

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

DISCIPLINE COMMITTEE

IN THE MATTER OF: A proposed Settlement Agreement between the Professional Conduct Committee of the Chartered Professional Accountants of Ontario and **MICHAEL L.A. LOPEZ, CPA, CA.**

TO: Mr. Michael L.A. Lopez CPA, CA

AND TO: The Professional Conduct Committee

DECISION MADE JANUARY 28, 2020

DECISION

After considering the submissions of the parties and the proposed Settlement Agreement itself, the Panel hereby approves the Settlement Agreement, dated December 12, 2019.

DATED at Toronto, this 28th day of January, 2020.



Stephen Dineley, FCPA, FCA
Discipline Committee – Deputy Chair



CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

THE CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

IN THE MATTER OF: DRAFT ALLEGATIONS OF PROFESSIONAL MISCONDUCT
AGAINST MICHAEL L. A. LOPEZ, CPA, CA, A MEMBER OF
CPA ONTARIO, BEFORE THE DISCIPLINE COMMITTEE

SETTLEMENT AGREEMENT

**Made pursuant to Section 34 (3) (c) of the Chartered
Professional Accountants of Ontario Act, 2017 and to CPAO
Regulation 6-2, s.19**

Introduction

1. The Professional Conduct Committee (“PCC”) has approved draft Allegations against Michael L. A. Lopez, CPA, CA (“Lopez”) the particulars of which are set out below. The documents referred to in this settlement agreement are found in the Document Brief (“DOC”). The applicable CPA Handbook sections are found in the Standards Brief (“Standards”).
2. The draft Allegations pertain to the failure of Lopez to perform professional work in accordance with generally accepted standards of the profession, contrary to Rule 206.1 of the Chartered Professional Accountants Code of Professional Conduct, with respect to the following engagements:
 - a) the audit of the financial statements of “Condominium Corporation 991” for the year ended March 31, 2018, (DOC 001-010);
 - b) the audit of the financial statements of “Condominium Corporation 922” for the year ended December 31, 2016, (DOC 030-040);
 - c) the audit of the financial statements of “Condominium Corporation 679” for the year ended June 30, 2018, (DOC 061-070); and
 - d) the audit of the financial statements of “Condominium Corporation 716” for the year ended September 30, 2018, (DOC 084-094).

3. The PCC and Lopez 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 Lopez in any other proceedings of any kind, including, but without limiting the generality of the foregoing, any civil or other proceedings which may be brought by any other person, corporation, regulatory body or agency.

Background

4. Lopez obtained his Chartered Accountant designation in 1978 and practiced initially with a medium sized public accounting firm and then a smaller firm up until 1985.
5. He worked in the public sector from 1985 to 1992 and then did *per diem* work until 2002 with a brief one-year period of employment with CRA in 1998. Since 2002 he has been in public practice and has a Public Accounting Licence. Currently he is a sole practitioner and has been since 2014. His annual fees are approximately \$100,000 with condominium audits accounting for about one half of those fees. The rest of his fees come from compilation and tax work.

The Complaint

6. Lopez's recent history with practice inspection resulted in the following:
 - a. 2015: Inspection deferred to 2016;
 - b. 2016: Re-inspection
 - c. 2018: Re-inspection and referral to PCC
7. The files inspected during the 2018 Reinspection included two condominium corporations that are the subject of draft allegations:
 - a) CC 991 for the year ended March 31, 2018; and
 - b) CC 922 for the year ended December 31, 2016.
8. On March 26, 2019, the PCC appointed Paul Gibel, FCPA, FCA, (the "Investigator") to investigate the member's standards of practice.

Failure to Maintain Professional Standards - Overview

9. References in this agreement to “Sections” are references to the Sections of the CPA Canada Handbook – Accounting or the CPA Canada Handbook – Assurance. References to “CAS” are to the Canadian Audit Standards of the CPA Canada Handbook – Assurance for the applicable year.
10. The deficiencies found in each of the audits that are the subject of draft allegations are very similar. Lopez follows the same audit approach for all of his condominium audits. He does not complete most of the checklists that are in his Caseware files and admits that his documentation is weak.
11. With respect to each file, it is generally not possible to determine which invoices Lopez vouched or what specific work was performed as the procedures listed on the lead sheets tend to be basic year end procedures. There was insufficient evidence in the working paper file, including supporting documents, to allow an experienced auditor, having no previous connection with the audit to understand:
 - the nature, timing and extent of the audit procedures performed to comply with the CASs and applicable legal and regulatory requirements;
 - the result of the audit procedures performed and the audit evidence obtained;
 - significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions as required by CAS 230.8 (Standards Tab 4).
12. Lopez and the PCC agree that Lopez failed to perform his professional services in accordance with generally accepted standards of practice of the profession as set out in the particulars to the Allegations and as described below. It is further agreed that the relevant standards are those identified in this agreed statement of facts.

Allegation 1 – Michael Lopez, in or about the period March 1, 2018 through August 1, 2018, while engaged to audit the financial statements of “Condominium Corporation 991” for the year ended March 31, 2018,

failed to perform professional services in accordance with generally accepted standards of practice of the profession contrary to Rule 206.1 of the CPA Code of Professional Conduct

13. The financial statements for CC 991 for the year ended March 31, 2018 (DOC 001-010), together with the Audit Opinion, were signed by Lopez and issued on July 31, 2018 (DOC 003).

Particular a) – He failed to adequately determine performance materiality for the purpose of addressing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

14. There was no documentation of performance materiality. Lopez failed to adequately determine performance materiality for the purpose of addressing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.
15. CAS 320.11 (Standards TAB 8) states the auditor shall determine performance materiality for purposes of addressing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. Lopez did not calculate performance materiality.

Particular b) - He failed to identify and assess the risks of material misstatement through gaining an understanding the entity and its environment.

16. CAS 315 (Standards TAB 7) provides that the auditor shall obtain an understanding of the nature of the entity (paragraph 11), internal control (paragraph 12), the control environment (paragraph 14), the information system, including the related business processes relevant to financial reporting and financial reporting processes (paragraph 18), the control activities relevant to the audit (paragraph 20) and the entity's response to risks arising from information technology (IT) (paragraph 21).
17. CAS 315.32 (Standards TAB 7) requires the auditor to include in the audit documentation: the discussion among the engagement team where required by paragraph 10, and

significant decisions reached; key elements of the understanding obtained regarding each of the internal control components specified in paragraphs 14 to 24, the sources of information from which the understanding was obtained and the risk assessment procedures performed; the identified and assessed risks of material misstatement at the financial statement level and at the assertion level as required by paragraph 25; and the risks identified and related controls about which the auditor has obtained an understanding, as a result of the requirements of paragraphs 27-30. None of this documentation was in the working paper file and Lopez failed to meet the requirements of CAS 315.32.

Particular c) - He failed to adequately document enquiries of management with respect to related party transactions.

18. Lopez did not make enquiries of management with respect to identifying related parties, the nature of the relationships, and the type and purpose of any related party transactions during the period as required by CAS 550.13 (Standards TAB 11) and the related controls over these transactions as required by CAS 550.14.

Particular d) - He failed to adequately perform and/or document analytical procedures as part of the risk assessment process.

19. Analytical procedures were not performed as part of the risk assessment procedures. The auditor is required to perform analytical procedures at the beginning of the audit to assist with identifying the risks of material misstatement through understanding the entity and its environment in accordance with CAS 315.6 (b) (Standard TAB 7), during the audit for any relationships that may indicate fraud risks as required by CAS 240.23 (Standards TAB 5) and near the end of the audit to assist in forming the overall conclusion in accordance with CAS 520.6 (Standards TAB 10).

Particular e) - He failed to make adequate enquiries of management regarding their assessment that the financial statements may be materially misstated due to fraud and the processes they undertook for identifying and responding to the risk of fraud and failed to document his assessment of fraud and fraud risk factors.

20. CAS 240 (Standards TAB 5) specifies the Auditor's Responsibilities Relating to Fraud. CAS 240.18 and 19 state that the auditor shall make enquiries of management regarding management's assessment that the financial statements may be materially misstated due to fraud, their process for identifying and responding to the risks of fraud, management's communication to those charged with governance regarding this and management's communication to employees.
21. The auditor shall also make enquiries of management and others within the entity to determine if they have any knowledge of any actual, suspected or alleged fraud affecting the entity.
22. CAS 240.21 and 22 require discussions as to how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. Documentation of these inquiries and discussions is required by CAS 240.47.
23. While there are representations included in the representation letter with respect to fraud (DOC 013-014), not all of the enquiries and discussions required by CAS 240 have been completed and the documentation standard has not been met.
24. There is evidence in the working paper file that fraud risk factors were considered in assessing the risks of material misstatement as required by CAS 240.17, 24 and 25.

Particular f) - He failed to document the identified and assessed risks of material misstatement at the financial statement level and the assertion level for classes of transactions, account balances and disclosures to provide a basis for designing and performing further audit procedures.

25. CAS 315.25 (Standards TAB 7) requires the auditor to identify and assess the risks of misstatement at the financial statement level and the assertion level for classes of transactions, account balances and disclosures to provide a basis for designing and performing further audit procedures. CAS 240.26 (Standards TAB 5) provides that "...in accordance with CAS 315, the auditor shall identify and assess the risks of material

misstatement at the financial statement level and the assertion level for classes of transactions, account balances and disclosures.” There is no evidence of this having been done in the working paper files.

Particular g) - He failed to document the reasons for his conclusion that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable

26. CAS 240.27 (Standards TAB 5) states that the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. Lopez has not addressed the presumed risk of fraud in revenue or the reasons for his conclusion that the presumption that there is a risk of material misstatement due to fraud is not applicable to this client, as required by CAS 240.48.

Particular h) - He failed to design and perform adequate procedures to test the appropriateness of journal entries.

27. CAS 240.33 (Standards TAB 5) states that, irrespective of the auditor’s assessment of the risks of management override of controls, the auditor shall design and perform procedures to test the appropriateness of journal entries. While there was a fraud risk assessment checklist completed for this engagement (DOC 012) the journal entry section is noted as not applicable.
28. There is no evidence in the working paper files of testing journal entries for appropriateness and no audit procedures were designed and performed for this purpose.

Particular i) - He failed to adequately document a subsequent events review.

29. CAS 560.6 (Standards TAB 12) requires that audit procedures be performed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment or disclosure be identified.

30. There is a subsequent events checklist in the working paper file (DOC 015) but no record of the documents examined. There was no documentation of a subsequent events review and no documentation of a review of Board minutes subsequent to the corporation's year end.

Particular j) - He failed to ensure that the audit file was "locked down" after completion.

31. Lopez did not assemble a complete and final audit file on a timely basis and the Caseware history file for this engagement does not show the file being locked down. CSQC 1 paragraph 45 (Standards TAB 1) requires firms to establish policies and procedures to do this and CAS 230.14 (Standards TAB 4) requires this to be done. The guidance in CAS 230.A21 states that this would ordinarily not be more than 60 days after the date of the auditor's report.
32. Lopez was not aware of this requirement or the ability to do this in Caseware.

Particular k) - He failed to obtain sufficient and appropriate audit evidence with respect to the balance sheet items "Cash \$47,697" and "Reserve fund cash and investments (Note 3) \$70,019."

33. There is a note on the cash lead sheet (DOC 016) that says the balance per the general ledger equals the balance per the bank statement. This is contradicted by the reconciliation (DOC 017) which shows a material outstanding cheque. Lopez indicated that he would have made sure the outstanding cheque cleared the bank in the following month but there is no audit evidence of this.
34. There is no confirmation of the reserve fund amounts. CAS 330.18 states that irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure.
35. CAS 330.19 requires the auditor to consider whether external confirmation procedures are to be performed as substantive audit procedures. Paragraph CAS 330.A48 provides that external confirmations are frequently relevant when addressing assertions associated with

account balances and their elements and identifies investments held for safekeeping by third parties as an example of when external confirmation procedures may provide relevant audit evidence in responding to assessed risks of material misstatement.

36. The existence of the investments should have been confirmed but they were not (DOC 16).

Particular l) - He failed to obtain sufficient and appropriate audit evidence with respect to the balance sheet item "Accounts Receivable \$8,161".

37. Lopez did not verify the existence and valuation of the accounts receivable (DOC 020-022).

Particular m) - He failed to obtain sufficient and appropriate audit evidence with respect to the balance sheet item "Prepaid expenses \$7,659".

38. The prepaid expenses consisted of prepaid insurance (DOC 023). While prepaid insurance was recalculated there is no evidence that the insurance invoice was examined to verify the underlying basis of the calculation.

Particular n) - He failed to correctly date his auditors report.

39. There is no evidence to support the date of the auditor's report (DOC 003). CAS 700.49 (Standards TAB 15) states this should be no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that all the statements and disclosures that comprise the financial statements have been prepared and those with the recognized authority have asserted that they have taken responsibility for those financial statements. Lopez has dated his auditor's report on the date he completed his field work or the day after. This does not meet the standard.

Particular o) - He failed to prepare documentation sufficient to enable an experienced auditor having no previous connection with the audit, to understand the nature, timing and extent of audit procedures performed, the results of the audit procedures performed and

the audit evidence obtained, the significant matters arising during the audit, the conclusions reached and professional judgments made in reaching those conclusions

40. The accounts payable lead sheet contains a note that says amounts over \$500 were vouched and accrual calculations were verified (DOC 024). There was no documentation supporting this.
41. There was no evidence of a search for unrecorded liabilities being done.
42. Budget figures are presented on the Statement of General Fund Operations and Fund Balance and the Expenses schedule (DOC 006, 010) but there was no copy of the approved budget in the working paper file. The budget would normally be used to verify the assessment revenue.
43. There was a special assessment during the year (DOC 005) but there is no evidence of any audit procedures being performed to verify the amount.
44. There are notations beside some of the expense accounts on the expenses lead sheet (DOC 027-028) explaining the procedures performed but there are material amounts where there is not any documentation of any audit verification procedures being performed. There are no notations on the reserve fund general ledger account print out (DOC 029) which shows the expenses and contributions.
45. Lopez said he went through the general ledger and vouched anything over materiality. He also ensured there are 12 management fee entries and ensures the payments match the contract terms for contracted services. With respect to utilities, he reviews the general ledger to ensure there are 12 payments and they are about the same amount each month as well as recalculating the year end accruals. He asks about any significant variances and makes sure the explanations make sense. There is no documentation in the file to support any of these assertions by Lopez.
46. There is no documentation of enquiries with respect to legal claims.
47. CAS 230.8 (Standards TAB 4) states that the auditor shall 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 the significant matters arising during the audit, the conclusions reached thereon and significant professional judgments made in reaching those conclusions. The audit documentation in this file has not met this standard.

Particular p) - He failed to ensure that the Notes to the financial statements state prominently that the financial statements were prepared in accordance ASNPO and adequately disclosed significant accounting policies

48. The notes to the financial statements (DOC 008-009) do not state prominently that the financial statements are prepared in accordance with ASNPO (1401.17).
49. Section 1505.03 (Standards TAB 17) states that a clear and concise description of the significant accounting policies of an enterprise shall be included as an integral part of the financial statements. In this case a number of significant accounting policy disclosures have not been provided, including the policy adopted for determining the composition of cash and cash equivalents (1540.43) (Standards TAB 19), the revenue recognition policy (3400.31) (Standards TAB 21), the financial instruments policy (3856.37) (Standards TAB 22) and the accounting policy for investments (3856.38).

Allegation 2 – Michael Lopez, in or about the period December 1, 2016 through August 1, 2017, while engaged to audit the financial statements of “Condominium Corporation 922” for the year ended December 31, 2016, failed to perform professional services in accordance with generally accepted standards of practice of the profession contrary to Rule 206.1 of the CPA Code of Professional Conduct

50. The financial statements for CC 922 for the year ended December 31, 2016 (DOC 030-040), together with the Audit Opinion, were signed by Lopez and issued on July 31, 2017 (DOC 032).
51. Many of the deficiencies referred to in Allegation 1 were also deficiencies on this earlier engagement as Lopez used the same audit approach. It is agreed that the explanations

given for the application of named standards is the same here as in a Allegation 1 and need not be referred to specifically.

Particular a) - He failed to document an assessment of his independence

52. CAS 220.11 (Standards TAB 3) requires the engagement partner to form a conclusion on compliance with independence requirements that apply to the audit engagement. Paragraph 220.24 requires the auditor to document the conclusions reached and 220.24 (b) specifically requires documentation of conclusions on compliance with independence requirements and any relevant discussions with the firm that supports these conclusions.

53. There is no documentation that Lopez completed an assessment of his independence.

Particular b) - He failed to document an assessment regarding the reacceptance and continuance of the client relationship and audit engagement

54. There is no documentation with respect to client reacceptance/continuance procedures being performed. Once he accepts a client Lopez does no reacceptance procedures other than to inquire about internal changes and who does the books for the property management company.

55. CAS 220.12 (Standards TAB 3) requires the engagement partner to be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and that the conclusions reached in this regard are appropriate. CAS 220.24 (c) states these conclusions shall be included in the audit documentation. CAS 300.6 (a) (Standards TAB 6) states this shall be done at the beginning of the current audit engagement.

Particular c) - He failed to adequately determine performance materiality for the purpose of addressing the risk of material misstatement and determining the nature, timing and extent of further audit procedures

56. There was no documentation of performance materiality. Lopez failed to adequately determine performance materiality for the purpose of addressing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

57. CAS 320.11 (Standards TAB 8) states the auditor shall determine performance materiality for purposes of addressing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. Lopez did not calculate performance materiality and appeared to not be aware of the concept.

Particular d) - He failed to identify and assess the risks of material misstatement through gaining an understanding the entity and its environment

58. CAS 315 (Standards TAB 7) provides that the auditor shall obtain an understanding of the nature of the entity (315.11), internal control (315.12), the control environment (315.14), the information system, including the related business processes relevant to financial reporting and financial reporting processes (315.18), the control activities relevant to the audit (315.20) and the entity's response to risks arising from information technology (IT) (315.21).
59. CAS 315.32 (Standards TAB 7) requires the auditor to include in the audit documentation: the discussion among the engagement team where required by 315.10, and significant decisions reached; key elements of the understanding obtained regarding each of the internal control components specified in 315.14 to 24, the sources of information from which the understanding was obtained and the risk assessment procedures performed; the identified and assessed risks of material misstatement at the financial statement level and at the assertion level as required by 315.25; and the risks identified and related controls about which the auditor has obtained an understanding, as a result of the requirements of 315.27-30.
60. As with the engagement referred to in Allegation 1, Lopez has a general understanding of these areas but has not met the documentation standard. In addition, Lopez prepared more journal entries for this engagement as the property manager's accountant is not that good so he assessed his risk on this file as higher, meaning there were fewer controls (DOC 041-042).

Particular e) - He failed to adequately document enquiries of management with respect to related party transactions

61. Lopez did not make enquiries of management with respect to identifying related parties, the nature of the relationships, and the type and purpose of any related party transactions during the period as required by CAS 550.13 (Standards TAB 11) and the related controls over these transactions as required by CAS 550.14.

Particular f) - He failed to adequately perform and/or document analytical procedures as part of the risk assessment process

62. Analytical procedures were not performed as part of the risk assessment procedures (CAS 315.6 (b)) (Standards TAB 7) and analytical procedures performed as part of the concluding procedures were not documented (CAS 520.6) (Standards TAB 10).

Particular g) - He failed to make adequate enquiries of management regarding their assessment that the financial statements may be materially misstated due to fraud and the processes they undertook for identifying and responding to the risk of fraud and failed to document his assessment of fraud and fraud risk factors

63. CAS 240 (Standards TAB 5) specifies the Auditor's Responsibilities Relating to Fraud. 240.18 and 19 state the enquiries the auditor shall make of management and 240.21 and 22 state the discussions to be held with those charged with governance. Documentation of these inquiries and discussions is required by paragraph 240.47.
64. There are representations included in the representation letter with respect to fraud (DOC 043-044) but all of the required enquiries and discussions have not been completed and the documentation standard has not been met. In addition there is no documentation that fraud risk factors were considered in assessing the risks of material misstatement (CAS 240.17, 24 and 25).

Particular h) - He failed to document the identified and assessed risks of material misstatement at the financial statement level and the assertion level for classes of transactions, account balances and disclosures to provide a basis for designing and performing further audit procedures

65. CAS 315.25 (Standards TAB 7) requires the auditor to identify and assess the risks of material misstatement at the financial statement level and the assertion level for classes of transactions, account balances and disclosures to provide a basis for designing and performing further audit procedures. CAS 240.26 (Standards TAB 5) states this should be done for fraud risks. There is no evidence in the working paper file that this has been done.

Particular i) - He failed to document the reasons for his conclusion that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable

66. There is no documentation in Lopez's file that he has identified any significant risks (CAS 315.27 and 28) or of the reasons for the conclusion that the presumption that there is a risk of material misstatement due to fraud in revenue recognition is or is not applicable to this client and the special audit considerations he utilized if the assumption is applicable (CAS 240. 26 and 47). Similar to CC991, Lopez considered the accounting system to be lacking for this client, so his risk was higher (DOC 042).

Paragraph j) - He failed to design and perform adequate procedures to test the appropriateness of journal entries

67. There is no evidence of journal entries being tested for management override (CAS 240.32).

Paragraph k) - He failed to adequately document a subsequent events review

68. A subsequent events review was not documented (CAS 560.6).

Paragraph l) - He failed to ensure that the audit file was "locked down" after completion

69. Lopez did not assemble a complete and final audit file on a timely basis (CSQC 1.45) (Standards TAB 1 (CAS 230.14 and A21)(Standards TAB 4).

Particular m) - He failed to correct material prior period errors, with respect to legal expenses, retrospectively in the first set of financial statements after their discovery

70. Legal expenses of \$21,795.30 are shown on the trial balance (DOC 107) and there is a reference to note 2 of the working paper (DOC 108) which states “Contains 15,720 relating to 2015, not previously accrued.” Materiality was determined to be \$5,000 for this audit.
71. Lopez did not treat this as a correction of a prior period error because the Board did not want to restate, and he did what they wanted. This treatment is not correct.
72. Section 1506.27 (Standards TAB 18) states an entity shall correct material prior period errors retrospectively in the first set of financial statements completed after their discovery. 1506.37 requires disclosure of the nature of the prior period error, the amount of the correction for each financial statement line item affected for each prior period presented and the amount of the correction at the beginning of the earliest prior period presented.

Particular n) - He failed to obtain sufficient appropriate audit evidence with respect to the balance sheet items “Cash \$9,622” and “Reserve fund cash (Note 3) \$601,212

73. The Bank – Operating – TD account on the cash lead sheet (DOC 045) is referenced to A.1. The Bank – Reserve – TD account on the Reserve fund investments lead sheet is referenced to B.1 (DOC 048). These documents cannot be opened in the Caseware file. Lopez confirmed that these were where the bank reconciliations were found at one time but they are no longer there. As a result, there is no evidence of any audit procedures being performed and sufficient appropriate audit evidence has not been obtained.
74. The general and reserve fund bank accounts have not been confirmed as required by the standards (CAS 330.18, 19 and 48A) (Standards TAB 9). Lopez agrees that he should have confirmed them, particularly given this client’s bad record keeping.

Particular o) - He failed to obtain sufficient appropriate audit evidence with respect to the balance sheet item “Accounts payable and accrued liabilities \$121,731”

75. The only document in Lopez’s file with regards to accounts payable and accrued liabilities is the lead sheet (DOC 51). The deposits on hand account includes held cheques. There are a number of procedures listed but no audit evidence that these procedures or any other were performed.

Particular p) - He failed to obtain sufficient appropriate audit evidence with respect to the statement of General Fund Operations “Misc. Income \$33,501”

76. Budget figures are presented on the Statement of General Fund Operations (DOC 036) and the Expenses schedule (DOC 040) but there is no copy of the approved budget in the working paper file. The budget would normally be used to verify the assessment revenue. While Lopez took the numbers from the internal financial statements and would have seen the approved budget, he did not keep a copy of the budget for his working paper file.
77. It is agreed that the budget should be included in his working papers as audit evidence.

Particular q) - He failed to obtain sufficient appropriate audit evidence with respect to “Condominium Fees \$1,071,857”

78. There were no substantive procedures performed with respect to revenues-“Condominium fees \$1,071,857” (DOC 036).

Particular r) - He failed to prepare documentation sufficient to enable an experienced auditor having no previous connection with the audit, to understand the nature, timing and extent of audit procedures performed, the results of the audit procedures performed and the audit evidence obtained, the significant matters arising during the audit, the conclusions reached and professional judgments made in reaching those conclusions

79. CAS 230.8 (Standards TAB 4) states that the auditor shall 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 the significant matters arising during the audit, the conclusions reached thereon and significant professional judgments made in reaching those conclusions.
80. The audit documentation in this file has not met this standard. The audit sampling did not include documentation of the sample design and selection of items tested for operating expenses. The only document in Lopez’s file with regards to accounts payable and accrued liabilities is the lead sheet (DOC 051). The deposits on hand account includes the held cheques and there are procedures listed but no documentation of the work done.

Particular s) - He failed to ensure that the Auditor's report had a title that clearly indicated that it is the report of an independent auditor

81. The auditor's report (DOC 032) did not have a title that clearly indicated that it is the report of an independent auditor as required by CAS 700.21 (Standards TAB 15).

Particular t) - He failed to correctly date his auditors report

82. The date of the auditor's report (DOC 032) has been determined incorrectly and there is no evidence to support the date of the auditor's report (CAS 700.49)(Standards TAB 15).

Particular u) - He failed to ensure that the Notes to the financial statements state prominently that the financial statements were prepared in accordance ASNPO and adequately disclosed significant accounting policies

83. The notes (DOC 038-039) do not state prominently that the financial statements are prepared in accordance with ASNPO (1401.17)(Standard TAB 16).
84. The significant accounting policy disclosures (1505.03)(Standards TAB 17) have not been provided for revenue recognition (3400.31)(Standards TAB 21) and financial instruments (3856.37)(Standards TAB 22).

Particular v) - He failed to obtain sufficient and appropriate audit evidence regarding the appropriateness of management's use of the going concern assumption in the circumstances

85. The Financial instruments disclosure is in note 7 (DOC 039) This note states that it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from their financial instruments.
86. There is, however, no disclosure of the corporation's exposure to liquidity risk even though the accounts payable and accrued liabilities are \$121,731, there is only \$9,622 in cash and there is a deficit in the general fund of \$234,662 (DOC 033).

87. Liquidity risk is defined in section 3856.A66 (Standards TAB 22) as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. 3856.53 states that for each significant risk arising from financial instruments, an entity shall disclose the exposure to risk and how they arise and any change in risk exposures from the previous period. This disclosure should have been made.
88. CAS 570.6 states that the auditor's responsibility is to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation of financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern. Lopez did not comply with this standard.

Allegation 3 – Michael Lopez, in or about the period June 1, 2018 through March 1, 2019, while engaged to audit the financial statements of “Condominium Corporation 679” for the year ended June 30, 2018, failed to perform professional services in accordance with generally accepted standards of practice of the profession contrary to Rule 206.1 of the CPA Code of Professional Conduct

89. The deficiencies with respect to this audit engagement are very similar to the deficiencies described in the audits which are the subject of Allegations 1 and 2. Consequently we will cite the standards but not set them out in detail as this has already been done.

Particular a) - He failed to document an assessment regarding the reacceptance and continuance of the client relationship and audit engagement

90. There is no documentation that Lopez completed an assessment with respect to the reacceptance and continuance of the client relationship and audit engagement as required. (CAS 220.12 and 24 (c)) (CAS 300.6 (a)).

Particular b) - He failed to adequately determine performance materiality for the purpose of addressing the risk of material misstatement and determining the nature, timing and extent of further audit procedures

91. Lopez has not calculated performance materiality (CAS 320.11).

Particular c) - He failed to identify and assess the risks of material misstatement through gaining an understanding of the entity and its environment

92. CAS 315 is the standard for Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment. The auditor is required to obtain an understanding of the nature of the entity (CAS 315.11), internal control (CAS 315.12), the control environment (CAS 315.14), the information system, including the related business processes relevant to financial reporting and financial reporting processes (CAS 315.18), the control activities relevant to the audit (CAS 315.20) and the entity's response to risks arising from information technology (IT) (CAS 315.21). The documentation standard is in CAS 315.32.

93. As with the previous engagements, Lopez has failed to identify and assess the risks of material misstatement through gaining an understanding of the entity and its environment.

Particular d) - He failed to adequately document enquiries of management with respect to related party transactions

94. Lopez has not documented his enquiries of management with respect to identifying related parties, the nature of the relationships, and the type and purpose of any related party transactions during the period as required (CAS 550.13) and he has not documented the related controls over these transactions (CAS 550.14).

Particular e) - He failed to adequately perform and/or document analytical procedures as part of the risk assessment process

95. Analytical procedures were not performed as part of the risk assessment procedures (CAS 315.6 (b)) and analytical procedures performed as part of the concluding procedures were not documented (CAS 520.6).

Particular f) - He failed to make adequate enquiries of management regarding their assessment that the financial statements may be materially misstated due to fraud and the

processes they undertook for identifying and responding to the risk of fraud and failed to document his assessment of fraud and fraud risk factors

96. Lopez has not complied with the standards regarding CAS 240.18 and 19 which set out the enquiries the auditor shall make of management. CAS 240.21 and 22 set out the discussions to be held with those charged with governance. Documentation of these inquiries and discussions is required by paragraph CAS 240.47.
97. The required enquiries and discussions have not been completed and the documentation standard has not been met.

Particular g) - He failed to document the reasons for his conclusion that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable

98. Fraud risk factors were not considered in assessing the risks of material misstatement (CAS 240.17, 24 and 25).
99. CAS 315.25 requires the auditor to identify and assess the risks of material misstatement at the financial statement level and the assertion level for classes of transactions, account balances and disclosures to provide a basis for designing and performing further audit procedures. CAS 240.26 states this should be done for fraud risks. Lopez says he does this but there is not any evidence of this in his file.
100. There is no documentation in Lopez's file that he has identified any significant risks (CAS 315.27 and 28) or of the reasons for the conclusion that the presumption that there is a risk of material misstatement due to fraud in revenue recognition is or is not applicable to this client and the special audit considerations he utilized if the assumption is applicable (CAS 240.27 and 48).

Particular h) - He failed to design and perform adequate procedures to test the appropriateness of journal entries

101. There is no evidence of journal entries being tested for management override (CAS 240.32).

Particular j) - He failed to properly document a subsequent events review

102. A subsequent events review was not documented (CAS 560.6).

Paragraph j) - He failed to ensure that the audit file was “locked down” after completion

103. Lopez did not assemble a complete and final audit file on a timely basis and the Caseware history file for this engagement does not show the file being locked down (CSQC 1.45) (CAS 230.14 and A21)

Particular k) - He failed to obtain sufficient and appropriate audit evidence with respect to the balance sheet item “Reserve fund cash and investments (note 3) \$156,281”

104. There is no evidence of the bank balance or the reserve fund investments (DOC 077, 079) being confirmed (CAS 330.18, 19 and A48).

Particular l) - He failed to obtain sufficient and appropriate audit evidence with respect to the balance sheet item “Accounts payable and accrued liabilities \$11,207”

105. There was no accounts payable lead sheet in this file and the procedures performed were not documented. There was no audit evidence to show that the accounts payable were vouched, that the accrual calculations were verified and no evidence that a search for unrecorded liabilities was undertaken.

106. Procedures listed on the operating expenses lead sheet (DOC 081-082) indicate Lopez examined selected purchase invoices for evidence of proper approval, checked the arithmetic accuracy of selected purchase invoices and scanned the general ledger for the year for large and unusual items. There are also notations beside some of the expense accounts. However there was no evidence that these procedures were completed or that the amounts were agreed to the underlying contracts or other supporting documentation.

Particular m) - He failed to ensure that minor repairs were properly charged to expenses in the statement of general fund operations and not to the reserve fund

107. The significant accounting policy for fund accounting states that all major repairs and replacements must be charged to the reserve fund and minor repairs and replacement must be charged to expenses in the statement of general fund operations (DOC 068).
108. In this case there are a number of items that have been charged to the reserve fund that are not for major repairs or replacements including emergency attendances, regular repairs and replacing light bulbs (DOC 083).
109. Lopez discussed this with the Board and since the Board wanted these items charged to the reserve fund he agreed.

Particular n) - He failed to correctly date his auditors report

110. The date of the auditor's report has been determined incorrectly and there is no evidence to support the date of the auditor's report (CAS 700.49).

Particular o) - He failed to ensure the disclosure of significant accounting policies in the notes to the financial statements with respect to the composition of cash and cash equivalents, financial instruments and investments

111. The significant accounting policy disclosures (1505.03) have not been provided for the composition of cash and cash equivalents (1540.43), financial instruments (3856.37) and investments (3856.38).

Allegation 4 – Michael Lopez, in or about the period September 1, 2018 through March 1, 2019, while engaged to audit the financial statements of “Condominium Corporation 716” for the year ended September 30, 2018, failed to perform professional services in accordance with generally accepted standards of practice of the profession contrary to Rule 206.1 of the CPA Code of Professional Conduct

112. Once again, the deficiencies with respect to this audit engagement are very similar to the deficiencies described in the audits which are the subject of Allegations 1, 2 and 3.

Consequently we will cite the standards but not set them out in detail as this has already been done.

Particular a) - He failed to document an assessment regarding the reacceptance and continuance of the client relationship and audit engagement

113. There is no documentation that Lopez completed an assessment with respect to the reacceptance and continuance of the client relationship and audit engagement (CAS 220.12 and 24 (c)) (CAS 300.6 (a)).

Particular b) - He failed to document an assessment of his independence

114. There is no documentation that Lopez completed an assessment of his independence (CAS 220.11 and 24 (b)).

Particular c) - He failed to obtain an engagement letter

115. No engagement letter was obtained. CAS 210.9 and 10 require the auditor to agree the terms of the audit engagement with management or those charged with governance, as appropriate and the agreed terms shall be recorded in an engagement letter or other suitable form of written agreement.

116. Lopez said his appointment was confirmed in the minutes from the previous year's annual general meeting. This is not sufficient to comply with the standards.

Particular d) - He failed to adequately determine performance materiality for the purpose of addressing the risk of material misstatement and determining the nature, timing and extent of further audit procedures

117. Lopez has not calculated performance materiality as required by the standards (CAS 320.11).

Particular e) - He failed to identify and assess the risks of material misstatement through gaining an understanding of the entity and its environment

118. CAS 315 is the standard for Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment. The auditor is required to obtain an understanding of the nature of the entity (CAS 315.11), internal control (CAS 315.12), the control environment (CAS 315.14), the information system, including the related business processes relevant to financial reporting and financial reporting processes (CAS 315.18), the control activities relevant to the audit (CAS 315.20) and the entity's response to risks arising from information technology (IT) (CAS 315.21). The documentation standard is in CAS 315.32.
119. As with the previous engagements, Lopez has failed to identify and assess the risks of material misstatement through gaining an understanding of the entity and its environment.

Particular f) - He failed to adequately document enquiries of management with respect to related party transactions

120. Lopez has not documented his enquiries of management with respect to identifying related parties, the nature of the relationships, and the type and purpose of any related party transactions during the period (CAS 550.13) and the related controls over these transactions (CAS 550.14).

Particular g) - He failed to adequately perform and/or document analytical procedures as part of the risk assessment process

121. Analytical procedures were not performed as part of the risk assessment procedures (CAS 315.6 (b)) and analytical procedures performed as part of the concluding procedures were not documented (CAS 520.6)

Particular h) - He failed to make adequate enquiries of management regarding their assessment that the financial statements may be materially misstated due to fraud and the processes they undertook for identifying and responding to the risk of fraud and failed to document his assessment of fraud and fraud risk factors

122. CAS 240 specifies the Auditor's Responsibilities Relating to Fraud. CAS 24.18 and 19 require the auditor to make enquiries of management and paragraphs 21 and 22 state the discussions to be held with those charged with governance. Documentation of these

inquiries and discussions is required by CAS 240.47. All of the required enquiries and discussions have not been completed and the documentation standard has not been met.

Particular i) - He failed to document the reasons for his conclusion that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable

123. Fraud risk factors were not considered in assessing the risks of material misstatement (CAS 240.17, 24 and 25).
124. CAS 315.25 requires the auditor to identify and assess the risks of material misstatement at the financial statement level and the assertion level for classes of transactions, account balances and disclosures to provide a basis for designing and performing further audit procedures. CAS 240.26 states this should be done for fraud risks. Lopez says he does this but there is not any evidence of this in his file.
125. There is no documentation in Lopez's file that he has identified any significant risks (CAS 315.27 and 28) or of the reasons for the conclusion that the presumption that there is a risk of material misstatement due to fraud in revenue recognition is or is not applicable to this client and the special audit considerations he utilized if the assumption is applicable (CAS 240.27 and 48).

Particular j) - He failed to design and perform adequate procedures to test the appropriateness of journal entries

126. There is no evidence of journal entries being tested for management override (CAS 240.32).

Particular k) - He failed to properly document a subsequent events review

127. A subsequent events review was not documented as required by the standards (CAS 560.6).

Particular l) - He failed to ensure that the audit file was "locked down" after completion

128. Once again Lopez did not assemble a complete and final audit file on a timely basis and the Caseware history file for this engagement does not show the file being locked down. CSQC 1 paragraph 45 (Standards TAB 1) requires firms to establish policies and procedures to do this and CAS 230.14 (Standards TAB 4) requires this to be done.

Particular m) - He failed to obtain sufficient and appropriate audit evidence with respect to the balance sheet items Cash \$10,974” and “Reserve fund cash and investments (note 3) \$203,024

129. There is no evidence of the bank balance or the reserve fund bank balance (DOC 096, 099) being confirmed as required by the standards (CAS 330.18, 19 and A48).
130. The audit procedures for cash and reserve fund cash are documented on their respective lead sheets (DOC 096, 099). The procedures for the reserve fund refer to broker statements when the client has invested the full amount of the reserve fund in the bank so this statement is not applicable. In addition there is no documentation showing he agreed the balance per the bank to the bank statement (DOC 097-098) or that he cleared the outstanding cheques (100-101).

Particular n) - He failed to obtain sufficient and appropriate audit evidence with respect to the balance sheet item “Accounts payable and accrued liabilities \$11,087

131. The accounts payable lead sheet (DOC 102) details the procedures performed in this file. There was no audit evidence demonstrating the procedures were performed. There was no audit evidence of which accounts payable were vouched or that the accrual calculations were verified and no evidence of a search for unrecorded liabilities being done.

Particular o) - He failed to correctly date his auditors report

132. The date of the auditor’s report has been determined incorrectly and there is no evidence to support the date of the auditor’s report (CAS 700.49).

Particular p) - He failed to ensure the disclosure of significant accounting policies in the notes to the financial statements with respect to revenue recognition and financial instruments and

Particular q) - He failed to ensure that the Notes to the financial statements state prominently that the financial statements were prepared in accordance ASNPO

133. The significant accounting policy disclosures (1505.03) have not been provided for revenue recognition (3400.31) and financial instruments (3856.37).
134. The notes do not state prominently that the financial statements are prepared in accordance with ASNPO (1401.17) (DOC 092-093).

Terms of Settlement

135. Lopez and the Professional Conduct Committee agree to the following Terms of Settlement:
- a) A payment by way of fine in the amount of \$7,500;
 - b) Lopez will attend, within 18 months of the time the Discipline Committee accepts this Settlement Agreement, the following professional development courses offered by CPA Ontario (or their successor courses):
 - Auditing and Accounting for Ontario Condominium Corporations
 - Audit Engagements – Application of the Standard Using PEG
 - Audit Engagements – File Review
 - c) Lopez shall, within 30 days of the approval of this Settlement Agreement, enter into a Supervision Agreement approved by the Director of Standards Enforcement (“the Director”) with a Supervisor approved by the Director from outside of Lopez’s practice who will review all assurance work undertaken by Lopez for a period of 24 months after the Discipline Committee accepts this Settlement Agreement, with the 24 month supervisory period to commence with the first assurance work undertaken by Lopez following approval of the Settlement Agreement;
 - d) The Professional Conduct Committee will re-investigate Lopez following the period of supervised practice with the costs of the re-investigation, up to \$3,500, to be borne by Lopez;

- e) Notice of the terms of this Settlement is to be published in the manner set out in CPAO Regulation 6-2 section 45, including notice to be given to all members of CPA Ontario, the Public Accountants' Council and all provincial CPA bodies;
 - f) A payment by way of costs in the amount of \$15,000;
 - g) Lopez will be allowed 12 months from the time the Discipline Committee accepts this Settlement Agreement to pay the fine and costs referred to herein; and
 - h) A failure by Lopez 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 three months his membership in CPA Ontario will be revoked with full publicity in accordance with Regulation 6-2 section 48.
136. In the event that the Director finds Lopez's choice of supervisor unacceptable, or there is any other issue relating to the supervised practice plan about which Lopez and the Director cannot agree, either Lopez or the Professional Conduct Committee may give notice of the disagreement to the Chair of the Discipline Committee, who may move to have that aspect of the order reconsidered in accordance with Regulation 6-2 section 24.
137. Should the Discipline Committee accept this Settlement Agreement, Lopez 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 July 2018, shall be forever stayed.
138. 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 Lopez leading up to its presentation to the Discipline Committee, shall be without prejudice to the Professional Conduct Committee and Lopez; and

- b) The Professional Conduct Committee and Lopez 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.

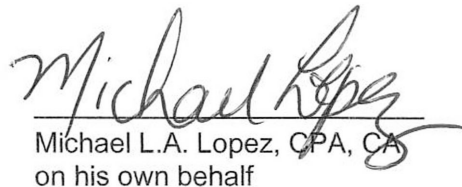
Disclosure of Settlement Agreement

139. This Settlement Agreement and its terms will be treated as confidential by the Professional Conduct Committee and Lopez, 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 Lopez, or, as may be required by law.
140. 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 12th day of December 2019.



Paul F. Farley, LL.B
On behalf of
The Professional Conduct Committee



Michael L.A. Lopez, CPA, CA
on his own behalf