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THE CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

THE CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

IN THE MATTER OF: ALLEGATIONS OF PROFESSIONAL
MISCONDUCT AGAINST ROBERT A.
NORI, CPA, CA, A MEMBER OF CPA
ONTARIO, BEFORE THE DISCIPLINE
COMMITTEE

SETTLEMENT AGREEMENT

***Made pursuant to Section 34 (3) (c) of the Chartered
Professional Accountants of Ontario Act, 2017 and to
CPAO Regulation 7-1, s.22.4***

Introduction

1. The Professional Conduct Committee approved draft Allegations against Robert A. Nori, CPA, CA ("Nori") **Doc 1**.

2. The draft Allegations pertain to Nori's failure to maintain a public accounting licence while engaged in the practice of public accounting, and to professional work performed by Nori with respect to the following engagements:
 - a) the review of the financial statements of "FGC Inc." for the year ended December 31, 2013; **Doc 7** and
 - b) the audit of the financial statements of "OC: ACS" for the year ended March 31, 2014. **Doc 10**

3. The documents referred to in this agreement are found in the Document Brief (“**Doc**”). The applicable *CICA Handbook* sections are found in the Brief of Authorities (“**Tab**”).
4. The Professional Conduct Committee (“**PCC**”) and Nori 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 Nori 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. Nori received his CA designation in 1977. He began his career in industry, for approximately seven years, following which he has been in public practice. Nori has practiced in different partnerships, but has been a sole practitioner since 2000.
6. In or about 1987, Nori was diagnosed with bipolar disorder. He continues to take medication for that condition, and is under the ongoing care of a physician.
7. Nori gave up his public accounting licence in June, 2013.
8. He attempted to “cancel” his CPA, CA designation in March, 2015, in or about the time Standards Enforcement was corresponding with him about the complaint it had received. Nori misunderstood this “cancellation” to be effective, however he was not in fact permitted to resign as there was an outstanding complaint against him.

9. Nori currently performs accounting work for small companies, and prepares personal income tax returns. He does not have employees in his practice, although he hires an assistant during tax season. His spouse acts as his administrative assistant.
10. Nori states that he does not have a quality control process, nor does he use the CPA Canada *Handbook*, or the CPA Ontario *Member's Handbook*.
11. Nori had not completed any professional development in the recent past, which he states was one basis for his decision to give up his public accounting licence.
12. Nori came to the attention of the PCC as a result of a complaint from another member, who asserted that Nori provided assurance services for their mutual client, FGC Inc. when he did not hold a public accounting licence. **Doc 2**
13. In the course of corresponding with Nori in respect of the complaint, he disclosed to Standards Enforcement staff that he had performed additional assurance engagements subsequent to relinquishing his public accounting licence. **Doc 3, 4, 5, 6**
14. Mr. Paul Gibel, FCPA, FCA, was appointed to investigate.

Allegation 1 – Practicing Public Accounting Without a Licence

15. Nori was engaged to prepare review engagement financial statements for FGC Inc. He performed the engagement annually, while another firm “T LLP” was responsible for the entity’s bookkeeping.
16. In July, 2014, T LLP received a copy of the review engagement financial statements for FGC Inc. for the year ended December 31, 2013, and noticed some discrepancies. The Review Engagement Report was dated

March 13, 2014, and was issued by Nori, who signed it as a Licensed Public Accountant. **Doc 7 Pg. 7002**

17. In light of the discrepancies, T LLP inquired with CPA Ontario to determine if Nori was in fact licensed. On discovering that he was not, T LLP consulted with CPA Ontario's Practice Advisory service, and subsequently made a complaint to the Professional Conduct Committee. **Doc 2**
18. As noted above, CPA Ontario records show that Nori gave up his public accounting licence effective June 27, 2013.
19. On May 22, 2015, in responding to an inquiry from Standards Enforcement **Doc 5** Nori indicated that he gave up his licence "on June 17, 2013" however he also wrote that "I did hold a valid license from April 1, 2014 to June 17, 2014 which mitigated what I had done." Nori is unable to explain the basis for this understanding, and agrees that the CPA Ontario records are correct.
20. Nori advised the investigator that he was engaged to perform a review engagement for FGC Inc. for the year ended December 31, 2013, and confirmed that he did so and signed the review engagement report. **Doc 7** Nori explained that he wanted to sign a Notice to Reader but didn't notice that he signed a review engagement because he used a template from the prior year which had been a review engagement.
21. Nori states that once he realized what had happened, he called the statements back and issued a Notice to Reader dated September 16, 2014, which included the statement "These financial statements replace those previously issued under review engagement dated March 13, 2014." **Doc 9** Although the report had changed, the financial statements remained substantially the same except for some differences in the statement of cash

flows¹. On September 16, 2014, Nori also wrote to the client to advise that he was recalling the financial statements, indicating "I needed a license to issue the review engagement report which I didn't have at the time." **Doc 3 Pg. 3002**

22. Nori could not recall how he discovered his error but told the investigator that it was likely as a result of the complaints process. The first communication to Nori from Standards Enforcement in respect of this complaint was not until February 10, 2015. **Doc 2**
23. Standards Enforcement wrote to Nori on May 8, 2015 **Doc 4** inquiring whether he had performed any assurance engagements since June 27, 2013. Nori replied confirming that he performed three government not for profit audit engagements since that date. **Doc 5** Nori advised the investigator that he performed these audits because the clients had been his while he had his license. He had made an arrangement for his clients' audits to be performed by another firm however Nori became frustrated with the signoff process and he issued the audit reports for the March 31, 2014 year ends for three clients: OC: ACS, **Doc 10** C/S I of N, **Doc 12** and C2N Inc. **Doc 13**

Allegation 2 - The Review of the Financial Statements of FGC Inc. for the Year Ended December 31, 2013

24. Nori's performance of this review engagement was the subject of the initial complaint in this matter. FGC Inc. is an architecture, design and construction business.

¹ The investigator noted that the correct statement of cash flows which tied into the balance sheet was the version attached to the review engagement report.

25. The financial statements for FGC Inc. for the year ended December 31, 2013 are reproduced at **Doc 7**.
26. Nori signed the Review Engagement Report and prepared and issued the financial statements in or about March, 2014.

Disclosure of Work in Process and of Fees Earned (2 a)

27. The significant accounting policy for work in process states that the cost of work in process does not include variable overhead. **Doc 7 Pg. 7006** Section 3031.13 of the CPA Canada *Handbook* states that a systematic allocation of fixed and variable overhead is to be included in the cost of conversion of inventories. **Tab 2** This has not been done.
28. The significant accounting policy for revenue recognition discloses that "Revenue is recorded at the time the billings are rendered. Billings are recorded when identifiable completed work is performed." **Doc 7 Pg. 7006** Section 3400.04 of the CPA Canada *Handbook* states "revenue from sales and services transactions shall be recognized when the requirements as to performance set out in paragraphs .05-.06 are satisfied, provided that at the time of performance ultimate collection is reasonably assured." Paragraph .06 states that "in the case of rendering of services and long-term contracts, performance shall be determined using either the percentage of completion method or the completed contract method, which ever relates the revenue to the work accomplished." **Tab 3**
29. Nori's working papers include a calculation of work in process which includes a deduction for unearned billings of \$75,298. **Doc 8 Pg. 8002-8003** This has been calculated as the deposits in excess of the costs for the month of December. There is another working paper calculating Work in Progress at year end – 2013 as the invoices less the costs which totals

\$133,021.61 **Doc 8 Pg. 8002** This does not tie into any other working papers. Accordingly, the revenue is not being recognized in accordance with the company's revenue recognition policy which is at the time the billings are rendered or when identifiable completed work is completed as progress billings are being issued and not being included in revenue. The revenue recognition being used is also not in accordance with the *Handbook* as it does not relate to when the requirements as to performance are satisfied.

Income Tax Reassessment (2 b)

30. A memo to the client dated June 11, 2014 indicates: "I still haven't recorded the adjustment for field supplies from the income tax audit of \$28,497. (Recall \$86,500 – 57,533). I will record in 2014. The loss was big enough in 2013." **Doc 8 Pg. 8001**
31. The income tax reassessment received prior to December 31, 2013 should properly have been recorded in the financial statements for the year then ended.

Related Party Transactions (2 c)

32. The disclosure of related party transactions in note 5 **Doc 7 Pg. 7006** is not adequate as the measurement basis has not been disclosed as required by CPA Canada *Handbook* Section 3840.51(d). **Tab 5**

Significant Accounting Policies (2 d)

33. Although the company appears to be using the taxes payable method, there is no disclosure of the significant accounting policy for recording income taxes as required by CPA Canada *Handbook* 1505.06, or the disclosures required by section 3465.88 **Tab 4, Doc 7 Pg. 7006**

34. There is no disclosure of the significant accounting policy for financial instruments as required by CPA Canada *Handbook* 1505.06. **Tab 1, Doc 7 Pg. 7006**

Financial Instruments (2 e)

35. CPA Canada *Handbook* Section 3856.53 **Tab 6** requires that disclosures with respect to the financial instruments must include the exposures to risk, how they arise, and any change in risk exposures from the previous period. There is no disclosure of the risks related to the financial instruments.

36. In addition, there is no disclosure of the related carrying amounts of the financial instruments as required by CPA Canada *Handbook* Section 3856.38. **Tab 6, Doc 7 Pg. 7006-7007**

Engagement Letter (2 f)

37. There is no engagement letter in the working papers. Nori confirmed that the most recent engagement letter he had for this client was for the December 31, 2011 year end for a review engagement. **Doc 5 Pg. 5003-5008** The Processing Financial Statements page for this engagement, in the Letters Required section has Review circled for the engagement letter. **Doc 7 Pg. 7008** CPA Canada *Handbook* Section 8200.03 states that the public accountant should discuss and agree the terms of the engagement and should document these in a written agreement. **Tab 9**

Management Representation Letter (2 g)

38. There is no management representation letter in the working papers. The Processing Financial Statements page for this engagement, in the Letters Required section has Review circled for the management representation letter. **Doc 7 Pg. 7008** CPA Canada *Handbook* Section 8200.31 states that management's written representations should be obtained. **Tab 9**

Documentation (2 h)

39. There are no checklists whatsoever in the working paper file for the engagement. Nori confirmed that he did not use any checklists because he “did 100% of the work.” **Doc 3 Pg. 3001**
40. There is no evidence in the working papers of any analytical procedures being performed for the engagement as required by CPA Canada *Handbook* Section 8200.23 **Tab 9**
41. It is agreed that Nori failed to document sufficient enquiry, analysis and discussion to support his review engagement report.

Allegation 3 - The Audit of the Financial Statements of OC: ACS for the Year Ended March 31, 2014

42. This client is a non-profit organization providing assistance to individuals with significant mental health difficulties to reintegrate them into the community. It has registered charitable status.
43. The financial statements for OC: ACS for the year ended March 31, 2014 are reproduced at **Doc 10**.
44. Nori signed the Auditor’s Report and prepared and issued the financial statements in or about June, 2014.

Engagement Risk Assessment (3 a)

45. Nori failed to identify any significant risks for this client as he should have done in accordance with CAS 315 para. 27 **Tab 12** The presumed risk of material misstatement due to fraud related to revenue recognition should have been identified as described in CAS 240 para. 27. **Tab 11**

Performance Materiality (3 b)

46. Nori calculated overall materiality for this client of \$10,000 and noted on the Materiality worksheet that performance materiality was not applicable. **Doc 11 Pg. 11002** CAS 320, para. 11 states that the auditor shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. **Tab 13**

Fraud Risk (3 c, d)

47. There is no evidence in the working papers that Nori had any discussions with management or those charged with oversight with respect to fraud. CAS 240 para.17 requires the auditor to make inquiries of management regarding management's assessment that the financial statement may be materially misstated due to fraud, their process for identifying and responding to the risks of fraud, management's communication to the Board regarding this and management's communication to employees. **Tab 11**
48. The auditor is required to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud and to make inquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. (CAS 240 paras. 20, 21 **Tab 11**) Nori failed to take these steps.
49. In addition, there is no evidence in the working papers that shows how Nori tested for the presumed risk of fraud in revenue recognition. The auditor is required, based on a presumption that there are risks of fraud in revenue recognition, to evaluate which types of revenue, revenue transactions or assertions give rise to such risks. (CAS 240 para. 26 **Tab 11**) There is no documentation of the reasons for the conclusion that this presumption is not

applicable to this client as required. (CAS 240 para. 47 **Tab 11**) This should have been identified as a significant risk. This client has material amounts of grant and fundraising revenue shown on the Statement of Operations **Doc 10 Pg. 10005** and the Auditor's Report has been qualified with respect to the completeness of donations. **Doc 10 Pg. 10003**

Failures to obtain Sufficient Appropriate Audit Evidence (3 e, f, g, h)

50. There is a working paper associated with accounts receivable and prepaid expenses. **Doc 11 Pg. 11004** The total on the working paper agrees to the amount shown on the Statement of Financial position as "Receivables and prepaid expenses 28,786." There is no evidence that any audit work has been performed on these amounts.
51. The accounts payable working paper **Doc 11 Pg. 11005** shows a number of accounts that make up the balance shown on the Statement of Financial Position as "Accounts payable and accrued charges 25,379." The largest balance is for wages payable and there is a note that it is calculated by "QW" payroll system and verified. There is also a LHIN settlement from 2012/13 and a note that the settlement for 2013/14 is outstanding. It also includes a balance of \$4,610.87 for the "Flex Fund" which is disclosed in note 1(b) **Doc 10 Pg. 10007**, which should be a capital item rather than a payable. There is no evidence of any audit procedures being performed to verify the completeness and existence of accounts payable or of a search for unrecorded liabilities.
52. The Statement of Operations and Investments in Net Assets **Doc 10 Pg. 10005** includes funding from the Ministry of Health (\$608,339), Summer Student Grant (\$9,730), and Trillium Grant (\$30,200). There was no evidence of any audit procedures performed to verify these amounts, and no confirmations in the working papers with respect to these grants which would be the usual method of verifying this revenue. **Doc. 11 Pg. 11006**

53. The Statement of Operations and Investments in Net Assets **Doc 10 Pg. 10005** includes the items "Employee benefits 54,101" and "Salaries – regular 433,436." Salaries is the largest expense on the Statement of Operations in Net Assets. Employee benefits is the second largest expense. There was no evidence of any audit procedures performed to verify these amounts.

Revenue Recognition (3 i)

54. There is no disclosure of whether the organization is using the deferral method or the restricted fund method of accounting for contributions in accordance with CPA Canada *Handbook* Section 4410 para 2(d)(e), and para. 10. **Tab 7**

55. Note 1(a) is titled "Basis of presentation" and says that the financial statements are prepared using the accrual method of accounting and that this means revenue is recorded when earned and expenses are recorded when incurred. It also says that funding received prior to year end intended for the subsequent year is recorded as unearned funding. Section (b) of Note 1 discloses a Flex-emergency fund but this is included in accounts payable and accrued charges on the Statement of Financial Position. **Doc 10 Pg. 10007** There is a deferred Trillium Grant of \$9,400 shown on the Statement of Financial Position. **Doc 10 Pg. 10004** If the organization is using the restricted fund method, then this amount should be included in revenue and not in deferred revenue. If it is using the deferral method then it would be appropriate to defer this amount but the disclosure is lacking including the nature and amount of change in deferred contributions for the period as required by CPA Canada *Handbook* Section 4410.53 **Tab 7**

56. The working paper for the unearned Trillium Grant shows an opening balance of \$26,800 which agrees to the 2013 comparative figures. **Doc 11 Pg. 11006** It is then adjusted for the payments received during the year to arrive at the

year end balance of \$9,400. The Trillium Grant revenue recorded for the year is \$30,200, being the \$17,400 reduction in the deferred amount plus \$12,800 received in the current year. **Doc 10 Pg. 10005** It appears that a portion of this grant was received before the program it is related to started, and was therefore set up as deferred. This treatment is not in accordance with the restricted fund method as it would have been recorded as revenue when received and then the related expenses would be recorded in the same fund. It is also not in accordance with the deferral method as the contribution would be initially recorded as deferred revenue and then the revenue would be recorded in an amount equal to the related expenses. The organization is recognizing revenue based on when it is received other than for the initial amount received which was recorded in deferred revenue.

57. The Flex-emergency fund disclosed in Note 1(b) is included in accounts payable and accrued charges in the Statement of Financial Position. **Doc 10 Pg. 10004** Under the restricted method, this amount would be recorded in a separate fund and would be part of the fund balances. Under the deferral method, this amount would be recorded as deferred revenue and reduced by the related expenses. Including this amount in accounts payable is not appropriate.

Replacement Reserve (3 j)

58. Note 3 discloses a replacement reserve with a balance of \$20,671 which is shown as a long-term liability on the Statement of Financial Position **Doc 10 Pg. 10004** Under the restricted fund method this amount would be recorded separately and would be part of the fund balances. Under the deferral method this amount would be recorded as deferred revenue and reduced by the related expenses. Including this amount as a long-term liability is not appropriate.

Consumer Initiative Business Support (3 k)

59. The description for this item in note 4 states that "OC: ACS in conjunction with 'CSI' have undertaken to develop a business operation, namely food catering." "The \$22,500 amount represents funds advanced towards this joint project." This amount has been recorded as an expense on the Statement of Operations and Investments in Net Assets **Doc 10 Pg. 10005**
60. There is no documentation in the file with respect to why this is recorded as an expenses and not as an advance. There is also no discussion of whether this initiative is a jointly controlled operation and what the appropriate accounting would be if it were. CPA Canada *Handbook* Section 4450 **Tab 8**

Failure to Perform Analytical Procedures and Audit Procedures (3 l, m)

61. The auditor is required to perform analytical procedures at the beginning of the audit to assist with identifying the risks of material misstatement through understanding the entity and its environment (CAS 315 para. 6(b)) **Tab 12**, during the audit for any relationships that may indicate fraud risks (CAS 240 para. 22) **Tab 11** and near the end of the audit to assist in forming the overall conclusion (CAS 520 para. 6). **Tab 14**
62. There are not any analytical procedures documented in the working papers and no explanation for any of the significant variances in the statement of financial position amounts, revenue or expenses or any tie in between the analytical review work performed and the substantive audit procedures performed.
63. There is no evidence that any audit procedures were performed with respect to testing journal entries, which are to be tested for appropriateness as part of testing for management override (CAS 240 para. 32) **Tab 11**

Financial Instruments (3 n, o)

64. There is no disclosure of the significant accounting policy for financial instruments, disclosure of the related carrying amounts of financial assets, and the risks related to the financial instruments. (CPA Canada *Handbook* Sections 1505.06, 3856.38, 3856.53) **Tab 1, 6**

Prior Period Adjustment (3 q)

65. Note 2 states that clubhouse land and building were recorded in 2014 even though it was purchased and financed by the Ministry of Health in 2003. The note states that there is land and building and that the costs will be amortized at 4% per year using the declining balance method. **Doc10 Pg. 10007**
66. This should have been recorded in 2003 so the building component amortization to date was recorded in the current year financial statements. The donation of the land should have been recognized as a direct increase in net assets in accordance with CPA Canada *Handbook* Section 4410.34 **Tab 7** Therefore the Statement of Financial Position item "Capital Assets (note 2) 192,883" **Doc 10 Pg. 10004** is not correctly disclosed.

Significant Accounting Policies (3 r)

67. The deferred capital asset amortization liability on the Statement of Financial Position "Deferred Capital Asset Amortization (note 2) 192,883" is equal to the capital asset balance. **Doc 10 Pg. 10004** The amortization method used for the deferred contribution should be the same as for the related capital assets, but this is not disclosed as required by CPA Canada *Handbook* Section 4410.33 **Tab 7**

Letters Required (3 p, s)

68. There is no engagement letter in the working papers. CAS 210 para. 10 requires that the agreed terms of the audit engagement be recorded in an audit engagement letter or other suitable form of written agreement. **Tab 10**
69. There is no management representation letter in the file. The auditor is required to request specified written representations from management to the date of the auditor's report, covering the period referred to in the auditor's report and in the form of a representation letter addressed to the auditor. (CAS 580 para. 9-15) **Tab 15**

Acknowledgement

70. It is agreed that, while engaged in the practice of public accounting, Nori failed to maintain the reputation of the profession and its ability to serve the public interest in that he failed to maintain a public accounting licence as described above.
71. It is agreed that, with respect to the review of the financial statements of FGC Inc. for the year ended December 31, 2013 and with respect to the audit of the financial statements of OC: ACS for the year ended March 31, 2014, Nori 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.

Considerations Supporting Settlement

72. Nori was diagnosed with bipolar disorder in 1987. He is under the ongoing care of a physician related to this medical condition.
73. Nori has provided written support from his physician indicating a correlation between his conduct in this case and his bipolar disorder.
74. At the time of the investigation, Nori believed that he had given up his CPA, CA designation, however his attempt to do so was not effective because this complaint against him was outstanding.
75. Nori states that he does not wish to maintain his membership in the profession.

Terms of Settlement

76. Nori and the Professional Conduct Committee agree to the following Terms of Settlement:
 - a) Nori's membership in CPA Ontario is revoked upon this agreement receiving approval of the Discipline Committee;
 - b) Nori irrevocably undertakes and agrees:
 - to surrender his Certificate of Membership in CPA Ontario to the Secretary to the Discipline Committee within ten days of this agreement receiving approval of the Discipline Committee;
 - not to re-apply for membership in CPA Ontario;
 - not to apply to be a licensed public accountant;

- not to practice chartered professional accounting, or hold himself out as a CPA, CA;
 - not to practice public accounting or hold himself out as a public accountant.
- c) Nori will pay costs in the amount of \$1,500 within three months of this agreement receiving approval of the Discipline Committee;
- d) Notice of the terms of this Settlement is to be published in accordance with the provisions of CPA Ontario Regulation 7-3, s. 22, including notice to be given to all members of CPA Ontario, and all provincial bodies, in a CPA Ontario publication, and on the CPA Ontario website; and
- e) Notice of the terms of this Settlement shall be given in accordance with CPA Ontario Regulation 7-3, s. 23 in a newspaper in the geographic area where Nori practices, being Welland, Ontario. All costs associated with the newspaper publication shall be borne by CPA Ontario.
77. Should the Discipline Committee accept this Settlement Agreement, Nori agrees to waive his right to a full hearing, judicial review or appeal of the matter subject to the Settlement Agreement. Upon the member fulfilling the requirements of this Settlement Agreement, the draft allegations approved by the Professional Conduct Committee and dated July, 2016, shall be forever stayed.
78. 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 Nori leading up to its presentation to the Discipline Committee, shall be

without prejudice to the Professional Conduct Committee and Nori;
and

- b) The Professional Conduct Committee and Nori 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


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

- 80. 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 **22ND** day of September, 2017.



ALEXANDRA E. HERSAK



ROBERT A. NORI, CPA, CA,
on his own behalf

On behalf of:
THE PROFESSIONAL CONDUCT COMMITTEE