

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 **NAVIN MAHENDRA, CPA, CA.**

**TO:** Mr. Navin Mahendra, CPA, CA

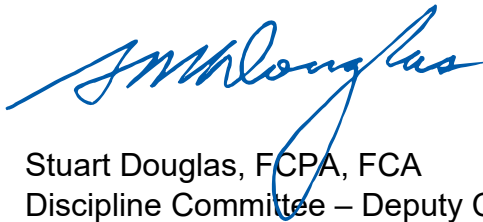
**AND TO:** The Professional Conduct Committee

**DECISION MADE OCTOBER 29, 2019**

**DECISION**

After considering the submissions of the parties and the proposed Settlement Agreement itself, the Panel hereby approves the Settlement Agreement, dated September 5, 2019.

**DATED** at Toronto, this 30<sup>th</sup> day of October, 2019.

A handwritten signature in blue ink, appearing to read "Stuart Douglas".

Stuart Douglas, FCPA, FCA  
Discipline Committee – Deputy Chair



## CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

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

**IN THE MATTER OF: ALLEGATIONS OF PROFESSIONAL  
MISCONDUCT AGAINST NAVIN MAHENDRA,  
CPA, CA, 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 has approved draft Allegations against Navin Mahendra, CPA, CA ("Mahendra") (**Doc 1**).
2. The draft Allegations pertain to Mahendra's failure to perform professional work in accordance with generally accepted standards of practice of the profession with respect to the following engagements:
  - a) an audit of the financial statements of "SC Ltd." for the year ended December 31, 2015 (**Doc 2**);
  - b) an audit of the financial statements of "NPNH Ltd." for the year ended December 31, 2017 (**Doc 3**); and

- c) an audit of the financial statements of "CTC Inc." for the year ended September 30, 2018 (**Doc 4**).
  
- 3. The documents referred to in this agreement are found in the **Document Brief ("Doc")**. The applicable *CPA Canada Handbook* sections are found in the **Brief of Authorities ("Tab")**.
  
- 4. The Professional Conduct Committee ("PCC") and Mahendra 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 Mahendra in any other proceedings of any kind, including, but without limiting the generality of the foregoing, any civil or other proceedings which may be brought by any other person, corporation, regulatory body or agency.

**Background of the Member**

- 5. Mahendra has been a member of CPA Ontario since 1999.
  
- 6. Since 2007, Mahendra has been self-employed as Mahendra CA Professional Corporation (the "Firm"), and currently has a part-time practice. Mahendra does not employ any full-time staff and where necessary, he hires contractors. Since May 2018, Mahendra has also been employed by a not-for-profit company.
  
- 7. Mahendra advises that he has resigned from all public company assurance engagements. The Firm is no longer a registered audit firm with the Canadian Public Accountability Board ("CPAB").
  
- 8. Mahendra further advises that he has resigned from all assurance engagements and that his remaining part-time practice consists of compilations and tax returns.

## **Background of the Complaint**

9. Mahendra came to the attention of the PCC following a complaint made by CPAB relating to Mahendra's client, SC Ltd., which is a public company (Doc 5). CPAB alleged, amongst other things, that the Firm issued an unqualified opinion on the December 31, 2015 audited financial statements for SC Ltd. even though Mahendra knew, or ought to have known, that revenue was materially misstated. CPAB also alleged that the Firm did not consider whether it had any additional responsibilities under law, regulation or relevant ethical requirements regarding the client's possible non-compliance with laws and regulations, including fraud.
10. Ms. Trisha LeBlanc, CPA, CA was appointed to investigate CPAB's complaint. She was asked to review the working paper files which were the subject of the CPAB complaint (i.e. the financial statements of SC Ltd. for the year ended December 31, 2015), as well as a sample of current audit files, for compliance with professional standards.
11. As Mahendra resigned from all public company audit engagements and advised that he only had two audit engagements remaining, Ms. LeBlanc reviewed the financial statements of those two companies. In particular, Ms. LeBlanc reviewed the financial statements of NPNH Ltd. for the year ended December 31, 2017 and the financial statements of CTC Inc. for the year ended September 30, 2018.

### **Allegation 1 – SC Ltd.**

#### **Background**

12. SC Ltd. had been a client of Mahendra's for approximately 3 to 4 years.
13. SC Ltd. had a secured creditor as well as an unsecured creditor. In November 2014, the unsecured creditor obtained a judgment against SC Ltd. and in February 2015, served a garnishment order on one SC Ltd.'s significant customers (the "Customer"),

directing payment to the Sheriff instead. The secured creditor took the position that their receivables ought to take priority and commenced litigation.

14. During 2015, SC Ltd. rendered services to the Customer in the amount of approximately \$873,500 but did not issue invoices or recognize the revenue in its published financial statements. Based on the audit documentation and Mahendra's knowledge of the client and the file, he was aware that management was intentionally delaying invoicing the Customer to avoid the garnishment order (Docs 6, 7 and 8).

15. During the audit of the 2015 financial statements, in order to provide a clean audit opinion, Mahendra directed management to book an adjusting entry to reverse the revenue and accounts receivable SC Ltd. had accrued related to the Customer, as he was of the view that he did not have sufficient audit evidence that the revenue had been earned. As a result, the revenue was not recognized in the financial statements.

16. In 2016, SC Ltd. was released from its garnishment order following which it invoiced the Customer and restated the 2015 financial statements to recognize an additional \$873,500 of revenue, along with the related accounts receivable.

**Particular (a) - failure to use an appropriate amount of professional skepticism**

17. Management of SC Ltd. had accrued \$894,000 of revenue which had still not been invoiced as of the date of completion of the audit. While Mahendra did consider whether withholding the invoices meant that revenue had not been earned, he did not exercise professional skepticism by considered *why* management would want to withhold the invoices.

18. Given Mahendra's knowledge of the garnishment order, he should have used an appropriate amount of professional skepticism with respect to management's decision to withhold invoicing the Customer. In particular, Mahendra did not

consider what management bias the client would have for withholding invoicing the Customer. He did not consider whether there was any benefit that would be gained by the company, management, or those charged with governance in doing so, including considering related party benefits, if any. As a result, audit risks were not appropriately identified nor were appropriate audit responses developed and implemented.

19. In light of the above, Mahendra failed to use an appropriate amount of professional skepticism with respect to management's decision to withhold invoicing the Customer, contrary to CAS 240.13, *The Auditor's Responsibilities Relating to Fraud in an Audit Financial Statements*. (Tab 1)

**Particular (b) - failure to document audit evidence**

20. International Accounting Standard ("IAS") 18 *Revenues* is the accounting standard that provides guidance for revenue recognition appropriate to public companies, or any company that applies International Financial Reporting Standards ("IFRS") (Tab 2). Further, CAS 500.6 *Audit Evidence* requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

21. The working paper relating to revenue recognition documents Mahendra's consideration of the appropriate timing of revenue recognition and the appropriateness of recognizing revenue, gross or net (Doc 9). The working paper documents the considerations primarily from a legal perspective; however, it does not contain a formal analysis of the Customer's revenues in accordance with IAS 18.

22. Further, the audit documentation does not reflect any attempt by Mahendra to perform alternative audit procedures to support the recognition of revenue. Mahendra agrees that this was not performed.

23. In light of the above, Mahendra failed to document any attempt to perform alternative audit procedures to support the recognition of revenue in accordance with the applicable financial reporting framework, contrary to CAS 500.6 *Audit Evidence* (Tab 2).

**Particular (c) - issued an unqualified opinion on financial statements when revenue was materially misstated**

24. As a result of the facts set out in Particulars (a) and (b) set out above, Mahendra issued an unqualified opinion on the December 31, 2015 audited financial statements of SC Ltd. even though he knew, or ought to have known, that revenue was materially misstated.

**Particular (d) - failed to engage an Engagement Quality Control Reviewer**

25. CSQC 1.35 (a) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* requires an engagement quality control review for all audits of financial statements of listed entities (Tab 3). Further, CAS 220.19 (a) *Quality Control for an Audit of Financial Statements* requires, for audits of financial statements of listed entities, that the partner determine that an engagement quality control reviewer ("EQCR") has been appointed (Tab 4).

26. SC Ltd. is considered a listed entity, therefore an EQCR was required. The audit planning document properly identified that an EQCR was required (Doc 10); however, there was no evidence in the file that a quality review had been performed, and no identification of who the EQCR was.

27. Mahendra acknowledges that he decided not to hire an EQCR notwithstanding that he knew that he was required to have one; therefore, Mahendra failed to engage an

**EQCR, contrary to CSQC 1.35(a) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* and failed, as the partner on the engagement, to determine that an EQCR had been appointed contrary to CAS 220.19 (a) *Quality Control for an Audit of Financial Statements*.**

**Allegation 2 - NPNH Ltd.**

**28. NPNH Ltd. is a family run nursing home with 75 beds. It obtains funding from the Ministry of Health and has been a client of Mahendra's for approximately 10 years.**

**Particular (a) - failed to disclose a related-party transaction**

**29. CPA Canada Handbook- Part II 3840.51(c) and (d) *Related Party Transactions* requires the amount and the basis for measurement of related party transactions be disclosed (Tab 5).**

**30. Note 12 to the financial statements discloses the related party transactions. Note 5 to the financial statements discloses the amounts that are liabilities to the shareholders and discloses that at least one of the loans is interest bearing (Doc 3). As a result, the amount of the interest expense that is included in the financial statements, that was expensed or paid to the shareholders, should have also been disclosed as a related party transaction in Note 12. Mahendra acknowledges that this was overlooked.**

**31. In light of the above, Mahendra failed to disclose the interest expense that was paid to shareholders as a related-party transaction, contrary to CPA Canada Handbook- Part II 3840.51(c) and (d) *Related Party Transactions*.**

**Particular (b) - failed to communicate with those charged with governance**

32. CAS 260.16 *Communication with Those Charged with Governance* requires the communication of significant findings from the audit. CAS 260.23 indicates that where matters required by this CAS are communicated orally, the auditor shall include audit documentation of these oral discussions (Tab 6). In addition, CAS 265.9 *Communicating Deficiencies in Internal Control to Those Charged with Governance* requires that any significant deficiencies in internal control be identified to those charged with governance on a timely basis (Tab 7).

33. No audit documentation was identified that these communications took place. The working papers do not contain these communications, or any identification or assessment of deficiencies identified during the audit. Based on the structure of the entity and the fact there was a lack of segregation of duties, significant deficiencies in internal control should have been identified.

34. Mahendra therefore failed to communicate with those charged with governance or failed to document such communications with respect to significant matters identified during the audit, as well as internal control deficiencies identified during the audit, contrary to CAS 260 *Communication with Those Charged with Governance* and CAS 265.9 *Communicating Deficiencies in Internal Control to Those Charged with Governance*.

**Particular (c) - failed to document misstatements**

35. CAS 450.8 *Evaluation of Misstatements Identified during the Audit* requires the auditor to communicate, and request management to correct, the misstatements identified (Tab 8).

36. No audit documentation was identified evidencing this communication. Further, the working paper file reflected a number of examples where "variances" were identified on working papers and it is not clear in the audit documentation if these differences were considered misstatements and should have been taken to the summary of unadjusted audit differences, or if they were disposed of during the audit in some other way (**Doc 11**).

37. In light of the above, Mahendra failed to prepare a summary of unadjusted audit differences, and communicate said differences with management, for variances identified during the audit, contrary to *CAS 450.8 Evaluation of Misstatements Identified during the Audit*.

**Particular (d) - failed to perform any concluding analytic procedures**

38. *CAS 520.6 Analytical Procedures* requires the auditor to design and perform analytical procedures near the end of the audit (**Tab 9**). A concluding analytic could not be identified in the audit documentation and Mahendra also could not locate the concluding analytical procedures.

39. In light of the above, Mahendra failed to perform any concluding analytic procedures, contrary to *CAS 520.6 Analytical Procedures*.

**Particular (e) - failed to document audit sampling**

40. *CAS 530.6-530.8 Audit Sampling* requires documentation as to how the sample was designed, how the sample size was determined and how sample items were selected (**Tab 10**).

41. The working paper relating to performing cut-off testing on accounts payable indicates 7 invoices prior to year-end and 7 invoices after year-end were selected to ensure they were recorded in the correct period (**Doc 12**). There is no clear

documentation as to how the sample was designed, how the sample size was determined and how sample items were selected.

42. In light of the above, Mahendra failed to document how the sample with respect to cut-off testing on accounts payable was designed, determined and selected, contrary to CAS 530.6 - 530.8 *Audit Sampling*.

**Particular (f) - failed to perform sufficient audit procedures on revenues**

43. CAS 330.6 *The Auditor's Responses to assessed Risks* requires the auditor to design and perform audit procedures whose nature, timing and extent are based on, and are responsive to, the assessed risks of material misstatement (**Tab 11**).

44. There are several examples which indicate that sufficient audit procedures were not performed on revenues to assess if they were free from materials misstatement:

- a. Testing the completeness and accuracy of the Ministry of Health subsidy revenue was not performed and/or documented;
- b. Testing of the appropriate use of funds received from the Ministry of Health to be used for activity-related services was not performed (**Doc 13**); and
- c. During the detailed testing of the rates charged to residents for rent, there was no documentation of:
  - i. the differences identified while performing the testing of rates charged to residents for rent to determine if they were appropriate or reflected sampling deviations; and
  - ii. verification of the nature of the room occupied to the applicable rent agreement (**Doc 14**).

45. In light of the above, Mahendra failed to perform sufficient audit procedures on revenues to assess if they were free from material misstatements, contrary to CAS 330.6 *The Auditor's Responses to Assessed Risks*.

### **Allegation 3 - CTC Inc.**

46. CTC Inc. is a family-owned and run private college that provides vocational courses, using contract teachers. It has been a client of Mahendra's for approximately 6 years.

47. During 2018, in an effort to attract new students, CTC Inc. began recruiting international students, and charged a non-refundable registration fee. Many students did not receive visas to come to Canada and therefore it did not result in a significant impact on vocational programs revenue.

#### **Particular (a) - failed to use an appropriate audit approach for revenue**

48. During the 2018 fiscal year end, CTC Inc. recognized revenue related to "non-vocational programs" in the amount of \$123,633 (Doc 4). This revenue related to non-refundable registration fees.

49. Notwithstanding that this was the largest revenue stream in the 2018 financial statements and was significantly higher than the 2017 comparative figure of \$3,675, the audit documentation does not contain a subledger or working paper relating to the composition of this revenue (only that it was determined by deducting vocational program revenues from total revenues to arrive at a residual value). (Doc 15)

50. While work was performed on a sample of registration fees (Doc 16), without a detailed listing it is not clear that the entire population was subject to testing as required in CAS 530.8 *Audit Sampling* (Tab 10). Further, it is not clear if the composition of non-vocational revenues is homogeneous. Without this information, assessing the appropriateness of revenue recognition of the elements of this balance is not possible.

51. CAS 240.27 states that there is a rebuttable presumption of fraud in revenues (Tab 1). In the audit documentation, this presumption was not rebutted, yet a fraud risk in revenues was not reflected in the audit documentation. As the revenue stream from non-vocational programs became the largest revenue stream in 2018, the presumption of fraud in revenue should have been considered.

52. In light of the above, Mahendra failed to use an appropriate audit approach for revenue by:

- a) failing to document or rebut the presumption of fraud risk in revenues, contrary to *CAS 240.27 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*; and
- b) failing to ensure that the entire population of registration fees was subject to testing, contrary to *CAS 530.8 Audit Sampling*.

**Particular (b) - failed to consider whether certain individuals were related parties**

53. CPA Canada Handbook- Part II 3840.51(c) and (d) *Related Party Transactions* requires the amount and the basis for measurement of related party transactions be disclosed (Tab 5).

54. Note 7 to the financial statements discloses the related party transactions and includes the wages and benefits that were paid to "the shareholder" (i.e. the party that controls the reporting entity) (Doc 4). However, the working papers show that a salary was also paid to the husband of the shareholder (in the amount of \$31,081) and contracting fees were paid to the daughter of the shareholder (in the amount of \$22,000) and these amounts were not disclosed (Docs 17 and 18).

55. Mahendra acknowledges that he had not considered whether the husband and daughter were related parties. Mahendra therefore failed to consider whether certain individuals were related parties, contrary to *CPA Canada Handbook- Part II 3840.51(c) and (d) Related Party Transactions*.

**Particular (c) - failed to communicate with those charged with governance**

56. CAS 260.16 *Communication with Those Charged with Governance* requires the communication of significant findings from the audit. CAS 260.23 indicates that where matters required by this CAS are communicated orally, the auditor shall include audit documentation of these oral discussions.
57. No audit documentation was identified that these communications took place. Mahendra states that these communications occurred but agrees that they were not documented.
58. CAS 265.9 *Communicating Deficiencies in Internal Control to Those Charged with Governance* requires that any significant deficiencies in internal control be identified to those charged with governance on a timely basis.
59. The working papers do not contain this communication or any identification or assessment of deficiencies identified during the audit. Based on the structure of the entity and the fact there is a lack of segregation of duties, significant deficiencies in internal control should have been identified.
60. Other than communicating any bookkeeping issues at the time Mahendra found them and ensuring that the changes were made, Mahendra agrees that he did not issue any specific letter or communication regarding significant deficiencies in internal control.
61. In light of the above, Mahendra failed to inquire of or communicate with those charged with governance or failed to document such inquiries or communications with respect to:
- a) significant matters identified during the audit, contrary to CAS 260.16 and 260.23 *Communication with Those Charged with Governance*; and

- b) Internal control deficiencies identified during the audit, contrary to CAS 260.23 and CAS 265.9 *Communicating Deficiencies in Internal Control to Those Charged with Governance*.

**Particular (d) - failed to identify and document his understanding of controls with respect to significant risks identified**

**62. CAS 315.12 and 315.13 *Identifying and Assessing the Risks of Material***

*Misstatement Through Understanding the Entity and its Environment* require the auditor to obtain an understanding of controls relevant to an audit and that when obtaining this understanding, procedures in addition to inquiry will be needed. Paragraph A69 of CAS 315 indicates the significance of a related risk is a factor relevant to the auditor's judgment about whether a control is relevant to the audit (Tab 12).

63. Significant risks were identified in the audit documentation related to deposits, unearned revenue and cash. While the audit documentation included process descriptions, control documentation could not be identified, including any applicable controls specifically related to the significant risks.

64. In light of the above, Mahendra failed to identify and document his understanding of controls with respect to significant risks identified in the audit, contrary to CAS 315.12 and 315.13 *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*.

**Particular (e) - failed to perform or document any preliminary analytical procedures**

65. CAS 315.6(b) *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment* requires that the performance of risk assessment procedures include analytical procedures (commonly referred to as

preliminary analytical procedures) (Tab 12). No preliminary analytical procedures were identified in the audit documentation.

66. Mahendra acknowledged that this was not done, and therefore he failed to perform or document any preliminary analytical procedures in the audit documentation contrary to CAS 315.6(b) *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*.

**Particular (f) - failed to perform the required procedures with respect to subsequent events**

67. CAS 560.6 and 560.7 *Subsequent Events* require that subsequent event procedures be performed (Tab 13). No evidence of subsequent event procedures was identified in the audit documentation and Mahendra agrees that he would not have done this.

68. Mahendra therefore failed to perform the required procedures with respect to subsequent events, contrary to CAS 560.6 and 560.7 *Subsequent Events*.

**Acknowledgement**

69. It is agreed that, with respect to the audit of the financial statements of SC Ltd. for the year ended December 31, 2015, Mahendra failed to perform his professional services in accordance with generally accepted standards of practice of the profession, including the recommendations set out in the *CPA Canada Handbook*, in the manner described above.

70. It is agreed that, with respect to the audit of the financial statements of NPNH Ltd. for the year ended December 31, 2017, Mahendra failed to perform his professional services in accordance with generally accepted standards of practice of the profession, including the recommendations set out in the *CPA Canada Handbook*, in the manner described above.

**71. It is agreed that, with respect to the audit of the financial statements of CTC Inc. for the year ended September 30, 2018, Mahendra failed to perform his professional services in accordance with generally accepted standards of practice of the profession, including the recommendations set out in the *CPA Canada Handbook*, in the manner described above.**

**Terms of Settlement**

**72. Mahendra and the PCC agree to the following Terms of Settlement:**

- a) Mahendra will be reprimanded in writing by the Chair of the Discipline Committee;**
- b) Mahendra will pay a fine in the amount of \$10,000 within 12 months of this agreement receiving approval of the Discipline Committee;**
- c) Mahendra's practice will be restricted to non-assurance engagements, restricting him from performing audit or review engagements;**
- d) Notice of the terms of this Settlement is to be published in accordance with the provisions of CPA Ontario Regulation 6-2, section 45, including notice to be given to all members of CPA Ontario, the Public Accountants Council and to all provincial bodies;**
- e) Notice of the restriction shall also be given in accordance with CPA Ontario Regulation 6-2, section 48 in the newspaper in the geographic area where Mahendra practices, being Richmond Hill, Ontario (i.e. in *The Globe & Mail* newspaper). All costs associated with the publication shall be borne by Mahendra and shall be in addition to any other costs ordered by the Discipline Committee;**

- f) Mahendra will pay costs in the amount of \$15,000 within 12 months of this agreement receiving approval of the Discipline Committee; and**
- g) A failure by Mahendra 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 3 months his membership in CPA Ontario will be revoked with full publicity in accordance with Regulation 6-2, section 48.**

**73. Should the Discipline Committee accept this Settlement Agreement, Mahendra 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 June 2019, shall be forever stayed.**

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

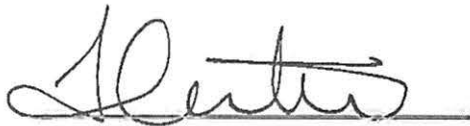
- a) This Settlement Agreement and its terms, including all Settlement negotiations between the Professional Conduct Committee and Mahendra leading up to its presentation to the Discipline Committee, shall be without prejudice to the Professional Conduct Committee and Mahendra; and**
- b) The Professional Conduct Committee and Mahendra 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**

75. This Settlement Agreement and its terms will be treated as confidential by the Professional Conduct Committee and Mahendra, 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 Mahendra, or, as may be required by law.

76. 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 5<sup>th</sup> day of September 2019.



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



NAVIN MAHENDRA, CPA, CA,  
on his own behalf