company is a registered charitable organization and receives donations from the public. The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Communications - Allegations 2(a), 3(a), 4(a), 5(a) and 6(a)

CIPP

14. The CPA Canada Handbook – Assurance, in Canadian Auditing Standards (“CAS”) 260 (“CAS 260”), sets out the requirements regarding communications with those charged with governance, meaning those persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. CAS 260 was effective for periods ending on or after December 14, 2010 and was in effect for CIPP’s June 30, 2011 and subsequent year ends (**Tab 1**).

15. Prior to CAS 260, effective date periods ending after December 14, 2010, the requirements regarding communications with those having oversight responsibility were set out in the CICA Handbook Assurance - Section 5751 (**Tab 2**). This section was in effect for the fiscal years ended June 30, 2009 and 2010.

16. For the year ended June 30, 2010, Frouin failed to issue the audit planning letter as required by CICA Handbook - Assurance sections 5751.10, 5751.15 and 5751.17.

17. For the years ended June 30, 2011 through June 30, 2013, no communications were issued as required by CAS 260, paragraphs 14 to 17. In particular, in each of these years, Frouin failed to issue an independence confirmation letter as well as an audit planning letter.

18. For the June 30, 2014 year end, the audit findings letter issued to CIPP after the completion of the audit did not address the requirement to communicate an overview of the planned scope and timing of the audit as required by CAS 260 (**Doc 12**).

Cash Flows - Allegations 1(a), 2(b), 3(b) and 4(b)

CIPP

19. CPA Canada Handbook - Accounting - Part II - Accounting Standards for Private Enterprises, section 1540 deals with cash flows. Section 1540.03 requires that a

cash flow statement be presented "as an integral part of the financial statements for each period for which financial statements are presented." This section applies to CIPP's June 30, 2012 year end. **(Tab 3)**

20. Prior to section 1540 in the CPA Canada Handbook - Accounting, the CICA Handbook Accounting contained section 1540 dealing with cash flows. Section 1540.03 required the presentation of a cash flow statement, except in certain circumstances, and stated that when a cash flow statement was not presented, the reason should be disclosed. This section applies to CIPP's June 30, 2009 through 2011 year ends. **(Tab 4)**

21. The financial statements for the years ended June 30, 2009 through June 30, 2011 did not contain a cash flow statement nor disclosure of the reason for not presenting one as required by CICA Handbook - Accounting section 1540.03. The financial statement for the year ended June 30, 2012 also did not contain a cash flow statement as required by CPA Canada Handbook - Accounting - Part II - section 1540.03.

Golf Tournament Bank Account - Allegations 1(b), 2(c), 3(c), 4(c), 4(d), 5(b), 5(c), 6(b) and 6(c)

CIPP

22. CIPP held a bank account for their charity golf tournaments at Royal Bank of Canada ("RBC") and subsequently at Scotiabank (the "Golf Account").

23. Following are the balances in the Golf Account between the 2009 and 2014 year ends:

Year	Bank Account	Relevant Doc(s)	Balance as at June 30 year end	Document No(s)
2009	RBC	Bank confirmation	\$5,526.20	Doc 13
2010	RBC	Bank confirmation	\$23,480.68	Doc 14
2011	RBC	Bank confirmation	\$39,370.28	Doc 15
2012	RBC	Bank statement and Caseware schedule - Cash	\$2,591.71	Docs 16 and 17
2013	Scotiabank	Account statement and Caseware schedule - Cash	\$30,490.48	Docs 18 and 19
2014	Scotiabank	Account statement and Caseware schedules – Cash and Held in Trust	\$33,387.76	Docs 20, 21 and 22

24. For the 2009 and 2010 year ends, even though the Golf Account appeared on the bank confirmations, no audit work was done on the Golf Account and it was not referred to in CIPP's records or the financial statements (**Docs 13 and 14**).

25. For the year ended June 30, 2011, no audit work was done on the Golf Account other than to confirm the year-end balance and to disclose the Golf Account in a note to the financial statements. In particular, Note 9 of the financial statements states that the funds are held separate from the operating accounts and records of the CIPP (**Docs 4 and 15**).

26. For the years ended June 30, 2012 through June 30, 2014, no audit work was done on the Golf Account other than to confirm the year-end balance and record the balance in the account as cash and a trust liability (**Docs 16 to 22**).

27. CPA Canada Handbook - Accounting Part II - Section 1510, paragraph .07 states that cash subject to restrictions that prevent its current use shall be excluded from current assets (**Tab 6**). Given that the cash in the Golf Account was not available for

the general purposes of CIPP, it was subject to restrictions that prevented its current use and therefore should have been shown as a long-term asset, rather than be recorded as cash.

Payroll Testing - Allegations 1(c), 2(d), 3(d), 4(e), 5(d) and 6(d)

CIPP

28. For the years ended June 30, 2009 through June 30, 2011, the file contained documents titled "Internal control evaluation questionnaire - Payroll" and "Audit program - payroll". In addition, the working paper file contained a description of the payroll system, a schedule regarding payroll testing and a reconciliation to the prior year's T4 Summary (see **Docs 23 to 25** relating to the 2009 year end).

29. For the years ended June 30, 2012 through June 30, 2014, the payroll system was described in Appendix 6 of Canadian Professional Engagement Manual ("CPEM") form 530 (**Doc 26**). The audit procedures for payroll and other expenses were detailed on CPEM form 730 (**Doc 27**). CPEM form 730 states: "Develop and document expectations for payroll" and "Investigate significant changes in the payroll compared with prior period(s)". In addition, the payroll testing was described on a schedule titled "Payroll System" (**Doc 28**).

30. The procedures for each year end between 2009 and 2014 consisted solely of performing a reconciliation to the T4 summary of the prior calendar year. The procedures did not include examining personnel files or confirming rate of pay and there is no evidence that this was done. There was also no evidence that Frouin confirmed or examined the Treasurer's approval of the payroll. Further, there was no documentation in any of the working paper files to evidence development and documentation of expectations for payroll.

31. As a result of insufficient payroll testing, a 22% increase in payroll expenses in the year ended June 30, 2011 was not investigated, nor was the 10% decrease in payroll expenses the year ended June 30, 2012 (**Docs 29 to 32**).

Approval of Financial Statements - Allegations 1(d), 2(e), 3(e), 4(g), 5(f), 6(f) and 7(b)

CIPP and NACC

32. CPA Canada Handbook – Assurance, CAS 700, paragraph 41 requires those with the recognized authority to have asserted that they have taken responsibility for the financial statements. **(Tab 5)**

33. The working paper files for CIPP for years ended June 30, 2009 through June 30, 2014 and the working paper files for NACC for the year ended December 31, 2015 did not include approval by those with the recognized authority having asserted that they have taken responsibility for the financial statements as required by CPA Canada Handbook - Assurance CAS 700.

Review of Working Paper Files – Allegations 1(e), 2(f), 3(f), 4(h), 5(g), 6(g), 7(c) and 8(b)

CIPP, NACC and CHRI

34. For the years ending June 30, 2009 through June 30, 2011, there was no evidence in the working paper files of CIPP that a review was done by Frouin as engagement partner.

35. The only indication of a review by Frouin a) in the working paper files of CIPP for the years ended June 30, 2012 through June 30, 2014; b) in the working paper files of NACC for the year ended December 3, 2015; and c) in the working paper files of CHRI for the year ended August 31, 2016, was Frouin's sign off on the audit completion checklist **(Doc 33)**.

Planning the Audit - Allegations 4(f), 5(e), 6(e), 7(a) and 8(a)

CIPP, NACC and CHRI

36. The CPA Canada Handbook - Assurance in CAS 300 deals with planning an audit of financial statements. Paragraph 5 requires that the engagement partner and other key members of the engagement team be involved in planning the audit, including planning and participating in the discussion among engagement team members.

(Tab 7)

37. Each of the working paper files of a) CIPP for the years ended June 30, 2012 through June 30, 2014; b) NACC for the year ended December 31, 2015; and c) CHRI for the year ended August 31, 2016, contained a document titled "Team Planning Discussion". This document did not indicate when the planning discussion took place, who was involved in the discussion or who prepared the document, as required by CAS 300 (**Docs 34 to 36**).

Acknowledgement

38. It is agreed that, with respect to the audit of the financial statements of CIPP for the years ended June 30, 2009 to June 30, 2014, Frouin failed to perform his professional services in accordance with generally accepted standards of practice of the profession, including the recommendations set out in the *CICA Handbook* and *CPA Canada Handbook*, in the manner described above.

39. It is agreed that, with respect to the audit of the financial statements of NACC for the year ended December 31, 2015, Frouin 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.

40. It is agreed that, with respect to the audit of the financial statements of CHRI for the year ended August 31, 2016, Frouin 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.

Terms of Settlement

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

- a) Frouin will be reprimanded in writing by the Chair of the Discipline Committee;
- b) Frouin will pay a fine in the amount of \$5,000 within 12 months of this agreement receiving approval of the Discipline Committee;
- c) Frouin's practice shall be restricted to non-assurance engagements, restricting him from performing any audit or review engagements;
- d) Notice of the terms of this Settlement is to be published in accordance with the provisions of CPA Ontario Regulation 7-3, section 22, including notice to be given to all members of CPA Ontario, the Public Accountant's Council and all provincial bodies. Notice of the restriction shall also be given in accordance with CPA Ontario Regulation 7-3, section 23 in the newspaper in the geographic area where Frouin practices, being Ottawa, Ontario (i.e. in the *Ottawa Citizen* newspaper). All costs associated with the publication shall be borne by Frouin and shall be in addition to any other costs ordered by the Discipline Committee;
- e) Frouin will pay costs in the amount of \$11,000 within 12 months of this agreement receiving approval of the Discipline Committee; and
- f) A failure by Frouin to comply with any of the terms of settlement will result in his suspension from membership in CPA Ontario which suspension will continue until he complies PROVIDED THAT if his suspension under this

section continues for 30 days his membership in CPA Ontario will be revoked with full publicity in accordance with Regulation 7-3, section 23.

42. Should the Discipline Committee accept this Settlement Agreement, Frouin agrees to waive his right to a full hearing, judicial review or appeal of the matter subject to the Settlement Agreement. Upon the member fulfilling the requirements of this Settlement Agreement, the draft allegations approved by the Professional Conduct Committee and dated April, 2017, shall be forever stayed.

43. If for any reason this Settlement Agreement is not approved by the Discipline Committee, then:

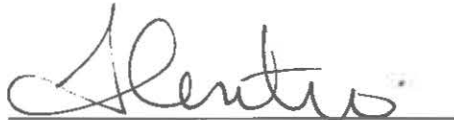
- a) This Settlement Agreement and its terms, including all Settlement negotiations between the Professional Conduct Committee and Frouin leading up to its presentation to the Discipline Committee, shall be without prejudice to the Professional Conduct Committee and Frouin; and
- b) The Professional Conduct Committee and Frouin shall be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing on the merits of the allegations, or negotiating a new Settlement Agreement, unaffected by this Settlement Agreement or the Settlement negotiations.

Disclosure of Settlement Agreement

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

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

All of which is agreed to for the purpose of this proceeding alone, this 17th day of August, 2017.



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



JOHN G. FROUIN, CPA, CA,
on his own behalf