



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

IN THE MATTER OF: ALLEGATIONS OF PROFESSIONAL
MISCONDUCT AGAINST MICHAEL VRIEND 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 15-1, s.26.4**

Introduction

1. The Professional Conduct Committee (“**PCC**”) approved draft Allegations against Michael Vriend, CPA, CA (attached as Schedule “A”). Certain documents referred to in this Settlement Agreement are found in the attached Document Brief (“**Doc**”). The applicable Canadian Auditing Standards (“**CAS**”) sections are found in the Brief of Authorities (“**Tab**”).
2. The draft Allegations pertain to Mr. Vriend’s failure, as the engagement partner with BDO Canada LLP (“**BDO**”), to perform professional services in accordance with generally accepted standards of practice of the profession with respect to the audit of the financial statements of Crystal Wealth Media Fund (“**Media Fund**”) for the years ending December 31, 2014 and December 31, 2015, and with respect to the audit of Crystal Wealth Mortgage Strategy Fund (“**Mortgage Fund**”) for the years ended December 31, 2014 and December 31, 2015 (collectively, the “**Audits**”).
3. The PCC and Mr. Vriend 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 Mr. Vriend 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. It is further agreed that the relevant standards are those identified in this Settlement Agreement.

Background

The Member

4. Mr. Vriend joined BDO in 1994 and obtained his CPA, CA designation in 1997. He has been a partner at BDO since 2007. Mr. Vriend was, until December 2015, BDO's National Financial Services Leader, and worked out of its Burlington, Ontario office.
5. Mr. Vriend was the engagement partner for the Audits. As such, he was responsible for the direction, supervision, and performance of the Audits in compliance with applicable professional standards and for ensuring that sufficient appropriate audit evidence was obtained to support the audit reports issued.
6. At BDO's initiative, effective on or about January 1, 2018, Mr. Vriend was precluded from acting as the engagement partner in respect of public company audits.

Crystal Wealth and the Funds

7. The Media Fund and Mortgage Fund (collectively, the "**Funds**") were privately offered mutual fund trusts managed by Crystal Wealth Management Systems Limited ("**Crystal Wealth**").
8. Crystal Wealth was a Burlington, Ontario based corporation which acted as the Funds' trustee, portfolio manager and promoter.
9. Crystal Wealth was founded by Clayton Smith, who was its principal shareholder, directing mind and sole director and officer. Mr. Smith acted as Crystal Wealth's Chief Executive Officer, Chief Financial Officer and was BDO's primary point of contact during the Audits.
10. The Funds reported under International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board.
11. Between 2005-2016 BDO was the auditor for Crystal Wealth and the Funds. Mr. Vriend was the engagement partner for the Audits commencing with the December 31, 2012 year end.
12. BDO's Burlington, Ontario office conducted the Audits. In the related financial statements, the Media Fund and Mortgage Fund were valued at approximately \$50 million and \$40 million, respectively.
13. Each of the four auditor's reports accompanying the Funds financial statements stated that BDO had performed the Audits in accordance with Canadian Generally Accepted Auditing Standards ("**GAAS**"). BDO issued an unqualified audit opinion for each of the Audits. All audit reports were dated on the filing deadline of the respective Fund (March 31 of each year). Copies of the financial statements for each Fund are contained at Docs – #1A-1D. BDO did not withdraw its unqualified audit opinion for any of the Audits.

14. BDO was engaged to audit the Funds' 2016 financial statements. As BDO was aware by that time that the Ontario Securities Commission (the "**OSC**") was investigating matters associated with Crystal Wealth and the Funds' financial reporting, new procedures were introduced for the 2016 audits such as seeking additional evidence from sources independent of the Funds and Mr. Smith. BDO was not able to obtain the additional evidence it determined was required to issue its auditor's reports and accordingly, they were not issued by March 31, 2017, when the financial statements were due to be delivered to unitholders.

The OSC Proceedings

15. On April 6, 2017, the OSC ordered that all trading in securities of Crystal Wealth funds, including the Funds, cease.
16. On April 26, 2017, the Ontario Superior Court of Justice appointed Grant Thornton Limited receiver and manager of the assets of the Crystal Wealth funds, Crystal Wealth and Mr. Smith personally. Grant Thornton Limited ultimately concluded that, among other things, the Net Asset Value ("**NAV**") provided by Mr. Smith for all of the Crystal Wealth funds was materially overstated by 46%, or \$88.72 million.
17. On June 13, 2018, the OSC approved a settlement agreement between OSC Staff and Mr. Smith. In the settlement agreement, Mr. Smith admitted to fraud relating to investments recorded in respect of the Media Fund and the Mortgage Fund. More specifically, Mr. Smith admitted, among other things, that he had diverted monies advanced from the Funds purportedly in connection with the purchase of investments for the Funds, to his holding company or instructed third-party recipients to transfer funds to himself, his holding company, or a related company.
18. On October 12, 2018, the OSC issued a Notice of Hearing and Statement of Allegations against BDO, alleging that the Audits were not conducted in accordance with GAAS.
19. On January 20, 2020, BDO entered into a settlement agreement with OSC Staff (the "**OSC Settlement**"). The OSC Settlement was approved by a Commissioner of the OSC on January 24, 2020. BDO admitted, among other things, that it failed to:
 - a. obtain sufficient appropriate audit evidence of the existence and valuation of the Funds' assets;
 - b. undertake its work with sufficient professional skepticism; and
 - c. complete the engagement quality control reviews ("**EQCRs**") for the Audits that it had determined were required.
20. Pursuant to the OSC Settlement, BDO was reprimanded and required to pay an administrative penalty in the amount of \$3,500,000, plus costs in the amount of \$500,000. A copy of the OSC Settlement is contained at Doc – #2.

21. Mr. Vriend was not a party to the OSC proceeding although the Audits were the subject of the OSC Settlement, for which he was responsible as the engagement partner.

CPAO Investigation

22. On January 18, 2019, CPA Ontario Staff advised Mr. Vriend that a review into the Audits had been commenced and requested a response from Mr. Vriend. Mr. Vriend's response, dated February 19, 2019, is reproduced at Doc – #3.
23. On September 21, 2020, the PCC appointed Paul Rhodes, CPA, CA, to inquire into the standards of practice and professional conduct of Mr. Vriend with respect to his role as engagement partner for the Audits. The scope of Mr. Rhodes' review was limited to the audit deficiencies admitted by BDO in the OSC Settlement, which Mr. Vriend adopted and agreed to for the purposes of this Settlement Agreement.

Generally Accepted Auditing Standards in 2014 to 2015

24. The standards for auditing applicable to the Audits are described by GAAS. In 2014-2015, GAAS were published in the Assurance section of the CPA Canada *Handbook*.
25. 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. [CAS 200.11, 200.13(c), (m)] [Tab 1]
26. 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.
27. 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

addition, 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]

28. Further, as set out below, 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.

29. Pursuant to CAS 200.18-23, compliance with CAS is not optional. [Tab 1]

Particulars 1(c), (d) and (e) – 2014 Media Fund Audit – Failure to identify MHC as a third party “service organization” and a key audit area for which an audit response was necessary; Failure to evaluate the design and implementation of the Media Fund’s relevant controls relating to the services provided by MHC as a “service organization”; and Failure to obtain sufficient and appropriate audit evidence of the operating effectiveness of the controls of MHC as a “service organization”

Standards Applicable to Service Organizations

30. A “service organization” is a service provider whose services are part of an audited entity's financial reporting information system. When an audited entity uses a service organization, transactions that affect its systems become subject to the service organization's controls. As such, if the auditor obtains evidence from the service organization, the auditor cannot simply assume that the service organization's controls operate effectively. Rather, it must obtain evidence about their effectiveness by testing the controls directly or performing alternative procedures. [CAS 402.8(e), .16] [Tab 7]

31. In particular, CAS 402 *Audit Considerations Relating to an Entity Using a Service Organization* requires the application of certain standards in identifying and assessing the risk of material misstatement and designing and performing further audit procedures to respond to those risks in the context of an entity that uses a service organization. CAS 402 contains standards that are required to be taken into account by an auditor in applying CAS 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*. These include the obligation to:
- a. obtain an understanding of how the entity uses the services of the service organization;
 - b. in understanding internal controls relevant to the audit, evaluate the design and implementation of controls at the entity that relate to the services provided by the service organization, including those applied to transactions processed by the service organization; and
 - c. determine whether a sufficient understanding of the nature and significance of services provided by the service organization and their effect on the entity's internal controls relevant to the audit has been obtained to provide a basis for the identification and assessment of risks of material misstatement. [CAS 402.9-.11] [Tab 7]
32. If the auditor cannot obtain a sufficient understanding of the "service organization" from the user entity, it is required to obtain that understanding from one or more of the following procedures:
- a. obtaining a type 1 or type 2 report, if available;
 - b. contacting or visiting the service organization; or
 - c. using another auditor to perform procedures. [CAS 402.12 and A15] [Tab 7]
33. CAS 402 also contains standards required to be taken into account by an auditor in applying CAS 330 *The Auditor's Responses to Assessed Risks*. These include:
- a. determining whether sufficient appropriate evidence covering the relevant financial statement assertions is available from records held at the audited entity and, if not, performing further audit procedures to obtain sufficient appropriate audit evidence at the service organization;
 - b. obtaining audit evidence about the operating effectiveness of controls at the service organization where it is expected that controls are operating effectively; and
 - c. making inquiries of management as to whether the service organization has reported, or is otherwise aware of, any non-compliance with laws and regulations or uncorrected misstatements affecting the entity's financial statements. [CAS 402.15, .16, .19 and A24-29] [Tab 7]

34. Where an auditor cannot obtain sufficient appropriate audit evidence regarding the services to be provided by a service organization relevant to the audit, a limitation on the scope of the audit is required. [CAS 402.20 and .A42] [Tab 7]
35. CAS 500 *Audit Evidence* indicates that the reliability of audit evidence is influenced by its source and by its nature, and is dependent on the specific circumstances. Audit evidence is more reliable when it is obtained from independent sources outside of the entity. [Tab 8]

Failure to Identify Media Fund Service Organization – 2014

36. In its 2014 and 2015 financial statements, the Media Fund was valued at approximately \$50 million. The Media Fund primarily invested in asset backed debt obligations of motion picture and series television productions. The loans were to finance the production projects. In 2014 and 2015, approximately 25 loans represented 85% of the Media Fund's assets (the "Loans").
37. Media House Capital (Canada) Corp. ("MHC") was retained by the Media Fund to conduct due diligence on potential loan investments and present them to the Media Fund for purchase. If the Media Fund acquired a loan, MHC was to manage and service it, including collecting principal and interest payments for the Media Fund. MHC received an upfront fee of up to 10% of the value of the loans it sold to the Media Fund. The Media Fund purchased loans from MHC on an ongoing basis.
38. MHC provided information about the Loans to BDO in the course of its 2014 and 2015 audits, upon which the auditor relied. Accordingly, its services were part of the Media Fund's financial reporting information systems and it was a service organization to the Media Fund.
39. Mr. Vriend failed to identify MHC as a service organization. As a consequence, he inappropriately treated audit evidence provided by MHC as being sourced from a third party that was independent of management when it was not.
40. Mr. Vriend admits that, for the 2014 audit of the Media Fund, he failed to identify MHC as a third party "service organization" and a key audit area for which an audit response was necessary. Consequently, he failed to cause the steps required by GAAS when service organizations are involved to be taken.
41. In particular, Mr. Vriend admits that he failed to:
 - a. evaluate the design and implementation of MHC's relevant controls relating to the services provided by it as a "service organization"; and
 - b. obtain sufficient and appropriate audit evidence of the operating effectiveness of the controls of MHC as a "service organization."

Particular 2(c) – 2015 Media Fund Audit – Failure to plan and perform an adequate audit response in respect of the audit evidence generated by MHC, having identified MHC as a third party “service organization”

42. MHC continued to act as a service organization to the Media Fund in 2015 and was recognized as such. However, despite this recognition, the steps required by GAAS when service organizations are involved were not taken in the conduct of the 2015 Media Fund audit.
43. Accordingly, Mr. Vriend admits that he failed to plan and perform an adequate audit response in respect of the audit evidence generated by MHC in the 2015 audit.

Particulars 3(c), (d) and (e) – 2014 Mortgage Fund Audit – Failure to identify Spectrum-Canada Capital (2002) Corporation, Spectrum Canada Mortgage Services Inc, Squire Management Inc. and Liberty Mortgage Services Ltd. as third party “service organizations” and key audit areas for which an audit response was necessary; Failure to evaluate the design and implementation of the Mortgage Fund’s relevant controls relating to the services provided by Spectrum, Squire, and Liberty as “service organizations”; Failure to obtain sufficient and appropriate audit evidence of the operating effectiveness of the controls of Spectrum, Squire, and Liberty as “service organizations”

Failure to Identify Mortgage Service Organizations – 2014

44. In its 2014 and 2015 financial statements, the Mortgage Fund was valued at approximately \$40 million and \$44 million, respectively. The Mortgage Fund primarily invested in residential mortgages in Canada. In 2014 and 2015, the Mortgage Fund held over 300 residential mortgages constituting 83% and 63% of its assets, respectively. The Mortgage Fund also held commercial mortgages and commercial loans.
45. The Mortgage Fund engaged several service organizations, including:
 - a. Spectrum-Canada Capital (2002) Corporation and Spectrum Canada Mortgage Services Inc. (collectively, “**Spectrum**”) were the principal sellers of residential mortgages to the Mortgage Fund. As MHC did for the Media Fund, Spectrum was retained to evaluate investments in accordance with due diligence guidelines and present them to the Mortgage Fund for purchase. Once the Mortgage Fund purchased a mortgage from Spectrum, Spectrum managed and serviced it. Among other things, Spectrum held a bank account for mortgage payments and provided reports on which the Mortgage Fund’s records were based. Spectrum’s fees were based on the Mortgage Fund’s outstanding advances on their mortgages. The Mortgage Fund purchased mortgages from Spectrum on an ongoing basis;
 - b. Squire Management Inc. (“**Squire**”) administrated certain of the Mortgage Fund’s other residential mortgages. Like Spectrum, Squire held a bank account into which mortgage payments were deposited. Squire sent Mr. Smith weekly reports summarizing all mortgages and payments; and
 - c. Liberty Mortgage Services Ltd. (“**Liberty**”) dealt with the Mortgage Fund’s commercial mortgages. Like Spectrum, Liberty sold the Mortgage Fund mortgages

it held that met the Mortgage Fund's criteria. The Mortgage Fund recorded its mortgages on its books based on Liberty's weekly reports.

46. Spectrum, Liberty and Squire (collectively, "**Mortgage Service Organizations**") provided information to BDO in the course of the 2014 audit upon which the auditor relied. Accordingly, their services were part of the Mortgage Fund's financial reporting information systems and they were service organizations to the Mortgage Fund.
47. Mr. Vriend failed to identify the Mortgage Service Organizations as service organizations. As a consequence, he inappropriately treated audit evidence provided by the Mortgage Service Organizations as being sourced from third parties that were independent of management when they were not.
48. Mr. Vriend admits that he failed to identify each of the Mortgage Service Organizations as a third party "service organization" and a key audit area for which an audit response was necessary. Consequently, he failed to cause the steps required by GAAS when service organizations are involved to be taken.
49. In particular, Mr. Vriend admits that he failed to:
 - a. evaluate the design and implementation of the Mortgage Service Organizations' relevant controls relating to the services provided by each of them as a "service organization"; and
 - b. obtain sufficient and appropriate audit evidence of the operating effectiveness of the controls of each of the Mortgage Service Organizations as a "service organization".

Particular 4(c) – 2015 Mortgage Fund Audit – Failure to plan and perform an adequate audit response in respect of the audit evidence generated by the Mortgage Service Organizations

50. The Mortgage Service Organizations continued to act as "service organizations" in 2015 and were recognized as such by the auditor. However, despite this recognition, the steps required by GAAS when service organizations are involved were not taken in the conduct of the 2015 Mortgage Fund audit.
51. Accordingly, Mr. Vriend admits that he failed to plan and perform an adequate audit response in respect of the audit evidence generated by the Mortgage Service Organizations in the 2015 audit.

Particular 1(f) – Failure to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item "Investments at fair value \$42,977,629" in the 2014 Audit of the Media Fund

52. The Media Fund carried investments – which included film production loans, Canadian mutual funds, and futures contracts – at fair value using valuation techniques and presented them as "investments" on its statement of financial position. The fair values

of the film production loans were classified as Level 3 in the fair value hierarchy of IFRS 13 because the significant inputs to their estimation were unobservable.

53. The Media Fund's statement of financial position included investments at their fair value of \$42,977,629 for the 2014 financial year (which included the fair value of the film production Loans of \$38,391,604).

The Existence Assertion – 2014 audit

Applicable Standards

54. As set out above, sufficient appropriate audit evidence must be obtained to reduce audit risk to an acceptably low level. [CAS 200.5 and CAS 330.26] [Tab 1 and Tab 6]
55. When designing and performing audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence, an auditor shall consider the relevance and reliability of the information to be used as audit evidence. This requires taking into account the purpose of the audit evidence required, which must be considered in light of the circumstances. [CAS 500.7 and .A1-A6] [Tab 8]
56. An audit of financial statements is a cumulative and iterative process. Where an auditor becomes aware of discrepancies in accounting records, or conflicting or missing evidence, an auditor may need to re-evaluate the planned audit procedure. [CAS 330.A60] [Tab 6] Inconsistencies between data derived from different sources should cause an auditor to modify planned procedures and/or perform additional audit procedures. [CAS 500.11] [Tab 8]
57. Inquiry alone is not sufficient to provide adequate evidence of the absence of a material misstatement at the assertion level. [CAS 500.A2] [Tab 8]
58. If an auditor cannot conclude that sufficient appropriate audit evidence has been obtained as to a material financial statement assertion, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements. [CAS 330.27] [Tab 6]

Failure to Obtain Sufficient Appropriate Evidence of Existence of the Loans

59. With respect to its audit of the existence of the Loans in the 2014 Media Fund audit, the planned procedure was to confirm all Loans with MHC, whether they had been acquired in the current or previous years and to review the "loan agreements" for loans purchased in the current year.
60. As noted above, Mr. Vriend failed to identify MHC as a service organization and therefore did not appropriately test the confirmations obtained from MHC which differed from those contained in Loan Documents (as described below).

61. Further, there were significant deficiencies in the “loan agreements” obtained. In particular:
- a. they were not agreements between the borrower (the production company) and the lender (the Media Fund). Instead, two types of documents (the “**Loan Documents**”) were obtained: (i) purchase notices (a notice from the Media Fund to MHC that it wished to purchase a loan); and (ii) supplements, each of which evidenced MHC’s sale of a loan to the Media Fund. These Loan Documents did not provide sufficient evidence of the borrowers’ obligations to the Fund. In short, the documents obtained by the auditor were not relevant to management’s assertion that the Media Fund owned the underlying loan;
 - b. although BDO designed a procedure to obtain a complete set of Loan Documents for each new loan, the procedure was not performed. Purchase notices were unaccompanied by supplements, and many of the supplements were only partially executed;
 - c. even though information in many Loan Documents was inconsistent with other evidence, no steps were taken to enhance procedures to properly resolve the discrepancy. For example, various Loan Documents set forth principal amounts that differed from those in MHC’s confirmations. Procedures were performed on only a few of these inconsistencies, and in one case, the auditor relied solely on information from Mr. Smith rather than on independent evidence; and
 - d. the audit files included a variety of Loan Documents and promissory notes for previous years, with deficiencies in the documentation.
62. Pursuant to the applicable standards, these gaps, deficiencies and inconsistencies should have cast doubt on the reliability of the audit evidence obtained in relation to the existence of the Loans and should have caused Mr. Vriend to: (a) adjust the approach taken to the audit; (b) perform additional and enhanced procedures; and/or (c) modify planned procedures, such that sufficient appropriate evidence of the existence of the Loans was obtained. [CAS 500.7, .11] [Tab 8]
63. Accordingly, Mr. Vriend admits that he failed to ensure that sufficient appropriate evidence of the existence of the Loans was obtained in the 2014 Media Fund audit.

The Valuation Assertion

Relevant Standards

64. An auditor is required to undertake a retrospective review of management’s judgments and assumptions related to significant accounting estimates reflected in financial statements for the prior year. [CAS 240.33(b)(ii)] [Tab 4] Among other things, retrospective reviews assist in assessing the likelihood that the current estimate may

be misstated and in identifying any indications of management bias that might represent a risk of material misstatement due to fraud or error.

65. The required risk assessment procedures performed by an auditor for significant accounting estimates should include consideration of whether management has made, or ought to make, a change since the prior period in the method for making the estimate. The outcome in a current audit period of estimates made in the prior period may be relevant to the assessment of the risk of material misstatement due to fraud or error in the current year's audit. [CAS 540.8-.9, .A37-44 and CAS 240.33(b)] [Tab 10 and Tab 4]
66. Where obtaining more persuasive audit evidence because of an assessment of higher risk, the auditor may increase the quantity of the evidence required, or obtain evidence that is more relevant or reliable by placing more emphasis on obtaining third party evidence or by obtaining corroborating evidence from a number of independent sources. [CAS 330.7(b) and .A19] [Tab 6]
67. If an auditor cannot conclude that sufficient appropriate audit evidence has been obtained as to a material financial statement assertion, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements. [CAS 330.27] [Tab 6]

Failure to Obtain Sufficient Appropriate Evidence of Valuation of Loans – 2014 Audit

Failure to Conduct Retrospective Review of Significant Accounting Estimate

68. Mr. Smith prepared the Media Fund's valuations of the Loans.
69. The value of the Loans turned on the probability of collecting on them. That probability depended on the sales of the productions to be financed by the Loans. As a result, forecasts of those sales were critical in determining the value of the Loans.
70. As such, a retrospective review of Mr. Smith's (i.e. management's) loan valuations for the Media Fund was required. Consistent with the applicable standard, BDO's fraud checklist (the "**Fraud Checklist**"), which is meant to assist engagement teams in complying with GAAS requirements concerning fraud, [Doc – #4] required retrospective reviews of significant accounting estimates and a determination of whether differences between estimates and actual results indicated management bias.
71. The completed Fraud Checklist stated that no retrospective reviews were necessary because there were no significant accounting estimates. However, it was recognized that the value of the Loans was a significant accounting estimate in other documents. [Docs – #5 and 6]

72. Mr. Vriend failed to ensure that the required retrospective review was conducted in respect of Mr. Smith's 2013 loan valuation and, as such, failed to determine whether there was an increased risk of material misstatement due to fraud or error.

Improper Reliance on Analysis from BDO's Valuations Group

73. In addition, in evaluating Mr. Smith's 2014 loan valuation, an analysis from its valuations group was inappropriately relied upon. The valuations group's analysis was based on sales forecasts, the appropriateness and reliability of which were to be assessed with a confirmation from MHC. However, BDO's audit file contained no confirmation of any sales forecast from MHC.
74. Further, Mr. Vriend did not ensure that confirmations were obtained directly from MHC as to the terms of the agreements with the Media Fund or the absence of any conditions, such as any side-agreements and any pre-conceived level of forecast production sales. [CAS 500.A18] [Tab 8]
75. In any case, as set out above, the audit requirements applicable to MHC as a service organization were not performed such that this planned procedure (i.e. obtaining confirmations directly from MHC) would not have been sufficient.
76. Mr. Vriend admits that he failed to ensure that sufficient appropriate audit evidence of the valuation of the Loans was obtained in the 2014 Media Fund audit.
77. Mr. Vriend further admits that, having failed to ensure that sufficient appropriate audit evidence of the existence and valuation of the Loans was obtained, he failed to ensure that sufficient appropriate audit evidence was obtained to support the Statement of Financial Position item "Investments at fair value \$42,977,629" for the 2014 Media Fund audit.

Particular 2(d) – Failure to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item "Investments at fair value \$58,148,471" in the 2015 Audit of the Media Fund

78. The Media Fund's statement of financial position included investments at their fair value of \$58,148,471 for the 2015 financial year (which included the fair value of the film production Loans of \$50,283,984).

The Existence Assertion – 2015 Audit

79. The planned procedures with respect to the audit of the existence of the Loans were the same in 2015 as those planned in 2014. However, as with the 2014 audit, there were gaps, deficiencies and inconsistencies in the information obtained by the auditors which should have cast doubt on the reliability of the audit evidence obtained in relation to the existence of the Loans.

80. Accordingly, Mr. Vriend admits that he failed to ensure that sufficient appropriate evidence of the existence of the Loans was obtained in the 2015 audit of the Media Fund.

Failure to Obtain Sufficient Appropriate Evidence of Valuation of Loans – 2015 Audit

Applicable Standards

81. In addition to the standards above, when assessing significant risks an auditor shall evaluate whether management has considered alternative assumptions or outcomes, and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate, and whether the significant assumptions used by management are reasonable. [CAS 540.15(a)-(b)] [Tab 10]

Deficient Retrospective Review of Management's Loan Valuations

82. A retrospective review of Mr. Smith's loan valuations was also required for the 2015 audit. However, as in 2014, the review conducted was deficient because the procedures followed, and the responses to the results of those procedures, were inadequate.
83. Mr. Smith's 2014 forecasts of expected receipts on the Loans were compared with the amounts collected on the Loans in 2015 and early 2016. However, in determining the amounts collected in 2015, the Media Fund's accounting records were relied upon. The accounting records were not source documents but involved an assumption that changes in Loan balances year-over-year reflected cash collected. [CAS 500.6] [Tab 8] The amounts collected were not corroborated with evidence such as bank records. [CAS 330.27] [Tab 6]
84. The results of this analysis revealed that the 2014 forecast of receipts, when compared to the amounts collected by early 2016, fell short by almost 80%, or \$25 million.
85. The auditor concluded that the shortfall appeared to be largely due to timing and that Mr. Smith was revising his current estimates. It was not considered whether the cash flows might not be realized at all nor was it adequately considered whether the shortfall represented a risk of material misstatement due to fraud or error in the 2015 financial statements [CAS 240.24] [Tab 4], particularly in light of the magnitude of the shortfall.
86. Accordingly, Mr. Vriend failed to ensure that the necessary retrospective review was appropriately conducted in respect of Mr. Smith's 2014 loan valuations.

Deficient Audit of Management's 2015 Loan Valuation

87. To evaluate Mr. Smith's 2015 loan valuation as part of the 2015 audit, a valuation was developed. This valuation, like Mr. Smith's, depended on sales forecasts from MHC. However, the process for determining the appropriateness of the sales forecasts consisted of conducting the flawed retrospective review described above and obtaining oral representations from MHC.

88. A single estimate of the value of the Loans in the amount of \$47 million was arrived at. To calculate value, the determined “most likely” value of each Loan was added to \$1.5 million in respect of a guarantee from MHC.
89. There were several issues with this calculation of value:
- a. The auditor did not follow the methodology it stated it used to determine the “most likely” value of each loan. Instead, it often arrived at values for the Loans that were greater than what had been owing on the Loans [Doc - #7]. The result was an inappropriate increase in the value of the Loans in the amount of \$1.4 million;
 - b. The value of the guarantee should not have been included in the value of the Loans. The guarantee consisted of a letter dated March 31, 2016, in which MHC stated it would pay a “recoupable” \$1.5 million to the Media Fund, for any losses over and above the Media Fund’s accrued loan-loss provisions [Doc – #7]. Aside from its “recoupable” nature, the guarantee was not in effect as of the date of the financial statements. BDO failed to apply the IFRS concept of “conditions at the reporting date” and incorrectly treated the guarantee as an adjusting subsequent event. [IAS 10.3] The result was a further inappropriate increase in the value of the loans in the amount of \$1.5 million; and
 - c. Although there was a plan to request an analysis from BDO’s valuations group to value the Loans, the value was finalized without that analysis. According to the audit documentation, the valuations group’s analysis was to be provided in report form. However, there were no reports, or any other evidence of the valuation group’s steps, in the audit file.
90. The value of the Loans was determined to be \$3 million less than Mr. Smith’s value. The difference in values would have been approximately twice the size – \$6 million – had the value not been inappropriately increased as noted above.
91. Discussions with Mr. Smith did not result in the making of any adjustment to the carrying amount of the Loans.
92. Mr. Vriend ought to have taken steps to identify the reason for the difference between Mr. Smith’s value and the value arrived at by BDO (and whether such difference was due to fraud or error). Rather than doing so, the \$3 million difference was ultimately disclosed in a note to the 2015 financial statements as a “potential change” in Mr. Smith’s loan value with Mr. Smith’s loan value appearing in the body of the financial statements.
93. Conclusions about the reasonableness of accounting estimates and indicators of possible management bias were not documented, contrary to CAS 540.23. [Tab 10]
94. Further, there is no evidence that additional procedures relating to management’s estimates, including considering alternative assumptions or outcomes, and whether management’s significant assumptions were reasonable, were undertaken. [CAS 540.15(a) and (b)] [Tab 10] Mr. Vriend did not ensure that further substantive procedures (such as assessing the effect of estimation uncertainty on the estimate and

the effect such uncertainty may have on the appropriateness of recognizing the estimate in the financial statements) were performed. In addition, management's approach to estimation uncertainty was not considered. [CAS 540.A102-.A105] [Tab 10]

95. Mr. Vriend admits that he failed to ensure that sufficient appropriate audit evidence of the valuation of the Loans was obtained in the 2015 Media Fund audit.
96. Mr. Vriend further admits that, having failed to ensure that sufficient appropriate audit evidence of the existence and valuation of the Loans was obtained, he failed to ensure that sufficient appropriate audit evidence was obtained to support the Statement of Financial Position item "Investments at fair value \$58,148,471" for the 2015 Media Fund audit.

Particular 3(f) – Failure to obtain sufficient appropriate audit evidence to support the Statement of Financial position item "Investments at fair value \$40,883,183" in the 2014 audit of the Mortgage Fund

97. The Mortgage Fund carried its investments – which included residential and commercial mortgage loans, and other loans receivable – at fair value using valuation techniques and presented them as "investments" on its statement of financial position. The fair values of the mortgage and other loans were classified as Level 3 in the fair value hierarchy of IFRS 13 because the significant inputs to their estimation were unobservable.
98. The Mortgage Fund's statement of financial position included investments at their fair value of \$40,883,183 for the 2014 year (which included the fair value of the mortgage loans of \$36,812,183).

The Existence Assertion – 2014 Audit

Deficient Testing and Sampling

99. The sampling and testing procedures employed in the 2014 audit of the existence of new mortgages were inadequate.
100. In performing these procedures, evidence provided by the Mortgage Service Organizations which had not been properly tested was relied upon.
101. Further, in establishing procedures for the sampling of new residential mortgages the overall risk was assessed as "low/normal" because Spectrum administered the mortgages. No explanation was provided as to why Spectrum's involvement reduced the risk. However, the lower risk assessment resulted in a small sample size and, as result, an audit test that was not statistically sound producing less reliable test results.
102. To test the mortgages selected in the 2014 audit of the Mortgage Fund, the planned procedure was to compare information in a listing of new mortgages provided by Mr. Smith with information in the mortgage files. However, the documentation of the review

of the mortgage files was deficient. The audit files did not include sufficient appropriate evidence that procedures were performed to confirm any mortgage details such as property location, term and interest rate.

103. Further, Mr. Smith's listing of initial loan amounts differed from the information in Spectrum's confirmation of loan amounts. These discrepancies were not identified nor were procedures performed to reconcile them.

104. The above-described gaps and inconsistencies should have cast doubt on the reliability of the audit evidence obtained [CAS 500.7] [Tab 8] which, in turn, should have had an effect on the nature and extent of the planned procedures. However, Mr. Vriend did not modify the planned procedures or perform additional audit procedures to address these issues in order to ensure that sufficient appropriate audit evidence was obtained. [CAS 330.25-.26 and .A60, 500.11, 230.11] [Tab 6, Tab 8 and Tab 3]

105. An initial sample size should have been selected that would reduce sampling risk to an acceptably low level. It was not. Further, the sample size should have been increased as the assessed risk of material misstatement increased as new information came to light during the audit. [CAS 530.7, .A11 and Appendix 3(1)] [Tab 9]

106. In light of the above, Mr. Vriend admits that sufficient appropriate evidence of the existence of the mortgages was not obtained in the 2014 Mortgage Fund audit.

Failure to Obtain Sufficient Appropriate Evidence of Valuation of Mortgages and Commercial Loans – 2014 Audit

Failure to Perform Required Retrospective Review

107. Mr. Smith prepared valuations of the Mortgage Fund's mortgages and commercial loans.

108. Contrary to CAS 240.33(b)(ii) [Tab 4], a retrospective review on the accrued loss provision on the mortgages owned by the Mortgage Fund – an essential component in their value – was not performed. Absent such a review, the auditor could not assess whether there was a heightened risk of fraud or error. The Fraud Checklist that required this analysis (as set out above) indicated that no retrospective review was required because there were no significant accounting estimates. However, it was recognized that the accrued loss provision on the mortgages was a significant accounting estimate in other documents [Doc - #8].

Failure to Verify Management's Estimated Accrued Loss Provision

109. Evidence required to verify Mr. Smith's estimated accrued loss provision for the 2014 audit of the Mortgage Fund was not obtained. In particular:

- a. The auditor relied on evidence from the Mortgage Service Organizations, despite not having adequately considered the reliability of this evidence and having not considered the controls at the Mortgage Service Organizations; and

- b. To determine which commercial mortgages were in arrears, the auditor relied solely on Mr. Smith and did not corroborate the completeness of Mr. Smith's listing of mortgages in arrears with independent evidence.

110. Mr. Vriend admits that he failed to ensure that sufficient appropriate audit evidence of the valuation of the Loans was obtained in the 2014 Mortgage Fund audit.

111. Mr. Vriend further admits that, having failed to ensure that sufficient appropriate audit evidence of the existence and valuation of the Loans was obtained, he failed to ensure that sufficient appropriate audit evidence was obtained to support the Statement of Financial Position item "Investments at fair value \$40,883,183", for the 2014 Mortgage Fund audit.

Particular 4(d) – Failure to obtain sufficient appropriate audit evidence to support the Statement of Financial position item "Investments at fair value \$40,627,269" in the 2015 Audit of the Mortgage Fund

112. The Mortgage Fund's statement of financial position included investments at their fair value of \$40,627,269 for the 2015 year (which included the fair value of mortgage loans of \$33,683,472).

The Existence Assertion – 2015

113. As with the 2014 audit of the existence assertion, there were gaps, deficiencies and inconsistencies in the evidence obtained in the 2015 Mortgage Fund audit.

114. To test the mortgages it selected in the 2014 audit of the Mortgage Fund, the planned procedure was to compare information in a listing of new mortgages provided by Mr. Smith with information in the mortgage files. However, the documentation of the review of the mortgage files was deficient. The audit files did not provide sufficient appropriate evidence that procedures were performed to confirm any mortgage details such as property location, term and interest rate.

115. Further, as noted above, the steps required by GAAS when service organizations are involved (such as obtaining assurance as to the controls related to the audit evidence provided) were not taken. Accordingly, the evidence from the Mortgage Service Organizations relied upon by the auditor was not properly tested.

116. Mr. Vriend admits that sufficient appropriate evidence of the existence of the mortgages was not obtained in the 2015 Mortgage Fund audit.

Failure to Obtain Sufficient Appropriate Evidence of the Valuation of Mortgages and Commercial Loans – 2015

117. To audit Mr. Smith's 2015 mortgage valuation, a valuation was developed. The valuation did not consider the probability of collecting on the commercial loans held by the Mortgage Fund. For example, one of the commercial loans was a loan on a media production that the Mortgage Fund had acquired from MHC. Mr. Vriend did not consider

the sales forecasts in valuing that loan, even though BDO had determined in its Media Fund audits that sales forecasts were critical to loan valuation.

118. CAS 540.8 requires an auditor to obtain an understanding of how management makes accounting estimates and an understanding of the data on which they are based including the method employed, management's assessment of whether the value should have changed since the prior year, and the effect of estimation uncertainty. [Tab 10]
119. The auditor used different inputs and assumptions to those used by management in assessing management's estimate, which was not appropriate in the circumstances. [CAS 540.A87-.A88] [Tab 10] For example, the probability of collecting on the commercial loans held by the Mortgage Fund, which was a significant driver of fair value, was not incorporated.
120. In its working papers, BDO indicated that there was a memorandum explaining the methodology for valuing the commercial loans. However, there was no such memorandum or other explanation of the approach to valuing the commercial loans in the audit file.
121. Further, the evidence required to verify Mr. Smith's estimated accrued loss provision for the 2015 audit of the Mortgage Fund was not obtained and evidence from the Mortgage Service Organizations, the reliability of which was not adequately considered, was relied upon.
122. Mr. Vriend admits that he failed to ensure that sufficient appropriate audit evidence of the valuation of the mortgages was obtained in the 2015 Mortgage Fund audit.
123. Mr. Vriend further admits that, having failed to ensure that sufficient appropriate audit evidence of the existence and valuation of the mortgages was obtained, he failed to ensure that sufficient appropriate audit evidence was obtained to support the Statement of Financial Position item "Investments at fair value \$40,627,269" for the 2015 Mortgage Fund audit.

Particulars 1(b), 2(b), 3(b) and 4(b) – Failure to adequately assess and/or address the risks of material misstatement due to fraud or error despite the presence of numerous fraud risk factors

124. In order to obtain reasonable assurance that an entity's financial statements are free from material misstatement whether due to fraud or error, auditors are required to identify areas of the financial statements that are at risk of misstatement, and to design and carry out procedures that reduce the risk of undetected misstatement to an acceptably low level in the circumstances. [CAS 315.5, CAS 240.17 and CAS 330.5,6] [Tab 5, Tab 4 and Tab 6]
125. When conducting the Audits, the following factors ought to have been identified by Mr. Vriend as fraud risk factors:

- a. Reliance on audit evidence provided by “service organizations”;
- b. Unresolved inconsistencies between material audit evidence derived from different sources (e.g. principal amounts in Loan Documents differed from information from MHC and management);
- c. Reliance on incomplete Loan documentation;
- d. Missing Loan documentation;
- e. Failure to conduct retrospective reviews on loan valuations provided by management;
- f. Failure to conduct a retrospective review on the accrued loss provisions on the mortgages for the 2014 audit of the Mortgage Fund;
- g. The existence of significant shortfalls (i.e. 80%) between forecasts of receipts and actual collections in the 2015 Media Fund audit;
- h. Failure to take into account that loan valuations arrived at, at times, exceeded the amount recorded as owing on such loans;
- i. Reliance on uncorroborated and/or untested accounting estimates and assumptions provided by management; and
- j. Failure to consider whether management’s estimates of value stemmed from an intention to mislead the auditor and/or management bias.

126. Having failed to identify the above fraud risk factors, Mr. Vriend admits that, in the conduct of the Audits, he failed to adequately assess and/or address the risk of material misstatement due to fraud or error, despite the presence of numerous risk factors.

Particulars 2(e) and 4(e) – Failure to Ensure that an Adequate or Appropriate EQCR was Completed for the 2015 Audits

127. An EQCR provides an objective evaluation of significant judgments made by the engagement team and the conclusions reached in formulating the audit report. [CSQC 1.35] [Tab 11] The EQCR reviewer cannot be part of the engagement team. [CSQC 1.39(b)] [Tab 11]

128. Pursuant to CSQC 1.37, an EQCR is required to include:

- a. Discussion of significant matters with the engagement partner;
- b. Review of the financial statements and proposed report;
- c. Review of selected engagement documentation relating to significant judgment and conclusions reached by the engagement team; and
- d. Evaluation of the conclusions reached in forming the report and consideration of whether the report is appropriate in the circumstances.

129. When an auditor determines that an EQCR is required, the auditor's policies must mandate that the engagement report not be dated until completion of the EQCR. [CSQC 1.36] [Tab 11]

130. For 2015, it was determined, pursuant to BDO's policies and procedures, that EQCRs were required for the Audits. However, such reviews were not effectively conducted in accordance with GAAS, as the partner who the audit file indicates acted as the EQCR reviewer could not conduct an EQCR because he was a member of the engagement team. Other documentation in each audit file confirmed that no EQCR had been completed. Audit reports for the Audits were nonetheless issued by Mr. Vriend.

131. Mr. Vriend admits that he failed to ensure that an adequate or appropriate EQCR was completed prior to the issuance of the auditor's report for each of the Funds for 2015, despite having determined that such a review was required.

Particulars 1(a), 2(a), 3(a) and 4(a) – Failure to Exercise Sufficient Appropriate Professional Skepticism

132. "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]

133. 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. [CAS 200.15] [Tab 1]

134. Professional skepticism must be maintained throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist. [CAS 240.13] [Tab 4]

135. 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]

136. 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. [CAS 200.A21] [Tab 1]

137. 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]

138. Mr. Vriend admits that he failed to ensure that the Audits were conducted with sufficient professional skepticism. In particular, in the manner set out herein, he failed to take account of contradictory audit evidence and other circumstances which ought to have caused the auditor to treat Mr. Smith's representations with greater caution, obtain additional evidence from independent sources and perform additional procedures on that evidence.

Acknowledgement

139. Pursuant to CAS 220, Mr. Vriend, as engagement partner, was responsible for the conduct of the Audits. [Tab 2]

140. In particular:

- a. CAS 220.15 (a) and (b) state that the engagement partner shall be responsible for the direction, supervision, and performance of the audit engagement and

compliance with professional standards (including those on audit documentation – CAS 220.24, CAS 230.8, and CAS 230.A8), and the appropriateness of the auditor's report in the circumstances;

- b. CAS 220.17 states that 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
- c. CAS 220.18 (a) states that the engagement partner is responsible for the engagement team undertaking consultations. [Tab 2]

141. Mr. Vriend admits that, as engagement partner for the Audits, and having attached to the Media Fund's and Mortgage Fund's 2014 and 2015 financial statements an unqualified audit opinion, he failed to perform his professional services in accordance with generally accepted standards of practice of the profession, as described in this Settlement Agreement, contrary to Rule 206.1 of the Rules of Professional Conduct.

Mitigating Factors

142. Mr. Vriend has been cooperative throughout the CPA Ontario investigation, in particular, by adopting and agreeing to the admissions made by BDO in the OSC Settlement. It is not alleged in this proceeding that Mr. Vriend acted dishonestly in the conduct of the audit.

Terms of Settlement

143. The PCC and Mr. Vriend agree on the following Terms of Settlement:

- a. A payment by way of fine in the amount of \$50,000;
- b. Suspension from the rights and privileges of membership in CPA Ontario and of his Public Accounting Licence for a period of six (6) months from the date on which this Agreement is approved by the Discipline Committee;
- c. A restriction on Mr. Vriend's practice prohibiting him from performing audit engagements for any reporting issuer;
- d. A payment of costs in the amount of \$45,000;
- e. Notice of the Terms of this Settlement Agreement is to be published, including notice to be given to all members of CPA Ontario, the Public Accounting Standards Committee, all provincial CPA bodies, and in the *Globe and Mail* and *National Post* newspapers. All costs associated with the newspaper publication shall be borne by Mr. Vriend and shall be paid in addition to any other monetary amounts agreed to herein; and
- f. Mr. Vriend will be allowed 18 months from the date the Discipline Committee approves this Settlement Agreement to pay the fine, costs and costs associated with the newspaper publication referred to herein.

144. A failure by Mr. Vriend to comply with any of the Terms of Settlement will result in the revocation of his membership in CPA Ontario. The PCC and Mr. Vriend expressly consent and authorize the Registrar to take any actions associated with suspension or revocation of Mr. Vriend's membership in CPA Ontario as prescribed and agreed to herein.

145. For greater certainty, the PCC and Mr. Vriend expressly authorize and consent to CPA Ontario:

- Providing notice of the Terms of this Settlement Agreement to all CPA Ontario members, to the Public Accounting Standards Committee, and to all provincial bodies; and
- Publishing notice of the Settlement Agreement and the Terms of Settlement set out in paragraph 143 (a-e) above in the *Globe and Mail* and *National Post* newspapers.

146. Should the Discipline Committee approve this Settlement Agreement, Mr. Vriend agrees to waive his right to a full hearing, judicial review, or appeal of the matter subject to the Settlement Agreement. Upon Mr. Vriend fulfilling the requirements of this Settlement Agreement, the draft allegations attached as Schedule "A", approved by the PCC and dated March 2021, shall be forever stayed.

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

148. This Settlement Agreement and its terms will be treated as confidential by the PCC and Mr. Vriend 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 PCC and Mr. Vriend, or, as may be required by law.

149. 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 8th day of October, 2021.



Alexandra E. Hersak, LL.B
Vice President, Investigations & Prosecutions
on behalf of
The Professional Conduct Committee



Michael Vriend, CPA, CA
on his own behalf



CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

THE CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

TO: MICHAEL VRIEND, 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 Michael Vriend, CPA, CA, a member of CPA Ontario:

1. THAT the said Michael Vriend, in or about the period January 1, 2014 to March 31, 2015, while acting as the engagement partner with BDO Canada LLP ("**BDO**") in an engagement to audit the financial statements of Crystal Wealth Media Fund ("**Media Fund**") for the year ended December 31, 2014 and having attached to the financial statements an unqualified audit opinion, 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 of Professional Conduct, in that:
 - a. he failed to exercise sufficient and appropriate professional skepticism;
 - b. he failed to adequately assess and/or address the risks of material misstatement due to fraud or error despite the presence of numerous fraud risk factors;
 - c. he failed to identify Media House Capital (Canada) Corp. ("**MHC**") as a third party "service organization" and a key audit area for which an audit response was necessary;
 - d. he failed to evaluate the design and implementation of the Media Fund's relevant controls relating to the services provided by MHC as a "service organization";
 - e. he failed to obtain sufficient and appropriate audit evidence of the operating effectiveness of the controls of MHC as a "service organization"; and
 - f. he failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item "Investments at fair value \$42,977,629".
2. AND THAT the said Michael Vriend, in or about the period January 1, 2015 to March 31, 2016, while acting as the engagement partner with BDO in an engagement to audit the financial statements of the Media Fund for the year ended December 31, 2015 and having attached to the financial statements an unqualified audit opinion, 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 of Professional Conduct and Rule 206.1 of the Code of Professional Conduct, in that:

- a. he failed to exercise sufficient and appropriate professional skepticism;
 - b. he failed to adequately assess and/or address the risks of material misstatement due to fraud or error despite the presence of numerous fraud risk factors;
 - c. he failed to plan and perform an adequate audit response in respect of the audit evidence generated by MHC, having identified MHC as a third party “service organization”;
 - d. he failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item “Investments at fair value \$58,148,471”; and
 - e. he failed to ensure that an adequate or appropriate Engagement Quality Control Review (“EQCR”) was completed prior to the issuance of the auditor’s report, despite having determined that such a review was required.
3. AND THAT the said Michael Vriend, in or about the period January 1, 2014 to March 31, 2015, while acting as the engagement partner with BDO in an engagement to audit the financial statements of Crystal Wealth Mortgage Strategy Fund (“**Mortgage Fund**”) for the year ended December 31, 2014, and having attached to the financial statements an unqualified audit opinion, 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 of Professional Conduct, in that:
- a. he failed to exercise sufficient and appropriate professional skepticism;
 - b. he failed to adequately assess and/or address the risks of material misstatement due to fraud or error despite the presence of numerous fraud risk factors;
 - c. he failed to identify Spectrum-Canada Capital (2002) Corporation and Spectrum Canada Mortgage Services Inc. (collectively, “**Spectrum**”), Squire Management Inc. (“**Squire**”), and Liberty Mortgage Services Ltd. (“**Liberty**”) as third party “service organizations” and key audit areas for which an audit response was necessary;
 - d. he failed to evaluate the design and implementation of the Mortgage Fund’s relevant controls relating to the services provided by Spectrum, Squire, and Liberty as “service organizations”;



- e. he failed to obtain sufficient and appropriate audit evidence of the operating effectiveness of the controls of Spectrum, Squire, and Liberty as “service organizations”; and
 - f. he failed to obtain sufficient appropriate audit evidence to support the Statement of Financial position item “Investments at fair value \$40,883,183”.
4. AND THAT the said Michael Vriend, in or about the period January 1, 2015 to March 31, 2016, while acting as the engagement partner with BDO in an engagement to audit the financial statements of the Mortgage Fund for the year ended December 31, 2015, and having attached to the financial statements an unqualified audit opinion, 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 of Professional Conduct and Rule 206.1 of the Code of Professional Conduct, in that:
- a. he failed to exercise sufficient and appropriate professional skepticism;
 - b. he failed to adequately assess and/or address the risks of material misstatement due to fraud despite the presence of numerous fraud risk factors;
 - c. he failed to plan and perform an adequate audit response in respect of the audit evidence generated by Spectrum, Squire, and Liberty, having identified Spectrum, Squire, and Liberty as “service organizations”;
 - d. he failed to obtain sufficient appropriate audit evidence to support the Statement of Financial position item “Investments at fair value \$40,627,269”; and
 - e. he failed to ensure that EQCRs were completed prior to the issuance of the auditor’s report, despite having determined that such reviews were required.

Dated at Toronto, Ontario, this ____ day of March, 2021

TONY SOKIC, CPA, CA, CHAIR
PROFESSIONAL CONDUCT COMMITTEE